

Greece: Policy Recommendations provided by the EU and the IMF from 2003 to 2009

This document presents the recommendations made to Greece by the **EU** and the **IMF** before it requested financial assistance.

- Before the setup of the European Semester, Country-Specific Recommendations (CSRs) were issued by the **Council** or by the **Commission** in line with the Broad Economic Policy Guidelines (BEPGs) or with the Employment Guidelines (EGs) - until 2004 - and in line with the Integrated Guidelines - since 2005.
- The **IMF** annually carries a surveillance exercise according to its [Article IV](#) consultation. The IMF Executive Board of Directors discusses the outcomes and proposes recommendations. No Art. IV consultation took place in 2008. Text presented here are extracts of the Executive Board's conclusions.
- The text of the recommendations has been rearranged with the aim of facilitating comparison over time, and bold format has been added to emphasize the main issues addressed in the recommendations.

RECOMMENDATIONS by the EU Commission and the Council between 2003 and 2009

	2003 <u>Council CSRs</u> for 2003-2005 <i>See p. 24</i>	2004 <u>Council CSRs</u> Update of 2003 BEPGs: new rec. 2 <i>See p.22</i>	2006 Commission CSRs <u>Implementing the renewed Lisbon Strategy</u> <i>See p. 45</i>	2007 Commission CSRs <u>Strategic Report Country – Assessment of the NRPs</u> <i>See p. 9</i>	2008 <u>Council CSRs</u> <i>See p. 20</i>	2009 <u>Council CSRs</u> Update of the 2008 BEPGs and employment policies <i>See p. 8</i>
Public Finances	<p>1. Ensure that the government debt ratio is kept on a sustained declining trend at a satisfactory pace by maintaining high primary surpluses.</p> <p>2. Ensure effective control of government current primary spending by addressing resolutely the problem of the inelastic elements of expenditures, e.g. the wage bill.</p> <p>4. Continue reforms of the social security system, and in particular the pension system, in order to avoid budgetary strains in the future due to the problem of the ageing population.</p>	<p>1. Ensure that the government debt ratio is kept on a sustained declining trend at a satisfactory pace by maintaining high primary surpluses.</p> <p>2. Take appropriate measures to avoid the occurrence of an excessive deficit; move towards achieving a medium-term close to balance or in surplus position by ensuring an improvement in the cyclically-adjusted budget balance of at least 0.5 per cent of GDP per year, specifically through effective control of government current primary spending.</p> <p>4. Continue reforms of the social security system, and in particular the pension system, in order to avoid budgetary strains in the future due to the problem of the ageing population.</p>	<p>1. Ensure the continuation of fiscal consolidation and debt reduction and fix a timetable for the implementation of pension reform with a view to improving long-term fiscal sustainability</p>	<p>1. Pursue fiscal consolidation and debt reduction, and proceeds rapidly with the implementation of the pension reform, with a view to improving long-term fiscal sustainability.</p>	<p>1. Continue pursuing fiscal consolidation and debt reduction, and proceeds rapidly with the implementation of the pension reform, with a view to improving long-term fiscal sustainability.</p>	<p>1. Pursue fiscal consolidation in the medium-term and improves the efficiency of primary expenditure, speed up on-going reforms in tax administration and the budgetary process, reduce the debt-to-GDP ratio, and further proceed with the implementation of the pension reform as rapidly as possible.</p>

	2003	2004	2006	2007	2008	2009
Public Administration			2. Modernise its public administration by building up effective regulatory, control and enforcement capacities, including through upgrading skills, in order to ensure effective use of Structural Funds.	2. Implement the reform of its public administration , by building up effective regulatory, control and enforcement capacities, by modernising its human resources policy; and through effective use of the Structural Funds.	2. Implement the reform of its public administration , by building up effective regulatory, control and enforcement capacities, by modernising its human resources policy; and through effective use of the Structural Funds.	3. Implement reform of the public administration by building up effective regulatory, control, and enforcement capacities, with an emphasis on simplifying the regulatory environment for business and citizens, and reducing red tape.

	2003	2004	2006	2007	2008	2009
Labour market and Education	<p>3. Use public resources more effectively with the aim of improving labour productivity and enhancing working capacity of the unemployed.</p> <p>5. Step up efforts to increase the availability of skilled human capital, and continue to promote business involvement in R&D and innovation, and to improve ICT diffusion.</p> <p>8. Improve work incentives, particularly in tax and pension systems, in order to encourage increased employment in the formal sector, including part-time work.</p> <p>9. Promote changes to the wage bargaining to ensure that wages reflect productivity differentials.</p> <p>10. Implement the labour reform package to improve the balance between flexibility and security by ensuring effective implementation of reforms aiming to modernise work organisation and by reviewing unduly restrictive labour market regulations</p>	<p>3. Use public resources more effectively with the aim of improving labour productivity and enhancing working capacity of the unemployed.</p> <p>5. Step up efforts to increase the availability of skilled human capital, and continue to promote business involvement in R&D and innovation, and to improve ICT diffusion.</p> <p>8. Improve work incentives, particularly in tax and pension systems, in order to encourage increased employment in the formal sector, including part-time work.</p> <p>9. Promote changes to the wage bargaining to ensure that wages reflect productivity differentials.</p> <p>10. Implement the labour reform package to improve the balance between flexibility and security by ensuring effective implementation of reforms aiming to modernise work organisation and by reviewing unduly restrictive labour market regulations</p>	<p>3. Modernise employment protection including legislation, reduce the tax wedge on labour, and strengthen active labour policies to foster flexibility and security in the labour market and transform undeclared work into formal employment.</p> <p>4. Increase investment in compulsory and higher education, implement the reform of lifelong learning and improve quality and responsiveness to labour market needs, reduce early school leaving, and increase adult participation.</p>	<p>3. Within an integrated flexicurity approach, modernise employment protection including legislation, reduce the tax burden on labour, strengthen active labour market policies and transform undeclared work into formal employment.</p> <p>4. Accelerate the implementation of reforms on education and lifelong learning, in order to improve quality and responsiveness to labour market needs, increase participation, and allow for a smooth transition into employment, particularly for the young.</p>	<p>3. In line with an integrated flexicurity approach, modernise employment protection including legislation in order to cover all forms of contractual arrangements, reduce further the tax burden on labour, strengthen active labour market policies and transform undeclared work into formal employment.</p> <p>4. Accelerate the implementation of reforms on education and lifelong learning, in order to improve quality and responsiveness to labour market needs, increase participation, and allow for a smooth transition into employment, particularly for the young.</p>	<p>4. Within an integrated ‘flexicurity’ approach, modernise employment protection legislation, reduce non-wage costs to the low-paid, further strengthen active labour market policies, and transform undeclared work into formal employment; and accelerate the implementation of reforms on education and training, increase participation in lifelong learning and facilitate transition to work, particularly for young people.</p>

	2003	2004	2006	2007	2008	2009
Business environment and competition policies	<p>6. Enhance particularly competition in the energy sectors.</p> <p>7. Continue to simplify the business and taxation environment and raise the transposition rate of internal market directives.</p>	<p>6. Enhance particularly competition in the energy sectors.</p> <p>7. Continue to simplify the business and taxation environment and raise the transposition rate of internal market directives.</p>				<p>2. With a view to improving competitiveness and ensuring adequate unit labour cost developments, take measures to increase competition in professional services, implement reforms to increase investment in R & D; and use the Structural Funds more effectively to accelerate growth oriented investment projects.</p>

Recommendations by the IMF between 2003 and 2009
Extracts from the "IMF Executive Board conclusions" under Art. IV consultation

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2009</u>
Public finances	<p>... Accelerate the pace of fiscal consolidation and to aim for faster progress in reducing the high public debt... stressed the importance of correcting any budget slippages promptly, and called for a more ambitious, front-loaded fiscal adjustment than is currently envisaged.</p> <p>... Public expenditure restraint and prioritization will be key to achieving fiscal consolidation, in particular, in the areas of public sector wages and employment... and encouraged the authorities to proceed with plans for reducing Greece's relatively high military expenditures.</p>	<p>...Further durable adjustment measures will be needed to cut the deficit and reduce the public debt, in view of the large anticipated costs of population aging. ... Early pension reforms and ... public debate needed to develop a social consensus for change. Contain the public sector wage bill, cut government loan guarantees, control health care, and review of defence outlays. ... Develop an explicit medium-term budget framework laying out a consistent and realistic set of economic assumptions, expenditure ceilings, and specific policy measures.</p>	<p>... Fiscal consolidation is the top economic policy priority... implement additional and durable measures to contain current spending and reach fiscal balance by the end of the decade. ... Accelerate preparation of pension reforms, in order to ensure their early implementation...</p> <p>The recent reforms to the health care system must be followed up to help contain prospective cost pressures...</p> <p>In addition, a multi-year fiscal framework would enhance fiscal policy planning and credibility.</p>	<p>... Achieve a larger deficit cut than currently budgeted ... focus on primary spending, ...</p> <p>Accelerate preparation of the pension reform, ... constructive involvement of all social partners will be crucial for an early adoption of concrete measures.</p> <p>Reforms to the health-care sector should aim to provide quality medical services while containing costs.</p>	<p>... to achieve a balanced budget by 2010... further improvements in tax administration and a tighter control over spending will be necessary...</p> <p>Sustained fiscal consolidation thereafter to a surplus position will be helpful for safeguarding debt sustainability...</p> <p>Develop a medium-term budget framework...</p> <p>Comprehensive reform of the social security system will be required to preserve the long-term sustainability of the public finances taking into account the costs of population aging.</p>	<p>...Fiscal consolidation can no longer be postponed...</p> <p>Further durable efforts to place the public debt on a sustainable downward path...</p> <p>Renewed efforts in social security reform, in light of the very high projected aging costs...</p>

IMF	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2009</u>
Public Administration	<p>... to improve public sector transparency and efficiency... and to take further steps to limit the room for discretion and abuse in the civil service.</p> <p>...Increase disclosure of debt-creating below-the-line transactions and limiting the amount of such transactions to future privatization receipts. ...</p>	<p>IMF technical assistance on tax administration and public expenditure management...</p> <p>Public-private partnership arrangements should be accompanied by a full accounting of explicit and implicit government liabilities, transparent project selection and evaluation, and appropriate risk transfer to the private-sector partners....</p>	<p>... Full and timely implementation of the recommendations of the recent Fund technical assistance missions on tax administration and public expenditure management...</p> <p>Better governance of state-owned enterprises and more flexible employment conditions would help to improve service levels, reduce losses, and pave the way for further privatization where appropriate. Public private partnerships could help to foster needed infrastructure investment.</p>	<p>...Further reforms to tax administration and expenditure management would be key to balancing the budget. Priorities in this respect include combating tax evasion, integrating program-based budgeting into budget preparation and execution, using fiscal audits to evaluate programs against objectives and to ensure value for money, and developing a medium-term budget framework to guide fiscal strategy and prioritize policy objectives...</p> <p>Directors welcomed the proposed reforms to state-owned enterprises and the new framework law for public-private partnerships...</p>	<p>Improving tax compliance by simplifying tax laws and procedures and further intensifying risk-based auditing... Phase out distortionary tax exemptions with a view to broadening the tax base and simplifying the rate structure.</p> <p>Further reforms to expenditure management... Additional budget reforms should include extension of the coverage of the budget, full integration of program-based budgeting into budget preparation and execution, and introduction of appropriate financial management information systems.</p>	<p>urgency of structural reform, in particular in public administration, public enterprises, and product and labour markets.</p>

IMF	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2009</u>
Statistics	<p>Directors welcomed the important statistical improvements ... and looked forward to further steps to address remaining significant weaknesses including in the fiscal area.</p>	<p>Regarding the revisions to the fiscal data, Directors ... regretted the significant past understatements of the deficit and public debt ... noted that the lack of accurate data has hindered surveillance and emphasized that complete, timely, and accurate fiscal data are essential for sound policy making. ...</p>	<p>..... strengthened reporting of fiscal data, including the publication of financing-side fiscal data, will help increase the credibility of fiscal policy. Also important will be improved quarterly national accounts data, which are under preparation, and formal independence for the statistical service.</p>	<p>Directors encouraged the authorities to continue strengthening economic statistics. They called on the authorities to improve the quarterly national accounts and publish full financing-side fiscal data. Directors also considered that more timely updates of the national accounts will also be important, and encouraged the authorities to grant formal independence to the national statistical office to strengthen its credibility.</p>	<p>Directors stressed the importance of further steps to improve the quality of statistical data.</p>	<p>They encouraged the authorities to strengthen official statistics and to publish more high-quality data to facilitate monitoring, analysis, and policy making.</p>

IMF	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2009</u>
Structural reforms for Competitiveness	<p>...Wage moderation and public sector wage agreements to lead by example. .. importance of steps to facilitate labour market entry by women and the young, improve labour market flexibility and job matching, and increase wage differentiation. Product market reforms aimed at raising productivity and fostering competition will help strengthen price competitiveness Need for further structural efforts to bolster competition, reduce administrative barriers and improve the business climate ... strengthen the effectiveness of the Competition Authority and the easing of entry barriers in the electricity sector...</p>	<p>... faster progress is needed on labour market reform, and ... make strong efforts to build the necessary consensus for moving forward in this area. Enhanced labour market performance should be achieved through easing strict employment protection measures, extending part-time and temporary employment opportunities, improving education and training, and ensuring that wage settlements are in line with productivity and euro area inflation objectives.</p> <p>... It will also be important to simplify judicial procedures, including those related to bankruptcy. ...</p>	<p>... key long-term policy challenge is to improve productivity and competitiveness, thereby fostering high economic growth and rising living standards... On labour markets, where less reform has taken place despite the chronically high unemployment rate and low participation, Directors called for further easing of hiring and firing restrictions and more flexibility in minimum wages... Simplify the tax system and overhaul tax administration, cut red tape for businesses, further liberalize gas and electricity, and ensure that the competition authority becomes more proactive.</p>	<p>...further reforms to product and labor markets would be required to sustain medium-term growth and strengthen international competitiveness... Further initiatives in the labor market, including relaxation of strong employment protection legislation and decentralization of the bargaining system. Implement further measures, including extending simplified business licensing procedures to all sectors, accelerating the liberalization of network industries, and redoubling efforts to combat corruption and widespread tax evasion.</p>	<p>... further reforms to product and labour markets are key to sustaining medium-term growth and strengthening international competitiveness... Further initiatives in the labor market should include reducing the restrictiveness of the employment protection legislation and increasing the flexibility of the wage setting system. Further extension of simplified business licensing procedures, privatization of infrastructure facilities, and strengthened competition in the network industries and the transport sector.</p>	<p>Need to address the loss in competitiveness, which could lead the economy to face extended slow growth, especially if the external environment and global financial conditions were to remain weak.... streamlining the public sector, further reducing administrative burdens, liberalizing network industries, and implementing the EU Services Directive.</p> <p>Labour reforms aimed at lowering unit labour costs and increasing employment—supported by agreements among employers, unions, and the public sector—will also be critical.</p>

IMF	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2009</u>
Financial Markets Regulation and Supervision	<p>... in the face of evolving financial sector risks... its rapid increase heightens the need for vigilance and readiness to take appropriate steps, ... the establishment of a fully independent supervisory agency that would closely coordinate with other financial sector supervisors.</p> <p>Directors encouraged the authorities to undertake a Financial Sector Assessment Program....</p>	<p>... Directors welcomed the authorities' actions to ensure a robust banking system and ... encouraged the authorities to monitor the situation closely and take prompt corrective action as needed. ...</p>	<p>... Credit risks might prove unexpectedly high, especially in the event of an economic downturn or a significant increase in interest rates. Moreover, Greek banks are relatively small and have a high cost structure... Continue strengthening of the supervisory framework, close monitoring of bank assets and non-performing loans, and further develop commercial banks' risk management practices...</p> <p>The insurance sector is weak and poorly supervised, and urged the authorities to make the new insurance supervisor fully operational and independent as soon as possible.</p>	<p>... Persistent rapid loan expansion and high levels of non-performing loans (NPLs) can raise vulnerabilities... Continue supervision of banks' risk management practices, close monitoring of banks' assets and NPLs, and strengthen incentives for banks to contain risks, including through sufficient provisioning and write-offs of NPLs. With the increasing presence of Greek banks in south-eastern Europe, close cooperation with other supervisors ... would also be essential... Ensure a smooth and rapid establishment of a fully operational independent insurance supervisor.</p>	<p>...The banking system appears sound and has remained unaffected by the recent financial market turbulence to date. Nevertheless, financial sector vulnerabilities, including those arising from continued rapid credit growth, rising exposures in south-eastern Europe, the still-high level of nonperforming loans, and possible need to rely on wholesale funding will require close monitoring. In this context, Directors welcomed the Bank of Greece's efforts to strengthen provisioning requirements and lending standards, and called for upgrading the stress-testing framework. ...</p>	<p>...The banking system has weathered the global crisis well, ... it has felt the effects through higher funding costs, deleveraging, and asset-quality erosion... Continue to strengthen relationship with central banks and supervisory authorities in South-eastern Europe countries, including by conducting joint crisis-management exercises...</p> <p>In case of systemic pressures, seek market solutions first, and include clear exit strategies should public support for individual banks be required. Banks need to prepare for the unwinding of liquidity assistance from the ECB.</p>

AUTHOR

Alice Zoppè
Economic Governance Support Unit
Directorate for Economic and Scientific Policies
Directorate-General for the Internal Policies of the Union
European Parliament
B-1047 Brussels

LANGUAGE VERSION

Original: EN

ABOUT THE EDITOR

Economic Governance Support Unit provides support to the relevant bodies of the European Parliament in playing an effective role within the European Union framework for coordination and surveillance of economic and fiscal policies.

E-mail: egov@ep.europa.eu

This document is also available on Economic and Monetary Affairs Committee homepage, under section European Semester and Economic Dialogue at: www.europarl.europa.eu/ECON

Manuscript completed in January 2014.

© European Union, 2014

DISCLAIMER

This document is drafted by the Economic Governance Support Unit (EGOV) of the EP based on publicly available information and is provided for information purposes only. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy.