HELLENIC REPUBLIC
MINISTRY OF FINANCE
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THE MINISTER

Athens, January 5, 2014

**Questionnaire supporting the own initiative report evaluating the structure, the role and operations of the 'troika' (Commission, ECB and the IMF) actions in euro area programme countries**

**B. Questionnaire sent to the Member States under a financial assistance programme**

1. **If applicable, why did your country decide to request a financial assistance programme?**

The Greek economy grew fast in the last two decades that preceded the current crisis. However, its economic growth path did no rely on factors that would put it on sustainable grounds; instead, it was mainly fuelled by domestic consumption financed by external borrowing. On April 6, 2009, the Council of the EU issued a recommendation to Greece with a view to ending its excessive budget deficit, and on April 27, 2009 the Council issued a Decision whereby an excessive deficit of 3.6% of GPD for 2009, projected to escalate to 4.2% of GDP for 2010, was found to exist in Greece. In mid-2009, the Greek government proposed an array of fiscal measures with a view to bringing an end to the situation of excessive fiscal deficit in Greece, but early elections in October 2009 halted the implementation of these measures. On October 21, 2009 it was found that the government deficit for 2009 would amount to 12.5% of GDP. It became, therefore, apparent that this non-sustainable situation called for immediate action through drastic fiscal consolidation measures.
In early 2010, the cost of borrowing for Greece had reached prohibitively high levels. For two-year bonds the interest rate amounted to 18%, for five-year bonds to 14.6%, while for ten-year bonds, to 12.5%. From mid-March 2010 and following the issuance of ten-year bonds, financial markets began to exert pressure on Greece, effectively casting doubt on its ability to continue servicing its loan programme. On March 25, 2010, the Euro Summit approved the creation of a temporary financial support mechanism in order to safeguard financial stability in Europe as a whole. On April 5, 2010, the government proceeded with an ultimate borrowing effort through a seven-year bond with a 6% yield; alas, this issuance was oversubscribed by only 1.2 times (as opposed to 5 times oversubscription of the January issuance, and 3 times oversubscription of the March issuance). It is worth noting that for the remainder of 2010, as well as for 2011 in its entirety, the total borrowing requirements that would account for the combined public expenditure and public debt servicing costs, amounted to EUR 67 billion (taking into account neither the exacerbated level of the primary budget deficit that would emerge during this period, nor the resulting servicing costs for new loans during the

same period). On April 23, 2010, Greece formally requested the activation of the EU-IMF support mechanism. The request was approved on May 2, 2010, and on May 8, 2010 the Greek loan facility agreement was signed. On May 9, 2010, the IMF respectively, approved its share to the joint package under a Stand-By Arrangement (SBA) for Greece.
The multi-year financing package agreed with the EU and the IMF would provide the funds that are necessary for Greece, while at the same time it would ensure that the equally necessary structural reforms would be implemented, thereby laying the foundations for a sustainable economic growth path.

2. **What was your role and function in the negotiation and set-up of the financial assistance programme for your country?**

I assumed my duties as Minister of Finance on July 5, 2012 in the three-party coalition government that set as its main goal the acceleration of the implementation of the Second Economic Adjustment Programme that had been approved in March 2012 for the period 2012-2014. In my capacity as Minister of Finance, I was involved in, and negotiated on matters within my competence, three positive quarterly reviews and updates of the Second Programme (December 2012, May 2013, July 2013), as well as the Medium-Term Fiscal Strategy (MTFS) Framework for the years 2013-2016.
In November 2012, after long negotiations, an update of the Second Economic Adjustment Programme came into effect, whereby the following milestones were achieved: a) an extension of the fiscal adjustment period by two years, b) the reinforcement of the sustainability prospects of the Greek public debt and the launch, if certain conditions are met, of new improving initiatives, and c) the change in the fiscal policy mix where henceforth, expenditure reductions would account for 2/3 and revenue increases for 1/3.

3. **What was the role of the national Parliament in the negotiation of the MoU? How did the government present the text to the Parliament? How did the Parliament adopt the final MoU? Did social partners take part in the discussion on MoU?**

The measures of the Programme were agreed among the Greek Government, the EC and the IMF in collaboration with the ECB. The Programme was discussed and approved by the Ministerial Council on May 2, 2010 and subsequently endorsed by the Eurogroup.
The text of the Memorandum of Understanding (MoU) was signed on 3 May 2010 by the Minister of Finance and the Governor of the Bank of Greece, acting as representatives of the Hellenic Republic, and by the Member and Vice-President of the European Commission Mr Rehn, acting on behalf of the member-states of the euro area. On May 4, 2010, the draft of the subsequently adopted law 3845/2010 "Measures for the application of the support mechanism of the Greek economy by euro area member states and the International Monetary Fund" was tabled to the Parliament, where the MoU had been appended as Annex.
The discussion of the draft law took place by urgent procedure, which is provided for by the Standing Orders of the Greek Parliament, given that a bond of EUR 18 billion issued by the Greek Government would expire on May 16, 2010, and in the meantime, all the procedures for the drawing up of the

multilateral loan agreement and the disbursement of the first tranche of the programme by the lenders had to be completed.

The text of the MoU was thoroughly discussed in the competent Committee of Economic Affairs of the Greek Parliament on May 5, 2010 and in the Plenary of the Parliament on May 6, 2010.

The Greek Parliament did not participate in the negotiations since the Greek Constitution does not confer such a right to the Parliament. The urgency of the matter and the extremely tight timeframe for the signing of the loan agreement, as well as the need for disbursement of the first tranche prior to May 16, 2010, did not allow for a formal consultation of the measures with the social partners.

**4. How much leeway did you have to decide upon the design of the necessary measures (consolidation or structural reforms)? Please explain.**

Given the inability of Greece to access capital markets, its bargaining power was *de facto* weak. Against this background, the Government tried, within what was deemed feasible, to consent to measures with the lowest possible negative social impact. In numerous occasions, the Parliament was called to approve measures that might have contributed to meeting the fiscal targets, alas at the significant cost of impacting negatively a considerable proportion of the Greek population. Nevertheless, the gradual remedy of fiscal imbalances and the accomplishment of the Programme targets (i.e. the realization of a primary surplus in the state budget) gradually enhance the negotiating power of the country.

**5. Do you consider that all consolidation measures/structural reforms were equally spared/divided among citizens? Please explain.**

All social groups were affected directly or indirectly by the measures. Yet, the impact was not uniform or evenly spread. Public sector employees and pensioners were affected mainly by the fiscal adjustment measures, due to the cuts in public sector salaries and pensions. The cuts were proportionally larger in the case of high salaried public sector employees and, particularly, pensioners located in the in the upper part of the income distribution. Private sector employees and self-employed were affected primarily by the consequences of the crisis (significant decrease in demand that forced a large number of firms to shutdown, layoffs and salary cuts). It is estimated that, on average, the disposable household income declined by more than 35% in real terms during the years of the Programme. The protection of the most vulnerable groups to the furthest possible extent, remains, nevertheless, one of the government's top priorities, pursued via targeted measures such as the heating oil benefit on the basis of geographical and income criteria, the protection of over-indebted households, the adoption of a means-tested minimum income guarantee scheme and the adoption of a means-tested social assistance benefit for the long-term unemployed. As regards the impact of structural measures on different social groups, this was not uniform due to the nature of the measures.

6. **Please describe the quality of the cooperation between your authorities and the Troika institutions on site.**

   The cooperation between the Greek authorities and the Troika institutions could, in general terms, be characterized as effective. Granted, as it is typically the case in all negotiations, there have been disputes and differences in approach on various specific aspects pertaining to the Economic Programme.

7. **What impact did the entry into force of Regulation (EU) No 472/2013 have on the implementation of the programmes? Did you make use of the provisions of the Regulation, particularly Article 7 (11)? If not, why?**

   The above Regulation was voted in May 2013, i.e., three years following the launch of the Greek Adjustment Programme. Consequently, it could not have been applied during the first years of the Economic Programme. Article 7 (11) offers the possibility for EC officials to be invited by national parliaments of member-states. This is an exclusive privilege of the Greek Parliament that has not been exercised until now, but may be exercised in the future.

8. **How many cases of infringement of national law challenging the legality of the decisions arising out of the MoU are you aware of in your country?**

   The measures envisaged in the Memorandum of Understanding (MoU) were integrated in the Greek legal order by legislative acts (acts of Parliament). Consequently, the majority of the MoU measures have only been indirectly challenged before national courts (but also before the European Court of Human Rights) invoking that the transposing national provisions, are contrary to provisions of the Greek Constitution or to provisions of the European Convention for Human Rights.

   More specifically:

   a) The provisions of the legal acts 3833/2010 and 3845/2010, which imposed cuts to public sector wages, cuts to the allowances paid to public and private sector employees, exceptional levies for legal and natural persons and tax rates increases indirectly also affecting public sector pensioners, were challenged before the Council of State and the Court of Auditors. The Council of State, in plenary session, and the Court of Auditors (Second Chamber) issued the decisions 668/2012 and 2689/2013 respectively and dismissed all grounds of the application in question. Similarly, the European Court of Human Rights rejected the relevant applications 57665/2012 and 57657/2012 (Koufaki & ADEDI against Greece ) .
   b) The provisions of the legal act 4024/2012 which established a system of pre-retirement labour reserve for public sector workers were declared contrary to the Constitution by the decision 3354/2013 of the plenary session of the Council of State. Hence, those public sector employees vindicated by justice returned to their jobs.
   c) The provisions of the legal acts 4024/2012 and 4093/2012, which provided for reductions in the general and special wage regimes of civil servants and public sector workers, and, indirectly, in the pensions of retired civil servants and employees, were challenged before the Council of State and the Court of

Auditors. A decision by the Council of State and a deliberation by the Court of Auditors are pending. In particular, the bill concerning the new reduced wages for judges, as provided in the Memorandum, was deemed to be contrary to the provisions of the Greek Constitution that concern the independence of the judiciary system and the setting of their remuneration in line with the importance of their function by a final judgment of the competent court.

d) The provisions of the legal act 4050/2012 pertaining to the introduction of Collective Action Clauses (CACs) concerning the Greek bonds for the implementation of the PSI were challenged before the Council of State and a decision is pending.

e) The decisions of the inter-ministerial committee regarding the privatisation of public enterprises have been challenged before the Council of State and a decision is pending.

f) The provisions of the legal act 4046/2012 and the ministerial cabinet acts by virtue of which the private sector minimum wages and salaries were cut and the effects of collective agreements and arbitration were regulated, have been challenged before the Council of State and a decision is pending .

**9. Are you satisfied with the objectives and the effective outcomes of the programme in your country?**

The global financial crisis of 2008, which sparked with the collapse of Lehman Brothers, and the consequent change in the valuation of financial risk globally, contributed in a great extent to the exposure of chronic structural weaknesses of the Greek economy. Nowadays, after four years of implementation of structural reforms and fiscal consolidation, the adjustment of the Greek economy is impressive, regardless of the criteria used to assess it.

Regarding fiscal consolidation, the general government deficit declined from 15.6% in 2009 to 2.2% of GDP in 2013. In addition, for first time in the last decade, a primary surplus of 0.4% of GDP is achieved in 2013 compared to a primary deficit of 10.4% of GDP in 2009. This is the largest and fastest adjustment ever achieved by an OECD Member-State. The structural deficit declined from 14.8% of GDP in 2009 to 1% of GDP in 2012, while in 2013 a structural surplus of 1.2% of GDP is projected, the highest among EU Member-States. Accordingly, the cyclically adjusted primary surplus is expected to reach 6.4 % of GDP in 2013.

Regarding the external adjustment, the current account is expected to be in surplus in 2013 (0.9% of GDP) following a deficit of 11.2% of GDP in 2009. This is due to the gradual recovery of competitiveness (the unit labor cost is now at lower levels even compared to the year of the Euro accession), the drastic reduction of imports, and the gradual stimulation of export activity.

On the structural reforms front, Greece has implemented a number of measures that helped to bridge the competitiveness gap while fostering a favourable environment for investment. Reforms were implemented in almost all areas of economic activity, with most important those in labour market, pension system, healthcare, public and tax administration but also with legislative initiatives that will bear fruit in the medium term, such as the new investment law and tax codes, i.e., the Income Tax Code and Tax Procedures Code. It is noteworthy that the OECD ranks Greece over the last two years as the Member State with the greatest response to its growth-friendly recommendations, even more so when adjusting for the difficulty of undertaking these reforms. Similar is the

classification by the Berenberg and Lisbon Council, in accordance to the Adjustment Progress Indicator.
The financial sector was seriously impacted by the crisis and bank deposits shrank significantly. The balancing of the financial sector is currently in good standing. The Greek systemic banks are recapitalised, while smaller banks have been restructured or resolved. Deposits are returning to the Greek banking system, although part thereof is being used for the repayment of tax and other liabilities of households and businesses.
However, this remarkable adjustment has come at an extremely high socioeconomic cost. Since 2009, GDP has declined by approximately 25%. Such reduction has never been experienced by a developed country with the exception of the United States during the Great Depression. The unemployment rate shows signs of stabilisation although it had risen to unprecedented levels for a developed country. The second quarter of 2013 declined for the first time in four years, and currently is at 27%, while youth unemployment is around 57%. Approximately two thirds of the unemployed are jobless for more than a year. Additionally, according to EUROSTAT, 35% of the Greek population faces a real risk of poverty or social exclusion. This is partly due to the increased unemployment, but also due to the fact that the real disposable income of the population has shrunk by over a third since the beginning of the crisis. The problems are severe in the real economy too. In particular, real interest rates in Greece are very high which causes financing problems, even for healthy businesses. Liquidity problems undermine the recovery effort of the Greek economy via investment and exports and the switch of the production model of the Greek economy from the production of non-tradable goods and services to internationally tradable products and services.
Greece was asked to manage the debt crisis at a time when the Eurozone lacked mechanisms to tackle the crisis. The existence of such mechanisms called for a deeper integration at a European level, something that the Eurozone seeks at present. Also, with the benefit of hindsight, the Eurozone didn't diagnose timely the causes of the crisis in Greece and across the European South, particularly the widening deficits in the current account balances.
The Greek programme was launched when the Greek economy was already in recession. This caused additional difficulties since it is a well known fact that difficult structural adjustments are easier to implement during economic boom. Additionally, the simultaneous liquidity crisis combined with an unfavorable external environment – since similar stabilisation policies are implemented in other European countries / trade partners of Greece - render the implementation of the necessary fiscal adjustment even more painful.
The first Memorandum of Understanding between the Greek Government and the EC/ECB/IMF envisaged a very optimistic deficit reduction programme. More specifically, Greece was expected to achieve a primary surplus in less than three years (0.9% of GDP in 2012) starting from a general government balance of -13.6% of GDP in 2009 (revised later to -15.6%).
This fiscal adjustment was originally designed on the basis of a macroeconomic scenario assuming that the country would achieve positive growth rates in 2012 (1.1%). In reality, the GDP in 2012 contracted by 6.4%, and is projected to contract by a further -4.0% in 2013. This underestimation was partially due to the low fiscal multiplier used, as recognised by the IMF itself.
Moreover, a particularly tight timeframe for the implementation of significant reforms was envisaged. Indicatively, only a few months (7 months at most, from May 2010 to December 2010) were given to the Government in order

to, *inter alia,* overhaul the pension system, adopt legislation reforming public administration at the local level and reforming the wage bargaining system in the private sector, improve procurement systems of the health sector and open up the restricted professions. Due to the complex nature of these reforms, their spillover effects and the high importance of consultation with the various stakeholders, other countries normally require many years of preparation in order to assess the impact of such reforms in the economy and choose the best possible policy instruments.

The expectations for the debt dynamics were also optimistic while the initial interest rates on the loans from our Europeans partners were too high. Thus, the debt to GDP ratio was expected to peak in 2013 at 150%. At present, the ratio is expected to peak at 175% in the same year, even though a significant reduction on the nominal debt has been achieved in the meantime via the Private Sector Involvement (PSI) and the debt buy back.

Strong emphasis was given initially on raising taxes rather than reducing spending. However, the reforms of the tax administration, to support the fight against tax evasion and widen the tax base, and those in the public administration to cut red tape, should have started much earlier as, admittedly, both are of very high importance in the case of Greece.

Moreover, statements of various stakeholders regarding «Grexit» played a very negative role. These statements aggravated significantly the Greek crisis. As a consequence of such statements, large outflows of deposits and liquidity problems were recorded, while investments were discouraged resulting to a further deterioration of the growth rates of the Greek economy.

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