IN-DEPTH ANALYSIS

Greece's financial assistance programme (June 2016)

This briefing gives an overview if the economic situation in Greece and the main elements of the third financial assistance programme. This briefing is regularly updated.

1. Latest economic developments

Greece's economy has showed unexpected resilience throughout 2015 while coping with a series of adverse economic shocks, including the ECB's suspension of the waiver on the Greek government bonds in February 2015[1], unsuccessful conclusion of the second Economic Adjustment Programme, imposition of capital controls in June 2015[2] as well as uncertainties related to prolonged negotiations on the third Economic Adjustment Programme and its first review. Economic activity was supported by domestic demand and net exports, whose positive contributions to GDP growth were however more than offset by large contraction in inventories[3]. As a result, real GDP contracted by 0.2% in 2015. Looking ahead, the European Commission (COM) expects in its spring 2016 forecast (published on 3 May 2016) that Greece's economy continues to contract, albeit at a moderate pace, in 2016 (-0.3%) before it returns to growth in 2017 (+2.7%) "*thanks to the return of confidence and the impact of structural reforms*". Finally, it can be noted that the latest available quarterly GDP data show that Greece's real GDP dropped by 0.4% q-o-q in Q1 2016, after posting a modest increase of 0.1% q-o-q in Q4 2015.

Inflation, as measured by headline Harmonised Index of Consumer Prices (HICP), remained negative in 2015 for a third year in a row at -1.1%. This price decline reflects the negative effects of weak demand and lower energy prices which more than offset the impact of VAT increases implemented in summer 2015. Further ahead, the COM projects that price declines become less pronounced in 2016 (-0.3%) before HICP inflation returns to the positive territory in 2017 (0.6%) as Greece's economy gradually strengthens. According to the latest Eurostat data, annual HICP inflation came in at -0.4% in April 2016, up from -0.7% a month earlier.

Current account deficit has narrowed to 0.2% of GDP in 2015, extending a positive trend observed since 2008 when it peaked at a record high of 15.8% of GDP**.** The COM foresees further improvements in Greece's current account, which is expected to turn into surplus for the first time in

[1] The ECB decided to lift the waiver affecting marketable debt instruments issued or fully guaranteed by the Hellenic Republic on 4 February 2015. This waiver allowed these debt instruments (mostly government bonds but also bonds of public agencies fully guaranteed by the Greek government) to remain eligible as collateral for Eurosystem monetary policy operations despite the fact that they did not fulfil minimum credit rating requirements. According to the ECB's press release, this decision was based on the fact that it had not been possible to assume a successful conclusion of the [second] programme [which was set to expire, at the time of decision, by the end of February 2015 before its subsequent extension by the parties involved until the end of June 2015] and was in line with existing Eurosystem rules.
[2] On 29 June 2015, the Greek Government imposed capital controls to avert a collapse of its banking system. These controls were somewhat eased in mid-August 2015.
[3] Changes in inventories measure variations in the stock of unsold goods.

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more than 20 years[4], namely 0.6% of GDP in 2016 and 1.3% of GDP in 2017 as "*past and ongoing structural reforms improve external competitiveness'*.

Unemployment declined to 24.9% in 2015 and is expected to further decline over the period 2016-2017, reflecting gradual improvement in economy, subdued wage dynamics over the forecast horizon as well as the impact of past reforms, including employment schemes promoting labour participation. According to the latest COM projections, the unemployment rate is expected to decrease (though at a somewhat smaller pace compared to the previous round of projections) to 24.7% in 2016 and 23.6% in 2017. As to monthly data, after peaking at 27.9 % in September 2013, the unemployment rate stood at 24.4 % in January 2016[5]. The youth unemployment rate declined from a record high of 60.5 % in February 2013 to 51.9 % in January 2016. In this regard, a recent European Parliament study "Employment and social developments in Greece" showed that '*unemployment and poverty mostly hit younger people for whom a system focused on pensions offers no help'*. At the same time, this study concluded that actions agreed under the third economic adjustment programme aim at completing the unfinished reform agenda since 2010, while addressing criticism related to earlier programmes.

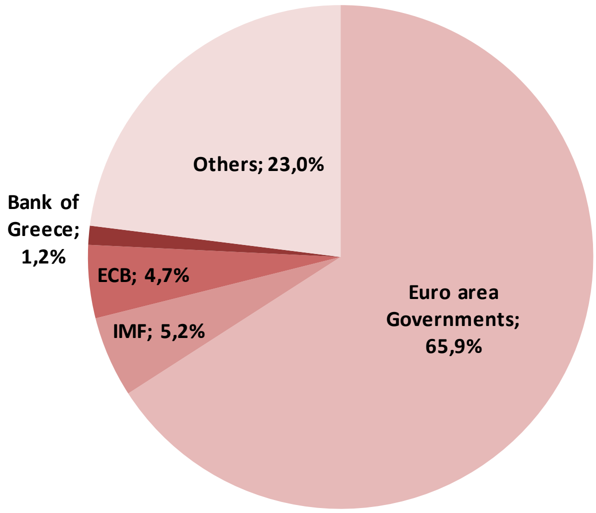
Government deficit widened to 7.2% of GDP in 2015, reflecting the negative impact of subdued economic activity on public finances as well as the effect of one-off recapitalisation measure of the banking sector completed in late 2015 (amounting to 4.2 p.p. of GDP). However, **Greece achieved a primary surplus of 0.7% of GDP in 2015, well above the target of -0.25% of GDP** set in the latest programme, thanks to fiscal consolidation efforts and "*certain large positive one-off factors*". Going forward, the COM projects the headline deficit to narrow to 3.1% of GDP in 2016 and 1.8% of GDP in 2017, assuming that primary balance targets set under the ESM programme are met (see section 2). To this end, the Greek authorities approved in May 2016 measures envisaged to yield cumulative savings worth 3.0% of GDP by 2018.

Greece's general government gross debt marginally declined to 176.9% in 2015, down from 180.1% of GDP in 2014 According to the COM latest forecast, debt-to-GDP ratio is to slightly increase to 182.8% of GDP assuming, in particular, additional disbursements under the third programme. In 2017, debt-to-GDP ratio is projected to marginally decline to 178.8% of GDP.

The **distribution of the outstanding debt across different categories of bondholders** is depicted in Figure 1 (based on the consolidated data, with Greece's general government gross debt amounting to EUR 311.5 billion as of 31 December 2015). The share of Greece's debt held by the Euro area governments (including EFSF and ESM) stood at approximately 66% (nearly 6 p.p. up compared to the end 2014) as new funds were transferred under the third adjustment programme during the second half of 2015. At the same time, the shares of debt held by the IMF and the ECB stood at 4.7% and 5.2% respectively (approximately 1.5 and 2 p.p. lower compared to the end 2014) as bonds/loans coming to maturity during 2015 were reimbursed.

[4] Last time Greece's current account recorded a surplus was in 1994 (+1.3% of GDP).
[5] The latest available Eurostat data for unemployment, released on 29 April 2016.

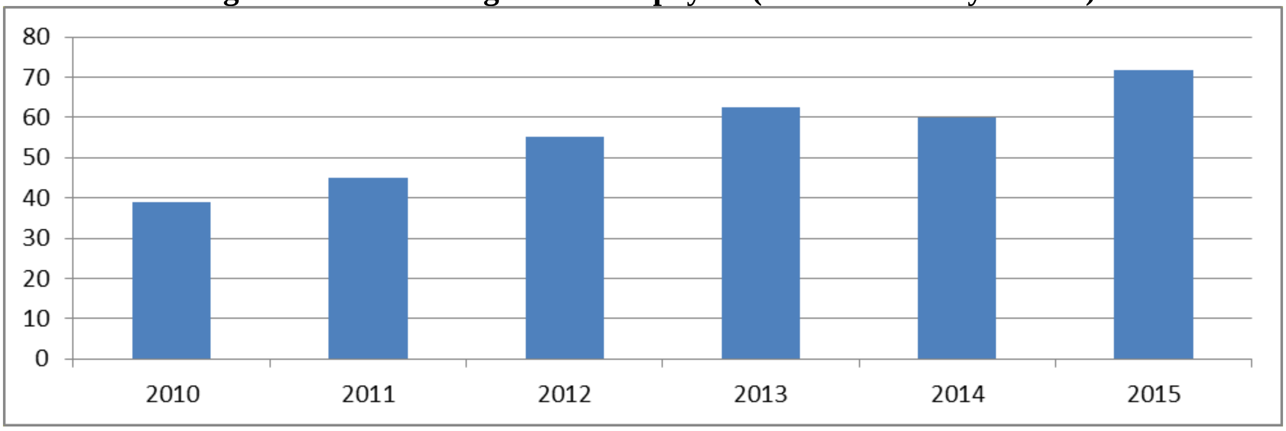
Figure 1: Greece's central government debt by holder as of 31. December 2015



Source: EGOV calculations based on COM, IMF, ECB and PDMA (Greece's Public Debt Management Agency).
Note: The share held by euro area governments comprises EFSF, ESM and bilateral loans.

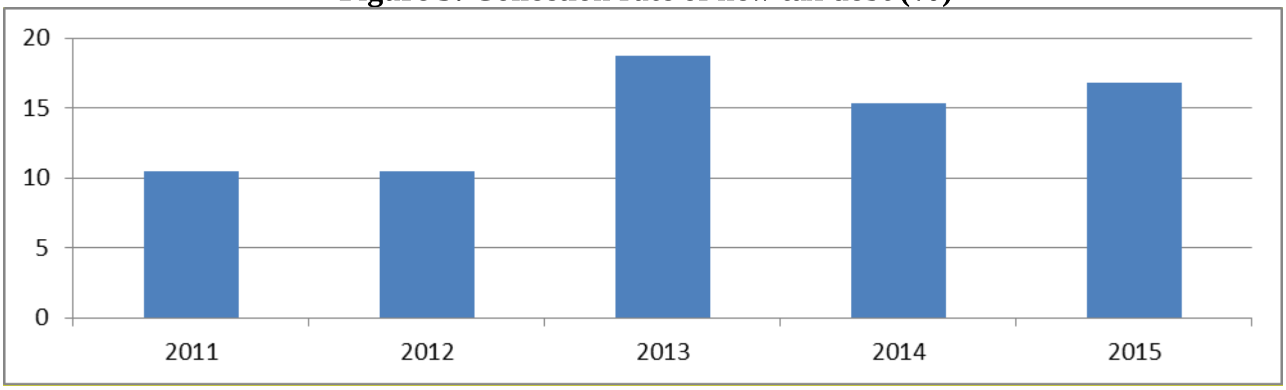
A COM study of 2015 estimated that more than one third of the potential VAT collection in 2012/2013 was lost in Greece due to fraud, tax evasion and avoidance and related problems. Also the latest OECD survey on Greece (released in March 2016, but based on tax data for the year 2013) shows that the performance of Greece is poor – compared to the EU and OECD median – in terms of tax debt and that the situation has even worsened between 2007 and 2013. More recent data (see below Figures 2 and 3) show that the trend of rising outstanding debt of taxpayers has continued in 2015. On the positive side, the collection rate of new tax debt has clearly increased between 2011 and 2015. While the number of criminal complaints has decreased from 3652 in 2014 to 3022 in 2015, the number of reports of confirmed tax evasion has increased from 248 in 2014 to 327 in 2015 (source: "Tax Administration Monitor" of IMF and EC).

Figure 2: Outstanding debt of taxpayers (EUR billion at year end)



Sources: Greek tax administration (http://www.publicrevenue.gr/kpi/) and "Tax Administration Monitor" of IMF and EC.

Figure 3: Collection rate of new tax debt (%)



Source: Greek tax administration (http://www.publicrevenue.gr/kpi/) and "Tax Administration Monitor" of IMF and EC.

Box 1: Statistics

The European Statistical Governance Advisory Board (ESGAB), as the body responsible for overseeing the implementation of the European Statistics Code of Practice with the aim of enhancing professional independence, integrity and accountability, issued in 2015 an Opinion on the implementation of the Hellenic Statistical Law (3832/2010) and Greece's commitment on confidence in statistics. It recognised in this opinion considerable progress since 2009, but it also highlighted the following concerns:

- The principle of professional independence must be implemented in practice. The relevant legislation and rules are in place but they need to be fully implemented, with the clear and active support of the government. The amendment of Regulation (EC) No 223/2009 on European statistics will further emphasise the role and position of the heads of national statistical institutes, by adding a requirement that the procedure for appointing institute heads is transparent and based on professional criteria.
- The Greek Government's commitment on confidence in statistics must be respected and put into practice, particularly in relation to ensuring institutional independence and providing adequate financial and other resources. More specifically, the Hellenic Statistical Authority (ELSTAT) must be able to recruit and maintain a sufficiently qualified workforce.
- ELSTAT's mandate must be explicit and be upheld in practice, especially regarding access to administrative records that could improve efficiency and quality while reducing the burden on respondents.
- The work and role of the Good Practice Advisory Committee (GPAC) as established in law should continue and its members for the next term of office should be appointed without delay.
- Principles of quality monitoring and quality assurance, as established in Regulation (EC) No 223/2009 and the European Statistics Code of Practice, must be respected. This includes the requirement that European statistics produced in accordance with Article 338 of the EU Treaty comply with the statistical principles laid down in that article, regardless of national distributions of tasks.

Box 2: Refugee Crisis

On 27 January 2016, the COM issued a press release on the outcome of its discussion of the draft **Schengen Evaluation Report on Greece**. This draft report (which is not public) finds *'serious deficiencies in the management of the external border in Greece*' following an unannounced control at the Turkish-Greek border in November 2015. While acknowledging that the Greek authorities are under pressure, the report showed, among others, that there is a lack of effective identification and registration of irregular migrants. Under the current Schengen Borders Code, the COM can propose recommendations to the Member State concerned which are to be approved by a Committee of the Member States (via qualified majority vote). If, after three months following the approval, the serious deficiencies persist, the COM may trigger the procedure provided for in Article 26 of the Schengen Borders Code, namely reintroduction of border controls.

On 10 February 2016, the COM issued a Communication on **Managing the refugee crisis: State of Play,** taking stock of the implementation of the actions agreed in response to the refugee crisis and highlighting key areas where more action is needed in the immediate term to restore control of the situation.

At the **European Council of** 18-19 February 2016, EU leaders concluded that *'the objective must be to rapidly stem the flows, protect our external borders, reduce illegal migration and safeguard the integrity of the Schengen area*'. They also stressed the necessity to build a European consensus on migration and confirmed their intention to organise a further EU-Turkey Summit in March. Furthermore, the European Council conclusions highlight that *'the comprehensive strategy agreed in December [2015] will only bring results if all its elements are pursued jointly and if the institutions and the Member States act together and in full coordination'*. This includes the decisions on relocation and measures to ensure returns and readmission. Finally, as far as the COM's 'European Border and Coast Guard' proposal is concerned, work should be accelerated with a view to reaching a political agreement under the Netherlands Presidency and to make the new system operational as soon as possible.

On 18 March 2016, EU Heads of State or Government and Turkey agreed to end the irregular migration from Turkey to the EU and replace it instead with legal channels of resettlement of refugees to the European Union.

On 20 April 2016, the COM issued a report on implementation of EU-Turkey Statement. The report welcomed "*the good progress in the initial phase of implementation*" but stressed that these efforts "*need to be stepped up in the next phases*". In particular, the report pointed out that the return of irregular migrants to Turkey started on 4 April. At the same time, Greece has set up accelerated procedures for the processing of asylum applications on the islands, from the initial interviews to the appeals.

On 4 May 2016, the COM presented its proposals to reform the Common European Asylum System by "*creating a fairer, more efficient and more sustainable system for allocating asylum applications among Member States*". While the basic principle will remain the same – asylum seekers should, unless they have family elsewhere, apply for asylum in the first country they enter, a "*new fairness mechanism will ensure no Member State is left with a disproportionate pressure on its asylum system*". The COM also proposed to transform the existing European Asylum Support Office (EASO) into a fully-fledged European Union Agency for Asylum.

On 18 May 2016, the COM adopted its third progress report on the EU's emergency relocation and resettlement schemes. This report showed that "*progress remains unsatisfactory despite signs of increased preparation for future action* [...] *Progress has been made on resettlement as part of the implementation of the EU-Turkey Statement, but must be accelerated to avoid migrants returning to irregular routes. Greater efforts on relocation are increasingly urgent in view of the humanitarian situation in Greece and the increase in arrivals to Italy.*"

On 20 May 2016, the COM awarded EUR 56 million in emergency funding to (1) improve conditions for migrants in Greece, (2) increase the capacities of the Greek authorities to register newly arriving migrants and (3) process the related asylum claims. This brings the total of emergency assistance disbursed since the beginning of 2015 to Greece to EUR 237 million. These funds come on top of the EUR 509 million already allocated to Greece under the national programmes for 2014-2020.

On 26-27 May 2016, the G7 Summit recognized the ongoing large scale movements of migrants and refugees as "*global challenge which requires a global response*" and committed to increase global assistance to meet immediate and long-term needs of refugees as well as their host communities.

Finally, the latest **official figures on refugees in Member States** and the EU as a whole are published in the quarterly asylum report of Eurostat (at the time of writing, the cut-off date is Q4 of 2015).

2. Third financial assistance programme: Main elements and state of play

2.1. State-of-play

On 25 May 2016, the Eurogroup welcomed that a full staff-level agreement has been reached between Greece and the institutions, including on a contingency fiscal mechanism in line with the Eurogroup statement adopted on 9 May. According to the Eurogroup, this provides further reassurances that Greece will meet the primary surplus targets of the ESM programme (3.5% of GDP in the medium-term), without prejudice to the obligations of Greece under the SGP and the Fiscal Compact.

Following the full implementation of all prior actions and subject to the completion of national procedures, the ESM governing bodies are expected to endorse the supplemental MoU and approve the disbursement of the second tranche of the ESM programme.

This agreement included the following main elements:

- the adoption by the Greek parliament **of most of the agreed prior actions for the first review**, notably the adoption of legislation to deliver fiscal parametric measures amounting to 3% of GDP that should allow to meet the fiscal targets in 2018, to open up the market for the sale of loans and to establish the agreed Greek Privatisation and Investment Fund that should operate in full independence.

- **A package of debt measures which will be phased in progressively**, as necessary to meet the agreed benchmark on gross financing needs and will be subject to the pre-defined conditionality of the ESM programme.

Agreed short, medium and long term debt measures:

For the **short-term**, the Eurogroup agrees on a first set of measures which will be implemented after the closure of the first review up to the end of the programme and which includes:

- Smoothening the EFSF repayment profile under the current weighted average maturity
- Use EFSF/ESM diversified funding strategy to reduce interest rate risk without incurring any additional costs for former programme countries
- Waiver of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme for the year 2017

For the **medium term**, the Eurogroup expects to implement a possible second set of measures following the successful implementation of the ESM programme. These measures will be implemented if an update of the debt sustainability analysis produced by the institutions at the end of the programme shows they are needed to meet the agreed GFN benchmark, subject to a positive assessment from the institutions and the Eurogroup on programme implementation.

- Abolish the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme as of 2018
- Use of 2014 SMP profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP profits to Greece (as of budget year 2017) to the ESM segregated account as an ESM internal buffer to reduce future gross financing needs.
- Liability management - early partial repayment of existing official loans to Greece by utilizing unused resources within the ESM programme to reduce interest rate costs and to extend maturities. Due account will be taken of exceptionally high burden of some Member States.
- If necessary, some targeted EFSF reprofiling (e.g. extension of the weighted average maturities, re-profiling of the EFSF amortization as well as capping and deferral of interest payments) to the extent needed to keep GFN under the agreed benchmark in order to give comfort to the IMF and without incurring any additional costs for former programme countries or to the EFSF.

For the **long-term**, the Eurogroup is confident that the implementation of this agreement on the main features for debt measures, together with a successful implementation of the Greek ESM programme and the fulfilment of the primary surplus targets as mentioned above, will bring Greece's public debt back on a sustainable path over the medium to long run and will facilitate a gradual return to market financing. At the same time, the Eurogroup agrees on a contingency mechanism on debt which would be activated after the ESM programme to ensure debt sustainability in the long run in case a more adverse scenario were to materialize. The Eurogroup would consider the activation of the mechanism provided additional debt measures are needed to meet the GFN benchmark defined above and would be subject to a decision by the Eurogroup confirming that Greece complies with the requirements under the SGP. Such mechanism could entail measures such as a further EFSF reprofiling and capping and deferral of interest payments. Also, the Eurogroup commits to long-term technical assistance to boost Greek growth.

The Eurogroup recognises that over the exceptionally long time horizon of assessing debt sustainability there can be no forecasts, only assumptions, given the sizable degree of uncertainty over macroeconomic developments.

The Eurogroup welcomes the intention of the IMF management to recommend to the Fund's Executive Board to approve a financial arrangement before the end of 2016 that will support the implementation of the agreed fiscal and structural reforms. It is recognised that, consistent with IMF policies, approval of this arrangement will also be based on a new DSA and the assessment of possible debt relief measures mentioned above (see section 3 of this briefing).

Before this agreement between Greece and the European institutions, the COM had issued three compliance reports (on **14 August 2015**, **20 November 2015** and **21 December 2015**) on the implementation of so-called "prior actions" and related "milestones", whose implementation by Greece is required ahead of disbursement(s). Teams from the COM, ECB, ESM and **IMF were in February, March and April in Athens to assess the Greek authorities' progress on the reforms agreed**, including plans to reach their ambitious medium term fiscal targets.

Disbursements

The **second tranche** under the ESM programme amounting to **EUR 10.3 bn will be disbursed to Greece in several disbursements, starting with a first disbursement in June (EUR 7.5 bn**) to cover debt servicing needs and to allow a clearance of an initial part of arrears as a means to support the real economy. The subsequent disbursements to be used for arrears clearance and further debt servicing needs will be made after the summer. The disbursements for arrears clearance will be subject to a positive reporting by the European Institutions on the clearance of net arrears. The additional disbursement for debt servicing needs will be subject to milestones related to privatization, including the new Privatization and Investment Fund, bank governance, revenue agency and energy sector to be assessed by the European institutions and verified by the EWG and the ESM Board of Directors.

The **first sub-tranche of EUR 16 billion** has been disbursed in several payments between August and December 2015 and is expected to be used by the government for debt service, budget financing, and co-financing projects funded by EU structural funds:

- A first disbursement of EUR 13 billion was made immediately on 20 August 2015 given that some of the called prior actions had already been implemented (see the COM's report of 14 August 2015 on Greece's compliance with the draft MoU commitments and the commitments in the Euro Summit statement of 12 July 2015);
- The remaining disbursements were made on 24 November 2015 (EUR 2 billion) and on 23 December 2015 (EUR 1 billion) as a follow-up to the following reforms:
  (a) On 16 October 2015, the Greek government legislated up to 30% of the prior actions (16 out of 49), among which penalties on early retirement and an increase in property taxes (ESM, EU Observer and Ekathimerini).
  (b) In November 2015, the Greek Parliament approved a bill which builds on previous legislation for the calculation of pensions, addresses compliance with EU energy efficiency rules, lifts obstacles for the sale of Greece's largest port and scraps tax breaks for farmers (Reuters).
  (c) Measures to stimulate competition in the energy sector as well as a new law to help banks manage their exposure to non-performing assets (i.e. legislation on non-performing loans and household insolvency) which is supposed to help the recapitalisation process (see Eurogroup statement of 23 November).

Table 1: Overview of disbursements

Date	Amount (EUR)	Maturity	Cumulative amount (EUR)
20/08/2015	13 bn	Amortization from 2034 to 2059	13 bn
24/11/2015	2 bn	Amortization from 2034 to 2059	15 bn

01/12/2015	2.7 bn	Interim maturity coinciding with maturity of ESM notes[a)]	17.7 bn
08/12/2015	2.7 bn	Interim maturity coinciding with maturity of ESM notes[a)]	20.4 bn
23/12/2015	1 bn	Amortization from 2034 to 2059	21.4 bn

Source: ESM. a) The final maturity will be in line with the maximum weighted average loan maturity of 32.5 years.

The **second sub-tranche of up to EUR 10 billion was earmarked to cover recapitalization and resolution costs of the Greek banking sector**. Since the the country has cleared important hurdle by securing sufficient interest for the recapitalisation exercise among private investors, the four systemic banks in Greece are considered by the creditor institutions to stand on their own feet again, albeit two banks had to rely on public support to complement their recapitalisations (the concerned banks were Piraeus and National Bank of Greece). Therefore, the Eurogroup and subsequently the ESM Board of Directors authorised the transfer of two tranches of **EUR 2.7 billion each** on 1 December and 8 December 2015 respectively to the Hellenic Financial Stability Funds (HFSF). The transfers followed the COM's approval of additional state aid based on the bank's amended restructuring plan. EUR 4.6 billion out of EUR 10 billion, which were available under the programme for this purpose have not been spend. These funds are held in a segregated account at the ESM. Future releases of funds to the HFSF will be decided by the ESM on a case-by-case basis. The amount of funds used for the bank recapitalisation remains significantly lower that the total envelope of up to EUR 25 billion earmarked for bank recapitalisation at the beginning of the third programme.

Since end of August 2015, the **total disbursed amount** of ESM financial assistance for Greece has remained at EUR 21.4 billion, which is around **25% of the maximum amount of assistance foreseen in the programme** (EUR 86 billion).

The timeline of the debt repayments to the institutions, Treasury bill holders and private investors is provided on a database of the Wall Street Journal. The outstanding loans of Greece to the creditors of the three programmes is around EUR 220 bn, out of which around EUR 205 bn are due to euro area Member States, EFSF and ESM (see separate EGOV table on financial assistance).

Box 3: The EP's role in adjustment programmes as specified in Regulation 472/2013

Article 7(1) and 7(4): COM shall orally inform the Chair and Vice-Chairs of the competent committee of the EP of 1) the progress made in the preparation of the macroeconomic adjustment programme and 2) the conclusions drawn from its monitoring. That information shall be treated as confidential.

Article 7(10): The competent committee of the EP may offer the opportunity to the Member State concerned and to COM to participate in an exchange of views on the progress made in the implementation of the macroeconomic adjustment programme.

Article 18: The EP may invite representatives of the Council and of COM to enter into a dialogue on the application of this Regulation.

2.2. Main elements of the third programme

Following Greece's request for further financial assistance of 9 July 2015, the COM signed on 19 August 2015[6] (on behalf of the members of the euro area) **a Memorandum of Understanding (MoU) with Greece for a third economic adjustment programme of up to EUR 86 billion for**

[6] On 19 August, the Greek Prime Minister also sent a letter to the European Parliament requesting its stronger involvement in the regular review process in implementing the programme. A day later, he resigned, triggering the sixth general elections in eight years on 20 September 2015. Following his re-election, PM Tsipras (Syriza) has renewed his party's coalition with the nationalist Independent Greeks (Anel), the junior partner in his previous government.

the period 2015-18 [7] (Article 13 of the ESM Treaty). In particular, it outlines a reform agenda in the following areas: (1) fiscal sustainability; (2) safeguarding financial stability; (3) growth, competitiveness, investment; and (4) modern state and public administration structure. Greece is to coordinate with the COM's Structural Reform Support Service to demonstrate its commitment.

The Greek authorities have made a commitment to achieve a **primary surplus** (revenues less expenses without interests payments) **over the medium-term of 3.5 % of GDP,** so as to progressively strengthen the sustainability of public finances (see Table 1 below).

Table 2: Primary surplus targets and GDP growth path underpinning the third financial assistance programme to Greece

Year	**Primary surplus target** (MoU)	**GDP growth** (EU eligibility analysis for ESM programme)
2015	-0.25%	-2.3%
2016	+0.5%	-1.3%
2017	+1.75%	+2.7%
2018	+3.5%	+3.1%

Sources: MoU and EU Debt Sustainability Analysis

In accordance with the MoU, the primary surplus targets are to be achieved by:

- **Pension savings** of around **0.25 % of GDP** in 2015 and **1.0 % of GDP** by 2016 (see pp. 13-14 of the MoU);
- **Health care sector:** various measures (see pp. 15-16 of the MoU);
- **Tax, revenue, and financial management reforms**, including various measures against tax fraud and evasion. A minimum VAT income of EUR 2.65 billion is to be ensured. Property tax rates will be aligned with market prices from 2017 and zonal property values are to be revised. The authorities are to improve the collection of tax debt, introduce independent agencies and make the Fiscal Council independent and operational. Many other tax related reform measures are included in the MoU (see pp. 6-11 of the MoU).

In addition, Greece was requested to enact, by October 2015, **structural measures expected to yield at least 0.75 % of GDP coming into effect in 2017 and 0.25 % of GDP in 2018**, so as to help achieve medium-term budgetary targets. The measures would include, inter alia, defence expenditure savings, personal income tax reform and the freezing of public spending.

The Greek authorities have made a commitment to finalise a **strategy for the monitoring of the financial system**, aimed at (i) normalising liquidity and payment conditions, (ii) recapitalising the banks, (iii) enhancing governance and (iv) addressing non-performing loans (NPL). All banks are required to submit quarterly funding plans to the Bank of Greece (BoG), and a buffer of up to EUR 25 billion was set aside to address potential recapitalisation needs and resolution of banks.

The Government has also made a commitment to review all labour market institutions, adopt an integrated action plan to fight undeclared and under-declared work, expand vocational education and training, increase the capacity of the Ministry of Labour, open restricted professions, reduce the

[7] According to Article 7.2 of Regulation (EU) No 472/2013, the Council shall, on a proposal by the Commission, approve the macroeconomic adjustment programme prepared by the Member State requesting financial assistance.

administrative burden of companies based on OECD recommendations, facilitate trade, improve EU funds absorption for agriculture and reform the electricity and the gas markets.

Proceeds from privatisation (e.g. of national and regional airports, harbours, energy providers, railway services, telecommunication providers) are to help reduce the Government's financing needs. The implementation of the Asset Development Plan (ADP) is expected to generate EUR 1.4 billion in 2015, EUR 3.7 billion in 2016 and EUR 1.3 billion in 2017.

A new independent guarantee fund is to be established and have in its possession valuable Greek assets. An independent Task Force[8] will identify potential assets as well as the best options for their monetisation, so as to help in the repayment of ESM loans. The fund is foreseen to generate about EUR 50 billion, of which the first EUR 25 billion are to be attributed to the repayment of the recapitalisation of banks, while the remaining proceeds are to be used for debt reduction and investments in the same proportions (up to EUR 12.5 billion each).

A comprehensive three-year strategy was to be defined by December 2015 (in agreement with the COM) for **the reorganisation of administrative structures**, involving the rationalisation of administrative processes, the optimisation of human resources, the strengthening of transparency and accountability, the introduction of e-government and the formulation and implementation of a communication strategy. Consequently, the Greek authorities have made a commitment to, among other things, reform the public sector wage grid and better link wages with the skill, performance, responsibility and position of staff (to be effective as of 1 January 2016).

3. Debt Sustainability Analyses and related statements

Article 13.1 of the ESM Treaty, as well as Article 6 of Regulation (EU) No 472/2013 on surveillance of Member States with serious difficulties with respect to financial stability, requires the COM to assess whether the public debt of a Member State requesting financial assistance is sustainable, where appropriate with the IMF. Similarly, Article V.3 of the IMF agreements sets the conditions governing the use of IMF resources, including the capacity of the receiving country to repay its debt to IMF.

[8] The mandate and composition of this Task Force is to be defined by the Greek authorities, in agreement with the European institutions and in consultation with the Eurogroup.

Box 4: Public Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) is an analytical framework that helps assessing a country's capacity to service its public debt over time, while financing its policy objectives without compromising its stability.

To this end, **two indicators** are typically used:

- The general government **Debt-to-GDP** ratio, which provides an overall measure of the country's debt compared to the size of its economy;
- The general government **Gross Financing Needs-to-GDP (GFN-to-GDP)**, which quantifies the country's debt payment obligations (principal plus interests), in relation to its economy. This indicator takes into account the debt structure (i.e. maturity, interest rates and interest deferrals).

The two indicators are interrelated, though the GFN-to-GDP ratio seems to better capture the country's short- and medium-term financial stability risks. In fact, low financing needs are generally associated with lower debt rollover and thereby reduced financial stability risks, and *vice versa*.

In practice, it is difficult to establish **numerical thresholds for debt sustainability**. As to the debt-to-GDP ratio, thresholds appear to vary across countries depending on macroeconomic fundamentals and debt management capacities (e.g. Argentina defaulted when its debt was around 60% of GDP, while Japan has continued to sustain debt of more than 200% of GDP). The IMF benchmark is set at 85%.

Regarding the GFN-to-GDP indicator, the IMF guidelines (p. 32) indicate that the ratio would need to remain below 15%-20% to ensure debt sustainability.

The **DSAs** are essentially constituted of projections and forecasts for the relevant economic indicators. As with all forecasts and projections, they are based on models and assumptions that vary across institutions and time. Both the IMF and the Commission have developed their own methodological frameworks, which include a "baseline scenario" as well as "alternative scenarios" that are built up under different assumptions regarding policy variables, macroeconomic developments, and financial conditions.

The latest Debt Sustainability Analysis, available in the public domain is the one published on 23 May 2016 by the **IMF,** which represented an update of the DSA published in June-July 2015.

This new DSA includes **new changes of the assumptions**. According to the IMF, "*the government has not been able to mobilize political support for the overall pace of reforms that would be required to retain the June 2015 DSA's still ambitious assumptions of a dramatic, rapid, and sustained improvement in productivity and fiscal performance. In all key policy areas—fiscal, financial sector stability, labour, product and service markets—the authorities' current policy plans fall well short of what would be required to achieve their ambitious fiscal and growth targets. Consequently, staff believes that a realignment of assumptions with the evident political and social constraints on the pace and scope of adjustment is needed...* ".

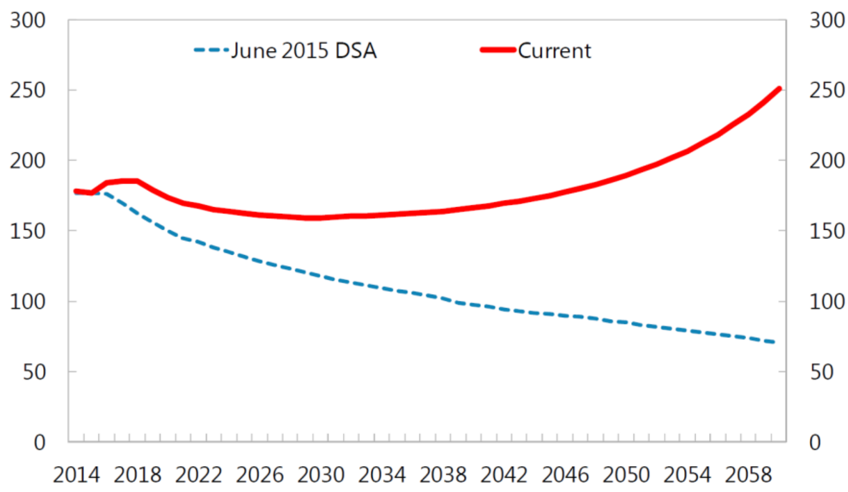
Therefore, the IMF considered that the new DSA should be based on:

- a plausible **primary surplus** over the long-run of no more than 1.5 percent of GDP (lowered compared to 3.5 assumed by the European Institutions in July 2015 and considered as the policy objective in the MoU).
- the long-term **growth** assumption of 1.25 percent of GDP (lowered compared to previous DSA assumptions)
- low privatization expectations;
- elevated market interest rates;
- banks recapitalization needs.

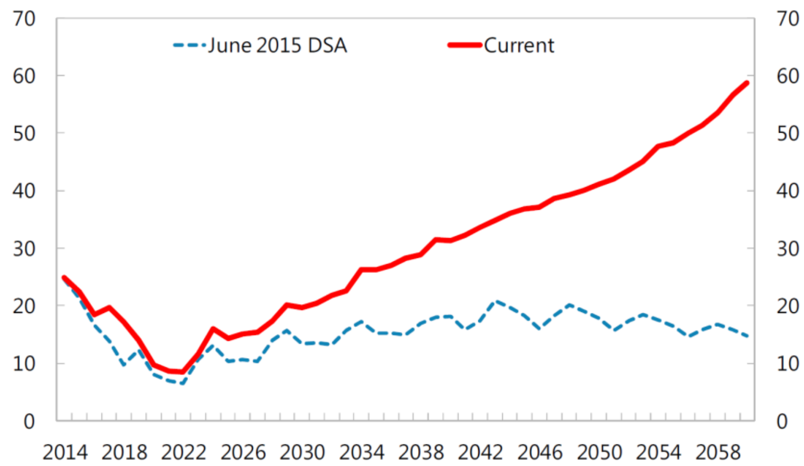
Under these assumptions and the current debt structure and conditions, the IMF has developed the "baseline scenario" extended to 2060, which is presented in Figures 4a and 4b, for Debt-to-GDP and GNF-to-GDP respectively:

Figure 4: - IMF DSA: comparison of May 2016 and June 2015 baseline scenarios (without debt restructuring)

4a: Debt-to- GDP ratio



4b: GNF-to-GDP ratios



The figures show a wide differences between the projections made in June 2015 and those made in May 2016. It also evidences a substantial gap between the new projections and the sustainability objectives, in terms of both the debt-to-GDP ratio and of GFN-to-GDP. More specifically, the revised projections suggest that:

- **Debt** will be around 174 percent of GDP by 2020, and 167 percent by 2022. It will then decline gradually to just under 160 percent by 2030, but will raise thereafter, reaching around 250 percent of GDP by 2060. This is mainly due to the cost of debt, which rises over time as market financing replaces highly subsidized official sector financing, and more than offsets the debt-reducing effects of growth and the primary balance surplus
- **Gross financing needs** cross the 15 percent-of-GDP threshold already by 2024 and the 20 percent threshold by 2029, reaching around 30 percent by 2040 and close to 60 percent of GDP by 2060.

The IMF concluded therefore that "*a **substantial reprofiling of the terms of European loans to Greece would be required** to bring GFN down by around 20 percent of GDP by 2040 and an additional 20 percent by 2060, so for the GFN to be sustainable and maintain debt on a downward path*".

The IMF proposed therefore a mix of debt restructuring modalities for the European loans (GLF, EFSF and ESM), composed of:

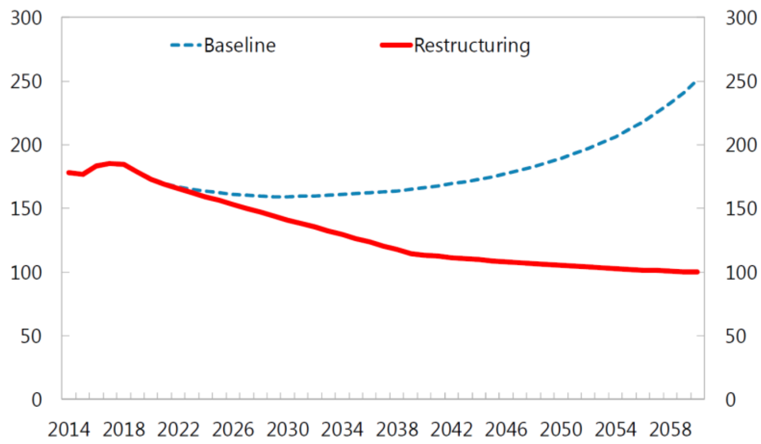
- Maturity extension: for all EU loans (GLF, EFSF and ESM) until 2080;

- Payment deferrals: principals and interests payment on all EU loans should be deferred until at least 2040;
- Fixed interest rate: EFSF and ESM at maximum 1.5%, for GLF, no spread over Euribor.

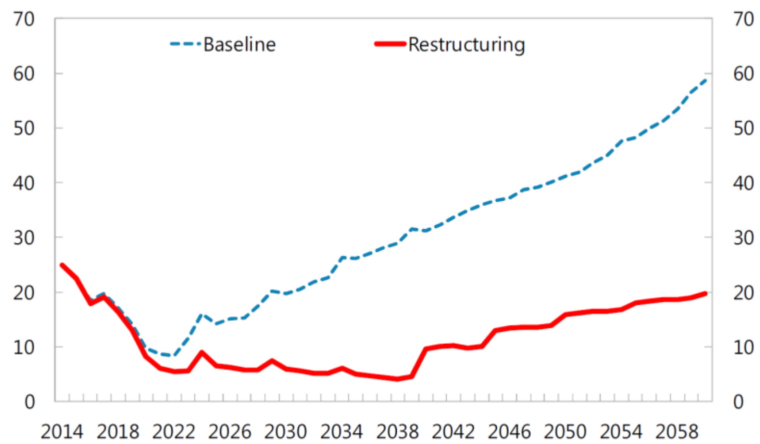
The measures should have been taken upfront (i.e. immediately) and with no conditionality attached after the end of the programme, in July 2018. As shown in figures 5a and 5b, these provisions would lead to a sustainable debt, in terms of both the debt-to-GDP and GNF-to GDP ratios.

Figure 5: IMF DSA: comparison of baseline scenario and scenario with debt restructuring

5a: Debt to GDP



5b: GNF to GDP



The IMF complemented its DSA with two alternative scenarios, aimed at assessing the robustness (sensitivity) of the baseline scenario: a positive one (with GDP growth of 1.5%), and a negative one (with GDP growth at 1%).

Furthermore, the IMF considered that *"in view of the uneven record of policy implementation on the part of Greece, staff understands and supports the wish of Greece's European partners to make further relief contingent on program implementation (par 12)"* and proposed the modalities for the delivery of debt relief distinguished according to the short, medium and long terms.

The Eurogroup of 23 May 2016 (attended by representatives of IMF and ESM) concluded that:

- the **sustainability** will be assessed on the basis of Greece GFN-to-GDP ratio: it should remain below 15% over the next 20 years and below 20% thereafter;

- the medium term objective for **primary surplus** is kept at 3.5% of GDP (with legally binding "contingency measures" for the budget if this objective is not reached);
- the different forms of the debt-restructuring operation will be established in three phases (short, medium and long-terms) and will include conditionality.

The statement of the ESM Managing Director provides details on the debt-related measures, as well as some figures for the relevant amounts. One of the short term measure refers to debt buy-back: according to Mr Regling, both GLF and IMF loans could be bought-back (these are loans with relatively high interest rates), but the decision has not yet been taken.

At a press conference following the Eurogroup meeting, the IMF director stated that "*...staff and management, ... are willing to recommend to our Board that this is a staff-level agreement that can form the basis for IMF support before the end of the year, provided that the revised DSA that we will be producing in the coming months will suggest that the measures that are on the table will deliver the necessary debt relief. I would like to emphasize that this is a recommendation by IMF staff and management, the Executive Board will in the end make the decision about IMF support*." He also underlined that "*these measures can deliver the necessary debt relief by the end of the program, consistent with the IMF principle that by the end of the program Greece needs to be able to stands on its own*".

At a press conference of 25 May, an IMF Senior Official clarified that the IMF participation will be proposed to the IMF board, on the basis of a new DSA, which will be prepared once the debt-related measures outlined by the European Institutions will be specified. However, it can be noted that not all the assumptions and debt-related proposals made by the IMF were accepted: in particular, the medium-term objective of 1.5 % of GDP for the primary surplus as assumed by the IMF. The official stated that "*I go to the Board based on our own DSA developed by the IMF staff... I see no reason at this stage to change the assumptions of the DSA published on 23 May.... If we come to the conclusion that these measures, even when quantified, do not produce the necessary debt relief, there will have to be another Eurogroup meeting to discuss what to do before we go to our Board... If they were to go back and say we're going to have the DSA based on 3.5 from now on and onto forever, we will not be able to go to our Board... So I think I am right in saying that I'm hopeful that we will get there by the end of the year, but I know there is a reason why we are not going to the Board outright, namely that there is still a conversation to be had...*"

The latest DSA of the **European Institutions** available in the public domain was published on 13 August 2015 (an update of the DSA of 10 July 2015). It included stated that Greece's debt sustainability deteriorated significantly (with respect to the projections of April 2014, the date of the latest review, as well as to those of July 2015). Three scenarios were developed: scenario A corresponded to the latest growth forecasts and full implementation of the programme; scenario B was based on less optimistic assumptions on both the growth rate and the programme implementation; while scenario C was more optimistic and assumed higher growth and privatisation revenues. In all three scenarios, the debt-to-GDP ratios remained well above 110 % in 2022 – a level that the COM considered sustainable in 2012. Actually, debt-to-GDP would fall below 110 % only in 2030 and under the optimistic scenario C. For GFN-to-GDP, the COM estimates that they will amount to an average of 12 % in the 2020-2030 period, and will exceed the 15 % limit in the following decades; the COM made the estimate for GNF only under the adverse scenario B.

4. Banking sector and financial stability: Latest developments

The banks' financial positions deteriorated steadily in 2015

In 2014, the four largest Greek banks completed major achievements towards re-establishing profitability and regained access to capital markets, both for debt and equity instruments. Banks raised significant amounts of capital from private investors (EUR 8.3 billion), attracted deposits back onto their balance sheets and repaid the costly emergency liquidity assistance (ELA) provided by the Bank of Greece since the large deposit outflows of 2012. At the end of 2014, the four banks were thereby able to report comfortable Common Equity Tier 1 capital ratios (from 12.4 % to 15.2 %).

The financial positions of the Greek banks deteriorated steadily in 2015. Significant and continuous deposit outflows (25% of total deposits) strongly weakened their liquidity positions in the first half of the year. In February 2015, the ECB lifted the waiver granted to Greek government bonds, which then became ineligible for regular refinancing operations, but allowed Greek banks to rely on ELA again. The impact of ELA on the funding costs, as well as the worsening asset quality, casted doubts as to the resilience of Greek banks.

At the end of June 2015, following the failure of negotiations on the closure of the second programme, **the ECB decided to maintain the ELA facility but stopped raising the overall cap, which triggered the need for capital controls**. The banks remained closed for three weeks and a limit of EUR 60 per day per bank card was imposed, while transfers abroad would need government approval. On 12 July 2015, the Euro Summit agreement paved the way for an additional lift in the ELA ceiling and the subsequent reopening of Greek banks. However, the imposition of capital controls is likely to have long-lasting effects on their asset quality. As a result, the MoU provided that the ECB would carry-out a comprehensive assessment of the four Greek banks by end of 2015.

The recapitalisation process is completed

On 31 October 2015, the ECB unveiled the results of the 2015 comprehensive assessment (see annex 4). The four main Greek banks reported capital shortfalls of EUR 4.4 billion in the baseline scenario and EUR 14.4 billion in the adverse scenario. The outcome was better than initially expected, since an envelope of EUR 25 billion had been reserved for that purpose in the third economic adjustment programme. The Greek Parliament approved the new recapitalisation law on the same day (31 October 2015). Banks were requested to raise private capital through share capital increases, bond swaps or asset sales.

The capital raising exercise confirmed some investors were willing to invest again in the Greek banking sector, albeit most of the money injected in 2014 had been lost. Indeed, all four large Greek banks managed to raise significant amounts of capital (see table 3), and thereby escaped resolution:

- Both Alpha Bank and Eurobank managed to raise the full amount of capital required from private investors or through the conversion of creditors into equity;
- NBG and Piraeus Bank managed to raise from private investors or through conversion of creditors the amount of capital requested under the baseline scenario, that is to say those two injections of capital by the Greek authorities were considered *precautionary* in the meaning of article 32.4 of the BRRD and therefore did not trigger resolution. In line with State aid rules and with the Eurogroup statement of 14 August 2015, all subordinated and senior bondholders were bailed-in in those two banks through the conversion of their notes into new equity, thereby reducing the amount of State aid needed. The preference shares issued by NBG, which were held by the Hellenic Republic, were also converted into equity.

The HFSF subscribed two categories of instruments: ordinary shares (25% of the total amount injected by the HFSF in NBG and Piraeus Bank) and contingent convertible instruments. Those State aid measures were approved by the COM on 29 November (Piraeus Bank) and 4 December 2015 (National Bank of Greece) on the basis of updated restructuring plans. On 22 December 2015, NBG announced the sale of its major Turkish subsidiary (Finansbank A.Ş).

Table 3: Summary of the 2015 capital raising exercise

m€	NBG	Eurobank	Alpha Bank	Piraeus Bank	Total	%
Conversion of creditors into equity	759	418	1.011	582	**2.769**	*19%*
Capital raised from private investors	757	1.621	1.552	1.340	**5.271**	*37%*
Capital injected by the HFSF	2.706	-	-	2.720	**5.426**	*38%*
of which ordinary shares	*676*			*680*	*1.356*	*9%*
of which contingent convertible instruments	*2.029*			*2.040*	*4.069*	*28%*
Other capital actions	380	83	180	291	**935**	*6%*
Total capital shortfall	**4.602**	**2.122**	**2.743**	**4.933**	**14.400**	*100%*

sources: EGOV based on banks' websites

The shareholding structure of all four banks was significantly impacted by those recapitalisations, since former shareholders were heavily diluted, losing from 83% to 99% of the control over the Greek banks. The HFSF now owns between 2% and 40% of those banks when it held 35% to 67% as of 30 September 2015[9]. However, the shares subscribed by the HFSF in 2013 had restricted voting rights, while the new shares subscribed in 2015 do not. Therefore the HFSF will be able to exercise an influence in those banks where it holds significant shareholdings. The HFSF announced on 14 January that it had initiated its assessment of the Boards of Directors of the four systemic banks. On 28 April 2016 the HFSF announced Stuart Spencer had been selected to assist in the review of the Boards and Committees of the systemic banks.

Table 4: Value of the HFSF shareholding in the four large Greek banks

		NBG	Eurobank	Alpha Bank	Piraeus Bank	Total
shareholding May 2016	HFSF	40%	2%	11%	26%	21%
	Other shareholders	60%	98%	89%	74%	79%
	Total former shareholders	100%	100%	100%	100%	100%
book value and market value	**Equity - 31/12/2015 (excl. CoCos and preference shares)**	**7.070**	**5.470**	**9.015**	**7.868**	**29.423**
	of which equity held by the HFSF	*2.856*	*130*	*993*	*2.079*	*6.057*
	Market value - 24/05/2016	**2.836**	**2.470**	**3.919**	**2.620**	**11.845**
	of which shares held by the HFSF	*1.145*	*59*	*431*	*692*	*2.328*

sources: EGOV based on banks financial statements as of 31/12/2015 and www.helex.gr

As of 30 September 2015 (before the further dilution of its shareholding), the HFSH had already lost EUR 34.1 billion out of the invested capital amounting to EUR 38.8 billion[10]. As of 24 May 2016, the market value of the HFSF shareholding in those banks was less than EUR 2.4 billion[11] for a current book value estimated at about EUR 6 billion[12]. Therefore only a marginal part of the incurred loss could potentially be recovered over time through an appreciation of the market value.

Greeks banks remain vulnerable

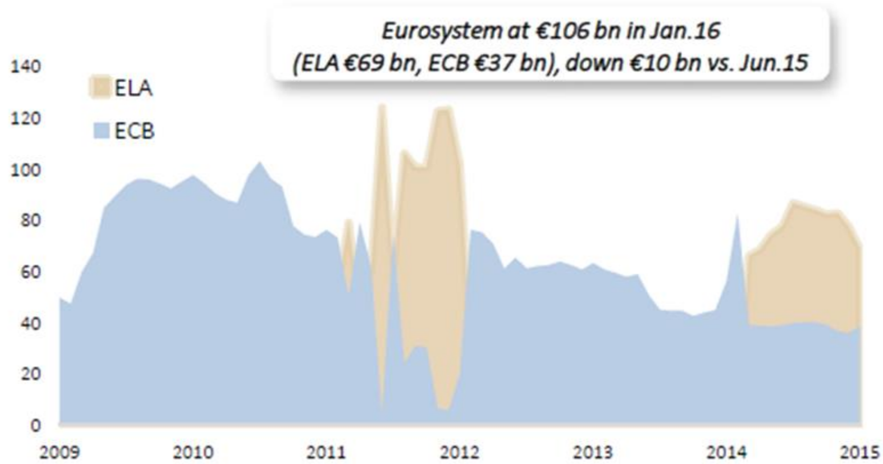
The burden of non-performing loans (NPL) constitutes an acute challenge for the Greek banks, with NPL (loans 90 days past due) amounting to 46.7% of total loans at the end of December 2015[13]. The Eurogroup statement of 14 August 2015 urged "*the authorities to take all*

[9] In its latest debt sustainability analysis published on 23 May 2016, the IMF does not take into account any proceed from the potential sale of the HFSF's stake in the 4 systemic banks. In addition, the IMF foresees additional contingent liabilities from the banking sector of about EUR 10 billion in the future.
[10] This includes losses related to the liquidation of small banks, amounting to about EUR 11.1 billion as of 30 September 2015.
[11] EGOV calculation based on the Hellenic Stock Exchange (www.helex.gr).
[12] EGOV estimation based on the common equity of the banks post AQR, taking into account the amount of capital raised and the conversion of debt instruments in the second half of 2015.
[13] Source: EBA Risk dashboard as of Q4 2015.

necessary steps (...) including opening the market for NPL servicing (...) and exploring the possibility of a bad bank". A number of measures were therefore committed to that end in the MoU of 19 August 2015, albeit it did not mention any concrete step toward the creation of a bad bank. In the second half of 2015[14], Greece implemented a number of those measures: amendments to the corporate and household insolvency laws, creation of the regulated profession of insolvency administrators, reactivation of the Governing Council of Private Debt, strengthening of the Code of Conduct, new NPL law aimed at facilitating the transfer of NPL to non-bank service providers, enhanced supervision by the Bank of Greece... The implementation of this comprehensive strategy seems critical for the resolution of the NPL issue in Greece. The Eurogroup statement of 24 May 2016 indicates that the Greek parliament has adopted "*most of the agreed prior actions for the first review, notably the adoption of legislation [...] to open up the market for the sale of loans*" albeit some corrections are requested by creditors before the completion of the review.

In addition, the Greek banks remain heavily exposed to the Greek sovereign risk. At the end of March 2015, Greek banks held EUR 12.8 billion of State-guaranteed deferred tax assets, which are not deducted from capital. In addition, at the end of September 2015, the four Greek banks held EUR 5 billion of Greek government bonds and EUR 9 billion of treasury bills. That means the total exposure to the Greek sovereign risk amounted to about EUR 27 billion, to be compared to the total amount of equity as of 31 December 2015, which stands at about EUR 29 billion.

Table 5: Eurosystem funding (EUR billion)



Source: Piraeus Bank, Q4 2015

Finally, the liquidity position of Greek banks remains very fragile, with a strong reliance on ELA (see table 5). Central bank refinancing amounted to EUR 106 billion for the four largest banks at the end of January 2016, that is to say about 31% of their total assets. As to the provision of ELA by the Bank of Greece, the ceiling set by the ECB decreased from EUR 91 billion at the peak in August 2015 to EUR 69.1 billion in May 2016, partly on the back of the recapitalisation of the four large banks.

Table 5: Selected banking indicators for Greece

End of period	*Dec-13*	*Dec-14*	*Jun-15*	*Sep-15*	*Dec-15*	*Mar-16***
Domestic residents deposits (in EUR million)	177.018	173.220	130.502	130.542	133.788	131.344
Market Capitalisation 4 largest banks (in EUR million)	26.905	19.473	12.910	3.526	11.666	9.202
NPL ratio in Greece (%)	37,1%	39,7%	42,0%	43,5%	*46,7%*	*n.a.*

Sources: Bank of Greece, Bankscope, Helex and EBA Risk Dashboards ***Market capitalisation as of end April 2016*

[14] See Commission compliance reports of 14 August, 20 November and 21 December 2015.

Box 6: [EBA Risk Dashboard]: benchmarking Greek banks to EU peers

The European Banking Authority (EBA) publishes a quarterly report on the main risks and vulnerabilities in the European banking sector, showing the situation for a wide sample of European banks, among those four Greek banks (Alpha Bank; Eurobank; National Bank of Greece; Piraeus Bank).

Overall, the risk indicators used by EBA suggest that European banks are currently not in a very comfortable position, with all of the 11 risk areas identified by the EBA at levels deemed medium to high at the end of December 2015.

Following the recapitalisation of the four Greek banks, they report high CET 1 ratio, at 15% on average compared to 13% for their EU peers ("fully loaded", i.e. being calculated without applying the transitional provisions set out in Part Ten of the CRD IV Regulation).

However, the level of NPL in Greece continues to represent an enormous challenge, as the average ratio of non-performing loans amounted to 46.7% in December 2015; in continuous increase since December 2014 (39.7%). At EU level the NPL ratio stands at 5.8% (6.2% in December 2014).

Profitability of European banks is in general still low. The average Return-on-Equity decreased sharply in the last quarter of 2016 to 4.7%; Greek banks performed even much worse in this respect, as credit losses resulted in negative Return-on-Equity rates exceeding minus 20% on average. On the other hand, the net operating profits (2.3%) and the cost-to-income ratio of Greek banks (61%) remain better than the EU averages (2.2% and 62.8% respectively).

As regards the balance sheet structure, Greek banks still strongly rely on central bank funding which requires pledging their assets in order to secure or collateralise the transactions. Greek banks therefore have an asset encumbrance ratio exceeding 45%, which is markedly higher than the EU average (26.6%).

Annex 1: Greece's key economic indicators

	2011	2012	2013	2014	2015	2016 (f)	2017 (f)
GDP Growth (%)							
Greece	-9.1	-7.3	-3.2	0.7	**-0.2**	**-0.3**	**2.7**
Euro area	1.6	-0.9	-0.3	0.9	**1.7**	**1.6**	**1.8**
Government balance (% of GDP)							
Greece	-10.2	-8.8	-13.0	-3.6	**-7.2**	**-3.1**	**-1.8**
Euro area	-4.2	-3.7	-3.0	-2.6	**-2.1**	**-1.9**	**-1.6**
Structural balance (% of potential GDP)							
Greece	-6.4	-0.3	1.6	1.0	**0.5**	**0.0**	**-0.6**
Euro area	-3.6	-2.1	-1.4	-1.0	**-1.0**	**-1.3**	**-1.4**
Government debt (% of GDP)							
Greece	172.0	159.6	177.7	180.1	**176.9**	**182.8**	**178.8**
Euro area	86.7	91.3	93.4	94.4	**92.9**	**92.2**	**91.1**
Inflation (%)							
Greece	3.1	1.0	-0.9	-1.4	**-1.1**	**-0.3**	**0.6**
Euro area	2.7	2.5	1.3	0.4	**0.0**	**0.2**	**1.4**
Unemployment (% of labour force)							
Greece	17.9	24.5	27.5	26.5	**24.9**	**24.7**	**23.6**
Euro area	10.1	11.4	12.0	11.6	**10.9**	**10.3**	**9.9**
Youth Unemployment* (% of labour force)							
Greece	44.7	55.3	58.3	52.4	**49.8**	n.a.	n.a.
Euro area	21.3	23.6	24.4	23.7	**22.4**	n.a.	n.a.
Current account balance (% of GDP)							
Greece	-10.4	-4.2	-2.2	-3.0	**-0.2**	**0.6**	**1.3**
Euro area	0.6	1.9	2.5	3.0	**3.6**	**3.7**	**3.6**
Exports (% change)							
Greece	0.0	1.2	2.2	7.5	**-3.8**	**0.5**	**4.2**
Euro area	6.5	2.6	2.1	4.1	**5.2**	**3.5**	**4.7**
Imports (% change)							
Greece	-9.4	-9.1	-1.9	7.7	**-6.9**	**-0.1**	**3.8**
Euro area	4.3	-1.0	1.3	4.5	**6.0**	**4.6**	**5.3**
Domestic demand (% change)							
Greece	-11.1	-9.9	-4.2	0.9	**-1.4**	**-0.5**	**2.5**
Euro area	0.7	-2.4	-0.7	0.9	**1.8**	**2.0**	**1.9**
Investments (% change)							
Greece	-20.5	-23.5	-9.4	-2.8	**0.7**	**-0.9**	**11.6**
Euro area	1.6	-3.3	-2.6	1.3	**2.9**	**2.9**	**3.8**
Income Inequality* (Gini Coef.) (scale from 0 to 100)							
Greece	33.5	34.3	34.4	34.5	n.a.	n.a.	n.a.
Euro area (18 countries)	30.6	30.4	30.7	31.0	n.a.	n.a.	n.a.
Labour Productivity (% change)							
Greece	-2.4	-1.1	0.4	0.5	**-2.1**	**-0.8**	**0.7**
Euro area	1.5	-0.1	0.6	0.3	**0.6**	**0.5**	**0.8**
Unit Labour Cost (% change)							
Greece	-1.4	-2.0	-7.4	-2.6	**0.4**	**0.0**	**0.8**
Euro area	0.6	1.9	1.1	1.0	**0.7**	**0.9**	**1.1**

Sources: European Commission (2016 Spring forecast; Eurostat for data marked with *. Euro area data correspond to EA19, except for the income inequality where only EU18 aggregate is available. Data as of 19 May 2016.

Annex 2: Greece's Macroeconomic Imbalance Scoreboard

Indicators			Threshold	2007	2008	2009	2010	2011	2012	2013	2014	2015
External imbalances and competitiveness	**Current account balance as % of GDP**	**3 year average**	-4/+6%	-11.9	-14.0	-14.2	-13.0	-11.3	-8.4	-5.3	-2.6	-1.4
		Year value	-	-15.2	-15.1	-12.4	-11.4	-10.0	-3.8	-2.0	-2.1	-0.1
	Net international investment position as % of GDP		-35%	-91.8	-73.7	-86.0	-96.7	-84.9	-108.9	-122.2	-124.1	-126.4
	Real effective exchange rate - 42 trading partners	**% change (3 years)**	± 5% €A	- 0.4	2.3	4.8	2.9	1.8	-5.0	-4.4	-5.6	-5.5
		% change y-o-y	-	0.7	1.6	2.4	-1.2	0.6	-4.4	-0.6	-0.7	-4.3
	Share of world exports	**% change (5 years)**	-6%	n.a.	n.a.	-10.2	-14.0	-15.5	-24.7	-25.1	-17.7	-20.7
		% change y-o-y		6.9	1.2	-5.6	-11.4	-6.6	-4.8	0.7	3.7	-14.6
	Nominal unit labour cost	**% change (3 years)**	9% €A	11.0	7.4	15.8	14.0	6.8p	-2.3p	-10.5p	-11.6p	-9.4p
		% change y-o-y	-	2.6	5.3	7.1	1.0	-1.4p	-2.0p	-7.4p	-2.6p	0.4p
Internal imbalances	**House prices** % change y-o-y deflated		6%	2.2e	-2.5e	-4.6e	-8.0e	-7.6e	-12.0e	-8.9e	-4.9e	n.a.
	Private sector credit flow as % of GDP		14%	16.2	15.6	2.4	5.6	-6.5	-5.7	-6.2	-2.7	-3.2
	Private sector debt as % of GDP		133%	101.9	113.5	117.1	128.9	131.1	132.5	130.5	129.9	127.2
	General government gross debt (EDP) as % of GDP		60%	103.1	109.4	126.7	146.2	172.1	159.6	177.7	180.1	176.9
	Unemployment rate	**3 year average**	10%	9.1	8.4	8.6	10.0	13.4	18.4	23.3	26.2	26.3
		Year value	-	8.4	7.8	9.6	12.7	17.9	24.5	27.5	26.5	24.9
	% change y-o-y in **Total Financial Sector Liabilities,** non-consolidated		16.5%	22.2	4.7	10.4	7.7	-3.2	-3.1	-17.0	-7.2	7.9
Employment indicators	**Activity rate % 15-64 total pop.** 3 year change		-0.2%	0.3	0.3	0.7b	1.3	0.6	0.1	-0.3	0.1	0.3
	Long term unemployment active pop. 15-74 3 year change.		0.5%	-1.4	-1.5	-1.0	1.5	5.1	10.6	12.8	10.7	3.7
	Youth unemployment % active pop. 15-24 3 year change		0.2%	-3.8	-3.9	0.7	10.3	22.8	29.6	25.3	7.7	-5.5

Source: Eurostat MIP Scoreboard indicators (data extracted on 19 May 2016 and therefore may not correspond to the 2016 AMR).

Note: Grey cells signal data falling outside the MIP thresholds; e = estimated; p = provisional; b= break in time series and (:) = missing.

Annex 3: Greece's progress towards EU2020 targets

Indicator	Greece			EU28	
Employment rate (% of population aged 20-64)	**70**		**2020 target**	**75**	
	n.a.		2015	n.a.	
	53.3		2014	69.2	
	52.9		2013	68.4	
	55.0		2012	68.4	
Expenditure on R&D (% of GDP)	**1.21%**		**2020 target**	**3**	
	n.a.		2015	n.a.	
	0.83^{p}		2014	2.03^{p}	
	0.80		2013	2.03	
	0.69		2012	2.01	
Greenhouse gas emission[1]	**Total: ncst**[1] Index 1990 = 100	**Non-ETS: 96**[1] Index 2005 = 100	**2020 target**	**Total: 80**[1] Index 1990 = 100	
	n.a.	n.a.	2015	n.a	
	n.a.	n.a.	2014	n.a	
	100.12	n.a.	2013	80.20	
	107.12	77.64	2012	81.69	
Share of renewable energy (%)	**20**[2]		**2020 target**	**20**	
	n.a.		2015	n.a.	
	15.3		2014	16.0	
	15.0		2013	15.0	
	13.4		2012	14.3	
Primary energy consumption (million tonnes of oil equivalent-TOE)	**27.1**		**2020 target**	**1,483**	
	n.a.		2015	n.a.	
	23.7		2014	1,507.1	
	23.6		2013	1,569.1	
	26.9		2012	1,584.0	
Early school leaving (% of population aged 18-24)	**9.7**		**2020 target**	**10**	
	8.3^{b}		2015	10.9^{p}	
	9.0^{b}		2014	11.2^{b}	
	10.1		2013	11.9	
	11.3		2012	12.7	
Tertiary educational attainment (% of population aged 30-34)	**32**		**2020 target**	**40**	
	39.4^{p}		2015	38.5^{p}	
	37.2^{b}		2014	37.9^{b}	
	34.9		2013	37.1	
	31.2		2012	36.0	
Population at risk of poverty or social exclusion (thousand - % of total population)	**Reduction by 450 thousand**	**ncst**	**2020 target**	**Reduction by 20 million**	**ncst**
	n.a.	n.a.	2015	n.a.	n.a.
	3,885	36.0	2014	122,328	24.5
	3,904	35.7	2013	122,894	24.6
	3,795	34.6	2012	123,927	24.7

Source: Eurostat (data extracted on 16 March 2016).

Note: (1) The Effort Sharing Decision (2009/406/EC) sets country-specific targets for non-ETS emissions only and an EU target for ETS-emissions. For Greece, non-ETS emissions will be reduced by 4% compared to 2005 levels. For the EU, ETS-emissions will be reduced by 21% compared to 2005 level and overall emissions by 20% compared to 1990 levels.
(2) Greece committed to a target of 18% by 2020, increased to 20%, by national legislation (Law 3851/2010).
***** = Estimate; n.c.s.t. = "no country specific target"; n.a = "not available"; p = provisional and b = break in time series.

Annex 4: The 2015 comprehensive assessment of the four largest Greek banks

The comprehensive assessment consisted of an asset quality review and a stress test under two macroeconomic scenarios. The two macroeconomic scenarios were relatively severe (growth of -3.3%, -3.9% and +0.3% respectively in 2015, 2016 and 2017 in the adverse scenario), as were the thresholds used to calculate the capital shortfalls (9.5% of CET1 under the AQR and baseline scenario, 8% under the adverse scenario), notably when compared to the previous EU-wide exercise (8% and 5.5% respectively). However Greek government exposures bore a 0% risk-weight, in line with the EU regulatory framework.

Table: Results of the 2015 comprehensive assessment

		threshold	**NBG**	**Eurobank**	**Alpha**	**Piraeus**	**Total**
CET1 capital amount *in EUR*	*as of 30/06/2015*		7.412	5.389	6.792	6.189	**25.781**
Risk Weighted Assets *in EUR*	*as of 30/06/2015*		63.870	39.218	53.516	57.113	**213.716**
CET1 capital ratio	*as of 30/06/2015*		11,6%	13,7%	12,7%	10,8%	**12,1%**
in %	*post AQR*	*9,50%*	8,1%	8,6%	9,6%	5,5%	**7,9%**
	in the baseline scenario	*9,50%*	6,8%	8,7%	9,0%	5,2%	**7,6%**
	in the adverse scenario	*8,00%*	-0,2%	1,3%	2,1%	-2,3%	**0,1%**
Capital shortfall(-) / buffer(+)	*post AQR*	*9,50%*	- 831	- 339	73	- 2.188	**- 3.285**
in EUR	*in the baseline scenario*	*9,50%*	**- 1.576**	**- 339**	**- 263**	**- 2.213**	**- 4.391**
	in the adverse scenario	*8,00%*	**- 4.602**	**- 2.122**	**- 2.743**	**- 4.933**	**- 14.401**

Source: ECB.