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GREECE MACRO MONITOR

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Focus notes: Greece

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General election will be reportedly held in early May

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Speaking to a local TV station last week, government spokesman Pantelis Kapsis said that an official announcement regarding the exact date of the upcoming election will be made during the Holy Week which started on Monday, April 9th. As per the Article 53, the Greek Constitution requires general elections to be held within 30 days from the dissolution of the Parliament and the new Parliament to convoke in regular session within another 30 days. With the Greek Orthodox Easter falling on April 15th this year, the earliest possible date polls could be held is reportedly on April 29th. However, several press reports suggested recently that, because the latter date falls too close to the Greek Orthodox Easter, the first Sunday of next month (May 6) is more likely. This holds provided that the existing government will have completed the legislative work it has agreed to carry out as part of the new EU-IMF loan agreement.

Recent local newswires suggested that a small delay in the upcoming election date should not be entirely ruled out, especially if opposition parties required some of the provisions in two MoU-related outstanding draft bills to be voted by a *roll call* procedure. Under such a scenario, the government's legislative work would arguably take somewhat longer than planned initially. As per the Parliament's current plan, a draft bill submitted by the Ministry of Internal Affairs was voted on April 9th. The second (and last one) is expected to be voted today, just before the dissolution of the parliament which, according to a number of press reports, is expected to be announced on April 11th.

First EU-IMF loan tranche of new bailout programme released in March

In the week commencing March 20th, Greece received the first loan tranche under the 2nd bailout package consisting of €5.9bn in the form of EFSF loans and €1.65bn of IMF funds. The main bulk of the loan installment (ca €4.9bn) was used to cover amortization costs related to a 3-year government bond that matured on March 20. The bond was understood to be primarily held by the ECB and the European System of Central Banks. The remaining amount was deposited into a state account to

cover regular budgetary needs. As a reminder, the creation of an escrow account for prioritizing Greek debt payments was agreed at the February 21th Eurogroup. The account aims to ensure coverage of debt-servicing costs on a rolling quarterly basis. It will reportedly collect bailout funding under the new rescue package along with privatization proceeds and government revenues.
The second EFSF loan tranche of €3.3bn is due in mid- April and the third, €5.3bn, is to be disbursed in mid-May. Note that total EU/EFSF funding under the entire period of the new programme (2012-014) amounts to €144.6bn (Table 1). The aforementioned (three) loan tranches are all part of the 1st EU/EFSF installment under the new programme.

Reportedly, the Greek government was initially hoping to receive the full 1st EFSF loan installment in one shot, instead of receiving it in monthly disbursements. Yet, this could not be possible as a number of euro area member states including Germany and the Netherlands expressed concerns about domestic political developments ahead of the upcoming general election. The second bailout programme for Greece envisions quarterly disbursements of the new IMF loans. Yet, Matthias Morse, the Head of the EU inspectors of the new Greek adjustment programme was recently quoted as saying that EFSF loan disbursements will take place on a monthly basis rather than quarterly, as was the case for the first loan facility.

New bailout programme - Uses of official funding
As per the latest EC/IMF reports on the second economic adjustment programme for Greece (and relevant comments by EFSF chief executive Klaus Regling), the new EU/EFSF financing package for the county (~€144.6bn in 2012-2014) is comprised of :

i) €109.1bn in new EFSF funding to cover bank recapitalization costs (€48.5bn) and normal budgetary expenditure (primary deficit financing, interest expenditure and amortizations). Note that about €1.5bn for bank recapitalization purposes is already available through the Hellenic Financial Stability Fund (HFSH);

ii) €30bn in 1- & 2- year EFSF notes to run the PSI (i.e., offered as sweetener to bondholders participating in the debt exchange); and

€5.5bn in the form of 6-month EFSF T-bills for the repayment of accrued interest on bonds exchanged (see Table 1).

Note that the first loan tranche for the domestic bank recapitalization programme (~€25bn in the form of short-term EFSF bonds), is expected to be disbursed before the end of this month. According to the most recent IMF report on Greece (March 2012), a second installment for bank recapitalization (~€23 ½ bn) will be made available in June 2012 and it will be placed into an escrow account until it is utilized. As per the same report, total domestic bank recapitalization needs - following the Greek debt swap and the completion of the BlackRock's diagnostic exercise - are estimated to amount to as much as €50mn.
With regards to the IMF, the Executive Board decided at its March 15 meeting the 2nd bailout programme for Greece to be made under the Extended Fund Facility (EFF), which is designed for countries undertaking reforms to address deep-seated structural weaknesses and allows for a longer repayment period. Under this decision, the IMF's €28bn share of participation will be delivered over a period of four years, rather than three envisaged in the EA/EFSF financing plan. Reportedly, the longer payment schedule allows for smaller disbursements and preserves more IMF capital should the Fund halts payments for program failure or delay. Out of this amount, €19.8bn will be provided in 12 equal quarterly installments until the end of 2014, with the remaining €8.2bn in 2015 (please see table 2 for the schedule of the EFSF/IMF quarterly disbursements).

The Greek 300-seat Parliament formally approved by a wide majority on March 20, legislation ratifying the new EU-IMF rescue programme. Specifically, a total of 213 lawmakers casted a positive vote including all MPs from the two parties, socialist PASOK and conservative New Democracy, that support Lukas Papademos's collation government.

Table 1: EU/EFSF financing of 2nd Greek bailout package (2012-2014)

(in € bn)	
EU/EFSF new financing (in €bn)	**109.1**
EFSF normal programme financing	61.1
EFSF bonds for bank recapitalisation	48
EFSF 1 & 2-year notes-PSI sweeteners	**30**
EFSF 6-month bills-accrued interest	**5.5**
(Total)	**144.6**

Source: EFSF, EFG Eurobank

EFSF/IMF official assistance disbursments under the 2nd bailout programme (2012-2015)

(in €bn)	2012				2013				2014				2015	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		*(Total)*
EU disbursments	74.0	29.6	3.4	5.6	8.2	3.2	0.6	5.1	10.7	1.9	1.9	0.4		***144.6***
IMF disbursments	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	1.65	8.2	***28.0***
Source: European Commission														***172.6***

March 30th Eurogroup decides to boost EFSF/ESM combined lending capacity

In a move to address the lingering debt crisis in a more comprehensive way and encourage non-EU G20 members to consider increasing the IMF resources, euro zone finance ministers agreed at the March 30th Eurogroup meeting to boost the EFSF/ESM combined lending capacity to nearly €800bn. Separately, the March 30 Eurogroup statement read that Eurozone officials have been informed that a failure to make timely payment of Greece's eligible foreign law bonds that are not exchanged "does not constitute an event of default" under Greece's new bonds issued in the exchange.

Regarding the latter issue, the Greek finance ministry announced early this month that on April 11, 2012, it will exchange a further €20.2bn PSI-eligible debt compromising of i) foreign-law GGBs and bonds issued by state-controlled enterprises and guaranteed by the State tendered for exchange and ii) foreign-law GGBs and bonds issued by state-controlled enterprises and guaranteed by the State for which the proposed amendments were approved during the relevant bondholders' meetings.

Moreover, the official statement read that the finance ministry extended the debt-swap invitation period to April 20th, 2012 for the remaining holders of foreign-law GGBs and other State guaranteed debt for which the proposed amendments were not passed or bondholder meetings were adjourned. The settlement date for these bond series will be April 25th, 2012 while adjourned meetings will be reconvened on 18th April, 2012.

The finance ministry's announcement came after the completion of thirty-six meetings of equivalent series of PSI-eligible bond holders that took place between March 27th and 29th. In sixteen of these meetings, bondholders decide to tender their bonds for exchange and to consent to proposed amendments to the terms of these bonds. Eleven meetings rejected the Greek government's debt offer, seven meetings were adjourned and two failed to reach the required quorum.

Troika inspectors scrutinize closely Greek tax system, call for additional saving measures

I. Tax system reform

Three technical teams of troika inspectors arrived in Athens earlier this month to discuss with government officials pending issues related to a major upcoming overhaul of the domestic national tax system and additional austerity for the period 2013-2014 that need to be identified by next June as part of the revised Medium-Term Fiscal Strategy (MTFS) plan (ca 5.5%-of-GDP of new expenditure cuts on top of 1.5ppts-of-GDP extra revenue from fighting tax evasion).

A bill to overhaul the new tax system - initially planned to be submitted in Parliament in September 2011 and latter postponed for March 2012 - is now expected to be enacted by the end of June 2012. The basis for the envisioned changes in the new taxation system will reportedly be the IMF and European Commission's proposals - included in their recently released reports ("Greece: Request for Extended Arrangement Under the Extended Fund Facility - Staff Report" and "The Second Economic Adjustment Programme for Greece"). Among others, these should include:

i) elimination of several tax exemptions (related to e.g. medical visits and hospital fees) and of special privileged status for certain taxpayer categories;
ii) abolition of the VAT discount on islands and an end to reduced income tax rates for those who live in islands with fewer than 3,100 inhabitants;
iii) abolition of tax exemption for arable land;
iv) reduction in income tax brackets from 8 currently to 5, including a reduction in the upper tax rate for personal incomes to 40% from 45% currently. A reduction to the tax-free threshold of €5,000 per year to €3,000 or its complete elimination may also come under consideration;
v) VAT rates to remain unchanged. This comes as somewhat of a surprise as a number of recent press reports suggested that the IMF delegation was considering to propose the imposition of a single VAT rate 19%-21% on all goods and service;
vi) adoption of a uniform tax for all business and legal entities at 20% initially, with a option to reduce it further (to as low as 15%) once domestic economic conditions stabilize;
vii) unification of all property taxes in two; one that would comprise the property tax and the special property levy paid via electivity bill and a second one to be paid in favor of local government;
viii) revision of the method for calculating the objective values of properties;
ix) new tax criteria for self-employed based on business profitability and living standards;
x) the replacement of the Code of Books and Records with simpler legislation;

According to its latest report on Greece (March 2012), the IMF estimates that the planned tax reform and revenue administration improvements are expected to contribute 1 ½-of-GDP to the needed 2013-2014 adjustment. The same report also read that if Greece managed to bring VAT collection efficiency up to the EU average, then that would increase public revenue by 1 ½ -3%-of-GDP per annum. Addressing Parliament a few weeks earlier, Deputy Finance Minister Pantelis Economou said that the state had issued penalties for tax evasion worth €8.6bn over the last two years but only a negligible amount of these fines (reportedly ca 1%) entered public coffers. Separately, local press reports claimed that the total sum of overdue debts to the state amounts to €42bn, out of which only €8bn can be cashed in the near future. With respect to pending tax reform and institutional improvements to tackle tax evasion, the new MoU envisages a list of measures including, among others, the establishment (by the end of March 2012) of a new IT system to interconnects all tax offices, the removal of barriers to effective tax administration (by June 2012) and the closing down (by the end of this year) of some 200 unproductive local tax offices.

II. Additional saving measures

A second troika team will compile a comprehensive study of all public expenses and a third will provide the know-how for changes in information systems required for monitoring the expenses of various government departments. As w noted above, the final plan of additional expenditure-side measures worth 5.5%-of-GDP for the period 2013-2014 will be part of the updated medium-term fiscal plan (MTFS) which will have to be voted Parliament by late June 2012.

According to the latest (March 2012) EC/IMF reports on Greece's new adjustment progarmme, the new austerity package should focus on:

i) ***general government operations****,* so as to identify savings of 3%-of-GDP via, among others, cuts in welfare payments, pharmaceutical spending and national defense;

ii) ***a further rationalization of pensions-related expenditure and social transfers*****,** aiming to identify some 1.5%-of-GDP in additional savings;

iii) ***public administration reform*** to secure additional savings of 1.0%-of-GDP via, among others, the restructuring the central and local public administration as well as the closing and downsizing general government units.

Short calendar of key dates and events leading to the completion of the Greek debt swap

- *April 11, 2012*

First-leg of debt exchange of foreign-law GGBs and bonds issued by State-controlled enterprises and guaranteed by the State.

- *Week ending April 13*

Current Parliament reportedly dissolves.

- *Mid-April*

Disbursement of next EFSF-IMF loan tranche under the new adjustment programme (€3.3bn)

- *April 17*

Redemption of €1.6bn T-bills

- *April 18*

Adjourned meetings of foreign-law bondholders reconvened

- *April 19-20, 2012*

G20 meeting

- *April 20*

Greece has €2bn in T-bills redemption

- *April 25*

Second-leg of debt exchange of foreign-law GGBs and bonds issued by State-controlled enterprises and guaranteed by the State

- *Late April*

Greek government announces bank recapitalization terms

1st loan tranche for bank recapitalization

- *Early May*

General elections

- *May 11*

Greece has €1.6bn in T-bills redemption

- *Early/Mid May*

3rd tranche of 1st EFSF-IMF loan installment (€5.3bn)

Government submits to Parliament tax reform bill

- *May 18*

Greece has €1.6bn in T-bills redemption

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