

The Economic Adjustment Programme for Greece

Fifth Review – October 2011

A joint Commission/ECB/IMF mission met with the Greek authorities in Athens on 21 August-2 September and on 29 September-11 October 2011. The mission assessed compliance with the terms and conditions of the Fifth Review under the Economic Adjustment Programme.

The international assistance loan already disbursed to Greece amounts to EUR 65 billion. Of this amount, EUR 47.1 billion have been paid by the euro-area Member States, and EUR 17.9 billion by the IMF. The sixth disbursement will increase the overall amount of official loans to EUR 73 billion.

The Commission services recommend the sixth disbursement to Greece to take place as soon as possible, as soon as the agreed prior actions on fiscal consolidation, privatisation and labour market reform, which were announced by the government, have been legislated. This disbursement of an amount of EUR 5.8 billion will take place under the bilateral loans pooled by the Commission, as agreed under the Greek loan facility agreement of May 2010. The IMF is also expected to contribute an additional EUR 2.2 billion to this disbursement.

It is crucial to overcome administrative capacity constraints in implementing the adjustment programme. The scale of the reforms that need to be prepared, implemented and followed up is continuously testing the capacity limits of the Greek administration. Technical assistance to be provided by the European Commission, the IMF, the EU Member States or other organisations may, therefore, effectively contribute to the adjustment programmes' objectives.

The conditions of success of the economic adjustment programme remain the same: quick reduction in the fiscal deficit, implementation of the privatisation plan and unleashing the potential growth of the Greek economy through structural reforms. The deterioration in the economic activity will make policy-making even more challenging. Given the scale of the required reforms, political coordination inside the government and consensus in the whole Greek society remain as essential and decisive as ever. A full implementation of the fiscal, financial and growth-enhancing measures is indispensable: any measures that are announced but are not promptly implemented and followed-up will simply deplete political capital and add to uncertainty. A swift decision on a second programme could reduce uncertainty and help restoring economic confidence.