Eurobank Global Markets Research
www.eurobank.gr/research
EurobankGlobalMarkets
Research@eurobank.gr

Eurobank

GREECE MACRO MONITOR

October 2, 2015

First programme review
Timeline and key prior actions

Paraskevi Petropoulou
G10 Markets Analyst
ppetropoulou@eurobank.gr

Contents

- ***Official talks on 1st program review expected to incept mid-October***
- ***Completion of 1st review is key prerequisite for the release of additional official funding, initiation of debt relief discussions***
- ***Key prior actions & timeline of key dates and events***

Preparatory talks on 1st programme review expected to incept by mid-October

In order to prepare the ground for the inception of official discussions in the context of the 1st programme review, staff of senior inspectors representing Greece's official creditors are reportedly expected to visit Athens by the end of next week. This will follow submission of the draft FY-2016 Budget to the Hellenic Parliament (October 5) and the presentation of the new government's programmatic statements (October 5-6).[1,2] As per the same reports, the mission heads are scheduled to arrive in mid-October, with an intention to have the programme review completed by early November, at the latest. This is somewhat later compared to the initial review completion deadline (October 2015), as the September 20th snap election has caused certain delays in the necessary technical work as well as the political and legislative decisions necessary for the implementation of the required prior actions. Taking into account that out of a total of c. 200 milestones outlined in the new Memorandum of Understanding (MoU), c. 75 (or c. 40% of total) need to be delivered by November 2015, it goes without saying that the 1st programme review will be a major challenge for the domestic authorities. This holds especially after international press reports suggested earlier this week that the IMF now sees risk of the review being pushed back to December as around 66% of the required milestones are still pending.

Completion of 1st review is key prerequisite for the release of additional official funding, initiation of debt relief discussions

According to the new MoU and the ESM requirements, a staff level agreement on core issues underlying the 1st programme review is a key precondition for: i) the release of additional official funding under the 3-year ESM loan facility, including the outstanding €3bn sub-tranche of the first loan disbursement [3] (see section below); and (ii) the initiation of official discussions on additional

[1] According to the Constitution of Greece (Article 79, paragraph 3), "the draft budget shall be submitted by the Minister of Finance to the relevant parliamentary committee on the first Monday of October and shall be debated, as specified by the Standing Orders. The Minister of Finance taking into account the remarks of the committee, shall introduce the budget to the Parliament at least forty days before the beginning of the fiscal year".

[2] The new Parliament is scheduled to reconvene on Saturday (October 3, 2015) for the new MPs to swear in. The following day (October 4, 2014) the Parliament is reportedly expected to elect its new Speaker and Vice Presidents. The Prime Minister will present his programmatic statements on October 5-7 and late on October 7th the government will request a confidence vote. The procedure of a confidence vote is based on Article 84 of the Constitution which entails that the government shall secure the backing of an absolute majority of the attending MPs, which cannot be less than 2/5ths of the total number of parliamentary deputies (i.e., 120 in favor votes).

[3] Out of c. €86bn financing committed under the new ESM loan facility, the August Eurogroup 14th and the August 19th ESM Board of Governors meeting, approved the release of the first loan tranche to Greece amounting to €26bn. That consisted of: (i) €10bn for bank recapitalization and resolution purposes that would be held in a segregated account managed by the ESM; and (ii) €16bn for the coverage of budget financing and debt servicing needs. Out of the €16bn loan tranche, €13bn was disbursed to Greece on August 20th to cover, among others, the repayment of the €7.2bn EFSM bridge loan granted to Greece in mid-July and c. €3.4bn ECB debt payment that was due on the same day.

debt relief measures to Greece. Furthermore, successful completion of the said review is a precondition for the IMF *financial* participation in Greece's new bailout programme. Speaking to reporters late last month, IMF Spokesman, William Murray, was quoted saying that the Fund will not join Greece's ESM bailout programme until conditions for medium-term debt sustainability are ensured, including more progress made by the Greek side in implementing the agreed reforms and EU creditors' clear commitment on debt relief. In addition, ECB President Mario Draghi made it clear speaking during the Q&A session post the September 3 policy meeting that compliance with the financial assistance programme and demonstration of strong execution capacity and ownership, are key preconditions for the reintroduction of a Greek collateral waiver. According to the local press, Greece's debt issue is expected to dominate discussions at the December 7th Eurogroup, assuming that the 1st programme review will have been concluded by then and bank recapitalization will be at an advanced stage.

Prior actions for releasing the outstanding sub-tranche of the first loan disbursement

Speaking to reporters after the conclusion of the September 24th Euro Working Group (EWG), President Thomas Wieser was quoted saying that the outstanding €3bn sub-tranche of the first loan disbursement will be released in two installments, each one attached to a specific set of milestones. Reportedly, the first installment, amounting to €2bn, will be disbursed by mid-October upon completion of certain prior actions outlined in the MoU, mainly focusing on administrative and pension-related reforms. These should include all pending milestones that were initially required to be delivered over the period August-September 2015. As per the same sources, the second installment amounting to €1bn will be released by early November, subject to completion of some additional prior actions outlined in the MoU, including, inter alia, certain fiscal policy measures, pension reform and measures for addressing domestic banks' non-performing loans (NPLs). The prior actions for both installments will be reportedly determined in a Euro Working Group teleconference that is expected to take place later today (Friday, October 2), so as to be presented at the October 5 Eurogroup. According to the local press, in the absence of additional official funding, there is adequate funding in State coffers until end-November. According to our estimates, total interest and amortization payments on Greek sovereign debt (held in the remainder of this year amount to c. €2.3bn, with the main bulk coming in December when three principal payments to the IMF are due for an estimated total amount of c. €1.2bn. Maturing T-bill exposures scheduled for the remainder of the year stand at €10.4bn. In addition, Greece will also need to cover monthly wages and salaries amounting to c. €1.6bn (*Appendix I at the end of this document provides a detailed account of monthly interest and amortization payments over Q4 2015*).

Greece's 1st program review: key items on the agenda

In what follows, we provide some analysis on the issues expected to dominate the agenda of the 1st review of Greece's new adjustment programme.

Energy sector reform

(i) Adoption of the required steps for the privatization of the electricity transmission network operator (ADMIE*).*[4] That is, unless replacement measures can be found that "have equivalent effect on competition and prospects of investment, in line with the best European practices and agreed with the institutions to provide full ownership unbundling from the Public Power Corporation (PPC)" (*pending*).

(ii) Formation, in cooperation with the European Commission, the design of a NOME-type model for lignite and hydroelectric auctions, with the objective of lowering by 25% the retail and wholesale market shares of PPC (and bringing them below 50% by 2020), while having reserve prices that capture generation costs and are fully compliant with EU rules. If no agreement on a NOME-type model of auctions is reached by the end of October 2015, Greek authorities are committed to agree with the institutions on the imminent adoption of structural measures that would yield equivalent results (*pending*).

Source: MoU (August 2015), local press

<u>*Comments:*</u>

- Greece's Minister of Environment and Energy Panos Skourletis has openly expressed his opposition to the privatization of the power grid operator ADMIE and has stressed his intention to keep the company under State control. To this end, the Greek government has already submitted to the EU Commission a counter proposal envisaging the transformation of ADMIE to a state-owned independent entity with its fixed assets remaining under the ownership of incumbent electrify utility, the Public Power Corporation (PPC). According to local press, the Greek government has not yet received any response from the

[4] As part of the previous bailout agreement, Greece had agreed to sell a 66% stake in ADMIE. Four investors had been shortlisted including a partnership between Belgium's Elia System Operator S.A. and the IFM Investors Pty Ltd, Canada's Public Sector Pension Investment Board, China's State Grid International Development Limited and Terna, Italy's leading electricity grid operator.

European Commission. The Minister has also publicly expressed the government's intention to ensure that the State maintains a majority stake (51%) in PPC.[5]

- In line with the new MoU conditionality, the PPC should allocate part of its lignite and hydroelectric production to third parties through auctions, along the lines of the French NOME market model.[6] According to local press, it is yet unclear whether the Greek government is willing to adopt such an auction model for the PPC. As per the same sources, Greece's Minister of Environment is expected to clarify the government's stance on the issue during the programmatic statements in Parliament next week.

Product markets reform

(i) Implementation of the pending OECD toolkit I recommendations on food stuff (*pending*).

(ii) Implementation of the pending OECD toolkit II recommendations on beverages and petroleum products (*pending*).[7]

Source: MoU (August 2015, local press

Comments:

- With respect to the pending OECD toolkit I recommendations on food stuff, the Greek government is reportedly required to proceed with the adoption of the relevant legislation for, inter alia: (i) full liberalization of the shelf life of milk through the abolishment of the existing seven-day restriction; (ii) abolishment of the arbitrary distinction between "bakery" and a "bread point of sale". That is, on the grounds that this distinction creates confusion among consumers although the products are similar in taste and appearance.[8,9]
- With respect to the pending OECD toolkit II recommendations on beverages and petroleum products, the Greek government is reportedly required to proceed with, among others: (i) the adoption of the relevant legislation for the abolishment of special consumption taxes on locally made alcoholic beverages including raki and tsipouro sold in bulk or/and in unbottled quantities.[10] The OECD has proposed either the imposition of a ban on bulk sales of raki and tsipouro or for them to be sold only with legal documents; [11] and (ii) the adoption of the required legislation affecting the upstream and downstream markets (or the full "supply chain") of petroleum products to enhance competition and welfare, *e.g.*, provision of investment credits for companies to adopt newer less-polluting technologies.

Assessment of privatization program

(i) Establishment of an independent Privatization Fund (*pending*).

(ii) Announcement of binding bid dates, no later than end-October 2015, for Greece's two major ports, Piraeus Port Authority (OLP)[12], Greece's largest port, and Thessaloniki Port Authority (OLTH)[13] with no material changes in the terms of the tenders. A binding bid date must also be announced for Trainose Rosco[14] (*both pending*).

(iii) Adoption of irreversible steps for the sale of the regional airports under the existing terms with the winner bidder already selected (*pending*)

Source: MoU (August 2015), local press

[5] Under the previous bailout agreement, Greece had agreed to sell a 17% stake in PPC, potentially within 2016.

[6] Under that model, Electricité de France's monopoly was brought to an end, which allowed third parties, mainly industrialists, access to relatively cheaper nuclear energy.

[7] "OECD Competition Assessment Reviews, Greece", http://www.oecd.org/daf/competition/Greece-Competition-Assessment-2013.pdf

[8] According to the existing law, the criterion distinguishing a "bakery" from a "bread point of sale" is that the first completes the cycle of the production within the store, i.e. from the selection and use of the raw material (raw dough) until the completion of the product. A bread point of sale is the point of sale of bread (and baked goods) where part of the production can be completed at the point of sale as well (i.e. the final baking).

[9] According to the OECD study, since 2008, food prices have risen faster in Greece than in the euro area, increasing by 1.6% per year on average (against 1.3% in the euro area). In 2012 the price level of food products in Greece was higher than the EU average by 3.6% while milk, cheese and eggs were more expensive by 32.4%.

[10] As things currently stand, standardized raki and tsipouro carry a special consumption tax of 12.75 euros per liter of ethyl alcohol, which is 50% lower than that imposed on other drinks (25.50 euros/liter of alcohol). Bulk raki and tsipouro officially have an even lower tax, at just 1.4 euros/liter. Beer has a 6.50 euros/liter rate, while wine has no such tax.

[11] According to EU Commission rules, all ethyl alcohol products should have the same consumption tax rate and that the only exceptions should be those provided by EU legislation. Consequently, according to the Commission, the application of a reduced consumption tax rate on bottled and bulk tsipouro and raki constitutes a violation of EU rules both in terms of the consumption tax and the free trafficking of goods, as this is seen as favoring local produce over imports.

[12] There are five shortlisted investors for OLP, including China's Cosco Group which already has the management of two cargo piers in the Piraeus Port. They will be invited to submit binding offers for a 51% stake in the Piraeus Port Authority, with the option to raise it to 67% over five years.

[13] There are eight shortlisted investors that have bid for a 67% majority stake in OLTH.

[14] Rosco S.A. is a Hellenic company for rolling stock maintenance infrastructure in Greece. Shortlisted investors will be invited to submit offers for the acquisition of 100% of the share capital of the company.

Comments

- After the privatization program came to a standstill earlier this year, the Greek government has committed under the new MoU conditionality to proceed with its implementation under improved governance.[15] To this end, the Greek government has agreed to the establishment of an independent Privatization Fund, managed by domestic authorities under the supervision of the relevant European institutions. The task of the Fund will be to quickly identify, transfer over the lifetime of the programme and manage value Greek assets –including shares in Greek banks after their recapitalisation- through privatization and other means with a view to monetize assets worth up to €50bn.[16] As a key deliverable for the completion of the 1st programme review, the Greek government has committed to appoint by October 2015 an independent Task Force to identify options and prepare recommendations on the operational goals, structural and governance of the said Fund with an intention to be operational by the end of the year.
- According to the local press, the most likely binding bid dates for the Piraeus and Thessaloniki Port Authorities are mid-November 2015 and February 2016, respectively while for Trainose Rosco it is tentatively scheduled for December 2015 as certain related ministerial decisions are still pending.
- The Hellenic Republic Asset Development Fund (HRADF) has officially named a German–Greek consortium, comprising of Fraport, the German airport operator group and Greece's Copelouzos energy group, the preferred bidder for the 40-year lease of the 14 regional airports.[17] Speaking to reporters earlier this week, Fraport Chief Executive Stefan Schulte expressed his optimism that contracts for airports concessions would be signed in the next three to six months.

Labor market reform

Under the MoU conditionality, the Greek government has committed to launch by October 2015 a consultation process, headed by a group of independent experts to review with the collaboration of the International Labour Organisation (ILO) a number of existing labour market frameworks, taking into account best practices internationally and in Europe.[18] Such frameworks include: (i) collective dismissals[19]; (ii) industrial action (e.g., lockout)[20]; and (ii) collective bargaining. To this end, press reports suggest that, after sealing an agreement on those issues with Greece's main employer organiziations (SEV, ESEE, GSEVEE, SETE) and the General Confederation of Greek Workers (GSEE), Greece's Minister of Labour, Social Insurance and Social Solidarity Georgios Katrougalos intends to form a special committee that will have the mandate to hold discussions with official creditors in the context of the 1st programme review so as to reach a consensus on what constitutes best practices. As per the same sources, the Minister also intends to request the Employment Committee of the European Parliament to supervise negotiations between the Greek side and official creditors on issues related to the labor market. However, as per the same sources, Eurogroup President Jeroen Dijsselbloem has ruled out any involvement of the European Parliament in official discussions between the two sides.

Bank recapitalisation

Speaking to reporters earlier this week, European Commission Vice President Valdis Dombrovskis was quoted saying that a key prerequisite for the successful completion of Greece's 1st programme review is, inter alia, the completion of bank recapitalization. He added that both the programme review and bank recapitalization have to be concluded by mid-November so as to secure the timely release – according to the ESM disbursement schedule - of the next ESM loan tranche. According to local press, the Asset Quality Review (AQR), the first stage of a comprehensive assessment of Greek banks' balance sheets (commenced in early August based on data reported on June 30, 2015), was expected to be completed by end- September. As per the same sources, the stress testing exercise is expected to be finalized by October 23rd and the banking sector recapitalization to be completed by end-December, at the latest, so as to avoid the risk of the application of the Bank Recovery and Resolution Directive (BRRD) which will come into effect on January 1st 2016 and extends, under certain conditions, into the bail-in territory.[21] As things stand at this point, deriving any

[15] The implementation of the privatization program aims to generate annual proceeds of €1.4bn in 2015, €3.7bn in 2016 and €1.3bn in 2017. Privatization proceeds from non-bank assets are expected to lower State financing needs by €6.2bn over the programme period.

[16] Out of this amount, €25bn will be used for the repayment of the programme funds committed for bank recapitalization and other assets, €12.5bn for retiring government debt and another €12.5bn for boosting domestic investment.

[17] Fraport and Copelouzos energy group have bid €1.23bn to lease and operate 14 regional Greek airports, the country's biggest privatization deal since the eruption of the sovereign debt crisis. The German-Greek group is expected to invest €330mn over the next four years in upgrading the airports of the most popular tourist islands including Kefalonia, Mykonos, Santorini and Rhodes.

[18] In a recent special study for Greece, the IMF suggests that product and labor market reforms could boost Greece's GDP level by about 10 percent. IMF Country Report, "Greece- Selected Issues", No. 13/155, June 2013 https://www.imf.org/external/pubs/ft/scr/2013/cr13155.pdf

[19] According to the current labor regulation in Greece, the monthly limit of layoffs is a follows: (i) 5% of staff for companies with more than 150 employees (with an upper limit of 30 employees); and (ii) 6 employees for companies with 20-150 employees.

[20] A lockout is usually implemented by refusing the admission of employees onto company premises , e.g. via the change of locks.

[21] Speaking during the Q&A session following the conclusion of the September 3 ECB meeting, President Mario Draghi made clear that any bail-in of depositors should be excluded in the upcoming recapitalization of Greek banks on the basis that such a measure would be counterproductive for the

accurate estimates about potential bank recapitalization and resolution needs seems an extremely challenging exercise. Such calculations are highly sensitive to a series of parameters including the future path of a range of key macro indicators (e.g., unemployment rate, inflation, residential & commercial real estate) which have yet to be officially agreed. Furthermore, the target level for the bank's minimum Core Tier 1 capital ratio remains unknown as well as the operating results that will be the basis for the calculation of the banks' net capital position. Other key assumptions on which the calculation of the domestic banking system's capital needs is highly sensitive include, among others, collateral NPLs and the treatment of differed tax assets (DTAs) as a permanent component of CET1. DTAs totaled c. €15bn in aggregate for the four systemic banks at end-Q1 2015 corresponding at over 50% of total regulatory capital. In a meeting with journalists earlier this week Hellenic Financial Stability Fund (HFSF) Managing Director stated that they are working closely with the BoG, the MoF and the domestic banks in order to provide incentives to private shareholders to participate in the upcoming recap and thus, minimize any state aid support. The HFSF official also stated that they aim to establish an active market for non-performing loans (NPLs).[22]

Fulfillment of the agreed FY-2015 & FY-2016 fiscal targets in 2015 & 2016

The Greek government is reportedly optimistic that, assuming and thanks to better than initially projected GDP growth dynamics the fiscal target for a shortfall 0.25%-of-GDP in FY-2015 will probably be outperformed and the general government primary account will record either a balanced position or even a meagre surplus.[23] That is, purportedly thanks to expectations for a somewhat milder than initially expected GDP contraction this year and assuming implementation of all measures approved by the Hellenic Parliament this summer.[24] As per the same sources, the Greek side also foresees that the FY-2016 fiscal target for a 0.50%-of-GDP primary surplus will also be attained. In particular, the draft FY 2016 budget scheduled to be submitted to Parliament on Monday, October 5th will reportedly be based on the assumption of GDP contracting by around 1.5% in 2015 compared to the official forecast of -2.3%, after the domestic economy performed better than expected in the first half of the year in spite of increased political uncertainty and tightened liquidity conditions.[25] As per the same sources, the government is of the view that the relatively more benign macroeconomic path will create some fiscal space to provide targeted support to vulnerable groups – thus legislating fewer of the agreed measures – without jeopardizing compliance with the agreed fiscal targets.[26] For FY-2016, the Greek government reportedly anticipates an output growth rate higher compared to the European Commission forecast of -1.3%, assuming inter alia timely completion of bank recapitalization and a milder than initial feared macroeconomic impact of capital controls. On their side, official creditors are reportedly concerned that some of the measures recently approved by Parliament, are either not properly implemented, or, the ministerial decisions required for their implementation have yet to be issued. Against this background, they are reportedly concerned that the Greek government may have to adopt additional measures –besides those already agreed under the existing MoU- to secure fulfillment of the FY-2016 fiscal target. Besides the FY-2016 Budget, the Greek government is also expected to submit to Parliament this month the 2016-2019 Medium-Term Fiscal Strategy (MTFS). The latter will

---

economic recovery as it would hit especially SMEs. The ECB President added that such considerations were deemed not to be applicable to senior bondholders.

[22] According to BoG Governor's Annual Report for 2014-2015 that was released early this summer, non performing exposures (including non-performing loans for > 90 days as well as those in arrears for less than 90 days but at risk of becoming non-performing without the liquidation of related collaterals) reached 40.8% of total loans in Q12015 (to a level of higher than €100bn).

[23] According to final data for the State Budget execution in the first eight months of the year, the Central Government primary balance recorded a surplus of €3.8bn on a modified cash basis, outperforming by €0.535bn the respective target envisaged in the FY-2015 Budget. Ordinary Budget Revenue came in at €28.7bn, underperforming the respective target by c. €4bn.

[24] The prior actions approved by the Hellenic Parliament this summer either as a precondition for the commencement of formal discussions of the 3-year ESM loan facility or as a prerequisite for the Eurogroup endorsement of the said loan include, among others: (i) a major tax reform aiming to streamline the VAT system and broaden the tax base, generating annual revenues c. 1%-of-GDP; (ii) a first phase of the reform to improve the long-term sustainability of the pension system; (iii) a framework for the full independence of the Hellenic Statistical Authority (EL.STAT.); (iv) the full implementation of the relevant provisions of the Treaty on Stability, Coordination and Governance in the EMU i.e., full operation of the Fiscal Council before finalizing the MoU and quasi-automatic spending cuts in case of deviations from agreed primary surplus targets; (v) the adoption of the Code of Civil Procedure, with a view to accelerating the judicial process and reducing costs in the civil justice system; (vi) the transposition of the Bank Recovery and Resolution Directive (BRRD) into Greek law, (vii) an increase in the solidarity tax; (viii) increase in the corporate tax rate; extension of the implementation of the luxury tax; increase in the advance corporate income tax in 2015; 100% advance payments for partnerships and individual business income tax by 2017.

[25] See: "Greece: full-year GDP likely to contract by less than expected earlier", Greece Marco Monitor, Eurobank Research, August 21, 2015 http://www.eurobank.gr/Uploads/Reports/GREECE_MACRO_FOCUS_August_21_2015.pdf)

[26] The government reportedly intends to use part of a likely fiscal over-performance this year for offsetting potential annulment of certain agreed measures (i.e., the 23% VAT rate on private education). As per the MoU conditionality, in case of a fiscal target outperformance, the Greek government has committed to transfer at least 30% of any over-performance to the segregated account earmarked for debt reduction and an additional 30% for clearing unpaid State obligations linked to the past. According to Eurobank Research, the recessionary impact of new fiscal estimates under the 3-year ESM loan facility is estimated to be much milder than that of the prior two programmes (first round impact: c. 2.8 pp of GDP in 2015-16 vs. more than 25ppts of GDP in 2010-2014), Eurobank Research, "Greek GDP NOWcasting for Q2, Q3 & Q4, 2015; preliminary estimates of the impact of the new austerity measures", Eurobank Research, July 27, 2015
http://www.eurobank.gr/Uploads/Reports/GREECE%20MACRO%20FOCUS%20June%20222015.pdf

envisage additional fiscal measures projected to yield at least 0.75%-of-GDP in 2017 and 0.25%-of-GDP in 2018, so as to help attain the medium term primary balance target of 3.5%-of-GDP.[27]

Fiscal reforms & tax policy

Soon after his appointment to the post of the Alternate Minister of Finance, Mr. Giorgos Houliarakis made clear that the revamp of the tax system is one of the first priorities of the new government. Yet, according to some press reports, the government is considering to propose official lenders the legislation of some of the planned tax alternations to be postponed for a couple of months so that they do not coincide with a c. €18bn burden in tax obligations taxpayers have to meet by the end of this year.[28] As per the same sources, the government is also considering to substitute some "harsh fiscal measures" (e.g., abolishment of the preferential tax treatment of farmers) with other offsetting ones, without jeopardizing the agreed fiscal targets. Table A below depicts some of the items of the planned tax overhaul which has to be legislated in October 2015, as part of the FY-2016 Budget and the MTSF 2016-2019.

Table A – Tax overhaul plan

(i) a second phase of pension reforms projected to secure savings of around 1%-of-GDP in 2016. The said reforms will aim to create strong disincentives for early retirement through increasing early retirement penalties and the gradual elimination of the right for retirement before the statutory retirement age[29];

(ii) income tax code reform via, inter alia, simplification of the personal income tax credit schedule (e.g., abolition of tax exemptions,[30] creation of a single tax-rate for income regardless of its source salaries, pensions, securities, rentals), re-designing and integrating into the new income tax code (ITC) the solidarity surcharge for income as of 2016;

(iii) phasing out the preferential tax treatment of farmers in the income tax code with rates set at 20% in 2016 and 26% in 2017;

(iv) imposition of a tax on television advertisements (*projected revenue €100mn/annum*)

(v) international public tender for the acquisition of television licenses and usage related fees of relevant frequencies (*projected revenue €340mn in 2016*)

(vi) extension of Gross Gaming Revenues (GGR) taxation of 30% on VLT games, expected to be installed at H2 2015 and 2016 (*projected revenue €35mn in 2015 and €225mn/annum thereafter*)

(vii) increase of in tax rate on income for rents for annual incomes below €12k to 15% from 11% currently and for annual incomes above €12k to 35% from 33% currently, (*projected revenue €200mn/annum*)

(viii) phasing out special tax treatments of the shipping industry;

(ix) extension of the temporary voluntary contribution of the shipping community to 2018;

(x) permanent reduction in the expenditure ceiling for military spending by €100mn in 2015 and by €400mn in 2016;

(xi) better target eligibility to halve heating oil subsidies expenditure in Budget FY-2016.

(xii) clarification of full elimination of the VAT rate discount in Greek islands by end-2016 and definition of the transitional arrangements.[31]

---

[27] The Greek government has also committed to take further structural measures in October 2016 if needed to secure 2017 & 2018 fulfillment of the agreed fiscal targets. These would include a reduction in defense expenditure, reforms to the personal income tax (PIT) and freezing of statutory spending.

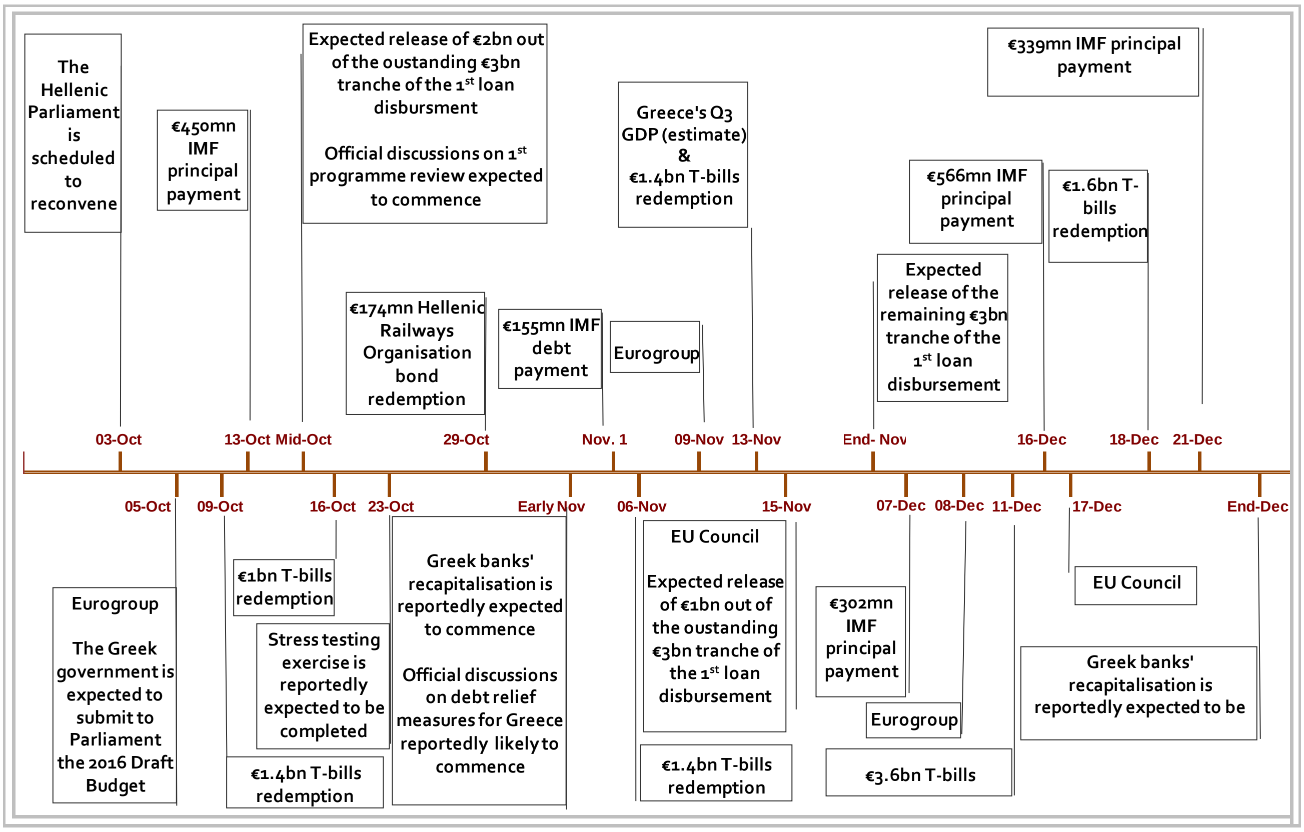
[28] Taxpayers' obligations for the remainder of the year include three out of five installments of the unified property tax ENFIA for 2015 (the remaining two fall due in January and February 2016, respectively).

[29] Statutory retirement age is 67 years old (or 62 years old with 40 years of contributions) by 2022, applicable for all retirees except arduous professions, and mothers with children with disability.

[30] According to the local press, there are currently c700 tax exemptions in force, including VAT rate exemptions, which burden the State budget by c. €3.6bn.

[31] The Ministry of Finance announced last week that the 30% VAT rate discount will be abolished by October 1st to a group of six islands (Mykonos, Santorini, Paros, Naxos, Milos, Syros and Tinos). The same scheme will apply on a second group of islands as of June 1st, 2016 and on the remaining as of January 1st, 2017. The VAT rates will rise from 5%, 9% and 16% to 6%, 13% and 23%.

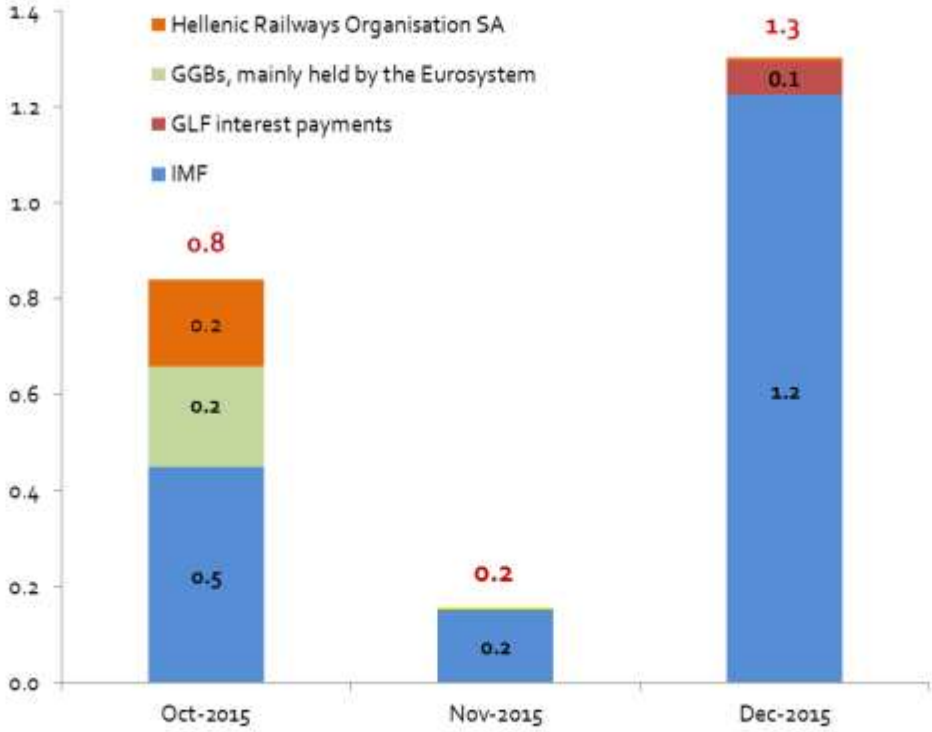
Timeline of key dates and events that deserve close monitoring in the crucial period ahead



Source: Local reports, Eurogroup, PDMA, IMF, MoU

Appendix I

Greek General Government amortization & interest payments in October-December 2015 (EURbn)



Source: Bloomberg, PDMA, Eurobank Economic Analysis and Financial Markets Research

Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: *Group Chief Economist*
pmonokrousos@eurobank.gr, + 30 210 37 18 903

Research Team

Anna Dimitriadou: *Economic Analyst*
andimitriadou@eurobank.gr, + 30 210 37 18 793

Ioannis Gkionis: *Research Economist*
igkionis@eurobank.gr + 30 210 33 71 225

Stylianos Gogos: *Economic Analyst*
sgogos@eurobank.gr + 30 210 33 71 226

Olga Kosma: *Economic Analyst*
okosma@eurobank.gr + 30 210 33 71 227

Arkadia Konstantopoulou: *Research Assistant*
arkonstantopoulou@eurobank.gr + 30 210 33 71 224

Paraskevi Petropoulou: *G10 Markets Analyst*
ppetropoulou@eurobank.gr, + 30 210 37 18 991

Galatia Phoka: *Research Economist*
gphoka@eurobank.gr, + 30 210 37 18 922

Theodoros Stamatiou: *Senior Economist*
tstamatiou@eurobank.gr, + 30 210 3371228

Global Markets Sales

Nikos Laios*: Head of Global Markets Trading, Sales & Structuring, nlaios@eurobank.gr, + 30 210 37 18 910*

John Seimenis: *Head of Treasury Sales*
yseimenis@eurobank.gr, +30 210 37 18 909

Alexandra Papathanasiou: *Head of Institutional Sales*
apapathanasiou@eurobank.gr, +30 210 37 18 996

Tania Pavlidi: *Head of Corporate Sales*
TPavlidi@eurobnk.r, +30 210 37 18 947

Achilleas Stogioglou: *Head of Private Banking Sales*
astogioglou@eurobank.gr, +30 210 37 18 904

Vassilis Gioulbaxiotis: *Head Global Markets International*
vgioulbaxiotis@eurobank.gr, +30 210 3718995

Stefanos Togoussidis: *Head of Retail Sales*
stogoussidis@eurobank.gr, +30 210 3718917

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: EurobankGlobalMarketsResearch@eurobank.gr

Eurobank Economic Analysis and Financial Markets Research

More research editions available at http://www.eurobank.gr/research

- **Daily Overview of Global markets & the SEE Region:** Daily overview of key macro & market developments in Greece, regional economies & global markets
- **Greece Macro Monitor:** Periodic publication on the latest economic & market developments in Greece
- **Regional Economics & Market Strategy Monthly**: Monthly edition on economic & market developments in the region
- **Global Economy & Markets Monthly**: Monthly review of the international economy and financial markets

Subscribe electronically at http://www.eurobank.gr/research