Highlights: Troika report from mission to Greece

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(Reuters) - The EU, ECB and IMF mission to Greece said in a report obtained by Reuters on Wednesday the next disbursement of aid could not take place until it corrected the under-financing in its adjustment program.

Following are highlights of the findings of the so-called "troika" experts of the European Union, European Central Bank and International Monetary Fund:

RECESSION

"The recession appears to be somewhat deeper and longer than initially projected ... There is evidence that the rebalancing of the economy is ongoing and the quarter of deepest contraction have already been passed ... However, a further contraction in real GDP is still expected in the second half of 2011, as the need for additional fiscal consolidation and liquidity constraints will postpone the recovery for a couple of quarters. The real GDP growth for 2011 is now projected to be -3.8 percent. Positive, though moderate, growth rates are projected from 2012 onwards."

FISCAL GOALS

"Tax collection continues to underperform compared to plans, even after the downward revision agreed in previous reviews. Although part if this underperformance results from the severity of the recession and liquidity constraints faced by taxpayers, the several measures to fight tax evasion implemented by the government have not been fully effective yet."

"The previous review mission (February 2011) identified that, without additional measures, the fiscal target for 2011 would be missed by at least three quarters of a percentage point of GDP. In the meantime, the gap between fiscal projections and the deficit ceiling has widened substantially. If no action was taken, the government deficit in 2011 would remain close to the 2010 level, above 10 percent of GDP."

"The aim of the medium-term fiscal strategy is to identify the deficit-reducing measures which will durably reduce the deficit. The objective is to reduce the government deficit to 2.5 percent of GDP in 2014 and further in 2015, and place the debt ratio on a downward slope. To meet this objective, the government identified fiscal consolidation measures of 10 percent of GDP from 2011 through 2014, and above 11 percent of GDP if the period 2011-15 is considered."

"This fiscal package can only be successful if it is implemented in a decisive manner with the support of all government departments. Legislation is expected to be approved by parliament by end June and the first week of July."

PRIVATISATION

"The Greek government is one of the European sovereigns with the richest portfolio of assets ... Most of these assets have not provided any relevant revenue; loss-making state-owned enterprises have actually been a source of costs borne by the taxpayers. Privatizing those assets will contribute to reduce the government balance-sheet with a small, if any, cost, in terms of future revenue, and may actually reduce costs ... To accelerate the procedure, and ensure the irreversibility of the whole process, the appropriate governance is being put in place: a privatization agency managed by an independent and professional board will be established shortly. The Commission and the euro-area member states will be able to nominate observers to the board of this agency. Moreover, to strengthen credibility, the mission agreed that binding quarterly targets on privatization receipts would be part of the conditionality in an updated MoU."

SUSTAINABILITY

"Sticking to the fiscal consolidation and privatization plans will contribute to bringing the government debt ratio-to-GDP to a sustainable path. On the basis of current projections, the Greek government

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debt ratio will peak ... in 2012/2013 and decline afterwards, with a significant contribution from the privatization plan. Although Greece will have to persevere in fiscal austerity and the reduction in the debt ratio will extend for many years, the inflexion in the debt-to-GDP ratio will contribute to improve the market confidence in the Greek economy."

BANK BUFFERS

"The Bank of Greece will require additional capital buffers against potential further deterioration of the operational environment, based on each bank's specific risk profile. However, the mission wishes to highlight that the outlook for the Greek financial sector is not independent from the choices taken to close the sovereign financing gap."

STRUCTURAL REFORMS

"Although there are improvements in competitiveness thanks to a reduction in wages, the structural reforms have not yet reached a critical mass that will allow them to have a tangible result in the economy's productivity and ability to grow."

POLITICAL CONSENSUS

"The mission identified some points of convergence between the adjustment program and the policy proposals of the main opposition (ND). ND supports an extensive privatization program and there is convergence in the views on most growth-enhancing structural reforms. ... Moreover, the mission agreed with ND on the critical importance of eradicating arrears to suppliers and settle tax refunds as soon as possible, on the need to accelerate the absorption of structural funds. However, the mission was of the view that the large tax cuts in the ND's economic program were unrealistic and incompatible with the overall objectives of the adjustment program. However, the mission concurred with both the government and the opposition that one should work toward the fiscally neutral tax reform, from autumn on, with the objective of broadening tax bases, eliminating tax exemptions, which could therefore lead to a reduction in the labor tax rates. At the time of writing, it appears unlikely ND will vote favorably the new package of fiscal measures."

FINANCING

"Greece will likely not be able to return to markets in 2012. The financing plan agreed a year ago assumed that Greece would stay out of the market for almost two years and would resume rolling over her medium- to long-term debt from the beginning of 2012 on. This is now a very remote scenario. The cost of market financing remains prohibitive.... It is unlikely yields will return to affordable levels in a matter of a few quarters. The market skepticism is related to doubts on the ability and willingness of the Greek government and society to persevere in fiscal consolidation, and in restoring competitiveness. Moreover, uncertainty on the functioning of the EU and euro-area financing facilities has aggravated the tension in financial markets."

"The financing strategy needs to be revised. Given the remoteness of Greece returning to funding markets in 2012, the adjustment program is now underfinanced. The next disbursement cannot take place before this under financing is resolved."

(Reporting by Andreas Rinke; writing by Stephen Brown and Eva Kuehnen)