



The Second Economic Adjustment Programme for Greece – update on progress and challenges

17 May 2013

Compliance Report (I)

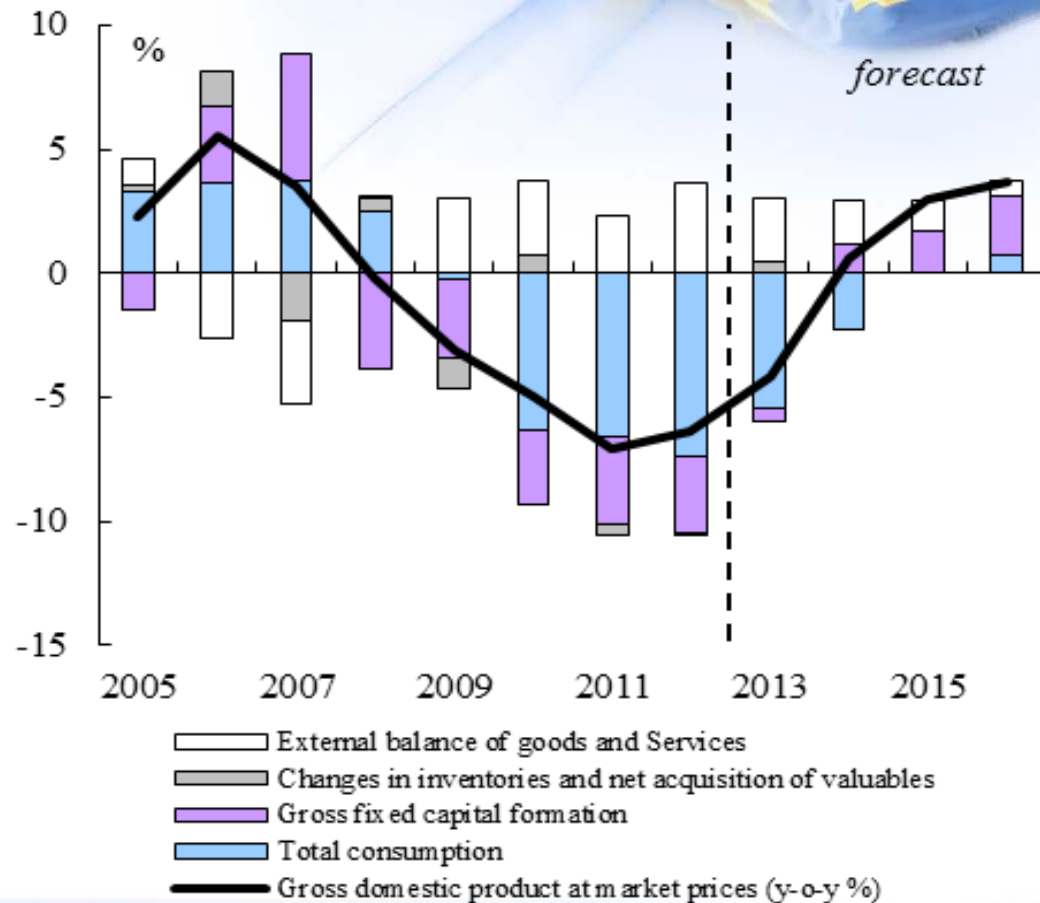
- A **technical report** by the Commission Services, *in liaison* with the ECB.
- To **help the Eurogroup deciding** on the disbursement of each tranche of the loan.
- The **IMF** decides based on its own 'staff report' – Board decision at the end of May.
- **EC/ECB/IMF shared forecasts and projections.**
- Full package and additional information here:
http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

Compliance Report (II)

- **What can you find there?**
 - ***The report itself***: An assessment of **progress made by Greece**: macroeconomic, fiscal, financial developments, structural reforms, debt sustainability...
 - The ***compliance table***: The detailed assessment of compliance with policy conditionality.
 - The detailed ***economic projections*** through 2016.
 - The new Memorandum of Economic and Financial Policies/**Memorandum of Understanding (MoU)** – *living documents drafted jointly by EC/ECB/IMF and Greek authorities.*

Economic performance

- Outlook largely unchanged.
- Prospects for a **gradual return to growth in 2014**.
- Inflation well below EA average and improved wage flexibility are helping to **restore the competitiveness** of the Greek economy.
- Strong improvement in **current account balance**.
- **Unemployment** remains very high.
- In Q1 2013 **conjunctural and financial market leading indicators** have shown **improved confidence** in medium-term recovery of Greece, while **hard indicators** are still **lagging**.



Fiscal developments (I)

Despite the recession, fiscal performance is strong overall, and Greece is on track to meet the programme targets revised in December 2012.

Medium term fiscal projections

In % of GDP	2012	2013	2014	2015	2016
<u>Programme definition:</u>					
Primary balance	-1.3	0.0	1.5	3.0	4.5
General government balance	-6.3	-4.1	-3.3	-2.1	-0.8
<u>EDP definition:</u>					
Primary balance	-5.0				
General government balance	-10.0				

Source: European Commission services

Main differences between programme and EDP definition are the exclusion from the program definition of ANFA and SMP profit transfers, most sales of non-financial assets, and costs related to bank resolutions and recapitalisations.

Fiscal developments (II)

- In **2012 fiscal developments outperformed for the first time programme targets**, even if by a small margin.
- **Measures agreed** to avoid emergence of fiscal gap in **2013-2014**. Government committed to **fully implement** these measures. **Programme targets for both 2013 and 2014 expected to be met.**
- Projections beyond 2014 remain uncertain. **Not possible at this stage to determine precise size of any potential fiscal gap in 2015-2016.**

Structural reforms with budgetary relevance (I)

- Important progress in **reinforcing the organisation of the revenue administration**. Efforts to fight tax evasion, money laundering and corruption also reinforced, but it is **still urgent to address remaining weaknesses** in these areas.
- The **reform of the tax system** and the on-going work to **improve the tax and procedure codes** will significantly help on all these fronts.
- Despite consistent preparatory measures being taken, the overall **speed of privatisations remains slow** and further efforts are needed to speed up the final sales of assets, always safeguarding the provision of public goods and services.

Structural reforms with budgetary relevance (II)

- **Significant progress** towards the targeted **reduction of public employment** by at least 150,000 in 2011-2015.
- **Strong focus now on increasing efficiency and effectiveness in the public sector.**
 - **March milestones:** staffing plans completed for line Ministries involving 211,000 staff. Mandatory exits cumulating 15,000 by end-2014.
 - **Each of those exiting the public service will be replaced with qualified recruits.**
- Transfer of 12,500 employees to the **mobility scheme** by June. Authorities aim to extend the reform to the whole public administration by end 2013.
- Efforts on-going to **modernise health care** and **upgrade education**, but more is needed.

Strong focus on tackling unemployment

- **Ambitious labour market reforms** adopted in 2011-2012 are **delivering results**: wage flexibility; improved unit labour cost competitiveness.
- But **unemployment** remains very high and more is needed to tackle the challenge, building on the steps taken with the Youth action plan. The MoU requires an **Employment Action Plan** including:
 - A **short-term public works programme** to be launched soon, targeted to long-term unemployed and young people;
 - **Youth voucher scheme** to promote training of young unemployed;
 - Improving and expanding **vocational training and apprenticeships** and their linkage with employers.
- The MoU also requests the authorities to seek ways to **improve the social safety net**, including:
 - A means-tested unemployment **assistance scheme for long term unemployed** targeted to the poor;
 - ⁹ A pilot programme to provide **minimum income support**.

Creating favourable conditions for economic activity (I)

- **Product and service market reforms are being implemented, but more needs to be done:**
 - In **retail markets**, significant reductions in prices have occurred as a result of measures already adopted to modernise the sector and increase competition. The MoU includes further measures to **liberalise sales periods**, increase **flexibility in opening hours** and ease restrictions on **Sunday trading**.
 - Liberalisation process in the **energy market** has started for end-user prices for low-voltage customers. **Restructuring and privatisation of PPC** has been agreed; the process starts immediately and should conclude by Q1 2016.
 - Some progress has been made in the transport sector to **relax restrictions on road haulage** and to restructure the **railways sector**. New strategies for liberalisation and growth are also being implemented in the **airport** and **maritime sectors**. The MoU contains further specific actions to **reduce operating costs of service providers, while increasing consumers' choices**.

Creating favourable conditions for economic activity (II)

- **Progress has also been made in improving the business environment, but further efforts are also needed in this area:**
 - Steps have been taken to rationalise licensing procedures and to reduce or remove entry barriers. The MoU demands a **further reduction of time and cost of company creation**, implementation of the **fast track licensing procedure**, simplification of **environmental licensing** and a **strategic evaluation of all investment licensing procedures**.
 - Greece has to deliver on a **new export strategy** that facilitates trade, simplifies customs operations and strengthens the country's trade and investment promotion capacity. The MoU includes **additional measures to simplify export and import procedures**.
 - **More regulated professions have been liberalised**. The MoU requests the authorities to produce a report by July 2013 that will **evaluate progress made in this area**.

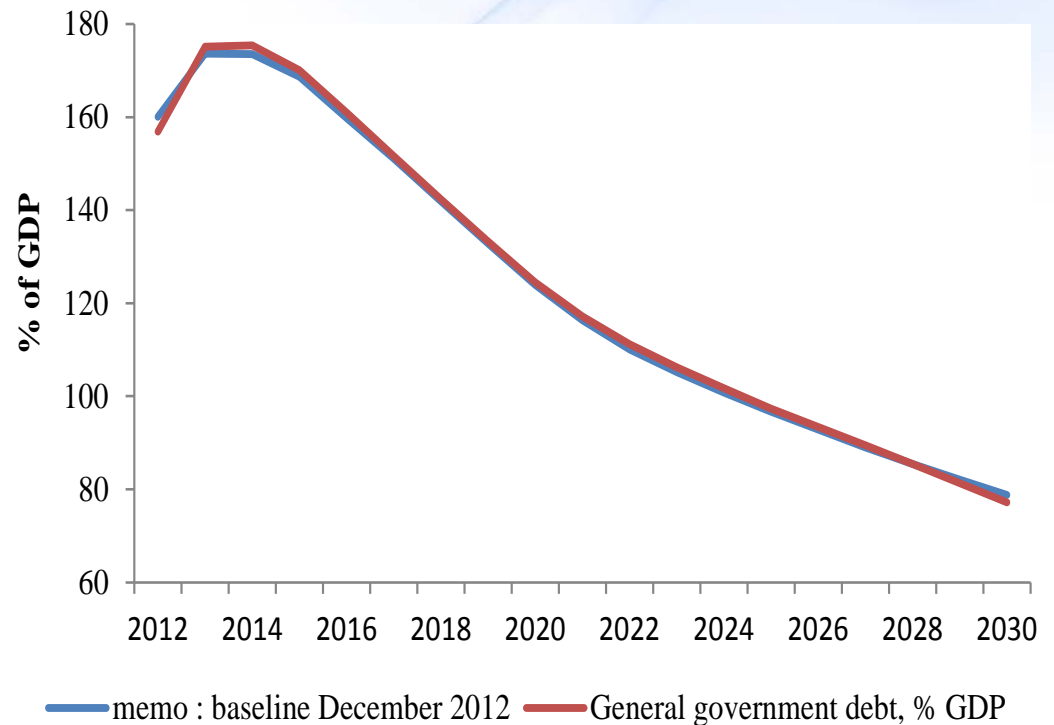
Financial Sector Performance

- **Banking sector recapitalisation is being completed:** four Greek core banks have taken key steps towards full recapitalisation, in process of consolidating smaller ones.
- Most of **€50 bn** for recapitalisation **already disbursed and injected** into each of core banks as advances to cover their capital needs, providing adequate capital even under a significantly adverse scenario. **Safety and soundness of banking system and deposits** ensured.
- **Bank deposits have increased** recently, but **so have non-performing loans**.
- The authorities to **develop a comprehensive strategy** for the banking sector following recapitalisation.
- In parallel, the **governance of the HFSF** is being **further improved**.

Debt sustainability

- The assessment of debt dynamics is **broadly unchanged**.
- Debt-to-GDP ratio forecast to **resume declining path in 2014**.
- **Assuming full programme implementation, Greece's general government debt should become lower than 120% of GDP by 2021**.

Greece-general government debt (% GDP)



Source: European Commission services

Programme financing

- **Until early May 2013**, disbursements under the programme amounted to **EUR 200.9 bn.**
- **Greece's liquidity position has improved significantly** with the disbursements made **since December.**
- The **disbursement related to the 2nd review** amounts to **EUR 7.5 bn.** and will be made in **two tranches**, the first one of EUR 4.2 bn in **May** and the remaining amount in **June** following the achievement of **milestones** related to:
 - Fighting against corruption,
 - Facilitating the resolution of unsustainable household debt
 - Establishing competition in the electricity market.

Conclusions

- **Greece continues to make progress under the 2nd adjustment programme, but determined implementation of the full programme is essential**, and further major efforts are still needed in many areas.
- **Fiscal developments are positive**, but Greece has to ensure that fiscal consolidation remains on track, in particular by fully implementing all fiscal measures agreed for 2013 and 2014 that are not yet in place.
- **Strong focus on structural reforms** to underpin fiscal adjustment, tackle the unemployment challenge and enhance growth prospects.
- **Risks to programme implementation remain high, but there are also upside risks** and the conditions are there for the return of confidence.