

GREECE MACRO MONITOR

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Greece: overnight agreement with official creditors paves the way for the release of €12bn loan installment

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Agreement reached overnight on key prior actions for releasing next ESM loan installment

Positive news on the domestic front overnight as the government reached agreement with the representatives of the institutions (EC/ECB/ESM/IMF) on a number of prior actions required for the release of the next ESM loan installment. This consists of €2bn to be mainly used for servicing public debt and €10bn for recapitalizing domestic banks.¹ Coming on the heels of the better than expected flash Q3 GDP report² the deal is expected to facilitate the timely completion of the recapitalization of Greece's four systemic banks, a key precondition for the gradual stabilization of domestic financial and macroeconomic conditions.

Speaking to reporters earlier today, Greece's Minister of Finance confirmed that a deal has been reached with official creditors on the entire set of milestones (48 in total) required for the release of the next ESM loan installment. As a next step, the Hellenic Parliament will reportedly vote by Thursday (November 19), under an emergency procedure, a relevant multi-bill containing the required legislation for the implementation of the said milestones. Then, provided that all goes as planned, a new Euro Working Group that is scheduled to convene a day later (Friday) will likely endorse the deal, opening the door for the release of the €12bn loan installment on Monday, November 23.

As noted in our November 12 *Greece Macro Monitor*³, a swift agreement on a number of pending prior actions was needed to allow the resumption of official funding to Greece in the context of the new (3rd) bailout programme. Some of these represented quite difficult items from a political and social standpoint, including, inter alia: a) the legal framework for primary residence foreclosures; b) the management of bank non-performing loans (NPLs); c) the identification of equivalent measures to replace an earlier proposed VAT hike (to 23%) on private education; d) certain modifications to the pricing policy of off-patent drugs and generics; and e) amendments to the installment scheme for overdue tax payments & social security contributions.

Reportedly, the two sides have reached a final agreement on all aforementioned issues, with the exception of several items pertaining to the management of bank NPLs, including, inter alia, the creation of a new framework to allow the sale of bad loans to specialized funds, which will be licensed and regulated by the Bank of Greece. According to local press, an agreement on these

¹ Note that in the context of the 3 year ESM loan facility agreed with official creditors last August, a backstop facility up to €25bn have been committed for bank recapitalization and resolution. However, the overall amount to be finally used for that purpose is likely to be significantly lower, in view of the better-than-expected results of the ECB's Comprehensive Assessment on the four Greek systemic banks. The said assessment identified capital shortfalls totaling €4.4bn in the base scenario and €14.4bn in the adverse scenario, after taking into account €9.2bn aggregate Asset Quality Review (AQR)-adjustments. The four systemic banks have already submitted their capital plans to the Single Supervisory Mechanism (SSM) explaining how they intend to cover the entire shortfall of €14.4bn. In addition, these banks have already undertaken certain actions (i.e., LME exercises, announcement for the commencement of institutional offering book building) with an intention to cover a minimum of €4.4bn (that corresponds to the baseline shortfall) by private means.

² Eurobank Economic Research now forecasts full-year 2015 real GDP growth between -0.5% and 0%.

³ Greece Macro Monitor, "November 9th Eurogroup gives Greece a week to accomplish pending prior actions; dissociates bank recapitalization from completion of 1st programme review", Eurobank Research, 12 November, 2015.

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pending issues has been postponed for next month (December 2015), with the final modalities of the aforementioned framework still remaining unclear.

As regards the equivalent measures to avert a VAT hike on private education, it appears that a deal has been finally reached with official creditors for the imposition of a €0.05 levy on each column of the gambling games of the Greek Organization of Football Prognostics SA (OPAP). The aim here will be to cover an ensuing budgetary shortfall of c. €240mn/annum.⁴ Elsewhere, it appears that there is also an agreement on a number of changes to a scheme approved by the Hellenic Parliament in November 2014, allowing up to 100 monthly installments in the payment of overdue tax and social security liabilities. Purportedly, these changes will provide for more stringent enrollment criteria, with a view to ensure that payments are commensurate with taxpayers' ability to meet their debts.

Finally, as regards the daunting issue of the protection of primary residence foreclosures, the local press indicates that the agreement includes more stringent eligibility criteria compared to the existing framework. In more detail, the financially weakest debtors may be exempt from primary residence foreclosure as long as they satisfy the following criteria:

- objective value of residence no higher than €170.000;
- upper threshold for gross taxable income:
 - for a single homeowner: up to €8.180;
 - for a married couple: up to €13.917;
 - increase of relevant threshold per child: €3.361; and
 - for a family of four: up to €20.639.

For the aforementioned category of debtholders that accounts for c. 25% of the total number of debtholders, a special government reserve fund of up to €100mn will be put aside to support those unable to repay an installment equal to 10% of their income under the so called 'Katseli' law or at least €40 per month. For the rest of the debtholders a number of criteria will be applied to determine their eligibility for an out-of-court settlement with the creditor(s) i.e., banks. For their part, the latter will have to *first* readjust the value of the debtholder's property in line with current market conditions and *then* decide on the level of the monthly installment. If a settlement is still not reached, then the two parties may resort to courts. The eligibility criteria for this second group of debtors are:

- objective value of residence no higher than €230.000;
- upper threshold for gross taxable income:
 - for a single homeowner: up to €13.906;
 - for a married couple: up to €23.659;
 - increase of threshold per child: €5.714; and
 - for a family of four: up to €35.086.

The latter category of debtholders accounts for another 35% of the total number of debtholders. The aforementioned criteria for both debtor categories will apply for the next three years, until 2018 when they will be re-evaluated depending on economic conditions.

Timeline of key dates and events

In what follows, we present a timeline of the key dates and events that deserve close monitoring in the crucial weeks ahead.

Tuesday, November 17, 2015

- Euro Working Group convenes via teleconference to review the agreement reached overnight between the Greek government and official creditors on the prior actions required for the release of the next ESM loan installment of €12bn (= €2bn for servicing public debt *plus* €10bn for bank recapitalization purposes).

⁴ OPAP has strongly opposed the imposition of a player levy, insisting that such a measure would have an adverse impact on its gross revenue. The gaming company has also claimed that relevant State proceeds would not exceed €52.4mn/annum.

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- Greek government submits to Parliament under an emergency procedure a multi-bill incorporating the legislation required for the implementation of all outstanding milestones for the unlocking of the aforementioned loan amounts.
- Eurobank (one of Greece's four systemic banks) completes the book-building process (reports). The Bank announced on November 16 that its total capital needs have been reduced by €83mn (to €2.039bn) following approval of its capital plan by the SSM/ECB. In covering the said amount, the Bank said that it could secure up to €720mn from a voluntary LME exercise implemented earlier this month. The same press release read that the Bank has also received total commitments of €453mn from a group of anchor investors, with the said group also holding an option to upsize the respective commitment amounts to a maximum of c. €131mn. Speaking to the Bank's shareholder meeting on November 16, Eurobank's CEO said that the amount of capital increase has been covered by three quarters, including an additional participation of up to €80mn from the European Bank for Reconstruction and Development (EBRD).

Thursday, November 19, 2015

- Hellenic Parliament votes on multi-bill containing required legislation for the implementation of outstanding milestones for the unlocking of €12bn ESM loan installment.

Friday, November 20, 2015

- Greek government submits to Parliament for approval the final Budget law for FY-2016 as well as the new Medium-Term Fiscal Strategy for 2016-19 (prior actions for the release of the €2bn ESM loan installment).
- Euro Working Group reconvenes to give green light for the release of next ESM loan installment of €12bn.

Monday, November 21, 2015

- Subject to a positive EWG assessment, the Eurogroup approves the unlocking of €12bn loan installment.

November 23-25, 2015

- EC/ECB/IMF/ESM mission heads depart from Athens.

Early to mid-December

- Hellenic Parliament votes on a multi-bill incorporating the required legislation for the implementation of a set of milestones – not yet officially determined- attached to the release of another ESM loan installment of €1bn.
- Hellenic Parliament votes on a bill for the legislation of certain actions & procedures required for facilitating NPL resolution.
- Completion of the bank recapitalization process.
- The EC/ECB/IMF/ESM mission heads return to Athens to resume discussions with domestic officials in the context of the 1st programme review.

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