BRIEFING

Ad-hoc exchange of views with the President of the Eurogroup and the Managing Director of the ESM on Greece

ECON on 10 November 2015

Eurogroup President Jeroen Dijsselbloem and Managing Director of the ESM Klaus Regling have been invited for an ad hoc Exchange of views relating to the macro-economic adjustment programme for Greece. Jeroen Dijsselbloem has been Eurogroup President since 21 January 2013. He was re-appointed for a second term on 13 July 2015. As the President of the Eurogroup, he is also chairing the Board of Governors of the European Stability Mechanism (ESM). Klaus Regling has been Managing Director of the ESM since its inauguration on 8 October 2012. His term of office lasts for 5 years and may be renewed only once. Note that the Eurogroup is to discuss the state of play regarding the implementation of Greece's economic adjustment programme at its meeting of 9 November 2015.

1. Latest economic developments

Following Greece's request for further financial assistance, the Commission eventually signed on 19 August 2015 (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[1]. A first disbursement of EUR 13 billion was made immediately on 20 August[2]. The disbursement of subsequent (sub-) tranches is subject to completion of additional prior actions (see Box 2).

On 19 August, the Greek Prime Minister 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. He eventually became the only PM that succeeded to be re-elected since the start of the crisis. PM Tsipras (Syriza) has renewed his party’s coalition with the nationalist Independent Greeks (Anel), the junior partner in his previous government.

Box 1: 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.

According to the Autumn 2015 Commission forecast of 5 November 2015, **the Greek economy is expected to contract both in 2015 and 2016 before returning to growth in 2017**. In fact, after posting a moderate growth of 0.7 % in 2014[3], Greece's real GDP is now projected to drop by 1.4 %

[1] 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.
[2] See also EGOV notes: Financial assistance to EU Member States and A set of indicators for Greece, Cyprus, Portugal and Ireland.
[3] Note that between 2007 and 2014, the size of the Greek economy shrank by more than 25 %.

Authors: M. Hradiský, J. Angerer, M. Ciucci, A. Zoppé, B. Mesnard and J. Vega Bordell.

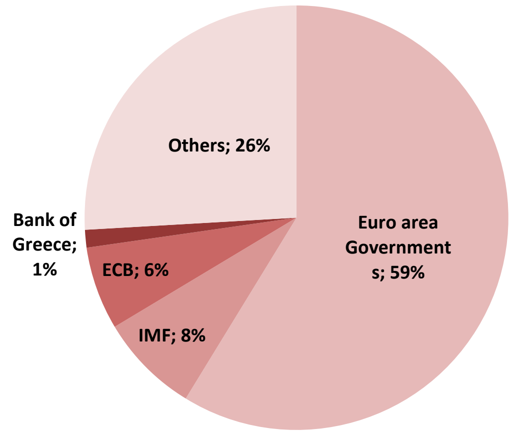
in 2015 reflecting negative impact of capital controls[4] and a contraction in both private and public consumption as well as investment. The combined negative effect of these factors is projected to more than outweigh a positive contribution to GDP growth of net exports (as the tourism sector faired exceptionally well for a second consecutive year, while imports dropped markedly). For 2016, the Commission estimates that the Greek economy will further shrink by 1.3 % as negative carryover effects from 2015 are to weigh on output dynamics. However, a progressive rebound in confidence, along the stabilisation of the banking sector and implementation of structural reforms, are expected to help the Greek economy to return to growth in 2017 (+2.7 %).

Inflation, as measured by Headline Harmonised Index of Consumer Prices (HICP), is expected to remain negative in 2015 for a third year in a row (-1.0 %) as the impact of VAT increases (implemented in summer 2015) is to be more than offset by the effect of weak demand and lower energy prices. For 2016 and 2017, the Commission projects HICP inflation to stand at 1.0 % and 0.9 %, respectively, as Greece's economy progressively gathers momentum.

Current account is projected to turn into surplus in 2015 reflecting predominantly a contraction in imports. Moreover, the Commission foresees further improvements in Greece's current account in 2016 and 2017 as *"past and ongoing structural reforms create new opportunities"*.

Unemployment is expected to remain at very high levels, over 25%, in both 2015 and 2016 before resuming its downward trend in 2017 in line with output developments**.** After peaking at 27.9 % in September 2013, the unemployment rate stood at 25.0 % in July 2015[5]. The youth unemployment rate declined from a record high of 60.5 % in February 2013 to 48.6 % in July 2015.

Figure 1: Greece's outstanding debt by holder as of 30 June 2015



Source: EGOV calculations based on EC, IMF, ECB and PDMA (Greece's Public Debt Management Agency).

General government deficit is expected to widen to 4.6 % of GDP in 2015, reflecting negative impact of uncertainty and economic downturn on public finances. However, it is projected to gradually decline over the forecast horizon to - 2.2 % of GDP in 2017 as the fiscal measures agreed under the third adjustment programme yield savings, bringing the primary balance back into surplus. The Commission expects **general government gross debt to peak at 199.7% of GDP in 2016**[6] before slightly edging down to 195.6 % of GDP in 2017. The distribution of the outstanding debt across different categories of bondholders as of end June 2015 (EUR 312.8 billion[7]) is depicted in Figure 1 above.

[4] On 29 June 2015, the Greek Government imposed **capital controls** to avert a collapse of its banking system. While it is still unclear for how long these controls will remain in place, they were somewhat eased in mid-August 2015.
[5] According to the latest available data from Eurostat as of 5 November 2015.
[6] This compares with 201% of GDP assumed for 2016 in the European institutions Debt Sustainability Analysis (DSA) of July 2015.
[7] According to a Reuters article of 8 October 2015, *"two thirds of Greek debt is now held by euro-zone governments that extended loans to Athens with an average maturity of 31-32 years and an interest rate of around 1 percent"*.

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

The Memorandum of Understanding (MoU) specifies the conditionality attached to the financial assistance programme amounting to up to EUR 86 billion for the period 2015-18 (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 Commission's Structural Reform Support Service to demonstrate its commitment.

The Greek authorities have made a commitment to achieve a primary surplus, i.e. revenues less expenses without interest rate 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 1: 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 is 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, whereby all banks are required to submit quarterly funding plans to the Bank of Greece (BoG). A buffer of up to EUR 25 billion is to be set aside to address potential recapitalisation needs and resolution of banks, to be compared with the capital shortfalls of EUR 14.4 billion in the SSM's adverse scenario of 02 November 2015 (see Section 4 below).

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 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 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 is to be defined by December 2015 (in agreement with the Commission) 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).

Box 2: Implementation of prior actions - State of play

Some of the MoU measures referred to above, the so-called prior actions, have already been implemented (see the Commission'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). On 16 October, 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, while another **49%** will be required to unlock the **EUR 2 billion loan tranche** and in particular: changes to the payment plan for tax and social security debtors, rules on home foreclosures, minimum prices for generic drugs, and equivalent fiscal measures to replace the dismissed 23% VAT on private education (Ekathimerini). On 6 November 2015, the Greek Parliament approved a bill which improves on previous legislation for the calculation of pensions, forces Greece to comply with EU energy efficiency rules, lifts obstacles for the sale of Greece's largest port and scraps tax breaks for farmers (Reuters). The next prior action to be approved before mid-November is legislation on banks' bad loans.

Box 3: Social impact assessment of the third financial assistance programme to Greece

On the request of President Jean-Claude Juncker, in line with his Political Guidelines for the next European Commission of 15 July 2014, the Commission services prepared an assessment of the social impact of the new three-year ESM stability support programme for Greece. This report, published on 19 August 2015, explores 1) the employment and social considerations of the main reforms (pension, VAT and income tax reforms) and 2) effectiveness of the social protection system.

As such, the report details the composition of the adjustment effort over the programme period but does not quantify the combined impact of different reforms on households across the income spectrum (although it presents estimates of average tax reduction for selected product categories). It is predominantly of exploratory nature and concludes that:

"*Taking all measures together, it is reasonable to conclude that if implemented fully and timely, the measures envisaged under the new ESM stability support programme will bring Greece back to stability and growth, in a financially and socially sustainable way. In so doing, the burden of adjustment is distributed as equitably and as fairly as possible across society, and adequately takes account of the most pressing social needs and challenges in Greece.*"

[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.

3. Debt sustainability: Assessment and proposals

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 Commission 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.

Box 3: Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) helps to assess country's capacity to finance its policy objectives and to service its debt without unduly large adjustments, which could otherwise compromise its stability. In 2002 the IMF established the reference framework for DSA.

The framework is constituted of a baseline scenario and a set of alternative scenarios, built under different assumptions regarding policy variables, macroeconomic developments and financing costs: this is why debt projections may differ across time and institutions.

Two indicators are typically used within this framework:

- The ratio between the total general government debt and its GDP ("**debt-to-GDP** ratio");
- The ratio between the debt payment obligations (interests plus amortisation payments) and its GDP (**gross financing needs-to-GDP, "GFN-to-GDP")**.

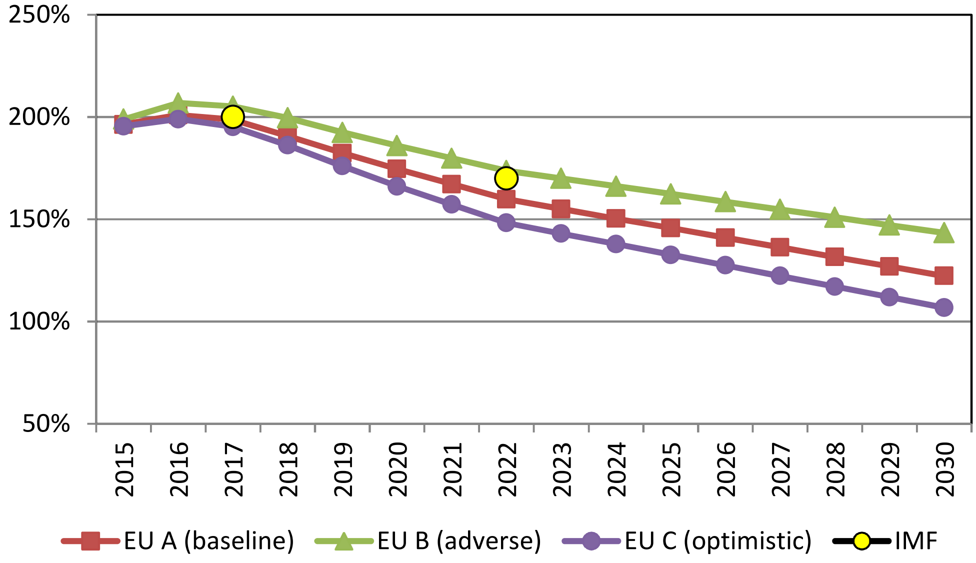
While the two indicators are interrelated, the GFN-to-GDP better captures the country's short- and medium-term debt sustainability, as it takes into account the debt structure (i.e. maturity, interest rates and interest deferrals). It allows seeing, for instance, whether financing needs are low: in such a case, they would imply low debt rollover, thereby reducing financial stability risks.

In practice, it is difficult to establish numerical thresholds for debt sustainability. As to 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). Regarding GFN-to-GDP indicator, the IMF guidelines (p. 32) indicates that the ratio would need to remain below 15-20 % to ensure debt sustainability.

Figure 2 shows the Greek debt-to-GDP projections under alternative scenarios envisaged in the DSA prepared by the European institutions and the IMF.

In the latest DSA of 13 August 2015 (which updated the DSA of 10 July 2015) the **European institutions** 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 less optimistic 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 remain well above 110 % in 2022 – a level that the Commission 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 Commission 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 Commission made the estimate for GNF only under the adverse scenario B.

Figure 2: Greece's debt-to GDP ratio projections (Debt Sustainability Analysis)



Sources: EU institutions (COM, ECB and ESM) and IMF.

In July 2015, the **IMF updated** its detailed preliminary debt sustainability analysis of 26 June 2015 (see also a transcript of a press briefing of 3 September 2015): Greece's public debt was projected to peak at 200 % of GDP in 2017, before declining to about 170 % of GDP in 2022. GFN-to-GDP is already now above the 15 % threshold that is deemed safe, and continues to rise in the long term.

The **Eurogroup,** according to its statement on the ESM Programme of 14 August 2015:

- Stands ready to consider, if necessary, possible additional measures (possible longer grace and repayment periods) aiming at ensuring that Greece's gross financing needs remain at a sustainable level. These measures will be conditional upon full implementation of the measures agreed in the ESM programme and will be considered after the first positive completion of a programme review;
- Reiterates that nominal haircuts on official debt cannot be undertaken;
- Considers the continued programme involvement of the IMF as indispensable and welcomes the intention of the IMF management to recommend to the Fund's Executive Board to consider further financial support for Greece once the full specification of fiscal, structural and financial sector reforms has been completed, and once the need for additional measures has been considered and an agreement on possible debt relief to ensure debt sustainability has been reached. Resulting policy conditionality will be a shared one as the policy conditionality underlying the ESM macroeconomic adjustment programme is developed in parallel to the one of the IMF. Once approved, the full re-engagement of the IMF is expected to reduce the ESM financing envelope accordingly;
- Welcomes the positive assessment of IMF staff of the policy conditionality contained in the MoU as confirmed by the IMF Managing Director and looks forward to an IMF programme based on the latter.

Christine Lagarde, the IMF's managing director, told Swiss newspaper *Le Temps* in an interview in August 2015 regarding Greece's debt restructuring that: "*We are talking about extending maturities, reducing rates, [making] exemptions for a certain period of time. We are not speaking about cancelling debt*."

Alexis Tsipras, the Greek Prime Minister, mentioned during the presentation the budget to Parliament on 7 October that Greece will "*propose an extension of the loan maturities and a reduction of interest rates*" on the official loans, as well as a growth clause (linking interest payments to economic expansion) and a longer grace period on interest payments.

Jeroen Dijsselbloem, the President of the Eurogropu, commented in an interview with Reuters of 8 October 2015 on the IMF statement that, while capping annual debt servicing costs at 15 percent of GDP was a standard that worked for most economies, Greece might need more generous terms with annual costs limited to 10 percent of GDP. "*My understanding was that the IMF always works on the 15 percent standard, but if they say that this is too high for Greece, then this is one of the issues we will have to discuss with them*".

4. Banking sector and financial stability: recent developments

The banks' financial positions have deteriorated steadily in 2015

In 2014, the four largest Greek banks completed major achievements towards re-establishing profitability: after successfully raising significant amount of capital from private investors (EUR 8.3 billion), they continued to restructure their businesses and improved their interest margins while the deterioration in asset quality stabilised in the last quarter of the year. A robust increase in deposits, coupled with a renewed access to capital markets (all four banks issued bonds in the first half of 2014), enabled banks to repay the costly emergency liquidity assistance (ELA) provided by the Bank of Greece since the large deposit outflows of 2012. As a result, and on the basis of the restructuring plans approved by the Commission in 2014, the comprehensive assessment carried out by the ECB did not unveil additional capital needs. At the end of 2014, the four banks were thereby able to report comfortable Common Equity Tier 1 capital ratios (from 12.4 % to 15.20 %).

The financial positions of the Greek banks have deteriorated steadily since the announcement of new elections in mid-December 2014. Significant and continuous deposit outflows strongly weakened their liquidity positions: from mid-December 2014 to end-June 2015, more than 25% of total deposits were withdrawn. Since Greek banks (and Greece itself) had lost access to money markets, they had to rely on central bank refinancing. In February 2015, the ECB lifted the waiver granted to Greek government bonds, which then became ineligible for regular refinancing operations. In the meantime, it allowed Greek banks to rely on ELA, and successively increased the ceiling in order to accommodate the rising needs of the Greek banking system. But the deteriorated economic environment and the political uncertainty had a detrimental impact on the quality of loans portfolio, with **a new acceleration in non-performing loans**. The impact of ELA on the funding costs, as well as the worsening asset quality, casted doubts as to the resilience of Greek banks.

Box 5: 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 bear a 0% risk-weight, in line with the EU regulatory framework.

Table 2: 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 30/06/2016*		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%	8,6%	9,0%	5,2%	**7,3%**
	in the adverse scenario	*8,00%*	-0,2%	1,3%	2,1%	-2,4%	**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.

In 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 under way

On 31 October 2015 the ECB unveiled the results of the 2015 comprehensive assessment. The 4 main Greek banks report capital shortfalls of EUR 4.4 billion in the baseline scenario and 14.4 billion in the adverse scenario. The outcome is better than initially expected, since an envelope of EUR 25 billion had been reserved for that purpose in the third economic adjustment programme. It also means that the four Greek banks will probably avoid resolution, provided they manage to raise from private investors the amount of capital needed in the baseline scenario (EUR 4.4 billion).

The capital raising exercise will also signal whether investors are willing to invest again in the Greek banking sector, as most of the money injected in 2014 has been lost. The Greek Parliament approved the new recapitalisation law on Saturday 31 October. Banks are requested to raise private capital through share capital increase, bond swaps or asset sales. If they don't manage to raise the full amount of capital needed from private sources, then capital instruments, subordinated debt and senior debt will be mandatorily converted into common shares, in line with the Eurogroup statement of 14 August 2015. Insured and uninsured depositors will not be bailed-in. If such conversion is not sufficient to restore the capital position of the banks up to the level requested by the ECB, then the HFSF may provide capital support in the form of common shares and contingent convertible instruments (for 25% and 75% of the amount requested, respectively).

The governance of Greek banks and the shareholding owned by the Hellenic Financial Stability Fund (HFSF) will be impacted deeply. As of 31 December 2014 the HFSF owned 67 % of Piraeus Bank, 66 % of Alpha Bank, 57 % of National Bank of Greece and 35 % of Eurobank. As of 4 November 2015, the market value of the HFSF shareholding in those banks was less than EUR 3 billion, that is to say that **the HFSF has already lost most of the capital injected in those banks in 2012 and 2013** (net injection of EUR 25 billion[9]).

If all the banks manage to raise at least 50% of the capital needs from private shareholders, through conversion of debt instruments or share capital increases, then the HFSF will hold less than 45% of each bank at the end of 2015 while private investors will become majority shareholders. However, the new shares subscribed by the HFSF will not have restricted voting rights, contrary to the shares acquired by the HFSF in the 2013 recapitalisation. Therefore the HFSF will play a more active role, notably in the assessment of the banks' managements.

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 36% of total loans at the end of June 2015[10] (see Table 3 below), with total non-performing exposures close to 50% of the loan portfolio[11]. The Eurogroup statement of 14 August 2015 urged "*the authorities to take all necessary steps (...) including opening the market for NPL servicing (...) and exploring the possibility of a bad*

[9] This on top of losses related to the liquidation of smaller banks, amounting to about EUR 10.7 billion as of 31 March 2015.
[10] Source: investor presentations published by the 4 largest Greek banks following the comprehensive assessment.
[11] Non-performing exposures include impaired loans of less than 90 days past-due, forborne loans meeting conditions set by EBA, and other exposures which are not past-due but whose debtor has other exposures in arrears of more than 90 days past-due.

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, beyond an assessment by the Bank of Greece of the banks' capacity to deal with each NPL segment.

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 amounts to about EUR 27 billion, to be compared to the total amount of equity as of 30 June 2015 post asset quality review, which stands at EUR 16.6 billion.

Finally, the liquidity position of Greek banks remains very fragile, with a strong reliance on ELA. Central bank refinancing amounts to EUR 120 billion for the four largest banks at the end of September 2015, that is to say about 35% of their total assets.

Table 3: Selected banking indicators for Greece

End of period	*Dec-09*	*Dec-10*	*Dec-11*	*Dec-12*	*Dec-13*	*Dec-14*	*Jun-15*	*Sep-15*
Domestic residents deposits (in EUR million)	245.470	222.874	182.790	173.347	177.018	173.220	130.502	130.542
Market Capitalisation 4 largest banks (in EUR million)	24.108	12.038	2.324	2.389	26.905	19.473	12.910	3.526
NPL ratio in Greece (%)	7%	9%	14%	23%	32%	34%	*36%*	*n.a.*

Sources: The Bank of Greece, Bankscope, Yahoo Finance and the World Bank.

DISCLAIMER: This document is drafted by the Economic Governance Support Unit (EGOV) of the European Parliament based on publicly available information and is provided for information purposes only. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the publisher is given prior notice and sent a copy. © European Union, 2015

Annex: Greece's key economic indicators

	2011	2012	2013	2014	2015 (f)	2016 (f)	2017 (f)
GDP Growth (%)							
Greece	-9.1	-7.3	-3.2	0.7	**-1.4**	**-1.3**	**2.7**
Euro area	1.6	-0.9	-0.3	0.9	**1.6**	**1.8**	**1.9**
Government balance (% of GDP)							
Greece	-10.2	-8.8	-12.4	-3.6	**-4.6**	**-3.6**	**-2.2**
Euro area	-4.2	-3.7	-3.0	-2.6	**-2.0**	**-1.8**	**-1.5**
Structural balance (% of GDP)							
Greece	-6.3	-0.6	2.2	0.4	**-1.4**	**-2.3**	n.a.
Euro area	-3.5	-2.0	-1.1	-0.8	**-0.9**	**-1.1**	n.a.
Government debt (% of GDP)							
Greece	172.0	159.4	177.0	178.6	**194.8**	**199.7**	**195.6**
Euro area	86.7	91.3	93.4	94.5	**94.0**	**92.9**	**91.3**
Inflation (%)							
Greece	3.1	1.0	-0.9	-1.4	**-1.0**	**1.0**	**0.9**
Euro area	2.7	2.5	1.3	0.4	**0.1**	**1.0**	**1.6**
Unemployment (% of labour force)							
Greece	17.9	24.5	27.5	26.5	**25.7**	**25.8**	**24.4**
Euro area	10.1	11.4	12.0	11.6	**11.0**	**10.6**	**10.3**
Youth Unemployment* (% of labour force)							
Greece	44.7	55.3	58.3	52.4	n.a.	n.a.	n.a.
Euro area	21.3	23.6	24.4	23.7	n.a.	n.a.	n.a.
Current account balance (% of GDP)							
Greece	-10.4	-4.3	-2.1	-2.9	**-1.0**	**-0.3**	**0.1**
Euro area	0.6	1.9	2.5	3.0	**3.7**	**3.6**	**3.4**
Exports (% change)							
Greece	0.0	1.2	2.2	7.5	**0.1**	**1.2**	**4.1**
Euro area	6.5	2.6	2.1	4.1	**5.2**	**4.3**	**5.0**
Imports (% change)							
Greece	-9.4	-9.1	-1.9	7.7	**-4.0**	**0.0**	**3.7**
Euro area	4.3	-1.0	1.3	4.5	**5.4**	**4.8**	**5.7**
Domestic demand (% change)							
Greece	-11.1	-9.9	-4.2	0.9	**-2.7**	**-1.6**	**2.5**
Euro area	0.7	-2.4	-0.7	0.9	**1.5**	**1.9**	**2.0**
Investments (% change)							
Greece	-20.5	-23.5	-9.4	-2.8	**-10.2**	**-2.0**	**14.7**
Euro area	1.6	-3.3	-2.6	1.3	**2.3**	**3.0**	**4.4**
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	30.5	30.3	30.6	31.0	n.a.	n.a.	n.a.
Labour Productivity* (% change)							
Greece	-2.4	-1.1	0.4	0.5	**-1.8**	**-0.7**	**0.7**
Euro area	1.5	-0.2	0.5	0.3	**0.7**	**0.9**	**0.9**
Unit Labour Cost* (% change)							
Greece	-1.4	-2.0	-7.4	-2.6	**-0.2**	**0.8**	**0.1**
Euro area	0.6	1.9	1.1	1.1	**0.7**	**0.7**	**1.1**

Sources: European Commission (2015 Autumn forecast; Eurostat for data marked with * and AMECO for the Structural Balance). Euro area data correspond to EA19, except for the People at risk of poverty indicator where only EU18 aggregate is available. Data as of 5 November. 2015.