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Focus notes: Greece

Updated timeline of key dates and events in the way to the release of the next EU-IMF loan tranche

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The road leading to the disbursement of the next EU/IMF loan tranche remains bumpy. As things stand at this point, Greece's ruling coalition partners have not yet reached an agreement on certain labor market measures the troika has requested as a precondition for the release of the next loan installment. It seems that junior coalition partner Democratic Left (DL) continues to oppose the new labor market reform package, at least in its current form. Yet, comments by high-ranking party officials over the last few sessions have been interpreted by political analysts and commentators as leaving some room for a compromise, provided that the troika technocrats make further concessions on the new labor market reform. Reportedly, DL wants the troika to: (i) withdraw its demand for the annulment of the marriage allowance that is attached to the minimum wage; and (ii) allow the expandability of a national wage agreement, so as to bind all employees rather than just those who sign it. Hopes for a last-minute compromise are also being supported by Democratic Left's assurances that they do not intend to withdraw their support from the government.

In an e-mail sent last Sunday to the Ministry of Labour & Social Affairs the troika reportedly refused to make any further concessions on the requested package of labor market measures beyond those already agreed with the Greek side early last week. These concessions include, among others: (i) the severance pay for dismissed employees who have worked with the same employer for more than 16 consecutive years to be based on the level of their gross monthly salary for the first 16 years and to be capped at €2,000 per annum for the remaining years (the troika had initially requested a cap at ca €3,500 for the period exceeding 16 years of employment with the same employer); (ii) automatic three-year pay rises to be frozen rather than abolished as the troika initially demanded; (iii) the arrangement of working time to be based on sectoral rather than individual (firm-level) agreements; and (iv) the required period of redundancy notice employers have to give to employees to be reduced from six to four months, in line with the Greek government's proposal. The Troika has also reportedly refused a proposal made by Democratic Left and PASOK to have the Greek Parliament authorize every single privatization of state-owned assets.

In spite of Democratic Left's stance on the proposed labor market measures, the other two ruling coalition partners, New Democracy and PASOK, have agreed to proceed with the submission to Parliament by early next week of an omnibus bill that will incorporate, among others, the new labor reform. Against this background, market focus in the days and weeks ahead will be on a string of crucial dates and events, including, among others, a number of key parliamentary votes and as many as two extraordinary Eurogroup meetings expected to take place before the November 12 Eurogroup announces a number of final decisions on the Greek programme. Based on the latest information we managed to collect from a number of sources we believe to be reliable, we present below an updated timetable of the key dates and events leading to the November 12 Eurogroup.

October 29/30 Euro Working Group

After taking a hiatus last Friday in order to allow some time for consultations between Greek ruling coalition partners, the Euro Working Group (EWG) resumed on Monday and discussions are reportedly expected to conclude the day after. According to press reports, the EWG will prepare an assessment on all fiscal and structural measures that need to be implemented as part of the conditionality underlying the present bailout programme. Other important issues in the agenda of discussions will reportedly include: (i) potential sources of funding to cover the financing gap ensuing from a 2-year extension in the country's fiscal adjustment pogramme; (ii) ways to bring Greece's debt-to-GDP ratio towards a sustainable path medium-term; (iii) measures for tighter surveillance of the country's economic policies in order to ensure the maximum possible implementability of agreed reforms (e.g. compulsory hiring of experts from the World Bank and/or the OECD to help the Greek government collect taxes, fight corruption, speed up the privatization programme and adopt growth-enhancing strategies); and iv) the operational modalities of a proposed special trust account into which the EU-IMF loan disbursements as well as part of tax revenues (and any monthly primary surpluses) will be transferred to so as facilitate prioritization of debt servicing payments.

October 31 - Extraordinary Eurogroup & submission to Greek Parliament of a draft bill incorporating the new fiscal measures

Eurogroup President Jean-Claude Juncker announced late last week that an extraordinary Eurogroup via teleconference will take place on Wednesday, October 31. EU-17 finance ministers will reportedly ratify the outcome of the Euro Working Group meeting and give the green light for the 2-year extension in Greece's fiscal adjustment programme. In the same day, the Greek government will reportedly submit to Parliament a bill that will incorporate the budget for FY-2013, a package of new fiscal measures worth €13.5bn for the period 2013-2014 as well as the updated Medium Term Fiscal Strategy for 2013-2016. The bill has been agreed with the troika as a key precondition for the disbursement of the next EU-IMF loan tranche and it is reportedly expected to be voted in Parliament by November 11 at the latest. High level Democratic Left officials have said explicitly that the party will vote in favor of the said bill. As a reminder, the tripartite ruling coalition currently controls 176 seats in the 300-seat Parliament; New Democracy controls 127; socialist PASOK 33 seats and Democratic Left 16.

November 5 – Submission to Greek Parliament of a omnibus bill incorporating the new labor market measures and other structural reforms

The omnibus bill will incorporate (in just a single article) the required legislation for all structural reforms the troika has requested as a precondition for the release of the next EU-IMF loan tranche. Among others, the said package will reportedly include: (i) 89 prior actions that were explicitly spelled out in the MoU of the present bailout programme; (ii) additional cuts in the operating costs of the health system to cover an estimated shortfall of ca €1bn in this year's budget of the National Healthcare Organization EOPPPY; (iii) a thorough overhaul of the national taxation system; (iv) new structural reforms for the domestic labor market; (v) measures to reduce public sector employment. An earlier request by Democratic Left to have the new labor market reform being submitted to Parliament in a separate bill was rejected by the government, in a move purportedly designed to pressure the junior coalition partner to back the entire package. An alternative proposal made by Democratic Left to postpone the parliamentary vote on the new labor reform to late 2013 was also rejected. According to Minister of Finance Yiannis Stournaras, the omnibus bill will be submitted to Parliament under the emergency procedure, suggesting that the parliamentary debate will be limited to 48 hours.

November 7 – Parliamentary voting on omnibus bill

Time limits are tight but the government has made clear that negotiations with Democratic Left will continue until the last moment in order to persuade the party's parliamentary group to change its stance on the new labor reform and cast a positive vote on the omnibus bill. All opposition parties in Parliament, which cumulatively control 121 seats, have made publicly clear that they will vote against the package. According to reports, the three independent MPs (two ex-New Democracy deputies and one ex-Democratic Left MP) are also reportedly expected to cast a negative vote.

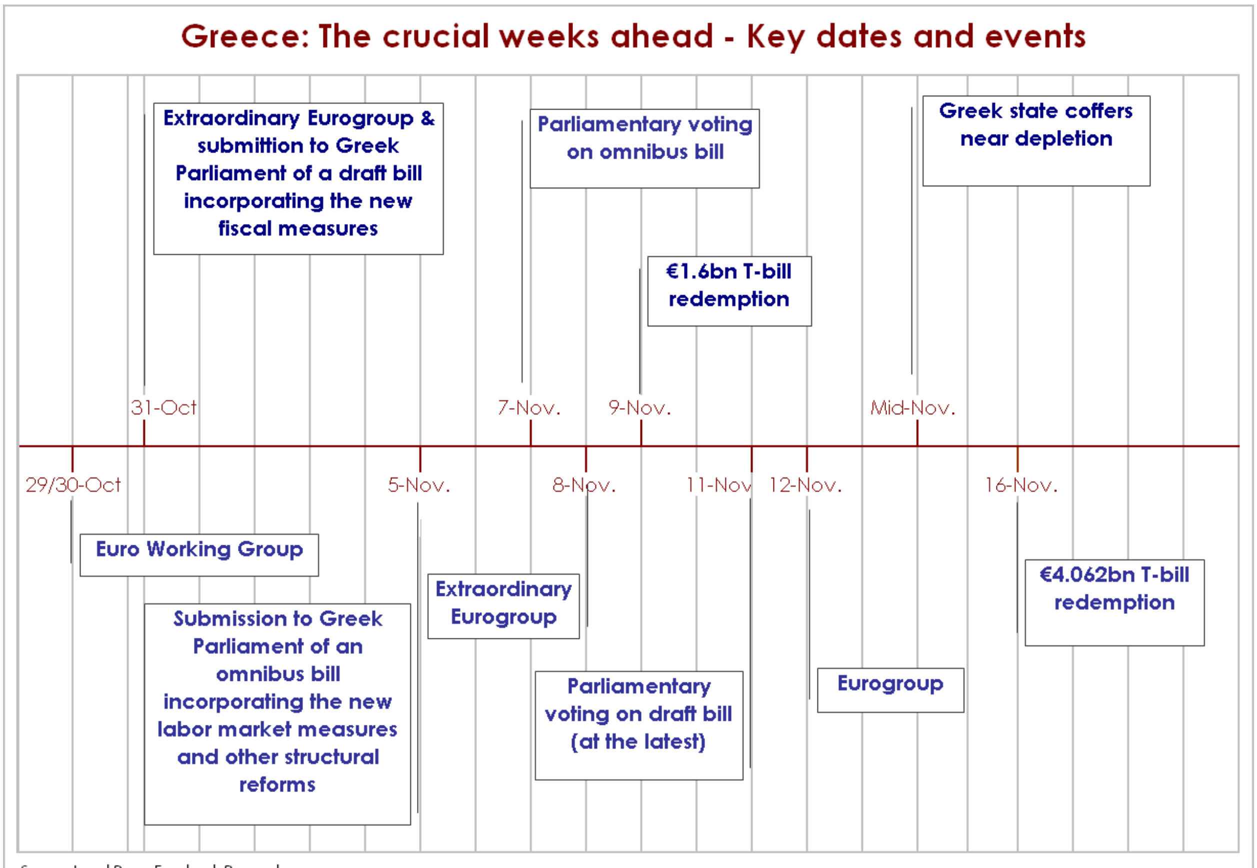
November 8- Extraordinary Eurogroup

Eurogroup President Jean-Claude Juncker announced earlier this week that a new extraordinary Eurogroup will take place on November 8 with Greece dominating the agenda.

November 12 Eurogroup – Next loan disbursement to Greece to top the agenda

Conditional on: (i) Parliamentary approval of the agreed fiscal and structural measures and; (ii) a constructive troika assessment in the 1st programme review, the November 12 Eurogroup is expected to given the green light for the disbursement of the next EU loan disbursement to Greece. Sources of funding to cover the financing gap ensuing from a 2-year extension in Greece's fiscal adjustment programme and ways to make the country's sovereign debt sustainable in the medium-term will be also reportedly included in the Nov. 12 Eurogroup agenda. German weekly news magazine *Der Spiegel* reported over the weekend that a preliminary troika review was presented to the Euro Working Group. The report included some form of OSI (involving official sector loans but not the ECB). Reportedly, official lenders are also considering a third aid package forGreece amounting €16-€20bn.

Mid-November, 2012. On the sidelines of the latest October 18-19 EU Summit, Greek Prime Minister Antonis Samaras said explicitly that Greece's state coffers will be empty by mid-November. Note that T-bills of €4.062bn mature on November 16. In the absence of some form of official financing by then, the government could reportedly increase T-bill issuance so as to cover the looming redemption, contingent on the troika's approval (i.e. as it did in August when it had to cover a €3.2bn payment on two old GBB issues).



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