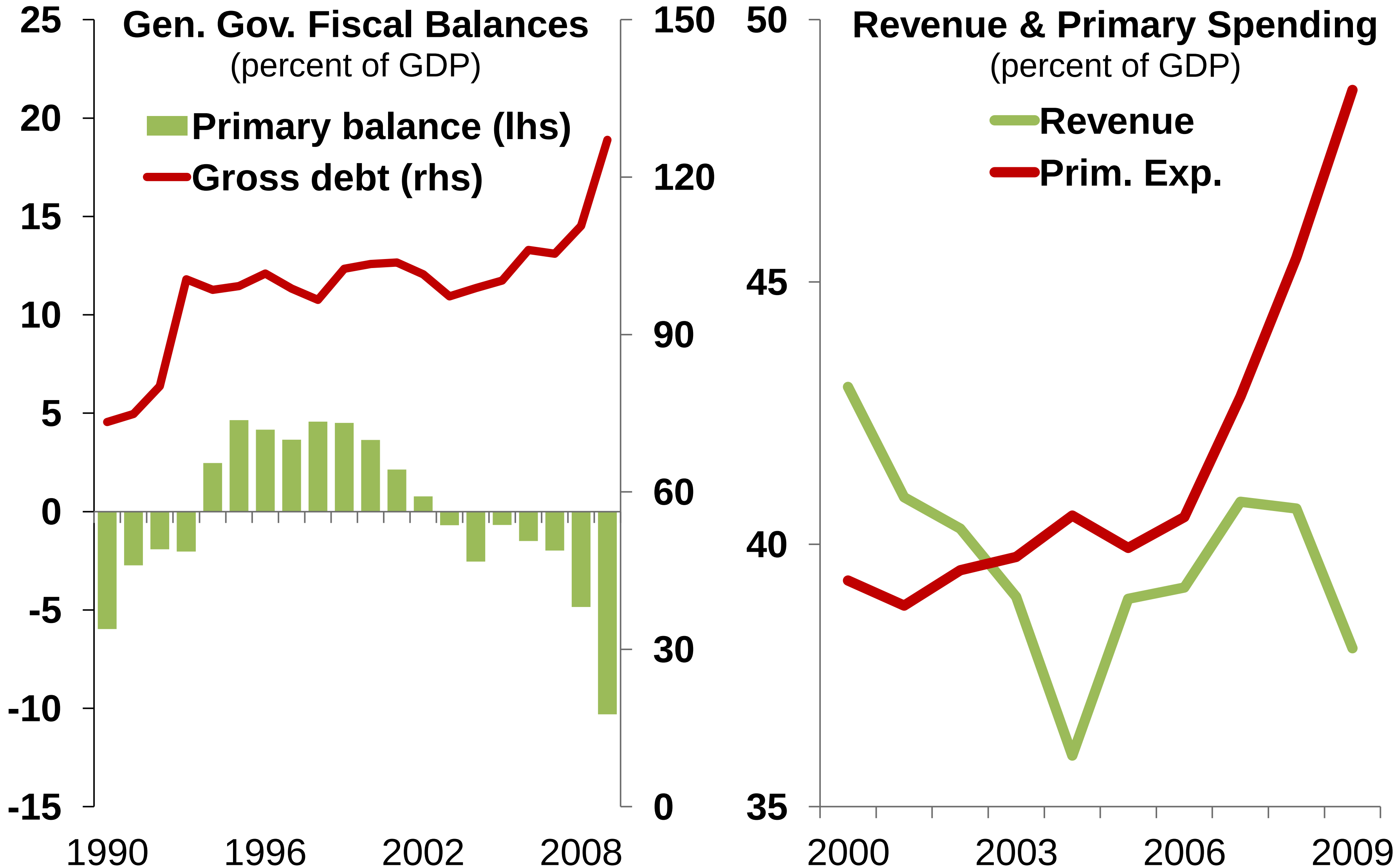
# GREECE

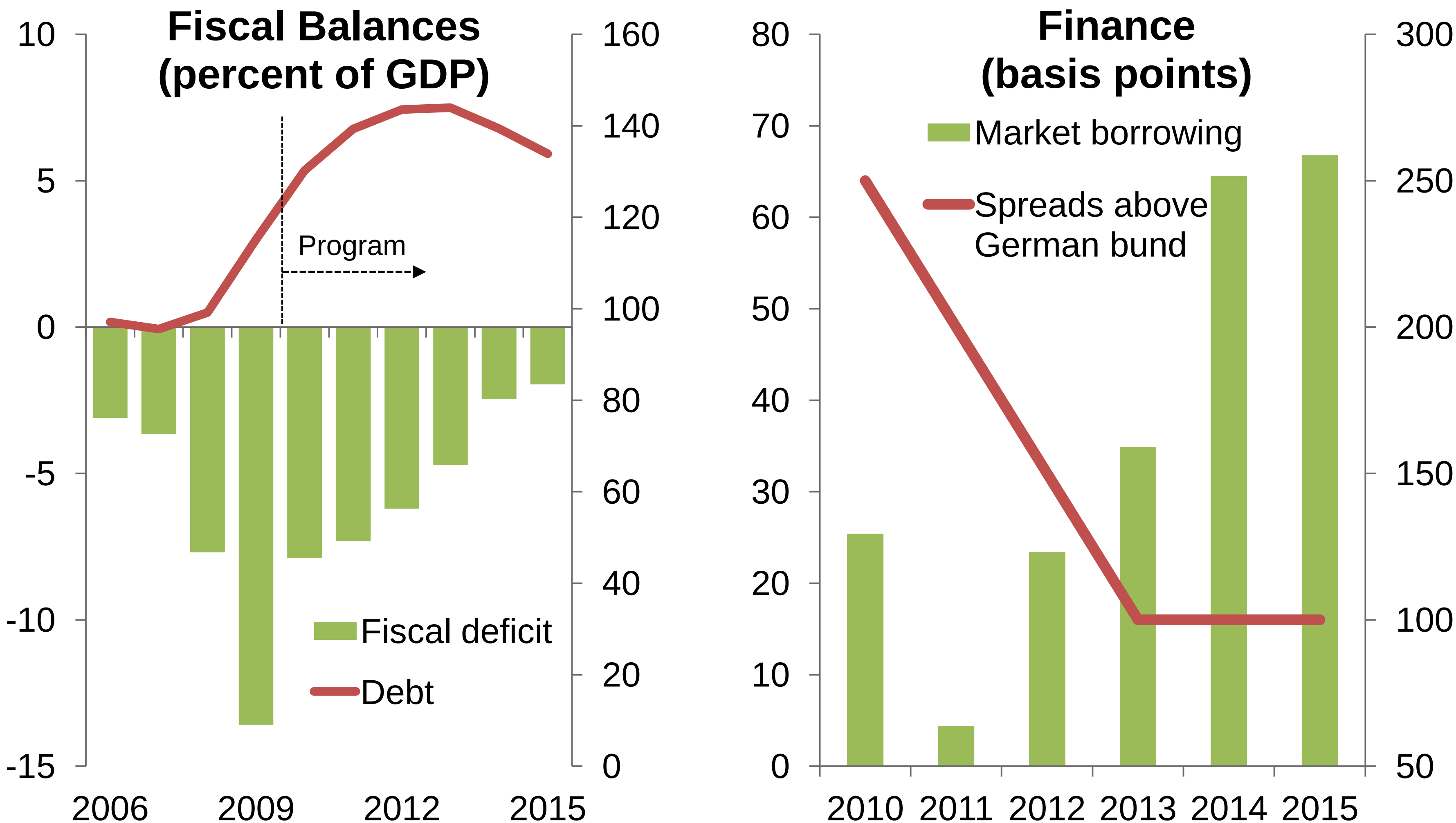
# In Greece, debt and deficits climbed to precipitous levels.

## The massive spending increases behind this drove up wages and prices, badly undermining competitiveness, and setting the stage for the crisis.



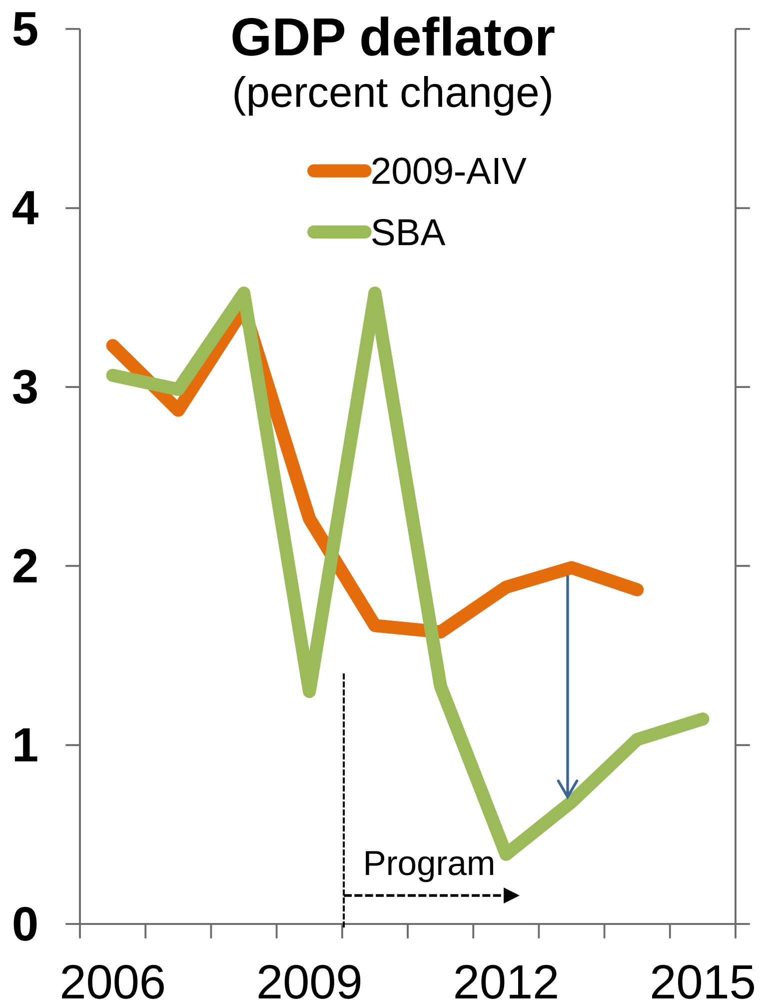
# 1. Design of the SBA

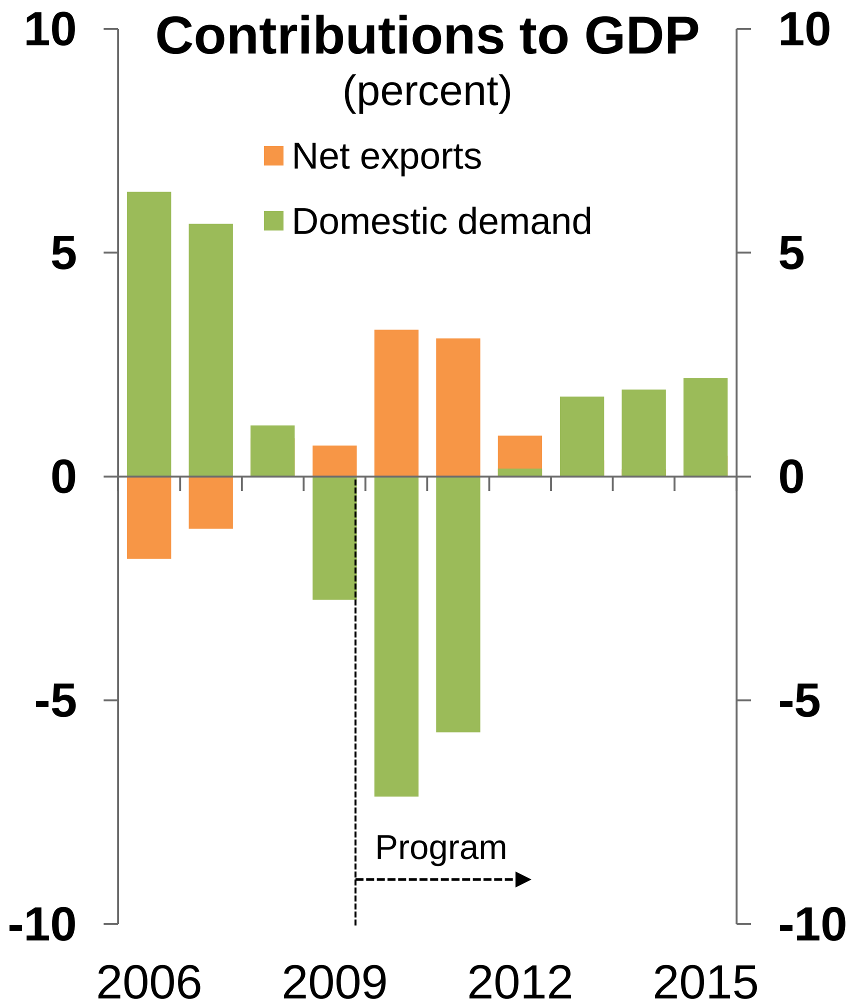
# Fiscal adjustment was expected to boost market confidence and restore financing



# Structural reforms were designed to improve competitiveness and trigger an export-led recovery.

(which would help reduce the impact of fiscal adjustment).

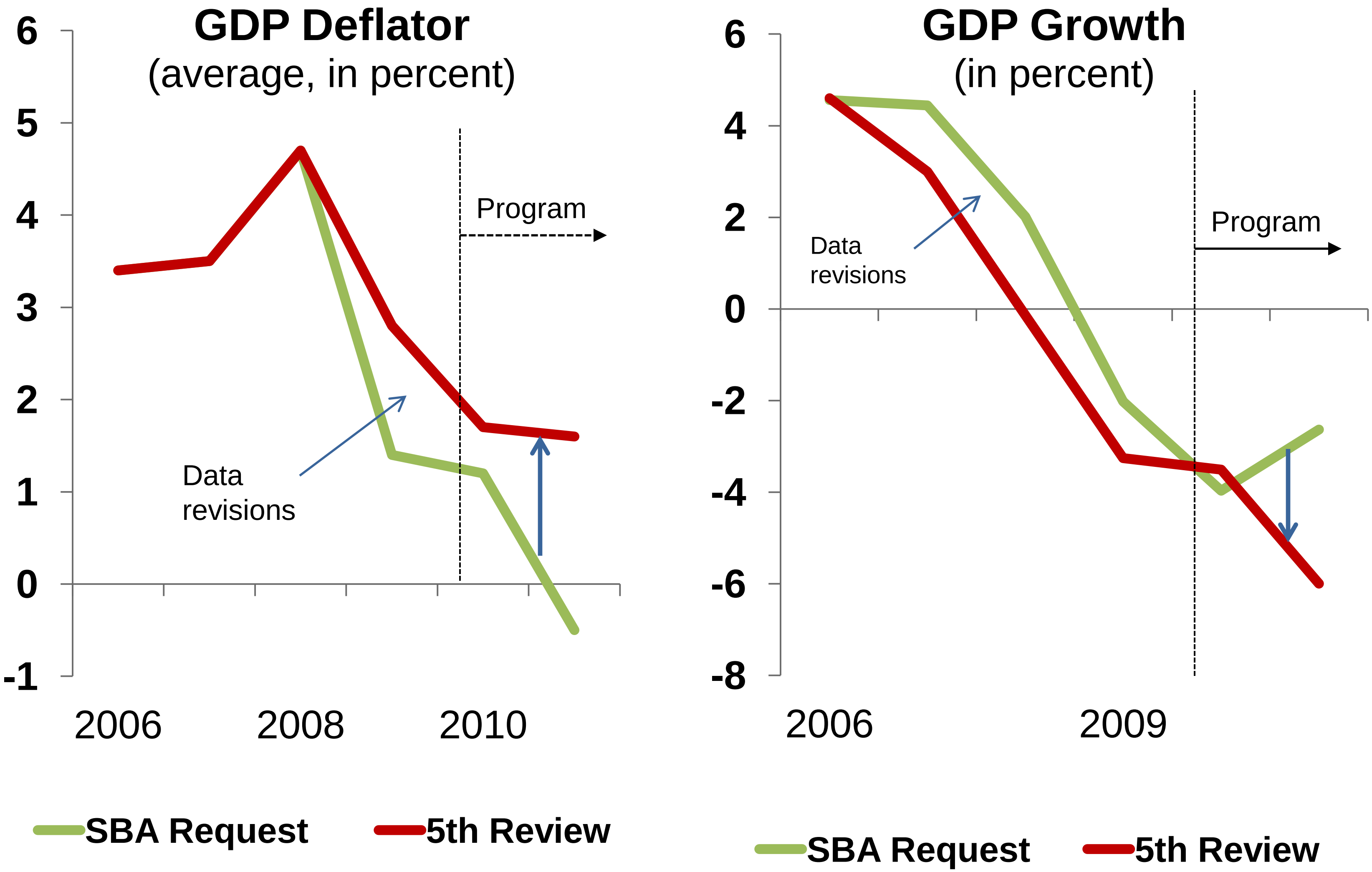


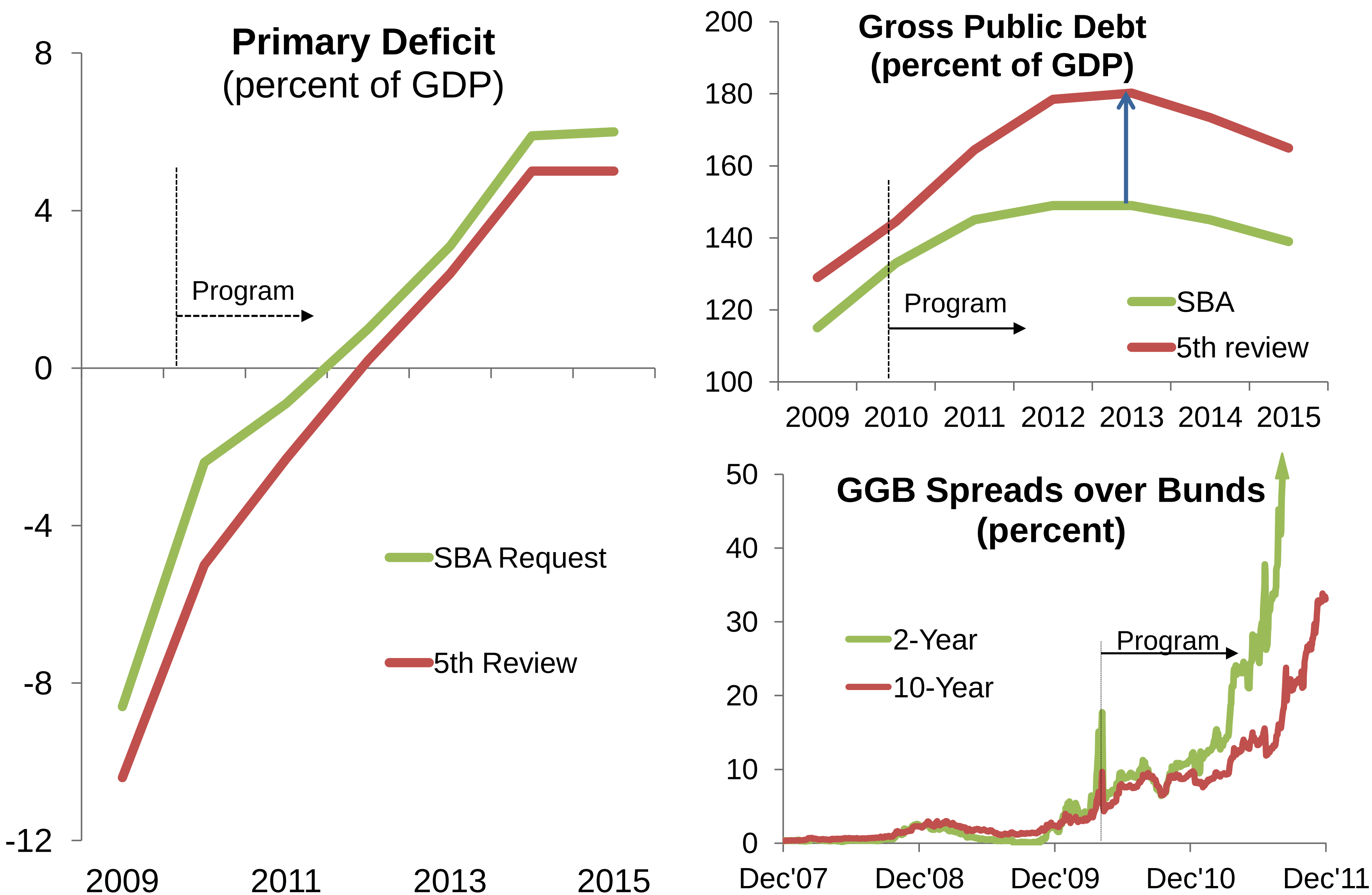
# 2. SBA IMPLEMENTATION

Experience and outcomes

# Competitiveness problems have proven less tractable, and the recession has proven deeper than expected.



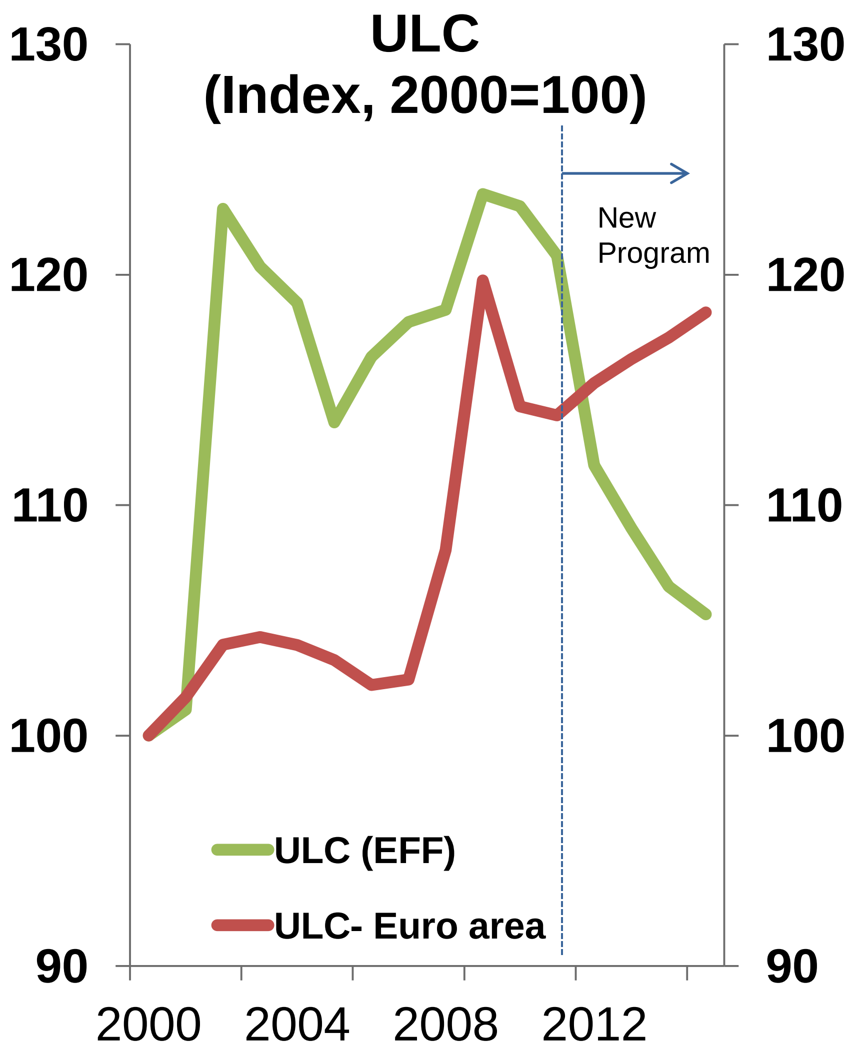
# Significant fiscal adjustment, but soaring debt and spreads…

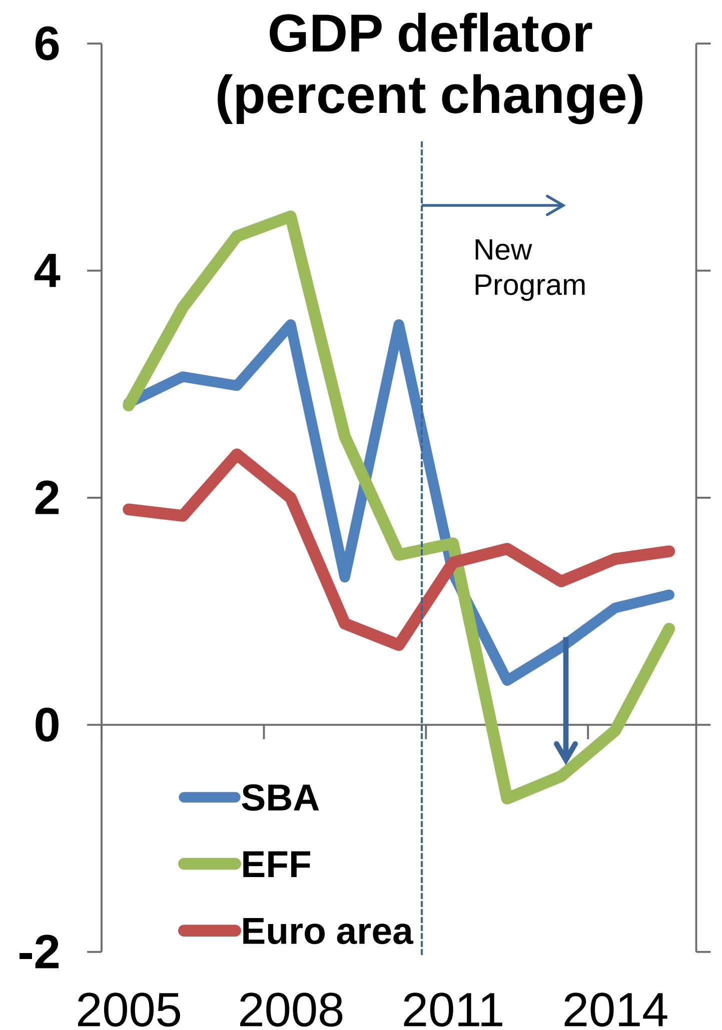


# 3. The new EFF program

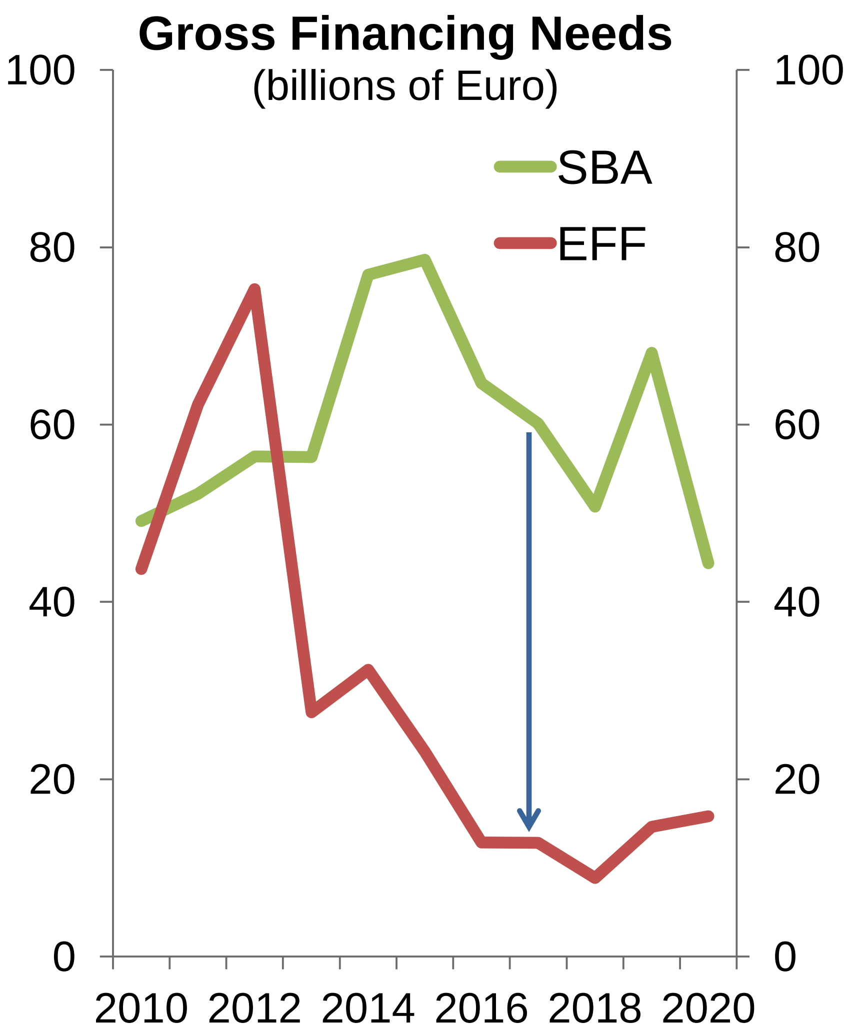
Policy Adaptation

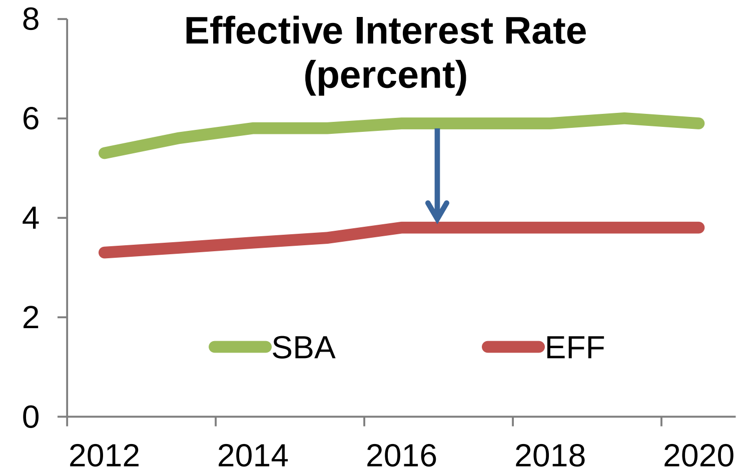
# The new program places emphasis on directly securing faster competitiveness improvements to bring forward the recovery

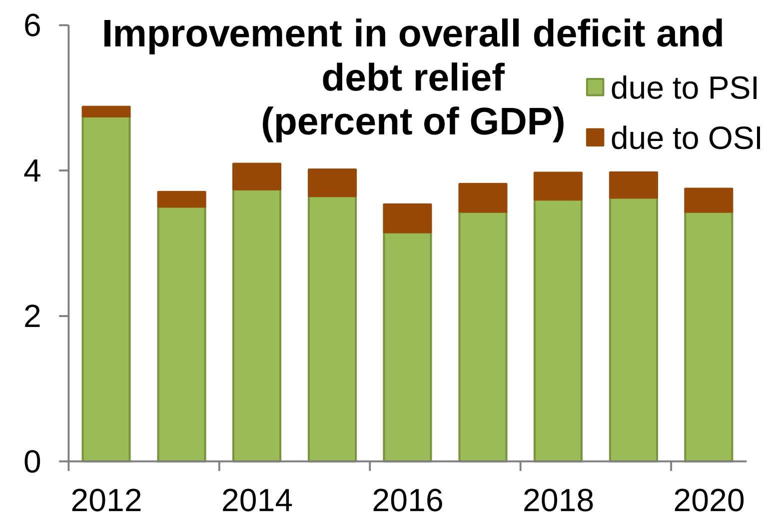


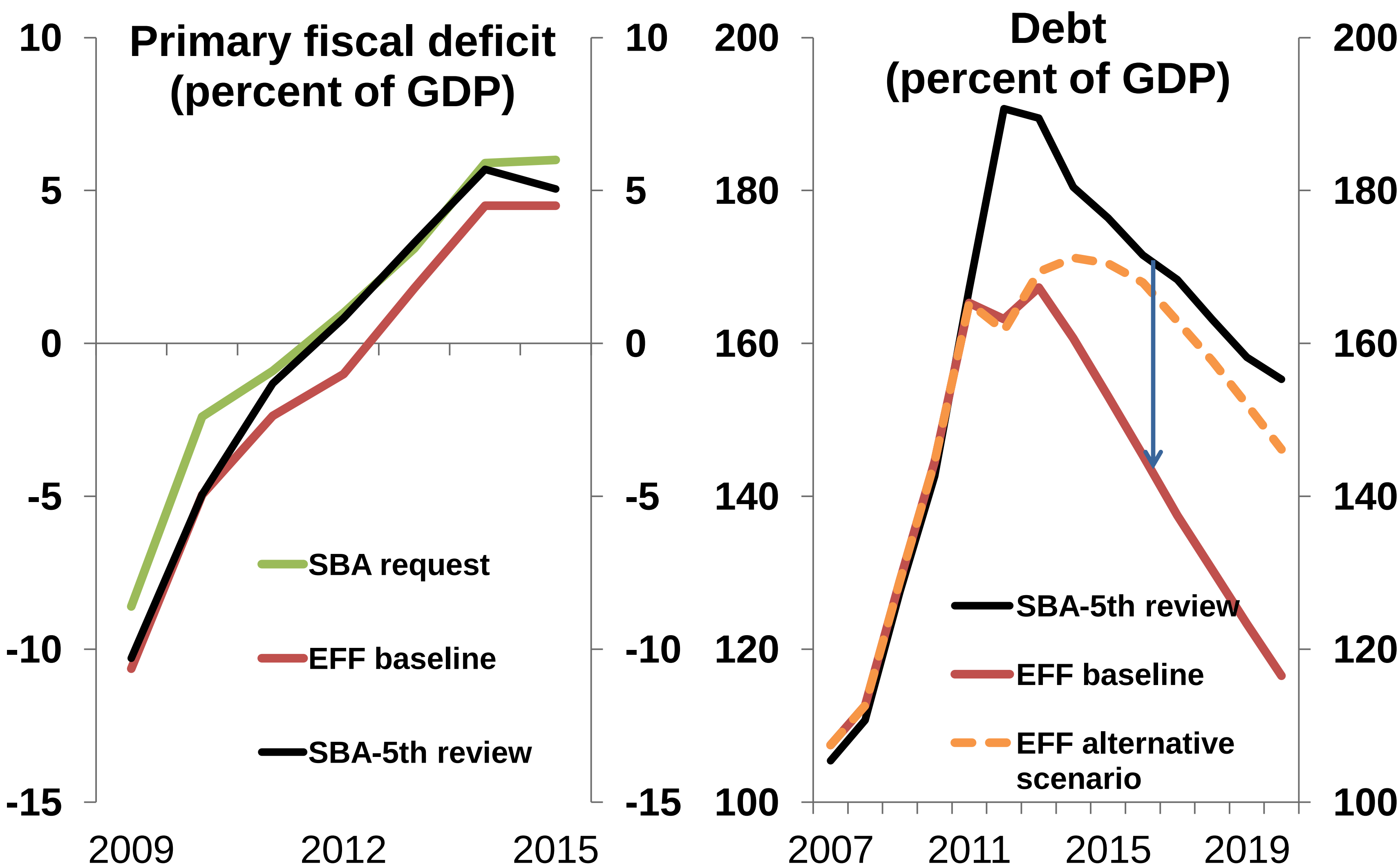
# Additional financing, including via debt relief, provides Greece with time to restore external sustainability



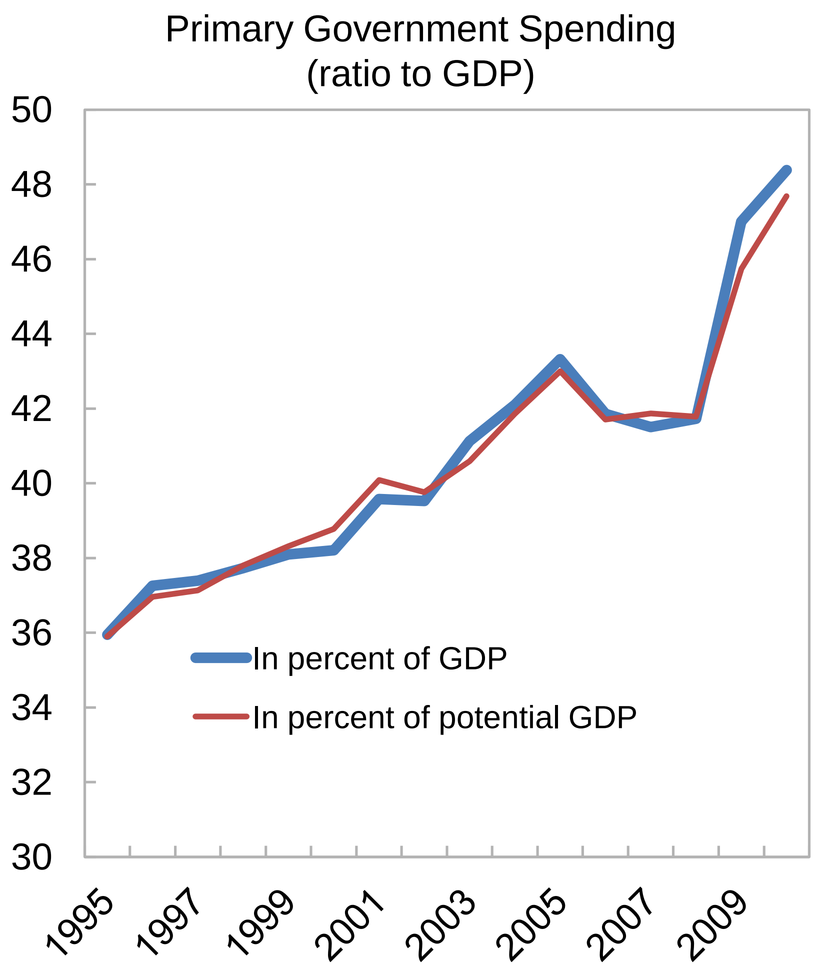



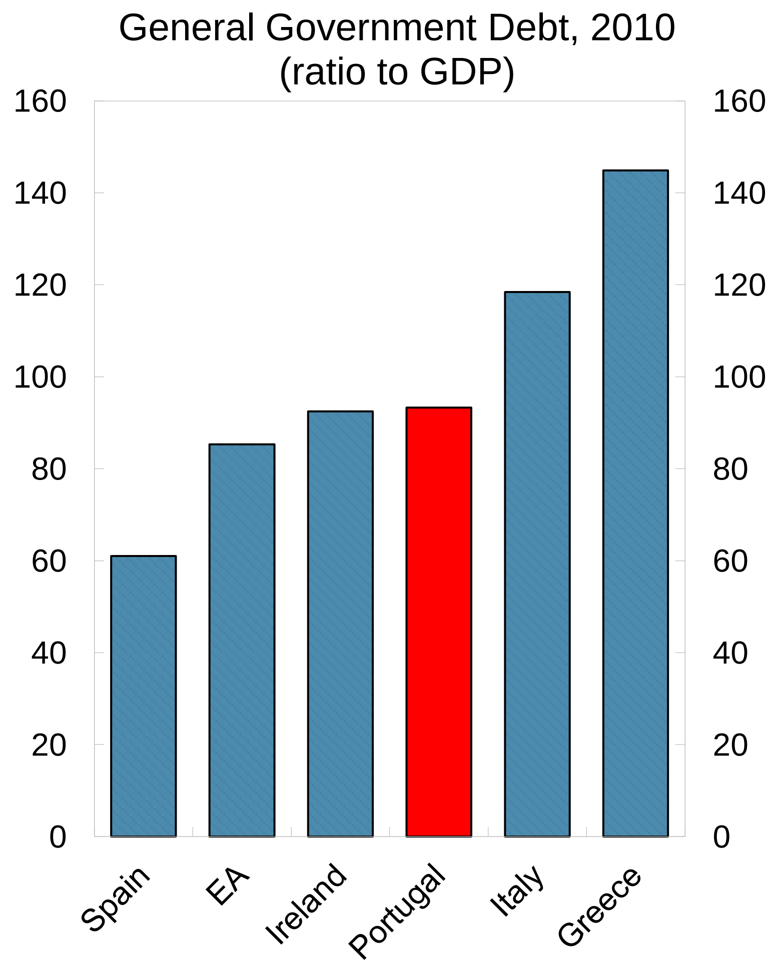
# Fiscal adjustment has been slowed down and debt relief has placed public debt on a better (but still risky) trajectory



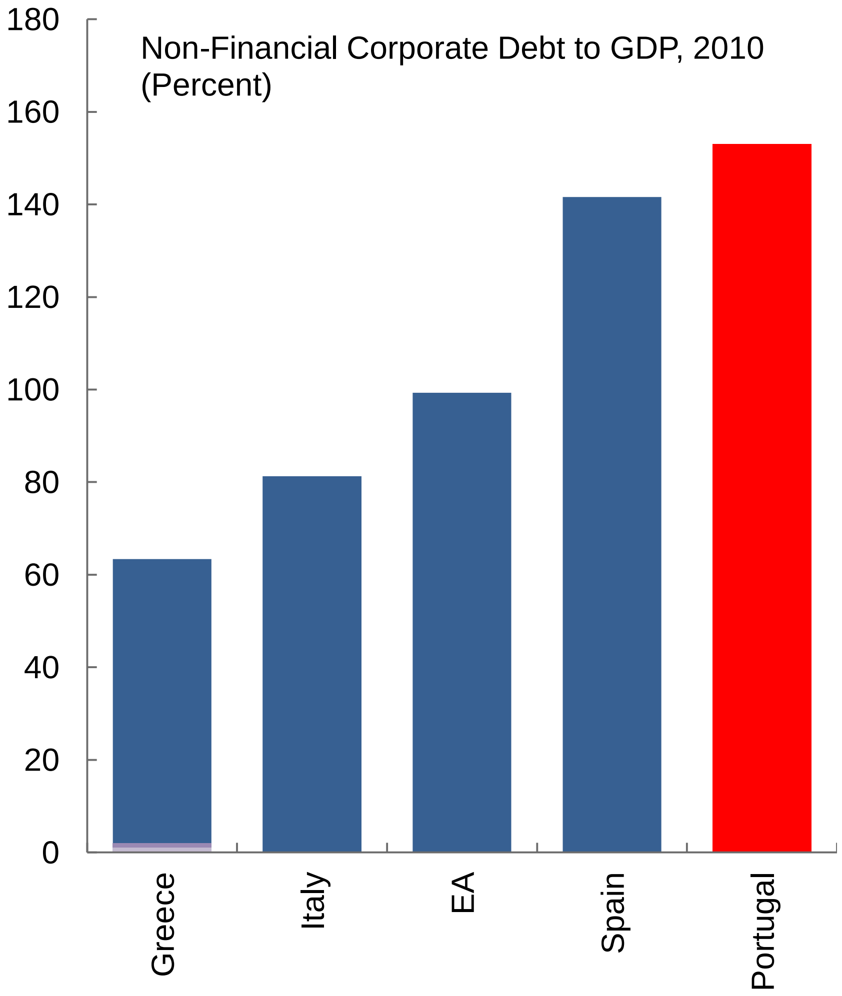
# Portugal

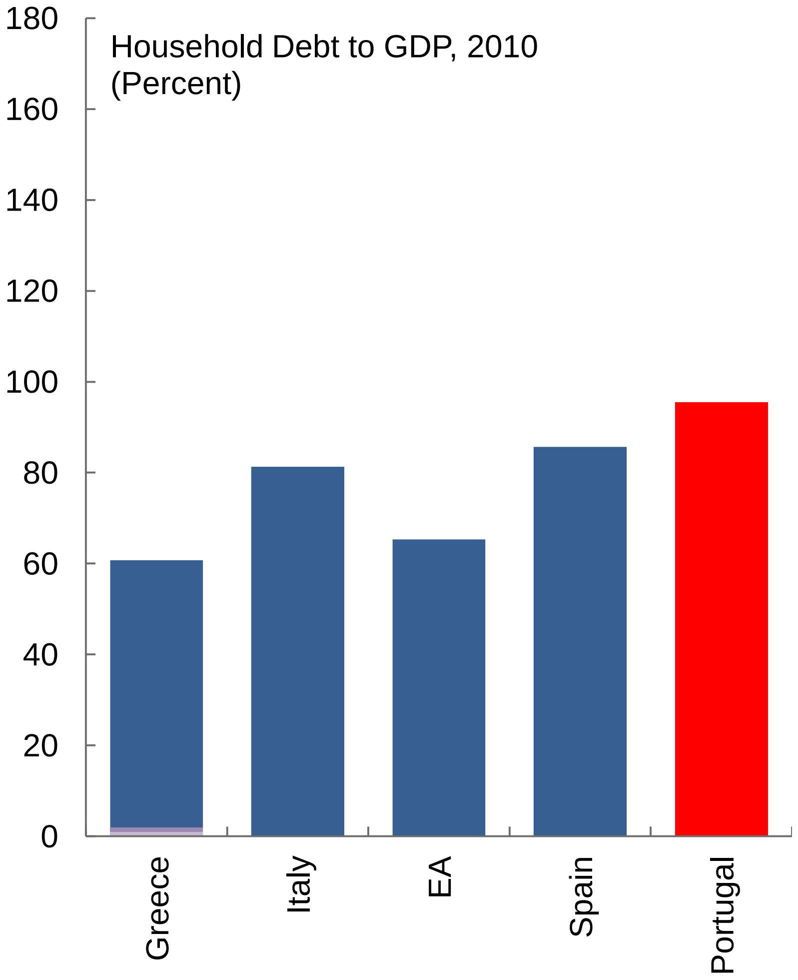
# Problem 1: Unsustainable fiscal policies



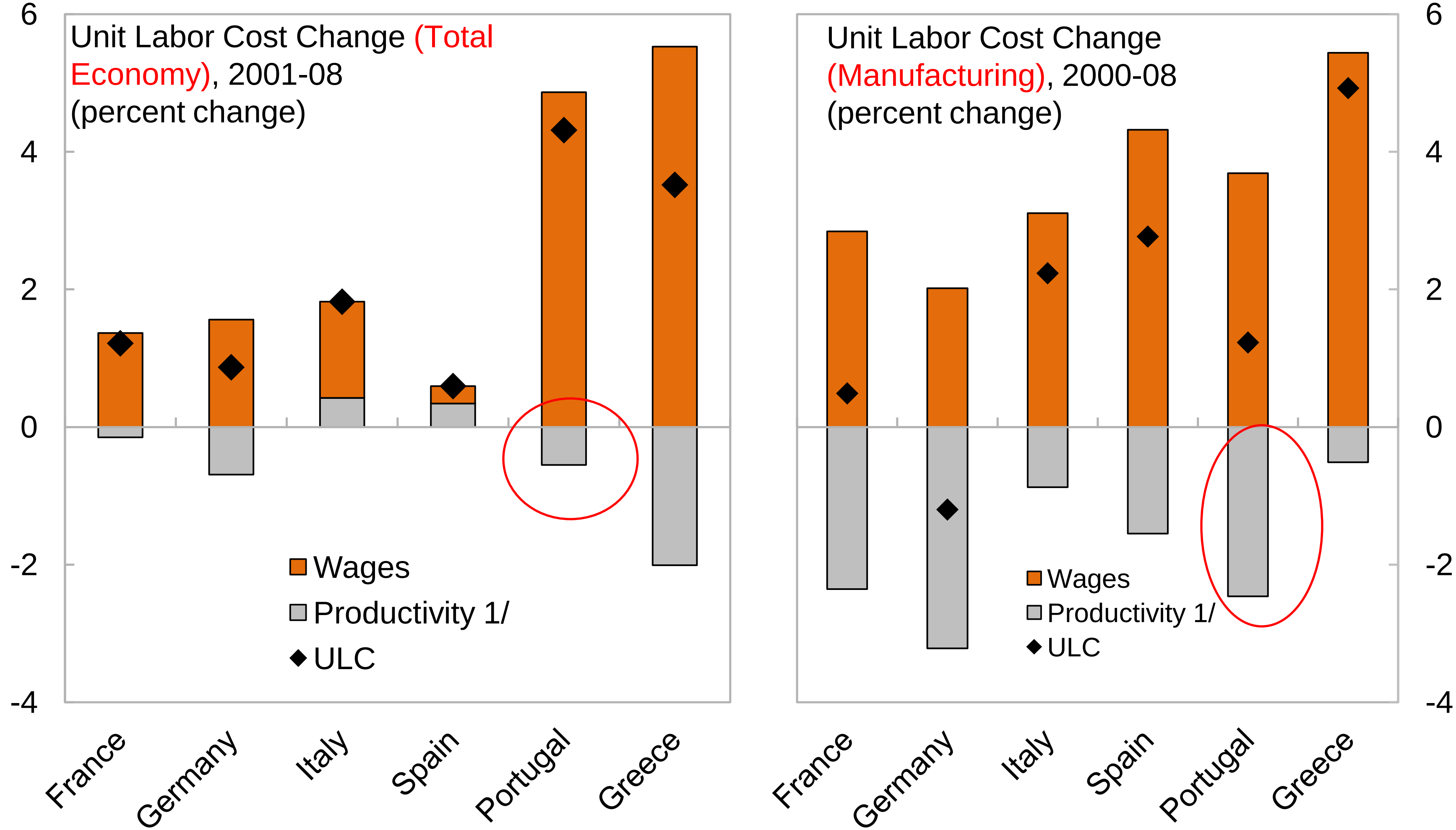



# Problem 2: High corporate, household and financial sector indebtedness



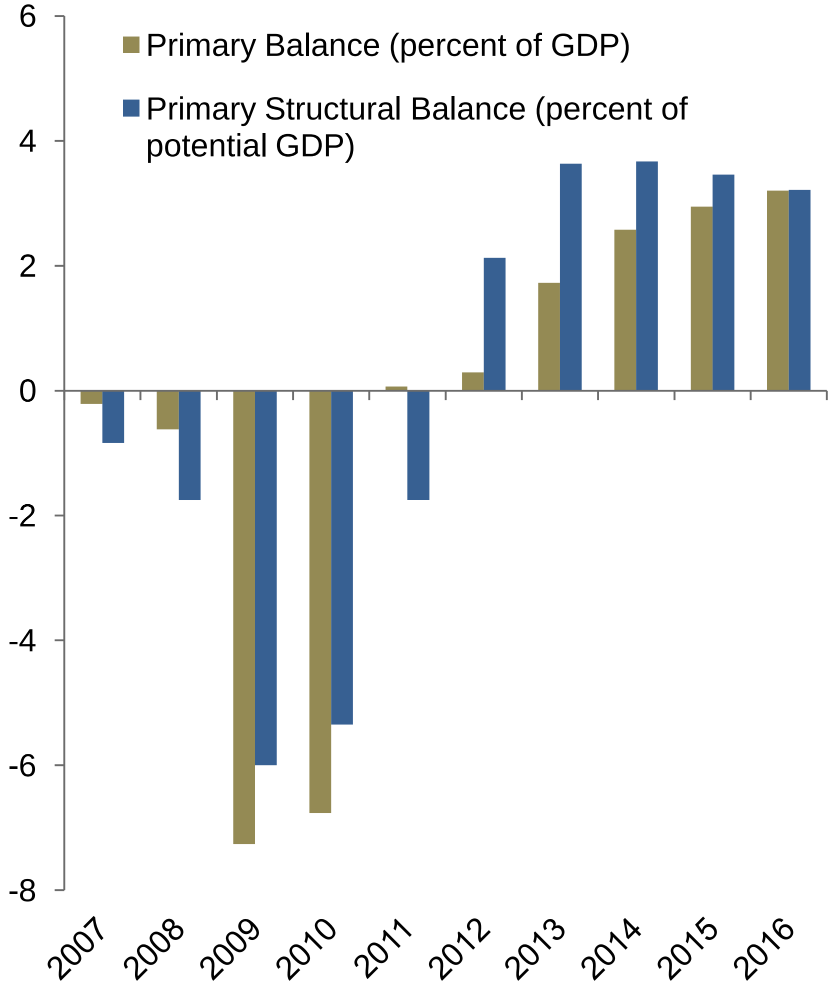



# Problem 3: Loss of competitiveness, resulting in low-growth and a high current account deficit

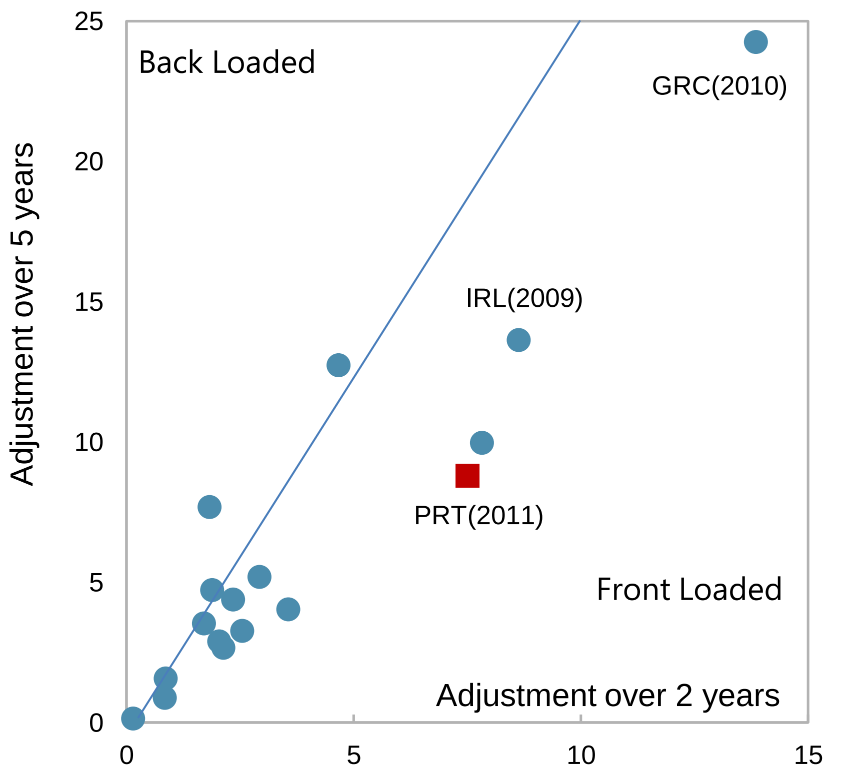



1/ Negative = increase in labor productivity.

# Pillar 1: Fiscal Solvency

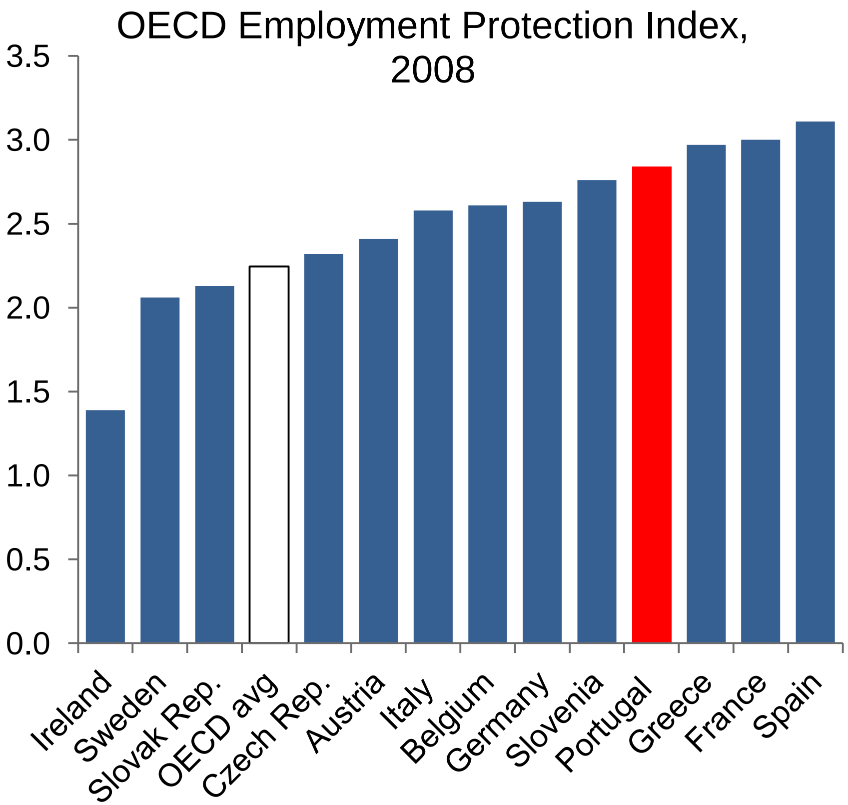


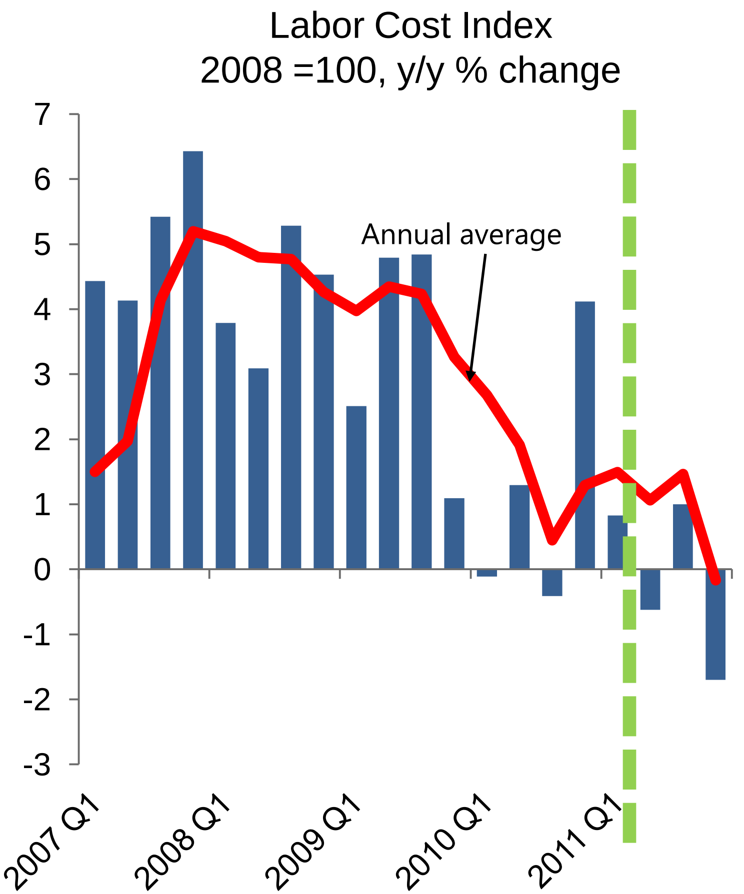

**Magnitude and Timing of Fiscal Adjustment in Euro Area**
(change in structural primary balance as percent of GDP)[1]




[1] Since structural adjustment started -- between 2009 and 2012 depending on the country (2011 for Portugal).

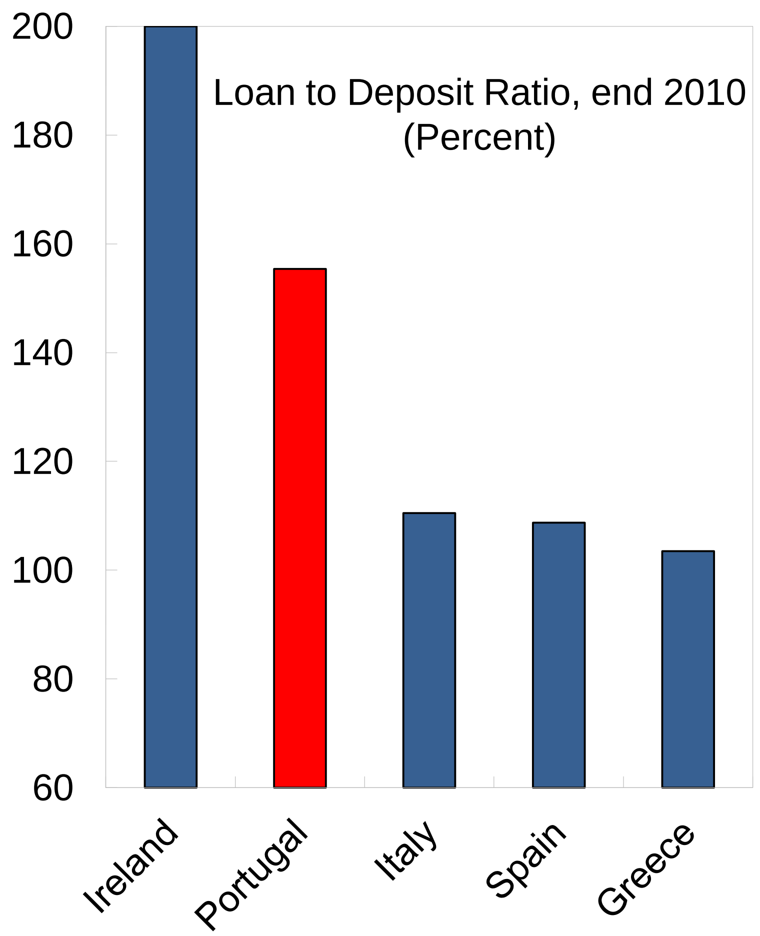
# Pillar 2: Enhancing Growth and Competitiveness

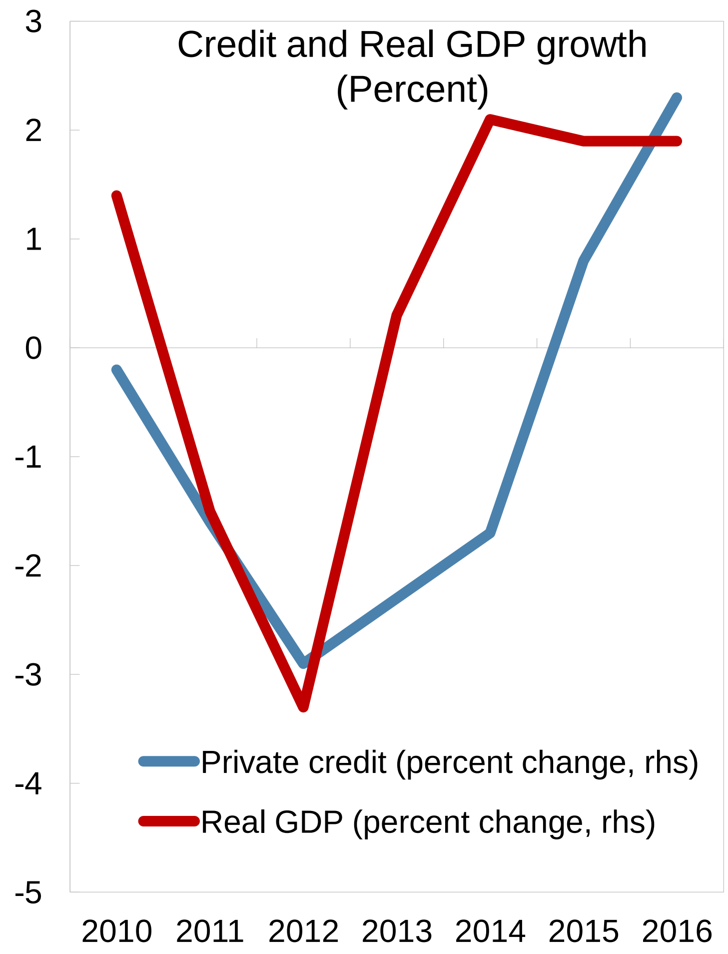


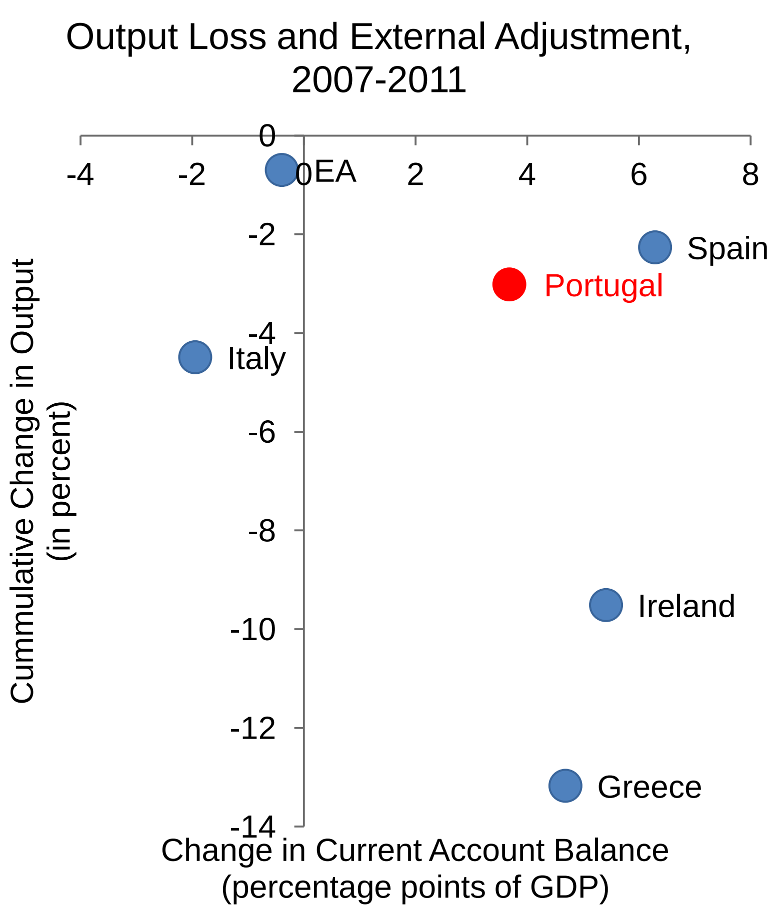

Source: OECD. 2009 data for Portugal and France.

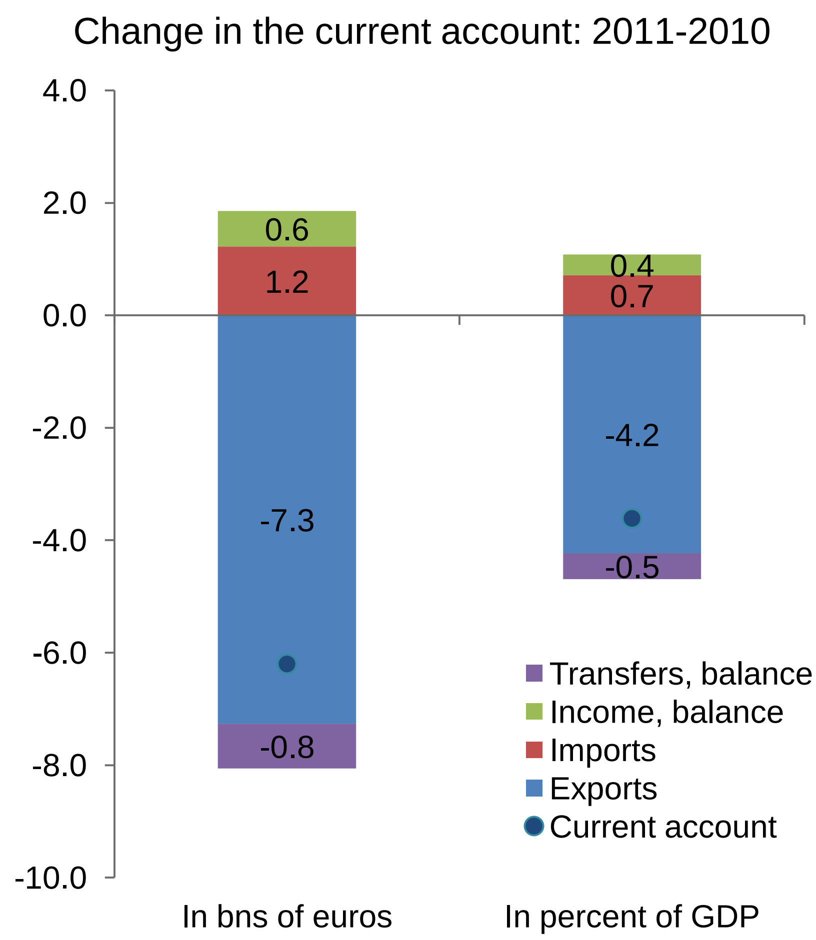
# Pillar 3: Private Sector Deleveraging



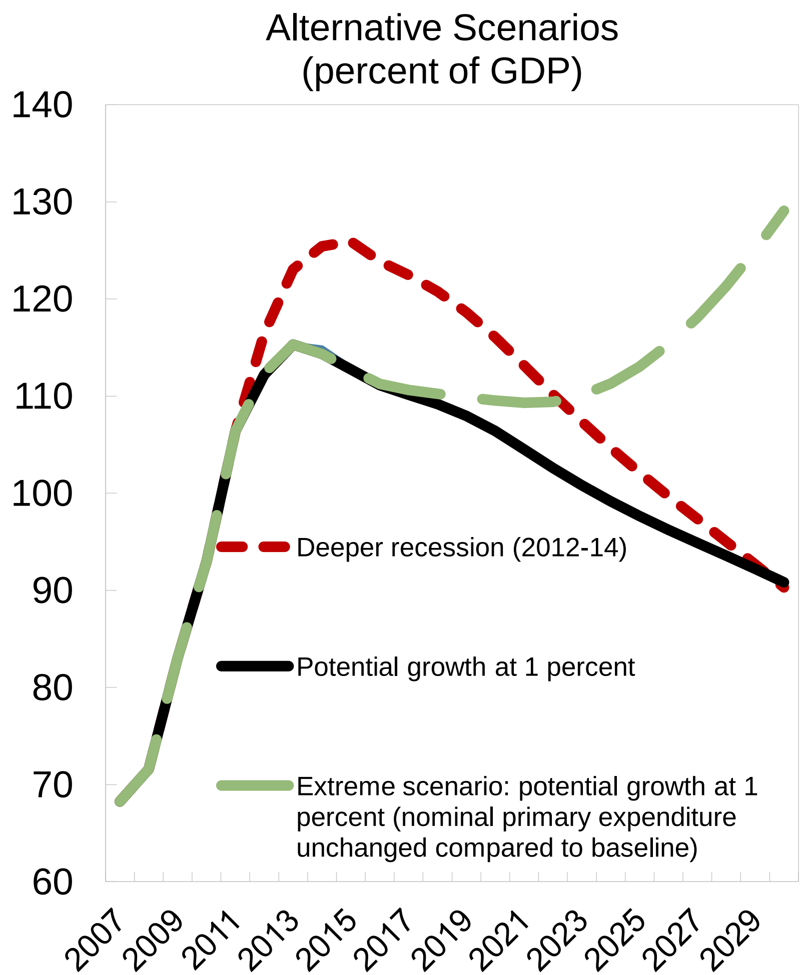



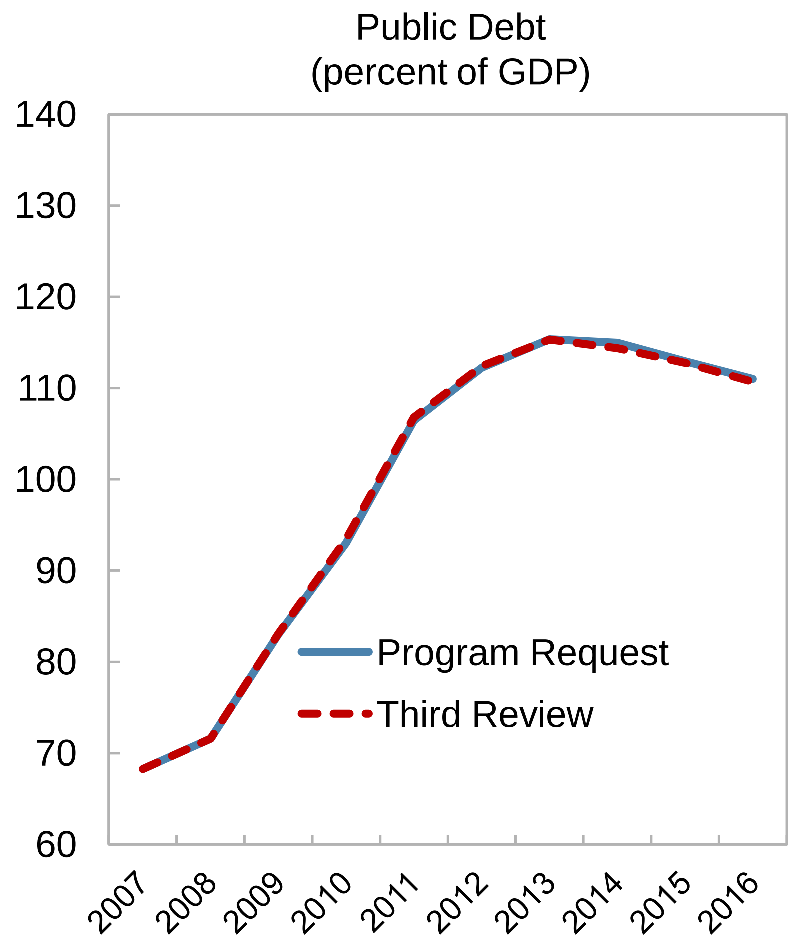
# 11-months into the program, some encouraging signs…



# So far so good, but significant challenges ahead

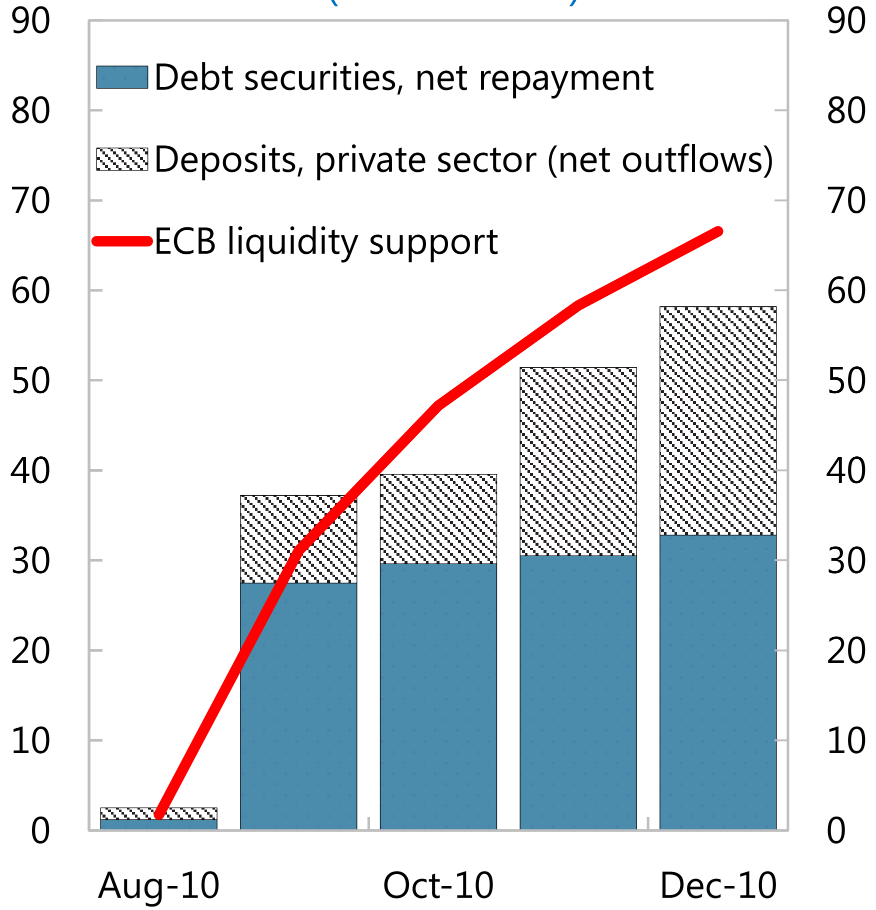


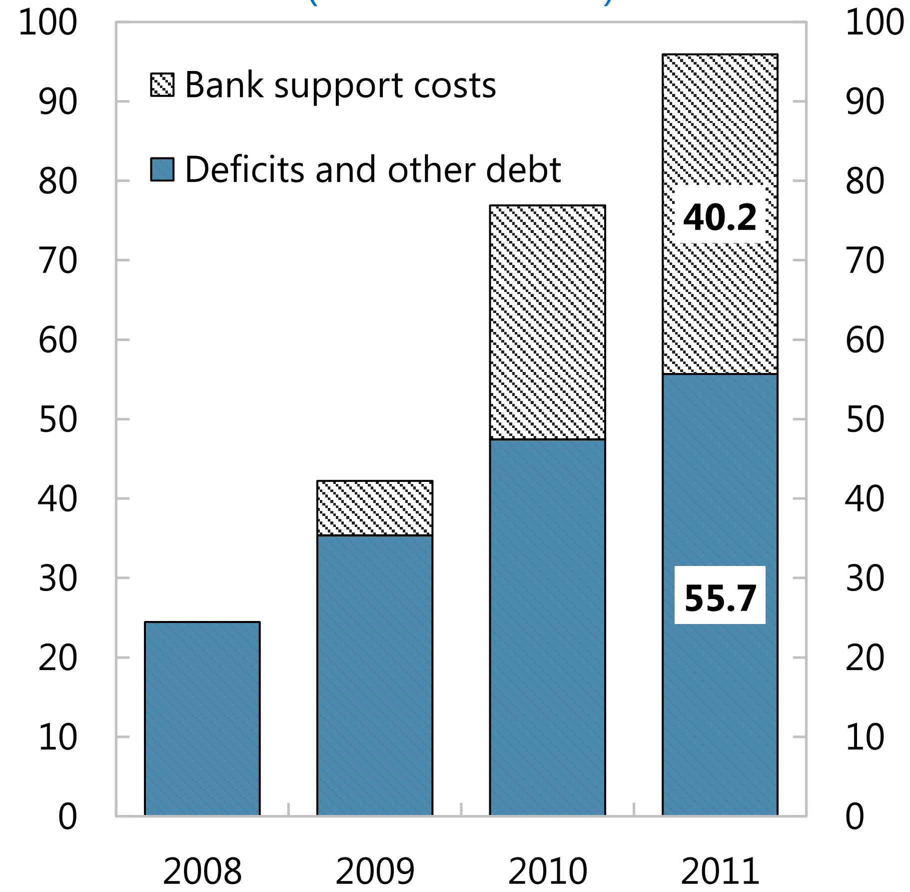
# Ireland

# Pre-Program Policy Response was Substantial but Bank Funding Runs Force Program in late 2010

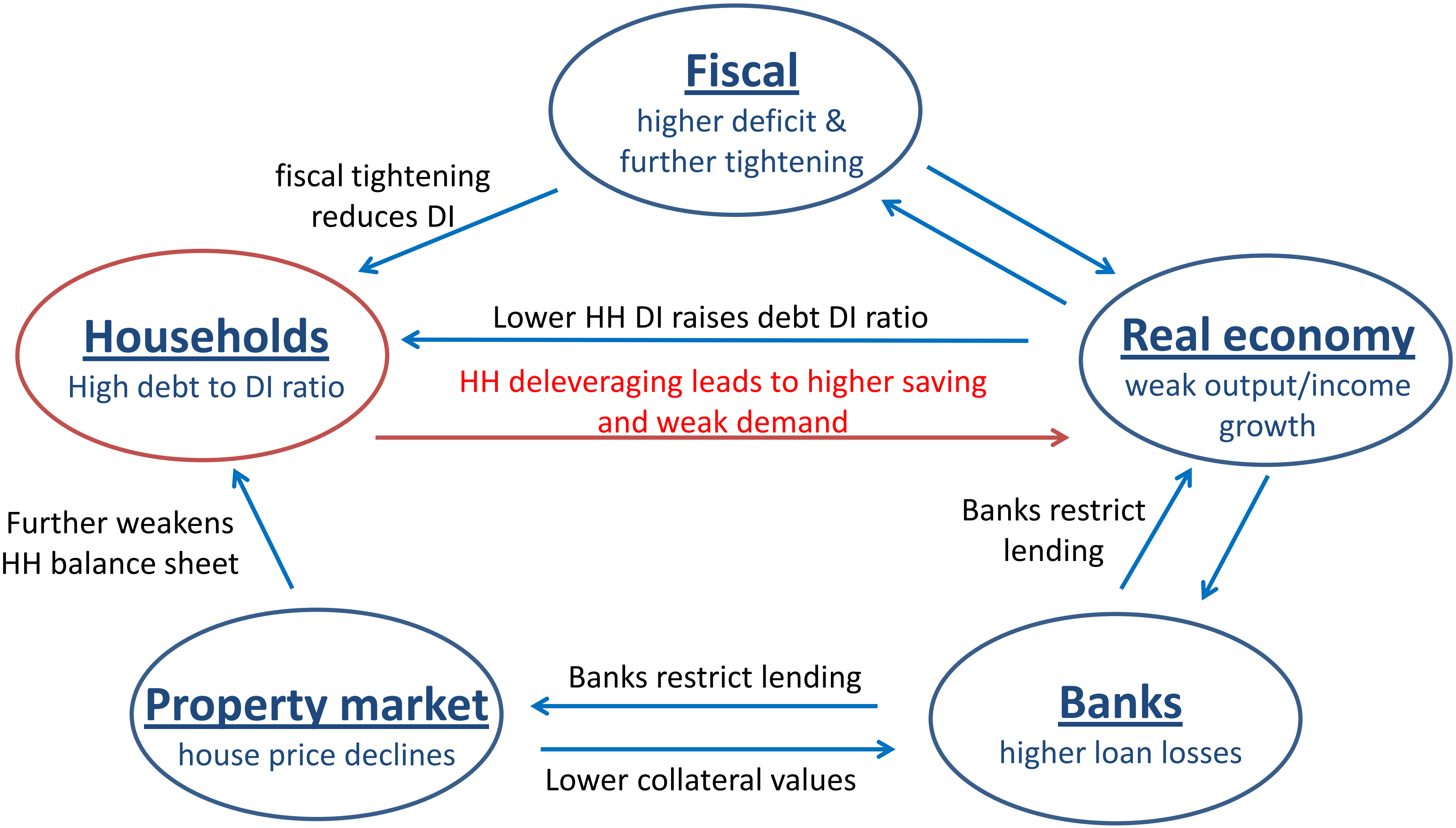
**Bank Funding Outflows**
(Euro billions)




**Government Debt, Net**
(Percent of GDP)

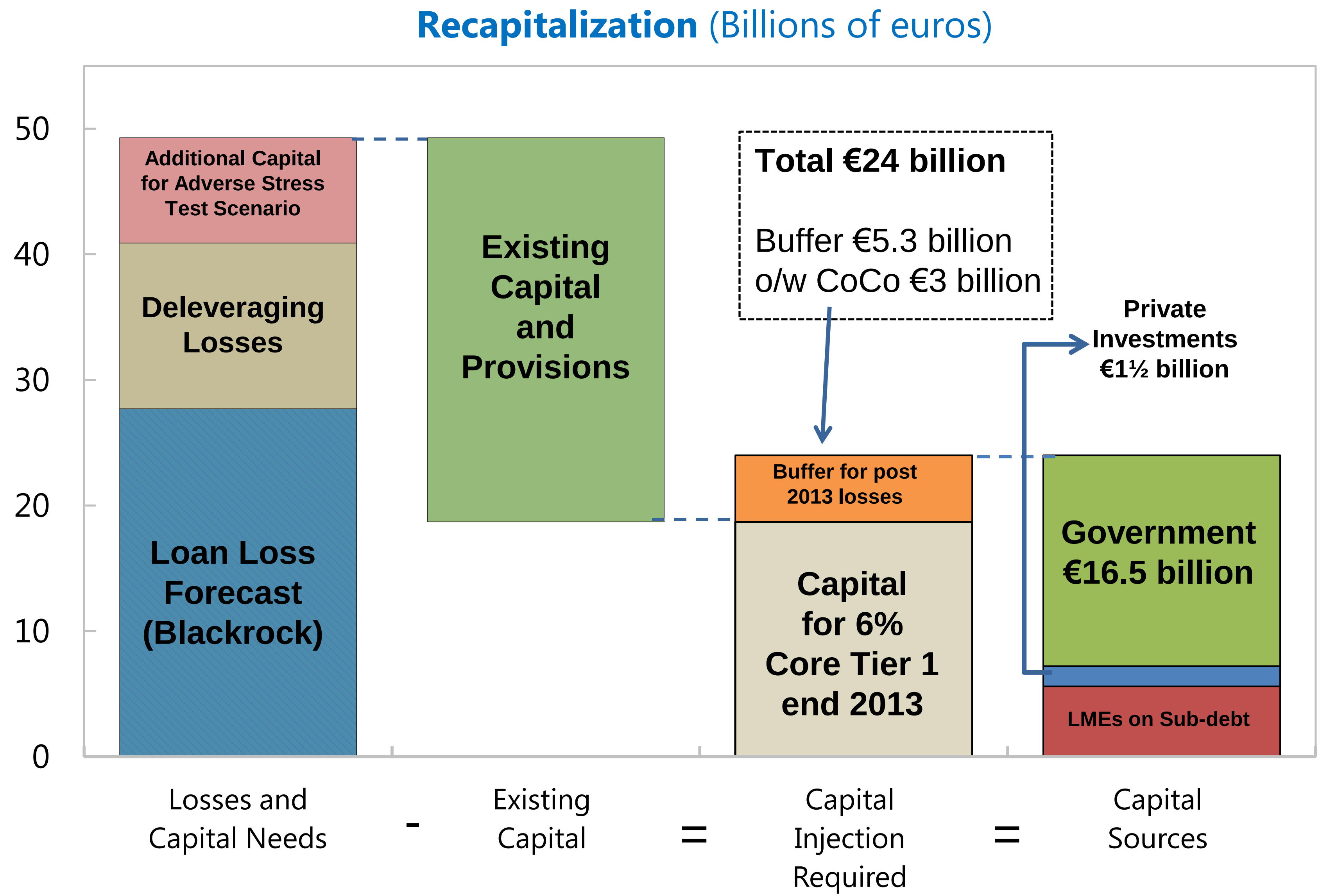


# High Private Debts Increase the Risk of a Pernicious Downward Cycle

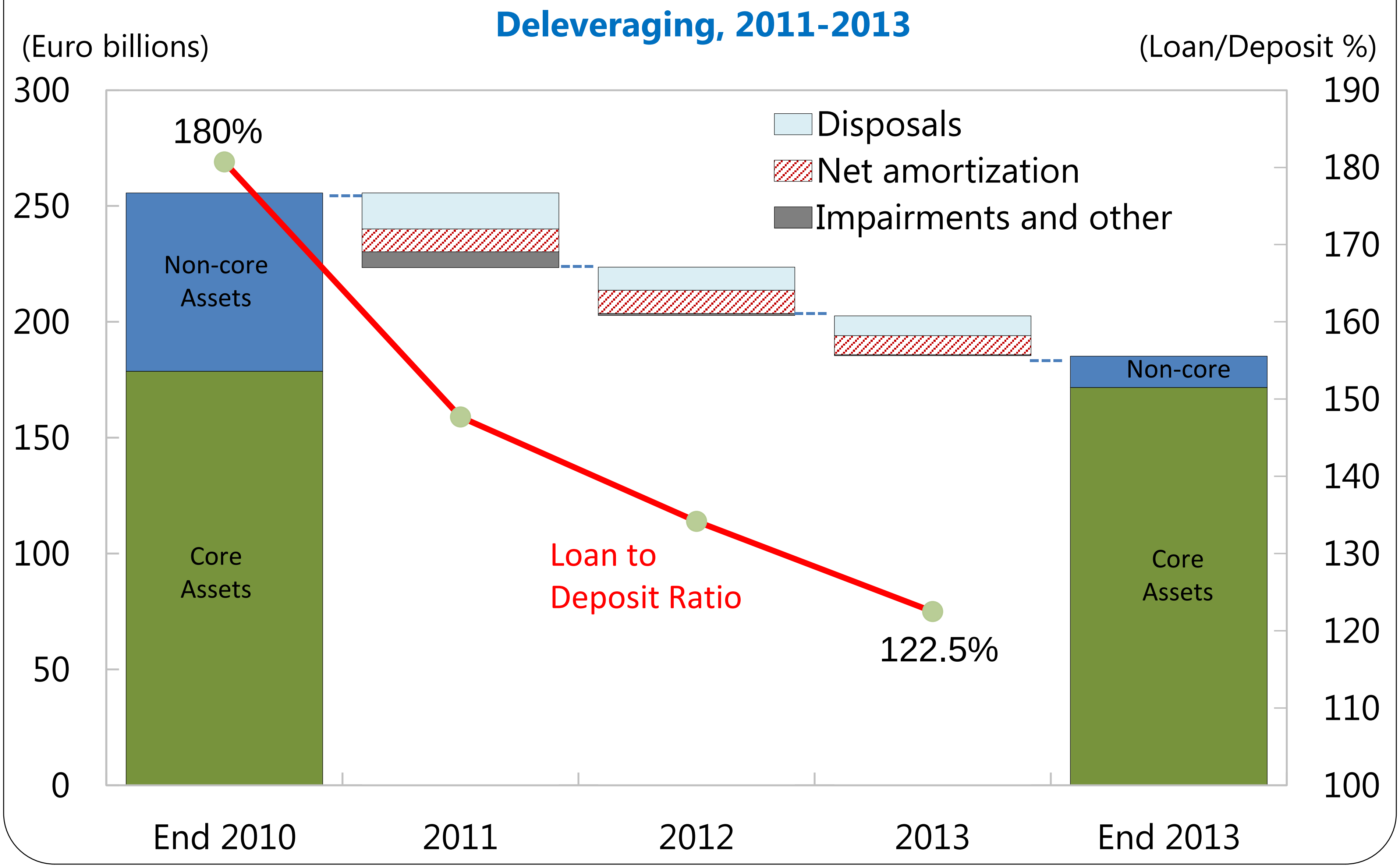



DI= disposable income
HH = households

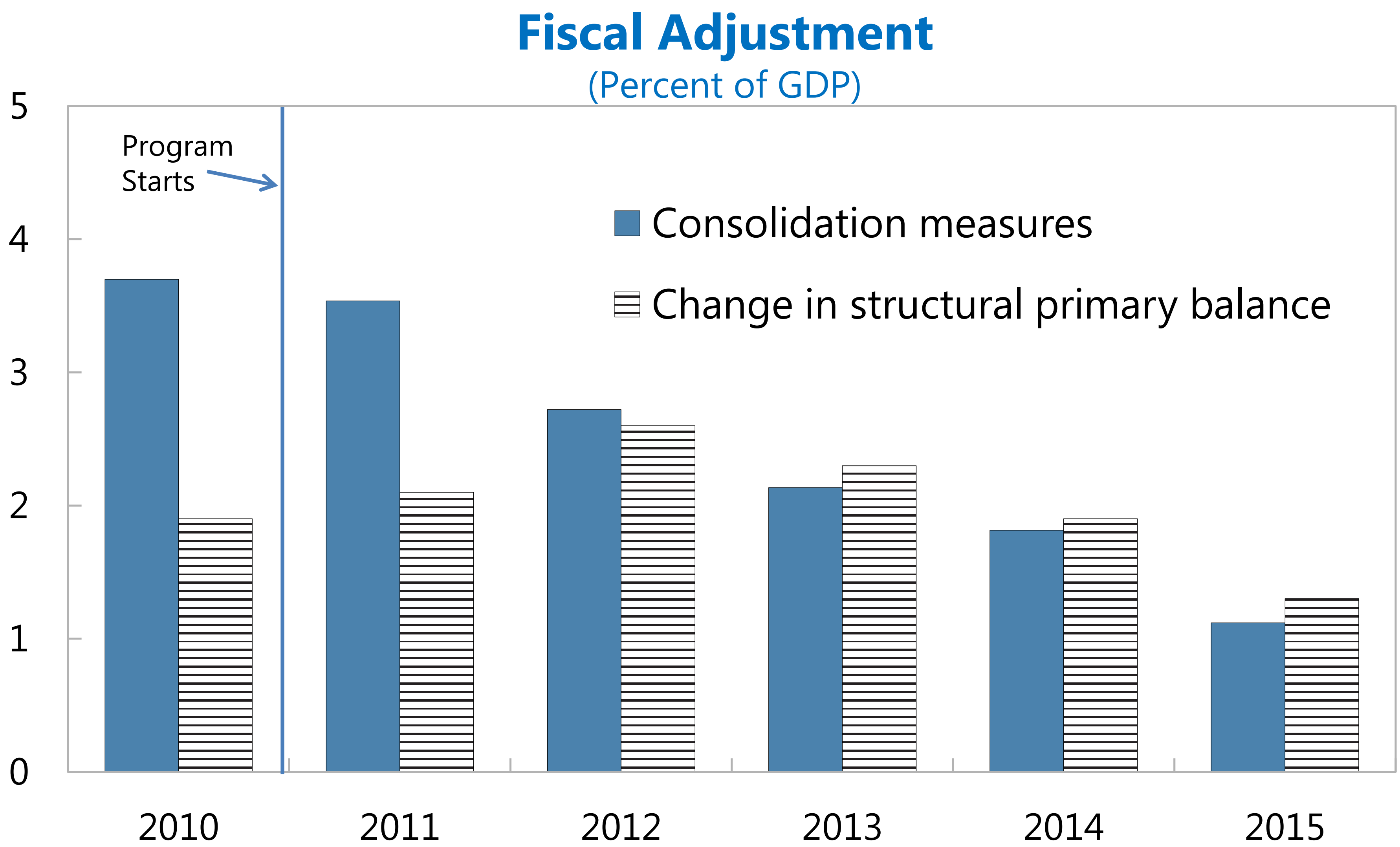
# Bank Recapitalization—Credible, Cost Mitigated



# Deleveraging—Phased, mostly Offshore Assets



# Fiscal Consolidation: Front-loaded but Phased (Target 3% Deficit in 2015)



# Positive Experience So Far, But Risks Remain