

Money for Greece started flowing. And reforms? Introducing them could be a miracle

The parliaments of the Eurozone countries agreed upon the third help program for Greece. The money for the country in crisis has already started flowing. However, the reforms plan seems impossible to introduce and bringing it to life would be a miracle. Why? Marcin Lipka, Cinkciarz.pl analyst, weighed in on the matter.

In the middle of July, during the eurozone summit in Brussels, the plan for the third help program for Greece was agreed upon. It is worth 86 billion euros. A quite ambitious plan for reforms was specifically designed at this time for Athens to introduce in order to receive the first installment and further financial support in the quarters to come.

The paragraphs describing a profound reform of the pension system, public administration, legal, goods market and taxation systems were especially drawing attention. Greece also needs to privatize 50 billion euros worth of state property. This money will be used as recapitalization of the banks, repayment of the county's debts and further investments.

As quickly as a couple of days after this plan of selling the state property was published one of the analyses here emphasized that obtaining such an amount would be impossible. These doubts were confirmed by the document published by the "Financial Times" and "The Wall Street Journal". It was created by the work groups, which were formed by the representatives of Greece and its creditors, who joined efforts on putting together the reform plans in detail.

In the protocol of their meeting (Memorandum of Understanding „MoU”, August 11, 2015) in the section addressing privatization it was written that Greece in 2015, 2016 and 2017 will acquire respectively: 1.4 billion euros, 3.7 billion euros and 1.3 billion euros. Altogether it is a bit more than 10% of what was established in the agreement from July. Even if the privatization will be carried out in the years to come, the whole 86 billion euros will be handed over to Greece. This means that Athens won't get the encouragement to continue this hard work and their creditors are left with no guarantee that the money will be given back.

Unrealistic, ambitious plan

Despite the fact that the financial matters seem to be crucial, so are other issues from the memorandum. According to the described assumptions, Greece is supposed to be built from scratch and all laws regarding serious changes to the country need to be voted upon by the end of the year.

The document announces counteracting “complicated legal provisions, inefficient administration, political ignorance, generous amnesty (from taxes) and chronically weak execution”. Equally ambitious actions are supposed to be undertaken regarding the reform of the pension system. In this case the possibility of receiving the benefits early should be completely eliminated and its payment should be strongly based on the amount of the deposits made earlier. Also, the health care contribution levied on the benefits will increase.

The sweeping changes will also include the health care system. The project is detailed very carefully. Even the percent of the generic medication offered to the patients has been set. Greece will also introduce a reform of the education system on the primary level, as well as higher education. Additionally, Athens will introduce the deregulation of professions, introduce the reforms of the legal system, carry out the actions preventing corruption and “promote the professionalism and independence of the Greek Statistical Office”.

It is worth emphasizing that many of these reforms are supposed to be introduced before the end of the year and the crucial ones – before October, when their first assessment will be performed. If the creditors determine that the reforms are not introduced or are introduced improperly, the installments of the help program will be withheld. Should this happen, with no money from outside, Greece will yet again face the threat of going bankrupt almost instantly and the discussion about it exiting the eurozone will return to the headlines.

Only a miracle could help

Even in a well-managed country introducing changes this drastic is very hard. Greece is not only functioning thanks to help from outside, but its deep banking crisis and the efficiency of the country is additionally limited due to capital flow control.

Additionally, this Thursday the Greek prime minister announced the resignation of his cabinet. His decision was motivated by the part of coalition opposing the agreement with the creditors and the austerity. Even though, the support in the society remains strong, a lot can still change before the election (pre-planned for September 20). As a result, this additional political commotion creates even more uncertainty regarding effectively introducing the reforms.

To sum up, only a true miracle will allow Greece to rise from the gigantic crisis and catch up after many years of negligence. Unfortunately, it is less probable that this operation will fail and in a couple of months the attention of the worldwide financial media will focus again on Greece.

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