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Focus notes: Greece

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Part I

Troika inspectors concluded 5th programme review; important hurdles still remain ahead of next loan tranche disbursement

Last week, a team of senior *troika* inspectors concluded the 5th review of Greece's economic stabilization program and recommended the disbursement of the next loan tranche (€8bn in total, consisting of €5.8bn in EA bilateral loans and €2.2bn of IMF funding). A joint troika statement published on October 11 read that, upon approval of Eurozone finance ministers and the IMF, the next tranche would likely become available by early November. Moreover, the EC/IMF/ECB inspectors acknowledged that Greece has already made significant progress on fiscal consolidation and confirmed that the mission reached staff-level agreement with domestic autrhorities on the policies needed to bring the agreed reforms program back on track. In more detail, the statement noted the following:

— The *upwardly-revised* deficit target for 2011 (€18.69bn or 8.5ppt-of-GDP) is no longer within reach. That is partly as a result of the deeper-than-expected domestic recession, but also due to slippages in the implementation of some of the agreed reforms. **Comment:** The draft 2012 budget law that was submitted to parliament in early October forecasts real GDP growth of -5.5% in 2011 and -2.5% in 2012. These compare with earlier government forecasts of -3.8% and +0.6% and respective GDP contraction rates of -5.0% and -2.0% envisaged in the latest (IMF *Fiscal Monitor* (Sept. 2011).

— An *already-announced* package of additional austerity measures and the rigorous implementation of the *adjusted* medium-term fiscal plan (MTFS) should facilitate fulfilment of next year's deficit target (€14.9bn). **Comment:** The government has already reached staff-level agreement with the EC/IM/ECB *troika* on a new austerity package aiming to bridge respective identified fiscal gaps of €4.3bn (2ppt-of-GDP) and €8.7bn (4.1ppt-of-GDP) in 2011 and 2012. The package includes, among others: **a)** immediate activation of a special *Labour Reserve* to absorb surplus public-sector employees; some 30k employees will be imminently transferred to the reserve, receiving 60% percent of their basic wage for a period of 12 months. Failure to relocate these excess workers in the broader public sector (due to *e.g.* stricter hiring limits) would lead to permanent dismissal; **b)** immediate implementation of an "equal pay for equal work" scheme for determining labour wages and special benefits in the broader public sector. The so-called *Single Payment Authority* is estimated to result to an average decline of up to 20% in public sector worker salaries. This measure combined with a further cut in pension payments (by 4% on average) should facilitate a further significant reduction in the government's overall bill for wages and pensions; and **c)** a new range of tax measures, including *e.g.* a further decline in the minimum threshold for tax-exempt personal incomes and a new special levy on property. *For a more thorough analysis on the expected impact of the aforementioned measures please see Eurobank EFG Research, Greece Macro Monitor, Sept 22, 2011, http://www.eurobank.gr/Uploads/Reports/Greece%20-%20September%2022%202011.pdf*).

— Additional austerity measures for the period 2013-14 will likely be needed to facilitate fulfilment of the agreed fiscal targets. Such measures should be adopted by mid-2012 and focus on the expenditure side, especially in view of the deepening economic recession and limited success so far to improve tax administration. **Comment:** Reportedly, the troika has identified a cumulative fiscal gap of €5bn-€6bn (2.3-2.7ppt-of-GDP) in the MTFS's budgetary projections for 2013 and 2014. However, it appears that no official agreement has been reached yet with domestic authorities on the measures needed to close the 2013-214 projected gap;

— The domestic economy is now expected to return to positive growth from 2013 onwards, though there is currently no convincing evidence of an improvement in investor sentiment and the related increase in investment activity. Yet, exports are rebounding strongly, albeit from a low base, and this along with the ongoing moderation in ULCs should lead to a more balanced growth environment going forward. Separately, domestic inflation is expected to remain below the euro area average in the period ahead;

— The privatization process has fallen behind schedule, with related proceeds in 2011 expected to be significantly lower than expected earlier. Yet, the privatization revenue target of €35bn envisaged in the MTFS for the period 2011-14 remains intact. **Comment:** Greek Finance Minister Evaggelos Venizelos said recently that total privatisation revenues for 2011 are now expected to reach €4bn, less than €5bn previously agreed with the official lenders. So far, the Greek government has raised around €400mn from the sale of a put option of a 10 percent stake in former Hellenic Telecoms monopoly OTE to Germany's Deutsche Telecom AG. Aiming to speed up the implementation of the privatisation and real estate development program, the Greek authorities transferred in early September a basket of state assets to a sovereign privatisation fund. These assets include: energy companies Depa (gas-supply corporation) and Helpe (Hellenic Petroleum), the extension of an operating lease on the Athens International Airport, a concession for sports gaming monopoly, OPAP, as well new mobile telephone operating licenses. The state privatisation fund was established in late June to facilitate execution of the privatisation plan. It has an independent board of directors and an advisory body that aims to provide international experience and technical advice. Two external observers nominated by the European Commission and Eurozone finance ministers are part of the fund's board to ensure transparency. According to the Medium-Term Fiscal plan parliament endorsed in late June, the government targets privatisation revenues of €15bn until 2013 and a total of €50bn by the end of 2015.

Progress with regard to structural reforms in the areas of the transport sector, licensing procedures and regulated professions has been uneven and a speed up in their implementation remains the main challenge facing the authorities. Overall, a rigorous implementation of structural reforms in the public sector and the broader economy is key prerequisite for further fiscal adjustment in a socially acceptable manner and a return to positive growth. On the government's decision to suspend the mandatory extension of sector-lever collective agreements to the firm level, the troika stated that this is a major step forward to enhance labour market flexibility and prevent high unemployment from becoming entrenched.

Government faces a number of key votes in Parliament in the days/weeks ahead

As regards the implementation timetable for the new measures agreed with the troika, all eyes now turn to a key parliamentary vote on a new bill encompassing all relevant legislation. The latter will allow the activation of a number of key reforms including, among others, the Labour Reserve, the "equal pay for equal work" scheme for determining public worker salaries, the new pension cuts as well as a contentious issue regarding a suspension of the mandatory extension of sector-lever collective agreements to the firm level (article 37). The vote is scheduled to take place on Thursday, October 20, 2011 at 10:00 GMT.

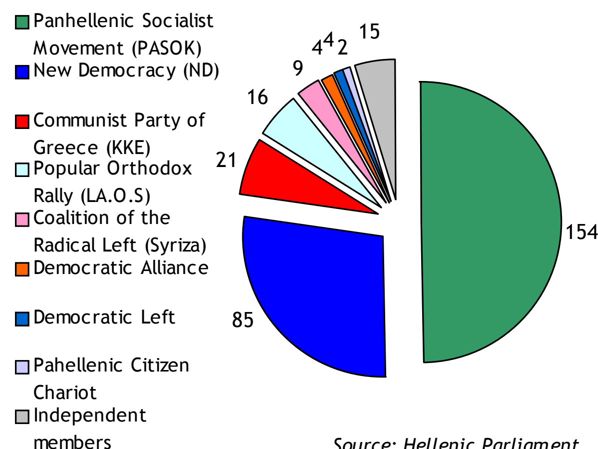
Our baseline scenario remains that the government will be able to pass the aforementioned bill in Parliament. That is especially as its endorsement is a rigid prerequisite for the dispersal of the 6th EU/IMF loan tranche. Yet, the coming parliamentary vote is likely to be another litmus test for the government unity as a number of leading-party MPs have already signalled that they may not follow the party line, especially with respect to *Article 37*. In a more comforting note, an in-favour vote from a number of independent and/or opposition party MPs *should not* be entirely ruled out. Dora Bakoyanni, an ex-minister of the main opposition party (*ND*) and now leader of the *Democratic Alliance* party (4 seats in Parliament), indicated y-day that she might decide to vote in favour of the bill. Elsa Papadimitriou, an independent MP and former deputy from the main opposition party could *conceivably* also cast a *yes* vote, as she did late last month for the property tax.

Ruling socialist party deputy, Thomas Robopoulos, quit Parliament yesterday in a protest against the government's austerity measures. However, his resignation has not changed the government's 4-seat majority. Another MP of the ruling party, Louka Katseli, voted against Article 37 at a committee vote for draft bills earlier this week, indicating that she will not be supporting the specific article on Thursday's voting. Greek Finance Minister Evaggelos Venizelos has made clear that Article 37 is a Troika 'imperative' and its endorsement is a necessary condition for the release of the next loan instalment. Prime Minister, George Papandreou, had earlier appealed for national unity, saying after a meeting with President Karolos Papoulias that the week ahead maybe the "most crucial" week for Greece and the euro zone. Papandreou is reportedly meeting later today with the leader of the opposition conservatives party (ND), Antonis Samaras, to discuss the current situation.

Provided that the aforementioned bill will be approved by the Greek Parliament later this week, the next major test for the government would come in the form of a parliamentary vote on the 2012 budget (most probably before November 10). Leading socialist party PASOK currently controls 154 seats in the 300-seat Parliament (*graph1)*. Recent opinion polls indicate that PASOK is steadily loosing ground to the main opposition conservative party ND. Yet, no political party would be able to form a single-party government, if elections were to take place today. In one of the more recent polls conducted by *Public Issue*, Greece's conservative opposition widened its lead over the ruling socialists to ca 9ppt from 4ppt in an earlier polls published last month. Specifically, the survey showed that the conservatives would gain between 134-145 seats in parliament, depending on whether five or six parties make it into the parliament. PASOK would win between 57 and 71. In another ballot conducted by VPRC, ND's lead was estimated at 11 percent.

In view of these developments, a number of recent press reports have been speculating over the possibility of an early election taking place in the period ahead (even before year-end). Purportedly, a plausible trigger for such a development could be a failure by the government to amass enough votes to pass a key legislative piece in Parliament. For his part, Prime Minister George Papandreou has, in a number of instances, reiterated his government's commitment to exhaust its full-term in Parliament (i.e., until late-2013). Yet, a number of other reports - and, even, some high-level government officials – have lately appeared to be in favour of the formation of a coalition "national unity" government for dealing more effectively with the country's deepening problems.

Graph 1: Current composition of the Hellenic Parliament (number of MPs)



Source: Hellenic Parliament

Next Eurogroup likely to give green light for the disbursement of 6th EU/IMF loan tranche

Provided that new austerity measures agreed with the troika will gain timely parliamentary approval, we expect the next Eurogroup meeting to give the green light for the disbursement of the 6th EA loan tranche to Greece. According to reports, an extraordinary Europroup meeting is likely to take place on October 21, two days before the next EU Council. Regarding the IMF's own contribution to the 6th loan tranche, it appears that, in addition to the aforementioned preconditions, the Fund may require renewed political commitment by the euro area partners regarding the coverage of Greece's public borrowing requirement for at lest the next 12 months. We expect the necessary assurances to be provided in early November, shortly after the November 3rd G20 meeting. By that time, euro partners are expected to unveil a new plan to deal with the lingering euro area debt crisis (see *e.g.* Merkel-Sarkozy joint press conference on October 9). The eagerly awaited comprehensive plan is expected to encompass, among others, the following: **(i)** a recapitalization program for European banks, **(ii)** an acceleration of economic coordination in the Eurozone and **iii)** a "durable" solution to Greece's debt woes.

At the post- Eurogroup press conference on October 3, Luxembourg Prime Minister Jean-Claude Juncker suggested that Greece is unlikely to face cash problems even though it might have to wait longer than initially planned for additional financial support from its official lenders. In a more reassuring note, Greek Finance Minister Evaggelos Venizelos said earlier this month that the country has enough cash reserves to fund itself until mid-November. Mr. Venizelos pointed to an improving trend in tax collections over the last several weeks. Reportedly, the government raised €650mn in September from the "solidarity levy" on personal incomes and a special levy on self-employed. On the latter issue, note that the most recent State budget execution data showed that net ordinary budget revenue posted a 3.1% YoY rise in September.

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

Greece Events Timeline

Date	Event
20 October	Endorsement of new Bill by the Greek parliament
21 October	Greece has 1,625bn in 13-wk T-bills redemption
	Emergency Eurogroup (reportedly)
23 October	EU-Summit-Heads of State and Government, Brussels
24 October	Publication of the 5th EU/IMF review of Greece's economic stabilisation programme (reportedly)
31 October	ECB President Jean-Claude Trichet term expires; Mario Draghi takes over
Early November	Approval of the 6th IMF loan tranche to Greece
3 November	ECB Meeting & Press Conference
3/4 November	G20 Summit in France
7/8 November	Eurogroup/Ecofin meeting in Brussels
Mid- November	Greek parliament votes on the 2012 Budget
29/30 November	Eurogroup/Ecofin meeting in Brussels
8 December	ECB Meeting & Press Conference
12 December	EU Summit-Heads of State and Government, Brussels

Source: Official sources, Eurobank EFG Research

Year-to-September State budget deficit undershoots respective MTFS target

Preliminary data for the execution of Greece's State budget in January-September 2011 showed the cumulative central government deficit growing by 15.1%YoY to ca €19.16bn. This resulted into an undershooting of the 9-month deficit target envisaged in the government's medium term fiscal plan (MTFS) by €0.08bn.

Net ordinary revenue in the first nine months of 2011 amounted to €34.98bn, undershooting the respective 9-month MTFS revenue target by €10mn and declining by 4.2% relative to same period a year earlier. The main reasons behind the relatively weak revenue growth performance since the beginning of the year include: **a)** a deeper than previously expected economic recession, **b)** reduced receipts from withholding personal income tax in 2011 due to a more favorable tax treatment of personal incomes as a result of the new tax law and the income reduction, and **c)** increased tax refunds due to the clearing of 2010 obligations.

Tax refunds amounted to €3.94bn for year-to-September 2011, a 20.9%YoY increase relative to the respective period a year earlier. In an effort to reduce VAT evasion, the government introduced in 2010 a scheme linking tax refunds with the volume of retail receipts submitted by tax payers. Reportedly, this was the main reason behind the sharp rise in tax refunds year-to-September 2011. The government already modified the tax refunds scheme in the calculation of the 2011 taxable income and tried to address the respective revenue shortfall with the introduction of the "solidarity" levy of 1% to 4% on personal incomes in excess of €12k/annum. Revenues from these measures are estimated at €1.41 bn. In addition to the aforementioned reasons, it appears that persisting disfunctionalities in the revenue collection mechanism and widespread tax evasion continued to weigh on budgetary revenues over the first seven months of the year.

For the current year as a whole, the State budget targets a 5.6%YoY increase in net ordinary revenue. To achieve this target, the government needs to generate additional revenue (mainly from taxation) of ca €23.36bn (or €5.84bn per month) during the remaining four months of 2011. This target seems overambitious but both the government and a number of EU/IMF officials argue lately that the revenue shortfall could be bridged via the proper and timely implementation of the tax measures incorporated in the MTFS as well as those agreed recently with the EC/IMF/ECB troika of lenders. Note that the MTFS envisages additional austerity measures worth ca €28bn for the period 2011-2015, with some €6.4bn of these to be applied this year (starting by early September 2011).

On the expenditure side, ordinary budget outlays in the first nine months of 2011 amounted to ca €52.49 bn, recording a 7.0% YoY increase from the same period a year earlier. This was mainly the result of a 2.9%YoY increase in primary expenditure, chiefly as a result of: **a)** higher transfers to social security funds (by €1.86 bn) due to lower social security contributions, **b)** higher grants (by €0.31bn) to the Employment Agency for unemployment benefits and **c)** higher hospitals procurement expenses rising (by €0.85bn). Interest payments increased by 20.4%YoY year-to-September 2011. In the public investment budget (PIB), revenue increased by 39.2% YoY, while PIB expenditure was down by 35.1%YoY relative to the same period a year earlier.

Table 1: January-to-September Budget execution

Ordinary Budget	Jan-Sept. 2010 (€bn)	Jan-Sept. 2011 (€bn)	Jan-Sept. 2011 (%YoY)	2011 MTFS target Jan-Sept. (€bn)	Annual target (%YoY)
1. Net Revenue (a-b-c)	36.51	34.98	-4.2	34.97	0.8
a. Gross revenue	39.76	38.90	-2.2	38.89	0.2
b. NATO revenue	0.01	0.02		0.03	
c. Tax refunds	3.26	3.94	20.9	3.94	-5.7
2. Expenditure (α+β+γ+δ+ε+στ)	49.07	52.49	7.0	52.48	5.2
α. Primary expenditure	36.76	37.81	2.9	37.80	0.3
β. Transfer to hospitals for the settlement of part of past debt	0.30	0.43	44.7	0.43	19.9
γ. NATO expenditures	0.01	0.01	-23.0	0.01	73.9
δ. Military procurement	0.25	0.18	-28.7	0.17	8.2
ε. Forfeiture of Government Guarantees	0.10	0.03	-69.4	0.03	54.3
στ. Interest costs	11.65	14.03	20.4	14.03	23.3
Public Investment Budget (PIB)					
3. Revenue	1.35	1.88	39.2	1.88	8.1
4. Expenditure	5.44	3.53	-35.1	3.62	-10.6
5. Budget deficit (-) or budget surplus (+) (1-2+3-4)	**-16.65**	**-19.16**	**15.1**	**-19.24**	**9.4**

Source: Ministry of Finance

General Government arrears reach 6.51bn or 2.8 of GDP in January-August 2011, posing risks to the full-year budget deficit target

According to the most recent data published by the Ministry of Finance, total general government arrears for the period January-August 2011 amounted to €6.51bn or 2.8 % of GDP. The figure is slightly lower (i.e., €30mn) than the respective July figure, but its level still causes concerns for the achievement of the *revised* full-year budget target of 8.5% of GDP. The volume of accumulated arrears was a main cause of concerns highlighted in the 4th Review of the EC/ECB/IMF adjustment programme.

Part II

New euro area package of anti-crisis measures underway; rumored components and hurdles to be overcome before its announcement

Increasing worries over the systemic nature of the lingering debt crisis and concerns about the negative feedback loop between weakness in the sovereigns and their banking systems seem to be accelerating the European crisis-resolution process. In a joint briefing after a closely-watched meeting on October 9, German Chancellor Angela Merkel and French President Nicolas Sarkozy pledged to unveil a plan to resolve the eurozone debt crisis ahead of the G20 Summit on November 3 & 4. The two politicians said that their goal was to devise a sustainable and comprehensive package of anti-crisis measures, which would aim to: **(i)** recapitalize the euro area banking system, **(ii)** accelerate economic coordination in the common currency area, and **(iii)** provide a "durable" solution to Greece's debt problems.

The two leaders stopped short of providing specific details about their plan. Yet, according to a number of reports, it appears that they have not yet managed to fully iron out their differences. Reportedly, significant political and technical hurdles still need to be overcome before a comprehensive plan is presented. Importantly, the funding sources of an EU-wide bank recapitalization scheme, a common approach for expanding the EFSF and possible changes in the terms of Greece's second bailout program remain among the key issues under discussion. Further progress on the aforementioned is expected at the upcoming EU Council on October 23. The deadline for a final agreement is just before the inception of the next G20 Summit early next month, amid mounting international pressure on euro area politicians to deal with the escalating debt crisis in a more determined and effective way.

i) EU-wide bank recapitalizations

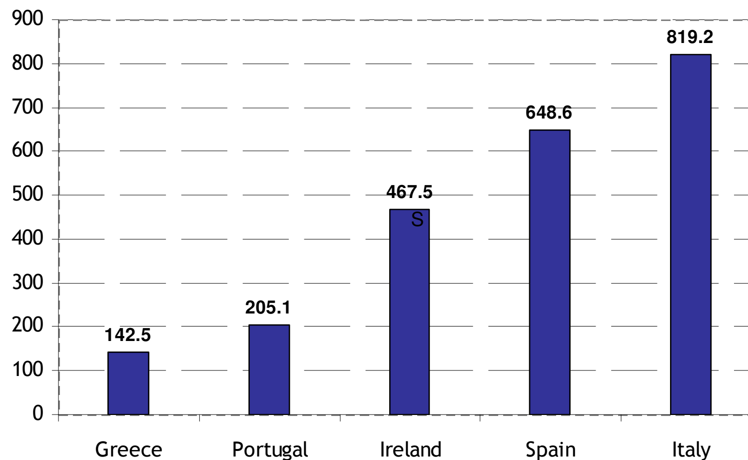
According to a number of recent reports, Germany and France have not yet reached full agreement over the EFSF's involvement in future bank recapitalizations. Reportedly, Germany wants member states with sufficient resources to act unilaterally in shoring up their domestic banks. A number of German government officials have suggested lately that the EFSF should be used only as a last resort, in the case that euro area governments do not have the means to support banks on their own. The main rationale behind this proposal is that the EFSF should reserve ammunition to assist sovereign borrowers encountering difficulties in funding themselves in international bond markets.

France, on the other hand, appears to be strongly opposing the aforementioned proposal, given that its domestic banks are more heavily exposed to peripheral euro zone debt markets. Reportedly, France argues that the EFSF should be the sole financier of any EU-wide recapitalization effort. French newspaper *Les Echos* reported on October 6 that the French government favors EFSF blanket funding rather than recapitalization of European banks via sovereign funds. The report indicated that the French government remains reluctant to capitalize its domestic banks with public funds on concerns that this could potentially threaten its triple-A sovereign credit rating.

Regardless of which proposal is finally adopted, bank recapitalizations will likely be only a part of the new package of measures aiming to address the lingering crisis. Sovereign solvency is another area requiring a more convincing policy response, especially in view of the negative feedback loop between sovereign fiscal jitters and the euro area banking system. On the latter issue, there has recently been increasing speculation that a bank recapitalization plan would need to be accompanied by a further expansion in the EFSF lending capacity *e.g.* through leverage. That said, an increase in the EFSF's volume that would imply higher contingent liabilities for AAA-rated euro area states (i.e., above the current level of maximum guarantee commitments), is probably out of consideration at this stage. S&P warned recently that any decision to increase the EFSF size could potentially trigger rating downgrades of either the EFSF itself or some of its euro area guarantors.

Graph 1 below shows the overall exposure of EU banks to the five most fiscally-vulnerable euro area countries (as of the end of Q1 2011).

Graph 1: European Banks' exposure to individual countries (end Q1, 2011, in $bn)



Source: BIS, Quarterly Review September 2011

EBA to hold new stress tests

According to press reports, the European Banking Authority (EBA) is currently conducting a new stress test on European banks with stricter criteria. The move has been interpreted by some analysts as a tacit admission that the latest round of tests conducted only three months ago was not sufficiently robust. Reportedly, the new round of stress tests is designed to assess the potential hit of a mass sovereign restructuring, assuming a 9% capital threshold (vs. the 5% used in the summer tests) and also pricing sovereign bond holdings to market *(It is not yet clear at this point whether the latter will apply to just trading books or the entire bank balance sheet).* According to senior officials involved in the process, the bank regulator is instructed to provide a country-by-country breakdown of how much new capital banks would need in the event of a Greek sovereign restructuring. These same officials insisted though that the move should not be perceived as an indication that EU leaders are preparing for a Greek sovereign default. The EBA, which has requested banks to submit by October 13 up-to-date sovereign exposure data, is expected to complete its assessment by the end of this week. According to a number of reports, results could potentially identify a total capital shortfall of as €200bn-€260bn with 60-70 banks failing the test. Furthermore, IMF European Department Director Antonio Borges said recently that the cost of a Europe-wide recapitalization plan could range between €100bn and 200bn. As a reminder, please note that in the previous stress tests only 8 out of 91 EU financial institutions failed, posting a combined capital shortfall of just €2.5bn.

Possible leverage structure for EFSF

At the July 21 EU Council, Eurozone leaders decided to let the EFSF intervene in the secondary bond markets as well as extend precautionary credit lines to, and recapitalize banks in euro area states, including in non programme countries. A month earlier, the EU Council had endorsed an extension of the EFSF's lending capacity to €440bn from €225bn. Yet, in view of rising EMU contagion risks, the possibility of further sovereign bailout programs down the road and the need for bank recapitalizations, there is an increasing conviction among market participants that the EFSF funding capacity will need to increase further.

Currently, the overall size of the EFSF stands at €440bn. Out of this amount, ca €48.5bn has been already committed for the Irish and Portuguese rescue programs (€22.5bn and €26bn, respectively). An additional €109bn has being earmarked for the second bailout package for Greece agreed by the heads of state and government on July 21, 2011. Note that, up to this point, the IMF has not clarified whether it would contribute to Greece's second assistance package. That could potentially leave us with an EFSF spare capacity of €282.5bn. (That is, provided that Greece's bailout goes through as agreed on July 21). This amount could then be easily tested in case that the Fund would need to *e.g.* intervene in the secondary bond market to support bigger EU countries such as Spain or Italy, support a bank recapitalization plan and/or countries already under a financial assistance programme (i.e. Ireland,

Portugal) are of the need for an extension of support.

Reportedly, options for leveraging the EFSF currently under consideration include:

a) Convert the EFSF to a bank that could refinance itself through the ECB, as other banks do. Under such a plan, the EFSF could buy bonds of countries under financial stress on the secondary market and then use these bonds as collateral to borrow funds from the ECB. That way, the EFSF could increase its funds without having the governments contributing more guarantees or the ECB being *unintentionally* involved in quasi fiscal policy monetization. However, certain objections have already been raised on this option. Bundesbank President Jens Weidmann cautioned that obtaining a banking license for the EFSF could face legal challenges. The EFSF is a special vehicle rather than a bank. Additionally, this plan should lead to an expansion of the ECB's balance sheet leaving it exposed to losses in case of sovereign default of a country whose bonds it holds. Moreover, German government officials and the ECB oppose openly this option on the basis that it would violate the Treaty's prohibition of 'direct financing' of government entities from the ECB.

b) Convert the European Stability Mechanism (ESM) into a bank and push forward its launch date from mid-2013 to early 2012. This proposal is based on the notion that it might be easier to grant a banking license to the ESM. *(Rather than being a special vehicle like the EFSF, the ESM will be a permanent rescue mechanism with its own paid-in capital of €80bn).*

c) EFSF to operate as an insurer for ECB bond purchases, a proposal based on elements of the US Term Asset-Backed Securities Loan Facility adopted by the US authorities at the height of the crisis in 2008.The EFSF could use its funds to cover, up to a certain amount, potential losses the ECB could incur on its purchases of sovereign bonds from countries under financial stress. Like an insurer, the EFSF would only pay out in case of a default. However, this proposal entails the risk of exposing the ECB to large losses and, in addition, leading to a large-scale expansion of the central bank's balance sheet.

d) EFSF could be used as insurer fund for bond investors via the establishment of an SPV. Under this plan, the EFSF could use its funds to cover potential losses to investors, should a country default on its debt.

ii) New EU treaty to boost economic co-ordination

In addition to addressing the European banking sector woes, German Chancellor Angela Merkel said recently that she is working with the French government on steps for a closer economic coordination in the euro zone, clarifying that such initiatives would likely necessitate changes to the EU Lisbon Treaty. Reportedly, these changes would aim to make it easier for the European authorities to impose harsh enforcement measures against countries consistently breaching EU budget rules. However, any substantive changes in Treaty should need to be ratified by all EU-27 national parliaments and also necessitate a referendum in Ireland under the country's law, a process that could take several years. The Irish government currently appears to view with apprehension the likelihood of broad changes to EU Treaty as part of a comprehensive plan to address the current euro zone debt crisis. Speaking during his party's campaigning early last week, Irish Prime Minister Enda Kenny said that the debt crisis should be dealt with under existing programmes and treaties, making clear that he does not wish a reopening of the Treaty. Irish voters rejected the Lisbon Treaty in 2008 when it was first put to a vote. It was approved in a second vote after the government secured several concessions.

iii) A "durable" solution for Greece's debt woes

Discussions are making the rounds lately about a potential adjustment in the term of the Greek bailout plan agreed at the July 21 EU Council. The rationale here is that the broader macroeconomic environment has taken a turn for the worse since late July, with the lingering debt crisis in the euro area now threatening more systemically important countries including Italy and Spain.

In an interview with Greece's ERT Television earlier this month, German Chancellor Angela Merkel did not rule out altering the terms of the new bailout package for Greece agreed on July 21. Along these lines, Chairman Jean-Claude Juncker suggested on the sidelines of the October 3rd Eurogroup meeting that the terms of private sector participation (PSI) in any new plan would likely be subject to 'technical revisions' given that, since the EU July 21st Council, conditions in the Greek economy have worsened and tensions in financial markets have intensified.

For his part, Deutsche Bank chairman and head of the international Institute of Finance (IIF) Josef Ackermann strongly opposed changing the PSI terms, stating in a recent interview to a Greek newspaper that "if we reopen the voluntary accord on July 21, we

will not only lose precious times but quite possible also private investor support". In similar lines, IIF managing director Charles Dallara said recently that if EU leaders imposed steeper losses on bondholders than the 21 percent write-down they had accepted in July, it could prompt investors to sell other countries' sovereign debt, destabilizing the single currency. Whatever the case might be with respect to any chances in the initial PSI deal for Greece, it appears that negotiations on the issue continue at this point, with a final agreement unlikely to be reached by the next EU Sumit on October 23.

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