HELLENIC REPUBLIC

MINISTRY OF ECONOMY AND FINANCE

THE 2004 UPDATE OF THE HELLENIC STABILITY AND GROWTH PROGRAMME: 2004-2007 (REVISED)

- *The update of Greece's Stability and Growth Programme is submitted to the European Commission in accordance with Article 4 of the European Council Regulation 1466/97.*

- *The programme can be found at the web site of the Greek Ministry of Economy and Finance: http://www.mnec.gr*

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1. Introduction

In March 2004 the new government, immediately after taking office, launched a far-reaching fiscal audit, aimed at achieving clarity and transparency in the fiscal balances of the Greek economy. Working in close and fruitful cooperation with Eurostat, the Ministry of Economy and Finance submitted a number of necessary revisions in the public finance data in order to remedy previous data deficiencies. The revision of the deficit and debt data covered the period 1997-2003. A report by Eurostat on these statistical revisions was published on November 22nd, 2004, confirming the final settlement of long-standing open questions on budgetary statistics and compliance with the ESA 95 requirements. The update of the Greek Stability and Growth Programme (SGP) was prepared in December 2004 after the clarification of the data, taking into consideration the above mentioned modifications and revisions.

This revision of the update provides a baseline scenario that takes into account finalised data for 2004 that have been reported in the March EDP and also the recommendations under Article 104.9. As part of a sensitivity analysis two alternative scenarios are also provided so as to take into account uncertainties regarding the growth rate. Under all scenarios the underlying consolidation effort safeguards that the target of budgetary position below the threshold value is met in a timely manner and in full compliance with the Council recommendations under Article 104.9 of 17th February 2005.

It is now finally possible to proceed on solid statistical grounds toward the goal of implementing fiscal policy in a transparent and effective way. With the statistical issues resolved, the present SGP focuses on bringing the excessive deficit situation to an end in 2006.

Fiscal developments in 2003-2004 were characterised by four major events: the impact of the electoral cycle, the overrun of expenditure related to the Olympic Games, a shortfall in revenue compared to what had been budgeted, and the impact of statistical revisions on public finance data.

Economic policy in the medium term, i.e. in 2005-2007, faces some major challenges:

- primarily to comply with the Council recommendations under article 104(9) of 17 February 2005 and bring the deficit below the threshold value by the end of 2006,
- to put back the public finance aggregates on a downward trend, in the medium term, by allowing a safety margin based on the recommendations in the Broad Economic Policy Guidelines,
- to be consistent with the recommendations in the Broad Economic Policy Guidelines and, in particular, to accelerate the pace of structural reforms.

This SGP update provides for a review of the economic developments in Greece in the 2003-2004 period and for projections concerning the 2005-2007 period. Although there are many risks and uncertainties about the international environment, it seems that fears of a derailing in the global expansion should be allayed, while inflation is expected to remain more or less subdued in the medium term.

The rest of the Programme is organised as follows. Section 2 presents the economic developments in 2003 and 2004, as well as the medium term projections for the 2005-2007 period. The underlying framework for economic policy and the fiscal policy prospects is presented in the third section. In the fourth section of the Programme, the 2003 SGP is compared with the present one. In the fifth section, two alternative GDP growth scenarios are presented, with growth rates well below the baseline scenario. In the sixth section the main structural reform measures and the issue of long-run sustainability of public economics are briefly outlined.

2. Recent developments and prospects of the Greek Economy

Table 1 presents the main macroeconomic aggregates and projections included in the 2004 revised update of the Stability and Growth Program (SGP) for the Greek economy concerning the 2003-2007 period, as well as the assumptions used for the external environment.

Table 1. Growth and Associated Factors

	2003	2004	2005	2006	2007
GDP GROWTH AT CONSTANT PRICES	4.7%	4.2%	3.9%	4.0%	4.2%
GDP AT CURRENT MARKET PRICES (bn euro)	153.5	165.3	178.1	191.5	205.5
GDP DEFLATOR (% CHANGE)	3.5%	3.4%	3.8%	3.4%	3.0%
PRIVATE CONSUMPTION DEFLATOR (% CHANGE)	3.4%	2.9%	3.2%	3.0%	2.7%
EMPLOYMENT GROWTH	1.3%	2.8%	1.5%	1.5%	1.6%
LABOUR PRODUCTIVITY GROWTH	3.3%	1.3%	2.3%	2.5%	2.6%
UNIT LABOUR COST	0.8%	4.4%	3.0%	2.3%	2.2%
GENERAL GOVERNMENT BALANCE, % OF GDP	-5.2%	-6.1%	-3.5%	-2.8 %	-2.2%
GENERAL GOVERNMENT DEBT, % OF GDP	109.3%	110.5%	108.0%	103.9%	99.9%
1. PRIVATE CONSUMPTION EXPENDITURE	4.0%	3.3%	3.4%	3.4%	3.4%
2. GOVERNMENT CONSUMPTION EXPENDITURE	-2.3%	6.5%	1.5%	-0.3%	-0.4%
3. GROSS FIXED CAPITAL FORMATION	13.7%	4.9%	4.1%	5.6%	6.3%
4. CHANGES IN INVENTORIES (% GDP)	0.1%	0.2%	0.1%	0.0%	0.1%
5. EXPORTS OF GOODS AND SERVICES	1.0%	10.0%	7.8%	8.0%	7.0%
6. IMPORTS OF GOODS AND SERVICES	4.8%	8.2%	4.1%	4.5 %	4.7%
CONTRIBUTION TO GDP CHANGE					
7. DOMESTIC DEMAND (excluding inventories)	5.9%	4.6%	3.6%	3.7%	4.0%
8. CHANGES IN INVENTORIES	0.1%	0.1%	-0.1%	-0.1%	0.1%
9. EXTERNAL BALANCE OF GOODS AND SERVICES	-1.3%	-0.5%	0.4%	0.4%	0.1%

	2004	2005	2006	2007
SHORT-TERM INTEREST RATE	2.1%	2.6%	3.5%	3.6%
LONG-TERM INTEREST RATE	4.0%	4.6%	4.8%	5.1%
EURO / USD EXCHANGE RATE	1.24	1.32	1.32	1.32
Total OECD GDP GROWTH	3.6%	2.9%	3.1%	2.9%
EU-25 GDP GROWTH	2.4%	2.0%	2.4%	2.4%
WORLD IMPORT VOLUME, excl. EU	12.8%	8.6%	7.7%	7.7%
OIL PRICES (USD/ barrel)	37.8	44.8	41.4	35.0

2.1 The Greek Economy in 2003-2004

2.1 The Greek Economy in 2003

In 2003, economic activity in Greece continued to perform quite strongly, with the real GDP growth reaching 4.7%, well above the average of the euro zone. A decomposition of the growth rate shows that the contribution of total domestic demand to the GDP change amounted to 5.8%, while the external balance of goods and services had a negative contribution of 1.3%. Private consumption and investment spending remained buoyant and contributed more than 6.2% to GDP growth. High public investment spending, linked to the financial flows from the E.U. Structural Funds and the accelerating preparations for the Olympics, was accompanied by strong private investment.

Inflation continued to be higher than the E.U. average. The private consumption deflator rose by 3.4% in 2003 and the average growth rate of the Harmonized Index of Consumer Prices (HICP) was 3.4%, i.e. 1.3 percentage points higher than the euro area average. This development in the inflation rate can be partly attributed to the stronger growth performance of the Greek economy and, in this respect, a Ballassa-Samuelson effect could be in operation.

Labor market developments were rather positive in 2003. Total employment increased by 1.3%, mainly due to increased labor demand for the Olympic Games projects and, as a result, the unemployment rate fell to 10.4%, down from 10.9% in 2002 (national accounts data according to the new Labor Force Survey).

On the fiscal front there was a large deviation from the target for the general government deficit and debt. The revised deficit is 5.2% of GDP, which is 3.8% higher than projections included in the 2003 SGP. This deviation from the target is mainly due to statistical revisions. More specifically, the change in the 2003 deficit figure was due to a downward revision of tax revenues in public accounts, a downward revision of payments received from E.U. in the context of structural fund programmes, a reclassification of a payment from the Postal Savings bank to the government as a financial transaction, an under-recording of military expenditure, an over-estimation of the surplus of social security funds, settlement of previously unrecorded hospital debts and, finally, an under-recording of interest payments. The fiscal audit also led to an upward revision of data for 2003 debt by 7.6 percentage points compared to what was projected in the 2003 SGP, resulting in a debt ratio to GDP of 109.3%. The change in the debt figure was mainly due to the inclusion of previously unrecorded capitalized interest payments and an over-estimation of consolidating assets of social security funds. These revisions led to a significant reduction of the impact of stock-flow adjustment on debt accumulation.

Table 2: Selected Economic Indicators 2003-2004

	2003		2004	
	SGP2003	*SGP2004*	*SGP2003*	*SGP2004*
1. GDP GROWTH	4.0%	4.7%	4.2%	4.2%
2. GROSS FIXED CAPITAL FORMATION	9.7%	13.7%	7.0%	4.9%
3. REAL UNIT LABOUR COST	-0.1%	-3.3%	0.2%	0.5%
4. PRIVATE CONSUMPTION DEFLATOR	3.5%	3.4%	3.0%	2.9%
5. GENERAL GOVERNMENT BALANCE (% GDP)	-1.4%	-5.2%	-1.2%	-6.1%
6. GENERAL GOVERNMENT DEBT (% GDP)	101.7%	109.3%	98.5%	110.5%
7. UNEMPLOYMENT RATE	9.0%	10.4%	8.0%	11.0%

2.2 The Greek Economy in 2004

GDP growth rate in 2004 reached 4.2%. Investment increased by 4.9%, contributing 1.3 percentage points to GDP growth. The slower than projected in the SGP2003 pace of investment growth was due to construction activity decelerating in the second half of the year, while private building activity, on the other hand, rebounded at the end of the year after decreasing significantly during the first semester.

Private consumption growth, although decelerating, remained robust in 2004 at 3.3% down from 4% in 2003. New private passenger car registrations increased by 15.7%, and credit expansion to households continued rising rapidly at a rate of 28.5%.

As far as the external balance is concerned, exports and imports increased in real terms by 10.0% and 8.2% respectively and the contribution of the external sector to the GDP growth registered a negative figure in the order of 0.46 percentage points. Buoyant shipping receipts and tourism receipts, however, contributed to a decline of the current account deficit.

Total employment (according to the Labor Force Survey using a new sample according to the results of the 2001 Census) increased in 2004 by 2.8%, but the higher increase in the labor force (3.6%) resulted to an unemployment rate in the order of 11%.

The average HICP inflation rate was 3.0% in 2004, remaining higher than the euro area average, reflecting strong domestic demand, a positive output gap and higher energy prices. The inflation differential between Greece and euro zone declined to 0.9%, down from 1.3% in 2003 and 1.6% in 2002.

In the area of public finances, the general government deficit outturn was 6.1% while the general government debt reached 110.5% of GDP. Both figures show a large deviation from the targets set in the 2003 SGP, mainly due to the impact of the statistical revisions and an overshooting of expenditure related to the Olympic Games as well as other underbudgeted items, along with a significant shortfall in revenue compared to what had been budgeted. Table 3 presents the data of the 2004 government budget, as submitted to the Parliament in 2003, the estimated outturn included in the 2005 Budget and the final outturn of 2004 as reported in the March 2005 EDP.

Table 3: Central Government Revenues and Expenditures in 2004

(million euro).

Million euro	BUDGET (1)	ESTIMATE* (2)	FINAL OUTTURN (3)	DIFFERENCE (2)-(3)
1. REVENUES	**45540**	**43747**	**42318**	**+1429**
(a) ORDINARY (NET REVENUE)	41420	40700	39236	+2184
of which				
i. DIRECT TAXES	16385	16710	16458	+252
ii. INDIRECT TAXES	24341	23870	22995	+875
(b) PUBLIC INVESTMENT PROGRAM	4120	3047	3082	-35
2. EXPENDITURES	**51800**	**55014**	**54986**	**+28**
(a) ORDINARY BUDGET	42550	45414	45471	-57
of which				
i. COMPENSATION OF EMPLOYEES	16404	17285	17809	-524
ii. OTHER EXPENDITURE	16396	18606	18196	+410
iii. INTEREST PAYMENTS	9750	9523	9466	+57
(b) PUBLIC INVESTMENT PROGRAM	9250	9600	9515	+85
3. CENTRAL GOVERN. BALANCE (1-2+3)	**-6260**	**-11267**	**-12668**	**+1401**
4. PUBLIC ENTITIES SURPLUS AND ESA ADJUSTMENT	**4230**	**2577**	**2520**	+57
5.GENERAL GOVERNMENT BALANCE (3+4)	**-2030**	**-8690**	**-10148**	**+1458**

*This estimate was included in the 2005 Budget.
Source: Greek Government Budget

2.2 Basic Growth Scenario 2005-2007

Our baseline scenario for the 2005-2007 period is presented in Table 4. This scenario is based on the following assumptions concerning the external environment and the economic policy framework:

- On the external environment, although there are some risks, the overall picture is rather favourable. The economic recovery in the European Union and in the Central Eastern European countries is underway. European Commission and OECD Secretariat forecasts suggest that oil prices in the forthcoming years will follow a downward path, while inflation will remain more or less subdued. As a working hypothesis, the oil price is assumed to decrease, down from 44.8$ per barrel in 2005 to 35$ in 2007.
- On the fiscal front, the government's target is to reduce the general government deficit to levels below 3% by the end of 2006 (in compliance with

the Council recommendations under article 104(9) of 17 February 2005) and proceed towards a significant reduction of the debt/GDP ratio. Despite wage moderation, nominal wage and pension increases will exceed the inflation rate, thus supporting private consumption growth.

For the 2005-2007 period, a robust growth rate is projected, remaining at an average of 4% on an annual basis. Despite lower public investment due to the completion of the Olympic Games, total gross fixed capital formation growth is expected to continue being a significant contributor to GDP growth, while private consumption expenditure is also expected to be robust. The external sector contribution to GDP growth is projected to be positive, with exports being projected to increase due to the global economic recovery and the improvement in the competitiveness of the Greek economy; imports, on the other hand, are expected to decelerate due to the completion of the Olympic Games projects.

Apart from the positive external economic environment and positive prospects due to the impact of the successful completion of the Olympic Games, the high future growth performance of the Greek economy is reinforced by the following policy factors:

- The Greek government is applying an economic policy mix targeted at the rationalization and simplification of the tax system (tax reform which will be complemented this year), the reduction in red tape and the provision of additional investment incentives (new incentives law) so as to boost private investment activity. In addition, structural reforms and privatisations, which are expected to contribute to the improvement of the competitiveness of the Greek economy, are being promoted.
- The performance of the business sector in recent years has improved substantially. Capital structure is healthier, financial costs have fallen to very low levels and profitability has ameliorated. Sales and profits (both operational and net) of the companies listed in the Athens Stock Exchange increased at high rates, with the ratio of profits to turnover exceeding 10%. Profitability will be substantially enhanced by the reduction of the corporate income tax rate by 10 percentage points (over the next three years), while the

significant new investment incentives are expected to contribute to the high growth rate of business investment.

- Average real gross wage and real disposable income growth are expected to support robust consumption growth.
- Credit to the private sector (households and enterprises), will continue to grow at high rates without posing serious credit risks (the ratio of loans to GDP is currently at about half of the euro zone average).
- Large investment on infrastructure has created significant positive externalities, which improve the competitiveness and productive capacity of the economy while boosting private investment activity.
- A new legal framework for public private partnerships (PPPs) framework is being prepared for immediate submission to the Parliament. This should further encourage private investment initiatives.

The 'employment content' of growth, which was limited in the previous years, is expected to improve. For the years 2005-2007, employment is forecast to rise by 1.5% annually and the unemployment rate is expected to decrease to 8.9% in 2007, down from 11.0% in 2004.

In 2005 a large scale fiscal consolidation effort is taking place. Although there is a significant base effect due to the larger budget deficit of 2004 (by 0.9 percentage points: outturn of 2004 compared with estimates included in the 2005 budget), the general government deficit in 2005 will still decline by 2.6 percentage points of GDP, while the public debt will be reduced to 108% of GDP. A broadening of the tax base together with enhancing efficiency in tax collection and a significant curtailment of the primary current expenditure along with a reduced Public Investment Program expenditure, after the completion of the Olympic Games, will contribute to this target. As a reference, the one-off costs related to the Olympic Games amounted to 1.6% of GDP in 2004. For the 2006-2007 period, a further decline of the deficit and debt is foreseen. Despite the gradual reduction of the tax burden for enterprises and households after 2005, the high growth rate (driven by high investment activity and strong private consumption) and measures taken to limit tax evasion will retain robust general government revenues as a percentage of GDP. The general government deficit will decline further to 2.8% of GDP in 2006 and 2.2% in 2007. The primary surplus is estimated to reach 1.9% of GDP in 2005, 2.6% in 2006 and 3.2% in 2007. The general government debt, as a ratio to GDP, will fall to 99.9% in 2007, down from 108% in 2005. Inflation will decelerate gradually, starting from 2006.

Table 4: Selected Economic Indicators 2005-2007

	2005		2006		2007	
	SGP2003	*SGP2004*	*SGP2003*	*SGP2004*		*SGP2004*
1. GDP GROWTH	4.0%	3.9%	3.8%	4.0%		4.2%
2. GROSS FIXED CAPITAL FORMATION	5.7%	4.1%	5.5%	5.6%		6.3%
3. REAL UNIT LABOUR COST	-1.0%	-0.8%	-1.0%	-0.9%		-0.8%
4. PRIVATE CONSUMPTION DEFLATOR	2.8%	3.2%	2.6%	3.0%		2.7%
5. GENERAL GOVERNMENT BALANCE (% GDP)	-0.5%	-3.5%	0.0%	-2.8%		-2.2%
6. GENERAL GOVERNMENT DEBT (% GDP)	94.6%	108.0%	90.5%	103.9%		99.9%
7. UNEMPLOYMENT RATE	7.4%	10.5%	7.0%	9.8%		8.9%

3. Economic Policies for 2005 - 2007

Economic policy in the medium term (2005-2007) faces the following major challenges:

- primarily to comply with the Council recommendations (under article 104(9) of 17 February 2005) to bring the deficit below the threshold value by the end 2006 as well as achieving a gradual reduction in the public debt ratio,
- to put the public finance aggregates on a downward trend in the medium term, by allowing a safety margin based on the recommendations in the Broad Economic Policy Guidelines,

- to be consistent with the recommendations in the Broad Economic Policy Guidelines and, in particular, to accelerate the pace of structural reforms.

The fiscal strategy to pursue the above goals will be based on maintaining high primary surpluses, consistent with the reduction of the expenditure ratio and the increase in current revenues, mostly through incentives for higher profitability, higher investment activity, enhanced growth and a broadening of the tax base. Some of the measures already announced or included in the 2005 Budget are:

Corporate tax reforms. The tax rate for corporate income is set to remain on a downward trend until 2007. Firms will also be able to deduct half of their R&D expenses from their net earnings, so as to promote targets compatible with the Lisbon strategy.

Current revenue measures. In July, law 3259/2004 was approved by Parliament, providing for a tax settlement (including delinquent obligations to the state, repatriation of capital and unsettled tax accounts for professionals and enterprises). For the year 2004 the impact on receipts is approximately 400 mio euros (0.2% of GDP), while the largest part of the receipts from this law (approximately 1,200 mio euros or 0.70%) is expected to be cashed in during 2005. Following a cautious scenario, the 2005 State Budget has budgeted for 600 mio euros (or 0.35% of GDP), treating the remainder as a “cushion” against unexpected shortfalls in revenues, in case that economic growth proves to be lower than forecast. The replacement of the Financial Crimes Squad (SDOE) with a new organization which will focus on investigating tax evasion, illegal trade and financial crime is expected to support the further increase in public revenue.

Expenditure curtailment. Measures included in the 2005 State Budget are mostly of a structural nature. The largest single part of the savings on outlays stems from the reduction of expenditure following the completion of the Olympic Games (down from 1.37% of GDP to 0.34% of GDP, a saving of 1.03% of GDP). A reduction in grants in the investment budget will further contribute an additional net 0.43% of GDP.

Measures have been taken to ensure a significant slowdown of the growth in nominal current general government expenditure from a rate of 11.1% in 2004 down to 7.8% in 2005. These measures include a policy of moderate increases in wages and pensions, an extremely restrictive hiring policy in the public sector, and significant nominal reductions (by 6.5%) in current operating expenditure.

As a result, total expenditure of the general government will fall by 1.5% of GDP. Interest payments on public debt will be lower by 0.24% of GDP, due to the incorporation of capitalized interest payments (which renders servicing of debt cheaper) into debt, along with actions leading to the extension of the redemption schedule.

Social security reforms. There will be a further saving of 0.40% of GDP, which stems from the completion in 2004 of the settlement of overdue debt from the State to social security funds as well as the continued application of social security reforms that reduce evasion of social security revenues.

Public Private Partnerships. The legal framework for the promotion and facilitation of Public Private Partnerships (PPPs) in Greece is currently underway in a parallel process with the establishment of a PPP Taskforce. These actions are expected to further improve the provision of public services and infrastructure, with private capital substituting for possible cuts in the Public Investment Programme. The main aim is to take full advantage of PPP projects by simplifying administrative procedures and cutting down red tape, thereby improving the availability of payment contracts within the PPP framework, without going through a process of ratification in the Parliament.

The issue of statistics. The Greek government has taken all the necessary steps so as to restore transparency in the fiscal data in full compliance with ESA 95. The National Statistical Service of Greece is cooperating fully with Eurostat and its independent operation is safeguarded. This is important as a clear signal of the establishment of a transparent and effective reporting of fiscal accounts. At the end of 2004, legislation was approved by the Parliament concerning the pending issue of hospitals debts; this issue is expected to be settled in a timely manner through bilateral communication with Eurostat already underway. Also, the government is committed to settle the chronic issue of statistical reporting of EU grants within the course of the current year.

3.1 Fiscal Policy and Prospects for 2005-2007

Fiscal developments in 2003-2004 were characterized by four major events: the impact of the electoral cycle, the acceleration of expenditure related to the Olympic Games, the revenue shortfall and the corrected reporting of the public finance figures, which resulted in substantially higher deficit and debt figures from 1997 onwards.

Since Greece joined EMU in 2000, despite previous SG programmes targeting a gradual decline of the general government deficit (as a ratio to GDP), there was no corresponding gradual reduction of public debt as a ratio to GDP. Public debt has remained persistently above the 100% of GDP threshold, hindered by unspecified factors grouped under the item “stock-flow adjustments”. These developments signaled that various financial transactions were recorded incorrectly in the public sector’s accounting system.

Fiscal auditing and bilateral discussions between Eurostat and the Greek authorities necessitated a number of revisions in order to reduce previous data distortions. These revisions mainly include:

- a downward revision of tax revenue estimates (mainly VAT) in public accounts;
- a downward revision of payments received from E.U. in the context of structural fund programs;
- the reclassification, as a financial transaction, of a payment from the Postal Savings Bank to the government;
- the correction of under-recorded government expenditure for the procurement of military equipment;
- the provision of reliable information for recent years, concerning the surplus notified for the sub-sector Social Security Funds;
- the addition of capitalized interest to the government deficit and debt;

- a reclassification of the amount of capital injections undertaken by the Greek government as capital transfers instead of acquisition of shares for the state-owned companies;
- correct reporting of debt assumption.

After the clarification of the data, the 2005 State Budget, taking into consideration all the above mentioned revisions is rendering fiscal policy more reliable, transparent and effective.

Given the forecast for GDP growth, total current revenue at the level of general government is projected to increase in 2005 through 2007 as a ratio to GDP (41.8% in 2004, 42.7% in 2005 and 43.8% in 2007). Total expenditure is expected to decline from 50.4% in 2004 to 48.9% in 2007.

The present SGP provides for a general government deficit of 3.5% of GDP (vs 6.1% in 2004). The largest part of this reduction pertains to the central government deficit. It is also projected that the primary surplus will increase to 1.9% of GDP as compared to –0.4% for 2004.

For the coming years, the general government deficit is expected to decline to 2.2% of GDP by 2007. At the same time the primary balance will increase gradually to 3.2% of GDP by 2007.

Net receipts from privatisations are expected to amount to 1,010 mio euros (about 0.6% of GDP) in 2005. Already during 2004 the government proceeded with the following privatisations: ELPE (with revenues of 192 mio euros) and National Bank of Greece (with revenues of 562 mio euros). The debt-to-GDP ratio is expected to fall to 99.9% of GDP in 2007; the progressive reduction of the debt-to-GDP ratio will be a combined result of increasing primary surpluses, diminishing stock-flow adjustments, privatisation injections and strong nominal GDP growth.

Table 5: General Government Budgetary Developments (on a national accounts basis)

% of GDP	2004	2005	2006	2007
BALANCE BY SUB-SECTORS				
GENERAL GOVERNMENT	**-6.1%**	**-3.5%**	**-2.8%**	**-2.2%**
CENTRAL GOVERNMENT (*)	**-7.7%**	**-5.1%**	**-4.3%**	**-3.7%**
LOCAL GOVERNMENT, SOCIAL SECURITY, PUBLIC ENTITIES AND ADJUSTMENTS	**1.5%**	**1.7%**	**1.5%**	**1.5%**
GENERAL GOVERNMENT				
1. TOTAL REVENUE	44.4%	45.4%	46.2%	46.7%
2. TOTAL EXPENDITURE	50.4%	48.9%	49.0%	48.9%
3. GENERAL GOVERNMENT BALANCE	-6.1%	-3.5%	-2.8%	-2.2%
4. INTEREST	5.6%	5.4%	5.5%	5.4%
5. GEN. GOVN. PRIMARY SURPLUS (8-7)	-0.4%	1.9%	2.6%	3.2%
COMPONENTS OF REVENUES /EXPENDITURES				
6. TAXES	23.2%	23.8	24.0%	24.1%
7. SOCIAL CONTRIBUTIONS	16.3%	16.8%	17.4%	17.9%
8. OTHER CURRENT RESOURCES	2.3%	2.1%	1.9%	1.8%
9. TOTAL CURRENT REVENUE	41.8%	42.7%	43.3%	43.8%
10. GOVERNMENT FINAL CONSUMPTION EXPENDITURE	17.1%	16.6%	15.8%	15.1%
11. SOCIAL TRANSFERS OTHER THAN IN KIND	18.7 %	19.5%	20.3%	21.2%
12. SUBSIDIES	0.1%	0.1%	0.1%	0.1%
13. INTEREST PAYMENTS	5.6%	5.4%	5.5%	5.4%
14. OTHER CURRENT EXPENDITURE	1.7%	1.7%	1.6%	1.4%
15.GROSS FIXED CAPITAL FORMATION	4.1%	3.2%	3.3%	3.4%
16. TOTAL EXPENDITURE	50.4%	48.9%	49.0%	48.9%

(*) Budget basis

In 2004, stock-flow adjustment for the general government sector amounted to 2.9% of GDP, including:

- an increase in deposits (partly fulfilling the terms of an existing agreement for repayment of debt) in the order of 1.5% of GDP;
- difference in timing arising from revenue accrued and cashed (partly due to receipts from the EU Budget) in the order of 1.4%;
- increase of shares and other equity in the order of 0.3% of GDP;
- other adjustments (e.g. bond issuance above par, differences between interest accrued and paid, redemptions of debt above par, net incurrence of other liabilities, statistical discrepancies) in the order of 0.1% of GDP;
- reduction of debt in the order of 0.5% due to privatisation receipts.

It is obvious that items such as those listed in the first two indents above, explaining the largest part of positive stock-flow adjustment, were unavoidable, in the sense that it is not possible to incorporate them in accounts "above the line". However, as a result of the fiscal audit improving budgetary statistics, the stock flow adjustment is drastically reduced in the 2005 – 2007 period. In 2005 this adjustment is estimated at 1.9% of GDP mainly due to hospital debt settlements (according to law 3301/2004) which will be disbursed during this year. In 2006 and 2007 the stock-flow adjustment will be reduced to 0.7% and 0.9% of GDP respectively.

Table 6: General Government Debt Developments

% of GDP	2004	2005	2006	2007
GEN. GOVN CONSOLIDATED GROSS DEBT	110.5%	108.0%	103.9%	99.9%
CHANGE	+1.2%	-2.5 %	-4.1%	-4.0%
CONTRIBUTION TO CHANGES IN GENERAL GOVERNMENT CONSOLIDATED GROSS DEBT				
PRIMARY SURPLUS	-0.4%	1.9%	2.6%	3.2%
INTEREST	5.6%	5.4%	5.5%	5.4%
NOMINAL GDP	7.7%	7.7%	7.5%	7.3%
OTHER FACTORS AFFECTING THE GENERAL GOVERNMENT CONSOLIDATED DEBT				
ADJUSTMENT FACTORS	2.9%	1.9%	0.7%	0.9%
of which				
PRIVATISATION PROCEEDS	0.5%	0.6%	0.3%	0.1%
IMPLICIT INTEREST RATE (General Government)	5.7%	5.3%	5.4%	5.6%

As it has been pointed out by DG ECOFIN in an analysis[1] of output gap calculations, there exists an end point bias problem with the production function method (since the trend total factor productivity is still calculated by the Commission with the HP filter). In our projections of cyclically adjusted balances we take into account the sensitivity of the trend growth rate to the end point bias by utilising a moving average process, in line with the above analysis. Based on this process, potential growth is calculated at 3.8% in 2005 and 3.9% in 2006 and 2007. Thus, by employing the production function approach, we estimate that in 2005, Greece will achieve a cyclically-adjusted deficit of 4.4% of GDP, down from 6.9% in 2004. In the years ahead, it gradually falls and reaches 3.3% in 2007. The improvement of the cyclically-adjusted balance is quite substantial over the period, 2.5 percentage points in 2005, 0.6 in 2006, and 0.5 in 2007.

[1] See DG ECFIN, Economic Studies and Research, Econometric Models and Medium-Term Studies, 2003, 'Reassessing the End Point Problem for Output Gap Calculations'. In this study, it is also presented the CPB's approach that assumes that the growth rate of TFP follows a stochastic trend. Our calculations are similar to the ones of the latter approach.

Table 7. Cyclically-Adjusted Budget Balance (1)

% GDP	2004	2005	2006	2007
1. GDP growth at constant prices	4.2	3.9	4.0	4.2
2. Net borrowing	-6.1	-3.5	-2.8	-2.2
3. Interest payments	5.6	5.4	5.5	5.4
4. Potential GDP growth	3.8	3.8	3.9	3.9
5. Output gap	2.2	2.3	2.4	2.7
6. Cyclical budgetary component	0.8	0.9	1	1.1
7. Cyclically-adjusted balance	-6.9	-4.4	-3.8	-3.3
8. Cyclically-adjusted primary balance	1.3	-1.0	-1.7	-2.1

(1) Percentages of GDP. The data are based on estimations of the Ministry of Economy and Finance. The estimated output gap used in the above Table differs from that published in Autumn 2004 by the European Commission..

4. Comparison of the 2004 SGP with the 2003 SGP

Deviations of the current program's data from those in the 2003 update are presented in Table 8.

Table 8: Deviations from the 2003SGP

	2004	2005	2006	2007
REAL GDP GROWTH				
SGP 2003	4.2%	4.0%	3.8%	
SGP 2004	4.2%	3.9%	4.0%	4.2%
DIFFERENCE	0.0	-0.1	+0.2	
GENERAL GOVERNMENT BALANCE (% of GDP)				
SGP 2003	-1.2%	-0.5%	0.0%	
SGP 2004	-6.1%	-3.5%	-2.8%	-2.2%
DIFFERENCE	-4.9	-3.0	-2.8	
GENERAL GOVERNMENT GROSS DEBT (%of GDP)				
SGP 2003	98.5%	94.6%	90.5%	
SGP 2004	110.5%	108.0%	103.9%	99.9%
DIFFERENCE	12.0	13.4	13.4	

In the following sections, the above mentioned deviations between the two programs are analyzed and explained:

1. Real GDP Growth

Actual GDP growth rate in 2004 coincided with projections included in the 2003 SGP. GDP growth projections for the period 2005-2006, included in the present SGP, are quite similar with those of the previous program. The higher projected exports growth rate is due to the expected stronger world trade and GDP growth, as well as to the improvement in competitiveness.

Table 9: Factors Influencing GDP Growth
(Differences between SGP 2004 and SGP 2003 in growth rates)

		2004	2005	2006	2007
GDP	SGP 2003	4.2%	4.0%	3.8%	
	SGP 2004	4.2%	3.9%	4.0%	4.2%
	DIFFERENCE	**0.0**	**-0.1**	**0.2**	
1. PRIVATE CONSUMPTION	SGP 2003	3.2%	3.3%	3.2%	
	SGP 2004	3.3%	3.4%	3.4%	3.4%
	DIFFERENCE	**0.1**	**0.1**	**0.2**	
2. PUBLIC CONSUMPTION	SGP 2003	1.0%	0.5%	0.5%	
	SGP 2004	6.5%	1.5%	-0.3%	-0.4%
	DIFFERENCE	**5.5**	**1.0**	**-0.8**	
3. GROSS FIXED CAPITAL FORMATION	SGP 2003	7.0%	5.7%	5.5%	
	SGP 2004	4.9%	4.1%	5.6%	6.3%
	DIFFERENCE	**-2.1**	**-1.6**	**0.1**	
4. FINAL DOMESTIC DEMAND	SGP 2003	3.8%	3.6%	3.5%	
	SGP 2004	4.2%	3.1%	3.3%	3.7%
	DIFFERENCE	**0.6**	**-0.5**	**-0.2**	
5. EXPORTS OF GOODS AND SERVICES	SGP 2003	6.7%	5.6%	5.3%	
	SGP 2004	10.0%	7.8%	8.0%	7.0%
	DIFFERENCE	**3.3**	**2.2**	**2.7**	
6. IMPORTS OF GOODS AND SERVICES	SGP 2003	4.7%	3.8%	3.7%	
	SGP 2004	8.2%	4.1%	4.5%	4.7%
	DIFFERENCE	**3.5**	**0.3**	**0.8**	
7. EXTERNAL BALANCE, (contribution to GDP change)	SGP 2003	0.07	0.09	0.10	
	SGP 2004	-0.46	0.40	0.38	0.13
	DIFFERENCE	**-0.53**	**0.31**	**0.28**	

2. General Government Balance and Debt

In the present SGP, the 2005-2007 projections for public finance data are based on a transparent methodology, which is consistent with the ESA-95 regulations and the EDP methodology, following data revisions for the 2000-2004 period. Moreover, the 2004 deficit was revised upwards, due to an overshooting of the expenditure (both current and investment) for the Olympic Games and a shortfall in revenue compared to what had been budgeted.

Table 10: Factors Influencing General Government Balance and Debt (Differences between SGP 2004 and SGP 2003 in growth rates)

		2004	2005	2006	2007
1. TOTAL CURRENT RESOURCES	SGP 2003	6.4%	6.3%	6.1%	
	SGP 2004	8.5%	10.2%	9.0%	8.5%
	DIFFERENCE	**2.1**	**3.9**	**2.9**	
of which					
TAXES ON PRODUCTION AND IMPORTS	SGP 2003	7.7%	7.1%	6.7%	
	SGP 2004	5.1%	12.1%	10.4%	9.2%
	DIFFERENCE	**-2.6**	**5.0**	**3.7**	
TAXES ON INCOME AND WEALTH	SGP 2003	6.0%	5.2%	5.0%	
	SGP 2004	8.5%	8.6%	5.0%	4.8%
	DIFFERENCE	**2.5**	**3.4**	**0.0**	
SOCIAL CONTRIBUTIONS	SGP 2003	7.7%	7.3%	7.2%	
	SGP 2004	13.5%	11.1%	11.0%	10.8%
	DIFFERENCE	**5.8**	**3.8**	**3.8**	
2. TOTAL CURRENT EXPENDITURE	SGP 2003	7.5%	5.6%	5.3%	
	SGP 2004	11.1%	7.8%	7.6%	7.2%
	DIFFERENCE	**3.6**	**2.2**	**2.3**	
of which					
GOVERNMENT CONSUMPTION	SGP 2003	6.7%	5.6%	5.0%	
	SGP 2004	11.8%	4.5%	2.7%	2.5%
	DIFFERENCE	**5.1**	**-1.1**	**-2.3**	
SOCIAL TRANSFERS THAN IN KIND	SGP 2003	9.5%	7.6%	7.4%	
	SGP 2004	12.9%	12.5%	12.0%	12.0%
	DIFFERENCE	**3.4**	**4.9**	**4.6**	
INTEREST	SGP 2003	4.3%	1.0%	0.8%	
	SGP 2004	4.0%	2.9%	9.4%	6.7%
	DIFFERENCE	**-0.3**	**1.9**	**8.6**	
3. GROSS FIXED CAPITAL FORMATION	SGP 2003	7.0%	8.2%	7.0%	
	SGP 2004	11.0%	-15.0%	9.3%	6.0%
	DIFFERENCE	**4.0**	**-23.2**	**2.3**	
4. CAPITAL TRANSFERS RECEIVED	SGP 2003	29.0%	17.5%	11.7%	
	SGP 2004	46.6%	11.6%	14.2%	8.4%
	DIFFERENCE	**17.6**	**-5.9**	**2.5**	
5. PRIMARY SURPLUS (% GDP)	SGP 2003	4.7%	5.1%	5.3%	
	SGP 2004	-0.4%	1.9%	2.6%	3.2%
	DIFFERENCE	**-5.1**	**-3.2**	**-2.7**	
6. GENERAL GOVERNMENT BALANCE (% GDP)	SGP 2003	-1.2%	-0.5%	0.0%	
	SGP 2004	-6.1%	-3.5%	-2.8%	-2.2%
	DIFFERENCE	**-4.9**	**-3.0**	**-2.8**	
7.GENERAL GOVERNMENT DEBT (% GDP)	SGP 2003	98.5%	94.6%	90.5%	
	SGP 2004	110.5%	108.0%	103.9%	99.9%
	DIFFERENCE	**12.0**	**13.4**	**13.4**	
8. NOMINAL GDP GROWTH	SGP 2003	7.7%	7.3%	6.9%	
	SGP 2004	7.7%	7.7%	7.5%	7.3%
	DIFFERENCE	**0.0**	**0.4**	**0.6**	

5. Sensitivity Analysis

This section provides a sensitivity analysis of budgetary projections due, mainly, to uncertainties regarding the growth rate. We present two alternative economic scenarios so as to accommodate the case of a less optimistic, as well as a clearly pessimistic, growth projection for the Greek economy.

Uncertainties regarding a prolonged asthenic domestic demand in some economies within the euro area clearly pose certain downside risks, mitigating the prospects of a strong economic recovery for the euro area over the next years. More recently, this pattern appears to be confirmed, since according to the recent economic outlook, the European economic activity shows an unexpected deceleration in the second half of 2004 as the pace of expansion of economic activity in the euro area lost pace and fell below potential rates compared with the first half. Other sources of uncertainty include the recent weakening of net exports in the euro area, the exchange rate and oil price developments. Should these risks persist, thereby continuing to impair economic growth performance in the euro area in particular and EU economy in general, the Greek economy could be adversely affected. Table 11 presents the projections on the basis of these two scenarios, that is the less optimistic (Alternative-1) and the pessimistic (Alternative-2) respectively, and compares them with the results of the baseline scenario.

Table 11: Comparison of the Alternative Growth Scenarios for the Greek Economy
(% annual changes, except as indicated)

	Baseline Scenario			Alternative -1			Alternative-2		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
A. DEMAND AND OUTPUT (CONSTANT PRICES 1995)									
GDP	3.9	4.0	4.2	3.3	3.3	3.3	2.9	3.0	3.0
PRIVATE CONSUMPTION	3.4	3.4	3.4	3.2	3.2	3.2	3.0	3.0	3.0
GOVERNMENT CONSUMPTION	1.5	-0.3	-0.8	1.5	-1.2	-1.3	1.5	-1.5	-1.3
GROSS FIXED CAPITAL FORMATION	4.1	5.6	6.3	3.6	3.0	3.3	2.9	2.4	2.9
TOTAL DOMESTIC DEMAND	3.1	3.3	3.7	2.8	2.7	2.6	2.5	2.3	2.3
EXPORTS OF GOODS AND SERVICES	7.8	8.0	7.0	7.0	7.4	7.0	6.0	7.3	7.0
IMPORTS OF GOODS AND SERVICES	4.1	4.5	4.7	4.1	4.1	3.9	3.7	3.9	3.8
B. PRICES									
PRIVATE CONSUMPTION DEFLATOR	3.2	3.0	2.7	3.1	2.9	2.7	3.1	2.9	2.7
GDP DEFLATOR	3.8	3.4	3.0	3.5	3.2	3.0	3.4	3.1	2.9
C. PRODUCTIVITY, INCOME AND EMPLOYMENT									
LABOUR PRODUCTIVITY	2.3	2.5	2.6	2.1	2.1	2.1	2.0	2.0	2.0
REAL COMPENSATION PER EMPLOYEE	2.1	1.7	2.0	2.2	1.7	1.9	2.2	1.7	1.9
EMPLOYMENT	1.5	1.5	1.6	1.2	1.1	1.2	0.9	1.0	1.0
UNEMPLOYMENT RATE	10.5	9.8	8.9	10.8	10.3	9.8	11.0	10.8	10.4
D. PUBLIC FINANCES									
TOTAL RESOURCES	10.3	9.3	8.5	9.3	8.3	7.9	8.9	7.8	7.4
TOTAL EXPENDITURE	4.5	7.8	7.1	3.8	6.8	6.7	3.7	6.0	6.2
GENERAL GOVERNMENT BALANCE (% of GDP)	-3.5	-2.8	-2.2	-3.6	-2.9	-2.4	-3.7	-2.9	-2.4
GENERAL GOVERNMENT DEBT (% of GDP)	108.0	103.9	99.9	108.9	106.0	103.0	109.5	107.2	104.7

The simulation results of the Alternative-1 scenario compared to the baseline scenario project a slower annual GDP growth rate of 3.3%, while the Alternative-2 scenario projects an annual GDP growth rate of 2.9% in 2005 and 3.0% in the years ahead. Due to lower domestic demand, as both private and government consumption along with gross fixed capital formation growth rates will be lower than in the baseline scenario, inflation (measured by the private consumption deflator) is also projected to be lower each year in both alternative scenarios. Also, export, import and employment growth rates remain below the reference values of the baseline scenario. As part of the sensitivity analysis, a slower growth of general government current resources is projected by about 1 percentage point (or more in the Alternative-2 scenario), each year. Corresponding cuts in specific expenditure items are projected in this case.

In this way, the sensitivity analysis based on both the alternative scenarios safeguards that even in the case that growth projections turn out to be quite pessimistic, the fiscal adjustment effort in place leads to a general government deficit below the reference value in 2006, thereafter falling further below the 3% threshold, in full compliance with the recommendations under article 104.9. The debt to GDP ratio also follows a downward path, declining at a sufficient pace.

6. Sustainability of Public Finances

The implementation of Law 3029/2002 still lies at the heart of efforts to reform the pension system, with an emphasis on the introduction of new instruments that add credibility and flexibility to the system. For example, according to the provisions of the aforementioned law, the first Occupational Fund has already been established and amendments to the legislation for a typical forms of employment have been introduced. Also, provision has been made for the transfer of social security rights when moving from one fund to another and motives have been provided for the prolongation of working life beyond the statutory limit of 35 years. Distinguishing auxiliary from primary pensions, through the creation of separate auxiliary Funds and the consolidation of various funds, remains a major priority and specific steps have been made in this direction. New legislation (law 3232/2004) aimed at amending various aspects of existing legislation, particularly as far as persons with disabilities, farmers, professionals and civil servants are concerned. Considerable effort is being made to combat the evasion of contributions, while a special force (YPEDYFKA) was established which monitors health-care payments made by social insurance institutions.

As the government needs to have a clearer picture of the situation, national projections by the Actuarial Authority are already underway incorporating the latest demographic data along with the effects of the 2002 intervention. Also, there are many measures included in the 2002 law yet to be implemented and evaluated before new elements are brought to the system. As an example, efforts to consolidate existing funds in the banking sector are already underway.

Demographic trends are placed in the core of long-term economic policy challenges, as population ageing poses risks in all E.U. countries. Alleviating the pressure on age-related spending, without undermining the role of social protection, is the basic prerequisite for a sound macroeconomic performance in the years to come. According to the Eurostat projections, Greece is about to face profound changes in its population structure. Table 12 offers an assessment of the long-term sustainability of public finances based on the projections of the Hellenic Actuarial Unit as reported in 2002, and of the European Commission. An update round of projections, which takes into account updated information on population and demographic trends, is planned for 2005.

Table 12: Long-term Sustainability of Public Finances

% of GDP	2000	2005	2010	2030	2050
Total expenditure	48.9%	44.2%	41.0%	48.5%	49.0%
Old age pensions	12.6%	12.4%	12.2%	17.3%	22.6%
Health care (not-including care for the elderly)	4.8%	5.0%	5.2%	5.9%	6.6%
Interest payments	6.9%	4.8%	1.8%	1.0%	0.5%
Total revenues	47.2%	44.4%	41.5%	48.5%	49.0%
***of which*: from pensions contributions**	7.9%	8.3%	8.4%	9.0%	8.8%
Assumptions					
Labour productivity growth	4.4	2.5	2.5	1.75	1.75
Real GDP growth	4.2	3.7	3.7	0.73	0.85
Participation rate males (aged 20-64)	84.1	84.0	83.4	81.1	82.1
Participation rates females (aged 20-64)	51.1	53.4	55.3	61.0	71.9
Total participation rates (aged 20-64)	67.6	68.7	69.4	71.3	77.1
Unemployment rate	11.1	7.1	7.0	6.7	5.5

Source: European Commission and Ministry of Economy and Finance.

7. Structural reforms completed or underway

The government prioritises the improvement in the quality of public finances, i.e. **the change in the composition of public expenditure** and its re-orientation towards more productive uses. To this end and recognizing structural deficiencies of the present system, the government has requested technical assistance from the IMF on tax administration and expenditure management.

In the direction of altering the expenditure mix, cutting down on operating expenditure is a priority of the 2005 Budget (operating expenditure will be down by 6.5% in nominal terms and, in particular, consumption expenditure will decrease by

16.2% - again in nominal terms). Saving on operating expenditure will be more pronounced in the years to come, in an attempt for a more efficient resource allocation.

The government is also planning the implementation of a more effective **fiscal auditing system**. So far, auditing only refers to the legitimacy and regularity of expenditure included in the budget (eg, legal documentation for every item of expenditure). The establishment of an Independent Body of Fiscal Inspectors is contemplated, along with internal auditing services in every Ministry or local authority and public entities in general (with a budget exceeding € 3 mio).

A new framework is being designed for the operation of **Public Enterprises and Entities (DEKO)**, based on the strict implementation of business plans, wage moderation (according to specific rules), control of borrowing requirements and allowing borrowing for investment purposes only (along with debt servicing).

As far as **revenue** is concerned, the tax reform already enacted includes provisions for more transparent and efficient tax audits and controls for professionals and enterprises. Audits for SMEs and professionals with turnover (gross revenue) up to a certain limit have been greatly simplified. A list of deductible outlays has already been published, thus reducing the degree of arbitrariness from the part of auditors and the need to court recourses. Apart from promoting equity, lowering the administrative burden on enterprises and fighting corruption, these reforms are expected to result to a broader tax base.

The legal framework for **opening markets to competition** (especially network industries) is essentially in place. In telecommunications, alternative operators have already gained a total share of 15% of the total fixed telephony market lost by the incumbent firm (OTE); this share is almost 30% as far as international calls are concerned. In the electricity market, a new law was adopted in 2003 providing, among others, for asymmetric measures against the incumbent Public Power Corporation

(PPC) as far as capacity availability agreements for new generation capacity are concerned. Secondary legislation is pending and the same holds for the accounting unbundling of PPC. In the natural gas market, the government is opting for a faster liberalisation of the market, and, according to recent legislation, all electricity generators, including cogenerators with consumption above 25 million m^3/year, are becoming eligible consumers starting from July 1st, 2005. In both the electricity and the natural gas markets, the systems have already been (or very soon will be) interconnected to these of neighbouring countries, thus providing a natural counterpart to having alternative providers domestically.

Business start-ups. New legislation has been prepared, aiming at cutting red tape for business start-ups and at reducing the time required and cost paid while prioritising the protection of the environment along with public health and safety. Relevant legislation (laws 2516/97, 2965/01, and numerous Ministerial Decisions) will be simplified and updated in order to tackle the lack of legislative codification, reduced coordination between public services and the labyrinth of joint competences.

As far as **financial markets** are concerned, new legislation has been prepared incorporating, among others, Directive 2003/6/EC on market abuse. The emphasis is on preventive measures, aiming at increasing market transparency through the timely disclosure and diffusion of accurate information to investors. Supplementary legislation for further improving the operative framework of financial markets is being prepared.

Health care reform. The government has prepared a far-reaching health care reform (soon to be submitted for public consultation). The main objective of the proposed reform is securing financial viability in the short-run and sustainability in the long-run (through cost containment) while addressing specific weaknesses of the present system and guaranteeing an adequate level of services for all Greek citizens.

The pressing problem in the short run is the accumulation of debt to hospital suppliers. Currently, the restructuring of this debt is planned, while other measures are in the pipeline to prevent its reoccurrence in the future: a centralised administrative system of public procurement procedures, a new management system for public hospitals (based on operational devolution to the local hospital level) and a new computerised accounting system for all NHS hospitals and health centers which at the end of each financial year will present balance-sheets.

As far as **containing costs in the medium and long-run**, the MHSS is planning:

- To use Information Technologies extensively. The long-term goal of the MHSS is the operation of ERP systems (Enterprise Resource Planning) in all NHS,
- The application of modern management methods in NHS Hospitals as described above,
- New pricing and costing mechanisms,
- Increased auditing of Social Services.

The MHSS is also counting on Public – Private Partnerships (PPPs), and more specifically on collaborations between public hospitals and private health insurance companies in the field of hospitalisation services offered by the NHS. The possibility of opening-up of the new (so-called "Olympic") health infrastructure is being explored with a view to making the best possible use of new wings constructed mainly in general NHS hospitals of the greater Athens area. Pilot PPP/PFI projects for the construction of public hospitals are also planned. This initiative will help ease the financial burden on the Public Investment Budget which today is the only source of financing social infrastructure.