International Monetary Fund

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# IMF Executive Board Approves €30 Billion Stand-By Arrangement for Greece

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The Executive Board of the International Monetary Fund (IMF) today approved a three-year SDR 26.4 billion (€30 billion) Stand-By Arrangement for Greece in support of the authorities' economic adjustment and transformation program. This front-loaded program makes SDR 4.8 billion (about €5.5 billion) immediately available to Greece from the IMF as part of joint financing with the European Union, for a combined €20.0 billion in immediate financial support. In 2010, total IMF financing will amount to about €10 billion and will be partnered with about €30.0 billion committed by the EU.

The Stand-By Arrangement, which is part of a cooperative package of financing with the European Union amounting to €110 billion (about US$145 billion) over three years, entails exceptional access to IMF resources, amounting to more than 3,200 percent of Greece's quota, and was approved under the Fund's fast-track Emergency Financing Mechanism procedures.

"The Greek government should be commended for committing to an historic course of action that will give this proud nation a chance of rising above its current troubles and securing a better future for the Greek people," IMF Managing Director Dominique Strauss-Kahn stated. "Today, the IMF has demonstrated its commitment to doing what it can to help Greece and its people. The road ahead will be difficult, but the government has designed a credible program that is economically well-balanced, socially well-balanced—with protection for the most vulnerable groups—and achievable. Implementation is now the key. Together with our partners in the European Union, we are providing an unprecedented level of support to help Greece in this effort and—over time--to help restore growth, jobs, and higher living standards.

"Today's strong action by the IMF to support Greece will contribute to the broad international effort underway to help bring stability to the euro area and secure recovery in the global economy," the Managing Director stated.

The Greek government has designed an ambitious policy package to address the economic crisis facing the nation. It is a multi-year program that rests on the twin pillars of substantial up-front efforts to correct Greece's grave fiscal imbalances and to make the economy more competitive that in time will restore growth and jobs. The authorities' program is designed with fairness in mind so that the burden will be shared across all levels of society and that the most vulnerable groups will be protected. Exceptional financial assistance from the international community will support the authorities' efforts by providing sufficient financial resources to allow time for building a track record of policy implementation that will restore market confidence, foster growth and reduce Greece's fiscal imbalances.

Following the Executive Board's action on Greece, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, said:

"The Greek economy has been shaken by adverse market sentiment in the past few months. These pressures reflect concerns about unsustainable public finances and weak competitiveness. Initial attempts to address these problems failed to restore market confidence, with adverse spillover to the banking sector.

"The Greek authorities have now developed a bold program with strong upfront policies to re-establish credibility and regain market confidence. The program focuses on: (i) restoring fiscal sustainability, (ii) boosting external competitiveness, and
(iii) safeguarding financial sector stability. To allow time for Greece to implement these reforms and demonstrate a credible track record, as well as ease the burden of adjustments on the part of the Greek people, the international community has embarked on an unprecedented financial support package. The ambitious measures that the Greek authorities are strongly committed to undertaking under the program, including against the backdrop of the significant risk of spillover to other countries, merit an exceptional level of access to Fund resources.

"At the heart of the adjustment strategy is a fiscal consolidation to lower the deficit to well below 3 percent of GDP by 2014 and restore debt sustainability. The authorities have designed a large package of fiscal measures of 11 percent of GDP to achieve this target. The measures have been heavily frontloaded and fully identified. The package appropriately includes a fair distribution of the adjustment burden across society by protecting the most vulnerable and imposing a higher tax burden on the relatively affluent. It also includes measures to rationalize the public sector.

"While short-run output will necessarily contract as the economy adjusts, structural reforms should help to restore external competitiveness and, together with improved market confidence, set the economy on a recovery path. Strong implementation of reforms aimed at increasing the flexibility of the labor market, improving domestic competition, and streamlining public administration will be key.

"The recent European Central Bank's decision to extend Greek bond eligibility for repurchase transactions of market debt instruments issued or guaranteed by the Greek government should help improve bank liquidity. Also, the establishment of a Financial Stability Fund will ensure that banks remain adequately capitalized during the downturn, preserving financial stability. Banking supervision and the legal frameworks will also be strengthened.

"The Greek authorities' program is an appropriately ambitious response to the current circumstances and constraints, but considerable downside risks remain. The challenge ahead will be to implement the program rigorously, while securing the necessary public consensus for reforms.

"The misreporting of Greece's 2008 fiscal and public debt data, which led to a breach of obligations under Article VIII, Section 5 of the Fund's Articles of Agreement, is regrettable. The authorities have already taken remedial measures to address data deficiencies, and they are committed to taking additional corrective actions in consultation with the Fund, EU partners, and Eurostat. No further action is required by the Fund under its procedures for the breach of obligations. Going forward, strict compliance with reporting requirements to the Fund will be required."

## ANNEX

### Recent Economic Developments

Greece entered the global recession with deep-rooted vulnerabilities. Amid slowing growth and reduced global risk appetite, the country's heavy dependence on foreign borrowing heightened concerns over long-standing fiscal and external imbalances. A significant revision to the 2008 and 2009 fiscal deficit data announced by a newly elected government shocked markets because they were twice as large as projected and revealed misreporting of official statistics. Public debt was commensurately increased from below 100 percent of GDP to 115 percent of GDP by end-2009. Further, despite the recession in 2009, the current account deficit stood at 11 percent of GDP—evidence of significant domestic demand inflation and external competitiveness problems.

Initial attempts by the new government to address these vulnerabilities in January 2010 were not convincing. Greece was already in the Excessive Deficit Procedure of the European Union's Stability and Growth Pact and the authorities agreed to reduce the fiscal deficit to below 3 percent of GDP by 2012. The 2010 budget targets, however, were not sufficiently underpinned by measures, and the macroeconomic assumptions underlying the deficit correction program appeared too optimistic, thus causing further market jitters.

After extensive consultations with the European Commission, additional fiscal measures were announced by the Greek authorities in February and March 2010, but these also failed fully to cement market confidence. Lastly, markets were further unsettled by what was perceived to be insufficiently clear financing assurances from euro partner countries. As a result, market sentiment turned down further, and concerns about fiscal sustainability deepened, thereby worsening the crisis of confidence. Access to foreign funding dried up and spreads on government paper widened sharply, threatening the economy with a downward spiral of unfolding risks.

**Program Summary**

The authorities' program focuses on the three key challenges:

**1) Restoring confidence and fiscal sustainability**: The program envisages an exceptionally strong frontloaded fiscal effort, with fully identified measures through 2013. This is to bolster confidence, regain market access, and put the debt-to-GDP ratio on a firmly declining path from 2013. The measures are also designed to buffer Greece's most vulnerable.

**2) Restoring competitiveness**: The program includes nominal wage and benefit cuts and structural reforms to reduce costs and improve price competitiveness, which would help Greece transition to a more investment and export-led growth model. It also envisages improved transparency and a reduced role of the state in the economy.

**3) Safeguarding financial sector stability**: As the banking system goes through a period of deflation, which is expected to impact profitability and bank balance sheets, the safety net for dealing with solvency pressures will be expanded by establishing a Financial Stability Fund (FSF). To mitigate liquidity pressures stemming from the downgrading of the sovereign, the already existing government banking liquidity support facilities will be extended,

**Growth and Inflation Expectations**

Real GDP growth is expected to contract sharply in 2010–2011, and recover thereafter with unemployment peaking at nearly 15 percent of GDP by 2012. The frontloaded fiscal adjustment in 2010-11 will suppress domestic demand in the short run; but from 2012 onward, improved market confidence, a return to credit markets, and comprehensive structural reforms, are expected to lead to a rebound in growth.

Inflation is expected to remain below the euro average. The needed adjustment in prices is expected to come from domestic demand tightening, both through fiscal adjustment and efforts to moderate public wages and pensions, and other costs in the economy. Due to their demonstration effects, private sector wages are also expected to moderate. This will help restore price competitiveness.

## Additional Background

Greece, which became of member of the IMF on December 27, 1945, has an IMF quota of SDR 823.0 million.

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

### Greece: Selected Economic Indicators

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|
| | Projections | | | | | | |
| | (Percentage change, unless otherwise indicated) | | | | | | |
| Domestic economy | | | | | | | |
| Real GDP | 2.7 | 2.1 | 2.1 | 1.1 | -2.6 | -4.0 | -2.0 |
| Output gap (percent of pot. output) | -3.1 | -3.7 | -4.0 | -4.7 | -4.6 | -1.1 | 4.0 |
| Total domestic demand | 2.1 | 1.8 | 1.7 | 0.1 | -5.2 | -7.1 | -2.4 |
| Private consumption | 2.5 | 2.5 | 2.8 | 0.8 | -3.7 | -4.0 | -1.8 |
| Public consumption | -0.1 | -3.2 | -6.6 | -3.6 | -5.1 | -10.6 | 9.6 |
| Gross fixed capital formation | 2.3 | 3.5 | 4.8 | 0.8 | -11.8 | -11.4 | -13.9 |
| Change in stocks (contribution) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -1.0 | 0.0 |
| Foreign balance (contribution) | 0.3 | 0.5 | 0.4 | 1.0 | 3.6 | 3.8 | 0.7 |
| Exports of goods and services | 6.0 | 5.9 | 6.0 | 5.9 | 5.4 | 4.5 | -18.1 |
| Imports of goods and services | 3.7 | 4.6 | 3.8 | 1.6 | -6.1 | -9.7 | -14.1 |
| Unemployment rate (percent) | 13.4 | 14.1 | 14.3 | 14.8 | 14.6 | 11.8 | 9.4 |
| Consumer prices (HICP), period average | 1.0 | 0.9 | 0.7 | 1.2 | -0.4 | 1.9 | 1.3 |
| GDP deflator | 1.1 | 1.0 | 0.7 | 1.0 | -0.5 | 1.2 | 1.4 |
| | (Percent of GDP) | | | | | | |
| Balance of payments | | | | | | | |
| Current account | -1.9 | -2.8 | -4.0 | -5.6 | -7.1 | -8.4 | -11.2 |
| Trade balance | 2.4 | 1.9 | 1.3 | 0.6 | -0.2 | -3.5 | -7.7 |
| Total transfers | 0.3 | 0.4 | 0.4 | 0.5 | 0.5 | 0.4 | 0.5 |
| Net income receipts | -4.7 | -5.1 | -5.7 | -6.7 | -7.5 | -5.2 | -4.1 |
| Net international investment position | -102 | -105 | -106 | -106 | -104 | -95 | -86 |
| Public finances (general government) | | | | | | | |
| Total revenues 1/ | 36.3 | 37.2 | 38.2 | 38.5 | 39.0 | 40.0 | 36.9 |
| Total expenditures 1/ | 50.6 | 52.3 | 54.0 | 53.9 | 53.2 | 50.5 | 50.4 |
| Measures (cum.) 2/ | 12.2 | 12.6 | 11.0 | 9.0 | 6.7 | 2.5 | … |
| Overall balance | -2.0 | -2.6 | -4.8 | -6.5 | -7.6 | -8.1 | -13.6 |
| Primary balance | 6.0 | 5.9 | 3.1 | 1.0 | -0.9 | -2.4 | -8.6 |
| Gross debt | 140 | 146 | 149 | 149 | 145 | 133 | 115 |
| Interest rates and credit | | | | | | | |
| Long-term lending interest rate 3/ | ... | ... | ... | ... | ... | 5.6 | 5.7 |
| Private credit growth 4/ | ... | ... | ... | ... | ... | ... | 4.2 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Exchange rates | | | | | | | |
| Nominal effective exchange rate 3/ | ... | ... | ... | ... | ... | 0.6 | 0.7 |
| Real effective exchange rate (CPI-based) 3/ | ... | ... | ... | ... | ... | 1.6 | 1.8 |
| | | | | | | | |
| Memorandum item: | | | | | | | |
| Nominal GDP (billions of euro) | 251 | 242 | 235 | 228 | 224 | 231 | 237 |
| Nominal GDP (percentage change) | 3.8 | 3.1 | 2.8 | 2.1 | -3.1 | -2.8 | -0.7 |

SS Sources: National Statistical Service; Ministry of Economy and Finance; Bank of Greece; and IMF staff estimates.

1/ Excluding unidentified measures.

2/ Measures fully identified up to 2013.

3/ As of January 2010.

4/Domestic credit growth of households and enterprises.

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