



EUROPEAN CENTRAL BANK

EUROSYSTEM

THE PRESIDENT

2 May 2010

Mr Jean-Claude Juncker
President
Eurogroup

Dear Mr Juncker,

The ECB received today the Letter of Intent and the Memorandum of Economic and Financial Policies from the Greek authorities, laying out the economic policies that the authorities will implement until 2013, as well as the Memorandum of Understanding, specifying detailed economic policy measures that will serve as benchmarks for assessing policy performance in the context of the quarterly reviews under the financial assistance programme.

As requested by the Heads of State or Government of the euro area on 25 March 2010, please find attached the assessment of the Governing Council of the ECB of the programme parameters underlying the external financial support.

Kind regards,

Jean-Claude Trichet

Encl.



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THE GOVERNING COUNCIL

CONFIDENTIAL

2 May 2010

ASSESSMENT OF THE PROGRAMME PARAMETERS UNDERLYING THE EXTERNAL FINANCIAL SUPPORT TO GREECE

1. On 25 March 2010, the Heads of State or Government of the euro area reaffirmed their willingness to take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole. They agreed to set up a euro area financing mechanism, complementing IMF financing, to be activated in case market financing would be insufficient to help Greece undertake its economic adjustment programme. Any disbursement under this mechanism will be subject to strong conditionality. On 11 April 2010 the Eurogroup agreed upon the terms of the financial support that will be given to Greece, when needed, to safeguard financial stability in the euro area as a whole. On 23 April 2010, in a letter to the President of the Eurogroup, the Commissioner for Economic and Monetary Affairs and the President of the ECB, the Greek government requested the activation of the support mechanism. On 2 May 2010, the Greek authorities signed a Memorandum on Economic and Financial Policies describing the economic policies and objectives of the Government of Greece for the years 2010-2013 and submitted it in a letter to the President of the Eurogroup, the Commissioner for Economic and Monetary Affairs and the President of the ECB. The authorities noted in the letter that they stand ready, in addition to the policies outlined in the memorandum, to take further policy measures that may become appropriate to ensure the attainment of these objectives. In respect to the bilateral loans from euro area Member States, a Memorandum of Understanding (MoU), attached to the MEFP, specifies in detail policy measures in the areas of fiscal and other structural reforms that will serve as additional benchmarks for assessing policy implementation under the programme.

2. The ECB and the Commission have been mandated by the Heads of State or Government to provide an assessment of the programme parameters (amount, conditions). In accordance with this mandate, the ECB and the Commission assessment of the funding needs and elements of possible policy conditionality shall be provided to the Eurogroup. This document provides the assessment of the programme parameters by the ECB.



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3. The main objectives of the program are to correct fiscal and external imbalances and restore confidence. Restoring fiscal sustainability and international competitiveness are necessary to lay the foundation for the return to sustainable growth.

- Fiscal adjustment will be the cornerstone of the program. The government is committed to put in place durable fiscal adjustment measures of some 11 percent of GDP in cumulative terms through 2013, with additional remedial measures if the deficit were not to be on course to drop further to below 3 percent in 2014. This large adjustment is needed to put the debt-GDP ratio on a downward trajectory from 2013 onward.
- Incomes policy and a reform of the social security system will support fiscal adjustment and restoration of competitiveness. Realigning incomes to sustainable levels is deemed necessary to assist fiscal correction, support a reduction in inflation well below the euro area average, and to improve price and cost competitiveness on a lasting basis.
- Financial sector policies will safeguard financial stability. While currently capital buffers are reassuring, bank supervisors will need to monitor closely liquidity and nonperforming loans at individual banks. The Bank of Greece and the government are committed to further strengthen the financial crisis management framework, including by establishing a Financial Stability Fund (FSF). The objective of the FSF is to maintain the stability of the Greek banking system by providing equity capital in case of a significant decline of capital buffers.
- Structural reforms will focus on modernizing the public sector and making product and labor markets more efficient and flexible, creating a more open and accessible domestic environment for foreign investors, and reducing the state's involvement in economic activities. All these measures will contribute to enhancing potential growth.

4. The disbursement of bilateral financial assistance from euro area countries will be subject to twelve quarterly reviews of conditionality for the duration of the arrangement, i.e. from May 2010 to December 2013. The release of the tranches will be based on a positive evaluation of progress made with respect to policy criteria in the Letter of Intent and the Memorandum of Understanding. The Greek authorities have committed to consult with the European Commission, IMF, and the ECB on the adoption of new measures and will provide them with all requested information for monitoring progress during programme implementation.



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5. Overall, the ambitious fiscal adjustment and comprehensive structural reforms under the programme are appropriate to achieve the programme objectives of stabilising the fiscal and economic situation over time and addressing the fiscal and structural challenges of the Greek economy. The programme is comprehensive and supported by strong conditionality. It addresses the relevant policy challenges in a decisive manner. It will thereby help restore confidence and safeguard financial stability in the euro area. The ECB also considers essential that the Greek public authorities stand ready to take any further measures that may become appropriate to achieve the objectives of the programme.

6. The programme will provide financial resources in the amount of EUR 110 billion. This amount will cover the financing needs of Greece over the three-year programme horizon.