September 20, 2010
Approval: 9/27/10

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 10/45-1

10:00 a.m., May 9, 2010

1. Greece - Request for Stand-By Arrangement; Rule K-1 Report on Breach of Obligations Under Article VIII, Section 5 of the Articles of Agreement

Documents: EBS/10/77 and Correction 1, and Correction 2, and Supplement 1, and Supplement 2, and Supplement 3; EBS/10/79

Staff: Thomsen and Traa, EUR; Krueger, FIN; Hagan, LEG; Mühleisen, SPR

Length: 3 hours, 30 minutes

Executive Board Attendance

J. Lipsky, Acting Chair

Executive Directors	Alternate Executive Directors
S. Itam (AE)	M. Majoro (AE)
L. Rutayisire (AF)	K. Assimaidou (AF)
P. Pereira (AG)	D. Vogel (AG)
	C. Legg (AU)
W. Kiekens (BE)	
P. Nogueira Batista, Jr. (BR)	
J. He (CC)	Y. Luo (CC)
R. Guzmán (CE)	C. Pérez-Verdía (CE)
T. Hockin (CO)	S. O'Sullivan (CO)
A. Fayolle (FF)	A. Ducrocq (FF)
K. Stein (GR)	
	P. N. Weerasinghe (IN)
	M. Patra (IN), Temporary
A. Sadun (IT)	P. Roumeliotis (IT)
	M. Nomura (JA), Temporary
J. Mojarrad (MD)	M. Daïri (MD)
A. S. Shaalan (MI)	S. Geadah (MI)
A. Bakker (NE)	Y. Yakusha (NE)
P. Callesen (NO)	
A. Mozhin (RU)	
	A. Al Nassar (SA)
	S. Toh (ST), Temporary
R. Weber (SZ)	K. Zajdel-Kurowska (SZ)
M. Lundsager (UA)	D. Rediker (UA)
	J. Talbot (UK)

S. Tiwari, Secretary
F. Gimbel/I. Teodoru, Assistants

Also Present
African Department: R. Nord, G. Tsibouris. Asia and Pacific Department: M. Pradhan. European Department: A. Chopra, G. Everaert, A. Gulde, M. Moreno Badia, G. Rice, P. Thomsen, B. Traa. External Relations Department: C. Atkinson, K. Langdon, C. Lotze, G. Rice. Fiscal Affairs Department: S. Eble, E. Martin, G. Schwartz. Finance Department: C. Beaumont, J. Dalton, C. De Luca, M. Fisher, J. Grochalska, T. Krueger, M. Manno, M. Rossi. Legal Department: S. Hagan, I. Mouysset, C. Ogada. Middle East and Central Asia Department: P. Alonso-Gamo, R. Sahay. Monetary and Capital Markets Department: N. Banerjee, P. Dattels, J. Fiechter, O. Frecaut, J. Vinals Iniguez. Research Department: G. DellAriccia, J. Ostry. Secretary’s Department: O. Vongthieres, M. Yslas. Strategy, Policy, and Review Department: L. Giorgianni, W. Gray, R. Moghadam, M. Mühleisen, J. Roaf, Y. Sun. Statistics Department: A. Burgi-Schmelz, G. Jones. Western Hemisphere

Department: D. Robinson. Senior Advisors to Executive Directors: W. Abdelati (MI), E. Barendregt (NE), M. Choueiri (MI), C. Dahlhaus (GR), O. Demirkol (BE), M. Di Maio (AU), N. Giammarioli (IT), D. Kartikoyono (ST), K. Korhonen (NO), B. Lischinsky (AG), E. Meyer (UA), R. N'Sonde (AF), L. Palei (RU), J. Poulain (FF), G. Purves (CO), P. Fachada (BR), F. Spadafora (IT), A. Sutt (NO), A. Tall (AF). Advisors to Executive Directors: M. de Las Casas (CE), M. Maia (BR), C. Thompson (AU), S. Alnefaee (SA), J. Cardoso (IT), N. Choudhary (IN), A. De Lannoy (BE), P. Garcia-Martinez (GR), T. Haruki (JA), R. Hills (UK), A. Jbili (MD), S. Keshava (SA), S. Lin (UA), A. Shabunina (RU), I. Sicat (ST), D. Tartari (SZ), J. Tucker (AE).

1. GREECE—REQUEST FOR STAND-BY ARRANGEMENT; RULE K-1 REPORT ON BREACH OF OBLIGATIONS UNDER ARTICLE VIII, SECTION 5 OF THE ARTICLES OF AGREEMENT

Mr. Roumeliotis submitted the following statement:

Despite fast growth during 1997-2007, Greece did not manage to correct its fiscal and external imbalances. The global crisis found Greece with a combination of high public debt, high fiscal deficits, and persistent current account deficits. A sharp revision of 2009 fiscal data undermined market confidence and led to increasing risk premia on sovereign debt. Moreover, a steady erosion of competitiveness reflected underlying distortions of a structural nature.

To restore market confidence and the country's credibility vis-à-vis the investors, Greece undertook corrective fiscal measures at the beginning of 2010. However, these measures failed to restore market confidence.

In this context, the authorities are requesting a three-year Stand-By Arrangement for €30 billion (SDR 26.4 billion), in parallel with bilateral financial support of €80 billion available from euro area partners. The total amount of €110 billion will cover the expected public financing gap during the program's period. Greece has undertaken to draw on the IMF and European Commission resources in a constant ratio of 3 to 8 in each disbursement throughout the program's period. Under this arrangement, Greece is strongly committed to implement a multi-year stabilization program to consolidate public finances, safeguard the financial system, and promote the necessary structural reforms to restore competiveness, including in the labor market.

Main Elements of the Program

The main objectives of the program are: (i) reducing the fiscal deficit to below 3 percent of GDP by 2014, with the debt-to-GDP ratio beginning to stabilize by 2013 and then declining gradually; (ii) safeguarding the stability of the financial system; and (iii) restoring the competiveness of the Greek economy through structural reforms.

Fiscal Policy

The fiscal adjustment is frontloaded and all fiscal measures have been identified. The objective of fiscal consolidation will be achieved mainly through the following measures: (i) an increase of tax revenues by 4 percent of GDP by 2013, primarily through the increase of VAT rates, consumption excise taxes for fuel, alcohol, and tobacco; the broadening of the tax base; and the introduction of new taxes (e.g., a green tax); (ii) the significant reduction of expenditures (by 5.2 percent of GDP) by 2013, primarily through: abolishing the 13th and 14th salaries of civil servants and the 13th and 14th pensions both in the public and private sectors, except for those with low-salaries and low-pensions; freezing public salaries and pensions, and drastically limiting new hiring in the public sector in order to achieve a substantive reduction of civil servants (only one new civil servant will replace five retirees); and (iii) the significant reduction of the operational costs of local governments, in the context of the general administration reform.

Overall, the increase in tax revenues and the reduction in public expenditures will amount to 11 percent of GDP in 2010-13. This correction will be achieved through permanent measures, and is expected to yield primary surpluses starting in 2012.

Corrective measures in the tax, pension, and health areas are designed to ensure the sustainability of the systems. The tax reform aims at making the system more progressive by abolishing tax exemptions, fighting tax evasion, and broadening the tax base. To achieve these objectives, the following measures will be implemented: modernizing the tax administration, focusing on collecting revenues from the largest taxpayers; thoroughly enforcing and auditing high-wealth individuals and self-employed; prosecuting the worst offenders; strengthening VAT compliance; and collecting on the large stock of tax arrears.

The pension reform focuses on: merging the existing pension funds into only three funds; linking contributions and benefits; increasing the normal retirement age to 65 years; and restricting early retirement.

On the health front, significant savings of resources are expected through: the introduction of a double entry accrual accounting in hospitals; the periodic publication of audited accounts; improvements in pricing and costing mechanisms; and the separation of health funds from the administration of pensions.

The program includes measures to protect the most vulnerable segments of the population. My authorities are committed to an equitable and fair distribution of the adjustment burden. The tax burden for the rich will increase, while the minimum pension and family allowances will be preserved.

Financial Sector Policies

While the Greek financial sector was able to weather the global financial crisis in 2008, the deterioration of public finances and market confidence poses new challenges. The timely increase in the maximum deposit insurance reassured depositors in 2008, and the recent provision by the government of substantial additional liquidity (€17 billion) helped banks manage tight liquidity conditions.

In the context of the program, the reinforcement of the financial system, in particular the banking sector, will be achieved through the establishment of a fully independent Financial Stability Fund (FSF). The FSF will support banks, if necessary; decisions will be made by an independent board made up of persons of recognized standing in financial markets. Furthermore, other elements of the safety net for the financial sector will be strengthened; in the context of the EU framework for cross-border bank supervision, the Bank of Greece will intensify its supervisory activity and its resources will be augmented.

On May 3, the European Central Bank suspended the application of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Euro system's credit operations in the case of marketable debt instruments issued or guaranteed by the Greek government. This decision will provide important support to the program by helping to maintain financial stability.

Competitiveness and Structural Policies

The Greek authorities are strongly committed to a very comprehensive structural reform agenda to regain competitiveness and restore growth.

Changes in the collective bargaining processes in the private sector and the new law on labor market flexibility will improve competitiveness. The amelioration of the business climate and the curtailment of bureaucracy in licensing private enterprises will promote investment in the private sector. This will contribute to increasing jobs, including for new entrants into the labor force. Furthermore, my authorities will exercise tight control over the underground economy related to the informal labor market. Finally, Greece will undertake all necessary measures to absorb the EU structural funds through the preparation of project proposals and implementation.

Statistical Issues

The Greek Statistical System suffered for many years from chronic deficiencies, especially in the area of fiscal data.

A few days after coming to power, the new government published revised figures on public sector deficit and debt. In order to establish a credible and independent statistical system, the Parliament approved a new law that changed the legal status of the Statistical Service, formerly a section of the Ministry of Finance. The Statistical System is now a fully independent authority whose President and Board of Directors are appointed with a four-fifths majority vote by a Parliamentary Committee. The law also provides new guidelines according to international standards. Moreover, the Parliament endorsed the government's proposal to establish an Investigation Committee to look into past misreporting episodes. The Greek authorities also asked an independent expert committee to analyze the sources of statistical deficiencies and to propose solutions. The expert committee's report was completed last January, and corrective actions have already been taken.

Conclusion

To comply with its European and international commitments, Greece has already taken significant corrective measures in the past few months, and is fully committed to implement the measured indicated in the program. The strong ownership of the program on the part of the authorities is supported by the vast majority of the Greek people.

Mr. Stein, Mr. Kiekens, Mr. Guzmán, Mr. Fayolle, Mr. Bakker, and Mr. Callesen submitted the following joint statement:

We thank staff for the excellent report and especially for their efforts together with the European Commission and the ECB to help the Greek government to develop a program within the tight timeframe available. The approval of this program would show the strong support, both from the international community and the EU, to the terms of the financial assistance agreed with Greece. We also thank Mr. Roumeliotis for his very informative buff.

The Greek economy has accumulated major internal and external imbalances over the past decade as high fiscal deficits and dependency on foreign borrowing have fueled demand while weak competitiveness and poor business environment have limited supply capacity. Past misreporting data episodes seriously undermined confidence. Initial attempts by the new government to address these vulnerabilities were not sufficient to convince market participants and the situation was greatly accentuated by concerns about fiscal sustainability triggering a confidence crisis and the risk of spillovers. The Greek economic problems are of short-, medium- and long-term nature and require exceptional efforts by the authorities and we believe that the Greek authorities' program is able to deliver the required adjustment.

Program Design

Given the Greek authorities' extraordinary commitment to implement an exceptional adjustment program we strongly support the request for a Stand-By Arrangement. An extraordinary IMF contribution is an essential element of the overall financing package. It also includes an exceptional financing from Euro Area countries which have agreed to activate a stability support mechanism for Greece via bilateral loans totaling €80 billion over the program period. This builds on the declaration by Euro Area governments to take determined and coordinated action to safeguard financial stability in the Euro Area as a whole. All other Euro Area countries are participating in the stability support mechanism. The bilateral loans will be pooled by the European Commission and disbursed on the basis of strict policy conditionality, which has been agreed jointly with the IMF.

The program is appropriately comprehensive and addresses the relevant policy challenges. It combines a strong front-loaded fiscal adjustment, public sector wage moderation, financial sector measures, and a comprehensive set of structural reforms to restore international competitiveness and, concomitantly, economic growth over the medium-term.

We are confident that the extraordinary fiscal adjustment, the comprehensive structural reforms and the financial sector contingency mechanisms are appropriate to stabilize the fiscal stance and address the challenges of the Greek economy in a decisive manner. It should help restore confidence, safeguard financial stability in the entire region and reduce the risk of international systemic spillovers.

We are fully aware that this is a very challenging program, which is not free of risks. However, the current situation makes hardship unavoidable and this program is the only alternative left to prevent a significantly worse scenario from happening. We urge the authorities to spare no effort to ensure a successful implementation also in view of the program's broader impact. We welcome their commitment to take additional measures if needed.

Fiscal Policy

We welcome the authorities' ambitious fiscal adjustment package of 11 percent of GDP through 2013 in addition to the 5 percent of GDP in measures already adopted in 2010. This will allow Greece to meet its obligations under the Stability and Growth Pact. While recognizing that the required adjustment is challenging, it is not unprecedented. We, concur with staff on the need to ensure strong frontloading in order to avoid reform fatigue and swiftly rebuild market confidence. We also welcome the fact that the adjustment is based on fully identified permanent measures, carefully balancing revenue and expenditure measures, and ensuring a fair adjustment burden sharing and the protection of vulnerable groups. The program is built on realistic economic projections and prudent yield estimates from the fiscal measures.

Implementing the announced structural fiscal reforms is crucial to ensure fiscal sustainability and strengthen control over revenues and expenditures. The social security programs' reform will help address underlying structural imbalances stemming from population ageing. In this context, we also encourage the authorities to progress with their planned pension reform as a matter of urgency since it is an essential part of the program.

Financial Sector

We welcome the establishment of an additional safety mechanism by the creation of the Financial Stability Fund (FSF). The purpose of the FSF is to preserve the financial sector's soundness and thus its capacity to support the Greek economy, by providing equity support to banks as needed. In this respect, we note that while currently capital buffers in the banking system are adequate, bank supervisors will need to closely monitor liquidity conditions and nonperforming loans at individual banks.

In addition, we welcome the Bank of Greece's proposal to intensify its supervisory activity and its resources. Close coordination with home and host country supervisors within the EU framework for cross-border bank supervision will be ensured. The authorities, fully aware of their significant presence of Greek banks in neighboring countries, have intensified communication with regulators in these countries regarding risk-assessments and liquidity contingency plans.

The decision by the European Central Bank to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements for the purposes of the Eurosystem's credit operations in the case of all outstanding and new marketable debt instruments issued or guaranteed by the Greek government is a welcome move to provide substantial support to the program by helping to maintain financial stability.

Structural Reforms

We support the very comprehensive package of structural reforms established by the program. The proposed reforms should enhance the flexibility and productive capacity of the economy, ensure that wage and price developments restore and sustain international competitiveness, and help the economy emerge from the crisis quickly.

We welcome the authorities' actions to strengthen the independence of the Statistical Office and to improve processes and procedures for data collection. This is an important step to prevent the reoccurrence of data misreporting in the future. We strongly urge the authorities to spare no efforts and jointly work with the European Statistic Office (Eurostat) to implement the necessary steps in this regard.

Mr. Shaalan and Ms. Choueiri submitted the following statement:

We thank staff for their assessment of the policies and financing needed to address the pressing and possibly unprecedented challenges facing Greece. We also thank Mr. Roumeliotis for his informative and helpful buff statement.

The Greek economy entered the global financial crisis weakened by growing fiscal and external imbalances, as well as slow progress in carrying out structural reforms. These vulnerabilities were exacerbated in recent months by concerns about the authorities' capacity to address the dual problem of competitiveness and what was found to be a highly unsustainable fiscal position and growing public debt. As a result, and due to increasing doubts about the availability of timely and effective support from European partners, Greece lost market access. Despite strong banking sector liquidity and capital base, the declining confidence in the sovereign spilled over to the banking sector, and the expected decline in economic activity created further risks.

Against this difficult situation, the authorities are to be commended for adopting a forceful and comprehensive adjustment program for which they are seeking support under a Stand-By Arrangement with the Fund. In view of Greece's balance of payments needs and the comprehensive package of adjustment measures already taken and proposed by the authorities, and given the risk of international systemic spillover effects, we support the authorities' request for exceptional access. We must note, however, the significant risk to debt sustainability as highlighted by staff in their evaluation of the criteria for granting exceptional access. While we have concerns about the implementation of the program, it is incumbent on the Fund to provide the support needed. In the absence of alternative policy options, the success of the program critically hinges upon sizable fiscal adjustment coupled with steadfast implementation of ambitious structural reforms. Along with the authorities' efforts, continued provision of technical assistance by the international community will support timely and effective implementation of the program.

The staff indicates that the dual challenge of undertaking very large fiscal adjustment and simultaneously achieving internal devaluation, amid a very difficult funding environment, is bound to weigh heavily on growth for a protracted period of time. In this connection, we would be grateful for further elaboration on the assumptions (mentioned in paragraph 12) underlying staff's medium-term growth projections. They appear to us to be rather optimistic.

Implementation of a large and sustained fiscal consolidation effort aimed at placing the debt ratio on a downward path and restoring market confidence is the key pillar of the program. In this regard, the authorities' effort is commendable in its frontloading and scale (11 percent of GDP during 2010–13, in addition to the measures that are estimated to yield 5 percent of GDP that were already adopted in 2010). We particularly welcome the decision to specify all measures for the entire full three-year period at the outset, the good balance between revenue and expenditure measures, and, importantly, the measures aimed at protecting vulnerable groups. In this connection, we would have welcomed additional detail of the measures that were implemented this year, as well as those that are planned for the remainder of the program. While the staff report indicates the expected fiscal savings in the various revenue and expenditure categories, it lacks a description of the measures. We would be interested to learn from staff whether these measures are still under discussion, or whether their omission from the report was motivated by other considerations. The staff's elaboration on the assumptions underlying their estimate of a yield of about EUR4 billion in 2013 on the expenditure side (about a quarter of cumulative expenditure measures over 2010–13) would also be appreciated.

We welcome the recent announcement by the European Central Bank (ECB) that market debt instruments issued or guaranteed by the Greek government will remain eligible as collateral for repo transactions, independent of rating agencies grading. This announcement should provide important relief from liquidity pressures.

The Greek banking system has weathered the global crisis well, aided by banks' retail-oriented business models and a large deposit base, and supported by the authorities' valuable bank assistance package in 2009. However, successive sovereign downgrades and market volatility constrained banks' liquidity, while the deepening recession caused credit to decline and non-performing loans to rapidly increase. To alleviate these pressures, reliance on ECB liquidity has increased. At the same time, the government appropriately decided to extend its existing banking liquidity support facilities. We welcome the establishment of a Financial Stability Fund aimed at addressing solvency pressures by ensuring that the banking sector remains adequately capitalized during the downturn.

The last Article IV discussion recognized the need for the Greek economy to undertake deep reforms in product and labor markets in order to sustain medium-term growth and strengthen international competitiveness. The program's long-term success hinges on timely implementation of such reforms, building on the comprehensive preparatory work undertaken in cooperation with the European Commission (EC). We note that competitiveness is expected to improve as a result of an increase in productivity rather than a reduction in private sector wages, which is likely to have a limited effect on growth during the program period.

The staff clearly outlines the substantial risks to the program as well as the significant impact of the proposed arrangement on the Fund's liquidity and credit risk exposure. We concur with them that restoring competitiveness through internal price adjustment while implementing fiscal consolidation is very challenging, and the margin to respond to negative shocks is limited, particularly at this early stage. Accordingly, we would be interested in staff's views on the options that would be available to the authorities if faced with an adverse shock, including the possibility of negative spillover from other highly indebted countries in the region. The market reaction since the announcement of the IMF/EU assistance package points to increasing doubts among market participants on whether Greece can stabilize its debt without a restructuring. We would be interested to learn from staff whether debt restructuring was among the options considered in the assistance package. Debt restructuring may be looked upon unfavorably but it should be envisaged, particularly if program reviews demonstrate that implementation is not commensurate with the objectives of the program.

In view of increasing concerns of contagion to euro-area banks and sovereigns,[1] it would be useful to accelerate Board discussions of the Fund's instruments that are needed to address crisis prevention and the management of systemic crises. We would also be interested in staff's comments on the Fund's ability to respond to crisis in the event that spillovers from Greece spread to other countries.

We note that program monitoring will be conducted through joint reviews with the EC and the ECB. We do not understand the rationale for this decision and would be grateful for staff's clarifications.

In view of the remedial measures already taken by the authorities and the corrective actions they have committed to implement to ensure the accuracy of data on fiscal deficit and public debt submitted to the Fund, we support the Managing Director's proposal to take no further action in connection with Greece's breach of its obligations under Article VIII, Section 5 of the Fund's Articles of Agreement.

With these remarks, we wish the authorities success in addressing the formidable challenges ahead.

Mr. Virmani and Mr. Patra submitted the following statement:

We thank staff for the paper on the Greek authorities' request for a Stand-By Arrangement (SBA) with the Fund, and Mr. Roumeliotis for his informative buff statement. The dramatic worsening of the budget deficit in 2009 has revealed much more than fiscal stress faced by an economy in recession—years of declining competitiveness, with wages outpacing productivity growth, structural rigidities, and a deteriorating business environment, but camouflaged by high fiscal and external deficits. Yet, the speed and scale of the recent evolution of events relating to Greece are overwhelming the global community. The evaporation of confidence has

[1] Sovereign Contagion Risk—Part I: Assessing the Impact on Banking Systems of Southern Europe, 1 Ireland and the United Kingdom, Moody's, May 2010, is one example.

triggered extreme risk aversion in financial markets which threatens to persist. There are also growing dangers of negative externalities, not only for other countries with large fiscal deficits/debt but also across the world in terms of access to and cost of financing, turbulence in markets, renewed volatility of capital flows and even risks to the global recovery.

At this critical juncture, a coordinated approach that halts the downslide, restores confidence and turns around the situation into a more positive outlook for Greece to enable its participation in the global recovery assumes the highest priority. Accordingly, we support the request of the Greek authorities for a three-year SBA arrangement with the Fund amounting to SDR 26.4 billion or 3,212 percent of Greece's quota.

Risks to the Program

Public finances were the key trigger of Greece's crisis and, therefore, the main focus of the program. Is the SBA a de facto financing of the budget? If so, is there a need to conduct a concurrent safeguards assessment test of the fiscal authority in view of data misreportings, in addition to the assessment being made on the Bank of Greece?

Balance of payments projections show a deficit in the capital and financial account over 2010-12. This implies the possibility of the Fund's resources being used to meet outflows of capital, which is incompatible with the provisions of Article VI of the Articles of Agreement. Could staff inform us about the steps being proposed to prevent such use of the Fund's resources?

There is a generalized concern regarding the risk of implementation/execution failure. The scale of the fiscal reduction without any monetary policy offset is unprecedented. The size of the primary surplus required and the level to which revenues have to be raised—reportedly, revenue equivalent to 7.5 percent of GDP will be the interest payment bill—is a mammoth burden that the economy could hardly bear. Even if, arguably, the program is successfully implemented, it could trigger a deflationary spiral of falling prices, falling employment, and falling fiscal revenues that could eventually undermine the program itself. In this context, it is also necessary to ask if setting this magnitude of adjustment, and attendant performance criteria and structural benchmarks, is building in risk of program failure and consequent danger of repayment standstill.

As mentioned earlier, there are clear and present risks of spillovers, with markets already singling out countries with similar fiscal positions for attack, paying no heed to different circumstances or degrees of resilience in macroeconomic fundamentals. Indeed, there is a danger that the overarching desire to avoid loss of market confidence and access could force other countries with large fiscal deficits (14 out of 16 in the Euro area) to proactively begin front-loaded exits, precipitating a global deflation.

If the sovereign crisis intensifies, it could spill over into a banking crisis as wholesale funding avenues dry up and costs of rollover become prohibitive. The setting up of the Financial Stability Fund (FSF), while a step in the right direction, is a tacit acceptance of the danger of erosion of capital and profitability in the banking system, turning into recourse to the sovereign. With credit getting squeezed and solvency increasingly threatened, this could well become amplified into a financial crisis.

The Greek situation is equally an instance of market failure in discerning the growing vulnerabilities in the pre-crisis years following the entry of Greece into the Euro area, as also in participating in financial engineering to understate the level of debt. Analogously, at the current juncture, we could, in fact be dealing with markets overshooting. Therefore, the concern that official public statements about debt restructuring will exacerbate contagion effects is understandable, but it may be valid only in the very short run until the Fund-EU resources start flowing in to Greece. Beyond that point, however, the issues thrown up by this episode are too important for the future stability of the world to be swept under the carpet again. IFIs such as the Fund must address the issues related to debt resolution in a time-bound manner.

There is concern that default/restructuring is inevitable—even with the announcement of the program, bond spreads have risen. It is argued that trying to avoid default with the program simply increases the debt load and actually increases the probability of the default. On the other hand, it is argued that Greece is the sovereign version of Lehman Brothers and, therefore, it is advisable to put off restructuring for some time. We look forward to staff's response.

There are also coordination risks and issues in ensuring consistency between the programs of the Fund, the European Commission and the European Central Bank. This is also pointed out by staff. Like Mr. Shaalan and Ms. Choueiri, we look forward to staff's clarifications on modalities.

In view of the heightened uncertainty, there are undoubtedly substantial costs associated with the program about which we have significant concerns. But the systemic costs of not doing anything outweigh these concerns. Therefore, we support the program and wish the Greek authorities well in their efforts to manage the current turmoil.

Future Courses of Action

We fully appreciate the fact that there are institutional and other factors, including the willingness of the member concerned, that determine the timing of triggering and implementing financing support. There is a lingering worry that it was exaggerated concerns about appearances that delayed an early implementation of a program. However, if the crisis resolution mechanisms in the global architecture have to be improved to be effective and meaningful, these delays in addressing the problem have to be addressed squarely.

The risk of falling behind the curve again needs to be addressed. The issue of sovereign debt restructuring mechanisms gained prominence a decade ago in the context of debt crises in emerging economies, and is worthy of reviving at an early stage of the debate. The then first Deputy Managing Director of the Fund had laid out an ambitious proposal for a Sovereign Debt Restructuring Mechanism (SDRM) that would provide a framework for debt crises, essentially elevating the U.S. bankruptcy procedures to an international levels and applicable to sovereigns. The idea itself evolved even further back in time—in the UNCTAD in 1977. In 1997, the UN Conference on International Trade Law (UNCITRAL) adopted a model law on cross-border insolvency with the objectives of cooperation between courts and competent authorities across borders, legal certainty and protection for trade, investment and employment, fair and efficient administration of cross-border insolvencies that protects the interests of creditors and debtors, protection and maximization of the debtor's assets. In view of the recent developments, the need for an orderly debt reorganization mechanism assumes importance.

Mr. Legg, Mr. Di Maio, and Mr. Thompson submitted the following statement:

We support Greece's request for the Stand-By Arrangement (SBA) under the proposed terms.

We recognize that this is an ambitious program that carries high risks given the unprecedented nature of the fiscal adjustment, the magnitude of the structural challenges in restoring growth, the precarious debt dynamics, and the size of the proposed facility. Nonetheless, the authorities have devised a strong policy package with a reassuringly large share of concretely-specified and frontloaded measures that should help ease implementation risks. Though Greece's track record of following Fund advice is patchy, we have been impressed by the authorities' strong commitment to this program, and their willingness to take difficult adjustment measures even before the program was negotiated. The challenge will be to sustain the adjustment for the period of the program and beyond. That Greece poses a serious systemic threat to the region is also clearly relevant to our support for this arrangement.

The authorities have signed up to a program of exceptional and painful measures, which is backed by the exceptional financial support being offered by the Fund and its eurozone partners. The stakes are high, and while the risks are undeniable, these are precisely the type of risks that the Fund was established to help members manage.

Clearly one can question whether the exceptional access criteria have been met conclusively in this case. The size of the envisaged adjustment and the long list of risks highlighted in the staff report poses questions for criterion 4, while it is debatable whether there is a "high probability" that public debt will be sustainable in the medium-term, as required by criterion 2. Nonetheless, we accept the argument that exceptional access can be justified in this case by what is without doubt, an equally exceptional risk of international systemic spillover effects. If necessary, we should be prepared to revisit the general question of the application of the exceptional access criteria in situations where spillover risks are as pronounced as they are in this case.

In practice, we will have a relatively limited window in which to assist Greece—and other eurozone members at risk of contagion—to re-establish policy credibility and market access. Close monitoring of program performance and market reactions will be crucial, backed by a preparedness to act decisively to augment and adjust the policy response as needed. It will also be essential for the Fund and the eurozone members to establish a much more cohesive and coordinated voice in communicating with markets about both the underlying challenges facing Greece and other exposed economies, and the program's implementation in addressing these. And we strongly encourage other exposed EU countries to move quickly to strengthen their own fiscal adjustment plans, and expect this to be an integral part of the Fund's advice to these countries in the period ahead.

Finally, turning to the details of the program, it correctly focuses on the crucial importance of both fiscal adjustment and structural reforms aimed at lifting competitiveness, given the constraints posed by eurozone membership. While the former poses the most pressing (and politically painful) initial challenge, a sustained approach to the latter will be key to ensuring the recovery in activity needed to underpin the program's political and economic sustainability—including medium term debt sustainability. But a sustained commitment to structural reform can be even harder to achieve than significant up front fiscal adjustment. In this regard, we welcome the Fund's focus on 'macro-critical' structural benchmarks, a key lesson from the Asian financial crisis, and we encourage our European partners to similarly internalize this lesson in the implementation of the structural conditionality underpinning their MoU with the Greek authorities.

Mr. Itam submitted the following statement:

We thank the staff for the expeditiously prepared reports and Mr. Roumeliotis for the informative buff statement.

The Greek economy is undoubtedly in dire straits, experiencing its worst economic crisis since the Greek civil war, some 60 years ago. A decade of strong real output growth, believed then to be underpinned by robust macroeconomic policy framework and fundamentals, was unraveled by the advent of the global economic and financial crisis—exposing acute fiscal imbalances and structural weaknesses in the economy. More recent developments which have revealed the true magnitude of the fiscal deficits and the debt burden have exacerbated the problem, dampening market sentiments and widening credit spreads. The systemic importance of the Greek economy heightens risks of spill-over not only to other eurozone member countries but to the wider global economy, and therefore calls for a decisive policy response. In this regard, we commend the Greek authorities for their courageous efforts in adopting a package of far-reaching fiscal adjustments, while at the same time attempting to provide social safety nets for vulnerable groups. Against this backdrop, we broadly support the authorities' request for a Stand-By Arrangement.

However, we express deep regret at the Greek authorities' failure to approach the Fund in a timely manner. As has become the tradition in our constituency, member countries are expected to request Fund assistance as soon as there is an inclination of potentially severe macroeconomic imbalances. We are also concerned that given the measures that had already been taken by the authorities to reduce the fiscal deficit and restore competitiveness, the margins for Greece to deliver on additional policy actions are very narrow. Any decision by the IMF to withhold disbursements due to program slippages would generate further adverse market reactions and deepen the crisis. The Greek authorities must deliver on their commitment under the program. We hold the view that a coordinated approach to addressing the crisis should be employed, with other eurozone members with potential default risks pursuing similarly tight fiscal adjustments and structural plans. At the same time, the ECB must stand ready with refinancing to prevent a run on Greek banks; and ease monetary policy to help restore competitiveness. Eventually, a rebalancing of eurozone growth could be achieved through measures to boost aggregate demand in less leveraged European countries. There is also the need for the Fund to strengthen its Early Warning Exercise to signal a build-up of unsustainable borrowings, especially for systemically important countries.

Implementing Extensive Fiscal Adjustments

The severity of the debt crisis facing the authorities requires decisive policy actions to restore market sentiments, attain macroeconomic stability, and return the economy to a positive growth path. However, while we share the authorities' and staff's views that frontloading of fiscal adjustment is germane to reducing the fiscal deficits and halting the spiraling debt-to-GDP ratio over the medium term, we are concerned that the challenges to achieving this goal are colossal. With growing popular resistance to the austerity measures, as manifested by widespread strikes and protests with the propensity of undermining governance, the authorities may be hamstrung in pursuing further fiscal tightening. Over and above this socio-political consideration, fiscal tightening could lead to further compression of aggregate domestic demand, adversely affecting production and worsening the unemployment situation. Depressing economic activity further through higher taxes and reduced government spending would cause offsetting reductions in tax revenue and worsen the debt dynamics. Under such circumstance, we believe that there is a significant risk that the planned tax increases and cuts in basic government spending would not deliver the expected budget deficit of 3 percent of GDP over the medium term. The staff's comments are welcomed.

Minimizing Financial Sector Fragilities

Even in the face of the global financial and economic crisis, the Greek financial system has been largely resilient, with the banking sector remaining highly capitalized and unexposed to toxic assets. However, the current debt crisis has been very challenging, leaving the banks to contend with daunting liquidity pressures. We are thus encouraged by the authorities' decision to extend the initial liquidity support package for the banks and to provide additional liquidity to the tune of Euro 17 billion. Additionally, we believe that the establishment of a Financial Support Fund (FSF) to shore up the capital bases of banks in the event of adverse market developments would undoubtedly contribute to bolstering currently waning confidence in the banking sector. The proposed personal insolvency law is also an important step towards strengthening the legal regulatory framework of the banking system.

We are nonetheless concerned that market sentiment continues to plummet in spite of the exceptional loan package designed with the assistance of the Fund and Greece's European partners to salvage the situation. The credit rating downgrade by Standard & Poor's of Greek debt also comes on the heels of these unprecedented agreements. The staff may want to comment on whether the downward spiral of market sentiment stems from perceptions that the rescue package is inadequate to prevent eventual default. Also, staff's views on measures to enhance markets sentiments that could lead to a lowering of the yield on Greek bonds and narrowing of credit spreads are welcomed.

Containing the Potential Contagion

By all accounts, Greece's debt crisis would spill over to other eurozone countries and eventually metamorphose into a global crisis, if current policy measures do not yield the expected outcome. With major European financial institutions heavily exposed to Greek debts, the potential spill-over risks in the case of a debt default are grave. Concerns are rife that the recent downgrading of Greece and other European countries could trigger a sovereign debt crisis in the eurozone. The staff may want to comment on whether such concerns are justified. In addition, a large number of low income countries, including several African economies, have inextricable trade linkages with Europe, and an even larger number of these countries depend on European countries for external budgetary and project support. The staff's comments on preemptive policy measures that could be instituted by LICs to mitigate the adverse impacts of a possible contagion and a double-dip would be appreciated.

Instituting Structural Reforms to Enhance Competitiveness

Restoring the country's competitiveness would require comprehensive reforms in the labor, product and service markets which have, over the years, been saddled with severe rigidities. While we concur with staff assessment that the country's price competitiveness gap is largely a reflection of high administrative and labor costs, like Messrs. Stein, Kiekens, Guzmán, Fayolle, Bakker and Callesen, we are concerned that the proposed structural measures in the proposed Fund-supported program are not properly focused on addressing the underlying weaknesses to return the economy to a high and sustainable growth trajectory. We however acknowledge that the EC's structural reform agenda with Greece is all-encompassing and appropriate, but are apprehensive of the fact that some of these critical structural measures are not factored into the program and, thus, a source of potential risk to the attainment of the program objectives.

Strengthening Data Reporting Systems and Transparency

It is evident that the Greek crisis has been intensified by the deliberate effort by the political authorities to mask the severity of the fiscal imbalances that had plagued the economy in the recent past. While the provision of inaccurate information is attributed to serious institutional shortcomings, we are of the view that the legal regulatory framework to guard against data misreporting has been weak. We therefore consider the adoption of legislation granting independence to the Statistical Office as appropriate. Also, we welcome measures being instituted by the authorities in building statistical capacity; streamlining the data generation, compilation, and dissemination processes and procedures; and strengthening the overall institutional and governance framework of the statistical system. The continued collaboration with regional and international institutions in the provision of technical assistance would be critical to maintaining an effective statistical system over the long term.

With these remarks, we wish the authorities success in addressing their policy challenges and we stand ready to provide any support to contain the situation.

Mr. Hockin and Mr. Purves submitted the following statement:

We thank the staff for this report and for their efforts over the past few weeks to assist the Greek authorities in the preparation of their program. We also thank Mr. Roumeliotis for his very helpful buff statement.

This program is unprecedented for its size, its scale of fiscal adjustment, and for its role in helping to preserve systemic stability in the region. The staff note that "concerns heightened that a worsening of the economic crisis in Greece could precipitate powerful spillovers to other countries." This is a formidable warning for the Board to consider in deliberating on this program. Not only does it signal the importance of determined and consistent implementation of this program by the Greek authorities to ensure that the financial stability of their system is restored, but it also implies in very stark terms the importance of this package in promoting market confidence. Our final analysis concludes that this program merits the support of the international community, and we have confidence that the Greek authorities have every intention of fulfilling its obligations with haste. The adjustment required of Greece has recent historical precedents, albeit in differing times.

Notwithstanding this chair's support, we have considerable misgivings about how we got to this position.

In reaching the present predicament, the Greek authorities mounted an alarming amount of debt since its inception into the euro area. This is a failure of successive governments to avail of the prolonged period of substantial output growth and real income gains to make progress. Domestic demand was fuelled by household access to abundant and low costing credit, overstating sustainable growth for years and masking the underlying structural deficiencies within their economy which has eroded competitiveness. Pro-cyclical fiscal policies featuring wage and entitlement increases combined with tax cuts and poor revenue administration led to consecutive primary deficits, culminating in a fiscal deficit of 13.6 percent of GDP in 2009. As a result, the Greek authorities currently face a debt at 115 percent of GDP, with a contracting economy. Such behavior is unparalleled in the rest of the euro area.

Without the authorities taking definitive action earlier, and without a clear and defined institutional framework within the euro area to address such situations, the Greek authorities now face the prospect of soaring credit costs, and as the staff conclude in paragraph 46, 'the size of the external support implies that the authorities have 1-2 years to demonstrate resolve and build a convincing track record before they need to return to the market.' The size of external financing support, while absolutely necessary at this point to address international systemic spillover risks, places the Greek authorities on a very difficult and narrow path. As the report suggests, in 2013 the baseline scenario has Greece sitting with 150 percent debt-to-GDP and with GDP at 2009 levels. With this prospect and the interests of the Greek authorities in mind, an underlying objective of this program must be to ensure the authorities can place debt with market investors at affordable interest rates, as soon as possible. The staff should consider, on an ongoing basis, options that may facilitate the Greek authorities to engage and access markets. We should certainly not presume outright that markets are fully closed to Greece, and encourage the Greek authorities to make every effort to demonstrate a commitment to ensuring statistics are sound and fiscal policy is conducted responsibility with this underlying objective in mind. We take comfort in the staff's commitment here in paragraph 30.

That Greece operated on this basis over a lengthy period of time as a member of a currency union certainly reflects the limitations of surveillance and rules when fiscal statistics are reported incorrectly, due to shortcomings in statistical policy and compilation practices. Members have responsibilities to other members. However, it also points to the need to examine the effectiveness of the Excessive Deficit Procedure (EDP) more broadly as an important part of the Stability and Growth Pact (SGP). The SGP was designed to facilitate and maintain a high degree of economic convergence in relatively normal cyclical conditions, and having 14 of 16 euro area members currently within the EDP points to an inadequate delineation between those absorbing shocks from the crisis vs. those with fundamental structural problems. Achieving traction with members with more fundamental or chronic structural problems is paramount for fostering credibility, and we encourage greater consideration of options to achieve traction in these situations. The prevailing mechanism does not seem to sufficiently achieve this, particularly in how sanctions are applied. In the Fund's Euro Area assessment, we encourage the staff to pursue its examination on a more disaggregated basis, reflecting each country's current account, fiscal and financial sector situations, and to be able to contribute to policies needed to stimulate and preserve sustainable growth. The staff should utilize and complement existing surveillance efforts. We would also encourage countries in more vulnerable situations to continue with their fiscal consolidation efforts and communicate these efforts effectively.

The lesson that must come from this acute situation is the importance of taking early action and using effective communication to avoid creating systemic concerns. In this case, action is being taken far too late. We call upon the staff to pursue further work on the linkages between fiscal responsibility and financial stability and to emphasize the conditions, policies, timelines, and communications that has led to successful consolidation and confidence restoration efforts in the past.

The Program

On the program itself, at the outset we must reiterate the obligations of Management and the staff under the Emergency Financing Mechanism to keep the Board apprised of developments in Greece beyond the Board meeting, and to allow for necessary modifications to policies as necessary in light of the evolving situation. This will be important in light of the systemic issues involved in this program.

Greece does not have its own flexible exchange rate at its disposal to assist in the adjustment process. As the staff rightly note, absent exchange rate flexibility, sustained wage discipline by both the public and private sectors is required to improve competitiveness. Indeed, wage and price deflation, and contraction in activity could lead to sharp reductions in tax revenues. However, we have seen from other members in the euro area that adjustments in this direction are indeed possible, but challenging nevertheless requiring political will and deep commitments. With this in mind, a number of conditions are necessary for the program to succeed:

Ongoing ownership of the Greek authorities: Substantial policy reforms are critical to the program's success, primarily substantial fiscal consolidation in the first years of the SBA. To maintain credibility and market confidence in the program, the Greek government must promote ownership of the reforms with stakeholders and citizens. Sufficient political will must be marshaled to ensure the reform effort is maintained over the medium-term.

Tight EC-IMF coordination and strict monitoring: Macroeconomic and structural conditionality will be assessed jointly by the IMF and the EC. We welcome the staff's proposal for close cooperation between the two entities to ensure a comprehensive assessment and consistent communication. Any difference of opinion between the staff and the EC should be made transparent to the Board in a timely manner.

Euro area policy coordination: Ongoing efforts should be taken to limit contagion and assist the macro-financial environment of Greece and the wider European economy, including fostering regional growth. The ECB should support the recovery by promoting growth consistent with closing the output gap and achieving price stability.

Measures to encourage real exchange rate adjustment: The wage adjustments and structural conditionality in the program need to contribute to real exchange rate adjustment. Greece's 20-30 percent estimated REER overvaluation in 2009 needs to be gradually eliminated through productivity gains and improved competitiveness if export growth of 6 percent (annually) over the program period is to be achieved. As it currently stands, the program will need to be implemented aggressively in this domain if competitiveness is to be restored (as there currently is not much deflation built in).

Fiscal Policy

We are pleased to see that the majority of the adjustments are viewed to be permanent measures, and congratulate the authorities for securing 5 percent to date. Securing these and additional revenues on a sustained basis requires effective revenue collection, and we note the staff's point in paragraph 21 on this front. In particular, roughly 1.8 percent of the savings in the program seem entrenched on the ability of the Greek authorities to improve their budgeting and expenditure management. For the sake of clarity, our understanding is that the 1.8 percent does not include any efficiency that could be gained from dealing with progress in revenue collection. Clarity here and greater detail on the upside or downside risks would be welcome.

On the expenditure front, the majority of cost savings would come from wages freezes and pension reforms, which require a clear commitment by the authorities over the course of the entire program. For pensions, the current replacement ratio is exceptionally generous and the pensionable age is relatively young. Reductions in the replacement ratio to bring it more into line with norms elsewhere would address longer-term sustainability concerns and issues of intergenerational equity. In terms of the reliability of these numbers in the program, the pension side summarized in Annex II suggests that the medium-term cost savings are uncertain. The fiscal projections account for 1.3 percent cumulative savings over the program period, and we would benefit from greater context on the downside risks here. Certainly, we understand that pension reform savings are captured over the longer-term, but for the purpose of the program we would benefit from understanding how solid this 1.3 percent is.

Structural Reforms

We agree that while the short-to medium-term outlook hinges on getting Greece's fiscal situation re-aligned, the long-term sustainability of Greece hinges very much on deep and comprehensive structural reforms. First and foremost, labor markets need to become more flexible, both in the public and private sectors. This requires fundamental reforms to the legal frameworks for wage bargaining and arbitration, and amendments to employment legislation to better facilitate entry and exit. Risks stemming from public entities must also be reduced, promoting greater transparency, accountability and centralized treasury management. On business competitiveness, we agree with the need to tackle tariff and other restrictions in important professions where distortions, tax evasion, and excessive cost burdens are known to hamper market functioning. We understand that the authorities' agenda in these areas is significantly shaped by long-term discussions and efforts with the EC, as reflected in the broad range of measures covered in the EC MoU annexed to the paper. We would benefit from greater context on the delineation of monitoring and oversight responsibilities between the Fund and the EC on these measures. Also, measuring progress on this front can take time, with the potential for slippage. Would slippage on structural reforms outlined in the MoU require waivers by an IMF Board? A clearer sense of the precise roles and responsibilities between the Fund and the EC/ECB would be welcome (beyond Box 1).

Financial Sector Policy

The Financial Stability Fund would presumably be owned by the authorities given it is financed by the authorities indirectly by the headroom provided by external support from the package, but will be operated on an independent, transparent and accountable basis by a Director who is nominated by the Governor of the Bank of Greece. It is noted that the FSF would "report" regularly to the Greek parliament, the EC, the ECB, and the IMF staff, but there is no mention of formal "reporting relationships" as per the accountability structure. We would benefit from clarification here, including to the reference on paragraph 24 that there will be governance arrangements in place to "ensure the safeguarding of international financial resources."

We would certainly avoid the overt publication of estimates on the capitalization of such a Fund. Gauging how much is enough to quell market sentiment is a moving target. One may in fact be better off with no Fund than something that is insufficient.

Exceptional Access

As a final point, we note under the exceptional access policy that the staff cannot with ease state categorically that there is a "high probability" that the member's public debt is sustainable in the medium-term. While we agree that this is an exceptional circumstance given the relative importance of this package in promoting confidence and avoiding international systemic spillover risks, we are not prepared to make this a blanket policy change—in reference to the last sentence under criterion 2, paragraph 33, cited as follows: 'Going forward, such an approach to this aspect of the exceptional access policy would also be available in similar cases where systemic spillover risks were pronounced.' In our view, a more comprehensive assessment of spillover risks by staff should feed into a discussion on the need for over-ride provisions. Until this is done, we can treat on a case-by-case basis.

We support the authorities and wish them every success in the implementation of their program. The authorities and the staff must stand ready to consider contingency measures to restore a sustainable overall balance should unforeseen obstacles emerge in achieving the program objectives. This is most imperative for the Fund in light of the size of the program and the risks highlighted in the staff assessment of the risks to the Fund and the Fund's liquidity position. We look forward to regular updates.

Mr. Al Nassar submitted the following statement:

I would like to express my appreciation to staff for their hard work and for the substantial effort that had been put in order to bring Greece's request for a Stand-By Arrangement (SBA) for discussion today. I also thank Mr. Roumeliotis for an insightful buff statement. Our discussion on Greece assumes great significance as any failure of the overall collaborative effort to address the Greek crisis, in which the Fund plays a central role, would have considerable adverse spillover effects beyond Greece. These spillover effects, which are highlighted in paragraph 8 of the staff paper, could not only jeopardize the performance of the European economies, but also pose serious risks to the still fragile world recovery.

By the beginning of this year, it had become clear that Greece faced an unsustainable fiscal situation as the magnitude of the fiscal deficit turned out to be much higher than originally reported. This revelation shocked markets, and the subsequent sovereign downgrades spilled over into the domestic banking system. Greece also faces a long-standing competitiveness problem, as inflation has consistently exceeded the Eurozone average and the extensive rigidities prevailing in the domestic economy have not been addressed effectively.

Against this background, I commend the Greek authorities for embarking on an extraordinary adjustment program on the basis of which the SBA is being requested. The program entails a lot of burden on the Greek people, but the alternative to the planned adjustment and reform would have been much worse. The program deals effectively, in my view, with the three main areas that are germane to resolving the Greek crisis: (a) restoring confidence and fiscal sustainability; (b) restoring competitiveness; and (c) safeguarding financial stability.

The fiscal adjustment effort in the authorities' program contains several positive aspects. First, the effort is substantial, amounting to about 16 percent of GDP over the period 2010-13, and would achieve a significant turnaround in the primary fiscal balance, which is critical for debt sustainability. Second, there is frontloading and identification of measures, which would send an important positive signal to the markets about the seriousness of the adjustment effort. Third, it balances revenue and expenditure measures, which is the right way to address a problem of this magnitude. Fourth, the measures strive to ensure a fair adjustment burdening sharing and protect vulnerable groups. Fifth, almost all of the measures will have a permanent effect on improving the public finances, which again is necessary for long-term debt sustainability.

I also welcome the overall structural adjustment program, which should help restore competitiveness and growth. Given the extensive structural agenda set out in the Memorandum of Understanding with the EC and the ECB, the structural benchmarks for the SBA are appropriately set on fewer but more macrocritical reforms. However, this also highlights the importance of effective collaboration with the EC and the ECB in the monitoring of progress made in implementing structural reforms that directly impact competitiveness and growth.

It is reassuring that the program includes important measures aimed at safeguarding financial sector stability, a necessary ingredient for the success of the overall adjustment effort. The immediate challenge for the banks is to manage carefully the current tight liquidity conditions, and I am encouraged that the government is already working on extending its existing banking liquidity support facilities. The decision by the ECB on May 3 to suspend the application of the minimum credit rating threshold in the collateral eligibility requirements on debt instruments issued by the Greek government would also provide significant relief from liquidity pressures.

I welcome the creation of the Financial Stability Fund (FSF) that should help safeguard the soundness of the financial sector by providing banks with a safety net in the event additional capital resources cannot be found from the private sector. Indeed, it is critically important that banks in Greece remain adequately capitalized during the downturn to preserve stability. It is reassuring to note that the FSF will be independent, transparent and accountable.

The staff papers are quite forthcoming with respect to the risks to the program. Several of the assumptions on which the program is built, whether with respect to the domestic economy or the external environment, may turn out to be worse than expected. What is critically important is that the authorities persevere with their adjustment efforts and adapt policies to changing circumstances so as to ensure that the overall targets of the program are achieved. The authorities have already shown a lot of courage in adopting this strong program, and I am confident that they will remain steadfast in their policies in the period ahead.

Finally, supplement 1 of the paper shows that the impact of the proposed arrangement on the Fund's liquidity and credit risk exposure is very substantial. If all purchases under the SBA take place as scheduled, debt service ratios to the Fund would be high in terms of a range of standard indicators, in the context of a heavy overall debt service burden. The staff papers make it clear that successful market access will be critical for Greece's repayment capacity to the Fund. This again points to the high importance for the adjustment effort to succeed.

In conclusion, I support Greece's request for an SBA. I also support the decision on data misreporting for the reasons given in the report of the Managing Director. With these remarks, I wish the authorities success in the very challenging times ahead.

Mr. Kotegawa and Mr. Haruki submitted the following statement:

We thank the staff and management for their dedicated efforts to reach a staff-level agreement with the Greek authorities on this Stand-By Arrangement. We also thank Mr. Roumeliotis for his helpful statement. We support the request for a Stand-By Arrangement for Greece.

Since having joined the euro area, Greece has enjoyed economic growth, benefited from the stability of its currency value, subdued inflation, and improvements in the movement of goods, services and labor within the currency union. Meanwhile, problems have materialized due to an accumulating fiscal deficit and a decline in competitiveness due to the absence of structural reforms, which have resulted in the current crisis. Hence, the current problem for Greece would primarily be regarded as a problem within the euro area. In this light, it is necessary that the euro area complete its obligations toward the resolution of Greece's problem. Specifically, the Greek authorities should certainly achieve fiscal consolidation, despite the presence of pains and difficulties, and euro area countries must be prepared to provide appropriate resource support. The international community should stand ready to support the efforts made by the euro area countries.

Furthermore, the success of this Stand-By Arrangement program is indispensable in order to contain contagion risks, as the problems Greece is currently facing could spill over to other countries. Considering that this program is not just a countermeasure for liquidity problems but a budget-support program that originates from a fiscal crisis, we anticipate that the Greek authorities will certainly implement the program so as to resolve the country's solvency problems.

Credibility of Fiscal Data

Greece's fiscal problems initially originated from the lack of credibility of the Greek authorities' fiscal data. The fiscal deficit figures in 2009 were upwardly-revised, from 3.7 percent of GDP to 12.7 percent of GDP, and recently this figure was again upwardly-revised to 13.6 percent of GDP in response to indications from Eurostat. It will be highly difficult for Greece to gain its fiscal credibility without restoring market's confidence in fiscal data. While we welcome the fact that the Structural Benchmarks incorporate improvements in data reports, we urge the authorities to sincerely strive to improve the credibility of their fiscal data, relying on assistance from the Fund and other institutions.

Safeguards Assessments

As mentioned in the staff report, this Stand-By Arrangement program entails high risks. In addition, the amount of the program, 3212 percent of quota, is of an unprecedented scale. In this regard, it is extremely important to secure the safeguard assessments of the central bank to ensure the country's ability to repay. The staff report mentions that the safeguard assessments of the Bank of Greece are expected to be complete by the time of the First Review, but we are disappointed that its assessment has not been completed by the deliberation of Board. Moreover, no safeguard assessments are expected from the European Central Bank (ECB), which acts as the actual authorities of Greek monetary policy. Why do staff expect to implement only the safeguard assessments of the Bank of Greece and exclude those of the ECB? Is it sufficient to implement only the safeguard assessments of the Bank of Greece, not including those of the ECB? We would like to ask staff on these points.

Future Countermeasures

Finally, as a background regarding the current crisis, we can indicate the fact that excessively optimistic views were dominant in euro area and that euro countries failed to appropriately cope with this problem by means of financial regulations and macroeconomic policies. It is necessary that lessons from past crises, including the Asian Crisis, as well as the current crisis, be duly taking into consideration for formulating future countermeasures.

With these comments, we wish the authorities every success in their endeavors.

Mr. Rutayisire submitted the following statement:

We thank Mr. Roumeliotis for an insightful buff statement and staff for the report on Greece's request for a Stand-By Arrangement (SBA). We also commend Management and the staff for the dedicated work, and constructive engagement with the Greek authorities and its European Union partners, with the view to providing an adequate and timely financial support to Greece at this critical juncture.

Protracted internal and external imbalances significantly reduced Greece's ability to sustain the impact of the global financial and economic crisis, and the loss of market confidence triggered by the discovery of misreporting made under previous administrations. We commend the efforts made by the new government which, immediately upon assuming power, sought to address deep-rooted vulnerabilities, and committed to implement a comprehensive reform agenda aimed at restoring fiscal sustainability, preserving financial stability, and enhancing international competitiveness.

Program Design

The three-year SBA adequately aims at the key challenges faced by Greece: i) reducing the fiscal deficit and stabilizing public indebtedness to sustainable levels; ii) safeguarding the stability of the financial system; and iii) restoring the economy's competitiveness through structural reforms.

We note the joint efforts by the Fund with the European Commission (EC) and the European Central Bank (ECB), as well as the letters of intent addressed to the IMF which cross references commitments made to the EC and the ECB, especially on structural reforms. We strongly urge staff to avoid cross-conditionality, and wonder whether staff could provide further details on the division of responsibilities between the institutions, including on which agency is responsible for the assessment and monitoring of compliance with the structural reforms and how the EC and ECB will conduct their evaluations.

We also note the commitment in the program to tap resources from the European Union and the Fund in a 3 to 1 ratio. We wonder whether this arrangement is consistent with the Fund's Board repeated insistence to maintain the Fund's institutional independence in continuing to proceed with its own financial assistance to its members according to standards laid down in its Articles of Agreement and decisions adopted by the Board.

On the schedule for repurchase, we note that large repayments to the IMF are expected, which could represent a significant share of the country's debt service. Given the Fund's privileged creditor status, and the potential for constrains on repayments, these large repurchases could adversely affect the private sector's perception of the sovereign debt's riskiness, and undermine market confidence. Could staff comment on the possibility to phase the repurchases over a longer period of time, when roll over risks are at their lowest due to the maturing of most of the outstanding short term claims?

Fiscal Policy

We commend the authorities' ambitious fiscal reform agenda, which aims at restoring fiscal sustainability at the earliest and at enhancing the medium term growth prospects of the country. The recent parliament's approval of austerity measures amounting to 11 percent of GDP through 2013 is particularly welcome. We are also encouraged to note that the authorities aimed at protecting vulnerable households in spite of the unprecedented seize of the fiscal adjustment.

Nonetheless, we would appreciate staff's comments on its assessment that the fiscal measures are "fully identified and frontloaded" in light of Table 1 page 58 which shows a spread out effort, and line items such as "Yet to be quantified yield from structural reform initiatives" under title "II. Expenditure measures."

Monetary and Financial Sector Policies

Given the constrained fiscal space, and an absence of inflationary pressures, it is incumbent on monetary policy to complement fiscal policy in supporting the authorities macroeconomic and growth objectives. While we note that monetary policy is conducted at the regional level, we regret that the report did not cover monetary policy and exchange rate issues which have a bearing on the program and on Greece's macroeconomic prospects.

Even though the financial sector is adequately capitalized and meets international standards as regards its soundness, we welcome the authorities' abundance of caution in establishing the Financial Stability Fund which will provide equity support to banks as needed. The European Central Bank's decision to accept debt instruments issued and guaranteed by Greece as eligible collateral in the Euro-system's credit operations is also welcome as it helps preserves the liquidity in the market for Greece's sovereign debt as well as financial stability. We wonder, however, whether the FSF would not add to the public sector's contingent liabilities, and would appreciate staff's comments on the mechanism to ensure that weak banks' shareholders bear a share of the costs of the mechanism. Finally, we are encouraged by the Greek's Central Bank commitment to step up its surveillance of the financial system to prevent the buildup of nonperforming loans and safeguard the financial system's stability.

Structural Policies

We welcome the authorities' ambitious structural reform agenda which adequately aims at regaining international competitiveness, and fostering a sustainable recovery. Particularly, we commend the new law on labor market flexibility, and measures envisioned to improve the business climate, and the capacity to implement productive investment projects. However, we wonder whether assumptions made that the tradable sector will improve through FDI inflows are realistic, given the current risk appetite, and the global deleveraging of financial institutions underway. Moreover, improving competitiveness requires the adoption of policies aimed at promoting the private sector and at restructuring inefficient public enterprises. Given the significant size of the public sector, a performance criterion to this regard would have been desirable.

On statistical issues, we commend the authorities' remedial actions following the instance of misreporting which has undermined market confidence and set off the current crisis. While the authorities have taken strong remedial steps to prevent the recurrence of these risks, we would appreciate staff's views on lessons that could be learned to improve Fund's procedures aimed at ensuring of the integrity of the data it receives and disseminate, including ROSCs-the latest ROSC assessment for Greece having been completed in 2006.

Ms. Lundsager and Mr. Meyer submitted the following statement:

The economic vulnerabilities in Greece have become reality as market confidence has wavered in the wake of continued fiscal deficits and enduring structural weaknesses. Painful fiscal adjustment and ambitious structural reforms, within the confines of the euro, are needed in order for Greece to return to a sustainable path. We welcome the authorities' commitment to redouble efforts and implement the measures needed. We are very aware of the sacrifice and pressures this will place on the Greek people, and we are encouraged by the government's resolve to carry out the reform program.

Recognizing the risks, not only for Greece but for Europe and broader economic and financial stability, we fully support the proposed Stand-By Arrangement. We concur with exceptional access evaluation and at over 3200 percent of quota this is an extraordinarily large facility, but relative to GDP, it is consistent with other large operations in the past. The potential for even more damaging spillover to other European economies and financial sectors is clear and demands a swift and decisive response. In this light, we take note of and welcome the extensive support of Greece's European partners. Europe's deep engagement and continued strong support are critical to this effort. We simply and strongly reiterate the Fund's seniority and preferred creditor status. In the event that there are setbacks or additional financing requirements, we will look to continued European leadership in meeting those challenges in Greece and other countries in the region.

Fiscal Sustainability

The 11.1 percent of GDP in fiscal measures proposed, on top of the 5.2 percent of GDP in austerity measures already announced, are ambitious yet necessary. Spread out over four years and balanced across revenues, expenditures and structural reforms, the proposals are a dramatic swing in the right direction. The staff's assessment and recommendations on revenue measures are broadly appropriate, and we fully concur with the recommendation to enhance revenue administration. This is an area where rigorous implementation could deliver early and significant results; we are pleased to see Fund technical assistance to the authorities to assist with implementation. As underscored in Mr. Roumeliotis' statement, the efforts to minimize impacts on the poorest and most vulnerable through improved targeting are noteworthy and welcome.

We encourage the Greek authorities, however, to be prepared to develop and introduce durable contingency measures if further downside risks emerge. Given its high debt levels, Greece will remain vulnerable to market sentiment and needs to focus on rigorous implementation to rebuild its credibility. The goal of returning to market finance and away from reliance on official support and ECB refinancing facilities must remain front and center. In a related area, we fully support and underscore the need to strengthen data reporting—accurate and timely statistics are a linchpin to rebuilding trust. And we can support the Managing Director's recommendation on Greece's breach of obligations under Article VIII with respect to the provision of inaccurate fiscal and public debt data.

Restoring Competitiveness

Given Greece's monetary grounding in the euro, additional measures are needed to restore competitiveness and build a base for future growth and sustainability. Pension and wage reforms are a critical element given that over 70 percent of expenditures are in these two areas. In addition, effective and ambitious implementation of the authorities' planned labor and product market reforms is urgently needed to create a more open and conducive business environment. Given downside risks, we also urge the authorities to move forward with contingency structural measures, including addressing private sector wages and to accelerate the restructuring and privatization of loss-making and inefficient state-owned enterprises. These difficult efforts require urgent application if the country is to move to a growth path conducive with more sustainable debt reduction that provides economic opportunities for the Greek people.

Financial Sector Support

We welcome the measures to build further support mechanisms for the financial sector. As noted, enhanced supervision and monitoring will be needed as the economic downturn is likely to add stress to bank balance sheets. The Financial Stability Fund is a welcome addition to existing liquidity support facilities. Additional measures may also be needed to strengthen the bank resolution framework, bolster the deposit insurance scheme and allow for speedy restructuring of financial concerns that find themselves in difficulty. We urge Greece to move forward with its implementation in a timely manner in the event banks face adverse pressures in the near-term. Continued cooperation within the European framework, and with neighboring countries in the region where Greek banks have a presence, will also be important to ensuring financial sector stability and continued financial relationships.

Mr. Mozhin and Mr. Palei submitted the following statement:

We thank staff for their hard work in negotiating this ambitious three-year program with the Greek authorities and other participants in a very short period of time. We also thank Mr. Roumeliotis for his buff statement.

We support this program, because we believe that all far-reaching measures envisaged under the program are necessary for Greece. After many years of fiscal profligacy reflected in the high public debt-to-GDP ratio, Greece has become vulnerable to broad re-evaluation of sovereign risks by international investors. A major fiscal adjustment combined with correction of the real exchange rate in order to restore competitiveness is necessary under any scenario of the resolution of the Greek crisis. The comprehensive staff report and the authorities' letter of intent provide a good blueprint of the measures aimed at achieving these dual objectives. The detailed list of measures in the fiscal, financial sector and other areas and a well-defined timeframe for their implementation provide a good work program for the authorities. It gives investors a clear reference for evaluating the progress with program implementation and offers a chance for the authorities to eventually regain market confidence. Such a medium-term plan was firmly requested by investors. We also hope that market turbulence provides a persuasive lesson for authorities in other countries lagging behind in formulation of their medium-term fiscal strategies.

The proposed program, however, cannot succeed without broader reforms in the Euro area. The financial crisis in Greece is a reflection of the deeply-rooted problems in the Euro area. It is true that, in the run up to and after the introduction of the euro, the Greek authorities year after year had failed to reduce fiscal deficits, to implement the necessary structural reforms and to improve business environment. However, they are not the only responsible party for the current crisis in the Euro area. Over a prolonged period of time many countries in the Euro area had exhibited large and persistent current account deficits associated with rapidly growing unit labor costs, which were masked by current account balance of the Euro area as a whole. On the one hand, the lack of proper attention to these growing vulnerabilities was due to abundant global liquidity and unusually high risk tolerance, while, on the other hand, it was rooted in the weaknesses of peer review mechanisms and surveillance practices. The financial crisis made obvious serious gaps in the European fiscal coordination framework, financial sector supervision, and bank resolution framework. These and other deficiencies and uncertainties contributed to the scale and speed of the crisis in Greece and to the magnitude of the observed contagion. Overall, the adoption of the large financing package for Greece is not only a chance for the Greek authorities to start the implementation of their adjustment program. It is also a signal for the Euro area countries to address the remaining weaknesses in their regional arrangements.

We are fully aware of the serious risks involved in the design and implementation of the proposed program. Prospects for the restoration of investors' confidence are subject to great uncertainty. At this stage, it is difficult to predict the magnitude of output decline in Greece, associated with contractionary fiscal measures and adverse market conditions. The degree of fiscal austerity also raises program implementation risks. These and other factors will affect the interest rates path and debt dynamics.

Some of the most difficult questions about the program are related to public debt and external debt sustainability. It is no secret that market participants openly doubt the ability of Greece to service its debts. International media are full of discussions on the need and possible modalities of debt restructuring. We agree with the authorities and staff that, at this stage, it is necessary to proceed with a large financing package in support of the Greek authorities' detailed and comprehensive adjustment program.

We also note that major German private banks and insurance companies made public commitments to maintain their exposure to Greece. We look forward to additional assurances of private sector involvement in the resolution of the crisis. At the same time, we are cognizant that various contingencies require the Fund, other official creditors, and the Greek authorities to be pragmatic and flexible in responding to future economic and financial markets developments.

Irrespective of the situation in Greece, like some other Directors, we believe that there is a need for a general Board discussion on the recent experience in sovereign debt restructuring.

Mr. Chua, Mr. Kartikoyono, and Ms. Sicat submitted the following statement:

We thank staff for a set of well-written reports and Mr. Roumeliotis for his convincing buff statement.

We support Greece's request for a three-year Stand-By Arrangement under the exceptional access policy. The approval of this program is a necessary, but not on its own sufficient, measure to mitigate contagion. We acknowledge that the adjustments entailed in the program will be difficult and painful for the people of Greece. They are, however, essential to place Greece on a path of sustainable growth in the medium- to long-term. We welcome the difficult decisions taken by the Greek government thus far, and their commitment to full implementation of the reforms. We also welcome the commitment and support of Greece's European neighbors and regional institutions.

Having said that, we believe that the process of engagement with the Fund ought to have begun much earlier. This could have avoided the sizeable amplification of the crisis that we have seen in recent days. The speed of the crisis response could have benefited from having had in place agreed procedures for collaboration and crisis management within the region, and between regional institutions and the Fund.

There are considerable risks to the program. We hope that this program, which will be jointly administered and overseen by the European Commission, the European Central Bank and the IMF, lays the groundwork towards economic recovery for the Greek economy and the containment of contagion in the region. Based on our experience during the Asian crisis, it may take time to restore market confidence. Further swift and bold moves, yet well calculated, from the authorities and supported by the international community would be needed to mitigate spillovers to other countries. Thus, the authorities' firm commitment and resolve in adhering to the adjustment program to address three key challenges, namely, 1) achieving fiscal consolidation; 2) safeguarding financial stability; and 3) improving competitiveness through structural reforms to secure medium-term recovery, are crucial.

Achieving Fiscal Consolidation

We agree that fiscal consolidation should be the cornerstone of the Greek adjustment program. The staff indicated that the scale and the front loading of fiscal adjustments is necessary to swiftly restore market confidence, and avoid implementation risks that may arise later from reform fatigue. While this strategy may mitigate implementation risks somewhat, we call on staff to carefully evaluate the appropriate sequencing and mix of the program taking due consideration to the capacity of the population to absorb the adjustment measures.

Given the extent of the fiscal adjustments, we agree that the policy mix has to involve both expenditure cuts and revenue increases. In this regard, apart from those already identified by the staff in the report, raising the efficiency of public spending through measures, such as targeted social welfare support to the most needy, and revisiting the criteria for support are sensible polices to sustain public finance. Meanwhile, to protect the vulnerable population, we welcome the plan to exempt the low-income groups from some of the impact of fiscal adjustments.

The staff report highlighted the weakness of an economic growth model that was overly reliant on public spending for support. We note, in particular, the need for government involvement in private enterprises to be rationalized to consolidate use of public funds. In Box 3, we noted that elimination of subsidies is not frontloaded. We welcome staff comment on this.

We support the grant of technical assistance on public financial management to build up the capacity of the authorities to put in place an effective fiscal framework that would improve fiscal governance in accordance with international best practice.

On debt management, lessons from previous crises in emerging markets showed that a prudent debt management strategy is also a crucial component to facilitate economic recovery. Having said that, we are well aware that this issue needs to be handled with great sensitivity given the current climate in the market.

Availability of robust, credible, reliable and timely statistics is critical to assess market conditions and formulate sound policy recommendations. The record in Greece has been poor in this regard. We support the passage of the new law that strengthens the statistical office and gives independence from political interference. Reporting budget expenditures based on accrual method should be adopted to better track commitments and actual expense in the budget reports. Public accountability reforms should also be implemented.

Safeguarding Financial Stability

While banks are adequately capitalized, liquidity conditions moving forward are worrying given the impact of the sovereign rating downgrade on banks' access to wholesale credit, loss of deposits and reduced profitability. We therefore support staff recommendation of the setting up the Financial Stability Fund to provide capital support if needed, and to further strengthen the financial sector. A quick resolution framework would also be important to avoid the spread of the problem to other banks and prevent further loss of confidence in the banking system. In this connection, strengthening financial sector safety net will also be essential to mitigate potential risks that could emanate from the current challenging situation and tight liquidity condition. We also support measures to broaden the Bank Coordination Initiative to mitigate spillovers through cross-border exposures.

Structural Reforms for Competitiveness

We agree with authorities that improvement in competitiveness should not only be borne by price adjustments but also by improvement in productivity. Policies geared towards encouraging productivity enhancement, particularly in the private sector, should be pursued.

On the planned reorganization of the public sector aimed at bringing down the size of the government bureaucracy to ease the budget, we would like to invite staff to briefly explain how this will be done. Will the government offer a retirement/separation package? Is there a fund to back this program?

Other Comments: Effective Communication and Coordination

The success of the adjustment program is also dependent on the strength of public support. Thus, it is imperative that the government undertakes a clear and effective public information campaign and outreach program on the extent of the economic problem and the needed macroeconomic policy reforms to secure broad support for the economic adjustment process. It is also important for the Fund to have an effective communication plan, emphasizing that the Fund's financial assistance will make the adjustment process less severe than it would otherwise have had to be.

Meanwhile, to prevent potential spillovers to other countries, at this point, we see merit for the Fund and the international community in intensifying our willingness and readiness to provide international backstops to member countries experiencing heightened market pressure. In this regard, we would support an acceleration of the Fund's work on its financing mandate and facilities.

With the multiplicity of players involved in implementing and monitoring a program of this size and degree of coordination needed, both political and technical, we call for clear, effective mechanisms to achieve timely decisions to be in place and mitigate risks of implementation delays, which may further destabilize confidence.

Mr. He and Ms. Wang submitted the following statement:

We thank staff for the paper on the Greek authorities' request for a Stand-By Arrangement (SBA) with the Fund, and Mr. Roumeliotis for his informative buff statement. Despite significant risks, we support the requested program in view of the international assistance needed to facilitate the necessary adjustment, the authorities' strong commitment, and the potential spillover risks.

The programmed relative scale of external assistance and the extent of fiscal adjustment are unprecedented. First, as staff pointed out, it is partly because of the lack of recourse to monetary and exchange rate policies. Second, like many others, we believe the undue delay in initiating the program has fueled the deterioration of market confidence and widened the margin of the needed adjustment.

Third, the underlying distortions and imbalances in the Greek economy have been allowed to accumulate for too long. They are not new, although they have been exacerbated by the current global financial crisis and recession as well as the heightened sovereign risks in the advanced economies, particularly in Europe. Similar issues were raised during the Article IV discussion in January 2007. We emphasized concerns about the high debt-to-GDP ratio, declining competitiveness, high credit growth, and high NPLs, and called for durable measures for fiscal consolidation and wide-ranging structural reforms without further delay. In particular, we voiced disappointment with the slow progress with labor market reforms. In this regard, we share the comments of Mr. Hockin and Mr. Purves on enhancing traction of Fund policy advice with members with more fundamental or chronic structural problems. It would be useful for the IEO and the Board to reflect on this in future discussions on the Fund's surveillance mandate.

The risks to the program are significant. In addition to those listed in paragraph 47 of the staff report, the growth projection appears optimistic, given the drastic fiscal tightening and weak external demand. The 6 percent annual export growth envisaged in the program may be difficult to achieve as it will take time for the internal devaluation to take effect and the limited gain in competitiveness in the short term may be offset by a rise in the financing cost of the corporate sector. What contingent measures will be available?

While the three-prong approach of the program is appropriate, the solution to the Greek crisis will also depend on how effectively the imbalances in other economies are addressed, as some other economies in the region are perceived to have similar problems, albeit to a lesser extent, and market confidence in the Greek economy remains susceptible to the evolution of the situation in the neighboring economies.

Could staff also further elaborate on the impact of a global interest rate hike on debt sustainability, given that the new official financing at a floating rate is expected to account for a large share of Greek public debt? What is the projected interest rate?

With regard to program conditionality, we would like some further clarification. Would the structural reforms conditionality in Annex 3 on page 109 be part of the Fund program or only relevant to European assistance? In case of implementation failure, would a waiver by the Fund be required? If not, why is Fund conditionality more limited in scope and specificity?

On the modality of monitoring, we appreciate the role of the EC and ECB. However, it is not clear how the independence of the Fund would be preserved, should a difference arise. We have seen parallel financing in past crisis, but a joint monitoring seems to be a new modality. What are the underlying considerations? Would disbursements be contingent on unanimous approval of the review, or on the respective approval?

Given the enormous uncertainty, appropriate communication is critical. Discussions on debt restructuring should be avoided at the moment.

With these remarks, we wish the authorities success in their program implementation.

Mr. Weber and Mr. Peter submitted the following statement:

We support the Fund arrangement with Greece given the high risk of international systemic spillovers. While we do not question the best intentions and the strong commitment of the Greek authorities for carrying out very strong fiscal and structural adjustment measures, we notice that the policy path towards successfully overcoming the crippling public debt overhang and achieving sustainable public finances is very narrow. We consider it appropriate that the Fund—in concert with the Euro Area members—takes this chance at the current juncture, despite our considerable doubts about the feasibility of the program. The agreed financial support package should provide Greece with the needed breathing space to service its financial obligations.

The staff rightly and prominently stresses the high risks to the program. These risks and the unprecedented scale of the Fund's financial engagement in Greece call for extraordinary monitoring and alert risk management. Our concerns are reinforced by the fact that the disbursements will entirely serve as budget support. Strict implementation and resolute ownership of the program, without the slightest scope for deviations, are absolute conditions for reaching the program targets and rebuilding market confidence. In this context, we look forward to the completion of the safeguards assessment. We also take note of the joint monitoring with the EC and ECB but would welcome a more precise description of the modalities of this cooperation. For instance, what will happen when the EC and ECB decision-making bodies do not reach the same conclusions on program performance as the Fund's Executive Board? Does staff anticipate any additional control mechanisms?

The staff is appropriately candid in their debt sustainability analysis and we note that future debt service ratios are worrisome. Repayment capacity, including to the Fund, seems to hinge on successful access to market financing. We take comfort in the Fund's long-standing preferred creditor status but would like staff to comment on the seniority status of the joint Euro Area financial support. The staff mentions that the government will continue to issue T-bills. We would appreciate more details about who the expected buyers are. Could staff also explain what will happen with regard to government bonds held by Greek banks and pension funds? Are these covered by the program financing?

We have doubts on the growth assumptions, which seem to be overly benign. Even a small negative deviation from the baseline growth projections would make the debt level unsustainable over the longer term. It seems that previous episodes of strong fiscal consolidation in relatively closed economies, such as Greece, have historically been accompanied by larger contractions in GDP. Apart from the impact of fiscal tightening, conditions for growth are further compromised due to the large estimated overvaluation of Greece's real exchange rate.

The Fund must be ready and willing to intervene early and pursue alternative scenarios if necessary. We ask Management and staff to prepare contingency scenarios should the program risks materialize. For example, we wonder what the impact would be of a combined adverse scenario (Annexes 1 and 3). Among these contingency measures, serious consideration should be given to debt restructuring as a means to achieve fiscal sustainability and make private creditors shoulder some of the adjustment burden. The staff mentions that there may be scope to seek voluntary rollover understandings among creditor groups. Why has debt restructuring and the involvement of the private sector in the rescue package not been considered so far? What would be the key issues to be addressed if part of the adjustment would come from a restructuring of sovereign debt?

We would welcome staff's assessment of the following additional questions:

- What will be the Fund's response if the authorities cannot deliver on the fiscal austerity measures and fundamental structural reforms?

- What contingency measures are planned if market confidence does not stabilize in response to this program and the measures announced by the Euro Area heads of state? Is Fund involvement in other European countries being contemplated?

- What are the possible adverse medium- to long-term consequences of this bailout in terms of perverse market incentives?

Mr. Mojarrad and Mr. Jbili submitted the following statement:

We thank staff for a well crafted and candid report, and Mr. Roumeliotis for his helpful statement.

The sovereign debt crisis is upon us sooner than expected, and has claimed Greece as its first victim. While a great deal was known about the country's imbalances and structural rigidities, the new revelation of its outsized fiscal deficit, its debt burden, and the shortcomings of its statistical information system, compounded by uncertainties regarding EU partners' support, have precipitated the crisis, with spillover effects affecting other countries in Europe and the world economy. The new Government should be commended for its efforts toward enhancing transparency and data quality, and its early actions to put together an ambitious three-year adjustment program, in close coordination with the Fund and the European Union. Much is riding on this challenging program, and recent market turbulence has demonstrated that less than full implementation is not an option, and that risks to regional and global stability and to the incipient recovery are significant. This puts the onus on the Greek authorities to deliver on their program, despite the enormous difficulties, as well as on the international community and the private sector to help Greece while mitigating contagion.

This program has had a difficult start with upfront social unrest, which may indicate that a broad social consensus on the required adjustment effort is less than assured, even though the Greek parliament has approved the fiscal package. We are also struck by the contrasts between the highly ambitious fiscal adjustment and the relatively weak fiscal institutions, and by the likely severe fallout of the deflationary measures on the population in a country with strong labor unions. While we are aware of the very limited room for maneuver, experience has shown that overambitious programs often end up being off-track. We would appreciate staff views on the political and social dynamics that could support, or hinder, program implementation going forward.

The program is built around a strategy of restoring capital market confidence in the near term through a drastic fiscal adjustment, while structural reforms aimed at altering relative prices in the economy through a significant decline in real wages will take time to produce their effects. Could staff elaborate on how “the scale of official support is expected to catalyze market access over time” and how this can be facilitated by “seeking coordinated voluntary rollover understandings among creditors” (paragraph 30)? Like Mr. Shaalan and Ms. Choueiri, we would be interested in staff clarification regarding the option of debt restructuring. We would have expected such option to be discussed in the staff report, even if the intention were not to retain it.

Even if capital market access is restored within about two years, as envisaged, changes in relative prices and competitiveness may take time to materialize. As such, confidence in the Greek economy may strengthen only with some delays, especially given the prospects of growth contraction in 2010 and 2011 and only a moderate recovery thereafter. We would appreciate staff views on whether there is scope for accelerating the implementation of labor and product market reforms and other key structural measures.

Fiscal adjustment is at the core of the program and we welcome the wide ranging revenue and expenditure measures already put in place and those approved recently by parliament. Some measures seem to be of immediate impact, such as the elimination of bonuses and the 13th and 14th months of salary, as well as increases in VAT and excise rates, while others require administrative or institutional reforms that will take time to implement and their effects may be difficult to quantify at this stage. While the yield of the fiscal measures will be reassessed during the program reviews, we wonder whether some safety margin has been built in the staff current estimates. The staff's comments will be appreciated.

The financial sector has been affected by the sovereign risk crisis, and Greek banks have lost market access and seem to rely heavily on ECB liquidity. The recently announced decision by the ECB to continue to accept debt instruments issued or guaranteed by the Greek government regardless of rating agencies grading is welcome. We concur with staff that banks might undergo a period of declining profitability and rising NPLs due to the growth contraction, which could affect their capital base. In this regard, the proposed establishment of the FSF to provide banks with last resource capitalization is appropriate.

Turning to key features of Fund support, we agree that exceptional access is justified in the case of Greece given the systemic risks involved, even though we are not fully convinced that Criterion 2 is met and the debt sustainability analysis is less than reassuring. The staff's interpretation of this criterion and its suggestion to apply similar interpretation in other systemic cases constitute a significant departure from the original concept that may require Board reexamination of the exceptional access framework. Overall, the program involves substantial risks, which have been highlighted by staff, and would require close monitoring and sustained technical assistance. Like Mr. Shaalan and Ms. Choueiri, we seek clarification concerning the practical modalities and implications of the proposed joint reviews between the Fund, the EC, and the ECB. In particular, while close coordination with the EU and the ECB will be key, we wonder whether such joint review could hinder the independence of Fund staff assessment.

We welcome the authorities' efforts to address the deficiencies in their statistical system, and in light of the remedial actions they have already introduced, we support the proposed decision that no further action by the Fund is required under Article VIII, Section 5 of the Articles of Agreement.

With these remarks, we wish the authorities full success in their challenging tasks.

Mr. Nogueira Batista, Mr. Fachada, and Ms. Maia submitted the following statement:

We are dismayed that the situation in Greece and in parts of the European Union has deteriorated so dramatically. The Fund is being called to help deal with an emergency that affects not only Greece but also several other European countries and may even have repercussions outside Europe. Nevertheless, what we have before us is mainly a euro zone affair and it is only right that euro area countries provide the bulk of the financing.

For the IMF this is a major and risky undertaking. The Executive Board is asked to approve a program that will provide resources equivalent to more than 32 times Greece's quota—the highest ratio in the institution's history. Furthermore, the program is heavily frontloaded. We understand the reasons given by staff for the level of access and the frontloading of disbursements. One cannot ignore, however, the credit risk for the Fund and the lack of effective control that frontloading inevitably brings. All this is being done for a country that cannot be said to have an outstanding track record in terms of economic policy and economic data.

Nevertheless, we thank staff for the reports and for their effort to put together a program in such a short period. The Board had even less time to consider the proposed program. We also thank Mr. Roumeliotis for conveying the views of his authorities. Given the dire situation of Greece, the overwhelming fiscal and economic inheritance received by its new administration, and the possibly systemic risks posed by the crisis, we can support the authorities' request for a three-year Stand-By Arrangement with access to SDR 26.4 billion (€30 billion). However, we have serious doubts about the approach that has been taken. The risks of the program are immense and will, needless to say, require close monitoring by the Fund. Implementation will be very difficult and one cannot exclude the possibility that revisions of targets—and even of overall program design—may become necessary.

We regret that the decision by the Greek authorities (and the European authorities more generally) to seek Fund support has been delayed so long. Euro area authorities have shown lack of cohesion and indecisiveness. Conflicting signals and public statements contributed considerably to feed uncertainty and market volatility, playing into the hands of financial market speculators that some European governments are now angrily denouncing.

Had the decision to come to the Fund been taken earlier, the program would have started in less adverse circumstances. The delay led to unnecessary deterioration of the economic and social conditions in the country as well as a loss of confidence in the euro area institutions that may be difficult to reverse. Greece proved, once again, that the stigma associated to Fund support has not been overcome. There is a certain irony in this. It would not be difficult to find a great number of admonitions from European authorities and Board members, directed at developing countries, concerning the irrationality of postponing requests for Fund support.

We urge the Fund to look into its own surveillance track record with respect to Greece in the lead up to the crisis. Can we say that the IMF gave sufficient attention to the build-up of vulnerabilities in an advanced economy such as Greece as well as in the euro zone more broadly? Or will we find, once again, that IMF surveillance of advanced countries was ineffective? These issues deserve special consideration by the Board, Management and staff in a period when the Fund is contemplating new roles in terms of lending and surveillance. We suggest that this could be a topic to be considered also by the Independent Evaluation Office, perhaps in the context of its ongoing assessment of the performance of the Fund before and in the initial phase of the global financial crisis.

The Greek economy has been accumulating vulnerabilities for a long time, as we all now know. The large fiscal and external imbalances, the loss of external competitiveness and the chronic structural inefficiencies could have been addressed when the regional and global environments were more favorable. The Greek government, however, decided to defer any adjustment, and the European authorities and financial markets tacitly acquiesced. A major shock occurred in the last quarter of 2009 when the glaring inadequacy of fiscal statistics was disclosed. Nervousness was reinforced by a lack of clear commitment of euro area partners to support the country, as well as widespread perceptions that the new government would have great difficulty in responding forcefully to the crisis. Greece gradually lost the capacity to rollover its sovereign debt, while its banking system lost access to the interbank funding market.

Against this backdrop, the multi-year adjustment program tries to tackle the dual objective of fiscal consolidation and increase in competiveness while safeguarding financial sector stability. The ultimate success of the program hinges on the capacity of the Greek authorities to deliver a double-digit fiscal adjustment that can turn around a primary fiscal deficit estimated at 8.6 percent of GDP in 2009 and produce a significant primary surplus, creating room for a downward path of the public debt by the middle of the decade. In the staff's baseline scenario, which seems to include some optimistic assumptions, the public debt-to-GDP ratio will continue to increase, reaching almost 150 percent of GDP in 2012 and 2013. We note that staff, using somewhat contorted language, finds it “difficult to state categorically that debt is sustainable over the medium term with a high probability” (paragraph 33, bullet II). Uncertainties about the need of some sort of debt restructuring will probably remain in the horizon for an extended period.

The proposed program would seem more equitable if it included clearer provisions regarding what was called in previous crises Private Sector Involvement (PSI). As it stands, the programs risks substituting private for official financing. In other and starker words, it may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bailout of Greece’s private debt holders, mainly European financial institutions. We would very much welcome that, as part of the program, the country’s external creditors explicitly commit to sustaining a minimum level of exposure. As in earlier crisis episodes, the Fund and the euro area authorities could work more actively to coordinate the participation of external creditors. We are not persuaded that the soft approach outlined in paragraph 30 will prove sufficient in the present case.

The contraction in economic activity and social unrest pose serious risks to the ambitious fiscal agenda. Even though the staff report does not discuss in detail the macroeconomic projections, the forecasted real GDP contraction for 2010 and 2011 seem optimistic, in light of other countries’ recent experience with fiscal adjustment and so-called internal devaluation (in particular the Baltic States). In an especially Panglossian passage of the report, staff expresses the expectation that growth will follow a V-shaped pattern (paragraph 12). We fear that growth may follow an L-shaped pattern, with a very sharp contraction of GDP in 2010 and 2011 and negligible recovery thereafter.

Greece’s predicament derives to a large extent from the lack of a national currency. In this respect, the situation is similar to that of Argentina in 2000 and-2001 or of Latvia in last few years. In a sense, Greece’s situation may be more difficult, since exiting from a monetary union is more challenging than dismantling a currency board. In any case, the lack of an independent monetary and exchange rate policy makes it impossible to offset the recessionary impact of large-scale fiscal adjustment. The only mitigating factor is the ongoing depreciation of the euro, which will help support net exports of goods and services vis-à-vis countries outside the euro area.

Given the present circumstances, the materialization of something close to staff's baseline scenario would be a major achievement. We hope for the best, but fear that Greece faces two alternative, and maybe more likely, scenarios: a) a Latvia-type outcome, as we briefly sketched in paragraph 10 above; or b) an Argentina-type outcome, leading to debt restructuring and even euro exit. The staff is reluctant to consider these alternative scenarios in the report. However, we are confident that Management and staff have taken a long and hard look at the full risks that the situation entails. Contingency plans should be prepared as soon as possible.

Safeguarding the stability of the financial system is essential. Greek banks had been weathering adverse circumstances relatively well before the widespread contagion this year. Their levels of capitalization and liquidity were still comfortable and in compliance with the capital adequacy requirement of 8 percent. However, additional pressures on the banking sector stemming from the projected contraction of the Greek economy in the next couple of years, the increase in non-performing loans (NPLs) and the risk of bank-runs require that precautionary measures be taken immediately. The challenge is not only a matter of instilling confidence in the markets and ensuring that liquidity is maintained but also of avoiding a worst-case scenario of insolvency. Such a scenario would magnify the recession and fiscal risks. We also take note of staff's concern with risks stemming from the exposure of Greek banks to Southeastern Europe.

The establishment of an independent, transparent, and accountable Financial Stability Fund (FSF) is a positive step, as it will help deal with liquidity and solvency problems in the banking sector. We expect that the FSF will report regularly to the Fund's staff on its activities. It is also imperative that the authorities closely monitor the level of deposits in individual banks and ensure adequate funding for the deposit insurance scheme.

Another welcome step is the extension of liquidity facilities by the Greek authorities. Even more important in mitigating liquidity pressures is the ECB's decision to continue to accept debt instruments issued or guaranteed by the Greek government as collateral, despite their current credit rating.

Given the commitment made by the authorities to improve the quality and reliability of the fiscal statistics submitted to the Fund, we can go along with the proposal by the Managing Director to take no further action regarding Greece's breach of its obligations under Article VIII, Section 5 of the Articles of Agreement.

Our decision to go along with this problematic and risk-laden program should not be taken to mean that we will support it in the future. Going forward, we will consult with our authorities and other chairs to make sure that the Fund is not led along the path of endorsing a program that may prove to be ill conceived and ultimately unsustainable.

Mr. Pereira submitted the following statement:

Introduction: Our experience: Main Views

In our chair, Argentina has been through a very long and sad history of Stand-By Agreements which were aimed at bailing out a debtor country but ended up rescuing private sector creditors, leaving behind massive capital flight and untenable social and economic consequences.

In Argentina, we know too well what the real consequences are of making believe that solvency crises are liquidity crises. Our own experience proves that bail-out packages or debt restructurings that disregard "debt sustainability" and economic growth as a main feature of its design, leaving it to "future market access," are destined to be short lived.

We are also too familiar with the consequences of "structural reforms" or policy adjustments that end up thoroughly curtailing aggregate demand and, thus, prospects of economic recovery. The so-called "structural reforms" promoted by the Fund hurt deeply countries' institutional quality and capacity. We have reviewed the projections of the staff, the recommendations and policy conditionalities. We do not share the views, for instance, that the widespread cuts in public expenditures, that a sharp decline in GDP, or that a major reduction in replacement rates of the pension system (from average 75 to 60 percent) will solve the Greek solvency problem. If anything, such measures risk to compound the problem.

An in-depth analysis of real repayment capacity should be the starting point of any program of this kind. This is, indeed, one of the key lessons from Argentina's crisis: debt restructurings or bail-out packages should be crafted only after a country's repayment capacity has been adequately assessed.

In fact, repayment capacity scenarios or exercises could be complemented with correcting mechanisms. Such is the case, for instance, of the issuance of warrants, or "GDP coupons." A "base case" is defined, and then these type of instruments make up for eventual deviations. The issuer pays for these instruments if economic growth is better than expected in the baseline scenario. Even the United Nations created a study group to analyze and promote the issuance by Sovereigns of these types of instruments. Above all, they are countercyclical in nature, a paradigm of good faith, and maybe more importantly, they emphasize the obvious: repayment capacity should be the main driver in debt tolerance and debt profile analysis. At the end of the day, "market access" is the consequence of repayment capacity, not the other way around. The risk here is that one of postponing, and maybe, worsening the inevitable.

We do, however, would like to stress that we do not oppose, rather we agree to, an assistance package to the Greek Republic. That said, we think that the program should not contain procyclical policy conditionalities that would undermine aggregate demand or growth prospects. In addition, while we believe that the assistance package would be more effective if supplemented by a voluntary debt restructuring that would focus on repayment capacity as its starting point; we do believe that "ownership" is a major feature of any arrangement. Thus we concur with the granting of the request for a Stand-By Arrangement as requested by the Greek authorities.

Let us point out in greater detail our main observations.

A Comprehensive Strategy is Needed

Any tenable strategy for rescuing Greece must be comprehensive and rooted in three key inter-related pillars: 1) ample and frontloaded financing assistance; 2) minimizing output impact across a reasonable time period; and 3) a pre-emptive voluntary debt restructuring. Greece is facing a deep medium-term solvency crisis.

Pro-Cyclical Adjustment Could Exacerbate the Downward Spiral

Past experience from different countries proves that the biggest driver of debt explosion is the inevitable collapse in tax revenues that governments face in the wake of a deep and protracted economic recession. Greece will not be an exception. The staff openly recognizes that the "closed Greek economy" will face a prolonged output contraction prompted by the extraordinary pro-cyclical fiscal adjustment agreed. If the recession turns out to be deeper than expected, more resources will be needed for a longer period of time. It is now palpable that tapping international financial markets will be unworkable in the oncoming years (triggering insolvency concerns), implementation of austerity measures will be socially unfeasible (as proven by the painful recent events of general strikes and popular unrest), and may compound the problem, and then the financing gap would most likely be widened despite the collapse in imports. The bottom line is that the virus of recession will always spread faster than any advocated fiscal remedy. The only way to sustain Greece's ability to repay is by increasing its GDP, not the other way around.

Amplifying the Future Financing Gap and Prompting Panic Reactions

Concerns have already arisen regarding the size of the resources needed to bailout Greece down the road. Perhaps this explains why the strategy to lure markets proves to be short-lived despite the unprecedented financial support in coordination with European members. Tellingly, there is a credibility and sustainability problem about the future implementation of the program given its narrow focus on austerity measures. Thus, investors are already rushing to the exit with potential "domino effects" elsewhere. Since this is still a global systemic crisis, the strategy of squeezing public financing and isolating the country blaming it for past fiscal indiscipline or lack of competitiveness will most likely fail. With a downward spiral, social and political instability could ultimately bring about the restructuring that today we are so eager to prevent. Constitutional litigation could also block the daunting austerity measures or structural reforms put forward for approval.

The Greek credit crisis is rapidly turning into a wide Eurozone liquidity crisis with unexpected consequences—much is at stake now

Continuous current account deficits during the last years in peripheral countries of the eurozone were functional to sustain intra-euro demand, with private over-indebtedness on the other size of the same coin. Much is at stake now for the EU monetary union as a whole. Outward spillovers are tackling other key countries and its negative impact on Central and Eastern European countries seems likely. First, there was disagreement about the role of the Fund. In an odd anachronism, the Fund was not supposed to discipline advanced economies. Appearances led to undue delays. Then the ECB publicly announced that it would neither allow European banks to borrow using Greek bonds as collateral nor to monetize Greece's debt using its balance sheet. Indeed, a decision was made to avoid debt monetization through increases of ECB's money supply, an option that was deployed aggressively by the United States and the United Kingdom to weather the recession. Finally, draconian austerity measures coupled with unprecedented financial support were agreed, but sequencing, effective coordination and timely disbursement has remained vague. All in all, the EU may be facing a historic decision.

Back to Basics

The Fund's financial assistance is supposed to give confidence to members that resources will be temporarily available under adequate safeguards to provide them with the opportunity to correct maladjustments without resorting to measures destructive of national or international prosperity…a forgotten provision anchored in the core of the Fund's mandate (Article I of the Articles of Agreement).

The Alternative of a Voluntary Debt Restructuring Should Have Been on the Table

Since solvency problems will not get by without some form of debt forgiveness, we observe that an orderly process would have been better. This chair prayed for the need to agree on a set of international rules and procedures to handle sovereign debt restructuring when we discussed exiting strategies back in February (Gray/10/477). We knew that the strategies of "competitive disinflation" (namely, protracted recession, higher unemployment, and deflation) were flawed given the systemic nature of this crisis and the scale of the post-crisis imbalances. When we asked about this issue at the Board, the staff echoed a resounding no. Yet, the European authorities would have been well-advised to come up with an orderly debt restructuring process. The bottom line is that the approved strategy would only have a marginal impact on Greece's solvency problems.

Learning Harsh Lessons From Past Crises And Mistakes

Harsh lessons from our own past crises are hard to forget. In 2001, somewhat similar policies were proposed by the Fund in Argentina. Its catastrophic consequences are well known. Today, other countries are involved, but the Fund's policies remain the same. Beyond economic theories, there is an undisputable reality that cannot be contested: a debt that cannot be paid will not be paid without a strong process of sustainable growth.

It is of paramount importance that the policy designs for a country in economic trouble tackle the real problems and not only the short-run financial ones (as the Fund often does). In this sense, monetary and fiscal policies should foster growth, productivity and sustainable and balanced economic recovery. Countries should not bind themselves to monetary fictions that destroy their production capacity and employment levels.

A sound and equitable burden sharing of their costs would have been good for the reputational costs of the Fund (that it could be blamed for simply buying some time or ensuring that foreign banks will be paid in full over the next year before the inevitable happens) and it would have been even better for the Greek population and its growth prospects.

In Conclusion

We can go along with the consensus on the basis that the authorities are fully convinced that this is the best possible alternative for their own country. Some reassurances are provided by the recent parliamentarian approval of the program. Our own experience proves that there are no magical solutions, and difficult trade-offs are always involved in every single policy option; it is very likely that Greece might end up worst-off after implementing this program. The adjustment measures recommended by the Fund will reduce the welfare of its population and Greece's true repayment capacity. We have no doubt that the ability to repay critically hinges on sustained and socially inclusive growth. A collapsing economy will lack the social and political basis to put the country back on its feet.

Mr. Roumeliotis made the following statement:

The Greek statistical system for many years has suffered from chronic deficiencies in the field of fiscal data for the general government. Misreporting is an inevitable result of such deficiencies, but political interventions from the previous administration to deliberately modify data is also suspected.

A few days after coming to power, the new government of Greece published corrected figures approaching the true level of the public sector deficit and debt. Last March, in close cooperation with Eurostat, these figures were further adjusted, taking into account new data about hospitals and Social Security organizations. They were later officially published by Eurostat. There is no doubt that these figures are much more reliable, although the need for further minor adjustments cannot be excluded.

In order to establish the existence—or not—of political responsibility in the misreporting of data, the government brought to parliament a proposal to set up an Interparty Investigation Committee to look into all these matters. Parliament endorsed this proposal and the Investigation Committee will start operations very soon.

However, since the main problem is systemic, the Greek authorities also asked for an independent expert committee to analyze the sources of statistical deficiencies and to propose solutions. The expert's report has been completed since last January and corrective actions have already been taken.

One major move in this direction is the change of the status of the Greek Statistical Service. A new law voted by the Greek parliament in early March changed the legal personality of the Statistical Service from a section of the Ministry of Finance into a fully independent authority. A President and Board of Directors were appointed with a 4/5 majority of a parliamentary committee. No more political interference is possible under the new statute. The law also envisages new regulations for the operation of the Greek statistical system as a whole.

Finally, a short- and medium-term detailed action plan has been agreed between the Greek authorities and Eurostat. The plan includes a host of specific measures with specific target dates, which, when implemented, will completely change the capacity of the Greek statistical system. To this effect, technical assistance from Eurostat and other EU members has been approved for the most demanding projects of the action plan.

The Acting Chair (Mr. Lipsky) made the following statement:

We plan to add to today's chair's statement to be issued to the public on Greece's request for a Stand-By Arrangement one brief paragraph on Greece's Rule K-1 Report on Breach of Obligations under Article VIII, Section 5.

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 at this point by the Fund under its procedures for the breach of obligation. Going forward, strict compliance with reporting requirements to the Fund will be required.

Mr. Roumeliotis made the following statement:

In addition to my statement, I would like to say a few words. Primarily, I would like to underline that the International Monetary Fund and, in particular, its Managing Director, Mr. Dominique Strauss-Kahn, have shown timely interest regarding the fiscal and external borrowing and financing crisis in Greece. In an increasingly interdependent world resulting from the globalization of financial markets, the Greek crisis had the potential not only to negatively impact the Eurozone, of which Greece is an integral part, but, moreover, to destabilize the international financial system.

Through its Early Warning Exercise, the IMF had helped to realize all the destabilizing dangers for the global economy resulting from untimely and ineffective action related to the refinancing of foreign debt of Greece. In fact, this is one of the key roles the IMF was called to play at the onset of the 2008 global financial crisis, to anticipate on time and to intervene with all available means, financial and in the form of technical cooperation with its members, in contributing to avoid systemic crises. That is also the key reason for the recent augmentation of the IMF financial resources. The Fund staff has also risen to the importance of the current difficult circumstances in Greece along with their European colleagues to design its program.

Second, Greece is facing one of the greatest challenges in its recent history. However, Greece has proven in the past and more recently, by initiating and undertaking action itself, that it can successfully address great challenges. Greece has had successfully rebuilt its economy following the Second World War, managed to increase its standard of living substantially, and become part of the Eurozone.

Nonetheless, despite high growth rates during 1997-2007, Greece has not managed to reduce its public debt. The recent global financial and economic crisis found Greece with a combination of high debt and public deficit exposure and a very high fiscal deficit, leading markets to doubt of Greece's ability to refinance its debt. Market speculation has accentuated the situation. Facing the dangers of contagion, the Eurozone has decided to create the mechanism of financial support for Greece. The IMF is participating in the effort to avoid contagion at the European as well at the international level.

Greece, having in mind its European and international commitment, took all necessary steps and remains committed to implement the program. The majority of the Greek people support the government's economic policies and efforts to stabilize the economy and set it on a sustainable path. Finally, the Greek parliament has already voted in favor of the program, including measures to achieve its targets. The European Council decided unanimously to promote the financial mechanism, and parliaments of the Euro Area countries have already decided to activate bilateral loans to Greece.

My authorities, and me personally, would like to express our gratitude to the Managing Director and the staff of the IMF, as well as the members of the Board, for supporting Greece in addressing adverse conditions and undertaking an effort to safeguard its economic stability and growth, as well as containing the adverse impact on the European and global economy.

Mr. Talbot made the following statement:

Let me first say that I support the joint statement issued by Mr. Stein and others Directors. The situation in Greece and its potential impact on other members is clearly a matter of very serious concern, and it has been a challenging few weeks. We think that the package that has been put together is unprecedented in both its scale and its ambition. We support the Greek authorities' request for a Stand-By Arrangement.

The package includes not only a strong front-loaded fiscal adjustment and a range of financial sector measures to address the most immediate vulnerabilities, but also a comprehensive set of structural reforms to address Greece's underlying problem of weak competitiveness. Strong implementation of the latter set of measures, in particular, will be vital to get Greece back on the path of sustainable growth.

The credibility of the package and, by extension, its ability to help stem contagion will depend on the Greek authorities' commitment to implement politically difficult reforms. It is vital that Greece implements these measures in a rigorous way to rebuild confidence. So, we hope that the size of this joint Euro Area-IMF package will be sufficient to calm the markets, but we will need to continue to monitor the situation carefully.

We must be alive to the risks that the current uncertainty poses for other Euro Area countries and, because of financial linkages, well beyond the Euro Area. The IMF, in our opinion, must stand ready to take further action where necessary to restore confidence to the markets, and we encourage work on contingency planning. Finally, in a similar vein, I would like to strongly agree with the comments made by both Mr. Shaalan and Mr. Chua in their grays who suggest that the current situation points to the urgent need to accelerate Board discussions of potential reforms to the IMF's instruments in order to address crisis prevention and the management of systemic crisis.

Mr. Stein made the following statement:

Since this is usually the moment when the European Central Bank is called upon to give a statement, I have been asked by the representative of the European Central Bank to convey to the Board that the European Central Bank supports fully the gray which was issued by Mr. Bakker, Mr. Fayolle, Mr. Guzmán, Mr. Callesen, Mr. Kiekens, and myself.

Second, I would like to inform the Board about activities which are happening in Europe to the extent I can. As Directors probably all know, the Heads of State and Government of the Euro Area have decided to activate the support mechanism for Greece yesterday. In doing so, they also have mentioned four other points.

One is that they agreed to reinforce budgetary surveillance in Europe and to increase policy coordination. In that context, a Working Group or a Task Force was instituted under the leadership of the President of the European Union, Mr. Van Rompuy. The work of this Task Force will be put forward and the results will be presented next Wednesday, on May 12, 2010. It is in this context also that some European member states think about additional measures to have stronger fiscal consolidation. The Commission will implement the existing rules in a more rigorous way than so far.

Second, they decided to implement or to create something which is called a European Stabilization Mechanism and, for that, proposals will be made and will be discussed today. The proposals actually, as we speak, are probably presented by the Commission to the Ministers and Ministers will decide in the course of the day. I cannot give Directors any more details. First of all, I do not have them. Third, we do not know what the outcome is. Therefore, I think we should wait. In probably 3-4 hours from now, we will have the results. There will be a press conference and, as I was informed, several telephone conferences as well afterwards.

Also, the European Central Bank and the central banks are active this weekend. There is intensive work going on. Again, here I do not know the results and they also will be presented later today. Another element of these decisions last Friday was the financial market reform, which will be completed as a matter of urgency.

I would like to react to some points in the grays which I think we should react to as Europeans. One is that the reaction of Greece to its own situation and its request for support to the Europeans and to the IMF was delayed. I can tell Directors that in February 2010 the Euro Area countries agreed to take determined and coordinated action to safeguard the financial stability of the Euro Area as a whole.

In the absence of any instrument provided by the European Union Treaty, it was necessary to operationalize this commitment through the establishment of a mechanism of bilateral loans pooled by the Commission. This mechanism is now, since Friday, fully operational. Following the request of Greece on the 23rd, the Euro Area countries have agreed to activate the mechanism for Greece totaling an amount of 80 billion euros over the program period.

Since these bilateral agreements involve member states parliamentary decisions in most of the Euro Area, and these parliaments would not decide without having a substantive report on Greece in front of them, and this report came only on Sunday last week, I think the European authorities actually have reacted quite quickly. Within a week, the mechanism could have been activated with the authority of the parliaments in the various member states.

One other point I would like to touch on is the cooperation which was mentioned also in several grays between the European authorities and the IMF. I understand that the reviews will be joint; that means that the European officials, the IMF staff, and the Greek officials will be sitting at the same table at the same time and do the review. So, we do not see that there is any hampering of IMF independence and we believe that the staff is strong enough to do that.

But taking the examples of Hungary and Romania, we are actually quite hopeful that cooperation will be good. We have heard from our side that so far cooperation between the European officials and IMF staff was excellent in the case of Greece. I also want to remind Directors that it is, in part, also the responsibility of the IMF and IMF staff that cooperation is good. It is not only a one-way street but a two-way street.

Finally, on the question of private sector involvement for Germany, and now I am speaking with my German hat on, in several grays the question was raised how public sector involvement will be or whether there will be public sector involvement. I can inform Directors that German banks are considering some support to Greece, but I also have to stress that this is on a very voluntary or only a voluntary basis. It is not a debt restructuring; it is a voluntary action. I have no firm information yet, but what I know is that these banks basically want to maintain a certain exposure to the Greek banks, which means that they will not sell Greek bonds and they will maintain credit lines to Greece. Where these credit lines expire, they will at least in part be renewed. I think this is pretty much in the sense of paragraph 30 of the report, where this voluntary exposure and exposure on a smaller scale to the markets would basically make it easy for Greece to access the markets in the end again.

Mr. Legg made the following statement:

As we made clear in our gray, we understand what is at stake here and we support the program while fully recognizing the risks to the Fund, including reputational and financial risks. The financial risks, like so many other aspects of this situation, look unprecedented. I do not know if that is true, but certainly the figure of 373 percent of precautionary balances leaps out at me from the report. Unfortunately, the reputational risks are all too familiar. The comparison with Argentina is particularly worrying. Many people are making that comparison both in corridor discussions with me and in public. The constraints in this case are, if anything, greater than they were in that case.

This time around, the risks are being shared with European partners, and that is as it should be in this case. Nonetheless, I suspect that if there is a reputational hit taken, it would disproportionately fall on the Fund. We do appreciate the exceptional efforts of management and the staff to put the program together with the authorities, and we also greatly appreciate the leadership being shown by the authorities. The commitment and the actions already taken are very impressive. I was inclined, given the Greek context, to use the term "heroic." Unfortunately, nothing less than heroic is essential in this case.

I fully share the frustrations that many Directors raised in their grays about the time it takes to get to this point. No doubt there will be plenty of opportunity in due course to unbundle all of this and hopefully learn some lessons. I agree with other Directors that Greece looks like a good case for an IEO study, but right now I think what we need to do is accept the risks, approve the program, and signal the strongest support we can to the authorities.

A bit like my sporting allegiances, however, I do this more in hope than in great confidence. The program tackles all the right issues, given the policy constraints facing Greece, but implementation is going to be amazingly challenging. It is already clear that establishing a sustainable popular consensus is going to be a very big task.

Let me comment on one aspect of the program and the interlinkage with the parallel arrangements with the Euro Area partners, and that is structural policy conditionality. I touched on this in my gray, but I just wanted to elaborate a little bit on the importance of structural policy conditionality.

If the program is going to work, it is essential that the effectiveness of any internal devaluation and the longer-term structural reforms in quickly boosting growth and building credibility could be sustained. In that context, I am a little worried about the elaboration of the structural conditionality. I note there were different views on this. Some are concerned that the Fund program is too selective. My views are influenced by the experience from the Asian crisis. That experience pointed to the dangers of overburdening the structural reform agenda with measures which are desirable but may not be essential to program success. Now, it is very hard for me from outside to judge which are essential and which are not. I think, however, the Fund is right to focus on measures which are macro-critical.

On the other hand, the matrix in the European Memorandum of Understanding is very comprehensive, very specific, possibly all desirable, but it reads a bit like a shopping list. Sometimes, perhaps to an outsider, it reads a bit like a list of European Union directives which up to now have been ignored, but circumstances in Greece now provide a good chance to get those reforms done. I would hate that to be the case. I think we need to be very careful to ensure that when it comes to focusing on implementing all those reforms that we do not overburden the capacity of the authorities to manage the political economy of program implementation. So, I think staff's response on that and also exactly how staff will play this issue in the joint reviews will be very important.

The staff paper says that the program provides a one- to two-year window to establish policy credibility and access to markets. I suspect the real window in terms of turning around market sentiment is much shorter than that. The evidence since the announcement of the package underscores just how skeptical markets are. Even if we are successful, and I think our chances are at best 50-50, there will be some lessons to be learned and addressed.

I appreciate the report Mr. Stein gave us about things that are happening in Europe in terms of institutional arrangements. I think that is one of the large bodies of lessons for all the players that there are shortcomings in the existing institutional architecture, which need to be addressed, if the Euro

Area experiment, which I think is one we all want to work, gets through its first test and does in fact work.

As emphasized in our gray, one key immediate lesson which should be addressed is the need to significantly improve the communication strategy, indeed to demonstrate there is a communication strategy, to demonstrate confidence that there is indeed a cohesive decision-making process behind the public comments by various players.

We have to accept, however, the possibility that the program, which touches on all things that are essential, may not be sufficient to restore stability in market access. We have to avoid being trapped ala Argentina on an unworkable path where we always seem to be behind the curve. We do not want that situation to occur again.

The comments from Mr. Stein wearing his German hat about voluntary private sector involvement are very encouraging. I hope that translates into meaningful outcomes. I understand why there is a huge reluctance to countenance any hint of debt restructuring. I appreciate not only the political difficulties but also the huge practical challenges that would ensue. I do not argue that somehow debt restructuring would be a magic bullet. The tough adjustments required by the program would remain essential.

But it is clear that the markets are not convinced that the program will be sufficient. While we must not speak the unspeakable, certainly not outside this room, we need to be thinking the unthinkable. I hope that we are thinking that and that we are doing some work behind the scenes to be well prepared in terms of analysis, even if the analysis is not shared widely, to do whatever is necessary to get in front of the curve if that proves to be where we are not.

Mr. Pereira made the following statement:

A couple of minutes ago I issued my statement on behalf of the six countries that I represent. It has not been an easy decision and requires extensive discussions with authorities, particularly because we had been there before, and Mr. Legg and other Directors commented that Argentina faced the same challenge in 2001. We have our own experience about extensive engagement with financing with the IMF and things did not result fine with us.

For sure, we are at the first stage now, but after this discussion, we considered that we will join the consensus and we will be supporting the program, which is on the basis of the Greek authorities' determination that this is the best for their own country after the approval, as Mr. Roumeliotis explained to us this morning, and after extensive discussions in the parliament.

But since we have our own experience, our support must not be read as support of the design of the program. Our concern was and will continue to be that the program will impose the burden of adjustment on the Greek people. Our experience is that a sound burden sharing mechanism involving the private sector, as Mr. Stein just explained to us, is critical for any sustainable solution. There is now much more at stake, and I agree with Mr. Legg that this is also an element that was convincing in terms of joining the consensus despite our concerns. We may be facing a new fallacy of composition.

Yes, if we just received the numbers, the share of Greece in terms of European GDP is not that substantive, but this crisis has already shown that surprises are in unexpected corners. We are concerned then, as other Directors, that the whole could be more than the sum of the parts, and this creates spillover effects in other countries.

Again, to sum up, since I issued my statement very late today, I just want to express our support to the program on the basis of the authorities' request. I want to put on record our concerns about the procyclical adjustment. The program has three pillars. There is one missing, which is the contribution of the private sector. We followed in the press that some German banks were committed to support Greece on a voluntary basis, and that is welcome. I think more will be needed. We are waiting for the concrete announcement from the Europeans now on other measures. We do believe that markets remain, despite the unprecedented scale and coordination, to be convinced about the effectiveness of this package.

Hopefully, by this afternoon, we will all get reassurance that more will be done. We think particularly that monetization of the debt will have to take place and the European Central Bank should use its balance sheet to support and prevent panic effects. We will be in the future supporting the Greek authorities and their request.

Mr. Nomura made the following statement:

Given the growing concern of contagion from Greece to other euro member countries, it seems that now we have no other choice but to support the proposed SBA program, so we support the request.

Having said that, going forward, I am afraid more efforts could be required to fully ease such concerns and prevent contagion from Greece. In this regard, although we strongly believe such efforts should primarily be made by Euro Area members, the Fund may consider ways to supplement or to assist such efforts as appropriate.

In this sense, we would like to encourage management and the staff to provide the necessary information to the Board in a timely fashion and to keep close communication with the Board.

Mr. Weber made the following statement:

We know that we have in fact received two buff statements for this discussion, one by the Greek Alternate and one by the Euro Area members jointly. We thank the staff for a very good job under extremely difficult circumstances and for a candid report. Let me make the following points in addition to our gray statement which, to some extent, echo those made by Mr. Legg.

Growth will largely determine whether the proposed program can achieve the objective of stabilizing Greece's debt level and restore fiscal sustainability. Like Mr. Shaalan and Ms. Choueiri, we are not convinced that the projections for GDP growth are solid. Many market participants seemed to have similar doubts. The program's credibility, therefore, remains in doubt also.

We are curious about staff's responses to why no consideration was given to a restructuring of the public debt early on as a means to buttress that credibility. We believe that such a measure, as part of the overall support package, would not have come as a surprise to market participants. On the contrary, if debt restructuring is arguably anticipated as being inevitable, its announcement would likely have a stabilizing impact as it would reassure those market participants that the fundamental underlying problems are being addressed.

Given the expected difficult implementation of the program, we, as other Directors, wonder how the envisaged joint monitoring will effectively be made to work. We support Mr. Hockin's call for more clarity about the roles and responsibilities, and for differences of views between the staff and the EU institutions, to be disclosed to the Board promptly. Similar clarifications on accountability would seem in order regarding the safeguarding of the Fund's resources. Should the safeguards assessment of the fiscal authority be needed, as suggested by Mr. Virmani and Mr. Patra?

Now, we would like to stress that the Board discussion on a Fund program of such an unprecedented scale should include or at least flag considerations on the Fund's role as a crisis manager more generally. I have three points on that.

First, we believe that the Fund can influence market expectations foremost through program conditionality that entails credible and politically sustainable adjustment. It ultimately cannot lastingly sway market sentiment by program size only. Given the sheer scale of financial market transactions, this is quite true. It is also true in the case of Greece, and it is equally true when dealing with spillover risks to other European countries. If we want Greece to remain an exceptional intervention borne out of necessity in the context of inadequate institutional mechanisms, expectations about a blanket insurance by the Fund for other countries must be clearly dispelled.

Second, we are of the view that rather than searching for a new variance of Fund lending instruments, the Fund should focus on a role in facilitating orderly sovereign debt restructuring. The latter has also been stressed by Mr. Virmani and Mr. Patra, and other Directors.

Third, as Mr. Hockin and Mr. Legg, we are not ready to declare that the existence of spillover risks will in the future generally trump the exceptional access criteria. Such a policy change should be a consequence of the Greece case, or could be, but it must not be inadvertently its by-product.

Lastly, and to end on a silver lining, the Greek debt crisis should also be seen as an opportunity for the Euro Area to strengthen its internal surveillance and governance framework, and thereby making national fiscal and structural policies more consistent with Euro Area monetary policy. We welcome the work under way in this respect mentioned by Mr. Stein. This work will ultimately strengthen the foundations of the euro.

Mr. Callesen made the following statement:

Let me just underline the strong support for this program expressed in the joint statement which I co-sponsored. This is fully shared by all the countries in my constituency, of which most are not members of the Euro Area, and some are even not members of the European Union.

Let me just add to that also that we firmly believe that the hardship referred to, which is now faced by the Greek population would, without doubt, be much higher in any other attempt to solve this problem than the one we are dealing with here. We should keep that in mind when we are discussing the hardship. This is actually the least bad way of addressing all these issues.

Mr. Toh made the following statement:

As we explained in our gray, we support the program, with reservations, but in full consideration of the current environment of contagion and an increased prospect of spillovers. We see the speedy approval of this program as a step along the way of trying to get back ahead of the curve.

Having said that, we would like to reinforce what has also been mentioned by other Directors that, in the design of the program, we would like to remind the staff that the lessons from the Asian crisis remain very pertinent, as was expressed by Mr. Legg: the need for targeted structural conditionality and capacity to implement a scale of structural reforms over a short period of time.

We also concur with the sentiments expressed in the case of other emerging market crises, especially the Argentine case, where debt repayment capacity needs should have been considered, and we call on the Fund to have a contingency plan for future scenarios. We also support the call to accelerate institutional arrangements in the Eurozone for crisis management and coordination.

Lastly, we think that today's actions will not likely be the end of the crisis, and we continue to ask management and the staff for adequate and timely information flow to the Board.

Mr. Fayolle made the following statement:

I issued a gray with other European Directors and I fully support what Mr. Stein said this morning. I just have one point on private sector involvement. There was a meeting earlier in the week between the major French banks and my Minister, Ms. Lagarde. I would like to stress what was released at the end of this meeting, which is a statement in which these French banks commit to maintain their exposure to Greece over the lifetime of the program in the framework of the discussions laid out by the European Commission, the European Central Bank, and the IMF. So, it is clear that the French banks, which are one of the most exposed banks in Greece, are going to do their job.

Since the point was made—and rightly so—by Mr. Mozhin about the fact that we need to know more about all those countries with significant exposure to Greece, the Swiss banks are very much exposed also to Greece and I would be interested to know more about the intentions by Swiss banks.

Mr. Nogueira Batista made the following statement:

Having read the grays of Directors, I look forward to staff's replies to the crucial questions raised there, including the ones added by Mr. Legg and Mr. Weber this morning.

Second, I would like to add my voice to Ms. Lundsager and Mr. Meyer on their opinion that Europe's deep engagement and continued strong support are critical to this effort and also to their assertion that we must strongly reiterate the Fund's seniority and preferred creditor status. Mr. Weber in his gray asked about the status of the joint Euro Area financial support, and I am looking especially forward to the reply on that question. Maybe Mr. Kiekens would also be able to clarify that for us somewhat.

Third, and finally, I have listened to Mr. Fayolle and Mr. Stein on private sector involvement issues. I look forward to what will come out of the deliberations between European governments especially on the European Stabilization Mechanism, but I also seek further clarification on what the role of the private sector will be in this effort. There is very little about that in the report, if I am not mistaken, and paragraph 30 presents only a very soft approach. By reading that paragraph, we became concerned that we could face a situation where private sector creditors could take the official money and reduce their exposure to Greece. So, I welcome Mr. Fayolle's explanation. I would like further details about the statement by French banks that they commit to maintain their exposure to Greece.

Mr. Stein was somewhat more hesitant on the German banks. He said that they are considering support on a very voluntary basis, that he has no firm information and that he expects German banks will maintain certain exposure, at least the rollover part of their commitments. This sounds insufficient, given the amount and the size of the official sector, and the Fund support to the Greek government. We do not want this program to be seen as a bailout not of Greece but of Greece's private sector creditors.

Ms. Lundsager made the following statement:

I want to thank the staff and the team for their tireless engagement to bring this program forward, the efforts that management and the staff have all been taking. Clearly, the broader risks are a concern to all of us; we see it in every statement, every set of comments this morning. So, we are all very focused on achieving the desired results, and the work of the European Department has been critically essential to this effort.

We also very much welcome the good collaboration with the European authorities, the European Central Bank, the Commission, the Greek authorities, and other authorities. That is very important going forward as well, to continue the effort to achieve success. So, I am sure the staff will be there, and it will just take a lot of hard work on everyone's part to keep that working well.

What strikes me, listening to some of the comments this morning, the real challenge for the Greek authorities is simultaneously having more assertive government action in some areas, for instance revenue collection, broadening the tax base, and, at the same time, less assertive government action in areas of regulation and freeing up just ordinary real economy activity.

That will be a very difficult objective to achieve, but I think it is also important, especially on the structural side, to take some measures that give opportunity for some areas of the real economy actually to pick up quickly. That might help show success of this effort. I am no expert on this, but I would hope there will be some signs somewhere incrementally that might be a little bit of a positive signal here.

I very much welcome the comments by Mr. Stein and Mr. Fayolle on the German and French banks. I think that is very important going forward. More broadly, I would very much appreciate if our European Directors could keep all of us informed. I know we are all expecting announcements later today. When they come out, Mr. Stein, if you could send them to all of us, that would just be very useful, as opposed to all of us having to try and pick it up from different websites.

In a couple of areas, I think several Directors brought up—Mr. Weber, Mr. He, and Mr. Chua—in their statements the engagement with other European countries. Today's meeting is about Greece, but nonetheless, the announcements coming later today are about the continent more largely. I think it is also more important that the Fund be thinking ahead of the curve, too, in terms of how we can be ready as well. I know management and the staff are very much attuned to that.

Finally, I think what is very important is communication. I know that the Chairman will focus on that along with EXR today. Our European Directors will be too. We hear bits and pieces, and it will come out of different countries, what are the banks talking about in terms of maintaining exposure, and what are the authorities talking about—it all comes out in bits and pieces, and I do not think it always has the impact it needs to.

So, I think in terms of all the national authorities in Europe, as they work with their private sectors, with the European Central Bank, with their own central banks and other regulatory authorities, it is important to have a really cohesive communication strategy so it does look like a well-coordinated, across-the-board effort, and we do not have to search through all the websites to pick up this and that statement there but to actually have an impact.

I know that is going beyond what we can do here, but I know everyone is making the effort. The Managing Director, I take it, is still in Europe and I am sure he is working closely with Ministers and Governors there. So, I very much urge the staff to keep up the good work, and keep us up to date. We are always ready at any time to come for Informal Briefings on the additional work that the staff might be undertaking, and I think it is very important to keep all of us on that same wavelength.

Mr. Bakker made the following statement:

Let me join other Directors in first thanking the staff for the excellent hard work and the good communication which came out of Athens on the part of staff and management, by the way.

Let me also say that the joint statement we subscribed to is shared by the 12 other countries in my constituency, which have a very clear interest in all this. The late coming of Greece to the IMF actually stands quite in contrast to the early approaching of the IMF by many Eastern European countries. Many of them were just seeing light at the end of the tunnel, but their prospects might be negatively impacted by the situation in the Euro Area if it is not contained.

So, in this respect, in addition to the joint gray we issued, I would be interested to hear from the staff what assurances have been given that the Greek banks will retain their exposure to the subsidiaries in Central and Eastern Europe, and also what safeguards are in place that the subsidiaries would not be drained from liquidity to help the parent banks if they would get in trouble.

Second, on private sector involvement, let me confirm that apart from the German and French banks, there are also the Dutch banks—who I think together with the U.K. banks are the third and fourth largest banking systems which have exposure. I am not quite sure about the exposure of Swiss banks.

The Dutch banks, in consultation with our Minister of Finance, have had discussions and have publicly announced they will play their part in supporting the Greek government and the Greek banks. So, I think that is a very important announcement as well. There has been a more general statement by the Institute of International Finance (IIF). I would hope that all those members of the IIF, including the Swiss banks and the U.K. banks, have signed up to that statement. I would join Ms. Lundsager that it would be very helpful if we hear more about this.

On the question of the delay, I think Mr. Stein perfectly explained that. That has not been very fortunate. There is one thing maybe in that respect which I need to mention. The contribution by the European countries is very large, and we have parliaments, which have to agree. In the case of the Netherlands, the loans to Greece are more than 1 percent of GDP. So, in that sense, parliaments are involved and it is not that easy to arrange that at short notice. It is not an excuse but just an explanation that it was not that easy, given the sheer size.

Finally, I completely agree with what Ms. Lundsager just said. There is a very explosive situation in the financial markets. Therefore, I believe, like her, that today's meeting is not only about Greece but, as a matter of fact, it is more. There are signs of distress in the markets which resemble the episode we had after Lehman Brothers. Weak banks are under severe market pressure. A number of government bond markets are quite illiquid at the moment. So, what is at stake now, I would feel, is the question in the markets whether the sovereigns themselves can act as lender of last resort, and that is potentially even more dangerous than Lehman Brothers.

I think it is extremely important that the outcome of this meeting and also of the discussions ongoing now in Europe will need to bring out very clear communication that the international community is prepared to deal decisively with the broader risks in the financial system. So, it will be very important that at the end of this day, before the markets open in Asia, that the communication from the IMF and the Europeans is coordinated, and I fully trust that that will be happening.

In that respect, let me join Mr. Chua, Mr. Legg and Mr. Lee, Mr. Talbot, and Mr. Shaalan in advocating that we need to accelerate our work on global financial safety nets, and also Mr. He's remark on improving the traction of advice to industrial countries. I have been saying that for a number of years, so I fully subscribe to that. It is unfortunate that, at times, lessons have to be learned again and again.

Hopefully, there is one positive outcome of this, and that is that the governance of the euro system will be strengthened. I think there is a clear need for that. I would hope that this weekend's discussions and also the discussions in the coming weeks will be able to add to that.

Mr. Hockin made the following statement:

I, too, want to join other Directors who have thanked Mr. Thomsen and the staff for the heroic work they have done over the past few weeks, and for the Greek authorities, for their heroic commitments going forward.

I wanted to speak to just two dimensions of reputational risk for us as the Fund. One is our operational capacities and the second is our capacity to communicate in a way that closes the gaps for arbitragers and illiquid banks getting nervous.

In our gray we did mention how important it is that we have a clear delineation of monitoring and oversight responsibilities between the Fund and the European Commission on a number of measures. Also, measuring progress can take time with the potential for slippage. We asked, for example, what slippages on structural reforms outlined in the Memorandum of Understanding require waivers by the IMF Board. We seek a clear sense of the precise roles and responsibilities between us, the Fund, and the European

Commission/European Central Bank. So, these are coordination, operational, reputational risks that are out there. They are not very glamorous, but I would like to see the IMF take those seriously.

As Ms. Lundsager, Mr. Meyer and Mr. Legg have mentioned, there are communication risks. We have to find ways starting today to make sure we have up-to-date reports from the European Union—meetings are going on today with the European Union—that get to us in a clear coordinated way, and not just today, but also going forward. I hate to see that the IMF is criticized in the media and elsewhere because of its operational mistakes, its communication mistakes, when in fact we may be getting other things right.

Mr. He made the following statement:

A while ago, when many European Ministers were trying to rule out Fund financial assistance to Greece, I was wondering out loud at the Board why that was so. Finally, I am very glad that they decided to let the Fund get involved financially, not only providing technical assistance. Having issued a gray, I just have a few comments for some clarification.

First, on conditionality and monitoring, I fully appreciate that the Fund, in designing conditionality, is very selective, but I need clarification on a technical problem or practical problem. Given the difference in Fund conditionality and European Central Bank/European Commission conditionality, my understanding is that the European Central Bank's financing or disbursement would be conditional on all those listed items as conditionality. But the question may arise, if Greece has met all the conditionality listed by the Fund but maybe not some of the items listed by the European Commission, if there is no waiver for nonobservance, then disbursement from the European Central Bank or the bilateral network will be suspended. In that case, can the Fund still be providing financial assistance to Greece? So, there would be a contradiction in that case. How can that issue be worked out, given the difference there?

On how to draw lessons from the recent case, I think that crises always have two sides, a negative one and a positive one. So, not to learn lessons would be wasting the crisis. I think there are three aspects of the opportunity that we should seize. First, as mentioned by quite a few Directors, we should reflect on the traction of Fund advice in those advanced economies, particularly those with chronic and fundamental structural problems, if we can address those issues for many of the advanced economies, the potential growth rate would not be that meager.

Second, as I mentioned on previous occasions, we should also look at the crisis mechanism within the Euro Area. As some Directors also mentioned, I think this is a good opportunity so that, when there is such need in the future, there would not be a delay. We are not blaming why there was the delay, but the benefit of looking at the delay and recognizing the delay is to prevent any other delay in the future if such cases repeat.

Mr. Pereira made the following statement:

First, I would like to fully endorse Ms. Lundsager's request for official information about the announcement this afternoon. It also means that we made our contribution and this Board definitely managed to get the consensus to support the Greek measures. But this must be part of the strategy, as last Sunday, when we met, our strategy to lure the markets somehow failed, so more needs to be done.

I wish we could provide to our capitals the information on the announcement just to keep them in the loop of events. I think that Mr. Hockin and Mr. Bakker openly recognized this, and I could not agree more on the need to move in this direction, getting the communication.

Second, I just want to pick up the point once again of Argentina. When I talked about the lessons, I was talking about the lessons for the Fund. One of the first reactions was that some of the policies that have been put forward seemed pretty much the same, for instance, that Argentina has to somehow agree with the Fund on those policies. Then, the situation proved to be unsustainable.

So, that is the reaction of my authorities. What are the lessons? First of all, are we not in a global and systemic crisis? Are we going to isolate the country, blame it for fiscal indiscipline, or are we going to do things differently? I think Directors made very interesting points, because the lessons with regard to surveillance must be comprehensive. Some Directors pointed out the need to revisit the lending framework.

We made the point when we discussed the exit strategy about debt restructuring. We knew that this somehow will come to—and this is not new to the Fund; in 2003, there was a comprehensive discussion, and even ourselves were not convinced of that at that time. This is not about giving jurisdiction to the IMF but to open these discussions.

Mr. Mojarrad made the following statement:

I also join other Directors in thanking the staff and management for the excellent work done. We have issued our gray and I would like to make two additional points. First, we support the proposed program, recognizing the high risk to the program. We are also concerned about the negative views that the program has so far received even before our approval. This obviously will make our communication strategy very challenging. We would be interested to learn how the Fund plans to counter the barrage of criticism of the program from credible sources, including some former staff members.

Second, we welcome Mr. Stein and Mr. Fayolle's indication that the German and French banks will seek to maintain their exposure to Greece. We wonder if the staff has taken this into account in the program design and how they explained the large negative capital flows in Table 4 of the report.

Mr. Mozhin made the following statement:

It is clear that the Fund is taking very significant risks by approving this program, but it is also true that this is not the first time the Fund will be taking such risks. The program which is so much on our minds is the Argentine program, which failed. However, one can look at several other programs which were seen as extremely risky, as practically impossible, but that worked.

One such program—I am looking at Mr. Kiekens—was Turkey. It was very difficult to feel comfortable about this program; it was very difficult to be optimistic about the eventual success of this program, but this was the outcome. The program was a success. Brazil, early this century, was another example of a program which very few observers expected to work. There was a lot of concern in this Executive Board, but the program performed very well and the Fund can be proud of it.

Now, I certainly realize that, in terms of pure numbers, the Greek program is perhaps even more difficult than any of those that I mentioned. In that sense, it is clear that this program will need to be monitored carefully and revisions to the program be taken as appropriate. It would be very important that we do not allow ourselves to get into a trap where we find ourselves in a situation that we need to disburse no matter what happens, simply because, if we do not disburse, we have a credit event the next day and we get blamed for this. This is the kind of trap which we need to avoid.

Mr. Shaalan made the following statement:

Let me first thank management and the staff for their most prompt work in this very difficult situation. Let me preface my comments by saying that I earnestly hope that the Greek program will work. It is not only good for Greece and its people, but it is good for Europe and good for the global economy. Also, in a very important way, it is good for the credibility of the Fund. When I say the credibility of the Fund is a public good that affects all member countries.

The Greek program is difficult. There is no doubt that there are a lot of risks, and it is likely that there will be bumps along the way. There is also the possibility that it may not succeed. It may require more assistance or capital inflows. Other countries in the region and outside the region may be suffering similar problems as a result of potential spillovers. I think the Fund has to be aware of that and be ready for the potential spillovers to other countries.

The question that comes to mind is, does the Fund have the resources or can the Fund muster sufficient resources to cover the potential needs that may arise? I would like an answer from the staff, and particularly if there are any arrangements now being made or now being discussed to come up with such monies should the need arise, and hopefully it will not.

Another element of the Greek program that I very much admired was the provision of technical assistance. I wonder if management and the staff can in the future provide an element of technical assistance related to the implementation of programs in other countries. I think this is a very important element that could lead to a higher success rate in Fund programs.

The Deputy Director of the European Department (Mr. Thomsen), in response to questions and comments from Executive Directors, made the following statement:

I will cover a number of the general issues related to the program that have been raised in the grays and again at the meeting this morning, and later ask Mr. Traa to answer some of the specific questions on policies.

Let me start with the issue of our cooperation with the Commission and the European Central Bank. There were a vast number of questions covering three issues: why the close cooperation, the practicalities of the cooperation, and the concerns about the Fund’s independence. Let me start with the latter.

To be clear, as an independent institution, the Fund will make its own judgment on program performance. The Fund will not and we cannot delegate the responsibility for assessing whether Greece meets the criteria for the use of Fund resources. This will be this Board's responsibility. Accordingly, if the Fund assesses that conditions have not been met, we will not disburse, irrespective of the judgment reached by the Commission and the European Central Bank.

The converse, however, is somewhat more complicated. If the Fund makes an assessment that conditions have been met, but this judgment is not shared by the European Union and the European Central Bank, then we might indeed be in a position where we cannot go forward because of the absence of financing assurances. Thus, given the large co-financing provided by Greece's European partners, it must be recognized that close coordination and understanding of program performance will be necessary to ensure sufficient financing assurances.

The Commission, like us, provides conditionality-based lending, and we need to reach agreement with them since we need the money to have a fully financed program. And the fact is we are not alone. Greece has treaty obligations vis-à-vis its European partners, which, in combination with the fact that the financing need exceeds what the Fund could provide alone, means that this is a joint operation.

In this regard, let me stress that we are off to a very good start, as Mr. Stein mentioned, in terms of our cooperation. These are three different institutions with a lot of idiosyncrasies and own cultures. Cooperation has been very good. There was no disagreement on the basic diagnosis, on the basic analysis of the situation. We quickly reached agreement on the broad targets and on the policy details.

The European Central Bank took the lead on financial sector issues, the Commission on the structural reform agenda, and we took the lead on the macro framework and the fiscal policy. However, all parties were closely involved in all areas. In particular, the staff from the MCM Department was involved in all aspects of the discussion on the financial sector. We worked particularly closely with the Commission on the macro framework and fiscal policy.

Indeed, I feel that the presence of these three independent institutions in the end appeared to be a strength that allowed considerable checks and balances as we progressed with the technical work. The Commission, because it has had much closer regular contacts with the authorities than we had, provided very invaluable input into our fiscal analysis. I think the strength of the program in that area owes much to the fact that this was a joint effort.

In this regard, there was a specific question whether the structural reform specified in the Memorandum of Understanding that is annexed to the report is part of Fund's conditionality and whether slippages with regard to these reforms would require a waiver from this Board. These reforms are not part of Fund conditionality. We have separate conditionality, as noted by a number of Directors, summarized in Table 3 that is attached to our Letter of Intent. Thus, noncompliance with structural conditionality that is not part of the Fund program will not require a waiver from the Board.

I will come back to the issues of structural reforms, but let me mention that a large number of Directors asked about debt restructuring. From the outset of the discussion, the authorities were firmly of the view that debt restructuring is not on the table. From the outset, they were determined to develop a program that would allow them to return to a sustainable fiscal path and service the existing debt.

In this regard, one of the reasons was clearly that Greece was at a point where it needs to move away from a model very much dependent on the public sector and give much better conditions for the private sector. It would be a mistake not to honor contracts. The authorities up front ruled out that option and no alternative options were discussed and developed.

Let me turn to the issue of private sector involvement. We had considerable discussion on that. Several Directors have mentioned the Bank Coordination Initiative that the Fund is using when we have programs with other countries in the region, like Romania, Serbia, and Hungary. That Bank Coordination Initiative is not applicable in this case, because in these countries the issue is really one of exposure of home banks to the subsidiaries in these countries. It is relatively easy to get those home banks and their regulators into a room together with Fund staff and other stakeholders, and try to come up with a commitment to maintain exposure.

In the case of Greece, the issue is not primarily of maintaining exposure of home banks to subsidiaries, but claims on holders of Greek government bonds. These holdings are, it appears, widely spread and this points to major complications. We do in fact not have very good information on who holds these papers. This is one of the reasons why the mechanism that is in place might not yet be up to what we would desire.

But, as we heard this morning from Mr. Fayolle, Mr. Stein and other Directors, efforts are ongoing in Europe to encourage banks to maintain exposure, and I think this is something where efforts are still developing. This will be supplemented by an effort by the government, by the Minister of Finance. He is asking for our support in this regard, to organize a road show to essentially present the program in financial capitals to disseminate information about it and keep financial capitals informed about progress under the program. Overall, I recognize that safeguards in this area are not fully up to what we would want, but I think that this is still developing.

There was a question related to what the program assumes about exposure to Eastern European subsidiaries of Greek banks. Here, the stress test that we did, which underlies this Financial Stability Fund and its funding, assumes that the home banks maintain exposure to their subsidiaries in Central and Eastern Europe, but there is no blanket statement of this. I understand that this would be inconsistent with the convention that local regulatory authorities ultimately are responsible for the banks operating in their country irrespective of whether they are a subsidiary of a foreign bank. As I say, the program is calibrated on the assumption that it should be possible to maintain this exposure, and also the assumption about the capitalization need that might arise.

There were a number of questions relating to risks to the program, not least to what is going on in market sentiment. Developments since the announcement of the program have not been very encouraging in this regard. It must also be acknowledged that the uncertainty on the part of markets about whether the international community stood ready to support Greece became an independent, destabilizing factor in recent months in addition to the concern about the situation in Greece. Greece's ability to handle its debt problem became an additional destabilizing factor.

In light of that, I would expect that once we move ahead with this disbursement, once the Europeans have disbursed, and once we go beyond this May 19 payment of about 10 billion euros that is falling due, I would expect that markets react positively and realize that a credible mechanism is in place.

This being said, I am fully aware that there are still doubts on the part of markets about the authorities' ability to persevere with what is undoubtedly a very ambitious program. It is a fact that previous governments have not had a stellar record as far as policies are concerned. The recent social unrest contributes to this.

I think the key feature of the program is the strong frontloading of concrete, very specific fiscal measures, in combination with large support from the Fund and the Eurozone partners, which means that Greece, if necessary, could stay out of the market for a very long period. That combination is a very important part of the credibility of the program. It allows the government to establish a track record of policy implementation. I think this is one of the major safeguards against the risk.

As discussed in the report, while the increase in debt-to-GDP—from 115 percent to150 percent—during the first few years might unsettle markets, the rapid improvement in the primary balance should convince markets that Greece is being returned to a sustainable path. I think markets will understand that. Let me put it differently: I think this program should, in a couple of years, lead to big primary surpluses and a steady debt reduction, from an admittedly high level. Several European countries have seen a combination of high debt and primary surpluses, which point to a sustainable path. Of course, if the recent turmoil were to trigger a permanent re-pricing of risk by forcing these countries to pay a much higher risk premium, then obviously one would have to reconsider the strategy. Fundamentally, our assumption is that we can put Greece over the hill in a couple of years and set it on a credible fiscal path that promises a gradual reduction in debt. This, in turn, would prompt markets to respond with improved confidence and a lowering of spreads.

Several Directors asked about contingency measures. Admittedly, the planned adjustment is already very ambitious, as is the external support from the international community. If there were to be an additional gap because of external shocks, it would be difficult to close it through incremental financing or incremental adjustments. Still, I do think there are margins in the program. For instance, there is a very ambitious program for structural reforms in the fiscal sector. As mentioned in the report, we had two technical assistance teams from Fiscal Affairs in the field before the negotiating mission.

I think it is fair to say that they were very surprised at what they found: basic procedures, basic institutions for top-down control of expenditures and revenue administration were lacking. This suggests that there is a potential for significant gains going forward. According to our conservative assumptions, nothing is to be gained in this area before 2013. Even then, I think the estimate of 1.8 percent of GDP is rather conservative.

A number of Directors found that our growth assumption appeared too optimistic. There is considerable uncertainty in Greece as to the resilience of the economy in terms of aggregate demand. This is in part related to the unreported, gray economy, which is very large compared to that of other countries in the region. So far, and despite the recession, neither inflation nor the current account deficit have come down much. There are cushions of income and wealth in Greece that have sustained demand for longer than we would have anticipated. We will have to take a careful look at these unreported elements in the economy as we go forward. There are risks, big risks, but they are not all on the downside.

Let me turn to a number of questions relating to the political and social dynamics. Could these dynamics hinder program implementation? I believe one of the strengths of the program is that socially difficult measures are well thought out. For example, people who earn minimum wages and minimum pensions are, in effect, exempt from the measures. As for the tax measures, the authorities are trying to exempt lower incomes or reduce the burden on lower incomes. It is clear to me that this will help bolster political support for the program and reduce social tensions associated with the program.

That being said, this is a very tough program that is difficult to implement. The Prime Minister has been very explicit about that. It will test the Greek society's cohesiveness. In this regard, we had a long discussion with the opposition parties; there were a few that did not want to meet with us, but most of them did. We had meetings with all social partners, including the trade unions and labor unions. It is important to note that both the main trade union and the main employers union representing the private sector are fully behind the program. Today's street demonstration is essentially led by the public sector seeking to avoid the loss of privileges. I would urge the Board to keep this in mind: there is an important political economy element here. It is not just the government against Greek society. In fact, there is strong support from the private sector and social partners representing the private sector for this program.

Let me address the question of structural reform and the support for that. I do not want to belittle the problems the government will have in seeking support for these difficult fiscal measures, but I do think the focus has been too much on that. The key issue—and here I share the views of many Directors including Mr. Legg—is really the government's ability to overcome what undoubtedly will be fierce resistance from vested interests to structural reforms. This will be challenging. A large-scale breakdown of barriers to entry, increasing competition, scaling back the power of big state enterprises:

these are all formidable tasks in the face of what will be a strong opposition from entrenched vested interests. Even if Greece were to mobilize the political resolve to implement the fiscal program, if the structural reforms do not happen, the strategy will not be sustainable, and I think that the government is very mindful of that.

On structural reform, Mr. Legg said the Fund would need to learn the lessons from the Asian crisis. We have this big matrix that might be misinterpreted as a shopping list. Be mindful that the European Commission has had a long, very intense engagement with the Greek authorities in all these areas. In many of them, the necessary reforms are in the drawer, and one needs to open the drawer and start implementing them. I can assure the Board that our colleagues in the Commission are mindful of the fact that there is limited administrative capacity. One needs to focus the limited political capital on areas where it really matters.

Overall, I would say that this program is ambitious. Let us not forget that, even before we were invited to join, the authorities had taken a very big step on their own. They had taken fiscal measures amounting to 5 percent of GDP. They had undertaken a large cut in wages and pensions. A center-left government, which had come in and found a surprising mess, took these difficult decisions. When we arrived in Athens, the government had already taken a look at the numbers, and they subsequently realized that this would be difficult and socially painful. From the start, the authorities realized that these measures would be necessary. This may be a cliché, but I think there is indeed strong ownership of this program on the part of the Greek authorities.

The staff representative from the European Department (Mr. Traa), in response to questions and comments from Executive Directors, made the following statement:

I would like to provide some clarifications on various issues raised in the grays. They include the three big policy blocks: fiscal policies, banking sector policies, and structural reforms in the real economy. Let me take them in turn, and be as brief as I can. We can always follow up bilaterally, because there are many details behind every page of the staff report.

On fiscal policies, questions arose whether the tight policies are likely to slow growth and, therefore, whether the targets of the program may be missed or be at risk. We discussed these issues at great length with the authorities and other interlocutors. We explained that, in order to get a certain reduction in the headline deficit, one needs to take measures that are much bigger than the reduction in the headline deficit. As the economy slows down, the country faces a loss in revenues and pressures on the expenditure side in the form of increased unemployment benefits. The objective to hit a certain target requires bigger measures than are visible in the headline deficit. The interaction between the cycle and the need for fiscal measures was taken into account.

We have, of course, seen countries that have undergone a very strong fiscal contraction that turned out to be expansionary. We did not want to build this into the program ex ante, because this is typically something that one discovers ex post. This would be very desirable but, for that to happen, confidence anchors need to be set very firmly, and Greece is not yet at that stage. The authorities need the opportunity to implement the program and establish a track record, and then we can see the benefits of stronger confidence coming through in the real economy.

There was a question whether the yield of the fiscal measures have some margin built in. There are actually two answers to this question. The staff has tried to be as neutral as possible—not overshoot, nor undershoot, but be cautious and realistic as to what the measures could deliver in a certain cyclical environment. I should say that the authorities believe that we are sometimes a little bit too cautious, and that we do not give them the full credit in terms of the yield of fiscal measures they will undertake. For example, in the first half of this year, the authorities put in place a significant package, which they estimate could be as large as 6¾ percent of GDP. We have taken about 5 percentage points of that on board, because we went very carefully through every measure, and we tried to see whether tax administration would come in quickly, whether these measures affected elements of the public sector that were outside the general government that the authorities could not control, etc.

There are a lot of technical considerations, where the authorities have some comfort that they actually have bigger margins than the staff, has been reflected in the report. We structured the program in a way that would put the hard measures, the easily identifiable yields, up front. The more difficult-to-quantify effects of the program would come somewhat later.

There was a question why the cut in subsidies was not more front-loaded? This touches on an important issue that manifests itself differently across the Euro Area. Greece has very large public enterprises and entities that fall outside the general government definition and the Maastricht definitions in terms of deficit and debt. What these cuts in subsidies involve is a reduction in transfers to state enterprises and entities. We could have simply asked the authorities to cut these transfers up-front, but we were concerned about a transfer of the deficit from the general government to these entities. At the same time, problems in the broader public sector would have remained unaddressed. The Greek state entities that are not covered by the Maastricht and SGP definitions are causing a serious problem. We need more time to work with the authorities to address this, because they need to get a closer grip on the fiscal operations that are taking place outside the general government.

I believe that the misreporting issues and the surprises in the deficit and debt are related to this, because the deficits that are outside of the SGP definition occasionally come back to the budget, when they are no longer sustainable and the government finally has to take them over. As a result, the deficit is suddenly much bigger than everyone thought. The mismanagement of state enterprises is a serious issue, and the authorities need to improve their operating results. Once that falls into place, then one can realistically cut these subsidies.

There was a question on projected interest rates. There are many moving parts within the total debt and the interest bill. One is that some of the debts that were accumulated before 2000 had very high interest rates. These debts are now being amortized slowly, so that the implicit average interest rate on the total outstanding stock of debt is actually falling. The interest on the new marginal debts that are now coming in as the government is moving forward would certainly be very high. By replacing this for a while with official financing at lower interest rates—that is, Fund interest rates of 3.5 to 4.5 percent—bilateral loans from euro governments would be at around 5 percent interest. Given that this is a big chunk of the prospective new marginal debt, we have built into the program implicit average interest rates that will drift up slowly from about 5 to 6 percent over the term of this program. On a market basis, we looked at the benchmark German bond rates. We believe that, over time, they will slightly increase, but the spreads that Greece will pay on such benchmark rates should really come down if the program is to work.

Several Directors asked about the measures that will amount to 1.8 percent of GDP by 2013. This block is related to the technical assistance that we are providing, and that will take several years. We are developing a three-year program that will provide technical assistance related to tax administration and expenditure control. These benefits are identified, but we could not in a short period of time quantify every line of the budget, where these benefits would come in. Therefore, we placed the benefits of these actions towards the end of the program, so that we would have a little bit more time to gain confidence. For example, there is one number that I found striking: the TA team on tax administration made a back-of-the-envelope calculation that, if Greece were to meet the euro average in terms of efficiency of tax collection and various ratios of tax bases, the country might collect as much as 5.5 percent of GDP more than it does now. If the authorities are able to do this at a fairly good pace, we ought to see some benefits coming into the program, and that is now kept for later in the term.

Directors also asked about the reorganization of the public sector: what does this mean and what does it involve? This is a large project called Kallikrates; Mr. Roumeliotis will recognize the term. The Kallikrates project is a reform of the entire sub-national public sector, including local governments, municipalities, prefectures, and local enterprises and entities. There is a lot of fat that could be cut. The authorities are trying to generate economies of scale by merging municipalities, by merging and eliminating enterprises and entities, many of which are staffed not by permanent civil servants but by elected officials and appointed officials. We wondered whether these cuts would lead to a lot of severance payments. In fact, the municipal elections that are taking place in November would elect fewer people. As was explained to us, the number of persons that would still receive remuneration post-reform would go down from a base of about 50,000 individuals to as low as 26,000. Traditionally, the appointments in various entities and enterprises have been part of a political lubricating machine. The reform project is ambitious and important, because it affects the entire structure of the sub-national government. Taking into account the implementation period, we expect the benefits of this big project to be phased in over time.

Let me turn to banking sector policies; there were two issues. How can shareholders be held accountable once the Financial Stability Fund is set up? The intervention mechanisms of the Fund are set up in the following manner: as banks go through a difficult time and incur losses, shareholders have to absorb the first losses, because their claim to the banks is being reduced. Even before the banks reach their regulatory minimum on capital or liquidity, shareholders will be asked to come up with fresh money. Let us assume that they cannot do this, or are unwilling to do this. In that case, the Financial Stability Fund would have the authorization to issue preferred shares and dilute the existing shareholders. In the final analysis, the Financial Stability Fund can restructure the banks. This is a graduated approach, but the existing shareholders will be first in line to be asked to come forward and strengthen the banks.

The second question is about the governance structure designed to safeguard the resources of the Financial Stability Fund. This fund has not yet been established, so all these issues are still being worked out. Between now and the end of June, the Greek lawyers have to draft the appropriate documents to set up the fund, based on local legal frameworks and legislative procedures. We tried to put down markers and guiding principles in the Memorandum of Economic and Financial Policies, and there was a fairly intense conversation about this between our MCM staff, the ECB, and the Commission. It is on that basis that we want to anchor a good governance structure; these documents are being drafted as we speak.

Let me turn to real sector structural reforms. Is there scope for accelerating labor and product market reforms? This is a huge agenda. The Memorandum of Understanding from the European Commission is very large. We felt that we could not absorb this in our table of structural conditionality. We have tried to extract—without causing cross conditionality or conflict—some issues that we felt should come first, in coordination and cooperation with all parties around the table. It is a very large agenda, and we strongly encouraged the authorities to do it right, and not do it overnight if that meant quick solutions that would cause more problems later on.

The labor market is perhaps not as inflexible as it seems, especially not in the private sector. There is a lot of informal flexibility in the private sector. The public sector is something else, but the authorities are dealing with that more directly. As we have emphasized in previous Article IV consultations on Greece, opportunities for part-time and temporary work have to be created. Women, young people, and elderly workers have very low participation rates. Prime-age males in Greece have higher working hours per week than the average worker has in the Eurozone. There is a lot of unused or underutilized labor that Greece should try to mobilize, and that would create a significant supply response in the economy. What we are trying to emphasize is priority-setting rather than accelerating this massive agenda.

Another issue that I might mention is implementation capacity. The Ministry responsible for labor market policies is also responsible for social security. The Ministry is very much engaged in the formulation of the large pension reform. This is a very large undertaking, and one needs to be mindful of how fast all these parts can be moved forward at the same time.

In the product markets, we strongly support the European Commission's emphasis on implementing an ambitious version of the services directive, because Greece is a services economy. It is not a manufacturing powerhouse. The plans that the Greek authorities had up until the end of last year were not ambitious, and they were falling behind on the schedule of the services directive. We support an assertive implementation of the services directive. The other key component that I would mention is the liberal professions. These are closed shops, and they do not pay any taxes. Efforts to break open these professions would have direct fiscal implications, because this is where high margins are being earned.

The staff representative from the Strategy, Policy, and Review Department (Mr. Mühleisen), in response to comments and questions by Executive Directors, made the following statement:

Let me talk about a few Fund policy issues related to the program. First, there was a question whether we are going to use the Fund program to finance budget deficits. In our view, the program finances a clear BOP need that arises from a large and structural current account deficit in Greece. That current account deficit is, of course, partly caused by a budget deficit, but in that sense it is no different from many other Fund programs. In addition to the fiscal deficit, there are also other pressures on the current account. For example, the low productivity and the need for structural reforms have been mentioned by my colleagues from the European Department.

Another question was whether the Fund's resources are being used to finance capital outflows. Let me refer to Table 4 in the staff report, where, if one adds up the numbers, Greece faces a cumulative current account deficit of about €57 billion over the period of the program. Fund financing of €30 billion can be fully attributed to financing the current account deficit, and that includes some share of the funds to help Greece meet interest payments arising from external debt service obligations.

As for the safeguards policy, is there a need to conduct a safeguards assessment of the fiscal authority? It is important to note that the safeguards policy does not extend to fiscal entities, beyond the central bank. Any safeguards to, for example, reduce the risk of fiscal misreporting need to be addressed through program design and monitoring. In particular, safeguards assessments of member central banks have in the past sought assurances in the form of a clear framework between the central bank and the government on the modalities for the repayment of Fund financing and the requirement that funds be disbursed to a government account at the central bank. Such measures have been accepted by the authorities, and that is noted in the Memorandum of Economic and Financial Policies.

One Director asked why we do not have to conduct a safeguards assessment on the ECB. Again, let me refer to the safeguards assessment policy, which states that these assessments need to be conducted in central banks of member countries seeking access to a Fund financial arrangement, because the central bank is the recipient of the foreign exchange reserves disbursed under an arrangement. Consequently, in this case, it will have to be the Bank of Greece that will have to undergo the assessment. The ECB does not receive any disbursements. However, given that the Bank of Greece is part of the euro system and carries out monetary operations on behalf of the ECB, the staff will continue to liaise closely with the ECB during the remainder of the program and the safeguard assessment of the Bank of Greece.

We were invited to comment on the seniority status of the Eurozone bilateral support. From our perspective, the support provided to Greece by the Eurozone is equivalent to bilateral contributions that have been a common feature in many past Fund programs. The Fund's preferred creditor status in relation to other private and official bilateral creditors, which builds upon the conventions of the Paris Club, has been broadly recognized by the international community. This, of course, reflects the public-goods nature of the IMF's financing referred to by Mr. Shaalan. That is being provided here in the context of a program that is designed to help a member regain external viability, which, in the end, is to the benefit of official, bilateral, and private creditors alike.

On the exceptional access, some Directors commented on the need to reflect further on a change in policy. Fund policies are decisions that are of general applicability and must be applied uniformly. The Board does not have the authority, in our view, to make exclusions to the application of a policy in a particular case. That has caused us some thoughts in the last couple of weeks on how to approach this. Directors have commented that they like the candor and frankness of the report, including the fact that we felt that, given the current uncertainties, we could not make a categorical judgment that the debt is sustainable with a high probability. In such a case, however, it is clear that under the existing policy the conditions for exceptional access would not be fulfilled and, therefore, a change in policy was required. That change has been proposed in the staff report. It is, in our view, a relatively limited change in policy that focuses on a very clear case of international systemic risks. It will have to be applied to other members who are in a similar situation.

Can the Fund respond to other crises if there were spillovers, and what are the resources? The report, on Table 4, gives an overview of the impact on the Fund's resources. Of course, the Fund stands ready to assist other countries if they request arrangements. The staff is very mindful of the need to inform Directors immediately if there are members that request exceptional access or arrangements under the emergency financing procedures.

There was one question on low-income countries: what could low-income countries do to prevent contagion and a double-dip recession. We consulted with our experts on low-income countries and, in their view or the staff's view generally, it is mostly African low-income countries that are relatively dependent on growth in Europe. One thing that was highlighted in recent outreach activities is that, while low-income countries should rebuild policy buffers, they should avoid premature or overly rapid fiscal tightening, as the global recovery is still fragile. Of course, the Fund will stand ready to provide policy and financial support, if needed in the case of spillovers.

Regarding the maturity and structure of debt, one Director asked whether an EFF would have been a preferable way of negotiating a program with Greece. There is a large structural component, as we mentioned, in the program with Greece. When the Board retained the EFF as an instrument a couple of months ago, it recognized that high access would not normally be expected under the EFF; the SBA was clearly the preferred alternative. Moreover, if we were to switch to a high-access EFF, it would, set a precedent and would perhaps invite similar requests in the future for an instrument that is clearly designed to address different circumstances. I think there was also the issue of discussing with the European authorities the kind of financing arrangements. There was no preparedness, as far as I could tell, to match the 10-year maturity of the EFF that one would have requested.

What lessons can be learned from the case of Greece to improve the Fund's procedures aimed at ensuring the integrity of data reporting to the Fund? The case of Greece underlines the difficulties in detecting misreporting, even in countries that submit their data to rigorous review by external bodies such as Eurostat. The staff, especially the Statistics Department, is actively looking into options to strengthen cooperation with European bodies, including both Eurostat and the ECB. There is also a general issue beyond EU countries, and the staff is considering options to strengthen nonobservance procedures for both Article VIII cases and the SDDS.

Mr. Nogueira Batista made the following statement:

I would like to make two points. First, the fact that staff is considering options on that last issue seems a rather meager reply. However, the reason I asked for a two-hander was another one. I would like the staff to be so kind as to come back to the issue of the seniority status of the Fund and of the bilateral contributions. Shall I understand from your reply on this point that the Fund's seniority status over every other external obligation is recognized as a matter of international practice?

The second question is as follows. What is the status of the bilateral contributions from the Euro Area members? You said that it was the same as in other recent cases, where the bilateral contributions were combined with Fund support. Could you please elaborate on what this exactly means?

Mr. Itam made the following statement:

I would like to thank the staff for the answers provided to some of the questions we raised. I want to go back to the issue of the delay in the request by Greece. I thank Mr. Stein, Mr. Bakker, and others for the explanation provided, but I still would like to have the staff's assessment regarding the delay. In the staff's view, was Greece fairly confident that the measures that they took before approaching the Fund would work?

Second, was there a delay, because the Greek authorities had a sense that the Fund's instruments were insufficient or inadequate to deal with the challenges they were facing? Third, and more importantly for me, was this more a matter of stigma attached to approaching the Fund? I would like the views of the staff on these three issues.

Mr. Weber made the following statement:

We are very comforted by the very thorough and convincing staff assessment that added quite some insight to the staff report per se. I want to come to a point I made orally beforehand. In paragraph 33, page 19, on criterion 2, the last sentence actually represents the policy change that Mr. Mühleisen has announced. We had some difficulties finding that spot and realizing that this is a proposed policy change. We would have expected at least a separate paragraph on what is going on, what is proposed. A policy change should be made deliberately with adequate discussion of it, and this is clearly not the case here. What I propose is to delete that last sentence from the staff report, especially also with the view to external communication. Not doing so may raise future expectations in other countries that may face similar, comparable troubles.

The second point is maybe a more general one—I saw that Mr. Viñals is in the room. Several colleagues have made the point. Maybe at the end of the discussion, it would be useful to update the Board on the regional dimension, actual regional jitters that are going on apart from the present Greece situation.

Mr. Patra made the following statement:

I thank the staff for the clarifications and lucid answers to questions. I heard that the Fund's resources are being attributed to the current account, but money is fungible and simultaneously there is a deficit in the capital and financial account. This program is unique in that it does not have NIR flows, which is typically a protection for the Fund's money being used for capital outflows.

Second, I would like to invite attention to the projections of gross external financing requirements in the range of €150 to €200 billion every year between 2010 and 2015. This is to be financed by new borrowing and rollovers, mainly short term. What are the risks of this line entry not materializing? In the current situation, this seems to be a one-sigma or a two-sigma risk. What are the thoughts on a Plan B strategy with, say, rollovers being affected?

The staff representative from the Strategy, Policy, and Review Department (Mr. Mühleisen), in response to further comments and questions from Executive Directors, made the following additional statement:

On the question by Mr. Nogueira Batista, the Fund's preferred creditor status comes out of the Paris Club negotiations. That is the basis for the status. It applies to other international financial institutions too, like the World Bank.

On the question of other official bilateral claims, there is recognition that official bilateral claims can be restructured, and in fact they often have to be restructured, because the private sector would not come back to a country if there were no such private sector restructuring, or official bilateral restructuring. However, the Fund is exempt from that, and that is recognized under the Paris Club rules.

On the second question, let me just reemphasize that in the staff's view, there is no possibility to make an ad hoc decision. The policy has to be applied generally, and that was what required the policy change that has been suggested in the staff report.

On the NIR target that Mr. Patra mentioned, there was no necessity for that, because Greece is part of the Eurozone and transacts with an international reserve currency. Therefore, there is no such target in the program.

Mr. Weber made the following statement:

Just to clarify on this point: the staff is saying that we need to take that decision on the policy change today, because we need to apply it universally to the whole membership.

However we are dealing with one case now, so there are no other countries involved. We can at least ask for special treatment of that point in a follow-up discussion. I would not believe that the Board cannot take a decision on Greece specifically today on this point. Maybe a staff representative from the Legal Department can make that point more clearly.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to comments and questions by Executive Directors, made the following statement:

One of the purposes of establishing general policies is to ensure uniformity of treatment among members. In order for that objective to be met, when a general policy is established, it must be applied in all cases to all countries. If in fact a situation arises where a country does not meet that policy, the Board has no authority to make an ad hoc exception to the application of that general decision. It either must make a determination that in this case the criteria has been met—for instance, in the present case, that there is a high probability of debt sustainability—or alternatively, it must change the policy and, as a result of the principle of uniformity of treatment, those changes would be applicable to future cases.

It is somewhat counterintuitive, because the body that is making the general decision is also applying it to specific cases, but the Board has always recognized that, when it makes a general decision, it must apply it in all individual cases until the general policy is expressly changed.

Mr. Nogueira Batista made the following statement:

I would like to pursue a little bit more that point to understand the reasoning behind it. We have an exceptional access criteria policy. This exceptional access had four criteria that had to be met for exceptional access to be granted. Now, we find that in the case of Greece, the staff feels that

> Greece does not meet criterion 2. Am I correct? If I am right, we are taking a decision that would entail the following: a country that does not meet criterion 2, would nevertheless be eligible for exceptional access, provided that there is a high risk of international systemic spillover effects.
>
> Now, should we not have a separate decision altering the exceptional access criteria, instead of just a sentence on page 19 of the staff report, which would then be used as a precedent?

The General Counsel and Director of the Legal Department (Mr. Hagan) replied that there could have been a separate discussion on that issue. However, he explained that such a separate discussion was not legally necessary, because the Board was aware that a policy change was being proposed by staff in this case. He further noted that the Board's decision to amend the exceptional access policy would be reflected in the summing up.

Mr. Nogueira Batista noted that this issue would not have been transparent, had it not been for Mr. Weber's question. He requested that in the future staff reports bring out more clearly proposed changes in Fund policies.

Mr. Stein pointed to his understanding of the treatment of criterion 2 in the case of Greece. He wondered whether it was possible to keep the current policy unchanged, while interpreting criterion 2 in view of the spillover risk.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to further comments and questions from Executive Directors, made the following additional statement:

> I would like to respond to Mr. Stein's question. The proposed change is a very limited change, but it is a change. The current policy requires a high probability of debt sustainability. The staff is of the view that the debt is sustainable. However, given significant uncertainties, staff cannot conclude categorically that there is a high probability of debt sustainability.
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> What the staff is proposing, however, is to eliminate that high evidentiary threshold in those cases where the debt is considered to be sustainable, even though there is not a high probability, and the negative international systemic spillover risks are highly pronounced. It is a limited change, but it is a change to the policy that would be applicable in future cases where such risks exist.

Mr. Stein asked whether evidence of high probability was required in normal cases without the negative spillover effects.

The General Counsel and Director of the Legal Department (Mr. Hagan) confirmed that this was indeed the case.

Mr. Guzmán considered that the proposal was amplifying the meaning of—rather than changing—criterion 2.

Mr. Kiekens made the following statement:

> I have been on record since we established in 2003 the guidelines for exceptional access that I have never adhered to the view that they had to be interpreted literally and rigorously. Instead, I believe that they are guidance for the Board on how to interpret the more general provision in the Articles of Agreement that we give credit to countries with appropriate safeguards.
>
> We had many instances in the past, where we had difficulties in applying these exceptional access cases in a rigorous, literal fashion. I have always lent my support to an interpretation that this is guidance, and the Board has the freedom to apply them, provided that we still come to the conclusion that we give credit with appropriate safeguards as provided for in the Articles of Agreement. For that reason, I had no difficulties in agreeing with going ahead, even if the staff came to the conclusion that criterion 2 was not fulfilled.

Mr. Nogueira Batista wondered whether, in the interest of transparency, it would be more appropriate to amend the decision on exceptional access to include this change in policy.

Mr. Guzmán made the following statement:

> In response to this last suggestion and to Mr. Weber's suggestion, I would like to remind colleagues who did not notice the proposed change that we have made far more ambitious and far-reaching changes to IMF policies in the past two years.
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> We are dealing here with something that pertains to the spillover risk of the program with Greece. This policy modification is something that was requested from the IMF, when we were studying the FCL, the now defunct SLF. At that point, we lost precious time proposing changes in IMF policies that we thought were putting at risk long-established practices in this institution.

I strongly suggest that we do not delete anything, or mess with the publication of staff documents in general. Mr. Weber's proposal could be leaked, and could suggest that there had been lots of deletions in the documents. So, I would strongly oppose that. Mr. Nogueira Batista's idea of a separate decision contemplating this policy change would only highlight to outside observers that the program with Greece is peculiar, special, and an exception in the history of the institution. Frankly, I do not think that this is the case. It is a very strong adjustment program.

Doubts about the sustainability of the debt and about the debt path in general have been there in many other programs. Essentially, the IMF always is at risk and always enters a risky situation in every program it designs. Otherwise, we should have had a program with Greece probably 2-3 years ago to call it a riskless program. This is not the case. I would strongly recommend that we refrain from taking a separate decision on this.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to further comments and questions from Executive Directors, made the following additional statement:

With respect to Mr. Kiekens's point, all I can say is that the staff's understanding is that this policy is to be applied in a manner that all four criteria need to be met. We understand that that is also supported by the record.

In response to Mr. Nogueira Batista's question, I think it would have been ideal to have a policy discussion on these issues in advance of a specific case. It is always better to have these discussions in the abstract, but that is not possible here.

Mr. Kiekens made the following statement:

It is not my personal interpretation that needs to prevail here on how I see this criterion; it is the view of the Board's majority. My feeling is that the Board differed from me, and that this criterion needed to be applied rigorously. In that sense, I think the staff is correct. I never agreed on that, because I felt at the time that it was impossible to set out all criteria ex ante and that it would be necessary, as we have seen in the past, to change them all the time when we had good reasons to change them.

If Mr. Hagan is correct—and I agree with him—that the criteria need to be interpreted rigorously, I would have preferred to see the Board amending its decision as well, and I would have said that it was not my interpretation. Now, do we do it here specifically? I was, as Mr. Weber, very uncomfortable in that sense, but it is up to the Board now to decide.

I think, all things being considered, let us move ahead and have a later discussion on how we interpret these criteria for exceptional access. Is it an interpretation, a guidance on how to interpret the Articles of Agreement? Or, are we really setting in stone what we think should be applied and then agreeing that, whenever we have a good reason to deviate from that, we will deviate from that.

Mr. Weber made the following statement:

This is my last intervention on this issue. My only quarrel was about the transparency of it all, that it was kind of hidden, one sentence. If this policy change is agreed, that spillover risks in a sense take priority over criterion 2, then we will in future cases have to have some assessment about the spillover risks. In this report, however, there is very little assessment. That is why I also asked for a staff update on the broader regional implications.

Ms. Lundsager made the following statement:

On this, I had the same sense as Mr. Kiekens that in every one of these cases the Board has always undertaken its responsibility, which is to make the final decision on whether we go ahead or not. It is very difficult to devise any set of criteria that will be exactly met every time, and time and time again we have been willing to act where we thought it was necessary for whatever reason.

I am fully prepared to support the staff proposal today, and I sense the whole Board is supportive as well. I did not realize we needed a policy amendment to do that, to be perfectly honest. I admit that I did not pick this up either in my quick read of the documents. Maybe we can come back to it. I had never ever been supportive of having absolutely rigid criteria that would tie our hands. Frankly, this is our job, to make that judgment, and I am perfectly comfortable doing that. I am a little puzzled about the approach, but I do not want to hold things up. We should wrap this up.

Mr. Shaalan, expressing his support for comments by Mr. Kiekens and Ms. Lundsager, noted that any discussion on criterion 2 should be held at a later stage.

Mr. Nogueira Batista noted that his understanding of the matter differed slightly from Mr. Shaalan's comment. Citing Mr. Hagan, Mr. Nogueira Batista noted that the proposal meant a change in policy and that in the interest of non-transparency this fact was not made clear.

The General Counsel and Director of the Legal Department (Mr. Hagan), in response to further comments and questions from Executive Directors, made the following additional statement:

> All this will be clarified in the summing up, which is the Board's decision for this purpose. The proposed change was mentioned in the staff report. I would like to underscore the fact that the Board's past decisions on the exceptional access policy have generally been reflected through summings up rather than stand-alone decisions. A summing up, to the extent it reflects the majority view of the Board, is a decision. In that respect, I think this approach is adequately transparent.

Mr. Kiekens made the following statement:

> What we decide today is, of course, not irrelevant for the future because the Board sets its jurisdiction on how to apply general principles, but I am a little bit concerned to carve in stone that, whenever there are spillover risks, criterion 2 does not apply. We can have in the future a case where we decide, nonetheless, to apply the decision or not to go ahead even if there are spillovers risks for other reasons. So, even if we formulate now a new rule, whatever rule that is, we may be confronted with the need to set it aside for other reasons. Having said that, I repeat that what we do today is not irrelevant for the future.

Mr. Guzmán made the following statement:

> I was perhaps answering to a certain extent the questions posed by Mr. Itam earlier, and several grays mentioned the fact that a delay in bringing the Greek case to the Fund certainly might have contributed to exacerbating the circumstances and to increasing volatility and increasing the cost of the program and the risks associated to the program. Now, if I may, I can state, like Mr. Bakker before, that I fully agree with that.
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> There are several reasons that Mr. Stein mentioned. Essentially, the procedures in Europe are necessarily complicated on account of our institutional arrangements and its weaknesses, which are for all to be seen now. But there was also a lot of shortsightedness. There was a cacophony of

declarations that was increasingly worrisome, and I have little doubt that this contributed to the volatility of the situation.

Mr. Mozhin recently put my opinion very clearly on the table, when we were talking about the European spillovers. Doubts about the fiscal sustainability of the plans by Spain, Portugal, or other countries have little to do with what we are approving today. Moreover, the program with Greece is probably not all that relevant anymore. The issue is now a lot broader, and it is questioning the stability of the Euro Area as such.

More substantially, there is the issue of moral hazard. As Mr. Mozhin put it the other day, doubts about the availability of a financial solution to the Greek situation, gradually allowed markets to think that Europe does not understand interdependence, that we do not understand that today's juncture for certain countries is not different from the reverse situation a few years ago, when growth was weak in the Northern part of Europe, in the surplus countries, and demand growth from these other countries was in fact pulling the averages up.

All this is probably an interpretation of market behavior that might be right or wrong, and it is always very difficult to discuss this and have a consensus approach to all this. What is most important for me today is that the Fund and its staff have managed to put together an excellent program that might solve the Greek predicament and that can buy us some time to get ahead of the curve.

In doing this, we have done our part as the IMF in the deal, but the deal is much broader regrettably today. What is most important is that European institutions are working around the clock to provide what I think are the most important pieces in the overall deal, which is an ECB solution for the liquidity situation and more substantial changes in the European framework that can allow markets to believe that this is not going to happen again. We need to put all our forces in finding a solution that can contain the spillover. Otherwise, we will have to get together again many times this month, as somebody mentioned.

I hope that this weekend proves that the European institutions and countries are capable of containing this and, in that sense, bilateral announcements would also be of importance. I think, Mr. Stein, that we should help our colleagues in gathering all the announcements of today. It is even difficult for us, Ms. Lundsager, to get a hold of all the announcements that are going on. Bilateral announcements would also be made today by countries that have been regrettably put into this predicament, when the circumstances of fiscal adjustment were a lot more manageable than those of Greece.

Mr. Itam thanked Mr. Guzmán for his assessment and his reply to the question. He wondered whether the staff had its own assessment on the three issues.

Mr. Nogueira Batista made the following statement:

> I would like to make three further points. First, I would like to hear from the staff or maybe from the German chair whether there is any risk to the program coming from a possible constitutional challenge in Germany to the German bilateral contribution to this package.
>
> Second, a point raised by the Indian chair I think was not adequately answered, which is that balance of payments projections show a deficit in the capital and financial account over 2010-2012, and this implies the possibility that the Fund's resources will be used to meet outflows of capital. Is this compatible with the provisions of Article VI of the Articles of Agreement? Third, Mr. Shaalan in his gray asked a question on whether the staff could comment on the Fund's ability to respond to a crisis in the event that spillovers from Greece spread to other countries.
>
> Along that same vein, what is the situation of the Fund now in terms of availability of resources to meet new demands? What is the total used, or unused, quota? What are the bilateral arrangements in place, such as the one by Japan, Brazil, and others that have not yet been fully used? What is the total amount of these arrangements? What are the resources available to meet new demands upon the Fund?

The Deputy Director of the European Department (Mr. Thomsen), in response to further comments and questions from Executive Directors, made the following additional statement:

> Let me try to respond to some of these questions. On the reason for the delay in approaching the Fund, the authorities were convinced that they were taking forceful and decisive measures in the beginning of the year in two steps, essentially amounting to, in our view, 5 percent of GDP. I think the European partners also felt that they were providing adequate assurances about financial assistance. The fact is that the situation changed fast, and this proved that neither the measures nor the financing assurances were sufficient. I think Mr. Guzmán has already elaborated on this.

Let me just say that, from the start, the Prime Minister was very explicit that, if it was found to be necessary, he would have no problem with involving the IMF. From the start, the possibility of Greece involving the IMF was on the table. So, that is in reply to the question on the stigma.

On the rollover assumptions, I do not know if I can add much more than what I did in my initial remarks. In other programs, such as that of Romania, Serbia, and Hungary, we have assumed something close to a 100 percent rollover early on in the program, but we are in a different situation, as I explained, because of the nature of the debt, because of the nature of the exposures, and because it is easier to get agreement on public sector involvement.

In this case, we have allowed this combination of very large external financing, together with a dramatic frontloading of adjustment, to essentially give them two years with no rollover, if need be, to establish a track record, or close to two years with no rollover. So, I think that is an element of the program that should bolster its credibility. I think that needs to be noted. I would like to ask Mr. Mühleisen to answer the other more general questions on policies.

The staff representative from the Strategy, Policy, and Review Department (Mr. Mühleisen), in response to further comments and questions from Executive Directors, made the following additional statement:

I will defer the question on Fund resources to the Finance Department, but let me just also quickly answer the question of whether we finance capital outflows. First of all, I do not want to repeat my previous answer, but I think there is a case that can be made that the Fund's money, while recognizing that money is fungible, covers current account needs. Let us not forget that the bulk of the support is provided by the Eurogroup and can be associated with the flows on the capital side.

However, the program also assumes that the private sector will come back over the three years. While there is a certain time where official financing predominates, the reforms that are being undertaken are expected to lead to a return of the private sector. In that sense, there is no notion that either the Eurogroup or the Fund would finance a permanent capital outflow. I think that is all I can add at this point.

Mr. Kiekens noted that there was no requirement that the Fund should only finance current account deficits, rather than capital outflows. He cautioned against attributing the euro financing to the financing of a shortfall in rollovers and capital outflows, while attributing the Fund's financing to the current account.

The Deputy Director of the Finance Department (Mr. Krueger) noted that the standard measure of forward commitment capacity was at about SDR 188 billion before the purchase by Greece. Following that purchase, it would be at about SDR 161 billion. There could be a further SDR 29 billion if the current NAB resources were activated.

Mr. Stein made the following statement:

> I would like to respond to Mr. Nogueira Batista's question on the risks of the Constitutional Court in Germany. Of course, there is always a risk if you go to court. You never know. In Germany, there is a saying: in front of the court and the high sea, you never know what happens. I can tell you that there was a request to the Constitutional Court as a matter of urgency to prevent the Chancellor from agreeing to the approval of the activation of the support mechanism for Greece. This was rejected by the court, stating that there is no overwhelming interest of the claimant in such an action.
>
> On the other hand, there is an overwhelming interest of the German government to continue with this action, given the high international damage that would have been caused by not proceeding. What the main result in the end would be, I do not know, but this will now go for a normal procedure.

Mr. Roumeliotis thanked management, the staff, and the members of the Board for supporting the Greek program. He noted that the strong commitment of the Greek authorities to implement the program, and the IMF and EU financial and technical assistance, would facilitate the government's efforts to successfully implement the program.

The Acting Chair (Mr. Lipsky) made the following statement:

> With regard to the policy on exceptional access, ideally it would have been better to have held a discussion separately. That point should be self-evident. We are meeting on Sunday, because of the need for urgent action. So, we have dealt with it as best as we can. As Mr. Hagan has explained, a measure like this has to apply uniformly, but the Board always has the right to review policies at its choice.
>
> Just one point on debt restructuring that perhaps was not emphasized as much as it might have been. Not only were the Greek authorities very much

set against that policy, as Mr. Thomsen explained, but the reasons were not trivial. Greece has a very large—very large—primary deficit that would have remained even if all debt payments were suspended. Such an action would have had immediate and devastating implications for the Greek banking system, not to mention the broader spillover effects. The notion that this somehow would have represented a credibility-boosting effort is not at all obvious.

Moreover, there was a reference to SDRM. When the SDRM was proposed, it was exceptional that sovereign debt carried collective action clauses (CACs), thus leaving the potential restructuring in uncertain, legally chaotic circumstances. Since that time, sovereign debt has been typically issued with CACs that would make the SDRM somewhat ambiguous and not clearly needed. In the case of Greek debt, the overwhelming majority—I believe we received an estimate of some 90 percent—do not carry CACs. For this exceptional case, an attempt at restructuring would have involved legal and procedural uncertainties.

I have been a little disturbed by the suggestion that the Fund program should obviously have involved debt restructuring or even default. It is one thing to hear this from people who are not familiar with the details, but officials who have access to greater detail should be more thoughtful and precise. I think these kinds of comments in this case not only are not useful, but potentially unhelpful.

Let me also add an explanation I should have indicated at the beginning. Of course, it was originally planned that the Managing Director would have returned to chair this Board given its importance, but there are some rather urgent meetings taking place in Europe right now. Specifically, he is attending a meeting at the BIS among central bankers, and he has been in close touch with the European authorities. We look forward to seeing the results of these discussions.

Mr. Nogueira Batista made the following statement:

I think the Managing Director's comments are quite useful, and they reveal what we suspected—that management had been looking carefully at the issue of debt restructuring in the Greek case.

The observation about officials being aware of details is not applicable to the Board, because this issue of debt restructuring, perhaps an eventual Plan B, was not at all shared with us. The staff report simply does not address the issue. It should not be surprising that several of us still wonder whether debt restructuring will be necessary at some stage, and whether a pre-emptive debt restructuring would have been a possibility.

The Acting Chair (Mr. Lipsky) made the following additional statement:

Let me be clear on a couple of things. There is no Plan B. There is Plan A and a determination to make Plan A succeed; and this is it. Obviously, in designing Plan A, there was a consideration of all potential options, and it was decided that this was by far the preferable one. This is the option the Greek authorities agreed to pursue. Moreover, as Mr. Thomsen pointed out, even in advance of the discussions on a program, the authorities had taken very strenuous frontloaded action, and they have added to that.

The determination of the Greek authorities to pursue this course is crystal-clear, which is another reason why the staff and now the Board have been willing to provide an unprecedented level of support. Let us extend our best wishes to the Greek authorities and the Greek people for success in this most difficult undertaking. We all have a collective interest in their success.

I would also want to add my note of thanks to the staff for the work that they have done under the most difficult circumstances imaginable and the way that they have succeeded in forging a cooperative relationship with our European partners, the ECB and the Commission. Obviously, we will be keeping you informed of other developments. I believe perhaps Mr. Stein, in cooperation with the Secretary's Department, can arrange to have you all kept informed of new developments as they appear.

Mr. Stein noted that he would help distribute all available information to the Board and the Secretary's Department.

Mr. Weber made the following statement:

Just briefly, I am not inclined to take the Chairman's comments on the ignorance of some Executive Directors personally, but we have been told that the authorities ruled out debt restructuring from the beginning. This is about transparency. We would have been grateful to know why the staff has also ruled it out and, for example, why a voluntary approach to involve private bondholders is maybe less disorderly than a coordinated haircut. Thanks for the additional comments that clarified these issues much more. We had hoped to have received them in the beginning.

Mr. Fayolle wondered about the timing of the publication of the staff report.

The Acting Chair (Mr. Lipsky) made the following concluding statement:

Of course, the Greek authorities have the ability to review the staff report. With their concurrence, we will release it soon, perhaps within the next day or so. I do not think it will be available immediately, but very quickly, unless there are complications that we do not foresee at this time.

It has been quite an occasion. I do not have to repeat myself on the importance of this meeting. I do have two further observations. We all know that we have given up Mother's Day here in America, although I look around the table and see only a few mothers.

You should also know that May 9 is Europe Day. It commemorates the day in 1950 when French Foreign Minister Robert Schuman proposed consolidating the coal and steel industries of Europe. The Schuman Declaration is considered to be the beginning of the creation of what is now the European Union of 27 member states. It is fitting that we should meet on its 60th birthday to help things along.

The Acting Chair (Mr. Lipsky) made the following summing up:

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.

The Executive Board took the following decisions:

Greece—Rule K-1 Report on Breach of Obligations Under Article VIII, Section 5 of the Articles of Agreement

The Fund has reviewed the report of the Managing Director set forth in EBS/10/79 on the provision of inaccurate information by Greece on its fiscal data and corresponding public debt for 2008, and finds that Greece has breached its obligations under Article VIII, Section 5 of the Articles of Agreement to report accurate information to the Fund. The Fund determines that, on the basis of the remedial measures already taken by Greece and the additional corrective actions committed to by Greece, no further action is required. (EBS/10/79, 5/6/10)

Decision No. 14620-(10/45), adopted
May 9, 2010

Greece—Request for a Stand-By Arrangement

1. Greece has requested a Stand-By Arrangement in an amount equivalent to SDR 26,432.9 million for a period from May 9, 2010 through May 8, 2013.

2. The Fund approves the Stand-By Arrangement for Greece set forth in EBS/10/77, Supplement 2 and decides that purchases may be made under the arrangement, on the condition that the information provided by Greece on the implementation of the measures specified as prior actions in Table 3 of the Memorandum of Economic and Financial Policies attached to the letter from the Minister of Finance and the Governor of the Bank of Greece dated May 3, 2010 is accurate.

3. The Fund waives the limitation in Article V, Section 3(b)(iii). (EBS/10/77, Supplement 2, 5/6/10)

Decision No. 14621-(10/45), adopted
May 9, 2010

APPROVAL: September 27, 2010

SIDDHARTH TIWARI
Secretary