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

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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.

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