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ECONOMIC DIALOGUE

Exchange of views on the Economic and Social Crisis in Greece

Brussels, 27 March 2012

BACKGROUND NOTE

MARCH 2012

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1. INSTITUTIONAL SET UP AND POLITICAL SCENE

Greece's unicameral parliament has 300 members, elected for a four-year term by a system of reinforced proportional representation. Previous Prime Minister George Papandreou, who led the Pasok government from October 2009, gave way to an interim unity government in November 2011 in order to secure broader support for the difficult measures and decisions Greece has been facing. The interim government comprises the two major parties, the Socialist Pasok and the conservative New Democracy (ND) and is headed by Lucas Papademos, a non-political, former governor of the Greek Central Bank. The unity government has 12 Pasok, 3 ND and 4 independent ministers. Originally, the next legislative elections were scheduled for 2013; however, it is likely that they will be brought forward to 29 April or to 6 May.

2. FINANCIAL ASSISTANCE AND PROGRAMMES SINCE 2010

2.1. The pre-crisis report

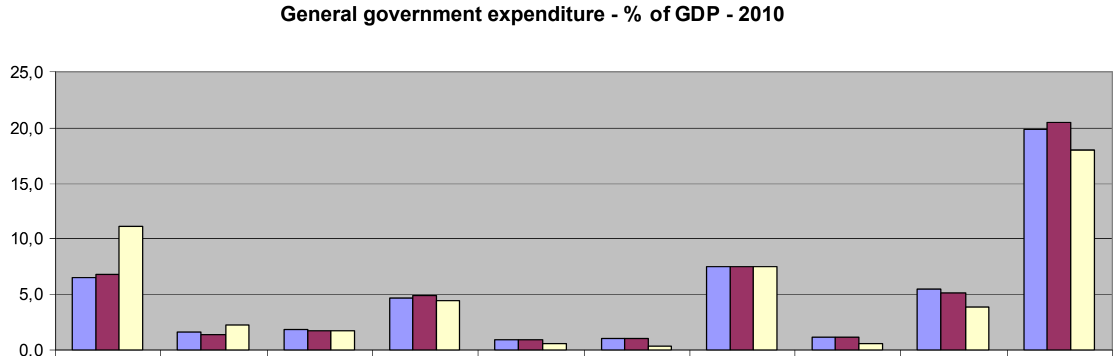
Throughout 1998-2008, Greece's growth performance was based on consumption and residential investment booms, accompanied by high real wage increases and rapid credit growth (see the Macroeconomic Imbalance scoreboard, Annex I); low real interest rates associated with euro adoption and financial market liberalisation fed the boom.

The 2008-2009 global crisis exposed the vulnerabilities, including:

- Unsustainable fiscal policies, partly hidden by fraudulent and manipulated statistics and unreliable forecast;
- Rigid labour and product markets, which led to loss of competitiveness and rising external debt;
- A weak banking sector.

Table 1: GDP, Government debt and deficit 2001-2011

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP - € billion (current prices)	146.428	156.615	172.431	185.813	195.366	211.314	222.771	232.920	231.642	227.318	215.088
GDP - real growth percentage	**4,2**	**3,4**	**5,9**	**4,4**	**2,3**	**5,5**	**3,0**	**-0,2**	**-3,2**	**-3,5**	**-6,9**
Government debt € million	151.869	159.214	168.025	183.157	195.421	224.204	239.300	263.131	299.537	329.351	355.540
Government debt - % GDP	**103,7**	**101,7**	**97,4**	**98,6**	**100,0**	**106,1**	**107,4**	**113,0**	**129,3**	**144,9**	**165,3**
Government deficit - % GDP	-4,5	-4,8	-5,6	-7,5	-5,2	-5,7	-6,5	-9,8	-15,8	-10,6	-9,3
GDP - € per inhabitant	**13.400**	**14.300**	**15.600**	**16.700**	**17.400**	**18.700**	**19.900**	**20.700**	**20.500**	**20.100**	**19.000**
GDP - PP Standards per inhabitant	17.100	18.500	19.200	20.300	20.400	21.800	22.500	23.100	22.100	21.900	20.704



	General public services	Defence	Public order and safety	Economic affairs	Environment protection	Housing and community amenities	Health	Recreation, culture and religion	Education	Social protection
EU-27	6,5	1,6	1,9	4,7	0,9	1,0	7,5	1,2	5,5	19,9
Euro area	6,8	1,4	1,8	4,9	0,9	1,0	7,5	1,2	5,1	20,5
Greece	11,1	2,2	1,7	4,4	0,6	0,4	7,5	0,6	3,8	18,0

The extent of the deterioration in the fiscal position was revealed late due to grave deficiencies in Greece's accounting and statistical systems, which delayed the implementation of corrective measures.

As concerns about Greek fiscal sustainability arose and global risk aversion heightened, market sentiment vis-à-vis Greece worsened sharply in early 2010: spreads reached 1552 basis point, with a still under-estimated debt of €271bn (115% of GDP)[1].

2.2. The first programme

In **April 2010**, Greece asked for euro-area and IMF financial assistance, as it was confronted with sizeable financing needs and was not able to access international capital markets.

On **2 May 2010** Greece, the Commission, the ECB and IMF announced an agreement on a three-year programme of economic and financial policies supported by financial assistance for €110 bn.

The financial assistance package relied on strict conditionality, with objectives and design agreed by representatives of the Troika and the Greek authorities (see par. 5).

The programme was aimed at durably restoring Greece's credibility for private investors by securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness.

The Eurogroup unanimously agreed to activate €80 bn to support to Greece via bilateral loans centrally pooled by the European Commission; 30 bn were earmarked by the IMF via a stand-by arrangement. By December 2011, 73 bn were disbursed (52.9 by EU MSs and 20.1 by IMF).

[1] On 8 April 2010 the 2-year bond spreads reached 652 basis points; 10-years bond spreads reached 430 bp; on 27 April, the 2-year bond spreads reached 1552 basis points; 10-years bond spreads reached 755 bp.

Table 2: Overview of disbursements, EUR billion (as of December 2011)

Disbursements	Euro-area	IMF	Total
May 2010	14.5	5.5	20.0
Sept 2010	6.5	2.6	9.1
Dec 10 / Jan 11	6.5	2.5	9.0
March 2011	10.9	4.1	15.0
July 2011	8.7	3.2	11.9
December 2011	5.8	2.2	8.0
Total	**52.9**	**20.1**	**73.0**

Table 3: Contributions by the euro-area Member States to disbursements to Greece under the first financing programme (EUR million)

	BE	DE	IE	ES	FR	IT	CY	LU
May 2010	0.0	4,427.9	0.0	1,941.6	3,325.2	2,921.9	32.0	40.8
September 2010	758.8	1,495.9	347.4	656.0	1,123.4	987.2	10.8	13.8
January 2011	238.8	1,864.4	--	817.5	1,400.1	1,230.3	13.5	17.2
March 2011	530.0	611.8	--	1,814.4	3,107.4	2,730.5	29.9	38.2
July 2011	195.3	5,050.5	--	668.5	1,144.8	1,006.0	11.0	14.1
December 2011	219.6	1,714.8	--	751.9	1,287.7	1,131.6	12.4	15.8
Total	**1,942.5**	**15,165.3**	**347.4**	**6,650.0**	**11,388.6**	**10,007.5**	**109.6**	**139.9**

	MT	NL	AT	PT	SI	SK	FI	Total
May 2010	14.8	932.5	454.0	409.3	0.0	--	0.0	14,500
September 2010	5.0	315.0	153.4	138.3	102.9	--	392.2	6,500
January 2011	6.2	392.6	191.2	172.3	32.4	--	123.4	6,500
March 2011	13.8	871.4	424.3	382.5	71.8	--	274.0	10,900
July 2011	5.1	321.1	156.3	--	26.5	--	100.9	8,700
December 2011	5.7	361.1	175.8	--	9.9	--	113.5	5,800
Total	**50.6**	**3,193.8**	**1,554.9**	**1,102.3**	**243.5**	**--**	**1,004.1**	**52,900**

Source: Commission services.

Table 4: Interest rates and payments charged to Greece by the euro area Member States

Date	Interest rate	Interest paid - € billion	Interest to be reimbursed to Greece (2nd amendment of facility agreement)
15 June 2010	3.423%	0.039	-
15 September 2010	3.719%	0.138	-
15 December 2010	3.879%	0.207	-
15 March 2011	4.026%	0.250	-
15 June 2011	4.173%/2.673%**	0.408	0.147
15 September 2011	4.494%/2.994%**	0.506	0.170
15 December 2011	4.528%/ 3.028%**	0.539	0.179
15 March 2012*	4.426%/2.926%**	0.527	0.179

* Calculated to be paid.
** Reduction of margin to 150 basis points flat. This reduction will be retroactively applied from 2012 onwards.

2.3. The second programme

In summer 2011, it was clear that the situation had further deteriorated and that a new programme was necessary: recession was much deeper than expected, with negative growth of -6.9% of GDP, against the expected -3.5%. This deeply affected the ratio debt/GDP, and was essentially due to some failures in the design and implementation of the first programme.

A **second financial assistance** for Greece was agreed in principle after the euro area summit of 21 July 2011, for an amount of €109 bn (1/3 provided by the IMF, 2/3 by the EFSF). On 21 February 2012, the Eurogroup agreed on a second financial assistance programme, and increased it to €**130 bn**, of which 102bn by EFSF and 28bn by IMF (to be disbursed over 4 years by an Extended Arrangement under the Extended Fund Facility) **subject to:**

- The adoption of legislation by Greek Parliament on further fiscal adjustment efforts of €3.2 billion (about 1.2% GDP) in 2012, on revenue administration, pension reform, financial sector regulation and supervision and structural reforms;
- Written commitments by Greek political party leaders to the conditionality objectives, extending to the post-election period and covering the entire life of the new programme;
- Introduction of the concept of absolute priority of debt service payments in legal framework;
- Successful outcome of the "Private Sector Involvement" (PSI) initiative: private investors would forgive 53.5% of the nominal value of their credits and exchange the remaining debt into new Greek bonds and notes from the EFSF, with maturity between 11 and 30 years: this would reduce the Greek debt of €100-110 billions.

In March 2012, these conditions were fulfilled and the Greek government undersigned a letter of intent, with a "Memorandum of Economic and Financial Policies" and a "Memorandum of Understanding on Economic Policy Conditionality". The Council took a decision which would allow the disbursement of financial assistance, with the first tranche to be paid in March 2012.

In addition, euro-area Member States agreed to lowering the interest rate on the first bilateral loans to 150 bps over the length of the loan (also retroactively) and return of future interests gained on Greek bonds to Greece. The EFSF will contribute to the funding of the second Greek programme for a total amount of up to €109.1 billion, including PSI debt exchange, bank recapitalisation, Eurosystem Collateral enhancement and accrued interest.

The agreed policies aim to address Greece's competitiveness gap, support growth and employment, restore public finance to sustainability, secure financial system stability and distribute the cost of adjustment in an equitable way. The main elements of the programme are the following:

- Direct measures to improve Greek **competitiveness** through internal devaluation, by reducing the minimum wage, and lowering non-wage labour costs. Measures to liberalize services will also help improve competitiveness.
- Gradual **fiscal adjustment** built on structural expenditure reforms and improvements in tax collection. They will tackle social transfers (among other measures), but strengthen the core social safety net to protect the most vulnerable.
- Measures to restore **financial sector stability**. Significant resources—€50 billion—are set aside in the program to help banks cope with the impact of the recession and of restructuring of government debt. The framework for bank resolution and recapitalization and for financial sector oversight will also be strengthened.
- Implement the ambitious **privatisation plan** (estimated to €50 billions by 2020): transferring assets in key sector of the economy to more productive uses through privatisation and concession will encourage private investment and support long-term growth.

It is expected to reduce Greece's public debt to 120.5% of GDP by 2020. The Council's decision maintains the 2014 deadline set for bringing Greece's government deficit below the EU's reference value of 3% of GDP. More specifically, the decision calls for a primary deficit (i.e. excluding interest expenditure) not exceeding 1% of GDP in 2012 and primary surpluses of at least 1.8% of GDP in 2013 and 4.5% of GDP in 2014. Following the debt exchange, these targets are consistent with overall deficit targets of 7.3% of GDP in 2012, 4.7% of GDP in 2013 and 2.2% of GDP in 2014.

Table 5: Owners of Greek debt

	2010	2011	2012*	2013*	2014*	2015*	2016*
Total debt	328.6	355.8	332.4	339.4	334.1	331.1	327.3
Official creditors	31.5	73.7	193.0	215.0	229.1	227.1	225.5
- IMF	10.4	20.7	27.2	32.1	31.3	29.3	27.7
- Euro Area MS	21.1	53.1	165.7	182.9	197.8	197.8	197.8
Private sector	297.0	282.0	139.4	124.4	105.0	95.0	89.6
Unidentified official financing/market access	…	…	0.0	0.0	0.0	8.9	12.1
Total debt as % of GDP	144.5	165.3	163.2	167.3	160.7	153.1	145.3
Official creditors	13.9	34.3	94.7	106.0	110.2	105.0	100.2
- IMF	4.6	9.6	13.4	15.8	15.1	13.5	12.3
- Euro Area MS	9.3	24.7	81.4	90.2	95.1	91.5	87.8
Private sector	130.7	131.0	68.4	61.3	50.5	43.9	39.8
Unidentified official financing/market access	…	…	0.0	0.0	0.0	4.1	5.4

* IMF Projections

The programme is based on rigorous conditionality which is strengthened by reinforced monitoring and permanent presence of the Commission's task force (see par. 6) in Athens. On 19 March 2012, the EFSF and IMF disbursed €5.9 bn and 1.6 respectively. The following disbursements under the second programme will be monthly, at least in 2012.

3. THE OUTLOOK

3.1. Context

On the basis of the Commission's indicators, confidence in several sectors of Greece including industry, services and construction are improving. The overall confidence (Economic Sentiment Indicator is at 74.9%, against the average over time of 100)[2] has not changed compared to January 2012.

Media analysts and opinionists generally agree that despite the successful "PSI operation" and the deal on the second financial assistance program, elements of **uncertainty remain** in both economic and political terms.

Even if the rescue plan does achieve its target to bring the **debt down to 120.5** percent of GDP by 2020 from about 160 percent now, **many analysts consider it still too high and unsustainable**. With such a prospect, it might not be easy to attract new private capital needed for investment, growth, competitiveness and jobs.

With regard to the political aspect, the **upcoming elections** which could take place on 29 April or 6 May, will **add yet another element of complexity** to the situation of Greece. Conservative leader Antonis Samaras, who is ahead in polls, has said that he would abide by the plan but he indicated that he might seek to renegotiate some parts of the rescue package.

3.2. Sustainability of the debt

Among opinions by experts from academia and markets, B. May[3] at Capital Economics and M. El Erian[4] Chief executive of Pimco, the world's largest investor think that there will have to be **some form of restructuring in the future**, which is likely to involve the official creditors. El-Erian talks about a "PSI 2", which according to him, would be a tricky affair because Greece agreed to shift the legal jurisdiction governing most of its outstanding bonds from Greek to UK law. By doing so the country has given up significant flexibility and a wide range of options.

Similarly, the economist N. Roubini[5] argues that Greece's public debt will be unsustainable at close to 140% of GDP and any **future further haircuts will fall disproportionally on the growing claims of the official sector.** A haircut of €110 bn on privately held bonds comes with an increase of €130 bn in the debt Greece owes to official creditors. A large part of this goes to bail out private creditors. In addition, loans of at least €25 bn from the EFSF to the Greek government will be devoted to recapitalizing banks in a way that will keep those banks in private hands and allow shareholders to buy back any public capital injection with low price warrants.

[2] http://ec.europa.eu/economy_finance/db_indicators/surveys/index_en.htm

[3] http://uk.reuters.com/article/2012/03/11/uk-greece-idUKBRE8270FF20120311

[4] http://blogs.ft.com/the-a-list/2012/03/13/the-greek-debt-drama-has-merely-been-paused-for-an-interval/#axzz1plHdaSEH

[5] http://www.ft.com/intl/cms/s/0/f0f0708e-679d-11e1-b6a1-00144feabdc0.html#axzz1pehBlwuZ

According to the Kiel Institute for the World Economy[6], even under the most optimistic assumptions of growth and interest rates, the **primary surplus**, which ensures the sustainability of the Greek debt, **should be at least 8.5%,** a target that is difficult to achieve given the current circumstances.[7]

3.3. Proposed ways out of the crisis

In order to put Greece's economy back on its feet, the Director of the Centre for European Policy Studies (CEPS) D. Gros[8] thinks that the **issues of continuing excessive private expenditure and deposit flight need to be tackled** urgently.

The Troika's approach is that Greek **over-consumption** will end once the government restricts expenditure and increases taxes. However, according to the Director of CEPS, the Greek population can keep consuming above its means even if it has to pay higher taxes by simply withdrawing funds from savings account or by taking new loans. Greek banks still have access to financing from the European Central Bank at very low rates (1-3%); thus, the interest rates are quite low as well (average 6-7%). Gros argues that in order to make an adjustment in consumption, the borrowing costs for the private sector should be increased substantially. Furthermore, **capital flight** became a major problem. The Director of the CEPS is of the opinion that the 2.8% interest the Greek banks currently pay their depositors is low and does not create an incentive for them to keep their deposits. Therefore, interest rates should be increased to prevent Greek savers from leaving.

In the view of the President of the Ifo Institute H. Sinn[9], **competitiveness** is the key to get out of the crisis and this can only be achieved by lowering the prices. He believes that **price reduction** would redirect Greek demand from foreign to domestic products and would help tourism. It would create current-account surpluses and enable the crisis countries to pay off their foreign debts. Sinn states that those crisis Member States that do not want to lower their prices should be given the opportunity to leave the euro zone temporarily in order to devalue prices and debts.

The Washington-based Peterson Institute's position[10] is that the much needed growth requires three main steps. Greece must adopt convincing **growth structural reforms**, especially **in its labour market** as well as budget austerity. The **strong economies of Europe** in particular Germany must terminate their own fiscal consolidation for a while and **adopt new expansionary measures** for instance buying more Greek goods and services rather than debt instruments. Finally, the **ECB must quickly reduce its interest rate** by at least another 50 basis point and buy enough Greek bonds through the SMP. Furthermore, **internal devaluation** should be considered by Greece.

[6] http://www.ifw-kiel.de/kiel-institute-for-the-world-economy/view

[7] The IMF has a debt sustainability analysis in Appendix 1 of the latest IMF report: http://www.imf.org/external/country/grc/index.htm. The Commission presents its debt sustainability analysis in Box 3 of its last report on Greece: http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf

[8] http://www.project-syndicate.org/commentary/greece-s-soft-budgets-in-hard-times

[9] http://www.project-syndicate.org/commentary/a-euro-sabbatical

[10] http://www.petersoninstitute.org/publications/pb/pb12-1.pdf

4. EMPLOYMENT AND SOCIAL ASPECTS

4.1. Current situation

More than 1 million people were unemployed in Greece in December 2011, out of a population of about 11 million inhabitants.[11] This first figure is at least partly imputable to the anti-crisis measures introduced by the Greek government over the last two years. The austerity measures were introduced when the country was already in recession, which has worsened their social consequences. Also, they were imposed in a context of an already weakened labour market, with low job growth and an important black economy. Vulnerable workers and in particular young workers already faced high level of unemployment.

Table 6: Greece - unemployment rate by age groups - December 2008 - 2011

Age group	December 2008	December 2009	December 2010	December 2011
15- 24 years old	26.3	28.9	39.0	51.1
25-34 years old	11.6	13.7	21.0	28.7
35-44 years old	6.8	8.9	12.2	17.9
45-54 years old	5.7	5.9	9.2	14.8
55-64 years old	4.5	4.6	7.1	10.1
65-74 years old	0.0	0.5	2.9	4.2
TOTAL	**8.9**	**10.2**	**14.8**	**21.0**

Source: Hellenic Statistical Authority (ELSTAT).

In December 2011, the **unemployment rate** reached 21.0 % (compared to 20.9 % in November 2011 and 14.8 % in December 2010). In comparison, in December 2011, the average unemployment rate in the euro-area was 10.6%.

[11] The population of employed people amounted to 3.9 million in December 2011.

Table 7: Greece - unemployment rate by gender, December 2008 - 2011

Gender	**2008**	**2009**	**2010**	**2011**
Male	6.5	6.9	11.9	17.7
Female	12.2	14.8	18.7	25.3
TOTAL	**8.9**	**10.2**	**14.8**	**21.0**

Source: Hellenic Statistical Authority (ELSTAT).

Vulnerable workers are the hardest hit. Notably **women** and the youth have seen their unemployment rates rise to extreme levels: 51.1 % of **young** workers were unemployed in December 2011; the unemployment rate for women stood at 25.3 %, while for men it reached 17.7%.

European Commission DG EAC notes that '*youth unemployment is very high for both low-qualified and high-qualified youth; it is higher for young women*'.

With an estimated 68 000 bankruptcies of **SMEs** between 2010 and 2011 and another 53 000 predicted for the near future, Greece has seen the backbone of its economy badly hit, leading to even more unemployment.[12]

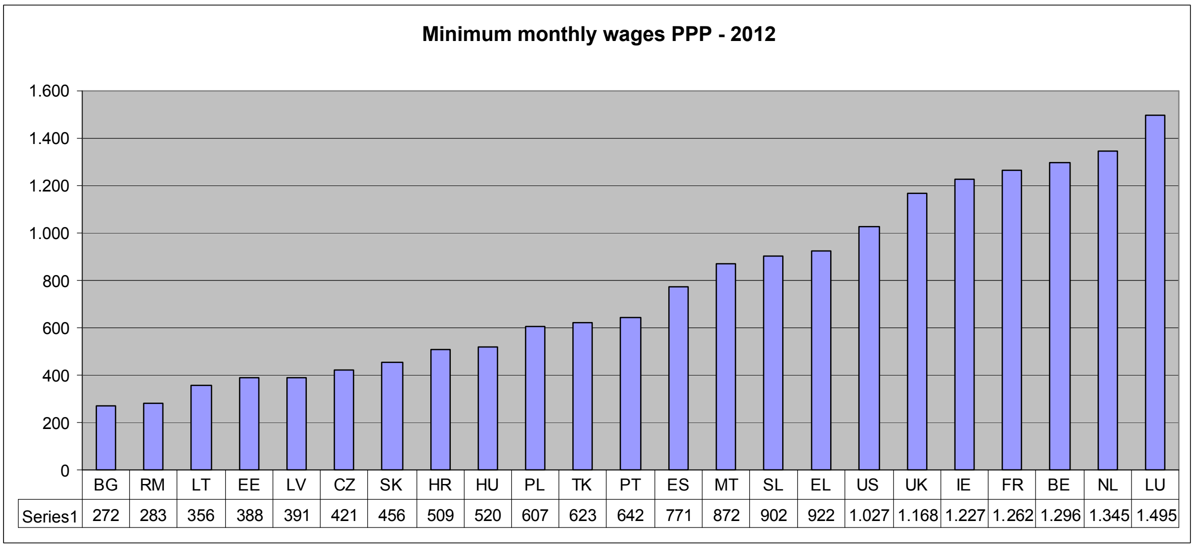
All workers have undergone income losses, whether from the private sector, civil servants or self-employed. Cuts in wages, freezing of state workers' income and higher taxation have contributed to reducing households' purchasing power. **Sectors** most affected would include construction, the processing industry and tourism. The percentage of **part timers** stands at 7.1% of employed people. Among them, 58.3% chose this working arrangement because they could not find a full time job.

Poverty rates have risen in all age groups and for most occupational categories. In 2010, 27.7% of Greeks were at risk of poverty or social exclusion (the EU-27 average stood at 23.4%)[13]. In 2010, Greece had the highest proportion of **working poor** in the EU-27[14].

As a result of anti-crisis measures, the need and demand for social benefits have risen while at the same time these social benefits have also undergone cuts.

Pensions have been frozen at their 2009 level and since 2010, a 'Pensioners' solidarity contribution' applies to pensions above EUR 1400 per month, with a tax rate ranging from 3% to 10%[15] . On 1 January 2012, the **minimum monthly wage** in Greece was EUR 877 (gross)[16]. It is deemed to be reduced by at least 22% following the latest austerity plan.

[12] National Confederation of Hellenic Commerce (ESEE).
[13] Latest Eurostat data available: Eurostat, Population and social conditions, February 2012.
[14] www.eurofound.europa.eu
[15] M. Matsaganis, C. Leventi, EUROMOD Working Paper No. EM3/11, The distributional impact of the crisis in Greece, August 2011.
[16] Eurostat.



Source: Eurostat. Purchasing power parities (PPP) allow comparisons with other countries, taking into account price levels.

Substantial cuts in **healthcare** and pharmaceutical expenditure must also be noted.

A series of laws have also been adopted with the aim of restructuring the labour market, notably with the effect of limiting the extent of **collective bargaining**. The European Commission document on the Second Economic Adjustment Programme for Greece reports that these measures were adopted *'so as to reduce the downward rigidity on wages and facilitate recruitments*.' The ILO High Level Mission to Greece *'echoed the concern expressed to it by many parties that overall, the changes being introduced to the industrial relations system in the current circumstances are likely to have a spillover effect on collective bargaining as whole, to the detriment of social peace and society at large'*. [17]

4.2. Austerity measures of the latest policy programme

On 13 February 2012, the Greek Parliament approved a new package of anti-crisis measures, agreed with the European Union and the IMF as a condition for a new bailout of 130 billion Euros. This policy programme contains the following elements directly related to employment and social issues:

i) a further cuts in pensions *'targeted with the aim of protecting the lowest pensions*';

ii) a reduction of 22 % of the monthly minimum wage. For workers under 25 years old, it will be reduced by 32%. There will be no more automatic wage increases based on seniority.

iii) Key further measures in the area of collective bargaining aimed to enable the collective agreements to adapt to *'changing economic conditions on a frequent and regular basis*' ; they will include setting the maximum duration of collective agreements as well as the elimination of automatic increase of wages based on seniority. Recourse to arbitration to settle negotiation disputes will only be allowed if both parties agree to it.

iv) social security contributions will be reduced by 5%, as an additional incentive to the creation of employment;

v) public sector wage reductions;

[17] International Labour Office, Report on the High Level Mission to Greece (Athens, 19-23 September 2011).

vi) some 15 000 state workers will be placed in a 'labour reserve' in 2012. They will earn 60% of their basic wage and they will be dismissed after a year. For every five civil servants retiring, only one will be hired. This aims to cut the state sector workforce by about 150 000 people by 2015. No numbers have been put forward but it can be assumed that the cuts in the different functioning budgets of different administration bodies will also imply redundancies.

vi) a revision of Greece' legislation in order to liberalize regulated professions and to open up competition for different professional activities.

4.3. Prospects

The current situation has given rise to different views about the likely social and employment aspects of the anti-crisis measures' outcome. Below is a non-exhaustive list of elements.

- **European Commission DG ECFIN notes in its Interim Forecast of February 2012 that unemployment is expected to continue to increase in 2012.**
- **The European Economic and Social Committee Workers' Group considers that** *'the implementation record of the programmes of economic adjustment so far shows that the medicine may have been worse than the disease as every key indicator of the economy is found to have deteriorated*'. [18]
- **The ILO High Level Mission to Greece** *'found a volatile and dynamic situation both at the economic and political levels and observed that social cohesion in Greece is being severely challenged*'. **It felt that** *'one of the highest priorities for support [from the ILO] needs to revolve around the labour relations system, the promotion of collective bargaining in Greece's specific circumstances (…) and the creation of a meaningful space for social dialogue'*.
- **The report of the European Commission on the Second Economic Adjustment Programme for Greece [19] finds that** *'employment has taken a heavy blow in the face of downwardly rigid wages. The labour market reforms are expected to provide a significant contribution towards both saving and creating new jobs. Nevertheless, employment is not expected to stabilise before 2013, and the subsequent recovery in the number of jobs will be progressive.'* **Furthermore***,' the latest labour market measures, together with those legislated in 2011 are expected to contribute to reduce labour costs by at least 15 percent over the next three years',* bringing them closer to the EU trend; this will have the impact that *'the closure of the competitiveness gap is expected to accelerate'.*

[18] 'The impact of anti-crisis measures, and the social and employment situation. Greece', European Economic and Social Committee Workers' Group, February 2012.

[19] European Commission, Directorate General Economic and Financial Affairs, The Second Economic Adjustment Programme for Greece, March 2012.

5. THE 'TROIKA'

The objective of the so called Troika, composed of the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF) are to review and assess the Greek economic programmes.

The quarterly disbursements of bilateral financial assistance from euro area Member States have been subject to **quarterly reviews of conditionality for the duration of the arrangement**. The release of the tranches have been based on observance of quantitative performance criteria, and a positive evaluation of progress made with respect to policy criteria in the 'Memorandum of Economic and Financial Policies' and in the 'Memorandum of Understanding on Specific Economic Policy Conditionality', which specifies the detailed criteria up to the end of 2011. The detailed criteria for the years 2012 and 2013 were specified at the occasion of the spring 2011 review.

The Greek authorities have committed themselves to consult with the Troika on adoption of policies that are not included in these memorandums. They also provide the Troika with all requested information for monitoring progress and with a compliance report on the fulfilment of the conditionality prior to the release of instalments.

6. THE COMMISSION TASK FORCE

On 20 July 2011, following the endorsement of the June European Council and the July Euro zone summit, the European Commission, at the request of the Greek authorities, launched a Task Force to provide technical assistance to Greece for designing and implementing its reform programme. **The mandate of the Task Force** includes:

1. identifying and coordinating, in close cooperation with Greece, the technical assistance that Greece needs in order to deliver the EU/IMF adjustment programme;
2. assisting the relevant Greek authorities in defining the details of the kind of technical assistance to be provided;
3. recommending legislative, regulatory, administrative and if necessary (re)programming measures for an accelerated take-up of EU funds.

The Task Force is composed of Commission and Member States experts (45 staff) and is headed by Horst Reichenbach, former Director General at the European Commission. The experts work in close cooperation with representatives of international organizations such as the IMF, EIB, EIF and OECD. Due to the second economic adjustment programme for Greece, the Eurogroup invited the Commission to reinforce the support capacity of the Task Force.
The Task Force has a **responsibility to prepare quarterly progress reports** and to present them to the Commission as well as the Greek authorities. The second such report was published on 16 March 2012. It outlines the concrete achievements and describes the areas where technical assistance was set up and where crucial reforms need to be implemented. The report states that progress was made in accelerating Greece's absorption capacity of EU funds (above EU average) and in tax collection. Nevertheless, further progress is necessary with regard to fighting tax evasion and tackling the shortcomings in public finance management. It is also important to enhance public administration, business environment, access to finance, labour market, public health, justice and home affaires and privatization.

7. USEFUL LINKS

- ECFIN website on the Greek Loan Facility, including official statements, the programme and its reviews: http://ec.europa.eu/economy_finance/eu_borrower/greek_loan_facility/index_en.htm
- IMF page on Greece: http://www.imf.org/external/country/grc/index.htm
- EFSF: http://www.efsf.europa.eu/about/index.htm
- European Commission webpage on the Task Force for Greece: http://ec.europa.eu/commission_2010-2014/president/taskforce-greece/index_en.htm
- ELSTAT: http://www.statistics.gr/portal/page/portal/ESYE
- EEAG-CESIFO report http://www.cesifo-group.de/portal/page/portal/ifoHome/B-politik/70eeagreport
- OECD: http://www.oecd.org
- Kiel Institute: http://www.ifw-kiel.de/think-tank/policy-support/The-Kiel-Institute-Barometer-of-Public-Debt%20
- Interview of PM Papademos to Financial Times, 16 March 2012: http://www.ft.com/intl/cms/s/0/9b3f8d50-70df-11e1-8456-00144feab49a.html#axzz1pYi5tVYz
- Analyses and opinions on Greece crisis: http://www.project-syndicate.org/
- The impact of anti-crisis measures and the social and employment situation in Greece / Zoe Lanara-Tzotze, EESC, 2011, 13 p.
- International Labour Office, Report on the High Level Mission to Greece (Athens, 19-23 September 2011): http://www.ilo.org/global/standards/WCMS_170433/lang--en/index.htm

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ANNEX I: THE "MACROECONOMIC IMBALANCE PROCEDURE" SCOREBOARD FOR GREECE

	Thresholds	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3 year average of **Current Account Balance** as a percent of GDP	**-4/+6%**	-6.2	-7.2	-6.8	-6.3	-6.7	-8.3	-11.2	-13.6	-13.6	-12.1
Net International Investment Position as % of GDP	**-35%**	-46.5	-52.9	-58.9	-67.0	-77.3	-85.3	-96.3	-76.9	-86.1	-92.5
% Change (3 years) of **Real Effective Exchange Rate (REER) with HIPC deflators**	**±5%**	-5.1	-3.5	9.1	9.3	6.8	2.5	1.9	4.0	5.0	3.9
% Change (5 years) in **Export Market Shares**	**-6%**	72.6	55.0	51.0	21.6	6.3	-4.8	3.8	1.1	-13.9	-20.0
% Change (3 years) in **Nominal ULC**	**+9%**	na	na	11.4	14.3	8.3	4.4	5.8	8.5	18.9	12.8
% y-o-y change deflated **House Prices**	**+6%**	na	na	na	na	na	9.2	1.8	0.2	0.3	-6.8
Private Sector Credit Flow as % of GDP	**15%**	11.1	7.4	10.1	11.6	14.8	16.9	15.8	16.5	2.7	-0.7
Private Sector Debt as % of GDP	**160%**	65	68	72	79	90	98	108	119	123	124
Public Sector Debt as % of GDP	**60%**	104	102	97	99	101	107	107	113	129	145
3 year average of **Unemployment**	**10%**	11.3	10.7	10.2	10.2	10.0	9.8	9.0	8.3	8.5	9.9

Source: Eurostat, DG ECFIN, ECB

ANNEX II: SOME COMPARISONS OF ESTIMATES AND FORECASTS

Comparison ECFIN - IMF -IFO			
2010	**ECFIN**	**IMF**	**EEAG-IFO**
GDP growth	-4,3	-4,3	-4,7
Inflation	4,7	4,7	4,7
Unemployment	12,6	12,5	12,6
2011	**ECFIN**	**IMF**	**EEAG-IFO**
GDP growth	-6,8	-5	-5,8
Inflation	3,1	2,9	3,1
Unemployment	17,2	16,5	17,6
2012	**ECFIN**	**IMF**	**EEAG-IFO**
GDP growth	-4,3	-2	-3,5
Inflation	-0,5	1	-0,1
Unemployment	18,4	18,5	19,6

Comparison ECFIN estimates for GDP growth			
	2010	**2011**	**2012**
spring 09	0,1		
autumn 09	-0,3	0,7	
spring 10	-3	-0,5	
autumn 10	-4,2	-3	1,1
spring 11	-4,5	-3,5	1,1
autumn 11	-3,5	-5,5	-2,8
spring 12	-3,5	-6,8	-4,3