

# GREECE MACRO MONITOR

June 21, 2011

Focus notes: Greece

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## Confidence vote in Greek parliament & key events to monitor ahead

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### **June 19/20 Eurogroup signals readiness to disburse 5<sup>th</sup> loan tranche to Greece by mid-July; Passing of MTFP in Greek parliament is a key prerequisite for additional EU/IMF funding**

In an statement issued into the early hours on Monday following the conclusion of the June 19/20 Eurogroup meeting, Eurozone finance ministers said that *"the Commission's Compliance Report...which is expected in the coming days...together with the passing of key laws on the fiscal strategy and privatization by the Greek parliament, will pave the way for the next disbursement by mid-July"*. Further underlying the importance of a parliamentary approval of Greece's medium-term fiscal plan (MTFP), the Eurogroup statement read that Greece's debt sustainability "hinges critically" on the rigorous implementation of the plan, an assessment based on a special debt sustainability study conducted by the Commission and the IMF.

Shortly after the conclusion of the Eurogroup meeting, Chairman Jean-Claude Juncker said that Eurozone finance ministers will hold an

emergency meeting on July 3, urging Greece to secure parliamentary approval of the MTFP before that day. No official date for a parliamentary vote on the medium-term plan has been announced yet, but according to a number of local press reports, the vote will take place between June 28 and June 30. Provided that the Greek parliament will endorse the plan, we expect the July 3<sup>rd</sup> Eurogroup meeting to give the green light for the disbursement of the 5<sup>th</sup> EU loan tranche to Greece. We also understand that another key precondition for the dispersal of the next EU/IMF tranche (€12bn in total, consisting of €8.7bn in the form of bilateral loans from EU partners plus €3.3bn in the form of IMF funding) is a final agreement between the government and a new mission of EC/ECB/IMF technocrats currently in Athens on a number of pending issues relating to the MTFP. With respect to the Fund's next loan disbursement, it appears that, in addition to the fulfillment of the above stated preconditions, the IMF wants a firm political commitment by euro area partners as to the coverage of Greece's public borrowing requirement for at least the next 12 months.

Note that IMF's acting managing director John Lipsky said in a conference y-day that "we will all require assurances that the programme is financed and that involves assurances from our Eurogroup partners that adequate finance is available". We expect the necessary assurances with respect to the coverage of Greece's borrowing requirement to be provided by early July, when the euro area partners announce the main parameters of a second bailout package to Greece (see also section below).

**Based on the information we have so far, the timetable of events to watch ahead with respect to the Greek debt crisis is as follows:**

### **Greece Events Timeline**

**June 21, 2011 (12pm local time) - Confidence Vote in Greek parliament**

**June 23-24, 2011 - Summit of EU Leaders**

**June 28-30, 2011 - Parliamentary vote on Greece's Medium-Term Fiscal Strategy**

**July 3, 2011 - Eurogroup decides on disbursement of 5th EU loan Tranche**

**Early July, 2011 - IMF Board meets to decide disbursement of €3.3bn loan tranche**

**July 11, 2011 - European finance ministers meet again to finalize the key parameters of a new financial assistance programme for Greece** (expected size: €120-€150bn; full coverage of Greece's borrowing requirement till 2014; expected composition of sources of funding: 50% of total package in the form of EFSF/IMF funding + 25% in the form of privatization programme proceeds + 25% private-sector participation i.e., Vienna-type roll over of exposures).

**July 15, 2011 - Greece has €2.4bn in T-bills redemption**

**July 22, 2011 - Greece has €1.6bn in T-bills redemption**

Source: Official sources, Eurobank EFG research

**Government broadly expected to survive June 21<sup>st</sup> confidence vote**

In view of the latest domestic political developments and the current balance of powers within the Greek parliament we assign a very high probability that the government will successfully survive today's confidence vote (expected to take place at midnight, 12pm local time). The basic rational

supporting our view is provided in our previous Greece Macro Monitor, June 19, 2011,

<http://www.eurobank.gr/Uploads/Reports/GREECE%20MACROJune%2020.pdf>.

In a nutshell, we consider last week's successful conclusion of an emergency meeting of PASOK's MPs on the issue of party leadership to be almost as good as a vote of confidence to the Prime Minister, George Papandreou. On that basis, it appears likely that at least 155 MPs will vote in favor of the government later today (PASOK currently controls 155 seats in the 300-seat parliament).

**New rescue plan for Greece: key parameters to be finalized by early July**

With respect to the eagerly-awaited new bailout package for Greece, Eurozone finance ministers agreed at the June 19/20 Eurogroup meeting to finalize its key parameters by early July (EU Commissioner Olli Rehn stated recently that July 11<sup>th</sup> is the potential target date for the finalization of the second Greek rescue plan). In line with the preliminary agreement reached last Friday between German Chancellor Angela Merkel and French President Nicolas Sarkozy on the form of private-sector involvement in a new aid package for Greece, Eurozone finance ministers explicitly mentioned in their statement y-day that this would take the form of "informal and voluntary roll-overs of existing Greek debt at maturity...while avoiding a selective default for Greece" (*for more details on the potential size of the new Greek bailout package, the features of the roll-over scheme and the expected composition of sources of funding, please see our previous Greece Macro Monitor, June 19, 2011*).

<http://www.eurobank.gr/Uploads/Reports/GREECE%20MACROJune%2020.pdf>

**ESM loans issued on behalf of EU sovereigns receiving EU/IMF financial support will not enjoy preferred credit status**

Reportedly, the June 19/20 Eurogroup meeting reached an initial agreement that all loans issued by the permanent crisis resolution mechanism (ESM) on behalf of member state countries receiving EU/IMF financial support (i.e. currently, Greece, Ireland, Portugal) will not enjoy the originally planned seniority status. This decision will actually somewhat ease market concerns that ailing EU peripherals would not easily regain access to private capital in the future as private investors would have even less incentives to support them by continuing to buy their sovereign paper (EFSF was not granted seniority, thus, EFSF loans were earlier expected to be subordinate to ESM loans). It is worth recalling that Eurozone finance ministers decided in September last year that loans provided by the ESM that will replace the existing European Financial Stability Facility (EFSF) once it expires in June 2013, will be granted seniority and they will be junior only to IMF loans.

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