FOCUS · Greece: debate starts on a new bail-out

Greece seems to have returned to centre stage after having remained out of the spotlight over the last few months. This is not only due to the visit by the troika (made up of the ECB, the EC and the IMF) to carry out its fifth review of the country's adjustment programme but particularly because the need to approve another aid programme is once again being debated. The amount and scope are still unknown but, unlike on previous occasions, the markets have reacted calmly, hardly altering the risk premium on ten-year Greek bonds compared with the German bund.

In the troika's last review carried out in July additional financing requirements were detected for 2014 and 2015 totalling 10.9 billion euros, of which 4.4 billion correspond to the coming year. Given that the Greek government would not run out of funds until the middle of next year, the troika still has room to discuss, if necessary, the characteristics of a third bail-out. Nevertheless, the financing gap in 2014 should be met before this year ends, either by extending the current programme or by resorting to the capital markets given that, according to the IMF's own internal regulations, it cannot provide financial aid if the net borrowing for the coming twelve months is not already covered.

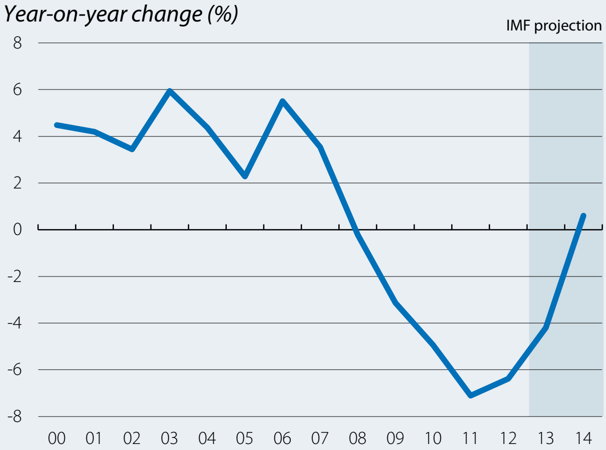
This budget gap can mainly be explained by delays in implementing the agenda of structural reforms, specifically in terms of the public administration and privatisation. In the first case, there are delays in the regime governing labour mobility for 25,000 civil servants although the government has promised to implement this before the end of the year. The delays are more evident regarding the programme to privatise assets held by the public administration and it is likely that only 60% of the 2.5 billion euros (1.4% of GDP) planned for year-end will be achieved.

These delays should not detract from the significant progress made by the Greek authorities in rectifying the country's imbalances, both fiscal and external. Regarding fiscal adjustment, a primary surplus is forecast for the end of this year which would help the country to start meeting debt interest payments using its own resources. With regard to external imbalances, the current account deficit has been reduced significantly (from –10.1% in 2010 to –3.4% of GDP in 2012), although this improvement is largely due to a reduction in imports thanks to shrinking domestic demand and not to structural reforms to improve competitiveness. Certainly unit labour costs are starting to fall (by 13% since 2011) but this has not led to a rise in exports for the moment.

Broadly speaking, the Greek economy is complying with its aid programme and we expect economic activity to start growing in 2014 after six years of recession and with a fall in GDP of 24%. But, in spite of this progress, certain risks must still be taken into consideration. The delays in structural reforms are one of the key issues as the country's medium-term growth capacity could rapidly be jeopardised; a delay that such a country, with its public debt at 176% of GDP and significant structural imbalances, cannot permit itself. The signing of a new bail-out for Greece will probably not raise tensions again in the financial markets of the so-called peripheral countries but the longer the Greek government takes to implement a credible adjustment programme, the tougher it will be for the country to regain the confidence of the markets.

Trend in GDP

Year-on-year change (%)



Source: *"la Caixa" Research, based on data from Datastream and the IMF.*

Public sector net borrowing

Billion euros

	2013	2014	2015	2016
Gross borrowing need	**35.3**	**26.2**	**14.4**	**8.4**
Overall balance	6.9	5.6	3.7	1.2
Amortization	16.1	25.1	16.4	6.8
Other	12.3	–4.5	–5.7	0.4
Gross financing sources	**35.3**	**21.8**	**7.9**	**8.4**
Official (troika)	37.4	19.3	11.1	6.6
Market access	0	0	0	0
Other	–2.1	2.5	–3.2	1.8
Financing gap	**0**	**4.4**	**6.5**	**0**

Source: *"la Caixa" Research, based on IMF data.*