



GREECE MACRO MONITOR

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Focus notes: Greece

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Nov 29th Eurogroup likely to give the green light for the release of the 6th EU-IMF loan tranche to Greece

Earlier this week, Antonis Samaras, the leader of the conservative New Democracy party, sent a letter to the country's official lenders, pledging support for the new bailout package agreed at the October 26-27 EU Summit. The move seems to have satisfied an earlier European Union demand for a written commitment by domestic authorities to implement the decisions taken at the last EU Council and the economic policies linked to those decisions. Reportedly, the persons being requested to sign such a letter included the new Premier and his Finance Minister, the Governor of the Greek Central Bank and the leaders of the tripartite coalition supporting the new government. Former PM George Papandreou's Socialists and the right-wing LAOS party have expressed their readiness to sign up. However, Mr. Samaras had previously refused to offer any written commitment, considering his support to the new government as adequate testament of his party's determination to honor commitments to official lenders. Note that Mr. Samaras's New Democracy party had voted against the first EU/IMF-supported bailout package and had long demanded a change in the current policy mix towards a more growth-enhancing orientation.

Mr. Samaras's letter to the heads of the EU Commission, the Eurogroup, the ECB and the IMF, read that his party remains committed to support the new Prime Minister and the new government's *pre-agreed* objective of materializing the decisions taken at the European Council of October 26th 2011 and implementing the policies linked to these decisions. The letter also read that Mr. Samaras's New Democracy party fully supports the targets of fiscal adjustment, regarding all issues on eliminating the deficit and reversing the debt dynamics; it also supports "tools" already implemented (albeit poorly); namely, public expenditure cutting, fighting tax evasion, structural reforms, privatization programs and capitalizing on idle real estate public property. On the contentious issue of a potential request by the Greek side to change certain elements of the EU/IMF-supported stabilization programme, Mr. Samaras's letter appears to have appeased earlier concerns that his party would, at some point, move unilaterally to alter the terms of new loan agreement made with official lenders. In his letter, he reiterated his long-held view that certain policies will need to be modified so as to help stabilize the domestic economy and ensure fulfillment of the fiscal consolidation targets. Mr. Samaras stated that his

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party intends to bring these issues to discussion (along with viable policy alternatives), but clarified that any policy changes would be made “strictly” within the framework outlined by the Program.

In a statement released on November 24, the IMF welcomed Mr. Samaras’s letter, expressing support for the key objectives and policies of the program. Earlier, Greek PM Lukas Papademos was quoted in a Reuters report as saying that the European Union was satisfied as well. Taking into account the above development, we expect the Nov. 29 Eurogroup to give the green light for the release of the 6th loan tranche to Greece, under the present EU/IMF-supported *Greek Loan Facility*. Today’s edition of Greek newspaper *Kathimerini* quoted a number of official sources as suggesting that the next loan disbursement is likely to take place by December 5. As a reminder, the procedures for the release of the 6th loan tranche of €8bn (=€5.8bn in the form of EZ bilateral loans + €2.2bn from the IMF under the present SBA) were effectively frozen in early November, following ex-Prime Minister George Papandreou’s surprise decision to call a referendum on the new Greek bailout plan agreed at the October 26-27 EU Summit. A few days before the formation of the new government, Eurogroup President Jean-Claude Juncker and European Commissioner for Economic and Monetary Affairs Olli Rehn signaled that Greece would receive the sixth EU loan tranche before the end of this month, conditional on a written commitment by domestic authorities to implement the new bailout deal. Note that overall principal and interest payments (ex-T-Bills) for the remainder of the year amount to €2.96bn with the first major redemption coming on December 19th when €1.17bn in 3-year government bonds mature. Reuters recently quoted a government source as saying that Greece has enough cash reserves to meet its funding needs until mid-December 2011.

Official discussions on the new rescue deal reported to commence on December 12

Discussions on the new rescue programme are expected to commence on December 12, when a team of senior Troika representations is scheduled to arrive in Athens to negotiate with the government the conditionality underlying the new loan agreement with official lenders. Greece’s Deputy Premier and Finance Minister Evaggelos Venizelos said during a cabinet meeting yesterday that a Parliamentary vote on the 2nd loan agreement and the new Memorandum of Understanding laying out the economic policies supporting the new package will take place by the end of January. Reportedly, Mr. Venizelos added that he expects the new PSI deal to be also completed by that time. More imminently, a parliamentary vote on the 2012 budget is scheduled for December 7. In early December, the government is also expected to submit a new bill, which will include a number of remaining reforms included in the conditionality of the existing (1st) rescue EU-IMF package. Among others, the new bill will include measures relating to the intended opening up of a number of closed professions in transportation (e.g., taxi drivers) and other sectors of the domestic economy.

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