Hellenic Republic
Ministry of Finance

Hellenic National Reform Programme 2011-2014

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1 Introductory statement

The Greek National Reform Programme (NRP) 2011-2014 under the Europe 2020 Strategy has been drafted in coherence with the "Economic Adjustment Programme for Greece"[1]. The NRP represents the efforts of the government to implement a new growth model, on the basis of which the Greek economy will be able to achieve sustainable and balanced growth.

Recent developments have demonstrated that the growth path that was followed after the entry into the European Monetary Union (EMU) was not sustainable. As a result, and despite the strong growth performance of the last one and a half decade, the country was led to a sovereign debt crisis in 2009. It has now been made apparent that the fast growth of the recent past was based on unsustainable drivers. Upon entering the euro area, access to low-cost credit boosted demand. However, complementary changes on the supply side of the economy, which are essential in an environment of effectively fixed exchange rates, were not similarly introduced. Instead, persistent expansionary fiscal policies exaggerated the problem.

In the following sections, and based on the guidance received by the European Commission and the findings of the first Annual Growth Survey, reference is made to reforms that address the bottlenecks that Greece is facing in the areas of statistics, fiscal management, public administration, labour and product markets as well as to a number of other reforms which are currently in the pipeline or planned for the future, targeting virtually all aspects of economic activity.

In particular, chapter 2 of the NRP presents the basic macroeconomic scenario in compliance with the Stability and Convergence Programme. Chapter 3 refers to the commitments to "frontload" reforms and measures aimed to tackle the obstacles to growth (bottlenecks). Then, chapter 4 presents the Greek national targets and identifies key policies aiming to achieve these targets. The final part of the report, chapter 5, presents an outline of the EU funds that are/will be used in the framework of the programme and their links with the EU 2020 Strategy.

[1] The Economic Adjustment Programme for Greece, adopted in May 2010 and updated quarterly, identifies the policy conditionality attached to the joint Euro Area and IMF financing package of € 110 bn. The third update of the Memorandum of Understanding of Specific Economic Policy Conditionality of the Economic Adjustment Programme is attached to this NRP as Annex 2.

2 Macroeconomic prospects

2.1 Recent developments

In 2010, real GDP growth is estimated at -4.5%, with private consumption falling by 4.5% recording a particularly strong contraction in the fourth quarter (-8.6% yoy) mainly as a result of developments in employment, disposable income, credit expansion and consumer sentiment. Government consumption is estimated to have decreased by 5.9%, mainly as a result of permanent measures affecting employment and remuneration in the public sector. Gross fixed capital formation moved on very negative ground (-16.5%), as a result of a negative business sentiment, falling capacity utilization and restrained supply of credit.

On the other hand, the contribution of the external sector to GDP change is again estimated to be positive (2.3 p.p.). This development stems from real imports falling significantly (-4.8%) and real exports recording an impressive rebound (+3.8% vs. -20.1% in 2009). The latter is mainly the result of a more favourable external environment, gains in domestic price and cost competitiveness and the fact that most Greek firms already export a part of their output (thus having an existing export base which is easier to expand rather than starting from scratch). Regarding the latter, the real effective exchange rate decreased by 0.5% based on CPI or 2.4% based on the Unit Labour Cost (performance relative to the rest of 35 industrial countries: double export weights). It is a fact, however, that cumulative competitiveness losses since 2000 amount to 18.1% (based on CPI) or 17.9% (performance relative to the rest of 35 industrial countries), thus highlighting restoring competitiveness as one of the central economic policy goals in the medium term.

Regarding the production side of the economy, industrial production was down by 5.8%, with manufacturing production falling by 5%, mining and quarrying by 6.5%, electricity production by 9.2% and only water supply increasing marginally by (0.7%). The construction activity index fell sharply by 31.6%, hand in hand with business expectations in construction (-27.4% following a decline of 31.4% in 2009).

Inflation (either based on CPI or HICP) was 4.7% on average reflecting, to a large extent, increases in indirect taxes and excise duties; more specifically, it is estimated that approximately 70% of price increases can be attributed to taxation. It comes as no surprise that the CPI components most affected by increases in taxation recorded the highest rates of growth (alcoholic beverages and tobacco +14.8%, transport +16.2%). Moreover, It is worth noting that in 2010, HICP at constant taxes in Greece was lower compared to the euro area (1.4% vs. 1.5%).

As a result of economic activity falling sharply, employment is estimated to have decreased by 3.3%, thus resulting to an unemployment rate of 12% (on a national accounts basis). Developments concerning compensation per employee (-2.8% in nominal terms, -7.2% in real terms) led to lower unit labour costs (-2.5% in nominal terms, -6.9% in real terms) inducing more favourable dynamics in the labour market, also supported by structural reforms.

2.2 Overview of the macroeconomic scenario

The macroeconomic prospects are expected to improve in the medium term, enhanced by improved fiscal performance, structural reforms and more competitive product and labour markets. Macroeconomic data for the period 2009-2015 are presented in table 1.

GDP is projected to record a cautious recovery (initially in the sense of a less rapid fall in GDP) in 2011 (-3%), with positive growth rates expected rather towards the end of the year than earlier. Thus, a positive carry-over is projected for 2012 (resulting to a growth rate with a positive sign, namely 1.1%), with growth gradually accelerating to reach 2.1% in 2014. As a result of the continued fiscal consolidation effort, government consumption is expected to keep declining up until 2014 (-4% on average for the 2011–2014 period), while growth in private consumption is expected to remain subdued (turning from -4.5% in 2011 to 0.6% in 2012 and gradually accelerating thereafter to reach 1.4% in 2014). Gross fixed capital formation is projected to remain on a gradually recovering path (returning on positive ground in 2013), while the contribution of the external sector is expected to remain positive, on the back of high export growth (6.6% on average during the 2011–2014 period) and low import growth (-0.9% on average during the same period and recording positive rates as of 2013).

Figure 1: Contribution to GDP Growth

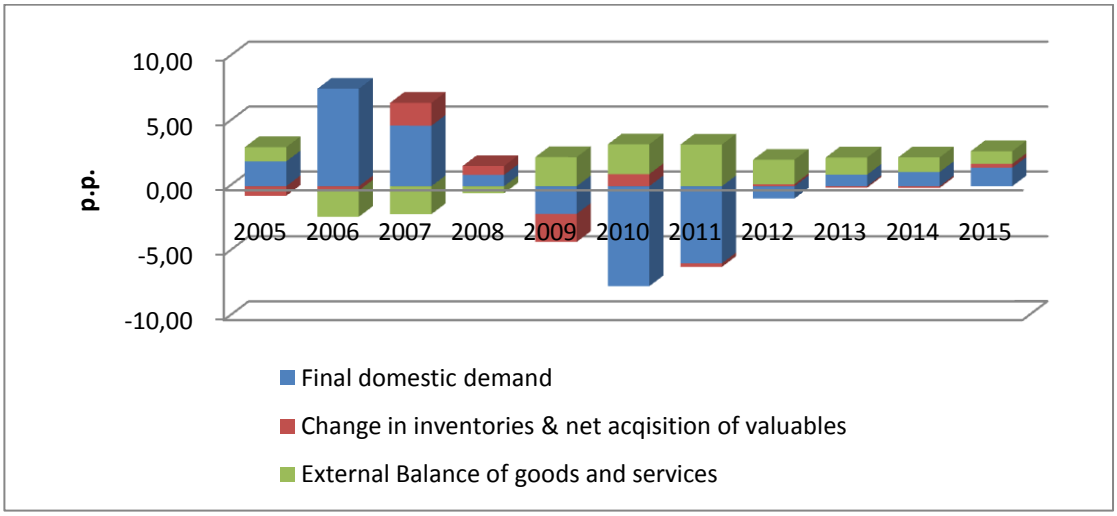
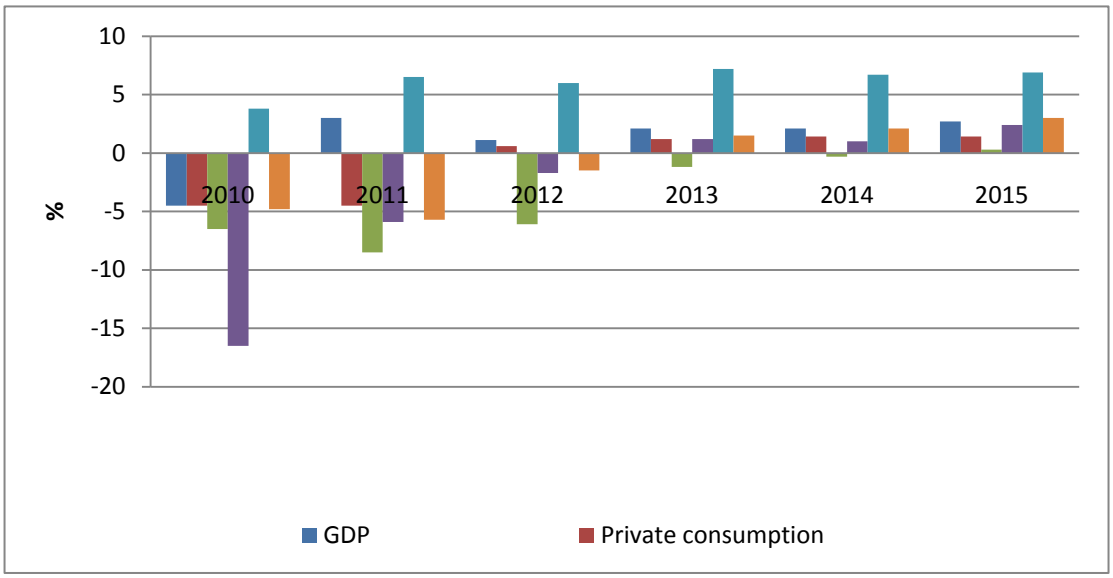


Figure 2: Medium-term developments in GDP components



As for inflation (based on HICP), following the moderation in 2011, lower growth rates are expected from 2012 on (averaging 1.2% over the 2011–2014 period). After the short-run tax effect has faded-off, structural reforms affecting competitive conditions in the product and services markets are expected to positively affect price developments, possibly counterbalanced (to a certain extent) by import prices.

Employment is projected to remain on a gradually recovering path from 2012 on and to record an average growth rate of -0.1% in the 2011 - 2014 period. The unemployment rate is expected to reach its peak in 2012 (14.7%), but to start declining steadily up until 2014 (13.4%). Labour market developments are expected to be favourably affected both by relevant reforms implemented and in the pipeline and by wage moderation expected for the whole period up to 2014.

Table 1: Economic Data 2009-2015 (projections)

	2009	2010	2011	2012	2013	2014	2015
Gross Domestic Product, € billions, current prices							
Private consumption	172.6	172.7	168.9	170.5	173.7	178.0	182.7
% real growth	-2.2	-4.5	-4.5	0.6	1.2	1.4	1.4
Private Investment	32.2	27.6	26.2	26.7	27.2	27.9	28.9
% real growth	-13.9	-15.1	-6.2	0.3	0.3	1.1	2.4
Public Investment	7.9	6.2	6.0	5.4	5.8	6.0	6.2
% real growth	2.7	-22.4	-4.5	-11.2	6.1	0.9	2.1
Government consumption	49.7	43.4	39.5	37.2	37.2	37.6	38.2
% real growth	10.3	-6.5	-8.5	-6.1	-1.2	-0.3	0.3
Exports	44.3	48.2	51.9	55.5	60.5	65.6	71.5
% real growth	-20.1	3.8	6.5	6.0	7.2	6.7	7.0
Imports	69.5	67.7	64.3	64.4	66.8	69.5	73.2
% real growth	-18.6	-4.8	-5.7	-1.5	1.5	2.1	3.0
Gross Domestic Product	235.0	230.2	226.7	230.3	236.8	244.4	254.4
% real growth	-2.0	-4.5	-3.0	1.1	2.1	2.1	2.7
Prices							
Consumer Price Index (average) (2000=100)	130.1	136.3	139.6	140.0	140.8	142.4	144.1
% change	1.1	4.7	2.4	0.3	0.6	1.1	1.2
GDP Deflator (2000=100)	130.4	133.7	135.7	136.3	137.3	138.8	140.7
% change	1.3	2.5	1.5	0.5	0.7	1.1	1.3
Euro/Dollar exchange rate	1.39	1.33	1.39	1.39	1.39	1.39	1.39

% change	-5.4	-4.3	4.5	0.0	0.0	0.0	0.0
Oil Price ($/barrel)	61.5	79.5	101.6	90.8	90.0	88.0	88.0
% change	-36.6	29.2	27.7	-10.6	-0.9	-2.2	0.0
Labour Market							
Employment, 000 persons, national accounts basis	4758	4599	4475	4479	4520	4572	4633
% of population	42.2	41.0	39.5	39.5	40.0	40.1	40.6
Unemployment, 000 persons	471	624	758	770	742	706	661
% of workforce, national accounts basis	9.0	12.0	14.5	14.7	14.1	13.4	12.5
Compensation of employees, € billions	88.6	83.5	81.0	81.2	81.6	82.4	83.9
Gross operating surplus/mixed income, € billions	123.7	121.8	118.4	120.5	126.6	133.2	141.4
Monetary Sector							
Interest Rate (short-term)	1.2	0.8					
Spread 10 year yields bonds (Greece-Germany), base points	200	635					
Credit Growth (to private sector)	4.1	2.1					
External Sector (% of GDP)							
Goods and services trade balance, national accounts basis	-10.7	-8.5	-5.5	-3.9	-2.7	-1.6	-0.7
Current account, national accounts basis	-14.0	-11.8	-8.8	-7.3	-6.1	-5.0	-4.1
Gross external debt	173.6	185.4					
Net international investment position	-84,9	-103.5					
External Economic Environment (% of change)							
World Output	-0.6	5.0	4.5	4.5	4.7	4.7	4.7
Euro area output	-4.1	1.8	1.6	1.7	2.0	2.0	2.0
World trade volume (goods and services)	-10.7	12.0	7.5	6.8	7.0	7.0	7.0
Euro area HICP	0.3	1.5	2.2	1.7	1.7	1.7	1.7

***Source**: Ministry of Finance*

2.3 Implementation of a rigorous fiscal consolidation plan

The government's fiscal policy strategy for 2010 was based on five key pillars, which were considered of high priority in order to restore credibility and efficiency in the public sector. This translated into concrete policy targets, namely, guaranteeing fiscal statistics transparency, changing the budgeting process, reforming the tax system, controlling primary expenditure and implementing structural reforms have been duly pursued and streamlined.

The success of the first year of fiscal consolidation has to be enhanced with policies that will entrench and sustain these results. Therefore, the government's fiscal policy strategy for 2011 is based on the following key pillars:

1. Continue implementing structural and institutional reforms.
2. Further improve the tax administration and tax collecting efficiency.
3. Implement a medium-term adjustment fiscal plan.
4. Establish public financial management through accounting officers and commitment registers.
5. Scale up the privatisation and real estate development programme.
6. Further reform state-owned enterprises and local governments.

Fiscal developments in 2010 were characterized by the implementation of economy wide measures in two consecutive steps (March and May), aimed at bringing down the general government deficit by an enormous 5.5 percentage points (p.p.) of GDP (from 13.6% in 2009 to 8.1% of GDP in 2010) during the first year of the economic adjustment program. However, after the compilation of the three year economic adjustment program, the deficit and debt data for 2009 were subject to a major revision in November 2010, by Eurostat.

More specifically, the 2009 general government deficit was revised upwards by 1.8 p.p. of GDP (from 13.6% to 15.4%) and the 2009 debt was revised by 11.7 p.p. (from 115.1% to 126.8%). The main elements of the revision were related to the delimitation of the general government sector, the recording of certain government transactions (notably for off-market swaps and social security funds), and the recording of amounts payable. In addition, the level of GDP in 2009 was revised downwards by 1 p.p. compared to the figure reported in April. It is important to note that these revisions, which took place after the compilation of the program and despite the worse implications, did not set the effort for fiscal consolidation off-track.

The general government deficit reduction which was finally achieved amounted to 5.0 p.p. of GDP (from 15.4% in 2009 to 10.5% in 2010), an improvement which fell short the initial target of 5.5 p.p. mostly due to an inter-quarter shift in recession that reduced tax receipts and social security contributions corresponding to end of 2010 economic activity. This deficit correction is the highest ever in a Eurozone country. The impact of total measures implemented in 2010 exceeded 8 p.p. GDP, but its full effectiveness on deficit reduction was hampered by the underlying pressure on expenditure and tax shortfalls due to the deeper than anticipated recession.

Fiscal adjustment in 2010 was achieved through a combination of measures drawing almost equally on both the expenditure side and the revenue side of the budget. Recession in the economy and fiscal consolidation seem to be calling for the implementation of measures that contradict each other (expansionary to fight the recession, and contractionary in correcting fiscal imbalances, reducing net government expenditure), but fiscal imbalances are on an unsustainable track which needs to be addressed immediately. Under sustainable fiscal conditions, fiscal multipliers would also have a stronger corrective impact in the upturn of economic activity. In the current situation though, cutting down public expenditure and setting up an efficient tax system seems to be the only way out of what seems to be a dead-end.

The state budget deficit for 2010 (on fiscal basis) was € 19,454 million compared to € 30,871 million in 2009 and, thus, it was reduced by 37.0% against a targeted annual reduction of 33.2%. The deficit reduction in 2010 is mainly due to the significant reduction of expenditure. More specifically, ordinary budget expenditure declined by 9.1% year-on-year, while primary expenditure decreased by € 6,313 million or 10.9% against a projected 9.0% annual decline. Investment budget expenditure decreased by 11.9% against a targeted reduction of 11.3%, while interest expenditure increased by 7.3% against a 7.6% estimated annual increase. State Budget expenditure – ordinary and investment budget – decreased by 9.5%. Developments on the expenditure side of the budget show a significant permanent step to overturn the trend of recent years.

State budget revenue increased by about 7.4% and thus remained within the targets as a result of both increased tax and investment revenue in December. Net revenue of the ordinary budget in 2010 increased by 5.5% against a targeted increase of 6% and investment budget revenues increased by 50.6% against a targeted annual increase of 41.7%.

Table 2: Budget implementation

	2009*	2010*	% Change	Budget estimates (November 2010)	% Change
Ordinary Budget					
1. Net Revenue	48,961	51,168	5.5	51,388	6.0
2. Expenditure	71,815	65,247	-9.1	66,403	-7.5
Primary Expenditure	57,992	51,679	-10.9	52,798	-9.0
Interest payments	12,325	13,223	7.3	13,260	7.6
Public Investment Budget					
3. Revenue	2,040	3,072	50.6	2,892	41.7
4. Expenditure	9,588	8,447	-11.9	8,500	-11.3
5. Central Govern. Balance (- surplus / + deficit)	30,871	19,454	-37.0	20,623	-33.2

*Source: * Budget Implementation Bulletin*.

Tax revenue increased by 4.4%, of which VAT revenue increased by 4.8% or by more than € 1 billion compared to 2009. This outcome is a result of increased VAT rates (twice within the year) and despite the estimated shortfall of € 400 million, due to the recession. This is an indication that VAT revenue will provide a significant yield when the economic cycle turns from recession to recovery.

One of the most important fiscal indicators for debt sustainability and the one that international private financial institutions keep track of, is the ability of fiscal policy to generate future primary surpluses. In 2010 the ordinary budget showed a significant reduction of the primary deficit from € 18546 million in 2009 to € 6313 million in 2010. The total amount of the reduction (€ 12233 million) reflects the magnitude of the consolidation effort and the determination to quickly reverse the pattern of deficits to one of long lasting surpluses. This effort is also highlighted by developments in the cyclically adjusted primary balance, which after peaking in 2009 (-9.9% of GDP), is estimated to have decreased significantly in 2010 (-1.4%), turning to a surplus starting from 2011 onwards (based on the autumn 2010 European Economic Forecast data). Since most of the measures (tax rates increases, reductions in compensation, social security reforms) have been translated to national legislation, they are projected to have a permanent effect.

Following the reduction of the general government deficit by 5.0 p.p. in 2010, the target for 2011 is to reduce the deficit further by 3 p.p. (that is a reduction of the deficit from 10.5% in 2010 to 7.4% in 2011) or about € 7.4 billion (from € 24.2 billion to € 16.8 billion). Despite the smaller reduction compared to 2010, as measured in GDP percentage points, the fiscal consolidation effort will be of the same magnitude. Fiscal measures will amount to more than 8 percentage points of GDP, but the nominal deficit drift in 2011 (the increase in interest payments, pension expenditure and other structural expenditure that would take place without measures) is expected to reach 5 p. p. of GDP.

The size of the required fiscal adjustment is therefore larger than initially projected in the Economic Policy Programme in order to compensate for the target slippage in 2010, due to the data revision. Fiscal policy will be facilitated by the fact that most of the measures underpinning the 2011 deficit target have been legislated and are already being implemented. The adjustment will be achieved through a mix of revenue and expenditure measures.

2.4 Ensuring the stability of the financial sector

On July 2010 the Greek Parliament approved the creation of a € 10 billion Financial Stability Fund (FSF). The primary function of this new fund is 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 serves as a safety net to Greek credit institutions and allows them to continue financing the Greek economy. The Fund does not provide liquidity support, which will continue to be provided under existing arrangements.

According to Law 3864/2010, the Fund is treated legally as a private entity in order to enjoy administrative and financial independence, vis- a-vis the State or any other public sector entity. The Fund has a limited lifespan of seven years in order to address the extraordinary circumstances of the economic crisis.

The Fund's activation is possible only after all cases of potential injections from the shareholders or other investors have been exhausted, and when the capital requirements of the credit institution are no longer satisfied. The supervisory powers of the Bank of Greece (BoG) are not affected. A credit institution may apply to the Fund for a capital injection, either following instructions from the BoG or on its own initiative supported by the BoG and subject to strict predefined criteria met cumulatively. Applicable EU State Aid rules, requirements and Commission practices will be respected.

Progress is underway and the hiring process of personnel for the FSF has commenced. An account at BoG for the FSF has been created, and the Ministry of Finance has transferred € 1.5 billion from the second instalment.

2.5 Correction of macroeconomic imbalances

The 2008-2009 international economic crisis exposed the long-standing structural weaknesses and enhanced the fiscal and external imbalances of the Greek economy, mainly materializing through the persistence of substantial twin deficits. These deficits are, to a large extent, the result of:

- Persistent inflation differentials with euro area countries resulting to a continuous loss of competitiveness. Factors accounting for inflation differentials include: the higher growth of unit labour costs, inefficient markets, relatively low productivity growth and a limited response of domestic supply to rapidly growing demand. On the other hand, private consumption was fuelled by accelerating credit growth and lower interest rates resulting to a low savings rate in the economy (the ratio of consumption to GDP is one of the highest in the euro area).
- A comparatively large and relatively inefficient public sector, directly affecting the business environment through red-tape and higher administrative burden.
- The existence of largely inefficient tax collection and fiscal management mechanisms, with the former resulting to extensive tax evasion and the latter causing insufficient control over primary expenditure.

The macroeconomic imbalances of the Greek economy are to a great extent attributed to misallocation of resources, between the public and the private sector, between consumption and investment, between tradables and non-tradables and even among different sectors of production.

The reasons of this misallocation are embedded in the size of the public sector, the regulations, restrictions and monopolistic practices of the economy, the prolonged period of low financing costs and easy borrowing, tax evasion and corruption.

2.6 The Economic Adjustment Programme

In 2010 an ambitious Economic Adjustment Programme (EAP) was adopted for the period 2010-2013 supported by official financing for a total amount of € 110 billion (bilateral loans from Euro area Member States to the amount of EUR 80 billion and IMF loans of € 30 billion). The EAP is currently underway and its goal is to radically address these problems through an economic policy mix based on fiscal consolidation and structural reforms. Among the others, the emphasis is placed on market oriented reforms aimed at

- improving the business environment in order to facilitate private investment (and, even more so, FDI) thus accelerating productivity growth,
- restoring competitiveness and increasing the outward orientation of the economy,
- opening up product and services markets, enhancing competition, in order to create more investment opportunities and secure lower prices for consumers,
- ensuring conditions for sustainable employment growth.

This policy mix describes the principles of a new growth model based on investment and exports, which is expected to ensure conditions for a gradual recovery and sustainable growth in the medium term. As a result of the implementation of this model, macroeconomic prospects are expected to improve in the medium term, enhanced by the aforementioned factors, i.e., improved fiscal performance, structural reforms and more competitive product and labour markets.

2.7 The medium term fiscal strategy framework

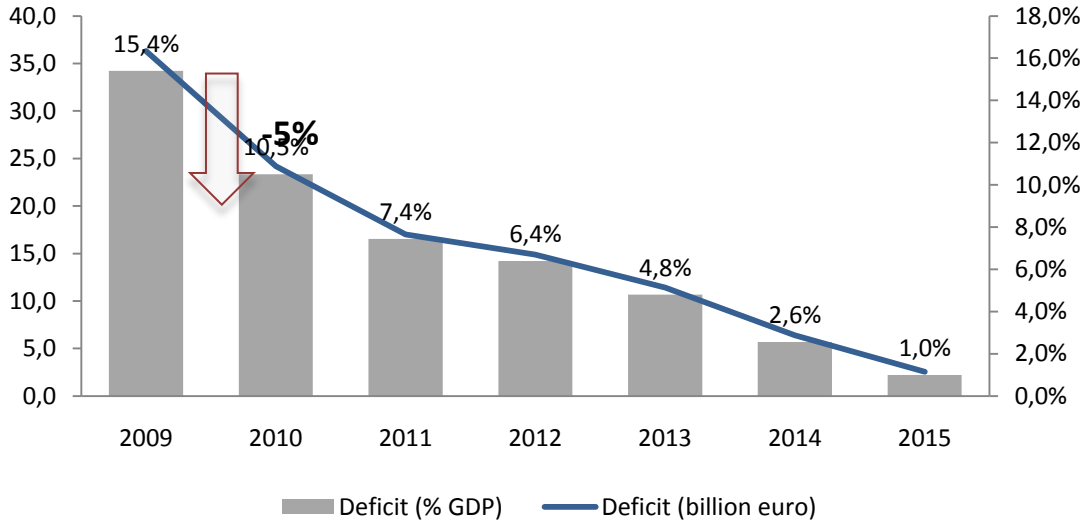
Law 3871/2010 had already provided for a medium term fiscal planning under a new fiscal management framework. The Medium Term Fiscal Strategy includes the medium term fiscal targets for the general government, macroeconomic and fiscal forecasts over the three year period following the current fiscal year, contingency reports on the fiscal forecasts as well as annual expenditure ceilings for public entities and institutions. The medium term fiscal planning aims at reverting the unsustainable public debt dynamics and at enhancing the long term growth potential of the economy. This fiscal framework aims also at mitigating the impact on debt developments of the autonomous movements in expenditure and revenue due to high debt servicing costs, ageing costs, increases in social transfers and unemployment benefits.

The Medium Term Fiscal Strategy 2012-2015 is based on the following policy targets:

- Fiscal adjustment effort, in order to reduce the general government deficit below 3.0% of GDP by 2014. Fiscal adjustment would be coupled with large primary surpluses over the medium term, thus supporting fiscal sustainability.
- Economic growth and competitiveness, in order to increase the nominal GDP by more than 3.0% in 2014. The programme's aim is an average long term nominal GDP growth rate of more than 5.0%.
- Privatization and real estate development programme, which will significantly contribute to public debt reduction and will strengthen economic growth prospects.
- Social protection, in order to ensure that fiscal consolidation and economic growth are sustainable and in line with social justice.

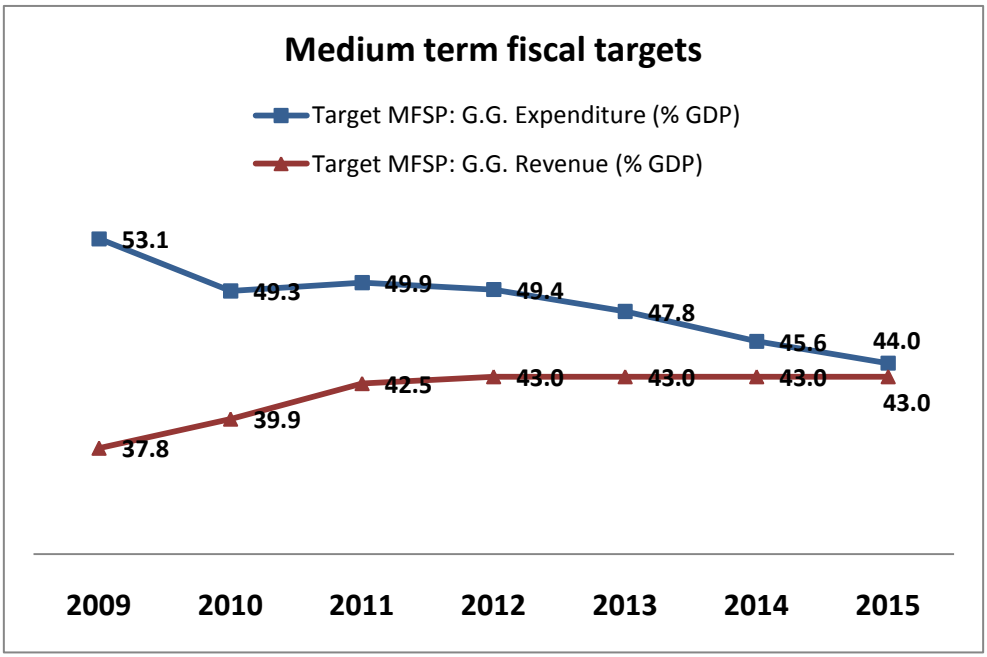
The cumulative fiscal adjustment effort over the 2012-2015 period amounts to about € 23 billion or 9.5 p.p. of GDP in order to meet the medium term fiscal target which is a general government deficit less than 3.0% of GDP in 2014 and 1.0% of GDP in 2015.

Figure 3: General government deficit



The fiscal consolidation strategy targets a more pronounced reduction in general government expenditure (almost by 2/3 of the total fiscal effort) as well as an increase in general government revenue (1/3 of the total fiscal effort), in order to ensure a gradual convergence of public expenditures and revenues over the medium term.

Figure 4: Medium-term targets



2.8 Estimated impacts of measures and reforms

The Greek economy is at a critical junction as far as its growth prospects are concerned: the frontloaded fiscal consolidation effort could have short-term adverse growth effects, while significant downside risks and uncertainties exist for the recovery of the euro area and the global economy. Also, the repercussions of the debt crisis facing or threatening several economies and the resulting increase of borrowing costs could have more widespread effects than originally expected.

Regarding the Greek economy, much hinges on the composition, the speed of implementation and the overall progress of the structural reform programme already underway. Market oriented reforms (such as opening up markets, strengthening competition, simplifying licensing procedures, liberalising closed professions, privatisation) could drive private investment thus enhancing (among others) productivity and the process of technological restructuring – both of which are directly linked to competiveness. Labour market reforms could add to the labour content of the expected recovery as of 2012, while at same time helping contain labour costs. The tax reform and the effort to tackle tax evasion could allow lowering the tax burden in the medium-term, with obvious benefits for real incomes, private consumption and competitiveness. Overall and building on these indicative examples, structural reforms are a determining factor for the successful implementation of a new growth model based on investment and the outward orientation of the Greek economy.

The Economic Adjustment Programme currently underway provides for wide-ranging structural reforms in the spirit mentioned above. Regarding the expected impact of these reforms, a recent study (by FEIR) using the IMF Global Integrated Monetary and Fiscal model concludes that the long-run effects of structural reforms could amount to a total of approximately 17% of GDP (stemming from reforms both in the product/services market and the labour market - the effect

from the non-tradables sector amounts to 13.5 p.p. while the effect from the labour market to 3.2 p.p.). According to EU Commission estimates2, Greece could benefit as much as 4% of GDP from labour market reforms (in five years as a result of a 1% decline in real wages) and 2.5% of GDP stemming from product market reforms (again in five years as a result of a 5% decline in mark-ups). On top of these, an increase by 1 p. p. in TFP results in an increase in real GDP by 0.6% in the medium term and, in case the shock persists over five years, the impact reaches 2.5 p.p. Although admittedly a favourable TFP shock is most difficult to engineer by targeted economic policies, appropriate labour and product market reforms could free up resources for private sector investment in R&D and innovative technologies. As noted by the Commission, given the comprehensive structural reform agenda in Greece, some positive effect on TFP is likely, as a combination of reforms may well favour stronger economic efficiency.

3 Macroeconomic challenges and key measures

The most important macro-structural obstacles to growth that Greece is facing can be classified into seven areas. These are presented below, followed by the policies and the key measures that have been implemented or are planned for the near future. The most important reforms are presented in every section.

1. *Implementing the agreed frontloaded fiscal consolidation and thereafter sustaining a large primary surplus to reduce debt level and improving long-term sustainability of public finances.*

i. Greece's most pressing challenge is to ensure a swift reduction of its deficit and stabilise its debt dynamics in line with the EU and the IMF recommendations, while improving the management of its public finances in order to deliver pro-growth and cost effective services for businesses and citizens. Towards this objective, the Greek government is implementing a strict fiscal adjustment programme which contains mainly frontloaded measures.

   Fiscal adjustment is achieved through a combination of measures drawing on both the expenditure and the revenue side. To elaborate more on this, on the revenue side, the following measures have been implemented: increases in VAT rates in taxes on luxury goods and in excise taxes on fuel, tobacco and alcohol; introduction of a unified progressive tax scale and elimination of special taxation rules; imposition of a special levy on high value real estates, the creation of a Single Payment Authority of wages in the public sector, imposition of temporary "crisis levies" on highly profitable firms and phasing in a "green tax" on CO2 emissions. On the expenditure side, there have been considerable wage cuts in the public sector by reducing the Easter, summer and Christmas bonuses and allowances paid to civil servants, the Easter, summer and Christmas bonuses paid to pensioners (while protecting those receiving lower pensions), suspension of recruitment in 2010 (with some exceptions for education, health and security) and the application of the rule “1 person recruited for every 5 retired” for 2011, without sectoral exceptions. From 2012 there will be additional plans to reduce public employment on top of the 1 to 5 rule.

ii. Moreover, in July 2010 the Greek government delivered a flagship pension reform, which credibly aims to a sustainable system that will provide adequate pensions for future generations and which drastically reduces long term implicit debt liabilities. Without the reform, public pensions expenditure, which today is around 12.4% of GDP, would rise to a Eurozone record high of over 24% of GDP in 2060. The pension reform introduces homogeneous rules on entitlements, contributions, accumulation rules and indexation of pension rights that limit pension expenditure increase to 2.5% of GDP, or, in other words, pensions expenditure of 14.9% of GDP in 2060. The National Actuarial Authority has already completed actuarial studies for the main pension funds (IKA, OAEE, OGA and the public sector fund) and projections show that the pension reform has achieved the stabilisation of their spending at the 2009 level. These studies will be complemented by actuarial studies for the main supplementary funds.

Box 1: Pension Reform

The main elements of the private sector pension reform (Law 3863/2010) are presented below:

- Uniformity rules will apply for all insured persons and pensioners, ending the fragmented current system.
- The pension reform aims at reducing the projected increase in public spending on pensions over the period 2010-60 to 2½ percent of GDP.
- Pensionable earnings are from now on calculated on a lifetime basis.
- The new system considerably strengthens the link between contributions and benefits and consists of a contributory pension on top of a non-contributory pension.
- The existing pension funds are merged into three funds leading to considerable savings.
- As of 1/1/2011 new employees in the public sector will be integrated in the private employees' pension fund (IKA-ETAM).
- The years of work that are required for a full pension have increased to 40. A statutory retirement age at 65 years of age indexed to changes in life expectancy (effective 1-1-2021), will be established for both men and women.
- A means tested pension is included for all citizens older than the normal retirement age so that an important safety net is provided consistent with fiscal sustainability.
- Penalties for early retirement are increased in magnitude and scope.
- There is an average reduction of pension outlays weighing predominantly on the 25-35 age bracket.
- The list of hazardous occupations is currently being updated and streamlined.
- Retirement age limit differentials between men and women retirees are abolished.
- As of 1/1/2011 the retirement age limit increase will also be applied to women employees working in the private sector.
- Social security benefits will be indexed on a yearly review basis to the percentage change of the CPI and the GDP.
- As of 1/10/2010 a measure is applied imposing an *ad-hoc* contribution on pensions exceeding the amount of EUR 1.400.
- As of the effective date of the new law any voluntary exit plans will be abolished.
- The healthcare sectors of all major social insurance funds (IKA, OGA, OAEE, Public Sector) will be separated from their pension counterparts and form a single healthcare insurance fund which will henceforth act as a unique buyer of medicines and health care services for all those insured, thus acquiring higher bargaining power against suppliers..
- Welfare benefits are separated from insurance benefits, aiming at improved transparency in the finances of the benefits in question.

- Important administrative measures to fight contributions evasion are put into place, such as the development of control systems combating social insurance contribution evasion, the implementation of a single control system of pension payment and the implementation of a monitoring system for forced collection of social contributions.

In addition, the public sector pension reform (Law 3865/2010):

- Brings Greece's pension system of civil servants into line with that of 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

Measures planned to Complete the Pension Reform

An in-depth revision of the functioning of secondary/supplementary public pension funds is in progress. The aim of the revision is to stabilize pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision should achieve:

- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

If the projections by the National Actuarial Authority show that the projected increase in public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-60, the Government will also revise the main parameters of the pension system provided by Law 3863/2010. The revision is designed in close consultation with the European Commission, the IMF and the ECB staffs.

In addition to that, the Government is currently revising substantially the list of heavy and arduous professions, and reduces its coverage to no more than 10 percent of the labour force. The new list of Heavy and Arduous Professions shall apply with effect from 1 July 2011 to all current and future workers.

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme to align them with those of IKA.

By the first quarter 2012, the Government implements the reform of the secondary/supplementary pension schemes, by starting the calculation of benefits on the basis of the new notional defined-

contribution system. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority.

Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights, based on the actuarial study prepared by the National Actuarial Authority. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid additional deficits.

iii. In the fourth quarter of 2010, the Government stepped up its efforts to accelerate the pace of streamlining earlier carefully scheduled policies and processes conducive to a major draft law regarding the overhaul of the healthcare sector.

Box 2: Healthcare Reform

A significant effort to reform the health sector is currently underway in order to enhance its efficiency and achieve substantial cost savings. The first step already undertaken in this direction includes measures to enhance the monitoring mechanism of health expenses, while the bulk of institutional reforms is enacted by virtue of law 3918/2011 regarding the overhaul of the healthcare sector.

This new coherent legal framework will put together all individual pieces pertaining to healthcare reform, and place it on solid footing: the very first chapter of the new law defines the specifics of the new legal framework concerning procurement of health supplies and drug tenders. Procurement will be planned at a regional level via the development of Regional Programmes for Goods and Services. These Programmes have to be adopted by the Co-ordination Committee for Procurement (CCP), which is responsible to assign a contracting authority and the tender mechanism for each type of procurement. A significant contribution of this law is the possibility of CCP to select as contracting authority a company or a private agency, achieving economies of scale and overall efficiency.

This new procedure will also benefit from the already implemented Price Monitoring Tool ("Paratiritirio", powered by the Health Procurement Committee (EPY) to be upgraded into a "Specifications Committee") that already includes 18,000 items and is constantly updated and enriched through the collection and analysis of tenders and technical specifications published by hospitals. EPY is completing the process of assigning unique codes for pharmaceuticals, equipment and miscellaneous health materials in line with GMDN.

One equally important action concerns the establishment of new systems for the management and pricing of pharmaceuticals that favour higher use of generic medicines, including an integrated system of electronic monitoring of doctors' prescriptions (e-prescription). The e-prescription project moves forward swiftly in close cooperation with the Ministry of Labour on the social security funds' end: an electronic prescription system is already operative in the healthcare sectors of two main funds (OAEE, IKA), and it will be full-fledged across all health care sectors of SSFs as well as hospitals by the end of 2011.

The completion of the e-prescription project will feed into a broader project of streamlining prescription procedures within hospitals and social security funds, and is expected to have

beneficial complementary effects with the imminent completion and publication of new prescription guidelines (including prescribing by active substance) for physicians. The first set of prescription guidelines dealing with oncologic prescriptions, i.e., those carrying the highest price tags, is already published, and all prescription guidelines will soon be public. Furthermore, the uniform e-prescribing system will integrate the diagnostic tests referral platform currently used by OPAD with the aim to extend it across all healthcare provision organizations.

A negative list of drugs has already been publicized while the forthcoming positive list of drugs is already finalized by the National Drug Organization (EOF). Another major milestone of the new healthcare reform bill consists in pooling all healthcare funds in order to ensure that a uniform/coherent system of healthcare provision is vigorously pursued. A Consortium of social insurance / healthcare provision funds (dubbed EOPYY) will henceforth act as a unique buyer of medicines and health care services for all those insured, thus acquiring higher bargaining power against suppliers. It goes without saying that EOPYY will be endowed with, and benefit right from the outset from, all the aforementioned enhanced and streamlined prescription structures.

In addition to that, by virtue of the new law, it is worth mentioning that the pricing of medicines and all aspects of drug policy have been transferred to the Ministry of Health and to EOF by the end of March 2011. Moreover, thanks to the draft law's provisions on the new rebate system from pharmacies and wholesale companies, the profit margin of pharmacies on retail prices and that of wholesale companies distributing pharmaceuticals are expected to drop sharply by the end of March 2011.

It is also important to note that a €5 admission fee for regular outpatient services (increased from €3) across all outpatient clinics of public hospitals is enforced, and an extension of the "all day" operation of hospitals (afternoon shift) has already been put in place in order to develop and improve healthcare services and increase hospital revenues, including with increased copayments of outpatient and diagnostic services. The measure is already in effect in 63 hospitals and will soon be expanded in the remaining ones, pending some formalities.

Another essential change that is underway is the completion of the programme of hospital computerization, upgrading of hospital budgeting systems, reforming of management, accounting (including double-entry accrual accounting) and financing systems. The country's largest hospitals and most of the medium-sized ones are already fully computerized with integrated ERP, LIS and RIS system. It is expected that by the end of 2011 all hospitals will be fully computerized. Concerning audited accounts, it is worth noting that 100 out of 130 hospitals already publish audited accounts.

Finally, an independent Task Force by leading healthcare experts was formed under the auspices of the Minister of Health, and is expected to produce a detailed report on the medium-term prospects and challenges of the Greek healthcare sector along with concrete measures and proposals, to be presented in an international conference at the end of June 2011.

iv. Another significant reform in the area of public finances was the establishment of the Single Payment Authority. This reform aims at improving the efficiency of the Greek public sector and allowing for a much tighter control of payroll expenditures, making possible the systematic monitoring and analysis of payroll statistics, and greatly

simplifying the current public sector payment and remuneration system. Moreover, the SPA has activated a safety net in order to prevent double payment through tax offices. All actions regarding the supporting IT systems, staffing and office space needed for the activation of the Single Payment System have been completed, while the integration of all government entities in this system is in process and will be completed by end November 2011. Currently, 55% of payments are conducted through the Single Payment Authority. Alongside, another reform reinforcing this one is also the reform of the public wage bill which is in more detail presented under the following bottleneck.

v. Efforts to reduce public sector employment are ongoing and will be further enhanced in 2012. The government has adopted an act that limits recruitment in the whole general government to a rule of 1 recruitment for every 5 exits, without sectoral exceptions. Additionally, short-term contracts are also on a declining trend. A medium-term human resource plan for the period up to 2014 in line with this rule has been prepared.

vi. The government places special emphasis on the accurate, timely and transparent publication of financial data for State-Owned Enterprises (SOEs). In October, the Special Secretariat for Public Enterprises and Entities of the Ministry of Finance has collected and published financial data for the eleven most loss-making State Enterprises in 2009. In November 2010, the Ministry of Finance published as well, for the first time, the financial accounts of the Public Enterprises supervised by the Special Secretariat of public enterprises The announcement includes the financial accounts for the first semester 2010 of the 30 out of the 52 public enterprises as well as the payroll of all of 52 enterprises. By the end of 2010, the financial statements for the period January to September 2010 (9 month period) of 48 public enterprises out of the 52 were published as well as data on employment and the payroll of the 52 enterprises.

With the aim of fighting waste and mismanagement in state-owned companies, a law was voted by the end of 2010, that:

- Cuts primary remuneration in public enterprises by at least 10% at company level (applicable from January 2011 on).
- Limits secondary remuneration to 10% of primary remuneration at company level (applicable from January 2011 on).
- Establishes a ceiling for gross earnings of € 4,000 per month (12 payments per year)
- Increases urban transport tariffs by 30%
- Establishes actions to reduce operating expenditure in public companies between 15% to 25% , according to the specific needs of enterprises.

These measures are expected to yield annual fiscal savings of at least € 800 million, compared to 2010.

According to the analysis of the financial data of January 2011 versus January 2010 (and the latest data available), for the 14 companies that submitted monthly data for both periods are:

- There is a reduction of total expenses in January 2011 by 32% and this is mainly due to the reduction of:

- payroll cost by 31% as a result of the implementation of law 3899/10, the reduction in the number of personnel and the implementation of law 3845/10 as of 1/6/2010.
- third party expenses by 33%
- interest expenses by 64%

- Total revenues including subsidies decreased by 34% in January 2011 versus January 2010. Revenues from sales decreased by 20% in January 2011 while at the same period expenses decreased by 32%.
- There is a significant reduction by 67% in the total subsidies (current state budget and other subsidies) in January 2011. Subsidies amounted to € 11 million in January 2011 versus € 36 million in January 2010.
- The total number of employees also reduced by 14% in January 2011 (a reduction of 3.098 employees).
- The financial result has improved and total losses reduced by 25% in January 2011. The losses in January 2011 amounted to € 33.4 million versus € 44.5 million in January 2010, indicating an improvement of € 11 million.

Furthermore, an action plan for restructuring state-owned enterprises and other public entities will be published soon, which will lead to the closure of non-viable enterprises and extra-budgetary funds that have outlived their original purpose.

vii. Furthermore, another significant area of reform is the "Kallikrates" programme for the restructuring of local public administration which was adopted in May 2010 and lays down a number of measures for ensuring a strengthened role of local governments while guaranteeing their financial independence and fiscal discipline. It aims at saving € 500 million in the first year, accumulating to € 1,500 million by 2012, which correspond to 4.5% of total revenues of local governments, which were reduced from 910 municipalities and 104 communities to 325 municipalities. The local administration reform has entered into force since January 1 2011. The expected savings will come mainly from the expenditure side as a consequence of the effective and efficient management of the new administrative structure.

viii. Concluding, a wide-ranging privatization programme is currently underway, spanning the state's holdings in rail, road transport, airports, ports, utilities, the gaming industry, and public real estate development which target proceeds of 50 billion € within the period 2011-2015. The programme leverages private investment so as to restructure the economy, foster economic growth, contribute to fiscal consolidation and raise the overall quality of life.

Box 3: State Asset Management and Privatisation Plan 2011-2015

The portfolio of state-owned assets of the Hellenic Republic (HR) consists of four major classes: Enterprises, Infrastructure, Monopolistic Rights and Real Estates. The government policy intends to strategically manage the portfolio of state-owned commercial assets through the optimization of the tradeoffs between risks and financial returns and the accommodation of operational efficiency. In this respect, the strategic asset management is based on the principle of flexible utilisation of private expertise and capital on state owned assets, whilst securing the interests of the State in a specified number of them.

The Action Plan focuses on the period 2011-2015, with a view to generate revenues of 15 billion € until 2013 and 50 billion € in total until 2015. The derived nominal revenues will be devoted exclusively to the reduction of public debt.

The deployment of the Plan shall provide the basis for the restructuring of both enterprises and sectors of the economy, as well as the opening of the markets, leading to institutional and operational redesign of the state asset management as well. A number of asset classes, especially in the transport sector, currently constitute civil services occupying heavy public investments in infrastructure. The management of such assets as it stands incorporates an inefficient system of incentives, thus often leading to suboptimal financial and operational returns to the society.

The portfolios of regional airports and ports provide prime examples, in which restructuring takes the form of corporatization and privatization of long term concession agreements. In the case of railways, restructuring takes the form of monopoly removal and privatization of the existing train operator and the opening of the market to competition, subject to the supervision of a new railway regulator.

Furthermore, economic restructuring also plays a central role in the management of monopolistic rights, such as gaming and the spectrum frequencies. The former class concerns the opening of e-gaming to market operators beyond the existing monopolist, as well as the corporatization and privatization of long term concession agreements on the state lottery tickets. The latter class concerns the opening of the market beyond the existing mobile telephone operators, through the privatization of the entire spectrum of frequencies and especially the digital dividend, thus promoting the establishment of a new market of digital services.

The previous year 2010 has been a preparation period for the overall management of the transactions to take place during 2011-2013. Furthermore, the government has appointed advisors for the restructuring of Hellenic Railways (OSE) and the privatisation of the train operator TRENOSE and has completed a strategic review for the best available options for its holdings in the banking sector. It is expected that by the end of Q2 2011 the government will have appointed all the necessary advisors for the transactions scheduled for 2011-2013. The year of 2011 also serves as a period of design and scheduling for the transactions to take place in 2012 and 2013. It is important to note that an efficient operation for a number of important projects requires extensive legislative and restructuring work, leading to an evolving rather than a fixed project scheduling. Examples of such legislative initiatives constitute the new law for the management of regional airports, the new law for the restructuring and supervision of the railways, as well as the draft law documents for e-gaming and the unbundling of the consignment deposit function.

In summary, the privatisation program for the period 2011-2013 includes transactions regarding HR interests in a number of key sectors such as: Banking, Energy, Gaming, Telecoms, Ports, Airports, Motorways, Railways, Mining, Water and Waste Management, Defence Industries and Real Estate. The government policy considers three levels of state ownership: a) full privatisation, b) minority shareholding of less that 34% in conjunction with shareholder agreements c) shareholding above 34% in a limited number of cases. Furthermore, HR considers a wide spectrum of privatisation methods including the sale of special purpose companies holding concession agreements. The sector decomposition of the HR's privatisation program is given below.

Transport: Substantial reduction of state holdings in the Athens International Airport and the portfolio of Regional Airports through the sale of concession special purpose vehicles, sale of the shareholdings in the train operator, sale of motorway concession special purpose vehicles and monetization of future proceeds.

Telecoms: Substantial reduction of state holdings in OTE, full privatization of spectrum of frequencies including the digital dividend

Energy: Substantial reduction of state shareholdings in the Public Power Corporation as well as the gas business DEPA and gas pipeline DESFA.

Ports: Reorganization of the twelve main ports into regional port systems and sale of concession special purpose vehicles. Reorganization of a plethora of smaller regional ports to facilitate the structuring of marina systems and sale of concession special purpose vehicles.

Gaming: Substantial reduction of state shareholdings in OPAP, Casinos, State Lottery Tickets and sale of e-gaming licences

Mining: Sale of state shareholdings in LARCO nickel producing industry

Hellenikon former Airport: Sale of real estate development rights in the former Athens Airport area

Real Estate Portfolio: Structuring of the full state real estate portfolio. Monetization through a variety of methods, including full sales, sales and leaseback, long term leases and concession agreements.

Banking: Restructuring in a number of credit institutions to safeguard financial stability. Substantial reduction of state shareholdings.

2. *Strengthening the efficiency and effectiveness of the public administration, achieving a better control of public finances and improving the quality of public finances*

i. As a first and significant step in the groundbreaking reforms, the Greek Statistical Authority has been made institutionally and operationally independent (Law 3832/2010). The Law granting independence to the Statistical Authority also creates a Statistical Council, which will support the work of ELSTAT, and sets out the framework for the setting up and proper

functioning of the Greek Statistical System (GSS), introducing a coherent framework of rules and institutions, thereby harmonizing the code of practice of the national system with respect to the European Statistical System. ELSTAT has already concluded Memoranda of Understanding with 9 ministries and data providing entities with the aim to improve the compilation of ESA95 general government fiscal statistics. These Memoranda will form the basis of a new Statistical Regulation, which will be adopted in the near future. Moreover, a comprehensive Action Plan to tackle statistical, institutional and governance deficiencies that was agreed between Eurostat and ELSTAT is being implemented in order to address all remaining issues of capacity, effectiveness and confidence in Greek methodological practices and bring the Greek statistical system in line with the EU requirements. As a result of these efforts, in November 2010 Eurostat validated the Greek fiscal data and lifted all its reservations subsequent to the inclusion of all off-balance-sheet debt items in public debt. The timely implementation of the action plan continues to be a priority for the medium-term.

ii. Another significant development in the area of public finance was the adoption of a reform overhauling the existing fiscal framework. Law 3871/2010 establishes a new framework for drawing up, executing and monitoring the government budget by putting in place expenditure caps for central and general government spending, setting transparency standards and making information on government spending public. All Presidential Decrees and Ministerial Decisions for the implementation of the new fiscal framework have been issued and as of 1 January 2011, the new Fiscal Framework is fully operational. The 2011 budget was the first budget to be drafted and executed following the principle of fiscal management at the level of general government. The 2011 budget includes a compulsory contingency reserve, detailed expenditure ceilings for each line ministry, local governments, and social security funds consistent with the general government deficit target, as well as information on monthly revenue per category, and expenditure per Ministry.

In addition, Law 3871/2010 strengthens the role of the General Accounting Office (GAO) in the budget process and monitoring by widening its tasks and responsibilities. More specifically, the new law provides that the General Accounting Office is responsible for monitoring the budget execution of entities of the general government and is tasked with the drafting and updating of the medium-term budgetary strategy and the quarterly and semi-annual report on the execution of the annual budgets of general government entities. Furthermore, the new fiscal framework lays down safeguards for the staff of the General Accounting Office against political interference and strengthens their accountability in the production of data and the execution of the budget, while also providing for disciplinary actions.

A Budget Office under the auspices of the Greek Parliament has been established under Law 3871/2010 with the mandate to provide independent advice and expert scrutiny on fiscal issues, and report publicly on the budgetary plans and execution of spending entities of the general government, and on macroeconomic assumptions used in the budget. The operational procedures of the budget office have been defined by a Decision of the President of the Parliament, while staffing is in progress and will be completed by the end of 2011. The Head of the Budget Office has been recently appointed.

Box 4: Action plan in support of the new Fiscal Management System 2011-2013

Steps are taken with regards to providing the necessary resources to the General Accounting Office in order to ensure that it can fulfil its new tasks and responsibilities envisaged by the new fiscal framework. To this end, a number of projects are planned for the period 2011-2013. In order to carry out these projects, a framework agreement has been signed between the General Accounting Office and the Information Society S.A.. In particular, the action plan includes the following tasks:

1. Action planning and implementation of the reform

1.1 Integrated System of the Financial Reporting of General Government Agencies

1.2 Modern Fiscal Auditing

1.3 Develop cost models

1.4 Study of Ordinary Budget consolidation and Programme of Public Investments

1.5 Application of accrual accounting

1.6 Assets registry (per entity)

1.7 Updating the audit model

2. Structures and Functions

2.1 Restructuring of the Ministry of Finance organisational structure

2.2 Information Systems (MIS) at the GAO and entities

3. Support Operations

3.1 Technical support to entities on programme budgeting

3.2 Training of personnel (per entity)

3.3 Office Support reform in Ministry of Finance

3.4 Dissemination of results - diffusion - communication

iii. One additional major reform that Law 3871/2010 introduces is the establishment of a commitment registry, where all commitments undertaken by the general government will be recorded. This will allow the monitoring and reporting of outstanding liabilities and debts of the general government on a monthly basis. The web-portal for the submission of data is already operational and government entities are in the process of submitting their data. Improving the operation of the commitment registry remains a priority for the medium-term.

Similarly, in order to enhance monitoring and reporting of public enterprises, a central registry for all enterprises in which the Hellenic Republic is a shareholder has been established, while the financial supervision of all public enterprises has been centralised at the Ministry of Finance. To this end, Law 3429/2005 was amended, so as to extend the coverage of all public enterprises and entities that are obliged to send financial information to the Special Secretariat of Public Enterprises and Entities to all public enterprises that were formerly excluded and also to legal entities classified under general government. The monitoring, organisation and operation of the central registry has been assigned to a dedicated

manager. The intranet connection of the enterprises and entities with the Ministry‘s integrated information system (OPS) is operational as of end February 2011. The list of public enterprises included in the registry will be updated regularly.

iv. One of the major reforms planned for 2011 in order to improve the quality of public finances is the reform of the public wage bill. This reform aims at simplifying public sector remuneration schemes and at reducing excess employment in the public sector by cost efficient means. The reform includes the establishment of a simplified remuneration system covering basic wages and allowances that will apply to all public sector employees. The new system will lead to a system where remuneration reflects productivity and tasks, while aiming for some decompression of wages across grades and specialized career streams. Moreover, to ensure the right-sizing of employment in the public sector, the reform will focus, among other things, on attrition, tighter policies for contract workers, and vacant job post cancellations. Government has prepared a report on the structure and levels of remuneration and employment in the public sector, which unveiled a complex system of wages and benefits, and significant misallocation of human resources and has presented a detailed action plan with a timeline to complete and implement the simplified remuneration system. Relevant legislation will be adopted by end June and the implementation of the plan will commence by mid-2011.

v. The successful tackling of this bottleneck relies also on enhanced tax collection and expenditure control, based on better reporting and monitoring. Several initiatives have already been implemented in order to improve not only the efficiency of tax administration but tax compliance as well.

On the tax front, the government adopted a reform overhauling the tax system, which is made more progressive by including different elements of labour income in a single harmonised personal income tax base, while the marginal personal income tax schedule has been made steeper. In addition, the government is making greater use of presumptive taxation in order to capture a larger number of individuals previously able of straying outside the tax net.

Overall, the new tax reform strategy aims at addressing long-standing problems of the Greek taxation system by significantly reducing tax evasion, increasing transparency and improving the effectiveness of tax administration operations. It introduces a number of innovative changes aimed at addressing tax avoidance and tax evasion in Greece. In addition, a tax settlement law was introduced in order to allow citizens to clear up their past tax disputes on a voluntary basis, while the effectiveness of the auditing and control mechanisms has significantly improved in 2010 compared to 2009. Moreover, new management information system have been put in place (i.e., new Taxisnet and Elenxis), while a special administrative structure has been set up by the Ministry of Finance (5 task forces), in order to implement an extensive anti-evasion plan. Along those lines, a new tax law was voted in March 2011 that reforms tax administration in order to make it an effective instrument reinforcing tax compliance.

Box 5: Raising the effectiveness of the tax administration

During 2010, a new framework was designed and implemented in order to facilitate and enhance tax control. This includes, among other things, the following elements:

- The General Secretariat of Information Systems (GSIS) conducts cross-checkings based on risk criteria, and has been granted access to all levels of government data of financial interest, including a complete registry of individuals' property.
- Data received from other countries in the context of tax information exchange agreements are now included in the cross-checking programme.
- The Integrated Information System of Controlling Services (ELENXIS), which will support an objective, automatic and reliable risk-analysis system for the selection of audit cases at the central level, is being used on a pilot basis at the moment and will become partially operational during the first semester of 2011. The same system will allow systematic record keeping of all audits, within 2011.
- A procedure, by which businesses are forced to cease operation in cases of persistent non issuance of receipts, is activated.
- Exchange of information and enhancing mutual administrative assistance

vi. Furthermore, one of the main initiatives of the Greek government to improve transparency and accountability in public spending is the implementation of the «Cl@rity» programme. The Clarity programme, which is quite innovative even by European standards, aims first of all to bring about the maximum publicity of the government policy and administrative action by introducing for the first time in Greece the obligation to publish all the decisions on the Internet, with the exception of decisions that contain sensitive personal data and/or information on national security. As of October 1 2010, all Ministries are obliged to upload their decisions on the Internet and henceforth the decisions of public entities cannot be implemented if they are not uploaded on the Clarity websites, reinforcing responsibility and accountability.

vii. In conclusion, the Greek government has launched independent functional reviews of the public administration at central level and of existing social programmes, which will be conducted by the OECD. The review on public administration at central level aims at taking stock of the use of resources to carry out government functions and identifying measures to rationalise the organisation of public administration (through the identification of services which can be rationalised either due to private sector alternatives or outmoded mandate), generate productivity gains (through eliminating overlapping responsibilities) and quantify possible fiscal savings. The review will encompass horizontal issues related to planning, organisation, staffing and control functions and will also include specific studies for all main ministries and key public bodies. At the same time, the objectives of the independent functional review of existing social programmes is to assess their effectiveness and appropriateness, to identify the least effective ones and propose ways to rationalize social programmes by eliminating duplication and making them more targeted, and to quantify possible fiscal savings. The reform of both public administration and of the existing social programmes will be implemented in the context of the 2012 budget.

3. *Ensuring a well functioning and stable financial sector including the safeguarding of banks' balance sheets*

The re-integration to global markets would flag the Greek governments' ability to refinance the public debt. Moreover, the safeguarding of banks' balance sheets and fostering sustainable credit growth will boost domestic demand. This issue is also analysed in section 2.4 of the NRP.

To this end, an independent Financial Stability Fund has already been established endowed initially with € 10 billion, with a strong governance structure which will deal with any potential solvency issues and will preserve the financial sector's soundness and its capacity to support the Greek economy, by providing equity support to banks as needed. As already mentioned in section 2.4, progress is underway and the hiring process has commenced. An account at BoG for the FSF has been created, and the Ministry of Finance is transferring the fund instalments.

4. *Ensuring wage and price adjustments to regain and sustain competitiveness, through wage moderation and productivity- and competition- enhancing reforms*

The structural nature of external imbalances in Greece implies that, in the medium-to-long term, restoring and sustaining competitiveness is a major challenge within the euro area. Competitiveness will be supported by tackling the rigidities in the product and labour markets and promoting innovation. Appropriate wage adjustment is expected that it will be facilitated through changes to the wage bargaining system and the introduction of minimum entry level wages for groups at risk such as the young and long term unemployed.

i. Within this framework, there has been a reduction in pay rates for overtime work and flexibility has been enhanced through the greater use of temporary contracts and part-time work. The minimum threshold for activating rules on collective dismissals has been considerably raised. Employers enjoy considerably favourable legal framework with respect to the rules concerning the settlement of severance payments. Consequently, the overall level of severance costs is drastically reduced. A sub-minimum wage is introduced at 80-85 percent of the minimum limit established in collective agreements for those aged 25 or younger in order to facilitate youth employment. Legislation is adjusted to reduce overtime pay (by 20% across the board)

In addition to these reforms adopted legislated reforms in the fourth quarter of 2010 (with Law 3899/2010) include the following:

ii. A radical modification in the wage bargaining system to allow for negotiations to take place at the firm level.

Law 3899/2010 introduces a fifth level of agreements to complement or substitute (depending on the circumstances) the national general agreement, the occupational, the sectoral and the existing operational agreements. This new level of agreement comes under the name "special operational collective agreement" and serves as an important mechanism for firms to adjust to adverse financial or/and market conditions. This frim level agreement

prevails over any sectoral agreement, more specifically, in case a firm finds itself in an adverse financial situation, it can embark on internal negotiations with employees on wages, working patterns, and other non pecuniary employment aspects. In this respect a mutual agreement between the employer and the employees can be reached particularly adjusted to the specific needs of the firm with a view to maintain business and secure working positions. It should be noted that this agreement can be signed irrespective of the size of the firm.

iii. A revision in the mediation and arbitration system to guarantee symmetric access for all parties.

Law 3899/2010 introduces certain key elements in the mediation and arbitration system in Greece in order to ensure that all parties have a symmetric access to the system and that all decisions are transparent and free from political interference. Furthermore, under the new mediation and arbitration system, due emphasis is placed upon competiveness in terms of cost, an approach which significantly broadens the scope of the system which so far was only dealing with standard labour issues at the micro level, neglecting the overall economic environment. Finally, the law provides that the state will participate in the mediation process as an observer (without voting rights), which is consistent with the principle of meritocracy as it gives more credibility to the decisions and increases the likelihood for their acceptance by both parties.

iv. Extention of the probation period for new jobs to one year.

Law 3899/2010 provides for an extension of the probation period for new jobs to one year. This gives the employer the chance to better evaluate the capabilities and performance of the employee, significantly reducing the adverse selection danger involved in employment decisions and consequently contributing to the creation of more vacancies.

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

vi. Finally, an additional wave of labour reforms is currently underway. This concerns fixed term contracts, rules on working time arrangements and the restructuring of the labour inspectorate (SEPE). Main elements will be the enhancement of its counselling role, the recruitment of qualified staff and the setting of quantitative targets regarding the inspections.

5. Reducing the size of the informal economy by facilitating the full participation of all groups in the formal labour markets and, in tandem, improving tax administration.

Reducing the size of the informal economy by facilitating the full participation of all groups in the formal labour markets is an important challenge that will require the implementation of a wide range of actions.

i. The new tax law which was voted in the end of March includes measures to combat tax evasion and tax avoidance, to reorganize audit and enforcement mechanism and improve the tax framework.

In particular, the new law proposes an integrated framework of institutions that will work towards supporting and reinforcing efforts to effectively capture and tackle tax evasion. These institutions include:

- An Operational Programme against tax evasion: a three-year action plan to combat tax evasion is established, which will include specific actions and measurable targets. The first Operational Programme has recently been made public by the Ministry of Finance..
- An Attorney for Economic Crime: the dedicated Attorney for economic crime is competent to conduct preliminary investigation operations throughout the country and to supervise, coordinate and guide the conduct of investigations by general or special investigative staff.

Moreover, the new law provides for changes in the institutional framework in order for a swift and effective sentence for criminal offences of fraud in order to ensure tax compliance:

- Criminal prosecution for withholding VAT (above a certain amount), on the basis of misappropriation of funds entitled by the government.
- Similarly, criminal prosecution for unpaid and overdue taxes due to the State, if the delay in payment exceeds a reasonable time of tolerance.
- Suspension of sentence in court is not permitted for major fraud crimes before taxes due are paid up.
- The appeal against first instance decision does not suspend enforcement of the penalty before taxes due are paid up.
- Temporary detention to be possible for tax-related crimes if there is evidence that the crime may be repeated.

ii. In addition, the following actions are being implemented:

- The Financial and Economic Crimes Unit (S.D.O.E.) has been re-established and reinforced with powers to issue tax fines on the spot. The objective of S.D.O.E. is to contribute to the fight of tax evasion and, overall, of economic crime, by employing direct interventions and modern control methods. During 2010 the effectiveness of the auditing and control mechanism has significantly improved compared to 2009.
- A special administrative structure with a lifespan of no more than 24 months has been set up, in order to implement an intensive anti-tax evasion plan. The structure is made up of five task forces, coordinated by a steering committee under the instructions of the Minister of Finance. The anti-evasion plan is focused on five key areas :

    1) Implementation of the new tax law.

    2) Implementation of an intensive debts collection programme.

    3) Secure greater control over the top 1.000 tax-payers.

    4) Tackle evasion over high wealth and self employed individuals.

    5) Introduction of a systematic approach to tax-filing enforcement.

iii. The fight against undeclared work is also a fundamental priority for the government, as stated in section 4.1 of the NRP. To this direction a series of measures has been initiated which are presented in detail in section 4.1.2.

iv. Finally, the following actions regarding the combat of illegal trade have an important role to play in reducing the size of the informal economy. Particular actions in this respect include the following:

- The draft law on trademark protection, which will be forwarded to the Ministerial Council in April, is introducing a new, more efficient, protection scheme of trademarks and is based on the 2004/48 European Directive.
- In addition, a working group in the Ministry of Regional Development and Competitiveness has been established in order to review the current legislation on illegal trade, and make proposals for the implementation of new, faster and less bureaucratic measures for the confiscation of illegal products.

6. Overhauling the educational system in order to improve the quality of the country's human capital.

An overhaul of Greece's educational and training system, aiming to improve performance and promote accountability will enhance the country's human capital formation.

This bottleneck is directly linked with the actions implemented for the achievement of the educational targets, as these are presented in section 4.4 of the NRP.

i. The Ministry of Education Lifelong Learning and Religious Affairs is currently implementing in 2011-2012 an integrated reform programme of mergers for school units in the primary and secondary level of education. This aims at upgrading the quality of the education provided, ensuring the optimal development of infrastructures in order to allow the application of innovative teaching methods and facilitate the work of teachers and the provision of quality education services.

The mergers of school units, the so called “Kallikratis programme” in education, is taking into consideration the real needs of each region, the geographical features, the availability of infrastructures and the operational expenses of the schools. The implementation of this programme is expected to achieve the better use of available resources, to upgrade the use of existing infrastructure and human capital resources and thus promoting the quality of the education provided.

ii. Finally, the government has established (end-February 2011) an independent taskforce of education policy experts whose task will be to produce, by end-June 2011, proposals for the public education reform (including higher education). The purpose is to improve efficiency in the education sector.

The taskforce will benchmark international best practices relevant for Greece. It will consider measures that increase the quality and effectiveness of the education system and fight waste.

7 *Improving the business environment including by enhancing competition in services and regulated professions*

Greece has adopted an Action Plan for reducing administrative burdens faced by businesses, particularly SMEs, recognizing the important role of businesses for the recovery of the Greek economy and for stimulating economic growth and job creation. The Government remains committed to achieving sufficient progress with structural reforms to stimulate an investment and export led economic revival.

Significant reforms are being implemented in order to improve the business environment and attract investments. Reforms in this area include the adoption of a 'Fast Track' legal framework for large-scale investments, a comprehensive strategy to promote exports and the adoption of a new Investment Law. Moreover, a law that modifies the existing institutional framework of the Hellenic Competition Committee and a law that simplifies and accelerates the process of licensing industrial activities, business parks and technical professions have been submitted to Parliament.

i. A ground-breaking reform in the area of promoting FDI and investments is the implementation of procedures to fast track growth-boosting investments, which aims at providing a stable, transparent framework to investors, cutting through red tape and creating a business-friendly environment overall in Greece. The fast track system works as an accelerating and transparency enhancing mechanism for the procedures relating to the implementation of strategic investments in Greece and allows the introduction, within the Greek administration, of stable, simple, fair objective and transparent criteria relating to the evaluation, licensing and support of investments.

ii. The adoption of the new investment law aims to promote growth by introducing investment aid schemes: to improve technological development, regional cohesion, entrepreneurship and the competitiveness of enterprises; to promote the green economy, efficient use of existing infrastructures and the deployment of human resources in Greece. The investment incentive schemes shall apply to investment plans in all branches of economic activity. The following three types of aid can be granted: (a) tax relief, (b) grant and (c) leasing subsidy. Special investment plans are divided into the following categories: a) youth entrepreneurship, b) large investment plans (at least € 50 million), c) integrated multi-annual investment plans, d) partnerships and networking.

iii. Another area of reform that should be mentioned is the current review of the legal framework of the Hellenic Competition Committee (HCC) which is expected to enhance its effectiveness and increase its independence. The Bill under scrutiny unifies and codifies existing competition law legislation, updates the main competition law principles, provides for a fully independent HCC, and introduces transparency measures, specific penalties to transgressors and new deadlines.

iv. Another significant area of reform tackling this bottleneck is the opening up of restricted professions. Reform efforts target professions and restrictions that hinder competition, while

at the same time aim to guarantee a high level of quality and adequate consumer protection. In September 2010, the road freight transport sector was fully liberalised with a short transition period. Law 3919/2011 liberalises all professions, including pharmacists, notaries, lawyers, architects and auditors, through the elimination of restrictions, such as minimum compensation, entry requirements, geographical restrictions, compulsory use and other restrictions. The default is that all restrictions are removed. However, the law gives the possibility, within 4 months of its publication in the official gazette of the Hellenic republic, to issue presidential decrees for the maintenance of specific restrictions for some professions, when required in order to safeguard the public interest.

v. An "umbrella-law" to radically simplify the legal framework governing licensing and procedures associated with the operation of the business has been submitted to the Parliament for approval and is expected to be voted by May 2011. The volume of certifying documents and authorizations required are redefined so as to shorten the lengthy procedures and reduce the time needed for completion.

Box 6: Simplifying and accelerating the licensing process

For technical professions by:

- Creating a contemporary legal framework for each of 16 professions,
- Reducing the number of licenses specified in the law, in order to meet efficiently the current needs of the economy,
- Updating/rationalising conditions and requirements on professional qualifications and their certification policy.
- Allowing the creation of specialized training institutions aiming to provide the above specialized professional experience.

For industrial activities by:

- Reforming the licensing and controlling infrastructures
- Improving the environmental and land use procedures
- Improving transparency and exchange of information by providing all relative legislation and documentation required for licensing on the internet.
- Accelerating processes. Priority will be given to the redesign and the reduction of the necessary supporting documents, studies and individual permits, etc. that are required for the licensing of manufacturing facilities.

For business parks by:

- Embodying the philosophy and main provisions of the spatial planning for industry.
- Establishing short and simple processes/deadlines for the Business Park license.

- Organizing the already existing informal industrial areas which face significant environmental and operational problems triggered by the government or any other actors' initiative (chamber, municipality, private firms, etc).

vi. Another important reform in this area is the preparation and implementation of a Business Friendly Action Plan, aimed at identifying barriers to entrepreneurship and taking action for their removal. The Action Plan is the result of a joint effort by several ministries to identify remaining major obstacles to entrepreneurship and structural competitiveness, and put forward concerted actions for their removal and thus contribute to creating conditions for a more business friendly Greece.

In establishing the Action plan, the basic idea was to cover the whole spectrum of activities (business life cycle) from the set up of a business to its winding up /liquidation and trying to identify obstacles confronted at different stages in an integrated approach. Most obstacles identified can be confronted and removed with short term actions, therefore commitments are frontloaded to 2011. However there are a number of major obstacles inhibiting entrepreneurial activity requiring action over a longer term perspective. In this case, specific actions for implementation as from 2012 would be specified at a later stage.

vii. The procedures for establishing a business are being simplified by Law 3853/2010. The 15 different steps and the 35 days required to establish a limited liability firm, have been reduced to 1 step which requires 1 day. The e-Commerce General Registry (GEMI) has been redesigned in order to comply with the approach of a "one stop shop". The function of one-stop shops for the establishment of personal and capital companies provided by law 3853/2010 will act decisively towards reducing the administrative burden faced by businesses. The data migration from the Chambers' databases to the central GEMI database has been completed by 99%. Also, the Supervisory Body of GEMI and of One Stop Shop services, formed by virtue of a Ministerial Decision, is now working together with the Central Union of the Chambers and the Ministry of Regional Development and Competitiveness' s team to achieve the full functionality of the system. GEMI will be operational in April.

viii. It is worth mentioning that the new tax law, which was voted in March 2011, includes a number of provisions aimed at facilitating entrepreneurship.

ix. Concluding, as part of a new growth strategy that focuses on boosting the economy, supporting young entrepreneurship and innovation, improving the business environment, promoting internal market competition and strengthening exports, the Greek government has presented an integrated strategy to promote exports. The goal is to drastically minimize or eliminate the trade deficit by 2014, and boost exports to represent 10% of GDP by 2012 and 16% of GDP by 2014.

Box 7: Promoting exports

The main elements of this strategy include:

- The adoption of a national brand.
- The establishment of a National Export Council (through the merging of two existing bodies), which will serve a key role in the development of the national strategy for growth through exports, FDI, innovation, and the strengthening of SMEs.
- New financing tools, including the (i) "G2M – Go to Market" Fund, which includes a state capital of about € 70 million, which will be leveraged with funds from banks and other investors and is expected to be available in the spring of 2011 and the (ii) programme to support the competitiveness of enterprises, which offers funds of € 30 million through the National Strategic Reference Framework (NSRF) and is already operational.
- A reorganization of the Greek Credit Insurance Organization (ECIO) and of the Hellenic Foreign Trade Board (HEPO)
- The setting up of an information network throughout Greece by utilizing the exporters' associations' national reach, the local chambers of commerce and the local authorities

Moreover, efforts are ongoing to remove procedural burdens on promoting exports. In this context, a draft law has been prepared that revises the legislative framework for exports (Law 936/79). This amendment provides for the modernization of the requirements for the external trade, the codification of all existing legislation on exports and the elimination of bureaucratic burden and speeding up procedures.

3.1 Summary table of the main structural reforms implemented in 2010 or currently in progress

The summary table below presents structural reforms undertaken in 2010 and those in progress.

Completed in 2010	
Independence of the Hellenic Statistical Authority	✓
Overhaul of the tax system	✓
Fiscal Management and Responsibility Act	✓
Reform of local public administration ("Kallikrates")	✓
Private and public sector pension reform	✓
Labour market reform	✓
Financial Stability Fund	✓
Allocation of the private insurance sector supervision to the Bank of Greece	✓
Restructuring of the railway sector (OSE)	✓
Liberalisation of road freight transport	✓
"Fast-track" important investments	✓
Horizontal legislation on the Services Directive	✓
Single Payment Authority for the wage bill in the public sector	

Online publication of all decisions involving commitments of funds in the general government sector	✓
New investment law	✓
Liberalisation of closed professions	✓
Healthcare reform	✓
Restructuring of the urban transport entity (OASA)	✓
Law on combating tax evasion and restructuring of the tax services	✓
Establishment of a commitment registry for the general government	✓
In progress	
Simplification of the start-up of new businesses Simplifying licensing procedures for technical professions ,industrial activities and business parks	✓
Single remuneration system for public sector employees	✓
Restructuring plan for Public Enterprises	✓
New Law for the Hellenic Competition Authority	✓
Privatisation Plan	✓
Liberalisation of the wholesale electricity market	✓
Single Public Procurement Authority	✓

4 Thematic coordination

This chapter presents the proposed trajectories for meeting the Greek targets as these have been derived from the five EU headline targets. There is a short analysis of the overarching challenges, the measures to address these, as well as tracking progress towards them. In addition, there is also reference to the implementation of other measures which are of great importance under each theme.

4.1 Employment Rate Target & and key measures to attain it

Greece has set an Employment Rate Target of 70% for 2020 for the population aged 20-64. This is an ambitious yet realistic target, which takes into account ongoing labour market reforms and the overall implementation of the Economic Adjustment Programme for Greece. However, it should be noted that this target could be revised in case of unforeseen developments.

Significant reforms have been implemented in the labour market with the aim to create a competitive production sector, while at the same time sheltering vulnerable groups. Recent measures aim to remove obstacles that have hindered the functioning of the labour market and to ultimately boost employment. The provisions of the labour market reform include among other things: firm-level agreements that prevail over sectoral or occupational agreements, a new mediation and arbitration system to guarantee symmetric access for all parties, a reduction in severance payments, an increase in the collective dismissals, an extension of the probationary period and a reduction in the over-time compensation for part-time jobs.

4.1.1 Employment Rate Target: 70% of the population aged 20-64 should be employed

In 2010, Greece's employment rate (ages 20-64) settled at 64%, that is, 1.8 percentage points lower than the 2009 level (65.8%). 4th quarter of 2010 was the weakest of the year, with the number of employed declining by 2.4% against the previous quarter and by 4% against the 4th quarter of 2009. Labour market outcomes are expected to remain weak this year and the next, with a faster rebound forecast for the second part of the upcoming decade.

Table 3: Employment rate (20-64 age group)

	2000	**2009**	**2010**			
Employment rate	61,9%	65,8%	64%			
			Q1	Q2	Q3	Q4
			64,5%	64,6%	64,1%	62,7%

Source: EL.STAT. – LFS data elaboration

To improve labour market performance and achieve the target, special emphasis is placed on youth and women. A series of tailored policies and programmes are being implemented to encourage employment and job retention, without which labour market outcomes would have been even weaker. The expected female employment rate improvement is reckoned to contribute significantly to the overall expected employment rate improvement in the period up to 2020. Notably, the employment rate of women in the 55-64 age bracket improved by 1.2 percentage points (pp) in 2010 versus 2009. Moreover, the 3.9 pp employment rate improvement in the 2000-2009 period (or 2.1 pp improvement in 2000-2010) was mostly attributed to the female employment rate amelioration.

In annex I there are tables presenting employment and unemployment rates for the 20-64, 15-24 and 55-64 age groups, breakdown by sex. There it can be seen that youth labour market outcomes have deteriorated in the 2000-2010 period, while the employment rate of people aged 55-64 has improved by 3.3 pp in the same period.

4.1.2 Key measures

An extensive agenda of reforms is being implemented in order to support productivity growth and tackle the labour market bottlenecks identified as:

(a) demand-side barriers,

(b) barriers regarding integration/reintegration/stay particularly for specific groups (young persons, women and older workers),

(c) the level of effectiveness of the Public Employment Services (PES),

(d) skills mismatches and

(e) undeclared work.

The national reform agenda focuses on the following three main priorities fully consistent with the priorities set in the Annual Growth Survey 2011 and the Economic Adjustment Programme: balancing security and flexibility, making work more attractive and actions to get the unemployed back to work.

The Memorandum of Understanding between Greece, EC, ECB and IMF (Law 3845/2010), its updates, and laws 3863/2010, 3899/2010) and 3846/2010 provide for a series of measures aiming at increasing flexibility while securing adequate protection in the labour market.

- The “passive” unemployment benefit is converted into an Active Labour Market Policy (ALMP) by taking the form of a “reintegration voucher” as a subsidy to the employer who hires a registered unemployed person.
- Regulation of many flexible forms of employment such as rotating employment, part time work, teleworking, work through temporary employment agencies and regarding the regulation of working time.
- Reduction of the notice period for terminating white-collar workers’ open-ended employment agreements resulting to an indirect reduction of the respective severance pay by 50%.
- Overtime work is redefined, resulting to an indirect reduction of overtime costs.
- The threshold above which dismissals are considered collective is raised while employees aged 55-64 cannot be more than 10% of those dismissed.
- Young people under 25 years old and under aged workers with apprenticeship agreements shall be paid with sub minimum wages, 84% and 70% of the minimum wage respectively, and social security contributions paid by OAED (the Greek PES).
- Dismissed employees aged 55-64 have the right to be “self-insured” and their former employer is obliged to participate in the cost of this self-insurance scheme for a period of 3 years following the dismissal.

- Mediation, arbitration and collective agreements have been revised in order to ensure that all interested parties have a symmetric access to the system.
- A new type of collective agreement at firm level, the "special operational collective agreement" is expected to serve as an important mechanism of adjustment for firms which face adverse financial and market conditions.
- The probation period for a new hiring is extended from 2 months to 1 year.

The reduction of non-wage costs is targeted on specific labour force groups, small enterprises and geographical areas facing severe economy and employment difficulties, in order to avoid significant deadweight losses. In this sense, a central policy instrument entails subsidising social insurance costs for job creation and job retention.

The fight against undeclared work is a fundamental priority for the government. In this direction a series of measures have been initiated:

- A special voucher will be used as a compensation for those professions where undeclared work is extensive (e.g.: domestic workers such as housecleaners, care providers for elder people etc)
- An electronic information system connecting the competent bodies –Ministry of Labour and Social Security, OAED, Labour Inspectorate Body and at a later stage, IKA (the main social insurance organization in Greece) will facilitate the cross reference of data and information.
- An electronic card for any employee connected with the aforementioned electronic information system will be used to record an employee's daily work timetable. The employers making use of this measure will benefit from a gradual reduction of social security contributions up to 25%.

Lifelong learning lies also in the core of our national reform agenda:

- Law 3879/2010 establishes an integrated National Network for Lifelong Learning (LLL) which ensures the interconnection of all competent authorities and stakeholders, the transparency and the high quality of LLL policies. The linkage between employment and lifelong learning achieved through the system is aimed to alleviate the mismatches between the demand and supply of skills and respond to the rapid market changes.
- The National Qualification Framework is being further developed (based on European data) for the certification of qualification, regardless of whether these skills are acquired during formal or informal education, and for the improved articulation of skill acquisition with labour market developments.
- An Integrated programme regarding the upgrading of the National Centre of Vocational Orientation was launched, in order to develop modern services of consulting and vocational orientation in the framework of Education and Initial Vocational Training as well as Continuing Training and Employment.

Reforms towards strengthening the role of the Labour Inspectorate (SEPE) are underway. Main elements will be the enhancement of its counselling role, the recruitment of qualified staff and the setting of quantitative targets regarding the inspections.

In line with the aforementioned main priorities the following interventions have been initiated since 2010 and are still in progress:

1. The "Operational Plan for the Support of Work 2011", currently being launched, has a total budget of € 775 million and consists of three main axes: (a) Social Work Programme, aiming at the absorption of 55,000 unemployed (€ 280 million), (b) Regional Integrated Programmes for the Support of Employment for 37,000 beneficiaries (€ 190 million) and (c) a series of ALMPs to be implemented by OAED in 2011 for 100,000 beneficiaries (€ 375 million).
2. A Programme subsidising the insurance contributions of 200,000 full-time employees, in order to retain at least 400,000 job positions in enterprises of the private sector. The budget is € 992 million and it is financed by the Institution of Social Insurance (IKA) and the Public Employment Services (PES).
3. A long term programme for the reconciliation of family and work life and the facilitation of labour market access for the second earners (especially women) through the establishment of child care facilities has been launched by the Workers Social Benefits Organization and the Hellenic Agency for Local Development and Local Government. It is primarily financed through the "O.P Human Resources Development" (budget: € 280 million) and it has 100,000 beneficiaries.
4. A subsidy programme is addressed to enterprises of the private sector for hiring unemployed workers aged 16-24 to attain working experience, being paid the 80% of the minimum wage, with the possibility to expand the subsidy for 12 more months, if the apprenticeship is transformed into a work contract. The programme has a budget of almost € 54 million and it is financed by O.P. "Human Resources Development".
5. A vocational and educational training programme addressed to 125,000 employees of the private sector of total cost € 45 million financed by the Account for Employment and Vocational Training (LAEK).
6. A Special New Jobs Programme addressed to 40,000 beneficiaries with special emphasis on young people –up to 30 years old-, small enterprises, older workers and older female workers is currently implemented by OAED and it is financed by the Institution of Social Insurance (IKA) and OAED (budget: € 501 million duration: 4 years).
7. Promoting female entrepreneurship, a programme of OAED is designed and implemented for 4,000 women, financed by "OP Human Resources Development" (€ 96 million).
8. In order to maintain and create jobs in the tourism sector, OAED runs a programme subsidising social insurance contributions for hotel enterprises that recruit the same amount of seasonal personnel released the previous year. It is addressed to 70,000 beneficiaries and it is financed by the Institution of Social Insurance (IKA) and PES (€70 million).

It should be mentioned that OAED has implemented a pilot internal evaluation system based on the "Scorecard" methodology using data held in the Integrated Information System. The objective

of the Agency is to produce a half-yearly and annual progress report of the effectiveness and the quality of the services provided. Furthermore, two Surveys are in progress in order to contribute to the completion of the Integrated Evaluation System of programmes and actions of OAED.

Co-financed programmes are being subject to an ongoing evaluation aiming to provide adequate information concerning the feasibility of the quantitative targets and efficiency and effectiveness of the interventions.

4.2 R&D Target & key measures to attain it

With regard to the field of "sustainable economic development" five main areas of strategic importance to the country have been identified and serve as national priorities. These comprise: 1)Agro-food, 2) Information and Communication Technologies, 3) Materials/Chemicals, 4) Energy-Environment, and 5) Health/Biomedical sectors. In addition, applied economic and social research and research on cultural heritage are considered also of national importance and will be supported.

The process for meeting those priorities (and serving the country's research needs) is based on 4 dimensions each implemented through a series of calls for proposals.

1) Strengthening and supporting the scientific/research personnel and research infrastructure. This includes a variety of calls such as calls for interdisciplinary research, investigator-initiated research, and support for graduate studies and for postdoctoral research. A major new initiative under this category is a call, identical to that of the ERC starting grants for young researchers (expected to be announced by the end of the year). The aim of this call is to attract/keep top young Greek research talent in Greece in a period in which there are many incentives for scientists to leave Greece.

2) Encouraging links between the scientific/research community and businesses and entrepreneurs. This programme includes calls for spin-offs, innovative cluster creation, and collaborative efforts between the private sector and public research institutions. (Two new calls for proposals establishing links between science and industry will be open by the 5th of April),

3) Supporting bilateral and European and international collaboration, and

4) Outreach and Education for research to the community (particularly youngsters).

The principles that underpin the research processes include: regularity and predictability of calls, user-friendly submission, and independent, objective and high quality evaluation of proposals utilizing high caliber experts outside and within the country.

4.2.1 R&D <u>earlier-set</u> Target: 2% of the GDP for R&D.

According to a study conducted by the General Secretarial for Research and Technology (GSRT) in order to achieve this target by 2020, gross domestic expenditure on R&D (GERD) will have to increase from 1.3 billion € in 2007 to 4.9 billion € (current prices) by 2020.

The assumptions on which the study was based are the following:

Public sector expenditure (excluding the expenditure through the National Strategic Reference Framework (NSRF)) is expected to show a reduction for the period 2010-2012 (by -10% in 2010, -5% in 2011 and stability in 2012). However, for the period 2013-2020 it is envisaged that there may be an increase in public sector expenditure. This increase can be expected from the expenditure of the payments due to the closure of the co funded projects (2015 is the last year for NSRF) since a delay in NSRF has been noticed up to date. As such, it is expected that by 2015 all of the available funds through the NSRF will have been absorbed including the funds of national participation. For the period 2015-2020, it is also expected that there may be an increase in funds available. This increase will be derived mainly from the 'new Structural Funds" which will support R&D projects. This expectation is based on the assumption that the E.U. funds for the next programming period will certainly be focused on dedicated operational programme for R&D which is an objective of this government's policy.

Regarding the private sector, the basic hypothesis according to this study is that there may be a slight increase in R&D expenditure, rising gradually, initially by 5% per year (equivalent to what has happened in the past). This increase will be mainly due to the measures already taken for incentives concerning R&D and innovation expenditures i.e. i) reduction 50% from the net profits of an enterprise for R&D expenses in scientific and technological research, ii) tax exemptions for 3 consecutive years for income derived from sales of products produced by exploiting internationally recognised patents, iii) new investment law incentives. However, the current ratio of private expenditure over GDP according to the latest available estimates (2009), remains considerably low (close to 0.16% of GDP and 31% of all GERD, and may remain so given the ongoing recession.

Achieving the target

<u>It is evident that given the current economic environment in the country along with the global and European economic climate, the aim of investing 2% by 2020 may be unattainable and will need revision to more realistic levels.</u> What Greece has achieved and will achieve however, is a much more efficient use of available resources. As a consequence the quality of research and translation of research findings into benefits for the economy and society are expected to increase. Furthermore, research institutions and scientists will be better positioned to achieve results and compete in the international arena.

Also it is worth noting that in the current climate the only possible source of increase of government funding for research is the structural funds. Thus, the success of the Greek programme depends greatly both on the quality of government interventions, but also crucially on the extent of EU support for government finances as well as for regional development.

Concerning the EU structural funds according to our plans, funds allocated to R&D sector for the existing period will be spent by 2015, while for the upcoming programming period emphasis will be placed on establishing a focused R&D operational programme with sufficient funds. Finally, through the incentives established for R&D expenditures, patent tax exceptions and the new investment law, the framework necessary to support and enhance the private R&D expenditure has already been set.

In conclusion, it should be noted that the target could be further revised in case of unforeseen developments or new data.

4.2.2 Key measures

A new Framework Law for research is under preparation.

A Framework Law for the support of Research, Technological Development which will substitute the existing legal framework is currently under preparation. Prior to that, a four-month public consultation was carried out on a National Action Plan for the support of Research, Technological Development and Innovation. This consultation has taken place both electronically and in workshops around the country. The consultation findings serve as a basis for the new Research Law. The draft bill is expected to be finalized by the end of 2011.

The aims of the National Action Plan that was presented to the Research and business community included:

- The functional integration of the national research "fabric" with an integrated political oversight, longer term planning of government policy making best use of the advice of a more flexible National Council for Research and Technology (E.S.E.T).
- Improvement of the investment climate for R&D
- Strengthening the linkages between research and innovation
- Strengthening Greek research system and its potential for supporting the economic development of the country
- Improving the effectiveness of public financing of R&D

Improving the investment climate for R&D

Fiscal incentives are an important mechanism for stimulating R&D activity in the private sector. In addition to the standard tax credits for R&D investment, and the measures included in the recent "investment law", and to the extent permitted by the fiscal conditions in the country, an expansion of the use of fiscal incentives to support spin-offs, spin-outs, and science and technology parks is under consideration.

A modernisation of the National Patent System is also under consideration in order to improve the protection of the rights of inventors and to support better the exploitation of research results by Greek enterprises, universities and research centres. The new law (under development) for higher education will have a provision for establishing Patent Offices within Higher Education Institutions.

Strengthening the linkages between research and innovation

As it was mentioned at the beginning of the section, a key dimension of competitive calls will focus on encouraging links between the scientific and research community and businesses and entrepreneurs. Indeed, an important part of government research programmes are aimed for supporting research in new high technology SMEs, spin-offs and spin-outs, and collaborative research projects between firms, and between firms and research organizations of the public

sector (universities and research centres). These programmes (SMEs, "Spin-off, spin-out" and "Cooperation") are implemented through competitive calls for proposals, which are expected to absorb over € 200 million in the period 2011 and 2015 (of the € 570 million which are allocated for the Research and Technology sector of the Greek NSRF for the period 2007-2013).

Another set of activities aiming to improve the links between research innovation include programmes on "Clusters", as well as support for innovative enterprise parks and support to participation of Greek companies in consortia of EU Joint Technology Initiatives. These are expected to absorb an investment in the area of € 30 million in the period 2011-2013.

Strengthening the Greek research system

A precondition for strengthening the demand for research in the Greek economy and society is the improvement of the quality of the Greek research system (human capital and infrastructure) itself. To this effect another key category of competitive calls are focused on that. There will be programmes focusing on the development of human capital for research in a knowledge economy (including support to excellent researchers, support to mobility of researchers towards enterprises and support to training for innovation activities). These programmes are expected to exceed € 150 million in the period 2011-2013.

In addition, an important set of programmes concern the upgrading of the Greek research infrastructures, taking advantage of developments at the European level through the roadmap of ESFRI (European Strategy Forum for Research Infrastructures).

The support of bilateral and international collaborative efforts is also expected to significantly contribute to the strengthening of the Greek research system. Finally, a third set of activities relates to the development of a culture of outward orientation in the Greek scientific and technological community through outreach and education efforts. This third set of activities will not be substantial in monetary terms (€ 6 million for 2011-2012) but is expected to bring important benefits.

Improving the effectiveness of public financing

The measures mentioned above involve continuous and uninterrupted funding for the Greek research system. Being financed primarily through EU structural funds, it is important that this funding induces sustainable behavioural change in the actors of the Greek system. For this reason, a better system of evaluation and assessment activities will be pursued based on recommendations of the National Council of Research and Technology. The objective is to ensure that the programmes are achieving the desired effects (increased effectiveness and efficiency) and to allow for adaptations and improvements. These will build on the insights provided by a more general evaluation of research and technology policy in Greece which is planned now in order to improve the efficiency and the effectiveness of the R&D system in Greece. In this context potential restructuring of research institutes will be thoroughly examined. All the above actions are part of a more general reform at all levels of education including higher education. They are also part of the effort of the Greek government to make research an

indispensible tool for reviving the country and making research relevant to the needs of the country.

4.3 Environmental Target & key measures to attain it

The triple targets of the 20-20-20 package are considered by the Greek Government as both obligations and opportunities. It is envisioned that they will play a key role in ensuring energy security, reducing national greenhouse gas emissions, boosting the competitiveness of the economy and attracting investment capital and technical knowhow. It is also estimated that they will assist in the economic improvement of conditions in rural areas and in boosting eco-industry that utilizes comparative advantages of local agricultural production and food industry.

Environmental Target: Contribution of the energy produced from Renewable Energy Sources (RES) to the gross final energy consumption by a share of 20%. Reduction of energy consumption by 15% of the foreseen 2020 levels through improvements in energy efficiency. Reduction of greenhouse gas emissions by 4% (based on 2005 levels).

Meeting the targets set within the RES roadmap until 2020 calls for the elaboration of policies and measures, which aim at the simultaneous fulfilment of the "20-20-20" obligations and the acceleration of the Greek economy through "green" development and enhanced competitiveness of the private sector. In recent months, a number of major legislative initiatives have been approved by the Greek Parliament. Among them, L3851/2010 on "Accelerating the development of Renewable Energy Sources to deal with climate change and other regulations in topics under the authority of the Ministry of Environment, Energy and Climate Change" is of particular importance and it amends significant provisions of the currently applicable legislation, aiming at simplifying the licensing procedure, at rationalizing the feed-in-tariff scheme, at tackling existing barriers at local level, as well as at establishing specific regulations for the use of RES in buildings, in accordance with the recently approved "Energy Performance of Buildings Regulation". Additionally, this law sets specific targets for 2020 regarding the share of RES in final energy consumption, electricity generation and contribution in heating, cooling and transport.

Key measures

Measures that are planned for electricity production in the interconnected system will be based on power production from:

- Lignite power plants, which will be modernized using best available technology, as well as adapting new technologies for biomass residues exploitation, through co-firing and CO2 emissions reduction, in conjunction with the gradual decommissioning of the less efficient and more pollutant ones.
- Large scale RES plants , mainly wind farms and large hydro plants (also CSP plants), together with medium/small scale RES plants (photovoltaic plants, small hydro, biogas,

geothermal plants, biomass co-generation, and RES applications for electricity generation in the residential and tertiary sector buildings)

- New hydroelectric pumped storage plants, which will become operational, contributing to grid stability and reduced wind energy curtailment
- Some additional natural gas combined cycle plants and to a smaller extent, gas turbines.
- CHP plants.

They also include the development and utilization of smart grids along with intelligent monitoring, control, and communication technologies in order to reduce network losses and improve demand management.

In order to fully implement the National Renewable Energy Action Plan and to meet the "20- 20-20" targets new financial incentives for the support of the heat production from biomass and geothermal energy have been put in place or are planned. Also, the implementation of all the technical measures that are described in the newly approved Energy Performance of Buildings Regulation, aiming to achieve significant energy savings is expected to commence in 2010. Although solar thermal applications already have a significant penetration in the Greek building sector, new legislative framework passed in 2011 along with the technical requirements that are set by this regulation on minimum required contribution of solar thermal systems for all new buildings, is expected to contribute further. The new building regulation will act as the main legislative tool for the promotion of RES systems for heating and cooling at the tertiary and residential sector but also in industry and the agricultural sector.

Furthermore, the successful implementation of end-use energy saving measures, along with the development of new market mechanisms (e.g. Energy Service Companies-ESCOs) for both the public and private sector are considered essential in order to achieve the projected RES share in heating and cooling.

The penetration of biofuels to meet the 20-20-20 target in the transport sector will be achieved through a combination of regulatory actions targeted to promote both the use of more energy-efficient vehicles and the consumption of biofuels in substitution of fossil fuels in transport. Emphasis will be put on the domestic production of the required amounts of biodiesel, on the exploitation of the local biomass potential with the cultivation of energy crops for biofuels and on the development of the necessary supply chains in order to assure a significant contribution of the domestic agricultural production

4.4 Educational Target & key measures to attain it

Educational Target: the share of early school leavers should be under 10% and at least 32% of the younger generation should have a tertiary degree.

Regarding the 10% drop-out target, in Greece, as it can be seen from the following table, this figure amounted to 18.2% in 2000 decreased to 14.8% in 2008 and by 2020 it is estimated that it will be further reduced to 9.7%. Therefore it is foreseen that this objective will be achieved by 2020 and possibly improve even further.

Table 4: School drop-out rate (%)

2000	2008	2020*
18.2	14.8	9.7

*Source: Ministry of Education, *estimations*

As for the second target referring to the younger generation with a tertiary degree, according to estimates of the Ministry of Education, the 32% target will also be achieved by 2020.

Table 5: Share of population having completed tertiary or equivalent education (%)

2000	2008	2020*
25.4	25.6	32

*Source: Ministry of Education, *estimations*

Key measures

1) With respect to the 10% share of early school leavers the following measures which are already implemented, or will be in the near future, have to be mentioned:

There is a new policy for primary and secondary level education, the “New School” which makes the student the focal point of the educational system. This aims to the overhaul and the improvement of the Greek educational system as a whole. The "New School policy" is based on five key principles: all day, inclusive, digital, sustainable and innovative school.

During the current school year the following actions are being implemented:

- Modern study curriculum
  - Developing new and flexible curriculum for compulsory education (ages 4-15 years old)
  - Completion of the proposal for the structure, the content of the new curriculum of the “New High School”.
  - Implementation of the "Primary Schools with an Integrated Reform Programme of studies" to the 800 largest schools in the country (which count for the 30% of the student population). Teaching modules for the last two grades of the elementary school, for gymnasium and high school are being streamlined and reduced in order to enhance students’ academic performance and make school more student-friendly.
- Implementation of School Evaluations. All primary and secondary level school units will be evaluated according to their educational work.
- Teachers
  - The certificate of pedagogical training for teachers has been established, as well as the evaluation of teachers.

- Teachers of all disciplines will participate until December 2013 in the integrated training programme for the “New School”. It is estimated that the number of those who will be trained will be approximately 150,000 teachers.

- Vulnerable groups of the population
  - The strategic restructuring of Special Education will be implemented through actions, such as: procurement of special equipment for all special schools, the safeguarding of funds for parallel support (teacher per student) for children with disabilities (2011).
  - Educational actions, mainly through important interventions for the vulnerable groups. More specifically:
    - For the Roma: Special programmes are materialized in 80 municipalities (2010)
    - For the Religious Muslim minority in Thrace: A support programme has commenced in September covering all schools and by mobile units for the remote villages (2010).
    - The creation of Educational Priority Areas in 20 schools aiming to reduce school dropout rates in deprived areas of the country.
    - Special programmes for migrant children are being developed.
- Digital and Technological School
  - The New School is being supported by the implementation of the digital school strategy through an educational platform comprised of digital contents for the training of teacher. The digital school is in a pilot phase in 800 primary schools following the integrated programme and in 1250 gymnasiums.
  - The organization and the materialization of the "Technological School" and, in particular, of the 'Technological High School" will be developed in 2011.
- Policy "Lifelong Learning". The National Council of Lifelong Learning and its connection to Employment has been assembled and during its first meeting (February 2011) it presented the National Programme of Lifelong Learning which includes all the actions of the public policy of lifelong learning. The National Programme of Lifelong Learning promotes a new perception for Education and its basic aim is the coordination of the field of Education with that of Vocational training.
- By means of a draft law, the establishment of an Institute of Educational Policy is laid down aiming at assembling a framework of planning and applying an educational policy, which will reinforce by the Ministry of Education in the implementation of the Educational Policy and programmes. The target is meant to be achieved by the establishment of a new consultative organisation in which the main functions of four existing services are transferred. These services (Pedagogical Institute, Centre of Educational Research, Institute for Education for Greeks Abroad and Intercultural Education, Organisation of teacher training) used to function under an overlapping

status and now they are either abolished or merged. Among the tasks of the new organisation lie –without any limitations- the direct or indirect formation, alteration or affecting in any way the character, functioning and effectiveness of the schools of the first and second grade of the general and techno-vocational education.

- An important reform which will be implemented from the next academic year 2011-2012 is the integrated reform programme of school unit mergers in the primary and secondary level of education. The target is to upgrade the quality of the education provided, to ensure the optimal exploitation of infrastructure and to allow the application of innovative teaching methods and facilitate the work of teachers resulting in the provision of quality educational services. The mergers of school units, the so called "Kallikratis programme" in education, is taking into consideration the real needs of each region, its geographical features, the availability of infrastructure and the operational expenses of the available school units.
- International Group of Experts for the study of primary and secondary education issues. In collaboration with the Organisation for Economic Cooperation and Development (OECD) and other experts, an international expert working group has been set up in order to study issues of the quality and modernization of the primary, secondary and higher education.

2) With respect to the achievement of the 32% target for the younger generation with a tertiary degree the following measures should be mentioned:

- The modernization of the admission system of the students in higher Education institutions is planned aiming at the objective evaluation of the candidates and the best rational allocation into the different departments, as well as the facilitation of the timely completion of their studies.
- There are no specific requirements of minimum scores attained at the cross country admission examinations for the entrance into higher education aiming to fully cover all the available posts in Universities and Technical Institutions.
- Development of digitalized textbooks for helping students to succeed in the cross country admission examinations into tertiary level education.
- The framework of university to university transfers is becoming more flexible. This is implemented in order to reduce the financial costs of education.
- Through the new electronic system www.eudoxus.gr each student can directly select and order textbooks, and gain access to 11,500 free electronic books and teachers notes that have been posted in the system.
- The certification of the professional rights of graduates of foreign universities has commenced. The Council for the Recognition of professional qualifications has been established and convenes regularly issuing certificates.
- Restructuring of the teaching and the research grid of the country based on academic, social and economic criteria (2011).

- An international Advisory Council has been constituted for the modernization of Higher Education. It is made up of Deans and Presidents of some of the well known Universities of the world in Europe, America, Australia and Asia as well as former ministers of Education who have achieved successful reforms in their country. The aim is to propose specific policies and measures which will form the basis of an action plan to upgrade the quality of Higher Education in Greece.

4.5 Poverty target & key measures to attain it

Severely affected by the economic crisis, Greece is facing a major challenge: to build a social safety net against poverty and social exclusion, particularly for the next few years. The abrupt increase of the unemployment rate, the impact of the necessary austerity measures in order to tackle the excessive fiscal deficit, as well as the projected negative rate of growth for 2011 create a challenging setting regarding social protection and the fight against poverty and social exclusion.

The special circumstances under which Greece operates were taken into consideration in this National Reform Programme: a) the EU-ECB-IMF Memorandum of Understanding with the Greek government and the included measures, b) the Mid-term fiscal programme. Within this context, increasing the effectiveness of the available resources and making the best out of the EU funds and new financial tools constitute national priorities. The national strategy for the next decade focuses on building a social safety net, with a number of targeted measures for people at risk and streamlining the social protection policies so that they can be adequate, effective and sustainable.

Poverty target: 450.000 fewer people should be at risk of poverty.

Greece sets a target of reducing the number of people at risk of poverty and/or social exclusion by 450.000 by 2020[2]. This is translated into a reduction of the at-risk-of poverty and/or exclusion rate[3] from 28% in 2008 to 24% in 2020. Greece sets another target focusing on tackling child poverty, namely, reducing the number of children and young people (0-17) at -risk-of poverty by 100.000 until 2020, which is translated into a reduction of at-risk-of poverty rate for children (0-17) from 23% in 2008 to 18% in 2020. Moreover, building a "social safety net" against social exclusion, which includes access for citizens to basic services, such as medical care, housing and education is a priority, especially during the crisis. The target is to reduce drastically the number of citizens who lack access to primary medical care, education services and housing.

Designing a long-term strategy against poverty and social exclusion and assessing the impact of the designed and adopted policies on indicators such as risk of poverty and/or social exclusion pose significant challenges. Despite recent data by Eurostat for 2009 that show a decrease of the

[2] In setting the above target, different scenarios were taken into consideration, in particular those discussed in the European Commission's Document on "Methodological note on the estimate of possible reference values for national contributions to the EU headline social inclusion/poverty reduction target under the Europe 2020 Strategy", Brussels, 26/06/2010. It is highlighted that these data use 2008 as reference year.

[3] In the context of the NRP, the population at-risk-of poverty and/ or exclusion is defined according to the following three indicators : at-risk-of poverty rate; severe material deprivation rate and people living in a low work intensity household. Regarding the two latter indicators, the definitions used are in line with the ones used for monitoring the Europe 2020 poverty /social inclusion target

percentage of the population at risk of poverty and/or social exclusion from 28,1% in 2008 to 27,6% in 2009, any longer-term strategy should take into account the negative repercussions of the crisis on the most vulnerable groups of the population. Policies and measures will be monitored and assessed annually and targets may be revised in light of new macroeconomic data and developments. Taking into consideration the European Commission Communication regarding the European Platform against Poverty and Social Exclusion, the Annual Growth Survey and the recommended policy areas under the Joint Assessment Framework corresponding to Guideline 10, the main reforms and measures regarding tackling poverty and social exclusion for 2010, 2011 and 2012 are presented below.

Key measures

Increase the effectiveness of social programmes and better coordination between Ministries, agencies and local government. Key public policy reforms.

It is noteworthy that according to Eurostat 2009 data for Greece, poverty rates improved only by three percentage points before and after social transfers other than pensions – namely from 22,7% to 19,7%. This highlights the need for major improvements in social transfer effectiveness. This may be attributed to a number of bottlenecks such as the large number of central government agencies participating in defining and implementing social policies, the lack of management information tools to register the beneficiaries and make payments, difficulties in the process of monitoring and evaluation of social programmes. To this end, major reforms are being implemented in the following areas:

a)Functional review of social programmes, aiming at improving their effectiveness and achieve better targeting of funds to the vulnerable groups of the population. A study will be delivered on June 2011 by the OECD and the EU, administered and supervised by an inter-ministerial Committee.

b) The establishment of an interministerial cooperation scheme for monitoring and assessing social inclusion & protection policies. A study is being undertaken in order to recommend the administrative structure and the next steps.

c) Major reforms pertaining to the management and operation of the social security system are underway. These include, among others, gradual unification of the insurance funds, a Single Authority for controlling public payments and pensions through a Management Information System, the extension of the electronic system for prescriptions to all Insurance Funds.

Access to employment-inclusive labour markets.

Building inclusive labour markets is a priority for our strategy, as employment is the most effective tool in fighting poverty. This is why the National Plan for the Support of Work 2011 constitutes a major preventive arm against poverty. In addition, special programmes for active inclusion of people of vulnerable groups are implemented within the 3-year time frame:

a) the launch of the Social Economy and Social Entrepreneurship intervention as an Active Labour Market Policy for vulnerable groups includes a law introducing the Social Cooperative Enterprise for Integration, special capacity building actions for Social Cooperative enterprises through networking and education programmes of a total budget

of € 60.million. In addition, the Social Economy Fund will provide access to finance for these groups through special micro-finance products.

b) local integrated employment programmes aiming at the promotion of 6.000 people from socially vulnerable groups to the labour market of total budget € 30 million. Additional programmes fostering community work for the unemployed and other vulnerable groups will run in 2011, targeting 50.000 beneficiaries of a total budget of € 280million. Special programmes aiming at offering new jobs to over 5.500 beneficiaries of vulnerable groups are promoted through the Greek Manpower Organisation, amounting up to € 134million.

c) other measures which are expected to contribute to active inclusion of vulnerable groups in the labour market are combating undeclared work as well as the pension reform system, with the introduction of incentives for the age group 55-64 to remain in the labour market.

Decentralizing the implementation of the programmes regarding the support of employment is a major pillar of our strategy. Special Memoranda of Cooperation with the Heads of the Local Governments have been signed for that purpose.

Social protection and access to essential services. Sustainability of the pension system.

Greece has introduced major reforms with regards to its pension system, aiming at a sustainable, socially just and adequate pension system. The reform also entails measures that favour active ageing.

- Law 3863/2010 introduced major reforms, most notably the, gradual equalization of the old-age pension requirements for all insurance funds, the establishment of a more rational system of calculating pensions, introducing two components in old age pension: the basic pension and the proportional one. The basic pension, a welfare-type benefit reflecting social solidarity, being applicable to old-age pensioners as well as to all those aged 65 or more who do not fulfill the minimum pension requirements, provided that they fulfill certain residency and income requirements. The second component is a pension benefit paid by Social Security Organisations, namely a proportional amount for the contributions they paid while being insured. This system will start being implemented from 2015 onwards.
- Another reform is the introduction of demographic considerations in the old-age pension-age requirement. Within the framework of conducting regular assessment of the sustainability of the pension system, actuarial studies are being regularly undertaken.
- Also, special social protection measures for vulnerable groups and people with short and discontinuous work careers are adopted. Self insurance is introduced for those in the 55-64 age group whose contract is terminated and remain unemployed for two months.
- In addition, a Pensioners' Solidarity Contribution – the so-called EAS - applicable on high pensions has been established, as additional means for safeguarding the adequacy of the system.

Breaking the intergenerational transmission of poverty: child poverty and youth

According to the statistical data of 2009, poverty threatens 23,7% of children from the age of 0-17, while this figure is higher by three percentage points compared to the respective percentage of the total population for the same reference period, namely 19,7%. Within the framework of tackling child poverty and the promotion of children's rights, a preparatory process is underway which will lead to the development of a long-term strategy. The main goal is to address the multi-dimensional approach of the phenomenon at a national, regional and local level. The main axes are: a) supporting parents' employment, b) ensuring access for children and their families to services, in order to cover basic needs and upgrading their quality of life c) upgrading institutions and services with the ultimate goal for social inclusion of all children. Key measures that have been launched or are underway during this reference period are:

a) Support of the members of the households at risk of poverty with children through a series of measures, such as inclusion in the labour market: these are programmes aiming at labour market inclusion of the unemployed who are members of households with children, programmes supporting women's entrepreneurship and particularly heads of single member households. Special programmes aiming at training and skills upgrading through lifelong learning, also contribute to levering the educational level of members of households.

b) ensuring access for children and families to services in order to cover basic needs and upgrading the quality of life.

A pilot programme which provides access to medical and pharmaceutical services to the unemployed and people with very low work intensity will be implemented in 2011. In addition, numerous programmes aiming at providing access to education of children from vulnerable groups are implemented of total budget € 127 million. With regards to access to housing, in recent years the Workers House Organization has adopted a number of measures providing more opportunities to the workers' families of vulnerable groups to acquire a decent home of their own.

c) upgrading institutions and services with the ultimate goal for social inclusion of all children

Special programmes offering childcare services in cooperation with local authorities were implemented in 2010 and will continue in 2011 while four pilot programmes offering integrated services to children and their families will be launched in 2011. These services range from psychological support to families up to job support services to members of the household. In addition, 24 childcare facilities operate under the Workers' house Organization programmes, offering childcare services to 1200 children of its beneficiaries, which are mostly households at high poverty risk. Preventing youth delinquency is also a major priority. A special programme in order to improve the policies targeting at preventing and facing the victimization of youth and youth delinquency of a total budget of € 5 million is implemented. Last, the review of the institutional framework for supporting youth and family, most notably the reform of the National Observatory for the rights of children and the framework regarding multi-member families is also underway in 2011 and 2012.

Social inclusion and antidiscrimination

Social inclusion and antidiscrimination of the groups that face high risk of social exclusion and consequently a high risk of poverty, is a priority. Key reforms, programmes and measures are undertaken for these groups. Indicatively, the following are mentioned:

i) With regards to social integration of immigrants three are the main components of our strategy: a) stabilizing the permanent resident status of documented migrants, by reducing the risk of losing this status, (b) facilitating their access in terms of bureaucratic procedures to their rights and (c) enabling their full participation in the economic and social life, especially with regard to second generation immigrants. To this end, law 3838/2010 on "Current provisions for Greek citizenship and the political participation of foreign-born Greeks and of legally residing immigrants" has been introduced. In addition, a series of programmes financed by the European Social Fund aim at helping immigrants acquire the basic skills – mainly through Greek language and civilization programmes – to integrate not only in the labour market, but also in the society. One of the biggest challenges though, remains the illegal migration and the undocumented immigrants. Tackling undeclared work plays a special role to this end. A special Law Standing Committee is established for integrating the EC Directive 2009/52/EC.

ii) With regards to gender: Special actions and programmes are implemented against domestic violence through counseling centers, raising awareness programmes, and in support of women's NGOs. In addition, gender mainstreaming is launched as a horizontal measure, including the codification of the legislation and monitoring of the policies during the reference period .

iii) With regards to people with disabilities: a national action plan for people with disabilities is being promoted in 2011, while special labour market integration programmes, social economy and lifelong learning programmes are implemented.

iv) With regards to people with mental health issues, Social Cooperatives of Limited Liability (KISPE) for people facing mental health disabilities are supported, while extending their access to finance through the Social Economy Fund and special incentives are introduced through the new Law on Social Economy and Social Entrepreneurship.

v) As far as the social inclusion of the Roma is concerned, a medium and long term strategy is being processed entailing a threefold framework for their social inclusion: I) horizontal actions of mainstreaming in policies, II) targeted measures at the national level and III) targeted territorial actions. Currently, special programmes providing access to education for Roma children are implemented, while 33 centers will provide social care services to Roma population ranging from legal support to promotion into the labour market.

vi) Regarding hhomelessness and house deprivation**:** homeless people face the most extreme form of poverty and social exclusion. Lack of official data and state outreach to the specific group is limited. This is where synergies with civil society and other

stakeholders, such as the Church, NGOs and Foundations could play an important role. Within this framework, a Memorandum of Understanding with the Church has been signed foreseeing specific actions and measures, including the establishment of shelters and guesthouses for this target group.

Consumer protection.

A key tool in fighting poverty is protecting consumer rights. The Consumer General Secretariat has introduced a series of policies, entailing the implementation of institutional measures as well as raising the awareness of consumers about the market and their rights. Law 3869/2010 about settling debts of overindebted households introduced a key reform in consumers' rights, by giving the opportunity to physical persons to regulate their debts. Special actions are launched or are underway for supporting the implementation of the law, such as a help line for raising awareness for households as well as the establishment of a national network for legal support of the households, involving social partners, consumers' organizations and lawyers' bars.

Social innovation, contribution of EU funds, mobilizing financial resources.

The contribution of EU funds and especially the European Social Fund plays a central role in our strategy for fighting poverty and social exclusion within Europe 2020 strategy. Achieving better targeting of the funds as well as creating synergies with other European Funds, such as the European Regional Development Fund is also a priority, as for Greece, a country with an insular morphology, territorial cohesion is also linked with social cohesion. Especially during the period of the economic crisis, the activation of the OP National Contingency Reserve is of special importance, particularly for the immediate tackling of the direct consequences affecting human resources.

Mobilizing social economy is crucial in our Europe 2020 strategy. A new institutional framework for promoting social economy and social entrepreneurship is launched, not only as a means for creating new jobs for vulnerable groups, but also as an innovative and effective tool to meet the unmet social needs and improving social outcomes. In parallel, the intervention is supported by a roadmap by providing a set of incentives, capacity building measures for social economy actors in order to create a favorable environment for social innovation to flourish. The Social Economy Fund is in the process of being established with a Joint Ministerial Decree. This will provide innovative financial tools, such as micro-credit, seed capital and guarantees to micro-entrepreneurs, ensuring access to financial services by vulnerable groups. Attracting private capital and developing a culture of social investment is also a component of our medium-term strategy. Along these lines, using Corporate Social Responsibility also plays an important role. A memorandum of Understanding was signed recently between the Ministry of Labour and Social Insurance and the Hellenic Network for Corporate Social Responsibility, in order to create synergies and undertake actions around common agendas, such as tackling child poverty and integrating youth in the labour market. In addition, synergies with the civil society actors such as Foundations and Non-Governmental Organizations are being fostered.

5 Use of EU funds

In order to present the connection and/or relation among the Strategy EU2020, the Integrated Guidelines, the current National Strategic Reference Framework (NSRF) 2007 – 2013 and the bottlenecks identified, a table has been developed.

From the comparative table it can be seen that the guidelines 4-10 are addressed to a great extent (about 70%) by almost all the current NSRF actions, namely, all seven Sectoral Operational Programmes, by the total five Regional Operational Programmes and by two Territorial Cooperation Programmes. Guidelines 1 - 3 have no direct connection to the current NSRF.

Regarding the identified bottlenecks it is estimated that the connection to the current NSRF is less significant (about 27%) than that of the guidelines, since they refer more to macroeconomic issues. It is evident from the table that four bottlenecks are addressed by the NSRF trough five Sectoral Operational Programmes and the Regional Operational Programmes.

Table 6: Interconnection of the NSRF 2007-2013 and the EU 2020 Strategy

GUIDELINES	FLAGSHIP INITIATIVES	NSRF	Macro-structural BOTTLENECKS to growth	Labour Market BOTTLENECKS
Guideline 2: Addressing macroeconomic imbalances			*Ensuring wage and price adjustments to regain and sustain competitiveness, through wage moderation and productivity- and competition- enhancing reforms*	
Guideline 1: Ensuring the quality and the sustainability of public finances			*Implementing the agreed frontloaded fiscal consolidation and thereafter sustaining a large primary surplus to reduce debt level and improving long-term sustainability of public finances.*	
Guideline 3: Reducing imbalances in the euro area				
			Ensuring a well functioning and stable financial sector including the safeguarding of banks' balance sheets	
		O.P.s: Digital Convergence and Reinforcement of Public Administration Efficiency	*Strengthening the efficiency and effectiveness of the public administration, achieving a better control of public finances and improving the quality of public finances*	

Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy	**Innovation Union and A digital agenda for Europe**	**O.P.s: Competitiveness and Entrepreneurship - Digital Convergence - Regional Operational Programmes - Accessibility Improvement - Reinforcement of Public Administration Efficiency**		
Guideline 5: Improving resource efficiency and reducing greenhouse gases emissions	**Resource efficient Europe**	**O.P.s: Competitiveness and Entrepreneurship - Regional Operational Programmes - Accessibility Improvement - Environment and Sustainable Development - Greece Cyprus - Greece Italy**		
Guideline 6: Improving the business and consumer environment and modernising the industrial base	**An industrial policy for the globalisation era**	**O.P.s: Competitiveness and Entrepreneurship - Regional Operational Programmes - Reinforcement of Public Administration Efficiency**	*Improving the business environment including by enhancing competition in services and regulated professions*	
Guideline 7: Increasing labour market participation and reducing structural unemployment	**An agenda for new skills and jobs**	**O.P.: "Human Resources Development 2007-2013 "**	*Reducing the size of the informal economy by facilitating the full participation of all groups in the formal labour market and, in tandem, improving tax administration.*	- *Demand side barriers to the labour market* - *Barriers to labour market integration/ reintegration/ stay, particularly for specific groups (young persons, women, older workers).* - *Need for strengthening the central role of PES and for establishing and mobilizing decentralized interim structures for policy implementation* - *Undeclared work* - *Skills mismatches*
Guideline 8: Developing a skilled workforce responding to labour market needs, promoting job quality and lifelong learning				
Guideline 9: Improving the performance of education and training systems at all levels and increasing participation in tertiary education	**Youth on the move**	**O.P.: Education and Life-long Learning and Regional Operational Programmes**	*Overhauling the educational system in order to improve the quality of the country's human capital.*	
Guideline 10: Promoting social inclusion and combating poverty	**European platform against poverty**	**O.P.: "Human Resources Development 2007-2013** **O.P.: Education and Life-long Learning**		

		O.P " Administrative Reform 2007-2013"		

Source: EYSSAAP - Ministry of Regional Development and Competitiveness

From the table 6 above, we can observe that:

The first two bottlenecks "Implementing the agreed frontloaded fiscal consolidation and thereafter sustaining a large primary surplus to reduce debt level and improving long-term sustainability of public finances" and "Ensuring wage and price adjustments to regain and sustain competitiveness, through wage moderation and productivity- and competition- enhancing reforms" are addressed by guidelines 1 - 3 but have no direct connection to the current NSRF.

Bottleneck "Ensuring a well functioning and stable financial sector including the safeguarding of banks' balance sheets" is not addressed by any guideline nor has a direct connection to the current NSRF.

Bottleneck "Strengthening the efficiency and effectiveness of the public administration, achieving a better control of public finances and improving the quality of public finances" is not addressed by any guideline but is addressed by two Sectoral Operational Programmes.

Bottleneck: "Improving the business environment including by enhancing competition in services and regulated professions" is addressed by two Sectoral Operational Programmes and the Regional Operational Programmes.

Bottleneck: "Reducing the size of the informal economy by facilitating the full participation of all groups in the formal labour markets and, in tandem, improving tax administration" is addressed by one Sectoral Operational Programme.

And bottleneck: "Overhauling the educational system in order to improve the quality of the country's human capital" is addressed by one Sectoral Operational Programme and the Regional Operational Programmes.

All labour market bottlenecks have close relation to Guidelines 7-10 and are mainly addressed with the support of "OP Human Resources Development"

Flagship Initiatives and NSRF 2007-2013:

All Flagship Initiatives are addressed by the NSRF 2007-2013.

In particular, the Regional Operational Programmes as well as the sectoral OP "Competitiveness and Entrepreneurship" and "Accessibility Improvement" serve the Flagship Initiatives: "Resource efficient Europe", "An Industrial policy for the globalisation era", "Innovation Union", and "A digital agenda for Europe".

Flagship Initiatives: "Innovation Union", and "A digital agenda for Europe" are also served by the OP "Digital Convergence", and Flagship Initiative: "Innovation Union" is additionally served

by the OP “Environment – Sustainable development”, and two European Territorial Cooperation programmes, namely: Greece-Cyprus and Greece – Italy.

The Flagship Initiatives: “An Industrial policy for the globalisation era” and “European Platform against poverty” are both supported by the OP “Public Administration Efficiency”.

Finally, the OP “Development of Human Resources” is contributing to the Flagship Initiatives: “An agenda for new skills and jobs” and “European Platform against poverty and the OP “Education and lifelong learning” is instrumental to the Flagship Initiative: “Youth on the move”.

Annex I

Employment rate (ages 20-64) in %

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	61.9	61.5	62.5	63.6	64.0	64.6	65.7	66.0	66.5	65.8	64.0
Male	78.8	78.3	78.7	79.6	79.5	79.8	80.3	80.4	80.4	78.8	76.2
Female	45.5	45.1	46.6	47.9	48.8	49.6	51.2	51.6	52.5	52.7	51.7

Source: Hellenic Statistical Authority-LFS Data elaboration

Employment rate (ages 15-24) in %

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	27.6	26.2	26.5	25.3	26.8	25.0	24.2	24.0	23.5	22.9	20.3
Male	32.7	30.7	31.5	30.8	32.3	30.1	29.7	29.2	28.5	27.7	24.5
Female	22.4	21.7	21.4	19.8	21.3	19.8	18.7	18.7	18.5	18.1	16.2

Source: Hellenic Statistical Authority- LFS Data elaboration

Employment rate (ages 55-64) in %

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	39.0	38.2	39.2	41.3	39.4	41.6	42.3	42.4	42.8	42.2	42.3
Male	55.2	55.3	55.9	58.7	56.4	58.8	59.2	59.1	59.1	57.7	56.5
Female	24.3	22.9	24.0	25.6	24.0	25.8	26.6	26.9	27.5	27.7	28.9

Source: Hellenic Statistical Authority- LFS Data elaboration

Unemployment rate (ages 15+) in %

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	11.4	10.8	10.3	9.7	10.5	9.9	8.9	8.3	7.6	9.5	12.5
Male	7.5	7.3	6.8	6.2	6.6	6.1	5.6	5.2	5.1	6.9	9.9
Female	17.2	16.2	15.6	15.0	16.2	15.3	13.6	12.8	11.4	13.2	16.2

Source: Hellenic Statistical Authority - LFS Data elaboration

Unemployment rate (ages 15-24) in %

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	29.2	28.2	26.8	26.8	26.9	26.0	25.2	22.9	22.1	25.8	32.9
Male	21.6	21.6	19.9	18.9	19.1	18.7	17.7	15.7	17.0	19.4	26.7
Female	38.2	35.9	35.3	36.6	36.3	34.8	34.7	32.1	28.9	33.9	40.6

Source: Hellenic Statistical Authority – LFS Data elaboration

Unemployment rate (ages 55-64) in %

Greece	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	3.9	4.2	4.1	3.2	4.5	3.8	3.7	3.4	3.2	4.6	6.3
Male	3.7	4.1	3.9	3.1	4.2	3.3	3.1	2.9	2.9	4.1	6.2
Female	4.3	4.4	4.7	3.4	4.9	4.7	5.0	4.3	3.9	5.5	6.5

Source: Hellenic Statistical Authority – LFS Data elaboration

Annex II

The Economic Adjustment Programme for Greece

Third Review – Winter 2011

Memorandum of Understanding on Specific Economic Policy Conditionality

(third update)

23 February 2011

The quarterly disbursements of bilateral financial assistance from euro-area Member States are subject to quarterly reviews of conditionality for the duration of the arrangement. The release of the tranches will be based on observance of quantitative performance criteria and a positive evaluation of progress made with respect to policy criteria in Council Decision 2010/320/EU of 10 May 2010 (as amended), the MEFP and in this Memorandum. These criteria have been updated and further specified during the February 2011 review.

Annex 1 on data provision is part of the Memorandum and how well it has been respected will be considered in the assessment of compliance.

The authorities commit to consult with the European Commission, the ECB and the IMF staff on adoption of policies falling within the scope of this Memorandum allowing sufficient time for review. They will also provide them with all requested information for monitoring progress during program's implementation. Government provides a quarterly report in line with Article 4 of Council Decision 2010/320/EU.

1. Actions for the fourth review (actions to be completed by end Q1-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum.

The Ministry of Finance ensures tight supervision of expenditure commitments by the government departments, including extrabudgetary funds, the public investment budget, social security funds and hospitals, local governments and public enterprises, and effective tax collection, to secure the attainment of the programme quantitative criteria (Article 1 (2 and 3) of Council Decision 2010/320/EU, as amended, and Table 2 of the MEFP).

The Ministry of Finance releases 1/14 of the annual budgetary appropriation (excluding wages, pensions and interest) per month to each ministry. The remaining budgetary appropriations will not be released before September 2011, and may be cancelled by the Ministry of Finance, according to the need to respect the government deficit ceiling.

Government clears payment arrears accumulated in 2010 and reduces those of previous years.

Medium-term budgetary planning

Government prepares a medium-term budgetary strategy paper which identifies permanent fiscal consolidation measures of at least 8 percent of GDP, (some of which have already been identified in May 2010), plus a contingency reserve that will ensure the achievement of deficit targets up to 2014, and that the debt-to-GDP ratio is put on a sustainable downward path.

The strategy paper will be published for public consultation before end-March, adopted by the Council of Ministers by mid-April and voted by Parliament by mid-May. It will be the basis for preparing the 2012 budget.

The medium-term strategy paper includes, in particular:

- prudent macroeconomic forecasts;
- baseline revenue and expenditure projections for the state and for the other government entities;
- a description of permanent fiscal measures, their timing and quantification;
- annual spending ceilings for each ministry and fiscal targets for other government entities through 2014;
- post-measures fiscal projections for general government in line with the deficit and debt targets;
- longer-term debt projections based on prudent macroeconomic projections, stable primary surpluses from 2014 on, and privatisation plans.

The medium-term strategy will be articulated with the ongoing healthcare and pension reforms and with specific sectoral plans. The sectoral plans (draft plans to be available by end-March), will cover in particular:

- state-owned enterprises;
- extrabudgetary funds (legal entities of the public sector and earmarked accounts);
- tax policy reforms;
- public wage bill;
- public administration;
- social spending;
- public investment and
- military spending.

Each sectoral plan will be managed by interministerial taskforces to be appointed by end February.

ii. Structural fiscal reforms

Revenue administration reforms

Government launches an anti-tax evasion plan. The plan includes quantitative performance indicators to hold revenue administration accountable.

Government adopts legislation to streamline the administrative tax dispute and judicial appeal processes, centralises filing enforcement and debt collection, indirect audit methods and tax return processing, and adopts the required acts and procedures to better address misconduct, corruption and poor performance of tax officials, including prosecution in cases of breach of duty and a more flexible recruitment process to appoint and promote good performers (based on principles of meritocracy, objectivity and transparency).

Government starts publishing monthly reports of the five anti-tax evasion taskforces, including a set of progress indicators.

Public financial management reforms

To strengthen expenditure control, Government

- adopts an act specifying the qualification and responsibilities of accounting officers to be appointed in all line ministries and major government entities with the responsibility to ensure sound financial controls;
- appoints financial accounting officers;
- accelerates the process of establishing commitment registries. It will make operational registries covering the whole general government (except the smallest entities).

Public sector wages and human resource management

Government presents a detailed action plan with a timeline to complete and implement the simplified remuneration system. This plan will be based on the results of the report published by the Ministry of Finance and the Single Payment Authority.

Government prepares a medium-term human resource plan for the period up to 2014 in line with the rule of 1 recruitment for 5 exits.[4] The plan will include tighter rules for temporary staff, cancellation of vacant job post and reallocation of qualified staff to priority areas.

Government starts publishing monthly data on staff movements (entries, exits, transfers among entities) of the several government departments.

To complete the pension reform

The National Actuarial Authority (NAA) submits comprehensive long-term projections of pension expenditure up to 2060 under the adopted reform. The projection will be peer-reviewed and validated by the EU Economic Policy Committee and the European Commission, IMF and ECB staff. The projections shall encompass the main supplementary (auxiliary) schemes, based on comprehensive set of data collected and elaborated by the NAA.

[4] This rule is without sectoral exceptions; it also applies to staff transferred from public enterprises to other government entities.

Asset management

Government starts compiling the inventory of state-owned assets, including stakes in quoted and non-quoted enterprises, and commercially viable real estate and land. Government provides an interim report – including a first list of assets – and describes steps taken to ensure that the first part of the inventory will be ready by June 2011.

Government appoints financial advisors for the formation of real estate and land portfolios, and the structuring of the associated privatisation transactions.

Proceeds from privatisation are to be used to redeem debt and do not substitute fiscal consolidation efforts.

Fighting waste in public enterprises

With the aim of fighting waste and mismanagement in state-owned companies, Government adopted an act by end 2010 that:

- Cuts primary remuneration in public enterprises by at least 10 percent at company level (applicable from January 2011 on);
- Limits secondary remuneration to 10 percent of primary remuneration at company level (applicable from January 2011 on);
- Establishes a ceiling for gross earnings of EUR 4 000 per month (12 payments per year) (applicable from January 2011 on);
- Increases urban transport tariffs by at least 30 percent;
- Establishes actions that reduce operating expenditure in public companies between 15 to 25 percent, according to the specific needs of enterprises.

These measures should be immediately effective and yield annual fiscal savings of at least EUR 800 million compared to 2010.

Government publishes an action plan for restructuring state-owned enterprises and other public entities leading to the closure of non-viable enterprises and extra-budgetary funds that have outlived their original purpose.

In particular, Government adopts and starts implementing a legal act and a business plan for the restructuring of the Athens transport network (OASA). The objective is to make the company economically viable. Subsidies shall not exceed 40 percent of operational cost in conformity with EU practices. The plan includes cuts in operational expenditure of the company and tariff increases. It includes a fiscal impact analysis and sensitivity analysis and includes monitoring and enforcement mechanisms (including performance indicators and predefining correcting mechanisms in case of deviation from the plan). The required legal act is adopted by end February 2011, while restructuring starts to be effective by end March 2011.

Government publishes monthly information on the accounts of public enterprises classified in general government with a lag of three weeks, based on the central registry for public enterprises.

Government revises the framework law (Law 3429/2005) on state-owned corporate governance, with the aim of adopting management in accordance with international best practices. The new framework law requires auditing of the companies accounts at least with semi annual frequency (quarterly frequency for at least the ten largest state-owned enterprises by turnover) and the strengthening of enterprises' internal controlling, strengthens rules on asset management and introduces more flexibility in working practices.

When restructuring state-owned enterprises, or preparing them for privatisation, specific attention will be given to timely clear state aid issues.

Local administration

Government monitors the implementation of the recently adopted acts on the restructuring of local government, the no-deficit rule (at least until 2014) and the transfers paid to local government. It continues the implementation of legislation reforming public administration and reorganising local government with the aim of reducing costs and increasing revenue by at least EUR 1 500 million in 2013, of which at least EUR 500 million in 2011 and additional EUR 500 million in 2012.

To modernise the health care system

Building on important reforms already undertaken over the recent months, in particular the move towards the integration of the primary healthcare, changes in the supplies system and progress in hospital computerisation, Government continues to implement the comprehensive reform of the health care system started in 2010 with the objective of keeping public health expenditure at or below 6 percent of GDP, while maintaining universal access and improving the quality of care delivery.

Government has taken measures yielding savings on pharmaceuticals of at least EUR 2 billion relative to the 2010 level, of which at least EUR 1 billion in 2011. This will bring average public spending on outpatient pharmaceuticals to about 1 percent of GDP (in line with the EU average) by end 2012.

More specifically, the following measures are implemented by end March 2011:

Governance

Government implements the provisions of Article 31 and 32 of Law 3863/2010. In particular, the Health Benefit Coordination Council (SYSPY):

- establishes new criteria and terms for the conclusions of contracts by social security funds (including OPAD) with all healthcare providers, and all other actions envisaged in Article 32 with the aim of achieving the targeted reduction in spending;
- initiates joint purchase of medical services and goods to achieve substantial expenditure reduction (of at least 25 percent compared to 2010) through price-volume agreements.

Comprehensive E-prescribing

Government takes all necessary measures in order to extend in a cost-effective way the e-prescribing of medicines, diagnostics and doctors' referrals to all social security funds, health centres and hospitals. To this extent, in compliance with EU procurement rules, Government speeds up and finalises the necessary tendering procedures to implement a comprehensive and uniform health care information system (e-health system).

Each social security fund together with SYSPY establishes a process to regularly assess the information obtained through the e-prescribing system and produces regular reports (at least on a six-monthly basis) to be transmitted to the competent authorities in the Ministry of Labour, Ministry of Health, Ministry of Finance and ELSTAT. Monitoring and assessment is done through a dedicated common unit under SYSPY. On the basis of the information available and the assessment conducted, a yearly report is published and feedback is provided to each physician. Sanctions and penalties will be enforced as a follow up to the assessment.

Hospital computerisation and monitoring system

Government (Ministry of Health) completes the programme of hospital computerisation. In particular, building on the web-based platform esy.net, it finalises the process of centralisation of information. The Ministry of Health creates a dedicated service/unit to collect and scrutinise data and produce monthly and annual reports. A copy of these reports is transmitted to the competent authority in the Ministry of Finance. Government takes measures to ensure the integration and consolidation of hospitals' IT systems.

Government takes measures to improve the accounting, book keeping (of medical supplies) and billing systems, through:

- finalising the introduction of double-entry accrual accounting systems in all hospitals;
- the use of the uniform coding system and a common registry for medical supplies developed by the Health Procurement Commission (EPY) and the National Centre for Medical Technology (EKEVYL) for the purpose of procuring medical supplies;
- the calculation of stocks and flows of medical supplies in all the hospitals using the uniform coding system for medical supplies;
- the timely invoicing of treatment costs (no later than 2 months) to Greek social security funds, other EU Member States and private health insurers for the treatment of non-nationals/ non-residents;
- the use of e-prescribing for all medical acts (medicines, referrals, diagnostics, surgery) in all NHS facilities.

Increasing use of generic medicines

Government takes measures to ensure that at least 50 percent of the volume of medicines used by public hospitals by end of 2011 is composed of generics with price below that of similar branded products and off-patent medicines, in particular by making compulsory that all public hospitals procure pharmaceutical products by active substance.

Pricing of medicines

Government

- moves the responsibility of pricing medicines to EOF and all other aspects of pharmaceutical policy to the Ministry of Health, to rationalise licensing, pricing and reimbursement systems for medicines;
- under the new law, reduced the profit margin of pharmacies on retail prices directly to 15-20 percent, or indirectly by establishing a system of rebates for pharmacies with sales above a designated threshold.
- reduces the profit margin of wholesale companies distributing pharmaceuticals by at least one third.
- updates and publishes the complete price list for the medicines in the market, using the new pricing mechanism. Continue to regularly update it on a quarterly basis;
- lifts the caps to the price reductions used when the price list was first introduced.

Prescribing and monitoring

Government

- publishes the prescription guidelines for physicians defined by EOF on the basis of international prescription guidelines;
- publishes the new positive list of reimbursed medicines using the new reference price system developed by EOF.

Accounting and control

By end February, Government starts publishing monthly data on healthcare expenditure for at the least the main social security funds (IKA, OAEE, OGA and OPAD) with a lag of three weeks after the end of the respective month (see annex 1).

Task force

The independent task force of health policy experts created at the end of 2010 produces, in cooperation with the European Commission, the ECB and the IMF, an interim policy report with initial indications on the necessary revisions to the policies implemented recently and the improvements for the years to come. To accomplish this, the taskforce has access to all necessary information on health-related issues from the relevant ministries and government agencies and health funds upon request and through dedicated fact-finding meetings. It receives adequate administrative support.

iii. Financial sector regulation and supervision

Government transfers, by end February, EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the Hellenic Financial Stability Fund to ensure the latter keeps a cash balance of EUR 1 500 million

and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

Government puts forward for parliamentary adoption a new tranche of government guarantees for uncovered bank bonds. This tranche will amount to EUR 30 billion. The guarantee tranche is subject to approval by the European Commission.

Government tables legislation with the aim of unbundling the core consignment activity of the Loan and Consignment Fund from deposit-taking and loan distribution activities.

FSF is adequately staffed.

Government tables legislation that places all registered banks' employees under the same private sector status, regardless of the bank ownership.

To support banks in their effort to restructure operations, Government takes steps to limit bonuses and to eliminate the so called 'balance-sheet premium,' or other equivalent measures.

The Bank of Greece commits to reduce remuneration of its staff in light of the overall effort of fiscal consolidation.

iv. Structural reforms

To strengthen labour market institutions

Government reforms legislation on fixed-term contracts and on working-time management.

Government simplifies the procedure for the creation of firm-level trade unions.

To reform and modernise public administration

Public procurement

Government adopts legislation establishing the Single Public Procurement Authority with the mandate, objectives, competences, powers and schedule for entry into force in line with the Action Plan agreed with the European Commission in November 2010. Government transmitted the draft law to the Commission for review and an assessment of compliance with the Action Plan.

Government launches the development of an e-procurement IT platform and sets intermediate milestones in line with the Action Plan. This includes: testing a pilot version, availability of all functionalities for all contracts and phasing-in of the mandatory use of e-procurement system for supplies, services and works contracts.

Better Regulation

Government adopts measures needed to implement the 'Better Regulation agenda', covering in particular the areas of codification, impact assessment, the reduction of administrative burdens and the 'Better Regulation' structure.

To improve the business environment and enhance competition in open markets

Restricted professions

Government adopts legislation to remove unjustified or disproportionate restrictions to competition, business and trade in restricted professions including:

the legal profession, to remove unnecessary restrictions on fixed minimum tariffs, the effective ban on advertising, territorial restrictions on where lawyers can practice;

- the notary profession, to reduce fixed tariffs and increase the number of notaries;
- the pharmacy profession, to permit incorporation, increase operating hours and reduce the minimum population criterion for opening new pharmacies; (voted in February);
- architects and engineers, covering fixed minimum tariffs;
- auditing services, covering fixed tariffs, minimum hours per case and maximum annual working hours.[5]

It publishes the opinion of the Hellenic Competition Commission on this legislation.

Government screens the statutes of the professional chambers to identify rules on access to, and exercise of, the profession, and on pricing, that are against the new law on restricted professions and EU law. The necessary changes to these statutes are adopted by June.

Government takes measures ensuring that providers of services are not subject to requirements which oblige them to exercise a given specific activity exclusively, or which restrict the exercise jointly or in partnership of different activities, except in the circumstances and under the conditions set in the Services Directive.

Government takes measures to remove complete prohibitions on commercial communications by the regulated professions and to ensure that professional rules on commercial communications are non-discriminatory, justified by an overriding reason relating to the public interest and proportionate.

Recognition of professional qualifications

Government continues to take all necessary measures to ensure the effective implementation of EU rules on recognition of professional qualifications, including compliance with ECJ rulings (*inter alia*, related to franchised diplomas). It updates information on the number of pending applications for recognition of professional qualifications, and sends it to the Commission.[6]

Sectoral growth drivers

Government publishes a report analysing the potential contribution of the tourism sector to growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

[5] Government establishes a two-year sunset clause for minimum and maximum working hours.

[6] This information specifies since when applications are pending, number of applications per profession, nature of diploma (franchised or not) and a timetable for dealing with pending applications, and includes decisions on the recognition of franchised diplomas.

Government publishes a report analysing the potential contribution of the retail sector to price flexibility, growth and jobs. It should identify legislative, administrative and other obstacles hindering competition and market entry to the realisation of sector potential.

Competition policy

Government finalises the adoption of a law modifying the existing institutional framework of the Hellenic Competition Commission (HCC). It ensures the HCC's independence, effectiveness and accountability, and warrants continuity in the operation of the HCC board. The new law abolishes the notification system for all agreements falling within the scope of Article 1 of Law 703/1977, grants the HCC the power to reject complaints and to prioritize cases effectively and establishes reasonable deadlines for the investigation and issuance of decisions.

Investment and licensing laws

Government adopts all presidential decrees and ministerial decisions necessary for the implementation of the law on aid for private investment to promote economic growth, entrepreneurship and regional cohesion, and ensures accordance with the fiscal consolidation requirements

Government ensures the acceleration of the environmental licensing by committing the authorising authority to proceed with the approval procedure after a specified time period.

Commercial and land registry

Government makes General Commercial Registry (GEMI) and one-stop shops for business start-ups operational.

Government provides sufficient resources for accelerating the completion of the land registry, with a view to tendering cadastral projects for additional 4 million rights by December 2011, completing the works for the large urban centres by 2015 and completing the overall project by 2020.

Business-friendly Greece

Government starts implementing the measures identified by the action plan for a business-friendly Greece according to the timetable for the removal of the 30 most important remaining restrictions to business activity, investment and innovation.

Export and R&D promotion

Government pursues an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions, including in various operational programmes, and presents an action plan for policies aimed at enhancing the quality and the synergies between public and private R&D and innovation, as well as tertiary education. This action plan identifies a clear timetable for relevant measures to be taken, taking the budgetary impact into account and harmonising these actions with other relevant initiatives in these areas (in particular the investment law).

Government finalises the creation of an external advisory council, to consider how to foster innovation, strengthen links between public research and Greek industries and the development of regional industrial clusters.

Government presents an action plan with a view to abolishing the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin by September 2011.

Services directive

Government ensures that the point of single contact (PSC) distinguishes between procedures applicable to service providers established in Greece and those applicable to cross-border providers (in particular for the regulated professions).[7]

Government:

- ensures adequate links between the PSC and other relevant authorities (including professional associations);
- allows the online completion of procedures covering at least, the procedures in the distribution services, tourism, education and construction sectors as well as in food and beverage services, services of the regulated professions – including the recognition of professional qualifications –, real estate services, and business services.

Government completes the adoption of changes to existing (sectoral) legislation in key services sectors such as tourism, retail and private education services. New acts should:

- facilitate establishment by:
    - abolishing or amending requirements which are prohibited by the Services Directive; and
    - significantly reducing requirements, including those relating to quantitative and territorial restrictions, legal form requirements, shareholding requirements, fixed minimum and/or maximum tariffs and restrictions to multidisciplinary activities;
- facilitate the provision of cross-border services, so that providers of cross-border services are required to comply with specific requirements of the Greek Law only in exceptional cases (when admitted by Articles 16 or 17 of the Services Directive).
- provide legal certainty for providers of cross-border services by setting out in the respective (sectoral) legislation which requirements can, and which requirements cannot, be applied to cross-border services.

Energy

Government commences implementation of plan for opening up lignite-fired electricity generation to third parties.

Government presents detailed plans for ensuring a maximum market opening as regards the non-interconnected system.

Government commences implementation of its commitment to award the hydro reserves management to an independent body.

[7] This will be done by the Ministry of Interior based on information provided by the relevant ministries.

Government starts to implement the mechanism to ensure that the energy component of regulated tariffs reflects, gradually and at the latest by June 2013, wholesale market prices, except for vulnerable consumers.

In order to ensure that network activities are unbundled from supply activities as foreseen in the second and third energy liberalisation packages, the following measures are implemented:

- Government adopts a Decision on the modalities of unbundling of the transmission system operator in line with the third energy liberalization package, ensuring timely management appointments, and adopts necessary legislation to ensure the creation of fully unbundled electricity and gas transmission system operators by March 2012.
- Government ensures the creation and effective operation of an independent Distribution System Operator, in line with the second and third energy liberalisation packages.

Government transfers to RAE (Regulatory Authority for Energy) all regulatory powers assigned to EU energy regulators in the third energy liberalisation package (licensing, network access, network charges, market monitoring, etc).

Government adopts measures to ensure the independence of RAE (impartial and transparent nomination of board, management authority with regard to budget and personnel, etc. in line with the third energy liberalisation package).

Transport

Government adopts a new regulatory framework to facilitate the conclusion of concession agreements for regional airports. The new regulatory framework should contribute to the development of the tourism sector and be mindful of preventing anticompetitive practices and foresee appropriate oversight of the allocation and operation of concessions, in full respect of state aid rules.

Government adopts a law that removes the current restrictions on the provision of services for occasional passenger transport by buses, coaches and limousines and which guarantees that any operator that meets clearly specified criteria related to professional capacity has unlimited access to the market. The cost for granting and renewing of licenses shall not exceed the administrative costs related to the licensing procedure and shall be levied in proportion to the number of vehicles licensed. The method for calculating the fees must be transparent and objective and shall not lead to over recovery of costs incurred.

To upgrade the education system

Government establishes, by end February 2011, an independent taskforce on education policy with the purpose of indicating specific policy measures aimed at increasing the efficiency and effectiveness of the public education system (primary, secondary and higher education) and reach a more efficient use of resources.

To raise the absorption rates of structural and cohesion funds

Government adopts legislation to shorten deadlines and simplify procedures on contract award and land expropriations (including the deadlines needed for the relevant legal proceedings).

Government carries out an evaluation the time-saving effects of the legislation

- on contract awards and land expropriation,
- on permits by the Central Archaeological Council in Athens,
- on environmental licensing (see below 'business environment').

Government submits a timetable for the preparation, selection and implementation of different types of projects (including scenarios of legal proceedings), derived from the above legislation. The timetable will serve as a benchmark for monitoring of projects.

2. Actions for the fifth review (actions to be completed by end Q2-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum, and the fiscal consolidation measures in the budget.

Government stands ready to define and enact additional measures if needed to reach the budgetary targets.

The Council of Ministers adopts the medium-term budgetary strategy paper by end April, to be voted by Parliament by mid-May.

ii. Structural fiscal reforms

To complete the pension reform

Government proceeds with an in-depth revision of the functioning of secondary/supplementary public pension funds (including welfare funds and lump-sum schemes). The aim of the revision is to stabilise pension expenditure, guarantee the budgetary neutrality of these schemes, and ensure medium- and long-term sustainability of the system. The revision should achieve:

- the reduction in the number of existing funds;
- the elimination of imbalances in those funds with deficits;
- the stabilisation of the current spending at sustainable level, through appropriate adjustments to be made from 1 January 2012;
- the long-term sustainability of secondary schemes through a strict link between contributions and benefits.

This reform contributes to achieve the overarching target of reducing the overall (basic, contributory, supplementary and any other related scheme, including lump sums at retirement) increase of public sector pension spending, over the period 2009-60, to under 2.5 percentage points of GDP.

The reform of the secondary (supplementary) schemes is designed in close consultation with European Commission, IMF and ECB staff, and its estimated impact on long-term sustainability is validated by the EU Economic Policy Committee. The parameters of the new secondary notional defined-contribution system ensure long-term actuarial balance, as assessed by the National Actuarial Authority.

If the projections by the National Actuarial Authority show that, even after the reforms of the supplementary schemes, the projected increase in the total public pension expenditure would exceed the limit of 2.5 percentage points of GDP over 2009-60, Government revises also the main parameters of the pension system provided by Law 3863/2010. The revision is designed in close consultation with the European Commission, the IMF and the ECB staffs.

Government substantially revises the list of heavy and arduous professions, and reduces its coverage to no more than 10 percent of employment. The new list of Difficult and Hazardous Occupations (Law 3863/2010) shall apply with effect from 1 July 2011 to all current and future workers.

The Bank of Greece commits not to grant pension privileges to its staff and to revise the main parameters of its pension scheme to align them with those of IKA.

Military spending

The new National Medium-Term Military Procurement Programme, 2011-25, which is expected to be adopted by May 2011, plans a reduction in military expenditure that durably contributes to fiscal consolidation, without prejudice to national defence capability.

Asset management

Government publishes an inventory of state-owned assets, including stakes in listed and non-listed enterprises and commercially viable real estate and land. It also provides estimated values of these assets. The inventory will continue to be updated until end-year to ensure it is comprehensive.

Government establishes a General Secretariat of Real Estate Development in order to improve coordination and accelerate the privatisation and asset management program and takes appropriate steps to the creation of special investment vehicles,

On the basis of this inventory, privatisation plans are revised and accelerated targeting total proceeds of at least EUR 15 billion during the programme period. The pace of privatisation and real estate development is expected to pick up further in the following years.

Government privatises its stake in Casino Mont Parnes and extends the concession of the Athens International Airport.

To modernise the health care system

Government takes additional measures to promote the use of generic medicines through:

- compulsory doctors' e-prescription by active substance;
- associating a lower cost-sharing rate to generic medicines that have a significantly lower price than the reference price (lower than 60 percent of the reference price) on the basis of the experience of other EU countries;
- setting the maximum price of generics to 60 percent of the branded medicine with similar active substance.

Government extends the use of capitation payment of physician, currently used by OAEE, to all contracts between social security funds and the doctors they contract. The new payment mechanism starts for each new contract renewed in 2011 and for all contracts from 2012. It defines a minimum number of patients per doctor, on the basis of the experience of other EU Member States.

Government moves towards greater equalisation across funds regarding contribution rates and minimum benefit packages, with the aim of full equalisation by 2012, building on Law 3655/2008.

To reduce costs and improve quality of care for patients, Government:

- adjusts public hospital provision by implementing joint management / joint operation between small scale hospitals and big hospitals within the same district and health region;
- revises the activity of small hospitals in a move towards specialisation in areas such as rehabilitation or cancer treatment where relevant;
- in districts with more than one hospital (excluding university hospitals) use a joint management / joint operation system;
- increases mobility of healthcare staff (including doctors) within and across health regions.

The independent task force of health policy experts created at the end- 2010 produces, in cooperation with the European Commission, the ECB and the IMF, its final policy report by end May 2011, with specific recommendations on revisions to the policies implemented so far. The report and policies proposals cover the following areas:

- Health system governance in order to reduce the fragmentation of the system;
- Financing: pooling, collection and distribution of funds;
- Harmonization of health packages across funds;
- Service provision and incentives for providers including:
    - integration between private and public provision;
    - primary care vis-à-vis specialist and hospital care;

- efficiency in the provision of hospital services;
- pharmaceutical consumption;
- human resources;

– Public health priorities, health promotion and disease prevention;

– Data collection, health technology assessment and assessment of performance;

– Expenditure control mechanisms.

The report will provide quantitative targets in the fields above, in order to contribute to keep public expenditure on health as a ratio to GDP constant at, or below, 6 percent. On the basis of this report, the Government adopts an action plan by end June 2011, including a timetable for concrete actions.

Accounting and control

Internal controllers are assigned to all major hospitals.

Government ensures that the programme of hospital computerisation allows for a measurement of hospital and health centres activity. To that end, the Government defines a core set of activity and expenditure indicators in line with Eurostat, OECD and WHO health databases. ELSTAT starts providing data in line with the System of Health National (joint questionnaire collection exercise).

Government ensures that the programme of hospital computerisation allows for the setting up of a basic system of patient electronic medical records.

By end-May, Government starts publishing monthly data on healthcare expenditure by all social security funds with a lag of three weeks after the end of the respective month (see Annex 1).

Wages and human resource management in the health care sector

The Ministry of Health and the Ministry of Labour, in cooperation with the Ministry of Finance prepare a regular annual report (the first one to be published by end-May 2011), on the structure and levels of remuneration (including fees provisions to consultants and doctors) and the volume and dynamics of employment in the hospitals, health centres, and health funds. The report will present plans for the allocation of human resources for the period up to 2013. It specifies any plan to reallocate qualified and support staff within the NHS and health funds.

iii. Financial sector regulation and supervision

Government transfers EUR 1 000 million to a dedicated government account opened by the General Accounting Office. Funds from this account are regularly released to the Hellenic Financial Stability Fund to ensure the latter keeps a cash balance of EUR 1 500 million and if programme reviews of bank capital suggest that the resources are necessary. The release of the funds is subject to agreement by the European Commission, ECB and IMF staffs.

The capital increase of ATE is completed.

FSF is fully staffed.

Bank of Greece hires qualified staff to be able to strengthening banking supervision.

Bank of Greece undertakes a diagnostic assessment of insurance firms.

iv. Structural reforms

To modernise public administration

Functional reviews

Government assesses the results of the first phase of the independent functional review of central administration, including operational policy recommendations. The functional review of existing social programmes is finalised.

Public sector wages and human resource management

Government adopts legislation establishing a simplified remuneration system covering basic wages and allowances that applies to all public sector employees ensuring that remuneration reflects productivity and tasks: this reform should be part of an overall reform of Human Resource management in the public sector.

Public procurement

Government undertakes a thorough review of the system of redress against award procedures and the role to confer to the Single Public Procurement Authority in agreement with the European Commission.

Government undertakes a review identifying areas to increase the efficiency of the public procurement system on all outside the Single Public Procurement Authority, as specified in the Action Plan. The review includes conclusions and actions in agreement with the European Commission.

Restricted professions

Government takes measures on commercial communications by the regulated professions and on multidisciplinary activities, in accordance with the Services Directive.

Government adopts all presidential decrees necessary for the implementation of the law on fast-track licensing procedure for technical professions, manufacturing activities and business parks.

Recognition of professional qualifications

Government removes prohibitions to ensure that holders of franchised diplomas from other Member States have the right to work in Greece under the same conditions as holders of Greek degrees.

To upgrade the education system

The independent taskforce on education publishes a detailed blueprint for improvement of the efficiency and effectiveness in the use of resources in the public education system. This blueprint includes concrete policy recommendations that the Ministry of Education takes into account for implementation.

To strengthen labour market institutions

Government completes the reform to strengthen the Labour Inspectorate, which should be fully resourced with qualified staff. Quantitative targets on the number of controls to be executed should be set for the Labour Inspectorate.

Government adapts legislation on tackling undeclared work to require the registration of new employees before they start working.

To improve the business environment and enhance competition in open markets

Services Directive

Government adopts legislation on the services sectors of agriculture, transport, employment, technical services, sanitary facilities, welfare, wholesale and other priority identified in the Q4-2010 progress report. Government specifies, for any remaining sectors, a timetable for adopting sectoral legislation by end-2011 that ensures full compliance with the requirements of the Services Directive.

Sectoral growth drivers

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the tourism sector to growth and jobs in the Greek economy.

Government adopts legislation and takes other structural actions to implement the findings of the report analysing the potential contribution of the retail sector to price flexibility, growth and jobs in the Greek economy.

Business environment

Government adopts legislation to simplify and shorten procedures to complete studies on environmental impact and to get the approval of environmental terms with a view to reducing the number of projects subject to environmental licensing and the duration of approval procedures to EU average levels.

Government implements an action plan to abolish the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

Government reviews and codifies the legislative framework of exports (i.e., Law 936/70 and Law Order 3999/59), simplifies the process to clear customs for exports and imports and gives larger companies or industrial areas the possibility to be certified to clear cargo for the customs themselves.

To raise the absorption rates of structural and cohesion funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in the table below. Compliance with the targets shall be measured by certified data. In addition, Government achieves a semi-annual target of submitting 5 major project

applications to the Commission. It provides data on expenditure for non-targeted *de minimis* state aid measures declared to the Commission in 2010.

Government adopts and implements the appropriate acts to ensure the smooth and timely implementation of structural-fund programmes in the framework of the recent local administration reform.

Table 1: Targets for payment claims in the absorption of Structural and Cohesion Funds (programming period 2007-2013) to be submitted between 2010 and 2013 (in EUR million)

	2010	**2011**	**2012**	**2013**
European Regional Fund and Cohesion Fund	*target:* 2 330.0 *outcome:* 2 372.4	2 600	2 850	3 000
European Social Fund	*target:* 420.0 *outcome:* 447.6	750	880	890
Target of first half of the year	-	1 105	1 231	1 284
Target of second half of the year	-	2 245	2 499	2 606
Total annual target	*target:* **2 750** *outcome* **2 820**	**3 350**	**3 730**	**3 890**

3. Actions for the sixth review (to be completed by end Q3-2011)

i. Fiscal consolidation

Government rigorously implements the budget for 2011 in line with this Memorandum. Government stands ready to enact additional measures if needed to comply with the budgetary targets.

Government adopts an act to equalise the taxation of heating oil – to be applicable from 15 October 2011 on – with the aim of fighting fraud and yielding at least EUR 400 million in 2011, with a carry-over of EUR 320 million in 2012, net of specific measure to protect the less prosperous population strata.

Government adopts a draft budget for 2012 aiming at a further reduction of the general government deficit in line with the programme and including the detailed presentation of consolidation measures amounting to at least 2.2 percent of GDP, including the following measures (these measures and their yield will be revisited during the fourth review taking into account the medium-term fiscal strategy):

- Reduce public employment on top of the rule of 1 recruitment for each 5 exits in the public sector;[8] the reduction in public employment on top of the 1-to-5 rule should allow savings of at least EUR 600 million;
- Establish excises for non alcoholic beverages, for a total amount of at least EUR 300 million;
- Continue the expansion of the base of the real estate tax by updating asset values to yield at least EUR 200 million additional revenue;
- Continue the reorganisation of local government, contributing by at least EUR 500 million in savings to the reduction of the general government deficit;
- Nominal freeze in pensions yielding savings of at least EUR 250 million;
- Continue to increase the effectiveness of the presumptive taxation of professionals, with the aim of collecting at least additional EUR 100 million;
- Reduction of current and capital transfers to public enterprises by at least EUR 800 million following their restructuring;
- Make unemployment benefits means-tested (aiming at savings of EUR 500 million);
- Collect further revenue from the licensing of gaming of at least EUR 225 million in one-off sales of licences and increase the annual yield from royalties by an addition EUR 400 million;
- Further broadening of VAT base with the aim of collecting at least additional EUR 300 million;
- Fully implement the green tax and increase its annual yield by least EUR 150 million;
- Increase the collection of a special tax on unauthorised establishments by an additional EUR 100 million;
- Reduction in domestically-financed spending in investment by at least EUR 500 million compared to the actual 2011 level, while increasing revenue by giving priority to investment projects financed by EU structural and cohesion funds.

[8] The rule also applies to staff transferred from public enterprises under restructuring to government entities.

ii. Fiscal structural reforms

Tax reform

Government tables legislation to simplify the tax system, raise revenue in a progressive manner and facilitate more effective tax administration.

Asset management

Building on the inventory of commercial state-owned real-estate assets (to be published by June) Government elaborates a medium-term plan to divest state assets, revises the privatisation receipts planned for 2011-13 and extends the plan through 2015.

Government privatises Hellenic Defense Systems and the State Lottery Tickets.

To modernise the health care system

Government starts the implementation of the measures recommended by the independent task force on health care.

iii. Structural reforms

To strengthen labour market institutions

Government promotes, monitors and assesses the implementation of the new special firm-level collective agreements. It ensures that there is no formal or effective impediment to these agreements and that they contribute to align wage developments with productivity developments at firm level, thereby promoting competitiveness and creating and preserving jobs. It provides a report on its assessment. Any necessary amendment to the law on sectoral collective bargaining is adopted before end-July 2011.

To modernise public administration

Government ensures full operation of the 'Better Regulation Agenda' to reduce the administrative burden by 20 percent compared with 2008.

Public procurement

Government ensures that the e-procurement framework is fully operational, and creates a common website for the publishing of all procurement procedures and outcomes.

To improve the business environment and strengthen competition in open markets

Government changes legislation to mitigate tax obstacles to mergers and acquisitions such as the non-transfer of accumulated losses, together with the company and the complex computation of 'excessive benefit' (Law 3522/2006, Article 11) in the transfer of private limited companies.

Business environment

Government presents an impact assessment evaluating Law 3853/2010 on simplification of procedures for the establishment of companies in terms of the savings in time and cost to set up a business.

Government abolishes the requirement of registration with the exporter's registry of the chamber of commerce for obtaining a certificate of origin.

Restricted professions

In the implementation of the new law on the opening of restricted professions, Government promptly adopts the necessary decrees, administrative orders or circulars. Restrictions to be reinstated should consider public interest, the need to promote competition and takes into account international best practice. Government consults widely before the adoption of these restrictions.

Government publishes a report on the implementation of the legislation on regulated professions with a view to assessing whether further measures are needed.

Services Directive

Government ensures that the PSC (point of single contact) is fully operational and that the completion of procedures by electronic means is possible in *all* sectors covered by the Services Directive.

To upgrade the education system

Governments prepares, and starts implementing, an action plan for the improvement of the effectiveness and efficiency of the education system taking into account the measures recommended by the independent taskforce.

To raise the absorption rates of structural and cohesion funds

Government launches an internal pilot web-based monitoring tool of procedures for approval of project proposals and for implementation of public projects.

4. Actions for the seventh review (actions to be completed by end Q4-2011)

i. Fiscal consolidation

Government achieves the target for the 2011 general government deficit of not more than EUR 17 065 million and other quantitative performance criteria.

Parliament adopts the final budget for 2012 targeting a further reduction of the general government deficit which, in ESA95-based terms, should not exceed EUR 14 916 million.

ii. Fiscal structural reforms

Asset management

Government publishes the second part of the state's assets inventory.

Government privatises DEPA, LARKO, TRAINOSE (at least 49 percent, including shares management with the new shareholders), and sells concession SPVs in relation to the Egnatia motorway and accelerates the divestment of |public real estate.

To modernise the health care system

Government defines a hospital case-based costing system to be used for budgeting purposes from 2013.

The independent taskforce of health policy experts produces an implementation report, revising the policies implemented so far.

iii. Structural reforms

To modernise public administration

Functional reviews

Government assesses the results of the second (final) phase of the independent functional review of central administration. Government adopts legislation and measures to implement the operational recommendations of the first phase of the functional review of public administration at central level and of the full review of existing social programmes.

Public procurement

Single Public Procurement Authority starts its operations with the necessary resources to fulfill its mandate, objectives, competences and powers as defined in the Action Plan.

To improve the business environment and strengthen competition in open markets

Energy

Government removes regulated tariffs for customers except households and small enterprises (as defined in the second and third energy liberalisation packages).

To upgrade the education system

Government starts publishing a bi-annual progress report on the implementation of the law on quality assurance in primary, secondary and higher education.

To raise the absorption rates of Structural and Cohesion Funds

Government meets targets for payment claims in the absorption of EU structural and cohesion funds set down in Table 1. Compliance with the targets shall be measured by certified data. In addition, Government submits 5 additional major project applications to the Commission, in view of achieving an annual target of submitting 10 major projects. In meeting absorption rate targets, recourse to non-targeted *de minimis* state aid measures should be gradually reduced. Government provides data on expenditure for non-targeted de minimis state aid measures co-financed by the structural funds.

Government introduces the fully-operational web-based open-access monitoring tool of procedures for approval of project proposals and for implementation of public projects.

Government ensures that the managerial capacity of all managing authorities and intermediate bodies of operational programmes under the framework of the National Strategy Reference Framework 2007-13 has been certified according to the standard ISO 9001:2008 (quality management).

Government presents a report on the activities of the task force assessing progress in ensuring the rapid implementation absorption of structural funds, and proposing improvements when necessary.

Government provides an impact assessment of legislative measures since 2010 to accelerate the absorption of structural and cohesion funds adopted since May, and indicates any further measures.

5. Actions for the eight review (actions to be completed by end Q1-2012)

i. Fiscal consolidation

Government rigorously implements the budget for 2012 in line with this Memorandum, and Council Decision 2010/320/EU.

ii. Structural fiscal reforms

To complete the pension reform

Government implements the reform of the secondary/supplementary pension schemes, by merging funds and starting the calculation of benefits on the basis of the new notional defined-contribution system. Government freezes nominal supplementary pensions and reduces the replacement rates for accrued rights in funds with deficits, based on the actuarial study prepared by the National Actuarial Authority. In case the actuarial study is not ready, replacement rates are reduced, starting from 1 January 2012, to avoid deficits. All funds set up a computerised system of individual pension accounts.

To modernise the health care system

Pricing of medicines

Starting from 2012, pharmacies profit margins should be calculated as a flat amount or flat fee combined with a small profit margin with the aim of reducing the overall profit margin to no more than 15 percent.

Accounting and control

Social security funds start publishing an annual report on medicine prescription. Individual prescription reports are regularly (at least annually) fed back to each physician. The annual report and the individual prescription reports look at prescription behaviour with particular reference to the most costly and most used medicines.

Annex 1. Provision of data

During the programme, the following data shall be made available to the European Commission, the ECB and the IMF staffs on a regular basis.

To be provided by the Ministry of Finance

Preliminary monthly data on the state budget execution (including breakdown by main categories of revenue and expenditure and by line ministry). *(Data compiled by the Ministry of Finance)*	Monthly, 15 days after the end of each month; these data should also be included in subsequent transmissions in case of revision.
Updated monthly plans for the state budget execution for the remainder of the year, including breakdown by main categories of revenue and expenditure and by line ministry. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month.
Preliminary monthly cash data on general government entities other than the state. *(Data compiled by the Ministry of Finance)*	Monthly, 30 days after the end of each month, these data should also be included in subsequent transmissions in case of revision.
Monthly data on the public wage bill (of general government, including a breakdown in nominal wage and allowances paid to government employees per line ministry and public entity), number of employees (including a breakdown per ministry and public entities outside the central government) and average wage (including the relative shares of the base wage, allowances and bonuses). *(Data compiled by the Ministries of Interior and Finance)*	Monthly, 30 days after the end of each month (starting in June 2010).
Monthly data on staff: number of employees, entries, exits, transfers among government entities; per ministry.	Monthly, 30 days after the end of each month (starting in March 2011).
Weekly information on the Government's cash position with indication of sources and uses as well of number of days covered. *(Data compiled by the Ministry of Finance)*	Weekly on Friday, reporting on the previous Thursday.
Data on below-the-line financing for the general government.	Monthly, no later than 15 days after the end of each month; these data should also be included in subsequent

(Data compiled by the Ministry of Finance)	transmissions in case of revision.
Data on expenditure pending payment (including arrears) of the general government, including the State, local government, social security, hospitals and legal entities. *(Data compiled by the Ministry of Finance on the basis of basic data from the several line ministries)*	Quarterly, within 55 days after the end of each quarter.
Data on public debt and new guarantees issued by the general government to public enterprises and the private sector. Data on maturing debt (planned redemptions per month, split between short- and long-term debt. Data on planned monthly interest outflows. *(Data compiled by the Ministry of Finance)*	Monthly, within one month.

Data on public enterprises: revenue, costs, payroll, number of employees and liabilities (including maturities of public enterprises' debts) *(Data compiled by the Ministry of Finance)*	Monthly, within three weeks of the end of each month for the ten largest enterprises. Quarterly within three weeks of the end of each quarter for the other enterprises. Quarterly for the maturities of public enterprises' liabilities.
Monthly statement of the transactions through off-budget accounts. *(Data compiled by the Ministries of Finance and Education)*	Monthly, at the end of each month.
Monthly statement of the operations on the special accounts. *(Data compiled by the Ministry of Finance)*	Monthly, at the end of each month.
Report on progress with fulfilment of policy conditionality. *(Report prepared by the Ministry of Finance)*	Quarterly before the respective review starts.
Monthly data on healthcare expenditure by the social security funds with a lag of three weeks after the end of the respective quarter. *(Data compiled by the Ministries of Labour and Health)*	Monthly, within three weeks of the end of each month. Starting with data for January 2011 for IKA, OAEE, OGA and OPAD, and from April 2011 on for the other funds

To be provided by the Bank of Greece

Assets and liabilities of the Bank of Greece.	Weekly, next working day.
Assets and liabilities of the Greek banking system - aggregate monetary balance sheet of credit institutions.	Monthly, 30 days after the end of each month.
Evolution of the external funding provided by Greek banks to their subsidiaries abroad.[9]	Monthly, 15 days after the end of each month.
External funding flows for the banking, corporate and government sector, including also expected developments in the 12 months ahead.	Monthly, 30 days after the end of each month.
Report on banking sector liquidity situation.	Weekly, next working day.
Report on the evolution of financial stability indicators.	Quarterly, 15 days after the end of each quarter depending on data availability.
Report on results from the regular quarterly solvency assessment exercise.	Quarterly, 15 days after the end of each quarter depending on data availability.
Detailed report on the balance sheet of the Financial Stability Fund with indication and explanation of changes in the accounts.	Weekly, next working day.

[9] All forms of debt instruments and capital, as well as net deposits provided to subsidiaries abroad.