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Statement by the EC, ECB, and IMF on the Third Review Mission to Greece

Staff teams from the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) visited Athens during January 27 to February 11 for the third review of the government's economic program, which is being supported by a €80-billion loan from Euro area countries and a €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 social fairness in shouldering the burden of adjustment 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 has made further progress toward its objectives. While there have been delays in some areas, the underlying fiscal and broader reforms necessary to deliver the program's medium-term objectives are being put in place. However, major reforms still need to be designed and implemented to build a critical mass necessary to secure fiscal sustainability and economic recovery.

Regarding the **outlook**, the recession has to date been close to what was anticipated. Underlying inflation has remained low in the face of rising commodity prices. Downward movement of unit labor costs should support gains in competitiveness. Encouragingly, exports have performed well recently. We continue to expect the economy to stabilize late in 2011.

In the **fiscal area**, against the sharp macro headwinds, the authorities delivered a 6 percent of GDP fiscal adjustment in 2010, reducing the deficit to about 9½ percent of GDP. This is an impressive achievement, but some tensions were evident in budget implementation, in particular shortfalls in revenue collections, and problems with spending control. The program has been designed to address these problems, and the work is progressing.

The government has begun to specify a medium-term budget strategy, which will define time-bound actions to realize the full fiscal adjustment through 2014. The reforms are complex and cover among other issues taxation, health, public employment, and state enterprise reforms. The government is appropriately allowing time for consultation with social partners before moving beyond the design phase to begin implementation. The government's full commitment to this complicated process of institutional change, not least determination to resist vested interests, will be critical to success.

Concerning **financing**, the government continues to work toward securing a gradual return to bond markets at affordable interest rates. Strong program implementation, with financial support from the international community, remains key to achieving this. It is equally important that the government notably scales up its privatization program, and more generally realizes better returns from its extensive portfolio of assets. Work is proceeding to establish a comprehensive inventory of the government's real estate assets, and to define a phased action plan.

As to the **financial sector**, tight liquidity and rising non-performing loans are putting strains on the banking system and credit is contracting. Encouragingly, private banks have recently enjoyed some success in raising capital. It is essential that the government makes progress in addressing the stability and efficiency of the banks under its control. The Eurosystem has been a key source of liquidity support for the system, and this is allowing banks to gradually move towards a sustainable medium-term funding model. The Financial Stability Fund is available to provide support to banks in the system, if needed.

Structural reforms are making progress. Legislation covering aspects of the labor market, the liberalization of closed professions, health care reform, licensing, and the competition authority has either been passed, or soon will be. The authorities' focus must now be on implementing these laws, to make sure the new frameworks are effective as soon as possible. To secure economic recovery, early progress on structural reforms remains critical. The government must ensure that reforms are sufficiently ambitious and comprehensive to tackle the deep seated structural challenges facing Greece. The next steps will focus on, among other things, reviving the tourist industry, removing administrative barriers to exports, and strengthening public procurement.

Next Steps. Approval of the conclusion of the third review will allow the disbursement of €15 billion (€10.9 billion by the euro area Member States, and €4.1 billion by the IMF). The mission for the next program review is scheduled for May 2011.