EU Agrees to Keep Aid Flowing to Greece

By MATINA STEVIS, MATTHEW DALTON and FRANCES ROBINSON

BRUSSELS—Greece's international creditors reported Monday that all isn't well with the country's mammoth bailout program, but euro-zone finance ministers decided the problems weren't enough for them to stop the flow of financial aid to Athens.

The ministers agreed to unlock €4 billion ($5 billion) in financing due to the Greek government—provided Athens moves to trim government payrolls and adopt other measures demanded by its creditors by July 19.

The International Monetary Fund is due to release another €1.8 billion for Greece once the fund's board meets July 29. The money will be used to keep the government operating, make interest payments and repay €2.17 billion of bonds on Aug. 20 that are now held by the European Central Bank.

In October, the government will receive another €1 billion if ministers determine that Greece continues to follow its bailout program.

Dissatisfaction with Greece's implementation of its bailout program has in the past resulted in long delays of loan payments to Athens, as its creditors sought to pressure the government to pass politically tough overhauls.

But those delays had a powerful negative effect on the Greek economy, choking off liquidity to banks and businesses.

This time, euro-zone ministers appeared to be in a more-forgiving mood. The Greek program is broadly on track—a sharp departure from previous versions of the country's bailout—and some of Greece's toughest critics appeared wary of creating fresh turmoil by turning off the aid spigot again.

"We have expressed great respect for what Greece has done," German Finance Minister Wolfgang Schäuble said after the meeting. "It wasn't easy, but this is the right way."

He said that although Greece was "on exactly the right path with a lot of things," there have also been "a lot" of delays, including in improving the tax system and reducing the public-sector payroll.

Earlier Monday, representatives of the ECB, IMF and the European Commission, who oversee the Greek government's compliance with the bailout terms, reported that progress had been made but that changes had stalled in several areas, including plans to rein in overspending in the country's bloated public health-care sector.

The so-called troika also said the economic outlook remains "uncertain." Greece's economy, in free fall for the past five years, has "prospects" of returning to growth in 2014 albeit at a meager rate of 0.6%, it said.

The deal reached between Greece and the troika and endorsed by the ministers includes a plan to cut the number of public-sector workers and move thousands of them to more useful public services.

The Greek Finance Minister Yannis Stournaras said after the meeting that his government got some room for maneuver in adopting the latest measures.

The Greek Parliament has until July 19 to pass a bill implementing a number of them, including improvements to the tax administration and health-care spending cuts, he said.

But another measure to put 12,500 public-sector workers in a "mobility reserve"—which would see them get a...
reduced salary for a year and possibly lose their jobs if they're not transferred to other services by the end of that period—must be implemented by September, Mr. Stournaras said.

He said the €6.8 billion—the total amount due to Greece from the euro zone and the IMF through October—would be enough to keep Greece financed through that period.

Euro-zone governments and the IMF, having poured more than €200 billion into the small economy, are expected to clash in the autumn over how to cut Greece's still-large debt burden.

The euro zone agreed to bring that burden well below 110% of annual economic output by 2022, a measure that analysts believe will force governments, the IMF, or both to accept losses on the loans they made to Greece.

Disappointing attempts to sell state-owned assets have already opened up a small financing gap in the bailout program.

Jeroen Dijsselbloem, president of the group of euro-zone finance ministers, said Greece faces no financing gap in "the foreseeable future" but hinted at the debate that will emerge in the months ahead.

"If there is a financing gap it will be at the end of 2014, which will allow us plenty of time to deal with it," Mr. Dijsselbloem said.

—Tom Fairless contributed to this article.

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