

## Greece: Moving towards the exit

Greece will rush to implement reforms and negotiate debt relief over the next few weeks, as it prepares for the Eurogroup's next meeting on 21 June, and the end of its third bailout programme in August



Source: Shutterstock

### Final rush of reforms to exit the rescue programme

Thursday's Eurogroup meeting shed some light on the staff-level agreement (SLA) that was reached between Greece and institutions in the fourth review of the third bailout programme. This will involve an additional package of reforms, which will be implemented in the coming weeks. As confirmed by the EU Commissioner Pierre Moscovici in the press conference, the aim is to form an agreement on the terms of Greece's rescue-plan exit when the Eurogroup next convenes on 21 June.

### Negotiations on debt relief to accelerate, trying to bring the IMF onboard

The rush to implement the last bout of actions will run in parallel with negotiations on debt relief, which will hopefully be implemented at the end of the programme. Mario Centeno, the head of the Eurogroup, announced that institutions have been mandated to produce a Debt Sustainability Analysis (DSA), which will help to fine-tune possible debt measures within the boundaries defined in June 2017. A new DSA, in principle, should help to set common ground and bridge the gap between the IMF and Berlin, which have been divided over debt relief. The G7 leaders' summit early

in June is seen as an opportunity to reach an agreement before the late June Eurogroup meeting.

## Obligations for Greece will extend beyond the end of the programme

The draft supplemental Memorandum of Understanding (sMoU), also published on Thursday by the EU Commission, shows unambiguously that the end of the third Greek rescue programme (at the end of August) will not mark the end of external constraints, even though Greece will not benefit from the relevant funding. The Greek government committed to meet at least another 20 post-programme obligations by 2022.

The reform agenda sketched in the sMoU builds on four pillars:

- the restoration of fiscal sustainability
- the safeguard of financial stability
- growth competitiveness and investment
- the creation of a modern state and public administration.

As far as fiscal sustainability is concerned, Greece confirms its commitment to deliver a primary surplus of 3.5% of GDP over the next five years. In order to meet this objective, a continuous effort will be made to improve tax compliance, fight tax evasion and manage public finances. This effort will be accompanied by measures meant to protect vulnerable groups. The aforementioned actions will be essential as the 2017 fiscal over-performance (a primary surplus of 4.2% of GDP) was also helped by the payment of tax arrears via the Voluntary Disclosure initiative and by underspending in investment, ie by non-recurring items. The list of fiscally-relevant measures includes a reduction of pensions (worth 1% of GDP) from 2019, the full abolition of the EKAS benefit for people on low pensions, progress on privatisations, the completion of the national cadaster by June 2021, and ceilings on civil servant employment and wages.

The principle inspiring future budget adjustments will be to introduce more growth-friendly policies while assuring fairer distribution and burden-sharing through compensating measures. Planned pension cuts will be offset by spending on specific welfare benefits, by high-quality infrastructure investment and by active labour market policies.

## A post-programme ECCL remains an attractive backstop

Greece continues to move towards the end of its bailout programme. No reference has been made to how “clean” the exit will be, but the additional set of measures that the Greek government committed to in the supplemental MoU make the “clean” option less valuable from a political point of view. The [Enhanced Conditions Credit Line \(ECCL\)](#), with its implicit access to ECB funding, remains in our view a valuable backstop solution for a country whose actual growth prospects are yet unknown.

## Author

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto:paolo.pizzoli@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.