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Assessment of the 2012 national reform programme and stability programme for GREECE

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Greece's 2012 national reform programme

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CONTENTS

EXECUTIVE SUMMARY

The Greek economy continues to contract and short-term growth rates have been further revised downwards. It is estimated that the economy contracted by 6.9% in 2011. The recovery previously announced for next year will be further delayed with, at best, a stagnation of activity in 2013. It is only in 2014 that positive annual growth rates are expected to return.

Following a request from Greece in April 2010 and negotiations with the European Commission, the ECB and the IMF the European Council on 2 May 2010 agreed an economic adjustment programme for Greece covering the period 2010–13. A second economic adjustment programme was agreed by the European Council on 13 March 2012 covering the period 2012–14. The overarching objective of that second programme is to durably restore Greece's credibility for private investors by ensuring fiscal sustainability, safeguarding the stability of the financial system, and boosting growth and competitiveness.

Greece made mixed progress towards achieving the ambitious objectives of the first adjustment programme and important fiscal targets were not met. Several factors hampered implementation: political instability, social unrest, issues related to administrative capacity and a recession that was much more severe than previously projected. Additional consolidation measures were therefore adopted throughout 2010 and 2011. However, Greece substantially reduced the general government deficit between 2009 and 2011. The adjustment is much bigger than most other cases of fiscal consolidation in EU countries in the past. Large-scale financial assistance from the international community compensates for the fact that Greece is not expected to be able to return to market financing over the next three years. Greece will need to use that time to underpin its fiscal consolidation measures by implementing structural fiscal reforms to generate expenditure savings on a durable basis and structural reforms to boost growth will need to be accelerated to improve competitiveness.

1. INTRODUCTION

Following a request from Greece in April 2010, the Troika consisting of the European Commission, the ECB and the IMF negotiated an economic adjustment programme with the Greek authorities, which was agreed by the European Council on 2 May 2010 and by the IMF board on 9 May 2010. The programme covers the period 2010–13. In December 2011 and January/February 2012, the Troika negotiated the second economic adjustment programme with the Greek authorities, which was agreed by the European Council on 13 March 2012 and by the IMF board on 15 March 2012. The second programme covers the period 2012–14. The combined financial package of both programmes amounts to EUR 240 billion, consisting of EUR 110 billion from the first programme and EUR 130 billion from the second one. The international assistance loans disbursed so far to Greece amount to EUR 73 billion. Of this amount, the euro area Member States have paid EUR 52.9 billion and the IMF has paid EUR 19.9 billion. In the second programme, the European Financial Stability Fund (EFSF) and the IMF commit the undisbursed amounts of the first programme plus an additional EUR 130 billion for the years 2012–14. During this period, the EFSF commits an overall amount of EUR 144.7 billion (including the amounts already committed or disbursed for Private Sector Involvement (PSI) and bank recapitalisation), while the IMF will contribute EUR 28 billion over 4 years.

The overarching objective of the programme is to durably restore Greece's credibility for private investors by ensuring fiscal sustainability, safeguarding the stability of the financial system, and boosting growth and competitiveness. To this end, the programme consists of a comprehensive set of ambitious policies that reinforce each other:

(1) The fiscal part of the adjustment programme aims to maximise credibility and enforceability by applying prudent macroeconomic assumptions, strong frontloading, implementing difficult measures upfront and making legislation with regard to such measures, by fully specifying measures over the programme period and by selecting structural measures. Fiscal targets for 2012 and subsequent years have been revised to take into account the unfavourable macroeconomic developments, while ensuring that, during the programme period, sufficient progress is made towards the objective of a debt-to-GDP ratio of 120 % by 2020. The programme is focused on the objective of reaching a primary deficit of 1 % of GDP in 2012 and a primary surplus of 4.5 % of GDP in 2014.

(2) The financial sector policies of the programme aim to restore confidence and ensure the long-term viability of the banking sector. To this end, the programme includes bank liquidity support in the short term, measures to recapitalise banks without infringing competition rules, the establishment of the Hellenic Financial Stability Fund (HFSF) and a restructuring plan for the banking sector. An important aspect of this part of the programme is improving monitoring of liquidity and asset quality (including non-performing loans), with a view to preventing problems in individual banks.

(3) The medium-term programme objective is to improve competitiveness and change the economy's structure in favour of a more investment- and export-led growth model. In this respect, in parallel with fiscal measures, the programme provides for the preparation and implementation of an ambitious agenda of structural reforms to strengthen external competitiveness, accelerate the reallocation of resources from the non-tradable to the tradable sector, and foster growth. The reforms focus in particular on modernising the public sector, making product and labour markets more efficient and flexible, and creating a more open and accessible business environment for

domestic and foreign investors, including by reducing the direct participation of the state in domestic industries.

As for all Member States benefiting from a financial assistance programme, progress in implementing the accompanying policy programme is monitored in a dedicated, regular and specific manner, in line with the provisions of the Memorandum of Understanding. Given the reporting requirements under financial assistance programmes, as well as the much more complicated monitoring and enforcement procedures, programme countries have been exempted from the obligation to submit national reform programmes and stability or convergence programmes in 2012. Nonetheless, Greece submitted a national reform programme and fiscal tables in April 2012. The Staff Working Document under the 2012 European Semester provides a synthesis of recent progress in implementation. More details can be found in the reports on the state of implementation that the European Commission publishes after each programme review mission[1].

2. ECONOMIC SITUATION AND OUTLOOK

The economy continues to contract and short-term growth rates have been further revised downwards. It is estimated that the economy contracted by 6.9 % in 2011. Negative reactions from businesses and households, delays and problems with the implementation of growth-enhancing reforms, difficulties in accessing credit, higher unemployment levels and heightened political uncertainty in the autumn — when Greece's participation in monetary union was openly discussed — contributed to low private consumption and an additional contraction in investment. Moreover, the deceleration of demand in European economies slowed down Greek exports, which had shown dynamic growth in previous quarters. Although the second financing programme and the completion of sovereign debt exchange will help to reduce the uncertainties of the last few months, the recession will remain severe throughout 2012. Contraction in domestic output is currently estimated at 4¾ %, with downside risks. The recovery previously announced for next year will be further delayed with, at best, a stagnation of activity in 2013. It is only in 2014 that positive annual growth rates are expected to return.

3. PROGRAMME IMPLEMENTATION

Greece made mixed progress towards achieving the ambitious objectives of the first adjustment programme and important fiscal targets were not met. Several factors hampered implementation: political instability, social unrest, issues related to administrative capacity and a recession that was much more severe than previously projected. Additional consolidation measures were therefore adopted throughout 2010 and 2011. However, Greece substantially reduced the general government deficit from 15¾ % of GDP in 2009 to 9¼ % in 2011. This fiscal adjustment was necessary given the extremely high deficit in 2009. The adjustment is much bigger than most other cases of fiscal consolidation in EU countries in the past. This fiscal consolidation had to be achieved over a period in which the economy contracted by more than 11 %, which was unavoidable given the substantial positive output gap that had built up due to the unsustainable policies implemented until 2009.

The programme strategy has been adjusted. Through large-scale assistance to Greece, the international community provides Greece with financing at low interest rates, thereby compensating for the fact that Greece is not expected to be able to return to market financing over the next three years. Greece will need to use that time to underpin its fiscal consolidation

[1] These reports, along with other information related to the financial assistance programme to Greece, can be found on http://ec.europa.eu/economy_finance/eu_borrower/greek_loan_facility/index_en.htm.

measures by implementing structural fiscal reforms to generate expenditure savings on a durable basis. In a similar vein, structural reforms to boost growth will need to be accelerated to improve competitiveness, and financial stability will need to be preserved. These objectives are the same as those under the first programme. Nonetheless, in the second programme, the implementation of the growth-enhancing structural reform agenda gains prominence in the overall implementation of the programme, while debt restructuring and higher official financing allows for a slower fiscal adjustment and a more gradual privatisation process.

Greece's medium-term economic performance will very much depend on the implementation of structural reforms. These reforms, particularly those in the labour market, the liberalisation of several sectors and a number of measures to improve the business environment, should help promote competition, spur productivity, increase employment and reduce production costs. Without these reforms, improvements in competitiveness may take a long time to materialise, or may be achieved only by reducing imports and by means of an unemployment-driven reduction in labour costs. The medium-term projections on which the second financing programme is based assume that the ambitious labour market reforms will be followed by equally important structural reforms in goods and services markets. If this does not happen, the reduction in wage and non-wage costs will translate into higher profit margins and the medium-term growth projections of between 2½ and 3% from 2015–20 may prove too optimistic.

In the short term, there is some tension between internal devaluation and fiscal consolidation. Greece has had unsustainable imbalances in both its external and fiscal accounts and progress on both accounts has so far been insufficient. In the coming years, progress must be made on both fronts. Greece has to restore competitiveness through ambitious internal devaluation, i.e. a reduction in prices and production costs relative to its competitors, as well as a shift from a consumption-led economy to an export-led economy. As it takes time to bring about a big increase in productivity, an upfront reduction in nominal wage and non-wage costs is necessary. This is unavoidable, but it complicates fiscal adjustment due to the impact internal devaluation has on nominal GDP and, concomitantly, on tax bases. Moreover, when recovery begins, the composition of growth is expected to be less tax-rich than in previous upswings.

Fiscal targets for 2012 and subsequent years have been revised. Targets have been adjusted to take into account the unfavourable macroeconomic developments, while ensuring that, during the programme period, sufficient progress is made towards the objective of a debt-to-GDP ratio of 120% by 2020. Taking into account the savings that result from debt restructuring, this fiscal path is calibrated to be consistent with the correction of the excessive deficit in 2014, as envisaged at the beginning of the first programme. The 2014 primary surplus will have to be kept at such a high level for several years. The experience of other EU countries shows, however, that such a high primary surplus is not disproportionate and is socially bearable. In any case, these targets are lower than the targets set under the first programme.

In early 2012, the government adopted a new package of fiscal measures. These measures, which account for 1.5% of GDP, all relate to the expenditure side of the budget. It is the first time since May 2010 that a recalibration of the fiscal strategy has not been accompanied by an increase in taxes, although from the outset the programme had envisaged a consolidation path heavily based on expenditure. If fully implemented, the new package should enable Greece to meet the 2012 primary deficit target.

However, current projections point to wide fiscal gaps in 2013–14. They point to a cumulated fiscal gap in 2013–14 of 5½% of GDP. Greece will therefore have to make substantial additional expenditure cuts in the coming months, in particular when it updates its medium-term budget (medium-term fiscal strategy or MTFS) in May 2012. In order to prepare these measures, the government has launched a review of public spending programmes. The additional measures need to be expenditure-based to limit their negative impact on potential growth. The review is expected to focus on and contribute to savings in social transfers, while preserving basic social protection, defence and the restructuring of central and local administration. The reduction in public employment through redundancies and the recruitment rule of one entry for five exits will also contribute to reducing government expenditure.

The government has adopted an ambitious set of labour market measures that complement the reforms passed in 2010 and 2011. As the social dialogue between and with representatives of private sector employers and employees did not deliver a satisfactory outcome, the government made legislation to reduce minimum wages in the private sector and modify a number of wage-setting procedures, including rules on the expiry of collective agreements and the arbitration of wage disputes. This is part of a strategy to reduce labour costs in the business economy by 15 % in three years, thereby accelerating the cuts in labour costs already made in the course of 2011. Besides being achieved through cuts in nominal wages, this objective is also expected to be achieved by reducing non-wage labour costs, through the elimination of non-core social benefits and the corresponding reduction in employers' social contributions. Moreover, the government has committed to taking additional corrective measures to facilitate collective bargaining and ensure wage flexibility and higher employment.

Greece is taking part in the Youth Action programme. However, the operational assessment shows that EUR 1.26 billion of total resources have still not been allocated to all European Social Fund (ESF) programmes. These are resources that have not been committed to approved projects. There are also EUR 2.5 billion under the European Regional Development Fund (ERDF) from sleeping projects, where a budget has been committed but implementation measures are lacking. Expansion and/or reinforcement of certain existing initiatives co-funded by ESF operational programmes (OPs) was recommended, based on an evaluation of results. Taking into account the slow pace of implementation of certain ESF OPs (in particular the National Contingency Reserve and to a lesser extent the Administrative Reform OP), specific re-programming was also considered to allow the allocation of resources to OPs which have better absorption potential in support of youth-related measures. In the case of the ERDF, up to the end of 2015, the total available credits injected/to be injected into SMEs amount to about EUR 4 352 billion (including expected leverage). Greece is faced with a double challenge to maintain and further reinforce the recently accelerated pace of absorption as well as to improve the effective implementation of ESF. This requires as a matter of priority a stronger coordination and enhanced political steer in the management of the Fund operations, a commitment to safeguarding the continuity and stability of experienced/competent staff in Managing authorities and beneficiaries and the fostering of the synergies between all three Structural Funds. With a view to tackling the extremely high youth unemployment, the Commission is currently working closely with the Greek authorities on the finalisation of an action plan which envisages on one hand the expansion and reinforcement of existing ESF co-funded initiatives targeting young people as well as a focused re-allocation of ESF resources (amounting to EUR 200-250 mln) to support measures which can deliver immediate results for young people who are unable to find work.

Greece has made insufficient progress with regard to the reform of public procurement, both in terms of the general overhaul of legislation and institutional coordination. The Single Public Procurement Authority has been established but is still not operational and the powers it was originally given have been significantly weakened in the process of adoption of the law. No progress has been made with regard to e-procurement.

Greece has undertaken a number of important commitments to reform its judicial system. These include, *inter alia*, clearing the backlog of court cases, improving the processing of judicial cases, designing a performance and accountability framework for courts and reviewing the Greek Code of Civil Procedure to bring it into line with international best practice. Steps have been taken to reduce the backlog of tax cases in accordance with a work plan extending until July 2013. Two newly established task forces will oversee the compilation and publication of statistical information on court cases and the review of the Code of Civil Procedure. The judicial reform measures set out in the second programme can make an important contribution to economic recovery by stimulating private consumption, foreign investment and domestic entrepreneurship.

In Greece insufficient progress has been achieved in tax policy and tax administration reforms. The tax policy reform, whose adoption by Parliament was initially planned for September 2011 has been postponed The reform ought to make the tax system simpler, lowering compliance costs, and improving its growth-friendliness. The reform should concern personal income, corporate, VAT and property taxes, as well as the employers' social contributions. Strengthening revenue administration and fighting tax evasion are amongst the top priorities of the programme. This is not only because of the need to increase revenue and reduce the government deficit without further increases in tax rates. It is also important for the social acceptability of the adjustment programme, as the reduction in tax evasion will lead to a fairer sharing of the adjustment burden. The government has adopted legislation and administrative reforms that aim at enhancing the efficiency of tax administration and controls, putting in place effective project management, and devising an anti-evasion strategy to restore tax discipline and improve compliance. The focus has now shifted towards implementation and the increase in the number of tax audits. Despite some progress, the implementation of those reforms has been slow.

Progress in privatisation has been slower than planned, on account of adverse market conditions and technical and legal hurdles in preparing assets for sale. In the months preceding the PSI deal, the markets had a particularly low appetite for Greek assets. Assuming that the launch of the second financing programme will help overcome this negative market sentiment, the privatisation fund should be able to deliver a continuous stream of assets for privatisation for several years. While the objective of privatising assets worth EUR 50 billion is maintained, this target will only be achieved well beyond 2015, while the recapitalisation of banks will add to the pool of assets that can be privatised. Besides helping to cover financial needs, privatisation remains crucial for relaunching growth, modernising the economy and attracting foreign direct investment.

Greece has begun to implement a comprehensive strategy to recapitalise banks and to restructure the banking sector, involving a number of supervisory and regulatory measures. Greek banks are severely affected by sovereign debt restructuring, against the background of a continuing recession, leading to substantial capital shortfalls for all banks. Viable banks will be identified and adequately recapitalised, on the basis of recommendations from the supervisors and taking into account the effects of PSI. The new programme includes sufficient resources to recapitalise banks, should private shareholders prove unable or unwilling to provide the necessary capital.

The governance structure of the recapitalisation and resolution processes will be significantly improved. This is necessary on account of the substantial amount of official financing that will be channelled through Greek institutions, in particular the Hellenic Financial Stability Fund. The recapitalisation strategy aims to maximise private sector participation while preserving the state's interests. The holders of banks' shares acquired by the state in the recapitalisation process will have limited voting rights, but this may still mean that upside returns can be shared between the state and private shareholders. Whenever possible, the private management of banks will be safeguarded.

The scaled-up official financing and the exchange of debt held by the private sector will improve debt sustainability prospects. In a moderately optimistic but realistic scenario, if Greece meets the programme targets, the debt-to-GDP ratio will fall to about 117 % in 2020. However, it will remain high for many years and therefore be susceptible to adverse domestic and global developments. In particular, relatively small setbacks in terms of growth, due to slow implementation of structural reforms or unfavourable external circumstances, may adversely impact debt dynamics. Moreover, the high level and share of official debt, as well as the de facto senior status of the bonds resulting from the co-financing structure agreed in the context of the debt restructuring measures, complicate Greece's return to the markets at the end of the second programme. Should market access not be restored when the second programme ends, additional official sector financing could be necessary.

The economic crisis and subsequent fiscal consolidation measures have had an impact on the ability of Greece to achieve the Europe 2020 goals, especially the employment and poverty targets. Nevertheless, it is expected that the structural reforms, particularly those in the labour market, the liberalisation of several sectors and a number of measures to improve the business environment, should help promote competition, spur productivity, increase employment and reduce production costs, thus contributing to an increase in employment and limiting poverty and social exclusion in the medium term. On the other hand, it has to be noted that despite the economic crisis, Greece has continued to work towards achieving the environmental goals of Europe 2020.

	Current situation[2]	**Development over the last year[3]**	**Europe 2020 targets**
R&D investment (percentage of GDP)	0.6 % (2007)	In order to reach this target, gross domestic expenditure on R&D will have to increase from EUR 1.3 billion in 2007 to EUR 4.9 billion (current prices) by 2020. Due to the adverse economic environment and the fact that the recession is worse than expected, R&D is unavoidably affected. Private sector investments in R&D are decreasing and the reduction in public expenditure will have an impact on the ability of public authorities to provide financing for R&D. Consequently, the aim of investing 2 % of GDP in R&D by 2020 seems too ambitious at the moment and probably needs to be revised in order to be more consistent with current trends and the economic outlook.	2 %
Employment rate (%)	59.9 % (2011)	- 4.1 Even before the crisis, this target was challenging and is out of reach under the current context marked by negative job growth	70 %

[2] Eurostat figures for 2010, unless otherwise indicated.
[3] Based on the 2012–15 national reform programme for Greece.

	Current situation[2]	Development over the last year[3]	Europe 2020 targets
Early school leaving (%)	13.7% While a pilot scheme of Education Priority Zones started in 2010-2011, an explicit strategy to tackle ESL with clear targets, time-frames for implementation and tools to monitor progress at national level does not yet seem to be in place.	Indications suggest that ESL is increasing as a growing number of school-age children are obliged to work. Children from single-parent households and other low-income and disadvantaged groups are now more vulnerable to ESL than before. Further cuts to what in early 2011 was one of the lowest education budgets in the EU make convergence towards the 2020 target more difficult. Despite constitutional protection, the number of underage children (12-15) who work during the day and attend evening school is growing. They are very vulnerable to ESL.	The national target is 9.7%
Tertiary education attainment (%)	28.4% The share of young adults with tertiary education attainment has grown only moderately since 2000 and was below the EU average in 2010. In 2011 Greece had the highest number (%) of women with a Maths, Science and Technology degree in the EU.	More tertiary students in Greece are now obliged to work. As a result: a. they will need longer time to complete their studies; and b. more of them are likely to drop-out as universities do not yet provide sufficient flexibility. The number of tertiary education places for the next 3 years is set to remain at September 2011 levels (10.250 less compared to 2010); this is a net reduction rather than increase. Meeting the 2020 target may therefore constitute a major challenge.	The national target is 32%
Reduction in the number of people at risk of poverty or exclusion	619 000	On the basis of available statistical data, no major changes are observed for the period 2008–10. Nevertheless, the factors that increase poverty and social exclusion have certainly been exacerbated in Greece. This is reflected in the continuous sharp decrease in GDP and the unemployment rate. All the fiscal consolidation measures are likely to have an adverse impact on poverty indexes and aggravate the risk of poverty among the population, even if current data do not yet reflect this. However, Greece has put a number of countermeasures in motion to limit the social consequences of the crisis for the most vulnerable. These are, *inter alia*: - promotion of the social economy with the implementation of new legislation enabling the establishment of the registry for social enterprises; - employment programmes for socially vulnerable groups implemented by the Greek Manpower Organisation (OAED); - social work programmes.	Reduce by 450 000 the number of people at risk of poverty or social exclusion.
Energy efficiency — reduction in energy consumption in million tonnes of oil equivalent (Mtoe)	n.a. The energy efficiency objectives are set according to national circumstances and national formulations. As the methodology to express the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet	In the last two years, Greece has focused on improving its energy efficiency. The main instruments for the reduction of energy use and improvements in energy efficiency are Law 3855/2010, and resources from the EU Structural Funds available to Greece for the period 2007–13 through the revamping of the energy and environment sections of the National Strategic Reference Framework for use of the funds. Law 3855/2010 calls for the establishment of an energy audit system	2.7 Mtoe

	Current situation[2]	Development over the last year[3]	Europe 2020 targets
	able to present this overview.	in the residential and tertiary sectors and for rules to be laid down with regard to the founding and operation of energy service providers (energy service companies — ESCOs). Both measures are already in place through the establishment of the accreditation of energy auditors, the mandatory use of energy certification cards for the sale or rental of buildings and the publication of rules and regulations regarding ESCOs, including rules on their registration. In addition, in the last two years a number of support schemes to upgrade the existing building stock have come into operation. These include the following programmes: - 'Energy Efficiency at Household Buildings'; - 'Exoikonomo', an energy efficiency programme; - 'Building the Future — Large Scale Interventions'; - 'Green Pilot Urban Neighbourhood'; - 'Bioclimatic Renewal of Urban Spaces'; - 'Green agricultural and island communities — New development model'; - Pilot bioclimatic school buildings and Pilot Renewable Energy Sources (RES) and Energy Efficiency (EE) projects to improve the energy efficiency of existing public school buildings.	
The reduction of greenhouse gas (GHG) emissions in sectors that are not covered by the Emission Trading System (compared to 2005 levels)	- 9.2 % (2009)[4]	National GHG emissions are on track to meet the national target in line with the Kyoto Protocol (125 % of base emissions, namely 134 megatonnes (Mtonnes) of CO_2eq or 668 Mtonnes of CO_2eq for the five years 2008–12). The latest emission inventory, submitted in April 2011 for the year 2010, records 116.1 Mtonnes of CO_2eq (excluding Land Use, Land-Use Change and Forestry — LULUCF). It also shows a continuously declining trend from a high of 134.7 Mtonnes of CO_2eq in 2005. This trend is expected to continue in 2011. All current estimates, based on modelling work in the context of the National Renewable Energy Action Plan (NREAP) submission, show that Greece will reach the target of a 4 % reduction in the 2005 GHG emissions of non-ETS sectors by 2020, as set out in the Effort Sharing Decision (Decision 406/2009/EC).	- 4 %[5]

[4] This quantity corresponds to the changes from 2005–09 in emissions not covered by the Emissions Trading System. As the scope of the Emissions Trading System changed between 2005 and 2009, these emissions are estimated on the basis of the main relevant source categories of the United Nations Framework Convention on Climate Change (as opposed to the difference between total emissions and ETS verified emissions).

[5] The national emissions limitation target defined in Decision 2009/406/EC (or the Effort Sharing Decision) concerns emissions not covered by the Emissions Trading System. It is expressed as the minimum relative decrease (if negative) or the maximum relative increase (if positive) compared to 2005 levels.

	Current situation[2]	Development over the last year[3]	Europe 2020 targets
Renewable energy (percentage of total energy use)	As at 2009 (latest available data), the share of RES in Greece was 8.2% and Greece should take further effort to reach its 2011/2012 interim target. Greece's achievement of its 2020 target should generate 83 000 renewable energy jobs, compared to 59 000 if the EU were to abandon its support for renewables.	1.3	Under Directive 2009/28/EC on the promotion of use of energy from renewable sources, Greece has committed to reach its 18% target of renewable energy sources in final energy consumption and a 10% share of renewable energy in the transport sector by 2020. Indeed, in Greece's National Renewable Energy Action Plan the commitment is made to achieve a 20% target, rather than 18%. Greece should implement this plan and complete the transposition of the Directive. In particular, it should speed up the removal of non-cost barriers, especially in the planning regime, and ensure that it applies the most cost effective means of developing RES, to maximise the sector's contribution to job creation and economic growth. Further, Greece should submit its RES progress report which was due December 2011 following the requirements of the RES Directive.

Despite the major economic downturn, Greece has committed itself to fulfilling the obligations stemming from the Euro Plus Pact. They are broadly in line with the assumptions of the economic adjustment programme for Greece. Greek national commitments, along with the progress made on these commitments, are summarised in the table below.

Euro Plus Pact (national commitments and progress)	
1. Foster competitiveness • reform of wage-setting agreements/mechanisms • reform of wage settlements in the public sector • measures to increase productivity: *- opening up sheltered sectors* *- improving the education system and promoting R&D, innovation and infrastructure* *- improving the business environment* *- other reforms (e.g. the judicial system)*	So far, commitments regarding competitiveness have been partially implemented. The most important wage-setting measure was the reduction of minimum wages in the private sector. The government is implementing measures to ensure that wage settlements in the public sector, including the direct reduction of public sector wages and allowances and additional measures to reduce the public wage bill, are in line with the medium-term fiscal strategy for 2012–2015. Greece is also implementing a comprehensive reform to open up restricted professions and remove restrictions that hinder competition and dampen productivity. With regard to the education system, the government will implement an overall reform programme aimed at improving its effectiveness and efficiency, taking into account the measures recommended by an independent task force. With respect to the promotion of R&D and innovation, the government is carrying out an up-to-date and in-depth evaluation of all R&D and ongoing innovation actions. Moreover, it has adopted measures to simplify procedures for business start-ups through the operation of the e-Commerce General Registry (GEMI) as a 'one-stop-shop'. This will significantly contribute to reducing the administrative burden and red tape.

Euro Plus Pact (national commitments and progress)	
2. Foster employment • promotion of flexicurity • increase participation in the labour market • reduction of the amount of undeclared work • lifelong learning • participation of second earners	Commitments with regard to fostering employment have been partially implemented. *Inter alia*, the government is implementing a wide range of reforms, such as legislation on fixed-term contracts (including specific fixed-term contracts for young people at subminimal wages), on the management of working time and rules related to working arrangements in general (including changes in the regulatory framework for flexible forms of employment, such as rotating employment, part-time work, teleworking and work through temporary employment agencies). The extension of the probation period for new jobs to one year will also help promote flexicurity. In order to tackle the issue of undeclared work, the Greek government has adopted legislation to strengthen the role of the Labour Inspectorate. To promote lifelong learning, the government will launch an integrated programme for the upgrading of the National Centre of Vocational Orientation.
3. Improve the sustainability of public finances • pensions reform • healthcare sector reform • national fiscal rules • reform of public administration • privatisation programme	Commitments regarding the sustainability of public finances have been partially implemented. The government will continue fully implementing the ambitious pension reform adopted in July 2010. It will also continue reforming the healthcare sector to further improve the sustainability of public finances. Most institutional reforms are enacted by virtue of Law 3918/2011, which was adopted in March 2011. EU fiscal rules set out in the Stability and Growth Pact will be transposed into national legislation in the form of a framework law. In order to reinforce their binding and durable nature, fiscal rules will outlast the parliamentary cycle. Law 3871/2010, adopted in July 2010, already provides for the adoption of fiscal rules. With respect to the reform of public administration, the government has launched independent reviews of central administration and of existing social programmes. Based on the assessment of these reviews, legislation will be adopted to implement the operational recommendations aimed at increasing the efficiency of public administration and improving the effectiveness of social programmes. Finally, the government has adopted a privatisation programme with the aim of collecting EUR 50 billion by the end of 2015. Proceeds from privatisation will be used to redeem outstanding debt and will significantly improve fiscal sustainability.
4. Reinforce financial stability • national legislation for banking resolution or other measures	Commitments regarding the sustainability of public finances have been partially implemented. Following ongoing initiatives at EU level, the government will improve the legislation on financial institutions to allow timely and effective intervention and resolution consistent with international best practice. The establishment of the Financial Stability Fund, endowed with EUR 10 billion, is intended to preserve the financial sector's soundness and its capacity to support the Greek economy, by providing equity support to banks as needed. Moreover, to preserve sufficient system liquidity, the government has adopted a new set of guarantees for uncovered bank bonds. It continues to support the efforts of banks to restructure in an orderly manner and is taking steps towards removing barriers to state bank restructuring. In addition, Greek banks will submit to the ECB and the Bank of Greece institution-specific medium-term funding plans aimed at reducing their reliance on Eurosystem refinancing operations and state guarantees over the medium term. Steps are also being taken to strengthen the supervision of the banking and insurance sector. To this end, the Bank of Greece will undertake a diagnostic assessment of insurance firms and review the adequacy of existing protection schemes. Moreover, a major bank recapitalisation plan is being carried out on the basis of the assumptions of the second economic adjustment programme for Greece.

4. CONCLUSION

Implementation risks will remain very high. The success of the second programme depends chiefly on Greece. It hinges on the full and timely implementation of fiscal consolidation and growth-enhancing structural reforms agreed under the programme. The success of debt exchange should help strengthen the reform momentum and build a consensus in favour of the difficult reforms that lie ahead. Comprehensive international financial assistance can continue to be provided only if policy implementation improves. The determination of the Greek authorities to stick to the agreed policies will be tested in the coming months when deficit-reducing measures to close the large gap for 2013–14 need to be identified. In a similar vein, generating sustained growth and employment will require greater efforts and targeted measures. The implementation of structural measures will have to overcome bureaucratic delays, the resistance of lobbies and vested interests and break longstanding policy taboos. This requires determination on the government's part, better political coordination, and the acceptance of all of Greek society.

In the latest compliance report published on 16 March 2012, Commission departments recommend the first disbursement of the second programme take place as soon as possible. On 19 March, the EFSF paid the first instalment (EUR 5.9 billion) of the first tranche (EUR 14.5 billion) of the new programme to Greece. Greece also received EUR 1.6 billion from the IMF. The remaining part of the first tranche was divided into sub-tranches to be paid in April and May. The payment of these sub-tranches will not have to be decided by the Eurogroup or the Eurogroup Working Group (EWG), although the EFSF is discussing the specific timing of the payment of the sub-tranches with Greece. The timing has to be coordinated with the Troika.

The date of the next review mission of the second economic adjustment programme depends on the political outcome of the repeated elections on 17 June. The mission is provisionally scheduled to take place in late June/early July 2012, but the date may be revised in the course of the following weeks.

5. ANNEX

Table I. Taxation

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	33.2	32.2	32.6	32.2	30.5	31.0
Breakdown by economic function (% of GDP)[1]						
Consumption	12.7	11.3	11.9	11.6	10.8	12.1
of which:						
- VAT	7.5	6.9	7.5	7.3	6.4	7.2
- excise duties on tobacco and alcohol	1.5	1.4	1.3	1.2	1.4	1.5
- energy	1.5	1.2	1.2	1.2	1.2	1.8
- other (residual)	2.1	1.7	1.8	2.0	1.8	1.7
Labour employed	11.3	12.1	11.9	11.9	11.1	11.3
Labour non-employed	0.9	1.0	1.0	1.0	1.1	1.1
Capital and business income	6.4	6.4	5.9	5.8	5.7	5.4
Stocks of capital/wealth	2.0	1.4	1.9	2.0	1.7	1.2
p.m. Environmental taxes[2]	2.5	2.1	2.1	2.0	2.0	2.4
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	50.4	45.1	48.9	46.1	39.1	36.5

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table II. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	175.7	199.5	212.7	226.6	218.9
Share of assets of the five largest banks (% of total assets)	67.7	69.5	69.2	70.6	…
Foreign ownership of banking system (% of total assets)	23.2	22.2	21.1	…	…
Financial soundness indicators:					
- non-performing loans (% of total loans) [1]	4.5	5.0	7.7	9.1	13.4
- capital adequacy ratio (%) [1] [2]	11.2	9.4	11.7	12.3	10.3
- return on equity (%) [1], [3]	14.8	3.1	-1.7	-8.7	-21.5
Bank loans to the private sector (year-on-year % change)	18.7	9.2	-2.3	3.0	-3.3
Lending for house purchase (year-on-year % change)	21.5	2.4	3.9	4.9	-2.9
Loan to deposit ratio	90.9	86.2	79.6	119.6	138.3
CB liquidity as % of liabilities	2.4	9.3	11.0	21.1	18.2
Banks' exposure to countries receiving official financial assistance (% of GDP)[4]	4.9	7.0	7.5	7.4	6.4
Private debt (% of GDP)	88.4	94.7	92.7	113.7	114.7
Gross external debt (% of GDP) [5]					
- Public	80.8	87.0	92.4	78.7	77.1
- Private	10.6	10.9	11.1	9.3	9.0
Long term interest rates spread versus Bund (basis points)*	28.3	81.8	195.2	634.8	1314.1
Credit default swap spreads for sovereign securities (5-year)*	…	114.5	171.7	697.8	3052.7

Notes:

[1] Latest available September 2011.

[2] The capital adequacy ratio is defined as total capital divided by risk weighted assets.

[3] Net income to equity ratio. After extraordinary items and taxes.

[4] Covered countries are IE, EL, PT, RO, LV and HU.

[5] Latest data 2011Q3.

* Measured in basis points.

Source :

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).

Table III. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	65.7	66.0	66.5	65.8	64.0	59.9
Employment growth (% change from previous year)	1.9	1.3	1.1	-1.1	-2.7	-6.8
Employment rate of women (% of female population aged 20-64)	51.2	51.6	52.5	52.7	51.7	48.6
Employment rate of men (% of male population aged 20-64)	80.3	80.4	80.4	78.8	76.2	71.1
Employment rate of older workers (% of population aged 55-64)	42.3	42.4	42.8	42.2	42.3	39.4
Part-time employment (% of total employment)	5.8	5.7	5.7	6.2	6.5	6.9
Part-time employment of women (% of women employment)	10.3	10.2	10.1	10.5	10.6	10.3
Part-time employment of men (% of men employment)	3.0	2.8	2.9	3.3	3.8	4.6
Fixed term employment (% of employees with a fixed term contract)	10.7	10.9	11.5	12.1	12.4	11.6
Unemployment rate[1] (% of labour force)	8.9	8.3	7.7	9.5	12.6	17.7
Long-term unemployment[2] (% of labour force)	4.8	4.2	3.6	3.9	5.7	8.8
Youth unemployment rate (% of youth labour force aged 15-24)	25.1	22.9	22.0	25.7	32.8	44.4
Youth NEET[3] rate (% of population aged 15-24)	12.2	11.5	11.7	12.6	14.9	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	15.5	14.6	14.8	14.5	13.7	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	26.2	27.1	27.5	28.7	30.4	:
Labour productivity per person employed (annual % change)	3.6	1.4	-0.9	-3.0	-1.7	-0.2
Hours worked per person employed (annual % change)	-1.4	-1.4	0.6	-2.7	1.1	0.7
Labour productivity per hour worked (annual % change; constant prices)	5.1	2.8	-1.5	-0.3	-2.7	-0.9
Compensation per employee (annual % change; constant prices)	-1.1	1.4	1.3	1.1	-5.0	-4.7
Nominal unit labour cost growth (annual % change)	-2.1	3.6	7.1	7.2	-1.7	-3.0
Real unit labour cost growth (annual % change)	-4.6	0.0	2.2	4.3	-3.4	-4.5

Notes:

[1] According to ILO definition, age group 15-74)

[2] Share of persons in the labour force who have been unemployed for at least 12 months.

[3] NEET are persons that are neither in employment nor in any education or training.

Sources:

Commission (EU Labour Force Survey and European National Accounts)

Table III. Labour market and social indicators (continued)

Expenditure on social protection benefits (% of GDP)	**2005**	**2006**	**2007**	**2008**	**2009**
Sickness/Health care	6.72	6.90	6.80	7.38	7.95
Invalidity	1.19	1.14	1.19	1.19	1.29
Old age and survivors	11.55	10.41	10.54	10.79	11.29
Family/Children	1.55	1.48	1.49	1.59	1.83
Unemployment	1.24	1.11	1.09	1.28	1.61
Housing and Social exclusion n.e.c.	0.54	0.53	0.49	0.52	0.50
Total	24.9	24.7	24.8	26.3	28.0
of which: Means tested benefits	1.88	1.83	1.81	1.91	1.95
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	29.5	27.7	28.1	27.6	27.7
Risk-of-poverty or exclusion of children (% of people aged 0-17)	27.9	27.2	28.7	30.0	28.7
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	33.8	29.9	28.1	26.8	26.7
At-risk-of-poverty rate[2] (% of total population)	20.5	20.3	20.1	19.7	20.1
Value of relative poverty threshold (single household per year) - in PPS	6697	6873	7219	7575	7559
Severe material deprivation[3] (% of total population)	11.5	11.5	11.2	11.0	11.6
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	8.1	8.1	7.4	6.5	7.5
In-work at-risk-of poverty rate (% of persons employed)	13.9	14.3	14.3	13.8	13.8

Notes:

[1] People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:

For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IV. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	2.1	1.4	-1.0	-3.0	-1.7	-0.9
Labour productivity[1] in manufacturing (annual growth in %)	1.4	-0.2	4.2	6.2	-7.4	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	8.4	-2.0	-16.9	-10.6	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	0.4	-1.9	-12.8	-9.2	8.4	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	0.5	0.5	0.4	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	819	819	819	819	819
Time to start a business[3] (days)	n.a.	38	19	19	19	10
R&D expenditure (% of GDP)	0.6	0.6	n.a.	n.a.	n.a.	n.a.
Tertiary educational attainment (% of 30-34 years old population)	24.6	26.2	25.6	26.5	28.4	n.a.
Total public expenditure on education (% of GDP)	3.7	n.a.	n.a.	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2.4	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	3.5	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	3.5	3.4	3.1*	n.a.	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies for the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate ETCR.

*figure for 2007.

Source:

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table V. Green Growth performance indicators

		2001-2005	2006	2007	2008	2009	2010
Macroeconomic							
Energy intensity	kgoe / €	0.19	0.18	0.17	0.17	0.17	0.17
Carbon intensity	kg / €	0.83	0.74	0.73	0.70	0.69	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	1.13	1.03	1.02	1.06	0.93	n.a.
Waste intensity	kg / €	n.a.	0.29	0.33	0.38	n.a.	n.a.
Energy balance of trade	% GDP	-2.7%	-3.6%	-3.4%	-4.8%	-3.0%	-4.2%
Energy weight in HICP	%	7	8	7	7	7	7
Difference between change energy price and inflation	%	2.66	9.6	-2.9	14.4	-17.3	15.9
Environmental taxes over labour taxes	ratio	17.6%	16.0%	15.9%	14.9%	15.8%	n.a.
Environmental taxes over total taxes	ratio	6.9%	6.4%	6.4%	6.1%	6.5%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.22	0.18	0.19	0.15	0.12	n.a.
Share of energy-intensive industries in the economy	% GDP	6.8	6.8	6.9	6.9	6.9	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.06	0.07	0.07	0.09	0.09	0.09
Public R&D for energy	% GDP	n.a.	0.01%	0.01%	n.a.	n.a.	n.a.
Public R&D for the environment	% GDP	n.a.	0.01%	0.01%	n.a.	n.a.	n.a.
Recycling rate of municipal waste	ratio	9.5%	12.8%	20.1%	17.7%	18.9%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	53.5%	54.5%	54.3%	52.0%	n.a.
Transport energy intensity	kgoe / €	0.58	0.45	0.40	0.37	0.46	n.a.
Transport carbon intensity	kg / €	1.60	1.23	1.09	0.98	1.29	n.a.
Change in the ratio of passenger transport and GDP	%	0.4%	0.1%	0.6%	1.2%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	69.8%	71.8%	71.3%	73.3%	67.8%	n.a.
Diversification of oil import sources	HHI	n.a.	0.24	0.25	0.24	0.21	n.a.
Diversification of energy mix	HHI	0.43	0.42	0.39	0.40	0.40	n.a.
Share of renewable energy in energy mix	%	4.9%	5.6%	5.5%	5.4%	6.1%	n.a.

Country-specific notes:

The year 2011 is not included in the table due to lack of data.

General explanation of the table items:

Source: Eurostat unless indicated otherwise; ECFIN explanations given below

All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)

Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)

Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)

Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)

Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP

Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP

Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)

Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"

Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)

Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP

Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste

Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP

Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)

Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)

Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector

Passenger transport growth : measured in %-change in passenger kilometres

Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers

Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin

Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels

Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents