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

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

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;
  - 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.
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**.

Source: European Commission services
• 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 2\textsuperscript{nd} 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.