

GREECE IS CHANGING

2010 – 2013

May 2013

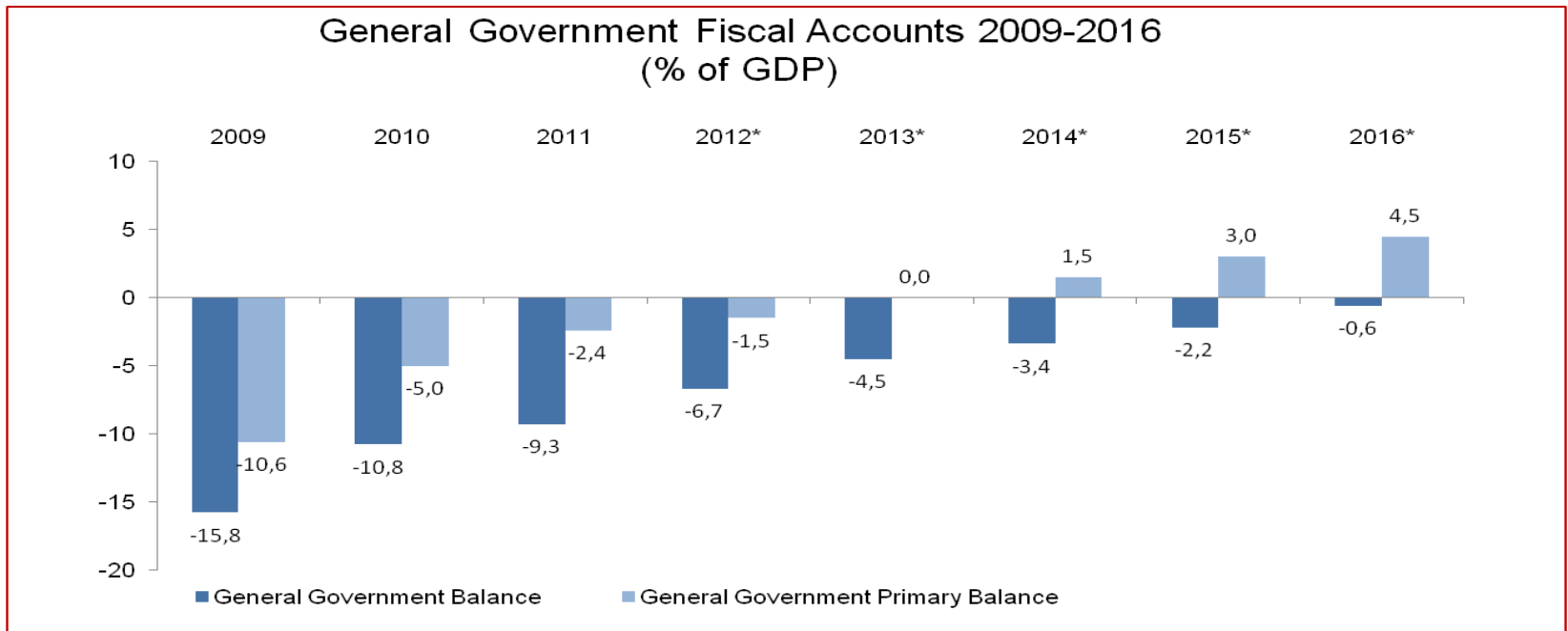
Council of Economic Advisors

Fiscal adjustment

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in 2009-2012,

- **General Government Deficit** shrank by 9.5% of GDP, overperforming the target for 2012 by 0.4 p.p. of GDP
- **General Government Primary Deficit** shrank by 9.3% of GDP, overperforming the target for 2012 by 0.2 p.p. of GDP



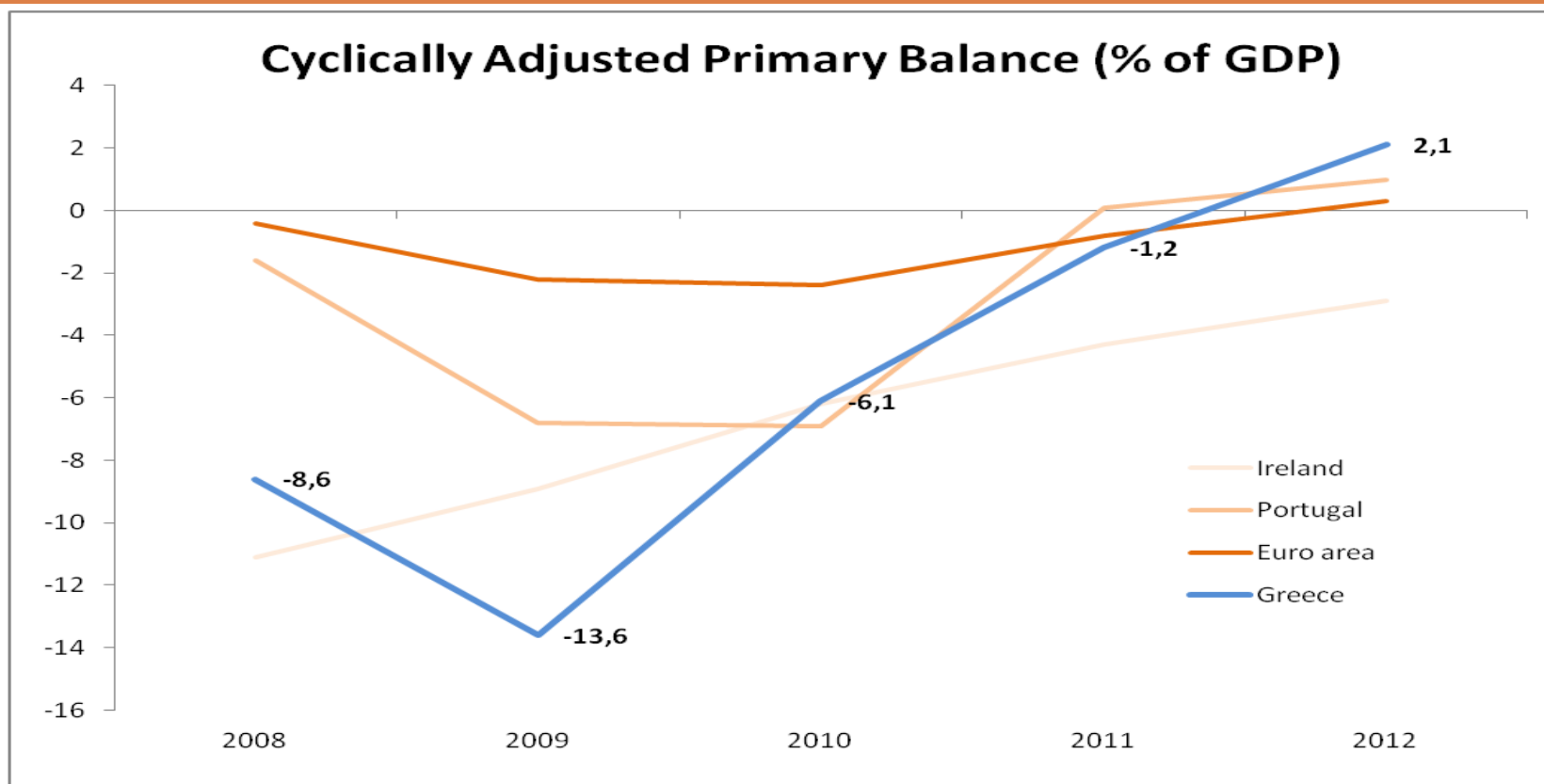
Source: IMF, 4/2013

* Official programme targets

The fiscal adjustment effort has been even larger after adjusting for the cycle...

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The cyclically adjusted primary balance* has been improved by 10.7 p.p. of GDP in 2009-2012 and it was higher than the EA average in 2012

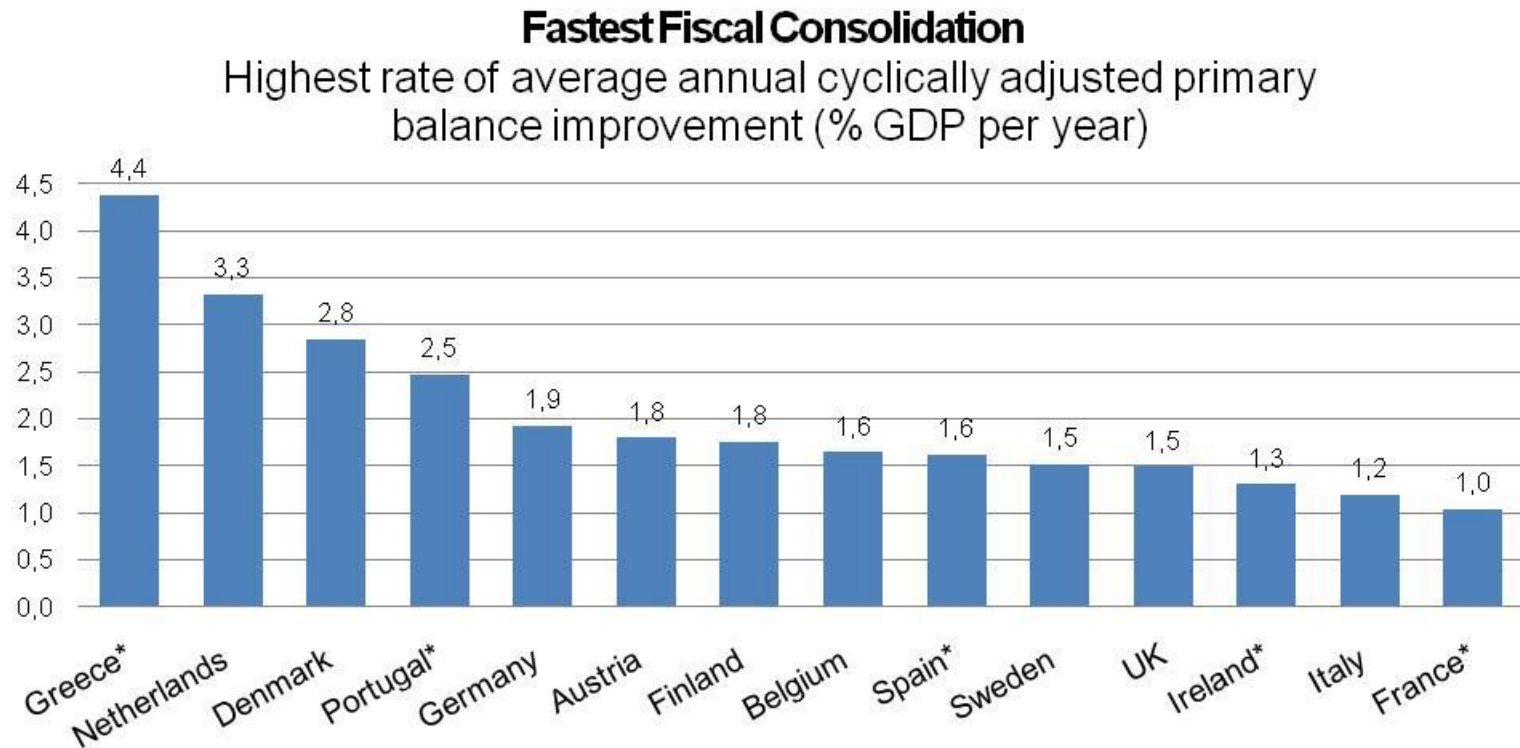


*i.e. correcting for the effect of the business cycle

Source: IMF Fiscal Monitor, April 2013

The fastest fiscal consolidation

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Greece achieved an annual rate of fiscal consolidation of 4.4 p.p. of GDP on average, the highest in the developed world over the last few decades

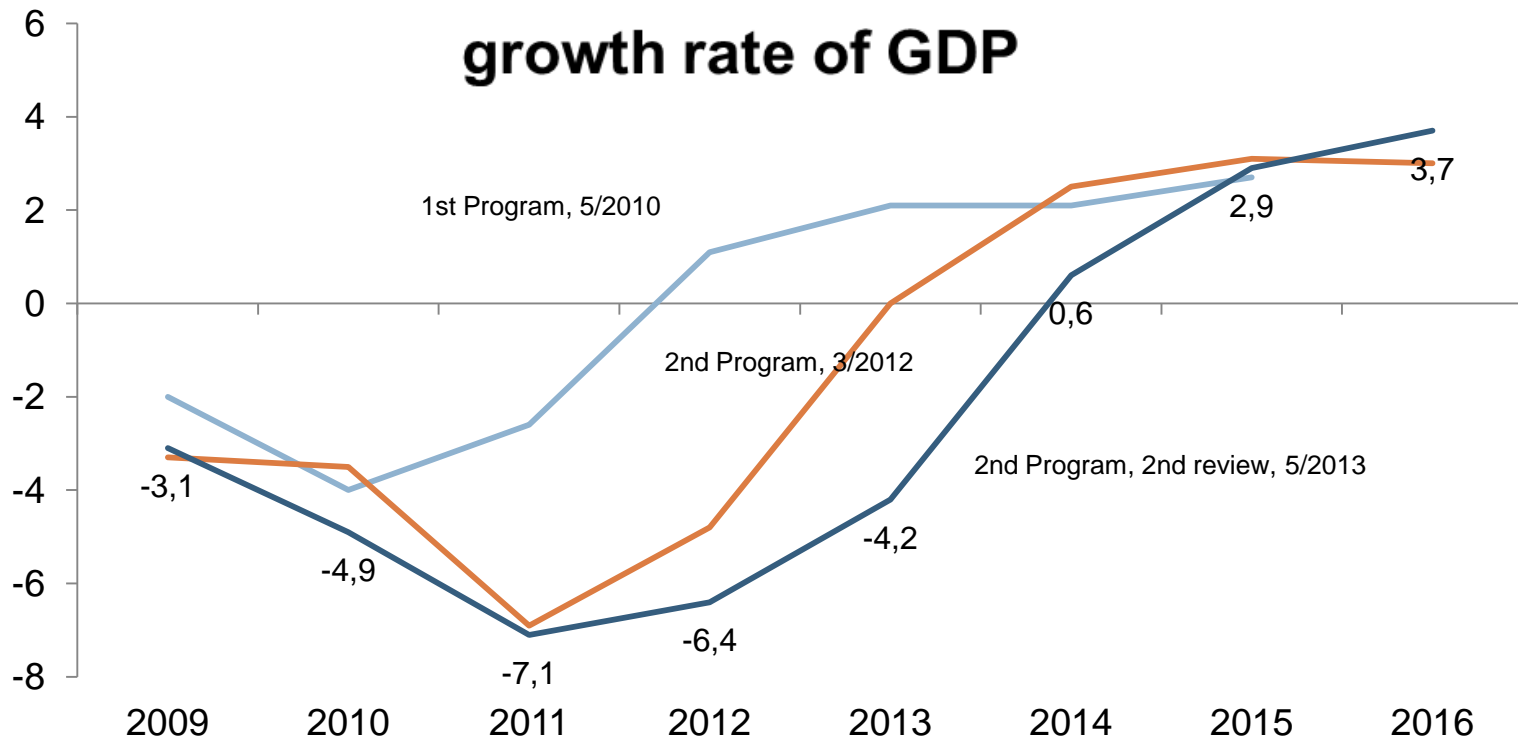
Note: Fiscal consolidation episodes as defined in OECD Economic Outlook 81, May 2007

Source: AMECO * IMF data for CAPB that excludes financial sector support

Although the economy has been contracting more than anticipated...

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Between 2008 and 2012 the Greek economy has lost more than 20% of GDP but is expected to turn to positive grounds in 2014



The Greek Government is determined to achieve primary balance in 2013

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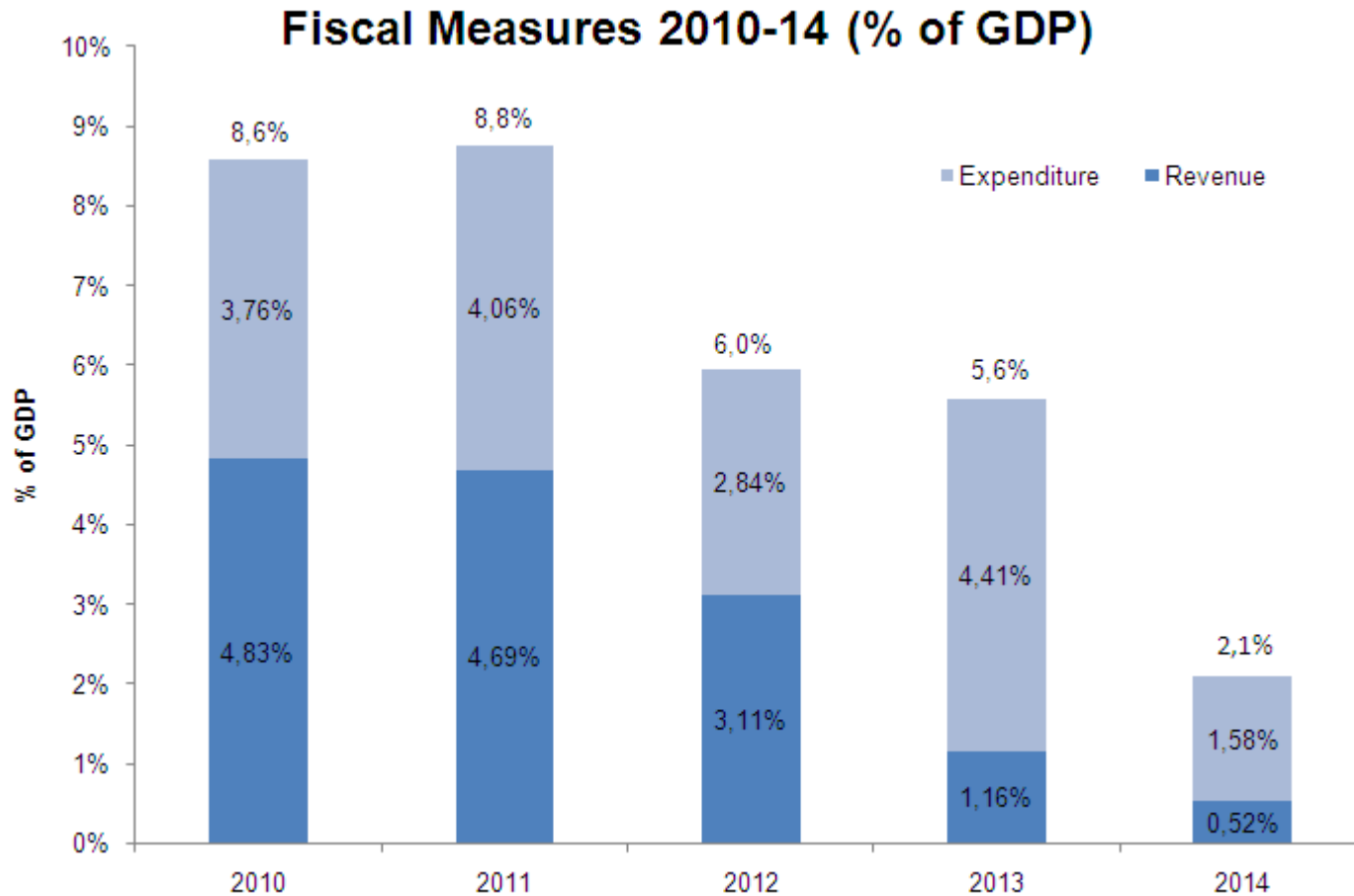
	2012					2013			
	bil. €		% of GDP			bil. €		% of GDP	
	real.	target	real.	target		proj.	target	proj.	target
General Government Balance	-12.2	-13	-6.3%	-6.7%		-9.4	-8.4	-5.2%	-4.5%
General Government Primary Balance	-2.4	-2.9	-1.3%	-1.5%		0.7	0	0.4%	0%
Gross Debt	341	332	175%	163%		346	329	188%	179%
New measures						9.4		5.1%	
GDP growth	-6.4%					-4.2%			
HICP	1.2%					-0.8%			
Unemployment	24.4%					26.6%			

*Targets are those in the First Review of the Second Economic Adjustment Program (January 2013)

Source: Budget 2013

With the package focused on expenditure cuts

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Source: GAO

Including the most sensitive areas of public spending

New Measures for 2013 (mil EUR)

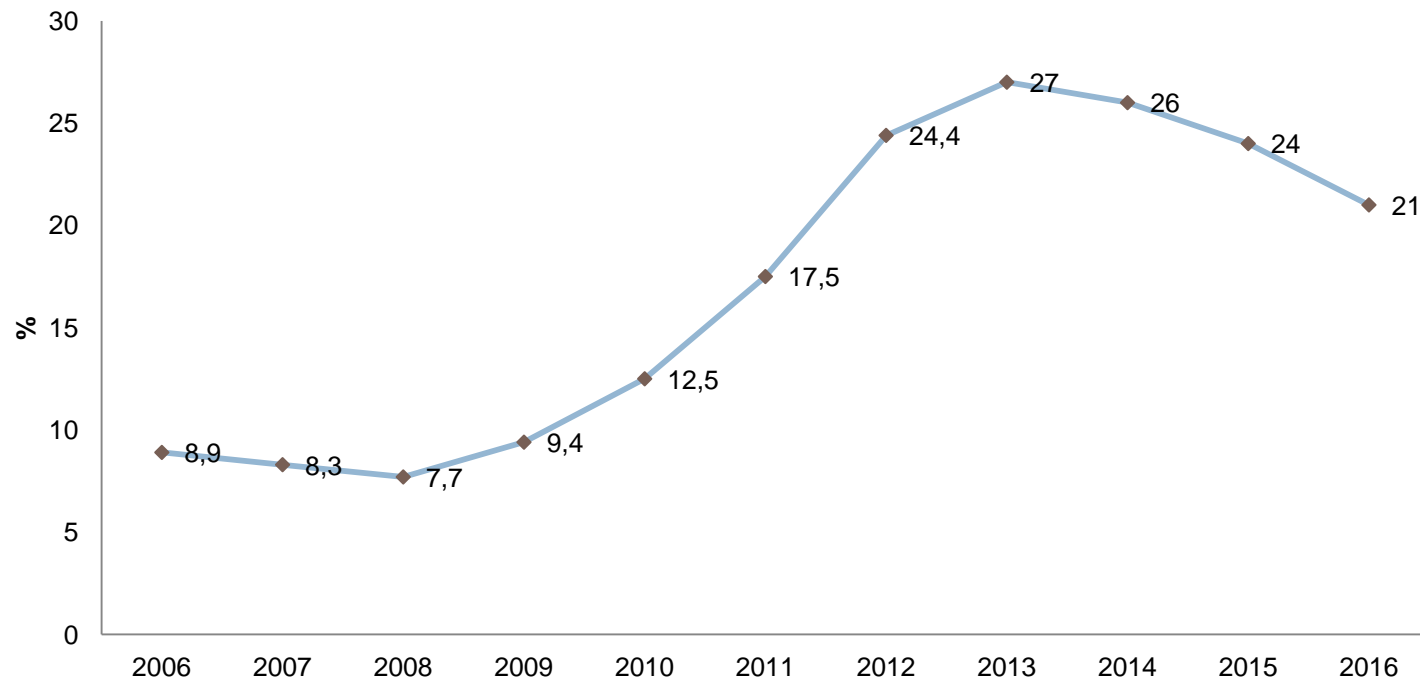
EXPENDITURES		REVENUES	
Pensions	4.680	Tax Reform	1.782
Public sector wages	1.174		
Health	455		
Public Administration Restructuring	385		
Social Benefits	211		
Defense	303		
Rationalization of SOEs	249		
Education	86		
Local Governments Reform	50		
Total	7.592		1.782

Unemployment is still increasing

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Between 2008 and 2012 unemployment has tripled (24.4%, 2012).
Youth unemployment is the highest in the Euro-area.

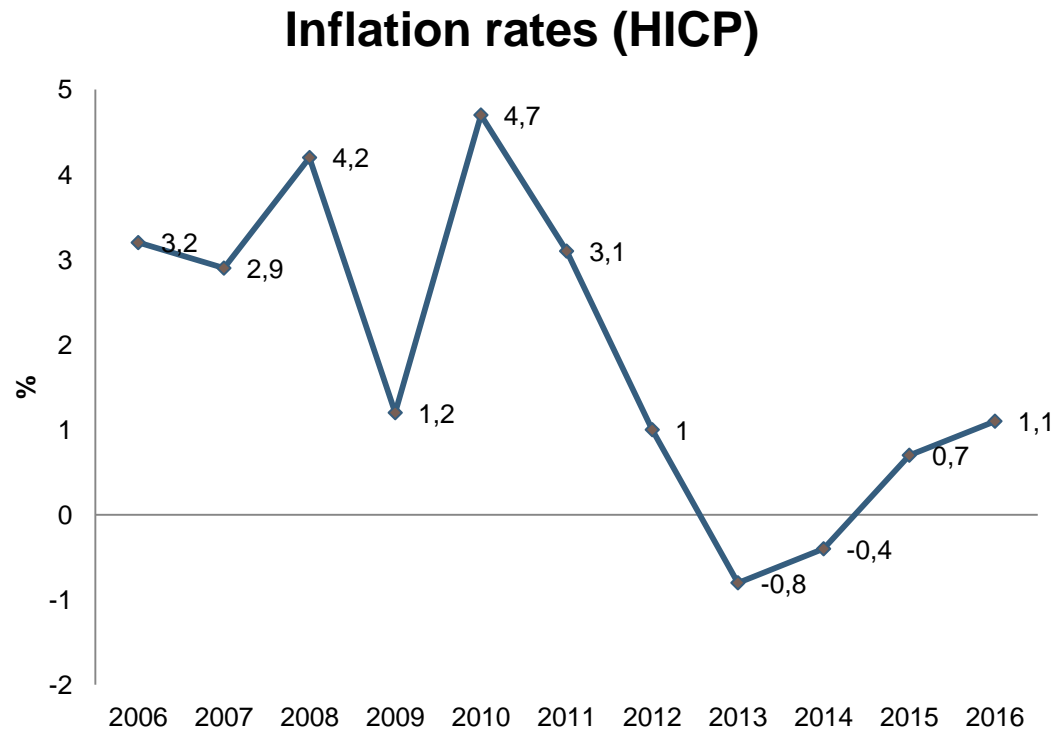
Unemployment rates



while inflation is dropping

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- Greece's inflation rates (HICP) have gone from being the highest in the monetary union, to the lowest.
- HICP April 2013:
 - **Greece: -0.6%**
 - Euro-area: 1.2%



Current Account Deficit declining

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- Current Account Deficit fell by 11.5 p.p. of GDP between 2008 and 2012

- Current Account excl. Oil and GG net interest showed surplus of 4.0% GDP in 2012

- Current Account Deficit is expected to fall to -0.8% GDP in 2013 and -0.2% GDP in 2014.*

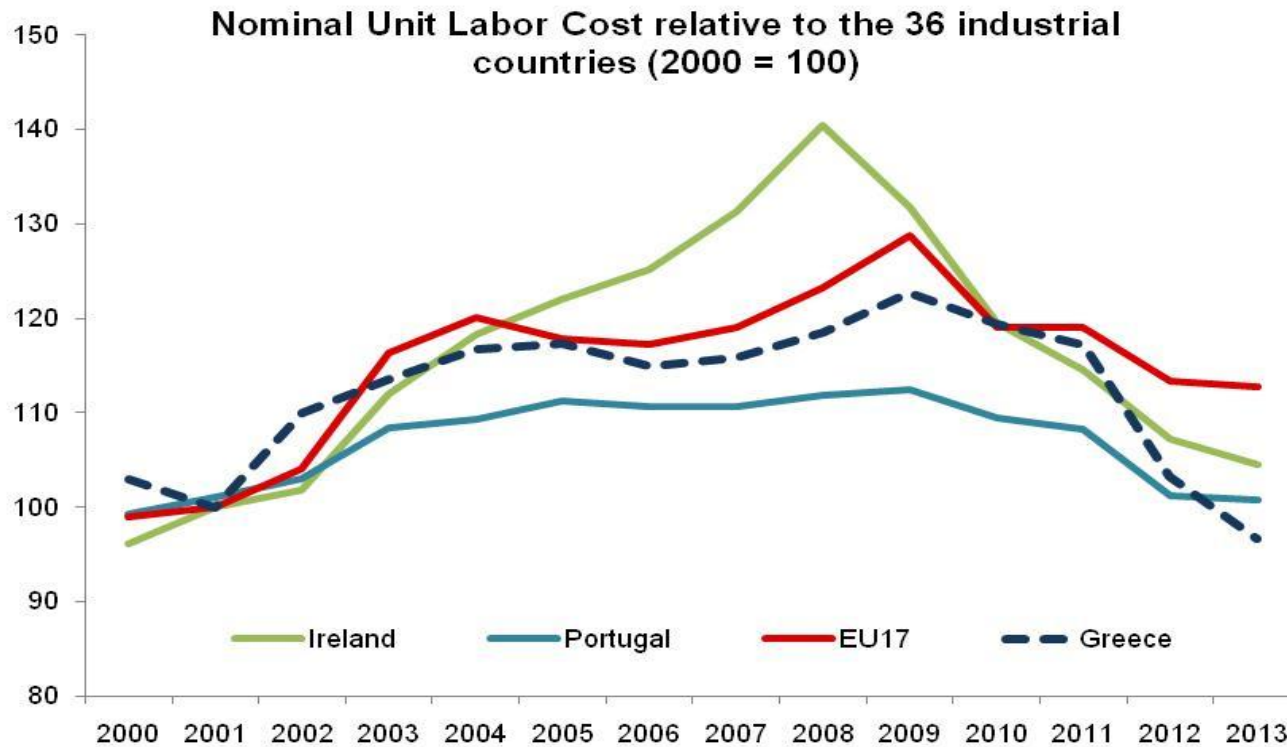


*Official programme projections

Cost competitiveness recovering

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The unit labour cost is reduced significantly below the levels of the Euro-area



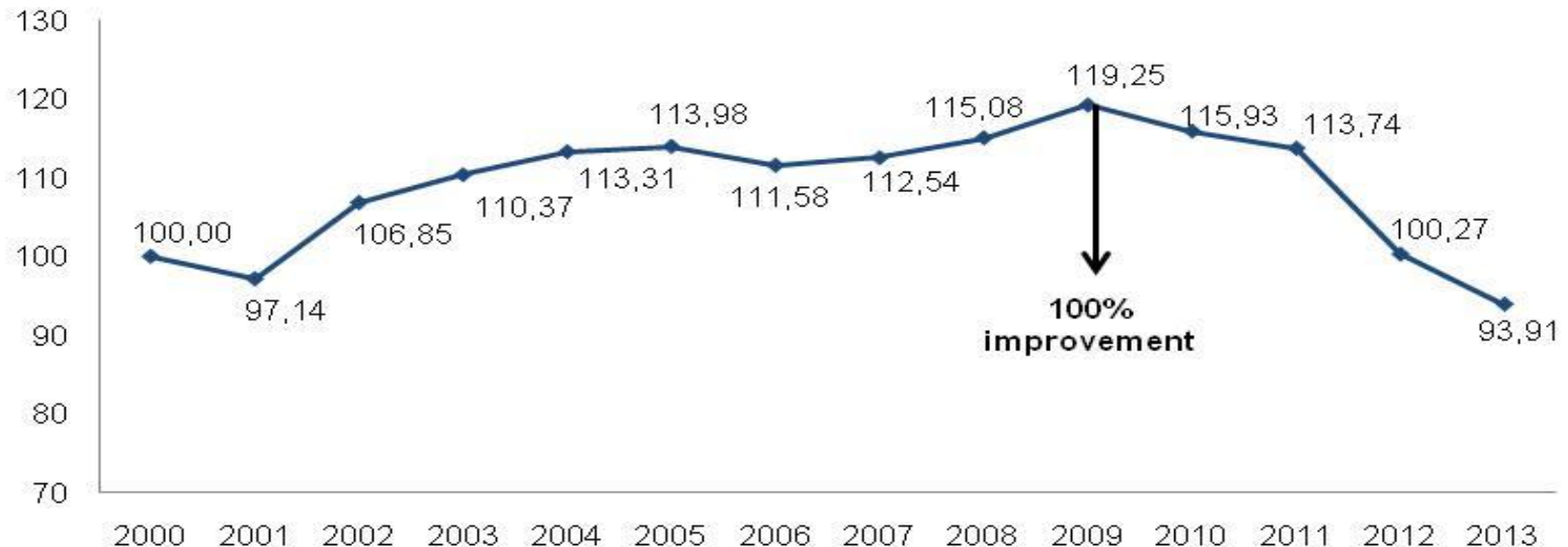
Source: European Economy, Statistical Annex, Autumn 2012

Price competitiveness recovering

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Within three years, 2010-12, Greece managed to regain the competitiveness lost during 2000-09

Real Effective Exchange Rate (vs rest EU27)
based on Unit Labor Cost (2000=100)



Source: European Commission

Overview of past structural reforms (1/2)

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- **Pension reform:** statutory retirement age raised to 65 years (40 years of work required for full pension); among the most viable in EU; pension benefits linked tightly to lifetime contributions;
- **Labour market reform:** shortening length of collective contracts; removal of “tenure” in all existing legacy contracts; fully symmetric arbitration system, 22% reduction in minimum wage (32% for young), firm level agreement can provide for lower compensation to collective agreements
- **Healthcare reform:** four major social insurance funds have formed EOPYY (covering a population of more than 9,000,000); increasing use of generics and off-patent drugs; monitoring of hospital performance (benchmarking); e-prescription system

Overview of past structural reforms (2/2)

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- **Public sector reform:** independent statistical authority; local government reform; strengthened fiscal framework (medium term fiscal framework, binding expenditure ceilings, expenditure monitoring mechanisms)
- **Tax reforms:** compulsory electronic submission of income declaration; new IT system interconnecting all tax offices, merger of tax offices; creation of 23 tax-related court units; full scope audits according to risk based criteria; auditing rights outsourced to private auditing companies
- **Business environment:** “One-stop-shop“ to set up a business in 1 day; removal of the 30 most important barriers to entrepreneurship; fast track process for investments; abolition of the cabotage rules related to cruise vessels flying non-EU flags; liberalization of road haulage sector

Latest structural reforms (1/2)

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- **Fiscal Structural reforms:** set automatic cuts in expenditures to be applied as a rule when targets are missed, while ensuring that arrears are not increasing (also applies to LGs and SOEs)
- **Tax reforms:** simpler tax rate structure; new semi-autonomous General Secretary for Tax Administration; compulsory rotation of the heads of local tax offices; repeal of the Code of Books and Records
- **Pension reform:** statutory retirement age rises to 67; bringing forward the effects of the 2010 pension reform
- **Healthcare reform:** revised co-payment structure for medicines; further development of incentives and obligations to use generic medicines; automatic claw-back mechanism to pharmaceutical producers

Latest structural reforms (2/2)

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- **Business environment:** simplify procedures for establishing companies; repeal unnecessary restrictions in retail (sanitary, labour, and transport), more flexible retail fuel market
- **Labour market reform:** reduction of reporting to Labour Inspectorate; further reduction of severance payments
- **Regulated professions:** eliminate minimum fees for services, mandatory use of services in selected professions and remaining legislative inconsistencies to past liberalizing law
- **Education reform:** merger of universities
- **Judicial reform:** action plan with specific measures to reduce the non-tax case backlog

Greece is changing fast

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