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Medium-term Fiscal Strategy (2012-2015)

General framework & Assessment

Last Friday, the Greek government presented its *eagerly-awaited* medium-term fiscal plan for 2012-15. The plan, which constitutes a key conditionality under the present EU/IMF-backed stabilization programme, aims to bring the fiscal position to a more sustainable path and eliminate the excessive deficit by the end of the reference period. The medium-term strategy also incorporates an ambitious program of privatizations and management of state assets, targeting significant state revenue that can be used to reduce the public debt ratio by as much as 20pts-of-GDP until 2015. The specifics and operational modalities of the plan will be announced early next month, ahead of a parliamentary vote in mid-May. Below we present some of the main elements and a brief assessment of Greece's medium-term fiscal strategy.

Deficit-cutting targets

- Reduce general government budget deficit by 3ppts-of-GDP in 2011 and by a further 6ppts-of-GDP cumulatively in 2012-2015 (*i.e.,* to levels around 0.9%-of-GDP by the end of the reference period).
- According to the medium-term plan, the adjustment specified above follows a 5ppts-of-GDP reduction in the general government deficit in 2010. This implies a 1ppts-of-GDP *downward* revision in last year's estimated fiscal adjustment. Eurostat's upcoming EDP notification (to be released on April 27) is expected to revise Greece's 2010 general government deficit to levels around 10.5%-of-GDP, compared to ca 9.6%-of-GDP estimated earlier. For more analysis on the main reasons behind the revision please see *Eurobank EFG Research, Greece: Macro Monitor, April 11, 2011.*
- In nominal terms, the fiscal adjustment package for the period 2012-15 amounts to some €23bn *(= €9bn in revenue-generating measures + €14bn in expenditure cuts).* This comes on top of ca €3bn of additional austerity measures to be implemented in 2011, aiming to address risks to this year's deficit target, as a result of the protracted domestic recession and below-target tax revenue growth. On the latter, note that the March 2011 update of the EU/IMF stabilization programme projected a 1.7ppts.-of-GDP gap in Greece's fiscal program this year.

Revenue/expenditure targets

- Reduce general government expenditure (ppts.-of-GDP) to 44% by 2015, from ca 50.1% estimated in 2010
- Increase general government revenue (ppts.-of-GDP) to 43% by 2015, from ca 42.3% estimated in 2010

Note that the end-2015 targets for the general government revenue and expenditure ratios (ppts-of-GDP) coincide with the respective realization in the years 2000 and 2003. According to Prime Minister George Papandreou, the latter supports the attainability of the respective revenue/expenditure targets, conditional on a rigorous implementation of the fiscal plan. According to official projections, a no-policy-change scenario would see both the general government revenue and expenditure ratios remaining broadly unchanged (if not deteriorating further) in the coming four year relative to their respective levels at the end of 2010.

2011-15 fiscal consolidation effort (%-of-GDP)

Table 1 presents in some detail the main drivers and quantitative assessment of the projected fiscal adjustment in 2011-2015.

Greece's Medium-Term Fiscal Plan

Area of adjustment	% of GDP	Specific measures
Overall public wage bill	0.9ppts-of-GDP (exp. reduction)	Implementation of 1:5 rule for new hiring 10% reduction in hired contractors Increase in weekly working hours from 37.5 to 40 Reductions in compensated committees & overtime Other
Operational expenditure	1.1ppts-of-GDP (exp. reduction)	e-procurement for all state purchases Drastic cuts and rationalization of expenditure in both the narrow and broader public sector
Closure/merger of public entities	0.5ppts-of-GDP (exp. reduction)	Closure of merger of a number of public entities, including schools, tax & customs offices, embassies & consulates abroad etc
Reduction in defence spending	0.5ppts-of-GDP (exp. reduction)	
Restructuring of state-controlled enterprises	1.0ppts-of-GDP (exp. reduction)	OSE (rail transport), OASA (Athens city transport), public TV etc.
Streamlining of health & pharmaceutical expenditure	1.2ppts-of-GDP (exp. reduction)	Range of measures incuding e.g. centrilized procurement system, repricing of medical services, e-prescription system
Reduction in social security spending & social tranfers	1.1ppts-of-GDP (exp. reduction)	Deficit reduction in supplementary social security fu Means-testing for welfare benefits Single rganisation for social transfers other
Strengthening of tax compliance	1.5ppts-of-GDP (rev. increase)	Range of measures to strengthen tax compliance and fight tax evasion
Reduction in tax exemptions	0.9ppts-of-GDP (exp. reduction)	
Increase in social security fund revenues & tackling contribution evasion	1.5ppts-of-GDP (rev. increase)	Reduction in the share of uninsured labor to 12% by 2015 from 26% currently Stricter labor inspections & audits Joint collection mechanisms for tax & social insurance systems
Increase in local government rev	0.3ppts-of-GDP (rev. increase)	
Other expenditure reductions	0.9ppts-of-GDP (exp. reduction)	
Total measures (2011-2015)	**11.4 ppts-of-GDP**	

Source: MoF, Eurobank Research

Privatization & state asset management programme

In an effort to generate significant revenue from privatization and a better utilization of state assets, the government's Medium-Term Fiscal Strategy presents a general framework envisioning the generation of some €15bn during the period 2011-2013 (and a total of €50bn until 2015). If successfully implemented, the programme is *officially* expected to reduce the public debt-to-GDP ratio by ca 20ppts until 2015 and to also generate extra savings of €3n/annum in the form of lower interest payments. The programme is designed to have "a flexible approach and transparent processes", encompassing the following procedures and levels of resulting State control:

Procedures:

- Sales
- Concession Agreements
- Strategic Investors
- Equity sales though the stock exchange
- Holding Company

Levels of State control:

- 51% or higher: State retains controlling majority
- 34%: State retains blocking minority
- Less than 34% (with shareholders agreement)
- Full privatization

The new plan of privatization and management of commercial state assets will cover a broad array of sectors and economic activities, ranging from infrastructure, energy and telecommunications to real estate and gaming companies.

According to government projections, potential inflows to state coffers from these activities are as follows:

- €10-15bn expected to be generated by public enterprises and infrastructure
- €25-35bn from the strategic management of rights and developments of public real estate assets

As to the projected timetable of total revenues generated by the programme, the plan specifies the following annual amounts:

- €2-4bn in 2011
- €5.5-75bn in 2012
- €4.5-5.5bn in 2013
- Total in 2011-2013: €12-17bn

Tables 2.1-2.3 below depict in detail the State's projected transactions in 2011-2013

Table 2.1: Projected transactions in 2011 (estimated revenue €2-4bn)

Enterprise	Currently under State Control (%)	Method
Athens International Airport	55%	Extension of concession duration
Hellenic Defence Systems	100%	Trade Sale to Strategic Investor
State Lottery Tickets	100%	Partial Privatization and introduction of StrategicInvestors
Public Gas Corporation (DEPA)	65%	Sale of Shares
TRAINOSE	100%	Trade Sale to Strategic Investor
LARCO (nickelmining industry)	55%	Trade Sale to Strategic Investor
Hellenic Horse Racing Corporation	100%	Trade Sale to Strategic Investor
Casino of Parnitha(Mont Parnes)	49%	Trade Sale to Strategic Investor
Hellenic Telecommunication	16%	Sale of Shares
Frequency Spectrum -Mobile	100%	Sale of concession SPV
Hellenic S.A	100%	Sale of concession SPV
Real Estate Investment -Portfolio I	100%	Sale of concession SPV

Table 2.2: Projected transactions in 2012 (estimated revenue €5.5-7.5bn)

Enterprise	Currently under State Control (%)	Method
Athens International Airport	55%	Sale of Strategic Stake
EgnatiasOdos Motorway	100%	Sale of concession SPV
Hellenic Post	90%	Trade Sale to Strategic Investor
Ports-Portfolio I	77-100%	Sale of concession SPV
Athens Water Supply and Sewerage Company (EYDAP)	61%	Trade Sale to Strategic Investor
Thessaloniki Water Supply and Sewerage Company (EYATH)	74%	Trade Sale to Strategic Investor
Hellenic Vehicle Industry S.A. (ELBO)	51%	Trade Sale to Strategic Investor
ConsignmentFund	100%	Saleof banking operation after consignment activity spun-off
PublicPower Corporation (DEH)	51%	Saleof Shares
Hellenic Football Prognostics Organisation (OPAP)	34%	Trade Sale to Strategic Investor
HellenicMotorways	100%	Sale of concession SPV
Regional Airports -Portfolio I	100%	Sale of concession SPV
Hellenic S.A -Part II	100%	Sale of concession SPV
Real EstateInvestment -Portfolios II and III	100%	Sale of concession SPV
FrequencySpectrum -Digital Dividend I	100%	Sale of concession SPV

Table 2.3: Projected transactions in 2013 (estimated revenue €4.5-5.5bn)

Enterprise	Currently Under State Control %)	Method
Participation in Banks (Alpha, Peiraeus, Attiki)	-	Saleof Shares through ATHEX
AgriculturalBank of Greece	76%	Trade Saleto Strategic Investor
HellenicPostbank	34%	Trade Saleto Strategic Investor
Regional Airports -Portfolio II	100%	Sale of concession SPV
Ports-PortfolioII	77-100%	Sale of StrategicStakes
Real Estate Investment -PortfolioIV	100%	Sale of concession SPV
FrequencySpectrum -Digital Dividend I	100%	Sale of concession SPV

General guidelines for the programme of development of State real estate assets

On the contentious and socially-sensitive issue of real estate assets development, the medium-term plan provides for the following action plan:

- Development of a Single Land Registry for the listing and evaluation of State-owned commercial real estate assets
- Creation of a National Sovereign Fund for Public Land with individual specialized portfolios of large properties
  - o real estate investment portfolios will be structured as SPVs and promoted for sale in global markets by domestic and international banks
  - o four real estate investment portfolios will presented between 2011-12, one every six months starting in June 2011

Brief assessment

Though still lacking in detail, the announced medium-term fiscal plan appears to be in the right direction towards promoting a more sound and sustainable medium-term fiscal position. More importantly, the (admittedly ambitious) programme of privatization and management of State assets, if successfully implemented, can secure significant funds for retiring outstanding public debt and facilitating a faster de-escalation of the debt-to-GDP ratio. On the latter, we estimate that a under a (relatively mild) scenario envisioning: **a)** slightly higher GDP growth (by ca 0.5ppts/annum) relative to the EU/IMF programme's projections, as a result of *e.g.* structural reforms and the private-sector's crowding-in, **b)** a satisfactory implementation of the medium-term fiscal plan (with a return to positive and significant primary surpluses from 2012) and **c)** €50bn in privatization revenue in the following years, it is possible to reduce the debt ratio to levels 105%-of-GDP or lower by the end of 2020. This would bring the Greek debt ratio significantly closer to the euro area average (slightly above 80%-of-GDP, currently). Admittedly though, the mere size of the intended medium-term adjustment, introduces huge uncertainties and risks to any such projections on the expected evolution of the fiscal balance and the debt ratio, especially in view of prevailing market perceptions towards Greece's sovereign situation and the severity of the domestic recession. To these uncertainties one should also incorporate strenuous resistance from vested interests and powerful trade unions, though it appears that a broad agreement remains among major political parties and the greatest part of the population over the need of radical reforms and aggressive fiscal adjustment going forward.

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