

DEFENCE SPENDING IS GROWING BUT THE RISK FOR REVERSAL IS INCREASING

The total defense spending is estimated to amount to EUR 6,574,550,000 in 2009 increased by 2.8 % compared to the actual outcome and by 8.7 % against the budgeted 2008. Budget overrun in 2008 is mainly concentrated in armaments expenditure both on a national accounts and cash basis.

A. Operational budget

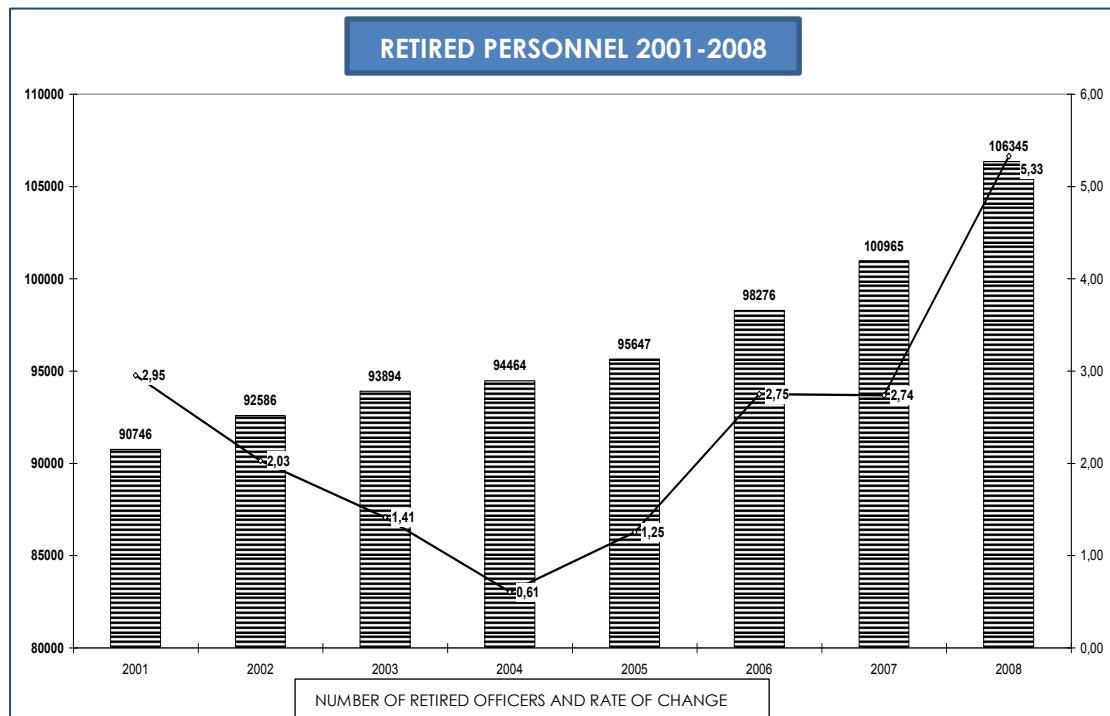
The Operational budget expenditures continue to rise due to the absence of any reform. From 3348 million in 2004 operational expenditure is projected to stand at 4328 2009 i.e. 29% increase in five years (about 15 % in real terms).

For a number of reasons the MoD budget will be in deficit in 2009. Many of the appropriations provided for their respective codes are not sufficient to meet requirements and as a result new obligations will be created and transferred to subsequent budgets. Resources allocated for fuel and maintenance over recent years do not meet the real needs of the Armed Forces.

The recruitment of professional soldiers continues but without ensuring the promotion of the reorganization and improvement of living conditions of newly recruited soldiers especially in the army efficiency is expected to be poor.

The general deterioration in the armed forces morale lack of meritocracy and a deteriorating image has led to an exodus of officers. In 2008 the number of retired military grew at an unprecedented rate by 5.33 %. While the four years 2001-04 shows a

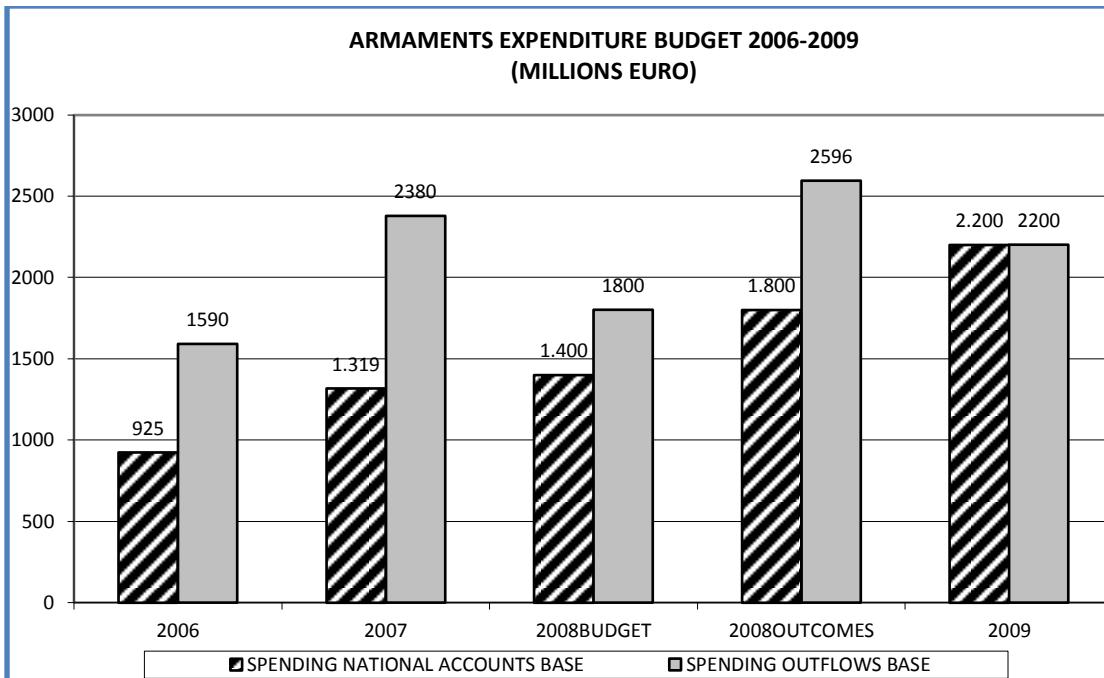
declining trend since 2005 the frustration of expectations led to mass resignations of the officers.



Source: Budget Report (Table 94 p 312).

B. Armaments Expenditure

The 2006-15 EMPAE has not started to be implemented and is constantly revised. The defense planning initiated by the General Staffs has been overturned according to the dictates of the political leadership. The systematic evaluation of alternatives is not the rule but the exception. The expenditure shown in the budget do not match the requirements.



Source: Budget Report (Tables 3.2 and 3.21 p 78 p 101)

While on a national accounts basis (in accordance with the rules of EUROSTAT) budget envisaged expenditure of 1400 million for 2008 finally is expected to spend 1800 million that exceeded 400 million or 29 %. So, in 2008 received more weapons systems than expected. In cash basis (expenditure data of the Bank of Greece) exceeded 800 million ie 44 %. This overrun adds to derailment of military spending in 2007.

The prediction that in 2009 the armament expenditure in national accounts and cash basis will overlap and there will be no excess is at least risky. The current government policy to delay the receipt of weapons systems with time-consuming procedures for amending contracts has accumulated requirements far exceeding the budgeted 2200 million. On a cash basis the overrun is expected to be even higher if in the following quarter the signing of the contract for the combat vehicle (EUR 1.2 billion) goes ahead requiring a down payment.

C. Defense Industries

The government has only turned to direct awards to foreign manufacturers through government to government agreements but they are not doing the same for the domestic industry. Necessary programs with significant potential for participation by the domestic industry have not been activated (satellite communications, ammunition Main Battle Tank). The management of both SOEs has failed to claim substantial work and as a result the balance sheets have suffered and a considerable loss of competitiveness has been recorded. Large subsectors are underperforming.

The negative financial results for the two state companies HDFS and HAI have deteriorated by 13 % from 2007 to 2008 and by an additional 5% from 2008 to 2009. The losses in 2009 are estimated to amount to 169 million euros for both SOEs with high probability that the results will be ultimately worse. With these data, it is certain that state lending to SOEs will further expand in the coming years in the form of guarantees or capital increases to cover debts.

The same situation exists in privately managed ELBO with employment levels that do not exceed 15 %! In the private sector several SMEs have reduced productive activity and have started to lay-off employees.

The international financial crisis and increasing budget deficits are likely to have a major impact on future defense spending. The slow pace of reform in structures is expected to continue and the main pressure for cuts will be taken by armaments programs.

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