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

May 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 27 February and 11 April 2013. The report examines current macroeconomic, financial and fiscal developments, assesses compliance with programme conditionality and makes a detailed assessment of the policy programme up to 2016.

Greece continues to make progress under the Second Economic Adjustment Programme. Public finances are steadily improving, the banking sector recapitalisation has reached an advanced stage and important structural reforms are being implemented, although further major efforts are needed to fully deliver the reforms which are delayed. Implementation risks to the programme remain formidable, but there are also some upside risks.

The economic outlook is largely unchanged from the previous Review, with prospects for a gradual return to growth in 2014. The successful labour market reforms in 2012 are delivering results in terms of wage flexibility and unit labour cost competitiveness. The current account deficit has shrunk considerably. There is progress in improving the business environment, but an acceleration of product and services markets reforms is necessary to speed up the transmission from cost savings to prices. Product and service market reforms remain crucial for strengthening investment, innovation and competition, complementing the reforms in the labour market.

The 2012 fiscal deficit target under the programme has been met with a comfortable margin, despite the somewhat deeper-than-expected recession in 2012. Measures have been agreed to avoid the emergence of a fiscal gap for 2013 and 2014 and to meet the programme targets for the primary deficit in both years. The fiscal outlook beyond 2014 remains inherently uncertain. The assessment of debt dynamics is broadly unchanged compared to December 2012.

While progress was made in the organization, much work remains to be done to improve the effectiveness of the revenue administration. A comprehensive income tax reform was legislated in January 2013 that broadens the tax base and will share more equally the tax burden. The preparation of the assets for privatisation has continued but the overall speed of the privatisation process remains unsatisfactory. Significant delays have occurred in the public administration reform, but the authorities have now taken measures to speed it up and render the Prior Actions efficient and effective, while progress has been made since 2010 in downsizing the public administration. The authorities are taking steps to address the challenge of unemployment and to improve the social safety net within the current budgetary envelope.

The Commission services recommend disbursement of EUR 7.5bn of EFSF funds, broadly corresponding to the planned tranches of the second programme for Q1 and Q2 2013, conditional on continued implementation of the commitments undertaken by the Greek authorities as specified in the revised MEFP and MoU, including all prior actions. The disbursement will be made in two tranches, with the first one amounting to EUR 4.2 billion paid in May 2013. The disbursement of the remaining amount will be made in June 2013, following achievement of new milestones.