Summary for non-specialists
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The Second Economic Adjustment Programme for Greece – Third Review July 2013

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 two-part joint Commission/ECB/IMF mission to Athens between 4-19 June and 1-7 July 2013. The report examines current macroeconomic, financial and fiscal developments and assesses compliance with programme conditionality.

Greece continues to make overall, albeit often slow, progress under the Second Economic Adjustment Programme, with several important actions being delayed. Important progress has been made on public finances and the recapitalisation of the four core banks has been completed.

The macroeconomic outlook is broadly unchanged from the previous review and recent fiscal developments have been broadly on track. However, the mission initially identified new shortfalls, notably in the health sector, that threatened the achievement of the fiscal targets for the primary balance in 2013 and 2014. The renewed fiscal gap reflects expenditure overruns in the main health care fund, delays in the issuance of property tax bills, lower social security contributions, and the non-implementation of some of the previously agreed measures for 2014. Following discussions, however, the authorities identified appropriate measures for adoption in the course of July 2013 in order to secure the primary balance targets.

Increasing public revenues and reforming an ineffective revenue administration are key priorities. Significant efforts are needed to make the recently created semi-autonomous revenue administration fully operational and improve its effectiveness. A simpler and less distortive taxation system and a new tax procedures code will facilitate these efforts. Further progress was made in monitoring and correcting public expenditure, by improving Public Financial Management (PFM), but weaknesses remain and more reforms are needed. Limited progress has also been made in selling assets through privatisation and 2013 proceeds have so far been below expectations.

The downsizing of the public administration continues, but with further delays. The authorities renewed their commitment to proceed with an ambitious public administration reform to be implemented in phases during 2013 and are taking corrective measures to catch up with the timetable for public administration reform agreed during the second review.

Several important structural reforms have been implemented in the areas of healthcare, the opening of professions, and public financial management. However, far-reaching reforms are still needed in many other areas, including improvements of the business environment, energy and justice. The economy would also greatly benefit from a more determined and effective implementation of the privatisation programme, as limited progress has been made in selling assets, and proceeds in 2013 have so far been clearly below expectations. While declining unit labour costs, supported by the successful labour market reform, are improving cost competitiveness, the on-going product markets reforms need to be accelerated and reinforced.

The authorities are seeking ways to improve the social safety net within the current budgetary envelope. To that end, the Government has presented policy options, including the development of unemployment assistance for the long-term unemployed and the creation by January 2014 of a guaranteed minimum income scheme (on a pilot basis), both means tested and targeted to the poor.

Implementation risks to the programme remain important. The key risks concern the government's perseverance in confronting vested interests. Moreover, the recovery of the economy is still facing the headwinds of the pronounced fiscal consolidation in 2013 and weak economic growth in the euro area. However, there are also some upside risks. In particular, sustained strong policy implementation can help lift uncertainty and prompt a faster return of investment, notably foreign. There could also be a somewhat stronger impact from the liquidity injection expected from the clearance of government arrears, public works programmes, and from a more dynamic tourist season.

On the basis of this analysis of compliance with the Memorandum of Understanding (MoU), and conditional on continued implementation by the Greek authorities of the revised MoU, notably of the prior actions, the programme is now broadly on track and the Commission services recommend disbursement of the tranche for Q3 2013 of EFSF funds under the second programme.