Greece: Deeper Public Sector Reforms Needed To Ensure Economic Recovery

Tuesday 30 July, 2013

The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Greece's performance under an economic program supported by an Extended Fund Facility (EFF) arrangement. The completion of this review enables the disbursement of SDR 1.51 billion (about €1.72 billion, or US$2.29 billion), which would bring total disbursements under the arrangement to SDR 7.21 billion (about €8.24 billion, or US$10.94 billion).

In completing the review, the Executive Board also approved a waiver of applicability of three end-June performance criteria on which data are not yet available—the overall stock of government debt, government domestic arrears, and the general government balance—as well as the modification of the end-September performance criterion on privatization receipts.

The EFF arrangement, which was approved on March 15, 2012 (see Press Release No. 12/85), is part of a joint package of financing with euro area member states amounting to about €173 billion over four years. It entails exceptional access to IMF resources equivalent to about 2,159 percent of Greece's quota.

Following the Executive Board discussion, Ms. Christine Lagarde, IMF Managing Director and Chair, said:

"The Greek authorities have continued to make commendable progress in reducing fiscal and external imbalances. However, progress on institutional and structural reforms, in the public sector and beyond, has still not been commensurate with the problems facing Greece. Greater reform efforts remain key to an economic recovery and lasting growth.

"The authorities are taking corrective actions to meet the ambitious target of a zero primary balance in 2013. Deeper public sector reforms are critical to complete the necessary fiscal adjustment going forward with broad public support. Progress in modernizing revenue administration continues to fall short of what is required, and more needs to be done to strengthen its autonomy and operational efficiency. It is also important to prepare adequately for, and implement successfully, the income tax reform while putting in place a property tax that achieves the revenue target. It will be critical to avoid tax policy changes that undermine revenues. Given the slow progress in public administration reforms, efforts should focus on ensuring exit of unqualified personnel to create room to hire new staff with the relevant skills.

"Broader structural reforms must be accelerated to boost productivity and growth. And urgent steps need to be taken to address concerns about the structure and governance of the privatization program and to improve its effectiveness.

"Considerable progress has been made in safeguarding financial stability, notably through the recapitalization of the core banks and the sale of bridge banks. Key challenges going forward include cleaning up balance sheets, ensuring strong governance structures, and rapidly re-privatizing the remaining state-owned bank.

"Public debt is projected to remain high well into the next decade. The assurances from Greece's European partners that they will consider further measures and assistance, if necessary, to reduce debt to substantially below 110 percent of GDP by 2022, conditional on Greece's full implementation of all conditions contained in the program, are welcome. Their continued commitment to provide adequate financial support to Greece during the life of the program and beyond until the country has regained market assess, provided that Greece complies fully with the program, remains essential," Ms. Lagarde said.

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