

## Greece Gets Aid, Promises Austerity

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**Abstract:** Euro-zone countries and the International Monetary Fund, seeking to halt a widening European debt crisis that has threatened the stability of the euro, agreed to extend Greece an unprecedented 110 billion euros (\$147 billion) rescue in return for Draconian budget cuts. The Greek government has promised to slash and then freeze public-sector wages, raise sin taxes, increase value-added taxes, impose a new levy on businesses, cut pension payments and raise retirement ages for some public-sector workers.

**Full text:** BRUSSELS -- Euro-zone countries and the International Monetary Fund, seeking to halt a widening European debt crisis that has threatened the stability of the euro, agreed to extend Greece an unprecedented 110 billion euros (\$147 billion) rescue in return for Draconian budget cuts.

Under the three-year agreement announced here late Sunday, Greece would receive 80 billion euros in loans from other euro-zone members and 30 billion euros from the IMF. The planned rescue is the largest ever attempted by the IMF and a first for the 16-member euro zone. It still requires final approval from national governments.

The bailout removes the worry that Greece won't meet its immediate funding needs -- 8.5 billion euros in borrowings due May 19. But it introduces fresh questions, among them whether the country can bear the harsh budget-cutting measures that are the price of the aid.

The Greek government has promised to slash and then freeze public-sector wages, raise sin taxes, increase value-added taxes, impose a new levy on businesses, cut pension payments and raise retirement ages for some public-sector workers. The steps are expected to save the state 30 billion euros through 2013. Unions have vowed strikes to protest the deal.

"We have no other choices and no time," Greek Prime Minister George Papandreou said Sunday. He vowed that his government won't "allow the country to become bankrupt."

The prospect of a rescue has been controversial in Europe. Some euro-zone countries, led by Germany, worried that a bailout would set a dangerous precedent by encouraging other members to flout the bloc's deficit and debt rules. A rival faction, led by France, favored speedy intervention, viewing the crisis as a moment of truth, both for the 11-year-old common currency and the broader European Union. The divide delayed action, which some critics say worsened the crisis by allowing it to spread to other countries, raising concerns about the cohesion of the euro zone.

Even with the austerity measures, Greece now projects that its debt, which last year stood at 115% of its gross domestic product, will surpass 140% by 2014 before it begins declining. That is worse than was believed even a few weeks ago. The budget cuts will slash the deficit from 13.6% of GDP last year to 8.1% this year. Economic output will fall 4% this year, Greece says.

The attention-grabbing sum of 110 billion euros -- just a few weeks ago, EU countries would say only that they'd offer 30 billion euros this year -- is intended in part to quell talk of default. Yet it remains unclear whether the promised package will cover all of Greece's funding needs over the next three years, or if it will end up having to borrow even more.

Over the past week, investors have increased their bets that the Greek government will succumb to social pressures and default on its debt to ease the heavy burden that debt payments place on state finances.

Greek Finance Minister George Papaconstantinou said Sunday there was no chance that Greece would default. Debt restructuring "was never on the table," said Poul Thomsen, the IMF's mission chief for Greece. Although such a measure could ease Greece's finances in the short term, it could restrict the country's ability to borrow in the future, he said.

The bailout has been percolating since February, when euro-zone leaders promised to come to Greece's aid, if needed. Europe's hopes of resolving the crisis with rhetoric were short-lived. Investors responded to the uncertainty about a rescue by dumping Greek assets, making it more expensive for the country to borrow and sparking fears that the crisis would spread.

Sunday's agreement capped a turbulent week in the markets that included a downgrade of Greece's debt to "junk" status -- a move that all but locked Greece out of capital markets.

Atop European leaders' list of worries is the effect of Greece's crisis on other fiscally precarious EU countries. Last week, investors shunned the debt of Portugal and Spain, in a dangerous sign that the credit spigot could tighten for others with debt and deficit problems -- and potentially vastly increase the bailout tab for Europe's healthier nations. Downgrades last week of the Iberian countries' credit ratings heightened those concerns.

The cuts the government says are needed to brighten the grim fiscal picture already are meeting public resistance. In Athens on Saturday, tens of thousands joined a May Day protest in anticipation of the aid deal. Rioters threw Molotov cocktails at police, and marchers chanted "get out" to "the IMF and the European junta." A crude bomb damaged a bank branch Sunday. Union leaders said they will renew protests this week, and a widespread general strike is set for Wednesday.

The main opposition party, the conservative New Democracy Party, lashed out at the budget cuts. "This is an even heavier dose of the medicine that got us here in the first in place and could kill the patient," party leader Antonis Samaras said.

Mr. Samaras criticized the involvement of the IMF, which has pushed for tough fiscal restraint. The government, he said, imposed the IMF "onto the heads of the Greek people."

The deal could turn the IMF into a political scapegoat in Greece, a role the fund has often played in the past. Politicians and opposition leaders can attack it for its austerity demands, while making the required adjustments. That has happened most recently in Ukraine, where the IMF cut off its loan program for a time when the government, in the heat of an electoral campaign, failed to comply with certain financial conditions. Greece's major unions, already critics of the IMF, have vowed to take to the streets to protest the austerity measures. "We will start our new struggle with protests on Monday, Tuesday and the strike on Wednesday," said Spyros Papaspyros, president of the public-sector umbrella union ADEDY. "We will fight for as long as it takes against this giant injustice."

Germany, whose population has been deeply skeptical of a bailout, will bear the largest share of the euro-zone contribution -- 22.3 billion euros of the total. The euro-zone loans carry an interest rate of about 5%, compared with about 3% for the IMF contribution. Some 10 billion euros will be set aside as a "bank stabilization" fund for use if the condition of Greek financial institutions worsens.

Approval by the 16 euro-zone leaders is expected to come at a meeting on Friday. In addition, several countries, including Germany, must now put the bailout measure through their parliaments. German Chancellor Angela Merkel has put the legislation on a fast track for approval by the end of the week.

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Alkman Granitsas, Costas Paris and Marcus Walker contributed to this article.

## Lifesaver

The IMF and 15 euro-zone nations pledged €110 billion in financing to Greece over three years.



\*Includes Belgium, Austria, Portugal, Finland, Ireland, Slovakia, Slovenia, Cyprus, Luxembourg and Malta

Note: €1 billion = \$1.33 billion

Sources: IMF; EU Commission; ECB

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