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5th troika review of Greece's stabilization program

Current state of negotiations, progress and challenges

After surviving the recent motion of censure initiated by the main opposition party, Greece's coalition government is facing a number of important hurdles and challenges in the period ahead, stemming from a still-difficult domestic socioeconomic environment and a particularly demanding round of negotiations with the troika of official lenders. Undoubtedly, the road leading to the next EU loan disbursement and the completion of the present program review is bumpy, especially taking into account the range of quantitative targets and structural benchmarks included in the agenda of the current negotiations. After a temporary pause, talks between the Greek government and the troika resumed last week, but according to a number of press reports a diversion of view continues to exist on key issues such as the size of the projected fiscal gap in FY-2014 and the restructuring plans for domestic defense industries, ELVO and HDS. In this report we offer a comprehensive overview of what has already been achieved and the pending issues in the way to the conclusion of the current review. In addition, we present a timeline of the key dates and events that deserve close monitoring in the period ahead.

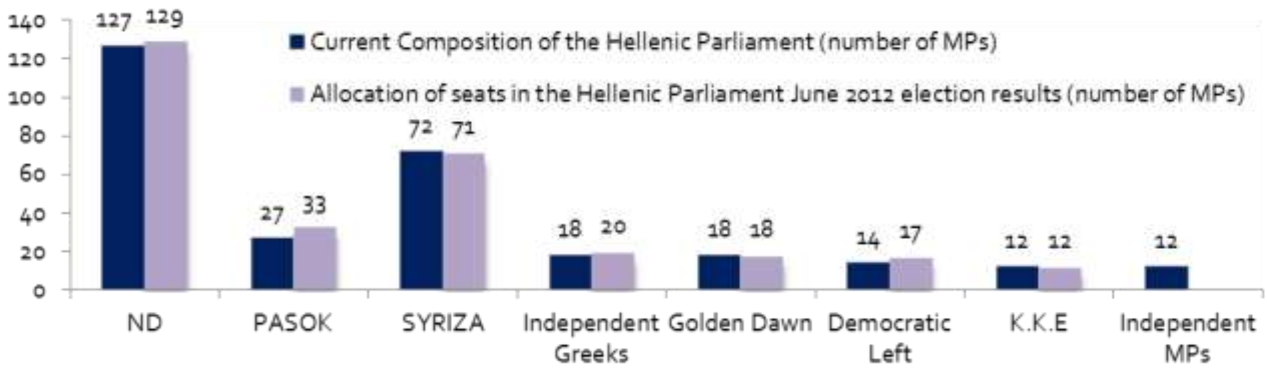
Coalition government survives motion of censure, parliamentary majority reduced

After a three-day-long debate in Parliament, the coalition government of centre-right New Democracy (ND) and socialist PASOK survived a no-confidence motion unexpectedly submitted by the anti-bailout main opposition party SYRIZA on the occasion of a riot police raid in the headquarters of the former Hellenic Broadcasting Corporation (ERT). Police evicted a number of former ERT employees who had been occupying the building since June 2013 when the government decided to shut down the former national broadcaster. That decision had been heavily criticized by most opposition parties as well as former junior coalition partner Democratic Left, which reacted by withdrawing its ministers from the coalition government.

The debate on the submitted censure motion started on Friday, November 8 and was concluded with a roll call vote at midnight on Sunday, November 10. According to the Constitution of Greece (Article 84, paragraph 6), a motion of censure cannot be adopted unless it is approved by the absolute majority of the total number of Members of Parliament (50% + 1 vote). Out of the 294 MPs who attended the parliamentary procedure, 153 voted against the motion of censure in the 300-seat Parliament, including 27 MPs from PASOK and 126 MPs from ND. PASOK deputy Theodora Tzakri voted in favor, dissenting from the party line. She was subsequently expelled from PASOK's parliamentary group, narrowing the parliamentary seats of the coalition government to 154. Tzakri maintained her parliamentary seat as an independent MP (Graphs 1 below depicts the current composition in the Hellenic Parliament).

Besides SYRIZA, the motion was supported by the Communist Party of Greece KKE (12 MPs), centre-right anti-bailout Independent Greeks (18 MPs), 15 far-right Golden Dawn MPs and 7 independent lawmakers. Democratic Left (14 MPs) voted "present", jointed by 3 independent deputies. There were six absentees from the parliamentary procedure including one lawmaker from ND, one from SYRIZA, one independent and 3 from far-right Golden Dawn who have been in custody seen early October alleged on forming a criminal organization. Under the Constitution of Greece (Article 84, Paragraph 2), another motion of censure cannot be submitted before the lapse of six months unless it is signed by the majority of the total number of Members of Parliament.

Linking the censure motion to both the police raid in the ERT headquarters and the government's economic policy, SYRIZA leader Alexis Tsipras argued that the government "does not have the Greek society's support and the popular legitimacy" and called for snap elections so that Greeks have the opportunity to "reject the memorandum". On his part, Prime Minister Antonis Samaras took the opportunity to dispel speculation about the prospect of snap elections before the expiration of the government's term in 2016 and presented the government's plan to lead Greece out of the crisis and to restore the country's access to international funding markets by the end of 2014.



Source: Hellenic Parliament

Negotiations between the Greek government and the troika in the context of the present program review resumed last week; what's on the agenda

After a temporary pause, the heads of the EC/ECB/IMF troika mission to Greece returned to Athens last week (November 4, 2013) to resume talks with the Greek government in the context of the 5th program review. A statement issued by the troika shortly after the mission heads last departed from Athens (September 28th) read that a break in bilateral discussions was necessary for the completion of required technical work on outstanding issues[2]. Official discussions in the context of the present program review reportedly focus on the progress made by domestic authorities in fulfilling:

a) the remaining prior actions for the release of the second sub-tranche of the EU loan installment approved by the July 2013 Eurogroup (*Table A*)[3]. Under the updated MoU (July 2013) , the respective milestones should had been fulfilled by September 2013, as the release of the said loan sub-tranche was initially scheduled for early October; and

b) a wide range of quantitative targets and structural benchmarks underlying the current review, including among others: **(i)** assessment of the size of the projected budgetary shortfall in FY- 2014 and identification of measures/strategies for its coverage; **(ii)** progress in public administration reform; **(iii)** observance of the agreed privatization targets; **(iv)** identification of funding sources to bridge a projected financing shortfall in H2-2014, so as to keep the current program

[2] During the first phase of bilateral discussions (September 22- September 28) the two sides reportedly agreed on the following two issues (i) a slight revision to the real GDP growth baseline forecast for 2013 (to -4.0% from -4.2%); and (ii) a projected ESA95 general government primary surplus this year (€344mn, as envisioned in the draft budget for 2014 that was submitted to Parliament in early October).

[3] Under the current planning, the second EU sub-tranche will amount to €1bn (=€0.5bn from the EFSF and €0.5bn from the income on the SMP portfolio accruing to euro area national central banks (NCBs). The first EFSF loan sub-tranche amounting to €2.5bn was disbursed in late July along with €1.5bn from the profits accruing to the SMP portfolio of NCBs.

fully-funded on a 12-month forward basis; **(v)** reassessment of the implementation framework of the new single property tax (ENFA); **(vi)** flexibility of the domestic labor market; and **(vii)** overview of certain indirect taxes.

A staff-level agreement on the aforementioned issues is a key precondition for the timely release of the next EFSF/IMF loan installment scheduled for Q4 2013 (€4.4bn, consisting of €2.6bn in EFSF funding + €1.8bn from the IMF under the Extended Fund Facility). Undoubtedly, the present review is particularly challenging, taking into account the range of quantitative targets and structural benchmarks included in the agenda of official discussions as well as a still-difficult domestic socioeconomic environment. According to some press reports, a diversion of view continues to exist between the two sides on key issues including, inter alia, the size of the projected fiscal gap in FY- 2014 and the restructuring plan of two state-controlled defense companies (a prior action for the release of the next EU loan disbursement). As a result of the still-inconclusive negotiations, an agreement on the pending release of the next EU loan disbursement is unlikely to be reached at the November 14th Eurogroup[4]. The troika mission will attend the November 14 Eurogroup meeting, before returning to Athens on Friday November 15, to resume talks with domestic authorities.

According to the local press, the government plans to issue by November 21 a ministerial decree incorporating the restructuring plan of the two defense companies, ELVO and HDS. Moreover, the final budget law for 2014 is scheduled to be submitted to parliament on November 21. Arguably, an agreement between the two sides on a number of related issues should be reached by then. However, in the case of no agreement the troika will reportedly depart from Athens at the end of next week (to allow additional time for the completion of the required technical work) and return in early December so as to prepare the ground for the December 9 Eurogroup and the December 19-20 EU Summit. If the latter scenario materializes the time period required for the completion of the present review may extend into late December 2013/early 2014.

Unnamed finance ministry sources were recently quoted in the local press as saying that State cash reserves are adequate until late January 2014 provided that Greece will have received by then the next EU loan disbursement (€1bn). Greece's first major sovereign liability settlement does not come before January 11, 2014 when two old GGBs mature for €1.85bn.

[4] The next (informal) Eurogroup meeting will take place on November 22, 2013, with the European Commission's assessment on the new EU-17 member state budgets featuring high on the agenda.

Table A - Prior actions for the release of the next EU loan disbursement

(i) Adoption of irreversible decisions (to be implemented by December 2013) for the restructuring or resolution of Hellenic Vehicle Industry, ELVO, Hellenic Defense Systems, HDS, and the General Mining & Metallurgical Company, LARCO[5]. (*Still pending*). **_Comment:_** The troika has reportedly rejected the government's latest restructuring plan for LARCO, which envisages the company's privatization via two parallel tenders[6]. As per the same sources, the troika is now willing to reconsider an earlier plan submitted by the Greek side, involving LARCO's privatization as a whole entity. That is, provided that the issue of past State subsidies (c. €135mn) is properly addressed Reportedly, the troika also opposed the government's restructuring plan for the two defense companies, ELVO and HDS[7], on the basis that it is neither viable nor realistic from an economic efficiency and budgetary standpoint, while failing to address the problem of past State subsidies (c. €1bn). Instead, the troika has requested the closure or the radical streamlining of both companies with the dismissal of about 1/3 of their current workforce.

(ii) Placement of 12.5k public employees to the so-called mobility scheme (*reportedly completed*). **_Comment:_** After transferring 4,401 of public employees to the mobility scheme in July 2013 (as a prior action for the release of the last EFSF/IMF loan tranche), Greek Ministry of Administrative Reform and E-Governance reportedly completed earlier this month the transfer of another 8,099 employees to the said scheme[8]. Overall, the two waves of transfer (July & November 2013) amount to a total 12.5k of employees. As laid out in the updated MoU, 12.5k public employees should had been shifted to the mobility scheme by September-2013, while an additional 12.5k needs to be transferred by the end of this year, so as to create the space needed for addressing areas and functions featuring a deficit of skilled staff.

(iii) Validation by general government entities of outstanding water and drainage bills to the Water Supply & Sewerage companies in Athens and Thessaloniki (EYDAP S.A, EYATH) and agreement on the direct payment of all undisputed claims from the program envelope earmarked for the clearance of State arrears (*reportedly completed*). **_Comment:_** Following parliamentary approval of the law 4179/2013 in late September entailing the full payment of all undisputed arrears to both state-run water companies EYDAP and EYATH amounting to €1,02bn cumulatively (=€720mn for EYDAP + €300mn for EYATH), a Joint Ministerial Decision specifying the modalities of the State's payment formula was issued earlier this month. With regard to EYDAP, the State has already paid ca €250mn worth of debt and reportedly intends to pay an additional ca €150mn in due course, while the remaining €320mn will be fully offset by the company's overdue payments to the State.

(iv) Adoption of a new Code of Lawyers (*completed*). **_Comment:_** The related bill, aiming to remove restrictions to the access and exercise of the lawyer profession was approved by the Hellenic Parliament early last month[9].

Source: IMF, EC, Local Press, Eurobank Global Markets Research.

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[5] HDS is engaged in the production of ammunition for the Greek armed forces and ELVO in the production of military and civilian special purpose machinery.

[6] Under that plan, one tender would reportedly be for the smelter at Larymna and a mine in the area of Aghios Ioannis, while the other tender would be for the remaining two mines (in the area of Kastoria and in Evia).The winner of each tender would be asked to propose a better offer for the other tender. That said, both tenders would not be concluded before one participant would secure the highest bid for both tenders.

[7] The government's plan envisages the split of each company into two sectors, the civil and the military one with the former closing down and the latter being restructured while-still-in operation.

[8] The second batch of transfers reportedly consists mainly of public employees from line ministries, especially the Ministry of Health & Welfare and the Ministry of Education, Lifelong Learning & Religious Affairs including 1,665 administrative employees from eight universities.

[9] Among others, the new Code for Lawyers envisages: (a) elimination of unjustified entry restrictions e.g. elimination of restrictions for the advertisement of law firms and their establishment across the country and abroad; (b) revision in the fee structure i.e., abolition of minimum fees and fixed contract sums for each procedural act or court appearance by lawyer; (d) elimination of the mandatory presentation of lawyers in the drafting of contracts; and (d) elimination of any kind of minimum wages for salaried lawyers working in the private sector.

Other issues dominating the agenda of current discussions with the troika

In what follows we provide a detailed overview of a number of additional issues currently discussed with the troika in the context of the 5th program review.

I. Size of projected fiscal gap in FY-2014 and measures/strategies to cover it

As per the latest update of the macroeconomic framework underlying Greece's adjustment program (July 2013), a cumulative fiscal gap worth c. 2%-of-GDP is expected to arise in 2015-2016. The coverage of this gap is deemed necessary for attaining the agreed fiscal targets (*i.e.*, generation of a 4.5%-of-GDP primary surplus by 2016). However, a number of recent press reports suggested that the troika now projects a fiscal gap (€2bn-€2.5bn) arising as early as in 2014, due to: (i) the need to cover a budgetary shortfall of social security funds, reportedly estimated at c. €500mn; (ii) a projected shortfall of €800mn in social security contributions in 2014, as a result of the government's commitment to reduce contribution rates by 3.9pps in three phases (2014, 2015, 2016); and (iii) according to the troika staff's current projections, budgetary revenues from ongoing reforms in the tax collection mechanism and the crackdown on tax evasion will underperform the respective medium term fiscal plan targets.

On its part, the Greek government has adopted a more optimistic projection, arguing that strategies generating savings worth *no more* than €500-700mn are deemed adequate to attain the envisaged target of a primary surplus of 1.5%-of-GDP in 2014. To this end, the Greek finance ministry reportedly proposed specific measures to cover the projected shortfall, involving a number of targeted interventions and structural reforms rather than new cuts in wages and salaries. Speaking before Parliament last Sunday, Greece's Prime Minister reiterated the government's strong opposition to new horizontal austerity measures as a means of addressing any projected fiscal shortfalls. In similar lines, Greece's Minister of Finance told reports last week that any new strategies to address the projected fiscal gaps would be of a purely structural nature[10]. Such structural measures are reportedly expected to generate additional budgetary revenues in excess of €2bn *i.e.*, more than enough to cover the 2014 fiscal shortfall projected by the troika. According to the local press, the government expects additional saving to be secured next year as a result of:

(i) improved GDP growth dynamics[11] (€0.7bn);
(ii) ongoing reforms to strengthen the capacity of the tax revenue administration in its fight against tax evasion (€0.381bn);
(iii) strengthening of social security revenue administration (€1bn);
(iv) full implementation of the new wage grid in public enterprises (DEKO) and other public bodies (€0.1bn).

II. Projected fiscal gap in 2015-2016

As laid out in the updated MoU, specific strategies aiming to bridge the projected fiscal shortfall for the period 2015-2016 need to be identified in the context of the current troika review, along with the preparation of the updated medium term fiscal plan (2013-2017). However, recent press reports suggested that the troika is mulling the idea of pushing the said issue back to the December 19-20 EU Summit or even later than that i.e., after official discussions on a new debt relief package for Greece commence[12].. The latter holds provided that next Eurostat EDP report (April 2014) will confirm that Greece's 2013 budget generated a general government primary surplus.

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[10] Also, see Greece Macro Monitor, *"Why a new package of horizontal austerity measures might well prove counterproductive"*, Eurobank Global Markets Research, October 17, 2013. http://www.eurobank.gr/online/home/AnalysingDetails.aspx?CategID=40&lang=en

[11] The domestic economic shows increasing signs of stabilization with the latest (Q2-2013) national accounts data recording the first positive quarter-on-quarter, seasonally-adjusted GDP growth rate in the last 3 ½ years. Mainly thanks to strong tourism revenue, Q3-2013 is likely to be another positive quarter for GDP growth (quarter-on-quarter seasonally adjusted terms), effectively signaling an exit from recession, following 5 consecutive years of steep output losses. A return to positive growth rates is expected from 2014 onwards, with the IMF forecasting a cumulative medium- term boost to domestic GDP growth by as much 10ppts upon completion of the agreed structural reforms agenda.

[12] See, Greece Macro Monitor, "Debt Forgiveness is not a necessary precondition for restoring debt sustainability", Eurobank Global Markets Research, October 31, 2013. http://www.eurobank.gr/Uploads/Reports/GREECE%20Macro%20Monitor%20-%20October%2031%202013.pdf)

III. Coverage of projected financing gap in H2-2014, so as to keep the current program fully-funded on a 12-month forward basis

Under the troika's baseline macro scenario, Greece's current adjustment program is fully financed through to July 2014 but a funding gap of €4.4bn is expected to arise in H2-2014. Lo0king further ahead, the troika's macro scenario projects a funding gap of €6.5bn in 2015-2016.

In a press conference after the conclusion of the October 14 Eurogroup, Greece's Minister of Finance revealed that the government has proposed a range of options to cover the said financing gaps, including: (i) the rolling over of bonds expiring in May 2014 that were given to domestic banks under the so-called Alogoskoufis' law in 2008[13,14]:; (ii) the leftovers from the €50bn package earmarked for the recapitalization of the domestic banking system, upon completion of the new stress test exercise [15]; (iii) the rollover of maturing Greek government bonds (GGBs) held in the euro area NCBs investment portfolios (ANFAs)[16]; and (iv) equivalent measures should the latter option would be considered as monetary financing.

On the sidelines of the October 14 Eurogroup, President Jeroen Dijsselbloem ruled out the possibility of ANFAs rollover, arguing that such a measure is banned under the ECB's statutes on the basis that is deemed tantamount to direct financing to a EU member State. As per the Eurogroup President, the issue of the financing gap projected to arise in the 2nd half of next year, will be included in the agenda of the December 9th Eurogroup and final decisions are expected to be reached by January 2014.

With regards to the projected financing gap for 2015-2016, a number of high-level EU officials (including, EFSF Head Klaus Regling and ECB Executive Board member Jorg Asmussen) suggested that the issue may be addressed in the context of a new financing program for Greece that would aim to cover the General Government borrowing requirement over the full implementation horizon of the present fiscal adjustment program (2013-2016).

IV. Progress in public administration reform

Table B below presents the main public administration reforms that are being discussed with the troika in the context of the present program review.

Table B –Public administration reform agenda

(i) Transfer of 12.5k employees to the mobility scheme (prior action for the release of the next EU loan disbursement).
(ii) Preliminary discussions on the placement of an additional 12.5k of employees to the mobility scheme by December 2013.
(iii) Mandatory exit of 4k public employees by the end of this year.
(iv) Staffing plans covering 410k public sector employees.

Source: IMF, EU, Local Press, Eurobank Global Markets Research

<u>Comments & assessment:</u> 1) In a meeting with the troika staff late last week, Greece's Minister of Administrative Reform and E-Governance reportedly requested an extension by two or three months to the December 2013 deadline for the transfer of an additional 12.5k of public employees to the mobility scheme. As per the same minister, these pending transfers will mainly come

[13] These bonds were issued by the Hellenic Republic under the 3723/2008 law (dubbed as Alogoskoufi's law). Aiming to enhance liquidity and address the impact of the international financing crisis on the domestic banking sector, the Hellenic Republic increased domestic banks' share capital by issuing non-voting preference shares.
[14] The ECB reportedly opposes this measure on the basis that those bonds have been recorded on domestic banks' books and if the government does not pay them out, two Greek banks' Tier 1 ratio will fall below the 9% threshold. Should this be the case, those two lenders would reportedly require additional recapitalization.
[15] According to the HFSF activities report for the period January to June 2013 (issued in late July 2013), bank recap leftovers are currently estimated at around 11.3bn. Synergies expected to be materialized due to mergers in the domestic banking sector could reportedly boost the said buffer to as high as ca €14-15bn.
[16] As per the European Commission report on the first review of Greece's second adjustment programme (Dec 2012, page 54), the revised troika baseline scenario for the general government financing needs and sources of funding assumes a rollover of ANFAs holdings on equal terms, while acknowledging that this option would still need to be assessed and independently decided by NCBs. As per the same source, the overall financing secured by the rollover of ANFAs holdings would amount to €3.7bn in 2012-2014 and €1.9bn in 2015-2016. Over the first seven months of the year, Greece has reportedly paid €1.8bn in H1 2013 for the settlement of maturing ANFA GGBs.

from: (i) social security funds; (ii) municipalities; and (iii) the health sector.[17,18] The troika has yet to respond to the aforementioned request. **2)** In a recent press interview, Greece's Minister of Administrative Reform and E-Governance said that the agreed target of 4k layoffs of public sector employees by the end of this year will be covered by: (i) 2,662 former employees of Hellenic Broadcasting Corporation (ERT) that was shut in June; (ii) 500 public employees who were found guilty for breaking the code of conduct; (iii) 230 public employees who quit for health reasons; and (iv) an addition 1,270 of public employees who will also join the list of planned mandatory exits**. 3)** According to the Minister of Administrative Reform and E-Governance, the government intends to fulfill the target for an addition 11k of outright dismissals by the end of next year by mobilizing the following pool of employees: (i) perjurer employees[19]; (ii) redundant positions resulting from the restructuring of the two State defense companies (HDS, ELVO); and (iii) redundant positions resulting from the merging and closing down of public organizations and private law entities. Reportedly, the Greek minister also requested contractual staff (estimated at ca 5k) that will finally lose their legal appeal against the non-renewal of the temporary contract to be also counted as mandatory exits[20]. **4)** The Greek government reportedly presented to the troika completed staffing plans involving as many as 410k employees (end-September structural benchmark). As laid out in the updated MoU, staffing plans covering the broader public sector will need to be adopted by end-2013.

V. Implementation framework of the new single property tax

According to the local press, a new single property tax (ENFA) is scheduled to come into force on January 1, 2014. The new tax will replace: i): the special levy (EETHDE) currently collected via electricity bills; and ii) the wealth tax on property (FAP), provided that the total objective value of the taxed property is less than €300k. Taxpayers owning property with a total objective value higher than €300k will reportedly be burdened with both the ENFA and the FAP. Note that the proposed implementation framework of the new single property tax went through major changes over the last few days, following vehement objections by several ND lawmakers favoring lower tax rates for farmland. As per the same sources, several PASOK deputies also openly opposed the government's initial plan, which reportedly envisioned annulment of the FAP, irrespective of the objective value of the taxed property. The said deputies threatened to cast a negative vote should the respective draft bill be submitted to parliament in its original form. That is, unless the bill incorporates, among others, lower tax rates for socially vulnerable groups. Reportedly, the purportedly implementation framework of the ENFA is expected to be finalized and presented to the troika by the end of next week.

Comments & assessment: **1)** The latest IMF assessment of Greece's adjustment program estimates an annual collection rate of 70% for the new single property tax (preliminary estimate). This effective suggests that in order to secure the projected tax revenue (i.e., €2.9bn/annum) total assessed taxes should amount to €4.15bn, with any uncollected amount (€1.45bn/annum if a 70% collection rate is realized) accruing to outstanding tax arrears. On its part, the Greek government estimates a ca 82% collection rate in the proposed implementation framework of ENFA, implying that assessed taxes should amount to no more than €3.4bn/annum. The FAP, to be reportedly applied on taxed properties with objective value higher than 300k, is projected to generate revenues of €0.2bn/annum, boosting further the government's estimate of assessed property taxes. **2)** As regards the property transaction tax, the troika has opposed the Greek government's proposal for a 50% reduction to 5% as of January 1, 2014 and has requested instead its annulment as a means of boosting the domestic housing market[21]. **3)** Aiming to strengthen ENFA tax collection so as to reduce the risk of revenue underperformance, the Greek government reportedly intends to assign an additional 300 staff to the revenue administration.

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[17] Under the said scheme, transferred employees will be receiving for 8 months (from 12 months initially) 75% of this basic monthly salary or one-third in case of disciplinary suspension before being subject to permanent separation, in case they are not considered qualified enough to be reallocated in the broader public sector to fill in vacant positions

[18] In an effort to improve public service quality, all dismissed civil servants will be replaced by new recruits through a totally meritocratic process (i.e., the Supreme Council for Personnel Selection). According to the updated MoU, the 1:1 agreed hiring rule will be reduced in due course should it risk violating the agreed target for a 150k reduction in the broader public sector This is part of the Greek government's boarder commitment to reduce public sector employment by 150k by 2015, relative to the end-2010 level. According to the latest available official data, total public sector workforce stood at 681.765 in July 2013 from 700.351 in December 2012 and 876.351 in end-2009, supporting the government's argument that the overall public sector workforce is falling faster than expected earlier, mainly thanks to natural attrition, early retirements, the non-renewal of fixed-term contracts and the application of a 1:5 hiring rule in the broader public sector through a total meritocratic process.

[19] According to the local press, in the period between June 2012 and September 2013, 226 perjurer employees have been moved after failing in their appeals while criminal charges against an additional of 2,113k civil servants are currently under investigation.

[20] The updated MoU say explicitly that "employees counted as mandatory exits to the private sector will originate from those that are employed by the general government (ESA95 definition) on a permanent employment contract or on a contract of indefinite duration".

[21] According to the latest BoG data, in the period Q3 2008 - Q2 2013, residential property prices have recorded a cumulative drop of 37.9%yoy in real terms (and of 31.3% in nominal terms).

VI. Suspension of a moratorium on forecloses

Notwithstanding the steps already taken to improve the effectiveness of NPL resolution activities in the domestic banking system,[22] the July 2013 IMF report on Greece reads that further measures should be adopted to facilitate the clean-up of bank balance sheets including, "enhancing debt enforcement and collateral recovery as well as the establishment of an effective out-of-court restructuring mechanism". In this direction, the Greek government has reportedly decided the gradual suspension as of January 1st 2014 of a moratorium of forecloses for primary residences with an objective value up to €200k (and up to €450k depending on whether or not the lender is married and how many children has)[23]. The said moratorium was first applied in 2009 and it was renewed each year since then.

Comments & assessment: ***1)*** According to the local press, the government intends to introduce a 5-year suspension of foreclosures for primary residences. This means that primary residences will not be auctioned before the expiration of a 5 year period, commencing when the mortgage loan (and/or consumer loan and/or credit cards amounting more than 20k) was deemed non-performing *i.e.,* the borrower has failed to make interest or principal payments for more than 90 days. As laid out in the Programmatic Agreement reached between the two governing coalition party leaders late last month[24], certain socially vulnerable groups (e.g. those with an annual income below poverty line, those who can prove based on "a minimum acceptable rate of decent living" that they cannot service their loan) will be exempted from the proposed scheme. Country houses, professional and commercial properties will be reportedly auctioned after the expiration of the 5-year period irrespective of their objective value**. 2)** Reportedly, the troika insists on the full suspension of foreclosures for primary residences as of January 1st, 2014, in line with their proposal for the full and immediate liberalization of lease contracts. The criteria under which domestic banks will be empowered to undertake property foreclosure is currently a contentious issue of negotiations between the Greek government and the troika[25]. A technical team of troika inspectors will reportedly hammer out the details of the Greek government's proposed foreclosure suspension plan and an agreement is expected to be reached by mid December, 2013.

VII. Overview of certain indirect taxes

According to the local press, the troika has requested a renewed increase in the VAT rate for restaurants and catering back to 23%. As per the same sources, the Greek side rejected the said proposal and the issue is likely to come again under consideration in the context of the next (6th) program review. Last summer, the two sides agreed on a temporary decrease in the VAT rate for restaurants and catering (to 13% from 23% in the mainland and to 9% from 13% in the islands) with effect from August 1st 2013 until end-December 2013[26]. Separately, the troika has reportedly rejected a government proposal for a 15% reduction in the excise tax on heating oil amid concerns that such a move would put in danger the agreed fiscal targets and hamper ongoing efforts to tackle fuel smuggling. In return, the Greek finance ministry announced last month an increase in the heating allowance (from €0.28/lt to €0.34/lt) as well as broader income and property criteria of eligibility[27]. Heating oil subsidies will reportedly amount €270mn in 2014, slightly higher than €260mn earmarked last year (out of which only €86mn was claimed).

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[22] Aiming to facilitate the handling and resolution of bad debts, the Greek Parliament approved in June 2013 amendments in the s0-called "Katseli" household insolvency law (3869/2010). The modifications to the said law intend to improve the payment culture and to remove a number of moral hazard creating aspects of the previous framework by, inter alia, introducing a mandatory minimum monthly payment until the court hearing date and by allowing a specific majority of creditors to take a decision on an out-of-court settlement of household debts. Moreover, the Greek Parliament approved early this summer legislation for the implementation of a new restructuring scheme for mortgage loan payments (i.e., the so-called "Facilitation Program"), which allows heavily indebted households, businesses and self-employed to restructure their mortgage loan with more favorable terms. The newly adopted scheme determines eligibility criteria (i.e., debtor assets and income) and debt repayment installments in accordance with the debtor's financial affordability.

[23] The government is reportedly considering to reduce it by up to 10% per year.

[24] The Programmatic Agreement specifies the broader strategic goals the government will try to fulfill during the remaining time of its term

[25] As regards the criteria under which domestic banks will be empowered to undertake property foreclosure reportedly the Greek side has proposed, among others: and (i) the outstanding amount of the loan; (ii) the borrowers' willingness to agree on a payment plan ("cooperative borrowers").

[26] The said agreement was reached after offsetting measures were identified (worth of ca €130mn in 2013, mainly in the form of cuts in the military procurement program).

[27] Beneficiaries of heating oil allowance will reportedly include; (i) unmarried individuals with an annual declared income up to €30k (from €25k previously); and (ii) households without children/ single-parent families with one child declaring annual income up to 40k (from 35k previously) while the allowance will increase by 3k for each additional child.

VIII. Assessment of domestic labor market conditions

Undoubtedly, the comprehensive labor market reform introduced in late 2011/early 2012 as a prior action to the second bailout agreement has already induced significant flexibility in the domestic jobs market, facilitating a rapid decline in wage costs[28,29]. Yet, in its latest assessment of Greece's economic adjustment program (July 2013), the IMF claims that employment protection rules in Greece remain very rigid, especially as regards collective dismissals. As per the said report, labor market related issues should be taken into consideration in the context of the current program review (Table D).

Table D-Labor market reform agenda

(i) Abolition of the Labor & Social Security Minister's veto power (Law 1387/83, Article 5) as regards collective redundancies in excess of the current layoff limits.

(ii) Establishment, in lieu, of a special committee assessing the economic viability of companies intending to proceed with collective redundancies in excess of the legally-binding layoff limits.

(iii) Launch of a plan aiming to strength social protection of dismissed employees and ensure their training for rehiring/outplacement.

Source: Local Press, Global Markets Research

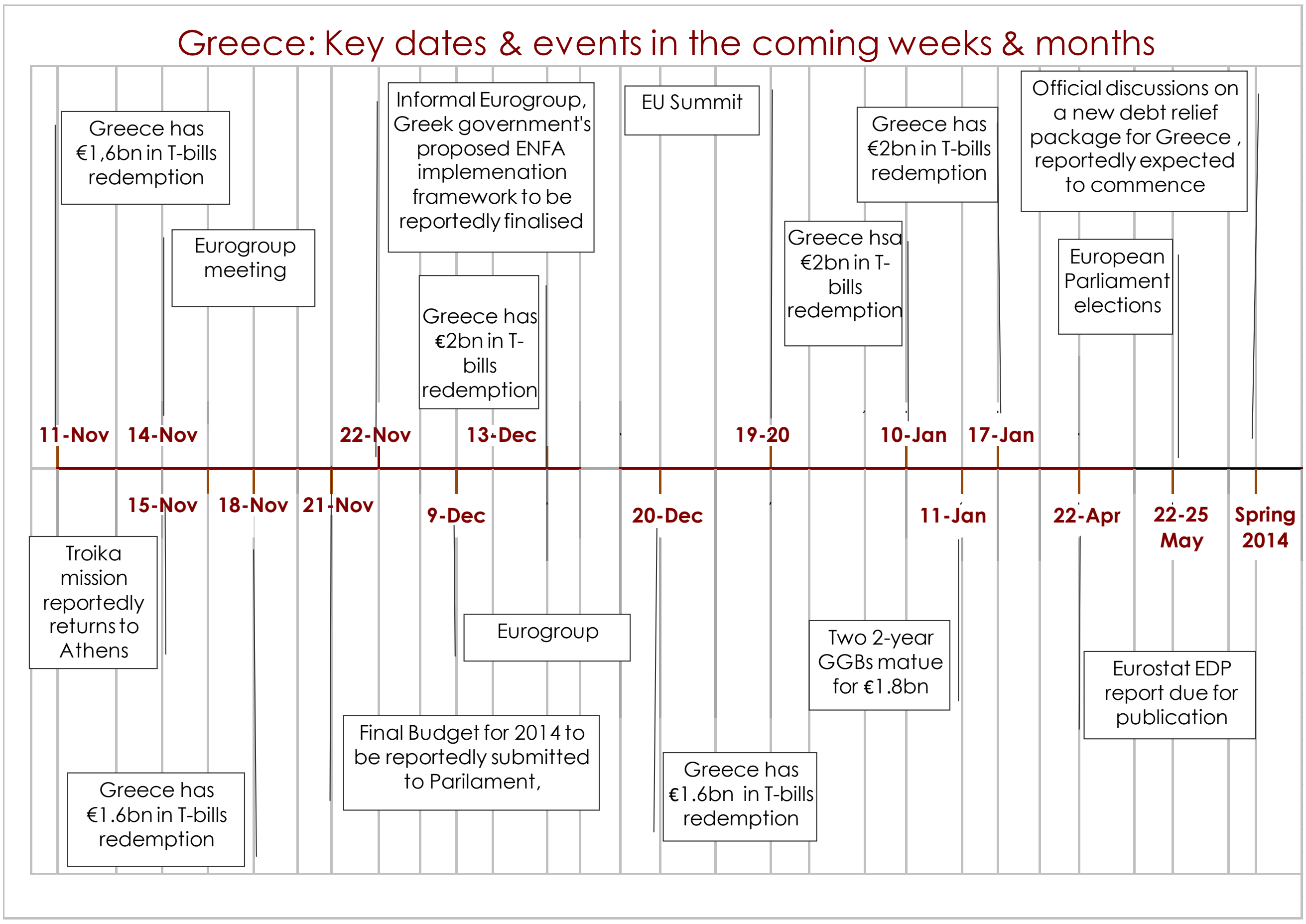
<u>Comments & Assessment</u>: **1)** According to Greece's Deputy Labor & Social Security Minister, the government will reform labor regulation by end-November 2013 in an effort to boost investment and support job creation, subject to the completion of a special study currently conducted by the International Labor Office. Reportedly, the revised legislation will incorporate among others, (i) the establishment of a special committee that will be assessing the economic viability of companies intending to proceed with collective redundancies in excess of the legally-permitted layoff limits; and (ii) plans aiming to strengthen social protection of dismissed employees and to ensure their training for rehiring or outplacement. As a result, the Minister of Labor & Social Security will reportedly loose the veto power he/she currently possess (Law 1387/83, Article 5) on companies' request for collective redundancies in excess of the legally-binding layoff limits. **2)** Speaking to reporters last week, Minister of Labor & Social Security refrained from confirming the accuracy of the aforementioned reports, suggesting that upcoming changes in labor legislation will include, among others, doubling group layoffs limit from 5% currently in companies with more than 150 employees, in line with the EU average. According to the current labor regulation in Greece, the monthly limit of layoffs for companies with 20-150 employees stands at 6 employees. As a comparison, the rate of group layoffs for small and medium-sized companies in Germany (i.e., businesses with fewer than 500 companies) ranges between 10% and 25% while in Spain Cyprus, Denmark and Belgium the respective figure for companies with up to 299 employees stands at ca 10%.

[28] As a prior action to the signing of the 2nd EU/IMF rescue programme, the Greek Parliament approved in early 2012 legislation intended to compress wage costs and to further liberalise the domestic labor market via: (i) removal of the permanent employment status from all labor contracts and freeze of maturity coefficients (i.e., automatic salary increases irrespective of productivity or cyclical conditions); (ii) limiting the length of the so-called 'after effects" of collective contracts to three months from six previous (i.e., in the absence of a new contract, wages fall close to the minimum wage three months after a contract expires); (iii) recourse to arbitration for settling negotiation disputes to be allowed only if both parties (employee and employer representatives) agree to it; (iv) collective agreements to be limited to a maximum duration of 3 years; and (v) a 22% reduction in the minimum wage at all levels along with a further 10% decline of new entrants under the age 25.

[29] By 2014, Greece is projected to have regained its 1995 labor cost competitiveness, primarily through lower wages.

Annex

Timeline of the key dates and events in the period leading to the completion of the 5th program review and the commencement



Source: EU, Local Press, Global Markets Research

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