

BUFF/10/56

May 9, 2010

**The Acting Chair's Summing Up  
Greece—Request for Stand-By Arrangement; Rule K-1 Report  
on Breach of Obligations Under Article VIII, Section 5 of the  
Articles of Agreement  
Executive Board Meeting 10/45  
May 9, 2010**

Executive Directors observed that Greece entered the crisis with a dual problem of unsustainable public finances and deep-rooted structural weaknesses that had eroded competitiveness. Initial efforts in response to the rapidly unfolding risks failed to restore market confidence, setting off a chain of events that culminated in a full-blown crisis and spilled over into the banking system, risking imminent systemic contagion. It is against this background that the international community has come together to lend unprecedented financial assistance to Greece in support of its extraordinary adjustment program. Directors urged the Greek authorities to spare no efforts to ensure the successful implementation of the program, delivering fully on their commitment. Social safety nets for the most vulnerable and broad-based public support will be extremely important in this difficult undertaking.

Directors strongly supported the authorities' decisive multi-year strategy aimed at restoring fiscal sustainability and competitiveness, as well as preserving financial stability. They welcomed the extensive support and deep engagement of Greece's eurozone partners. Directors underscored the importance of continued close cooperation between the Fund, the European Commission, and the European Central Bank (ECB), including with respect to communication and the provision of technical assistance.

Directors supported in particular the front-loading of fiscal adjustment and the identification of measures through 2013, which should help enhance program credibility. The approval of the cuts to wages and pensions and increases in taxes represents an essential first step. The authorities' efforts to ensure a fair burden sharing, particularly by protecting low wage and pension earners, are critical to program success. Directors urged the authorities to proceed quickly with pension reform to underpin the long-run sustainability of public finances.

Directors stressed that strict adherence to the ambitious structural reform agenda is key to building the foundation for a sustainable growth model. Reforms of the labor and product markets to boost productivity, based on concrete, time-bound measures and complemented with further private sector wage restraint, would help Greece regain its

competitiveness within the confines of the euro. Directors urged the authorities to advance the reform of loss-making state enterprises and called for bolder privatization plans.

Directors welcomed the ECB's recent decision to extend the eligibility for repurchase transactions of market debt instruments issued or guaranteed by the Greek government, which should ease bank liquidity pressures. The creation of a Financial Stability Fund provides an additional safety mechanism to ensure that banks remain adequately capitalized during the economic downturn, preserving financial stability. Directors stressed the need for continued close cooperation within the EU framework for cross-border bank supervision.

Directors considered that the program is subject to unusually high risks. This reflects the uncertain growth prospects, price rigidities, the unprecedented size of the adjustment, and potential spillovers from the financial and public enterprise sectors. The front-loading of measures will help reduce implementation risks. Nevertheless, it will be important that the government stand ready to take forceful additional actions, as needed to keep the program on track.

While Directors considered public debt to be sustainable over the medium term, they recognized that there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period as required under the exceptional access policy. Even so, on balance, Directors considered Fund exceptional access as justified given the high risk of international systemic spillovers. Going forward, to ensure the principle of uniformity of treatment, Directors recognized that the Fund would follow this approach regarding this criterion in similar cases with a high risk of systemic spillovers.

Directors considered that Greece's capacity to repay the Fund is adequate and that risks to the Fund are mitigated by the Fund's established preferred creditor status in relation to private and official bilateral creditors. This status has been widely recognized by the international community. Directors looked forward to the forthcoming safeguards assessment.

Directors regretted the misreporting of Greece's 2008 fiscal and public debt data, which led to a finding of a breach of obligations under Article VIII, Section 5. They noted that, in consultation with EU partners and Eurostat, the authorities had instituted remedial measures to address data deficiencies, and had committed to undertaking additional corrective actions. In view of these measures, Directors agreed that no further action is required by the Fund under its procedures for the breach of obligations. They called for strict compliance with reporting requirements to the Fund going forward.