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Greece outlook for H2 2016 and beyond

Domestic growth, program milestones, challenges & investment opportunities

This report looks at the short-term outlook of Greece, the crucial program milestones lying ahead and the important market opportunities that could arise from an inclusion of eligible Greek debt in the ECB's quantitative easing program.

Introduction and summary of views

The latest national accounts statistics showed that annual real GDP growth remained in a negative territory for the fourth consecutive quarter in Q2 2016. From the demand side, the latest recessionary phase (Q3 2015 – Q2 2016) was driven by deteriorated (private and public) consumption dynamics and lower exports. On the other hand, positive gross fixed capital formation growth (in Q4 2015 & Q2 2016) and the rebuilding of inventories (in H1 2016) provided a partial offset. Potential factors explaining the above developments include, inter alia, households' declining disposable income, economic sentiment & expectations as well as the effects from capital controls. Especially the latter development marked a turning point for Greek exports.

On the supply side, labour productivity remained a major obstacle to growth, with the available data pointing to another decline in the second quarter of this year. On a more positive note, real output grew by 0.2% in Q2 2016 relative to the prior quarter, with another positive quarter-on-quarter reading expected in Q3. Yet, available high frequency data pertaining to the third quarter continue to portray a rather mixed picture. As such, it is rather early to judge whether the economy is moving towards a more sustainable expansionary path.

All things considered, our forecast for 2016 real GDP growth currently stands at -0.5% (revised upwards from a rate of -1.0% we were forecasting in early 2016), with the respective figures for private consumption, government consumption, gross capital formation, exports and imports being: -0.9%, -1.7%, +3.2%, -3.0% and -3.5%. We would not even exclude a slightly better outcome, provided that current expectations for another strong year in the Greek tourism sector are vindicated.

On the fiscal side, our current assessment is that the 0.5%-of-GDP primary surplus target for 2016 will be attained (if not outperformed), assuming no serious incidences of fiscal derailment or other unforeseen circumstances in the remainder of the year. Among others, this view derives from: the better-than-projected budget execution data over the first seven months of 2016; our forecast for a slightly milder than expected GDP contraction for the full year; the new fiscal measures legislated in May and June 2016 as well as the recent efforts to reorganize and strengthen the functioning of the independent revenue agency (program milestone).

On public debt, our study argues strongly in favor of substantial debt relief to Greece in an upfront fashion (i.e., before the expiration of the current stabilization program in August 2018) so as to stabilize investor sentiment and allow a quicker recovery of the macro economy via a further significant improvement of domestic financial conditions. But, even in the absence of more front-loaded relief, upfront clarity on the agreed medium- and long-term debt framework could go a long way towards improving market sentiment, in our view.

As regards Greece's potential inclusion in the ECB's quantitative easing program (PSPP), our analysis suggests that the inclusion of Greek marketable debt in the aforementioned program could take place by late 2016/early 2017 at the earliest, provided that the ECB Governing Council makes a positive assessment of the progress made in the analysis and reinforcement of the sustainability of Greek public debt and assuming no major delays in the completion of the 2nd program review. Total central bank purchases of Greek debt could reach a maximum of c. €4.2bn, with potential for a further increase to over €5bn if the present QE program were to be extended beyond March 2017. This would be equivalent to well over a year's worth of the present total daily trading volume in Greek government securities, having a pronounced impact on risk premia and contributing to a further significant GGB yield spread compression.

With regard to the implementation of the new adjustment program, the completion of the 1st program review in May 2016 marked an important milestone, opening the way for a material improvement in the outlook of the Greek economy, which, however, remains path-dependent and subject to the considerable domestic and external uncertainties. More imminently, the second (and last) disbursement of the ESM loan tranche linked to the first review (€2.8bn) is still pending, with key domestic officials expressing optimism that all pending issues will have been met by early October.

Should this be the case, the October 10th Eurogroup is expected to give the green light for the pending loan disbursement as well as the commencement of official discussions in the context of the second program review. Finalization of the latter without significant delays is of major importance as it might allow more clarity on the medium-term debt relief framework agreed at the May 24th Eurogroup and, by implication, the timing of a possible inclusion of eligible Greek debt in the ECB's QE and the IMF's participation status in the Greek bailout program.

Greece's economic performance: recent developments & short-term outlook

Stylianos G. Gogos & Anna Dimitriadou

Milder than expected recession in 2015

After 8 years of deep contraction in domestic economic activity (26.2% cumulative drop in real GDP), Greece is struggling to get back on a sustainable recovery path. In 2014, the economy showed some signs of stabilization, with real GDP expanding by a moderate 0.7% (vs. -3.2% in 2013). However, the prolonged uncertainty that dominated the economy during the first nine months of 2015 took its toll on domestic growth. In more detail, in the first half of 2015 the annual change of real GDP slowed down to 0.8% (from 1.1% in H2 2014), before turning negative in the following semester (-1.2%). For the full year, the economy remained broadly stagnant, with real GDP growth averaging -0.2%. Nonetheless, this was significantly better relative to initial expectations following last summer's upheaval (announcement of a referendum, short-term bank holiday and imposition of capital controls), thanks to a positive contribution from net exports, relatively resilient private consumption and a bounce back in public investment towards the end of last year. As a reminder, the initial European Commission forecast that was published in August 2015 envisaged a real output contraction between 2.0% and 4.0%. Again, certain domestic and external factors contributed to the economy's better than expected performance last year, including, inter alia, the agreement on the 3rd economic adjustment program in August 2015, a good tourism season, some gradual relaxation of capital controls, the successful bank recapitalization, the drop in oil prices and the devaluation of the euro.

Brief analysis of H1-16 national accounts statistics

During the 1st half of this year real GDP continued its decreasing path, albeit at a slower pace relative to H2 2015. Up to this point, quarterly national accounts data are available only up to 2016 Q2. On an annual basis, real GDP growth (on a non-seasonally adjusted basis) was -0.6% in H1 2016. Private consumption, government consumption and exports had a negative contribution to the tune of -0.8, -0.5 and -3.3ppts respectively. A positive impact came from gross capital formation (investment spending including the change in inventories) and imports. The former variable contributed 1.2 ppts (0.9 ppts due to the change in inventory investment), while the respective figure for the latter was 2.8 ppts. Was this performance uniform in the first 2 quarters of 2016? The answer is no. Both quantitatively and qualitatively we observed differences. The year-on-year GDP contraction in Q2 (-0.4%) was milder by 0.5 ppts relative to Q1 (-0.9%). This improvement came from two factors. On the one hand the negative contribution of private consumption to real GDP growth fell from -1.2 ppts in Q1 2016 to -0.4 ppts in the second quarter. On the other hand, the respective positive contribution from gross capital formation increased from 0.8 ppts to 1.7 ppts (-0.2 ppts to 0.7 ppts for gross fixed capital formation). The aforementioned positive effects were partially counterbalanced by the decline in the contribution of net exports, from +0.1 ppts in Q1 to -1.1 ppts in Q2 2016. The contribution of government consumption (-0.6 ppts) and inventory investment (+1.0 ppts) remained stable. Furthermore, on a quarterly basis the economy turned to a positive growth rate of 0.2% from a negative rate of -0.2% in Q1 2016. This performance was supported mainly by gross fixed capital formation (1.0 QoQ%).

What recent data releases tell us about the short-term outlook of the Greek economy What is the main picture that emerges from the above developments? Some key findings are provided below: *First*, annual real GDP growth remained on a negative territory for the fourth quarter in a row (2015 Q3 to 2016 Q2). The opportunity cost of not growing, especially for an economy that experienced a massive cumulative loss in its domestic production/income during the last 8 years, is, by itself, highly problematic. Steep output losses translate into labour shedding, income declines, losses of physical and human capital, lower social security contributions and tax receipts as well as lower social transfers and spending even on crucial goods and services that are absolutely necessary for the proper functioning of the State. *Second*, on a quarterly basis there was an expansion in Q2 2016 (real GDP growth +0.2%). We should note, however, that it is too early to tell whether this positive development marks a shift of the economy towards an expansionary path. High frequency hard and soft data released year-to-date continue to portray a rather mixed picture. *Third*, on the demand side, the latest recessionary phase has been driven by deteriorating (private and public) consumption dynamics and lower exports. On the other hand, the increase of gross fixed capital formation (in Q4 2015 & 2016 Q2) and the rebuilding of inventories (H1 2016) provided a partial offset to the aforementioned drivers.

Potential factors explaining the aforementioned developments include, inter alia, households' declining disposable income (-1.8 YoY% in 2016 Q1), economic sentiment & expectations (consumers' confidence indicator at historical low levels) as well as the effects from capital controls. Especially the latter parameter marked a turning point for Greek exports. National accounts data provide clear evidence of this development. Indeed, until 2015 Q3 -- i.e., the first quarter following the imposition of CC's -- exports of goods and services exhibited positive growth for 6 consecutive quarters (average rate: 6.2% YoY). Then, for the next 5 quarters they followed a declining path with an average annual growth rate of -10.9%. We must note that this deterioration came exclusively from the services sector (i.e., tourism and shipping). More specifically, the average annual change of exports of services abruptly fell from 9.0% (Q1 2014 to Q2 2015) to -26.3% (Q3 2015 to Q2 2016). The respective figures for goods exports were 4.0% and 2.4%. *Lastly,* on the supply side, labour productivity still constitutes a major obstacle to growth. Given the increase of employment and the fall of real GDP we estimate a further decrease in labour productivity for Q2 2016. Total factor productivity (TFP) remains the key explanatory variable for that decrease in the efficiency of the use of the labour factor.

Developments in the Greek tourism sector

The overall performance of the Greek tourism industry is expected to exert a significant influence on domestic economic activity this year (direct and total contribution to 2015 GDP estimated at 7.6% and 18.5%, respectively according to World Travel and Tourism Council). So far, data have been mixed. For H1 2016, according to Bank of Greece's BoP statistics, there were decreases in both inbound traveler flows (-1.6%yoy) and travel receipts (-5.8%) -- the respective figures for H1 2015 were 20.8% and 9.5%. Nevertheless, last minute bookings -- as reflected in data on international arrivals at Greece's main airports and road arrivals in July 2016 -- are encouraging and create optimism for a reversal of this negative performance in Q3 2016. More specifically, international arrivals at Greece's main airports, which account for more than 60% of total international tourism arrivals, recorded an increase of 9.1%yoy in July 2016 (compared to 4.1% in June 2016), and 6.4%yoy for the period January to July 2016 (compared to 4.9% for the period January-June 2016). At the same time, road arrivals which account for around 34% of total international tourism arrivals, increased by 1.6%yoy in July 2016 (compared to -9.0% in June 2016), although for the period January-July 2016 they fell by 4.8%yoy. The major challenges for Greek tourism this year are the impact of the refugee crisis and Brexit. With respect to the first, SETE (Greek Tourism Confederation) Intelligence conducted an online perception survey regarding the image of Greece in the tourism markets of the United Kingdom, Germany and USA, which showed that overall the refugee crisis has indeed negatively affected the perception of Greece as a tourism destination. This is in fact evident in the sharp annual decrease in international arrivals in January-July 2016 at the Greek destinations mostly affected by refugee flows, namely Mytilene (-62.7%), Samos (-29.7%) and Kos (-15.9%). With regard to Brexit, it should be noted that the UK constitutes a very important tourism market for Greece. For the period 2005-2015 inbound travelers from the UK averaged around 2.1 million annually, accounting for 15% of total arrivals. In the same period, annual tourist receipts from the UK averaged €1.7 billion, translating into a 16% share of total receipts. For H1 2016 tourism arrivals and receipts from the UK increased 13.1% and 2.2% respectively. Although there are no data yet on how the specific market performed post-Brexit referendum, a recent empirical study conducted by Eurobank Economic Research, which examines the determinants of tourism demand in Greece, found that there is a negative relationship between the real effective exchange rate of Greece relative to the origin country and real travel receipts per traveler as well as a positive relationship between GDP per capita of the origin country and total travel receipts. As per the said study, a 1ppt increase in the real effective exchange rate of Greece vs. an origin country may lead to a decrease of real travel receipts per traveler by €3.6 to €3.9. Therefore, the fact that since the UK referendum the EUR/GBP has appreciated c. 10% hitting the highest level in three years in mid-August may have had an impact on tourism arrivals and receipts from the UK. However, in spite of the aforementioned sources for concern, anecdotal evidence for tourism arrivals in July and August as well as indications for a good September and October show that 2016 is expected to be another good year with respect to total arrivals, which could reach a record high of 25million foreign visitors, excluding cruises. In terms of tourism receipts, the initial projections by SETE and WTTC for 2016 were +5.7% and +4.6%, respectively. Our overall assessment of the situation is that we may indeed see some small year-on-year increase in tourism receipts this year, despite the slight underperformance recorded in official data for the 1st semester of 2016 and anecdotal evidence suggesting that, post the imposition of capital controls, an increased portion of tourism income is received and kept abroad.

Labour market trends

What about the latest developments in the Greek labour market? Although the economy returned to negative growth rates in Q3 2015, the post-2013 declining trend in the rate of unemployment has not shown any signs of reversal up to this point. A possible explanation for this development relates to the huge decrease of the labour cost (e.g. wages) that took place over the last several years as well as the increase of part-time employment and the strengthened degree of labour market flexibility relative to the pre-crisis period. Regrettably, recovering employment conditions have not so far translated into material output gains due to the concurrent decline of labour productivity. According to the latest available data, the unemployment rate stood at 23.5% in May 2016 (stable relative to April 2016) from 25.0% in the same month a year earlier. Hence, there was an annual decrease of 1.5 ppts. This was broadly in line with the average month change in the unemployment rate over the period March 2014 to May 2016. We note that March 2014 marked the first month with a negative annual change in the unemployment rate after 63 months of continuous increase (by an average pace of 3.8 ppts). Under the current pace of improvement (decline) in domestic unemployment, the jobless rate would reach levels below 20% by the end of 2018. For the near future we do not expect a reversal of the declining trend in the rate of unemployment, with our projection for the full year standing at 24.0% (vs. 25.0% in 2015). Furthermore, we project 2.0% employment growth in 2016.

Domestic prices

Domestic inflation remained in a negative territory during the 1st half of 2016. In terms of the national CPI, average (per month) inflation in H1 2016 was -0.9%, compared to -1.2% in H2 2015 and -2.3% in H1 2015. The respective figures for HICP were -0.2%, -0.4% and -1.8%. This deceleration in the decreasing rate of prices is mainly attributed to the increase of indirect taxes (e.g. VAT). Average inflation based on HICP-CT (with constant taxes) was -2.2% in H1 2016 compared to -1.7% in H2 2015 and -1.4% in H1 2015.

Growth outlook H2 2016

As noted, the available (hard and soft) data pertaining to Q3 2016 portray a rather mixed picture as regards the short-term economic outlook. On the positive side, the Economic Sentiment Indicator (ESI) for Greece picked up in the prior couple of months (July-August 2016), while the Purchasing Mangers' Index (PMI) for August 2016 (50.4 vs. 48.7 in the prior month) slightly surpassed the boom-bust threshold of 50 units. On a less positive note, the aforementioned increase in economic sentiment was not accompanied by any material improvement in the consumer confidence indicator (as was also the case throughout the 1st quarter of 2016). Overall, available data do not provide enough evidence to support a dynamic economic rebound in H2 2016. Based on the non-seasonally adjusted data, EC's spring forecast (May 2016) for a mild recession of -0.3% in 2016 is consistent with an annual growth rate in 2016 H2 of 0.0% (+0.3% using the seasonally adjusted data). Some key factors that are expected to affect Greek GDP growth in H2 2016 and beyond are: first, the magnitude and the persistence of the fiscal drag and how it will affect consumer confidence. Second, the performance of the tourism industry during the crucial July-September period. Third, the speed of completion of the upcoming negotiations with official creditors in the context of the 3rd economic adjustment program. Fourth, external factors such as the "Brexit" and the refugee crisis. At this point, our forecast for 2016 real GDP growth is -0.5% (revised upwards from a -1.0% rate we were forecasting in early 2016), with the respective figures for private consumption, government consumption, gross capital formation, exports and imports standing at -0.9%, -1.7%, +3.2%, -3.0% and -3.5%. However, we would not entirely exclude a slightly better outcome, provided that initial expectations for another strong year in the Greek tourism sector are vindicated.

Fiscal conjecture and outlook

Theodoros Stamatiou

Budget execution year-to-date

According to State Budget Execution data for January-July 2016 (for more information see: www.eurobank.gr/Uploads/Reports/GLOBAL_FOCUS_NOTE_201609.PDF), the budget balance recorded a deficit of ca €0.83 bn, improved by €2.65 bn relatively to the respective 2016 Budget (B16) target (deficit €3.49 bn). The primary balance recorded a surplus of ca €3.55 bn, again significantly outperforming the B16 target (primary deficit of ca €0.87 bn). This was mainly on the back of a significant under-execution of ordinary budget expenditure (€27.13 bn vs. a B16 target of €29.52bn). On the receiving side, ordinary budget net revenue for January-July 2016 amounted to ca €25.95 bn, higher by ca €0.40 bn (or 1.6%) and €1.11bn (or 4.5%) compared with the B16 target and the corresponding 2015 figure. Total tax revenue over-performed the B16 target by ca €0.53bn (or 2.3%) as a result of higher than projected receipts from corporate income, property and other direct taxes (by 4.3%) as well as a further accumulation of direct tax arrears. Relative to the respective B16 targets for the first seven months of the year, the rate of outperformance of the aforementioned items is as follows: corporate income tax (2.4%); property taxes (2.4%); other direct taxes (4.3%); and direct tax arrears (12.1%). On a less positive note, year-to-July revenue from income tax under-performed the B16 target by 2.8%. As regards indirect taxes, VAT receipts were higher by 2.0% relative to the budget target, with the respective major sub-components coming in as follows: VAT revenue on fuels (-15.6% vs the B16 target), mainly on the back of lower than projected oil prices; VAT on tobacco and all other goods (+0.6% and +3.6%, respectively, compared with the B16 targets), mainly as a result of the VAT rate hike decided in May 2016 and the abolishment of the lower VAT rates applied to some Greek islands. On the other hand, tax refunds outperformed the B16 target by 14.7% (or €0.22bn). Non-tax revenue over-performed too, by €0.4bn relative to their respective target. In the Public Investment Budget (PIB), total revenue for January-July 2016 amounted to ca €2.05 bn, undershooting by €1.04 bn (or -33.8%) the respective B16 target, but recording a small increase (+0.6%) on an annual basis. On the other hand, PIB total expenditure amounted to ca €1.71 bn, lower compared with the respective B16 target by ca €0.90 bn (or -34.5%) but higher than the respective 2015 figure by ca €0.51bn (or 42.3%).

Table 1: State Budget Ececution (€ bn, January - July 2016)

	Jan-July 2015	Jan-July 2016	2016 Buget target Jan-July 2016	%YoY	%target
Primary balance	3.71	3.55	0.87	-4.4%	306.2%
Fiscal Balance	-0.84	-0.83	-3.49	-1.0%	-76.1%
Ordinary Budget Net Revenue	24.84	25.95	25.55	4.5%	1.6%
Revenue before tax refunds	26.17	27.62	26.91	5.5%	2.6%
Privatizations revenue	0.21	0.06	0.14	-	-
Tax refunds	1.55	1.72	1.50	11.3%	14.7%
Ordinary Budget Expenditure	26.52	27.13	29.52	2.3%	-8.1%
Primary Expenditure	21.43	22.32	24.32	4.1%	-8.2%
Military equipment procurement payments	0.03	0.08	0.41	143.8%	-80.9%
Guaranties	0.43	0.31	0.39	-29.6%	-20.8%
Guaranties to bodies classified inside GG	*0.42*	*0.29*	*0.30*	-31.6%	-3.0%
Guaranties to bodies classified outside GG	*0.01*	*0.02*	*0.09*	63.6%	-79.3%
Net Interest Expenditure	4.55	4.38	4.36	-3.8%	0.5%
EFSF fee, etc	0.07	0.05	0.05	-30.8%	-10.0%
Total Public Investment Budget Revenue	2.04	2.05	3.09	0.6%	-33.8%
EU Revenues	*1.77*	*1.90*	*2.94*	*7.8%*	-35.2%
Own Participation	*0.27*	*0.14*	*0.15*	*-47.0%*	-6.5%
Total Public Investment Budget Expenditure	1.20	1.71	2.61	42.3%	-34.5%
National Contribution	*0.12*	*0.26*	*0.17*	119.7%	49.4%
Cofinanced part	*1.08*	*1.45*	*2.43*	34.0%	-40.5%

Source: Ministry of Finance
Note: Available at http://www.minfin.gr/sites/default/files/financial_files/STATE_BUDGET_EXECUTION_JULY_2016_FINAL.pdf

2016 budget target attainable, in our view

Our assessment of overall fiscal situation is that the 2016 primary surplus target (+0.5% of GDP) will be attained (if not outperformed), assuming no serious incidences of fiscal derailment or other unforeseen circumstances in the remainder of the year. Among others, this view arises from: the better-than-projected budget execution data over the first seven months of 2016; our forecast for a slightly milder than expected full-year GDP contraction; the new fiscal measures legislated in May and June 2016 as well as the government's increased efforts to reorganize and strengthen the operation of the independent revenue agency (program milestone). In support of the latter view, we also estimate what we call *adjusted* primary balance, which is defined as the sum of an ordinary budget balance which is in line with the year-to-July budget execution and the respective PIB balance targeted by the 2016 budget. According to our calculation, the adjusted primary balance for the period January-July 2016 remains in a surplus of €1.52 bn (c. 0.85% of GDP). Another factor that strengthens our conviction regarding the attainability of the 2016 budget target is that, for the remainder of the year, the government will aim to collect a pretty significant amount of direct and indirect tax revenue (€10.09 bn and ca €10.49 bn, respectively).

Accelerated arrears clearance to provide an offset to fiscal drag from the new austerity measures

The fiscal drag from the aforementioned tax burden may have a more pronounced (negative) impact on private consumption dynamics relative to the earlier part of this year. Some offset to this may be provided by increased efforts to speed up the clearance of accumulated government arrears to tax payers, suppliers and other entities. According to the state budget execution data for January-July 2016, total payments for the clearance of arrears to the private sector amounted to €0.97 bn. The disbursement was part of the €7.5bn ESM loan tranche (June 2016). This has been the first relevant piece of good news for a long time and we expect this process to continue in the following period. According to the ESM Compliance Report for the 3rd Economic Adjustment Program (June 2016), ca €3.5 bn will be disbursed for the payment of GG arrears until the end of 2016. As a result we expect that ca €2.6 bn will be disbursed to the private sector in the following period conditional on the successful review of the prior actions scheduled for September 2016. Note that according to the Ministry of Finance, general government arrears to the private sector (including tax refund) arrears for July 2016 were at ca €6.89 bn from ca €7.22 bn at the end of June 2016, a decrease of 0.33 bn or 4.6% on a monthly basis.

Attainability of 2017 fiscal target: a preliminary assessment

According to the 3rd Economic Adjustment Program, Greece's primary balance target for 2017 stands at 1.75% of GDP, under the assumption that real economic growth will accelerate to 2.7%. Currently, the market consensus for 2017 real GDP growth in Greece stands at 1.2%. Apparently, the realization of a significantly lower, than the officially projected GDP outcome, next year would complicate the attainability of the respective fiscal target. In any case, and, to some extent, regardless of the performance of the macro economy, we expect budgetary finances to continue deriving support from the following factors:

- The ongoing spending review that according to the Supplemental MoU (June 2016) is expected to achieve savings of 0.1% and 0.4% of GDP for 2017 and 2018,
- The tax increases agreed in June 2016: increase in excise taxes on (unleaded) gasoline, diesel oil for transportation, LPG and kerosene; adjustment in excise taxation on natural gas for industrial and residential use; increase in excise taxes on cigarettes and tobacco; establishment of new excise taxes on coffee and e-cigarettes; introduction of a broadband levy on subscribers of 5 percent and a levy of 10 percent on cable TV subscribers.
- The expected improvement on the efficiency of the Revenue Collection Agency as well as the Supplemental MoU (June 2016) reforms aiming, inter alia at the simplification of income tax and VAT codes, the review of the corporate income tax and the taxation of collective investment vehicles.

Greece's prospective inclusion in ECB's QE program: Potential timing, purchasing volumes & market impact

Platon Monokroussos

This section constitutes an update of our June 30th Greece Macro Monitor on the potential timing, size and market impact of central bank purchases of eligible marketable instruments issued or guaranteed by the Hellenic Republic in the context of the present quantitative easing program (PSPP). Our analysis suggests that the inclusion of Greek marketable debt in the aforementioned program could take place by late 2016/early 2017 at the earliest, provided that the ECB Governing Council makes a positive assessment of the progress made in the analysis and reinforcement of the sustainability of Greek public debt and assuming no major delays in the completion of the 2nd program review. The latter condition is particularly relevant if no PSPP purchases of Greek debt take place before the initiation of formal discussions in the context of that review in mid-October (our baseline scenario). Total central bank purchases of Greek debt could reach a maximum of c. €4.2bn, with potential for a further increase to over €5bn if the present QE program were to be extended beyond March 2017. This would be equivalent to well over a year's worth of the present total daily trading volume in Greek government securities, having a pronounced impact on risk premia and contributing to a further significant GGB yield spread compression.

PSPP scope and modalities: The scope and modalities of the secondary markets public sector asset purchase program (PSPP) that is currently conducted by the Eurosystem of central banks is laid out in Decision (EU) 2015/774 of the European Central Bank. For a euro area member state that is under a financial assistance program (and for which a waiver on the required credit quality threshold has been granted)1, eligibility for PSPP purchases should be suspended during a program review and resume only in the event of its successful completion. Furthermore, the period of purchases under the PSPP is generally limited to two months following the successful completion of a review. That is, unless there are exceptional circumstances justifying a suspension of purchases before or a continuation of purchases after such period and until the start of the next review. All other PSPP modalities as regards eligibility criteria, purchase eligibility limits and allocation of portfolios are the same for both program and non-program euro area countries. In view of the above, the following can be said about the potential inclusion of Greece in the quantitative easing program:

Timing: A decision to include Greek government or government-guaranteed marketable debt in the PSPP could, in theory, be taken in one of the upcoming ECB Governing Council meetings that are scheduled to take place between now and the formal inception of the 2nd review of Greece's present stabilization program. Alternatively, it could occur sometime after its successful completion.[1] Notably, in response to a written question posed by a Greek MEP, ECB President Mario Draghi said in a letter dated August 29th 2016 that "a precise timeline" for the possible inclusion of Greece in the QE program cannot "be specified at the current juncture". In view of the aforementioned and taking into account that the coming 2-3 months will be a quite frantic period of negotiations on the remaining prior actions for the release of the next ESM loan sub-tranche (€2.8bn) and the conditionality of the 2nd program review, we see the successful completion of the latter as the earliest possible milestone for allowing Greece's inclusion in the PSPP. At this point, no formal timeline exist regarding the duration of the 2nd review, though some recent statements and comments by high-level officials from the Greek government and the EU institutions communicated a sense of urgency and willingness to avoid undue delays towards its completion. As such, our working assumption at this point is that this will happen sometime before the end of the current year, though past experience suggests that some further delay to, say, early 2017 can not entirely be ruled out.

Prerequisites: As per the ECB statement of June 22nd, a decision to include such instruments in PSPP should follow "a positive assessment by the Governing Council of the progress made in the analysis and reinforcement of the sustainability of Greek public debt and other risk management considerations".

Eurosystem Central Bank's buying capacity: Certain restrictions should be taken into account in estimating the potential size of Greek marketable debt that can be purchased by the ECB and NCBs of the euro area in the context of the PSPP program. Among others, these include: a security-specific limit of 33% and an issuer-specific limit of 33% (both in terms of nominal amounts) as well as the eligible security tenor (remaining maturity), which should be a minimum of 2 years and a maximum of 30 years plus 364 days. In addition, the *monthly* notional amount of Greek debt that could be purchased should not exceed €1.48bn (=2.9055% x 90% x €80bn), where 2.9055% is Bank of Greece's subscription key in the ECB capital; 90% is the share of PSPP purchases of securities issued by eligible central governments and recognized agencies and €80bn is the amount of combined monthly purchases (average purchase monthly volume) under the expanded asset purchase program. Furthermore, assuming an average discount to par of 35% for the market price of eligible Greek securities at the time of PSPP purchases, the maximum monthly amount of such purchases should not be higher than c. €4.2bn (Table 1). The last column of the table "Eurosystem Central Bank purchases" depicts the maximum (cumulative) notional amount of PSPP purchases in the absence of the ECB capital key limit, which would restrict monthly purchases of Greek marketable debt to no more than c. €1.48bn (notional terms) or c. €2.3bn in prevailing market prices. In other words, the €4.2bn maximum purchases limit could be attained over a period of at least two months. Also, the numbers presented in the last column of Table 1 are not additive i.e., they depict the evolution (across time) of maximum notional amount of Greek marketable debt that could potentially be purchased in the context of the QE program. Moreover, the respective estimates for the period beyond March 2017 assume implicitly an extension of the current duration of PSPP, with its scope & modalities remaining unchanged relative the current program. All in all, total PSPP purchases of Greek marketable debt could amount to a maximum of c. €4.2bn and they could increase further if the present QE program were to be extended beyond March 2017. For instance, if the QE program were to be extended to, say, September 2017, total PSPP purchases of Greek debt would amount to more than €5bn.

Market impact: The above analysis suggests that total purchases of Greek marketable debt in the context of the present PSPP could reach a maximum of €4.2bn or an amount higher than that if the latter program were to be extended beyond March 2017. In nominal terms, this may not sound like an extraordinary amount, but still corresponds to c. 7% of Greece's total outstanding marketable debt (or c. 9% if ECB and euro area NCB GGB holdings are excluded). Eventually (by mid-2017), PSPP purchases and Greek debt held by the Eurosystem Central Bank would reach c. 33% of Greece's total outstanding marketable debt, a considerable amount especially taking into account the current, extremely thin trading volume in Greek Government Bonds (GGBs). Looked at from another angle, PSPP purchases of Greek marketable debt could be equivalent to well over a year's worth of the present total daily trading volume in GGBs (c. €15mn). The above suggest that the initiation of PSPP purchases of Greek marketable debt could have a pronounced impact of risk premia, leading to a yield spread compression of at least 150bps, in our view. That is especially assuming that the second review of the present stabilization program is completed without major delays and the period of purchases under the PSPP is at least two months. As a matter of historical precedence (and taking as reference the Portuguese 10 year bond yield spread to Germany), the cumulative compression of that spread in the 2 month period surrounding the ECB's QE program announcement (January 2015) was close to 140bps (from a peak of 265bps in October 2014 to c. 125bps in March 2015).

Table 1
Eligible pool of Greek marketable debt for PSPP purchases (notional amounts in EUR billions)

	PSI & post-PSI bonds (eligible oustanding amount)	**SMP bonds** (eligible oustanding amount)	**ANFA bonds** (eligible outstanding amount)	**Total eligible amount**	**of which, ECB and euro area NCB holdings**	**% owned by ECB & euro area NCBs**	**Remaining percentage to reach 33% issuer limit**	**Eurosystem Central Bank purchases**
Sep-16	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Oct-16	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Nov-16	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Dec-16	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Jan-17	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Feb-17	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Mar-17	34.9	8.4	2.6	45.9	10.95	23.9%	9.1%	4.2
Apr-17	34.9	8.4	2.6	45.8	10.95	23.9%	9.1%	4.2
May-17	30.8	8.4	2.6	41.8	10.95	26.2%	6.8%	2.8
Jun-17	30.8	8.4	2.6	41.8	10.95	26.2%	6.8%	2.8
Jul-17	30.8	8.4	2.6	41.8	10.95	26.2%	6.8%	2.8
Aug-17	30.8	5.1	2.1	38.0	7.20	18.9%	14.1%	5.4
Sep-17	30.1	5.1	2.1	37.3	7.20	19.3%	13.7%	5.1
Oct-17	30.1	5.1	2.1	37.3	7.20	19.3%	13.7%	5.1
Nov-17	30.1	3.6	1.6	35.3	5.18	14.7%	18.3%	6.5
Dec-17	30.1	3.6	1.6	35.3	5.18	14.7%	18.3%	6.5

Source: ECB, Bloomberg, Eurobank Economic Research

ECB Governing Council's assessment of Greek public debt sustainability: when and on what basis

As discussed, a positive assessment by the Governing Council of the progress made in the analysis and reinforcement of the sustainability of Greek public debt constitutes a key precondition for Greece's inclusion in the ECB's QE programme. In our view, such an analysis would require more clarity from the part of EU lenders on the medium-term debt relief measures to be considered after the termination of the present bailout programme. As a reminder, a broad relief framework for Greece was agreed at the Eurogroup of May 9, 2016 (and elaborated further at the Eurogroup of May 24). As per that agreement, the said relief package will be subject to the pre-defined conditionality of the ESM programme and be phased in progressively so as to ensure that Greek public debt remains sustainable under the new definition of sustainability (annual government gross financing need < 15% of GDP during the post-programme period for the medium-term and < 20% of GDP thereafter). *Table A in Appendix highlight the main components of the relief measures agreed at the May 24 Eurogroup*. Although there has already been adequate information on the relief measures to be implemented in the short-term (i.e., the interim period from the completion of the 1st programme review to the termination of the current programme), not enough clarity has been provided so far on the medium- and long-term measures to be considered after the programme's termination in August 2018. However, this would be necessary for the ECB to make a decision whether or not to include Greek marketable debt in its public sector asset purchase programme. More clarity on the medium-term relief measures would also allow the IMF Board to decide on the Fund's financial participation in the Greek programme. On the latter issue, IMF Managing Director Christine Lagarde was recently quoted saying *"We are not party to the program because I have said repeatedly that the program has to walk on two legs. One, there has to be significant reforms and second there has to be a debt that is sustainable by our standards and our measurements and this at this point in time is not the case,"* So, where all these leave us? In what follows, we highlight in broad terms a sequence of events leading to Greece's inclusion in the ECB's QE programme by early 2017, under a scenario to which we assign a material probability of occurrence. This would also coincide with an upbeat scenario for the near term outlook for the Greek economy, allowing a further significant compression of Greek bond spreads and risk premia.

A positive scenario for near-term out of the Greek economy: Based on the above analysis, this section portrays a potential sequence of events that would allow Greece's inclusion in the ECB's QE programme sometime in early 2017. This would coincide with an upbeat scenario for the near term outlook of the Greek economy, allowing a further significant compression of Greek bond spreads and risk premia. Needless to say that substantial deviations from the scenario presented below could give rise to a whole range of alternative (less positive or even out rightly negative) paths and conjectures.

September-October 2016

— Agreement, by early October, on the remaining prior actions linked to the 1st programme review.
— Eurogroup of October 10th gives green light for the release of pending loan disbursement (€2.8bn) and the commencement of official discussions in the context of the second programme review.
— In the meantime, the technical teams representing official creditors continue to specify/analyze/quantify potential scenarios for medium-term debt relief (ongoing as we speak)
— EU/IMF mission arrives in Athens on October 17th to start formal negotiations on 2nd review.

November-December 2016

— 2nd review completed before year end (early November, as per the latest EC compliance report).
— Eurogroup ratifies staff level agreement on 2nd review and opens the door for ESM loan disbursement (€6.1bn).
— EU partners provide more clarity on medium-term debt relief.
— IMF releases updated DSA & Board decides whether to financially participate in Greek programme
— ECB Board decides on timing of Greece's inclusion in QE programme

Early 2017

— Eurosystem starts purchases on eligible Greek debt

Is the agreed debt relief framework adequate to restore Greek debt sustainability?

As we have demonstrated in our *Greece Macro Monitor "Greece Public debt restructuring strategies & evaluation of the agreed framework for debt relief"*[1], a range of medium-term measures could be implemented to restore the sustainability of the country's fiscal position in the context of the general debt relief framework agreed at the Eurogroup meetings of May 9th and 24th. Although the debt re-profiling structures presented in the aforementioned report did not involve outright forgiveness (i.e., notional haircuts), they were found to be adequate to restore debt sustainability under broadly reasonable underlying macro assumptions and even allowing for a substantial relaxation of the primary surplus target post 2018. The main aim of such relief would be to postpone interest and amortization payments on official loans for an extended period of time, lengthen loan maturities and fixing interest rates so as to provide the necessary fiscal space for the economy to grow, allow substantial savings in NPV terms and hedge the risk of unforeseen spikes in Euribor & EFSF/ESM funding rates in outer years. Such a package could also address increased funding challenges in the years following the expiration of the present program due to the need to refinance a rising volume of expiring public debt at market interest rates significantly higher than the current (concessional) ones applied on official loans. In fact, our analysis argued strongly in favor of providing substantial debt relief to Greece in an upfront fashion (i.e., before the expiration of the current stabilization program in August 2018) so as to stabilize investor sentiment and allow a quicker recovery of the macro economy via a further significant improvement of domestic financial conditions. Even in the absence of more front-loaded debt relief, upfront clarity on the agreed medium- and long-term debt framework could go a long way towards improving market sentiment towards Greece.

3rd Economic Adjustment Program: State of play

Anna Dimitriadou

1st Program Review

With regard to the progress of the 3rd Economic Adjustment Program for Greece, H1 2016 marked the completion of the first program review at the 24 May Eurogroup, which sealed a full staff-level agreement between Greece and the institutions. The agreement followed the implementation by the Greek side of most of the agreed prior actions for the first review including: a) legislation of a package of fiscal parametric measures amounting to 3% of GDP by 2018, b) opening up the market for the sale and servicing of performing and non-performing loans c) establishment of the Privatization and Investment Fund, and d) legislation of a contingency fiscal mechanism that ensures automatic implementation of additional measures, including pensions and public sector wages, to address any divergence from primary surplus targets

ESM loan tranches

The finalization of the first program review opened the way for the approval of the second tranche under the ESM program amounting to €10.3bn which would be disbursed in several installments. Out of this amount €6.8bn would be used to cover Greece's debt servicing needs in the coming months and the remaining €3.5bn to clear a part of state arrears thus supporting the real economy. The first installment of €7.5bn arrived in state coffers in June and was split into €5.7bn for debt servicing and €1.8bn for state arrears. The remaining tranche of €2.8bn is to be disbursed after the summer (late September) upon the completion of 15 remaining milestones. In particular, the remaining disbursements for arrears clearance (€1.7bn) may be disbursed in more than one tranches, subject to a positive reporting by the European Institutions on the clearance of net arrears, whereas the remaining disbursement for debt servicing needs (€1.1bn) will be subject to milestones related to privatization, bank governance, the revenue agency and the energy sector.

Debt sustainability

With regard to Greece's debt sustainability the 24 May Eurogroup agreed the adoption of a package of debt relief measures to be phased in progressively as needed to meet the agreed benchmark on gross financing needs and subject to the conditionality of the ESM program. More specifically:

For the short-term the Eurogroup agreed on a first set of measures to be implemented after the finalisation of the first review and up to the end of the program. This includes: a) smoothening the EFSF repayment profile under the current weighted average maturity, b) use EFSF/ESM diversified funding strategy to reduce interest rates risk without incurring any additional costs for former program countries, and c) waiver of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek program for the year 2017.

For the medium-term a possible second set of measures will be implemented following the successful implementation of the program and upon the condition that an updated debt sustainability analysis produced by the institutions then shows that these measures are needed to meet the agreed GFN benchmark. These measures include: a) the abolishment of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek program as of 2018, b) use of 2014 SMP profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP profits to Greece (as of budget year 2017) to the ESM segregated account as an ESM internal buffer to reduce future gross financing needs, c) liability management and in particular early partial repayment of existing official loans to Greece by utilizing unused resources within the ESM program to reduce interest rate costs and to extend maturities, and, d) if necessary, some targeted EFSF re-profiling to the extent needed to keep GFN under the agreed benchmark in order to give comfort to the IMF and without incurring any additional costs for former program countries or to the EFSF.

For the long-term, the Eurogroup expressed confidence that the implementation of the ESM program together with the short- and medium-term debt measures will bring Greece's public debt on a sustainable path and facilitate its gradual return to market financing. Nevertheless, if a more adverse scenario were to materialise, the Eurogroup agreed on a contingency mechanism on debt, which will be activated subject to a decision by the Eurogroup confirming that Greece complies with the requirements under the Stability and Growth Pact. This mechanism could consist of measures such as a further EFSF re-profiling and capping and deferral of interest payments.

The IMF

So far the IMF has been participating in Greece's 3rd Economic Adjustment Program as a technical advisor without having contributed any funds. As mentioned in the Fund's preliminary debt sustainability analysis of May 2016, the program target of a primary surplus of 3.5%-of-GDP for 2018 and beyond is considered unattainable. Instead, the IMF believes that, albeit ambitious, a primary surplus of no more than 1.5%-of-GDP is plausible and should be used as the basis for the DSA. The Fund has also expressed concerns with respect to growth, arguing that weak bank balance sheets due to large NPLs levels and a high share of Deferred Tax Assets in bank capital, will prevent banks from providing credit to the economy on an adequate scale. In addition, the Fund claims that the postponement of reforms in the labour and product and services market will continue hampering growth. As a result, the IMF has set its long-term growth assumption to 1.25%.

ECB waiver

A positive outcome of the successful completion of the first program review was the reinstatement of the ECB waiver in mid-June. Yet, as for the potential inclusion of Greek government bonds to the Public Sector Purchase Program (PSPP), the ECB stated that it will address the issue at a later stage, subject to an updated debt sustainability analysis and the Governing Council's own assessment.

Capital controls relaxation measures

The finalisation of the first program review led to another package of capital controls relaxation measures in July. The most important of these measures were: a) an increase in the maximum cash withdrawal limit to €840 bi-weekly, per depositor, per institution, b) an increase (to 30% from 10%) in the cash withdrawal limit for funds transferred from abroad, c) 100% cash withdrawal for funds credited in cash from 22 July 2016 onwards, in accounts owned by legal entities and natural persons; and d) early loan repayment in part or in full without exceptions.

Major challenges and risks in the way towards stabilizing the domestic economy

Paraskevi Petropoulou

Though the successful completion of the 1st program review has undoubtedly had a positive effect on confidence, significant challenges and risks remain in the way towards stabilizing the Greek economy and allowing a transition to a sustainable growth path. Some of these challenges and risks are highlighted below:

Finalization of prior actions for the release of the next ESM sub-tranche**:** Some recent media reports convey concerns -- purportedly shared by certain key EU policy-makers -- with respect to the “slow progress” in the completion of the 15 prior actions required for the release of the next ESM sub-tranche (€2.8bn). On the other hand, the government appears optimistic that all outstanding issues will be resolved by early October 2016. Reportedly, the majority of the relevant milestones are still pending, with the most challenging ones including energy-sector reform and the governance of the new Privatization and Investment Fund (Table A1. in Appendix). The ECB/EC/ESM/IMF mission heads are expected to arrive in Athens on September 12 to assess Greece’s compliance with the relevant milestones. Assuming that they submit a positive compliance report to the Eurozone finance ministers, the Eurogroup of October 10 is anticipated to approve the disbursement of the ESM loan sub-tranche and give the green light for the commencement of official discussions in the context of the 2nd program review. Any major delay in the fulfilment of the milestones required for the release of the said sub-tranche -- and, subsequently, the formal commencement of the 2nd program review -- could refuel uncertainty, leading to a further accumulation of State arrears and reduced liquidity for the private sector.

Timely completion of the 2nd program review**:** Conditional on a positive outcome at the October 10th Eurogroup, official discussions in the context of the 2nd review are expected to commence in mid-October, with an intention to have it successfully completed without major delays. The attached key deliverables will likely be specified at the October Eurogroup, with privatization, labour market reform and further steps in the management and resolution NPLs featuring high in the Agenda (Table A2. in Appendix). Successful completion of the 2nd review would open the door for the release of a ESM loan tranche amounting to €6.1bn. In addition, according to some reports, the timely finalization of the next review is also a key precondition for a likely specification of the medium-term debt relief measures agreed at the May 24th Eurogroup. This would provide a crucial input to the highly awaited ECB and IMF DSA updates that will determine Greece’s potential inclusion in the QE program and the Fund’s financial participation in the Greek program.

Further progress in structural reform implementation: Upon fulfillment of all milestones linked to the 1st program review, Greece will have completed around 42% of the total number of prior actions (estimated at c. 240) attached to the present stabilization program. Remaining reforms to be implemented until the program’s expiration in August 2018 include, inter alia: (i) product market reform (a few remaining items from OECD toolkits I & II and implementation of toolkit III); (ii) monitoring of fulfilment of operational targets for NPLs; (iii) observance of the agreed privatization agenda; and (iv) rationalization of the payment process in the social security and health system. Timely legislation and rigorous implementation of these reforms are deemed necessary for stabilizing sentiment, attracting foreign investment flows and boosting the economy’s medium-term growth potential.

Swift removal of capital controls**:** A swift removal of capital controls would facilitate the operation of Greek enterprises, improve depositors’ sentiment and support banks’ effort to reduce exposure to the Euro system for liquidity, establishing the conditions for a speedier improvement of domestic credit dynamics.

Tackling non-performing loans**:** Tackling the high stock of NPLs/NPEs could lead to a sustainable improvement in banks’ capital adequacy and profitability enabling them to free up funds for re-financing the domestic economic recovery.

Inclusion of Greek marketable government debt to the ECB’s QE program: see relevant commentary below.

Refugee crisis**:** Turkey insists that unless the EU lifts all visa requirements for Turkish citizens by end-October 2016, the refugee agreement signed in mid-March 2016 will be annulled. Such a development could potentially lead to a renewed increase in migration flows to Greece, hampering tourism and trade.

***Acceleration of State arrears clearance*:** As per the updated MoU, Greece has committed to clear €4bn of arrears by the end of 2016 and up to €7bn until June 2017. Out of the €7.5bn ESM loan sub-tranche that was disbursed to Greece in mid-June 2016, €1.8bn has been earmarked for domestic arrears clearance and the remaining for covering debt service needs. The latest State Budget Execution data revealed that some €970mn of that amount have already been used for the clearance of arrears. As part of the (still pending) second ESM loan sub-tranche of €2.8bn, an additional €1.7bn will also be used for arrears clearance, subject to a positive assessment by the European institutions on the as many as 15 remaining prior actions linked to the 1st review. According to the Greek finance ministry, the total stock of state arrears (i.e., government debts outstanding for more than 3 months, including unpaid tax refunds) stood at €7.2bn in July 2016 compared to c. €6bn and €3.8bn in December 2015 and December 2014, respectively. The acceleration of clearance is expected to boost liquidity in the real economy and exert a positive impact on public finances thus, supporting economic growth going forward.

Brexit in the wake of the "Leave" referendum outcome: A Brexit scenario could negatively affect Greece's growth prospects through a number of transmission channels: (i) deterioration in economic sentiment; (ii) negative effect on tourism and trade; and (iii) slower than expected decline in sovereign yields on Greek government bonds due to increased risk aversion. UK Prime Minister and leader of the Conservative Party Theresa May has ruled out a second referendum or a general election on the terms of Britain's exit from the EU and has publicly stated that the government does not intend to initiate the process of the UK exiting the EU, as set out in Article 50 of the Lisbon Treaty, before the end of this year. The EU 27 summit in Bratislava on September 16th is scheduled to discuss Brexit and the Conservative Party Conference in the UK on October 2nd -5th may give more insight into the timing of Brexit and future EU-UK relationship arrangements. EU data released post-Brexit indicate that any immediate impact on the economy has not been as pronounced as initially expected. Yet, it is too early to make a judgment on how the UK's decision to leave the EU will eventually affect the EU and the world economy. The economy needs time to respond to the Brexit shock. Furthermore, Brexit discussions have not yet started while, according to Article 50 of the Lisbon Treaty, they could prove protracted.

***Political risks across the EU*:** Political uncertainty in the EU, the most important trade partner of Greece, is expected to continue in the coming months (see Table A3. in Appendix). Key political risks include:

— Italy's referendum on constitutional reform (reportedly expected by October 13th, 2016).

— Repeat general election in Spain (likely on December 25th, 2016).

— Re-run of presidential election in Austria (October 2nd).

— Referendum in Hungary on the EU's mandatory migrant resettlement plans (October 2nd).

***The course of the global economy*:** Risks associated with the course of the global economy are stemming from, inter alia: (i) the likelihood of a more pronounced than expected slowdown in China; and (ii) the likelihood of a more aggressive than currently projected pace of Fed rate tightening ahead. Fed Funds futures currently assign a c. 16% probability for a 25bps rate hike in September 2016 and c. 48% for December 2016 while such a move is not fully priced-in before early Q4 2017.

Appendix A.

Table A1 - Milestones for disbursement of €2.8bn ESM loan sub-tranche

Pension reform	Completion of pending issues for the harmonisation of social security contributions - *pending*
Bank Governance	Assessment of the four systemic banks' BoD members ***(key deliverable)***- *completed*
Energy	Further reform in the natural gas market ***(key deliverable)*** - *pending* Adoption of required legislation for the transposition of the electricity market towards the EU deregulation model ***(key deliverable)*** - *pending* New framework for reforming the Renewable Energy Sources (RES) market -*pending* PPC General Assembly authorisation for the sale of at least 20% of ADMIE to a strategic investor & commencement of respective tender procedure ***(key deliverable)*** - *completed* Authorisation to PPC management for concluding negotiations on HV tariffs and signing respective contracts with customers - *pending*
Privatisation	Nomination of the Supervisory Board of the new Privatisation Fund - *pending* Transfer of a second group of State Enterprises (SOEs) to the new Privatisation Fund - *pending* Ratification by the Hellenic Parliament of the Share Purchase Agreement for Hellinikon -*pending* Signing of the relevant MoU- *completed* Reinforcement of the operational framework of the Hellenic Civil Aviation Authority (HCAA) - *pending* Launch of Expressions of Interest for the concession of Egnatia Motorway S.A & three Vertical Axes - *pending* Conclusion of the government pending actions identified by the HRADF (i.e., transfer of 5% of OTE shares to HRADF) - *pending*
Revenue Agency	Ensuring adequacy of both human and material resources for the Revenue Agency ***(key deliverable)*** - *pending* Appointment of the Board of Governors of the Revenue Agency ***(key deliverable)*** - *pending*

Table A2- 2nd program review: key items in the agenda

Policy areas	Key deliverable
Labour Market & Human Capital	Alignment of collective dismissals, industrial action framework & collective bargaining with EU best practices Adoption of an integrated action plan for fighting against undeclared & under-declared work
Fiscal Policy & Tax Policy Reform	Legislation of the Medium Term Fiscal Strategy 2017-2020
Resolution of Non-Performing Loans (NPLs)	Amendment of the legal framework for the out-of-court resolution with detailed provisions
Improving Governance of the HFSF and Governance of Banks	Finalisation of the review of the four systemic banks' BoD members
Product Markets and Business Enviroment	Agreement with the Institutions on a roadmap for the liberalisation of the reserved activities of engineers Adoption of legislation for the one-stop shop for business
Regulated Network Industries	Launch of the first auction under the NOME mechanism in the Greek electricity market
Pubilc Administration	Adoption of legislation for the introduction of a new permanent labor reserve (so-called "mobility scheme")
Anti-corruption	Modification and implementation of the legal framework for the financing of political parties
Privatisation Program & the new Privatisation and Investment Fund	Agreement with the Institutions on the transfer of a second group of State Enterprises (SEOs) to the new Privatisastion and Investment Fund
Sustainable Social Welfare	Launch of the gradual nationwide roll-out of the Guaranteed Minimum Income (GMI) scheme

Table A3 - Greece - Calendar of key dates and events for the remainder of 2016

Σεπ-08	ECB monetary policy meeting & press conference
Σεπ-09	Eurogroup meeting
	Summit of southern EU countries in Athens, Greece
Σεπ-10	Greece's PM Tsipras delivers a speech at the Thessaloniki International Fair
Σεπ-11	Municipal elections in Germany (Lower Saxony)
Σεπ-12	ECB/EC/ESM/IMF mission heads are expected to arrive to Athens to assess Greece's compliance with the milestones for the release of the next ESM sub-tranche (€2.8bn)
Σεπ-13	Assessment o independent experts on Greeece's existing labor market frameworks
Σεπ-16	Informal EU 27 Summit
Σεπ-18	Sate election in Germany (Berlin)
Σεπ-19	IMF principal payment of €145.6mn
Sep 20-21	FOCM monetary policy meeting
Σεπ-21	ECB non-monetary policy meeting
Σεπ-25	Regional elections in Spain (Basque Country & Galicia)
Σεπ-29	The Euro Working Group convenes ahead of the October 10 Eurogroup
Σεπ-30	Euro area member states submit to EU Commission their draft budgetary plans for 2017
Early October	Dealline set by Turkey on EU granting visa free travel for nationals in exchnage for the migrant deal
Οκτ-02	Re-run Presidential Elections in Austria
	Referendum in Hungary on relocalisation of migrants in EU
Οκτ-03	Greek government submits to Parliament the draft 2017 Budget
Oct 2-3	UK Conservative Party Conference
Οκτ-05	ECB non-monetary policy meeting
October 7-9	IMF & World Bank Annual Meeting, Washington D.C
Οκτ-10	Eurogroup meeting
Οκτ-11	Ecofin meeting
Οκτ-17	Discussions between the mission heads and Greek authorities in the context of 2nd programme review expected to commence
Οκτ-20	ECB monetary policy meeting & press conference
October 20-21	European Council
Νοε-01	IMF debt payment of €102.6mn
Nov 01-02	FOMC monetary policy meeting
Νοε-02	ECB non-monetary policy meeting
Νοε-07	Eurogroup meeting
Νοε-16	ECB non-monetary policy meeting
Δεκ-05	Eurogroup meeting
Δεκ-07	IMF principal payment of €300mn
Δεκ-08	ECB monetary policy meeting & press conference
Dec 13-14	FOMC monetary policy meeting
Δεκ-14	ECB non-monetary policy meeting
Dec 15-16	European Council

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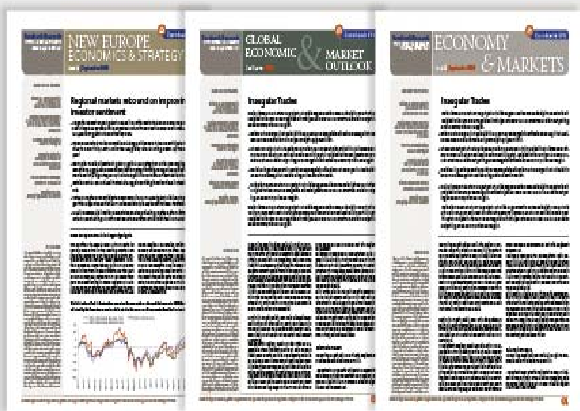

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