

The Second Economic Adjustment Programme for Greece – First Review - December 2012

This report provides an assessment of the progress made by Greece with respect to its Second Economic Adjustment Programme, based on the findings of a joint Commission/ECB/IMF mission to Athens between 3 July and 17 October 2012. The mission assessed compliance with the terms and conditions of the Second Economic Adjustment Programme agreed in February 2012 and discussed a detailed policy programme up to 2016, so as to bring the programme back on track and to ensure an effective implementation of the programme.

After the February 2012 agreement on a Second Economic Adjustment Programme and the large-scale debt restructuring operation in March 2012, a period of extreme uncertainty surrounded the implementation of the programme. With Greece facing a very stark choice, a three-party coalition emerged from the 17 June elections with the mandate to secure Greece's future in the euro area, and hence to implement the economic adjustment programme resolutely. However, given the substantial delays accumulated after the double electoral cycle, the overall implementation of the second programme remained partial for a long period. Nonetheless, there has been a significant catching-up over the past few months. With the recent crucial decisions and the extent of the commitments under the new Memorandum of Understanding (MoU), Greece has revamped its reform effort and fulfilled important conditions. The reform effort must continue, in order to address the challenges Greece faces.

The extreme uncertainty about the Greek developments impacted the economy, even beyond Greece, and this still affects the programme looking forward. Since early-2010, Greece has achieved a very substantial fiscal adjustment. The performance in implementing structural fiscal reforms however has been mixed.

The fiscal targets for 2013-16 have had to be revised to take into account the deeper and longer-than-expected recession. To achieve the revised medium-term fiscal targets, the MTF 2013-2016 sets out a very large, front-loaded and mostly expenditure-based fiscal consolidation. A long-overdue income tax reform aimed at enlarging the tax base and simplifying the tax system is also being finalised.

On fiscal structural reforms, the government has revamped its efforts through a comprehensive reform programme. Significant action has already been taken to reform the Greek labour market and further efforts are being made to reform severance payments and minimum wages. Privatisation proceeds have been disappointing so far, but the privatisation process has regained some momentum since September 2012. While significant progress has been made in a number of respects, the banking sector situation remains fragile.

The outlook for the sustainability of Greek government debt has worsened compared to March 2012 when the second programme was concluded, mainly on account of a deteriorated macro-economic situation and delays in programme implementation. The international assistance loans disbursed so far to Greece amount to EUR 148.6 billion. Implementation risks to the programme remain considerable. The Commission services recommend disbursement of EFSF funds, broadly corresponding to the planned second, third and fourth tranches of the second programme, conditional on continued implementation of the commitments undertaken by the Greek authorities as specified in the revised MEFP and MoU.