Supplement 16

Greece Reaches Agreement on Bailout

By DAN BILEFSKY and LANDON THOMAS Jr. (*The New York Times* (May 2, 2010)
ATHENS — Prime Minister George Papandreou said Sunday that Greece had reached an agreement with the International Monetary Fund and European Union on a long-delayed rescue package that is expected to be as much as €120 billion. The deal aims to help the country avoid a debt default and prevent economic contagion from spreading throughout the region.

In a televised statement to the nation, Mr. Papandreou said he would do anything to avoid the country going bankrupt. He urged Greeks to accept "great sacrifices" to avoid "catastrophe." "I have done and will do everything not to let the country go bankrupt," he said appearing sober and resolved in front of his cabinet and appealing to Greeks to show patriotism at a moment of deep crisis. "I want to tell Greeks very honestly that we have a big trial ahead of us."

He signaled that public sector employees would see their salaries further slashed while retired civil servants would have their pensions scaled back. He said members of Parliament would also do away with their bonuses. He added that in tough negotiations with the International Monetary Fund, the European Union and the European Central Bank, the government had succeeded in avoiding cuts to private sector salaries.

Mr. Papandreou is the scion of a Socialist dynasty whose father, Andreas Papandreou, helped erect the sprawling Greek welfare state when he was prime minister in the 1980s. The younger Papandreou sought to embolden Greeks to accept what is expected to constitute the greatest overhaul of the state in a generation.

The unprecedented bailout of a member of the 16-nation euro zone marks the culmination of months of often fraught negotiations. The crisis has tested the credibility of the single currency and created some of the deepest fissures in the European project since its inception, more than half a century ago.

Finance Minister George Papaconstantinou set out some of the details of the austerity measures that are required for the bailout package, which were expected to be revealed in Brussels later Sunday. He said that Greece would make budget cuts of €30 billion, or $40 billion, to reduce the budget deficit to below 3 per cent by 2014.

He said the funding from the rescue plan covered a large part of Greek borrowing needs for the next three years. The country faced a "choice between collapse or salvation," he said.

Mr. Papaconstantinou, who was due to fly to Brussels for an emergency meeting of eurozone finance ministers, said Greece had agreed to raise its value-added tax to 23 percent from 21 per cent, to cut civil servants' wages and to eliminate public sector annual bonuses amounting to two months' pay. He said special rules allowing for early retirement of civil servants would be tightened. He said the government also intended to increase taxes on fuel, tobacco and alcohol by about 10 per cent.

Crucially, Mr. Papaconstantinou did not address the critical issue of whether the government would relax rules on laying off public workers, whose generous salaries and benefits have been a key cause of Greek's debt problem. Until now, the government has not been able to lay off civil servants, whose employment rights are in effect constitutionally guaranteed.

Indicating that the steps would undermine economic growth, Mr. Papaconstantinou forecast a deeper than expected recession of 4 per cent for 2010, and 2.6 percent in 2011, before the economy returned to growth of 1.1 percent in 2012.

"We will be in recession for the next few years which means that we have to run faster to reduce the deficit," he said.
The government will submit special emergency legislation to Parliament, which is expected to approve the measures by Friday.

After months in which Germany balked at the prospect of bailing out the euro zone's most profligate members, European leaders have in recent days been racing to hammer out the package for Greece with newfound urgency, after ratings agencies downgraded Greece's debt ratings to junk status.

The bailout amounts to €45 billion this year, followed by more aid in the following two years. In return, Greece pledged to squeeze cost savings and tax increases amounting to an estimated €24 billion, or 10 per cent of the country's gross domestic product. The measures include €4.8 billion in belt-tightening steps announced in March.

While the economic lifeline for Greece is expected to reassure jittery markets, doubts remain whether Greece will be able to follow through on what amounts to a cultural revolution in the social contract between state and citizen.
The shakeup of longstanding aspects of Greek life, from endemic tax evasion to overstaffed offices of idle employees, has prompted fears that widespread social unrest could unhinge a Greek recovery. And while most economists agree that the austerity measures are

long overdue, some fear that if they did push Greece into an even deeper recession, the political will to follow through on the changes would be undermined.

The governing Socialist party of Mr. Papandreou has 160 seats in the 300-seat Parliament, giving it enough of a majority to implement laws. Mr. Papandreou in recent days has likened Greece’s plight to Odysseus, Homer’s heroic survivor who took ten years to return home from war. He has thus far largely escaped blame for a crisis that has been pinned on the profligacy of his predecessors. But analysts warn he could face a fierce backlash if the austerity measures do not deliver visible economic gains soon.

Already, the government’s proposals for deep spending cuts have stoked strong resentments in a country where one out of three people are employed in the civil service that, until now, has guaranteed jobs for life.

In a sign of the challenges ahead, tens of thousands of Greeks took to the streets across the country Saturday. Some in Athens chanted “No to the I.M.F. Junta!” — a reference to the hated military regime which ruled Greece from 1967 to 1974. Some analysts fear that Saturday’s demonstrations, in which dozens of black clad anarchists threw Molotov cocktails and stones at police, may prove to be the beginning of protracted social unrest. Unions are planning mass demonstrations for Wednesday.

The protests have thus been largely peaceful and muted, suggesting that most Greeks realize they have few other options other than to endure and wait. Over the past few days, Greeks have reacted with anger and wounded pride as their country had been derided as the economic sick man of Europe.

Alluding to the film “Apocalypse Now,” the cover of the Economist this week showed a picture of the Acropolis under the headline “Acropolis now,” with I.M.F. and European Union helicopters hovering above and a picture of German Chancellor Angela Merkel decked out in military fatigues. “The horror, the horror,” it continued.

Yannos Papantoniou, a former finance minister from the ruling Socialist party, said Greek patience with the cost-cutting measures could run out, in particular if the large population of poor Greeks were hit hard, if recession did not give way to growth and already high unemployment increased. “My impression having managed this type of situation in the 1990s is that Greeks are not patient people,” he said in an interview.

“For Greeks to endure cuts for the next three years, they must be shown results and be convinced that the government is hitting its targets. It is essential that the government follow pro-growth policies to avoid a deep depression.” Yet economists warn it could take years for the cost-cutting measures to lift incomes. According to a report to appear in the Monday edition of the German magazine Der Spiegel, the I.MF. believes it will take ten years for Greece to overcome its financial crisis, Reuters reported.

And while economists say the bail-out package will reassure markets in the short-term, some fear that a credit crunch could persist, undermining already depressed consumer spending and depriving businesses of much-needed funding. That threat was underlined Friday when Moody’s Investors Service cut the credit ratings of nine Greek banks.

Platon Monokroussos, head of financial markets research at Eurobank EFG, one of Greece’s biggest banks, predicted that the austerity measures would keep the country in recession until at least late 2011. He forecast at least two years in which the economy would contract by 3 percent or more, before the liberalizing measures in the austerity package provided a lift.

While EU and Greek leaders have insisted that Greek debt restructuring is not an option, some economists argued that a debt restructuring, in which private creditors would take a hit by not receiving back all of their money in the agreed time, should not be written off as an option in the future. It would reduce the overall debt burden on Greece’s economy, but would also create the heavy risk of pushing spooked investors to deny Greece access to credit markets.

If Greece fails to implement its cost-cutting measures and European governments and the public grow wary of propping up the country, some economists predict that the possibility of a restructuring could once again emerge. But Yiannis Stournaras, a leading economist and former economic adviser to the ruling Socialist party, argued that the close monitoring by the I.M.F. — and intense scrutiny by the EU — would prevent the Greek government from deviating from the path of reform. A restructuring, he argued, would “return the country to an economic ice age.”

“The IMF will be here every few months and will be keeping a close eye on Greece’s every move,” he said. Alluding to a mythological battle in which Greek soldiers attacked the enemy after hiding in a giant hollow wooden horse, he added: “People haven’t trusted the Greeks since the time of the Trojan War so this is nothing new.”