Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

Eurobank

GREECE MACRO MONITOR
November 7, 2012

Focus notes: Greece

Paraskevi Petropoulou
G10 Markets Analyst
ppetropoulou@eurobank.gr

Editor
Platon Monokroussos
Assistant General Manager
Head of Financial Markets Research
pmonokrousos@eurobank.gr

A review of recent domestic political developments

Counting down to the two crucial parliamentary votes on the new austerity programme

Countdown to the two crucial parliamentary votes on the new austerity programme

The most imminent hurdle Greece's coalition government needs to overcome in the way to the release of the next EU-IMF loan tranche is this week's two crucial votes in Parliament. The first vote, expected to take place at midnight November 7, is on an omnibus bill including, in just a single article, the following items:

(i) The updated Medium-Term Fiscal Strategy (MTFS) for 2013-2016, which incorporates a 2-year extension in the country's fiscal adjustment programme. This will effectively allow a more gradual pace of improvement in the general government primary balance, to the tune of 1.5ppts-of-GDP/annum over the new (extended) adjustment horizon 2013-2016 compared to an improvement of ca 2.8ppts-of-GDP/annum for the period 2013-2014 envisaged in the Memorandum of Understanding agreed with official lenders earlier this year. Despite the 2-year extension, the implementation profile of the new agreed austerity package remains heavily front-loaded. Specifically, Greece needs to implement additional austerity measures worth €13.5bn (in *net* fiscal impact terms) in 2013-2014, with ca 2/3[rds] of the new fiscal package consisting of expenditure-side measures (mostly, cuts in wages, pensions and special benefits). Out of this package, measures worth c €9.37bn will be implemented in 2013, with the remaining €4.19bn expected to be applied in 2014 (see ***Table 1*** in the *Annex* section of this report). The updated MTSP also entails that additional - *still unspecified* - fiscal measures worth €4.6bn will be required in 20015-2016 so as to facilitate fulfillment of updated fiscal targets. ***Comment:*** Under the updated MTFS, the general government primary balance is expected to reach a surplus of 4.5%-of-GDP no earlier than in 2016 *i.e.,* 2 years later than envisaged initially. As per the updated MTFS, the target for the FY-2012 primary balance has been revised to a deficit of 1.5%-of-GDP (ESA95 terms), from a deficit of 1%-of-GDP envisaged in the troika's March 2012 assessment of Greece's adjustment programme (see *e.g.* IMF Country Report No. 12/57). Note that the FY-2013 Budget law that was submitted to Parliament late last week forecasts a primary deficit of 1.2%-of-GDP this year. Furthermore, according to our estimates, Greece needs to generate, for a number of years, primary surpluses of at least 1.5ppts-of-GDP so as to merely stabilize its public debt ratio.

(ii) Certain changes in the taxation system, mainly related to indirect taxation (see ***Table 2*** in the *Annex* section at the end of this report). Note that, a thorough overhaul of the national taxation system, a key structural benchmark of the present bailout programme, will reportedly be put to a parliamentary vote before the end of November.

(iii) A new package of structural measures aiming to induce more flexibility in the domestic labor market (see **Table 3** in the *Annex* section at the end of this report).

(iv) A merge of the so-called *noble* social security funds (for journalists, doctors, lawyers, civil engineers and other professions) with the National Organization for Healthcare Provision

(EOPPY). The respective draft bill failed to gain parliamentary approval last week and is being put again to vote after having incorporated some modest alterations.

(v) The required legislation for the completion of most of the 89 pending prior actions that were explicitly spelled out in the MoU of the new bailout programme that was endorsed by the Greek Parliament in February 2012. More detail on the aforementioned prior actions can be found in *Greece Macro Monitor October 22, 2012, Eurobank Research (http://www.eurobank.gr/Uploads/Reports/GREECE%20MACRO%20FOCUS%20October%2022%202012.pdf)*.

The day after the *omnibus bill* vote, parliamentary debate on the Budget for FY-2013 is expected to commence, ending with a roll-call vote at midnight on Sunday November 11, just a few hours before the November 12 Eurogroup. As has been agreed with the troika, parliamentary approval of both the omnibus bill and the new Budget constitutes a key precondition for the unlocking of the next EU-IMF loan tranche.

Latest on the domestic political front

Greece's tripartite coalition government currently controls 175 seats in the 300-seat Parliament, four less compared to those secured in the June general election (see ***Graph 1***). New Democracy (ND) now occupies 127 seats vs. 129 previously. Greek Premier and ND leader Antonis Samaras decided recently to expel from his party's parliamentary group MP Nikos Stavrogiannis, after the latter was quoted in a Greek newspaper as saying that he will not vote in favor of the new "unfair, harsh and ineffective" fiscal measures. Note that main bulk of new expenditure-side measures for 2013-2014 is comprised of wage and pension cuts (ca €6.6bn out of a total of €9.8bn). Mr. Stavrogiannis said that he will remain in Parliament as an independent MP, meaning that the parliamentary seat can not be filled by another ND lawmaker. Another ND deputy, Nikos Nikolopoulos, was expelled from the party's parliamentary group in early August after he accused the government of giving up on its programmatic agreement to renegotiate certain aspects of the present MoU. Nikolopoulos had resigned a month earlier from his post as Deputy Minister of Labour and Social Security.

As things stand at this point, there are no clear indications that any of the 127 ND deputies will oppose either the omnibus bill or the new Budget. Speaking before his party's parliamentary group on Sunday, Prime Minister Antonis Samaras pointed out that the country would be forced out of the euro area and chaos would prevail if Parliament fails to endorse the measures. The Greek Premier emphasized that, as soon as the new measures are approved and the country gets the next EU-IMF loan tranche, market talk of a potential Greek exit from the euro area will come to an end and much needed liquidity will be channeled to the real economy. He insisted that the new package of austerity measures will be the last one and sent an appeal to the ruling coalition partners for a united front until the country comes out of the crisis. Mr. Samaras also revealed that the government hopes to convince official lenders to also endorse the imminent release of the €5.05bn EU-IMF loan tranche, originally planned for September 2012. Under the current planning, €23.5bn of the next loan disbursement of €31.3bn (+ €5.05bn) will be utilized to complete the domestic bank recapitalization program. The government also intends to utilize part of the new official funding to settle part of outstanding State arrears (€8.29bn as of the end of September).

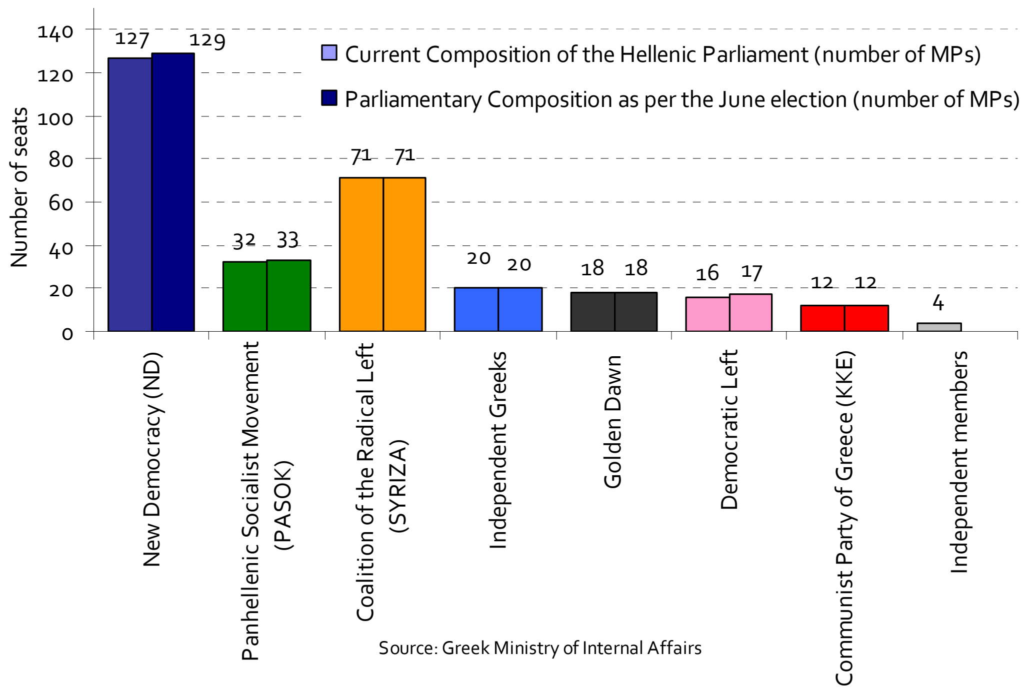
Reportedly, most of PASOK MPs are also expected to back the new omnibus bill in today's crucial parliamentary vote. PASOK sources were quoted in the local press earlier this week as saying that they expect at least 28 out of the party's 32 lawmakers to vote in favor, thereby giving the government the parliamentary majority it needs to pass the omnibus bill. One PASOK MP, Theodoros Parastratidis, said last week that he will not vote in favor of the bill, while three other party deputies (Costas Skandalidis, Makros Bolaris and Yiannis Koutsoukos) haven't so far clarified their stance on the upcoming vote. With regards to next Sunday's vote on the FY-2013 Budget, only one PASOK MP has so far reportedly signaled his intention to cast a negative vote. Socialist PASOK, the biggest of the two junior coalition partners, currently controls 32 parliamentary seats, one less than these allocated in the June ballot, after MP Michalis Kassis decided last week to quit the party and retain his seat in Parliament as an independent. His decision followed a emergency PASOK parliamentary group meeting where President Evaggelos Venizelos effectively called anyone who intends to vote against the measures to quit both the parliamentary group and the party.

Democratic Left (DL), the smallest junior coalition partner, continues to oppose the new labor market reform incorporated in the key omnibus bill. Speaking to reporters late on Sunday, after the conclusion of his bilateral meeting with the Greek Prime

Minister, DL leader Fotis Kouvelis reiterated that the new labor market measures demanded by the troika will dramatically undermine labour rights, without yielding any concrete fiscal benefits. Democratic Left's earlier request to have the new labor market reform and all other structural measures being submitted to Parliament in two separate bills was ruled out by the government. An alternative proposal made by Democratic Left to postpone the parliamentary vote on the new labor reform for late 2013 was also rejected. At a meeting of the DL executive committee earlier this week, party leader Fotis Kouvelis proposed his MPs to vote "present" on the omnibus bill and in favor of the Fy-2013 Budget *i.e,* effectively giving a vote of confidence to the government. The proposal was approved by an overwhelming majority (77 out of 109 committee members). Mr. Kouvelis has repeatedly underlined that, despite his party's opposition to the new labor market reform, they continue to support the government and do not intend to cause a fracture in it.

Even though the DL's executive committee decided to vote "present" on the omnibus bill, the government may lure some in-favor votes from the party's parliamentary group. Reportedly, two DL MPs, Vassilis Economou and Grigoris Psarianos, are considering to cast a positive vote. As per the same reports, the aforementioned deputies believe that it is a political mistake for the party not to approve in Parliament the structural measures incorporated in the omnibus bill and, just a few sessions later, to cast a vote of confidence on the government which effectively has to implement them. As a reminder, DL MP Vassilis Economou broke the party line last week and voted in favor of a contentious article in a privatization bill that scraps the government's obligation to own a minimum stake in public enterprises - DEKOs (the article passed with 148 in-favor votes; 139 MPs casted a negative vote and 14 voted "present"). Potential in-favor votes from the LD camp may rise further after 29 out of the 109 members of the DL's executive committee in their meeting earlier this week rejected Fotis Kouveli's proposal and recommended, instead, that the party votes in favor of both the omnibus bill and the new Budget. Fotis Kouvelis has not enforced party discipline on his party's MPs. Junior coalition partner Democratic Left has also seen the total number of its parliamentary seats dropping to 16 from 17 in the June ballot, after MP Yiannis Micheloyiannakis quit the party last week, expressing his opposition to the new austerity package. Mr. Micheloyiannakis declared himself as an independent deputy.

Graph 1: Greece's tripartite coalition parliamentary representation has been reduced since the June ballot



Source: Greek Ministry of Internal Affairs

Greek Parliament expected to approve key omnibus bill, even by a narrow majority. Parliamentary approval of the FY-2013 Budget likely to prove an easier sail for the government

Speaking to reporters late last week, Greek Finance Minister Yiannis Stournaras appeared fairly confident that the omnibus bill and the Budget will be approved by the Parliament, opening the way for the release of the new EU-IMF loan tranche by late November. As things stand at this point, under a baseline scenario which entails that all ND MPs cast a positive vote, the omnibus bill could receive 155 in-favor votes (127 ND+ 28 PASOK) while, under a more favorable scenario, positive votes could rise to 158 (127 ND+ 29 PASOK + 2 DL). Parliamentary approval of the budget will likely prove an easier sail for the government, with a parliamentary majority of as many as 172-175 appearing to be a feasible scenario.

European Economic and Monetary Affairs Commissioner Olli Rehn says official lenders on track to reach a deal on Greece at the November 12 Eurogroup

At the press conference following the conclusion of the G20 finance ministers' meeting earlier this week, European Economic and Monetary Affairs Commissioner Olli Rehn said that official lenders were on track to reach a deal on Greece at the November 12 Eurogroup, provided that the Greek Parliament would have approved by then the new package of fiscal and structural measures. The comments followed a Reuters report quoting an unnamed EU official as casting doubt on the prospect of a deal being reached as soon as next week.

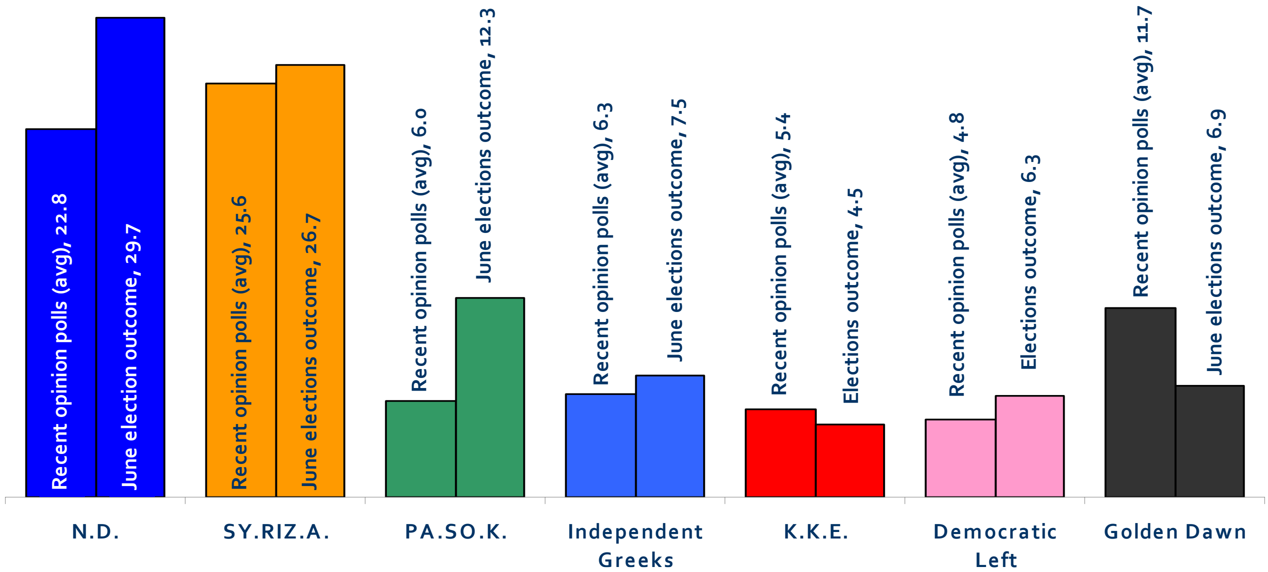
What the Greek constitution entails for the parliamentary vote on bills

According to Article 67 of the Constitution of Greece, Parliament can not resolve on Bills (or law proposals) without an absolute majority (50% +1) of the *attending MPs,* which can not be less than one-fourth of the total number of parliamentary deputies (i.e., 75). Yet, with regards to the parliamentary vote on the Budget, which is traditionally tantamount to a confidence vote on the government, the voting procedure is based on Article 84 of the Constitution. This specific Article entails that the vote on a motion of confidence (or censure) cannot be adopted unless it is approved by an absolute majority of the attending MPs, which can not be less than 2/5ths of the total number of parliamentary deputies (i.e., 120 in favor votes). Yet, from a pure- political perspective, the number of in-favor votes on the new Budget must be higher than 120 and at least 151 in the 300-seat Greek Parliament, so as for the government to continue enjoying its legitimacy.

SYRIZA leads marginally New Democracy in recent polls

According to a number of public opinion polls published in local press over the last four weeks or so, the main opposition (and anti-bailout) leftist SYRIZA party enjoys a narrow lead over major ruling coalition partner New Democracy (see ***Graph 2*). Specifically, based on the results of three opinion polls published since mid-October, SYRIZA leads with an average popularity rating of 25.6% (unadjusted for undecided and abstaining voters), with centre-right New Democracy trailing behind with 22.8%. However, both ND and SYRIZA have reduced their popularity compared to their performance in the June 17 national election, when they scored 29.7% and 26.9% respectively. Socialist PASOK, the biggest pro-bailout party after ND, received average public support of 6.0%, down from 12.3% in the June election. The smaller pro-European coalition partner Democratic Left received 4.8%, down from 6.3% and the center-right anti-bailout Independent Greeks party averaged 6.3% compared to 7.5% in the June ballot. The Communist Party of Greece KKE saw its public support rising to 5.4% from 4.5% in June. The only political party which has gained significant momentum is far-right Golden Dawn, presumably supported by increased social dissent towards illegal immigration and rising criminality in major urban cities. Its support stood at an average of 11.7% and was placed third behind ND and SYRIZA, up nearly 5 percentage points since the June election that gave the party a foothold in Parliament for the first time ever.

Graph 2: SYRIZA leads marginally New Democracy in recent opinion polls



Source: Local Press (VPRC, RASS/MARC, Pulse RC pollsters), Ministry of Internal Affairs

Opposition hardens anti-bailout stance; rising social discontent over the new austerity measures

Notwithstanding this week's parliamentary votes on the new austerity measures, their implementation is likely to prove another key challenge for the Greek government. This holds especially as opposition parties are hardening their stance. SYRIZA head, Alexis Tsipras, called on the Greek citizens to continue their "peaceful" uprising against the new measures and urged the coalition deputies to break party ranks and vote against the austerity package. Speaking before his parliamentary group on Sunday, Mr. Tsipras called for snap election, emphasizing that his party is ready to govern the country. On their part, Independent Greeks, the centre-right anti-bailout party which is headed by ex-ND parliamentary deputy Panos Kammenos, recently launched a petition aimed at setting up a parliamentary inquiry into how Greece had to request an EU/IMF bailout package. Similarly, Aleka Papariga, the head of the Communist Party of Greece (KKE), called earlier this week all citizens to "mass uprising" against the new measures.

According to a number of opinion polls published in the local press recently, an average 70% of respondents were on the view that the new austerity measures are unfair, placing a disproportional burden on weak social groups. The same surveys also revealed that an overwhelming majority of those questioned is pessimistic about Greece's economic prospects and expects more austerity measures to be introduced in the coming years. Yet, polls showed that a majority of around 75% favors Greece's uninterrupted euro area membership. In a protest against the new austerity and fiscal measures, the country's two biggest umbrella unions of private and public sector unions GSEE and ADEDY called a 48-hour general strike for November 6 & 7 to coincide with the parliamentary debate and vote on the omnibus bill.

Annex

Expenditure measures	2013	2014	2015	2016	2013-2016
Overhall of Public Administration	**385**	**284**	**50**	**0**	**719**
25% reduction in non-salary expenses of ministries and other public sector entities	203	79	0	0	281
Rationalisation of Public Investment Programme (PIP) expenditure	150	150	0	0	300
Reduction in grants provided to no general government entities	17	3	0	0	20
Electronic procurement system in public sector	0	50	50	0	100
Reduction in grants provided to arid lines	15	3	0	0	18
Municipalities	**50**	**160**	**0**	**0**	**210**
Health Care	**455**	**620**	**38**	**0**	**1,113**
Reduction in pharmaceutical spending of social security funds	390	410	0	0	800
Increased contribution of insured	0	115	0	0	115
Reduction in operating costs of hospitals	29	56	0	0	85
Other	36	38	38	0	112
National Defense	**303**	**100**	**4**	**0**	**406**
Cancelation of new armament contracts	223	69	0	0	292
Reduction in operating costs	22	13	0	0	35
Closure/commercial utilisation of army camps	10	14	4	0	27
Further reduction in amament contracts	44	0	0	0	44
Limiting new entrants to the Academy	4	4	0	0	8
Education	**86**	**37**	**10**	**0**	**133**
Reduction in operating costs for central and regional education services	23	0	0	0	23
Reduction in grants provided to public entitites in General Government and outside (culture, sports)	39	0	0	0	39
Reduction in operation cost via merging of Technological and Higher Education Institutions	24	37	10	0	71
Rationalisation of Public enterprises (DEKO)	**249**	**123**	**97**	**26**	**495**
Restructuring of public entities & reduction in operating costs	132	86	56	0	274
Implementation of the Single Salary Scale	76	0	0	0	76
Rationalisation in subsidies provided to public entitites in General Government and outside	41	24	15	0	79
Increased revenues	0	14	26	26	66
Pensions	4,680	563	140	92	5,475
Annulment of 13th & 14th installment in main & supplementary pensions (with the exception of OGA)	1,668	32	34	42	1,776
Annulment of 13th & 14th installment in main OGA pensions	673	15	14	14	717
Increase in the retirement age to 67 from 65	631	328	61	0	1,020
Staggered cuts in *main* and *supplementary* pensions cumulatively exceeding €1,000 gross per month (€1,000-€1,500:5%, €1,501-€2,000:10% and above €2,001:15%)	1,080	24	26	29	1,158
Reduction in pensions due to cuts in special wage regimes	100	2	2	3	106
Rationalisation of lump sum payments due in 2013 & 2014	247	0	0	0	247
Reduction in pensions due to new scale payment for uniformed	0	162	3	4	169
Annulment of pensions already granted without proper documentation (already identified)	112	0	0	0	112
Increase in farmers' social security contributions (Agricultural Insurance Organisation)	90	0	0	0	90
Imposition of a monthly cap to pensions received by unmarried daughters of deceased justice and military officials	42	0	0	0	42
Annulment of special pensions granted to labour unionists	6	0	0	0	6
Other	31	0	0	0	31
Wages	**1,174**	**204**	**75**	**44**	**1,497**
Reduction of the 13th and 14th installment for pubilc servants	431	0	0	0	431
Rationalisation of special wage regimes (with the exception of uniformed)	127	0	0	0	127
Rationalisation of special wage regimes for uniformed	130	0	0	0	130
New pay scale for uniformed	0	88	0	0	88
Rationalistion of general pay scale (with the exception of DEKO & special wage regimes)	10	0	0	0	10
Reduction in wage cost for minicipalities	55	4	4	4	67
Implementation of the Single Salary Scale for Parliamentary employees	11	0	0	0	11
Recruitment freeze in the Ministry of Public Order	0	2	2	4	8
Reduction in the temporary staff of Higher and Technological Education Institutions	9	5	0	0	13
New type of labor reserve/ early retirement abor reserve for public servants	6	48	78	36	167
Staff reduction in the Ministries of Education, Culture, Sports	3	7	2	0	12
Rationalisation of wage cost for public hospital managers	11	0	0	0	11
Other	382	51	-11	0	423

Preferential benefits	210	71	12	12	307
Rationalisation of family allowances	86	0	0	0	86
Abolishment of social welfare benefits (EKAS) to pensioners under the age of 65	0	114	0	0	114
Rationalisation of compensation for the provision of travel allowance to disabled	82	0	0	0	82
Reduction to special programmers for Agriculture	25	0	0	0	25
Rationalistion of pensions received by the uninsured elderly	12	12	12	12	50
Elimination of special unemployment allowances	30	0	0	0	30
Provision of special allowance for long-term unemployed	0	-35	0	0	-35
Other	-25	-20	0	0	-45
Total	**7,592**	**2,162**	**426**	**174**	**10,355**

Revenue measures	2013	2014	2015	2016	2013-2016
	1,782	2,024	103	-19	3,890
TOTAL (expenditure + revenue measures)	**9,374**	**4,186**	**529**	**155**	**14,245**

Source: MTSP 2013-2016

Table 2: Changes in the taxation system incorporated in the omnibus bill

i) Retrospective elimination as of 2012 of all family allowances and tax exemptions related to the number of dependant children. Family allowances will be replaced by a single monthly tax allowance of €40 for one child, €80 for two, €130 for three, €180 for four and €60 for each child in families with more than five, provided that the declared annual income does not exceed €6,000. Families which declare annual income from €6,001-€12,000 will receive 2/3 of the family allowance they are entitled and these which declare from €12,000-€18,000 will receive 1/3. No family allowance will be provided in case the declared annual income is above €18,001.

ii) Reduction in VAT returns to farmers.

iii) Increase in the oil consumption tax for farmers.

iv) Increase in the tax rate on the interest earned on bank deposits to 15% from 10% currently.

v) Increase in the consumption tax for LDG fuel.

vi) Imposition of a 10% tax on sports lottery OPAP players' profits.

vii) Increase in the special consumption tax on certain tobacco products.

viii) Appointment of a specially-assigned general secretary in the Ministry of Finance to oversee the collection of taxes.

ix) Repeal of the Code of Books and Records and its replacement by simpler legislation.

x) Imposition of a luxury tax.

xi) Change in taxation for ships (will be based on the tonnage).

Source: Local Press

Table 3 – New measures aiming to induce more flexibility in the domestic labor market

(i) Lay-off compensation for dismissed employees who have already worked with the same employers for more than 16 consecutive years will be based on the level of their gross monthly salary for the first 16 years and will be capped at a fixed amount of €2,000 per annum for the remaining years. After the parliamentary approval of the omnibus bill, lay-off compensation will be capped at 16 gross monthly salaries (even in cases employees have worked for more than 16 consecutive years with the same employee).

(ii) Annulment of the marriage allowance.

(iii) Required period of redundancy notice employers have to provide to employees will be reduced from 6 to 4 months (dependant on the number of years of working experience).

(iv) Delinking of working hours of employees from the opening hours of establishments.

(v) Minimum daily rest time to be reduced to 11 consecutive hours between shifts from 12 previously.

(vi) Elimination of restrictions on minimum/maximum time between morning and afternoon shifts; increase in the number of maximum workdays in retail establishments from 5 currently to 6 per week. The above holds provided that the number of working hours will not exceed 40 per week.

(vii) The two-week consecutive leave in seasonal sectors, to be taken anytime during the year.

(viii) Decrease by 1.1% in employer contributions to social security funds as of November 1, 2012.

(ix) Annulment of the expandability of the National General Collective Agreement (NGCA) as of 01-01-2013.

(x) Provision of a special allowanced up to €200 monthly for long-timer unemployed (as of 01-01-2014)

Source: Local Press

Research Team

Editor, Professor **Gikas Hardouvelis**
Chief Economist & Director of Research Eurobank Group

Financial Markets Research Division

Platon Monokroussos: *Head of Financial Markets Research Division*
Paraskevi Petropoulou: *G10 Markets Analyst*
Galatia Phoka: *Emerging Markets Analyst*

Economic Research & Forecasting Division

Dimitris Malliaropulos: *Economic Research Advisor*
Tasos Anastasatos: *Senior Economist*
Ioannis Gkionis: *Research Economist*
Vasilis Zarkos: *Economic Analyst*
Stella Kanellopoulou: *Research Economist*
Olga Kosma: *Economic Analyst*
Maria Prandeka: *Economic Analyst*
Theodosios Sampaniotis: *Senior Economic Analyst*
Theodoros Stamatiou: *Research Economist*

Eurobank 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr