

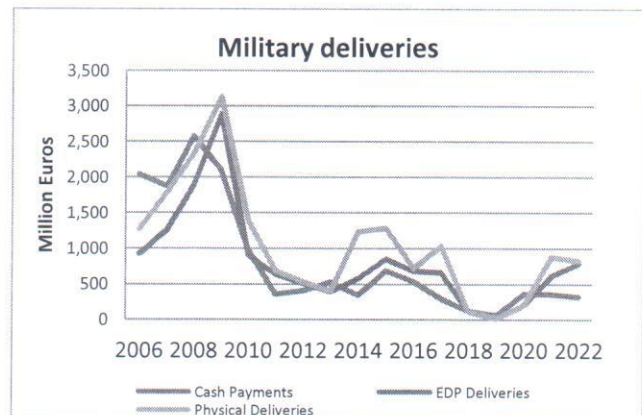
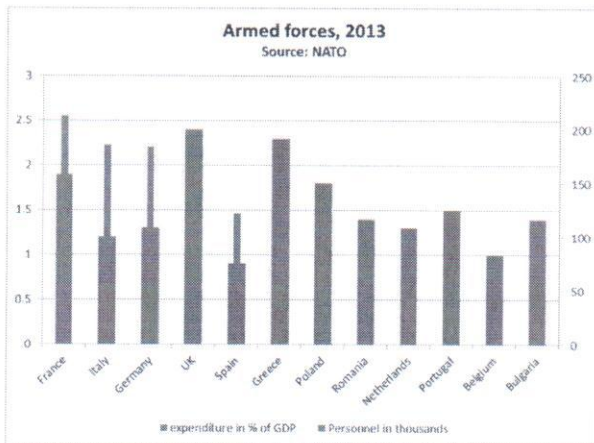
Military expenditure in Greece

Military expenditure in Greece has always been very high, peaking at over 5% in the mid-1990, and still at almost 4% in 2009 (see annex for a box presented in December 2012).

Major cuts were undertaken under the programme, but in 2013 Greece is still a high spender, and with expenditure at 2.3% of GDP, is very close second to the UK (2.4%) in Europe. Across NATO, Greece is third after the US and the UK in percentage of GDP.

Greece has the sixth largest armed force in the EU in absolute terms, with 109,000 effective, after the large EU countries close to Spain with 122,000. It is higher than in Poland, much larger than in Romania and Bulgaria. It is by far the country with the highest share of military staff to population. The largest share of military expenditure is on personnel

Contrary to most other countries in Europe, Greece has a conscription rule, whereby people have to spend 9 months in the Land Army, and 12 months in the Air Force or the Navy. The mandatory service was reduced to these durations in August 2009. Thereafter, there have been at times talks of reducing duration further but they have not been substantiated. A reduction in mandatory service would imply a reduction in personnel with effect not only on wages but also on goods and services needed to equip, host and feed the personnel.



There is scope to tap the potential for more automated and less labour intensive options also in the Greek army. The increasing focus on the drone technology and the importance of unmanned military vehicles around the globe suggests there is room for more efficient use of resources in Greece. Currently, there are programs/initiatives to use the drone technology in projects related to monitoring the borders and controlling immigration and crime related risks or to deliver food and other medical supplies to more remote areas.

Further purchases are in the pipeline. According to the latest information from the Greek General Accounting Office (MoF), it is envisaged some additional capital goods procurement in the military sector which create additional costs pressures and future public finance risks. In this context, there is a need to urgently review these intentions and to develop credible and sector-tailored specific budget monitoring tools to contain the public finance risks associated to this sensitive sector.

Greece could move to a more professional army and further reduce military expenditure. Shortening the conscription period, better procurement rationalizing the military equipment acquisition plans, and the use of new means should be pursued to achieve savings.

In the discussions with authorities, both the Commission and the ECB have been indicating the scope for savings in military spending, while strengthening the defense capacity of the country. It should be possible to generate savings in the order of €200 million in 2016 by putting lower ceilings to the expenditure of the Ministry of Defense. These should be accompanied by tailored specific budget execution monitoring tools in order to tackle the increasing costs pressures and contain expenditure in the military sector.

This measure, however, does not appear in the list of Prior Actions. The rules of the IMF prevent it from including Prior Actions on defense. Besides the form concerning the Prior Actions, the IMF has been shy in simply discussing cuts in this area over the programme life, and does not consider the possible fiscal impact of the measure above which we could support. A reason they also mention is the complexity of implementing some of those measures in absence of a clear parametric action.

One action which may be considered of parametric nature could be the reduction in conscription duration. This has not been discussed with the authorities given the sensitivity of the issue, but could be raised in a more confidential setting.

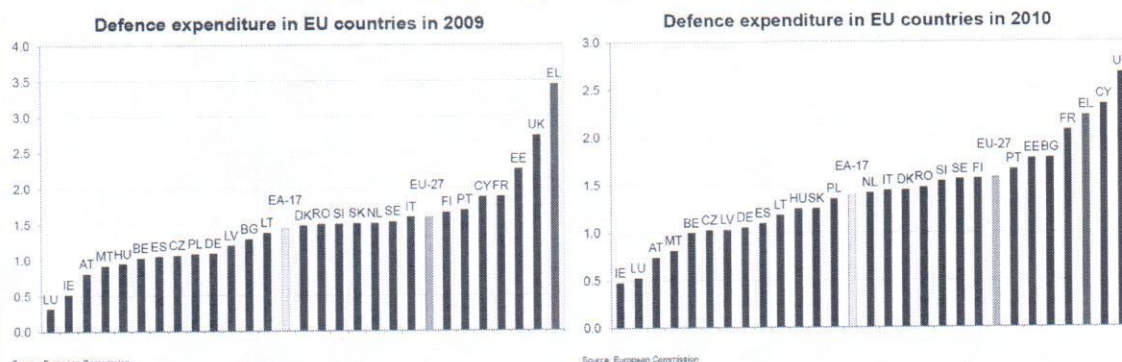
In addition, a reform of the special wage grid for uniformed personnel should be carried out in the Autumn (envisaged as a Structural Benchmark). The different wage entitlements and related bonuses/benefits should be reviewed as part of the broader wage grid reform in order to identify possible short term budgetary savings.

In a recent article the Alternate Minister of Defence Kostas Isihos stated that the Government is about to submit a draft law on Military reforms within the first two weeks of June 2015. This could provide the opportunity for changes which may lead to budgetary savings.

Box 7. The contribution of defence expenditure in fiscal consolidation

The geo-strategic peculiarities of Greece traditionally led to very high expenditure in defence. According to Eurostat data, military spending had even reached 5.4% of GDP in 1994, before easing down in the next years till the end of the '90s. In 2000 it increased again to 4.0%, while in 2009, just before the First Economic Adjustment Programme, it reached 3.9%. From 2000 till 2009 Greece steadily had the highest defence expenditure in terms of GDP between the 27 member states (see Graph 7.1).

Graph 7.1. Defence expenditure in EU countries (% of GDP)



As part of the implementation of the economic adjustment programme, significant cuts were made in military spending (without affecting the defence capability), as in all other categories of expenditure. Defence expenditure already in 2010 was reduced by 1.2% of GDP, to a level of 2.2% of GDP, thereby placing in 2012 Greece third among the 27 member states in terms of overall defence expenditure. Further cuts of 0.5% of GDP in military spending were adopted in 2011 and more is being implemented in the context of the MTF5 2013-16. In more than one occasion the media focused their attention on the military procurement in Greece pointing out the rather high level of these expenditure for a programme country facing social and economic hardship. This view is no longer supported by factual evidence since 2010. Accrual data and projections on deliveries for military procurement sharply and steadily declined from 2009 onwards (Graph 7.2) because of reductions adopted in the past and throughout 2013-16 due to further reductions described above. Military operational expenditures and wages and pensions for armed forces are also expected to decline by respectively 62% and 41% between 2009-2016, because of decisions adopted with the previous MTF5, the additional cuts included in the inception of the second programme and the further reductions included in the 2013-16 MTF5. Further rationalisation of expenditures could if sought still be achieved through an increase of the use of e-procurement or by the move to a professional military service.

Graph 7.2. Defence expenditure in Greece

