HELLENIC REPUBLIC

MINISTRY OF ECONOMY AND FINANCE

THE 2005 UPDATE OF THE HELLENIC STABILITY AND GROWTH PROGRAM, 2005 - 2008

December 2005

The update of Greece's Stability and Growth Program has been submitted to the European Commission in accordance with Article 4 of the European Council Regulation 1466/97.

The program can be found on the web site of the Greek Ministry of Economy and Finance: http://www.mnec.gr

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1. ECONOMIC POLICY FRAMEWORK

The Greek government is implementing a bold program of reforms aiming at enhancing the dynamism of our economy. Despite the positive developments during the year, a lot of work remains to be done in order to alleviate unemployment and to secure the medium- to long-term growth potential of our economy. The government's strategy calls for reforms across a broad front which, when added together, represent an overhaul of the model upon which Greece's economic growth has been based. Our approach features three key elements.

First, **achieve fiscal consolidation while enhancing the quality of public finances** to ensure that more government spending is directed to productive uses. We are streamlining the government function and restraining government spending overall, especially in areas which neither contribute directly to the welfare of the Greek people nor enhance the country's productive capacity. The government remains committed to putting an end to the excessive deficit situation by 2006 as requested in the Council notice of 17 February 2005. For the years beyond we are setting a medium term objective of balance in fiscal finances. Due to the high starting point in the deficit we will need some time in order to achieve this. Greece is burdened with a heavy government debt, which we are reducing. However, our efforts to fix the debt burden remain pro-growth. Restraining expenditure, and redirecting it to productive uses, is the preferred course of action.

Second**, improve the business environment** in order to make room for private sector led growth. This entails both macroeconomic adjustment at the fiscal front as well as a series of structural reforms in key markets and in the workings of the public sector. Through these, Greece can achieve a substantial improvement in its long term potential growth rate.

Third, deepen the **global integration** of the Greek economy. To achieve our growth objectives, we are working to make Greece a more open economy. Foreign investment will play a key role in realizing our strategic objectives. We are also promoting an expansion of Greece's trade ties with the rest of the world. Openness to the world economy can bring substantial benefits to Greece and is a pillar of the government's economic policy.

We envision that the results of this policy will lead to an improved multifactor productivity and increased employment rates in our economy. The strategy outlined above needs time to bear fruit. However, the early signs are encouraging. Robust growth was maintained after the end of the Olympic Games, at a rate more than double the average of the eurozone. One of our main concerns had been to maintain economic growth and avoid a slowdown. Despite unexpectedly high oil prices, the Greek economy grew at an estimated rate of 3.6% in 2005. Based on conjunctural indicators (such as retail sales volume and credit expansion to the private sector), it is expected that this momentum can be maintained.

The rest of the Program is organised as follows. Section 2 presents recent economic developments, as well as projections for the 2006-2008 period. The overall economic policy strategy and targets for the general government balance and debt, as well as the underlying framework for economic and fiscal policy prospects are presented in the 3rd Section. In the 4th Section, we conduct sensitivity analysis and compare the current update of the SGP to the previous one. In the 5th Section, developments on public finances are presented, both on expenditure and revenue side. In the 6th Section the issue of long-run sustainability of public finances is briefly outlined.

2. ECONOMIC OUTLOOK

2.1 World Economy - Technical Assumptions

Some basic technical assumptions underlying this Program are contained in Table 1.

Table 1: Basic Assumptions

	2005	2006	2007	2008
SHORT-TERM INTEREST RATE*	2.1%	2.5%	3.0%	3.0%
LONG-TERM INTEREST RATE**	3.3%	3.5%	3.8%	3.9%
EURO / USD EXCHANGE RATE	1.25	1.21	1.22	1.22
WORLD GDP GROWTH (excl. EU)	5.1%	4.9%	4.6%	4.6%
EU-25 GDP GROWTH	1.5%	2.1%	2.4%	2.4%
ACC/CAND COUNTRIES GDP GROWTH	5.0	5.2	5.1	5.1
WORLD IMPORT PRICES	6.2%	1.7%	2.0%	2.0%
WORLD IMPORT VOLUME, excl. EU	8.6%	8.7%	8. 4%	8.4%
OIL PRICES (USD/ barrel)	55.0	61.4	60.3	60.0

*euro area: 3m money market
**10 year gov. bonds, lowest one prevailing in euro area

2.2 Cyclical Developments and Current Prospects

2.2.1. The Greek Economy in 2004

GDP growth rate reached 4.7% in 2004. This is in large part due to significant increases in maritime transportation revenues by 40% in current prices. This significant increase in transportation revenues should be considered an extraordinary event. Total investment and business investment increased by 5.7% and 6.8% respectively, whereas housing investment declined slightly by 0.6%. After the completion of Olympic Games infrastructure construction activity decelerated in the second half of 2004 and the same holds for private building activity.

Private consumption growth remained strong in 2004, registering an increase of 4.4%. Public consumption increased by 3.9% in 2004, mainly due to a rise in the wage bill of the central government. The growth rate of credit expansion to the private sector remained high (more than double compared to the eurozone), thus strengthening both consumption and investment expenditure of households and enterprises. Despite its high growth rate in 2004, credit expansion to the private sector in Greece remained at a moderate level as a ratio to GDP (70%), compared to 120% in the eurozone. 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 of goods decreased by 2.5%, partly due to exchange rate developments (the real exchange rate index increased by 4.3%), as well as an increase in export prices (excluding oil products). Imports of goods increased by 9.0% in real terms contributing to a widening of the trade deficit by 1 percentage point of GDP compared to 2003. Buoyant shipping receipts and tourism receipts, however, contributed to the decline of the current account deficit, to 8.2% down from 8.6% the previous year.

Total employment increased in 2004 by 2.9%, but since the labor force increased commensurably the unemployment rate remained at 11%.

The average HICP inflation rate, although decelerating, remained higher than the euro area average (standing at 3.0% in 2004 compared to 3.4% in 2003), reflecting strong domestic demand and higher energy prices. Nonetheless, 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 6.6%, while the general government debt stood at 109.3% of GDP. Both figures show a deviation from the previous SGP, mainly due to the impact of statistical revisions and an overshooting of expenditure related to the Olympic Games as well as other under-budgeted items, along with a shortfall in revenue compared to what had been budgeted.

2.2.2 Growth developments in 2005

Despite the expectations for a significant post Olympics slowdown and unexpectedly high oil prices, the Greek economy has maintained a robust growth rate of 3.6% in 2005, substantially higher than the average growth rate in the eurozone. Credit expansion to the private sector also remained at high levels (15%), thus supporting both consumption expenditure of households as well as investment expenditure of enterprises.

Considerable room for further credit expansion seems to exist for the Greek economy. Housing and consumption loans to households stand at 41% of Gross Disposable Income (GDI), compared to 83% in the eurozone. In addition, interest payments correspond to 2.5% of GDI, compared to 4.5% in the eurozone. Concerning corporate credit, loans to enterprises stand at 40% of GDP vis-à-vis 62% in the eurozone.

Retail sales volume continued to grow strongly at 3.4% in the third quarter of 2005, in contradiction to the downward trend in the household confidence index. Consumer credit also increased by 25% in the third quarter of 2005. In parallel, licences for new building constructions and housing loans increased by 4.6% and 25.1% respectively in the January – August period of 2005.

Table 2: GDP, Credit to the private sector, Inflation, Retail Sales Volume
(% annual changes)

	2004 Q1	*2004 Q2*	*2004 Q3*	*2004 Q4*	*2005 Q1*	*2005 Q2*	*2005 Q3*
Greece							
1.GDP	4.8	4.6	4.5	4.8	3.5	3.7	3.8
2.Credit to the private sector	17.8	16.4	16.0	15.8	14.7	14.2	14.2
3.Inflation (HICP)	2.9	3.1	3.0	3.2	3.4	3.2	3.8
4.Retail Sales Volume Index	4.9	5.0	4.7	3.5	2.9	4.1	3.4
Eurozone							
1.GDP	1.5	2.2	1.8	1.6	1.2	1.2	1.6
2.Credit to the private sector	5.7	5.9	6.1	6.6	7.4	7.5	8.4
3.Inflation (HICP)	1.7	2.3	2.2	2.3	2.0	2.1	2.3
4.Retail Sales Volume Index	0.6	0.0	0.1	0.1	1.1	0.7	0.8
Differences (Greece – Eurozone)							
1.GDP	3.3	2.4	2.7	3.2	2.3	2.5	2.2
2.Credit to the private sector	12.1	10.5	9.9	9.2	7.3	6.7	5.8
3.Inflation (HICP)	1.2	0.8	0.8	0.9	1.4	1.1	1.5
4.Retail Sales Volume Index	4.3	5.0	4.6	3.4	1.8	3.4	2.6

Source::Ministry of Economy and Finance, NSSG, Eurostat.

Developments in international trade are favourable. Stable export prices, apart from fuel products, as well as the real exchange rate depreciation of the euro vis-à-vis the USD, affected Greek exports positively. They increased by 12.3% at current prices in the January - September period, compared to a decrease of 0.4% in the respective period of 2004. On the other hand, imports also increased, albeit at a lower rate (2.7%), while imports net of oil products decreased by 2.3%. The revenues from tourism and transportation services also increased by 4.2% in the January - September period, further strengthening the contribution of exports to growth.

In the labour market, total employment increased by 1.5% in the first half of 2005, while the number of dependent employees increased at a faster rate (1.9%), resulting in a lower unemployment rate of 9.6% in the 2nd quarter of 2005, compared to 10.2% in 2004.

Despite the significant increase in oil prices and the recent increase of VAT rates by 1 percentage point, inflation remained at the levels projected in the previous SGP. As a result, the purchasing power of households remains largely unaffected. Moreover, despite the high growth rate of GDP and consumption and high oil prices (increasing by 60% since January 2005), inflation has not been affected much remaining at 3.5% on average (Jan. – Nov. 2005), compared to 2.1% of the Eurozone. The core inflation follows a downward trend, down from 3.3% in 2004 to 3.1% in 2005, thus contributing to price moderation.

2.2.3. Fiscal developments in 2005

In 2005, fiscal consolidation effort of a large scale has taken place. The task of fiscal consolidation was made more difficult because of statistical revisions of previous years' deficits. The 2005 State Budget was based on the assumption of a deficit for 2004 of 5.28% of GDP, while the Update of the Stability and Growth Programme for the 2004-2007 period (submitted in March 2005) was based on an estimate of a 6.14% deficit. The deficit for 2004 stood at 6.65% of GDP in the latest EDP notification. In 2004 there was a substantial shortfall in ordinary budget net revenue of € 1445 mio (almost 0.9% of GDP) compared to what was estimated in autumn 2004, partly due to carry-over effects from revisions and overestimation of revenue in previous years. This revenue shortfall is responsible for about half of the deterioration in the 2004 budget outturn and has carry-over effect on the 2005 budget. Primary expenditure was also revised upwards by € 136 mio (or 0.1% of GDP) and this also has a carry-over effect. The same holds for EU funds, which were revised downwards (down from € 1000 mio to € 14 mio or by 0.6% of GDP) and for capital transfers to social security funds (up from € 1331 mio to €1916 mio or by 0.3% of GDP).

The adjustment in 2005 amounts to 2.3 percentage points of GDP, all of which is due to permanent measures. The estimated decrease of the general government deficit from 6.6% of GDP in 2004 to 4.3% in 2005 is achieved through an improvement in the Ordinary Budget deficit by 0.4% of GDP (including 0.36% of GDP reduction due to restraint of primary expenditure) and an improvement in the Public Investment Program deficit by 1.4% of GDP (about 1% of this improvement is related to the expenditure on Olympic Games infrastructure). Furthermore, there is an improvement of 0.6% of GDP in the general government accounts.

Table 3: Decomposition of the adjustment in the 2004 – 2006 period.

(% GDP)	**2004**	**2005**	**2006**	**2004- 2005 adjustment**	**2005 - 2006 adjustment**	**2004 - 2006 adjustment**
Ordinary budget net revenue	23.48	23.26	24.07	-0.23	0.81	0.58
Of which: *Temporary revenue*			0.57		0.57	
Primary expenditure	21.55	21.19	20.98	-0.36	-0.21	-0.57
Wages and pensions	10.47	10.29	10.16	-0.18	-0.13	-0.31
Social security and health care	4.33	4.38	4.41	0.05	0.03	0.08
Operational and other expenditure	4.72	4.41	4.34	-0.30	-0.08	-0.38
Third parties revenue	2.04	2.12	2.08	0.08	-0.03	0.04
Interest payments	5.66	5.40	4.96	-0.26	-0.44	-0.70
Ordinary budget balance	-3.73	-3.34	-1.88	0.39	1.46	1.85
Public Investment Budget revenue	1.73	1.71	1.80	-0.02	0.09	0.07
Public Investment Budget expenditure	5.70	4.28	4.34	-1.42	0.07	-1.35
Public Investment Budget balance	-3.96	-2.57	-2.54	1.40	0.03	1.43
Central government budget balance	-7.69	-5.91	-4.42	1.79	1.49	3.27
General government adjustment	1.05	1.60	1.83	0.55	0.23	0.78
General government balance	-6.64	-4.30	-2.59	2.34	1.71	4.05

2.3. Medium Term Scenario and Structural Reforms

For the 2006-2008 period, robust GDP growth is projected, remaining at an average level of 3.9% on an annual basis. Public investment increases in 2006 compared to 2005 and, combined with private investment growth, is expected to contribute to GDP growth positively. Private consumption expenditure is also expected to remain robust. The external sector's contribution to GDP growth is projected to decrease slightly, with both exports and imports increasing further in the 2006 – 2008 period.

Table 4: Macroeconomic Prospects

In million euro	ESA Code	2004	2004	2005	2006	2007	2008
		level			% change		
1. Real GDP	B1*g	112631	4.7	3.6	3.8	3.8	4.0
2. Nominal GDP	B1*g	167169	8.4	7.7	7.4	7.1	7.1
Components of Real GDP							
3. Private consumption Expenditure	P.3	77189	4.4	3.2	3.2	3.2	3.3
4. Government consumption expenditure	P.3	16314	3.9	2.5	1.2	1.1	0.7
5. Gross fixed capital formation	P.51	30884	5.7	1.0	5.4	6.5	6.8
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53	130	0.1	0.0	0.0	0.0	0.0
7. Exports of goods and services	P.6	25446	11.5	5.0	6.8	7.3	7.5
8. Imports of goods and services	P.7	37332	9.3	0.7	4.9	6.0	6.1
Contributions to real GDP growth							
9. Final domestic demand			5.13	2.83	3.80	4.07	4.22
10. Changes in inventories and net acquisition of valuables	P.52 + P.53		0.05	-0.13	0.02	-0.04	-0.01
11. External balance of goods and services	B.11		-0.51	0.90	-0.02	-0.23	-0.20

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 improved. Sales and profits (both operational and net) of 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 (in three steps between 2005 and 2007), while the significant new investment incentives are expected to contribute to the high growth rate of business investment.

Credit to the private sector (households and enterprises), should continue to grow at high rates without posing serious credit risks. Also, large investment on infrastructure has created significant positive externalities, which improve competitiveness and the productive capacity of the economy while boosting private investment activity.

The growth momentum of the Greek economy is supported by a series of structural reforms aimed at enhancing productivity and employment. The Greek government is applying an economic policy mix targeted at improving the business environment, rationalising and simplifying the tax system, cutting red tape, facilitating business start-ups and providing additional investment incentives so as to boost private investment activity. In addition, privatisations are targeted at opening markets to competition and attracting private investment.

A partial list of structural reforms already initiated includes:

- the Tax Reform which reduces the corporate tax rate to 25% by 2007 (a 10 percentage points decrease), simplifies tax audits and institutes generous deductions of R&D expenses,
- the new and improved investment incentives law,
- the establishment of a legal framework for public-private partnerships,
- the acceleration of privatisations,
- the pension reform in the Banking sector,
- the rationalisation in the operation of Public Sector Enterprises,
- the simplification in licensing procedures for business startups,
- the liberalisation in retail shopping hours,
- the introduction of flexibility in working hours and the reduction in overtime pay.

A complete list of structural reforms already initiated as well as planned for the medium-term is contained in our National Reform Program submitted to the European Union. These reforms are expected to stimulate economic growth rate and diffuse its results to all sectors of the economy. For example, the corporate tax reform may contribute up to 0.5 percentage points to GDP growth in the medium term.

The 'employment content' of growth, which was limited in previous years, is expected to improve. For the 2006-2008 period, employment is forecast to rise annually by 1.6% on average and the unemployment rate is expected to decrease to 8.0% in 2008, down from 11.0% in 2004 (on a national accounts basis).

Table 5: Labor Market Developments

	2004 level	2004 % change	2005 % change	2006 % change	2007 % change	2008 % change
1. Employment, persons (000)	4093.4	2.9	1.4	1.4	1.6	1.7
2. Employment, hours worked (million)	8432.5	1.6	1.5	1.5	1.6	1.7
3. Unemployment rate (%)		11.0	10.4	9.8	8.9	8.0
4. Labor Productivity, persons		1.7	2.2	2.4	2.2	2.3
5. Labor Productivity, hours worked		3.1	2.1	2.2	2.2	2.3
6. Compensation of employees (million euro)	57591	12.9	7.7	7.2	7.2	6.9

Inflation will also decelerate gradually, starting in 2006. Despite the high growth rate of the Greek economy, as well as high oil prices, core inflation (excluding oil and agricultural products) remains on a downward trend, thus contributing to price moderation.

Table 6: Price Developments

	2004 Level	2004 % change	2005 % change	2006 % change	2007 % change	2008 % change
1. GDP Deflator	1.484	3.6	4.0	3.5	3.1	2.9
2. Private Consumption Deflator	1.438	2.9	3.5	3.2	3.0	2.7
3. HICP		3.0	3.5	3.2	3.0	2.7
4. Public Consumption Deflator	1.703	5.0	3.3	3.3	3.3	3.3
5. Investment Deflator	1.373	2.1	3.5	2.8	2.4	2.2
6. Export Price Deflator (goods and Services)	1.379	3.4	3.3	2.9	2.6	2.4
7. Import Price Deflator (goods and Services)	1.318	1.1	2.1	1.4	1.0	1.0

In addition, net lending/borrowing vis-à-vis the rest of the world will significantly decelerate to 3.4% of GDP in 2008 down from 4.9% in 2005.

Table 7: Sectoral Balances

% of GDP	**ESA code**	**2004**	**2005**	**2006**	**2007**	**2008**
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.5	-4.9	-4.0	-3.9	-3.4
- balance on goods and services		-8.4	-6.9	-6.2	-5.6	-5.0
- balance of primary incomes and transfers		0.2	0.4	0.3	0.3	0.3
- capital account		1.7	1.7	1.8	1.4	1.3
2. Net lending/borrowing of the private sector	B.9/EDP B.9	0.1	-0.6	-1.4	-1.6	-1.7
3. Net lending/borrowing of general government	B.9	-6.6	-4.3	-2.6	-2.3	-1.7
4. Statistical discrepancy						

3. GENERAL GOVERNMENT BALANCE AND DEBT

3.1 Policy Strategy

The Council notice of 17 February 2005 stated that *'Greece shall put an end to the present excessive deficit situation as rapidly as possible and at the latest by 2006 through: (i) a rigorous implementation of the 2005 budget as approved by its Parliament, and (ii) implementing in 2006 adjustment measures of a permanent nature leading to a correction in the deficit of at least 0.6 percentage point of GDP'*. In addition, further efforts should be pursued to identify and control debt-increasing factors other than net borrowing and to improve the collection and processing of general government data. Finally, the Council urged Greece to continue consolidation after the excessive deficit is corrected, through a reduction in the cyclically-adjusted deficit by at least 0.5% of GDP per year.

The Government is committed to complying with the Council decision and bringing the deficit below the threshold value by the end of 2006. This update of the SGP projects a downward trend in public finance aggregates over the medium term, thereby providing the basis for the fiscal consolidation effort towards the medium term objective of balance, even though that objective cannot be reached by 2008. In parallel to fiscal consolidation, the rapid pace of structural reforms is aimed at safeguarding the growth dynamism of the economy in the medium-to-long term.

3.2 Current general government developments and the Medium Term Objective

The 2005 Budget was based on the assumption of a general government deficit for 2004 of 5.28% of GDP, while the update of the SGP for 2005 – 2007, submitted in March 2005, was based on an estimate of 6.14% deficit. The deficit for 2004 stood at 6.65% of GDP, as reported in the latest EDP notification. The deficit at the end of 2005 is estimated to be 4.3% of GDP. This substantial adjustment has been achieved through measures of a permanent nature. The 2006 Draft Budget Bill, provides for a general government deficit of 2.6% of GDP. The total adjustment over the two-year period is planned to be 4 percentage points, of which 3.5 percentage points are of a permanent nature. The sources of deficit reduction for the two-year period 2005-2006 compared to 2004 are described in the Table below.

Table 8: Sources of deficit reduction

Sources of deficit reduction	2004-2006
EXPENDITURE	**+4.3**
Ordinary Budget	+1.3
Public Investment Program	+1.3
General government	+1.7
REVENUE	**-0.2***
Ordinary Budget	+0.6*
Public Investment Program	+0.1
General government	-0.9

** including temporary measures in 2006 of 0.6% of GDP.*

Fiscal consolidation is based on restraining expenditure further, without affecting basic services offered by the State, and on increasing revenue through broadening the tax base and limiting tax evasion. General government total outlays are expected to reach 44.7% in 2006 (down from 48.2%

in 2004), a significant decrease by 3.5 percentage points. A significant part of this decline is due to cuts on lower priority items from government's consumption expenditure. Savings from the wage bill as well as from interest payments are also projected, the latter as a result of maturing debt being rolled over at lower rates, the reduction in public debt and, last but not least, a prudent public debt management strategy. As far as primary expenditure is concerned, it should be further stressed that in the 2006 Draft Budget Bill there are non-recurring expenditure items as well as items concerning remedy of injustices to several social groups done in the past. Examples of such expenditure items include the refund to pensioners of past contributions on behalf of the Solidarity Account of Social Security Funds (LAFKA) amounting to € 144 mio, and the elections for local government (€ 60 mio).

As far as revenue is concerned, emphasis has been placed on fighting tax evasion and on broadening the tax base. The development of an integrated information system and relevant data bases will further facilitate auditing and tax controls. Measures such as cross checking and targeted audits are further elaborated in the Box below.

The 2006 Draft Budget Bill (as submitted to the Parliament on November 21st) does include 0.6 percentage points of deficit reduction originating from temporary revenues. No securitisation of tax arrears to the State is included in these. The temporary measures for 2006 are described in the Table below (in € mio):

Table 9: Additional sources of deficit reduction (€ mio)

Dividends	**550**
Sale and extension of concession rights (airports, roads, casinos)	**440**
Clearance of Hellenic Telecommunications and Post Commission revenues (clearance of revenues from fines and licenses)	**110**
Total	**1100**

Revenue collection forecasts depend, to a significant extent, on growth projections. Growth is expected to remain strong in 2006. Data for 2005 show that, despite estimates for a considerable post-Olympic slowdown, so far Greece is registering a healthy growth rate of 3.8% for Q3 (vs a eurozone average of 1.5%). Moreover, various conjunctural indicators such as the volume of retail sales and credit expansion to the private sector show that this momentum can be maintained. The latter is very important, as Greece remains relatively under-leveraged when compared to the average for the eurozone, and we can expect continued robust credit expansion in 2006 without significant increase in the credit risk for the system as a whole (in large part as a result of the close and efficient monitoring of the banking system by the Bank of Greece).

For the years after 2006, the general government deficit is expected to decline further and reach 1.7% of GDP by 2008. At the same time the primary balance will increase gradually to 2.8% of GDP by 2008 up from 0.9% in 2005. Overall, general government expenditure is projected to decline to 44.3% and 43.7% of GDP in 2007 and 2008 respectively, down from 45.4% in 2005. This is only partly attributed to a decline in the interest expenditure for the outer years as this is projected to decline from 4.8% in 2007 to 4.5% in 2008. Thus, the major contribution to the curtailment of total expenditures will come from improving the efficiency of resource allocation within the general government and savings in consumption expenditures. With regards to revenues it is projected that general government total revenue will remain stable at around 42% of GDP in the years 2007 and 2008. Based on this prudent projection, a decomposition of total revenues to taxes on production and imports and current taxes on income and wealth further reveals that the former is projected to moderately increase from 13.8% in 2007 to 13.9% in 2008, whereas the latter marginally declines from 9.1% in 2007 to 9.0% in 2008. From the above it becomes apparent that the fiscal consolidation effort continues throughout the program's period as the adjustment in structural terms is 0.9% in 2007 and 0.6% in 2008.

The fiscal adjustment in 2007 amounts to 0.9 p.p. of GDP. The decomposition of the aggregate fiscal effort is as follows:

- 0.6 percentage points on the revenue side (0.5 p.p. of current revenue and 0.1 p.p. of EU transfers).

- 0.3 p.p. on the expenditure side (a decline of current outlays in the order of 0.5 p.p. net of an increase in social transfers other than in kind of 0.2 p.p.).

Some of the measures supporting this adjustment are outlined below.

- The comprehensive effort already underway to **fight tax evasion (**see Box below), is expected to yield additional revenue. Measures such as cross-checking by the General Secretariat of Information Systems and the establishment of the Service for Special Audits are already bearing fruit. This is reflected in revenue growth in the last few months, which has accelerated significantly. Should this improvement be sustained, performance of revenue collection could match the elasticities recorded in the period 1996-2000 and lead to the projected additional revenue in 2007.

- The **excise tax on fuel** will be increased bringing additional revenue. This measure is an incremental adjustment to the requirements of Directive 2003/96/EC on minimum excise tax rates on fuel.

- A new system has started to be implemented this Fall aimed at fighting **tax evasion in fuel** stemming from the subsidisation of heating fuel. This is expected to yield additional revenue starting in 2007**.** Heating fuel deliveries to individual buildings (each assigned a unique code) across the country are being recorded. This data will be compared with what suppliers declare at the end of the heating season.

- Savings are also planned from the **wage bill** and **public consumption expenditure** items.

- New legislation, just voted by Parliament, is bringing comprehensive **reform in State Owned Enterprises** (DEKO). This reform is expected to yield savings in subsidies and transfers to these enterprises. The reform includes the adoption of International Financial Reporting Standards (IFRS), introduction of modern corporate governance as well as internal auditing, easing of restrictions on labor contracts and wage bargaining, and streamlining of executive pay and perks.

- Several measures have been taken in the direction of **accelerating the absorption rate of EU inflows.** These include:

    - Upgrading the legal framework for public works, thus eliminating incompatibilities between EU and national legislation,

    - the CSF management and control system has been upgraded, resulting in its certification by the European Commission in July 2005,

- an external consultant has been hired for the support of the central management of the CSF, while the provision of practical support to final beneficiaries has been secured,
- the institutional framework of the CSF is being revised, in an attempt to simplify procedures, and finally,
- the supporting role of the Management Information System is being upgraded.

The medium term objective of the Greek economy focuses on continuing with structural adjustment, mostly on the expenditure side, so as to reach fiscal balance.

Table 10: General Government Budgetary Prospects

mil. Euro	ESA Code	2004	2004	2005	2006	2007	2008
		level	% GDP				
		Net lending (EDP B.9)					
1. General Gov.	S.13	-11105	-6.6	-4.3	-2.6	-2.3	-1.7
2. Central Gov.	S.1311	-16298	-9.7	-6.4	-4.8	-4.7	-4.3
3. Local Gov.	S.1313, 14	215	0.1	0.1	0.1	0.1	0.1
4. Social Security		4978	3.0	2.0	2.1	2.3	2.4
		General Government (S13)					
5. Total revenue	TR	69607	41.6	41.1	42.1	42.0	41.9
6. Total expenditure	TE	80507	48.2	45.4	44.7	44.3	43.7
7. Net lending/borrowing	EDP B.9	-11105	-6.6	-4.3	-2.6	-2.3	-1.7
8. Interest expenditure	EDP D.41	9535	5.7	5.2	4.8	4.7	4.5
9. Primary Balance		-1570	-0.9	0.9	2.3	2.4	2.8
		Selected components of revenue					
10. Total taxes		37913	22.7	22.1	22.4	23.0	22.9
10a. Taxes on production and imports	D.2	23194	13.9	13.2	13.3	13.8	13.9
10b. Current taxes on income, wealth etc	D.5	14719	8.8	9.0	9.1	9.1	9.0
10c. Capital taxes		322	0.2	0.2	0.2	0.2	0.2
11. Social contributions	D.61	24467	14.6	14.7	14.9	14.8	14.8
12. Property income		1930	1.2	1.2	1.5	1.3	1.3
13. Other		4975	3.0	2.9	3.1	2.7	2.7
14. Total revenue	TR	69607	41.6	41.1	42.1	42.0	41.9
Tax burden (10+11)/GDP			37.3	36.8	37.3	37.8	37.7
		Selected components on expenditure					
15. Collective consumption	P.32	16569	9.9	9.7	9.5	9.3	9.1
16. Total social transfers	D.62	39955	23.9	24.2	24.3	24.3	24.5
17a. Social transfers in kind		11220	6.7	6.6	6.4	6.2	6.0
17b. Social transfers other than in kind		28735	17.2	17.6	17.9	18.1	18.5
18. =8. Interest expenditure	EDP D.41	9535	5.7	5.2	4.8	4.7	4.5
19. Subsidies	D.3	241	0.1	0.1	0.1	0.1	0.0
20. Gross fixed capital formation	P.51	6853	4.1	3.1	3.1	3.1	3.1
21. Other		7354	4.5	3.1	2.9	2.8	2.5
22. =6. Total expenditure	TE	80507	48.2	45.4	44.7	44.3	43.7

Box 1: Structural measures to enhance revenues

Tax revenue elasticity was quite high over a period of time (1996-2000) but, on average, it has been lower and more volatile ever since. The Greek government has taken measures to permanently reverse the recent downward trend in revenue collection and return toward the elasticities that have prevailed in the past. To this end, in April 2005, a package of measures was announced including a one percentage point increase in VAT rates, along with the imposition of a minimum excise tax on tobacco products (65% of the Most Preferred Price Category) and a 20% increase in the excise tax on alcoholic beverages.

Tax evasion, however, remains a problem. To tackle this, an innovative operation has been launched. The General Secretariat of Information Systems has completed 8 different kinds of cross-checking (compared to only two during the period 2002-2003). This has increased the number of cases for possible audit to 792,787 (as opposed to only 110,924 during 2003). As a result, tax audits are now targeted and based on preliminary indications of wrong-doing, thus achieving higher ratios of observed delinquency compared to past audits (75% vs 25%). The single most potent measure should prove to be the complete cross-checking undertaken of invoices issued and received by enterprises and professionals. The total of discrepancies discovered for the FY 2004 so far amounts to € 7 bn, with € 5.3 bn resulting from only 4,145 cases with divergences exceeding € 100,000 for each one of them. It is expected that tax audits on these invoices will yield a considerable amount of tax revenue in 2006 and beyond, while discouraging the re-occurrence of such phenomena. Furthermore, the government has already proceeded with the restructuring of audit services by establishing a new Service for Special Audits, while a new system has been designed for fighting tax evasion in fuel is already been implemented.

In 2006, more measures are in the pipeline in order to support revenue collection: More specifically:

- A campaign against tax evasion, aiming at raising the wider public's awareness of the consequences of these practices. The main theme will be the explanation of how the tax burden is distributed between lawful and unlawful taxpayers.
- Cross-checking of invoices by the General Secretariat of Information Systems and targeted audits will be continued and intensified, thus deterring tax evasion.
- A major reform in property taxation, which provides, among others, for the introduction of VAT for new buildings. This is expected to rationalise the construction sector and reduce the occurrence of informal activity. Increases will also be imposed on values used by tax authorities for property transfers.
- An increase in excise taxes on fuel of 5% has been announced which is estimated to bring about € 140 million in 2006. This will be followed by further tax increases bringing the total increase to about 20% by the end of 2009 in order to comply with the directive on minimum levels of excise tax rates on fuel across the EU.

Other measures taken and expected to enhance tax revenue are the following:

- According to Law 3296/2004 enterprises' returns with gross revenue up to € 300,000 are self-assessed and cleared. This will free up auditing resources for more targeted, high expected gains activity.
- Electronic filing of invoice lists has been made mandatory.
- An Aggregated Information System for Auditing Services is being created.
- New software supportive of auditing procedures, the so called "Audit Assistant", has been adopted.
- Audit sub-directorates have been established in tax offices.

Also, mandatory filing of periodic VAT returns has been legislated (starting from 1/1/2006, returns will be filed every month or every quarter depending on the kind of enterprise or professional)..

There are now some signs of a rebound in revenue growth. Preliminary estimates indicate that November was another good month for revenues. Total revenues grew at a rate of 9.1% vis-a-vis November 2004 (correspondingly 12.8% for the months of October). In particular, VAT growth (which has been particularly weak this year) has picked up substantially: 11.6% growth in November and 9.3% in October. Total revenue growth for the 11-month period of 2005 is 5.4%, with most of that coming in the last few months. By comparison, our estimate of implementation for 2005 revenues as contained in the 2006 Draft Budget Bill is 5.0%.

3.3. Structural Balance – Fiscal Stance

Potential growth is projected at 3.8% in the 2005 - 2008 period. Thus, we estimate that in 2005, Greece will achieve a cyclically-adjusted deficit of 5.5% of GDP, down from 7.8% in 2004. In the years ahead, it gradually falls and reaches 3.0% in 2008. The improvement of the cyclically-adjusted balance is quite substantial over the period, 2.3 percentage points in 2005, 1.1 in 2006, 0.9 in 2007 and 0.6 in 2008.

Table 11: Cyclical Developments

% of GDP	ESA Code	2004	2005	2006	2007	2008
1. Real GDP growth (%)		4.7	3.6	3.8	3.8	4.0
2. Net lending of general gov.		-6.6	-4.3	-2.6	-2.3	-1.7
3. Interest expenditure		5.7	5.2	4.8	4.7	4.5
4. Potential GDP growth (%)		3.8	3.8	3.8	3.8	3.8
5. Output gap		3.1	2.9	2.9	2.9	3.0
6. Cyclical budgetary component		1.2	1.2	1.8	1.2	1.3
7. Cyclically – adjusted balance		-7.8	-5.5	-4.4	-3.5	-3.0
8. Cyclically adjusted primary balance		-2.1	-0.3	0.4	1.2	1.6

3.4. Debt levels and developments

The debt-to-GDP ratio is expected to fall to 96.8% of GDP by 2008. The progressive reduction of the debt-to-GDP ratio will arise through the combined effect of increasing primary surpluses, diminishing stock-flow adjustments, privatisation, and strong nominal GDP growth.

The debt of the general government is estimated to decline to 107.9% of GDP in 2005 and 104.8% in 2006, down from 109.3% of GDP in 2004. As for debt increasing operations, the stock flow adjustment for the central government as a ratio to GDP amounts to 2.2% in 2005, down from 2.3% in 2004, and continues its downward path in 2006. It should be noted that the stock flow adjustment in 2005 is mainly due to one-time addition of previously unrecorded hospital debts (€ 2200 mio or 1.2% of GDP) that has been apportioned to previous years' deficits and has been settled. The stock flow adjustment is expected to decline further and reach the level of 0.7% by 2008, as a result of improving fiscal accounts.

Table 12: General Government Debt Developments

% of GDP	2004	2005	2006	2007	2008
1. Gross debt	109.3	107.9	104.8	101.1	96.8
2. Change in gross debt ratio	0.5	-1.4	-3.1	-3.7	-4.3
Contributions to changes in gross debt					
3. Primary balance	-0.9	0.9	2.3	2.4	2.8
4. Interest expenditure	5.7	5.2	4.8	4.7	4.5
5. Stock flow adjustment	2.3	2.2	1.8	0.9	0.7
6. Implicit interest rate on debt	5.6	5.1	4.8	4.8	4.8

Moreover, during the last years the government has adopted an integrated and prudent strategy aiming at improving the efficiency of **public debt management**. This strategy clearly prioritises the need to minimise over the long term, both, the cost and the risk of borrowing within the environment of the euro-area common monetary policy and liberalised financial markets. Several factors influence the cost of servicing the government debt; notably the size and composition of the debt portfolio, the term structure of interest rates, inflation and the borrowing requirements of the government. Evidently, the sophistication of the applied debt management strategy, pursuing a transparent issuance policy, the decline in interest rates and the restructuring in debt duration have led to a substantial reduction in the weighted average cost of government's debt serving. Over 50% of the new borrowing of the government during the last three years is served with an average 3.3% interest rate, as a result of the substantial decline in long term interest rates of around 1%. In addition, the average weighted interest rate declined to 3.08% in 2005 down from 3.4% in 2004. In parallel, a weighted average increase in both term and financial duration of debt issuance has resulted to a further decline of the portfolio risk underlying unexpected interest rate movements. Last but not least, the re-financing and re-fixing risks have been moderated, through a debt management policy that restrains the percentage of debt that expires or is being re-fixed to 35% (55%) of the total portfolio within the next 12 months (5 years) respectively.

4. SENSITIVITY ANALYSIS AND COMPARISON WITH THE PREVIOUS UPDATE

4.1. An Alternative Scenario: sensitivity of budgetary projections

This section provides a sensitivity analysis of budgetary projections due, mainly, to uncertainties regarding the growth rate. We present a comparison between our baseline scenario and an alternative scenario, so as to accommodate the case of a more pessimistic growth projection for the Greek economy.

Uncertainties regarding a prolonged weak 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 coming years. This pattern may arise if, for example, the expansion of economic activity in the euro area loses pace and remains below potential rates. Main sources of uncertainty include the weakening of net exports in the euro area and trade balance deterioration, developments in the exchange rate, interest rates and oil prices. Should these risks persist, thereby continuing to impair economic growth performance in the euro area in particular and the EU economy in general, the Greek economy could be adversely affected. Table 13 presents the projections on the basis of the baseline scenario as well as the more pessimistic one.

Table 13: Comparison of the Alternative Growth Scenarios for the Greek Economy

(% annual changes, except as indicated)

	Baseline Scenario			Alternative Scenario		
	2006	**2007**	**2008**	**2006**	**2007**	**2008**
A. DEMAND AND OUTPUT (CONSTANT PRICES 1995)						
GDP	3.8	3.8	4.0	3.4	3.4	3.4
PRIVATE CONSUMPTION	3.2	3.2	3.3	3.0	3.1	3.1
GOVERNMENT CONSUMPTION	1.2	1.1	0.7	1.2	0.9	0.4
GROSS FIXED CAPITAL FORMATION	5.4	6.5	6.8	5.0	5.4	5.2
TOTAL DOMESTIC DEMAND	3.5	3.7	3.9	3.3	3.3	3.3
EXPORTS OF GOODS AND SERVICES	6.8	7.3	7.5	5.3	6.5	6.5
IMPORTS OF GOODS AND SERVICES	4.9	6.0	6.1	4.4	5.4	5.2
B. PRICES						
PRIVATE CONSUMPTION DEFLATOR	3.2	3.0	2.7	3.0	2.8	2.5
GDP DEFLATOR	3.5	3.1	2.9	3.3	2.9	2.7
C. PRODUCTIVITY, INCOME AND EMPLOYMENT						
LABOUR PRODUCTIVITY	2.4	2.2	2.3	2.1	2.0	1.9
REAL COMPENSATION PER EMPLOYEE	1.7	1.7	1.7	1.7	1.7	1.7
EMPLOYMENT	1.4	1.6	1.7	1.3	1.4	1.5
UNEMPLOYMENT RATE	9.8	8.9	8.0	9.8	9.2	8.5
D. PUBLIC FINANCES						
TOTAL REVENUES	10.0	6.8	6.9	9.4	6.0	6.3
TOTAL EXPENDITURE	5.7	6.0	5.6	5.5	5.3	5.0
GENERAL GOVERNMENT BALANCE (% of GDP)	-2.6	-2.3	-1.7	-2.7	-2.5	-1.9
GENERAL GOVERNMENT DEBT (% of GDP)	104.8	101.1	96.8	105.6	102.7	99.4

The simulation results of the Alternative scenario compared to the baseline scenario project a slower annual GDP growth rate of 3.4%. 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 every year. 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 0.6 to 0.7 percentage points each year. Corresponding cuts in specific expenditure items are projected in this case.

In this way, the sensitivity analysis based on the alternative scenario 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 and remaining 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 significant pace.

4.2. Comparison with the previous update

Deviations of the current program's data from those in the March 2005 update of the SGP covering the years 2004-07 are presented in Table 14.

Table 14: Deviations from the 2005 SGP

	2004	2005	2006	2007	2008
REAL GDP GROWTH					
SGP 3/2005	4.2	3.9	4.0	4.2	-
SGP 12/2005	4.7	3.6	3.8	3.8	4.0
DIFFERENCE	0.5	-0.3	-0.2	-0.4	-
GENERAL GOVERNMENT NET LENDING/BORROWING (% of GDP)					-
SGP 3/2005	-6.1	-3.5	-2.8	-2.2	
SGP 12/2005	-6.6	-4.3	-2.6	-2.3	-1.7
DIFFERENCE	-0.5	-0.8	0.2	-0.1	-
GENERAL GOVERNMENT GROSS DEBT (%of GDP)					
SGP 3/2005	110.5	108.0	103.9	99.9	-
SGP 12/2005	109.3	107.9	104.8	101.1	96.8
DIFFERENCE	-1.2	-0.1	1.1	1.2	-

Real GDP Growth: GDP growth rate forecasts for 2005 proved slightly optimistic. The main reason was the unexpected substantial increase of oil prices, as well as the partly related, weakness in GDP growth in the eurozone.

General Government Balance and Debt: The significant task of bringing Greek fiscal statistics in line with ESA 95 methodology that started in Spring 2004 continued this year in close collaboration between the Greek Statistical Agency and Eurostat. Further revisions between the March EDP notification and that of September raised the 2004 deficit by 0.5 percentage points of GDP. The carry over of these revisions is responsible for most of the discrepancy in the 2005 deficit between the current and the previous update of the SGP.

5. QUALITY OF PUBLIC FINANCES

5.1. Developments on the expenditure side

Ordinary budget primary expenditure in 2005 and in 2006 will rise by 5.9% and 6.4% respectively (as compared to a nominal GDP growth rate of 7.7%, and 7.4% respectively), while in 2004 primary expenditure grew at a rate of 15% (with nominal GDP growing at 8.4%). Two points should be noted in this respect: a) for the first time after three years, primary expenditure in 2005 is estimated to grow at a rate lower than the nominal growth rate and this will continue next year as well, and b) the growth rate in primary expenditure in 2005 was restrained to the lowest level in the last five years' period.

More specifically, salaries and pensions are expected to increase by 5.8% in 2005 compared to an increase of 12.1% in 2004. As a percentage of GDP this expenditure category is expected to be reduced from 10.5% in 2004 down to 10.3% in 2005. Regarding the wage bill, there is an overrun of € 207 mio, which was not due to higher wage increases, but mainly to additional personnel hiring in the health and educational sector.

Grants for social security and medical care grew by 20.7% in 2004, while they are estimated to increase only by 8.9% in the current year. Finally, operating expenditure is expected to increase only marginally in 2005 (by 0.8%), while in 2004 it grew by 27% (it was equal to 4.7% of GDP in 2004 and is estimated at 4.4% of GDP in 2005). In this case, an overrun was recorded (€ 325 mio or 0.2% of GDP), but one which is expected to be one-off as a result of an institutional change in the way social protection and health care grants are paid: as of this year, they are recorded in the ordinary budget expenditure instead of being paid out from central independent resources of prefectures.

The reduction of Public Investment Program expenditure by 19.1% compared to 2004 was not an automatic procedure after the successful completion of the Olympic Games. Definitely it involved in part non-recurring expenditure related to infrastructure projects for the organisation of the Games. However, there was pressure for this non-recurring expenditure to be redirected to other uses. So, actually, the curtailment of Olympic outlays was not an easy task.

The curtailment of public expenditure continues on a downward path in 2007 and 2008. As a result, the reduction in the general government deficit in 2007 amounts to 0.3 percentage points, while the reduction of the structural deficit is 0.9 percentage points. Thus, the adjustment in 2007 is of similar magnitude to that in 2006. On the side of expenditures the savings will come from the wage bill of the general government as well as all other public consumption items, i.e. goods and services of government consumption, subsidies and other current expenditure. In parallel, there will be an increase in social transfers other than in kind by 9% and an increase in general government investment by 7%.

Social transfers other than in kind will increase (as a percentage of GDP) in 2007 and 2008 partly as a result of a readjustment of pensions paid to low pension earners in fulfillment of a pledge by the government. Primary current expenditure of general government excluding social transfers other than in kind will fall from 17.3% of GDP to 16.6% in 2007, a cut of 0.7 percentage points. As a result, total expenditure at the level of general government will reach 44.3% of GDP in 2007 compared to 44.7% in 2006, declining further to 43.7% in 2008.

The debt-to-GDP ratio is forecast to fall to 101.1% of GDP in 2007 from 104.8% in 2006. This reduction is the result mainly of an increase of the primary surplus (2.4% of GDP) and a stock-flow adjustment of 0.8% of GDP.

5.2. Developments on the revenue side

Indirect taxes (as a ratio to GDP) have been on a declining trend since 2000, when they accounted for 15.3% of GDP. In 2001 and 2002 this ratio was 14.8%, fell to 14% in 2003 and 13.8% in 2004 and is expected to reach 13% in 2005.

For the first nine months of 2005 ordinary budget revenue increased only by 4.1% compared to the same period of the previous year. This has been a weak point in our effort for fiscal consolidation. It is mainly explained by extensive tax evasion. The fact that VAT revenue is expected to increase only by 1% in 2005, while VAT rates have increased since April 2005, is a sound proof of tax evasion.

From recent revenue data, however, we know that there has been a significant improvement in the rate of increase of tax revenue. More specifically, in October 2005 tax revenue rose by 12.8% in comparison to the same month in 2004 and as a result the average growth rate in the first 10 months has increased to 5%. Further preliminary data for the month of November, detailed in the BOX on revenues, indicate that revenue growth for the 11-month period is at 5.4%. This is higher than the target of 5% for 2005. Recent trends in tax revenues provide support for our revenue target (7.9%) for 2006.

It should also be emphasised that cash data from the Bank of Greece show a steady improvement since June: during the first semester the central government borrowing requirement was at 6.5% of GDP but has been falling since then to reach 5.6% in October.

Overall, tax receipts have been projected based on the nominal GDP growth rate and the long-term income elasticities of taxes. Also, note that excise taxes on fuel are planned to increase in 2006 by

5%. This will be followed by further excise tax increases, bringing the total increase to more than 20% by the end of 2009 in order to comply with the directive on minimum levels of excise taxes on fuel across the EU. Revenue projections factor in the legislated gradual reduction of the corporate tax rate to 25% by 2007, as well as the announced beginning of a gradual reduction in personal tax rates starting in 2007. Finally, a broadening of the tax base is envisaged as a result of measures deployed in order to fight tax evasion.

5.3. The Issue of Statistics

Since the beginning of the term of this government the National Statistical Service of Greece (NSSG) has been in close cooperation with Eurostat aiming to settle long-standing open issues. The restructuring of the National Statistical Service of Greece (NSSG) continues, whilst data compiling and reporting processes have greatly improved. This is reflected in the EDP notifications of March and September 2005. Though there are still some pending issues regarding the data for the years 2002-2004 these are close to being resolved.

Moreover, in compliance with ESA 95 the National Statistical Service of Greece (NSSG) produced in 2005 further disaggregation of expenditure figures from general government entities. This new information is establishing transparency in the recording of general government expenditures. In addition, the NSSG will proceed from January 1st 2006 with the application of the new legislation of Article 31 of L. 3329/4.4.2005, referring to the Code of Books for the hospitals of the National System of Social Insurance, thereby establishing for the first time accounting records for hospitals based on ESA 95.

6. LONG-TERM SUSTAINABILITY OF PUBLIC FINANCES

The government aim is to ensure the long-term sustainability of the social security system and of public finances by implementing a two-pronged strategy: (i) policies aimed at increasing the labour market participation rate and the employment rate, and (ii) raising public awareness and ensuring consensus for a much needed reform through a social dialogue process that has already been launched. The vehicle of this initial stage of the dialogue is the Economic and Social Commission that encompasses all stakeholders. This process will be based on the results of actuarial studies outlining the parameters of the problem, and will be concluded by a mandate for the next government to implement the next steps. The public consultation process is very important, in order to avoid past experience, in Greece as well as in other EU countries, where lack of consensus resulted in reforms being mitigated or even reversed.

In the meantime, the government is also proceeding with implementing remaining provisions of the 2002 law on pensions. Within the current legal framework, a solution was provided for the auxiliary pension system of the banking sector, thereby reducing the system's fragmentation, safeguarding future pension payments and mature pension rights, while ensuring competition in the sector. This intervention, addressed the challenge of the introduction of International Financial Reporting Standards (I.F.R.S.), but also solidified the long-term financial viability of the banking sector pension system.

The rationalisation of healthcare expenditure is also an important priority. The introduction of the information system "IASYS" to the healthcare system will contribute towards a more efficient use of resources. In the first phase of its implementation, "IASYS" will be applied to 18 hospitals by 2008 and is expected to reduce their operating costs (excluding labour costs) by up to 50%.

Public Private Partnerships (PPP) will soon be applied to the area of healthcare. PPPs will be used only for auxiliary services like security, food provision, sanitation, and maintenance. Although such services are already being provided by private companies, under the current legal framework they cannot be adequately monitored and have proven inefficient. It is estimated that the cost of such provisions will be reduced by up to 60%. At the same time, the State Company for Hospital Construction is being restructured and will be replaced by a new entity able to expand into the Southeastern European market and bring about a reduction in the cost of complementary construction contracts of up to 20%.

A new bill on public procurement is currently being prepared, aiming at decreasing the dispersion of orders and at rationalising the system. The basic principle of the draft bill is the central management of procurement which, combined with the operation of the integrated information system, will allow for central international biddings. The aim is to reduce the cost of procurement by 15%.