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The Third Greek Bailout Programme

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Background

The third Greek bailout programme – officially the Third Economic Adjustment Programme for Greece – started on August 19, 2015 and will end on August 20, 2018. A total of €86 billion will be disbursed over the course of the three years, which will be provided by the ESM. The plan, set out by the TROIKA – European Commission, ECB, and IMF – was accepted by the Greek Parliament on August 14, 2015. The disbursement is conditional on Greece implementing a number of reforms, agreed to in the Memorandum of Understanding (MoU) that it was required to accept. In general, the plan asks Greece to act in the direction of liberalizing its economy and achieve primary surpluses through privatizations and reforms of the tax and pensions systems.

This programme follows the two former bailout packages that targeted Greece. The first package was signed on May 5, 2010 by the then prime minister George Papandreou and the TROIKA. Out of an agreed total of €107.3 billion, Greece received €72.8 billion – 20 of which came from the IMF; the remaining €50 billion came from bilateral loans concluded with Eurozone countries. The first bailout was suspended before time as it was substituted by the second bailout package, which started in March 2012 and ended in June 2015. Under this programme, Greece received slightly more than €150 billion, 12 of which from the IMF. In this case, most of the money came from the EFSF, which had been recently formed (2010) as the Eurozone rescue fund; in September 2012, the EFSF was replaced by the European Stability Mechanism (ESM), now the Eurozone's permanent rescue fund.

The second bailout package, already, resulted in a political crisis for Greece: in November 2011, PM Papandreou announced a referendum on the rescue plan, which he subsequently revoked. Within ten days, however, he was replaced by Loukas Papademos as Greek PM and it was indeed Papademos who signed the deal in March 2012. This deal included a PSI – private sector involvement – which would provide up to €37 billion in 2014. As the *Financial Times* pointed out, this involvement, had it been greater, could have resulted in a complete writing-down of Greece's debt; however, it was not enough to prevent the need for a third bailout programme. The third Greek bailout programme started in summer 2015, but it was reached only after dramatic negotiations that almost brought Greece out of the Eurozone.

Political Fault Lines

The third Greek bailout programme was highly controversial even before it came to life. After endless negotiations that resulted in a referendum against the bailout and Varoufakis resigning from his post as Finance Minister, Prime Minster Alexis Tsipras officially asked for financial aid in July 2015 – thus ignoring the referendum results. Before the final MoU was set out, however, Greece was asked to implement a series of prior actions: only then would the Eurogroup agree to start the discussions. Once the actual MoU was finally approved by the Greek Parliament, on 19 August 2015, several Syriza MPs left the party, resulting in Tsipras losing his majority and resigning. He subsequently called for a fresh election to be held on September 20, which led to the constitution of a new coalition government, formed by Syriza and ANEL.

The MoU articulates the package of reforms Greece has to implement in order to continue receiving financial aid. The programme is reviewed on a regular basis to check whether the implementation of reforms is in line with the MoU's directions, so that the successive tranche can be disbursed. Among these measures, Greece has to transfer national assets to a new fund that, through privatizations, will use these resources to recapitalize banks; it has to increase revenue through reforming the pensions system and streamlining VAT; it must guarantee the independence of ELSTAT, the Greek statistics office. All this is to complement a general liberalization of the economy and, especially, of the labour market, where bargaining and collective action shall be reformed. Moreover, Greece has to commit to a primary surplus target of 3.5 % of GDP by 2018; further cuts should be introduced if any deviation from this objective occurs.

Indeed, surplus targets have been a major cause of controversy between EU institutions and the IMF. The IMF has a crucial role, as its participation in the rescue programme is required by Parliamentary procedures in Germany and the Netherlands, which would otherwise not take part in the plan. This condition was specifically requested by Germany, who would not trust the Commission to monitor rescue packages, which is precisely the IMF's task. As an EU source pointed out: "Some countries want and need IMF in the programme for the credibility of the programme, but IMF, to be in the programme, asks the same countries to guarantee Greek debt to be sustainable, but these countries are unwilling to do so before the programme runs out."

The IMF deems the primary surplus target of 3.5%, set out in the MoU, to be unsustainable. To join the programme, the IMF would like to see primary surplus targets reduced and a commitment to debt restructuring on the part of EU creditors. The Greeks too were expecting action toward debt restructuring, as Eurozone countries actually agreed to restructure Greece's debt, but, at a meeting in May 2016, decided to postpone any debt relief to the autumn of 2018, when the programme will be over. Only short-term measures for debt relief will be implemented before the end of the programme, but that is not enough for the IMF, as it is concerned with long-term ones. The stalemate between EU creditors and the IMF lasted throughout the first semester of 2017: the IMF had to wait for the review of the programme to be completed before it could decide on its own involvement.

The review was completed by June 2017, and only then was a deal reached, which ensured Greece received the €8.6 billion needed to repay EU institutions for the previous rescue plans. Had no deal been reached, another bailout would have probably been necessary. However, the IMF has not fully obtained the guarantees it sought concerning debt relief and an adjustment of primary surplus targets, so that it took part in the programme through

an Agreement in Principle (AIP), which does not entail any disbursement. On the one hand, this guarantees the IMF's participation in the programme, which is crucial for the plan to operate; on the other, the IMF will not disburse any money until it deems Greek debt to be sustainable, allowing for more time to negotiate and implement reforms. In the meanwhile, Greece has reformed income tax and the pensions system – as required by the IMF too – has enacted legislation to tackle non-performing loans (NPLs), and has taken action to liberalize its economy and labour markets, by opening up closed professions and safeguarding previous reforms on collective bargaining.

What's Next?

According to the agreement in principle, the IMF is taking part fully in the programme, with the difference being that loans will be available only when concrete action towards reducing the Greek debt has been taken. The Eurogroup, however, stated that it plans to stick to its commitment of May 2016, namely to carry on the implementation of short-term measures – comprising a reduction of interest rate risk, a smoothing of Greece's repayment profile and the waiving of the step-up interest rate margin for 2017 – while medium and long-term ones will be implemented only after 2018. Indeed, the primary surplus target of 3.5% of GDP has been maintained, and it will be lowered to 2% – as the IMF demands – only after 2022. It is hard to tell whether the IMF will eventually disburse to Greece, but their decision will depend on an assessment of debt sustainability carried out exclusively by the IMF. And it remains to be seen, once the programme is over, whether Greece will regain access to the financial markets.

The stalemate between EU creditors and the IMF over debt relief has, moreover, brought EU politicians – Schauble and Dijsselbloem in particular – to consider the creation of a European version of the IMF, freeing themselves from the encumbrance of the international rescue fund. It is ironic that IMF's participation was required by Germany so as to avoid any intrusion by the European Commission in the monitoring process of the rescue plan: indeed, in Schauble's mind, the Commission would be left out of a European monetary fund too, which would thus be a purely technocratic body without any institutional involvement, a proposal that Moscovici strongly opposes.

Only in a year's time, when the programme will be over, will it be possible to see whether Greece's economic outlook allows it to re-enter the financial markets, and what will be of the relationship between the IMF and EU creditors. For now, the standby has been prolonged for another year.