IMF Executive Board Approves €28 Billion Arrangement Under Extended Fund Facility for Greece

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The Executive Board of the International Monetary Fund (IMF) today approved a four-year SDR 23.8 billion (about €28 billion, or US$36.7 billion) arrangement under the Extended Fund Facility (EFF) for Greece in support of the authorities' economic adjustment program. The approval allows for an immediate disbursement of SDR 1.4 billion (about €1.65 billion, or US$2.2 billion). The EFF arrangement entails exceptional access to IMF resources, amounting to 2,159 percent of Greece's quota.

The Executive Board also took note of Greece's cancellation of the three-year Stand-By Arrangement (SBA) for Greece which had been approved in May 2010 (see Press Release No. 10/187 (see Press Release No. 10/187).

Official sector support for the second Greek program entails €130 billion (about US$170 billion) in new financing, in addition to the remainder of the financing support for the first program of €34 billion (about US$44 billion). The IMF contribution of €28 billion will be disbursed in equal tranches over a four-year period. It represents about three-elevenths of the total, excluding payments related to the private sector involvement (PSI) and repayments of bonds held by the European Central Bank. This will keep the Fund's peak-exposure broadly unchanged relative to the SBA.

Following the Executive Board's discussion, IMF Managing Director and Chair Christine Lagarde said in a statement:

"Greece has made tremendous efforts to implement wide-ranging painful measures over the past two years, in the midst of a deep economic recession and a difficult social environment. The fiscal deficit has been reduced markedly and competitiveness has gradually improved. However, the challenges confronting Greece remain significant, with a large competitiveness gap, a high level of public debt, and an undercapitalized banking system.

"The new Fund-supported program will enable Greece to address these challenges while remaining in the Eurozone. The program focuses on restoring competitiveness and growth, fiscal sustainability, and financial stability. The authorities are fully committed to these ambitious objectives and stand ready to take any additional measures as may be necessary. The successful debt exchange operation, debt relief and long-term support from Greece's European partners, and the commitment of the major Greek political parties to program objectives and policies provide important assurances for the new program.

"Greece's priority is to undertake competitiveness-enhancing structural reforms. The government's bold labor market measures will play a crucial role in this regard, complemented by measures to liberalize professions and product markets, improve the business environment, and privatize state-owned assets.

"Significant further fiscal adjustment is necessary to put debt on a sustainable downward trajectory. Reaching a primary surplus of 4½ percent of GDP by 2014 will require politically difficult cuts in government spending, as well as decisive measures to address tax evasion. It is important that the adjustment be both fair and sustainable, through strengthening the core social safety net and tax collection efforts.

"Securing financial sector stability and depositor confidence is also a priority. The program secures liquidity support for Greek banks, and provides funds for their recapitalization, alongside incentives to preserve private ownership. The resolution framework and the governance of oversight agencies have been strengthened to ensure appropriate use of public funds and safeguard against conflicts of interest.

"Risks to the program remain exceptionally high, and there is no room for slippages. Full and timely implementation of the planned adjustment—alongside broad-based public support and support from Greece's European partners—will be critical to success. The euro area leaders have reiterated their commitment to provide adequate support to Greece during the life of the program and beyond until it has regained market access, provided that Greece fully complies with the requirements and objectives of the adjustment program."

ANNEX

Recent Economic Developments

Since 2009, Greece has been unwinding fiscal and external imbalances, but through deep recession. Real GDP has declined by more than 13 percent since 2009. Private investment led the downturn in 2009, while public retrenchment started only in 2010. With falling incomes and employment, private consumption took over as the main driver of the recession in 2011.

Competitiveness gains are not yet evident on an economy-wide basis, and the current account deficit has remained close to 10 percent of GDP. Productivity growth turned positive only at the end of 2011 as labor market adjustment gathered speed. However, this has come at the cost of rapidly rising unemployment. The slow adjustment despite deep recession owes much to wage and price rigidities in labor and product markets and a small tradables sector.

The fiscal deficit has improved considerably by about 6 ½ percentage points of GDP between 2009 and 2011 despite the steep recession. Still, the primary deficit achieved in 2011 of 2 ½ percent of GDP remains well below the long-run debt stabilizing level of a 1 ½ percent of GDP primary surplus. The recession and losses from government debt exposures have taken a deep toll on the banking system, leaving banks undercapitalized and necessitating a higher level of public support.

Program Summary

The Greek authorities' economic program aims, over time, at restoring competitiveness and growth, attaining fiscal sustainability and financial stability. While building on progress made under the SBA, the authorities recalibrated their program strategy to place additional emphasis on the implementation of structural reforms to accelerate economic growth and employment.

Strengthening competitiveness: The program aims to make the labor market more dynamic to improve competitiveness, strengthen growth and reduce unemployment. Enhanced measures to reduce rigidities in the product and service markets will be implemented to increase competition and decrease prices. Through ambitious privatization and steep reductions in bureaucratic barriers to investment, the government aims to restore investment and growth.

Improving the fiscal position: The program provides room for structural reform impacts in 2012, targeting a primary deficit of 1 percent of GDP. The bulk of fiscal adjustment, however, will take place in 2013-14 to bring the primary balance to the new target of 4½ percent of GDP. To improve the fiscal position, the government will focus on improving tax collection, but even with an ambitious effort in this area some 5½ percent of GDP in additional spending cuts will be needed. These will focus on reducing the size of government and more efficiently targeting social transfers. The core safety net will be strengthened to protect the most vulnerable in society.

Restoring financial sector stability: Significant resources will be set channeled to help banks cope with the impact of the recession and the restructuring of government debt. Government support will be structured so as to provide incentives to maintain private ownership where feasible. The framework for bank resolution and recapitalization and for financial sector oversight will also be strengthened, to ensure effective stewardship of bank recapitalization funds, and effective oversight of the system.

Reducing debt levels: A combination of private and official sector involvement is expected to deliver enough debt relief to place debt on a trajectory to fall below 120 percent of GDP by 2020 under the program baseline.

Growth Expectations

Growth in 2012 is expected to be in the range of -4½ to -5 percent, given the dominant influence of fiscal adjustment and labor market reforms. The recovery is expected to begin, quarter-over-quarter, in 2013, and benefit from moderate cyclical developments in 2014-2016.

Additional Background

Greece, which became a member of the IMF on December 27, 1945, has an IMF quota of SDR 1.1 billion (about €1.3 billion, or US$1.7 billion).

For additional background on the IMF and Greece, see:
http://www.imf.org/external/country/GRC/index.htm