

# GREECE MACRO MONITOR

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## ***Greece committed to submit list of reforms to allow partial release of pending loan tranche***

Paraskevi Petropoulou  
G10 Markets Analyst  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr)

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### **Greece committed to submit list of reforms to allow partial release of pending loan tranche**

The conciliatory tone of the meeting between Greek Prime Minister Alexis Tsipras and the seven high-level EU officials in the sidelines of last week's EU Summit can be seen as an important step towards facilitating the unlocking of an early (partial) disbursement of the €7.2bn pending loan tranche<sup>1</sup>. In a joint statement issued after the meeting, the EU leaders expressed their resolve to implement the agreement reached at the February 20<sup>th</sup> Eurogroup and committed to speed up the necessary work for completing the pending review. On its part, the Greek side assured EU creditors that it will shortly present a *fully costed* list of reforms with a view to have it swiftly approved by euro area finance ministers. Speaking to reporters following the conclusion of the meeting, Mr. Tsipras said that there was a common understanding that Greece is not committed to either conclude the 5<sup>th</sup> review of the 2<sup>nd</sup> second adjustment program or to implement further recessionary measures. Furthermore, referring to the comprehensive reforms list his government is expected to submit in the days ahead, he said that this would not include any of the reforms discussed between the previous Greek government and the troika.

### **Eurogroup said to convene soon to examine possibility of early loan disbursement**

As stated by Eurogroup President Jeroen Dijsselboem in the sidelines of last week's EU Summit, euro area finance ministers could meet soon (reportedly by March 30) to examine the possibility of allowing a partial release of the pending loan tranche to Greece, provided that the Greek side presents a comprehensive list of reforms that is positively assessed by the Institutions. According to press reports, this early disbursement could amount to €1.9bn and include the profits accrued to the Eurosystem's ANFA and SMF portfolios of Greek debt. On her part, Germany's Chancellor Angela Merkel refrained from setting a specific date for the release of additional financing, noting that this would depend on a positive evaluation of Greece's reform proposals. Yet, she signaled some flexibility as regards the said proposals, stating that they could well differ from what was discussed with the previous Greek government, on the condition that they have no additional fiscal impact.

<sup>1</sup> The EU officials who attended the said meeting included: European Commission President Jean-Claude Juncker, German Chancellor Angela Merkel, France's President Francois Holland, ECB President Mario Draghi, Eurogroup President Jeroen Dijsselboem, President of the EU Council Donald Tusk and the Secretary-General of the EU Council Uwe Corsepius.

### Greek government in the process of drawing up comprehensive reforms list

The Greek government is currently working on a comprehensive list of reforms in an effort secure an early (partial) disbursement of the €7.2bn pending loan tranche. As per a number of local press reports, the said list envisages, among others: (i) higher VAT rates on tobacco products and some alcoholic beverages; (ii) higher VAT rates applied in some well-known Greek islands *e.g.*, Mykonos, Santorini and Tzia<sup>2</sup>; (iii) higher tax rates for high income earners; (iv) implementation of certain privatization projects<sup>3</sup>; (v) improvement of tax administration. Reportedly, the government's aim is the establishment of fully independent revenue administration; (vi) review of big corporations' tax avoidance through "triangular transactions"; and (vii) Imposition of tax on undeclared income held in foreign bank accounts or somewhere else.

### Policy talks to continue in Brussels, fact-finding missions to take place in Athens

Official discussions between Greek authorities and the Institutions for the implementation of the February 20<sup>th</sup> Eurogroup agreement formally started on March 11, evolving in two parallel fronts. On one hand, there is the newly established *Brussels Group*, which consists of high-level representatives of the four Institutions (*i.e.*, IMF, European Commission, ECB and ESM) and the Greek negotiating team headed by the Secretary General of Fiscal Policy and the Chairman of the Council of Economic Advisors (SOE). On the other hand, there are currently a number of technical teams based in Athens, which represent the Institutions and the Greek government and their mission is to provide technical support to the Brussels Group. On the back of some recent press reports claiming that, in some cases the Athens-based technical teams may have gone beyond their mandate during their talks with domestic authorities, the joint statement issued in the sidelines of last week's EU Summit read that "policy talks take place in Brussels. The fact-finding missions take place in Athens".

### Coverage of State borrowing needs remains a major short-term challenge

In a televised interview late last week, Deputy Prime Minister Giannis Dragasakis admitted that, unless an agreement between Greece and its official creditors is reached soon, the country's liquidity problem will be further exacerbated. State coffers were depleted further last Friday (March 20) when Greece reimbursed c. €350mn to the IMF. This was the fourth and the last such principal payment for the month of March, taking the total amount paid to the Fund this month to c. €1.5bn. The State also successfully rolled over €1.6bn in 13-Week T-bills on Friday. The next major debt repayment is scheduled for April 9 when an interest payment to the IMF is due (c. €448mn). All in all, total interest and amortization payments on Greek sovereign debt (held by both official- and private-sector accounts) in the period between April and December 2015 are as follows: Q2: €3.8bn; Q3: €10.2bn; and Q4: €2.3bn. In addition to these, maturing T-bill exposures scheduled for the remainder of the current year stand at €10.1bn in Q2 and €4.4bn in Q3.

### Parliament approves legislation to allow short-term State borrowing from General Government entities

The Hellenic Parliament approved last week an amended law (2469/1997) to allow short-term State borrowing from various public entities including social security funds, legal entities of public law and state enterprises (DEKO). The law provides full guarantee to such entities against any related capital losses. This holds provided that the Boards will give their consent to invest in short-term State securities any available cash reserves they may hold in a special BoG interest bearing account. If fully utilized, the said source could secure an additional liquidity buffer of €2 to €3bn, but it remains uncertain at this point how much of this maybe finally used to cover State borrowing needs, given that the Boards of a number of social security funds have already rejected the government's proposal. The aforementioned law also allows the State to tap some €900mn of available HFSF funds, around €550mn of which represent fees charged during the 2013 bank recapitalization program. In addition to the aforementioned, the government has reportedly decided to temporarily put off any expenditure not related to the *inherently* inelastic ones such as wage and pension payments or any other services that is deemed essential for the proper functioning of the State. Furthermore, the Hellenic Parliament approved a law last week for the implementation of an "express deduction scheme for the payment of overdue tax and social security payments". The scheme allows the payment of overdue liabilities (verified up to March 1, 2015) to the tax authority and the social security system in up to 100 monthly installments. It will be in effect until the end of this month, offering debtors the chance to honour their debt in a lump sum fashion with all (or a part) of related fines and penalties being written off.<sup>4</sup>

<sup>2</sup> A 30% discount on VAT rates is currently applied in all Greek islands with the exception of Crete.

<sup>3</sup> The local press reported earlier today that the Greek authorities have reached a preliminary agreement with the Institutions to call for the submission of binding bids for a number of concession contracts, including: (a) a new pier in the two biggest Greek ports of Piraeus and Thessaloniki; (b) 14 regional Greek airports; and (c) the sale of the Hellenic Railways Organization (OSE).

<sup>4</sup> Cumulative overdue social security contributions accrued up to end-December 2014 stood at around €17bn while, based on the latest data from the Secretariat General for Public Revenues, cumulative tax arrears totaled c.€77bn, out of which c. €1.77bn was accumulated in the first two months of this year.

**EU Commission announces €2.1bn aid package to address Greece's humanitarian crisis**

On the sidelines of last week's EU Summit, European Commission President Jean-Claude Juncker announced that €2.1bn of unused EU structural and cohesion funds will be made available to address Greece's humanitarian crisis. The said aid, which constitutes part of the €20.1bn package of EU funds available for Greece for the period 2014-2020, will not be channeled to the State coffers but will be directed towards activities aiming to boost economic growth and addressing the domestic crisis. As was agreed during his meeting with Greece's Premier earlier this month, the EU Commissioner announced that a task force of Greek officials will be established in Athens to cooperate directly with the EU Commission's Task Force for Greece which provides technical assistance on structural reforms and the absorption of EU funds.

**2014 General Government primary surplus undershoots program target**

The latest data on the execution of the State Budget revealed an underperformance of the respective target for tax revenue, which more than offset an under execution of primary expenditure (see Appendix I). In more detail, the Central Government primary balance on a modified cash basis showed a surplus of €1.24bn in the first two months of the year, less than the €1.41bn expected, mainly due to an underperformance (by c. €1.17bn) of the respective net revenue target set in the 2015 Budget. Separately, the MoF announced that, according to preliminary data, the General Government primary balance - as per the Economic Adjustment Program definition- run a surplus of 0.3%-of-GDP in 2014, which compares with a program target of 1.5%-of-GDP.

Mach 22, 2015

## Appendix I

Table: State Budget Execution – 2 Months January-February 2015

	Jan-Feb 2014	Jan-Feb 2015				FY-2014	FY-2015
	Realization (€mn)	Realization (€mn)	Realization YoY%	MTFS 2015-2018 Target (€mn)	Deviation (€mn)	Realisation (€mn)	Budget 2015 Target (€mn)
	(1)	(2)	(3)	(4) = (2)-(3)	(6)	(7)	
<b>I. Ordinary Budget Balance (A-B)</b>	-500	-448	-10.4%	-10	-438	-1,821	1,566
<b>State Budget Net Revenue (A+C1)</b>	9,463	7,793	-17.6%	8,757	-964	51,367	55,603
<b>A. Ordinary budget net revenue (A1+A1-A3)</b>	7,869	7,297	-7.3%	8,467	-1,170	46,650	50,871
A1. Revenue before tax returns	8,366	7,905	-5.5%	8,778	-873	49,636	53,171
A2. Privatisation proceeds	0	0		152	0	384	577
A3. Tax returns	497	608	22.3%	463	145	3,370	2,877
<b>State Budget Net Expenditure (B+C2)</b>	8,975	7,983	-11.1%	8,827	-844	55,063	55,705
<b>B. Ordinary budget expenditure (B1+B2+B3+B4+B5)</b>	8,369	7,745	-7.5%	8,477	-732	48,471	49,305
B1. Primary expenditure	6,418	6,307	-1.7%	6,898	-591	41,928	41,887
B2. Military procurement (on a cash basis)	5	0		70	-70	345	700
B3. Guarantees called	370	6		29	-23	587	818
B4. Net interest payments	1,576	1,432	-9.1%	1,480	-48	5,569	5,900
B5. Loan disbursement fee to EFSF	0	0		0	0	42	0
<b>II. Public Investment Budget (PIB) (C1-C2)</b>	988	258	-73.9%	-60	318	-1,875	-1,668
C1. PIB net revenue	1,594	496	-68.9%	290	206	4,717	4,732
C2. PIB expenditure	606	238	-60.7%	350	-112	6,592	6,400
<b>III. Central Government Budget Balance (I+II) (+surplus, - deficit)</b>	488	-190	-138.9%	-70	-120	-3,696	-102
<b>IV. Central Government <u>Primary</u> Balance (III+B4) (+surplus, - deficit)</b>	2,064	1,242	-148.1%	1,410	-168	1,873	5,798

Source: Ministry of Finance

## Eurobank Global Markets Research

### Global Markets Research Team

**Dr. Platon Monokroussos:** *Chief Market Economist*  
[pmonokroussos@eurobank.gr](mailto:pmonokroussos@eurobank.gr), +30 210 37 18 903

**Paraskevi Petropoulou:** *G10 Markets Analyst*  
[ppetropoulou@eurobank.gr](mailto:ppetropoulou@eurobank.gr), +30 210 37 18 991

**Galatia Phoka:** *Emerging Markets Analyst*  
[gphoka@eurobank.gr](mailto:gphoka@eurobank.gr), +30 210 37 18 922

**Anna Dimitriadou:** *Economist*  
[andimitriadou@eurobank.gr](mailto:andimitriadou@eurobank.gr), +30 210 37 18 793

### Global Markets Sales

**Nikos Laios:** *Head of Treasury Sales*  
[nlaios@eurobank.gr](mailto:nlaios@eurobank.gr), +30 210 37 18 910

**Alexandra Papathanasiou:** *Head of Institutional Sales*  
[apapathanasiou@eurobank.gr](mailto:apapathanasiou@eurobank.gr), +30 210 37 18 996

**John Seimenis:** *Head of Corporate Sales*  
[yseimenis@eurobank.gr](mailto:yseimenis@eurobank.gr), +30 210 37 18 909

**Achilleas Stogioglou:** *Head of Private Banking Sales*  
[astogioglou@eurobank.gr](mailto:astogioglou@eurobank.gr), +30 210 37 18 904

**George Petrogiannis:** *Head of Shipping Sales*  
[gpetrogiannis@eurobank.gr](mailto:gpetrogiannis@eurobank.gr), +30 210 37 18 915

**Vassilis Gioulbaxiotis:** *Head International Sales*  
[vgioulbaxiotis@eurobank.gr](mailto:vgioulbaxiotis@eurobank.gr), +30 210 37 18 995

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankGlobalMarketsResearch@eurobank.gr](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

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