

IMF: Greece Needs “Significant Debt Relief”

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Global Research, August 25, 2015

Trueeconomics.blogspot.ca 14 August 2015

Region: [Europe](#)

Theme: [Global Economy](#)

With the global economy in shambles, *IMF's Ms. Christine Lagarde's statement on Greece is particularly revealing:*

To read Ms. Lagarde's statement, click image to enlarge

Ms. Christine Lagarde, Managing Director of the International Monetary Fund (IMF), made the following statement today:

“The policy package specified in the Memorandum of Understanding (MoU) recently agreed between the Greek authorities and European institutions, with input from Fund staff, is a very important step forward. It not only reverses much of the policy backtracking that caused the previous program to run seriously off track, but puts in place wide-ranging policies to restore fiscal sustainability, financial sector stability, and a return to sustainable growth. I particularly welcome the authorities' efforts to overcome the serious loss of confidence in recent months through strong upfront actions. Most of these actions have been fully specified in the MoU, and key measures including in the fiscal structural areas will be implemented as prior actions for the disbursement of the first European Stability Mechanism (ESM) tranche.

“In two areas that are of critical importance for Greece's ability to return to a sustainable fiscal and growth path—the specification of remaining parametric fiscal measures, not least a sizeable package of pension reforms, needed to underpin the program's still-ambitious medium-term primary surplus target and additional measures to decisively improve confidence in the banking sector—the government needs some more time to develop its program in more detail. This is understandable, and I am encouraged in this regard by the government's commitment to work with its European partners and the Fund on completing these essential reforms in the coming months. With the detailed specification of these outstanding reforms, the recently agreed MoU will entail a very decisive and credible effort on the part of the Greek authorities to restore robust and sustainable economic growth.

However, I remain firmly of the view that Greece's debt has become unsustainable and that Greece cannot restore debt sustainability solely through actions on its own. Thus, it is equally critical for medium and long-term debt sustainability that Greece's European partners make concrete commitments in the context of the first review of the ESM program to provide significant debt relief, well beyond what has been considered so far.

“In conclusion, I believe that the actions to be taken by the authorities by the time of the first review, in conjunction with the policies specified in the MoU, once they have been supplemented by the above-mentioned fiscal structural and financial sector reforms, as well as by significant debt relief, will provide the basis for a credible and comprehensive program to restore medium-term sustainability. We look forward to working closely with Greece and its European partners in the coming months to put in place all the elements needed for me to recommend to the Fund's Executive Board to consider further financial support for Greece.”

Key points are:

1) Per Lagarde, “of critical importance for Greece's ability to return to a sustainable fiscal and growth path”, “the specification of remaining parametric fiscal measures, not least a sizeable package of pension reforms, needed to underpin the program's still-ambitious medium-term primary surplus target and additional measures to decisively improve confidence in the banking sector—the government needs some more time to develop its program in more detail.”

In other words, the path to Eurogroup's 3.5% long term primary surplus target on which everything (repeat – everything) as far as fiscal targets go, hinges is not yet specified in full. The Holy Grail is not in sight, yet...

2) “...I remain firmly of the view that Greece's debt has become unsustainable and that Greece cannot restore debt sustainability solely through actions on its own. Thus, it is

equally critical ...that Greece's European partners make concrete commitments in the context of the first review of the ESM program to provide significant debt relief, well beyond what has been considered so far."

In simple terms, for all the lingo pouring out of the Eurogroup tonight, Greece has not been fixed, its debt remains unsustainable for now and the IMF - which ESM Regling said tonight will be expected to chip into the Bailout 3.0 later this autumn - is still unsatisfied with the programme.

"Significant debt relief" - off the table so far per Eurogroup - is still IMF's default setting.

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