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Official discussions on the current review of Greece's stabilization program to resume in early December
Pending issues & progress attained thus far

This report constitutes an update of our November 14th Greece Macro Monitor "*5th troika review of Greece's stabilization program: Current state of negotiations, progress and challenges*". It takes a close look on the progress made during the latest round of negotiations between the Greek government and the troika as regards the fiscal and structural conditionality underlying the present program review. With nearly a week to go before the heads of the EC/ECB/IMF troika mission return to Athens for the resumption of official discussions, we present an overview of what has already been agreed and the pending issues still lying ahead. In addition, we offer an overview of two crucial votes in Greek Parliament in the period leading to the December 9 Eurogroup. Finally, we present an updated timeline of the key dates and events that deserve close monitoring in the upcoming period.

Official discussions on the current program review expected to resume early next month; "good progress" made in the latest round of negotiations

Discussions between the Greek government and the troika in the context of the current program review have taken a temporary pause. The heads of the troika mission left Athens on November 21, 2013 and, according to the current planning, they are reportedly expected to return on December 2 to assess the progress made by domestic authorities in fulfilling: (i) a range of quantitative targets and structural benchmarks underlying the current review; and (ii) the prior actions for the unlocking of the next EU loan installment (€1bn)[1]. A statement issued by the troika shortly after the mission heads last departed read that "good progress" has been made in the context of the present program review, but "a few issues remain outstanding". As per the same statement, official discussions will continue from respective headquarters until the troika mission heads return to Athens.

With nearly a week to go before the commencement official discussions, Greece's Prime Minister Antonis Samaras reportedly urged domestic authorities to redouble their efforts so as to address all outstanding issues by December 9, 2013 when the next Eurogroup is scheduled to convene. A similar message was delivered by German Chancellor Angela Merkel in a joint press conference after her meeting with Greece's Premier last week. The German Chancellor acknowledged that Greece has made "substantial progress" in fiscal consolidation and structural reforms and appeared confident that the current rift between the Greek government and the troika will be bridged, despite some pending disagreements regarding the size of the 2014 fiscal gap.

[1] For a comprehensive review of the agenda of the latest round of official discussions see Greece Macro Monitor "*5th troika review of Greece's stabilization program: Current state of negotiations, progress and challenges*", Eurobank Global Markets Research, November 14, 2013,
http://www.eurobank.gr/Uploads/Reports/Greece-%20Macro%20Monitor(November%2014%202013).pdf

Yet, as recently suggested by IMF Communications Director Gerry Rice, the time required for both sides to reach an agreement on contentious issues may well extend beyond the upcoming Eurogroup, especially taking into account the size and complexity of the present negotiations agenda. According to the local press, the Greek government's ultimate aim is to complete the present troika review (and secure the disbursement of the next EU loan tranche) by January 1st, 2014 when the country resumes the rotating presidency of the European Union. Unnamed finance ministry sources were quoted this week as saying that State cash reserves are adequate until mid-February 2014, provided that Greece will have received by then the next EU loan disbursement. Greece's first major sovereign liability settlement comes on January 11, 2014 when two old GGBs mature for €1.85bn.

Issues on which agreement has reportedly been reached

During the latest round of negotiations between the Greek government and the troika in the context of the 5th program review, the two sides agreed on a number of measures and policies aiming to facilitate fulfillment of the agreed program targets and to speed up the unlocking of the next EU loan installment. Major items on which an agreement has reportedly been reached include: (i) 2-month extension to the December 2013 deadline for the transfer of another 12.5k public employees to the so-called mobility scheme; (ii) former employees of the Hellenic Broadcasting Corporation (ERT) to be counted in the agreed program target of 4k layoffs by the end of this year; and (iii) downward revision to the privatization proceeds target for FY-2013 (to €1.3bn from €1.6bn). In what follows we provide some analysis on the aforementioned items:

Public administration reform. According to press reports, the troika accepted the Minister of Administrative Reform and E-Governance's request for a 2-month extension of the December 2013 deadline for the transfer of an additional 12.5k public employee to the mobility scheme[2]. As per the same sources, the agreement was reached following the fulfillment by the Greek side of the end-September structural benchmark for the placement of the first wave of 12.5k public employees to the said scheme[3] (prior action for the release of the next EU loan disbursement amounting to €1bn). Separately, the troika reportedly approved the government's proposal for counting ca 2k former employees of Hellenic Broadcasting Corporation (that was shut down in June 2013) in the agreed target of 4k layoffs by the end of this year. According to the Minister of Administrative Reform and E-Governance the pool of public sector employees to be subject to permanent dismissal will also include : (i) 250 employees who were found guilty of breaking the code of conduct; (ii) 500 public employees who quit for health reasons; and (iii) public sector employees of small and medium sized private-law legal entities and state enterprises (DEKO) that are to be merged or closed down in the coming weeks (*e.g.* the National Road Construction Fund). Reportedly, the troika has not yet responded to the Ministry's request for counting as mandatory exits the redundant positions resulting from the restructuring of the two state defense companies, Hellenic Vehicle Industry (ELVO) & Hellenic Defense Systems (HDS). As per the same sources, the troika has committed to respond by January 2014 on whether contractual staff (estimated at ca 6k), that will finally lose their legal appeal against the non-renewal of the temporary contract, will join the list of 11k additional mandatory exits planned for next year[4].

Downward revision to privatization proceeds target for 2013. Administrative bottlenecks as well as sluggishness in the licensing process and the approval of contracts have altered the implementation timetable of several privatization projects this year. Against this background, the two sides reportedly agreed to adjust the 2013 privatization proceeds target to €1.3bn from €1.6bn envisaged in the updated MoU (July 2013). Yet, some concerns remain as to the attainability of the *downwardly-revised* target for 2013. Privatization proceeds so far this year amount to €956bn (see Table 1 in Annex I). The latter figure does not incorporate: (i) €261.3mn from the recent sale and operational leaseback of 28 State properties[5]; and (ii) €188mn from the sale, early this summer, of a 66% stake in National Gas Transmission Network Operation DEFSA to Azeri state energy company Socar[6]. This is because finalization of these deals remains subject to *respective* approvals by the State Audit Council (reportedly expected by the end of this year) and the competition authority of Cyprus (reportedly expected by early 2014). The timely approval of these projects will determine the attainability of the revised privatization target for this year. In an effort to speed up the

[2] According to the minister, the pending transfers will mainly come from social security funds, municipalities and the health sector.
[3] As laid out in the updated MoU (July 2013), 12.5k public employees should had been moved to the mobility scheme by September-2013, while an additional 12.5k needs to be transferred by the end of this year, so as to create the space needed for addressing areas and functions featuring a deficit of skilled staff.
[4] According to the Minister of Administrative Reform and E-Governance, the said target will be covered mainly by redundant positions resulting from the merger/closure of a number of small and medium sized private law legal entities and DEKO.

[5] The 28 State properties were split into two groups; NGB Pangaea REIC, a National Bank subsidiary, was officially declared as successful bidder of the tender of the first group of buildings for total consideration of €115.5mn, while Eurobank Properties REIC was chosen for the second group for €145.81mn.
[6] Out of the 66% DESFA stake sold, 31% is owned by HRADF and 35% by Hellenic Petroleum S.A.

privatization program, the troika has reportedly agreed to authorize the Hellenic Republic Asset Development Fund (HRADF) to list the shares of privatized companies in the stock market as well as to issue common stock, warrants and/or convertible bonds. As per the same sources, the aim is to also have the HRADF being eventually allowed to securitize future proceeds from the leasing or sale of real estate properties currently in the privatization pipeline.

Pending issues under negotiation in the context of the 5th program review

With nearly a week to go before the heads of the EC/ECB/IMF troika mission are scheduled to return to Athens, Greece's Prime Minister Antonis Samaras reportedly urged domestic authorities to redouble their efforts so as to complete the outstanding prior actions for the release of the next EU loan installment and fulfill all remaining quantitative targets and structural benchmarks underlying the current review. The main issues in the agenda of the upcoming round of negotiations between the Greek government and the troika include: (i) suspension of the existing moratorium on forecloses; (ii) measures to induce additional flexibility to the domestic labor market; (iii) restructuring plan for Hellenic Defense Systems, HDS; (iv) changes in the regulatory framework for product and services markets; (v) implementation framework of the new single property tax; and (vi) size of projected fiscal gap in FY-2014 and sources/strategies to cover it. In what follows we provide some analysis on the aforementioned items:

Suspension of a moratorium on forecloses. According to the local press, the troika favors the full liberalization of foreclosures of primary residences as of January 1st, 2014. Supporting this view, the Head of the IMF mission to Greece was quoted last week as saying that, for the sake of the stability of the domestic banking system, the moratorium on foreclosures should come to an end. The IMF official argued that the ban on foreclosures is currently the main reason behind the increased number of "strategic default" cases, suggesting that many wealthy Greek citizens take advantage of the existing legislation to delay mortgage loan payments or even stop servicing their mortgage loan altogether. On its part, the Greek government appears to support a more gradual removal of the ban, reportedly intending to introduce a 1-year transitory period (*i.e.*, until December 31, 2014) before a full liberalization of foreclosures for primary residences takes hold. During that period, primary residences will not be auctioned, provided that the following conditions are met: (i) the property value does not exceed €150k; (ii) debtors face temporary payment difficulties, but are considered to be fundamentally solvent; and (iii) debtors are willing to collaborate with their bank(s) so as to reach agreement on a minimum monthly payment. In addition to the aforementioned, the two sides have reportedly agreed that certain socially vulnerable groups (*e.g.* those with an annual income below poverty line, those who can prove based on "a minimum acceptable rate of decent living" that they cannot service their loan) will not be affected by the planned removal of ban on home foreclosures.

Domestic labor market conditions. The Greek government reportedly opposes the troika's proposal for the abolition of the Labor & Social Security Minister's veto power (Law 1387/83, Article 5) on collective company redundancies in excess of the current layoff limits[7]. The Head of the IMF mission to Greece Poul Thomsen was recently quoted as saying that restrictions on collective dismissals in Greece are exceptionally intrusive, arguing that their relaxation can indeed have a strong beneficial impact on investment and job creation.

Restructuring plan for Hellenic Defense Systems (HDS)[8]. Arguing that HDS has a weak presence in international markets, the troika has reportedly proposed the company's radical streamlining, with its operation being focused solely on covering the needs of the Greek armed forces. On its part, the government insists that HDS should continue to operate in foreign markets for at least another 18 months, so as to facilitate its swifter return to profitability.

Regulatory framework for product and services markets. In its "Competition Assessment Reviews" published earlier this month, the OECD highlighted existing regulatory barriers to competition in four sectors of the Greek economy, including food processing, retail trade, tourism, and building materials[9]. In more detail, the organization identified 555 problematic restrictions in the production and trade of goods, ranging from fresh milk to drugs, bread and books, arguing that the removal of these restrictions could foster competition and facilitate the price adjustments needed to support the domestic economy. The troika reportedly urges the government to proceed with the adoption of necessary legislation to facilitate the necessary changes,

[7] According to the present legal framework, the monthly layoffs limit is as follows: a) 6 employees for companies with 20-150 employees; and b) 5% of staff for companies with more than 150 employees.
[8] HDS is engaged in the production of ammunition for the Greek armed forces.
[9] Taken together, these four sectors account for 21% of GDP and 27% of the total labor force.

despite the prospect of fierce resistance from vested interests.[10] On its part, the government intends to introduce the required legislation for the adoption of 70%-80% of the OECD recommendations.

Implementation framework of the new single property tax. The new single property tax (ENFA)[11], recently revised by the Ministry of Finance in response to a number of objections raised by several government coalition MPs, is projected to generate a budgetary shortfall of €250mn. Specifically, the government's revised framework assumes assessed taxes of €3.24bn/annum for €2.65bn/annum of projected annual receipts compared to expected revenues of €2.9bn/annum envisaged in the latest MF assessment of Greece's adjustment program (July 2013). As laid out in the 2014 Budget, the government is planning to bridge the aforementioned shortfall with an equiproportional reduction of the Public Investment Program. On its part the troika argues that ENFA, in its revised form, cannot secure revenues more than €2.5bn and the projected shortfall of €400mn needs to be covered by offsetting budgetary cuts not involving the Public Investment Program.

Size of projected fiscal gap in FY-2014 & ways to cover it. According to recent press reports, the troika now projects a fiscal gap of ca €1bn in FY-2014, lower compared to a ca €2bn shortfall they estimated earlier this month, when the latest phase of official discussions with domestic authorities commenced. The *downward revised* projection was partially the result of specific strategies/measures proposed by the Greek side aiming to help the fulfillment of the agreed fiscal target for 2014 (*i.e.*, generation of a 1.5%-of-GDP primary surplus).Speaking to a local TV station earlier this week, Greece's Ministry of Finance noted that any additional savings for next year will not come from higher taxation or horizontal cuts in wages and pensions. Along similar lines, the Head of the IMF mission to Greece was quoted last week as saying that the Fund shares the government's view that new horizontal austerity measures as a means of addressing projected fiscal shortfalls should be avoided. The official added that any new fiscal measures for Greece should be targeted carefully, so as to protect vulnerable social groups[12]. In the absence of a final agreement during the latest round of official discussions on the size of the projected fiscal gap in 2014 (and the required measures/strategies for its coverage), the final budget law for FY-2014 was submitted to Parliament on November 21st without the troika's consent. On the latter, EU spokesman Simon O' Connor was quoted as saying last week that there might be a need for the submission of an amended or supplementary budget at a later stage.

Crucial parliamentary votes ahead of the December 9 Eurogroup

The two weeks leading to the December 9 Eurogroup will see two crucial votes taking place in the Greek Parliament. The first one, reportedly expected to take place on December 5, will be on a bill incorporating the implementation framework of the new single property tax. The day after, parliamentary discussion on the Budget for FY-2014 is reportedly expected to commence, ending with a roll-call vote either on Saturday, December 7 or the day after.

Greece's two-party coalition government currently controls 154 seats in the 300-seat Parliament. As things stand at this point, there are no clear indicators that any of the 127 ND deputies or the 27 PASOK MPs would oppose either the (revised) single property tax or the Budget for FY-2014. That said, under a baseline scenario which entails that all ND and PASOK MPs cast a positive vote, both the new single property tax and the Budget for FY-2014 could receive 154 in-favor votes. As regards the FY-2014 budget, the government could potentially lure positive votes from the camp of the 12 independent MPs after some of them (including ex-PASOK MP Andreas Loverdos) have openly opposed the prospect of early election.

Eleven independent MPs announced last week that they clubbed together to establish a parliamentary group called "Independent Democratic Parliamentarians". They will form the eighth and smallest parliamentary group and will be headed by ex-ND deputy Theodoros Parastatidis. The only independent lawmaker who did not join the group is Theodora Tzakri who was expelled from PASOK's parliamentary group last month for breaking the party line and voting in favor of the motion of censure submitted by the main opposition party SYRIZA. According to press reports, Independent Democratic Parliamentarians will not have to follow a party line in the upcoming votes in Parliament.

[10] It is reportedly estimated that the removal of restrictions identified by the OECD would boost budgetary revenue by about €5bn/annum.
[11] The new single property tax (ENFA) is reportedly scheduled to come into force on January 1st, 2014, replacing the special levy (EETHDE), currently collected via electricity bills, and, partially, the wealth tax on property (FAP).
[12] The troika is reportedly mulling the ideal of pushing back the issue of the projected fiscal shortfall for the period 2015-2016 to early next year.

What the Greek Constitution entails for the parliamentary vote on bills and the Budget

According to Article 67 of the Constitution of Greece, Parliament cannot resolve on Bills (or law proposals) without an absolute majority (50% +1) of the *attending MPs,* which cannot 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 cannot be adopted unless it is approved by an absolute majority of the attending MPs, which cannot be less than one-fifth of the total number of parliamentary deputies (i.e., 120 in favor votes). In other words, for the government to continue enjoying its legitimacy, the number of in-favor votes on the new Budget must be at least 151, should all 300 MPs be present in the Parliament's voting session, or at least 120 in the event of nonattendances.

Annex I

Table 1- Privatization revenue received year-to-date

(i) €622mn from the sale of the 33% stake in gambling company OPAP (under the terms of transaction, the HRADF will receive an addition of €30mn in ten equal annual installments).

(ii) €27mn from the sale of State properties abroad.

(iii) €81 from the 90-year concession of the International Broadcasting Center (IBC) to Lamda Development.

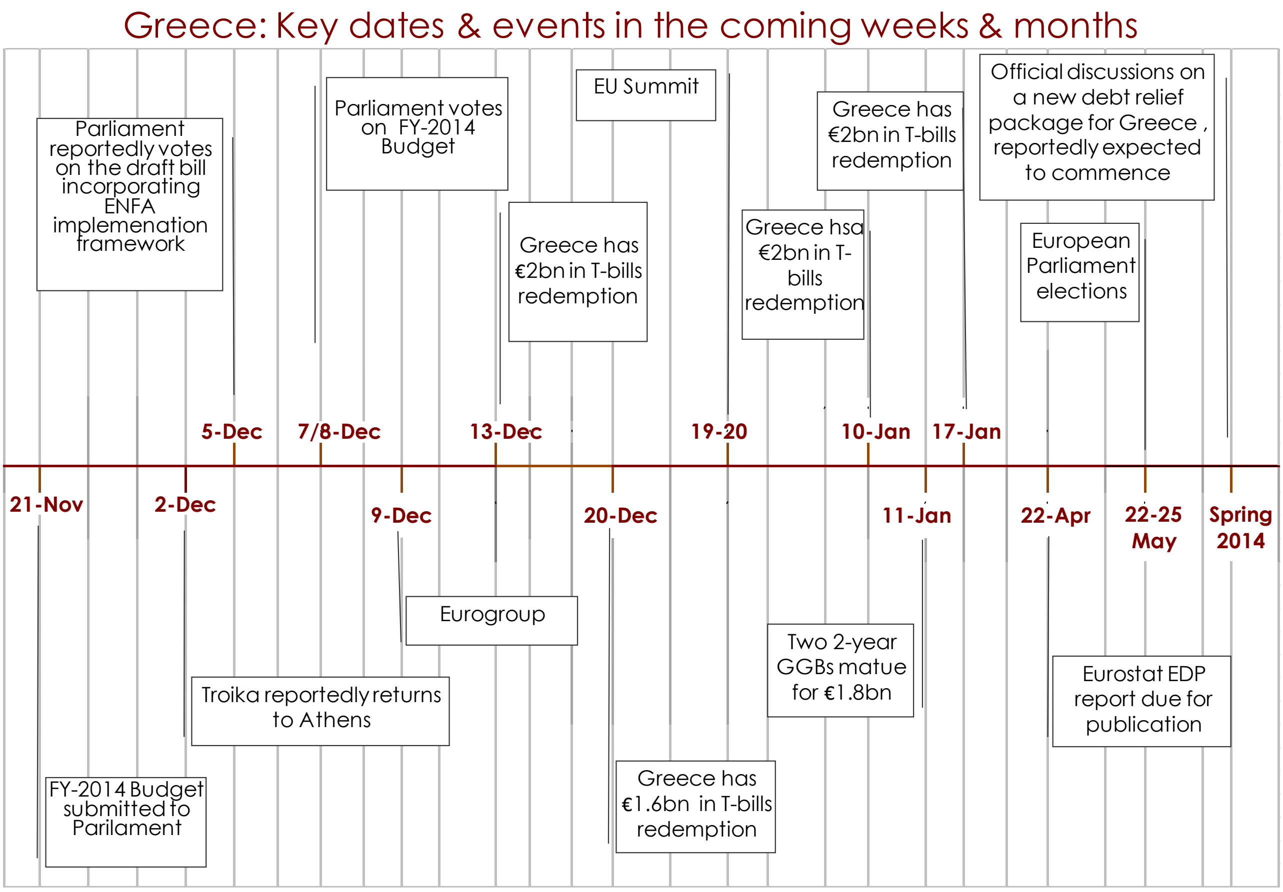
(iv) €190mn upfront payment from a 12-year contract signed with Hellenic Lotteries S.A for the operation of State Lotteries (another €560mnis expected in early 2014; the concession agreement also involves 12 annual installments, €30mn in the first year and €50mn/annum afterward).

(v) €36mn from the exploitation of other assets (e.g. stocks, state properties).

Source: 2014 Budget, Eurobank Global Markets Research

Annex II

Timeline of the key dates and events in coming weeks and months in the way to the completion of the 5th program review



Source: EU, Local Press, Eurobank Global Markets Research

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