Statement by the EC, ECB, and IMF on the Second Review Mission to Greece
November 23, 2010

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Athens during November 14-23 for the second review of the government's economic program, which is being supported by a EUR 80 billion loan from Euro area countries and a EUR 30 billion Stand-By Arrangement with the Fund.

The objectives underpinning the program are to restore fiscal sustainability, safeguard financial sector stability, and boost competitiveness—to create the conditions for sustained growth and employment. Maintaining fairness in the program also remains of paramount concern and this will continue to guide the direction of policies in the period ahead.

Our overall assessment is that the program remains broadly on track. The end-September quantitative criteria have all been met. While challenges remain, significant progress has been made, particularly in reducing the fiscal deficit.

Regarding **the outlook,** the economy is expected to begin turning around in 2011. Wage and price inflation is beginning to moderate, setting the stage for improvements in competitiveness.

In **the fiscal area,** the deficit reduction by 6 percent of GDP in 2010 is larger than the initially targeted change. At the same time, weaker-than-projected revenue collection and data revisions for 2009 mean that an extra effort will be needed to meet the deficit target of 7.5 percent of GDP in 2011, which the government has reaffirmed. New measures have been agreed to broaden tax bases and eliminate wasteful spending, particularly in the areas of:

- Health spending—which is inefficient relative to other euro zone countries;
- State enterprises—which are a heavy burden on the economy with perennial losses for Greek taxpayers; and
- Tax administration—which has instruments now coming into place to strengthen compliance.

The government's fiscal policy remains anchored in reducing the deficit to below 3 percent of GDP by 2014. The government's medium-term budget strategy paper, to be discussed in the next review, will specify time-bound action plans for crucial structural reforms needed to achieve the remaining fiscal adjustment, and to do so in a socially balanced way.

In **the financial sector,** the program has been effective in supporting stability. The activation of the EUR 25 billion expansion of the government program to guarantee bank bonds, which was adopted in August, will contribute to support the liquidity position of Greek banks. Some private banks have had some success recently in raising funding as well as capital in the markets. While the banking system remains under some pressure, capital is adequate and, as envisaged under the program, the Financial Stability Fund is now available to provide support, if needed. The government has analyzed options for banks under its control and devised a program to address their stability and efficiency. Banking and insurance supervision are also being strengthened.

Structural reforms are needed to secure Greece's competitiveness, reinvigorate output, and increase employment. While significant progress has been made, with some landmark reforms—including pension reform—the program has now reached a critical juncture. Many of the reforms that are necessary to transform Greece into a dynamic and export-driven economy require skillful design and political resolve to overcome entrenched interests. The challenge now is to implement an ambitious schedule for these next-stage reforms, including:

- Aligning wages more closely with firm-level productivity, including through reform of arbitration and collective bargaining systems.
- Opening up access to services, trades, and professions.
- Unlocking the potential of Greek industries by cutting red tape and barriers to entry, and privatizing state assets.

In summary: the reforms needed to return Greece to robust economic growth are underway, but developments to date also reveal that structural issues must be dealt with to make the adjustment sustainable.