A year of consolidation and reform

GREECE MEETS AMBITIOUS TARGETS IN 2010

Last year, the deepening sovereign debt crisis was the major talking point at Davos. Greece's newly elected Prime Minister, George Papandreou, pledged to restore the country's fiscal health and push through a sweeping reform agenda.

One year later, with the support of an EU/IMF stabilisation mechanism, Greece has enacted the most ambitious and progressive reform programme in the nation's history.

Greece achieved – and often exceeded – all its targets in 2010.
This is an overview of what Greece has accomplished in the past year.

Numbers at a glance

6.0% of GDP ....Reduction in Greek budget deficit in 2010
37.0%...............y/y decline in state budget deficit
66.4% ....y/y reduction in state budget primary deficit
5.5%................Net revenue increase
2.0% of GDP......Projected decrease in the budget deficit for 2011

HELLENIC REPUBLIC
Prime Minister
George A. Papandreou

JANUARY 2011

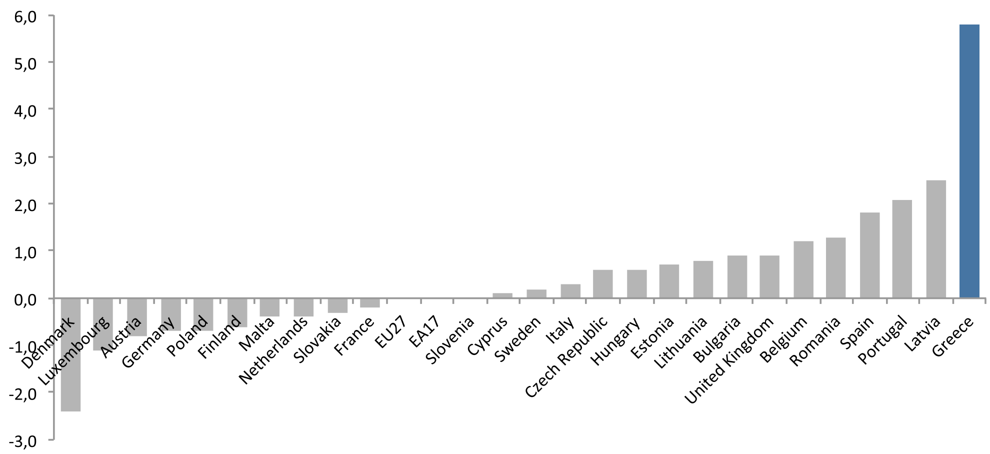
Deficit Reduction

"Athens has proven its critics wrong by implementing an ambitious and front-loaded fiscal adjustment program"

Olli Rehn, EU Commissioner for Economic and Monetary Affairs, August 2010

- Largest fiscal consolidation by any country in EU history in one year: the deficit was reduced by 6% of GDP in 2010 (above the projected 5.5%).
- The state budget deficit fell by 37% year-on-year (exceeding the targeted reduction of 33.2%).

Improvement in the fiscal balance between 2009 and 2010 (% GDP)



State budget 2009 vs 2010 (million euro)

	12 months		
	2009	2010	%
↑ Ordinary budget revenues	48.491	51.168	5,5%
↓ Ordinary budget expenditures	71.815	65.247	-9,1%
↓ Primary state budget deficit	-18.546	-6.231	-66,4%
↓ State budget deficit	-30.871	-19.454	-37,0%

- Greece reduced ordinary budget expenditures by 9.1% year-on-year (against a targeted reduction of 7.5%). Primary expenditures decreased by 10.9%, against an estimated 9% annual decline.
- Cut public sector wages by 15% on average. Introduced wage caps, reduced overtime costs and short-term contracts, and implemented a 1:5 hiring replacement ratio.
- Loss-making public enterprises, including Hellenic Railways, are being restructured, with a 15% wage reduction in all state-owned companies.

Fiscal management and public administration reform

- The Fiscal Management and Responsibility Act introduced expenditure ceilings and improves budgetary oversight.
- Local and regional administration reform reduces municipalities from 1000 to 325. The law aims at generating productivity gains and total fiscal savings of the order of €1.5 billion over 3 years.

Enhanced Transparency

> *This programme itself is an important achievement. It is based on prudent macroeconomic assumptions... It has the potential to correct long-standing flaws, because it entails a very comprehensive structural reform package*

Jean-Claude Trichet, President of the European Central Bank, June 2010

- Established an independent Hellenic Statistical Authority (in cooperation with Eurostat) to improve monitoring and accountability.
- Overhauled the tax framework to facilitate tax compliance and fight tax evasion.
- Passed a new anti-corruption law that obliges all public expenditure to be published online (diavgeia.gov.gr).

Boosting the Private Sector

- A 'Fast Track' legal framework was created to attract and expedite large-scale investments. It includes tax incentives, cutting red tape in licensing procedures, a stable tax environment with an 8-10 year horizon, and an investment programme worth €4 billion.
- Corporate tax rate on non-distributed profits was reduced from 24% to 20%.

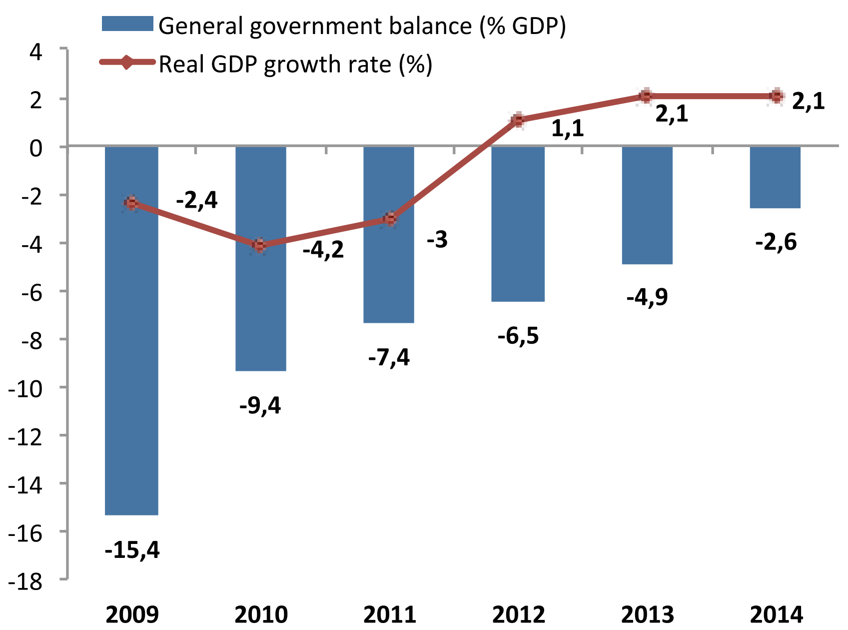
> *Greece is on track to deliver on its reform agenda. Significant progress has been made, particularly in reducing the fiscal deficit, on the reliability of statistics, and key reforms on pensions and labour markets*

Jose Manuel Barroso, President of the European Commission, December 2010

Increasing Competitiveness

- The new Real Estate and Asset Privatization Programme will generate €7 billion through sales and privatizations from 2011-2013.
- Relaxing product market regulations, lifting barriers to entry in services, and opening up closed professions will boost Greece's output by an estimated 5 to 6% of GDP.
- Liberalization of the energy sector to boost competition and encourage investments in renewable energy.
- Opening of closed professions - road freight transports, pharmacies, lawyers, notaries, architects, engineers, accountants etc - to enhance competitiveness and promote growth.

Fiscal Consolidation & Projected Growth Path



Pension and labour market reforms

- Passed a radical reform of the Greek pension system ahead of schedule. It includes a rise in the retirement age to 65 by 2013. The pension reform will considerably reduce future spending pressures, with expenditure to increase by no more than 2.5% of GDP up to 2060.
- Labour market reform revises the mediation and arbitration system, introduces the prevalence of firm-level agreements over sectoral and occupational agreements, introduces sub-minima to minimum wage, raises the minimum for collective dismissals, reduces the level of severance pay and allows more flexible forms of employment.

> “*There has been good progress in a number of key areas--notably in reducing the fiscal deficit and in completing a landmark pension reform*”
>
> *Dominique Strauss-Kahn, Managing Director of the International Monetary Fund, December 2010*

Banking Reforms

- A €10 billion Financial Stability Fund was created to provide rules-based equity to the commercial banking sector. This enhances the resilience of the financial system.
- Strengthening of the Central Bank’s supervisory role, covering both commercial banking and the private insurance sector.
- Application of quarterly stress-tests and promotion of restructuring of the Greek banking system.

Looking Ahead

If 2010 was a year of unprecedented reform for Greece, the Greek government is committed to building on this momentum to further enhance growth and competitiveness.

- Reducing the budget deficit to 7.4% of GDP in 2011, on track towards an ultimate goal of a 2.6% deficit of GDP in 2014 (with a primary surplus of 5.6% of GDP).
- The latest reports of both the European Commission and the IMF show that Greece is projected to have a primary surplus in 2012 - one of the few European countries with a primary surplus.
- Return to growth by the end of 2011.
- Estimated €1 billion returns from privatization and asset management programmes in 2011.
- A new entrepreneurship fund will deliver c. €2.5 billion to the real economy and create jobs in emerging sectors. The focus will be on encouraging innovative start-ups by improving access to seed capital and venture capital.
- Regular placement of short-term treasury bills with the goal of returning to normal market activity in the course of 2011.

Regaining optimism

Greece implements the Economic Policy Programme and records:

- The most ambitious fiscal and structural reform agenda in the history of the Eurozone.
- Unprecedented determination to deliver results, change and reform structures and institutions.
- Timely implementation of major reforms such as pension reform, labour market reforms and opening-up closed professions.
- Removing obstacles and providing incentives to release the hidden strengths and full potential of the Greek economy.
- Broad social support of the government’s efforts, recognising the importance of these reforms for future growth and stability.

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