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GREECE MACRO MONITOR

April 3, 2014

Greece: Latest domestic developments and what lies ahead

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Hellenic Parliament endorses key multi-bill including prior actions for the resumption of official financing to Greece

Following lengthy discussions and last-minute amendments on a number of contentious provisions, the coalition government of centre-right New Democracy (ND) and socialist PASOK secured parliamentary approval of a multi-bill containing the relevant legislation for the implementation of core issues agreed between domestic authorities and the troika in the context of the 4th program review (*Table 1 - Annex*). After a two-day long debate, the 300-seat Parliament endorsed the multi-bill at the midnight of March 30th, with an absolute majority of the 288 attending MPs. Note that passing the bill through Parliament required at least 148 in-favor votes, as six Golden Dawn lawmakers are currently in pretrial custody on allegations about the formation of a criminal organization. The multi-bill was comprised of three articles. The first one incorporated the required legislation for both the distribution of windfall revenue in excess of the agreed general government primary balance target for FY-2013[2] and the adoption of a range of agreed product market reforms identified by a special OECD study[3]. The second and the third articles respectively contained legislation related to the bank recapitalization framework[4] and a number of tax-related issues[5]. The said bill was voted as a single entity. In addition, based on a relevant request made by the main opposition party SY.RI.ZA, the first two articles were voted on a roll-call basis.

Government's parliamentary majority reduced

Ahead of the March 30th parliamentary vote, Greece's coalition government controlled 153 seats, including 126 MPs from the main coalition partner ND and 27 from PASOK. There were 12 absentees from the voting procedure, including one lawmaker from ND and one from PASOK. Out of the attending MPs, 152 voted in favor of the first article, including 150 coalition lawmakers and 2 independents (and ex-PASOK parliamentarians), Andreas Loverdos and Michalis Aidonis. ND deputy Nikotas Kaklamanis voted "present", dissenting from the party line. He was subsequently expelled from ND's parliamentary group, narrowing the parliamentary seats of the coalition government to 152. Kaklamanis maintained his parliamentary seat as an independent MP (*Graphs 1 below depicts the current composition of the Hellenic Parliament*). The second article secured the backing of 151 MPs, including the two independent lawmakers. One PASOK MP, Apostolos Kaklamanis, voted "present" while former Prime Minister and ex-PASOK leader, Giorgos Papandreou, casted a negative vote. Note that the vote on the multi-bill took place after a surprise move by the anti-bailout main opposition party SY.RI.ZA to call for a censure motion against Minister of Finance Giannis Stournaras. Parliament Speaker Vangelis Meimarakis dismissed the said request, arguing that the censure motion against a minister is tantamount to one against the government and under the Constitution of Greece (Article 84, Paragraph 2), another motion after that submitted by the same party in early November 2013 cannot be brought to Parliament before the lapse of six months (unless it is signed by the majority of the total number of Members of Parliament). In return, SY.RI.ZA submitted a censure motion against the parliamentary Speaker. The motion was rejected by a total of 165 MPs while only 76 lawmakers voted in favor. According to the Constitution of Greece (Article 84, paragraph 6), a motion of censure cannot be adopted unless it is approved by the absolute majority of the total number of Members of Parliament (50% + 1 vote).

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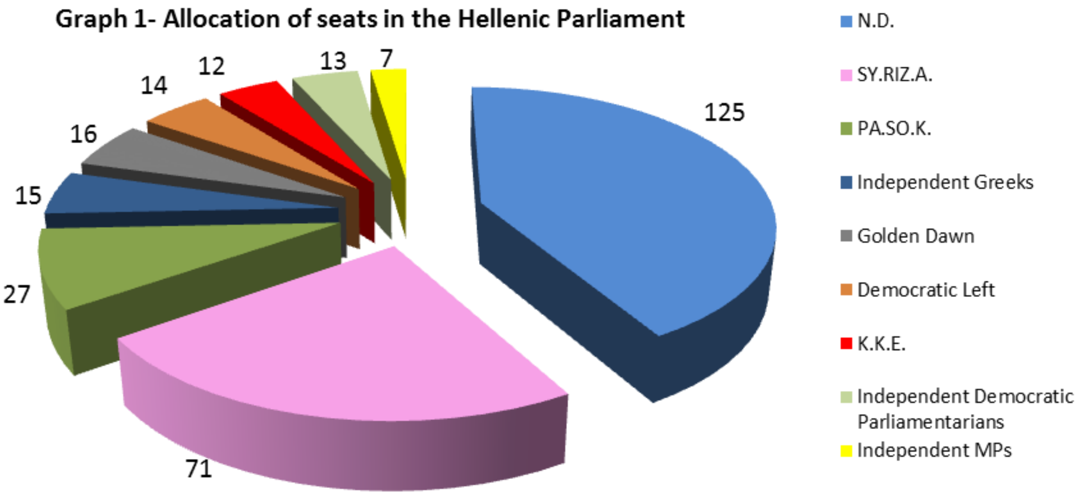
[2] According to the "revenue rule for the general government", which is explicitly laid out in the July 2013 MoU update, at least 30% of any windfall revenue in excess of a year's primary balance target will be devoted to repay public debt, while up to 70% can be used in the following fiscal year to support temporary policies aiming to boost growth and to finance social support programs. Following lengthy discussions in the context of the 4th program review, the troika accepted the government's request to withhold "only a small portion" of the primary surplus in excess of the agreed target for 2013 (estimated at ca €2.9bn) and to distribute the main bulk of it as follows: (i) €1bn for the clearance of State arrears to third parties; (ii) €1bn for dent payments; (iii) €350mn for the coverage of the ensuing budgetary shortfall that will result from a 3.9% reduction in social security contributions (to be applied from July 2014); and (iv) €525mn to be distributed in the form of a one-off payment to socially vulnerable groups including citizens without social security, long-term unemployed, low pensioners, low income citizens, armed forces and emergency services personnel.

[3]In the context of the 4th program review, the Greek government agreed to adopt relevant legislation for the implementation of ca 82% out of 329 OECD recommendations, aiming to boost competition in four key sectors of the domestic economy, including food processing, retail trade, building materials and tourism (see OECD Competition Assessment Review, Nov 2013). The Greek side also pledged to reassess at a later stage 10% of these recommendations including, among other, the abolition of third party taxes, olive oil blends, liberalization of Sunday trading restrictions for retail stores, extension of sales periods, and the full liberalization of cabotage. For the remaining 8%, the two sides managed to bridge their differences and reach a compromise on issues including the shelf-life of milk products, distribution channels of over-the-counter medicines (OTCs) and the abolishment of retail price regulation on books.

[4] The multi-bill that was recently approved by Parliament entails, among others, that subscription price to the common equity capital increase of Greek banks by the private sector can be lower than that of the HFSF's in previous recapitalization schemes or the current market price. Also, the HFSF is allowed to reduce its capital share in banks either by not taking any pre-emptive rights or selling its shares or exchange its shares for other financial institutions such as outstanding warrants.

[5] Tax related issues on which the two sides reached an agreement include, among others: (i) sellers of property which was acquired before 1995 will be exempted from the imposition of capital gains tax; (ii) fines to freelancers who fail to submit Value Added Tax Registration applications on time or/and issue receipts, will be reduced by up to 80%; and (iii) taxpayers will be allowed to counterbalance their overdue tax payments with State arrears to them.



Source: Ministry of Finance, Eurobank Global Markets Research

April 1st Eurogroup gives political approval to the release of the next EU loan instalment to Greece; financing gap fully covered on a 12-month forward basis

The informal Eurougroup meeting earlier this week gave the political approval for the release of the next EFSF loan installment to Greece. The move followed a staff-level agreement between the Greek government and the troika on the 4th program review and the subsequent parliamentary approval of a multi-bill containing legislation for the implementation of the relevant prior actions.[6] In the accompanying official statement, euro area finances acknowledged domestic authorities' commitment to the implementation of the agreed measures and called for a continuation of product market reforms so as to enhance the economy's growth potential. They also made known that Greece's adjustment program is fully financed on a 12-month forward basis through the use of, among others, temporary sources of financing such as deposits of general government subsectors and reiterated their commitment to provide adequate support to Greece until it regains market access, provided that it fully complies with the adjustment program's requirements and objectives. In regards to the domestic banking sector, the statement read that the recent successful completion of the recapitalization of two systemic banks (*i.e.,* Alpha Bank & Piraeus Bank) offers an encouraging sign of improving market confidence, adding that the other two core banks (*i.e.,* Eurobank and National Bank of Greece) are expected to raise their capital needs "swiftly first and foremost" from private investors.

Next EFSF loan installment to be disbursed in three tranches

At the press conference accompanying the conclusion of the Eurogroup meeting, President Jeroen Dijsselblome clarified that the next EFSF installment to Greece, amounting to €8.3bn, will be disbursed in three tranches. The first one, worth €6.3bn, will be released by the end of April 2014, conditional on the adoption by the Greek government of the respective implementation laws and the troika's approval of certain provisions and last-minute amendments to a relevant multi-bill approved by Parliament on Mach 30 (*see Table 1 – Annex*).[7] According to local press, the said revisions will be reassessed by a troika technical team on April 10. Conditional on a positive outcome, the decision for the disbursement of the first EFSF sub-tranche is expected to be taken by a Euro-Working Group meeting on April 17th. The other two EFSF loan sub-tranches, worth €1bn each, will be paid out in June and July respectively, subject to fulfillment of a total of twelve (6+6) milestones (*see Table 2 below*).

[6] According to an official statement issued by the *recently-completed* troika mission to Greece, the domestic economy is beginning to stabilize while, on the fiscal front, preliminary estimates suggest that the General Government primary balance target for 2013 has been met with a "substantial margin". The troika cautioned against upside risks to Bank of Greece's recent estimates as regards domestic banks' capital needs (€6.4bn on a consolidated basis), especially in the absence of a vigorous effort to efficiently deal with the large pool of non-performing loans. The troika called Bank of Greece to remain vigilant and to proceed forcefully in requiring banks to work out their large stock of NPLs. It also urged the HFSF to retain its current capital buffers so as to be able to meet any future adverse contingencies. According to BoG Governor's Annual Report for 2013 released earlier this year, NPLs remained in an upward trend in Q3 2013, reaching 31.2% of total bank loans, up from 29.3% in the prior quarter.

[7] Last-minute amendments to the multi-bill included, among others, issues related to: (i) shelf-life of milk; (ii) compensation to dismissed public sector employees; (iii) number of tourist destinations to be allowed to have stores opening on all Sundays of the year on a pilot basis; and (iv) minimum level of bank deposits to be subject to seizure by the State in case of unpaid tax or other obligations.

IMF Board expected to approve next instalment to Greece, amounting to as much as €3.4bn

Having already received the required assurance by the European side that the Greek adjustment program is fully funded on a 12-month forward basis, the IMF Board is expected to convene in the second half of April (*i.e.,* following the 13-15 April IMF/World Bank meeting) to decide on its contribution to the next loan tranche to Greece, with an aim to finalize the whole process by early May. Speaking to reporters early last week, IMF spokesman Bill Murray said that the upcoming loan disbursements will be subject to rephasing due to the delayed completion of the last (4th) program review and that the next release may be higher than that attached to the previous review. That said, the prospect of the Fund bundling the Q4 2013 tranche, amounting to €1.8bn, with part of the tranche initially planned for Q1 2014 (€3.5bn) now seems very likely, with press reports suggesting that the total amount of the next instalment to Greece will stand at ca €3.4bn (*Table 3*). Should this be the case, the total EFSF/IMF financing that will arrive to State coffers by mid-May will amount to €9.7bn, enough for the repayment of five Greek sovereign bonds that mature on May 20 & 21 for a total notional of €9.3bn[8].

Table 2 – Next EFSF/IMF loan disbursements & program milestones

Schedule of disbursements	Date	Amount (EUR bn)	Milestones
1st EFSF disbursement	Late April 2014	**6.3**	— approval by the troika of certain provisions/amendments to a multi-bill voted in Parliament in late March
IMF disbursment	May-14	**3.4**	- same as above
2nd EFSF disbursment	Jun-14	**1.0**	— review of third party taxes — adoption of a code of conduct for government officials, in an effort to fight corruption — issuace of ministerial decree (action plan for the collection of ovedue payments to the State) — adoption of law entailing: (i) uninsured citizens' access to diagnostics centers and use of medicines; and (ii) reduction in the profit margin of pharmacists — adoption of law on outdoor trade — adoption of law laying out the framework for licensing and spatial planning
3rd EFSF disbursment	Jul-14	**1.0**	— adoption of law laying out framework for reducing red tape — adoption of law entailing consolidation of public auxiliary funds — abolishment of third party taxes recorded as auxiliary funds revenue — law for the establishment of the so-called *small Public Power Corporation* and the payment of State arreas to Public Power Corporation of Greece (PPC) — law for the streamlining of financing to political parties and the control of their assets — adoption of forestry law
Total (April-July 2014)		**11.7**	

Source: April 1, 2014 Eurogroup statement, press reports, Eurobank Global Markets Research

[8] Out of these bonds, €4.5bn were issued by the Hellenic Republic in late 2008 and were given to domestic banks under law 3723/2008, as part of the first support package to the domestic banking system.

Table 3 – Greece: Disbursements under 2nd adjustment program (EURbn)

	Loan tranches disbursed so far (3 April, 2014)	Loan tranches following recent completion of 4th progarm review (subject to fullfiment of certain milestones)		Future disbursements	Total disbursements under 2nd adjustment program
	Mar 2012-Apr 3, 2014	Apr 2014-Jun 2014	Jul 2014	Aug 2014-Mar 2016	Mar 2012-Mar 2016
EFSF	133.6	7.3	1.0	2.9	**144.8**
IMF	8.5	3.4	0.0	16.1	**28.0**
Total	142.1	10.7	1.0	19.0	**172.8**

Source: July 2013 MoU, April 1, 2014 Eurogroup, press reports, Eurobank Global Markets Research

Official discussions on a new debt relief package for Greece to commence after the publication of Eurostat's next EDP report scheduled for April 23th

Speaking at the Eurogroup press conference earlier this month, President Jeroen Dijsselbloem said that official discussions on a new debt relief package for Greece will commence after Eurostat confirms a primary surplus in the country's FY-2013 general government accounts (expected on April 23), with an intention to have them concluded after the summer of 2014. A similar view was also expressed earlier this week by the Director of the IMF's European Department, Reza Moghadam. Note that the next Eurogroup meeting is scheduled for May 5, 2014 (*see Greece's timeline of key dates & events in Annex*). In line with the April 1st Eurogroup statement, Mr. Dijsselbloem also announced that euro area finance ministers received the troika staff's assurance that Greece's program is fully financed on a 12-month forward basis. Yet, he left the door ajar to the possibility of a new aid package for Greece, stressing that it is still too early to assess whether further financial support will be needed when the current program expires at the end of 2014. Under the troika's July 2013 baseline scenario, a funding gap in Greece's general government accounts was projected to arise in H2-2014, totaling €10.9bn over the period 2014-2016 (=€4.4bn in H2 2014 + €6.5bn in 2015). Based on a number of press reports, the Greek government and the troika are mulling a number of strategies for its coverage (*Table 4*). In any case, as noted above the coverage of Greece's financing gap over the next 12 months should be considered as a done deal.

Table 4- Strategies proposed for the coverage of the H2 2014-2016 financing gap

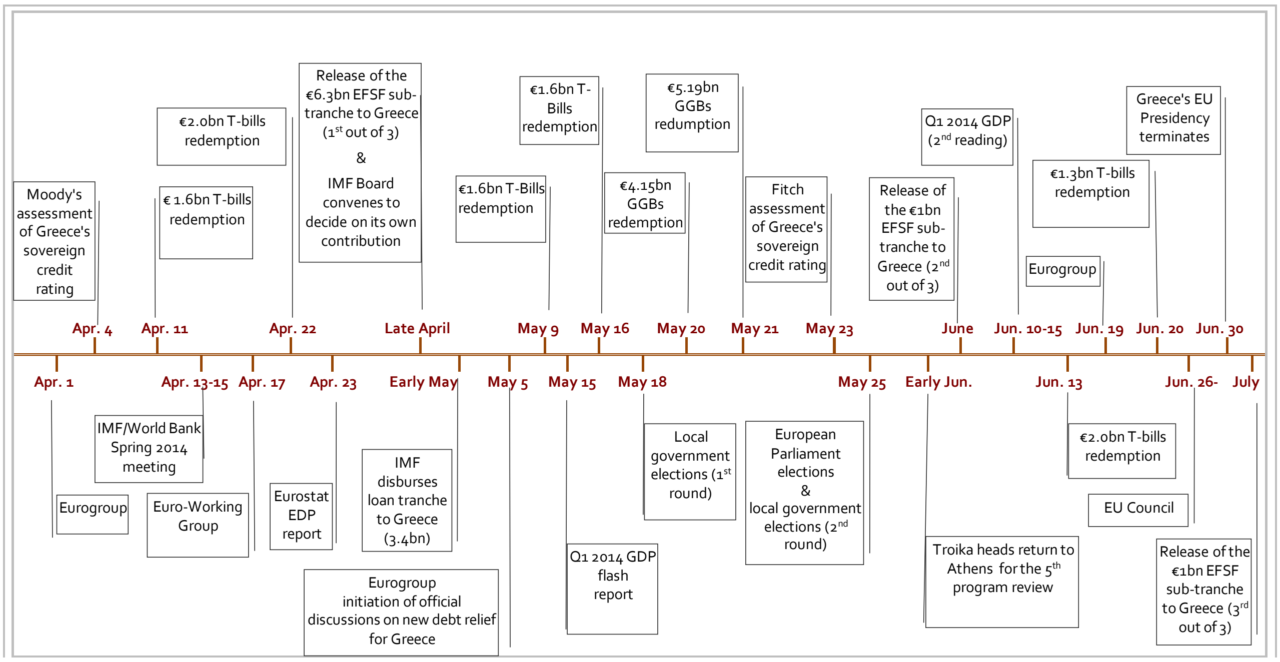
return to capital markets with issuance of 3- or 5-yr maturing bond(s) (up to €5bn by end 2014)
use of cash reserves of a number of general government entities via repos (up to ca €3bn)
use of BoG cash reserves (up to €2.4bn)
purchase by Piraeus Bank and Alpha Bank of preferred shares from the State (€1.7bn)
rollover of government bonds owned by the National Fund for Entrepreneurship and Development (ETEAN) that mature in August 2014 (total notional of €1.5bn)
downward revision in both FY-2014 and FY-2015 privatisation revenue target (by ca €2bn & €0.2bn respectively)
utilisation of the HFSF buffer (ca €11.3bn) after substracting from it any amounts needed to cover potential capital shortfalls in the domestic banking system identified by a new EU-wide stress test to be conducted by the EBA later this year
increased T-bills issuance (up to €1-2bn)

Source: Local press, Eurobank Global Markets Research

Greek government sees no need for new financing program from the official sector

Speaking at the same press conference, Minister of Finance Yiannis Stournaras stressed that there is no need for a new financing package for Greece after the current one expires, confirming that the government is preparing to return to wholesale funding markets in the first semester of this year, with issuance of 3- or 5-year maturity bonds[9]. On the same issue, an unnamed Greek FinMin official was quoted as saying that the government will likely seek to tap markets by June 2014 with an issue amounting to €1.5-2bn and follow up with another offering of €2-3bn by year-end. Along these lines, EU Commissioner for Economic and Monetary Affairs Olli Rehn said earlier this week that Greece could access capital markets "in the relatively near future." Mr Rehn also said that the troika heads are expected to return to Athens in June 2014 for the inception of official discussions with domestic authorities in the context of the next (5th) program review, which is expected to complete by September 2014. A successful conclusion of that review is a key precondition for the release of the last EFSF loan tranche under the current adjustment program, amounting to €2.9bn, whereas the last IMF loan disbursement is due in Q1 2016.

Greece- Timeline of key data & events



Source: Press reports, Eurobank Global Markets Research

[9] See Greece Macro Monitor, *Funding gaps, OSI and why Greece's aim to access wholesale funding markets in 2014 constitutes a reasonable (and conditionally feasible) proposition*, Eurobank Global Markets Research, January 15, 2014, http://www.eurobank.gr/Uploads/Reports/GREECE%20MACRO%20FOCUS%20Jan15%202014.pdf

Annex

Table 1- Issues agreed between the Greek government and the troika in the context of the 4th program review

3.9% reduction in social security contributions in a single step (July 1, 2014)
Adoption of the majority of product market reforms proposed by the OECD
Distribution of the main bulk of windfall revenues in excess of the agreed General Government primary balance target in 2013
Collective company redundancies to require Sumpreme Labour Council's approval (6 month trial period)
Up to 50% reduction in the maturity coefficients for long-term, private-sector employees hired on minimum wage
Major overhaul of the legal framwork for labor unions' operations
Full coverage of FY-2014 fiscal gap
Time extention for the placement of the second wave of 12.5k public employees to the mobility scheme
80% reduction in special tax-related fines on freelancers
Taxpayers to be allowed to counterbalance their overdue payments with respective State arrears
No capital gains tax on property transactions (applied on property acquired before 1995)
Recapitalisation of the domestic banking system based on BoG's new AQR resulst & new recap framework

Source: Press reports, Eurobank Global Markets Research

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