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Troika gloomy on Greek outlook

By Peter Spiegel in Brussels and Kerin Hope in Athens

Greece should get its next €8bn in international aid, but its economic outlook is deteriorating so rapidly that a second bail-out plan agreed just three months ago is no longer adequate to keep Athens afloat, international lenders have determined.

The report by the so-called "troika" of lenders to Greece – the European Commission, International Monetary Fund, and European Central Bank – put the blame for Greece's deteriorating fiscal outlook on both the broader recession and failures by Greek government to implement reforms.

But in the first acknowledgement that mounting unrest within Greece was having an impact on official deliberations, the report – seen by the FT – said the occasionally violent demonstrations in Athens were contributing to economic problems.

"There is no doubt that Greece is undergoing a recession that is deeper and longer than expected," the report said. "The deterioration in the labour market, with employment falling much faster than expected, uncertainties of political and financial nature, and social unrest and industrial action have weighed on supply and on domestic demand."

Despite resistance within Greece's ruling socialist party, troika monitors said they believe the next aid tranche should be paid "as soon as possible" following concessions by Athens to get its fiscal reform and privatisation programmes back on track.

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Part of the reason for the delay is a standoff between two of the members of the troika – the IMF and ECB – over whether Greece can keep paying its debts without taking more stringent austerity measures. The ECB has taken a tougher line, while the IMF has urged more leniency.

But the report paints a dire picture of the path ahead, saying Greece's "debt dynamics remain extremely worrying".

"When compared with the outlook of a few months ago, the debt sustainability has effectively deteriorated given the delays in the recovery, in fiscal consolidation and in the privatisation plan, as well as the perspective of bank recapitalisation," the report finds.

The report does not, however, include a finding on whether Greece will still be able to eventually make all its debt payments. Such debt sustainability analyses are usually included in troika reports, but European officials said it was not put in the initial draft because of differences over its findings. The analysis was expected to be completed by today, however.

According to people familiar with the dispute, part of the reason for the delay is a standoff between two of the members of the troika, the IMF and ECB, over whether Greece can keep paying its debts without taking more stringent austerity measures.

The ECB has long resisted haircuts in debt repayments as a way to reduce Greece's overall debt levels, while the IMF has been more open to such moves. The IMF and the ECB denied there were any differences.

Tables included in the report show that Greece is expected to miss 2011 deficit targets set in July by €1.4bn-€2bn, money that will have to be raised either through additional bail-out loans or further haircuts on private bondholders.

In addition, it estimates Greek debt will balloon to 181 per cent of gross domestic product next year, well above the 161 per cent predicted in July.

The troika report also acknowledged for the first time what has been insisted by Athens: the €50bn privatization programme, which was to contribute €28bn towards Greece's second €109bn bail-out, cannot keep to its schedule and is already off course by at least three months.

Additional reporting by Ralph Atkins in Frankfurt and Alan Beattie in Washington