



The Second Economic Adjustment Programme for Greece – Fourth Review



4th review of the 2nd programme is being concluded, compliance report published today

The Compliance Report is drafted by the European Commission, in liaison with the ECB, to help the Eurogroup decide on the disbursement of each instalment of the loan.

- Report: assessment of progress made by Greece
- Compliance table: detailed assessment of compliance with conditionality.
- EC/ECB/IMF shared forecasts and projections.
- Updated Memorandum of Understanding (MoU) – living document drafted jointly by EC/ECB/IMF and Greek authorities.

Full package and additional information available here:

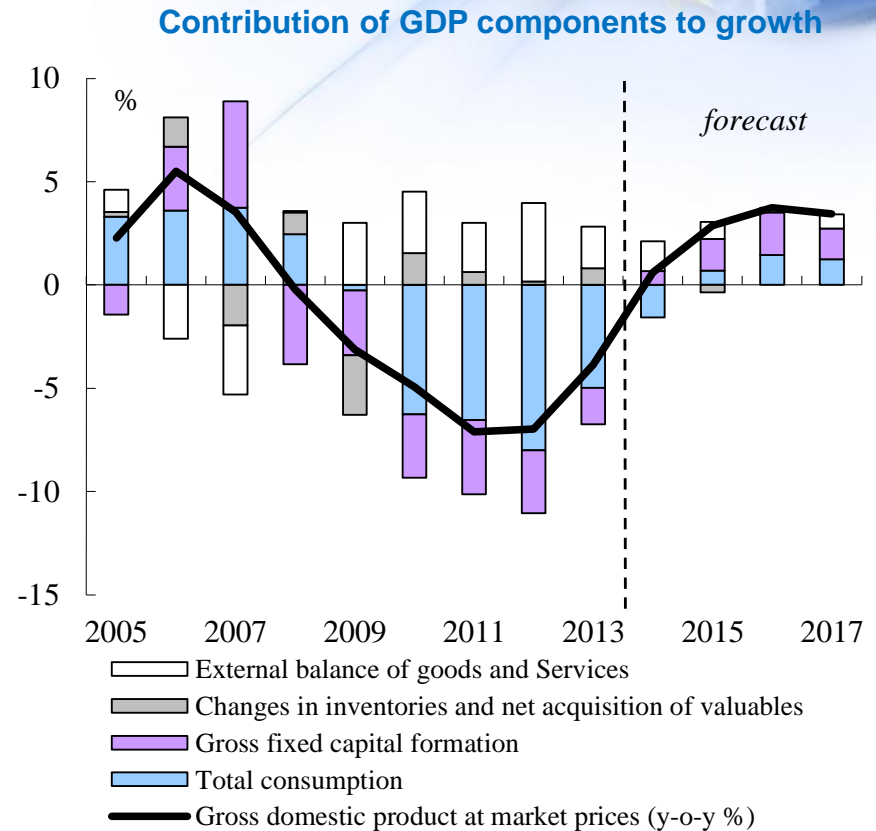
http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

Greek programme has stabilised the economy and is laying the foundations for sustainable growth and jobs

- ***Economic stability and fiscal sustainability are being restored.***
- ***Financial sector stabilised and consolidated, undergoing second recapitalisation.***
- ***Strong focus on growth-enhancing structural reforms to improve competitiveness and create jobs.***

After six years of recession, Greece should return to growth in 2014

- **Economic confidence indicators continue to improve** and the latest industrial production releases strongly point to first signs of recovery.
- **GDP growth** projected at 0.6% in 2014, recovery expected to accelerate in 2015 and 2016.
- **Unemployment to decrease** from 2014. Job creation has restarted.

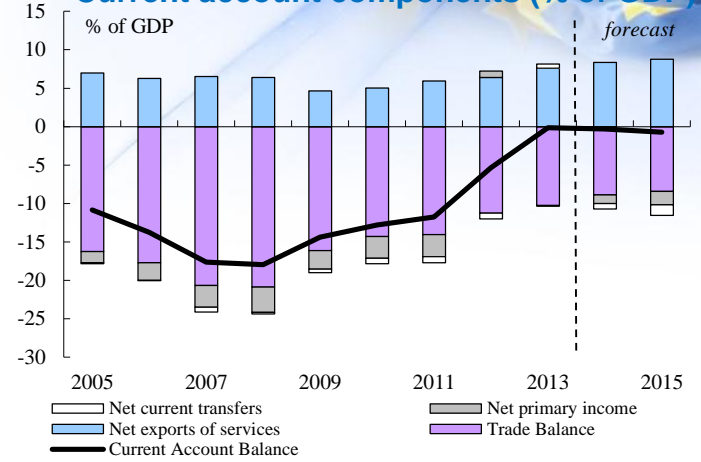


Source: European Commission

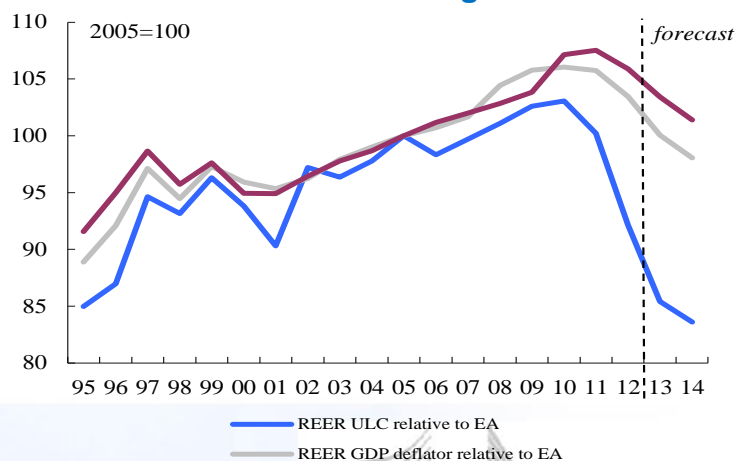
The Greek economy has rebalanced: substantial competitiveness gains

- **Greece quickly regaining external competitiveness** thanks to labour reforms.
- **Real Effective Exchange Rates (REER)** dropping significantly relative to Euro Area.
- **Inflation** remains *well below Euro Area average*.
- The **current-account deficit almost closed** after the huge imbalance in 2008, and it actually closed according to the Balance of Payment definition (instead of the national accounts).

Current account components (% of GDP)



Real Effective Exchange Rates

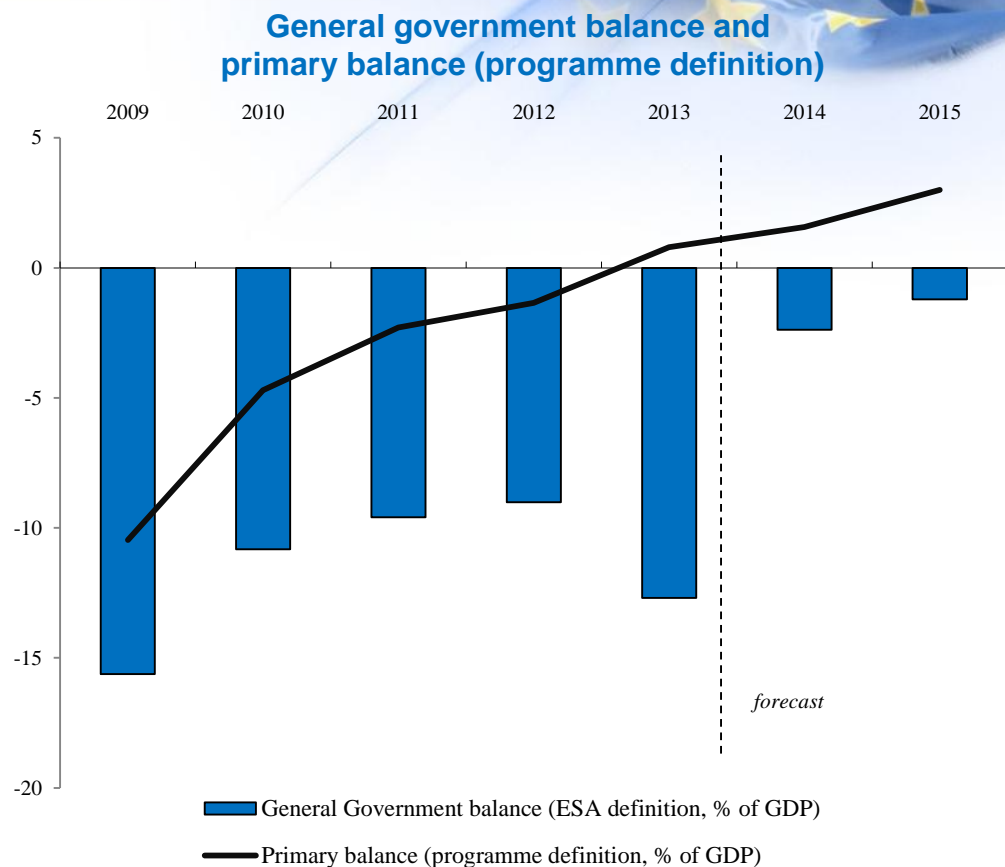


Source: European Commission



Impressive fiscal adjustment, but the job must be completed

- **Huge progress in restoring fiscal sustainability:** Greece exceeded 2013 target with a **1.5 bn. primary surplus (0.8% of GDP)**.
- **Greece on track to meet 2014 target** allowing additional financing for **debt servicing** and some **one-off social spending**.
- Authorities committed to meet **2015 and 2016 targets**.



Source: European Commission

2013 programme primary surplus after Eurostat EDP release

Bridge Table from ESA General Government Balance to Programme Primary Balance Definition

	2013 (bn EUR)	2013 (% of GDP)
ESA General government balance	-23,1	-12,7%
(+) EDP interest expense	7,2	4,0%
ESA primary balance	-15,9	-8,7%
(+) Programme Adjustors	17,3	9,5%
(-) Privatization receipts	0,3	0,2%
(+) Operations related to banking support	19,7	10,8%
(+) Cost of clearing pre-October 2012 tax refunds	0,5	0,3%
(+) Adjustment in accounting treatment of PPC property tax	0,4	0,2%
(-) ANFA & SMP transfers	2,7	1,5%
(-) Greek Loan Facility (GLF) cost reduction	0,3	0,2%
Programme primary balance	1,5	0,8%

- **Headline deficit** for Greece published by Eurostat was **12.7% of GDP** in 2013.
- This implies a **programme primary surplus** figure of **0.8% of GDP**, which excludes:
 - interest expenditure of 4.0% of GDP
 - and several specific items, mainly to better reflect the underlying structural fiscal position. In 2013, these adjustments amounted to 9.5% of GDP, mainly reflecting the one-off cost of the support to the banking sector (10.8% of GDP according to the programme definition), and the transfers from Member States to Greece corresponding to profits on Greek Bonds held by the Eurosystem Central Banks (1.5% of GDP).

Financial sector stability key to underpin growth

- **Authorities committed to ensure that banks are healthy and adequately capitalised**, the recapitalisation framework for Greek banks has been amended and the governance of the Hellenic Financial Stability Fund has been further strengthened.
- **Market confidence improving**: two core banks already raised more than the capital required fully from private investors. Remaining two core banks expected to raise their capital needs swiftly first and foremost from private investors.
- To resume lending, a **strong payment culture is needed**:
 - Agreement at the end of 2013 to **lift restrictions on home foreclosures**, with a transitory period of one year for borrowers fulfilling certain conditions.

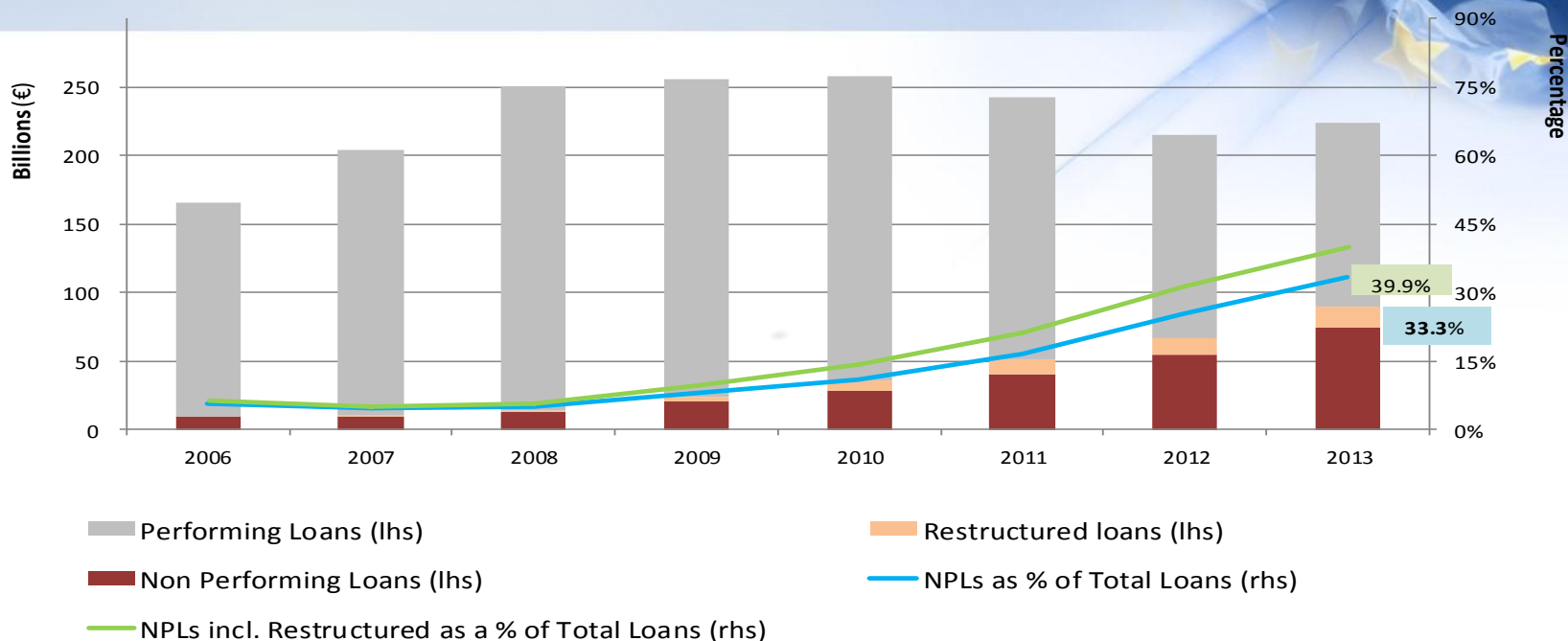
Stress Test Results and Capital Increases of Greek banks

Stress Test Results			Capital Increases
EUR Bn	Baseline	<i>Adverse</i>	
ALPHA	0.262	<i>0.560</i>	1.750*
EUROBANK	2.945	<i>4.980</i>	3.000**
NBG	2.183	<i>2.502</i>	2.500**
PIRAEUS	0.425	<i>0.757</i>	1.250*
ATTICA	0.397	<i>0.434</i>	N/A
PANELLINIA	0.169	<i>0.186</i>	N/A
Total	6.381	<i>9.419</i>	8.500

* Executed

** Announced

Still increasing Non-Performing Loans



But measures underway:

- Blanket ***moratoria on property auctions*** currently being phased out, reducing moral hazard.
- Introduction of a ***Code of Conduct for banks*** including standardised definitions for 'Cooperative Borrower' and 'Acceptable Living Standards', further facilitating bank loan restructuring efforts.
- Ongoing review of both personal and corporate ***insolvency laws***.
- Focus on overhauling both in- and out-of-court ***debt insolvency procedures***.

Financial conditions improving, bond issuance positive but Greece does not yet have sustained market access

- Greek Government **Bond spread** and Athens **Stock Exchange index** recovering.
- First **bond issuance** since 2009 and successful share **capital increases** by two banks, signs of **renewed trust** in the Greek economy.
- **Greek banks** have substantially reduced their reliance on **Eurosystem** funding over the past few quarters.

Greek 10y Bond Yield spread against Bund



Source: Bloomberg

Progress in reforms underpinning fiscal sustainability

- **Collecting more revenues in a more efficient way:**
 - **Revenue administration is starting to bring visible results** in terms of tax collection and fight against evasion. Further transfer of resources needed.
 - **Wide-ranging tax reforms adopted** since early 2013 **to simplify** the system and **encourage investment**: new property tax, new income code, revised tax procedures code.
- Agreement to eliminate **nuisance taxes** and to address the VAT compliance gap with a **comprehensive review of VAT policies and administration**.
- **Privatisations to reduce the debt burden and boost efficiency:** governance reforms implemented to achieve targets, privatisation of other corporate and real estate assets will be revitalised.

Public sector reform on-going, more modernisation and rationalisation efforts needed

- **Pensions and health reforms** have brought down costs and targeted benefits. Upcoming **review of social security** and **welfare spending** to improve sustainability, efficiency and fairness.
- **Efforts to fight corruption stepped up**: crucial anticorruption framework law adopted in April, a code of conduct for members of Government, legislation on funding of political parties and on declaration and monitoring of assets to be adopted soon.
- Further progress in the **public administration reform**:
 - **Greece over-performing** on the programme target of **reducing public administration staff** by 150,000 in 2015. **Mandatory targets** for staff mobility in 2013 and exits in 2014 have been or are being delivered, even if with some delay.
 - **Priority now is to improve the quality of the public administration**: reorganisation of ministries, selection of managers, reallocation of personnel, competence-based evaluation, reduction of administrative burden.

Labour and social policies a top priority to support employment and tackle poverty

- **Labour reforms** have improved competitiveness, and are supporting the needed reallocation of employment towards more productive activities and jobs. Further support to come from **reduction of administrative burden**, revision of framework for **collective dismissals** and **industrial action**, to avoid undue disruption.
- **Social security contribution rates will be reduced by 3.9%**. Effective reduction of the **minimum wage for the long-term unemployed** also agreed.
- EU structural funds schemes already in place to recruit **young and long term unemployed; Vocational Education and Training and apprenticeships** will be reformed and expanded.
- **Minimum income guarantee scheme** being launched on a pilot basis in two municipalities, to be rolled out on a phased-in national basis in 2015.

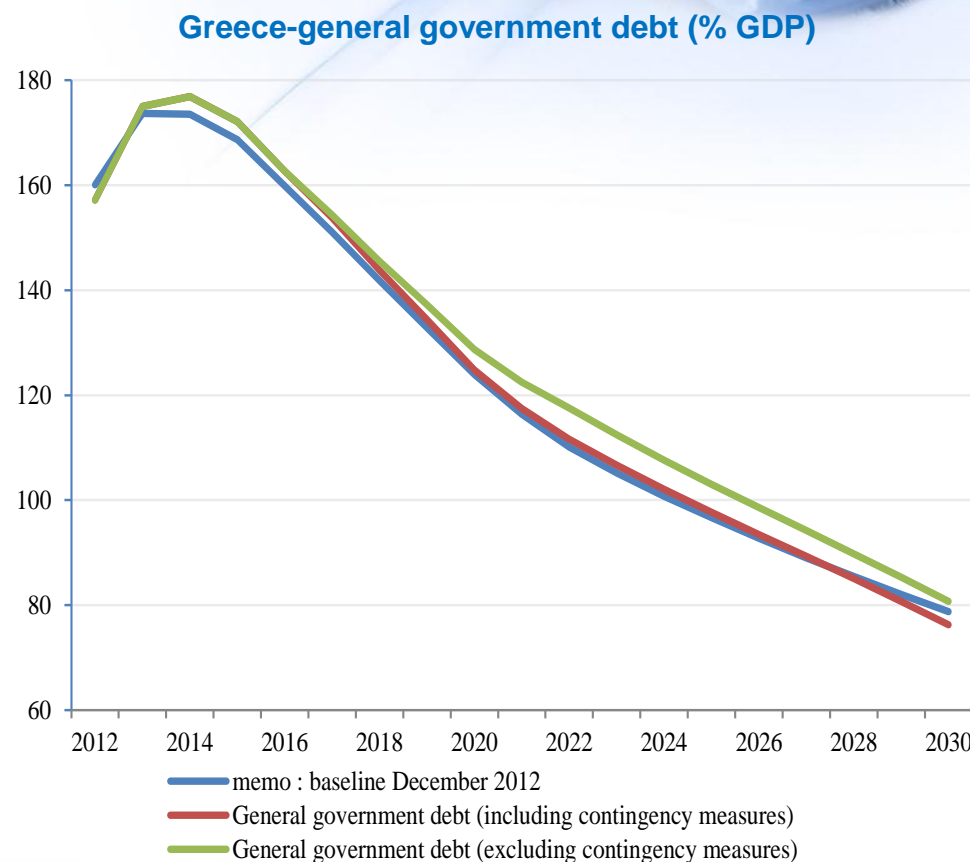
Key steps to liberalise markets, increase competition and reduce bureaucracy, implementation crucial

- **Government implementing 265 out of 329 OECD recommendations to remove restrictions to competition** in four sectors: retail, tourism, construction materials and food processing.
- Reforms on-going to simplify **investment licensing**, facilitate **trade**, upgrade **logistics**, streamline rules for **land use**, liberalise **residential rentals** and open up **regulated professions**. Omnibus bill to **reduce administrative burden on business** across 13 sectors.
- Key steps in **network industries: transport liberalisation**, ambitious **reform of energy markets**.
- **Judicial reform: code of civil procedure**.
- **Determination in implementing these reforms is already paying off, but efforts must continue.**
- **Greece has jumped 17 ranks in the World Bank's Doing Business ranking** in 2014 compared to the 2013 ranking, but it is **still in place 72**.
- OECD indicators show **sharpest reduction in the rigidity of product market regulation** among OECD countries in 2008-2013, but Greece **remains one of the highest regulated in the OECD**.



Debt sustainability continues to be ensured

- **Debt sustainability analysis** points to a **slight deterioration** in the debt-to-GDP ratio by the end of the decade in the current review compared to the previous one.
- Greece's **debt-to-GDP ratio** is expected to gradually decline to around **125 % of GDP in 2020** and around **112 % of GDP in 2022**.
- The **DSA stress-test scenarios** confirm that the debt-to-GDP ratio will perceptibly decline from current levels in most scenarios.



Source: European Commission services

Greek adjustment programme broadly on track

- ***Greece continues to make progress*** under the adjustment programme, but ***implementation risks remain high***.
- Reforms have already led to an improvement of ***cost competitiveness***, the implementation of a ***bold fiscal consolidation*** and a ***consolidation of the banking sector***.
- ***Growth-enhancing structural reforms must be fully implemented, they are crucial*** to increase competitiveness, tackle the unemployment challenge and enhance growth prospects.

4th review of 2nd programme - plan of disbursement

- ***Eurogroup agreed*** on 1 April that ***elements are in place to conclude the review.***
- ***EFSF instalment of EUR 8.3 billion*** foreseen to be disbursed in three tranches:
 - ***First*** tranche of ***EUR 6.3 billion*** to be disbursed on ***28 April*** following full implementation of prior actions and finalisation of Member States' relevant national procedures.
 - ***Second*** and the ***third*** tranches of ***EUR 1 billion each*** in ***June*** and ***July***, linked to implementation of ***milestones.***
- Programme fully financed for next 12 months, ***Euro Area MS committed to provide adequate support until Greece regains market access,*** provided Greece fully complies with the programme.