European Union, IMF move toward second bailout of Greece

Andre Damon
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Representatives of the European Commission (EC), European Central Bank (ECB), and International Monetary Fund (IMF) signaled Friday that more bailout money would be forthcoming for Greece next month, after the Greek government assured them it would implement billions of euros in cuts and privatizations.

The EC, ECB, and IMF said that the government of Prime Minister George Papandreou had agreed to sell off 50 billion euros in state assets by 2015, and that Athens had also agreed to set up an "independently managed privatization agency" to oversee the sale.

While the press release did not provide details, the wording implies that the privatization and sell-off of large portions of the Greek state will take place under the control of international banks and financial institutions. Luxembourg Prime Minister Jean-Claude Juncker, the head of the Eurogroup forum of euro-zone finance ministers, made similar proposals last month.

The group, which concluded a four-week mission to Athens on Friday, added that the Greek government's proposal "includes a significant downsizing of public sector employment, restructuring or closure of public entities," and cuts to social programs.

The announcement was met with demonstrations throughout Greece, as tens of thousands of people took to the streets to protest new social cuts and privatizations that would further drive up unemployment and plunge thousands into poverty.

Protestors also occupied the Greek Finance Ministry Friday morning, replacing the European Union flag with a banner calling for a general strike. They later joined a larger street demonstration in downtown Athens, on Syntagma Square.

Workers on the Kifissia-Piraeus electric railway (ISAP) went on a 24-hour strike Friday, after a similar one-day action Thursday by workers at the Hellenic Telecommunications Organization (OTE).

Also on Friday, Papandreou met with Juncker to present the details of the austerity and privatization measures that he plans to push through the Greek Parliament.

Last month, the Papandreou government announced that it would implement an additional $6.4 billion in austerity measures, on top of what it had agreed to in the initial conditions of the May 2010 bailout agreement. The Greek government said earlier in the week that details about the proposed austerity measures would be made public after the meeting. However, the government issued no statement, and neither Papandreou nor Juncker took questions from the press.

The announcement by the EU and IMF comes two days after the Moody's debt rating agency again downgraded Greece's credit rating, saying that there is a 50-50 chance that the country will default on its debts. Greece currently pays an interest rate of over 16 percent to borrow in the open market—five times that of Germany.

Moody's cut the credit ratings of eight more Greek banks Friday, including National Bank of Greece SA, on fears that they would take billions in losses in the event of a Greek government default on its financial obligations.

The EU and IMF delegates said in their statement that they would move the proposal for additional funding to the IMF's Executive Board and the Eurogroup, after which, the next €12bn installment of the 2010 bailout "will become available, most likely, in early July."

Yields on Greek and European debt fell after the announcement, as investors were reassured that spending cuts and a debt deal would be forthcoming.

Greece requires an additional €60bn to meet its budget shortfall next year. The funding gap is largely the result of the economic collapse Greece has suffered as a result of the spending cuts imposed as pre-conditions for the 2010 bailout.

Under the terms worked out for the first bailout, Greece was scheduled to borrow €27 billion from private investors in 2012, as it moved away from borrowing exclusively from the IMF and other European governments. However, Athens acknowledged earlier this year that this would not be possible, given the record-high interest rates being charged on Greek debt.

The deal buys time for the competing interests within Europe to decide the terms of a second bailout. Germany has insisted that a deal be worked out that would include a restructuring for private bondholders, while the European Central Bank has supported a proposal that additional money come from new loans from the IMF and EU-member countries.

The move also buys time for Papandreou and his social-democratic PASOK government to secure passage of their proposed austerity measures in Parliament.

If no deal is worked out, Greece will likely be forced to default on its debts—a situation which would create havoc in credit markets and threaten a breakup of the euro and the European Union.

Reflecting rising concern in financial circles, Juncker felt compelled to explicitly downplay prospects of such an event, saying: “It is obvious there will be no exit of Greece from the euro area.” He added, “There will be no default, and Greece will be able to fully honor its obligations.”