Ex-post Evaluation on: The economic adjustment programmes of Greece: 2010-2018

Final Report

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Executive Summary

This study presents an ex-post evaluation of the three adjustment programmes for Greece, beginning May 2010 and ending August 2018.

Greece was the first of the euro area countries to find itself on the brink of sovereign default and in need of emergency financial support. This crisis occurred at a time when the EMU was not yet endowed with either a governance structure or the funds necessary to be able to respond quickly and within a predefined framework. The Greek crisis acted as a trigger for the creation of euro area financial assistance and stabilisation instruments that would later become available to all euro area countries.

Over the course of the three programmes, €256.6 billion in financial assistance was made available to Greece via €52.9 billion in bilateral loans from EU Member States (the Greek Loan Facility, GLF), and a total loan of €203.7 billion from the European Financial Stability Facility (EFSF) and the ESM. An additional €32 billion came from the IMF.

The main purpose of the study is to draw lessons for future decision-making and identify areas of improvement for future possible EU interventions. The evaluation assesses the three adjustment programmes from an economic point of view, taking a balanced perspective accounting for both the benefit of hindsight and the information available at the time the time of decision-making.

Given the overall length and the scope of the programmes, the study focuses on three thematic areas: fiscal adjustment and debt sustainability, financial stability and the banking sector, and structural reforms. The evaluation is guided by the Commission's Better Regulation framework and its evaluation criteria of effectiveness, efficiency, relevance, coherence, and EU added value. Hence, for each thematic area, it assesses the extent to which: i) objectives of the economic adjustment programmes and the conditionality of the financial assistance were relevant to the economic and financial needs of Greece (relevance); ii) programme design and implementation, and the financial assistance operation presented the appropriate tools through which to achieve intended results (efficiency); iii) objectives and impacts have been achieved (effectiveness); and iv) EU intervention added value (EU added-value), policy measures were in line with objectives, and relevant EU policies and coherent among themselves (coherence).

In addition, the study considers the economic and political context in which the programmes began and how the role of the institutional arrangements among the European Commission, the European Central Bank (ECB), the European Stability Mechanism (ESM), and the International Monetary Fund (IMF), affected the success of the programmes. Finally, it assesses how certain peculiarities of the Greek welfare state impacted upon the efficiency of the programmes.

The study combines quantitative and qualitative methods of analysis. Conclusions are drawn primarily from a systematic review of a vast academic literature on the Greek economy; data-based economic analysis; and analysis of official programme documents, existing thematic background studies, legal documents, and targeted stakeholder consultations.

Main findings

The financial assistance offered by euro area Member States, the IMF, and the EFSF/ESM, combined with the adjustment programmes, achieved the main objective of Greece regaining market access. This goal, however, was achieved only after eight difficult years. While the structure of the Greek economy is far more robust, and its macroeconomic outlook was better in 2019 than in 2010, its economic performance was still weak.

The outbreak of the Covid-19 pandemic in 2020 makes any assessment of whether or not the programmes' improvements will be sustained in the future very difficult. This would depend on whether the reform agenda to restore sound and sustainable fundamentals will continue to be pursued, against a shift in priorities made necessary by the nature and magnitude of the pandemic shock. Surely, Greece was better equipped to face such shocks in 2020, as compared to 2010.

Growth, fiscal consolidation and sovereign debt

Economic growth and public finance outcomes were worse than expected following each of the three programmes, most prominently the first programme. This was especially the case with respect to economic growth, which was negative for several years (Greece lost about a quarter of its GDP during the duration of the three programmes) and only became weakly positive in 2017. At the end of the programmes, in 2019, investments were continuing to decline – as they had since 2007 – and at around half of what they were in 2001. Fiscal consolidation was partially responsible for this trend. Public investments, which represented a high percentage of total investment in Greece, were drastically cut, and it took a long time to Greece to improve its very low capacity to absorb EU funds. In addition, private investors were held back by fears of a Greek exit from the euro area and by increasing borrowing costs. Despite their aims, the adjustment programmes did not prove to be growth-friendly. On the contrary, because of conditions in the Greek economy (e.g., low openness and no social safety net) and persistent political instability, fiscal consolidation turned out to be very contractionary.

While fiscal consolidation was eventually achieved, it took longer than initially planned, and public financing needs turned out to be larger than originally expected. Over time, the programmes' approach to fiscal consolidation changed, from being frontloaded in the first two programmes, to being smoother in the third. The policy mix aimed at stabilising public finances also evolved. From being mostly centred on expenditure cuts at the beginning, it later shifted towards structural reforms to increase tax revenues in a permanent way. Furthermore, measures adopted upfront showed an increasing fiscal impact over time. Such developments were driven by the learned weaknesses of the Greek economy, but were made possible by the progressive downsizing of required fiscal adjustment.

The approach to sovereign debt sustainability also changed over time. While in the first programme, it was considered a by-product of the objective of regaining market access, from 2011 it became one of the major challenges of the Greek economy. It was addressed through several rounds of debt restructuring, namely private and official sector involvement (PSI and OSI) - measures never experienced before in the euro area.

Debt sustainability was not however improved by PSI, as expected. On the one hand, the cost of the recapitalization of the banks and, above all, the deep economic recession - which made the debt-to-GDP ratio increase - offset the reduction in the face value of debt. On the other hand, PSI came too late. While a debt restructuring in 2010 was impossible, the failure of negotiations in 2011 and following delay proved costly for Greece, both in terms of a greater need for consolidation and loss of political capital, which was already limited. While PSI was unlikely to solve deep-rooted problems in Greece, an earlier agreement could have provided wider debt relief. Almost ten years later, the Greek PSI is widely recognised as inevitable and necessary, given the circumstances of that time, but the overall assessment of its impact remains mixed.

In the end, it was the re-profiling of the debt with OSI that helped to push Greek sovereign debt onto a more sustainable path.

At the end of the programmes, Greek debt-to-GDP ratio was the highest in the euro area. The largest percentage of debt is in the hands of the official sector and has concessional rates and long maturities.

Financial stability and the banking sector

While the Greek crisis did not begin as a banking crisis, the banking sector experienced a deep crisis, because of the sector's substantial direct sovereign exposure, the profound recession and the high political instability. Total injections of capital (over three recapitalizations), including for resolution, involved approximately EUR 70 billion and came at the cost of increased government borrowing. The liquidity needs of the banks were also extensive and mostly increasing over time. The Eurosystem and the central bank, through Emergency Liquidity Assistance (ELA), played a vital role in providing liquidity to banks and preventing the collapse of the entire sector. In practice, it took until 2017 for financial stability to return.

Over the years, PSI, deteriorating asset quality, and recurrent deposit flights acted as major shocks to the Greek banking system. With hindsight, however, it is clear that the Greek banks had major structural weaknesses, often linked to the national framework in which they operated which only emerged during the crisis.

Overall, the policy measures applied only managed to partially meet the desired objectives. The protection of depositors was a constant challenge throughout the three programmes. In 2015, to stem capital flight, capital controls had to be imposed. This was an extreme measure for an extreme situation. Ex-post, it can be considered as having been necessary and effective to stop deposit outflows, but came at a cost for Greek citizens, companies, and banks.

Rising non-performing loans (NPLs) were a persistent challenge in each of the three programmes, but the issue was most explicitly tackled in the third programme. Slow progress in improving the management of NPLs, partly due to low reform ownership and unforeseen events such as the resurgence of Grexit fears in 2015, delayed the solution. The modernization of the framework to deal with private sector insolvency and efforts to improve the inefficient debt recovery process also took considerable time. The weak and deteriorating payment culture slowed down the solution to the NPLs problem.

Nonetheless, a sequence of contingent measures for stabilization, including a series of successful bank resolutions and bank recapitalizations, played a crucial role in achieving financial stability. The development of a bank resolution framework, already prior to the adoption of the bank recovery and resolution directive at EU level, and the subsequent resolution actions were successful in avoiding market disruption. Moreover, the second and the third programmes resulted in an overhaul of the governance of the banking system. The latter, combined with broader improvements in the framework for NPL resolution, put the whole system on a better footing to face future shocks and support the real economy. While in 2019, NPLs were still very high in the four main Greek domestic banks, in 2020, there was an acceleration of NPLs reduction facilitated by a growing secondary market. This was the result of the reforms, whose full effects materialised gradually.

Structural reforms

Restoring competitiveness through labour and product market reforms was one of the main objectives of the structural reforms included in the three programmes. Lack of competitiveness was a major weakness of the Greek economy at the start of the crisis, and it took a long time to see only marginal improvements. This was the case despite a large fall in wages following the adoption of labour market reforms. By contrast, product market reforms were delayed and prices adjusted only marginally. The cost-

competitiveness gains of the labour market reforms were largely offset by the increasing costs of financing corporate loans, increasing the taxation of capital, and perpetuating existing distortions in the taxation system. This implied that the adjustment in the current account, which was relatively fast, was essentially driven by a fall in imports. Exports of goods and services never boomed. They remained too dependent on a few sectors (i.e., mineral fuels and maritime transport), which weakly depended on wages. Furthermore, Greek exports continued to have limited domestic value and employed only a limited number of local people. Hence, their impact on the real economy was small. Greece is still a rather closed economy with a limited tradable/traded sector. Improving competitiveness, and productivity, remains a major challenge.

Over time, it became clear that for labour and product market reforms to be effective, broader structural interventions to modernise Greece's public administration and to reform its judicial system were necessary. Yet, it took until the third programme to fully recognise the weaknesses of its public administration, including its low institutional quality and high level of corruption.

In hindsight, structural reforms were unevenly implemented. Labour market reforms were frontloaded and successfully adopted between the first and second adjustment programme, while product and service market reforms were delayed and sometimes watered-down, due to strong opposition by organised interests. In the end, a very large set of reforms was passed, including reforms of the public administration, of justice, an of the Code of Civil Procedure as well as an anti-corruption law. However, the process was politically very difficult and ownership of reforms lacked during most of the programmes. Overall, a lack of coherence in the approach to structural reforms at the outset was aggravated by weak political support and governance on the part of Greek authorities.

Welfare state and social outcomes

While social conditions dramatically deteriorated over the course of the programmes, it would be inaccurate to associate this exclusively with the programmes. While not all reforms brought positive effects (notably in terms of employment) and burden sharing was often perceived as unfair (notably in terms of sequencing of labour and product market reforms), at the start of the crisis, Greece had an inequitable and inefficient welfare system, which would have been unable to respond to any crisis. De facto, a complex system of multiple pension schemes was the only safety net. Health expenditure had doubled in the decade before the crisis, without increasing access to, or quality of services. From this perspective, the programmes had a wide margin of manoeuvre to improve the design of social protection expenditure and promote effectiveness and equity. At the same time, frontloaded fiscal consolidation emplaced a trade-off between the necessity to improve fiscal sustainability and the need to improve the effectiveness of the welfare system. The first two programmes largely ignored the degree of dysfunctionality of the Greek welfare state and its incapacity to cope with the social consequences of the recession. Reforms largely focused on cutting spending and improving the efficiency of the system. Ineffective social safety nets, pension system fragmentation, and accessibility to healthcare were only addressed to a minor extent in the second programme and more extensively in the third programme.

While a counterfactual exercise is impossible in this context, given the weaknesses of the Greek welfare state before the crisis, it is very unlikely that the absence of the programmes and a disorderly default would have had better social outcomes. Overall, at the end of the programmes, Greece was finally endowed with a stronger and more inclusive welfare state, including a minimum income scheme, making the country more resilient to the recent pandemic shock.

Overall assessment of the programmes

Taking into account the information available at the time of decision-making and existing political constraints, the overall programme strategy and its main objectives were broadly appropriate in relation to the main challenges. The financing envelope, which was unprecedented, was clearly an indispensable part of the programme. However, it took a long time to understand the peculiarities of the Greek economy and its socio-political context and hence, to properly identify specific objectives. With hindsight, there was a lack of sufficient emphasis on how reforms and policies could contribute to delivering economic growth but also on the risk that limited ownership could undermine the implementation of reforms and policies.

The effectiveness of the programmes was therefore rather mixed. Programmes were effective in achieving the main objectives of regaining market access and restoring fiscal sustainability, as well as implementing structural reforms. However, objectives were achieved only gradually and characterized by a difficult process. In addition, the programmes were only partially effective in ensuring banks' support to the economy. This was the case despite the overhaul of the banks' governance structures, which occurred after 2015. Likewise, the programmes were not fully effective in making the country's growth more sustainable and balanced. Growth systematically underperformed projections, which in turn were too optimistic. A wide range of institutional, sectoral, fiscal-structural and structural reforms was implemented but their effectiveness started to become visible only towards the end of the programmes. The combination of the crisis and the adjustment process had larger negative social impacts than was predicted. With the exception of the third programme, insufficient attention was paid to the unintended impact of the consolidation and reforms on social outcomes.

The efficiency of the programmes' policy conditionality and its implementation varied across different areas, but was low overall low. The policy approach to fiscal consolidation and fiscal structural reform (pensions and welfare) supported the delivery of fiscal sustainability objectives, but were costly for the Greek people, took longer than expected, and required more financing than foreseen. The stabilization of the financial sector also took many years, with political instability severely undermining confidence, and proved costly, both in terms of liquidity provision and recapitalization. With the benefit of hindsight, the programme could have been made more efficient by pursuing at an earlier stage a more comprehensive strategy on NPLs and the reform of the banks' governance, despite strong political resistance. The overall efficiency of structural reforms was low due to a lack of ownership and limited political support from the Greek administration and policymakers. Programme management was not always efficient from the EU side either, with several parties involved (in practice every euro area Member State in addition to the Institutions), resulting in a long and often uncertain decision-making process.

The coherence between the different objectives (financial, fiscal, and structural policies) of the programmes improved over time. At the start however, the large fiscal adjustment needed, the urgency of intervention, the lack of clear framework for crisis management, and the increasing scope of required structural reforms, made it difficult to design a coherent approach. Coherence was also particularly poor in the Greek government's management of allocation of power, resources, and responsibilities. This delayed decision-making and reduced its effectiveness. Lastly, the coherence of the programme objectives with the EU-wide objectives was often suboptimal. While EU policies are typically driven by the broad objective of promoting sustainability, the design of the Greek programmes seems to have applied such principles mostly to fiscal policy and debt.

The involvement of the EU, through its Member States, the EFSF, ESM and the ECB was necessary to deliver an adequate financing envelope, and could not have been offered by

any alternative partner. In its absence, Greece would have gone into disorderly default. A clear EU value was added. In the end, financial resources at EU and euro area level (through EFSM/EFSF) allowed Greece to benefit from very low costs of financing, a grace period, and significant extension of maturities. In addition, despite challenges, the EU involvement, contributed to the implementation of much needed structural changes, which otherwise would not have taken place.

Lessons learnt

This study identifies a number of lessons learned to improve future policymaking.

1. A late understanding of the real needs and challenges of a country, driven by lack of reliable information, can increase the costs of a crisis and jeopardise the success of the programme.
2. A country characterised by structural and institutional weaknesses is likely to need a longer programme (rather than the usual 3-year) and significant financing upfront. This is even more the case when the required fiscal adjustment is large. Under such conditions, a programme centred on fiscal adjustment is unlikely to be appropriate.
3. A persistent lack of economic growth during the programme makes fiscal and structural adjustment more challenging and time-consuming. A protracted recession should be mitigated by fiscal measures, including a fiscal budget for growth support measures.
4. Sequencing of policies matters. When structural reforms are needed on a large scale, as was the case in Greece, an overarching and coherent approach is necessary from the start. Horizontal reforms (e.g. public administration and judicial system), which typically have limited measurable (and low fiscal) impact, are in practice a pre-condition allowing other reforms to then be impactful. They should not be postponed. Labour, product, and service market reforms should be pursed in parallel. Where this is not possible, product market reforms should be frontloaded because their implementation takes longer and they require higher political capital, which usually declines over time.
5. Politics can play a key role in determining the success of a programme. Clientelism, rent-seeking and corruption in the programme country can dramatically reduce social cohesion. A combination of institutional reforms and communication can help mitigate such effect. A clear framework with predefined roles and decision-making on the side of the Institutions is equally important to reduce uncertainty about the support.
6. A lack of government ownership can delay the actual implementation of policies and contribute to political instability. It can also negatively affect the way the programme is communicated to the population. Proper communication about the reasons and the purpose of the programme is crucial in the programme country, but also across the EU. This is decisive in gaining the support of public opinion and accepting solidarity. In the Greek case, competing narratives contributed to create a sentiment of mutual mistrust between the Greek government and other EU Member States, but also among citizens.
7. Adjustment programmes should account for potentially adverse and unintended social impacts of policy measures as early as possible and, in case of an uneven distribution of the adjustment burden, mitigation measures should be considered.
8. Centralized governance and coordination across ministries is crucial for an efficient implementation of policies in the programme country. A single contact point, with clear responsibilities, coordinating and delegating the implementation of tasks, is key to the efficient, and ultimately effective, implementation of the programme.

9. Accounting for interlinkages and spillovers between different policy areas and measures is essential to ensuring a coherent programme strategy and eventually impact.
10. The EU intervention can add significant value by providing for an adequate financing envelope at very favourable conditions, as well as for technical expertise and policy coherence.

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Abstract

This is the final report of the "Ex-post Evaluation on: The economic adjustment programmes of Greece: 2010-2018" for the Directorate-General for Economic and Financial Affairs (DG ECFIN).

Section 2 illustrates the methodological approach to the evaluation. Chapter 3 provides an overview of the macroeconomic features of the Greek economy before the crisis and the political context in which the first programme was agreed. Chapter 4 reviews the financing needs, the resources made available and their use. Chapters 5 to 7 offer an account of the main events during the three EAP and analyse their objectives, the measures put in place and the impact focussing on: the fiscal adjustment, the financial sector and structural reforms. Chapter 8 assesses the features of the Greek welfare state before the crisis and its evolution to support the assessment of the cost of the programmes and potential unintended impacts. Chapter 9 is devoted to examine the evolution of the institutional arrangements during the three programmes and the main actors.

Section 10 provides a summary of the main outcomes of the evaluation and the remaining challenges. Section 11 concludes by drawing lessons from failure and successes of the Greek adjustment programmes.

List of acronyms and abbreviations

BoG	Bank of Greece
DSA	Debt Sustainability analysis
EAP	Economic Adjustment Programme
EBA	European Banking Authority
ECB	European Central Bank
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
ELA	Emergency Liquidity Assistance
ELSTAT	Hellenic Statistical Authority
EPL	Employment Protection Legislation
EMU	Economic and Monetary Union
ESM	European Stability Mechanism
EU	European Union
GGB	Greek Government Bond
GLF	Greek Loan Facility
GDP	Gross Domestic Product
GFNs	Gross Financing Needs
GSEVEE	Hellenic Confederation of Professionals, Craftsmen and Merchants
GGB	Greek Government Bond
HBA	Hellenic Bank Association
HFSF	Hellenic Financial Stability Fund
HRADF	Hellenic Republic Asset Development Fund
IMF	International Monetary Fund
MoU	Memorandum of Understanding
NPL	Non-Performing Loan
NPV	Net Present Value
OSI	Official Sector Involvement
PA	Public Administration
PSI	Private Sector Involvement
SBA	Stand By Agreement
SMP	Securities Markets Programme
TA	Technical Assistance
TFGR	Task Force for Greece

ULC	Unit Labour Cost

1 Introduction

In August 2018, Greece graduated from eight years of economic adjustment programmes. During the three programmes, EUR 256.6 billion of financial assistance was disbursed to Greece in the form of bilateral loans from EU Member States, the Greek Loan Facility (GLF) and loans from the EFSF and the ESM. An additional EUR 32 billion came from the IMF. The provision of financial assistance was conditional on Greece implementing policy reforms as well as the economic and financial policies set out in three Memorandum of Understanding (MoU) in 2010, 2012 and 2015. The first two programmes were jointly developed by staff from the Commission, acting in liaison with the ECB, and Greek authorities with the support of the IMF and endorsed by the Eurogroup. Design of the third programme was led by the European Commission (EC), with some involvement of ESM rather than IMF staff.

Overall, the programmes were meant to overcome the economic and financial crisis that led Greece to request assistance in May 2010, when the sovereign and the banking sector were increasingly cut off from market funding. From late 2009, the country had become the focal point of financial markets. Severe weaknesses in the country’s accounting system and misreporting in official statistics resulted in a retrospectively corrected government deficit above 13% of GDP, far above the initially reported numbers. Given an already very high public debt (115% of GDP at the end of 2009) largely held by foreign investors,[1] and concomitant financing needs, the resulting loss of market confidence proved disastrous. Most rating agencies downgraded the sovereign debt and spreads started to sharply increase. While the crisis appeared to revolve around sovereign debt, also financial sector weaknesses soon materialised. The combination of banks’ low capitalisation, high exposure to government liabilities and an unbalanced growth model undermined confidence and led to liquidity problems.

Against this background, the Greek government requested international financial assistance in the spring of 2010. In May 2010, a euro area/IMF package was agreed on following a joint mission of the European Commission, the ECB and the IMF. The euro area Member States provided bilateral loans pooled by the European Commission (Greek Loan Facility – GLF) for a total amount of EUR 80 billion over three years, while the IMF committed an additional EUR 30 billion under a separate arrangement. A Memorandum of Understanding (MoU) was signed by Greece and the European Commission, the latter acting on behalf of the lending Member States. The MoU codified an economic adjustment programme that had the overarching objective to restore Greece market credibility. The programme included a list of policy measures to be implemented over three years as conditions for the periodic disbursements part of the financial assistance.

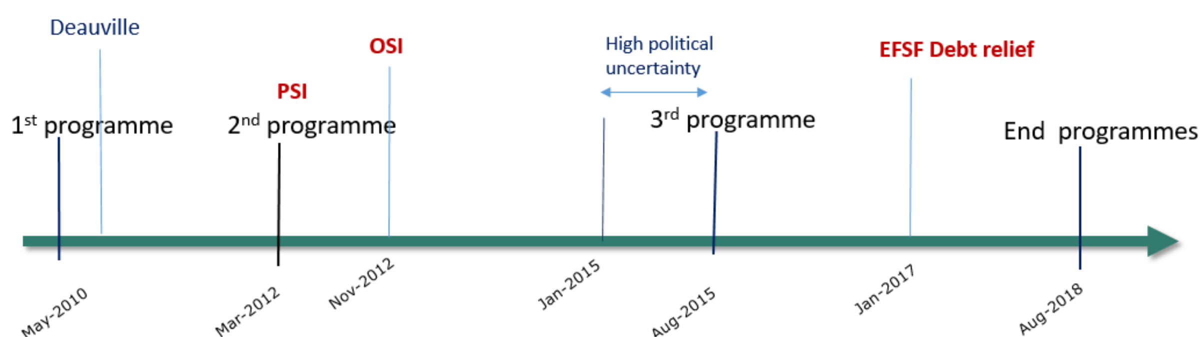
However, in the course of 2011 it became clear that the conditions contained in the MoU would not be sufficiently met and that additional funding would be necessary. Between mid-2011 and early 2012, it was agreed that a new adjustment programme would have to be financed through both official and private sources. Voluntary private sector involvement (PSI), in the form of voluntary rollovers of existing Greek debt at maturity and haircuts, was worked out to achieve a reduction of the residual funding needs.

The second economic adjustment programme for Greece was agreed on in March 2012. Its funding committed the unrealised funds of the first financial assistance package and an additional EUR 130 billion until 2014, financed by the European Financial Stability Facility (EFSF). A new MoU was signed.

[1] According to Bank of Greece data, in 2009Q3 government liabilities vis-à-vis other countries amounted to EUR 230 billion, i.e. more than 75 % of the total external debt.

In the summer of 2015, the crisis escalated again. At the end of the second programme, a 'stand-off' between Greek government and the lenders, combined with the decision of the ECB not to authorise a further increase of the level of emergency liquidity assistance (ELA) from the Bank of Greece, led to the imposition of capital controls to prevent capital flight. In early July, a referendum on whether to accept the bailout conditions was held. In the end, the new Greek government led by Prime Minister Alexis Tsipras made a formal request for stability support from the European Stability Mechanism (ESM). Further financial assistance was eventually agreed on, and Greece signed a third MoU. Financial support was provided with the aim of supporting policies aimed at restoring fiscal stability, safeguarding financial stability, correcting large external and internal imbalances and continuing the reform process until the country was able to return to the markets. The programme ended in August 2018 (Figure 1 illustrates the timeline of the key events).

Figure 1. Timeline of key events



Source: Authors' elaboration.

By 2015, about EUR 240 billion of Greek public debt was in the hands of international official lenders, including the ECB, IMF, euro area Member States and the EFSF, who held the largest part at about EUR 140 billion. In 2016, based on an agreement by the Eurogroup, the EFSF offered additional debt relief measures, including the re-profiling of its loans.[2]

Greece was the first euro area country to necessitate financial support which had to be agreed upon in a situation of emergency and tense political context. To properly understand the Greek adjustment programmes, two key factors must be kept in mind: First, the fear of contagion from Greece to other member states and the entire monetary union was a key factor driving the decision process from the side of the lending institutions, both in the EU and the IMF. The memory of the Lehmann collapse was still very fresh and financial system very weak in most countries. In addition, the euro area was not endowed with resources and mechanisms to protect itself from financial instability nor to deal with sovereign default. This implied that for several years the primary motive to offer financial support to Greece was to ensure the stability of the Monetary Union. In a sense, having Greece regaining market access was instrumental to achieve the ultimate goal of financial stability in the euro area.

Second, the news of misreported data about the Greek public finances worked as a catalyst of a looming crisis. As indicated by numerous stakeholders, for a long time, the lack of trust dominated the relation between Greece and many euro area member states. In the initial phase, this resulted in a strict approach of the lenders vis-à-vis Greece when setting conditions, but also, from the Greek side, little support for the external intervention. For

[2] A first debt re-profiling was granted in 2011.

these reasons, a substantial part of the three programmes was marked by difficult relations and even antagonism.

So, while the Greek crisis emerged as a fiscal one, Greece had deep structural weaknesses and all of these factors play an important role in explaining the difficulties and the failures of the first two programmes. Political disruptions, both in Greece and in EU countries, often interrupted progress and made more difficult the gathering of political consensus necessary to take decisions.

This report presents the findings of the ex-post evaluation of the three adjustment programmes' design, implementation and outcomes. The evaluation consists of looking at how the design and the implementation of the three programmes contributed to the attainment of the programmes' objectives over the period 2010-2018.

The analysis presented in this report pays special attention to the European Commission's role and action. Yet, decisions and measures taken by IMF, EFSF, ESM, the ECB and the Eurogroup affected the design and achievement of the joint objectives and must be accounted for in the evaluation. This increases the complexity and implies that some of the outcomes of the evaluation may have broader relevance.

Against this background, the evaluation of the Greek adjustment programmes is centred on the five criteria of the Better Regulation framework: relevance, effectiveness, efficiency, coherence and EU value added.

The rest of the study is organised as follows. Section 2 describes methodological approach to the ex-post evaluation, including the intervention logic of each of the three programmes, based on official documents, and the overall evaluation framework. Section 3 is devoted to the economic and political context in which the crisis started, and its management was designed. Section 4 provides an overview of the financing needs of Greece. Sections 5 to 7 present the analysis conducted to answer each of the five questions under study focussing on four main themes relevant for the evaluation: i) the fiscal adjustment and the sovereign debt sustainability, ii) the financial stability and the banking sector, and iii) the structural reforms. Section 8 assesses the features of the Greek welfare state before the crisis and its evolution to support the assessment of the cost of the programmes and potential unintended impacts. Section 9 is devoted to examining the evolution of the institutional arrangements during the three programmes and the main actors. Section 10 presents the overall outcomes emerging from the analysis and identifies the remaining challenges. Section 11 concludes by drawing lessons for the future.

2 The approach to the ex-post evaluation

This evaluation attempts to strike a balance between providing an account of the facts to understand the economic and political context of the three Greek EAP and a judgement benefitting from hindsight. The Greek programmes were a long learning experience during which the limits of the previous programme and the reason of limited success became increasingly clear. Yet, major decisions had to be taken in a context of high uncertainty, facing risks of instability, possibly extending beyond Greece, as well as tight financial (i.e. the size of the financial envelop), political, economic, social or legal constraints. The evaluation aims at assessing the extent to which the programme decisions were appropriate given the information available at the time.

The judgement is evidence-based. The thematic assessments in the evaluation build on quantitative research and qualitative analysis. More specifically, data collection consists of a blend of quantitative and qualitative data collection methods. Data have been drawn from two main sources:

- Primary data collected via the following consultation activities:
  - Targeted in-depth interviews,
  - Targeted online survey.
- Primary legal sources
- Secondary data collected by reviewing:
  - Official documents (e.g. MoU, reviews);
  - Legal secondary sources
  - Specific thematic studies related to the assessment of the Greek adjustment programmes, produced by independent research institutes on request of the European Commission and internal studies published by the European Commission;
  - Academic economic literature in peer-reviewed journals though a systematic literature review approach (see Annex 1);
  - "Grey" literature from think tanks, research institute and international organisations, non-published in academic journals
  - Additional documents (including several books).

Among the list of the secondary sources, official documents provide the basis for the intervention logic in the evaluation framework, whereas the thematic background studies provide crucial support to the analysis. They include four independent studies commissioned by the European Commission in 2019 and cover, in-depth, four major topics: the macroeconomic adjustment, sovereign debt sustainability, pension reforms and the financial sector. In addition, four sectoral studies (on privatization, healthcare, energy and public administration) and one on structural reforms (2010-2018), prepared by the European Commission services, contribute to the background analysis for the evaluation. Finally, reports and documents published by the ESM, the IMF and the Bank of Greece, as well as private sector papers and a large set of academic research complement the previous source of information. The main sources of quantitative data used include Eurostat, Ameco, Bank of Greece and ELSTAT.

As far as primary sources are concerned, the stakeholders' consultation strategy, illustrated in detail in Annex A2.2 includes semi-structured interviews, a survey and a stakeholders' workshop.

Sixty in-depth, semi-structured, targeted interviews have been conducted[3]. Different groups of stakeholders involved in the programmes' design and implementation,

[3] The team managed to interview almost all the stakeholders who were approached, with the exception of IMF officials still in service.

like former members of the Greek Government, former and current European Commission officials, ESM officials, and Eurogroup Working Group members have been consulted. In addition, one Greek Member of the European Parliament, a number of Greek scholars, as well Greek public authorities and social partners have been interviewed. These interviews made possible to collect detailed and first-hand information about the prevailing needs and problems, the design and objectives of the programmes, their implementation, the achievements and the impacts. They also informed the broad economic and political context in Greece and in the EU at the time of the programmes.

The **online survey** was possible with the support of the DG-Ecfin. It was distributed to the current members of the Economic Financial Committee (EFC), with the purpose to capture the view of representatives of the euro area member states during major EU decisions, as well as their judgement of the Greek crisis. Fifteen out of 19 member states responded. The content of the survey was designed based on the interview guideline prepared for the institutional stakeholders.

The information from the interviews is summarized in Annex 3. Annex 4 presents the overview of the survey responses. Information from the interviews and the online survey enabled to distil key findings and juxtaposed against the findings from the desk research.

On 6th July 2021, DG-Ecfin will organise an **online stakeholders' workshop** with selected, relevant stakeholders and experts. The workshop will be the opportunity to fact check and discuss the findings of the evaluation as well as obtain valuable feedback on the different aspects of the programmes.

The overall evaluation approach, detailed in Annex 2, is inspired by the established principles of better regulation as detailed in the 2017 "Better Regulation Guidelines"[4] and the "Better Regulation Toolbox"[5]. It consists of identifying the intervention logic of each of the three programmes and defining an assessment framework on which the ex-post evaluation is based on the **five criteria** generally used for the evaluation of EU policies. These criteria are functionally defined for the context of this Assignment as follows:

- **Relevance** is intended as the alignment between the needs and/or problems the intervention aims to address, and the objectives indicated in the programmes to do so. In other words, the relevance criterion checks whether the rationale underlying the programmes was appropriate. An analysis of the relevance of the programmes thus aims to identify if there is a mismatch between the objectives of the intervention and the societal needs or problems at the time.
- **Effectiveness** is intended as the assessment of the extent to which the Greek adjustment programmes have achieved the objectives each of them was intended to achieve, and generated the benefits, which it was intended to produce. This criterion measures the possible gaps between the objectives and direct outputs (direct achievements of the intervention and within the intervention's control) and results (achievements of the intervention for the beneficiaries out of the intervention's control) of the programmes.
- **Efficiency** concerns relationship between inputs (money, people, time etc.) and outputs of the intervention. Efficiency investigates where the EU could have achieved the same outputs with different/less inputs and or even more outputs with the same inputs. Its main goal is thus to understand if the costs of the intervention are justified in view of the outputs. The analysis of the efficiency of the programmes includes also the understanding if the costs borne by various

[4] Commission Staff Working Paper, Better Regulation Guidelines, SWD(2017)350.

[5] Better Regulation Toolbox complementing Better Regulation Guidelines (SWD(2017)350).

stakeholders to achieve the objectives/benefits discussed under the 'effectiveness' criterion could have been minimized.

- **Coherence** is a measure of the degree to which the adjustment programmes are consistent among each other (so-called 'internal coherence'[6]) and with the EU policy framework at large (so-called 'external coherence'[7]).
- **EU-Added Value** assesses the value resulting from euro area adjustment programmes, rather than interventions initiated at regional or national levels.

Following the evaluation framework, for all criteria above, data have been collected from multiple sources and using difference tools. Data collected have been validated via triangulation in order to ensure the robustness of evidence and that all the findings are based on well-grounded evidence.

2.1 Intervention logic

Proper identification of the logic of the intervention is key to perform a structured ex-post evaluation. This section presents the intervention logic of the three economic adjustment programmes, comprising the rationale, the inputs, and the expected results of the intervention. The intervention logic includes a detailed description of the needs and problems that the programmes intended to address, the objectives set out for the programme, the inputs of the programme, the expected outputs, outcomes and impacts and the logical links between these components. A comparison between the expected effects (i.e. how the programme was intended to work) and the actual effects stemming from the intervention under analysis (i.e. how the programme worked in reality) facilitates a comprehensive and unbiased ex-post evaluation. In what follows, we identify for each adjustment programme the following components of the intervention logic:

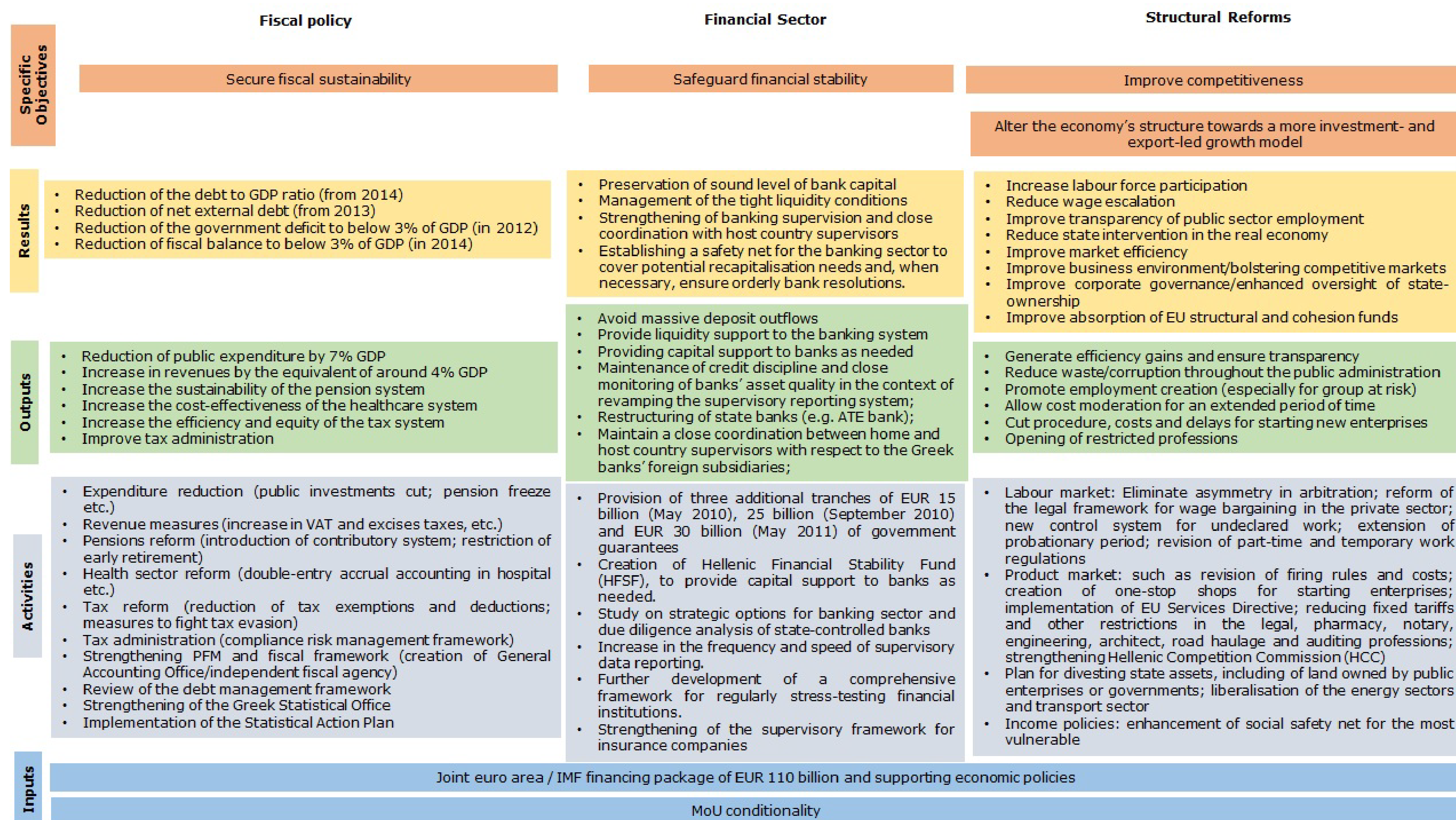
- The **rationale for each programme:** at this stage, the Evaluation Team identify the reasons that justified the establishment of each programme, by first assessing the *needs* and *problems* that it aims to address. As a second step, the Evaluation Team outlined the programmes' main *objectives*.
- The **intervention components:** After identifying the needs, problems and objectives underlying each programme, the intervention logic approach requires the assessment of the main features (activities/inputs) of the programme itself.
- The **expected results**: Expected effects of each programme. Based on the time frame of their occurrence and the groups of addressees involved, such effects can be classified into three different categories: outputs, outcomes and impacts.

Figure 2 to 4 provide an overview of the intervention logic of each programme. Annex A2.1 provides a detailed account of the measures to be implemented by policy area.

[6] In the context of this evaluation, internal coherence also refers to possible inconsistencies among the three EAPs that blocked the intervention from achieving its objectives in full (e.g. changes in conditionality, different implementation modalities, and external changes affecting the design).

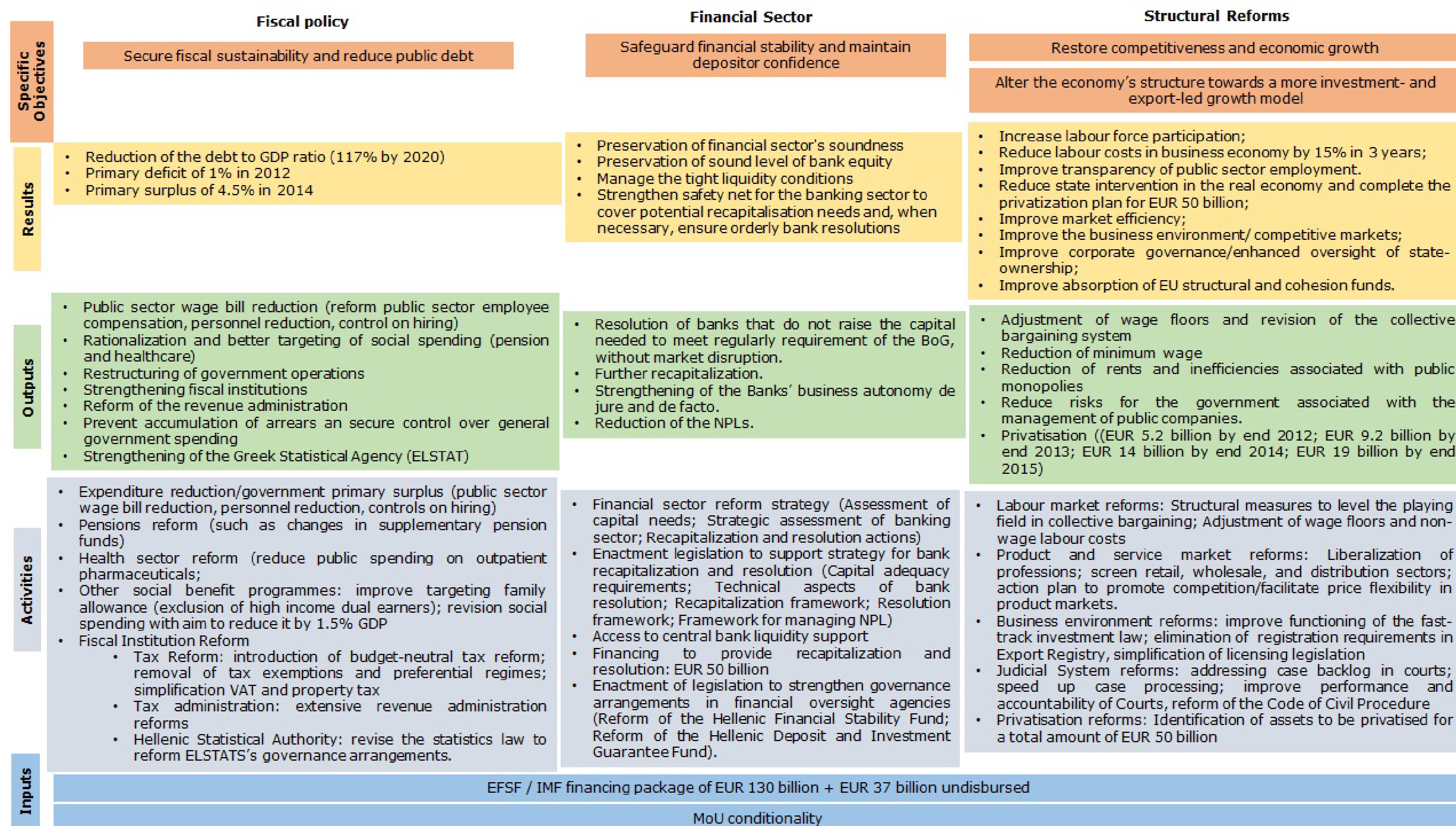
[7] In the context of this evaluation, external coherence includes the investigation of possible inconsistencies between the EAPs instruments and other EU interventions, for instance coming for the ECB or the ESM, but also from non-EU interventions, namely the IMF, and how these other tools reinforced or deteriorated the effects of EU support.

Figure 2. The intervention logic of the first EAP



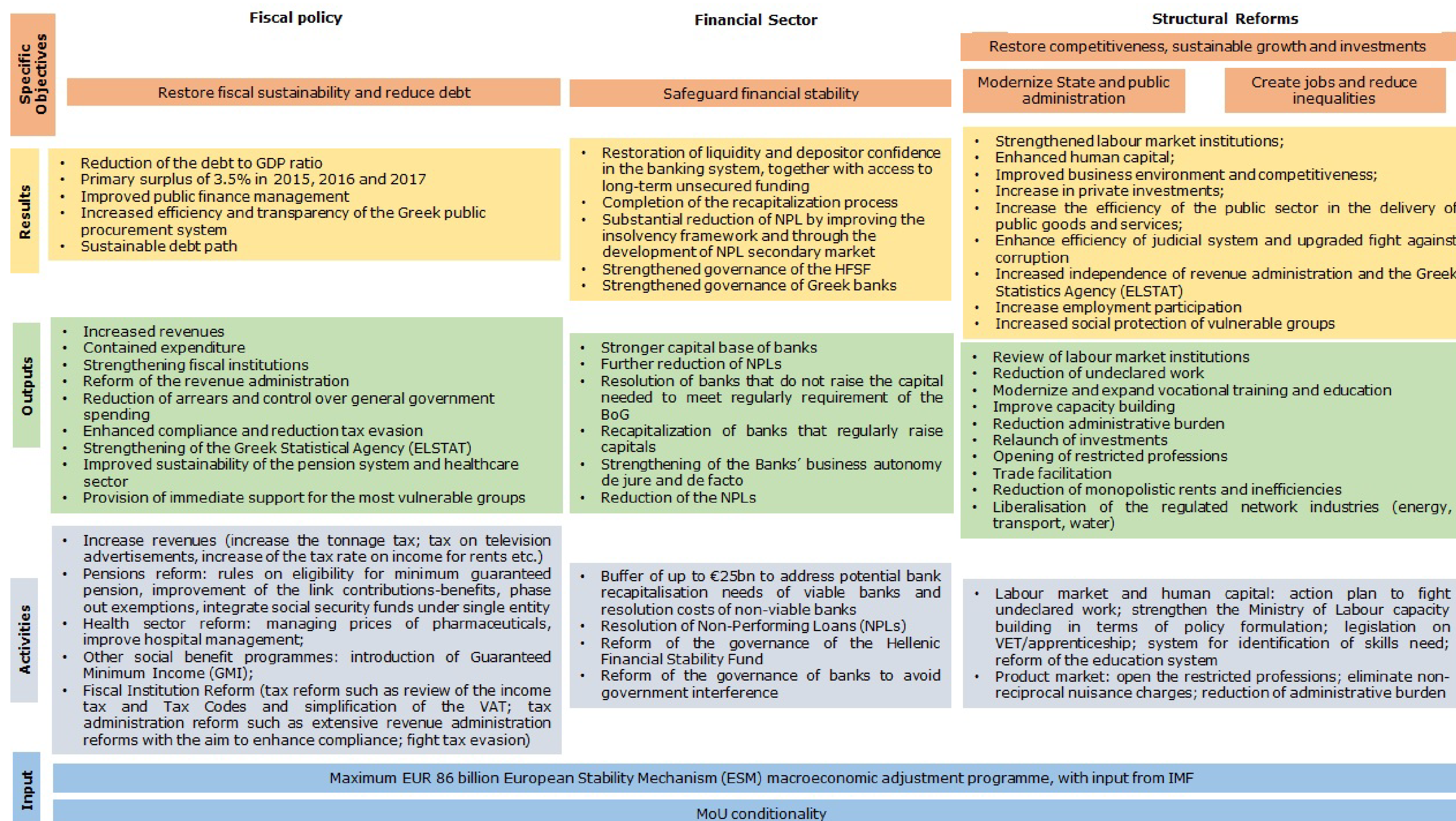
Source: Authors' own elaboration

Figure 3. The intervention logic of the second EAP



Source: Authors' own elaboration

Figure 4. The intervention logic of the third EAP



Source: Authors' own elaboration

3 The economic and political context: A difficult starting point

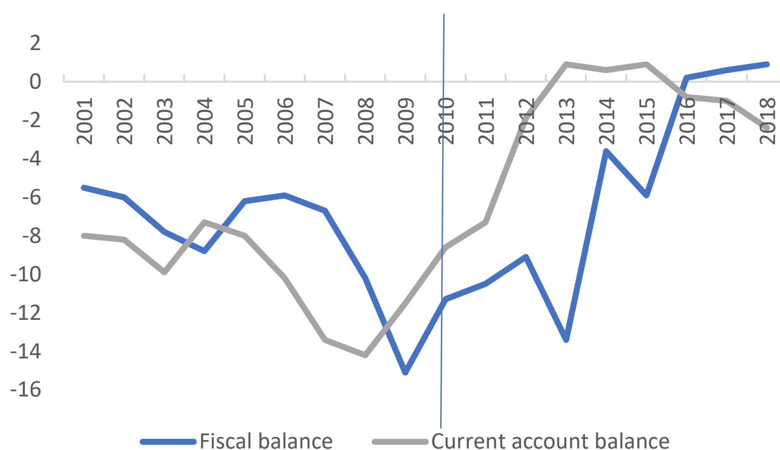
This section provides an overview of the pre-crisis economic and political situation, which led to the request for external financial assistance and the first adjustment programme. It has the purpose of illustrate the run-up of the crisis and identifying some of the needs/challenges that the adjustment programmes were meant to address.

3.1 The macroeconomics and the build-up of imbalances

The Greek crisis resulted from a combination of lack of competitiveness, unsustainable public debt and large foreign borrowing. For many years, the government ran large and persistent fiscal deficits, well above the reference values set by the Stability and Growth Pact (SGP). The public deficits came along with a decade of economic boom, which was fuelled by public borrowing on international markets, and were associated with a large current account deficit, driven by large imports and very low exports. When the financial crisis erupted, the ability of the economy, and the government especially, to pay back a very high level of debt, appeared very weak.

A twin deficit fuelled growing fiscal and external imbalances. In 2009, Greece's headline deficit-to-GDP had reached the improbable (in a monetary union with a fiscal framework) level of 15.1%. As matter of fact, the actual number was not known at that time. In December 2009, when it was made public that official statistics were manipulated, the fiscal deficit was estimated at 12.1% of GDP and debt at 110%. In such a context, the accuracy of data to measure the state of the economy was a serious problem. This was exacerbated by the limited capacity of the government to systematically collect data.

Figure 5. Twin deficits: Fiscal and current account balance (2001-2018)

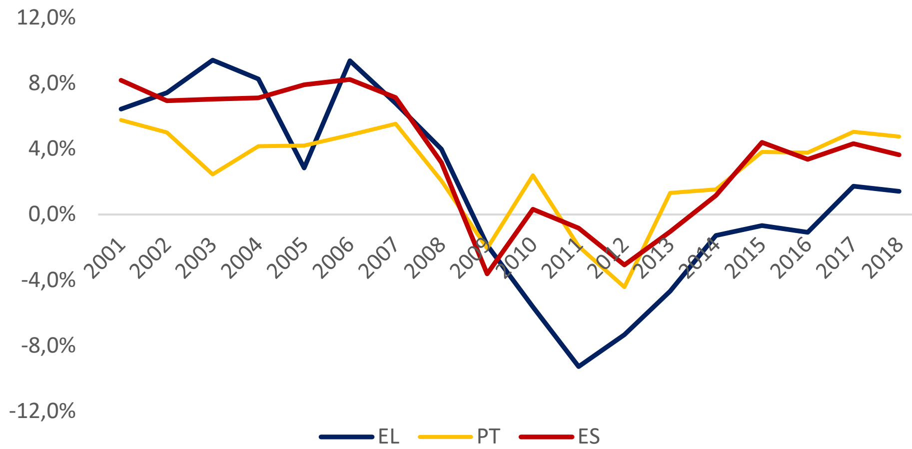


Source: AMECO

Note: Net lending (B9) (UBLG) general government (Excessive Deficit Procedure), Net lending (+) - net borrowing (-), total economy (UBLA), percentage of GDP

What was, however, sure is that the budget balance was in deficit since Greece had joined the euro area, despite very high GDP growth rates. The Greek nominal GDP growth (as well as real) was well above the euro area average and countries like Spain and Portugal (see ***Figure 6***).

Figure 6. Nominal GDP, growth rate, Greece, Portugal and Spain

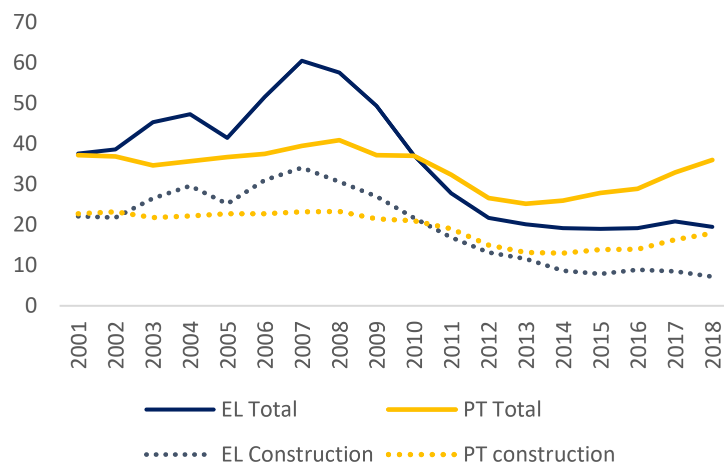


Source: Author's calculations based on AMECO

The good economic performance was driven by significant external imbalances. With an initial low level of income, EU accession and Structural Funds contributed to spur a quite powerful convergence process. With the euro area membership in 2001, Greece benefitted by cheaper and large inflows of funds, which mostly financed government expenditure. Borrowed funds were not used for productivity-enhancing investments and led to the accumulation of significant external indebtedness. The Greek economy experienced a boom period associated with low productivity growth, while rising unit labour costs and deeply-rooted structural deficiencies dragged on competitiveness.

During the boom period, Greece experienced an over-investment cycle which peaked in 2007. This fact has been little recognised, but the investment in construction was clearly the main driver for the longer-term investment cycle in Greece. In 2007, investment in construction represented more than 14% of GDP. While this is lower than other countries like Spain and Ireland, which had a housing bubble, it was much higher than most other euro area countries, and those similar in size, like Portugal (see Figure 11)

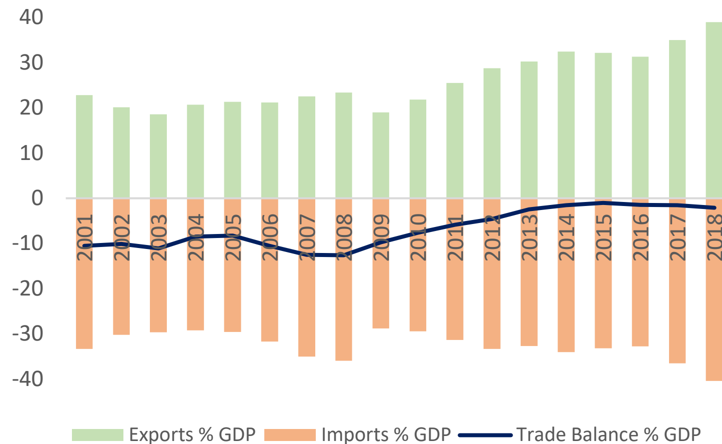
Figure 7. Investment, total and in construction, Billion EUR, Greece and Portugal



Source: Ameco

Greece was a quasi-closed small economy. While a small economy such as Greece, which has been part of the EU and the single market since 1981, was expected to exhibit a high degree of openness, this was not the case. Compared with other EU countries of a roughly similar size, Greece was quite exceptional and exhibited less openness, as measured by trade as a percentage of GDP. In addition, its trade balance was chronically negative throughout its EMU membership. In fact, this was the case even prior to that. This feature played an important role in the failure of the first adjustment programme and, possibly, also in the second one.

Figure 8. Trade balance as a % of GDP, 2001-18



Source: Eurostat,

In reality the problem of low degree of openness, was even more acute than headline data could suggest, as the share of exports with domestic value added, and that is relevant for the economy (in terms of employment, income and tax revenue), was particularly small.

In 2008, slightly over 50% of Greek exports were goods, which means that in international comparisons, reliance on the service sector was very pronounced. Greece was the only euro area peripheral country where services exports exceed goods exports (Figure 9). Those were hit by very different global demand shocks than other countries, and for which the recovery has been different.

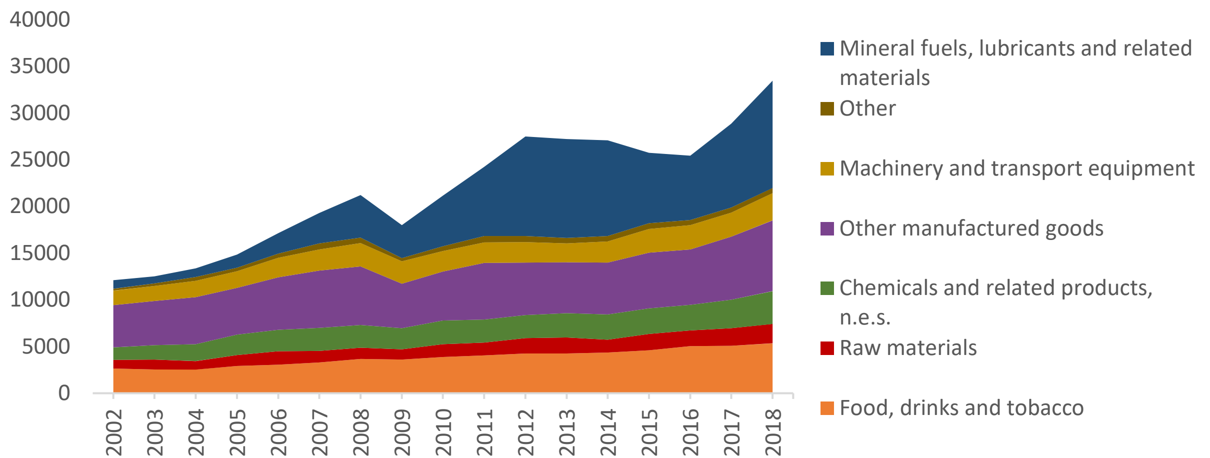
Figure 9. Export performance in comparison, 2008

	Goods export % GDP	Service export % GDP	Trade balance % GDP
Greece	10.2	13.2	-12.6
Portugal	21.4	9.8	-9.5
Ireland	51.3	32.9	8.6
Spain	17.4	8.2	-4.7

Source: AMECO

Before the crisis, Greek exports almost double in nominal value (2002-2008) mostly driven by exports in mineral fuels and chemicals. However, these exports contain for the most part petroleum products (73%),and are strictly linked with the Greek shipbuilding industry and its sea freight transport sector (Danchev & Maniatis, 2014).

Figure 10. Export of goods composition 2002-18



Source: Eurostat

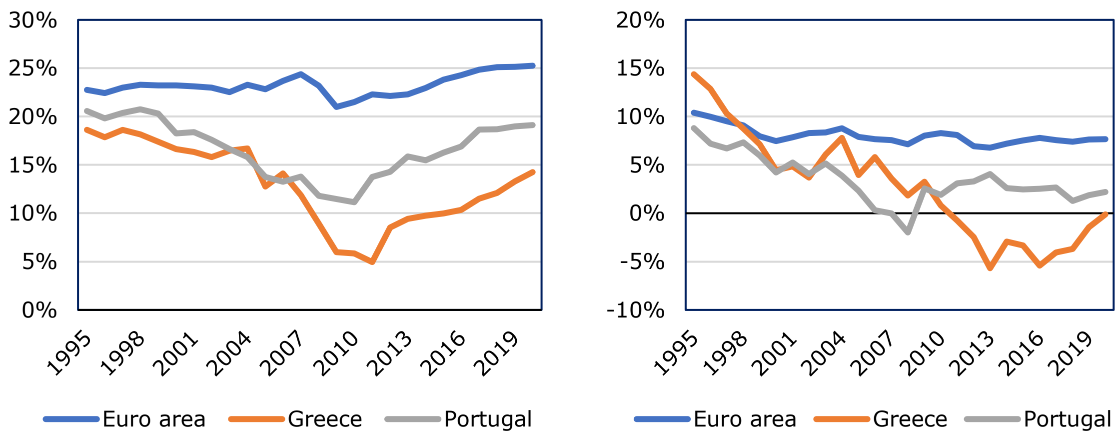
Since Greece does not possess its own oil fields, raw materials are imported and the amount (value) of exports is driven by commodity prices. This also means that the actual domestic value-added of this sector is far smaller than export figures would suggest. In practice, the mineral fuel is the one industry in which Greece gained market share in the world export market (essentially driven by oil prices). For all the other industries, Greece had lost market share. While this may seem at odds with the good performance and the high growth rates after the year 2000, the loss of competitiveness was a trend (also driven by international factors) common to several countries in the periphery of the euro area, which also had an adjustment programme.

Exports of services in Greece were highly concentrated in two sectors, transport and tourism. In 2008, transport services accounted for 56% of service exports (or 51% for sea freight alone) and travel accounted for 34%. In other words, almost half of total exports (goods and services) were transport and travel services. This made the economy highly susceptible to external shocks. In addition, similar to the mineral fuel sector, the transport service sector, which are mostly sea freight, has very relatively low domestic value added. According to OECD estimates, this was about 77% in 2009. In addition, this sector has limited impact on tax revenue and on domestic employment (foreign personnel). Overall, the two peculiarities of Greece's export structure, namely goods export being commodity-heavy, without Greece having commodities fields, and an export of services dominated by maritime transport, made exports little connected with the Greek economy. More generally, such exports tend to depend either on non-domestic factors (as in the case of maritime transport) or more on prices than labour costs (as in the case of tourism).

Such particularities of Greece's export structure have to be taken into account when judging the success of the programmes, lowering expectations on the contribution from growth in exports that could realistically materialise. A substantial part of exports (food, commodities and maritime services) could not be expected to respond to competitiveness gains driven by internal devaluation, and in particular by wage reduction. Such features should have been taken into account in the design of the programme.

Low propensity to save. Since mid-1995, the propensity to save as part of the total economy started to decline to reach a trough of 5 % in 2011 (**Figure 11**, left panel). This was mostly driven by a sharp and persistent decline in private sector savings, which became negative, in net terms, in 2011 (**Figure 11**, right panel).

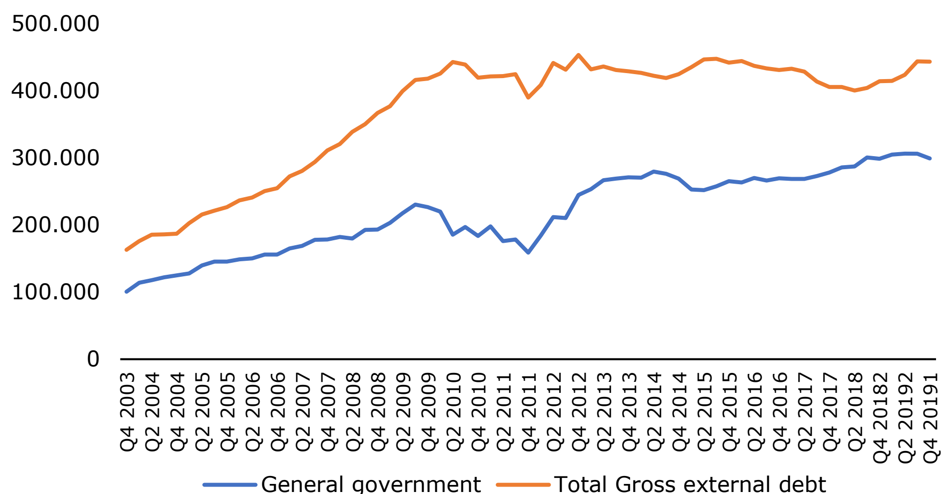
Figure 11. Savings – Gross savings, total economy (LHS) and net savings, private sector (RHS)



Source: AMECO

Low savings combined with sustained fiscal deficits meant that accumulated debt was financed by foreigners (see **Figure 12**). Total external debt increased by 160% between 2003 and 2009 to reach about 200% of GDP.

Figure 12. Greece external debt position (in million EUR)

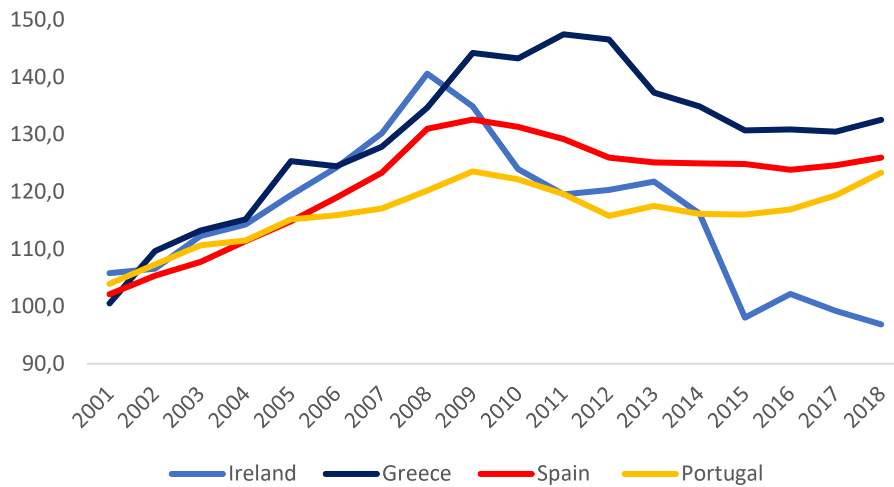


Source: Bank of Greece

Half of it was debt of the general government. It is an empirical observation that, foreign-held debt is more exposed to the volatility of international lenders, and as a result the debtor may be more likely to incur liquidity problems in times of crisis. With the global financial crisis, and the dramatic increase in risk aversion, Greece was suddenly faced with a major liquidity issue.

Loss of competitiveness manifested as strong increase in ULC and stagnant productivity. During the booming years, the special structure of the Greek export sector was accompanied by an impressive increase in labour costs. In the first decade of the 2000s, the latter increased by about 44%. A similar trend was common to all euro area countries which had then an adjustment programme. Greece is the country for which, it took the longest to start to reverse the trend (Figure 13).

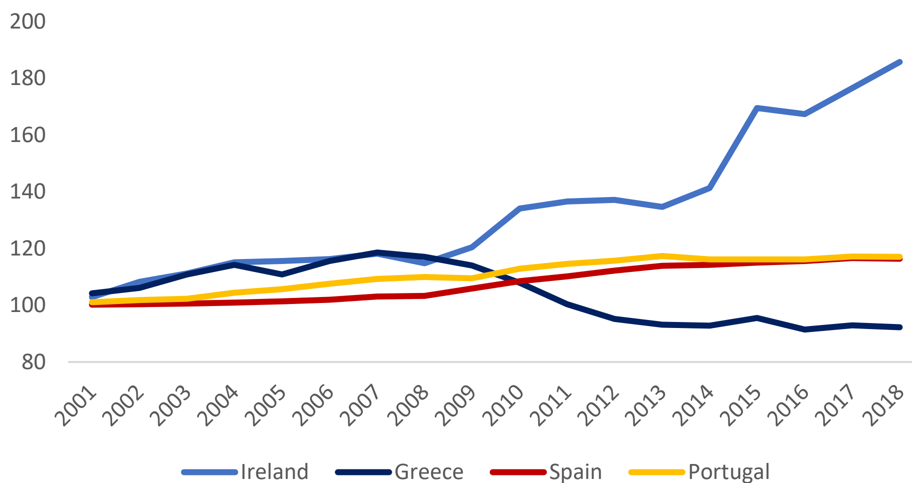
Figure 13. Nominal Unit labour Cost, 2000=100, 2001-18



Source: Own calculations based on Ameco

Similar to other euro area peripheral countries, real labour productivity only increased modestly during the booming years. In Greece, which slightly out-performed the other three countries during this period, productivity started to decline in 2008 and it never recovered.

Figure 14. Real labour productivity per hour worked, Index, 2000=100



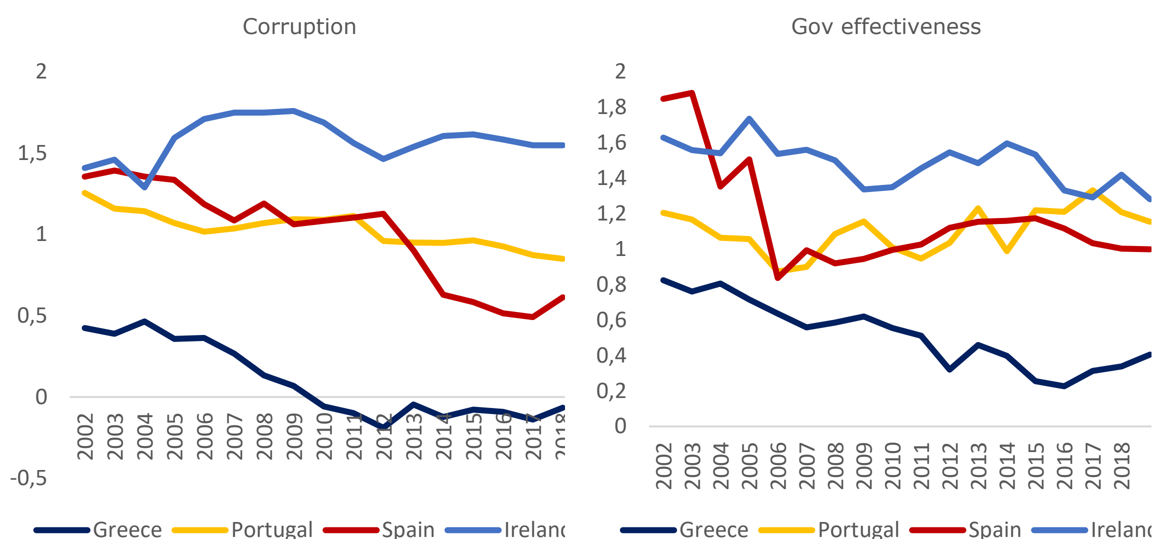
Source: Own calculations based on Eurostat

The features of the economy were associated with a large fiscal multiplier. Based on the simple Keynesian fiscal multiplier definition, low propensity to save increases the fiscal multiplier and enlarges the negative effect of fiscal consolidation on GDP. Low savings over a long period, as in Greece, also have implications for debt and potentially its sustainability. Similarly, a low degree of trade openness also increases the size of the multiplier and a small export sector it makes it difficult for exports to provide an offset to fiscal tightening. For this to happen, the economy needs to change significantly in terms of the allocation of resources between the tradable and the non-tradable sector. While this is not impossible, it is very unlikely during a recession with low investment. Based on such macroeconomic features, the problem facing Greece in

2009 can be described as the need for very large fiscal adjustment, with a high recessionary impact and a clogged safety valve.

Deep structural weakness was a major feature of the Greece. As it was understood only later on, Greece was characterised by low-quality institutions. Greece scored very low, much lower than other euro area countries, in all governance indicators (see Figure 15), before the crisis erupted. It was an overregulated system featured by selective enforcement, high transaction and administrative costs, and delays and inefficiencies in processing judicial cases[8]. With strong interest groups using their political power to preserve their rents and a public administration highly politicised, the implementation of the macroeconomic adjustment and the structural reforms could only be a difficult process. Yet, it was not known at the time of the first programme.

Figure 15. Selected Governance indicators



Source: World Bank

Greek structural weaknesses were reflected in a fragmented labour market, a weak welfare state, a dysfunctional and clientelistic domestic governance.

A fragmented labour market. At the onset of the crisis, the Greek labour market was highly dysfunctional and fragmented, characterized by low participation rates, especially among women, high unemployment rate compared to the other European countries, distorted taxation system incentivising undeclared work, fragmented and inefficient collective bargaining system, distorted employment protection legislation, polarization between hyper-protected insiders, under-protected 'mid-siders' and unprotected outsiders, low investments in activation policies and high skills mismatch. The combination of high fragmentation, polarization and low participation made the Greek labour market unable to adjust to the crisis and – at the same time – made the intervention highly complicated (see section 7.1 for details).

Weak welfare state. When Greece entered the crisis, the problem of its welfare was twofold. Firstly, social expenditure was biased towards pensions, amounting at around 11% of GDP and projected to rise to 21.4% of GDP in 2040 and 24.1% in 2060 thus representing a concern in terms of fiscal sustainability (European Commission 2009). Secondly, the design of the social protection policies was highly fragmented and overall unfair, granting people in need unequal access to social protection. This was the case of

[8] See A. N. Hatzis (2018) Greece's Institutional Trap

the unemployment benefits, unemployment assistance, healthcare and even pension schemes, whereby Greece registered the highest share of old-age people at risk of poverty rate in the EU. In addition, Greece lacked any scheme of minimum income protection. Greek welfare state asymmetry and overall fragmentation emerged as highly problematic when the crisis erupted, and the system was not prepared to tackle the social consequences of the recession (see chapter 8).

Dysfunctional domestic governance. The Greek political system was characterized by a set of 'paradoxes of domestic governance', which limited the reform capacity (Faetherstone 2011). Despite the formal strength of the executive branch - a near-presidential system-, the public administration showed weaknesses stemming from intra-governmental coordination, efficiency and resources. The executive indeed lacked a centralization of resources and assigned much operational independence to ministries (Featherstone and Papadimitriou, 2009). Ministers, however, lacked *de facto* executive strength, given limitations inherent to the bureaucratic machine like low-skill staff, very limited used of digital tools, legalistic operating norms, strong unions' power. The problems of coordination and control characterizing the Greek domestic governance were particularly present in budgeting mechanism and tax revenue collection. As it became clear only later on, all these factors severely affected the capacity of the Greek governments to guarantee an effective and efficient implementation of the structural reforms.

Clientelism. Another feature of the Greek governance was a longstanding political culture marked by clientelism, rent-seeking and corruption (Mitsopoulos and Pelagidis, 2010). The result of such culture was prevailing short-term, piecemeal political attitudes. Clientelism was amplified by a sort of 'disjointed corporatism' (Featherstone 2011). On the one hand, the two major trade union federations (GSEE, ADEDY) over-represented the state and wider public sector, favouring the interests of a relatively protected core group of workers. On the other hand, the main employers' organization, SEV, favoured the interests of those very few large firms (Featherstone and Papadimitriou 2008). As it become clear soon, the combination of a weak welfare system and rigid employment legislation (see chapter 7) together with a disjoined corporativism served to immobilize structural reforms' efforts and contribute to explain the difficulties that Greece encountered in implementing the programmes.

4.1 The global financial crisis and the run up to the programme

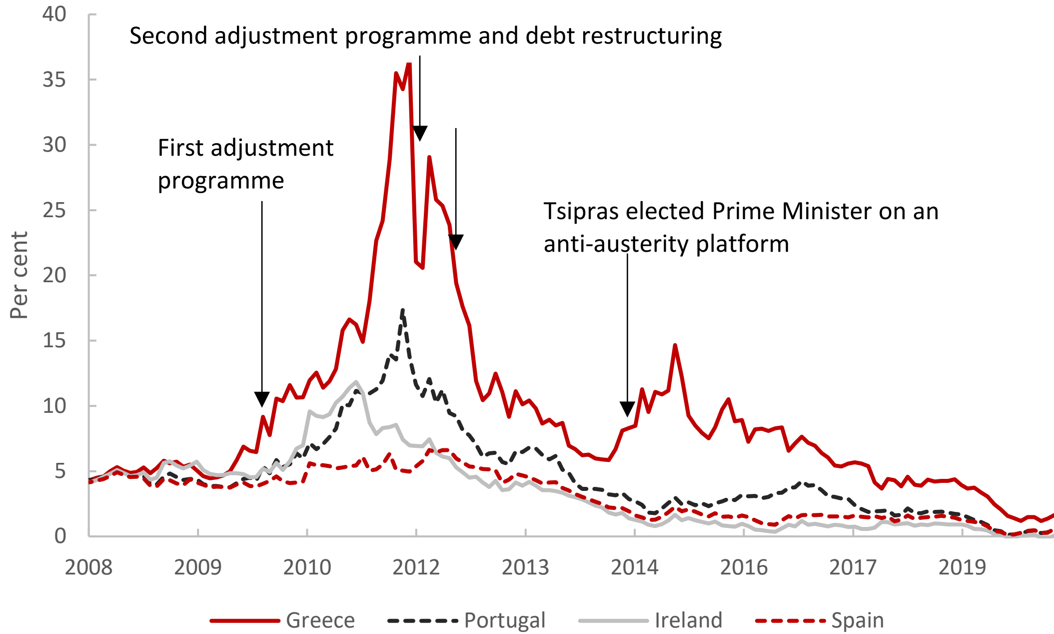
In 2008, when turbulences swamped global financial markets, the resilience of the Greek economy proved quite strong. While the nominal GDP growth rate fell by more than half, it was still at 4%. The apparent resilience was, however, the result of a very expansionary fiscal policy (as it was proved later). Moreover, the banking sector was very supportive of the economy, through the purchase, like elsewhere, of government bonds and easy credit to the private sector.

The resilience then gave way to a rapid deterioration. GDP growth became negative in 2009, close to -2%. The deteriorating economic conditions and the large external debt, combined with the announcement of doctored official statistics, put Greece under the spotlights of financial markets. Greece became a major concern for the EU institutions and euro area member states. In addition to Greece, several other euro area countries suddenly appeared vulnerable and, gradually, fears of contagion, transmitted through financial linkages, became an existential threat to the monetary union.

From late 2009, fears of sovereign defaults developed among investors and, in early 2010, they became tangible for Greece. But concerns were rising for Portugal and Ireland which equally appeared on a risky path. Spreads on government bonds increased

dramatically for Greece and rocketed up for Portugal (Figure 16) in April 2010, when the sovereign debt rating of Greece was downgraded to junk status by S&P, and the investment grade status of Portugal lowered.

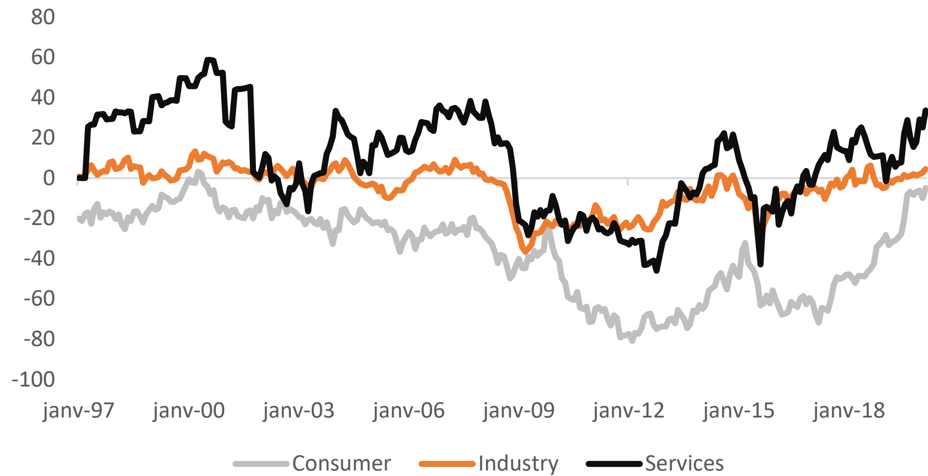
Figure 16. Financial markets distress: 10-year government bond yield for Greece, Portugal, Ireland and Spain



Source: NIESR (2020)

Rating downgrades and deterioration of confidence increased pressure on the funding conditions of the system. The perceived risk of the Greek sovereign and fear of default deteriorated business and consumer confidence (Figure 17), with negative impact of the real economy and even further pressure on funding costs for the sovereign and the private sector.

Figure 17. The loss in consumer and business confidence



Source: NIESR (2020)

4.2 The trigger of the sovereign debt crisis and the political context

In October 2010, Papandreou's announcement that fiscal deficit was at least the double than the 6% pursued at the time (previously, the goal had been 3.7% of GDP for the fiscal year 2009) and that official statistics had been systematically misreported caused a shock in the financial markets and above all stunned policy decision-makers. The event was considered by many as something unimaginable.

While for the new government this was an opportunity to expose the mistakes of previous governments, the revelation created the feeling that the Greeks, regardless of who is leading the country, could not be trusted.

In retrospect, this was a manifestation of an historically polarised party system, which was never able to overcome divisions and join forces, not even in the worst moments of the programmes. Quite the contrary, the political divisions within the Greek party system further increased during the Economic Adjustment Programmes. Whiles for other countries under programme, such as Portugal and Ireland, reforms implemented enjoyed quite a broad consensus, in Greece this was never the case. The reform process was characterized by recurring conflicts and disagreements between the main parties. Such difference can be, at least partially, explained by the structural features of the Greek party system. The latter relied to a great extent on *clientelistic linkages*, namely on a selective redistribution of resources to mobilize electoral support (Alfonso et al. 2015).[9] In clientelistic systems, the electoral survival of parties largely depends on their ability to control state budgets to reward clients. Hence such parties are more reluctant towards fiscal discipline. Indeed, cutting spending or increasing taxes undermines their own electoral strategies, because it curtails the capacity of patrons to reward clients via public spending or tax exemptions. In Greece, both mainstream parties, PASOK and New Democracy extensively relied on the expansion of the public sector or social benefits and immunity from the law to targeted social groups as a mode of electoral mobilization (Mitsopoulos and Pelagidis 2011). Furthermore, the partisan patronage extended also to organized interests, notably trade unions, which were de facto the extension of Greek parties. As a matter of example, the biggest union confederation General Confederation of Greek Workers (GSEE) was structured along political factions linked to both PASOK and ND.

Against this background, it does not come as surprise that when the first programme was signed and the government committed to fiscal consolidation, the main opposition party did not support the government and the reform process was delayed. The first programme did not only result in an exacerbation of the conflict between parties but also within parties. As a matter of example, Finance Minister Papaconstantinou, who was driving the implementation of the programme, was eventually dismissed because of his dismal popularity within the party and with voters. With hindsight such political dynamics deeply affected the success of the programme, but as matter of facts it was impossible to factor them in the programmes, certainly not in the first one.

Another political dynamic affected the context in which the first EAP started. While the adoption of the first EAP was accompanied by fierce opposition from the opposition parties as well as by trade unions, the ruling party framed the new measures within a narrative of victimhood. It shifted the blame of the crisis towards the EU, thus further increasing the popular adversity towards the lending institutions, and undermining the engagement with the EU institutions. Altogether, unreliable official statistics, low

[9] This contrasts with *universalistic linkages*, which entail the redistribution of public goods that theoretically benefit everyone and thus take place within 'impersonal' electoral markets. Clientelistic linkages need 'thicker' social networks to operate and imply arms-length mechanisms of monitoring ensuring that both patrons (parties) and clients (voters) deliver on their promises

support for the programme and blame shifting towards the EU institutions, contributed to negatively affecting the relations between Greece and its EU partners and played a major negative role throughout the crisis.

By adding to the potential risk of moral hazard associated with the bail out, such context reinforced the argument of some member states that a harsh adjustment was needed and very strict conditionality had to be applied. As many stakeholders interviewed indicated, the willingness of several euro area member states to support Greece was mostly driven by the fears of contagion to other member states and the risks it could represent for the monetary union. Much less to help a fellow member state in troubles.

4.3 The EMU's unfinished design and the contagion risk

When the Greek crisis erupted in October, the E(M)U was unprepared on how to manage the crisis. Greece was the first of the euro area countries to be on the brink of sovereign default and in need of requesting emergency financial support to avoid it. As the Maastricht Treaty did not foresee any crisis management mechanism, the EMU was not endowed with a governance structure and funds to be able to respond quickly and within a framework to such a crisis. On top of it, the Treaty no-bail out clause created legal constraints about how to design the support.

As the contagion effect started to be felt in Ireland, Portugal and Spain, which saw their credit ratings downgraded in March–April 2010, there was a growing sense that the crisis was deepening and accelerating. Above all, fears that a euro area member state facing default would have dramatic effects to the monetary union increased strongly.

The lack of a framework for crisis management meant that financial support had to come from individual member states and that any decision had to be made or backed by member states, in the context of the Eurogroup.

The first indication of a possible intervention was a statement on 11 February 2010 from Eurozone's leaders, indicating the need to 'safeguard financial stability in the euro area as a whole' (European Council 2010). In March, France and Germany drafted a statement, according to which the euro area member states would coordinate bilateral loans as part of a package with IMF financing. On 11 April 2010, the Eurogroup finance ministers issued a statement announcing that the euro area member states were ready to provide bilateral loans to Greece, pooled by the Commission in the amount of EUR 30 billion, as part of a package including also EUR 15 billion from the IMF. Yet, the negative reaction of the markets, further deepened the political tensions and on 2 May 2010, the Eurogroup Finance Ministers agreed to activate the Greek Loan Facility for a total of EUR 80 billion of financial support (Eurogroup 2010a).

The lack of a crisis management framework was one of the reasons why the IMF was involved in assisting Greece: to provide financial support and to design a system of incentives to avoid moral hazard.[10] The IMF was the prime international organisation with very long-standing experience in dealing with sovereign financial crises, offering financial assistance and designing macroeconomic adjustment programmes.

However, Greece was clearly very different from all other cases. For the IMF, the 'standard' case was a stand-alone country, typically a developing or an emerging economy country, with its own central bank and national currency but with debt denominated to a large extent in a foreign currency. In addition, based on its mandate, IMF interventions were and still are triggered by (the risks of) balance-of-payment

[10] Germany was one of the main advocates of the IMF participation in the Greek programmes because of its reputation for implementing tough conditionality.

crises. Greece, in contrast, was a developed economy with very large public debt and was part of a monetary union with a reserve currency. While these differences were clear from the beginning, the structure of the first Greek adjustment programme followed an IMF approach that was rather standard.

According to its Independent Evaluation Office,[11] the IMF approved a decision to provide Greece with exceptional access to financing without seeking a restructuring of Greece's sovereign debt, although the debt could not be 'deemed sustainable with a high probability'. To make this possible, the IMF Board had to change one of the criteria of the IMF's policy governing exceptional access by introducing what became known as the systemic exemption clause. According to this clause, exceptional access can be offered in case of a *high risk of international systemic spillover*.[12] This was deemed to be the case for Greece. Against this background, the IMF concluded a stand-by arrangement[13] in 2010.[14] The underlying assumption was that the EU and IMF's provision of unprecedented amounts of financial means would prevent a default and that conditions attached to the loans—front-loaded fiscal consolidation and structural reforms—would restore growth and confidence.

In the initial stage of the crisis, Greece did not benefit from the European Financial Stabilization Mechanisms (EFSM)[15], which was established on 11 May 2010, under Art. 122 TFEU, to provide financial assistance to any EU Member State experiencing, or threatened with, a severe economic or financial disturbance caused by exceptional occurrences beyond its control.[16] This was only the case in 2015, when the EFSM provided short-term bridge loans to Greece.

The EFSF was hastily created in 2010 as a temporary facility to offer emergency support. It was then replaced by a permanent mechanism, the ESM. Over time, the EFSF/ESM became the largest creditor of Greece. The ESM is the only financier of Greece in the third adjustment programme.

Box 1. The evolution of the euro area financial assistance: A brief overview

During the first phase of the crisis, Greece received financial assistance through the provision of a temporary loan facility (GLF) outside EU law. It consisted of bilateral loans from euro area Member States. Under the GLF, the Commission coordinated and administered the pooled bilateral loans to Greece in liaison with the ECB. The European Financial Stability Facility (EFSF) was created by an intergovernmental agreement (the EFSF (Amended) Framework Agreement) as a temporary crisis resolution mechanism by euro area countries in June 2010. It provided financial assistance to Greece (1/3/2012 to 30/6/2015) but also to Ireland and Portugal. The assistance was financed via bonds and other debt instruments on capital markets. The EFSF does not provide any further financial assistance, as this task is now performed solely by the European Stability Mechanism (ESM).

The ESM is an intergovernmental institution and the only permanent mechanism compared to its predecessors. It was created by the ESM Treaty among EU Member States whose currency is the

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[11] See https://ieo.imf.org/en/our-work/Evaluations/Completed/2016-0728-the-imf-and-the-crises-in-greece-ireland-and-portugal

[12] This clause had consequences beyond Greece and was invoked by other countries, notably Ireland and Portugal. It was removed in 2016.

[13] https://www.imf.org/external/pubs/ft/scr/2010/cr10110.pdf

[14] This was cancelled in 2012 and replaced by an Extended Fund Facility, with a larger amount of financial assistance and a longer repayment period. In 2012, the IMF approved a four-year, EUR 28 billion arrangement under the Extended Fund Facility in support of the authorities' economic adjustment programme. The arrangement entailed exceptional access to IMF resources, amounting to 2,159 % of Greece's quota and a longer repayment period of up to 10 years.

[15] Council Regulation (EU) No 407/2010

[16] The regulation extended the application of the existing facility providing medium-term financial assistance for non-euro-area Member States' balances of payments to euro area countries.

euro. Being based on public international law, it lies outside EU law.[17] The ESM Treaty entered into force on 27 September 2012 and replaced EFSF. The ESM was used for the provision of third financial Assistance to Greece (8/7/2015 to 30/6/2018), until the expiry of the economic adjustment programme. In the post-programme period, the ESM is used to administer the SMP/ANFA profits channelled to Greece against progress in post-programme commitments.

[17] That the ESM lies outside the EU legal framework was confirmed by the European Parliament (https://www.europarl.europa.eu/legislative-train/theme-deeper-and-fairer-economic-and-monetary-union/file-integration-of-the-esm-into-eu-law-by-creating-an-emf). On the legality of ESM, see further ECJ judgment in *Pringle v Government of Ireland (2012)* C-370/12 (27 November 2012) -ruling that Member States have the right to establish such mechanism on an intergovernmental basis.

4 The financing needs

This section provides an overview financing needs of Greece as well as of the size and terms of the financing envelope under each of the three EAPs.

4.1 First EAP strategy and results

In April 2010, the Greek authorities asked for official financial assistance. The government was confronted with sizeable fiscal financing needs in April and May 2010. The April needs were met through issuances of bonds, but at a high price (the average interest rate exceeded 6 percent). Following the further worsening of market conditions in the course of April (2-year bond spreads reached 1552 basis points and 10-years bond spreads 755 basis points), the authorities requested bilateral financial assistance from euro area Member States and a Stand-By Arrangement from the IMF. In May 2010, a euro area/IMF comprehensive policy package was agreed on following a joint mission of the European Commission, the ECB and the IMF. It was supposed to cover three years, May 2010-to June 2013, supported by official financing for a total amount of EUR 110 billion. The euro area Member States provided bilateral loans pooled by the European Commission (Greek Loan Facility – GLF) for a total amount of EUR 80 billion over three years (see **Box 2** for more details), while the IMF committed an additional EUR 30 billion under a separate arrangement.

The IMF engaged at an exceptional scale, a multi-year financial assistance arrangement, with a loan equivalent to over 3,200% of quota, the largest non-precautionary Fund arrangement ever approved relative to quota. On the EU side, in the absence of any facility, resources came on a voluntary base from the budget of euro area member states and in proportion to their shares in ECB capital.

While the funding envelope was very large, according to some stakeholder familiar with the process, the amount was not determined based on a detailed assessment of the financing needs of Greece over the upcoming three years. Decisions had to be taken under huge time pressure and, given the economic situation and the political context, it was impossible to extend a larger emergency loan. At that time, for some euro area countries, like Italy, borrowing costs had increased. The crisis was looming in Portugal, Ireland and Spain, which, in the following year, found themselves in need of financial support. The Slovakian Parliament refused to participate in the loan.

As Greece's public sector gross financing needs were estimated at some EUR 193 billion between May 2010 and June 2013, the envelope was supposed to cover about 57% of them. According to the official financial assistance plan, EUR 38 billion were allocated for 2010, EUR 40 billion for 2011, EUR 24 billion for 2012, and EUR 8 billion for in 2013. With the exception of the EUR 10 billion allocated to the Financial Stabilisation Fund, the full amount was projected to be used to cover public sector financing needs. The underlying idea was that the Greek government would not need to tap international bond markets until early 2012, when it was expected to gradually return to markets for long-term funding. The huge financing needs relative to the loans also implied that Greece had to undertake a massive fiscal consolidation. The programme also included a privatization plan for the divestment of state assets and enterprises with the aim to raise at least 1 billion euros a year during the period 2011-2013.

Table 1. Estimated gross financing needs under the first EAP (billion EUR)

	2010 (Q3-4)	2011	2012	2013 (Q1-2)	Total
GG financing needs	32.8	61.6	66.8	31.6	192.8
Financing gap	38.4	44.6	23.7	6.2	112.9

Source: European Commission (2012) based on BoG, European Commission and IMF

Box 2 The Greek Loan Facility

The facility was codified by two agreements governed by English law: an Intercreditor Agreement, which regulated the relationship between the lender Member States, and a Loan Facility Agreement. The Intercreditor Agreement of 8 May 2010 provided amongst others that (a) the commitment of each party was subject to the fulfilment of any procedures required; (b) any disbursements were to be made by unanimity of the lenders; (c) all lenders ranked *pari passu*; (d) unanimity was required to modify the terms of the Intercreditor Agreement, the Memorandum of Understanding ("MoU") or the Loan Facility Agreement The Commission was tasked with negotiating the Loan Facility Agreement. The ECJ was given exclusive jurisdiction. Further, an Annex specified the commitment of each one of the lenders which correspond to their contribution to the capital of the ECB. The release of disbursements was subject to implementation of the programme of economic adjustment as it was set out in a MoU, which was attached to the Loan and the Facility Agreement. This conditionality was further supplemented by a Council decision which was addressed to Greece under Articles 126(9) and 136 of TFEU.[18] A notable aspect of the GLF of 8 May 2010 is that the loan was not granted on concessionary terms. The interest rate was set following the IMF approach, to discourage other Member States in similar position to Greece to rely on other Member States for their funding needs.

Under the GLF, financial support to Greece was provided at high rates, starting with a 3% margin rate for the first three years and 4% thereafter. To ease Greece's overall debt repayment burden, the programme passed through a series of adaptions in June 2011 and March 2012, with loan maturity extensions, a lengthening of the grace period, and a significant cut in the margin for the entire period.

In mid-2011, it became clear that Greece would not be able to meet the expected progress and to return to financial markets in 2012. By the earlier end of the first EAP, loans discoursed to Greece in the context of the international assistance amounted to EUR 73 billion. Of this amount, EUR 52.9 billion have been paid by the euro area Member States, and EUR 19.9 billion by the IMF.

Table 2. Detailed disbursement under the first EAP

Past disbursements

	Euro-area Member States		IMF		Total
1st tranche	18 May 2010	14.5	12 May 2010	5.5	20.0
2nd tranche	13 September 2010	6.5	14 September 2010	2.5	9.0
3rd tranche	19 January 2011	6.5	21 December 2010	2.5	9.0
4th tranche	16 March 2011	10.9	16 March 2011	4.1	15.0
5th tranche	15 July 2011	8.7	13 July 2011	3.3	12.0
6th tranche	14 December 2011	5.8	7 December 2011	2.2	8.0
Total past disbursements		52.9		20.1	73.0

Source: Commission services and IMF staff

Source: European Commission (2012)

4.2 Second EAP strategy and results

Based on the experience of the previous two years, when the second programme was prepared, Greece was not expected to be able to return to market financing until 2015

[18] Council Decision 2010/320 [2010] O.J. L45/6 11.6.2010.

and **the programme strategy had to be adjusted**. Greece was given additional time to underpin its fiscal consolidation efforts with structural fiscal reforms to generate expenditure savings on a durable basis. This required additional financial support to meet sizable financing needs in the period ahead.

Financing needs were expected to be covered through higher official financial support from the EU partners and the IMF as well as reduced by private sector involvement (PSI) in the form of a comprehensive debt restructuring operation.

Estimated gross financing needs amounted to around 178.5 billion until 2014, eventually this period was extended until 30 June 2015 (see Table 3), with a particularly high amount for 2012. In addition to a high General Government cash deficit (above 12 billion), maturing debt (18.9 billion) and other Government cash needs, it included EUR 78.3 billion to cover costs associated with the PSI, 48.8 billion for bank recapitalization and 29.5 billion of cash upfront.

Table 3. Estimated gross financing needs, under the second EAP

2012	2013	2014	2015	total
116.3	29.1	33.1	20.5	199

Note: baseline scenario
Source: European Commission (2012)

The EFSF and the IMF committed the undisbursed amounts of the first financing package plus additional EUR 130 billion. Overall, the EFSF committed to an overall amount of EUR 144.7 billion (including the already committed or disbursed amounts for PSI and bank recapitalisation), while the IMF committed to contribute EUR 28 billion during 4 years, under the extended fund facility for Greece that the IMF approved in March 2012.

Debt restructuring and higher official financing were supposed to allow for a slower fiscal adjustment and a more gradual privatisation process, whose plan was expected to collect EUR 50 billion receipts by the end of 2015.

Finally, to ensure that this financing places Greece on a sustainable debt trajectory, to deliver a debt-to-GDP ratio of about 120 percent by 2020, the EU partners committed to:

1. new lending at maturities of 30 years and at close to funding costs, using the EFSF as a financing vehicle;
2. reduce the margin of the Greek Loan Facility to a uniform 150 basis points; and
3. for euro area countries where central banks currently hold Greek government bonds in their investment portfolio, pass on to Greece an amount equal to any future income accruing to their national central bank stemming from this portfolio until 2020.

Under the PSI, the EFSF disbursed in the form of "in-kind", i.e. floating rate notes for bank recapitalisation, paid a PSI 'sweetener' of €29.69 billion, and conduct the debt buyback. The initial conditions of the EFSM/EFSF loans were set up to be broadly equivalent to the IMF loans, with short maturities and mark-ups for risks on the interest rates. Later, the EFSF adapted its lending strategies and reduced the lending rate.

Under the baseline projections, Greece was assumed to be able to return to the medium- and long-term market financing in 2015, although market access would be initially at relatively short maturities. In practice Greece managed to return to financial markets in April 2014 and raised EUR 3 billion through five-year bonds at a coupon rate of 4.75

percent, well under initial estimates. The financing from capital markets, however, did not last long. In the first half of 2015, the difficult political context, deposit outflows and Grexit fears derailed the programme and the need for additional financial support become a certainty.

It was in such a context of high political uncertainty that disagreements on debt sustainability and growth prospects intensified between the IMF and the EU partners. The IMF was unable to successfully conclude its programme reviews and its last disbursement was in May 2014. Overall the EFSF provided about 90% of the programme financing. In the end, of the EFSF envisaged €50 billion to recapitalise and resolve banks, €48.2 billion was disbursed, out of which €37.3 billion was used for such purpose. The remaining €10.9 billion was disbursed to the HFSF and at the end of the programme transferred back to the EFSF in February 2015.

Box 3. The EFSF

The EFSF was set up as a public limited company incorporated under Luxembourg law on 7 June 2010. Its shareholders are the Member States of the Eurozone. The Board of Directors is the decision-making body of the EFSF.[19] The main purpose of the EFSF is to support the stability of euro area Member States through the provision of loan facility agreements and loans. [20] This support is conditional upon the relevant Member State entering into a MoU with the European Commission and complying with the terms of that MoU.[21] On its part, the European Commission were to act on behalf of the euro area Member States in relation to budgetary discipline and economic policy guidelines. Acting in liaison with the ECB and the IMF, the Commission makes an assessment of debt sustainability and negotiates the MoU with the borrower Member State.[22] The Council decides to approve the aid on proposal of the Commission under Article 136 TFEU. The conditions of the programme are included in a MoU. With regards to loans, the EFSF provides amongst others for "remuneration to the Guarantors". [23] Disbursements require unanimity and would involve a review of compliance with the terms of the MoU as well as other conditions set out in the decision of the Council.

Council Decision 2011/734/EU of 12 July 2011 (as amended in November 2011, 13 March and 4 December 2012) outlines a series of quantitative performance criteria and positive evaluation progress with respect to policy criteria on which the release of the financial assistance was based. Attached to the Council Decision is a MoU which details the economic policy conditionality. In June 2011, several amendments were introduced in the EFSF Agreement with effect from 18 October 2011. Notable changes include the provision of (a) additional instruments available to the EFSF (e.g., purchasing bonds in the secondary market and in the primary market); [24] (b) an increase in the percentage of guarantees; and (c) the power of the EFSF to transfer any of its rights, obligations and liabilities under Financial Instruments and Financial Assistance Facility Agreements to the ESM following the constitution of the latter.

Luxemburg law is the governing law of the EFSF Agreement. [25] The court of Luxembourg has jurisdiction over disputes between Member States and the EFSF. [26] In its turn, the ECJ has exclusive jurisdiction over disputes between Members of the EFSF inter se.[27]

4.3 Third EAP strategy and outturn

Unlike the previous two programmes, the third programme was financed by the ESM only. The main purpose of the ESM financing was to service existing liabilities towards

[19] K Tuori, *The European Financial Crisis – Constitutional Aspects and Implications* EUI Working Papers, Law 2012/28, p. 14.
[20] Recital (2) of the EFSF Framework Agreement available at https://www.esm.europa.eu/sites/default/files/20111019_efsf_framework_agreement_en.pdf
[21] Recital (2) of the EFSF Framework Agreement
[22] Article 2(1) of the EFSF Framework Agreement
[23] Article 2(2) of the EFSF Framework Agreement.
[24] Article 2(1)(b) of the EFSF Framework Agreement.
[25] Article 16(1) of the EFSF Framework Agreement.
[26] Article 16(2) of the EFSF Framework Agreement.
[27] This arrangement is consistent with Article 273 of the TFEU.

creditors and then to finance the government's budget deficit, as well as a specific cash buffer (European Commission, 2015 and ESM, 2017).

At the start of the programme the estimated financing needs for the period August 2015 to July 2018 were EUR 90.6 billion. Accounting for government surpluses, SMP/ANFA profits[28], and the receipts from privatization the financing gap was estimated at 74 billion (**Figure 18**).

Figure 18. Estimated gross financing needs, under the third EAP

	New 3-year ESM programme from the beginning
	Aug 15-end Jul 18
Gross financing needs	**81.7**
Amortisation	33.8
Repayment IMF and BoG loans	2.1
Interest payments	17.8
Arrears clearance	7.0
Cash buffer for deposit build-up	4.5
Privatisation (-)	-2.5
Cash general government primary surplus* (-)	-6.0
Bank recapitalisation	25.0
Potential Financing sources	**7.7**
SMP/ANFA profits	7.7
Financing gap	**74.0**

Source: ESM (2015)

Concerning privatisation, a strong downward revision of the receipts had to be considered. Capital controls played a role by making re-privatisation of the banks unrealistic, together with the weak track record and uncertain commitment by the Greek authorities. The ESM expected receipts amounted to EUR 2.5 billion until July 2018 (the IMF estimate was just EUR 1.5 billion).

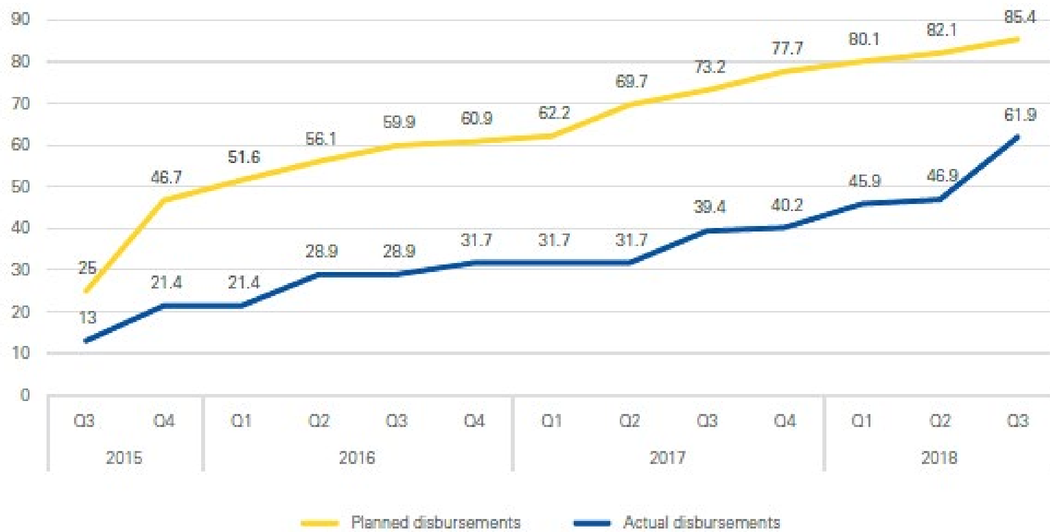
With the exception of the recapitalization, most needs (some 52 billion) came from amortization of debt and interest payments.

The ESM total financial envelope was EUR 85.5 billion, of which €25 billion were earmarked to meet recapitalisation needs for the banking sector. The worsening asset quality driven by the significantly weaker macro-economic development, high political uncertainty, the delayed NPL resolution process and the significant adverse impact of capital controls on economic activity and payment culture were expected lead to substantial capital needs. Banks were expected to be unable to regain market access in the near future, therefore an adequate capital backstop as part of a next financial assistance programme was considered needed. The amount was set based on a preliminary estimation.

In the end actual disbursements were lower than the planned amount of the ESM financing package (**Figure 19**).

[28] The programme details that If agreed by Member States, the SMP profits of 2014 and 2015 (totalling EUR 3.3 billion), although insufficient, could be used in July to July to repay arrears to the IMF and other upcoming payments. SMP profits of 2016, 2017 and 2018 could also be used for subsequent programme financing. Over the July 2015-July 2018 period, Greece is expected to receive EUR 2.7 bn in SMP profits (excluding the 2014 and 2015 profits used for urgent debt payments) and EUR 1.7 bn in ANFA profits from the other Member States and the BoG, reducing financing needs accordingly

Figure 19. Planned versus actual disbursements in the ESM programme (EUR billion)



Source: ESM (2020) p. 79, based on ESM calculations

This stemmed from an unused amount for substantially lower bank recapitalisation needs. Of the 25 billion, only €5.4 billion was used. Improved cash management of government resources through increased repurchase operations contributed to higher available domestic resources. In addition, €11.4 billion was used to accumulate Greece's cash buffer towards the programme exit. The planned disbursements structure was further modified by two sets of debt relief measures

Box 4. The ESM

The European Stability Mechanism (ESM) is a permanent mechanism of financial stability. It replaced the EFSF. It is an international financial institution based on public international law.[29] The final version of the ESM Treaty was signed on 2 February 2012. [30] Before the ratification of the ESM Treaty, the European Council (12114/11) decided that the European Commission, in liaison with the ECB, would be in charge of assessing "the progress made in euro area Member States in the implementation of measures taken to strengthen fiscal positions and growth prospects". In the meantime, Article 136 of TFEU had been modified to enable Member States of the euro area to establish a stability mechanism for the provision of financial assistance "subject to strict conditionality".[31] The ESM Treaty took longer than expected to be ratified but eventually entered into force on 3 April 2013.

The purpose of the ESM is to "mobilise funding and provide stability support under strict conditionality…."[32]. The ESM has a capital stock of €700 billion. This capital stock is divided into € 80 billion in paid in shares and callable shares. Each Member's capital stock is based on its contribution to the capital of the ECB. The liability of each member of the ESM is limited to its portion of the authorised capital stock at its issue price. Capital contributions of each are subject to further adjustment as, for example, when a Member State adopts the euro and becomes a member of the ESM or on the expiration of a temporary correction mechanism applicable to poorer ESM Members. The ESM borrows on the capital markets from banks, financial institutions or other persons or institutions. The ESM is tied to the ratification and implementation of the Fiscal Compact into national law as required by the TSCG. [33] The ESM is envisaged to operate with the

[29] General information about ESM is available in https://www.esm.europa.eu/about-us/intro
[30] The original version of the ESM Treaty was signed on 11 July 2011 but soon afterwards it was reopened for negotiations. See further, B de Witte and T Beukers, *The Court of Justice Approves the Creation of the European Stability Mechanism Outside the EU Legal Order:* Pringle (2013) 50 C.M.L.Rev. 811.
[31] The European Council Decision 2011/199/EU (25 March 2011).
[32] Article 3 of the ESM Treaty.
[33] Recital 5 of the ESM Treaty

participation of the IMF at the technical and financial level and the relevant Eurozone Member State is encouraged to seek support from both the ESM and the IMF. [34] The ESM Treaty entrusted the EC and the ECB to assess the actual and potential financing needs. The funds under ESM are provided under strict conditionality. Specifically, they take the form of instalments on the condition of demonstrable progress in the implementation of the agreed MoU. The policies are built around the following four pillars: (a) restoring fiscal sustainability; (b) safeguarding financial stability; (c) growth, competitiveness and investment; (d) a modern State and public administration.

In *Pringle*, the ECJ confirmed that strict conditionality is a necessary condition for the provision of any financial assistance under article 125 of the TFEU.[35] Furthermore, strict conditionality is required for the activation of the Outright Monetary Transactions (OMT) Programme and of the Quantitative Easing Policy of the ECB.[36] A practical implication of strict conditionality is that all Member States at the receiving end of financial support must implement an Economic Adjustment Program (EAP) which prescribes in detail the conditions under which assistance is provided. The level of intrusiveness varies from county to country. In general terms, the EAP requires fiscal consolidation and structural reforms of domestic pensions, tax and education systems as well as reforms of the public administration of the country in question. Conditionality is detailed in a Memorandum of Understanding (MOU). The most important of these conditions are also included in the Decisions of the Council addressed to the beneficiary Member State. These Council Decisions were adopted according to Articles 126(6), 126(9) and 136 of TFEU as well as Regulation 407/2010/EU (depending on the activated mechanism) or Regulation 472/2013/EU for financial assistance after the adoption of the Two Pack.

In striking contrast to its predecessor, the EFSF, the ESM is an international organisation in its own right.[37] An additional point of deviation is that ESM does not rely solely on guarantees. It relies on paid in and callable capital. Specifically, the ESM Board of Governors has the power to call in authorised unpaid capital at any time and set a time for payment by members[38]. The ESM Managing Director is also vested with a similar power in that he may call authorised unpaid capital to avoid the ESM being in default of any scheduled or other payment obligations.

4.3.1 Overall assessment of the programme financing

Over the period from May 2010 to August 2018, a total of EUR 288.7 billion were disbursed to Greece at favourable conditions, approximately 90 per cent of which coming from the euro area member states under various pool of funds (Figure 20).

[34] Recitals (7) and (8) of ESM Treaty. This does not mean that IMF lending is a condition as seen by the 2015 ESM Programme for Greece that the IMF has refused to support owing to concerns about the sustainability of Greek debt.

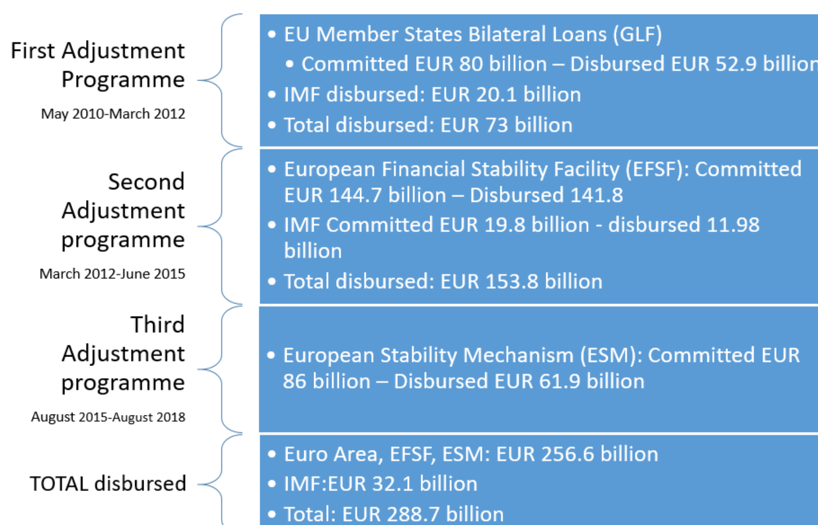
[35] ECJ *Pringle v Government of Ireland* (2012) C-370/12 (27 November 2012) [72] and [111]

[36] See ECB Decision 2015/10, Art 2 (3) (d).

[37] Article 1.1. B de Witte and T Beukers, *The Court of Justice Approves the Creation of the European Stability Mechanism Outside the EU Legal Order:* Pringle (2013) 50 C.M.L.Rev 813.

[38] Article 8(2) and Article 9 of the ESM Treaty.

Figure 20. Euro area, EFSF/ESM and IMF assistance for Greece



Notes: The commitments coming from the GLF decreased to EUR 77.3 billion when Slovakia decided not to participate and when Ireland and Portugal became programme countries.

Source: Alcidi et al. (2020), based on ESM and Consilium

All, except the European Financial Stabilisation Mechanism (EFSM), have been created outside of the Union framework. The official financial support offered to Greece was huge by any standard. The participation of the IMF was in the end smaller than expected (though very large compared to IMF standards) and it did not participate in the last programme, based on concern about the ability of Greece to repay the debt.

Overall, it is only in the first programme that the financing envelopes were insufficient to meet the financing gap. Financial support was small compared to the needs, which were huge. But as several stakeholders put it, no more resources were available. It took a lot of political capital to achieve an agreement in the absence of any pre-established framework.

In the case of the second programme, financing needs were better assessed and covered. The envelope was potentially sufficient, but higher needs emerged with the deterioration of the political situation and the Grexit fear played against a return on financial markets. In the case of the third programme the financing envelope was above the estimated gap and hence partly undisbursed.

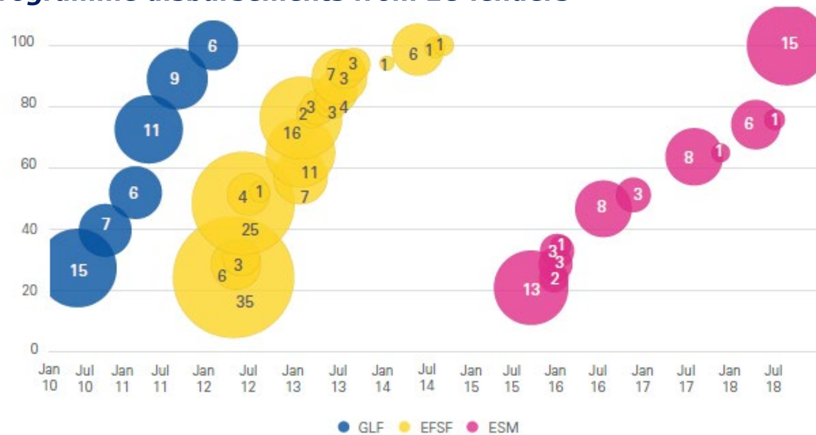
In addition to the GLF, financing committed by the EFSF and ESM amounted to €230.7 billion, of which €193 billion was disbursed. The disbursed amounts reached 90% and 72% of commitments, respectively, and pace was adapted to the needs and well as to compliance with conditionality (see overview Figure 21).

Several interviewees noted that disbursements were almost systematically delayed. It should be noted that in the Greek programme (unlike in all other EAPs), much of the MoU was related to the deliverables for the ongoing review (prior actions) as opposed to the next one. This was partly linked to implementation delays on the Greek side, experienced in the first EAP. Partly, however, reflected the extremely high number of deliverables (around 100 prior actions for a disbursement as opposed to max 1-2 e.g. on the Portuguese programme) as well as the lack of agreement on the institutions' side of what was required.

Although the economic and political conditions had become much more relaxed over time, delays happened also under the third programme. The major problem was the lack of compliance with the terms of the MoU. In the end, the need for liquidity was the

major push for complying with the promises made, at least formally and at the last moment, and the disbursement always arrived before it was too late, even if compliance was not full.

Figure 21. Programme disbursements from EU lenders



Source ESM (2020), p. 84

Note: (Cumulative amounts, size of the bubbles represents the disbursed amount in %, rounded)

Financing conditions evolved over the three economic adjustment programmes to meet changing country needs and mitigate risks. The EU lenders adopted high flexibility, which was not possible from the IMF side. Besides changes in the cost of loans, towards more favourable conditions, the maturity extensions meant that EFSF/ESM will have a very long-term exposure to Greece. While the IMF share phases out in 2024 at the latest, the EFSF will remain the key creditor of Greece until 2070 and ESM until 2060.

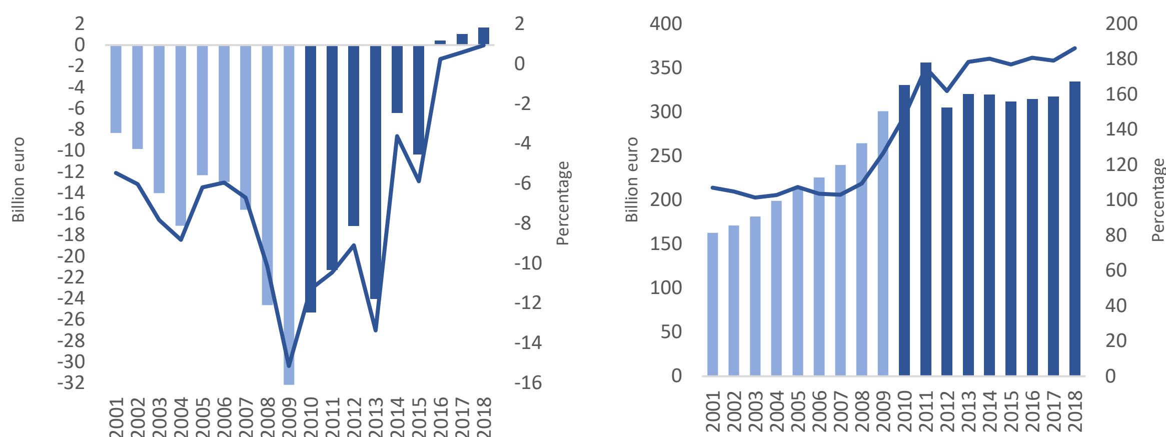
5 The fiscal adjustment and debt sustainability

This section illustrates the needs of Greece in the terms of fiscal adjustments, it analyses the objectives and the design of the fiscal measures of each of the three adjustment programmes. It assesses their implementation, the achievements and the overall success and failures.

5.1 The first EAP: objectives, expected and actual outputs

At the beginning of the programme, the fiscal position of Greece was completely unstainable. Greece had been in excessive deficit proceed for several years, but a deficit of more than 15% revealed by the true statistics was somewhat unthinkable to many. Greek problems appeared deep-rooted in very large fiscal deficit and a stock of public debt at around 147% of GDP (Figure 22).

Figure 22. Government primary balance (RHS) and Government debt (RHS)

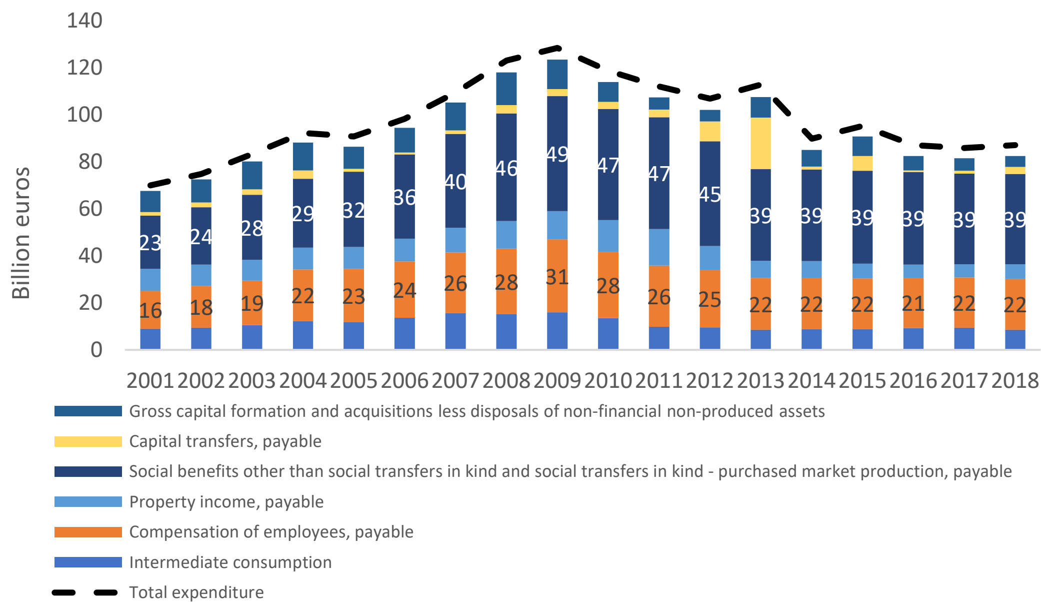


Source: Authors' own elaboration based on ELSTAT and EUROSTAT

The unsustainable fiscal position was considered the major threat to market confidence, as it was signalled by the downgrades of the sovereign debt rating and the lost access to international market funding. For these reasons, the fiscal adjustment was the main focus of the programme.

Greece public expenditure had been growing rapidly for years and some of the main expenditure items, like social benefits and compensation to employees, had doubled between 2001 and 2009 (Figure **23**).

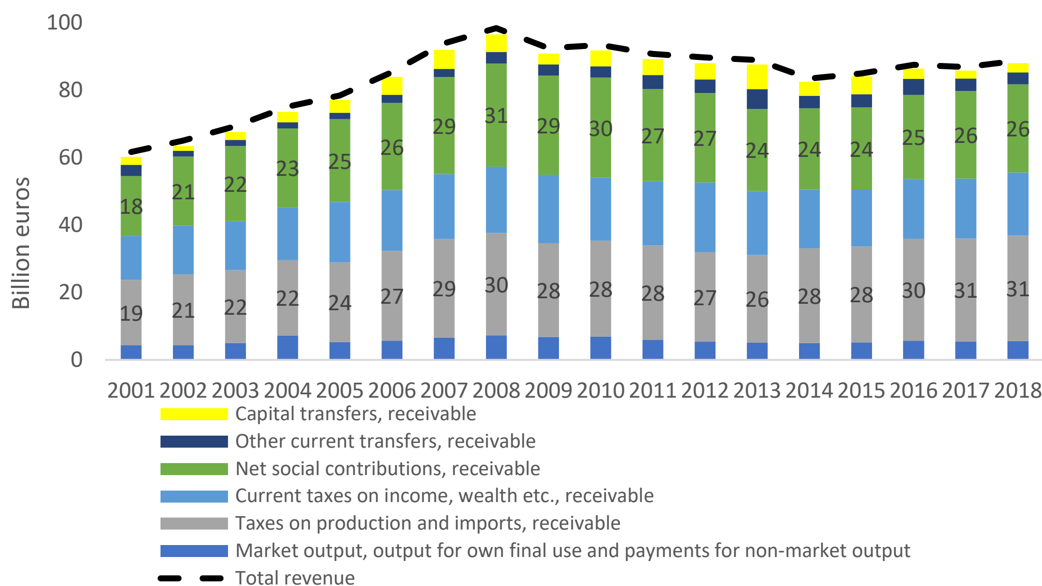
Figure 23. Aggregate government expenditure



Source: Authors' own elaboration based on ELSTAT

Revenues had also increased but they were insufficient to cover such expenditure levels.

Figure 24. Aggregate government revenues



Source: Authors' own elaboration based on ELSTAT

The primary objective of the first programme was to secure fiscal sustainability. In order to achieve this goal, the programme planned to generate savings in the public sector expenditure and to improve governments revenue raising capacity. The fiscal consolidation was envisaged to increase the government revenues by around 4% of GDP, and to reduce the public expenditure by 7% GDP.

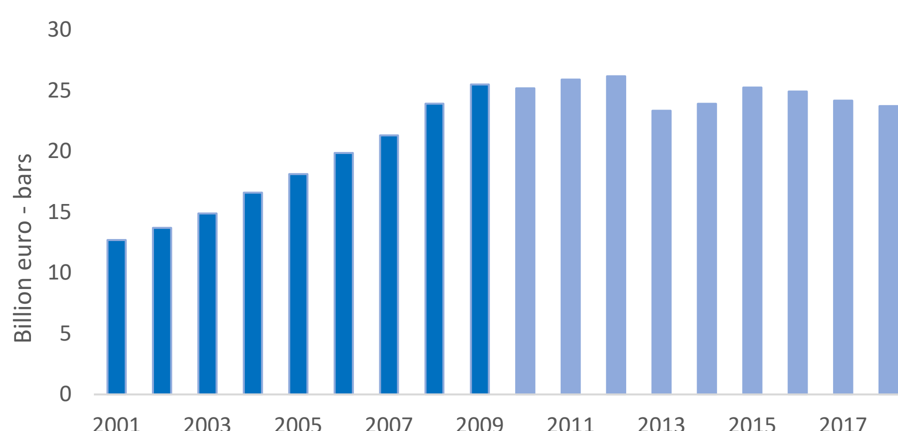
On the expenditure side, the fiscal measures implemented resulted in cuts on public investments and nominal wages and pension for the duration of the program; elimination of the solidarity allowance; reduction of public employment (20% replacement rate rule); reduction transfer to municipalities and local councils; and introduction of a

means-test for unemployment benefits. Accordingly, government spending was reduced by around 10% during 2010-2012. Over the same period, public investment declined by about 41% and compensation of employees by nearly 13%. However, the expenditure cut was partially constrained by the substantial increase in capital transfers, specifically in 2012.

In order to assure on the long term stability of the fiscal adjustment, the first programme planned a set of structural reforms in pensions, healthcare and the tax system.

Pension reforms aiming to increase the sustainability of the pension system were expected to directly support debt sustainability by reducing future government liabilities (see section 8.2 for more details). **Despite the slight decline in 2010, the Greek government's total expenditure on old-age pensions increased until 2012** (Figure 25)

Figure 25. Government expenditure on old-age pension level



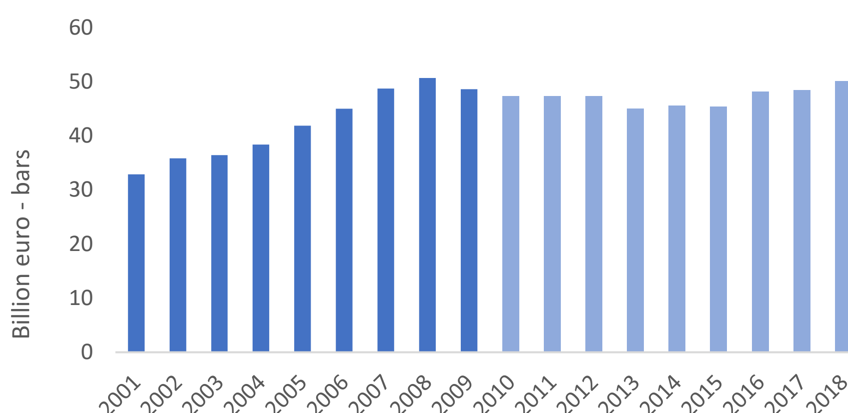
Source: Authors' own elaboration based on EUROSTAT

Despite a relatively large decline of 10.8% in 2013, the expenditure on pension at the end of 2018 was at its 2008 level. By the end of 2018, long-term projections of Greece pension expenditure (over the period 2020-2070) reduced dramatically to 10.6% for 2070, close to the projected EU average (AWG, 2018). It should be noted that the AWG projections are based on development of demographic variables (life expectancy, migration flows, fertility), as well as macroeconomic variables (employment rate, productivity). In recent years, Greece has over-performed the forecasts for unemployment rate which is considered as one of the key drivers of pension expenditure projections (See section 7.2 for more details).

Health sector reform was planned to increase the cost-effectiveness of the Greek healthcare system (see section 8.3 for more details). **At the end of 2012, total healthcare expenditure in Greece was down by around 22% compared to 2010**. The major contributor to this decline was the nearly 28% reduction in expenditure related to social health insurance or compulsory contributory health insurance scheme, which was the dominant source of health care financing in Greece (around 40% in 2010). Government schemes, which accounted for around 30% of total health spending decreased by 35% in 2011, however, they increased by around 21% in the subsequent year. The remainder of the health care expenditure financed by private households declined by more than 15% over the same period (See section 8.2 for more details).

Another set of fiscal reforms focused on Greek tax system with the objective of increasing its efficiency and equity, as well as improving the tax administration of the country. The tax reform consisted of a reduction of tax exemptions and deductions along with measures to fight tax evasion. Policies regarding the tax administration involved a stronger enforcement and auditing of high-wealth individuals and self-employed, and introduction of compliance risk management framework. The development of Greek government tax revenues shows that, after the upward trend in the total amount experienced during the boom years, it reversed in 2009 driven down by the crisis and minor negative changes occurred during the first adjustment programme (***Figure 26***).

Figure 26. Government tax revenues - Level

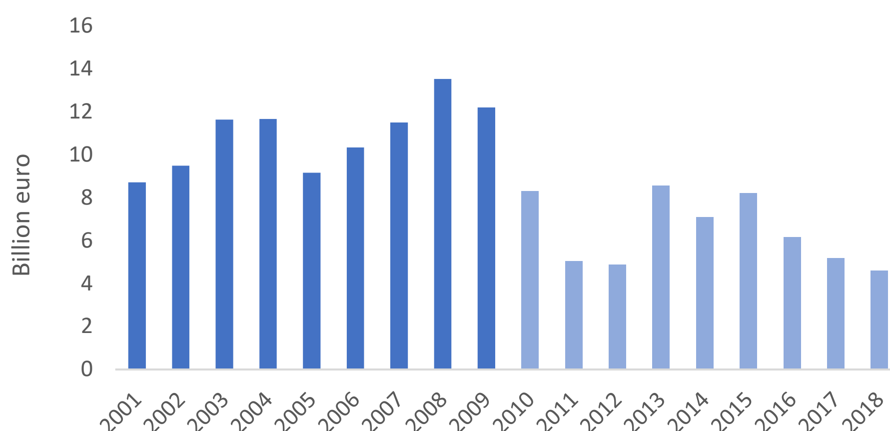


Source: Authors' own elaboration based on EUROSTAT

At the end of 2012, total revenues reduced by an amount equivalent to 1.6% of GDP (in 2010), and total expenditures by 5.2% of GDP (in 2010). Overall, budget balance was down by 32%, compared to 2010, reaching EUR 17 billion of deficit at the end of 2012. This corresponded to about 7.6% of GDP in 2010, whereas the programme had aimed at reduction of the government deficit to below 3% of GDP in 2013, the original end year of the first programme.

The cut in expenditure was achieved through a dramatic reduction of public investment, which in the end turned out to be more aggressive and persistent than initially planned. In 2010 and 2011, government investment was cut by about 35% on average, every year (***Figure 27***). The process was mostly done through cutting infrastructure spending. This was probably due to its lower political cost compared to reducing public consumption or wages (Lenoel et al., 2020). Because of the relatively large share of public investment (about a third of overall investment), this adjustment had a large and persistent consequence for the Greek economy, mainly through direct negative impact on aggregate demand.

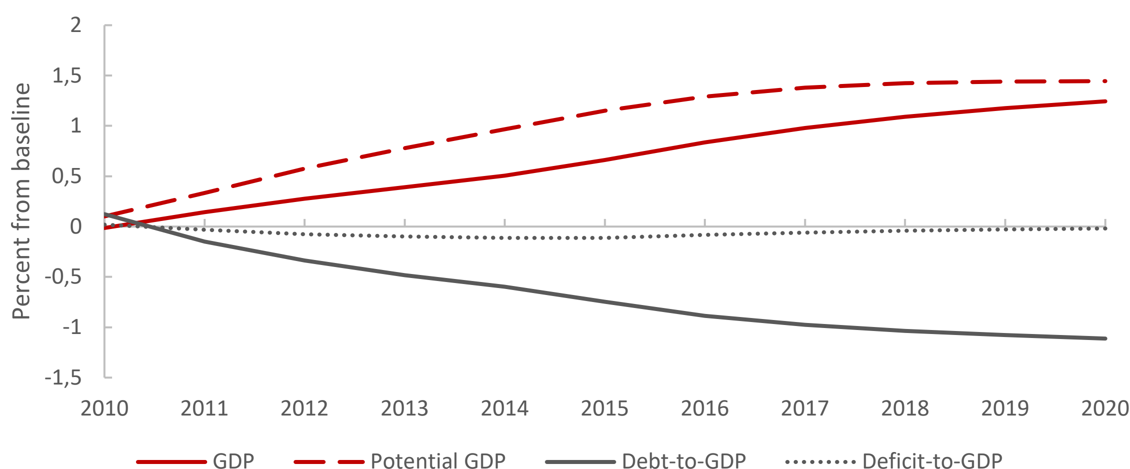
Figure 27. Public investment



Source: Authors' own elaboration based on ELSTAT

Lenoel et al. (2020) examine an alternative fiscal consolidation pattern, which simulates higher public investment and lower public consumption, each by 2% of GDP in 2010, as the baseline, over 5 years. Their results indicate an increase in potential GDP by up to 1.5% over 10 years and a decline in debt-to-GDP over the same period, despite a minor change in budget deficit. Output gap is also shown to narrow from 2016 afterwards catching the potential output at the end of the 10-year horizon (Figure 28).

Figure 28. Simulation of higher public investment and lower public consumption (2% of GDP each) for Greece



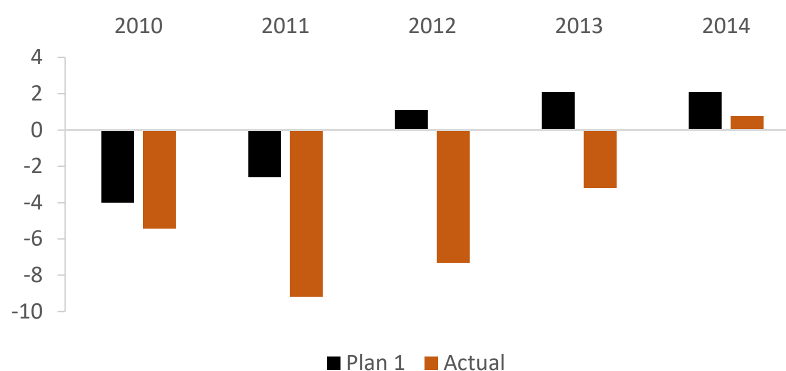
Source: NIESR (2020)

Note: Debt-to-GDP and Deficit-to-GDP are expressed in percentage points from baseline. The shocks are a 5-year increase in public investment by 2% of GDP and a similar size decrease in public consumption.

While a longer programme (5 years instead of 3 initially planned) was not possible in 2010, given the maximum amount of financial support available, the simulation suggests that a fiscal consolidation that is biased towards investment cuts is likely to be associated with high long term costs. While this is important, several stakeholders pointed out that in the first EAP given the very large consolidation needs, it appeared impossible to concentrate the cuts only on social expenditure to preserve investment.

The first adjustment programme underestimated the trade-off between fiscal consolidation and GDP growth. Since GDP declined more than the budget deficit, a fiscal multiplier larger than one appears likely (Figure 29).

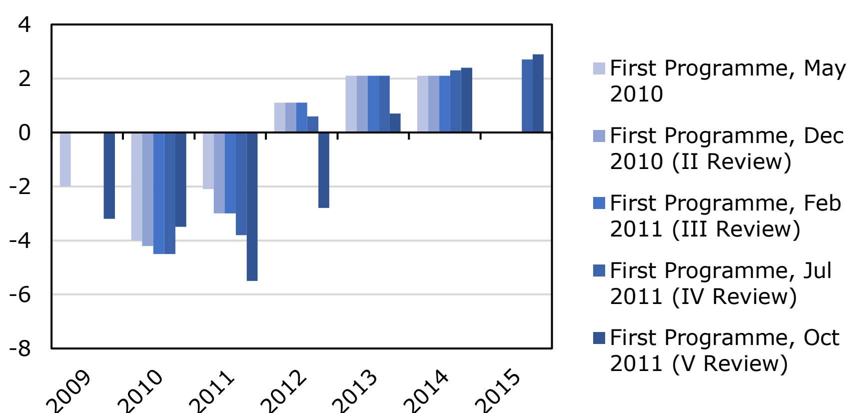
Figure 29. Real GDP growth during the first and second adjustment programme



Source: NIESR (2020)

One explanation for it is that the fiscal multiplier turned out to be much larger than one and GDP declined more than the budget deficit. As argued above, specific features of the Greek economy certainly contributed to the size of the multiplier and the exports did not offset the fall in domestic demand.[39] (See **Box 5** on the large academic debate around the multiplier that developed in the following years). This may contribute to explain why the fall in GDP growth was consistently underestimated. **Figure 30** reports the GDP growth forecast error based on the programmes' documents. The large error offers evidence of a miscalculation of more than 4 % of GDP in 2010 and 2011.

Figure 30. GDP growth forecast error, three adjustment programmes and reviews



Source: NIESR (2020)

As highlighted by several interviewees, however, the mistakes in the multiplier are unlikely explain the forecast errors, not least because the estimates of the multipliers were adapted in the quarterly reviews. There potentially two factors, which are likely to have played a role explaining the large fall in GDP and could not have been foreseen at the start. The first is that quite quickly it had to be acknowledged that additional financing and a longer adjustment period would be required. While this was somewhat not a surprise, such initial under-estimation might have contributed to loss of confidence and declining economic

[39] See Alcidi and Gros (2011) on this point.

performance. The second factor was the lack of broad political support for the program from the outset. Internally the programme was opposed by the main opposition party, which did not sign the MoU. By end-2011, also European leaders were losing confidence in the success of the programme had and started to put strong pressure on Greece to deliver. Doubts about support from the European partners caused growing doubts about Greece's ability to avoid Grexit.

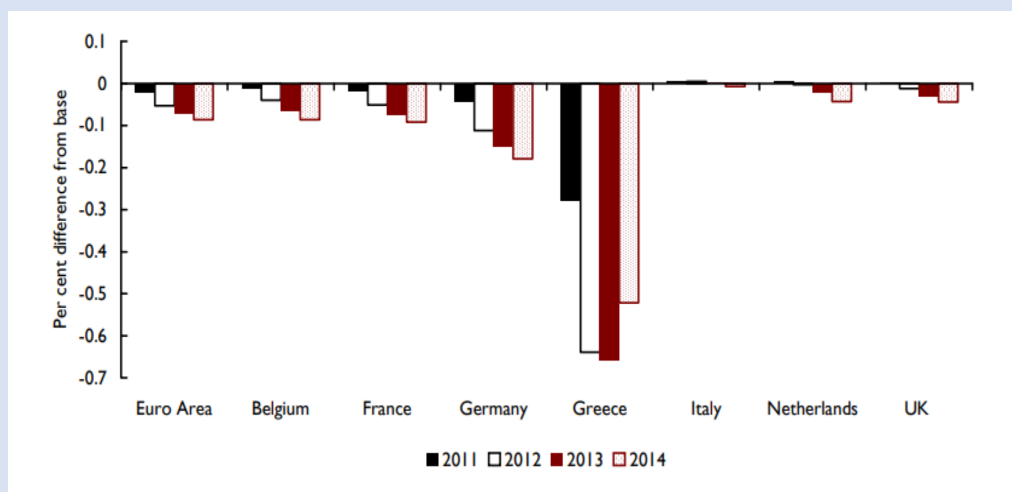
Box 5. The academic debate about fiscal multipliers

Soon after the start of the global financial crisis and based on the experience of the Greek crisis, a large literature flourished about the fiscal multiplier. Blanchard and Leigh (2013), who admitted that figures used by IMF officials to forecast the recession impact of the debt consolidation programmes in Europe, and beyond, were possibly underestimated, made the first essential contribution to this debate. Their results suggested that tax multipliers were more likely to range between 0.90 and 1.70, much higher than they previously thought, i.e. around 0.50. Several more recent analytical studies found that if the nominal interest rate is near the lower nominal boundary of zero per cent, the tax multiplier may increase by a factor of 2X or 3X.[40]

Kilponen et al. (2015), by employing several dynamic macroeconomic models maintained within the European System of Central Banks, estimate that the short-run multiplier obtained for Greece was slightly above one (in absolute terms) for capital tax increases over a two-year horizon, but somewhat below 1 one for public sector expenditure, even when the zero lower bound is considered.

Holland and Kirby (2011) studied the impact of debt restructuring on the debt premium, by considering the benefits, i.e. the reduction in the size and/or in lengthening of the maturity of their repayments, and the lower interest liabilities, but also costs associated with default; i.e. cost and ability of defaulters to access future finance. Using NiGEM model, they estimated that the Greek debt restructuring would lead to an expected decline in GDP of about 0.5 percentage point against the baseline within three years because of a reduction in private sector wealth and bank capital (Figure 5.1). The loss of capital by euro area banks that held Greek government bonds would also lead to a loss of GDP of about 0.1 percentage point in the euro area within three years.

Figure 5.1: Impact on output of Greek debt restructuring



Source: Holland and Kirby (2011)

Other studies focused on the degree of restructuring and liberalization on the financial market as well as general macroeconomic conditions in the domestic economy as other factors that may affect the scale of the fiscal multiplier. A relatively small degree of financial intermediation generally indicates the inability of liquidity constrained households and companies to inter-temporarily smooth consumption and investment. In those instances, a fiscal stimulus will lead to higher consumption

[40] On the other hand, however, heightened macroeconomic uncertainty may promote precautionary savings for consumers, decrease their marginal consumption's propensity and thus, reduce the size of the multiplier (see e.g. Spilimbergo et al., 2011).

and less (precautionary) saving. in 't Veld (2013) using the Commission's QUEST Model, finds that under the assumption of a high share of constrained households, concluded that the impact of GDP is crucially dependent on the consolidation composition and how rapidly expectations are affected.

As Holland and Portes (2012) further underlined, multipliers tend to be smaller, the more open an economy is, and dependent on the elasticity of consumption on current income. Greece, itself, presented a moderate degree of import penetration and higher current income elasticity. This might have varied depending on the number of liquidity constrained consumers, which might have increased at the zero lower bound (ZLB) or if the system of banking is compromised. The multiplier used by Holland and Portes (Table 5.1) is not far from the multiplier implicit in Gourinchas et al. (2016) and other studies on Greece – around 1.5.

Table 5.4: Fiscal impact multipliers and factors affecting them

	Temporary spending multiplier	Temporary income tax multiplier	Import penetration	Income elasticity
Austria	–0.52	–0.13	0.50	0.23
Belgium	–0.62	–0.12	0.80	0.17
Finland	–0.61	–0.06	0.39	0.00
France	–0.67	–0.27	0.30	0.51
Germany	–0.48	–0.26	0.39	0.68
Greece	–1.35	–0.53	0.34	0.48
Ireland	–0.36	–0.08	0.72	0.17
Italy	–0.63	–0.13	0.27	0.14
Netherlands	–0.59	–0.20	0.70	0.23
Portugal	–0.73	–0.11	0.38	0.08
Spain	–0.81	–0.11	0.37	0.00
UK	–0.54	–0.09	0.29	0.17
US	–0.92	–0.19	0.16	0.15
Spending correlation			0.43	–0.12
Tax correlation			0.22	–0.73

S*ource: Holland and Portes (2012)*

Note: Import penetration is measured as the volume of goods and services imports as a share of GDP in 2005. Income elasticity is the estimated response of consumption to current changes in income, from the consumption equations in NiGEM.

Lastly, Born et al. (2019), using a small open economy model that they calibrate on Greece with downward nominal wage rigidity, find that the impact of government spending changes was asymmetric: a spending cut lowered output but does not alter the real effective exchange rate; a spending increase appreciates the REER but does not significantly change output unless there is a slack in the economy. Empirically, their finding implied a public expenditure and tax multiplier of about 0.67 and 1.33, respectively, in line with previous studies.

The adjustment programmes had also planned for rebalancing the current account by boosting the size of the trading sector. A substantial reduction of the current account deficit was attained rather quickly, but mostly though a decrease in imports, rather an increase in exports.

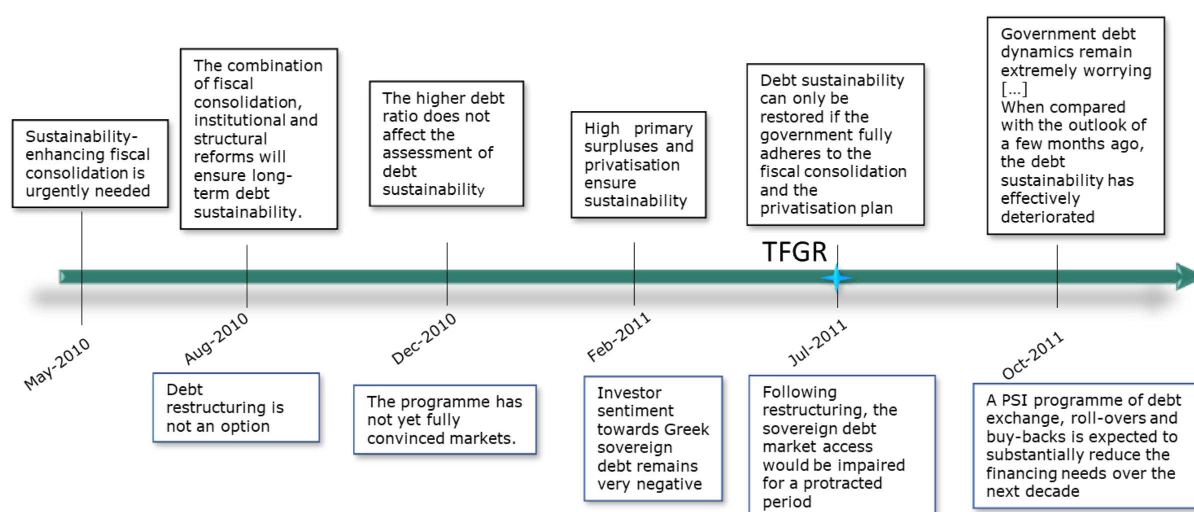
Low openness and low value added in export contributed to the low GDP performance. As argued in the Chapter 3, the lack of exports and strong dependence of domestic demand, made the fiscal consolidation very contractionary. Böwer et al. (2014) took a systematic look at what they call the puzzle of Greece's missing exports to understand what was holding Greek exports back. They argue that weak institutional quality accounts for a large part of the poor export performance. While Greece managed to achieve major improvements in cost competitiveness, structural reforms did not address non-cost competitiveness factors, such as the underlying institutional deficits.

As a consequence of the recessionary impact of the fiscal consolidation, households' real disposable income fell by 35% and households' savings reached a record low of -15% of real disposable income. The recession also steered a loss of

confidence, by businesses and households, which could hardly be restored by the subsequent adjustment programmes.

Continued policy uncertainty and loss of confidence from financial markets combined with a large recession and inability to meet the targets reflected in persistent elevated risk premium and unsustainable debt. Figure 31 highlights the sequence of Greece debt sustainability assessments based on the examination of the five reviews since the start of the programme.

Figure 31. Evolution of debt sustainability during the 1st EAP



Source: Alcidi et al. (2020), based on quarterly reviews

In the course of 2011, the adjustment targets appeared to be unreachable and, thus, further financial support became necessary. At the end of 2011, the programme had failed to deliver a reduction or stabilisation of the debt to GDP ratio; government debt reached 156.9% of GDP from 146% in 2010.

Overall, the early end and the need for a new programme point to a failure of the first adjustment programme. From an economic point of view, the major limitation of the programme was the lack of consideration of some key features of the Greek economy, such the very low domestic savings and limited degree of openness, as well as its structural vulnerabilities. Despite the large improvements in the fiscal balance, the constant decline in growth and persistent fiscal deficits (given the very large starting point) continued to increase the debt ratio rendering it impotent to restore the investors' confidence and market access.

As highlighted by several stakeholders, the programme was hastily prepared and followed the standard IMF approach. In addition, the financial support offered to Greece was very large but still small compared to the huge financing needs. This implied that the programme had to foresee a very drastic and sustained fiscal consolidation, most likely politically unfeasible. In this sense, the ex-ante probability of the programme to succeed was very low. Yet, no other option seemed available. The situation was made even more difficult by often hostile institutional relations between Greece and the lenders, as well as by the political instability within the country.

5.2 The second EAP: objectives, expected and actual outputs

The second adjustment programme was agreed in March 2012 with an additional EUR 130 billion until 2014, financed by the European Financial Stability Facility (EFSF), and a voluntary PSI to reduce the debt burden.

Based on the poor outcome of the first EAP, **the second programme focused on three main pillars: market access, 'growth-enhancing' reforms and debt sustainability**. On the fiscal side, the operational objectives of the programme focused on stabilizing primary balance and reducing debt along with the PSI and fiscal reforms. The programme was envisaged to achieve the primary deficit of 1% in 2012 and primary surplus of 4.5% in 2014, and to gradually reduce the debt to GDP ratio to the level of 117% by 2020.

5.2.1 Debt restructuring

Greece was the only euro area country to experience a sovereign debt restructuring, which included both private and official sector involvement. In the course of 2011, it became clear that the budget deficit was not falling as promised, while the recession was much larger than expected. In June 2011, a Eurogroup statement,[41] specified that '*Greece [was] unlikely to regain private market access by early 2012*', and the new programme had to be '*financed through both official and private sources [with] voluntary private sector involvement in the form of informal and voluntary roll-overs of existing Greek debt at maturity for a substantial reduction of the required year-by-year funding within the programme, while avoiding a selective default for Greece*'.
The agreement on the private sector involvement was concluded in March 2012 after almost one year of negotiations and the failure of a first proposal. Its main objective was to reduce the public debt burden and improve debt sustainability.

In the end, Greece achieved a total participation of EUR 199.2 billion, or 96.9 % of the total 205.6 billion of eligible principal. The face value of Greece's debt declined by about EUR 107 billion, or 52 % of the eligible debt[42]**,** by using a combination of new legal techniques and large cash incentives (see Box 1 for more details).

Box 6. The Greek debt restructuring: form and content*

On the initiative of the Institute of International Finance and some of the larger European banks, private bondholders established a Private Creditor-Investor Committee which in turn appointed a Steering Committee. The Steering Committee held many discussions with Greece and its advisers, and with the EFSF, the ECB, the IMF and the EU Commission. It helped shape the nature of the offer and in particular the structure of the new Greek Government Bonds.

At the moment of the exchange, there were 117 eligible securities with a total nominal amount of EUR 205.6 billion (of which EUR 9.8 billion in 36 securities was guaranteed). Of these, EUR 177.3 billion consisted of Greek-law directly issued GGBs, EUR 6.7 billion was Greek-law guaranteed, EUR 19.9 billion was English-law directly issued and guaranteed, and EUR 1.7 billion was governed by Italian, Swiss or Japanese law.

The total Greek debt at the end of 2011 included bonds held by the ECB (EUR 42.7 billion), national central banks (EUR 13.5 billion) and the EIB (EUR 315 million). This additional EUR 56.51 billion was not included in the offer, and Greece swapped these bonds for new ones with identical characteristics apart from their issue date.

PSI was an exchange of old GGBs for new GGBs. Investors accepting the Greek offer of 21 February 2012 would receive for every EUR 100 of their old GGBs:

-EUR 15 in short-term EFSF securities (in essence, cash);

[41] https://ec.europa.eu/commission/presscorner/detail/en/MEMO_11_426

[42] See Zettelmeyer et al. (2015).

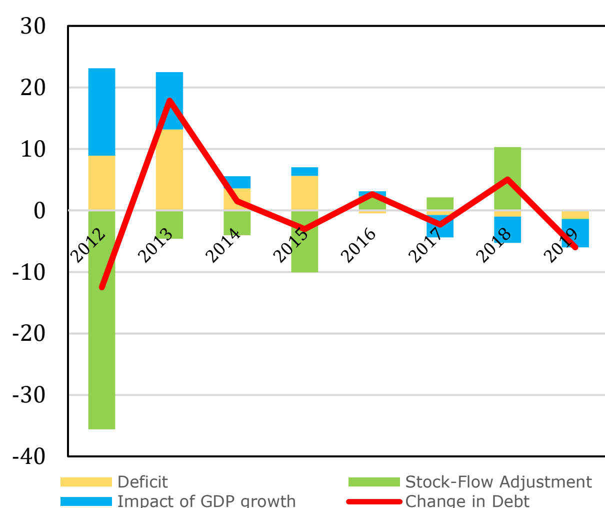
-new GGBs of a total face value of EUR 31.5, with maturities from 2023 to 2042 and escalating annual coupons ranging from 2 % to 4.3 %;
-a detachable GDP-linked security that could provide an extra payment stream of up to 1 % of the face value of the outstanding new GGBs if GDP were to exceed the IMF's growth projections for Greece; and
-payment of all accrued interest under the old GGBs, in the form of six-month EFSF securities.

This implied that Greece offered a substantial amount of near-cash (the 15 % and the accrued interest) and moderately structured GDP warrants to make the offer attractive to investors, who would lose 53.5 % of their nominal principal amount and closer to 70 % in net present value (NPV) terms. In addition, an array of more attractive legal terms for the new GGBs was offered. These were now all governed by English law, and they were subject to a Co-Financing Agreement with the EFSF. In essence, this arrangement ensured that Greece could not default on the new GGBs without at the same time defaulting on the EFSF loan.

*Alcidi et al. (2020) Based on Global Restructuring Review – Overview: Restructuring of Greek Sovereign Debt

At the end of 2012, public debt had declined by 51 billion (to EUR 305 billion from 356) **and by 12 percentage points of GDP** (to 160% from 172 % of GDP) compared to 2011. The effectiveness of PSI in terms of directly achieving a debt burden reduction and debt sustainability was limited. This was due to the fact that, besides the exclusion of non-eligible assets and the incentives offered to bondholders, the losses of domestic banks—which represented around 40 % of the bondholders (or 24 % of total public debt)—had to be compensated. This was done by increasing government borrowing. In Figure 32, PSI is captured in the 'stock-flow adjustment', which explains the difference between the change in government debt and the government deficit/surplus of that year. In the year 2012, it is worth about 35 % of GDP.

Figure 32. Debt dynamics decomposition, % of GDP



Source: Authors' computations based on AMECO
Note: The columns are stacked columns for: deficit in yellow (with positive sign meaning a negative budget balance), the stock-flow adjustment on general government consolidated gross debt in green, and the impact of the nominal increase of GDP on general-government consolidated gross debt in blue. The red line is the change in debt with the respect to the previous period. All data series are expressed in percentage of GDP.

This number is the result of the debt adjustment (-58.5 %), essentially driven by redemption of debt below the nominal value (-58.8 %), partially compensated for by the net acquisition of financial assets (+23.5 %). The latter were essentially deposits (mostly

disbursement of loans), debt securities (holdings of notes provided by the EFSF for the recapitalisation of credit institutions) and loan assets from the EFSF. Overall, PSI did reduce face value of debt by a substantial amount. However, additional borrowing to compensate losses linked to PSI combined with a still negative fiscal balance and a negative growth appear to largely offset the reduction in debt. The persistence of negative growth combined with a large deficit in 2013 contributed to bring back the debt-to-GDP ratio to a level higher than PSI.

PSI came too late. Over the years, several commentators argued that the effectiveness of PSI would have been much higher if it had come earlier.[43] Among the stakeholders two views emerged.

A few pointed out that PSI should have occurred in 2010, at the very early stage of the crisis. The lower stock of debt should have made the subsequent fiscal adjustment easier and in turn lessened the need for further public support. An earlier bail-in of private creditors would have saved EU taxpayer money used in the bailout, making it all more efficient. However, most stakeholders objected to this view and pointed to the fact that a default in 2010 was impossible for three reasons. First, fear of crisis contagion to other countries, possibly jeopardising the whole monetary union, was the main driver for trying to avoid a Greek default. In spring 2010, banks in other EU countries had high exposure to the Greek sovereign, but clearly too little capital buffers to smoothly absorb a large haircut on Greek debt. Moreover, the firewalls and institutions which could have helped to mitigated contagion of an early PSI in Greece (e.g. the ESM; OMT, the SSM etc.) were not yet in pace in 2010. A debt restructuring in 2010 therefore would have involved high contagion risks and costs for other euro area/EU, triggered by capital losses of banks and increased uncertainly and financial instability.[44] Second, before May 2010, the euro area had no safety net and no mechanism or governance structure to handle a sovereign debt default within the monetary union. Third, the idea of default was strongly opposed by institutions involved in the management of the crisis, most notably the IMF and the ECB, for different reasons. The ECB view was driven by the superior objective to maintain euro area integrity. The IMF's dominant view on sovereign default in advanced economies was that it is unnecessary, undesirable and unlikely. The main argument was that default would not reduce the need for adjustment by much, because primary deficits, not interest payments, is the main the problem in advanced economies. The political and economic costs stemming from a default would not be lower than those associated with a strategy based solely on fiscal adjustment.

By 2011, however, the relevance of these arguments had changed. Most stakeholders interviewed agreed that PSI was not possible in 2010 but it should, and could, have happened in early 2011, at the time it was first announced. At that time, the EFSF was already in place and market participants had already incorporated the event in their expectations. At the end of 2010, debt-to-GDP was 146 % (EUR 330 billion), namely about 26 billion lower than when PSI started. All other things being equal, this could have resulted in a fall in the debt-to-GDP ratio of 15 % of GDP at the time (simply applying a debt reduction of EUR 51 billion that materialized with PSI in 2012). While the difference may appear relatively small in size, and it would not have resolved all problems of Greece, an earlier PSI would have preserved political capital and avoided difficult and long political

[43] See Thomsen (2019): "Would it have made a major difference if this PSI had come already at the outset? All other things being equal, debt-to-GDP would have been lower by some 18 percentage points of GDP. While this is not a large difference considering that the debt-to-GDP ratio peaked at 181 percent, "all other things" would not have been equal. The lower debt would have enabled some limited easing of the fiscal adjustment. More important, it would presumably have had a positive impact on sentiments, by lessening the sense of unfairness and loss of public support caused by the bail-out of foreign creditors."

[44] A couple of interviewees noted that the opposition of some member states to the Greek PSI in 2010 was driven by the primary objective to protect their own balance sheets, which goes beyond the fear of contagion.

negotiations, which increased uncertainty and fuelled fears of Grexit. The latter resulted in large deposit outflows and deepening of the recession, which could have been contained. Several stakeholders pointed to the fact that the fear of Grexit at the time of the PSI, not the PSI per se, was the main reason for its limited effectiveness on debt to GDP ratio. Following this reasoning, one could argue that because of the lack of an earlier restructuring, a more severe fiscal adjustment was necessary in order to preserve a chance to ensure debt sustainability**.** This as well as weak institutions made it more difficult to ensure broad political support for the overall adjustment programme.

PSI was not too small in size. Participation in Greece's debt exchange offer was very high by historical standards. Out of a total of EUR 205.6 billion in bonds eligible for the exchange offer, approximately EUR 197 billion, or 95.7 %, was exchanged.[45] Historically, Greek PSI was exceptional in size, exceeding the largest sovereign credit event in modern history. It was also exceptional in terms of nominal losses for bondholders compared to previous debt restructurings.[46]

Several experts and stakeholders pointed out that an even larger PSI would have increased the risk of much greater holdouts and litigation. A few experts mentioned that for a sovereign default to be effective, the debt reduction must be sufficiently large to make the remaining debt burden small. This view seems to be supported by the literature. [47] Given the very high initial level of the Greek debt and the significant non-eligible share of it, however, this would potentially have meant to wipe out total eligible debt, potentially leading to an even larger GDP fall.

The impact of PSI on the real economy was negative in the short term. Based on the literature, the impact of debt restructuring on the real economy can be twofold and of opposite sign. On the one hand, debt restructuring decreases growth because of the negative reputational effects but also of declining contract compliance and efficiency. The harder the default (i.e. haircuts), the larger these costs usually are.[48] On the other hand, bigger haircuts decrease the level of government debt more drastically and could improve future growth by eliminating the debt overhang[49] and allowing a better use of public resources (instead of interest payment).

The empirical literature suggests that it is difficult to quantify the impacts of sovereign defaults and debt restructuring on growth.[50] Most results, however, seem to point to a negative impact on GDP[51]. One main factor driving such outcome is that negotiations are typically inefficient.[52] What is less clear from this literature is how the trigger operates and how the transmission channels to the economy work. In practice, in models the negative impact on GDP is typically driven by a fall in productivity, but it is debatable why this should happen in reality. Concerning the negotiations, leading theories postulate that the main source of delay is asymmetric information combined with the inability of sovereigns to commit to honouring the outcomes of debt restructuring and the inability of creditors to commit to such negotiations.

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[45] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/which-eu-countries-have-received-assistance/financial-assistance-greece_en

[46] Zettelmeyer et al. (2013) measure the haircut using the approach of Cruces and Trebesch (2013), who compare all debt restructuring cases involving private creditors since 1975, and find a 64.6 % haircut in Greece. This comes only after Iraq in 2006 (91 %), Argentina in 2005 (76 %) and Serbia and Montenegro in 2004 (71 %).

[47] See Alcidi et al. (2020).

[48] Trebesch and Zabel (2017).

[49] Krugman (1988).

[50] See Tomz and Wright (2013) for a review of the literature.

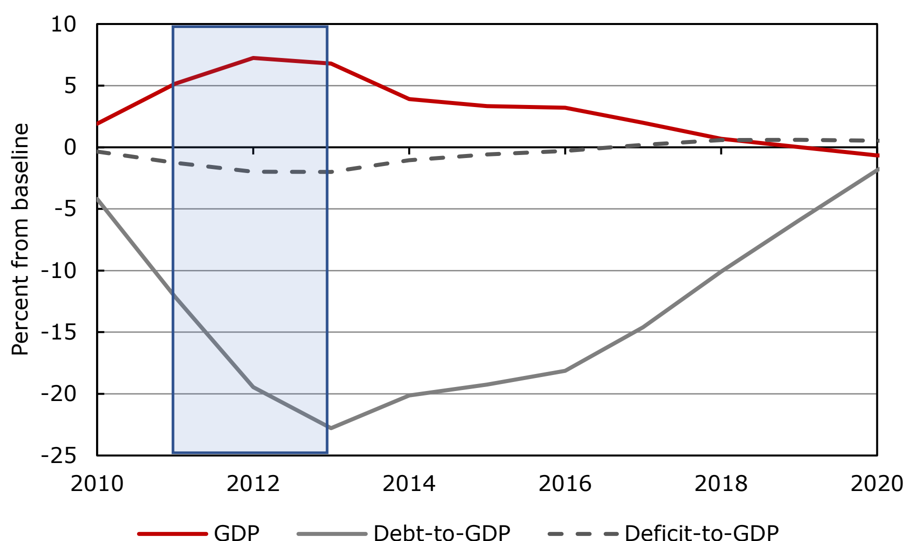
[51] See for instance Alonso-Ortiz et al. (2017).

[52] Pitchford and Wright (2013).

If one looks at the experience of Greece with these lens, Greece was not special. Virtually all stakeholders agreed that PSI took too long[53], it eventually delivered only limited debt-to-GDP relief, productivity fell after 2009 and GDP collapsed.

At first, it was expected that by recapitalising banks, which was considered the main mechanism for transmission of the negative PSI shock to the real economy, the impact on GDP would be contained. In reality, however, the performance of the real economy after PSI was extremely poor. There are two possible, complementary explanations for such a negative outcome. First, because of structural weaknesses in the banking sector and in the economy, the stress caused by PSI could not be handled by the system. Second, PSI had a strong negative impact on confidence. Some stakeholders pointed to the fact that the first bail out was seen as a promise of no default. Talks about PSI increased fears of Grexit, which in turn led to deposit flight, a collapse in investment and social discontent. Such mechanisms operated in a recessionary context driven by large fiscal consolidation efforts and widespread political instability, which resulted in skyrocketing risk premia. Assuming that risk premia on sovereign bonds are a proxy for such uncertainty, Figure 33 shows the result of the simulation on GDP and the ratios of debt- and deficit-to-GDP, if, *ceteris paribus*, one assumes that the Greek risk premium from 2010 matched the lower risk premium of Portugal.[54] With such a lower risk premium, GDP would have been up to 7 % higher and the ratio of debt-to-GDP would have been up to 23 % lower. The biggest impacts would have been in 2012 for GDP and 2013 for debt-to-GDP.

Figure 33. Simulation of a reduction in risk premium in Greece equivalent to the risk premium of Portugal



Source: NIESR elaboration

Note: Debt-to-GDP and Deficit-to-GDP are expressed in percentage points from baseline. The shock is a decrease in term premium with two troughs, one reaching -14 percentage points in 2012 and the other one reaching -9 percentage points in 2015. Simulation performed in NiGEM.

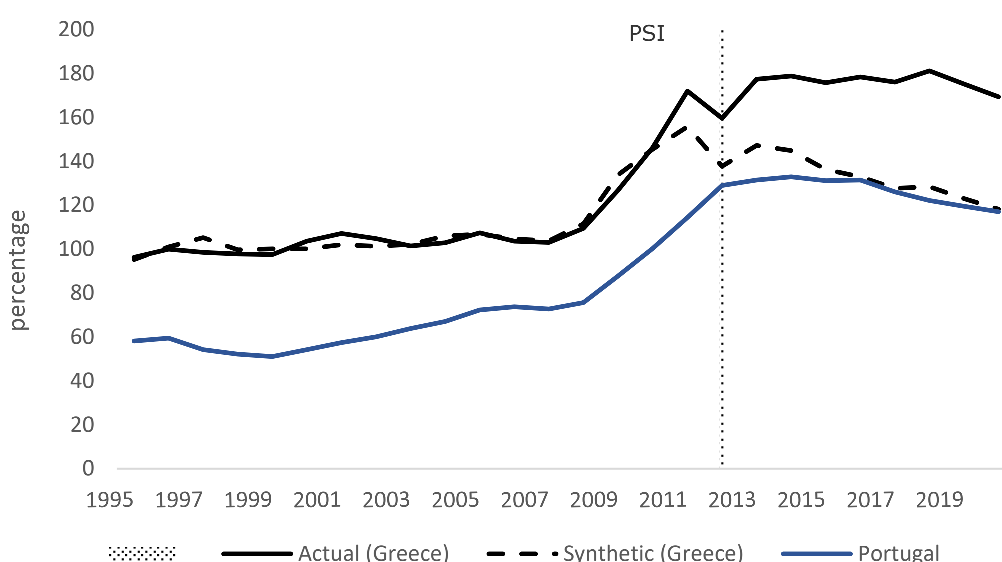
[53] Few stakeholders emphasized that the length of the preparation was also influenced by the complexity of the exercise in an effort to contain negative effects of PSI on the economy. In particular, bank recapitalization required a substantial preparatory work.

[54] Portugal is chosen as benchmark because it is a country of size comparable to Greece, it was also in a situation of financial distress and an EAP was agreed in 2012, but it did not experience a PSI. A robustness check, using the average risk premium of Ireland, Portugal (both had a programme) and Spain (which had a large crisis), indicates that the simulation does not differ much. In fact, it would make the gain in GDP bigger and the reduction in debt-to-GDP larger.

A lower risk premium would have decreased the user cost of capital and moderated the dramatic fall in investment that occurred in Greece (private sector investment dropped from EUR 35 billion in 2009 to EUR 14 billion in 2015, equivalent to a fall of 60 %).

Another way to quantify the impact of Greek PSI on GDP by tackling the question from an empirical perspective and without making any assumption about the transmission channels is to use a synthetic control method (SCM). The model allows us to estimate a counterfactual scenario with the level of per capita GDP that Greece would have reached if no debt restructuring would have been in place. By comparing the model's outcomes before and after debt restructuring, we are able to measure the impact of PSI on the Greek economy.[55] Based on the estimated synthetic GDP, one can simulate the development of debt to GDP ratio for Greece in the absence of PSI, assuming the same level of deficit for Greece. The simulation suggests that, as a result of debt restructuring, the debt to GDP ratio of Greece increased by 30 percentage points in 2013. In the counterfactual scenario, debt would have declined gradually and reached 117% of GDP in 2020, the level that in fact was targeted in the second adjustment programme. Interestingly, in the absence of PSI, the debt to GDP ratio of Greece would have come close to that of Portugal (**Figure 34**).

Figure 34. Debt to GDP ratio: Greece v synthetic control and Portugal



Source: Authors' computations using STATA statistical software

While too much focus on the exact magnitude of the impact of PSI resulting from the exercise may be misleading, not least because it cannot take into account the political context and the structural weaknesses of Greece, the main message from the exercise is a negative impact on GDP.

Box 7. Synthetic control method to measure the impact of PSI on GDP

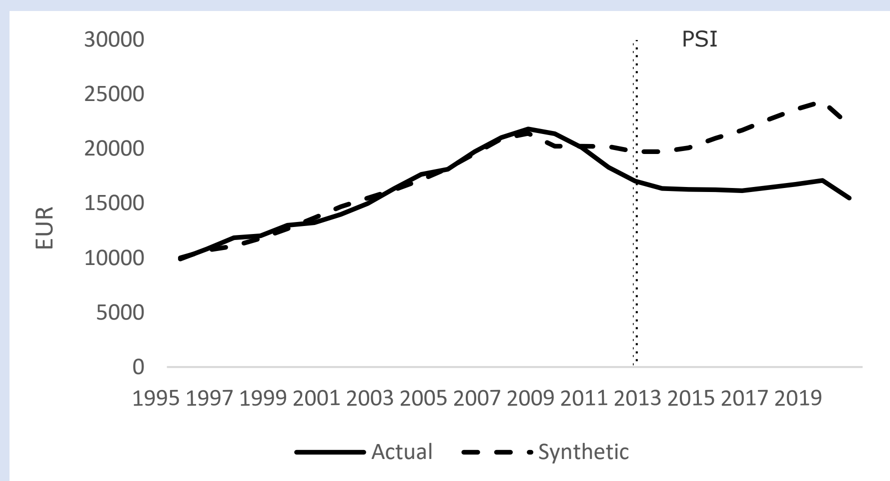
The synthetic control method (SCM), a statistical approach which aims to assess the effect of a treatment or an intervention in comparative case studies.

[55] A similar exercise is conducted by Marchesi and Masi (2020). The authors study 23 official and private defaulters over 1920-2017 by using data on 130 countries. Among these, they include Greece. Contrarily to this paper, we mainly focus on the Greek economy, and consider only euro area countries. For the outcome variable, we only consider GDP per capita, for comparability reasons.

To evaluate the impact of a treatment, SCM identifies comparison units (here 18 euro area countries) sufficiently similar to the units of interest (Greece) in a systematic way. So, the evolution of an outcome variable (e.g. GDP per capita) for the unit affected by the treatment (Greece) is compared to the development of the same outcome variable for a synthetic control group. The countries selected are those most similar to Greece in terms of GDP per capita in the pre-default period. The estimated country weights captured for control group consist of Spain 70%, Latvia 12%, Slovenia 10%, and Portugal 8%. The difference in the pre-default period (before 2012) between the average of GDP per capita of Greece and that of the synthetic control is estimated to be -0.24 %. This implies that the synthetic unit correctly captures the characteristics of Greece in the pre-default sample period. Furthermore, the root mean square predictor error (MSPE), delivered as part of the estimation output, shows that the synthetic Greek GDP is not statistically different from the observed one in the pre-default period. The MSPE is sufficiently small (EUR 0.6 thousand), around 4% of the average pre-default per capita GDP of Greece (EUR 16,151). Altogether these results confirm the validity of the exercise.

We also obtain a qualitative idea of the impact of the default (Figure 3.1). In the pre-default period, the synthetic control (dashed line) follows the evolution of the observed GDP per capita of Greece (solid line). In the post-default period, there is a negative gap between the actual data and the synthetic control, which follows an explosive path.

Figure 7.1. GDP per capita: Greece versus synthetic control



Source: Authors' computations using STATA statistical software
Note: The solid line is GDP per capita of Greece and the dashed line GDP per capita of the synthetic control obtained via the optimisation procedure. The vertical dashed line corresponds to the year of debt restructuring in Greece: 2012.

Table 1 provides a quantitative assessment of the impact of private debt restructuring on the GDP of Greece. The economic impact is a fall of about 18.7% in per capita GDP in the year after PSI. The further one moves away from the occurrence of the event, the stronger the impact.

Table 7.1. Economic impact of the treatment

	2013	2014	2015	2016	2017	2018	2019
Economic impact	-18.7	-21.1	-25.5	-29.5	-32.2	-34.4	-35.3

Source: Authors' computations

Note: The table shows, for every year post-default (the period 2013-2019), the effects of debt restructuring given by the percentage difference between the actual GDP per capita of Greece and the one of the synthetic control.

Both simulation exercises seem to point to the message that a key problem in the Greek debt dynamics was the failure to contain the loss of confidence from financial markets and people. While they do not prove a direct causality of a negative impact of PSI on the real economy, they suggest that a high level of uncertainty around the PSI event resulted in a large fall in GDP. By preventing an excessive fall in confidence, growth and debt-to-GDP patterns could have been more favourable for the Greek economy and in the end less costly for the EU partners.

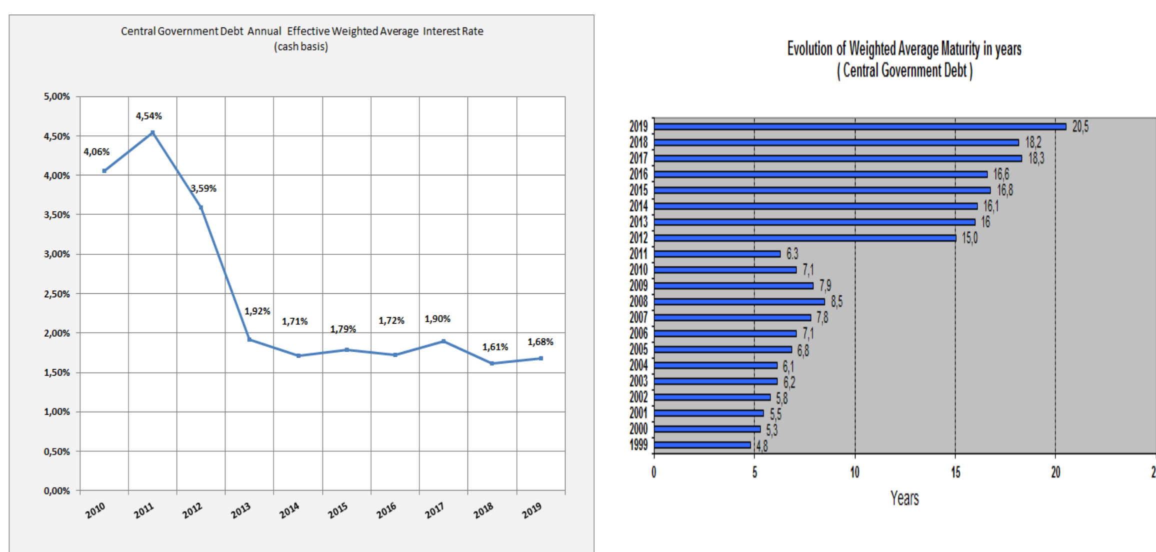
Official sector involvement (OSI) occurred twice. While PSI did not include official sector bondholders, in early 2012 it appeared that PSI alone would not have been sufficient for Greece to meet repayments. OSI was needed for Greece to fulfil its obligations and improve longer term debt sustainability.

In November 2012, the EU partners agreed to provide debt relief by reducing the net present value (NPV) of their claims while maintaining the position of avoiding nominal direct haircuts. OSI consisted of a reduction in interest rates to a fixed 1 % and the lengthening of maturities. More specifically, the euro area finance ministers and the IMF agreed to:

- lower the interest rate charged to Greece on the loans provided in the context of the GLF by 100 basis points;
- lower the guarantee fee costs paid by Greece on the EFSF loans by 10 basis points;
- extend the maturities of the bilateral and EFSF loans by 15 years and defer Greece's interest payments on EFSF loans by 10 years;
- a commitment by EU countries to transfer to Greece an amount equivalent to the income on the SMP portfolio accruing to their national central bank starting from budget year 2013.

The measures were supposed to reduce Greece's debt to 124 % of GDP by 2020 and hence to save at least 50 % of the debt obligations in terms of NPV. De facto, the measures implied a reduction in interest rates to the level of a government with AAA rating, and an extension of the maturity profile exceeding 20 years on average (see **Figure 35**). This resulted in a significant easing of the debt burden.

Figure 35. Evolution of weighted average interest rates and maturity



Source: Public Debt Management Agency of Greece

Earlier OSI would have been more efficient (less costly for the EU and Greek taxpayers) and potentially more effective but it was politically unfeasible. Ex-post, several interviewees agreed that an earlier OSI, and possibly without PSI, could have been more effective in putting the Greek debt on a sustainable path and may have contributed to reduce fears of Grexit and the following negative impacts. In the end, such an option could have also been a cheaper option not only for Greece, but also for EU taxpayers. Interviewees familiar with the process agreed, however, that it would have been impossible to agree on it at political level. The lack trust, in the Greek governments, driven by poor track record and political hostility were insurmountable obstacles to make any concession from the EU side. Later on, a few changes affected their position and led to the decisions about OSI. In 2012, the main game changer was the agreement on PSI. In 2017, two factors played a role. First, the change in the political context and in decision makers, both from the EU side and the Greek side, with Tsipras emerging as a much more cooperative and reliable partner than anyone expected in 2015. This resulted in much smoother and constructive political talks. Second, macroeconomic conditions had changed. The euro area economy was expanding and the risk of contagion had evaporated. Incidentally, the dramatic fall in risk-free interest rates created an environment where, for the EU lending institutions, haircuts on debt face value were not only politically unacceptable but had also limited economic meaning. By contrast, additional re-profiling of the debt had become a relatively easy solution to support Greece in reducing its debt burden. From the lenders point of view, both macroeconomic and political conditions in 2017 were very different from those in 2012 and even more from those in 2010.

Overall, PSI and OSI were necessary (possibly inevitable) measures to respond to the exceptional Greek needs and its financing problems. PSI is an extreme measure which was applied to a very exceptional situation. It is an event which had no place in the EMU nor EU governance and legal framework. The antagonistic political context and the difficult negotiations in absence of framework (and experience) led to delays and unintended as well as unforeseen consequences which reduced its efficiency and its effectiveness. The two events of debt re-profiling were effective measures to reduce the debt burden and major steps to put the Greek sovereign debt on a long-term sustainable path. In addition to the direct provision of funds to meet financing needs, OSI had a major value added in the EU intervention in Greece.

Beside PSI, the second programme involved a series of reforms related to privatisation, which were already planned in the previous programme, aiming at raising EUR 50 billion over the next five years and contributing to the debt-to-GDP ratio reduction by about 17% of the outstanding debt. Yet, by the end of 2017, only about 10% of the amount projected in March 2011 was achieved (for more details see section 7).

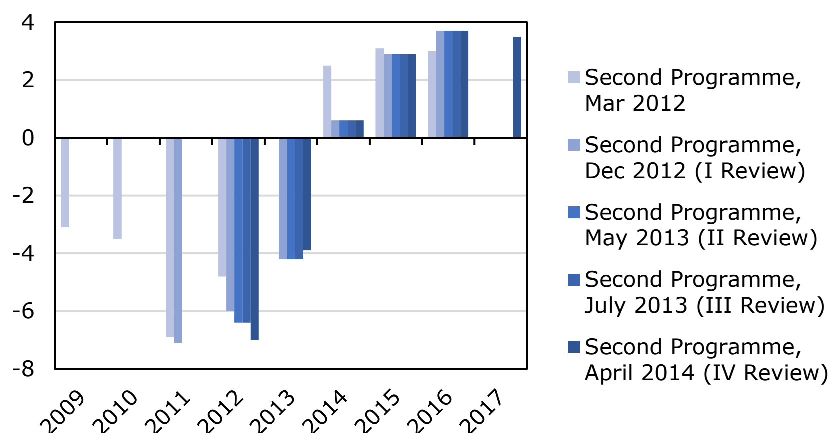
Labour cost adjusted more than prices, failing to restore competitiveness. After a long period of real exchange rate (RER) appreciation, Greece was called upon to restore external competitiveness through a process of internal devaluation, i.e. a reduction of labour costs and prices. As many observers pointed out, however, the downward adjustment of wages was faster than that of prices, implying an increase in producer margins. According to some authors, the fact that prices failed to decline in proportion to wages was a consequence of the priority given to fiscal adjustment, which implied a counterproductive tax hike. To some others, the problem with price stubbornness in Greece is a consequence of poor product market regulation and of an institutional set up that is permeable to administrative measures.

Irrespective of the underlying reason, the fact that prices did not fall as expected has been pointed out as a failure of the stabilisation programme. On the external front, the failure to restore competitiveness has been considered as a major explanation for the poor export

performance of the Greek economy, compared to what happened in other programme countries, like Portugal. On the internal front, the fact that real wages declined more than planned has been considered as a main cause of the loss of workers' purchasing power and of the excessive contraction of consumption and of aggregate demand.

This is one additional reason (to the PSI) why the impact of the EAP on GDP was not fully anticipated in the GDP forecasts. The fall in GDP growth in Greece was something that was consistently underestimated. The forecast errors suggest in a miscalculation of up to 7 % of GDP for 2012 (Figure 36).

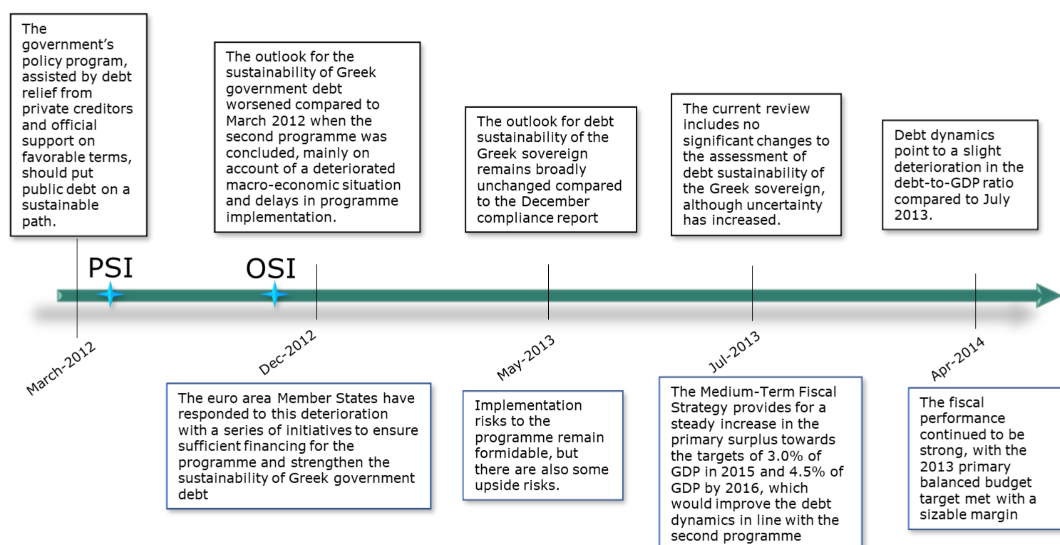
Figure 36. GDP forecast error, Second EAP



Source: NIERS (2020)

Debt sustainability and restoring financial market access were explicit objectives of the second adjustment programme however, by the end of the programme market access could not materialise, owing to political upheaval. After the short return to the financial markets in 2014, Greece could not regain market access earlier than 2019, one year after the end of the third programme. On the debt front, it failed to materialise its main objective of reducing the debt to GDP ratio. Between 2012 and 2015, government debt increased by 2.2% and, following a significant fall in GDP, at the end of the programme, public debt amounted to 177.4% of GDP, compared to around 162% in 2012.

Figure 37. Evolution of debt sustainability during the 2nd EAP



Source: Alcidi et al. (2020)

From a primary deficit of EUR -7.2 billion (3.7% of GDP) in 2012, Greece government moved to EUR 685 million primary surplus (0.4% of GDP) in 2014. Despite this improvement, one year after in 2015, a primary deficit of close to EUR 7 billion (-3.9% of GDP) was recorded.

Similar swing also happened for debt sustainability. While situation stabilised over 2013 and early 2014 (see Figure 37), halfway through the adjustment path, the outlook for sovereign debt sustainability worsened largely due to high economic and political uncertainty. Ultimately, additional financial support through a new adjustment programme became necessary.

5.3 The third EAP: objectives, expected and actual outputs

The third adjustment programme was centred on achieving a sustainable debt and sustainable primary surplus as well assuring on the durability of the fiscal adjustment.

As many interviewees put it, the design of the third programme was almost the same as the previous one, with two differences. The long term sustainability was meant to be achieved through structural changes, especially on the revenue side, and more time was given to Greece to complete the fiscal adjustment. To facilitate such process, a set of short-term debt-mitigating measures were introduced by the ESM and the EFSF in January 2017.

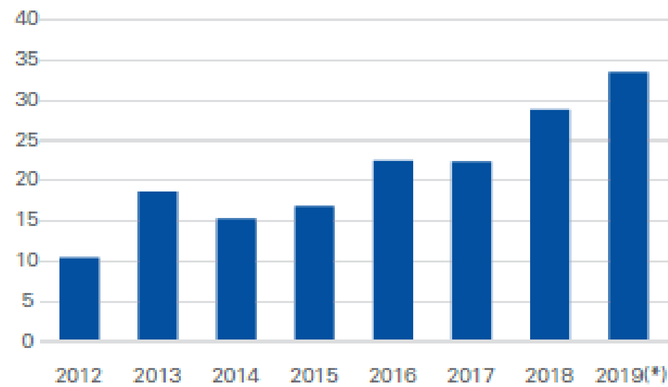
The ESM stability support programme included a milder fiscal path adjustment premised on primary surplus targets consistent with expected growth rates. According to this path, the general government budget deficit was expected to fall below 3 % of GDP in 2017.

In terms of consolidation, the policy mix between revenue and spending was broadly balanced and Greece managed to move close to euro area averages in both items. Total receipts increased by 1.4 percentage points from 2014 to 2018, to reach to 48% of GDP. Taxes, including VAT on production and imports, mainly contributed to this increase. Simultaneously, spending fell to 47% of GDP in 2018, from a high of 50% in 2014 (Figure 42 below).

In terms of specific measures, the focus was however mostly on the fiscal reforms, aiming a boosting the revenue side in a durable way. Effort focussed on strengthening the fiscal institutions and reform the revenue administration. In addition, the programme contained a number of public finance management reforms focusing on improvements in tax collection and the fight against tax evasion. According to the first review of the ESM programme (2016), the latter could generate a yield of up to 0.75% of GDP, although the quantification of each of these effects is inherently difficult.

According to the ESM (2020), efforts to improve the payment culture and reduce tax evasion produced some results. The upward trend in outstanding debt of taxpayers seemed to stabilise during 2019, even though effective collection of the ‵′old tax debt′′ stock remained extremely low (collections at €2.5 billion against a stock of around €100 billion). However, a substantial improvement of the collection rates of "new tax debt′′ was observed from 2015 (**Figure 38**). This was associated with changes in the income tax code and simplified reporting procedures, which had the purpose of reducing tax avoidance opportunities.

Figure 38. Collection rate of new tax debt

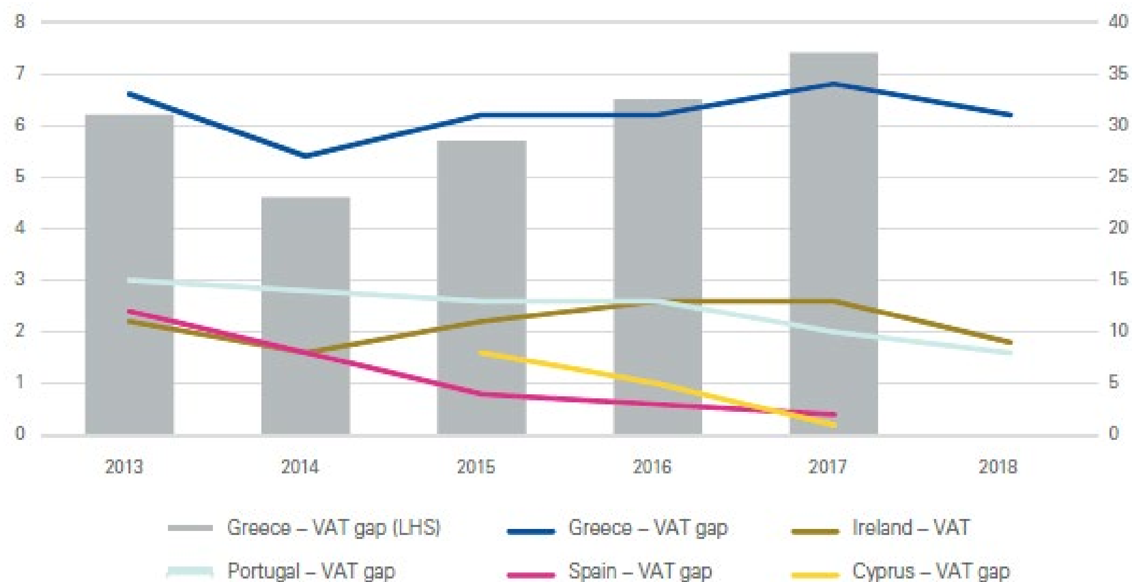


Source: ESM (2020) p.57 based on Tax Administration Monitor" published on the website of the Greek Tax Administration. Available at: https://www. aade.gr/open-data/KPIs

Improvements VAT collection remained limited. Restrictions on cash withdrawals introduced in 2015 triggered an increase in card payments and possibly in VAT revenue, which raised steady also in the following years. However, Greece very high VAT gap – more than 30% - a much higher rate than any other programme countries (Figure 39) did not fall much. Hence, the potential of tax revenue to improve the sustainability of public finance was not fully exploited.

Figure 39. The VAT gap

(left-hand axis in € billion, right-hand axis in % of VAT total tax liability)



Source: ESM (2020) p. 58 based on European Commission DG taxation and duties

Note: VAT total tax liability reflects the amount of VAT theoretically collectable within a country under VAT legislation and ancillary regulations.

Another important issue that the third programme attempted to tackle was clearance of arrears. This was expected to have important positive implications for economic growth. The plan included that Greece would jump-start its arrears clearance

programme in the second part of 2016 and clear EUR 4 billion of arrears by the end of the year.[56] The acceleration of arrears clearance was seen necessary to return liquidity to the real economy and support growth going forward. In practice, the plan also included the introduction of improvements in the reporting of unpaid obligations, including hospitals and local government. According to the ESM arrears were reduced to €2.4 billion in end-2018 from almost €10.5 billion in May 2016.

On the expenditure side, cuts materialised on social spending (pensions), public investment, and public wages. While Greek authorities originally planned significant public investments, including numerous investment projects, in practice targets were not met. One important consideration with regards to public investment in Greece is that a significant part of the projects is co-financed by the European Union. Between 2010 and 2017, public investment co-financed by the EU accounted for about 8 tenths of total public investment. In the first years of the programmes, some of the EU-funded projects were not implemented because of a lack of funding from the Greek-side, this had changed during with the TFGR until 2015 (see chapter 9). In retrospect, on the one hand, the adjustment programme should have included an explicit measure on ring-fencing public investment to stimulate long-term growth. On the other hand, the underspending, in both the national and the co-funded part of the investment budget, was such that it contributed not only to achieve the fiscal targets but to overshoot them. Overall, this dampened the growth stimulus (Table 5).

Table 5. Targets and achievements

	Primary surplus target	Actual Primary surplus % GDP	Estimated GDP growth	Actual nominal GDP growth
2015	0.25	-2.3	-2.3	-0.7
2016	0.5	3.5	-1.3	-1.1
2017	1.75	3.7	2.7	1.7
2018	3.5	4.3	3.1	1.4

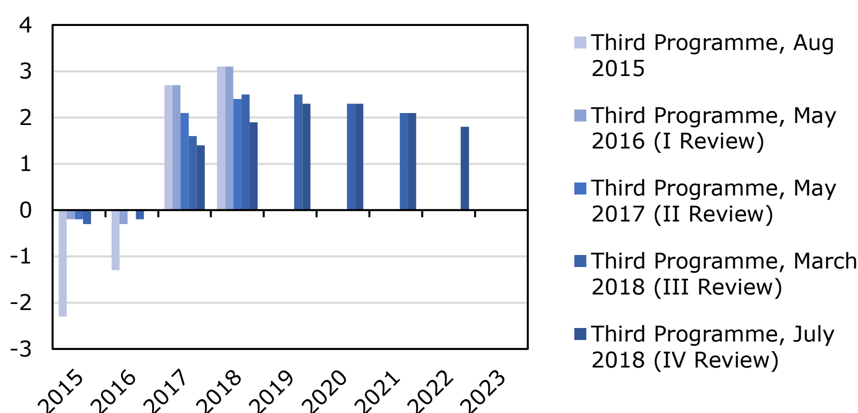
Source: ESM (2020) and Ameco

Ex-post, the third programme substantially improved the government primary balance from EUR 3.7 billion deficit in 2015 to a surplus of EUR 7.9 billion, equivalent to 4.3% of GDP, in 2018. Overall, **programme not only achieved its fiscal target in terms of primary balance**, but it over performed them. However, it involved negative short-run effects on aggregate demand, partly offset by some positive contributions from net exports. The latter showed a significant delay in the recovery, but also on the wave of positive commodity prices could bring some oxygen.

A specific feature of the third EAP was the fact growth forecast errors became smaller than in the past. While GDP forecasts remained overoptimistic, the difference was smaller and stable during the reviews (Figure 40).

[56] European Commission (2016) first review

Figure 40. GDP forecast error, third EAP



Source: NIERS (2020)

Following on the political promise of the Eurogroup in May 2016, in early 2017—about one year after the third programme was agreed on—a re-profiling of the EFSF/ESM repayment terms was approved, with the objective of moving the Greek debt towards a clearer sustainable path.

Overall, the two OSI (in 2011 and in 2017) cut interest payments by half. They went from EUR 12 billion in 2009 to about EUR 6 billion, equivalent to 3.3 % of GDP, in 2018, lower than Spain, Portugal and Ireland were paying.

The second OSI was made necessary by the derailment of the second programme, driven by political uncertainty and the escalation of the second Grexit crisis. The decision was made in 2016 in response to a debt-to-GDP ratio which was increasing again. Given the very limited privately held debt, the political unfeasibility of direct haircuts on official loans and the already very low interest rates, debt relief could only take the form of a dramatic lengthening of the already long maturity profile on official credits.

The IMF considered such conditions as too far from the maximum terms usually applied. According to several stakeholders, the Fund[57] was in favour of a nominal haircut on official EU loans, pointing to the high downside risks of the additional lengthening of maturities.[58] In the end, give the different views, the third programme was financed by the ESM only, without an accompanying IMF arrangement.

The OSI measures[59] included:

- increasing the weighted average maturity of loans from 28.3 to 32.5 years;
- reducing interest rate risk by exchanging EFSF/ESM floating-rate bonds for fixed-rate bonds, interest rate swaps and matched funding for future disbursements;
- waiving the step-up interest rate margin (originally set at 2 %) for 2017 on an EUR 11.3 billion EFSF loan tranche.

The impact of these measures on the Greece's debt-to-GDP ratio stock was estimated to be a fall of 25 percentage points until 2060. Extended maturity and lower interest rates substantially reduced GFNs by an estimated 6 percentage points over the same period.

[57] The IMF preference for nominal haircut is also explicitly mentioned in Thomsen (2019).

[58] It should be noted that haircuts would not have applied to the IMF loans.

[59] See https://www.esm.europa.eu/assistance/greece/explainer-esm-and-efsf-financial-assistance-greece

Greece's GFNs are expected to remain below 15 % of GDP over the medium term and to comply with the 20 % threshold in the long run.

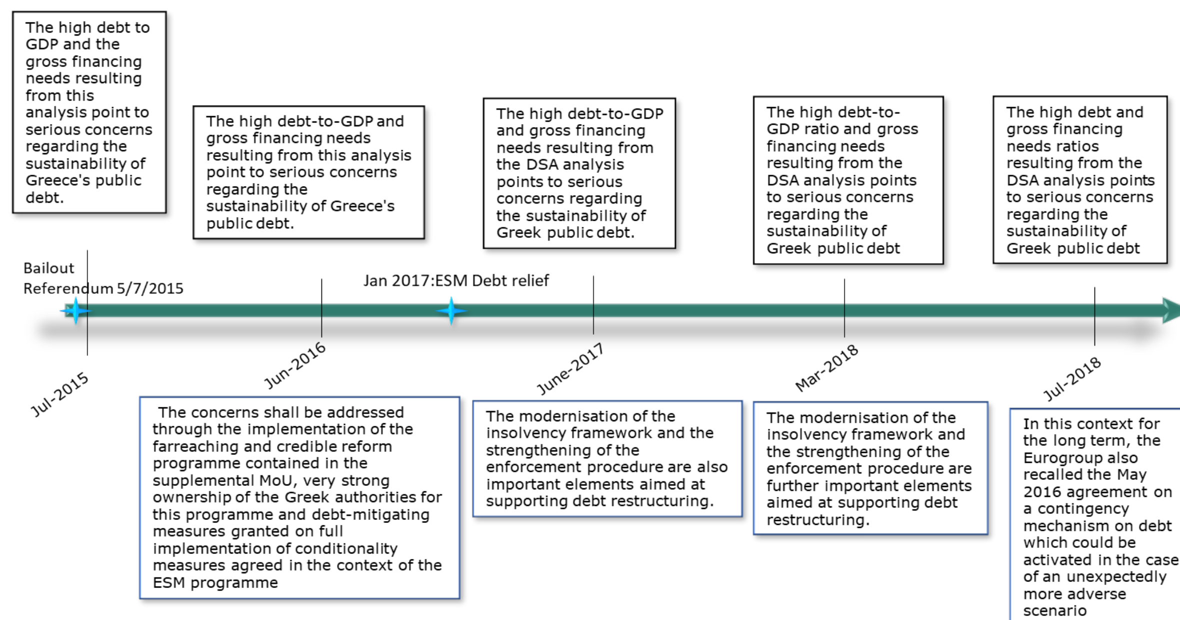
In June 2018, the Eurogroup agreed upon medium-term debt relief measures for Greece[60]. The key element was an extension of maturity and grace periods on EUR 96.9 billion of loans granted under the EFSF programme to smooth debt-servicing peaks in future decades[61]. These measures rescheduled the loan repayment profile, eliminating many repayment bumps on the Greek EFSF loans in the 2030s and 2040s. In addition, the EFSF lengthened the weighted average maturity for the EFSF loans provided from 2012 to 2014 by 10 years.

The Eurogroup also agreed that additional debt measures may be considered in order to ensure that GFNs targets are met, assuming that Greece meets the requirements of the EU fiscal framework at the end of the grace period in 2032.

The achievement of fiscal targets together with lower servicing costs, as the implicit interest rate for the general government debt steadily declined, helped to generate comfortable cash buffers. The latter enhanced Greek credibility and supported it in regaining market access. Ratings on Greek sovereign bonds was close to investment grade (BBB-) by the end of the evaluation period.

Nevertheless, the programme was completed with remaining significant concerns about the long term debt dynamics and potential unfavourable consequences that could affect the outcome of the programme (Figure 41).[62] **Debt to GDP steadily increased over 2015-2018 and reached around 186% at the end of the programme.**

Figure 41. Evolution of debt sustainability during the 3rd EAP



Source: Alcidi et al. (2020), based on official documents.

[60] Explainer on EFSF medium-term debt relief measures for Greece. Accessible at: https://www.esm.europa.eu/press-releases/explainer-efsf-medium-term-debt-relief-measures-greece.

[61] In addition to the ANFA/SMP profits, plus waiver of the step-up margin.

[62] The EU institutions DSA showed sustainable debt under the baseline scenario. IMF also assessed debt sustainable on medium term, while risks remain in the long term.

In summer 2018, after the conclusion of the ESM stability support programme, Greece exited from eight years of adjustment programmes. In 2019, it managed to return to markets and sell sovereign bonds with 5- and 10-year maturity at rates higher than other EU programme countries, but below expectations. Moreover, 15-year bonds were sold in 2020 and 10-year bonds were trading at a rate below 1 %. These market issuances and the debt relief of around EUR 0.6 billion received in May 2019 resulted in a liquidity buffer of about to EUR 32 billion (17 % of GDP) for the Greek government (as of 2019).[63] This was higher than other countries and was supposed to meet government financing needs through 2022 without further borrowing.[64]

5.4 Overall assessment

The five criteria and the related questions and answers

***Effectiveness**: To what extent were market access objectives achieved? To what extent were debt sustainability objectives achieved?*

***Efficiency:** To what extent could the fiscal consolidation and debt sustainability objectives have been achieved at lower costs in terms of growth? To what extent did debt restructuring (PSI and OSI) improve debt sustainability and help to regain market access?*

***Relevance**: To what extent were the fiscal targets appropriate to achieve market access and debt sustainability objectives? Why were macroeconomic outcomes worse than projected?*

***Coherence**: To what extent was there an underlying growth strategy to ensure coherence across all policies? To what extent were fiscal-structural measures and other programme measures coherent?*

***EU added value:** To what extent did the EU's legal framework contribute to addressing the Greek sovereign debt crisis?*

Overoptimistic macroeconomic projections at the outset of the programme were probably necessary to get a political agreement around and a limited financial envelop, which was likely to be insufficient from the start. In the end, they may have had a negative impact on the programme credibility. This meant that the first programme had a very ambitious fiscal adjustment plan and targets, and as both actual data and evidence from stakeholders suggest, it failed to achieve them. In the second programme and later in the third programme, fiscal measures started to take effect and contribute to fiscal sustainability. Despite a difficult start, the second programme made substantial progress in terms of fiscal consolidation, it is the political instability of 2015, which offset all the previous gains, and made a third programme necessary.

When looking at the strategy followed by the government during the programmes to achieve fiscal consolidation, there was a clear movement from consolidation centred on expenditure cuts, to a more balanced combination of expenditure cuts and revenue increases in the second programme, towards more focus on the revenue side in the third programme.

In the first years of the programmes, in order to reach the ultimate primary surplus requirement, little attention was paid to quality of consolidation. In the first programme especially, expenditure was just cut all across the board. Several interviewees pointed out that this was both inevitable and necessary, given the exceptionally large size of the fiscal deficit. Later on, and especially in the third programme, the provision of additional financial

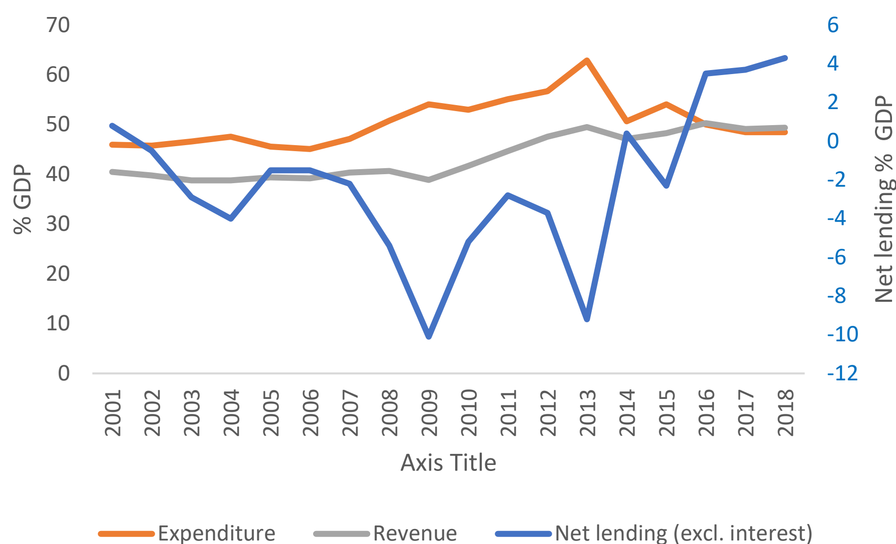
[63] See file:///C:/Users/admin/Downloads/1GRCEA2019002.pdf

[64] These calculations did not include the impact of the Covid-19 crisis.

support and more realistic targets made it possible to adapt the policy mix and focus on a long term perspective, without the pressure of achieving immediate results. **Eventually fiscal consolidation was completed but** the adjustment was never growth friendly. In practice, **it materialized with the public expenditure playing the bigger role than expected and planned, while the tax base did not grow considerably**.

More in general, the second and even more the third programme explicitly added growth as an objective, but reality was always below expectations. Ex-post The implementation of the programmes was strongly inefficient in promoting growth and economic activity. With hindsight negative and weak growth inflicted a large cost on Greece.

Figure 42. Fiscal policy mix (2001-18)



Source: Ameco. Note: Net lending on the RHS

The approach to debt sustainability and how to regain market access substantially changed over time. In the first programme, sovereign debt sustainability was not the main objective. Financial support was given in an emergency situation to avoid default induced by liquidity shortage and increasingly difficult access to financial markets. Conditionality essentially focused on reducing the deficit. This was seen as sufficient to restore market credibility. There is large consensus among stakeholder interviewed that such an approach did not contribute to regaining market access.

In the second programme, ensuring debt sustainability had to be a fundamental objective for the success of the Greek programme. Debt sustainability was expected to be delivered by a combination of debt relief through PSI and large revenues (as much as EUR 50 billion over five years) from privatisation, complemented by structural reforms and continued consolidation. None of these expectations materialised. After the debt haircut in 2012, the debt-to-GDP ratio increased again in 2013 to almost the same level as in 2011, driven upwards by a persisting deep recession. The privatisation plan experienced very large delays and its revenues were largely overestimated.

After a first return to capital markets in 2014, because of dithering commitment to the programme at the political level, lack of growth and negative political developments, in June 2015, Greece was again on the brink of default. Debt sustainability was far from being achieved.

The ESM stability support programme changed the approach to the fiscal consolidation and included, additional debt relief measures. There is no doubt that the low-interest-rate

environment played an important role in making conditions favourable for Greece to return to market, despite the high debt. Yet, there is a broad consensus among the interviewees that the financing conditions accompanying the third adjustment programme were crucial to make Greece regain market access.

PSI should not be considered an option for sovereigns in the Monetary Union. The event of Greek default was described by several stakeholders as fully discounted by market participants' and most of them qualified Greece as an extreme case, both because of the exceptional economic situation, the huge financial needs and debt burden but also the lack of readiness by domestic authorities to deal with debt. In the end, according to several stakeholders, PSI was possibly inefficient and only marginally effective, as its main effect materialised in terms of savings on borrowing costs. However, the large majority of them had no strong arguments against the PSI. It was considered inevitable or even necessary at the moment. That being said, there was a general agreement among interviewees that sovereign default must be avoided in a monetary union. In general, costs of defaults are high and most costs may be intangible. Beyond the future capacity to raise funds in international financial markets at accessible rates, a default is likely to have an impact on the reputation of a nation that can last decades, possibly centuries. The event is also likely to have a negative impact on the domestic economy, by resulting in a sharp increase in risk premia, lower credibility of contracts and compliance with legal obligations, leading overall to low investment. In general, a default could lower the efficiency in the way the economy operates, and affect potential growth in future years. In the context of the Monetary Union, such costs are amplified by an inevitably complex governance and a high risk of mismanagement due to the multiple stakeholders involved and different national interests at stake as well as potentially large spillover effects.

Haircuts on official sector borrowing should not be considered an option. Ultimately, PSI also contributed (indirectly) to the debt sustainability by making possible OSI. PSI was a condition for OSI. The rejection of nominal haircuts on official lending is one of the very few constants of the three EAPs. It was never an option from the EU side and is considered by some the main point of rupture with the IMF. One stakeholder noticed that while haircuts on official lending may have been more efficient, direct losses on fresh public money from other member states taxpayers are not deemed to be acceptable. Only reduction on NPV should be considered possible, in exceptional circumstances.

If we look at the three programmes as a long fiscal adjustment experience, in the end, their design was broadly appropriate and they were effective in improving the long-term sustainability of the Greek public finances, as it was proved by Greece regaining market access. But the process was not efficient, for a series of reasons, some of which were outside the control of Greece and could not be foreseen at the moment the programmes were designed. However, overoptimistic forecasts, could have been avoided. And, this was done in the context of the other euro area EAP, unlike Greece in most cases forecasts were over pessimistic.

The EU value added came essentially in the form of financial support. Without it, Greece would have defaulted in disorderly way, as the large financing needs would not have been met by any other institutions. This would have resulted in much larger costs for the economy and society. In addition, despite the sometimes painful modalities of the programmes, Greece had to find the way to restore discipline in its public finances and reduce inefficiency in its structure. As several Greek stakeholders recognised, most of the changes that were "forced" during the programme, were already necessary before the crisis but never implemented.

6 Financial stability and the banking sector

This section provides an overview of feature of the Greek banking sector to better understand the needs at the start of the crisis. It analyses the objectives and the design of the measures to support banks and restore financial stability during each of the three adjustment programmes. It assesses their implementation, the achievements and the overall success and failures.

6.1 The Greek banking system before the crisis

Historically Greece has had a relatively small banking sector, in terms of assets to GDP ratio relative to the euro area average, engaging primarily in traditional banking activities, i.e. granting loans to household and companies financed by domestic customer deposits. In comparison to other banking sectors, the Greek banking sector was relatively small primarily serving domestic residents. At the outbreak of the global financial crisis, the Greek banking sector appeared relatively sound, not heavily dependent on wholesale funding and it had suffered very limited impact of subprime crisis.

Based on the ECB MFIs list, just before the start of the crisis in 2009, Greece had a total of 66 credit institutions, 36 of which were banks with a Greek banking authorization while 30 were branches of foreign banks.[65] Besides the banks active in retail banking the Greek banking sector consisted of a network of cooperative banks and specialised banks. The latter were mainly active in consumer financing, car leasing or shipping financing.

With respect to asset concentration, the ratio of the five largest banks increased over time and reached 70 per cent in 2008. The Greek banking system was therefore highly concentrated at the start of the global financial crisis.

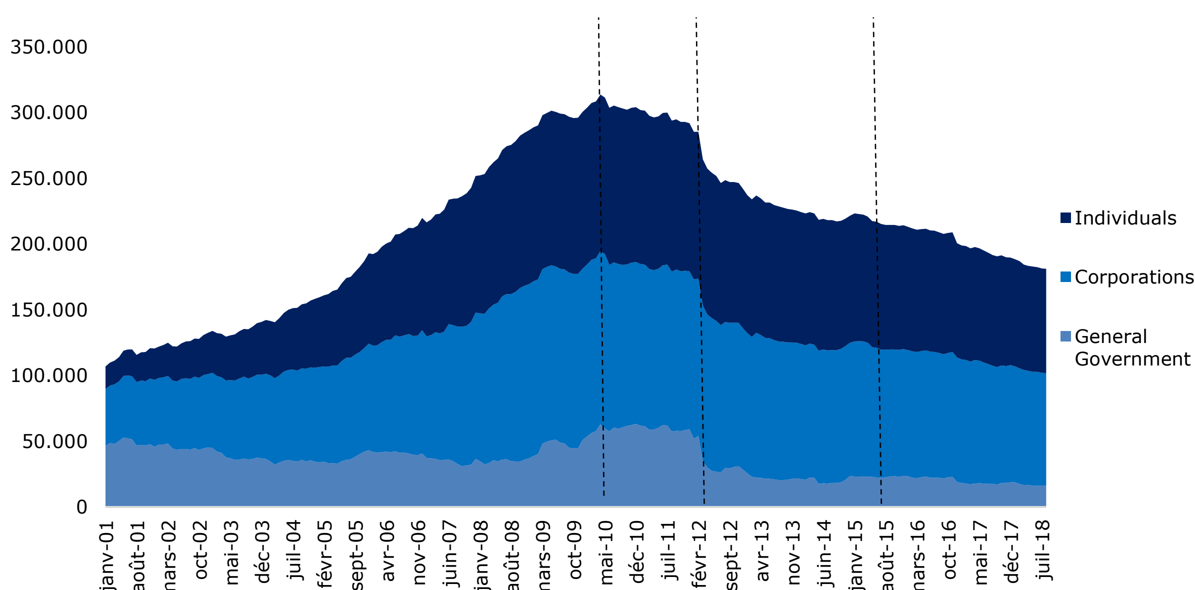
A boom in domestic credit expansion in the years prior to the crisis. Between the adoption of the euro and 2008, the Greek banking system grew driven by mergers, acquisitions and the entry of foreign banks in the Greek market. During this period credit increased quite dramatically. Over the decade (2001-10) total loans almost tripled, from about EUR 100 billion to 300 billion (see

Figure **43**). Loans to households, mostly mortgages, increased by a factor of seven and loans to corporation by almost a factor of three. Lending to the General Government which had remained relatively stable until 2008, albeit already above the Euro area average, surged strongly after 2009.

The first years of the global financial crisis and until the first programme (2007-10) are quite important to understand the banking sector. The size of the Greek banking sector rapidly converged to the euro area average. Over these few years, the size of the economy did not change much (on the eve of the EAP nominal GDP was exactly at the same level as at the end of 2007), whereas the size of the banking sector grew approximately by 30% (credit was up to EUR 315 billion in March 2010 – about 140% of GDP - from EUR 250 billion at the end of 2007).

[65] This figures compare to 15 banks domiciled in Greece and 20 foreign branches respectively at the end of 2020 (total 35), ECB Statistical Data Warehouse.

Figure 43. Credit to domestic non-MFIs, EUR million

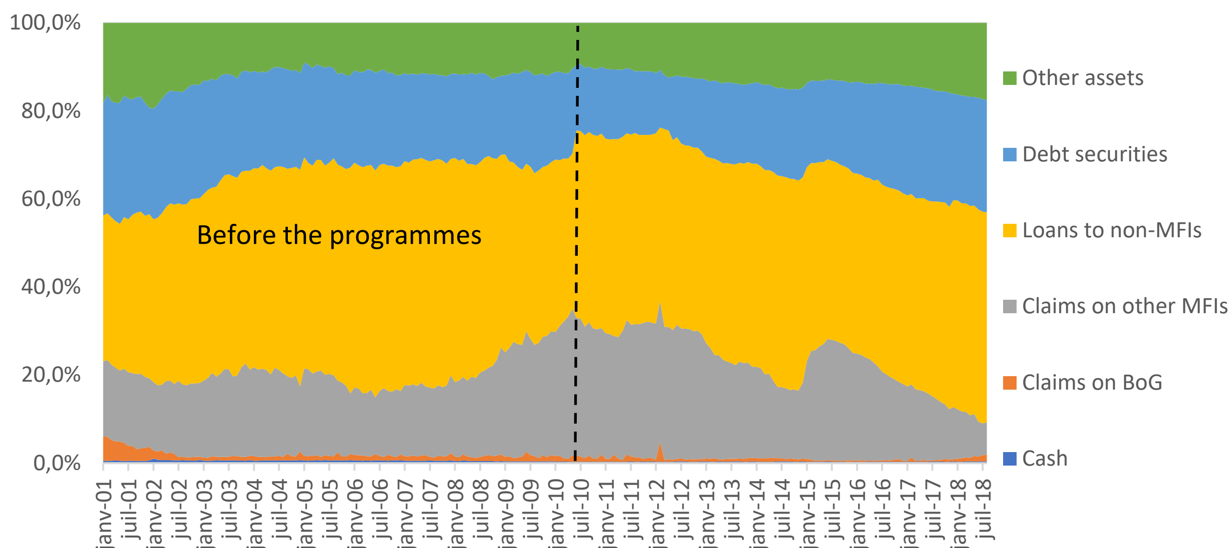


Source: Bank of Greece

Note: General Government includes bonds and loans

The most notable increases were in the claims to other MFIs, which were rather limited before 2007 and loans to other sectors in Greece. Together they accounted for three-quarters of the balance sheet growth between end-2007 and end-2010 (**Figure 44**).

Figure 44. MFIs balance sheet: asset composition in % of total assets, Jan 2001-Aug2018

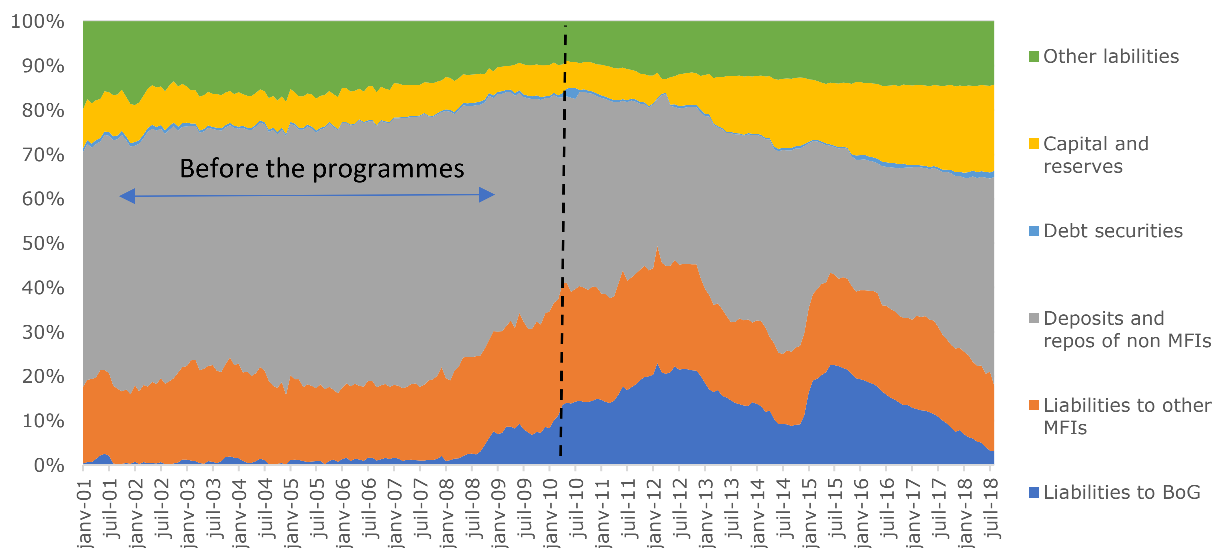


Source: Bank of Greece

Note: Other assets is the sum of Money market funds, Shares and other equity, Fixed assets, Gold, SDRs and foreign banknotes, and Remaining assets

This expansion was funded by new funds from banks in other euro area countries and domestic depositors (until 2009), but above all funds from the Central Bank (Figure 45)

Figure 45. MFIs balance sheet: liability composition in % of total liabilities, Jan 2001-Aug2018

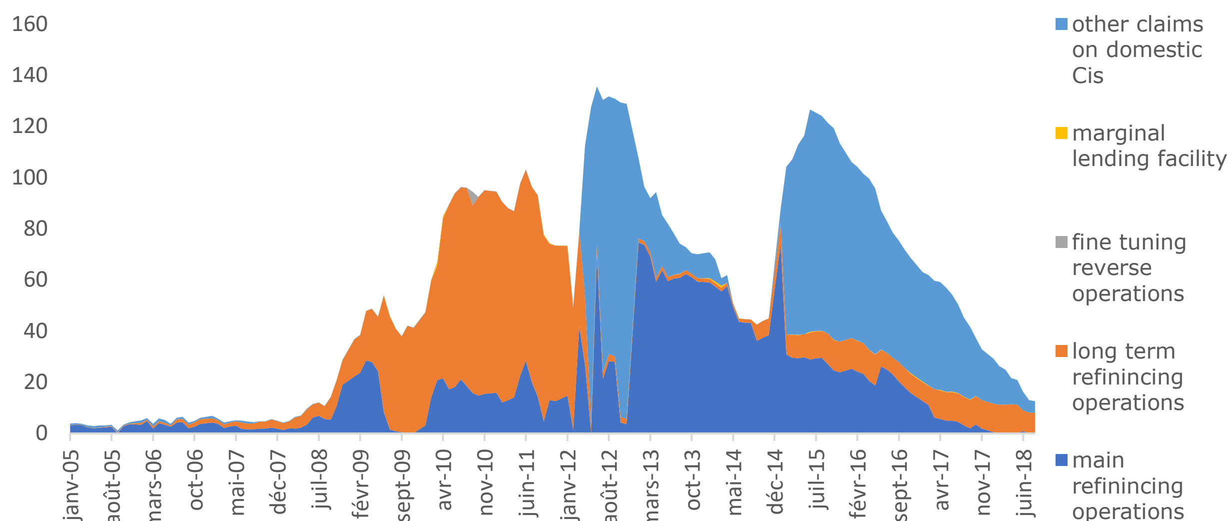


Source: Bank of Greece

Note: Other liabilities includes: Banknotes and coins in circulation, money market fund units and Remaining liabilities.

The Greek banks started borrowing substantial amounts of central bank funds in the midst of 2008. Banks used primarily the open market facilities, i.e. the weekly main refinancing operations and above all the longer-term refinancing operations (Figure 46). The latter became dominant in early 2009 when the central bank allotted larger amounts to this facility with longer maturities.

Figure 46. BoG selected liabilities, by instrument, 2005Jan-2018Jul



Source: Bank of Greece

Note: The figure shows the composition of the liabilities to Bank of Greece by instrument, which include the standard Open market operations (i.e. Main refinancing operations, Fine-tuning operations and Longer-term refinancing operations) and Standing facilities (i.e. Marginal lending facility). The other claims on domestic credit institutions is a proxy of the Emerging Liquidity Assistance (ELA) that is not specified on the balances of the Central Bank of Greece.

The resort to short-term and cheaper interbank funds and Eurosystem funding was meant to insulate banks from an ongoing increase in long-term unsecured funding costs. This shift lowered the funding costs of the banks, at a time of expansion of the loan portfolio. The combination increased the net interest margin as well as net fee and commission income. In 2008 Greek banks appeared quite profitable, more than most euro area banks. The banks, however, benefited only shortly of the carry-trade opportunity offered by the cheap Eurosystem funding. With domestic economic conditions worsening, the rapid expansion of the domestic credit portfolio increased the impaired losses. Profits rapidly declined and turned negative in 2011.

Growing liquidity needs. At the end of 2009, Greek banks lost access to international money and capital markets, at the same time they started to experience a considerable deposit outflow. In October 2009 (time of the announcement of the new budget deficit), private sector deposits, which had grown quite strongly in previous year, started to decline fuelled by concerns about the solvency of the state, and the increased tax obligations of depositors[66]. The combination of the two factors, affecting the two main funding sources of banks, put their liquidity under acute pressure. In addition, the credit rating downgrades of the Greek sovereign bonds and the surge in the sovereign risk premium negatively affected the cost of external funding of banks[67].

With hindsight, at the start of the programme the banking sector was exposed to substantial vulnerabilities, which built up mostly between 2007 and 2010. In addition, to the high and fast growth of credit to the domestic private sector and the increasing reliance of short term ECB financing (IMF Article IV report on Greece, August 2009), following the tightening conditions in the wholesale markets after 2007, other factors played a role:

- Banks' holdings of Greek Government Bonds (GGBs) almost doubled between 2008 and early 2010, close to 50 billion, and exceeding 8% of their total assets (the double of euro area average);
- The risk of non-performing loans (NPLs) was increasing and the actual ratio had started to surge in 2008. At the end of 2009, on the eve of the signature of the adjustment programme, it was already at 9.5% (see Figure 51), one of the highest in the EU and exhibiting a rapidly rising trend;
- Severe underdevelopment of domestic capital markets, which restricted access to funding sources (see Figure 45);
- Ineffective regulatory framework, particularly in relation to bankruptcy and debt restructuring procedures, both for firms and households, and recovery of collateral;
- Banks' loose credit conditions over a prolonged time period and reported political interference in corporate governance, particularly among state owned banks.

6.2 The implementation of the first EAP: objectives, expected outputs and output

By the time of the preparation of the first adjustment programme, the exclusion of the Greek government from international capital markets, quickly spread over to the financial intermediaries as well, given their growing exposure to domestic government debt. The spill over effects from the sovereign crisis to the banking sector attracted the attention of international creditors, who identified the need for financial sector reforms attached with

[66] Bank of Greece (2010). Annual Report for the year 2009, p. 160.

[67] Successive sovereign downgrades also led to a devaluation of assets that had been used as collateral for refinancing from the Eurosystem.

program conditionality. Hence, financial sector reforms became one of the three pillars of program reform areas, complementary to fiscal and structural areas.

The design of the first programme recognised certain needs of the banking sector but the main focus was on fiscal consolidation. This approach reflects a quite broad consensus at that time that the banking sector was not the main source of risk, unlike other euro area member states (most notably Spain and Ireland). The literature (including official documents) has broadly backed this stance even years later. By contrast, the sovereign debt crisis spilled over to the banking system, and worked as the main cause of acute liquidity pressures and solvency crisis. Such position is reflected in the definition of a specific objective of safeguarding financial stability. This was supposed to be reached through the achievement two main operational objectives:

i) management of the tight liquidity conditions of Greek banks by preventing outflows of deposits and implementing liquidity support measures,
ii) strengthening of the banking supervision and anticipating a deterioration in asset quality

- The following expected outputs were envisaged: Liquidity provision to the banking system
- Provide capital support to banks as needed
- Revamp supervision and asset quality review
- Restructuring of state banks
- Coordination of supervisors (home-host)
- Avoid market disruption and preserve financial stability and depositor confidence/avoid deposit outflows

The liquidity provision from the Eurosystem and ELA became essential for banks. According to the bank of Greece, the liquidity needs for Greek banks during 2010 reached a total of EUR 74 billion[68] driven by EUR 40 billion deposit outflows; EUR 26 billion due to the need to replace/add collateral whose rating was downgraded (and hence there was insufficient eligible collateral to maintain access to existing levels of Eurosystem funding) and EUR 8 billion due to maturing debt that had to be rolled over. In addition, the loss of access to wholesale markets and the increasing loan impairment (due to a deepening recession) put further pressure on the liquidity position of the Greek banks.

To face the shortage of liquidity, Greek banks started to cut lending, but more was needed.

Since November 2008 the provision of government guarantees for bank bonds was an extensively used tool to support the banking sector.[69] The scheme was prolonged and increased in size several times, reaching a budget of EUR 85 billion in 2011 at its peak.[70] Out of that budget, as of 21 December 2011, an amount of EUR 65 billion had been granted in the form of guarantees[71]. Such a scheme created a dynamic of reciprocity between banks and the government, whereby the government provides guarantees to banks and the banks hold sovereign debt.

[68] Bank of Greece Annual Report 2012

[69] This was part of a wider scheme which envisaged 3 pillars: a) the State providing capital by acquiring preference shares – budget EUR 5bn, b) Greek government guarantees for bank bonds (GGBs) – budget EUR 15bn and c) support through the issuance of Greek State special purpose securities to credit institutions – budget EUR 8bn.

[70] The increase of the initial budget of EUR 15 billion to EUR 30 billion was approved by the Commission as compatible with State aid rules on 12 May 2010. The Commission approved subsequent increases of the budget, to EUR 55 billion in June 2010 and EUR 85 billion in April 2011.

[71] See Commission decision of 6 February 2012 in State aid SA.34149 (2011/N) "Sixth prolongation of the Support Measures for the Credit Institutions in Greece", OJ C 101, 04.04.2012, p. 2..

In the spring of 2011, amid growing social unrest, a deepening recession and fears of currency redenomination, deposit outflows accelerated. In the course of the following year, with the programme going off track, the need to agree on a new EAP and the long and difficult negotiations about PSI, deposit flight never stopped. It accelerated in May 2012 when parliamentary elections ended in a deadlock. Deposits stabilised only in June, after the Samaras government declared its intention to implement the terms of the bail-out agreement. Overall during the period January 2010 to June 2012, private sector deposits plummeted by 37 per cent and close to EUR 87 billion was taken out of domestic banks (see Figure 47).

Throughout this period, Greek banks became heavily reliant on the ECB for their liquidity needs and most of their wholesale funding came from the Eurosystem. ECB adopted extraordinary measures to provide liquidity via the Eurosystem:

- Suspension of the link between sovereign credit ratings and eligibility of collateral for refinancing operations[72];
- Acceptance of uncovered bank bonds guaranteed by the government as eligible collateral for refinancing operations.
- Purchase of EUR 50 billion of government bonds under the Security Markets Programme (SMP)[73], between May 2010 and February 2012.

Detailed data on the SMP purchases is not available[74], but anecdotal evidence corroborated by the literature[75] suggests that most SMP purchases had as counterpart foreign (primarily French and German) rather than Greek banks. One possible reason for it could be that the Greek authorities, concerned about the potential rise in spreads on GGBs, encouraged domestic banks to keep the bonds.

Over time, however, banks' access to Eurosystem refinancing suffered due to a lack of eligible collateral[76]. In August 2011 Greek banks started to rely on emergency liquidity assistance (ELA) from the Bank of Greece.[77] Under ELA, a broader range of assets were accepted as collateral (with relevant haircut being higher) by a solvent financial institution, but the funds were lent at a rate incorporating a 100 to 150bp premium over the main refinancing operations rate (the rate at which ECB carried out main refinancing operations), which further affected banking sector profitability.

Based on Greek MFIs balance sheet, in February 2012, just before the second EAP, reliance on Eurosystem funding and the ELA reached unprecedented levels, of almost EUR 160

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[72] In May 2010, the ECB Governing Council decided to suspend the minimum requirements for credit quality thresholds for certain marketable instruments issued or fully guaranteed by the central governments of euro area Member States under an EU/IMF programme.

[73] ECB (2010). Monthly Bulletin - June. Available at: https://www.ecb.europa.eu/pub/pdf/other/mb201006_focus01.en.pdf

[74] The only available data are the aggregate figures published by the ECB, including a breakdown per year. Available at: https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

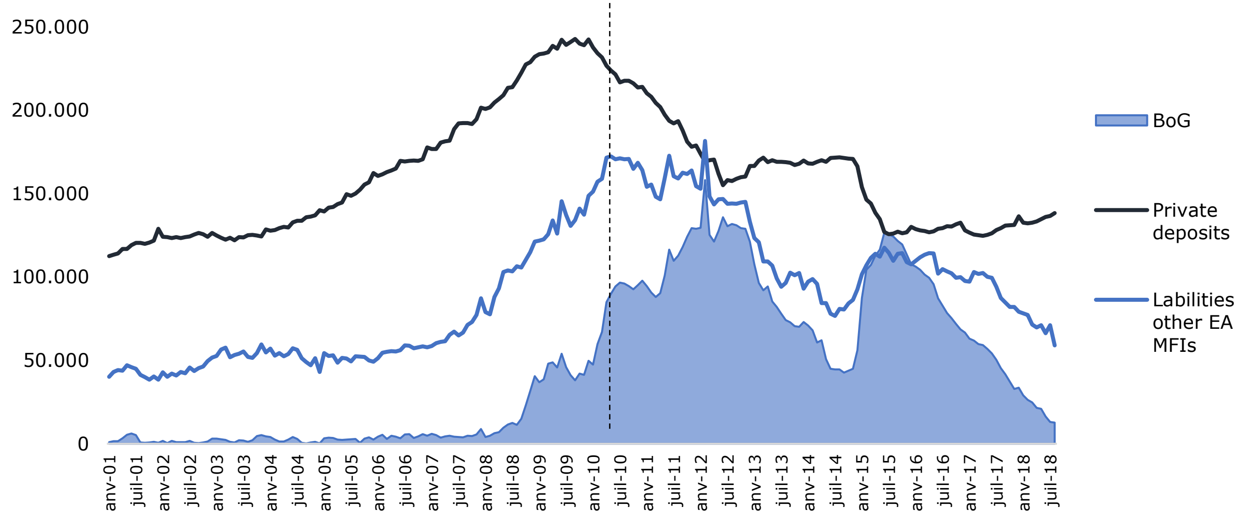
[75] Trebesch, C. and Zettelmeyer, J., 2016. ECB interventions in distressed sovereign debt market: the case of Greek bonds.

[76] The collateral the banks could use to obtain liquidity from the Eurosystem became either impaired or ineligible following the downgrading, first, of the country's credit rating, and, then, their own.

[77] The ELA agreement between Eurozone NCBs and the ECB, specified that the ECB Governing Council had the power to limit ELA operations if they were deemed to be interfering with the Eurosystem's objectives and missions. It set limits on the overall volume of ELA operations envisaged for the Greek banks. These limits were reviewed on a weekly basis and were incrementally increased by the ECB over time.

billion equivalent to about 80% of GDP (see Figure 47). According to the Bank of Greece ELA (alone) picked in November 2012 (during the second EAP) at 123 billion[78]

Figure 47. MFIs selected liabilities, Jan 2001-Aug 2008



Source: Bank of Greece, MFIs aggregate balance sheet

The creation of the HFSF to preserve the soundness of the financial sector. One key element of the programme was the establishment of a safety net for the financial sector. The government was tasked to establish a fully independent Financial Stability Fund, by the end of June 2010. Despite delays in the process of appointment of the Board members, the Hellenic Financial Stability Fund was created in July 2010, as a private legal entity, enjoying administrative financial autonomy and having the objective to contribute to the stability of the Greek banking system in the public interest. Following the MoU it had the mandate to i) provide capital support to banks in compliance with EU state aid rules, ii) monitor and assess how banks which received capital support comply with the restructuring plans, and iii) ensure the banks' business autonomy. As a shareholder, HFSF exercises its holding and voting rights, which includes the disposition, in whole or part, of any equity or other financial instruments issued by the banks in which it participates. The HFSF also provides loans to the Deposit Insurance Fund for resolution purposes and facilitates the management of non-performing loans.

Options for recapitalization and resolution measures were assessed. In order to comply with objective of improving supervision and monitoring of the financial sector and following the June 2011 Memorandum of Economic and Financial Policies, the Bank of Greece (BoG) commissioned an Asset Quality Review (AQR). In March 2012, the BoG and HFSF strategic assessment[79] delivered a final estimation of the minimum capital needs for each of the 18 banks assessed. Banks whose Core Tier 1 ratio fell below a minimum threshold were subject to the first recapitalisation/ resolutions[80]. It identified four large and systemically important 'core banks', namely the National Bank of Greece, Eurobank,

[78]https://www.bankofgreece.gr/en/news-and-media/press-office/news-list/news?announcement=c91acffb-3322-4472-82a0-90d17fc17cce

[79] The assessment used the criteria envisaged in the MoU 2012, including: (i) shareholders' soundness, (ii) quality of management and risk management system, (iii) capital, liquidity, and profitability metrics, (iv) BoG assigned ratings to bank risks, and (v) sustainable business model.

[80] European Commission, 2017. Coping with the international financial crisis at the national level in the European context. Available at: https://ec.europa.eu/info/publications/coping-international-financial-crisis-national-level-european-context_en

Alpha Bank and Piraeus Bank. These were to receive direct recapitalisation using programme funds, irrespective of the capital injected by private investors.

All other 'non-core' banks were to be recapitalised entirely by the private sector by the end of April 2013. Otherwise, they would be resolved by the end of that year[81] and the assets of resolved banks[82] transferred to the four 'core banks', subject to negotiations involving BoG, HFSF and the representatives of those 'core banks'. The first recapitalization took place in 2013 during the second EAP. The general principle guiding the three recapitalisations and resolutions was to maximise the involvement of private investors and minimise the control of the state. This approach was driven by a generalised lack of trust in the state interventions, given the government's mismanagement of the economy.

In April 2011 the European Commission approved the restructuring plan of ATE bank, judging it apt to restore the bank's long-term viability. The plan involved a State recapitalisation of up to EUR 1,144.5 million as well as liquidity measures. The bank committed to reduce it its overall assets by 25 per cent during the restructuring period and to improve its efficiency. The recapitalization took place in 2013.

In May 2011, the operations of the Hellenic Consignment deposits and Loan Fund were separated between a public and a commercial sector with a restriction of the expansion of the operations of the commercial sector (deposits, loans to Legal Entities of Private Law and individuals) until its total winding down.

Resolution measures were implemented for the first time in the case of Proton Bank, in October 2011, by setting up an interim credit institution. At the end of 2011, the BoG decided to withdraw the authorisation of T Bank, followed by the resolution of the cooperative banks of Achaia, Lamia and Lesvos-Limnos in March 2012. Some EUR 2.2 billion was the cost of the operations (Table 6). Overall, no disruption was associated to such measures.

Table 6. Resolution costs for the Greek banks during the 1st EAP

Bank	Date of resolution	Resolution tool	Acquirer	Resolution cost (EUR mln)
Proton Bank	9 October 2011	Bridge bank	-	1,112
T-Bank	7 December 2011	Sale of Business	Hellenic Post Bank	677
Cooper. Lesvou-Limnou	23 March 2012	Sale of Business	National Bank of Greece	56
Achaiki Cooperative	23 March 2012	Sale of Business	National Bank of Greece	209
Cooper. of Lamia	23 March 2012	Sale of Business	National Bank of Greece	55

Source: BoG

It should be noted that the framework for the resolutions allowed considerable flexibility in design. All resolutions over that time were implemented in line with Law 3601/2007 and Law 4021/2011[83], and a separate Resolution Scheme set up within the Hellenic Deposit

[81] Bank of Greece, 2013. The Chronicles of the Great Crisis: Bank of Greece 2008-2013.
[82] For commercial banks placed under resolution, the perimeter of the transferred assets and liabilities was selected on a case-by-case basis, focusing mainly on the 'healthy and viable' parts, including the loan portfolio. Cooperative banks, by contrast, only had their deposits transferred, due to the relatively low quality of their loan portfolios and the limited interest from bidders in acquiring additional assets.
[83] In October 2011, Law 4021/2011 amended Law 3601/2007, among other things with regard to bank resolution.

and Investment Guarantee Fund (HDIGF).[84] Until the end of 2015, two resolution tools were applied: the 'Sale of Business' tool was used in 12 cases, while 'bridge banks' was established twice (prior to the BRRD framework). The two bridge banks were under the control and management of HFSF, which acted as the sole shareholder of the banks (the new BRRD framework foresaw bridge banks managed by the resolution authority)[85].

The effort to strengthening banking supervision was timely but it remained incomplete. This was among the first provisions under the first EAP[86]. In practice this led to a closer coordination with BoG, which fully took over supervisory function. Changes included more frequent (quarterly ones) on-site inspections, faster data reporting with a wider scope, as well as increased staffing to cope with new responsibilities, such as supervision of the insurance sector. At the same time, BoG began also to publish its biannual Financial Stability Reviews (FSR), which offered a more comprehensive analysis of the risks for the Greek banking system than its regular reports. In its reviews the IMF repeatedly stressed the challenges related to state-controlled banking entities and the need to increase the resources dedicated to banking supervision (IMF 2010c).

The objective of creating an insolvency framework and new legislation for restructuring of private debt did not lead to concrete action. While the EAP indicates the need to review the private sector bankruptcy law to ensure consistency with ECB observations, it does not contain any concrete action and no follow-up came from the Greek authorities. It only led to commitment to review insolvency legislation, but a comprehensive strategy to tackle NPLs and insolvency frameworks was only adopted much later. Given the growing number of NPLs (see Figure 51) this turned out to be a missed opportunity to address a key challenge of the banking system at earlier stage. Over time, with rising household and corporate bankruptcies, insolvency reforms became increasingly politically difficult.

Legislative changes by the Greek authorities contributed to a deterioration of payment discipline and the persistence of high mortgage NPLs by removing the threat of foreclosure. In August 2010, the first personal insolvency law was adopted (so-called *Katseli Law*)[87]. It gave debtors with proven inability[88] to serve their loan a way to proceed to a settlement with their creditors, in order to repay a part of their debt. The law mainly protected primary residences from auctions until a restructuring was achieved (article 19). Since the law came into force at September 1st 2010, up until the end of 2016, more than 200.000 applications were filed[89]. The loose eligibility criteria[90] led to a large number of "strategic" filings, with debtors essentially making small payments for years after the application, until the court hearing. In the course of the EAP, the implications of this law on private

[84] This is the legal framework before the transposition of the BRRD into Greek Law. The BRRD was transposed into Greek law with Law 4335/2015. See Coleman at al. (2018) for a discussion (pp.25-26) here: https://www.federalreserve.gov/econres/ifdp/files/ifdp1238.pdf

[85] Ibidem

[86] European Commission, 2010. The economic adjustment programme for Greece. Available at: https://op.europa.eu/en/publication-detail/-/publication/64c89a77-ddc4-46f4-9bb0-18d7e80f6f0c/language-en

[87] This is L.3869/10 which was subsequently reformed by L. 4336/2015 and more recently replaced with L. 4738/2020 (The new insolvency law which is broader in scope and arguably far more targeted). In its first formulation, the law was about Household Insolvency Liquidation and had a narrow scope of application.

[88] Although this was the aim of the Law, a specific definition of proven inability to serve a loan was not provided in it; this issue was addressed by the courts, which granted this status to most filers.

[89] Source: IMF Selected Issue Papers, Country Report No. 19/341, November 2019.

[90] According to Article 1: "Persons who are insolvent and have, without cause, been permanently unable to pay their outstanding arrears, shall be entitled to submit to the competent court an application for the settlement of such debts and discharge". Article 1 further provides that "debts undertaken in the last year before the application for initiation of the above proceedings cannot be settled". According to Article 2 of this law". A prerequisite for the debtor to apply for a debt settlement and discharge before the competent court, is an attempt to reach an out-of-court settlement with his creditors and his failure to do so within the last six months prior to the application".

debt servicing were not sufficiently considered and the overall issue of improving the effectiveness of judicial processes for debt enforcement and insolvency cases was addressed within the context of the medium-term reform of the judicial system.

Overall, by the early end of the programme, banks' liquidity needs were much more acute than at the beginning of the programme. The reliance on Eurosystem and ELA lending was critical to avoid the collapse of the banking system. The objectives of the first EAP for the financial sector were quite broad and not at the heart of the programme. This was consistent with the prior that the banking sector was not the main source of the Greek crisis, which had a fiscal nature. While improvements of liquidity conditions were envisaged, the deterioration of the situation due to the combination of large fall in GDP and high political uncertainty, the scale of the problem was not, and could not be, foreseen.

6.3 The implementation of the second EAP: objectives, expected outputs and output

In the course of 2011, it became clear that the first EAP was going off track, that more funding and a new programme were necessary. It also became clear that sovereign debt restructuring, including private sector involvement, would be part of it. In the fall of 2011, the role of and the magnitude of the risks arising from the bank–sovereign vicious circle was recognised as the central driver of the Greek crisis. Such risks only emerged in the course of the first programme. This was partly due to an underestimation of the impact of fiscal consolidation measures on the whole economy, which played against an accurate assessment of the sovereign-banking feedback loop risks. The lack of accurate data about the fiscal situation (estimates of the budget deficit were revisited several times) and the systematically overestimation of GDP growth by the macroeconomic projections between 2009 and 2011 also contributed to the problem.

The second EAP devoted greater attention to the needs of the banking sector (but the main focus remained on public debt reduction). Among the main needs of Greece, the programme clearly identified i) Restoration of access to international capital markets and funding for the Greek banks and ii) Restructuring and recapitalisation of Greek banks. The key challenges were arising from liquidity and solvency issues due to banks' exposure to the sovereign, the deteriorating quality of domestic loan portfolio and the steady loss in deposits.

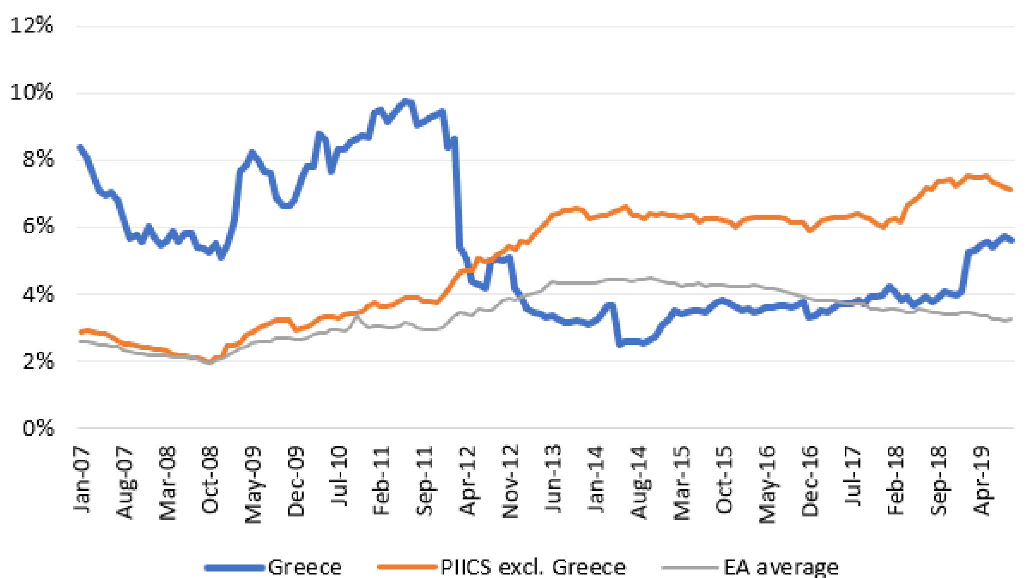
Increased access to central bank Emergency Liquidity Assistance, which reached its peak in the first half of 2012. By May 2012, the time of the finalization of the PSI, most Greek banks lost eligibility to access the monetary policy operations window due to capital adequacy ratios below the minimum requirement[91]. Later on that year, ECB also suspended the eligibility of marketable debt instruments issued or fully guaranteed by the Hellenic Republic during the period end-July 2012 and December 2012, in anticipation of the conclusion of the review of the progress made by Greece under the second adjustment programme. As a result, Greek banks were increasingly dependent on ELA.

The impacts of PSI on the financial sector was twofold: direct, driven by the haircuts to sovereign bonds held by banks, and indirect, driven by the fall in confidence. Greek banks' fundamentals and asset quality ratios had been deteriorating substantially since 2009, not least because of falling house prices and exposure to mortgage loans. In addition, as mentioned above, the exposure of Greek banks to GGBs, which was relatively high before the financial crisis (compared to other euro area), it increased strongly between 2008 and the execution of the PSI in early 2012, despite the

[91] IMF First and Second Review under the extended arrangement under the extended fund facility, January 2013.

contracting economy and rapidly increasing country risk premium. Greek banks were not exceptional in this respect, other banks in countries facing financial distress reacted in a similar way.[92]

Figure 48. GGBs as a percentage of the total assets of the banking system



Source: ECB SDW

The impact of the restructuring of Greek government bonds implied losses of about EUR 38 billion, about 170 % of their total Core Tier I capital at that time. In other words, PSI wiped out the regulatory capital of the main four banks of the system, as well as the (limited) capitalisation of the rest of the banks. The Greek government committed a EUR 50 billion EFSF loan for the recapitalisation of the banking sector. About one half was allocated to offset the expected PSI-related losses, and the other half—equivalent to 5 % of banking system assets—was made available to deal with banks' existing and future credit losses.[93] By mid-2013, Greece received a total of EUR 48.2 billion in EFSF.

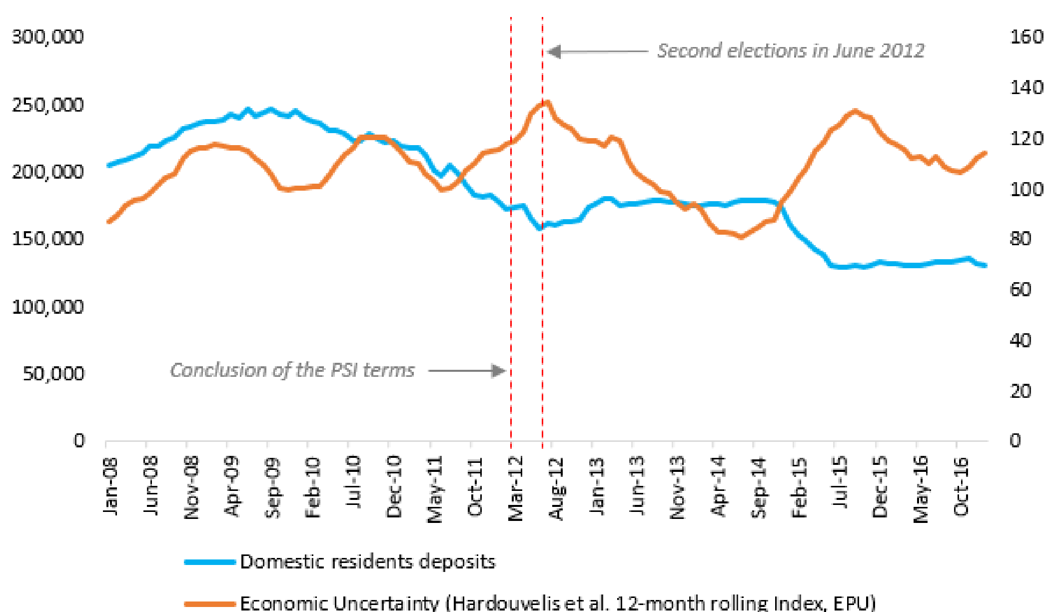
While pension funds and other domestic bondholders suffered large losses in the present value of their claims, the recapitalisation scheme did not contemplate any sort of (bank) creditor bail-in. It is for this reason that a large portion of the debt relief ended up being used to compensate the losses of banks. PSI was concomitant with high domestic political uncertainty (double election in May 2012) and fears of a Grexit continued to stimulate large deposit outflows. Between March 2011, the beginning of talks about PSI, and the conclusion of PSI in June 2012, EUR 60 billion in bank deposits was lost (Figure 49).[94]

[92] Battisini, N. 2014. Systemic risk, sovereign yields and bank exposures in the euro area. Available at: https://academic.oup.com/economicpolicy/article-abstract/29/78/203/2918380

[93] IMF (2017a).

[94] Bank deposits declined by EUR 117 billion (i.e. a drop of -44 %) between September 2009 and December 2015.

Figure 49. Domestic residents' deposits and policy uncertainty, Jan 2008-Jan 2017



Source: BoG and Hardouvelis (2017).

The decline mainly reflected depositor uncertainty regarding the prospects of Greece within the euro area, but also macroeconomic conditions. In addition, Greek banks have at various times been suspended as eligible counterparties to the Eurosystem in refinancing operations. Due to the downgrade in the quality of collateral securities, banks turned to the ELA provided by the Bank of Greece.

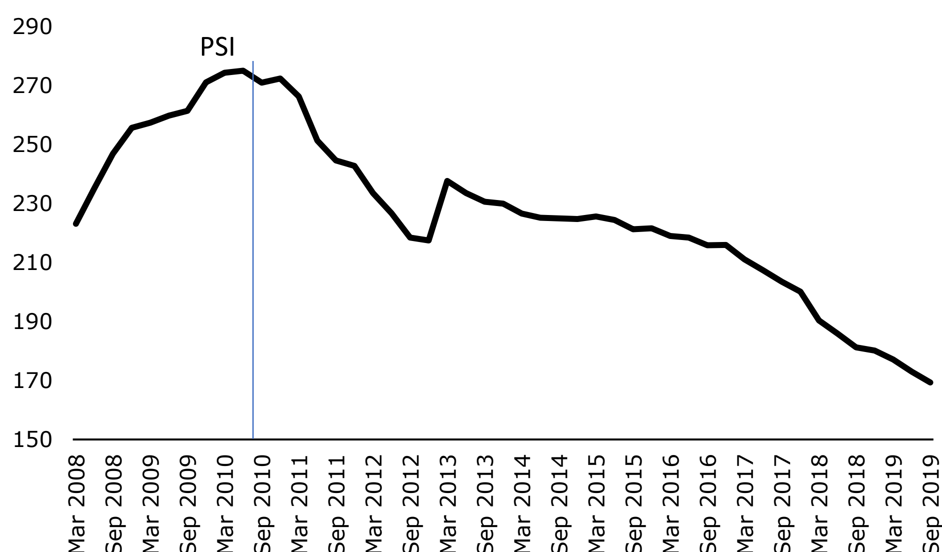
According to the Bank of Greece,[95] at the end of 2011, this funding aimed to offset the decreasing value of collateral eligible for monetary policy operations and the large deposit outflows. In February 2012, as consequence of PSI, Greek sovereign debt securities temporarily ceased to be accepted as collateral by the Eurosystem. ELA funding was the main source of bank liquidity in 2012-2013 and in 2015 (until 2017) when capital flow measures were introduced (Figure 46 above).

However, ELA is usually more expensive, and banks have to explain how they plan to reduce their recourse to ELA within a reasonably short period. The suspension also implied that Greek banks could not participate in the second long-term refinancing operations (LTRO) and that Greece would not benefit from the asset purchase programmes and in general from non-standard measures that the ECB introduced during the crisis.

From a macroeconomic perspective, the liquidity squeeze reduced the channels for financing the real economy. In response to economic and tight funding conditions and as a consequence of the need to set aside more capital given the rising risks, the banking sector undertook significant deleveraging. During the 18 months around PSI (March 2011 to September 2012), gross loans fell by EUR 50 billion, or 20 % of the total (**Figure 50**). The process of deleveraging and fall in loans continued during the entire duration of the three adjustment programmes. As indicated by several stakeholders interviewed, while credit provision was too loose before the crisis and an adjustment was necessary, the persistent fall in loans is the manifestation of increasingly difficult access to finance for the private sector. This had an impact on the economic performance.

[95] Speech by the Governor of the Bank of Greece (2017), https://www.bankofgreece.gr/en/news-and-media/press-office/news-list/news?announcement=c91acffb-3322-4472-82a0-90d17fc17cce

Figure 50. Gross loans (million EUR)



Source: Bank of Greece

The considerable decline in household disposable income, a consequence of both wage cuts and the rise in unemployment, resulted in a significant increase in non-performing loans (NPLs) and impairments, thus undermining prospects for bank profits.

Following the approval of the second EAP and the execution of the PSI, liquidity pressures eased between June 2012 and December 2014 as deposits also stabilised (about EUR 10 billion of domestic private deposits returned to the banking system during this period)[96]. In 2013, Greek banks regained access to cross-border interbank markets and during most of 2014 had easy access to interbank funding[97]. During 2014, the Greek banks gradually eliminated their dependence on ELA, as a result of an increase in their eligible collateral, interbank repo transactions and share capital increases[98]. Greece's improving credibility and market confidence in the prospects of the economy even allowed the banks to raise more than EUR 5 billion via issuance of debt on international markets during 2014[99].

However, in early 2015, with a new government coalition (SYRIZA and ANEL parties) opposing the adjustment programme, the situation took an abrupt turn for the worse. In addition, in February, ECB withdrew the waiver on eligibility of Greek government bonds as acceptable collateral introduced in 2010 because it was not possible to assume a successful conclusion of the programme review[100]. As a result, Greek banks could no longer use these securities as collateral for Eurosystem open market operations and had to rely again on ELA. The ECB kept raising its limit on ELA (from EUR 50 billion in February 2015 to EUR 89 billion in June 2015), but in June, following the decision by the Greek authorities to hold a referendum and the non-prolongation of the EU adjustment

[96] Cyprus bail-in did not seem to have a contemporaneous effect on Greek deposits, albeit it set a precedent which may have been looming among Greek depositors in forthcoming comebacks of uncertainty

[97] Bank of Greece Annual Report 2013 and 2014.

[98] In March 2014, Alpha Bank and Piraeus Bank raised enough new private capital to repurchase preference shares held by the government for EUR 940 million and EUR 750 million, respectively. Source: IMF Fifth Review under the extended arrangement under the extended fund facility, June 2014.

[99] Monokroussos, P. and Gortsos, C., 2017. Non-Performing Loans and Resolving Private Sector Insolvency: Experiences from the EU Periphery and the Case of Greece

[100] https://www.ecb.europa.eu/press/pr/date/2015/html/pr150204.en.html

programme for Greece, the ECB's Governing Council decided against further increases adjusting further (in July) the haircuts imposed on collateral accepted by the Bank of Greece for ELA. As a consequence, Greek banks could no longer meet the demands for cash by borrowing more funds from the Bank of Greece.[101] Prolonged negotiations with the lending institutions coupled with Grexit fears led to a rapid outflow of domestic deposits. In the first half of 2015 nearly one-quarter of total deposits were withdrawn.

With banks' liquidity buffers close to being exhausted, access to additional ELA restricted and deposit outflows not abating, banks almost ran out of cash. **The Greek government imposed sweeping capital controls** on 28 June 2015. Capital controls were gradually relaxed but fully lifted only on 1 September 2019.

Two banks recapitalizations in two years characterised the second EAP. The first one was essentially driven by PSI losses, whereas the second recapitalization had the deteriorating asset quality of the loan portfolio, as a main driver.

The first recapitalization was large and mostly with public funds. Given the expected losses stemming from the PSI, EUR 50 billion were agreed under the second EAP, a much larger financial envelope that the EUR 10 billion planned under the first EAP. One half was allocated to offset the expected PSI-related losses, and the other half (i.e. 5% of the total assets) was made available to resolve unviable banks and deal with the existing and future credit losses[102].

The four largest domestic Greek banks, identified by the asset review, were recapitalised by the HFSF stability fund. In turn, the recapitalised systemic banks acquired gradually throughout the period March 2012 to end 2013 the main foreign subsidiaries and the relevant parts from a financial stability perspective of ten smaller banks which underwent resolution during this period.

Banks were recapitalised mostly by borrowing from the official sector. The HFSF funds injected into the banking system amounted to approximately EUR 25 billion, with private investors contributing about EUR 3.1 billion. The four systemically important banks were recapitalised (Table 7). Three became fully controlled by private investors, while Eurobank remained in the state's hands, as the private sector was not willing to cover minimum 10 per cent of capital needs. HFSF became the majority shareholder in all four banks. Most of the remaining banks (in terms of assets) were eventually partitioned into 'good' and 'bad' banks, with their good parts sold to the four systemic banks throughout the period March 2012 to December 2013.

Table 7. Banking sector first recapitalization (2013)

Bank	Private capital raised (EUR bln)	HFSF capital raised (EUR bln)	HFSF stake *after* the first recapitalisation %
Alpha Bank	0.6	4.0	83.7
Eurobank	0	5.8	98.6
NBG	1.1	8.7	84.6
Piraeus Bank	1.4	6.4	78.3

Source: IMF 2013. Country Report No. 13/241

[101] See President Draghi press conference in July 2015 on the basis of the decision about ELA and the statement about Greece membership of the euro area https://www.ecb.europa.eu/press/pressconf/2015/html/is150716.en.html#qa
[102] IMF, 2017. Greece: Ex-Post Evaluation of Exceptional Access Under the 2012 Extended Arrangement. Country Report No. 17/44

In 2013, at the end of the (first) recapitalization, they d*e facto* represented the entire Greek banking sector (about 96% of total deposits), which was "owned" by the HFSF. In practice, the state (via HFSF) and private investors bought shares in the recapitalised banks, and, given the negative equity of banks, private investors received additional 'warrants' for each share they purchased. A feature of the recapitalisation was that if private investors could buy at least 10 per cent shares in a bank, then they could exert full control, despite the state (via HFSF) holding the majority of the shares. The only exception was in the case of major decisions, such as capital increases or mergers, which required state approval (via HFSF)[103]. This meant that the state did not have control over the supported banks, although the HFSF was securing their capital and carrying the cost. The implicit aim was to keep the management of the banks in the hands of the private sector to ensure private management practices. Yet, the appetite of private investors was very limited, at a time when it was crucial for banks to re-access the Eurosystem's regular monetary operations.

Overall, a total of EUR 40.85 billion in public funds were used for the (first) recapitalisation.[104]

In parallel to the bank recapitalisation process, several banks were resolved, without major impact on the stability of the financial system. The years 2012 and 2013 saw the transfer of Cypriot bank branches to Piraeus Bank[105], the resolutions of ATE bank, TT Hellenic Postbank, FBB, Probank and the Cooperative Banks of Western Macedonia, Dodecanese and Evia. The cost of the resolutions was EUR 13 billion and was covered by the HFSF. Overall during the three adjustment programmes 14 resolutions that took place and costed 15.2 billion. Of those EUR 13.5 billion of which came from the HFSF (the rest came from HDIGF).

In 2012, the existing resolution framework was strengthened[106], offering alternative resolution tools and providing for the financing of resolution measures through the HDIGF and the Hellenic Financial Stability Fund[107]. In addition, compliance with the state aid rule was checked by the European Commission with a leading role of the DG Competition. The last resolution (Peloponnese Cooperative Bank) took place under much more detailed and tougher provisions of the Bank Recovery and Resolution Directive (BRRD)[108], as transposed into Greek domestic law in 2015. The latter represented a major development, but since it happened only in July 2015, it implied that thirteen resolutions of credit and institutions and the first two bank recapitalizations were held under the pre-BBRD regime.[109]

Another key feature of the recapitalisations, but also of the resolution actions taken, was that no losses for depositors were contemplated. This was justified by the objective to avoid further deterioration of confidence, and additional capital flights.[110]

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[103] MIT, 2016. Beyond austerity – reforming Greece's economy.

[104] *IMF 2013. Country Report No. 13/241, Box1*

[105] Bank of Greece, 2013. The Chronicles of the Great Crisis: Bank of Greece 2008-2013.

[106] In more detail, Articles 9-11 of Law 4051/2012, amending the provisions of Law 3864/2010 establishing the Hellenic Financial Stability Fund (HFSF), Law 3601/2007 on capital adequacy of credit institutions and Law 3746/2009 on the Hellenic Deposit and Investment Guarantee Fund (HDIGF), along with the provisions of Law 4021/2011 on enhanced measures for the supervision and resolution of credit institutions.

[107] Bank of Greece, 2013. The Chronicles of the great Crisis: Bank of Greece 2008-2013

[108] For instance, under the BRRD, junior bondholders and shareholders should normally face losses before taxpayers' money is injected into a bank (8 per cent of a failed bank's liabilities to be wiped out before public support is given). DG Comp can waive this requirement in certain circumstances when financial stability could be at risk — notably when the amount of public support required is relatively small and banks have already significantly reduced the shortfall by securing private investment.

[109] On the implementation of the BRRD in Greece, see Coleman et al. (2018)

[110] Contrary to the approach undertaken in Cyprus in 2013.

This came at a higher cost for the government and contributed to increase public debt. The HFSF funds in the recapitalization came in form of EFSF notes.

The second recapitalisation was relatively small and fully private. In 2013, because of the persistence of a severe recession, banks experienced increasing impairment levels of their loan books and some knock-on effects from the financial crisis in Cyprus. In mid-2013, in a new review, the BoG estimated the additional capital needs for all Greek commercial banks at EUR 6.4 billion.[111] Such a relatively limited amount was based on the assumption of a quick return to profits under the baseline scenario.

In the end, the second recapitalisation took place between May and June 2014[112] and was fully covered by private funds. This was read as a sign that the capital needs identified were considered credible also by private investors. Moreover, the ECB's Comprehensive Assessment, which covered 130 European banks and was completed in October 2014, stated that the four Greek systemic banks did not require an additional infusion of capital The amount raised by the four banks was EUR 8.3 billion and resulted in a substantial increase in private ownership.

Table 8. Banking sector second recapitalization 2014

Bank	Private capital raised (EUR billion)	HFSF stake *prior* the second recapitalisation (%)	HFSF stake *after* the second recapitalisation (%)
Alpha Bank	1.20	81.7	69.6
Eurobank	2.86	95.2	35.4
NBG	2.50	84.4	57.2
Piraeus Bank	1.75	81.0	67.3

Source: Andruszkiewicz et al. (2020) based *on* MIT (2016) *Beyond Austerity – Reforming the Greek Economy, BoG*

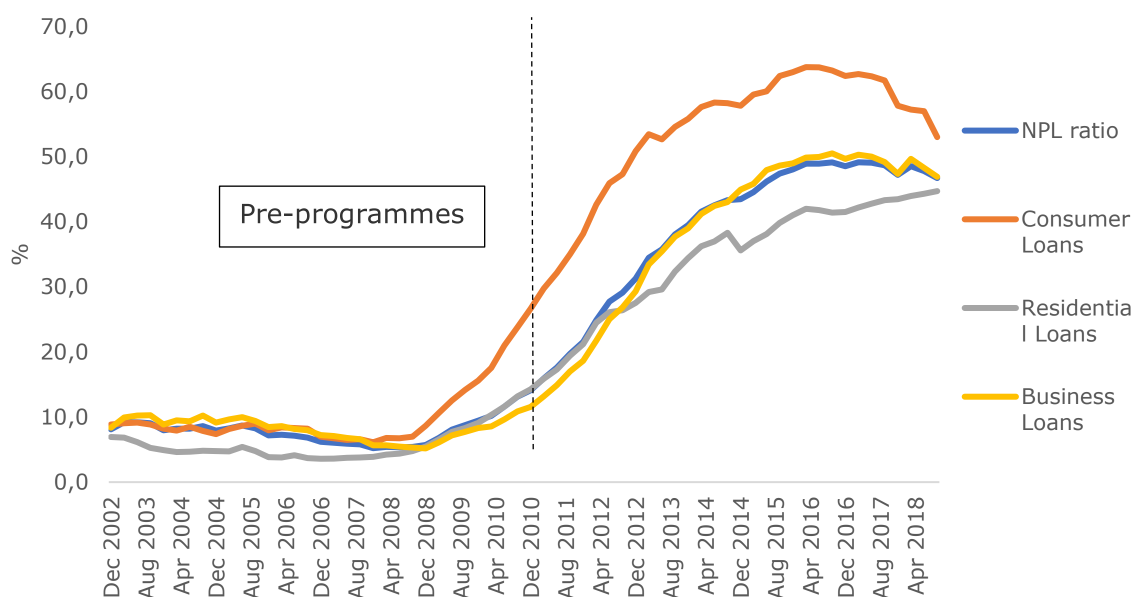
Despite the recapitalization and some signs of economic stabilisation, the banking system remained vulnerable, primarily because of the large portfolios of NPLs. In practice, between December 2013 and December 2014, CET 1 capital rose only marginally (from EUR 26.9 to 28.6 billion). This was largely due to two reasons: (i) increased provisions from projected losses on private loans; and (ii) a significant boost to the banks' regulatory capital in the form of deferred tax assets (DTA), which could be converted into a receivable ("Tax Credit") from the Greek State[113].

Reduction in NPLs was not achieved despite concrete efforts in that direction. Although NPL reduction was not set as an explicit objective of the second EAP, it was an expected outcome of the process of creating a viable and well-capitalized banking sector. In this respect, a series of actions were taken during the second EAP. In accordance with Law 4224/2013, Bank of Greece adopted in 2014 a Code of Conduct for dealing with defaulted loans. A Government Council for the Management of Private Debt ("Council") was established at the beginning of 2014 to oversee and foster the process for the establishment of a permanent debt resolution mechanism. A report on the management

[111] According to some press reports, this figure was viewed sceptically by IMF staff and the ECB, particularly given the rapidly increase in the rate.
[112] Bank of Greece, 2013. The chronicles of the great crisis: Bank of Greece 2008-2013
[113] The Greek authorities put in place in 2014 a regime which allowed credit institutions, under certain conditions, to convert large part of the deferred tax assets which have arisen from the substantial losses recorded from the increased provisioning of loans and the PSI losses, to a receivable ("Tax Credit") from the Greek State. Effectively, this has ensured that a large part of the Greek banks' DTAs, known as Deferred Tax Credits (DTCs), did not rely on the banks' future profitability (the prospects of which were increasingly bleak), allowing them to count as regulatory capital.

of troubled assets (TAR) was undertaken and delivered at the end of September 2013, on the basis of which, banks submitted to the Bank of Greece operational plans to address identified bottlenecks. Law 4161/2013 was adopted in an effort to tackle the implementation shortfalls of Law 3869/2010 ('Katseli Law') and to deter applications from "strategic" defaulters). The same law also envisaged a "facilitation program" for still solvent debtors in dire financial situation[114]. However, the target of stemming the flow of NPLs was far from being achieved at the end of the second EAP. Between June 2012 and June 2015 the NPL ratio increased from 25 to 45% and reached the peak of 49% at the end of the same year, equivalent to about EUR 106.5 billion or 60% of GDP (see Figure 51).

Figure 51. NPL ratios, 2002Q1-2018Q3



Source: Bank of Greece

This ratio is extremely large by any comparison[115] and it was not restricted to a particular sector or a category of loans (even though the highest share was in consumer loans), while it was of comparable size for households and corporates. The persistently high level of NPLs acted as a significant drag on economic activity, by eroding the profitability and solvency of banks, severely constraining their capacity to lend.

Macroeconomic conditions and ongoing political uncertainty, together with the risk of Grexit, are considered the main explanation for the increase of NPLs.[116] Both the literature and stakeholders point to the length and depth of the recession (GDP per capita fall of about almost a quarter, in real terms), and the associated high increase in unemployment (up to 27% in 2013) as drivers of the reduced ability of borrowers to service their debts. However, also other factors are seen as having played an important role.

[114] See "The Second Economic Adjustment Programme for Greece, Second Review – May 2013" report, p. 39, Box 9.

[115] Laeven and Valencia (2018).

[116] See Bank of Greece (2017) Determinants of NPLs: lessons from Greece. See also the collection of essays in Non-Performing Loans and Resolving Private Sector Insolvency. Experiences from the EU Periphery and the Case of Greece

Greek banks lacked the capacity to deal with the growing volume of NPLs. On the one hand the banking system had no capital buffers to absorb increasing losses.[117] On the other hand, according to the ESM[118], the Greek banks were ineffective in dealing with their large NPL stocks. This was due to lack of expertise and weak institutional set-up, particularly with respect to NPL workout. Restructurings proved to be inefficient, with high re-default rates, and NPLs increased further.

Legislative changes contributed to a **deterioration of payment discipline** and the persistence of high mortgage NPLs. While the *Katseli law* can be seen as step in the direction of dealing with personal insolvency and to protect vulnerable borrowers by preventing creditors from foreclosing on primary residences**,** the abuse of foreclosure protection is considered to have exacerbated the NPL problem. More in general, several stakeholders identified the weak payment culture, and strategic defaulters in particular, as an amplifier of banks' non-performing exposures. This view is corroborated by empirical studies. ECB (2016) estimated that about 30% of debtors who stopped servicing mortgage loans were strategic defaulters who took advantage of the moratorium and inefficiencies of the insolvency process. Artavanis and Spyridopoulos (2019), using proprietary data from a large bank, get a similar estimate and 28% of defaults in primary residence mortgages found to be strategic. Asimakopoulos et al. (2017), using loan payment data of Greek firms, find that one out of six firms with NPLs was a strategic defaulter.

One can assume that that strategic defaulters can fall into two broad categories: (a) Those who exploit the letter of the law to come across as 'vulnerable' (despite the fact that they are not) and hence in need of legal protection (because the law is not sufficiently targeted) and (b) those who delay payments, taking advantage of a long, fragmented and ineffectual debt enforcement process, in anticipation of future changes in the law favourable to their own interests. This second category of strategic defaulters is much more a specific symptom of the weak payment culture in Greece and its interplay with Greek politics.

A **lengthy and inefficient judicial system and the lack of a secondary market for the sale of non-performing loans** hampered the resolution of NPLs. Progress on both fronts was only made after 2017 under the third EAP. According to the IMF (2019) inefficiencies in the court system allowed debtors to benefit from stay on creditor action for years before their cases would be heard. These legal shortcomings prevented the restructuring of non-performing mortgage loans and created significant opportunities for strategic default. The inefficiencies of the judicial system have been highlighted by many stockholders has a generalized problem of the Greek system, beyond the specific NPL case.

Legal infrastructure for NPLs resolution was missing. Apart from the lack of a secondary market for NPLs, there were several legal impediments and constraints e.g. lack of an appropriate insolvency framework, absence of out of court settlement systems, lack of an electronic auction system, non-banks could not purchase NPLs, banks could not create black list of defaulters. Some stakeholders pointed out that the lack of political will and vested interests stifled progress in these areas.

Loose credit conditions prior to the crisis and weak governance are also considered to have contributed to the NPL problem. Some interviewees indicated that weak corporate governance, combined with limited competition in the banking sector (implicit agreements among the main banks to share the domestic market) and loose credit conditions often driven by nepotistic practices played a role in contributing to the build-up of NPLs. Empirical studies, however, found no evidence to suggest that NPLs were a result of overly aggressive lending practices by Greek banks during the pre-crisis years nor any systematic

[117] IMF (2019).
[118] ESM (2017). Evaluation of EFSF/ESM programmes.

efforts to boost current earnings by extending credit to lower credit quality clients[119]. The fact that Greece was a relatively closed economy and hence business loans were directed mostly to non-tradable (or non-traded) sector is likely to have amplified such problems.

In terms of bank governance, the 2nd EAP had some limited but important interventions in the case of recapitalised banks. The establishment of the Relationship Framework Agreements (RFAs) between the HFSF and the recapitalised banks was the main governance-related reform during the 2nd EAP. The RFAs and their amendments defined the HFSF's role as a shareholder, notably in monitoring the implementation of the banks' restructuring plans and safeguarding banks' operational independence. They also gave the HFSF certain approval and veto rights. Moreover, in the first semester of 2013, the HFSF law provision on participation in the banks' boards in case of a recapitalisation was activated in the context of the first recapitalisation of the four systemic banks. This was the first case of an explicit change to the governance of a bank stemming from the programme policies.

Overall the second EAP was a crucial for the banking sector and has dual assessment. On the one hand banks were recapitalised and several small banks resolved in line with objectives of the programme. On the other hand, at the end of the programme the state of the banking sector was dramatic. The reliance on ELA was back to the levels of 2012, the loss in deposit was so severe that capital control had to be imposed. No progress was made on NPLs, which continued to grow**.**

6.4 The implementation of the third EAP: objectives, expected outputs and output

The third EAP was in the end agreed shortly after the imposition of capital controls. The programme included a buffer of up to €25 billion to address potential bank recapitalisation needs of viable banks and resolution costs of non-viable banks. Yet, the main focus of the programme was on resolving the issue of NPLs issues. For this purpose, it included a quite long list of measures targeting legal provisions but also specific actions to improve the effectiveness of NPLs resolution. The programme also included a range of measures aiming at reforming the governance of the Greek bank and financial sector at large (Revision of the Code of Conduct for debt restructuring by the Bank of Greece, the reform of the governance of the HFSF and the reform of the governance of banks to avoid government interference)

Third recapitalisation. In August 2015, the ECB launched an AQR and stress-test exercise for the four systemic Greek banks, the capital needs under the adverse scenario were estimated at € 9.6 billion. The total capital needs for all banks reached EUR 13.7 billion, of which EUR 3.7 billion was to be provided by private investors and conversion of debt into equity. The remaining EUR 10 billion was to come from public or private investors. Eventually, the banks managed to raise all of the required capital, with the majority coming from private investors. This came at the cost of a substantial dilution of HFSF shares.

[119] See for instance Monokroussos et al. (2016)

Table 9. The third recapitalization (2015) and the HFSF stake

Bank	HFSF stake *prior* to the third recapitalisation (%)	HFSF stake *after* the third recapitalisation (%)
Alpha Bank	66.3	11
Eurobank	35.4	2.4
NBG	57.2	40.4
Piraeus Bank	66.9	26.4

Source: Andruszkiewicz et al. (2020) based on MIT (2016) Beyond Austerity – Reforming the Greek Economy, HFSF ECA (2017) - The Commission intervention in the Greek financial crisis; World Bank (2016) - Bank Resolution and 'Bail-In' in the EU: Selected Case Studies Pre and Post BRRD; Centre for International Governance Innovation (2016); EIU (2015).

Eventually, Eurobank and Alpha Bank raised all of the required capital from private investors. Together, all four banks raised EUR 5.6 billion from private investors and converted EUR 2.7 billion from voluntary liability management exchange of hybrid and subordinated capital instruments, as well as senior unsecured debt instruments. Therefore, EUR 8.3 billion of the required EUR 13.7 billion was raised from private sources, with the remaining EUR 5.4 billion injected into NBG and Piraeus Bank coming from the HFSF. The bulk of the capital requirements contributed by the HFSF were met through contingent capital instruments that converts into ordinary shares if a bank's capital falls below certain level, rather than direct cash injections

The new BRRD framework on precautionary recapitalisation applied only to the National Bank of Greece and Piraeus Bank.[120] In terms of resolutions, in 2015, two final banks (Panellinia Bank and Cooperative of Peloponnese) were resolved at the cost of nearly EUR 400 million, the latter resolution also taking place under the new BRRD framework. More generally, the total resolution cost for the period 2011-2015 stood at EUR 15.2 billion, of which HFSF covered 13.5 billion.

Liquidity conditions improved substantially, albeit gradually. After the capital controls were introduced and the signature of the third EAP, deposits stabilised and even started to increase, especially after May 2016, as confidence started to gradually return. Rising private deposits and access to interbank funding enabled banks to reduce reliance on the Eurosystem and on ELA. Banks also regained access to the capital markets, thought it remains difficult to sustain.

Eurosystem funding (particularly ELA) played a key role in addressing the liquidity needs of the Greek banking sector, restoring confidence and maintaining stability. Capital controls appear to have been necessary in 2015 to stem deposit outflows and restore stability.

Although deemed necessary and effective, some stakeholders questioned whether capital controls were justified over a prolonged period. Capital controls were understandable in the phase where Grexit was a threat, but not considered justified after the third programme had been agreed and the "Grexit threat" had dissipated as the ECB should, in the opinion of one stakeholder, have acted as a backstop to ensure sufficient liquidity in the system. Moreover, a stakeholder pointed out that a more relaxed timetable for the repayment of ELA would have put less pressure on the Greek banks' liquidity buffers. The persistent need for ELA, however, suggests that the Greek banks were not self-sufficient

[120] https://ec.europa.eu/transparency/regdoc/rep/1/2019/EN/COM-2019-213-F1-EN-MAIN-PART-1.PDF

in terms of liquidity and that their liquidity profile was rather fragile. The latter point is supported by the high cost of unsecured funding and the limited return of deposits, despite an acceleration in 2019. In such a context, there would have been a degree of risk for authorities to lift the capital controls before the ELA was fully repaid. In addition, the repayment of the ELA was driven to a certain extent by the need for banks to reduce the cost of their short-term funding.

A sign of the progressive improvements in the liquidity position of the Greek banks was given by the progressive reduction of the size of the Guarantee Scheme, whose maximum budget was set at EUR 30 billion in 2019. The actual use of the Guarantee Scheme significantly decreased over time: the outstanding guarantees were reduced from EUR 48 billion in November 2015 to EUR 5 billion in December 2016, they are currently (2021) at EUR 320 million.

Resolving the NPLs was at the core of the third EAP. Between August 2015 and 2018 a number of legislative changes were implemented to deal with NPLs.[121] A three pronged approach was designed

- Enhancement of the supervisory framework for the management of non-performing exposures (NPEs).
- Removal of legal, judicial and administrative impediments to NPL management.
- Establishment of a secondary market for NPL servicing and sales

Concrete measures included the introduction of electronic auctions, an out-of-court process for NPLs, amendments to the Katseli law (to introduce stricter eligibility criteria), the set-up of a regulatory framework for servicing and transferring NPLs (Law 4354/2015) as well as establishing a Loan Asset Management Companies and develop an NPL secondary market. The same legislation also includes provisions on Licensing (from the BoG) for Debt Management Companies and Debt Transfer Companies for NPLs; the agreements assigning the management of claims; and the sale and transfer of claims from non-performing loans and credit agreements (see **Box 8** for more details).

Box 8. Key legislative measures related to the NPLs introduced during the third programme

2015
With Law no. 4335/2015, concerning amendments to the Code of Civil Procedure, changes to auction procedures were initiated, such as delineating the required steps to be followed in the case of electronic auctions.
In August and November 2015, respectively, the Greek Parliament passed Laws no. 4336/2015 and no. 4346/2015 to amend Katseli Law and introduce stricter eligibility criteria regarding the creditors' income, wealth and property value[122], while also helping banks to identify "strategic" defaulters. Its most significant provisions concerned the definition of acceptable living expenses, which could be used by the courts in order to reduce approval of applications for protection. It included a provision for cooperating borrowers[123], so that only they could be protected from mortgage liquidation. Both these laws also introduced a new 'Facilitation Program' in order to help distressed borrowers facilitate the settlement of unsustainable household debt, based on the aforementioned definitions of affordability, as well as a provision to exclude from the programs' provisions a debtor once he did not meet the inclusion criteria. All these amendments were

[121] See Andruszkiewicz et al. (2020) for a detailed description of the legislative initiatives.
[122] For instance, in order for a debtor who does not have a family to be eligible for filing an application, his/her monthly disposable income and property value should not exceed the acceptable living expenses by more than 1.7 times, and €180.000 respectively.
[123] Bank of Greece Act 148/10/15.10.2015 provided a definition of non-cooperating borrowers. According to this Act, a borrower delaying to pay four consecutive monthly installments would be excluded from the provisions of the Katseli law.

introduced in the context of the second Economic Adjustment Programme[124], in order to narrow the scope and eligibility of the Katseli law, and deter strategic defaulters from filing an application, in order to be protected.

In December 2015, Law no. 4354/2015 was adopted, introducing a regulatory framework for servicing and transferring NPLs ("the NPL Law"). The key provisions under this law were related to the setting up and operation of Loan Asset Management Companies ("LAMC's") a special license by the Bank of Greece. The Law was not applicable until 15.2.2016.

2016

In 2016 the Greek Parliament passed a voluminous bill (Law no. 4389/2016) with a series of reforms. Within the measures passed, the framework on NPLs was also revised, in order to help the development of the NPL secondary market in Greece, thus effectively amending the NPL Law mentioned above.

2017

Law no. 4469/2017 was passed, creating for the first time a mechanism for out-of-court debt settlement for indebted businesses[125]. The main provisions of this law concerned the criteria for assessing the eligibility and viability of a debtor, the adoption of the "No-Creditor-Worse Off" principle and procedures for debt restructuring, according to the debtor's ability to serve it. This law was designed in the context of reforms initiated by the third Economic Adjustment Programme[126].

On May 2017, the Hellenic Parliament enacted Law no. 4472/2017, further amending Law no. 4354/2015 (the "NPL Law"), which was introduced with a view to creating a secondary market for debt receivables from non-performing loans in Greece. Law no. 4472/2017 amended the NPL Law in order to facilitate the procedure for the licensing of LAMC's[127]. Also, the law broadened the scope of the LAMCs, allowing them to also manage immovable property functioning as collateral for their claims. As of May 2019, in total 20 applications for establishing an LAMC were submitted to the Bank of Greece. As of February 2020, there were already 23 LAMCs operating in Greece, with at most 10 of them having relatively big market shares. Once more, the provisions of this law with respect to LAMC's were introduced in the context of the third Adjustment Programme[128].

In addition, the Executive Committee of the BoG also issued Act 118/19.5.2017, which sets out the framework for the establishment and operation of the LAMCs in respect of the documentation and procedure for licensing and operation. This Act replaced Act 95/27.5.2016 of the Executive Committee of the BoG.

Furthermore, Law no. 4472/2017 introduced the option of electronic auctions for pending foreclosure proceedings of immovable property sales, with Ministerial Decision no. 41756/30.05.2017 providing further clarifications. The new rules are applied since November 2017. The aim of these provisions was to facilitate the implementation of said auctions.

2018

Due to the impediments in implementing physical auctions proceedings, such as the slow pace of auction execution, the Greek Parliament enacted Law no. 4512/2018, mandating the use of electronic auctions for all types of immovable property. However, its application to unserviced residential mortgages has been limited, with about 70% of all auctions ending in failure[129]. A following amendment of the law enacted in December 2018, enabled creditors with smaller claims to participate in the out-of-court workout with an indebted business. Thus, expanding the application range of the previous law.

[124] The second Economic Adjustment Programme for Greece - Second review, Occasional Papers 148, DG ECFIN, pp. 82-83.

[125] For the most part, the previously enacted laws, mainly Law no. 3869/2010 and its revisions, concerned indebted households. The Bankruptcy Code was enacted by Law 3588/2007 (effective as of 10 July 2007), replacing older provisions on insolvency (both in connection with winding up and rehabilitation). The Bankruptcy Code has subsequently been amended several times, including by Laws 3858/2010, 4013/2011, 4336/2015, 4446/2016, 4472/2017, 4491/2017 and 4512/2018. For a brief overview, see: https://thelawreviews.co.uk/title/the-insolvency-review/greece

[126] The second Economic Adjustment Programme for Greece - Second review, Occasional Papers 148, DG ECFIN, p. 40.

[127] According to the previous law, the decision of a three-member committee appointed by the ministers of Finance, Development and Tourism was required.

[128] Supplemental Memorandum of Understanding: Greece, DG ECFIN, June 2016, p. 21.

[129] IMF Selected Issue Papers, Country Report No. 19/341, November 2019.

The third programme also included non-legislative measures which have an important role in dealing with NPLs. It tasked the HFSF with presenting and implementing an NPLs resolution plan that would enhance coordination among banks and accelerate large corporate restructuring. The BoG had to report on the segmentation of NPLs on bank balance sheets and assess banks' capacity to deal with each segment.

In an effort to further promote loan restructuring, Bank of Greece also proceeded in July 2016 to a revision of its Code of Conduct for dealing with defaulted loans, further specifying its scope, making a clear distinction between procedures applicable to natural persons and those applicable to micro enterprises and other enterprises and including specific provisions on cases of multiple creditors, as well as clear time schedules for the assessment of the borrowers' capacity to repay the loan and the restructuring of the non-performing private debt.

In addition, in 2017, the BoG, in cooperation with the SSM, issued supervisory guidelines for the internal management of NPEs and agreed NPE operational targets with banks for the period June 2017 - December 2019 to drastically reduce NPLs and NPEs through write-offs, loan sales and other modes of restructuring and curing[130]. The BoG, in cooperation with the SSM, is responsible for monitoring the implementation of these NPE targets and related key performance indicators through an enhanced prudential reporting framework. These operational targets have been revised repeatedly to take banks up until end-2023 and fully align Greek banks with the NPE guidance provided by the SSM.

The aggressive set of measures to tackle NPLs was a big novelty compared to the previous programmes. While the problem of NPLs was already clear in the second EAP and the diagnosis had started in 2012, concrete action came only in 2015. Most interviewees noted that this was far too late. The same assessment emerges from the IMF and the ESM. By 2015, all borrowers were legally protected from auctions of primary residence (regardless of income, wealth or size of mortgage loan). On the one hand the delay in the reform is partly understandable considering the extremely challenging context and that the authorities had to prioritise, so that issues like PSI and the recapitalisation took over NPLs. On the other hand, as noted by the ESM (2020), however, the lack of legal reform to accelerate the recovery of collateral should banks want to reduce their NPL stock, had an impact on economic growth. The absence of a guideline on how to deal with NPLs in the second EAP meant that, to meet capital adequacy requirements, banks could always reduce their loan supply to conserve capital but keep their NPLs. Such a strategy would be detrimental for the economy.

Despite the significant effort, results remained limited. Tackling NPLs was always considered a highly politically sensitive issue and reforms were systematically delayed. Some governments were openly hostile to any kind of adjustment. While a clear downward trend is visible since 2016, the NPL ratio was, still stubbornly high, at 46.7%, at the end of the programme (Figure 51 above). This was far above expectations.

While there is a general consensus among interviewees that the overall approach to NPL was sensible and relevant, measures were not as effective as expected. Out-of-courts settlement scheme has not been particularly effective, as evidenced by the low number of loans processed. The secondary market for NPLs did not fully taken off, despite a clear acceleration in 2019. While NPL reforms are usually a long and complex process, in Greece delays or lack of progress worked as an impediment to effectiveness.
The creation of an Asset Management Company (or bad bank), which could have accelerated the reduction of NPLs, and initially included in the programme design, in the end discarded. There are several reasons:

[130] Supplemental Memorandum of Understanding: Greece, DG ECFIN, June 2016, p. 22.

- The Greek NPL stock was large and comprised heterogeneous as well as harder-to-value non-standardised assets (such as SME loans). While AMCs were created in Ireland (to deal with commercial real estate debt) and Spain (to deal with residential real estate debt), there were no precedents of an AMC pooling different asset classes;
- The creation of an AMC could come at a cost that would deplete or even exceed the available maximum fiscal place of the Greek government under the programmes, while it would have implications for the Greek public debt.[131].
- Other factors such as the lack of time and capacity needed to set-up an AMC; concerns on the governance aspects of a public AMC, the importance of the bank-client relation in a context of widespread strategic default, the impact on banks' balance sheets and EU state-aid considerations.

Ex-post, according to some stakeholders, this was a missed opportunity for a faster and more systemic approach to the resolution of NLPS, as opposed to the bank-by-bank approach, which gave each bank the possibility to choose how to deal with NPLs.

Strengthening of the governance of the financial sector was the third major novelty of the third EAP. It included two aspects: i) policies concerning the governance of Greek banks and the ii) changes in the role and functioning of the HFSF.

Regarding banks governance, the general principle was explicitly stated in the MoU: 'The government will not intervene in the management, decision-making and commercial operations of banks, which will continue to operate strictly in accordance with market principles'. Furthermore, 'the board members and senior management of the banks will be appointed without any interference by the government. These appointments will be made in line with EU legislation and best international practices, taking into account the specific rules in the HFSF law as regards the rights of the private shareholders who participated in the banks' capital increases under the existing framework[132].'

It implied that the HFSF introduced a process to review the boards' and committees' members of the four systemic banks, with the help of an independent international consultant. A long list of very strict criteria was imposed with the purpose of ensuring the prudent management and full independence of the banks that were recapitalised by the Greek government. In order to implement the evaluation of the boards of directors and committees of the systemic banks, the HFSF was assisted on a technical basis by the European Bank for Reconstruction and Development (EBRD). The new set of demanding board eligibility criteria were set out (Laws 4340/2015 and 4346/2015). According to stakeholders interviewed, the change found fierce opposition in Greece and it was very difficult to agree upon. In 2016, the first evaluation led to the overhaul of the boards of directors and significant changes to their compositions with new, independent, non-executive board members taking up around half of all board seats.[133] A second evaluation of the banks' governing bodies was conducted in 2017.

A few months before the launch of the assessment, in November-December 2015, the third recapitalisation of the banking system was implemented. Two of the four 'core banks', namely Piraeus Bank and NBG, received capital injections from the HFSF, while the other two managed to raise their required capital needs from the private market. The needed

[131] ESM (2020). op cit.
[132] European Commission (2015). Memorandum of Understanding between the European Commission, acting on behalf of the European Stability Mechanism, and the Hellenic Republic, and the Bank of Greece, August 2015
[133] DG ECFIN, 2017. Compliance Report-The Third Economic Adjustment Programme for Greece – Second Review, June 2017

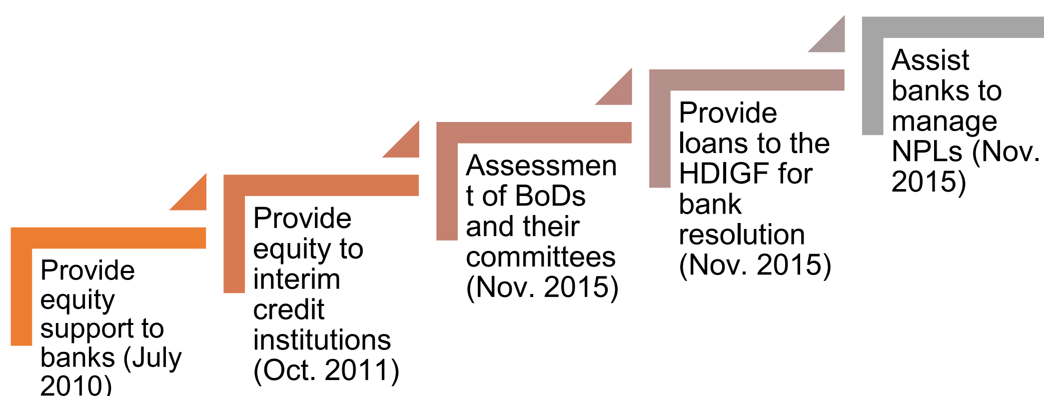
HFSF funds for recapitalisation were significantly lower than initially expected[134]. Accordingly, private participation exceeded the 10 per cent threshold even in the cases of NBG and Piraeus banks.

The weak quality of the governance of banks and the linkages with political parties had been highlighted during the previous programmes and by several assessments, but it was never addressed. The set of measures under the third EAP were considered very strict and intrusive, however, most stakeholders considered it as necessary

The conditionality of the third EAP included the implementation of substantial changes in governance and role of the HFSF. First of all, the governance of the HFSF itself was strengthened, with the reform of the selection process of its senior management, while two governing bodies, the Executive Board and the General Council, were to lead the decision making. As mentioned above, crucially, the mandate of the HFSF on issues regarding banks' governance was expanded to the assessment of recapitalised banks' boards and their committees.

In addition, the competences of the HFSF were broadened to provide loans to the Hellenic Deposit and Investment Guarantee Fund (HDIGF)[135] for expenses associated with banks' resolution. The HFSF could help credit institutions to the management of the non-performing loans.

Figure 52. Evolution of the role of the HFSF



Source: Andruszkiewicz et al. (2020)

Overall **the third EAP was the most focused on needs of the banking sector. It attempted to address the deepest weaknesses of the system,** in addition to fixing once for all issues related to liquidity and capitalisation that also the other programmes had as objective. According to some stakeholders, in 2015, it had become clear that without an overhaul of the governance system further injections of capital in the banks would not have led to changes necessary for banks to perform they key role of support to the real economy. In general, while the measures received large appreciation, as relevant and needed the effectiveness remains limited. Their impact did not materialise in a measurable way, or not as much as expected. It should be recognised, however, that such reforms typically take long time to show effects. Most stakeholders agreed that the changes have improved the state of the Greek banking sector.

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[134] DG ECFIN (2016). Compliance Report-The Third Economic Adjustment Programme for Greece – First Review, June 2016

[135] The Hellenic Deposit and Investment Guarantee Fund (TEKE) operates the deposit guarantee and investment compensation schemes and the Resolution Fund for credit institutions in Greece.

6.5 Overall assessment

The five criteria and related questions and answers

Effectiveness: To what extent were financial stabilisation and strengthening of the banking sector objectives achieved during the three EAP?

Efficiency: To what extent was the strategy for financial stabilisation in each EAP appropriately designed for achieving the programme objectives?

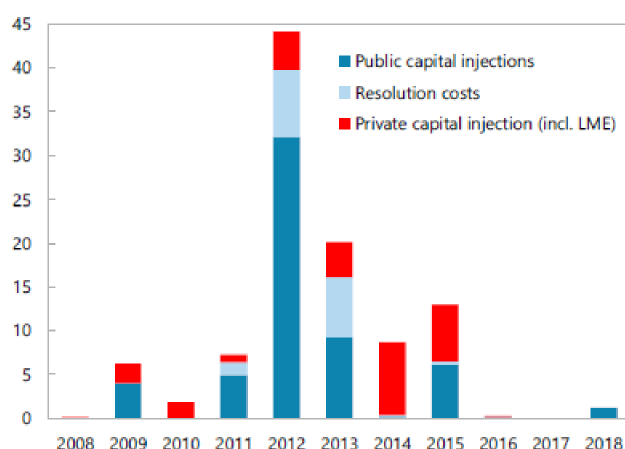
Relevance: Was there a proper diagnosis and strategy on financial stabilisation before the identification of related conditionality? Why were outcomes worse than projected?

Coherence: To what extent was the strategy for the stabilisation of the financial sector conceived and developed in a coherent manner?

EU added value: To what extent did the EU's legal framework contribute to addressing the Greek banks' needs?

Monetary costs of the support to the banking sector were substantial. Total injections of capital, including for resolution, involved funds for about EUR 70 billion and came at a significant fiscal cost (**Figure 53**), i.e. increases in government borrowing.

Figure 53. Cost of Capital Injections and Resolution 2008-18 (billion EUR)



Source IMF (2019) p. 51. Based on Bank of Greece; ECB; Eurostat; banks' reports; and IMF Staff Reports.

Note: Gross injections (no recoveries or repayments are included).

Liquidity needs of banks were also extensive and increasing over time. The Eurosystem and the central bank, through ELA, played a vital role in providing liquidity to banks and preventing the collapse of the entire system. Those measures were relevant, but it took several attempts before financial stability could return.

The sequence of three recapitalizations in two years suggests that their effectiveness was limited. To a large extent the first recapitalization was driven by the PSI and the one by the prolonged and severe recession. The banking sector was unable to perform its key role and hence support the recovery, if anything it was a drag on the economy for the entire duration of the programmes. This was not expected in the first EAP, but also not fully understood in the second EAP. Finally, the third recapitalization was caused by exogenous factors, i.e. the political developments of 2015, which could have been hardly anticipated at the time when estimates were being derived on the amount of capital needs.

The development of a **pre-BRRD resolution framework and the subsequent resolution actions on insolvent credit institutions were successful** in avoiding market disruption and safeguarding depositor confidence. **Protection of depositors was**

maintained throughout the three EAPs, in the recapitalisation exercises but also in the fourteen bank resolutions that took place. This was an important principle that was preserved in an effort to stem the waves of deposit outflows seen during the programmes and to safeguard citizens faced with very high uncertainty. As counterpart, this also resulted in higher costs for the sovereign due to increasing funding needs under the programmes.

As deposit protection was not fully credible, **to stop deposit outflows capital controls had to be imposed. This was an extreme measure** (it was imposed already in 2013 by the Cypriot authorities) for extreme circumstances. Most interviewees deem it both necessary and effective to stop deposit outflows. This came at a cost for Greek individuals and companies which for years remained constrained in accessing their own deposits and in the execution of international financial transactions. The controls were fully lifted only in August 2019; hence a very long duration was not avoided.

The increasing level of NPLs was a significant problem during the three programmes. But its magnitude and impact on banks' capital and role was somewhat underestimated in the first EAP and not sufficiently tackled in the second EAP. It is only the third programme that aggressively dealt with the problem. After the end of the third programme, NPLs were still very high in the four main Greek domestic banks. From this perspective, the programmes were largely ineffective in reducing NPLs. This remains a key area to be monitored for ensuring the stability of the banking sector and its ability to support the real economy. This is a key aspect of the enhanced surveillance.

The set-up of a framework (legal and operational) to deal with insolvency took very long and weighted negatively on the resolution of the weaknesses of the banking sector and the economic recovery more generally. The weak payment culture did not help in speeding up the solution. While the judgement about its effectiveness is still out, Greece managed to achieve a modernization of the private sector insolvency framework and the creation of a more efficient model for the management of NPLs. This should make Greece much better equipped to deal with insolvency issues.

The need to enhance the governance of banks, and financial institutions more in general, was recognised mainly in the third programme, **as a deep-rooted problem and one of the reasons for the limited success of the previous measures to stabilize the banking sector**. In previous programme, the focus was more on avoiding the State's interference to the management of the banks and keep it in the hands of the private sector to ensure private management practices. This neglect may have negatively affected banks' ability to attract capital and confront asset quality problems, potentially increasing the cost of the programmes. On the other hand, addressing such problem is typically a long process and some measures were taken already during the first two EAPs[136]. The HFSF's own governance model also had to be overhauled to safeguard its independence and increase its transparency.

Overall, as consequence of a massive restructuring, the Greek banking sector should be structurally stronger and able to contribute to financial stability. It is also one of the most concentrated in the EU. While this may appear at odd with the strict application of the competition rules, it is a fact that Greek banks never managed to attract foreign capital. The fear of Grexit, which persisted during most of the programmes, is likely to be the main explanation for such an outcome. In addition, because of incentives offered to the private

[136] The possibility of restructuring a bank's governance was introduced already in mid-2010 with the founding law of the HFSF, in the event of a recapitalisation involving the Fund, while in the 2nd EAP the participation of the HFSF to the BoD of a recapitalised bank was introduces, as well as the RFAs between the Fund and banks.

sector, despite the very large injections of public money, the state's share in banks is relatively small.

At the start of the programmes, and during the first years of the Greek, the responsibility for **the supervision and resolution of banks was located at the national level. This did not help designing coherent solutions** to the problems of the banks in Greece. Despite progress towards a Banking Union, most of the key and persisting problems in the banking sector remain under national responsibility (Georgosouli 2021). As mentioned, almost all resolutions happened outside the BRRD and the legal framework to facilitate working out the high amount of NPLs was designed at national level. Interestingly, while the first one was successful, the second was much less so.

7 Structural reforms

This section offers an overview of key structural, pre-existing challenges in Greece. It analyses the programmes' design of structural reforms and their objectives and assess their outcome. The three programmes are here analysed as a process rather than as strictly distinct packages.

7.1 Labour market reforms

7.1.1 The Greek labour market before the crisis

The Greek labour market traditionally faced significant challenges. Before the outbreak of the crisis and the start of the economic adjustment programmes, seven main problems characterized the Greek labour market.

The first one concerns the low labour market participation rates and high unemployment rate compared to the other European countries. Unemployment rate in Greece was in 2008 around 8% - one of the highest in the EU, of which almost half in long term unemployment. In 2008, the lowest participation rates were registered among women (55% vs. 68% in the euro area), young population aged 15-24 years old (30% vs 43% in the euro-area) and old-age population 50-64 years-old (60% vs. 68% in the euro area). With respect to old-age workers, low participation rates in the labour market were largely explained by the high incentives to use early retirement schemes (Gatopoulos et al. 2021). With respect to youth unemployment, in 2008 Greece had one of the highest rates of unemployment of individuals aged 25–29, not only among low-skilled, but also among people holding university degrees at bachelor, master or doctoral level. This was explained largely by a high skill-mismatch (see point six below).

A second problem of the Greek labour market was distortions in the labour tax system. Greece had a high labour tax wedge and high social security contributions. Comparing the ratio of the amount of tax paid by a two-earner married couple (one at 100% of average earnings and the other at 67 %) with 2 children and the corresponding total labour cost for the employer, in 2009, Greece registered a tax wedge almost 5 percentage points higher than euro area average. At the same time, Greece had a very large number of self-employed, facing lower social security payments per capita, and hence competing with salaried employees.[137]

The third problem of the Greek labour market was the high degree of employment protection legislation (EPL). In 2008, Greece had one of the strictest employment protection for individual and collective dismissals, both for regular and temporary contracts. The high EPL resulted in a low degree of use of flexible forms of employment with an average corresponding to 5.6% of total employment, during 2000-2010, compared to 18% for the euro area. In addition, many of the part-time workers were involuntary in this employment status, thus showing a non-optimal use of part-time contracts. At the same time, the average number of working hours for full-time employees in Greece was

[137] A related problem was the progressivity of the tax wedge, which had a threshold too close to the minimum wage. As put by Mitsopoulos and Pelagidis (2011 p. 9), "the result was that a disproportionally large number of the salaried employees were squeezed between a narrow income range that spans from the minimum wage to the point where the wedge starts to increase. Below this narrow range the minimum wage rules out legal salaried employment and above this narrow range self-employment is encouraged over salaried employment".

declining during the pre-crisis expansion phase, contrary to the increasing trend in the euro area.

The fourth problem was the polarization between hyper-protected insiders, under-protected 'mid-siders' and unprotected outsiders (Matsaganis, 2015). On the one hand, jobs in the public sector (and especially public utilities) provided family wages, generous social benefits, lax work practices and absolute employment protection. On the other hand, for the overwhelming majority of Greek workers ('mid-siders'), typically employed in small firms, jobs paid less on average and came with less generous benefits and reduced employment protection. Furthermore, in certain sectors of the economy (such as the construction industry, tourism and other services), informal employment was the norm, allowing many employers to flout regulatory constraints in the form of dismissal protection, minimum wages and social insurance.

A fifth problem for the Greek labour market was represented by the low competitiveness. According to Ameco data, during the first decade after the adoption of the Euro, high wage growth resulted in an increase the nominal unit labour cost (ULC) of around 47%, more than the double of the ULC increase in the euro area (20%). With labour compensation growing five times in excess of labour productivity, this resulted in a cumulative appreciation of the unit labour cost-based real effective exchange rate (REER-ULC) of about 60 percent relative to all trading partners and about 20 percent relative to the EA17 from the start of 2001 through the end of 2009 (IMF 2019).

The sixth problem of the Greek labour market was the high degree of skills mismatch compared to the euro area. On the demand side, the skills mix produced by the education system at all levels seemed poorly designed for the needs of the economy and vocational education perceived of inferior quality (CEDEFOP, 2014; Ioannidou, 2014). As for universities, Greece experienced an excess of graduates for careers in the so-called liberal professions of medicine, law and engineering or architecture, but significant shortages in ITC. On the supply side, Greece stands out not only in terms of low degree of cooperation among firms and between firms and education providers, but also in terms of its exceptionally low firm size, mostly micro enterprises with no more than 9 employees or solo self-employed. In addition to this, most of such enterprises in Greece were low tech and cater for the domestic market, which contributes explain why even before the crisis there were so few job opportunities for highly skilled youth in the private sector (Matsaganis 2015).

Finally, the seventh problem of the Greek labour market was the specific characteristics of the wage bargaining system, including many layers of bargaining and the extension of collective agreements to all enterprises, including those not involved in the negotiations. Greece was characterized by a highly fragmented collective bargaining structure for wage determination. The collective bargaining structure in Greece consisted of, on average, 100 collective agreements classified as sectoral/industry agreements, 90 classified as occupation collective agreements, and around 150 company collective agreements (Ioannou 2019). Yet, encompassing sectoral collective agreements were less than 10, since most of them only covered the main speciality, job or occupation in a certain sector, while the other workers were covered by other collective agreement (Ioannou, 2011: 774-775; Ioannou 2019). This prevented wage moderation and put pressure on inflation. Moreover, such wage bargaining system resulted in setting relatively high minimum wage levels.

7.1.2 The rationale and design of the reforms in the Economic Adjustment Programmes

When the crisis erupted, the economic situation quickly deteriorated and unemployment started to increase. In view of the existing rigidities and failures, labour market reforms were frontloaded in the first two economic adjustment programmes.

Reforms had two broad objectives. The first was to support the adjustment in the economy, by easing labour market rigidities. By making the labour market more flexible and adjusting wages, volume adjustments (layoffs) were expected to be contained. The second objective was to enhance gains in cost competitiveness, via adjustment in relative prices and nominal wages in order to correct the existing large imbalances in the external accounts. The economic rationale behind these two objectives was that an overregulated labour market creates an inflexible labour market, hence resulting in higher unemployment, higher long-term unemployment, lower productivity growth and labour-market segmentation (see e.g. Bentolila et al. 2011; European Commission 2010, 2012; Blanchard 2006).

To this end, the first and second economic adjustment programmes envisaged an intervention in a fourfold direction and the following objectives:

1. Reform of the employment protection legislation, with the aim of reducing firing and hiring costs and foster employment, facilitating flexible forms of employment to increase labour participation rates and foster job creation
2. Review the collective bargaining framework, with the aim to increase system's flexibility and decentralization and facilitate adjustment via wages.
3. Review of national minimum wage, with the aim to lower labour costs, keep the low skilled from being priced out of the formal labour market, introduce new setting mechanism based on the government decision after tri-partite consultation and taking into account of the state of the Greek economy and its prospects for growth in terms productivity, prices, and competitiveness, employment, unemployment, income and wages
4. Reduce the labour tax wedge, in order to reduce non-wage costs mainly through employers' social security contributions

To achieve the first operational objective, reforms aimed at easing the regulations protecting permanent workers, reducing firing costs and revisiting the rules limiting firms' recourse to temporary work to increase labour market flexibility. On the side of **permanent contracts**, reforms were adopted including the raise of the threshold at which dismissals are considered collective (for firms with 20–150 employees: from four to six dismissals per month); the reduction for all workers of the length of notice required prior to dismissal was shortened considerably for white-collar workers and severance pay; the increase of the length of trial periods for newly hired workers (from two to 12 months); and the abolishment of the provision under which employers were required to pay part of unemployment benefit in case of dismissals arising from mergers or acquisitions. In addition, reforms were adopted to ease the compliance burden generated by labour regulations on business management, such as the system of pre-approval from the labour inspectorates for overtime was abolished and replaced by a notification system using an electronic platform. As regards the **temporary workers**, the main reforms included the revision of the maximum duration of fixed-term contracts before they are automatically converted to indefinite-duration contracts was extended to three years (otherwise, their renewal without restriction was allowed under certain circumstances); the extension of the scope for temporary work, as was its duration (from 18 to 36 months, or indefinitely if contracts are separated by a 23-day interval); lifting and easing of several restrictions on

the scope of temporary work agencies; the abolishment of the requirement that temporary work agencies may provide services only for 'transitory, extraordinary, or seasonal' positions; reduction of the length of time before hiring via temporary work agencies is allowed following redundancies for economic reasons (from six to three months for individual redundancies and from 12 to six months for collective dismissals); the use of temporary work agencies in large public works contracts was permitted; and the list of hazardous positions closed to workers supplied by temporary work agencies was limited.

Together with the revision of the employment protection legislation, the first and second economic adjustment programs included measures to review the collective bargaining mechanisms, in a threefold direction: first, not extending occupational and sector collective agreements to non-signatory firms; second, ensuring that firm-level agreements prevail over occupational and sector agreements by suspending the so-called favourability clause; and, third, allowing firm-level agreements to be negotiated by workers' associations (in addition to trade unions), with a view to increasing the number of firms that can conclude those type of contracts. In addition, other measures were adopted including the possibility to derogate from conditions set at higher level agreements and the possibility of undercutting wages set in collective agreement for the hiring of new young workers (18-25). In 2012 a package of reforms was adopted that set a maximum duration of 3 years for collective agreements, the review of collective dispute regulation procedures with arbitration allowed only if both parties agree to it (before only employees was enough) and the reduction to three months of the regime of 'after effects'.

During the first economic adjustment program, the **wage setting measures** were accompanied by a series of reforms that directly aimed at reducing public wages and revisiting the statutory minimum wage. Between 2010 and 2014, the government adopted 13 new measures aimed at a reducing public wages. Among the most notable ones, the cuts of public servants' salaries by 8%, the reduction of any kind of bonus (13th and 14th month, Christmas, Easter and holiday), the freeze of government wage drift, cut in productivity allowance in government sector, the increase of working hours and the reduction of maximum hours of overtime. In the same period, 8 reforms were adopted to adjust statutory minima, with the aim to create additional room for downward wage adjustment to be decided by employers and employees in each firm or sector, and – at the same time - fight informality and undeclared work, pulling employment into the legal sector. The reforms included the freeze of minimum wage until summer 2012, the reduction of the wage floors in the National General Collective Agreement (NGCA) by 22 percent, or even by 32 percent for those younger than 25. In addition, the minimum wage setting mechanism was changed from being determined based on national level collective bargaining to being set by the government after a detailed process of tri-partite consultations and an evidence-based analysis of the Greek economy outlook (Law 4172/2013).

With respect to the **tax wedge**, the first Economic Adjustment Programmes mainly contained reforms of the self-employed social security contribution and public servants' contribution aimed at increase state's revenue and cushioning existing distortion in the Greek taxation system which unequally penalized private sector's employee. With the second economic adjustment programs measures were included to reduce the contribution rates for employers by 1.1 percentage points in 2012 and 3.9 percentage point in 2014. Bureaucracy on labour arrangements was reduced, inter alia by abolishing the pre-approvals of overtime work and streamlining other reporting requirements (2012 and 2014). The rationale was to reduce labour costs and strengthen the incentives for employment without negatively affecting take home salary.

Additional measures were adopted to stimulate young workers' activation especially after 2013 with the support of the EU Youth Guarantee. Among the measures adopted, short-term public work programmes, internships with youth voucher schemes, while apprenticeships and vocational training schemes were revisited with an aim to increase their effectiveness. The rationale was to assist job finding and enhance the skillset of the large shares of the population who were either unemployed or inactive. Finally, stricter sanctions for undeclared work were imposed (2013), the labour inspectorate initiated a multi-year action plan including risk-based audits, digital systems were put in place to allow checking of both undeclared and under-declared work.

Labour market reforms feature as well in the third Economic Adjustment Programme. The ESM programme aimed to safeguard EFSF programme achievements and mitigate existing rigidities to improve the balance between flexibility and fairness. It focused on simplifying decentralised bargaining, facilitating flexible forms of employment, and reducing rigidities in employment protection legislation. Yet the third EAP also introduced an additional focus on reducing inequalities. This is reflected as well in the operational objectives, which aim to render the labour market more efficient and flexible, at the same time guaranteeing more fairness. To this end, the MoU included a group of reforms, including an action plan to fight undeclared work, strengthening the Ministry of Labour capacity building in terms of policy formulation, a new legislative measure on VET/apprenticeship, a system for identification of skills need and a reform of the education system.

7.1.3 Trends and overall assessment

The two main objectives of the three EAPs with respect to the labour market were: preserving employment and increase competitiveness. In both cases, the aim was to preserve existing jobs, to facilitate the creation of new ones, to enhance the reallocation of factors towards tradable sectors and to encourage scale economies. To achieve these objectives, the first and second EAPs pursued a fourfold strategy based on EPL flexibility, collective bargaining decentralization, minimum wage cuts and labour tax wedge reduction. Overall, the labour market reforms were successfully implemented.

The reform of the EPL contributed to decrease the strictness of both individual and collective dismissals for temporary and permanent workers between 2008 and 2012. According to the OECD data, by 2012, the EPL indicator was below the EU average. The same holds true for the indicator of temporary employment, which measures the strictness of regulation on the use of fixed-term and temporary work agency contracts. This declined from 2.75 in 2008 to 2.25 in 2012.

With respect to collective agreements, the database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts registered an increase in the share of employees covered by firm- or enterprise-level agreements. These jumped from almost 0% in 2013 to 12% in 2016 (latest data available), largely driven by the new agreements with associations of persons. At the same time, the employees covered by valid collective (wage) bargaining agreements as a proportion of all wage and salary earners in employment with the right to bargaining[138] dropped – also as a natural consequence of the elimination of the collective agreements' automatic extension clause - from 89% in 2011 to 25% in 2016.

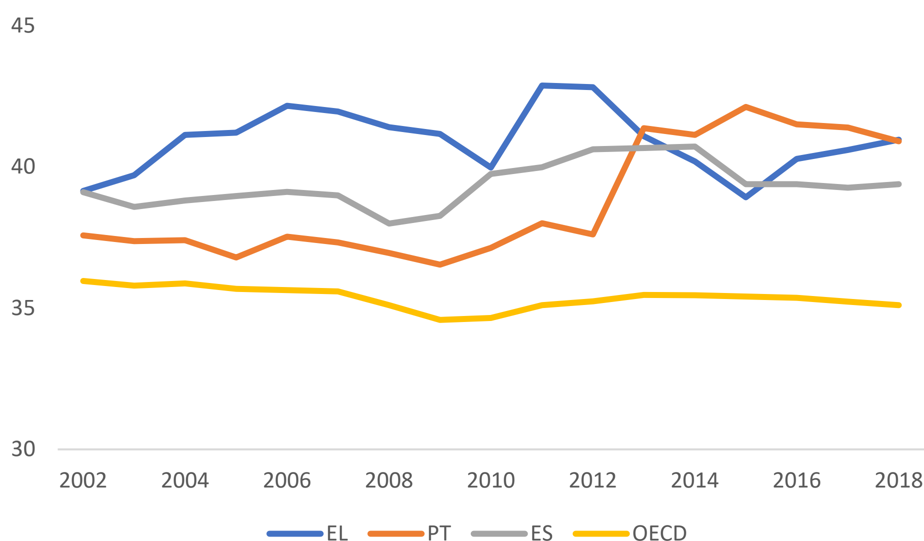
The nominal unit labour cost dropped between 2010 and 2015 by about 20% and then stabilised (see Figure 13 above). According to the Bank of Greece (2014), the construction

[138] This is expressed as percentage and adjusted for the possibility that some sectors or occupations are excluded from the right to bargain.

sector adjusted the most were, while employees in services and central government employees had the smallest reduction.

In terms of labour taxation, the average tax wedge dropped by 4 percentage points between 2012 and 2015 (see Figure 54). A similar drop can be observed in the share of social security contributions in percentage of gross wages.

Figure 54. Average tax wedge (in % of labour cost)



Source: OECD. Tax wedge

Despite the overall successful implementation of these reforms, the assessment is less unequivocal on the extent to which they contributed achieve the objectives of preserving employment and increase competitiveness.

Firm surveys in Greece confirm that the labour market reforms implemented over the adjustment programmes rendered the Greek labour market much more flexible and reduced rigidities that might have hampered businesses' room to adjust to a very difficult environment. The third wave of the ESCB-WDN survey (investigating how firms in Europe react to adverse shocks) covering the 2010-2013 period indicated that for Greek firms, labour market reforms were an important driver of the increase in the ease of labour market adjustment, across all possible margins (ECB Economic Bulletin 2016). These included wage reduction of incumbents, hiring of new workers at lower wages, laying-off and adjusting working hours. Therefore, they significantly contributed to the adjustment in competitiveness and reducing rigidities in the labour market.

This notwithstanding, employment fell sharply, from 59.1 % (of 15-64 years old) in 2010 to 48.8 % in 2013, to increase to 54.9% inly in 2018. Labour market statistics show that net flows into employment (from unemployment and inactive) decreased steadily from 2010 until 2012, and then increased in 2013 and 2014. Before 2015, the only driver of employment growth was part-time employment, which increased significantly from around 5% in 2008 to 22% in 2014. Yet, large part of the new part-time jobs was still involuntary as the share of part-time employees willing to work full-time increased from around 44% in 2008 to 72% in 2016 (Eurostat data). Since 2015, employment rate started increasing again and part-time employment decreased progressively until it reached 11% in 2019.

Whether and to what extent the labour market reforms contributed to the employment trends is difficult to assess. Some recent studies show that the minimum wage reforms did not improve labour participation rates, while they increased average working hours

and inequality (Gatopoulos et al.2021). Georgiadis et al. (2018) find that minimum wages have a positive and significant effect on individual and firm-level wages with significant positive wage spill-overs extending, sometimes, above the median wage, but no systematic employment effects. Other studies argue that the positive effect of the reforms on employment could be observed later in 2015 and 2016, when, despite the economic activity regressing back to recession, employment proved highly resilient and grew by more than 2% on an annual basis, supported by sectors with above-average use of part-time employment (ECB Economic Bulletin 2017).

In terms of competitiveness, labour cost reduction only partially translated into price competitiveness gains. For instance, the IMF (2019) shows that even though a positive relationship can be found between minimum wages and employment – i.e. employment fell more in sectors that experienced more limited wage reductions -, prices did not show the expected adjustment. The lower wages in sectors with a higher share of employees paid minimum wages did not translate into on average lower output prices in the same sectors, compared to other with a low share of minimum wage earners.

According to the OECD (2018), wages fell substantially during the adjustment programme, but the impact on exports was limited. Gros et al. (2015) analysed the effect of the first two adjustment programmes on Greek exports and find that those exports of goods and services that might have benefitted from an 'internal devaluation' amount to only 12% of GDP, compared to about 25% for Portugal and much higher values for most other small euro area countries. This could imply that, even if the intended adjustment in wages materialized, the extent to which the economy of Greece could recover through export growth was very limited.

Overall, it is debatable whether ULC was an appropriate target to improve competitiveness. In this respect, Uxó et al. (2014) suggest that internal devaluation mainly increased profit margins. They argue that in Greece, Spain and Portugal internal devaluation instead of enhancing competitiveness, increased firms' profit margins through a labour cost compression. While unit labour cost decreased substantially, prices in Greece fell by only by about 5% (see also Petroulakis, 2017). *De facto,* this offset most competitiveness gains.

In addition to this, other factors can help further explaining the partial achievement of the labour market reforms' objectives: i) the lack of political ownership in reforms' implementation, ii) the financial suffocation of the private sector, iii) the delays in other areas of reform with extensive complementarities to the labour market, and iv) the structure itself of the Greek economy.

Firstly, the reluctance of the Greek government to adhere to the agreed reform agenda in the first place further delayed the reforms' implementation and – at the same time - increased the risk premium putting companies at disadvantage given the ensuing higher cost of external finance.

Secondly, the increasing cost of financing corporate loans in Greece had an impact on economic activity in the sector that has the strongest contribution to higher value exports, i.e. manufacturing (Mitsopoulos 2016). In this respect, the ECB Access to Finance of Enterprises Survey (ECB 2014, 2015) documents persistently high and unmet financing needs for Greek SME's and crucially a much large exclusion of SME's from bank financing, as they do not even apply for loans in anticipation of a rejection. As argued by Mitsopoulos (2016), the deterioration of the financing conditions of the private sector largely cancelled out the advantages manufacturing companies could have expected from the fall in wage costs.

Thirdly, the combination of labour reforms and the delay in the implementation of product market reforms and in opening professions resulted in an increase in average profits after

2012. Lack of sufficient competition, limited the fall in prices and substantial fall in nominal wages led to increased mark-ups. At the same time, the increase in the taxation of capital (10% between 2012 and 2016) eliminated another part of the competitiveness gain adding to firms' rising marginal costs (IMF 2019).

Fourth, the effectiveness of the labour market reforms was partially reduced by the fact that the reforms did not address effectively the segmentation within the Greek labour market. *De facto,* the burden of the adjustment was borne by private sector's workers, while large part of the public sector remained protected. The "internal devaluation" was especially strong in the manufacturing, especially the construction sector, which, according to Pelagidis and Mitsopoulos (2014), had by any measure low levels of employee compensation.

An additional element that should be taken into account when assessing the employment trends regards the persisting problem of undeclared work. Undeclared economy was estimated to be equivalent to some 25% of GDP in Greece before the crisis (ILO 2016). As observed above, one of the main explanation was the relatively high level of self-employment, together with a large share of micro- and small enterprises, which are most prone to such practice. The main drivers of this phenomenon was a distorted tax system, as well as formal institutional voids (weak welfare social safety nets), institutional uncertainties and inefficiencies in controlling the phenomenon and citizens' mistrust in the institutions due to corruption and low quality governance. During the first and second EAPs undeclared work remained largely unaddressed, as well as the governance problems. By contrast, the third EAP accompanied to the overall reform of the PA (see next section) an action plan to fight undeclared work which contributed support employment, reinforcing the cooperation among different institutions, improving the knowledge about and the capacity to detect the phenomenon, reviewing the system of incentives to promote a transition to the formal economy and strengthening the capacity of the labour inspectorate.

Finally, the lack of an adequate strategy to support high-quality production, which could have motivated high-skilled workers to remain in Greece, further negatively contributed to reduce the effectiveness of the labour market reforms. Moreover, the lack of an adequate strategy for active labour market policies, including adult learning and vocational training, did not create opportunity for relocation of unemployed workers.

7.2 Public Administration reforms[139]

7.2.1 The Greek PA before the crisis

In 2010, the Greek public administration (PA) was overstaffed and characterized by complex, burdensome and lengthy administrative procedures. Over time, the PA had grown significantly, in particular the state-owned companies had increased their staffing levels disproportionally, without however achieving the corresponding results. The administration also suffered from excessive clientelism and centralisation. Senior administration staff members were mainly politically appointed, and this resulted in an extreme politicisation of the administration. Compared to other OECD countries, a larger share of all government employees worked for the central government. Despite the weak mandate, also local governments were overstaffed and with low quality (e.g. low-skilled) workforce. Several chronic problem areas can be identified as affecting the performance of the PA (European Commission, 2020):

[139] This section relies on DG ECFIN internal study 'Public Administration reforms in Greece during the economic adjustment programs: 2010-2018'

- Low capacity to properly design and implement public policies, also due to lack of coherent strategy and fragmented responsibilities across ministries;
- Lack of coordination, in part also due to the paradox of governance which characterized the prime minister office;
- Under-utilization and inefficient allocation of human resources, due to the lack of a human resources management system
- Overly complicated regulatory framework, which created costly legal uncertainty both for citizens and businesses;
- Low penetration of e-Government services;
- Absence of modern methods, techniques and management tools;
- Inefficient tax revenue system;
- Inefficient justice system, especially civil procedures and anti-corruption law, hampering economic growth, with problems including complexity, law obscurity, a lack of case bundling, and court delays.

7.2.2 The rationale, design and impact of the reforms in the Economic Adjustment Programmes

Under the three EAPs, ambitious reforms were implemented to improve the public administration. During the first and second EAP, the main objective was to modernise the public sector by generating efficiency gains and ensuring transparency as well as by reducing corruption. To this end, the first and second EAPs' focussed on cutting staff and costs (including wage bills), restructuring of the central administration (outsource functions, identify redundancies, restructure central and local public administrations), increasing the monitoring capacity and the transparency of the public sector. While in the first and second EAP, the reform of the PA was not identified as a self-standing objective, the third EAP included the modernisation of the PA as a key pillar of the programme, which was backed up with technical assistance provided by the EC Structural Reform Support Service (SRSS).

Overall, the intervention in the PA was addressed in the following areas: i) size of the public administration, ii) wage bill, iii) consolidation of organisational structures, iv) monitoring, v) transparency, vi) human resources policy, vii) depoliticization, viii) central coordination, ix) independence of the fiscal tax administration, x) reform of the Civil Code and xi) anti-corruption law.

Size of the PA. As illustrated above, the reduction of the personnel in the PA was achieved by imposing limitation to hiring though freezing recruitments in 2010 and applying the attrition rule that permitted one new recruitment for every ten in 2011, one for every five in the period 2012-2016, one every four in 2017 and one every three in 2018. Furthermore, restrictions were applied on the number of temporary personnel and elected staff. Another effort of controlling the PA size was the introduction of suspension and mandatory exits for the personnel in surplus, i.e. due to the abolition of the position.

As a result of the control on the size of the PA, the overall number of public servants was decreased significantly, around 25% between 2009 and 2018. Notably, the permanent staff decreased by 18% while the temporary staff by 55%.

Wage bill. An additional action to reduce the costs and increase efficiency and transparency of the PA was the rationalization and simplification of the wage grids. In addition to the above-mentioned measures to curb the wage bill via a reduction of salaries and allowances, in 2011 the reform of the wage grid was adopted with the aim to bring not only fiscal savings, but also bring order in an extremely fragmented system where each ministry was providing unjustified allowances and exceptions. To this end, the reform

included the connection between performance and pay, the elimination of unjustified benefits and the application of the attrition rule.

While the cost-savings objective was achieved, the wage grid reform did not succeed in bringing order to the fragmentation of the PA contracts. To this end, a second reform was adopted within the third EAP with the aim to compensation system was introduced in 2015. The main elements of this reform included: a simplification of the structure of the wage, disconnection between salary and grade, career incentives based on performance, suspension of automatic wage increases for sustained underperformance and decompression via increased management allowances. Contrary to the 2011 reform, the 2015 wage reform broadly achieved its objectives, thus introducing in Greece for the first time a single remuneration system, with only few exceptions. In this respect, the modernization of the wage grid was accompanied by the implementation of a common framework across the public administrations for non-wage benefits (e.g. travel expenses and allowances related to personnel's transfer or secondments).

Consolidation of organizational structures. In order to reorganize the PA, in 2010 the Kallikrates reform was adopted in 2010, then implemented in 2011, with the aim to reduce the number of municipalities, replace the numerous prefectures and decentralize the PA, thus enhancing the efficiency, effectiveness and democratic legitimacy of public policy. As a result of such reform, the number of municipalities was reduced from 1,034 to 325, 57 prefectures were replaced with 13 regions and the mandate of the elected local and regional officials was increased. Apart from overall efficiency gains, the reorganisation of local authorities resulted in large budgetary savings. In the same year, following a report by the OECD (2011), the central administration was also reformed to rationalize its organisational structure and make productivity gains. The main objectives of the reform were to redefine the mission and responsibilities of each service and to eliminate those that did not add value to the service and/or overlapped with functions of other units, thereby reducing the number of organisational units to the strictly necessary. In particular, the number of Directorates-General decreased by 23 per cent, the Directorates by 38 per cent and the Units by 35 per cent. Some of the organisational units were reinstated in 2017 after a more thorough functional review established that the cuts had gone too far.

Monitoring. An important reform to increase the efficiency of the PA was the creation of a census database and the establishment of a Single Payment Authority (SPA) which paved the way to a comprehensive human resource management system (HRMS). Before the EAPs, in Greece there were no detailed data on the number of public servants neither on the wage bill spending. This represented a problem not only in terms of transparency of public finance management but also a limit to strategic planning and ability to monitor and assess the progress of reforms. The 2010 census of the PA together with the SPA facilitated the human resources management and was used regularly to monitor the wage bill and any additional compensation of the persons registered in the census, thus allowing and efficient wage policy and control by the minister of Finance.

Transparency. In 2010 the initiative *Diavgeia* was adopted, which imposed that all the administrative acts should be made available on an online portal, in order to control possible cases of mismanagement, abuse of power and public money misuse. In 2013, an action plan was adopted to strengthen the disciplinary control and liability in the PA, by reinforcing the Disciplinary Councils, ensuring their independence and swift examination of cases. This contributed to enhance transparency, trust and meritocracy among civil servants. In this respect, during the third EAP, the legal codification reform was adopted to enhance the transparency and cut red tape related to legal codification.

Human resources. The establishment of a comprehensive Human Resource Management System (HRMS) was included in the third EAP and is expected to be complemented in

2022. It covers the preparation of digital organigrams and job description, the establishment of a mobility system and a performance appraisal system. The purpose is to have a comprehensive and accurate picture of the allocation of human resources in the PA, to make all the vacancies accessible and public and to continuously improve the performance of the civil servants and enhance the overall efficiency of the PA.

Depoliticization of the PA. As illustrated above, the politicization of the PA was one of the main problems affecting transparency and efficiency of the public administration in Greece. During the third EAP, new system was set in place to improve the transparency of the appointment senior and middle managers. A selection panel chaired by the Supreme Council for Civil Personnel Selection ensured the objectivity of the process. Yet the adoption of this new mechanisms was characterized by serious problems and delays. For instance, the selection process for Administrative Secretaries was eventually cancelled. At the same time the role of the Secretaries-General was reinstalled, while a new post at each ministry was introduced, namely the Permanent Secretary. Yet, despite resistances and delays, the reforms contributed to achieving in part a functional depoliticization of the Greek PA, for instance delegating the administrative acts to the director-general level and establishing an open selection process for the senior posts.

Centralization of coordination. During the third EAP, a reform of the inter-ministerial coordination was adopted with the aim to overcome the above-mentioned paradox of the prime minister office in Greece which negatively affected not only the transparency but also the efficiency and effectiveness of the decision-making process. Thanks to the support of the EC SRSS, a manual for the inter-ministerial coordination was prepared.

In order to strengthen the position of the Prime Minister’s office, two reforms are of particular relevance: the setting up of the Secretariat-General for Coordination in the Prime Minister’s office under PM Samaras in 2013 and the considerable strengthening of this office in 2015 under PM Tsipras.

Independence of the fiscal tax administration. The Greek tax revenue system has been characterized by significant inefficiencies due to complicated legislation, poor administration, political interferences and generous amnesties, with chronically weak enforcement. To break this practice, the third EAP included measures to strengthen the revenue administration and improve the tax and social security payment culture. In particular, the main reform consisted in the creation of a fully independent revenue agency, the Independent Authority for Public Revenue (IAPR) in 2017. The IARP is in charge of the collection of taxes, while the ministry of Finance remained in charge of the tax policy. The new IAPR replaced the Secretariat General for Public Revenue which was established in 2012 during the second EAP. The purpose was to separate the agency from the Ministry of Finance, thus depoliticizing the agency. Such reform should be seen together with the increase in use of the electronic payments, which were strengthened from 2015 with the aim to enhance tax compliance and reduce shadow economy. Similarly, the third EAP intervened also on debt collection with the strengthening of the Large Debtors Unit. Overall, the success of the tax enforcement procedures and revenue administration in Greece during the Economic Adjustment Programmes can be observed in the improvement of the VAT collection (Figure 39) and in the collection rate of new tax debt (Figure 38).

Reform of the Greek Code of Civil Procedure (GCCP). Sophisticated and effective civil justice and enforcement procedures are crucial for economic security, trust, and good faith in a civic society. Both aspects are essential for public and market confidence, and they stand at the epicentre of the reform. The Code of Civil Procedure, adopted in 1967 and then subject to subsequent modification, proved to be particularly inefficient, with Greece scoring among the worst in Europe for rate of resolving civil, commercial, administrative

and other cases. The reform of the Greek Code of Civil Procedure *(Kodikas Politikis Dikonomias)* was first included in the second EAP and then in the third EAP with the aim to address case backlog in the courts; speed up case processing; improve performance and accountability of Courts. Delays were mainly due to the following reasons: increased number of actions, of legal remedies and of aids filed in civil procedures, absence of out-of-court proceedings/alternative dispute resolution, bureaucracy and hardly any use of technological innovation (until very recently, everything had to be done manually).

Law 4055/2012 was the first step of a large-scale reform but did not actually resolve problems (e.g., it did aim to speed up civil proceedings, but structural reforms were rather hesitant, and loopholes remained). Then came Law 4335/2015, which entered into force in January 2016[140]. Overall, the objective of the reform was to improve procedural efficiency while upholding correct and fair judgment. Among the most relevant novelties, the rationalization in the use of single or multi-bench court formations, the streamlining of procedures, the creation of electronic docket and the establishment of a web-based portal for the conduct of electronic auctions. In addition, by leveraging the technical assistance provided, Greece introduced a dispute resolution mechanism and retrained some judges in specialised legal fields, such as in insolvency law. For instance, ordinary proceedings are now mostly written based on filling of all evidentiary means; hearing is formal, and the litigant parties do not need to be present. With regards to compulsory enforcement there are two notable improvements: 1) The reduction of the number of legal remedies. 2) The reduction of the time required for the completion of actual implementation of the enforcement titles. Under the new GCCP, the filing of a lawsuit against any enforcement act does not automatically suspend the progress of the enforcement procedure; the litigant must file a petition for suspension. The new GCCP restricts the ability of a debtor to challenge the compulsory enforcement of actions by the creditor.

Data suggests that these reforms were not immediately effective in addressing the above-mentioned inefficiencies. Yet the courts' backlog had contracted. Electronic tools so far have been only partially taken up, with significant differences from city to city (ESM 2020).

Anti-corruption law. The anti-corruption law was a key milestone to address clientelism and (political) corruption in Greece. Before the EAPs, the legal reference was Law 3023/2002 on funding of political parties and Law 3213/2003 which requires politicians, government officials and others to file statements of personal wealth to signal out political corruption. The same law punishes undue profits/advantages (when a politician takes advantage of her position) with imprisonment and a pecuniary sentence. Anti-corruption became a priority starting from the second Economic Adjustment Programme. In 2013 the Anticorruption Prosecutor was established and was endowed with powers to control corruption across the public sector. In the same year, a former judge was appointed to the post of "national anti-corruption coordinator". In 2015 the new government re-organized anti-corruption authorities, by assigning the relevant tasks to a new General Secretariat of Anti-corruption (GEGKAD) and a Minister of Anti-corruption, which was then abolished in September of the same year. In 2015-2016 the government updated an earlier "Road Map on Anti-Corruption", with the help of the European Commission. Recently, Greece adopted a new Greek Criminal Law Code ('Penal Code') (Law 4619/2019) and a new Greek Criminal Procedure Code ('Penal Procedure Code') (Law 4620/2019). Both came into force on 1 July 2019 and introduced significant changes in Greek anti-corruption law. Both pieces of legislation provide a unified framework for the prosecution of corruption offences and consolidate a range of other legal texts. Notable reforms include

[140] More recently, after the end of the Greek Programmes, Law 4689/20 was introduced with more drastic changes for the rationalisation of civil procedure.

the abolition of the suspension of the execution of sentences of over 3 years of imprisonment and the introduction of criminal conciliation and criminal negotiation. The reforms aim to speed up criminal proceedings and improve procedural efficiency.

On the Greek Criminal Law Code: Notable offences which fall within the scope of Greek anti-corruption law include:

- Active bribery of public officials (Article 159A of Law 4619/2019)
- Bribery in the public sector (Articles 235 and 236 of same law as above)
- Bribery of judicial officials (Article 237 as above)
- Influence peddling (Article 237A as above)
- Bribery in the private sector (Article 396 as above)

On the new Greek Criminal Procedure Code (Law 4620/2019):

The role of the Anti-Corruption Prosecutor is set out in Articles 33-34. The role involves carrying out investigations and criminal prosecution of offences committed by public officials seeking to secure a financial advantage or benefit or who otherwise harm the state, regional and local authorities and public legal entities.

The role of the Prosecutor for Economic and Financial Crime is set out in Articles 35-36. The role also involves investigations and criminal prosecution in relation to tax and financial crimes against the state, regional and local authorities, public legal entities and the EU.

Other important legislation in relation to Greek Anti-corruption law:

- Law 4607/2019 which amended the Prevention and Suppression of the Legalization of Proceeds of Crime and Terrorist Financing (Incorporation of EU Directive 2015/849/EU) and Other Provisions (Law 4557/2018). The recently amended Law 4557/2018 is the core anti-money laundering legislation.
- Law 4412/2016 on public tenders prohibiting participation in procurements if there is a conviction for acts of bribery (the Law integrates relevant EU Law).
- The amended Law on Money Laundering Law (Law 4557/2018) also imposes record-keeping and reporting requirements in relation to various transactions.
- The Ministry of Finance, the Bank of Greece and the Hellenic Capital Market Commission also publish relevant guidelines.

All in all, during the three EAPs, there has been some visible important progress in anti-corruption. For instance, the Financial Action Task Force (FATF) notes that "Greece has the foundations for effective action against money laundering and terrorist financing. However, it needs to improve prosecution of these crimes and focus more on the risks that face the non-financial sector." (FAFT 2019). Yet progress in anti-corruption has been affected by many shifts and turns in the legal bases and the organizational aspects of anti-corruption. As put by Sotiropoulos (2020), the anti-corruption reforms were "marred by a "stop-and-go" pattern of reforms, organizational impediments and last, but not, least political interference".

Box 9. Statistics in Greece

The October 2008 revision of government deficit for 2008 (from 5% to 7.7% GDP) and of the planned deficit ratio for 2009 (from 3.7% to 12.5% GDP) were the trigger that initiated the Greek saga, fuelling a sense of mistrust with EU partners that then conditioned the three Economic Adjustment Programmes. In January 2010 the Commission published a report on Greek Government Deficit and Debt Statistics, in which it states that "the most recent revisions are an illustration of the lack of quality of the Greek fiscal statistics (and of macroeconomic statistics in general) and show that the

progress in the compilation of fiscal statistics in Greece, and the intense scrutiny of Greek fiscal data by Eurostat since 2044 have not sufficed to bring the quality of Greek fiscal data" (p. 3). The EC attributed the responsibility for statistics' misreporting to two sets of problems: (i) problems related to statistical weaknesses, included methodological weaknesses and unsatisfactory technical procedures in the Greek statistical institute (NSSG) and in the services that provide data and information to the NSSG, in particular the General Accounting Office (GAO) and the Ministry of Finance (MOF); (ii) problems related to failures of the relevant Greek institutions, including inappropriate governance, poor coordination, diffuse personal responsibilities, ambiguous empowerment of officials, absence of written instruction and documentation.

A reform of the statistics was therefore deemed as important for: a) future policy work and potential crisis resolution and b) were crucial for ability of peers to support Greece and c) financial markets access to become available. The first Economic Adjustment Programme included the adoption of a new Statistical Law (3832/2010) with the aim to ensure professional independence and enhance the quality of the statistical office. This law, which was then over the years by the laws 3842/2010, 3899/2010, 3943/2011, 3965/2011, 4047/2012, 4072/2012, 4182/2013, 4244/2014, 4254/2014, 4258/2014, 4334/2015, 4484/2017, 4512/2018 and by the Legislative Act dated 18/11/2012, provides for: (i) the establishment of the Hellenic Statistical Authority (ELSTAT) as an independent Authority; (ii) the establishment of the Hellenic Statistical System (ELSS); (iii) the establishment of the Council of the Hellenic Statistical System (SYELSS) and the Good Practice Advisory Committee whose task is to prepare an annual report on the implementation of principles 1 to 6 (institutional framework) of the European Statistics Code of Practice; (iv) the principles governing the statistical activities of ELSTAT and the other ELSS agencies as regards the development, production and dissemination of statistics; (v) the assignment to ELSTAT of the coordination of the activities of the other ELSS agencies, as well as the certification as "official" of the statistics produced by other ELSS agencies.

Both Eurostat report on the quality of national and regional accounts data (2009) and the IMF (2019) acknowledges the significant progress and improvement made by Greece in statistics reporting. Yet some shortcomings persist. Eurostat main recommendations refer to the methodological adherence and coherence of ESA with other government finance statistics and the EDP. The IMF noted fiscal source data and reporting shortcomings such as cash versus accrual discrepancies.

7.2.3 Overall assessment

The public administration reforms were a key element of the EAPs. As stressed above, while the first and second EAPs mainly focused on the fiscal sustainability objective and therefore interpreted the PA reforms in terms of cost-containment, the third EAP adopted a more comprehensive approach to the PA after it appeared clear that an efficient and transparent PA was a pre-condition for the successful implementation of other structural reforms in different policy areas.

With the benefit of hindsight, interviewees agree that the sequencing of reforms could have been better thought out. For example, the initial focus on reducing staff in the public sector (to reduce the budget deficit) came before the functional review of the PA, which meant that the jobs that were cut were not always in the areas where there was the biggest potential for efficiency gains (Ioannou 2013).

The implementation of several reforms was delayed or partly abandoned because of a lack of consensus among political parties and trade unions. The lack of ownership of the reforms by the political establishment meant that they were less successful than they could have been. As an example, a swifter and broader scope of the census and the Single Payment Authority (SPA) would have accelerated the completion of the Human Resources Management System.

All this said, while the lack of ownership and, partly, the sequencing of reforms limited their effectiveness, the reforms were successful in many aspects. Costs were brought down significantly: the general government wage bill declined from 10.9 per cent of GDP in 2009

to 9.4 per cent of GDP. The efficiency of the administration improved significantly through a simplification and modernisation of its processes. Concrete progress was made in the management of human resources and depolitization of staff, including the introduction of an annual performance assessment, a mobility scheme to facilitate civil servants to be transferred to other services and selection procedures for management posts.

7.3 Product market reforms

According to the OECD indicators of Product Market Regulation (PMR), in 2008, Greece ranked as a high-regulated country compared to peers, with distortions induced by state involvement and barriers to domestic and foreign entry in the local markets.

According to the World Bank's Doing Business 2010 report (WB 2010), Greece ranked 140th out of 183 economies on the ease of Starting a Business. At the same time, Greece figured as one of the countries in the EU with the highest regulatory barriers on professions/economic activities. While there can be good economic reasons for regulatory interventions (e.g. preventing market failure arising from the presence of externalities), in Greece barriers to entry for new competitors, public monopolies, geographic restrictions and price constraints protected incumbents in many sectors of the economy, including professional services, retail, network industries and transportation (OECD 2020). In addition to this, the Greek bureaucracy was large and cumbersome due to opaque regulatory system. The latter was unfavourable to entrepreneurship, while competition policy was not very active, reflecting inter alia a lack of "culture of competition" and deficiencies in the institutional framework (OECD, 2011). These shortcomings contributed to weaken innovation, hamper job creation and hinder investment, especially from foreign origin.

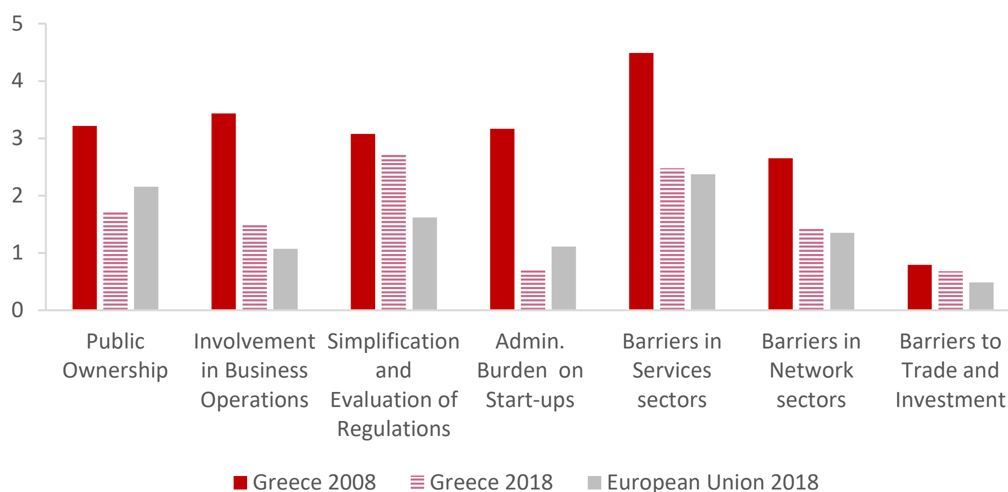
Against this background, the EAPs considered product market reforms as key to support the adjustment process, lift productivity and foster sustainable growth.

The stated objective of the first EAP was indeed to improve business environment for domestic and foreign investors and bolster competitive markets. To this end actions were envisaged to cut procedure, costs and delays for starting new enterprises and open restricted professions. The idea was that by facilitating the entry of firms and increasing competition, the transmission channels of product market reforms could kick in: reductions in mark-ups and input prices could expand tradable sectors, improve the demand for labour in tradable industries and increase real wages, stimulating higher aggregate demand and investment, and leading to higher output and employment.

The second and third EAPs maintained the same priority as the first one. In addition, they intervened also to reduce rents and inefficiencies associated to public monopolies, and to privatize public assets, with the aim to reduce barriers in sheltered sectors of the economy, to improve competition and reduce excessive rents, to improve the business environment and to reallocate resources to the tradable sector.

After the three EAPs, product market regulation in Greece is mostly in line with the EU average (see ***Figure 55***)

Figure 55: Product market regulation



Source: OECD

The administrative burden on start-ups is among the leanest in the EU, and barriers to competition in network services are in line with the EU average. The presence of state-owned enterprises is limited and their corporate governance is in line with most key OECD best practices (OECD Greece Country Note 2018). By contrast, the system for evaluating the impact of new regulations on competition and for introducing rules to regulate the interaction between interest groups and public officials remain more regulated than the rest of the EU. Further, the involvement of the state in business operations is high because of the widespread use of command-and-control regulation.

Table 10 below illustrates the breakdown of the main indicators of PMR by sub-components. What emerges is that the most relevant changes occurred in the governance and scope of state-owned enterprises and in the involvement of the government in network sectors. Similarly, the government involvement in price controls, command-and-control regulation has been significantly reduced, as well the administrative burden to get licenses and permits. By contrast, Greece has still weak rules in place to evaluate new and existing regulations in order to minimise negative impacts on competition and efforts in simplifying the administrative burden of interacting with the government.

Table 10. Economy-wide PMR indicators. Breakdown by components

	Public Ownership				**Involvement in Business Operations**			**Simplification and Evaluation Regulations**		
	Scope of SOEs	Gov' t Involv. in Network Sectors	Direct Control	Governance of SOEs	Price controls	Command & control regulation	Public procurement	Assess. of Impact on Competition	Interaction with Interest Groups	Complexity Regulatory Procedures
Greece 2008	3,6	4,3	1,3	3,8	2,9	3,9	N.A.	N.A.	N.A.	N.A.
Greece 2018	2,4	1,5	1,3	1,8	1,5	1,9	1,1	2	4,2	2
EU 2018	3,1	2,6	1,2	2,0	1,0	1,3	1,1	1,2	2,8	0,9

	Admin. Burden on Start-ups		Barriers in Service & Network sectors		Barriers to Trade and Investment			
	Administrative Requirements for limited Liability Companies and personally owned Enterprises	Licenses and permits	Barriers in Services sectors	Barriers in Network sectors	Barriers to FDI	Tariff Barriers	Treatment of Foreign Suppliers	Barriers to Trade Facilitation
Greece 2008	N.A.	4,0	4,5	2,7	0,3	0	1,3	1,6
Greece 2018	0,3	1,2	2,5	1,4	0,2	0	1,2	1,3
EU 2018	0,8	1,6	2,4	1,3	0,2	0	0,9	0,8

Source: OECD 2008 AND 2018 PMR database. Index scale 0 to 6 from to least competition-friendly regulation. Not all sub-components are available in 2008. N.A. means that data are not available.

In the next subsections, a description and an assessment of the main product market reforms is provided.

7.3.1 Doing business reforms

From 2010 onwards, Greece undertook a wide spectrum of measures aimed at the easing of doing business. The main reforms implemented in this direction concerned: i) the simplification of the procedures for establishing new businesses, to promote new business entry and job creation while also generating additional government revenues, ii) the introduction of the Private Company, and iii) the reduction of costs/capital requirements for establishing a new business.

This objective was pursued progressively during the period 2010-2018, both through specific provisions for the abolition or reduction of individual costs/fees required for establishing businesses, and through the overall simplification of the relevant processes, which saved time and lessened the need for acquiring assistance or services from specialists (e.g. lawyers, notaries, tax advisors).

Box 10. Doing business reforms under the three EAPs

L. 3853/2010 was the first to introduce new procedures for setting up companies and partnerships in Greece, the main innovation of which was the introduction of one-stop-shops. The latter were set to be responsible for collecting all documents and fees required from the founders for the establishment of new entities, and completing, in principle within two days, all necessary administrative actions through interaction with the competent authorities.

In 2011 the Government also activated the General Electronic Commercial Registry (GEMI), a single, modern registry of commercial businesses. Despite formally introduced in 2005 with L. 3419, GEMI was never implemented. GEMI was also accompanied by a Ministerial Decision (K2-4946/2014) in conjunction with Ministerial decision 79752/2015, which introduced a 'Digital submission service' allowing for the electronic handling of several procedures. To meet the need for simpler and lower-cost start-up and operation of SMEs in Greece, L. 4072/2012 established a new corporate form, the Private Company (PC), which introduced a number of important and innovative characteristics compared to other legal forms of business in Greece, which turned to be especially attractive for small and medium-sized businesses. Among the others: i) The disengagement of company participation/shares from the capital; ii) Limited liability; iii) Flexibility; iv) Ease of establishment; v) One (1) euro minimum capital requirement; vi) Lower social security contributions to EFKA; and vii) Tax treatment.

In 2013, further reforms were adopted to reduce the time required to obtain a construction permit by introducing strict time limits for processing permit applications at the municipality, strengthened investor protections by requiring greater immediate and annual disclosure of material related-party

transactions, and enhanced its insolvency process by abolishing the conciliation procedure and introducing a new rehabilitation proceeding. In 2014, further measures were adopted to make starting a business easier, with the introduction of a simpler form of limited liability company and the abolishment of the minimum capital requirement for such companies.

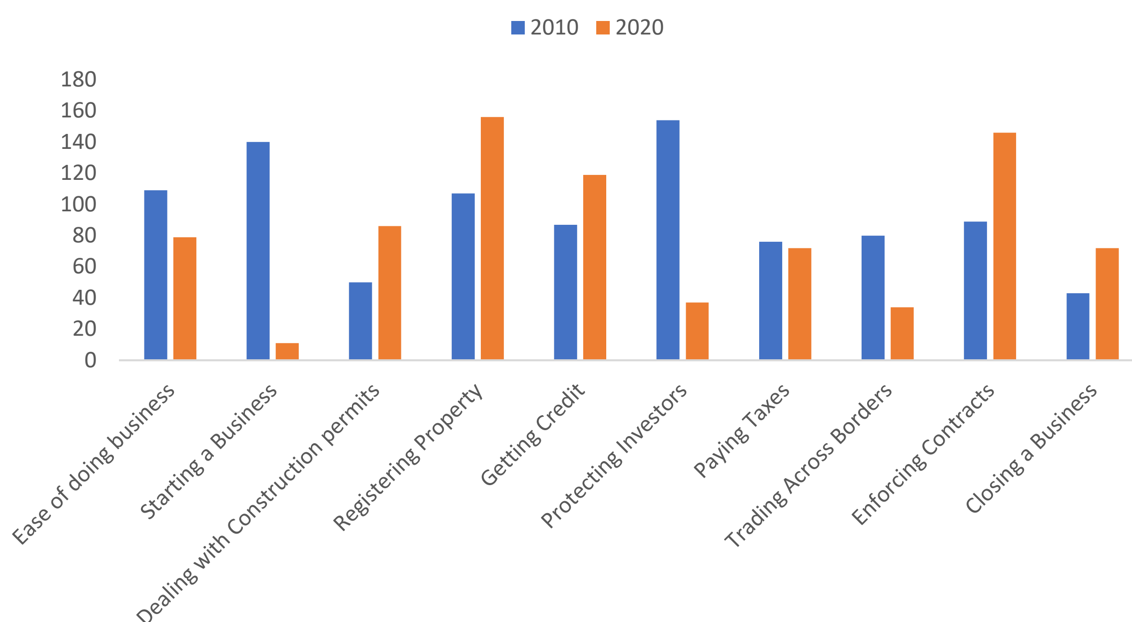
In addition, Greece strengthened investor protections by introducing a requirement for director approval of related-party transactions and made trading across borders easier by implementing a system allowing electronic submission of customs declarations for exports. Further reforms were adopted in 2015, with the lowering of businesses' registration costs, the reduction of property transfer tax and removal of the requirements for the municipal tax clearance certificate, and the introduction of an electronic filing system for court users.

In 2016, tax on companies were cut by reducing the rates for social security contributions paid by employers, making insurance premiums fully tax deductible and lowering property tax rates.

In 2017, additional reforms were adopted, including the introduction of tighter rules of the civil procedures on adjournments, of deadlines for key court events and limiting the recourses that can be lodged during enforcement proceedings. Finally, in 2018 the unified social security institutions was created.

Overall, the business reforms were relevant and effective. The Greek improvement can be traced in the World Bank's Doing Business reports, which in 2020 (at the end of the third EAP) improved substantially putting Greece at the 79th place of its ranking (109th in 2010). In particular, Greece improved its ranking in starting a business (from 140th to 11th position), given the major savings in terms of time, cost and minimum capital requirements especially for private companies (see Figure 56). Similarly, the World Bank Doing Business Report places Greece in the 37th position among 140 countries in terms of costs of protecting investors.

Figure 56. Greece's ranking in Doing Business 2010 - 2020



Source: The World Bank, Doing Business 2010 to 2020

Yet, reforms in easing the way to do business were not always successful. Notably, with respect to paying taxes and registering property, sometimes reforms made it more difficult to do business. In 2011, for instance, transferring property became more costly because

of an increase in the time needed to transfer and register property and the increase in the transfer tax from 1% of the property value to 10%.

Finally, with respect to enforcing contracts regulation and closing businesses procedures no significant progress has been made. According to the latest available report Business Pulse, the survey conducted by the Observatory of the Hellenic Federation of Enterprises (SEV), high tax rate, corruption and low level of transparency and political instability for the post-EAPs era are identified as the main obstacles that hinder the macro business environment. At the micro-level, the survey indicates concerns with the tax system considered unstable, overregulation and unclear legal framework, and an ineffective justice system.

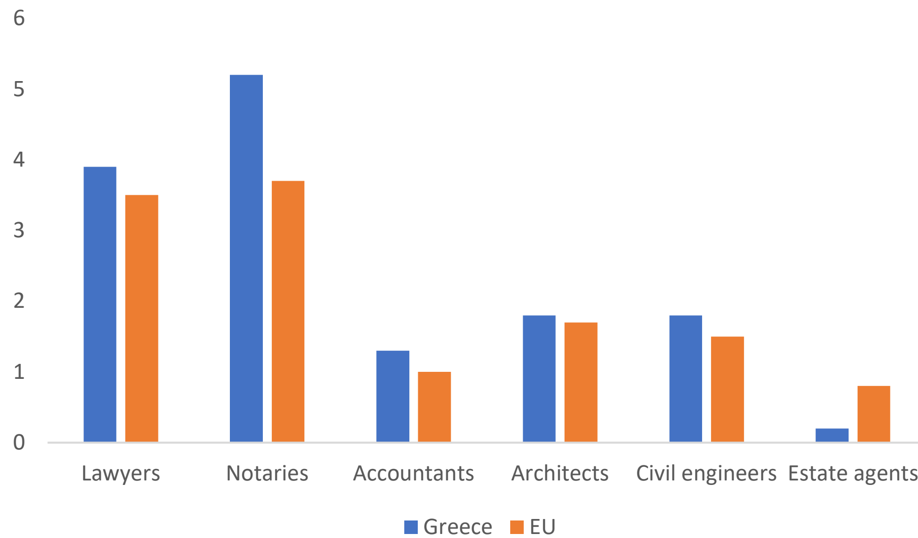
7.3.2 Liberalization of professions and economic activities

The first reform of the professions was adopted in March 2011 with L. 3919/2011. It eliminated unjustified restrictions to the entry and exercise of a wide range of professions and economic activities, and provided special provisions for a number of specific professions (e.g. notaries, lawyers, engineers, statutory auditors). The need for an administrative licence to exercise a profession/economic activity was replaced by an announcement, maintaining all the necessary supporting credentials. Quotas, geographical restrictions and restrictions on the establishment of branch offices were abolished for the majority of professions/economic activities. Restrictions on maximum/minimum prices and fees were abolished, and in some cases reference prices we introduced. The prohibition of a natural/legal person who was not a practitioner to enter the market was abolished in the majority of cases, subject to the recruitment of a qualified person.

Overall, in line with the EAPs' objectives, the liberalisation reforms brought about the abolition or drastic reduction of restrictions in a wide range of professions/economic activities. According to Athanassiou et al. (2019), out of 260 professions/economic activities, only 41 can be today characterized as regulated, 70 are subject to minor regulations and 149 are needing an announcement/licensing procedure. Except for the 41 regulated sectors, the remaining are subject to very minor regulations mostly maintained on the ground of public interest, public safety and consumer protection. This is reflected in the OECD index on the professions regulation, which suggests that the degree of regulation decreased for all professions (see *Figure 57*).

While the implementation of the reforms has been completed for the vast majority of the professions, the implementation was slow and required many years, especially because of the many implementing acts that followed 2011 law. This brought to some delays and exceptionalisms, mainly due to the political pressure of some interest groups on the government, which decreased efficiency.

Figure 57. Product Market Regulation index for professional services (a lower value indicates lighter regulation)



Source: Organisation for Economic Co-operation and Development (OECD)

Finally, as concerns the impact of the liberalization reforms on prices, Athanassiou et al. (2019) show that the reforms had an impact on the consumer price index of the treatment group (professions influenced by the reforms), whereby prices in the treated group decreased at higher level compared to the control group for the period 2013-2016. This does not hold, however, for the years 2017 and 2018.

7.3.3 Energy sector reforms

Greece had an energy market that was much less developed than its EU peers – in particular, not as open to competition and lacking investment. Since 1950, with the provisions of Law 1458/1950, the State united all these small companies and created the Public Power Corporation (PPC), a vertically integrated, 100% state owned, which enjoyed exclusive rights and privileges as regards the construction, functioning and exploitation of hydroelectric and thermal power plants, as well as of the transmission and distribution networks. At the same time, the Law prohibited any private business initiative or action in the electricity sector. In addition, Greece at the beginning of the programme period stood out as one of the Member States with a large proportion of its energy mix coming from lignite, which would be incompatible with longer-term EU climate goals.

The first Programme focused primarily on fiscal and financial aspects of the reforms, with the energy sector being deemed not a priority. However, by the fifth review of the First Programme, it was noted that energy was "one of the policy areas that have accumulated most delays". Whilst a lot of focus on the Greek energy market was on moving away from lignite, as time went on, the Programme has increasingly recognised renewable energy as an area that could be further invested in Greece. The main achievement during the First Programme was that Greece legislated the new regulatory framework for the operation of electricity and gas energy markets, allowing for the creation of separate companies for network activities.

The Second Programme placed increased emphasis on the implementation of the growth-enhancing structural reform agenda, which included the development of additional conditionality also relating to energy sector reforms. During the Second Programme, the approach towards PPC's lignite monopoly changed allowing for ownership unbundling and privatisation. Despite the apparent progress with the PPC privatisation plan and the design of a new electricity market, by the end of the Second Programme, much remained to be done.

The Third Programme saw an evolution to a more ambitious setup, with the 'Energy Union' strategy adopted in 2015; this would be followed in 2017 by a new legislative package under the political headline of 'clean energy for all Europeans'. The programme set a goal of at getting PPC's retail market share to below 50%. While the 50% target was not achieved by the end of the Programme, the impact of the measure was significant, driving the market share of PPC from over 95% in August 2015 to 66.27% in May 2020, thus facilitating the emergence of many competitors.

Overall, the reforms of the energy market were implemented only partially and mostly after the third EAP. This notwithstanding, the energy market moves gradually from a state-controlled centralised model to more competitive market conditions. Importantly, during the EAPs, Greece managed to unbundle the operator of the electricity market, the power transmission operator and the distribution system operator in 2011. Additionally, the establishment of the Forward Electricity Products Auctions System in 2016 was an important step to increase competition in power generation. Particularly slow, was the process of privatization of energy corporations and energy infrastructures (see next sub-section).

7.3.4 Privatizations

Greece had one of the broadest portfolios of state-owned assets in the EU prior to its adjustment programmes, including listed and non-listed firms, infrastructure, and real estate properties (buildings and land). As it emerged later, and confirmed by interviews, in practice the government did not know exactly what it held. Some of its assets were not properly recorded and did not generate significant income for the state, rather they often represented significant costs.

From the beginning of the first EAP, privatisation was thus recognised as an important step, above all, to generate cash and reduce the debt burden. Privatisation had a threefold objective:

- To reduce rents and inefficiencies associated with public monopolies. This is typically very important in countries with high corruption and vested interests.
- To generate receipts for the treasury to reduce debt and hence improve sustainability.
- To reduce risks for the government associated with the management of public companies.

The Greek government proposed a broad privatisation scheme in June 2010, encompassing rail and road transportation, airports and ports, utilities, casinos, and public real estate assets. Concerning the liberalisation and enhancement of competition in the transport sector, the companies providing commercial services in the rail, maritime and air transport sectors were reorganised and separated from those providing administrative/regulatory services, and independent regulatory authorities were established. Furthermore, an act for the liberalisation of public road haulage services was introduced in 2011, while new legislation was enacted in 2014 towards the institutionalisation and modernisation of logistics industry.

The government committed to preparing a privatisation plan with the aim to raise at least EUR 1 billion a year during the period 2011-2013. On the basis of projections available at that time, the Greek government debt ratio was expected to peak in 2012 and decline afterwards, with a significant contribution from the privatisation plan. In March 2011, it was decided to significantly increase the privatisation initiative, with highly ambitious targets aimed at collecting €50 billion by the end of 2015 and lowering public debt by more than 20% of GDP. Privatization was intended with the goal of helping the country's debt sustainability and decreasing fiscal risks, while boosting the economy's overall

productivity, competitiveness, and production capacity, restoring investor confidence, and attracting international capital.

A pipeline of assets for privatisation was identified, with the creation of the Hellenic Republic Asset Development Fund (HRADF / TAIPED) in 2011. The Hellenic Republic Asset Development Fund (HRADF -TAIPED) was a single institution that would oversee the whole process and gain full control of the assets to be privatised. The scope of the fund's activities covered real estate (e.g. embassies abroad, state-owned hotels), public enterprises (e.g. state lotteries, Public Gas Corporation, Hellenic Post and Hellenic Petroleum) and state infrastructure (e.g. Hellenic Motorways, Public Power Corporation, Athens Water Supply & Sewerage Company, Thessaloniki Water Supply & Sewerage Company, regional airports, railway operators, small ports and marinas).

Yet, the plan's progress was disappointing. In 2012, only two out of 35 privatisation tenders were completed, mainly due to delays in the required legal and regulatory changes ('Government Pending Actions'). Beginning in the fourth quarter of 2012, during the second EAP an increasing focus was placed on strengthening the HRADF's governance, transparency, and independence with the goal of instilling public confidence in the privatisation process. During the second EAP, although the ultimate objective of Greece privatising EUR 50 billion of assets remained, the time line was revised to assume that EUR 12 billion receipts would be collected in 2012-14, and EUR 45 billion until 2020. The assumed privatisation proceeds include EUR 16 billion of sales of shares bought by the State in the context of the banks' recapitalisation. The latter did not materialise due to high political uncertainty in 2015.

During the ESM Stability Support Programme, a number of landmark transactions were concluded. In particular, the third Programme saw the establishment of the Hellenic Corporation of Assets and Participations (HCAP) – a subsidiary of the HRADF – which created a new structure focusing on corporate governance, aimed at allowing the state to gain financially from its assets through dividend revenue and outright sale. The foundation of the HCAP was intended to complement the fiscal and structural goals of the privatisation process. Further, the ESM Programme saw the continuation of the process defining and/or improving the regulatory framework for a number of sectors (ports, airports), as well as the unbundling of utilities, which began during the previous two economic adjustment programmes. The total proceeds from the privatisation transactions during the period 2015 to August 2018 amounted to €2.9 billion, compared to only €1.1 billion at the end of the 2011 and €1.5 billion during the period 2012 to 2014.

Overall, the above reforms only occasionally enhanced market liberalisation and competition and paved the way for the privatisation of transport industries. Up to the end of 2017, privatisations completed yielded receipts for EUR 5.5 billion (Dimitriadou 2019). This is about 10 % of the 50 billion indicated in 2011. With respect to the privatisation of state-owned enterprises in the transport sector, transactions completed thus far refer to railways, ports and airports. Regarding privatisations of energy corporations and energy infrastructures, most of the procedures have begun only in 2018 (Hellenic Gas Transmission Operator, Hellenic Petroleum and Public Power Corporation). With hindsight, the privatization plan looked ill-advised and expectations about amounts were misplaced, based on any historical experience and given the Greek and global economic context.

In times of crisis, assets may not be properly priced, as the time pressure can lead to fire sales. The market will heavily discount the value of an unconditional promise of the government to repay a certain nominal amount. The price at which assets can be sold will reflect at least the same discount as the price of existing government bonds, which in 2012 was close to 50 % of the face value for longer-term bonds.

Over time it became clear that the main objective of privatisation was not only to generate revenues for the Greek state to reduce debt, but also to removing monopolies and the associated inefficiencies, and hence of promoting growth as well as reducing fiscal risks associated with the management of public entities.

In practice, three main issues arose around the privatisation process:

- delays were huge due to the lack of public support and above all the opposition, though to different degrees, from almost all governments in power since 2011;
- a trade-off between a quick revenue stream and proper competitive practices; the latter were considered necessary to avoid that public utilities move from a public to a private monopoly;
- some of the sales raised concerns about the procedure and the involvement of foreign, mostly Russian and Chinese, investors in the purchase of infrastructure with a strategic geographical location, such as the EU border with Turkey, and with implications for the EU's energy supply (LNG terminal).

7.3.5 Overall assessment of product market reforms

Product market reforms represented a key milestone of the three EAPs in Greece and a pre-condition to achieve the objective of relaunching competitiveness. Overall, the reforms set out in the three Programmes were broadly in line with the Greece's long-standing challenges and need to boost its low potential output growth. Reforms were justified by the broad-based economic inefficiencies and distortions, which were among the root-causes of the crisis.

While the reforms were appropriate and relevant to address the pre-crisis needs and challenges, their effectiveness was uneven. Greece managed to improve product market regulation relative to the EU average from the onset of the crisis to 2013. After 2013, Greek economic performance gradually converged towards the EU average in product market regulation flexibility. The business environment reforms, the liberalization of professions and professional qualifications recognition were – though with several delays and low political and societal ownership – successfully implemented and contributed to meet operational objectives. Yet, some business reforms and – more in general - simplification and enforcement regulation were not successfully implemented. Despite the efforts, the reforms passed in parliament were unable to contribute to growth during the programme period.

Similarly, the privatisation programme turned to be a failure. Overall, even though in the long term product market reforms should contribute to the improvement of the economic situation, by the end of the programmes there was not yet clear evidence that they were feeding into higher productivity, investment or potential output growth. This may not only due to the process of product market reforms but also to other factors such as broader context of fiscal consolidation and the pre-programme starting point.

The programmes overall had also a mixed effect on investor protection (ESM 2020). According to the OECD 2020 Doing Business Report, Greece still performs below the OECD average in contract enforcement and insolvency resolution (OECD). Against this background, the effectiveness of the measures can be considered as limited.

In terms of efficiency, product and service market reforms suffered significant delays, were implemented slowly and in a patchy way, mostly because of the powerful interest coalitions (including sector oligopolies) which resisted liberalisation.

Even though the EAP did not have specific plan on the sequencing of the reforms, most stakeholders interviewed agree that it would have be better to frontload product market reforms, or at least, concurrently implement them with labour market reforms.

Finally, two additional factors worked as obstacle to the efficient reforms' implementation. First, a limited administrative capacity to monitor improvements and act on delays; second, the short time horizon of the EAPs, compared to the scope of the reforms.

8 Welfare state and social impacts

This section illustrates the main features of the Greek welfare state before the crisis, its lack of capacity to absorb the impact of the crisis, the reforms implemented during the EAPs and trend of social indicators (also in comparison with other countries). It contributes to assess the efficiency of the programmes and the associated social costs.

The deep recession that hit Greece in 2010 resulted in a deep social crisis. Although, severe economic crises are expected to negatively impact living conditions, the deterioration witnessed by Greece was quite exceptional.

Between 2009 and 2013 the people at risk of poverty in Greece indeed increased from 19.7% to 23.1%, against a euro area average increase of less than 0.8 percentage points in Portugal, Spain, and Ireland (see ***Figure 58***). Even more shocking is the increase of people in severe material deprivation, which doubled in Greece in the same period, from 11% in 2009 to 20.3% in 2013, while in the other euro area countries it increased by few percentage points. The rate of unmet medical needs increased from 5.4% in 2008 to 9% in 2013 and the number of young people not in employment, education or training almost double from 11.4% to 20.4% (**Figure *59***).

Figure 58. Severe material deprivation rate and at risk of poverty rate (2008-2013)

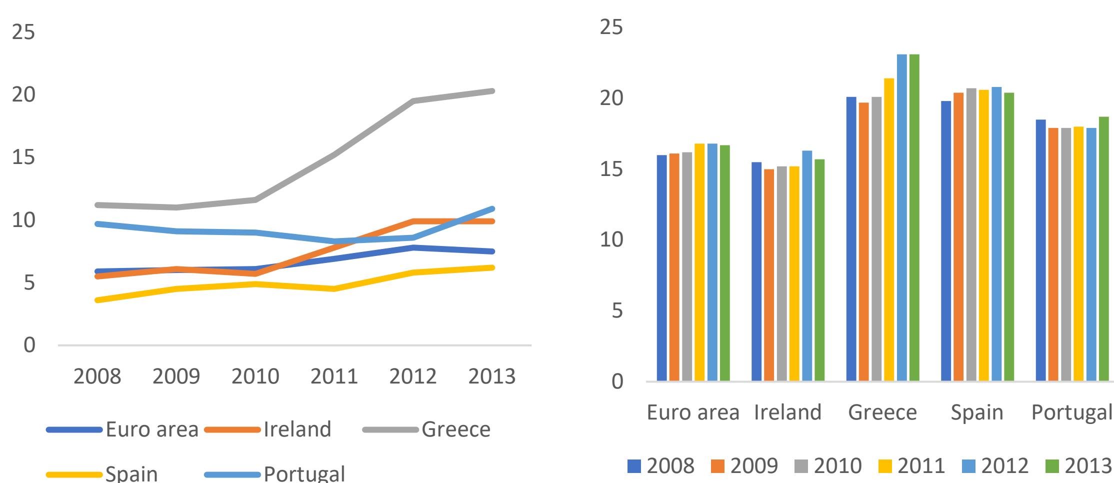
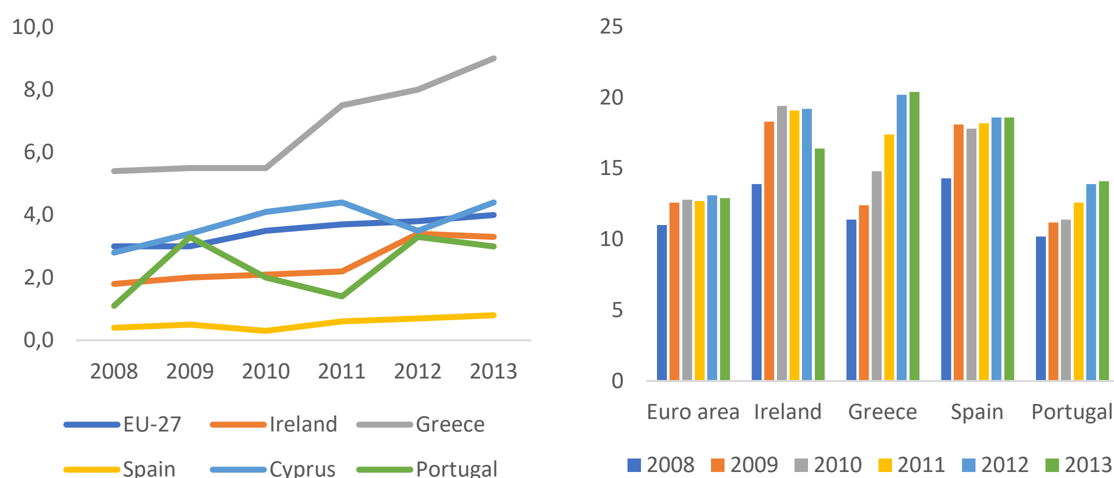


Figure 59. Access to healthcare (Unmet needs) and NEET rate (2008-2013)



Source: Eurostat (self-reported unmet medical needs (Too expensive or too far to travel or waiting list)

To explain such developments, the intensity and the duration of the crisis is not enough. The causes of these developments are also to be found in the pre-existing weaknesses of the Greek welfare state, which proved incapable of alleviating the impact of the crisis.

When Greece entered the crisis, all structural weaknesses of its welfare state became evident. The problem was twofold. Firstly, even though the public expenditure for social protection in 2009 was just below the average of the EU27 at 18.6% of GDP (vs 19.8%), it was highly ill-distributed. Pension expenditure amounted at around 11% of GDP and was projected to rise to 21.4% of GDP in 2040 and 24.1% in 2060 (European Commission 2009). Secondly, the design of the social protection policies like unemployment benefits, unemployment assistance, healthcare and pensions were highly fragmented and overall unfair, granting people in need unequal access to social protection. Minimum income schemes did not exist (ILO 2014).

This section illustrates the main features of the Greek welfare state before the crisis, its lack of capacity to absorb the impact of the crisis, the reforms implemented during the EAPs and trend of social indicators (also in comparison with other countries). The focus will be on income support schemes (main unemployment benefits schemes, unemployment assistance and minimum income), pensions and healthcare.

8.1 Income support schemes

8.1.1 The Greek welfare state before the crisis

The unemployment benefit scheme was the main instrument of income support to unemployed workers in Greece before the outbreak of the crisis. The eligibility criteria to access the UBS were particularly tight in terms of accumulated contributions record[141]. The duration of the benefit was for a maximum of 12 months and the benefit was paid on a flat rate €454 per month (61% of the minimum wage). The strict conditions to access the UBS limited its effectiveness. Firstly, contributory conditions excluded new entrants to the labour market (young people), while the maximum duration of support (12 months) excludes the long-term unemployed. Two other categories were excluded de facto: undeclared workers and the self-employed, the latter also including 'self-employed workers providing services to a single work provider in a continuous manner, hence acting de facto as employees' (OECD, 2010). The result of this was a very low coverage of unemployment benefit scheme. In the first quarter of 2010, before the MoU was signed, the proportion of unemployed workers receiving unemployment insurance benefit was 45.6%, including seasonal workers. In 2010, 29% (yearly average) of all recipients were defined as 'seasonal workers in tourism' (Matsaganis, 2011).

The gaps in the UBS were not compensated by a well-functioning unemployment assistance scheme. On the contrary, unemployment assistance - introduced only in 2001 – was characterized by strict eligibility criteria and low benefit, amounting to €200 per month in 2003, payable for a maximum period of 12 months. The income threshold for access to unemployment assistance benefit was fixed in the early 2000s at €5,000 per annum plus €587 per dependent child but was never indexed. To access the benefit, people

[141] Either (1) 80 days per year over the past two years, at least 125 days of which were in the past 14 months, excluding the past two months; or (2) 200 days in the past two years excluding the past two months, of which at least 80 days were in each of the past two years. Claimants for the second time had also to demonstrate at least 125 days of contribution over the past 14 months (excluding the past two months). Ad hoc conditions – less strict – were applied to seasonal workers (100 days over the past 12 months) and to construction workers and fishermen (100 days over the past 14 months).

needed to be older than 45 and only former recipients of (contributory) unemployment insurance benefit were eligible and only if they had already drawn that benefit for the full 12 months (the maximum duration of unemployment insurance). The result of these tight conditions was that in 2009, on the eve of the Greek crisis, unemployment assistance benefit was claimed by as few as 939 people (0.2% of all unemployed or 0.5% of the long-term unemployed) (Matsaganis 2011)

De facto, Greece did not have any form of minimum income scheme to protect the most vulnerable when it entered the crisis. By contrast there was a rudimentary system of short-term benefits with different in treatment, gaps in coverage, and low level of most benefits. Child benefits were adequate for large families, as were family allowances for workers in the "protected categories" (civil service, banks and public utilities). In contrast, most families with one or two children receive little or no support, even if they live in poverty (Matsaganis 2020). Housing policies were limited. A means-tested 'rent subsidy' was available, but only on a contributory basis. As a result, many poor families were left unsupported. Disability benefits were extremely fragmented even by Greek standards, with no fewer than 10 different categories with 22 sub-categories, often concealing absurd cases of differential treatment in yet another manifestation of clientelism and patronage.

As regards contributory benefits, **the social safety nets in place were highly affected by the segmentation in the labour market.** Shielded sectors, such as civil servants and other insiders, benefitted from more generous sickness and maternity leave contrary to private firms. In addition to atypical workers, two categories are particularly vulnerable: undeclared workers and dependent workers disguised as self-employed. Mouriki (2010) highlighted the large share of bogus-self-employed, who de facto were dependent employees to all intents and purposes, but could not access to social safety nets (no legal protection - for example, in case of unfair dismissal -, no right to sickness or maternity leave, and no access to unemployment benefit). With respect to undeclared workers, their number is difficult to know with precision. The Minister of Labour and Social Insurance stated that in 22,000 private firms inspected by the Labour Inspectorate from February to April 2010 about 25 percent of employees were found to be undeclared.

8.1.2 The rationale and design of the Economic Adjustment Programmes

When the crisis erupted, the Greek welfare system was not prepared to cope the social consequences of rising unemployment. At the same time the Greek welfare states, found itself at cross-fire of increasing demand for social protection and the need to reduce public expenditure to achieve fiscal consolidation.

Both the first and second economic adjustment programme include the reform of the social safety nets, and notably the reform of the unemployment benefit and unemployment assistance schemes - among their priorities. Yet the focus – especially in the first EAP – largely remained on increasing the cost-effectiveness of these schemes, while the adequacy and accessibility dimensions remain unmentioned. This raised several concerns by a number of commentators, which questioned the social consequences of the fiscal adjustment reforms. The second EAP took stock of these critiques, and in the MoU it stressed that: "Given the poor targeting of social programmes, there is quite some scope to generate additional savings in this area, while, at the same time, more effectively protecting the most vulnerable. So far, social policies in Greece seem to lack a stringent strategy on how to target those parts of society that are truly in need of government assistance. In particular, while a wide-range of social benefits are allocated without means-testing to particular groups of society which are not subject to acute social hardship, certain groups of households at the lower end of the income distribution remain

unprotected and are subject to pronounced poverty risks". Yet, also the second EAP included the reform of the social benefit programs and the governance of social assistance and social security programs, with the aim to secure fiscal sustainability and public debt reduction. More in detail the operational objective was better targeting beneficiaries, identifying the specific groups and situations that require social protection, while avoiding waste.

The fist reform of the social safety net was adopted in 2011. It changed the eligibility conditions for unemployment benefit, and introduced a ceiling on the total duration of separate spells of benefit receipt (400 days since 2014), over a period of four years. At the same time, as a result of sweeping changes concerning the minimum wage, the benefit level paid under unemployment insurance was slashed in February 2012, from €454 to €360 per month. Since unemployment insurance benefit was cut at the same rate as the minimum wage, the replacement rate of the benefit (vis-a-vis the minimum wage) was not altered much.

In 2013, unemployment benefit was extended to self-employed workers. The categories involved were mainly own-account workers and freelance workers in various professions. Claimants were required: (1) to have ceased their activity not earlier than 1 January 2012; (2) to have regularly paid social contributions for at least 12 months out of a total insurance period of at least three years before then; (3) to meet an income test; and (4) to have settled any social security contributions owed. This last condition proved the hardest to meet: as an IMF study found (De Mets 2013), among contributors to the own-account workers' social security fund (OAEE), insuring most potential recipients of the new benefit, 664,000 (86%) were in arrears with contributions in September 2013, while as many as 388,000 (50%) owed over €5,000. Eligibility for the new benefit was also subject to income conditions: annual personal income had to be below €10,000 and annual family income below €20,000 (averaged over two years prior to claiming). The benefit level was €360 per month (the same as for ordinary unemployment insurance benefit, but with no allowance for dependants), payable for a period of three to nine months, depending on contributory record.

While the unemployment benefit was reformed, the unemployment assistance was only to a less extent changed. The annual personal income threshold below which unemployment assistance may be granted was raised in 2012 (from €5,000 to €12,000), then reduced again in 2014 (to €10,000). In the same year, the age condition was relaxed to 20–66 years (relative to 45–65 years, as was the case until then). On the other hand, the generosity of unemployment assistance was not improved. The unusually stringent structure of adjustments to the annual income threshold in order to account for additional family members remained in place. The rather peculiar requirement to have first claimed unemployment insurance benefit for the full 12 months, which de facto disenfranchised the majority of unemployment assistance applicants, was also left intact.

With respect to the minimum income scheme, it was mentioned for the first time by the IMF in its MoU. Here there was a request for the Greek government - in exchange of the financial assistance to - 'Review the scope for improvements in the targeting of social expenditures to enhance the social safety net for the most vulnerable' (IMF 2010, pp. 13, 37). In March 2012, the IMF strongly advocated a broad-based minimum income scheme as part of a strategy aimed to streamline social assistance. One year later, in 2013, the second EAP included a minimum income scheme pilot, which was eventually launched in November 2014, under the name Guaranteed Social Income, in thirteen municipalities (i.e. one in each region). Technical assistance was provided by the World Bank with the support of the Athens-based European Commission Task Force for Greece. The scheme was jointly administered by three Ministries (Labour, Interior, and Finance), and

essentially took the form of a cash transfer paid via the tax system to families with very low income, with no 'activation' measures attached.

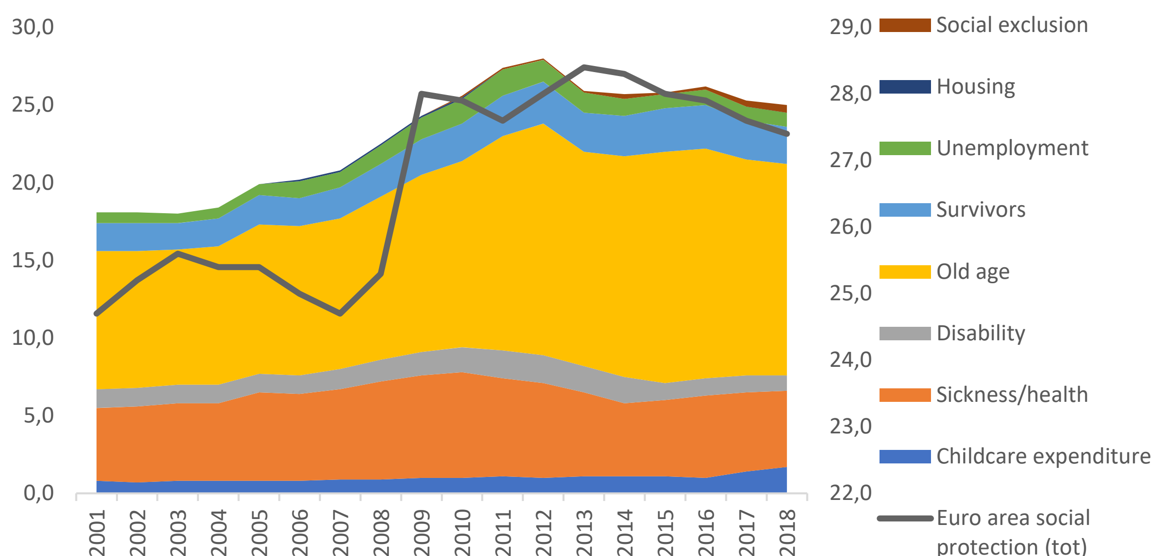
A significant change in the approach to social policies occurred under the third EAP. For the first time, social fairness and inequality reduction figured among the specific objectives of the programme – at the same level as financial stability and competitiveness. The MoU foresaw a new reform of the family benefits scheme focused mainly on the consolidation of two existing family/child benefits into a single new "Child Benefit". A total annual budget of €910 million has been allocated for this benefit, representing an increase of 40% (or €260 million) compared to the annual budget of the previous family benefits scheme. Prior to this, in May 2017, two small family/child allowances were abolished: the allowance for low-income families with children up to 16 years of age attending compulsory education in public schools, and the allowance for unprotected children living in families with very low income. The rationale behind this abolition was to overcome the fragmentation of the existing system and create a unique scheme.

The same logic characterizes the establishment of the "Social Solidarity Income" which was adopted in 2017, in line with the previous pilot project on Guaranteed Minimum Income, included in the MoU. The SSI is addressed to households living in extreme poverty and is based on three pillars: i) income support; ii) access to social services and goods; and iii) provision of support services for (re)integration into the labour market. It is a means-tested scheme, requiring the beneficiaries to be legal and permanent residents of the country and to fulfil specific income and property criteria, depending on the size and composition of the household. As long as all these conditions and criteria are met, the SSI scheme covers all people, irrespective of whether they are in employment or are out of work. The financial benefit is set at €100 per month basic support per household unit, plus a proportional amount set at €100 for every adult and €50 for every dependent child in the household (with the exception of single-parent households, where the amount for the first child is set at €100). The maximum monthly amount of the benefit cannot exceed €900, irrespective of the household's composition.

8.1.3 Trends and assessment

As observed above, **the Greek welfare system has been traditionally characterised by low efficiency, low inclusiveness, and low fairness**. In this respect, the programmes had large margin for manoeuvre to improve the design of social protection expenditure to promote effectiveness and equity. At the same time, the tight fiscal constraints and the frontloading of fiscal consolidation put a trade-off between the necessity to guarantee fiscal sustainability and attempt to reform the welfare system. **Figure 60** illustrates the evolution of the social protection expenditure in Greece and compares it with the Euro area average. Two observations emerge. First, even after the crisis, the composition of the social protection expenditure in Greece remains largely the same. Second, the social protection expenditure in Greece grows much less than in the other EU countries, despite the depth of the economic crisis and the unemployment increase, thus pointing out either the inefficiency of the Greek social safety nets or the trade-off between fiscal consolidation and social fairness.

Figure 60 Evolution of social protection expenditure in Greece, by types



The case of the reform of the unemployment benefit policies is interesting in this regard. Interviewees agree about the relevance of the reforms both of the unemployment benefits and the unemployment assistance schemes. Yet, they also agree that the implementation of the reforms was not effective in guaranteeing access to the social safety nets to those in needs. Indeed, despite the changes in both eligibility rules and the composition of the pool of jobless workers – more new entrants and more long-term unemployed – the number of unemployment insurance benefit recipients dwindled just as the number of unemployed workers skyrocketed. In 2010, an average of 224,000 persons received unemployment insurance benefit, out of a total of 624,000 unemployed. In 2016, the average number of those claiming unemployment insurance benefit had fallen by almost half to 127,000, while the number of jobless workers had nearly doubled to 1,126,000. In view of that, the coverage rate fell from 35.9% in 2010 to 11.3% in 2016 (Matsaganis 2011, 2020)

The net effect of the changes, taking into account improvements as well as reductions in eligibility, was a steady decline of the aggregate coverage rate of all unemployment benefits combined. In particular, the expansion of unemployment assistance for the long-term unemployed and the introduction of unemployment insurance for the self-employed, though welcome, were far too modest to compensate for the sharp reduction in the proportion of unemployed workers receiving the main instrument of income support for jobless workers, namely, unemployment insurance for wage earners. In 2015, the number of unemployment assistance recipients was estimated at 21,350 (1.8% of all unemployed or 2.4% of all long-term unemployed).

With respect to the Minimum Income and the Child Benefit schemes, both initiatives have been welcomed by stakeholders as important novelties and a step forward for an inclusive and well-functioning welfare state. In particular, the Minimum Income Pilot and then the SSI introduced the principle of non-categorical income support. Equally innovative were the rules for the selection of applicants, including open enrolment within a 6-month window, and targeting based on a test of assets as well as incomes. This notwithstanding, problems emerged both in the implementation of the measures as well as in the political ownership. In the case of the first Minimum Income pilot project, central government proved unwilling as well as unable to provide much logistical support let alone leadership to the pilot municipalities. The latter lacked the resources to tackle the task effectively at local level, but at least mayors were favourably disposed to the prospect of nationally-funded, locally-delivered income support. On the other hand, as stressed by Matsaganis

(2019), public administration at ministry level was ambivalent vis-à-vis minimum income. Many were suspicious of this externally-reform imposed by the EAPs. Others were simply weary at yet another task thrown at them at a time of personnel shortages and demands to do more for less. In addition to this, strong political opposition came from the opposition parties, above all SYRIZA, which immediately the launch of pilot project in October 2014, considered as insufficient to cope with the social crisis.

Things slightly changed with the third EAP. In this case, the new SYRIZA government negotiated with the lending institutions a new permanent minimum income support scheme, which for the occasion was re-labelled Social Solidarity Income. The higher political ownership of the SSI allowed also for a smoother implementation. Yet, the effectiveness of the new measure remained low. As stressed by Matsaganis (2019), this is to be largely attributed to the failure of the Greek government to combine cash assistance under the SSI with the social services and he activation programmes.

8.2 Pension reforms

8.2.1 The Greek pension system before the crisis

According to the OECD, in 2008, Greece had the highest net replacement rate for mean income for men. Despite the generosity, the Greek pension system was far from efficient. Four main problems of the Greek pension system before the crisis can be identified (Tinios 2016; Simeonidis 2016).

First, it was fiscally unsustainable: the total expenditure was well above the EU average at 12% of the GDP in 2009 and it required the Greek government to borrow to finance pensions, since the pension fund deficits were extensively subsidised by state funding, in part to fill the actuarial deficits fuelled by contribution evasion and undeclared work.[142] Reliance on voluntary occupational and private pension schemes was virtually inexistent. By 2010, public expenditure on pensions amounted to 14% of GDP in 2010 (or twice the OECD average) with the pension expenditure expected to rise to 21.4% of GDP in 2040 and 24.1% in 2060.

Second, the system was economically inefficient. Large part of the pension recipients was receiving a pension unrelated to their contributions. The pensions were not contributory but were based on the last 10-year wage and the replacement rate was not indexed but rather decided arbitrary by the Finance Ministry. As a consequence, this made pension policies highly dependent on political short-term interest and at the same time gave indirect incentives to evade contributions. Before the crisis, Greece had the highest net replacement rate for mean income for men.

The third problem of the Greek pension system is related to social ineffectiveness. Despite the generosity of the Greek pension system in net replacement terms, its effectiveness in alleviating old-age poverty was limited. In particular, Greece’s at-risk-of-poverty (AROP) rate among those aged 60+ was substantially higher than the EU average in the years leading up to the crisis. This was in large part due to the fragmentation of the pension regimes, which led to a patchwork of cross-subsidization between sectors, typically aiding the public sector and other sheltered sectors. The fragmentation was used as a mechanism in the political economy of securing privileges. Coupled with a judicious absence of statistical and actuarial information, it allowed pension provisions to be used to introduce, maintain and disguise sectoral privileges.

Finally, the multiple pension schemes and the absence of a unique social security number, which is a fundamental tool to track individuals’ careers and pensions’ claims, made it very

[142] See Mathis et al. (2020)

difficult to change the system. This made reforms often piecemeal and repeatedly below needs.

Against these trends, the need for pension reform was identified even before the first EAP. The system was posing an imminent threat for the state's ability to meet its pension obligations and its long-term viability was in jeopardy. However, there was a lack of shared political understanding of the problem and no consensus on the way forward. This translated into a lack of communication on the need for reform on the side of the Greek authorities and created problems for the subsequent implementation of those reforms.

8.2.2 The rationale and design of pension reform in the Economic Adjustment Programmes

Pension reforms were immediately targeted in the first EAP, which identified the fiscal sustainability of the system as one of the main problems of Greece. An intervention on Greek pension was considered as needed to secure Greek fiscal sustainability [*specific objective 1*], to generate savings in the public sector expenditure [*specific objective 1*] and to reassure on the durability of the fiscal adjustment [*specific objective 2*]. To this end, the first EAP envisaged a series of interventions aimed to introduce a contributory system; to increase of the retirement age in line with life expectancy; to index the benefits to prices; to restrict early retirement; and to reduce the list of arduous professions.

To fulfil these commitments, the Greek parliament passed two laws in July 2010. Law No. 3863/2010 established a new pension calculation formula to take effect from 1 January 2015 on a pro rata basis, introducing a uniform basic pension and a contributory pension linked to years of employment, with a lower accrual rate.

It also raised the minimum and statutory retirement age limits to 60 and 65, respectively, for those who had started their career before 1 January 1993, raised the full contributory period from 35 to 40 years, equalised the retirement age of men and women by 2013, and linked age limits with changes in life expectancy, starting from 2021. The statutory retirement age was increased to 65 for both men and women and linked to the increase in life expectancy from the year 2021.

Law No. 3865/2010, passed a week later, covering the pension system for public employees, set out rules indexing pensions from 1 January 2014 in relation to GDP growth and inflation, established the fund for private sector employees (IKA-ETAM) as the pension fund for public sector employees hired after 1 January 2011, harmonised the pension terms for public servants retiring after 1 January 2015 with those in the private sector, and raised the retirement age for certain public sector employees (armed services, police, firefighters) to 60 years.

Pension reform remained a priority also in the second Economic Adjustment Programme. As stated in the memorandum for the second bailout programme (IMF 2012: 5), 'given the high share of pensions in Greek government spending, the large remaining fiscal adjustment will necessarily have to involve further pension adjustments'. Reform efforts this time, focused on auxiliary pensions with Law 4052/2012 introducing a new pension formula, leading to the transition from the defined benefit system to a notional defined contribution one, operating on the basis of individual pension accounts. In addition, the law introduced a sustainability factor (taking into account the level of contributions and demographic developments) expected to prevent deficit formation.

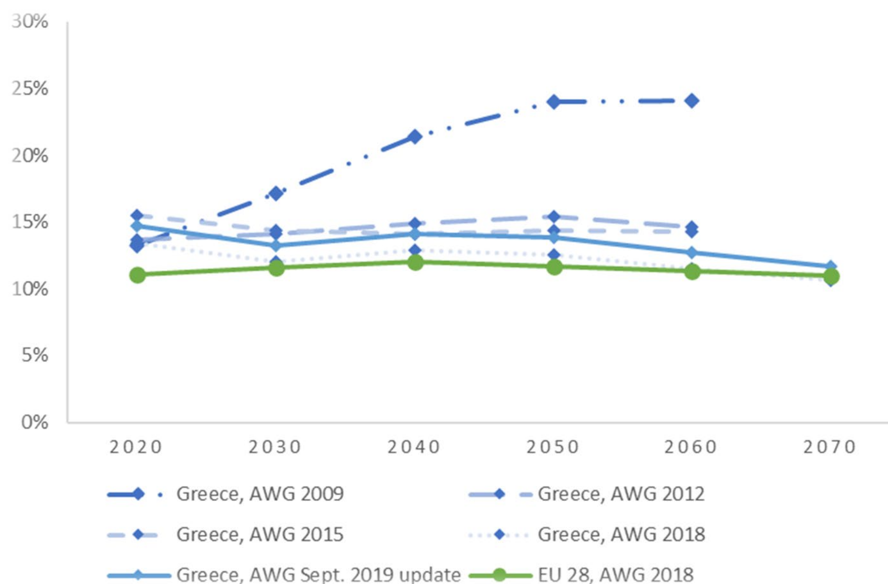
While long-term sustainability improved substantially with the first and second EAP, the Greek system remained largely fragmented. Already in the fourth review of the second EAP, the Greek authorities committed to integrating all remaining supplementary pension funds into ETEA, incorporating all lump sum pensions, legislating that all supplementary and lump sum funds would be financed by own contributions only, and legislating changes

to consolidate the main pension system by the end of 2014. Yet it was with the third EAP that the issue was properly addressed. In this respect, the third EAP also explicitly acknowledged the adequacy problem and the social unfairness of the system. To this end, Law No. 4387/2016 scrapped the *pro rata* pension calculation, introducing a unified system for all pensions. Existing pensions were to be recalibrated according to the new system, freezing main pensions at nominal terms (with positive difference) until they reached their statutory level. Law No. 4387/2016 further merged the first-pillar separation funds (lump-sum and dividend funds) into ETEA, creating a new institution (ETEAP). In addition, the basic pensions were increased from 360 Euro to 384 Euro.

8.2.3 Trends and overall assessment

Over the three programmes, the first objective of pension reforms was to make the system fiscally sustainable. Overall, the consensus is broad that a lot has been achieved in this regard. The systemic effects of the successive cuts on pension spending profile and contribution-benefit link were not initially clear. However, the structural changes set in the EAPs (e.g. changes in statutory age limits and pension calculation) brought about rapid improvement in the system's sustainability. Various institutional actors consider the pension reforms as the most successful achievement of the first and second EAPs, especially with respect to the long-term viability of the system. The Law 4387/2016 regarding the pension calculation rules further contributed to preserve this achievement. This is also confirmed in the Ageing Working Group report and in the projections on public expenditure on pensions, which were reduced dramatically. Before the outbreak of the pandemic, the 2019 AWG report projected public expenditure on pensions for 2070 to decline to 11.7 per cent, coming close to the projected EU average.

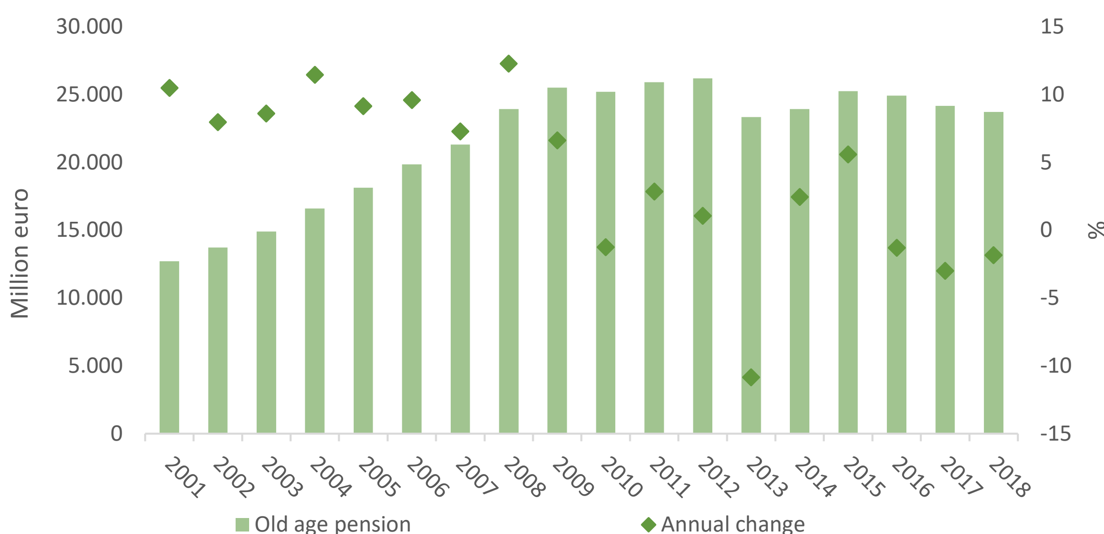
Figure 61. Pension expenditure projections, percentage of GDP



Source: Mathis et al. (2020)

The second objective of the EAPs was to ensure fiscal savings through the pension reforms. As illustrated in **Figure 62**, despite the slight decline in 2010, Greek government total expenditure on old age pension increased constantly until the end of the first adjustment programme. In 2013, a decline of 10.8% was registered, nonetheless, by the end of 2018 the expenditures on old age pension returned to its 2008 level.

Figure 62. Government expenditure on old age pension



Source: Eurostat

This trend can be explained by looking at different factors. Under the first and second EAP the main drivers of fiscal savings were pension-related measures. The ambition, as from the first programme, was to reform the system structurally and achieve savings through structural means. However, initially, attempts to achieve fiscal savings had to rely on pension cuts (e.g. the Christmas, Easter and summer bonuses were first reduced before being eliminated completely). The reduction of the list of arduous and hazardous occupations as well as the reform of the eligibility criteria for disability pensions, part of Law 3863/2010, also impacted positively the public finances in the early years of the programmes. Despite the cuts, the effects on the budgetary expenditure were offset by the wave of early retirements in the first 2010s. These waves of early retirement were in turn related to (i) the depth of the crisis, (ii) policy choice made encouraging early retirement and (iii) the design of the 2010 reform (e.g. pre-legislated harmonisation of public and private sector, grandfathering measures). The trend was reversed in 2015 with the creation of disincentives to early retirement and the elimination of various pathways and grandfathering rights was one element from which major fiscal savings were expected. In addition, contrary to the 2010 reforms, the 2016 one was applied fully and automatically to each, and every pension application submitted as from the day the law was voted (no pro-rata of acquired pension entitlements). This resulted in an immediate effect in terms of fiscal consolidation and can be in large part explained by the higher ownership of the reform from the Greek authorities.

The effectiveness of pension reforms was largely affected by two factors. The first was the fragmentation of the system itself, which was a major reform hurdle and at the beginning of the EAPs impeded the conduct of timely actuarial studies, prevented the adoption of more rational methods of fiscal saving and slowed down the pace of reform. In his respect, however, the interventions of the EAPs contributed to significantly improve the pension administration, in terms of reduced spending on salaries and consumables and stronger arrears collection. A second factor that affected the implementation of the pension reforms was the political lack of willingness to implement the reforms as well as the low ownership, especially in the first and second programmes. As stressed by our interviewees, the reforms were very easily taken back.

Finally, in terms of adequacy, as stressed above, pension reforms explicitly took the issue into account with the third programme. Yet, many aspects of the reforms had positive redistributive characteristics: introduction of a means-tested social solidarity allowance for all uninsured elderly persons, introduction of a basic pension, comparatively higher replacement rates for workers with low income, exclusion of negative pension indexation. Interviewees however stress other aspects that are considered detrimental from an adequacy perspective: the reduction in replacement rates for all pensions from January 2019 onwards; the calculation of pension benefits on the basis of average lifetime earnings, instead of the years of highest earnings; and phasing out of the means-tested Pensioners' Social Solidarity Benefit (EKAS) by the end of 2019. While the reduction of replacement rates could have an impact on adequacy, however, one might recall that other factors that influence pensioners' living standards, such as access to services, and notably health and long-term care. As stressed in the Commission *Pension adequacy report*, in Greece, 12%- 17% percent of the population aged 65 and above have difficulty in affording health care (see **Figure *59***), while the EU average lies at 2%-3% only. Besides, public spending on long-term care is also very low in Greece (0.5% of GDP vs an average of 1.6% in the EU).

Overall, the reforms of the pension system over the three programs were relevant, somehow effective, efficient and coherent. As stressed above, Greece started off with a pension system that was incredibly fragmented, unjust, inefficient, and politically corrupted. The objective of fiscal sustainability was achieved although pension spending started to decline on a more permanent basis only as from 2017. Efficiency of the PA system significantly improved. Yet the reforms, except for the third program, were largely imposed and therefore lacked ownership. This leaves confusion on the way forward.

8.3 Health sector reforms

8.3.1 The Greek health sector before the crisis

Even before the outbreak of the crisis, the Greek healthcare system suffered from different problems and was identified as a sector which needed reforms to increase cost-effectiveness and contribute to long-term fiscal sustainability.

Over the first decade after joining the euro area, total healthcare expenditure (public and private) grew substantially, from 6.6 to 9.6 percent of GDP. In addition to the increasing trend in total expenditure, there has been a growing share of public involvement from 54% to 71% of total (public and private) current healthcare expenditure. As a result, **public health expenditure virtually doubled**. This was in part also due to the fact that Greece was the only EU country to use a full retrospective formula combined with a *per diem*, which further incentivised the recourse to inefficiently costly and therefore remunerative practices. In this context, quite paradoxically, Greece was characterised by one of the highest levels of out-of-pocket expenditure on heath spending by households. According to Carone and Martinelli, almost half (41%) of the out-of-pocket due to pharmaceuticals cost-sharing is due to the price difference patients choose to pay when selecting a drug priced above the reference price. This is due to the reimbursement scheme in place in Greece, which establishes that, whenever an equivalent much less expensive generic drug is available, patients choosing a branded drug instead have to bear the price difference.

A second problem of **the Greek healthcare system was the fragmentation in both administration and service provision**. Fragmentation mainly referred to the lack of pooling and overlap between public authorities and inadequate coordination of health resources. These aspects were challenged by the lack of a suitable monitoring systems

and appropriate management techniques. As put by Maresso et al. (2015), the pre-crisis Greek healthcare sector had an outdated structure with excessive reliance on hospital care and clinical medicine, together with a knowledge gap regarding cost and level of utilization of services and also outcomes in terms of population health status. As an example, proper hospital accounting was lacking and the system in place was still based on cash rather than on transactions and made it difficult to relate financial resources with their use. In addition, the IT systems used in hospitals were poor, with no record of the insurance details of patients treated in many cases (Carone and Martinelli 2020). Also emergency systems were not efficient due to the lack of a comprehensive PHC system with gatekeeping. The consequences of an inefficient and outdated system were translated not only in inefficient spending but were also reflected in an inadequate access to services for citizens.

A third problem characterised the Greek healthcare system. On the eve of the crisis the Greek healthcare system was the result of the 'uneasy marriage' of Beveridge and Bismarck which preserved old inequalities, while adding new ones (Matsaganis 2012). Insurance was indeed compulsory for the working age population and occupational based. Around 80% majority of the population was covered by 30 health insurance funds the largest ones being IKA (employees), OGA (farmers), OPAD (civil servants) and OAEE (self-employed). The contribution to each of these funds differed and, on this basis, also the package of health services and goods provided. No risk-adjustment mechanism across funds was envisaged to account for socioeconomic differences and differences in health conditions of each fund's members (Commission 2016). As a consequence, the multiplicity of funding and the fragmentation in the system did not contribute to ensuring good care coordination or defining effective care paths and referral systems, and were instead a significant challenge to equity, efficiency and effectiveness. This was finally reflected in difficulties in access to services. Uneven benefits across social security funds resulted in different coverage, whereby some groups benefitted from health insurance also when unemployed for a certain period while others lost coverage immediately.

Despite consensus on the necessity to reform the healthcare sector, any reform attempt was also slowed down by interest groups, often acting as informal veto players. This is related to the fourth problem of the Greek healthcare system, namely the highly diffuse corruption and clientelism. As stressed by Carone and Martinelli (2020), fraud and corruption thrived in this context, and due to the issue of asymmetric information, patients were subject to supply-induced demand due to providers' vested interests. The World Health Organization (WHO), in a report published in 2010 pointed out an extensive black economy and informal payments, as common features of the Greek health sector (WHO 2010). As a matter of example, management positions in hospitals were often attributed based on patronage and not necessarily on the basis of relevant professional qualifications. To sum, on the one hand, widespread political appointments weakened the technical capability of the public administration, resulting in poor implementation capacity, and often implied a lack of continuity, due to the high-ranking staff turnover typically associated with new government elections. On the other hand, a highly politicised public administration not only thwarted reform efforts due to insufficient capability and continuity, but also exacerbated the problem of vested interests.

8.3.2 The rationale and design of the reforms in the Economic Adjustment Programmes

When the crisis broke out, many Greek citizens lost their employment status and therefore the insurance status, thus losing the right to access to medicines, diagnostic tests and non-emergency primary and secondary care. However, many retained it for as long as two years afterwards, leading to an important underestimation of the phenomenon of loss of health insurance coverage.

Healthcare sectors figured as one of the main targets of the first EAP, which proposes a reform of the sector with the explicit aim to contribute to the fiscal sustainability objective [*specific objective 1*]. In particular, the aim indicated in the first EAP was to reassure the durability of the fiscal adjustment and thus an intervention in the health sector was primarily expected to increase the cost-effectiveness of the system [*operational objective 1*]. To this end, the first EAP envisages a series of actions, including the expenditure cuts, the implementation of double-entry accrual accounting in hospital, the improvement in pricing and costing mechanisms and the centralization of health-related activities. Reform plans during the first programme were supported by an *ad-hoc* independent task force created at the end of 2010 covering a wide range of relevant areas such as health system governance to reduce the fragmentation of the system, financing: pooling, collection and distribution of funds, harmonisation of health packages across funds, and service provision and incentives for providers.

Fiscal sustainability, however, was not the only objective of the first EAP. The reforms proposed within the plan aimed also to reduce the fragmentation of the healthcare system [*operational objective 2*] and increase transparency [*operational objective 3*]. In order to decrease the co-payments, the first EAP included also legislation for the establishment of new systems for the management of drugs that favour more use of generic medicines, including a new system for the electronic monitoring of doctors' prescriptions. The EAP further included the introduction of universal coverage, the combination of a large number of different funds into a single payer system, the establishment of a primary healthcare system, central procurement, electronic prescriptions, and a thorough revision in the pharmacy pricing system.

During the first EAP, two key reforms were implemented in the health care sector. The first reform (Law 3863/2010) provided for the separation of pension and health insurance funds, their merging, and the introduction of a unified system for managing resources and monitoring health expenditure. Even more important was the adoption of Law 3918/2011, which directly aimed to tackle the fragmentation of the health system and led to the creation of the EOPYY, the national health insurance fund. The creation of EOPYY was an important step in improving equity in financing and access to care. With EOPYY, contribution rates across professions and population groups were harmonised considerably (only those previously in OGA continued paying a lower amount and had access to a more limited set of benefits). EOPYY acted also as the monopsony buyer of medicines and heath care services and the provision of primary health care. The centralisation of tendering of specific hospital supplies led to significant savings, as the differences in prices paid by different hospitals have been eroded.

Expenditure rationalization has also been pursued through the establishment of a Health and Social Care Committee at municipal level charged with monitoring health and social care needs and proposing appropriate actions. In 2010 the Kallikratis Plan was approved by the Greek Parliament with the aim to enhance the decentralization of health authorities. The Plan foresaw the creation of 13 regions (replacing 76 prefectures) and 370 municipalities (reducing the 1,034 that existed before the plan) with regional health authorities expected to have an increased role in terms of human resource management and the provision of primary health services.

Measures were also adopted to fight fraud and waste in the healthcare sector. Improved budgetary and transparency, regular monitoring and e-prescriptions made it easier to detect irregular behaviour. Savings were also achieved thanks to the revision adoption of international practice on pharmaceuticals, included: i) pricing based on the three lowest EU prices; ii) establishment of an evidence-based positive list of drugs that are reimbursed by EOPYY; iii) promotion of generic medicines and reduction of over-prescription and fraud

by prescribing International Non-proprietary Name; iv) establishment of an annual expenditure ceiling and claw-back system to enable control of pharmaceutical expenditure; v) setting up of an electronic prescription system; and vi) establishment of pharmaceutical co-payments from 25% to 10%.

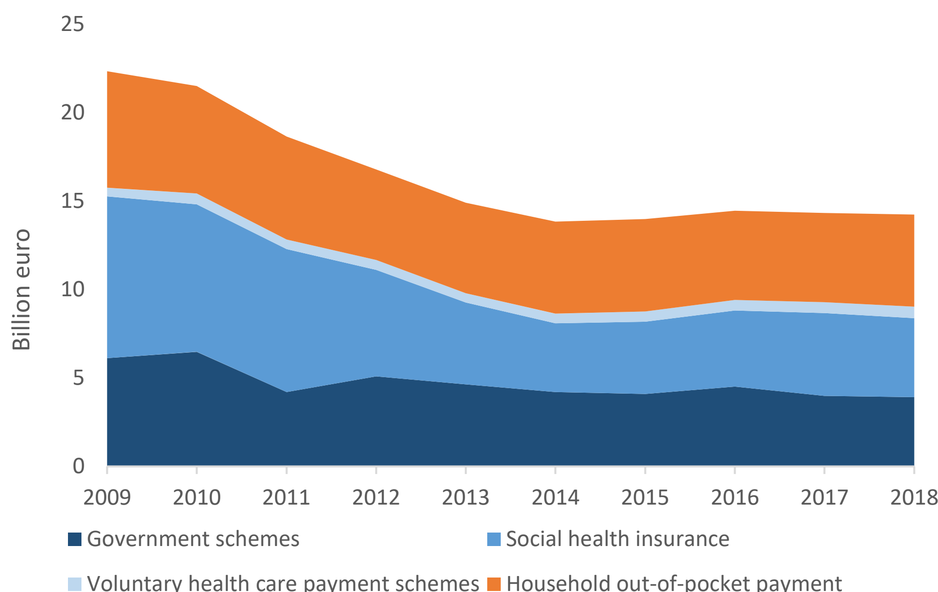
Healthcare reforms remained central also in the second EAP, which remained largely in line with the first one in terms of operational and specific objective. Fiscal consolidation remained indeed the priority and the Greek government was invited to keep the health expenditure below 6% of GDP. At the same time, the EAP called for maintaining universal access and improving the quality-of-care delivery, thus tackling the proverbial fragmentation and low accessibility of the Greek healthcare system. To this end, actions were envisaged with the aim to strengthen the health system governance, increasing centralization and reducing fragmentation, controlling pharmaceutical spending, pricing of medicines, increasing the use of generic medicines and improving accounting and control systems, also through hospital computerisation and monitoring. In addition, further measures were included to promote the shift away from a hospital-centric model, with the creation in 2014 of the National Primary Health Care Network aimed at bringing all primary health care facilities of EOPYY, rural health centres and a few urban health centres under the jurisdiction of regional health authorities and at providing a 24/7 service.

Finally, **the third Economic adjustment programme further committed to continue reforming the health care sector**, controlling public expenditure, managing prices of pharmaceuticals, increasing centralized procurement of hospital supplies, managing demand for pharmaceuticals and health care through evidence-based e-prescription protocols, modernizing IT systems, developing a new electronic referral system for primary and secondary care that allows to formulate care pathways for patients. In addition, in the framework of the third EAP, Law 4369/2016 was adopted, which established a new legislative framework with the goal of improving public sector appointment openness and meritocracy. In parallel, with Law 4368/2016, the government adopted a new plan to ensure universal access to quality care, transparent and fair and sustainable financing amending some administrative issues that had emerged with the implementation of the framework establishing universal coverage introduced with Law 4238/2014 under the third EAP.

8.3.3 Trends and overall assessment

The first objective of the health sector reform was to increase the cost-effectiveness of the Greek healthcare system. At the end of 2012, total healthcare expenditure in Greece was down by around 22% compared to 2010 (**Figure 63**). The major contributor to this decline was the nearly 28% reduction in expenditure related to social health insurance or compulsory contributory health insurance scheme which is the dominant source of health care financing in Greece (around 40% in 2010).

Figure 63. Health care expenditure by financing scheme



Source: Authors' own elaboration based on EUROSTAT

Government schemes which accounted for around 30% of total health spending decreased by 35% in 2011, however, this was followed by an increase of around 21% in the subsequent year. The remainder of the health care expenditure financed by private households declined by more than 15% over the same period. This notwithstanding, Greece continues to spend more on medications than other EU countries. This is also supported by data on pharmaceutical use per capita that is significantly higher than that in other countries.

The second objective of the EAPs was to reduce the fragmentation of the healthcare system and increase transparency. This was achieved through the introduction of the electronic prescription system, as well as the implementation of electronic prescription guidelines. The establishment of an evidence-based positive list of drugs that are reimbursed by EOPYY, and the establishment of an annual expenditure ceiling and claw back system to enable control of pharmaceutical expenditure further contributed to achieve these objectives. This notwithstanding, interviewees pointed out that corruption is still prevalent in Greece in the form of informal payments, double services, inappropriate marketing, procurement corruption, clientelism, overcharging, and induced demand.

Finally, as concerns the **objective of increasing fairness and inclusivity in access to healthcare services and goods, the assessment is less unequivocal**. As observed above, the Greek healthcare system was fragmented and unequal before the outbreak of the crisis and de facto dependent on employment status. Being healthcare dependent on labour market status, with the increase of unemployment, the consequences on access to healthcare were immediate (**Figure *59***). This hit in particular the poorest part of the population, whereby self-reported unmet need in the richest population quintile in the midst of the crisis was at the lowest level since the beginning of the crisis, leading to the increase of the relative gap between the richest and poorest population groups to almost ten-fold between 2008 and 2013.

As stressed by Karanikolos and Kentikelenis (2016), the most vulnerable groups who frequently are left invisible to official statistics and population surveys are at the forefront of feeling the consequences of the austerity: 62 % of undocumented migrants had unmet health need, while 53 % had major difficulty in accessing health services, with key barriers being the cost and long waiting lists. Access to health services, including emergency and

inpatient treatment, medical examinations and mental health care deteriorated also for homeless people during the recession (Arapoglou et al. 2015).

In fact, this gap in coverage was not reflected by the official statistics, as, for some, insured status exceeded the start of unemployment by two years. As such, the number of uninsured and the impact of unemployment on health care coverage was largely underestimated during the first EAP, which is why no specific measured were envisaged.

The extent of the issue, i.e. the fact that health care coverage was in fact not universal but that there had been an increasing number of citizens falling out of coverage, became known only years later.

For this reason, the social consequences of the crisis on healthcare, as many as 2.5 million uninsured citizens, were for the first time addressed explicitly in the second EAP. Yet, the initial reforms that followed were not adequate. In 2013 the Ministry of Health introduced a 'Health Voucher' aimed at providing access to primary health care services to uninsured and their dependents. The period of entitlement was four months, without possibility for renewal. While the voucher was expected to cover 100,000 uninsured, however, this fell far short of actual needs (Economou et al. 2014). A more ambitious reform was adopted during the third program with Law 4368/2016 and the CMD 25132, which established equal access for the insured and uninsured people to the public health services based on specific economic criteria ensuring the elimination of pharmaceuticals co-payment and on the abolition of the 1 EUR prescription fee for the uninsured, amending Law 4238/2014 due to administrative issues impeding full implementation. As showed by **Figure *59***, this contributed to increase access to healthcare in Greece, which nonetheless has the highest share of people declaring unmet medical needs in Europe.

Overall, **the health care reforms included in the three EAPs were relevant as they addressed fundamental problems of the Greek healthcare sector**. **Yet, their implementation led to significant social costs,** which were only taken into account in a second stage due to lack of information on the number of uninsured citizens. Indeed, even though reforms led to a reduction of fragmentation of the healthcare system and despite the fact that some groups have witnessed an expansion of their benefits package, the overall reduction of benefits to which the insured are entitled, led to what some scholars called downward universalism (Economou et al. 2014; Petmesidou 2013). Notably, though, the resulting benefits package after the rationalisation remains comparable to that of other EU Member states. The trade-off between fiscal consolidation and the attempt to make the healthcare system more accessible emerged as well in the decisions that affected the healthcare personnel: through salary cuts (horizontal cuts resulting from tax increases and the introduction of the solidarity levy, introduction of a unified salary system for public sector employees, absence of performance-based bonus), the non-renewal of contracts for fixed-term employees and the reductions in hiring levels in the public sector.

9 Institutional arrangements

This section provides an overview of the arrangements among the institutions involves in the three EAPs and how the evolved over time

9.1 The programme partners and their cooperation[143]

In line with the Council Decision 12114/2011, the Commission managed the three adjustment programmes in liaison with the ECB on behalf of the European lenders: the euro area member states for the first programme, the EFSF for the second and the ESM for the third. No formal arrangements defining the details of their cooperation existed.

Throughout the three programmes, the ECB's role has been to act in liaison with the Commission to assess the policy conditions for financial assistance and to monitor on a regular basis the progress made on implementing those conditions. In the context of the second and third EAP, the ECB provided advice and expertise on different policy areas.

For the three EAPs, the Eurogroup[144] provide political guidance. It was the setting in which agreement was reached by the finance ministers of the euro area about the launch of the programmes, the main policy conditions, the financial allocation and the key financing conditions of the first two EAP. It was the ESM Board of Governors for the third programme. The Eurogroup was supported by the Euro Working Group[145], which was consulted about the design of the programmes.

The first EAP[146]

The first adjustment programme was presented as a coordinated framework for adjustment and financing. The programme was prepared on a bilateral basis between the Greek authorities and the three institutions (EC, ECB and the IMF). The macroeconomic and structural policy parameters were agreed in the Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU) of the IMF and the MEFP and the Memorandum of Understanding on Specific Economic Policy Conditionality (MoU) of the EC[147].

Importantly, while the EC negotiated the MoU and the MEFP, the Euro area member states had to approve the final decision. Following the conclusion of the negotiations, the Council issued a Decision under Articles 126 and 136 of the TFEU14[148]. After its adoption, the Vice-President of the Commission (empowered by his fellow Commissioners) signed the final MoU on behalf of the lending member states. The technical and legal details of the loan (such as the average maturity calculation, interest rates, disbursement and repayment arrangements) were specified in the Loan Agreement.[149]

The EC, the ECB and the IMF were in charge of monitoring the progress in the implementation of policies agreed in quarterly reviews. The IMF conditionality reviews

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[143] See https://www.eca.europa.eu/Lists/ECADocuments/SR17_17/SR_GREECE_EN.pdf, for a detailed assessment

[144] It should be noted that, legally, the Eurogroup is an informal body where the finance ministers of the euro area member states discuss matters relating to their shared responsibilities related to the euro. Formally, as a single body, does not take decisions.

[145] This is preparatory body composed of representatives of the euro area member states of the Economic and Financial Committee, the Commission and the ECB.

[146] See IMF (2010) https://www.imf.org/external/pubs/ft/scr/2010/cr10110.pdf

[147] The MEFP focused on macroeconomic policies and selected structural measures, while the MoU covered the full structural reform agenda agreed between the authorities and the EC

[148] Based on the documents prepared by the Commission.

[149] The Loan Agreement was prepared by the European Commission, which managed the lending operations, and was concluded on a bilateral basis between the member states of the Euro area and Greece.

were based on its standard framework of performance criteria and structural benchmarks. The EC conditionality reviews were based on an overall assessment of progress against the structural agenda in the MoU as well as the macroeconomic targets. The EC conducted the assessments in liaison with the ECB, while the disbursements had to be approved by the euro area finance ministers in the Euro Group. Conditionality for both the IMF and EC was set up with joint review missions consisting of IMF, EC and ECB staff.

To the extent possible, also the IMF and European financing was coordinated. The European loans were set to have the same maturities as the Fund purchases, and to carry similar (floating rate) interest rates. Initially, it was agreed that Greece would receive assistance from the IMF and European facilities in a constant 3 to 8 ratio, throughout the programme period.

Greece was the first euro area country to receive financial assistance jointly provided by the euro area member states and the IMF. In this first experience, the IMF had greater institutional knowledge of programmes works (design, monitoring and staff). On the EU side, the European Commission was effectively in charge of leading the work, its experience with adjustment programmes in recent times was limited (Latvia, Romania and Hungary) and there was no mechanism for financial assistance to euro area countries.

In this setting, the IMF, being an outsider and having decades of experience in programme work was regarded as having a critical, if not a leading, role in designing especially the first programme. But also for the IMF, several aspects were new: i) the requesting country was an advanced economy and member of a monetary union with an international reserve currency, where the central bank (controlling monetary policy, i.e. the ECB) was not affiliated to the government but to lenders, ii) an unprecedented financial envelope, somewhat difficult to justify vis-à-vis global members[150] and iii) the need to coordinate with several EU actors and not being able to take decision alone. While the ECB/EC/IMF were tasked with designing, negotiating, and monitoring programmes for Greece, no detailed agreement or guidance emerged on their cooperation. This led to some initial difficulties in the management but it created a setting to draw on a wide set of experiences and skills and greater checks and balances. Overall it represented an occasion for institutional learning.

The second EAP

Because of economic and political developments, the first programme went off track and was replaced by a new one in March 2012, after a joint EC, ECB and IMF mission met with the Greek authorities in Athens and discussed a new policy package.

From the side of the IMF, the new programme resulted in the formulation of a request for an arrangement under the Extended Fund Facility, of EUR 28 billion, over 4 years. From the EU side, the financing of the policy programme (2012-14) was agreed to be provided by the EFSF in the overall amount of EUR 144.7 billion.

From the EU side, the main change was that the EFSF provided the financial assistance (see Box 2 above). The political dynamics behind the setup of the EFSF entailed a polarized debate on whether the Council or the Commission should lead the new mechanism. As a compromise, the Commission was to manage the policy adjustment programme, while the euro area member states, in the Eurogroup setup, were to take the final financing decisions. In addition, the SPV, governed by Member States, was subject to their 'national constitutional requirements'. This set up was chosen since, as put by Renaud-Basso (2011), 'it was very difficult to use the Commission as the sort of body receiving the

[150] The IMF had to introduce a systemic exemption clause to its exceptional access policy to be able to lend to Greece in May 2010.

guarantee because it raised problems with the non-euro area countries who did not want to be parties [and] to be liable to any kind of [rescue]'.

From a governance perspective, the previous institutional setting was broadly maintained in the second EAP. For legal point of view, Council Decision under Art. 126 and 136 of the TFEU was replaced by the entering into force of Regulation 472/2013[151]. In practice with EFSF framework agreement and EU Regulation, the Commission was entrusted with similar responsibility as under first EAP but they implied a reinforced dialogue with the European Parliament and the national Parliaments.

As in the first EAP, the EC, the ECB and the IMF were in charge of the monitoring of the conditionality through quantitative performance criteria and structural benchmarks as described in the MEFP and TMU. On the Euro area side, the Commission remained the negotiator with Greece, and the EU Eurogroup Working Group remained the setting in which decisions regarding both the MoU and MEFP and the disbursements were taken.

In late 2012, the euro area member states finalised an agreement to set up the ESM as a permanent crisis resolution mechanism, to replace the ESFSF, with the combined lending capacity of EUR 700 billion (See Box 3 above).

Box 11. The IMF and EU relationship in the Greek programmes

European institutions needed the IMF engagement to enhance credibility, especially during the first EAP. Until 2014 the relations between the IMF and the EU partners were characterised by cooperation and, as defined by one interviewee, of far-reaching mutual understanding. Overall, the IMF demonstrated substantial flexibility throughout its involvement in the GLF and EFSF programmes for Greece and drew its own important lessons about its modus operandi with currency unions and Regional Financial Arrangements (ESM 2020). The IMF also contributed important technical assistance to resolving the Greek crisis.

However, in early 2015, with the escalation of the political crisis in Greece, the protracted programme negotiations and repeated setbacks, notably in the 2015 arrears, and the growing probability that Greece would need additional funds, the relations deteriorated and views started to diverge. The assessment of the long-term economic outlook, Greek capacity to sustain primary fiscal surpluses and in general the sustainability of the sovereign debt, was much more optimistic in the EC view than for the IMF. In July 2015, the IMF openly criticised the new Greek assistance proposals, claiming that the plan will not work without substantial debt relief, to be implemented on the EU official sector holdings. From the EU side, while re-profiling of debt had already happened in 2011, haircuts on official sector loans were considered politically unacceptable, as reported by several stakeholders. This marked somewhat the end of the joint cooperation, even if the dialogue remained open until early 2016.

It should be noted that for the IMF involvement in Greece had become increasingly difficult to be maintained vis-à-vis its global constituency, given the poor performance of the programmes and the exceptional lending. In the end, only five out of 16 programme reviews, foreseen under the extended agreement, were completed as the program went off track finally in mid-2014[152].

As indicated in the IMF (2017) ex-post assessment, over time relations between the EC and the IMF had become more complex. On the one hand, the EC staff was raising issues about how to the reconciliation of technical analysis, the division of labour in terms of design and monitoring of conditionality, communication strategies, and information-sharing. On the other side, the IMF was raising the issues of sharing confidential information and modalities of assurances regarding euro area-wide policies affecting Greece. Altogether, such issues on both side contributed to deteriorate the cooperation.

[151] Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability (OJ L 140, 27.5.2013, p. 1)

[152] See IMF (2017)

In addition to it, based on the stakeholders' recollection, while during the 1st programme, within the Commission, DG-Ecfin had the leading role and was focused on fiscal, economic and financial issues, in the second EAP, an increasing number of DGs became strongly involved on structural reforms. As result the MoU became overloaded, with a long list of detailed reforms with poor prioritization and an increased need for internal coordination within the Commission. This further increased the need for coordination.

The third EAP

After the second programme expired on 30 June 2015, the Greek government made a formal request for stability support from the ESM on 8 July. The positive assessment of the request was justified by risk to the financial stability of the euro area.[153] A few days later the euro area finance ministers agreed to start negotiations on an ESM financial assistance programme for Greece, provided that a number of strict conditions would be met before negotiations formally began. A short-term bridge loan of €7.16 billion was disbursed under the EFSM to cover financing needs until the ESM programme would be launched. In the end, the MoU was concluded between the EC, acting on behalf of the ESM, and the Hellenic republic and the Bank of Greece. In line with the Treaty, the ESM was involved in the design and monitoring of the programme.

Similar to the second programme, ESM disbursement were conditional on the decision of the ESM Board of Directors based on the reviews from the EC (in liaison with the ECB) of the compliance with conditionality attached to the financial assistance facility agreement, including the measures set out in MoU.

With only EU institutions involved, the lender position became somewhat more clear cut. However, the complex institutional setting with the EC, ECB and ESM and the finance ministers, sitting in the Eurogroup, and often bringing in national views and interests, did not always resulted in an effective and efficient decision making. The nature of the programmes required a strong alignment of objectives. This posed some challenges to all the institutions given their diverse mandates and accountability to different stakeholders.

Although not involved in the third EAP, the IMF did welcome the third MoU between Greece and its European partners. The dialogue between the IMF and the EU partners continued during August 2015–January 2016 when the IMF arrangement was cancelled. In 2017 the IMF Executive Board approved in principle a precautionary EUR 1.6 billion of SBA (IMF 2017b). The arrangement was to become effective once specific, credible assurances on debt relief had been received, but the precautionary SBA lapsed in 2018 without being activated.

9.2 The relation between the lending partners and the Greek authorities and social partners

Relations between the lending partners and the Greek authorities were complicated from the start. As argued above, the misreporting in the official statistics created a fundamental lack of trust of the EU partners vis-à-vis Greece, as a country, regardless of the government which was responsible. This made conditionality particularly important in the process. On the Greek side, there was never support for any external intervention, despite the severity of the situation, which sometimes appeared not to be understood neither at the higher political not at level of the citizens. In early 2010, the proposal of the Commission to offer Greece a bridge loan to meet its financing needs did not receive

[153] See European Commission (2015) https://ec.europa.eu/info/sites/default/files/2015-07-10_greece_art_13_eligibility_assessment_esm_en1_0.pdf

support. The first demonstrations occurred already in February 2010, before any discussion around a programme had started.

Over time, relations never became fully cooperative, thought the degree of cooperation and mutual understanding varied depending on the government of the moment, and Greece had six different governments over the eight years of the programme.

More specifically, during interviews, both Greek and lending partners officials indicated that during the first two programmes it was often the case that the Ministry of Finance, which was cooperative and committed to carry on the programme's agreed policies, did not find sufficient commitment and support in other ministries and with the prime minister. In general, the programme was not always effectively coordinated from the Greek side. Unlike other countries which also experienced adjustment programmes, in most cases it was not clear who had to be addressed by the programme partners, who was responsible for taking action and there was no time plan. The relations severely deteriorated in late 2014 and became openly conflictual in 2015.

Such difficult relations affected and, at the same time, were affected by the lack of good communication and the lack of ownership. The combination created a reinforcing negative spiral which worked as an obstacle to the effective and efficient implementation of reforms but also on the acceptance of the policy changes.

One aspect that did not help communication and ownership was the fact that in the urgency of the preparation, the dialogue with social partners was almost absent in the design of the first EAP. Things improved in the second and even more in the third one. The government and programme partners attempted to established a dialogue with social partners and other stakeholders to consult and inform on the programme.

9.3 The Task force for Greece and the Structural Reform Support Service[154]

Following the request from the Greek authorities, in the summer of 2011, the EC established the Task Force for Greece (TFGR) to coordinate and provide the requested technical assistance. The TFGR concluded its mandate in June 2015. Technical assistance, however, continued to be provided by the European Commission's Structural Reform Support Service (SRSS). While this ex-post evaluation report of the three Greek economic adjustment programme does not cover the TFGR, which had already its own evaluation, this section integrates some information on the scope and achievements of the TFGR that can help the overall understanding and evaluation of the programmes.

The TFGR had the twofold mandate to provide technical assistance to the Greek authorities: i) to support the delivery of commitments undertaken under the economic adjustment programme; and ii) for the acceleration in the absorption of EU funds. Its governance included a High-Level Steering Group - composed by representatives of Greece, other EU Member States, Commission services and, where relevant, representatives of the international organisations – which had an advisory role, and the financial unit under DG-Empl. The TRGR was endowed with a budget and during its existence, EUR 12.85 million were spent. The technical assistance covered the public administration (at central, regional and local level) and a wide range of economic sectors, from the financial sector to public procurements but also anti-corruption, anti-money laundering, anti-fraud, the business environment, healthcare, judicial system etc. The sectors were identified in line with the commitments of Greece under the first two EAPs

[154] As concern the TFGR, this section relies on the ex-post evaluation of the Technical Assistance provided by the Task Force for Greece (TFGR) 2011-2015.

and, to ensure coordination between the TFGR team and the lending partners, a Head of Greek Operations was appointed. High level meetings took place two or three times a year between 2011 and 2015, the objective being to create alignment and coordination between the different stakeholders.

The TRGR effectively achieved some important results. According to the external evaluation conducted in 2019[155], a couple main results. First, in the tax area, policy reforms triggered important results in line with the conditionality of the adjustment programmes, even though more efforts should have been made towards building institutional and human resources capacity. Second, the TFGR had an important contribution with respect to business environment especially through the implementation of the National Trade Facilitation Strategy and Roadmap.

But the most important achievements (also with the cooperation of other Commission DGs) was the increase in the absorption rates of the structural fund under the two relevant MFF programming periods, 2007-13 and 2014-20. As by June 2011, indeed, only 28% of the 2007-2013 ESI funds allocated to Greece were disbursed. By the end of 2015 Greece had an absorption rate close to 100%, the highest ion the EU, for the Cohesion Fund, the European Regional Development Fund and the European Social Fund. This performance was driven by the targeted efforts to use EU funds under the crisis challenging circumstances but also by the increase in the EU co-financing rates to 100% (for the 2007-2013 programming period). In the first period of the crisis, Greece had become completely unable to absorb EU funds because of lack of resources for co-financing but also of relevant projects. The TFGR further supported the Greek authorities in planning the programming period for 2014-2020.

As indicated in the independent evaluation, the TFGR's contribution to the delivery of the economic adjustment programmes depended on the extent to which the Greek authorities incorporated in their decisions and followed up on the recommendations and instruments made available by the technical assistance projects.

One major limit to it was the political instability in Greece, which exerted influence in various ways. The new leadership often implied a change of priorities. Generally conflicting views in the political system slowed down the decision process on projects and policy areas. Political instability impacted the revenue administration policy, delaying the appointment of key positions for long time and thus influencing adversely the work of the TFGR. The discontinuity between the political level and the administrative level in the Greek administration amplified the effects of the political instability.

Aside from contextual factors, institutional factors embedded in the design of the TFGR led to certain delays. Among others, the process of exploring the available budgetary options was disproportionately lengthy.

Overall, the TFGR is broadly considered by stakeholders as a good decision right from the first programme and important progress were made in designing key reform steps, therefore it can be considered complementary EU value added to the programme. In addition, the TFGR activities further trigger positive spill-over effects mostly related to administrative and policy making capacity in Greece. Yet, limited ownership of technical assistance measures was a problem.

At first there was also insufficient coordination with lending patterns. Based on the stakeholders' interviews, the process of cooperation between the Greek authorities and

[155] Ernst &Young (2019)

the TFGR members was sometimes difficult and the it was not always the case that actions agreed were then followed by actual implementation.

After 2015, technical assistance to Greece was provided through the SRSS. Contrary to the TFGR, the SRSS is a service of the European Commission with a mandate to support all Member States with the preparation, design and implementation of growth-enhancing reforms. The SRSS provided support to Greece in 144 reform projects, related to measures taken by Greece as part of the Economic Adjustment Programme. The total amount of funds for technical support projects for Greece between 2015 and 2018 amounted to EUR 48 million.

Box 12. The world Bank support

In addition to the TFGR, in 2012 the World Bank Group engaged with the government of Greece to provide its expertise to improve social protection and competitiveness. According to some of the stakeholders involved in the process, at the beginning the WB assistance was not welcome in Greece, as government officials did not appreciate the intervention of an institution which usually deal with less developed countries.

In the end the World Bank provided technical assistance to improve the social safety nets and the attractiveness for businesses and investors.

The MoU for the ESM programme explicitly included measure to provide access to health care for all (including the uninsured) and to roll out a basic social safety net in the form of a Guaranteed Minimum Income (GMI). The GMI, dubbed Social Solidarity Income (KEA), was designed with the assistance of the WB to provide a guaranteed minimum income to the poorest and most vulnerable citizens, disproportionally affected by the crisis and for whom the existing system did not provide sufficient coverage. Greece was the only EU country, together with Italy, that did not to have a minimum income scheme at that times.

The WB further supported Greece in the reforms to improve the ease of doing business and in the adoption of the new Investment Licensing Law. The latter contributed to improve legal certainty and helped the government with land ownership rights through an improved cadastre.

9.4 Overall assessment

The programme was generally not efficiently managed by the Greek administration. Most of those who had worked on the programme generally criticized the Greek government and the administration for the lack of ownership and efficiency. Technical assistance, largely from the TRGR and then the SRSS, overtime helped to make progress on some reforms and was consistent with the conditionality of the EAP, but the lack of ownership and the political instability made the process very difficult.

The Ministry of Finance often struggled to have a coordinating role in the government and ensuring that the different Ministries were aware and lacked enforcement powers vis-à-vis them. In some case, other ministries were openly against what was expected from them in the context of the programme.

Problems of compliance with key conditionality, occurred several time often at the time when the government had lost parliamentary support from some political parties and reform proposals were blocked more frequently in Parliament. In practice, compliance with conditionality was often achieved because of the binding liquidity constrains Greece was faced with. This negatively affected ownership. Another limit of ownership, as highlighted by several social partners interviewed, was that the government and programme partners did not manage to maintain a continuous dialogue with social partners and other stakeholders to consult and inform on the programme.

From the side of the lenders, the institutional relations were complex due to the IMF – EU necessary close cooperation, but also because of the many actors involved from the EU side. Besides the European Commission, in liaison with the ECB, the Euro group and its Member states with strong views made the decision making rather inefficient. Dissonance of views sometimes contributed to make the relation with the Greek government excessively difficult and to poison the political debate in the euro area, increasing the costs of the crisis for both sides.

10 Conclusions

This section draws concrete lessons from the overall experience of Greece during the three EAPs, which can serve in future cases.

Conclusions and lessons learned, based on the detailed assessment of the previous chapters and interviews with the stakeholders, are considered in the framework of the five evaluation criteria: effectiveness, efficiency, relevance, coherence and EU value added.

In Spring 2010 Greece lost market access at sustainable rates and in May requested external financial assistance**.** The Greek crisis was fundamentally a sovereign debt crisis. Good economic performance over the decade since the introduction of the euro hid deeply-rooted structural deficiencies affecting the functioning of the whole economy and the state, a very large public sector, declining competitiveness, low productivity and low quality of institutions. Large inflows of funds borrowed from abroad had not been used for productivity-enhancing investments in the tradable sector, they rather financed public expenditure and led to the accumulation of significant external indebtedness of the public sector.

The crisis was triggered by the news that official statistics had been doctored and that the budget deficit and the sovereign debt were far higher than the officially reported. In a context of global uncertainty, this resulted in an increase of the funding costs for the government, which soon became unsustainable. Greece had no choice than requesting external financial assistance.

Despite a strong pressure to quickly find large financial means, which were not readily available, financial assistance was granted. But lack of trust between the lenders and Greece became the first and foremost issue in the crisis management. Greece entered a long period of profound crisis with three large deficits: double digit budget and current account deficits but also a huge credibility deficit vis-à-vis the euro area partners, EU institutions and the IMF.

Against this background, among the lenders there was a widespread sense that Greece had misbehaved in the years before the crisis, and fiscal profligacy had to be inevitably offset by a deep adjustment. In addition, the financial support, which was unprecedented in size but also legally questionable (given the no bail-out clause), had to be accompanied by strict conditionality and proper lending terms to prevent moral hazard.

Such a challenging initial context was deemed to negatively affect the outcomes of the programmes and to make institutional relations between Greece and the lending partners very difficult, sometimes openly conflictual. It contributed to poison the debate in euro area countries, at a time in which the Union was in recession and the risk of contagion of a financial crisis was a major concern.

Relevance

To what extent did the objectives of the programmes correspond to the challenges faced by Greece?

Overall, taking into account the information available at the time when decisions were taken and the existing political constraints, the programmes' objectives were broadly relevant in relation to the main challenges. The financing envelope, which was unprecedented, was clearly an indispensable part of the programme. A few qualifications are however important.

In the first programme, frontloaded fiscal consolidation was necessary to regain credibility vis-a vis the lenders as well as to prove that the new government was different from the previous ones and capable of fiscal discipline. A large fiscal consolidation was necessary also to be able to regain access to international private funding and contain the financing needs. The specific fiscal targets, however, were far too ambitious and unlikely to be met from the start. As matter of fact, the available financial assistance, arranged under huge time pressure and in the absence of any EU crisis management framework, was inadequate given the large financing needs and the duration of the programme was too short (3-year, like any standard IMF programme). As result, the specific fiscal targets were defined by the existing constrains instead of economic considerations. In the end, even though the fiscal consolidation achieved in the first year and half was substantial, the fiscal targets turned out not to be fully relevant in effectively containing debt and signalling to the markets a credible government shift. The structural reforms accompanying the programme corresponded to a large extent to the challenges of the Greek labour and product market. Yet, the programme failed in acknowledging structural features of the Greek labour market. Furthermore, structural weaknesses of the Greek public administration, including low institutional quality and high corruption, were only partially known and acknowledged. Likewise, the degree of dysfunctionality of the welfare state and the incapacity of the latter to cope with the social consequences of the recession were only partially addressed.

In the second programme, the objective of regaining market access was restated and combined with two additional goals: 'growth-enhancing' reforms and debt sustainability. In contrast with the first EAP, the broader set of specific objectives, combined with detailed actions and a financial assistance enveloped based on a detailed assessment of the financing needs, reflected a better understanding of the Greek needs and of the functioning of the economy. In this sense, the objectives corresponded to the challenges faced by Greece and the programme was relevant in improving the long-term sustainability of public finances. Structural reforms related to labour, product and service markets remained in line with those included in the first EAP, thus failing to recognise some major structural weaknesses of the Greek labour market. Yet, the spectrum of reforms to be covered was enlarged and the approach became much more detailed. In addition, the second EAP made significant progress in explicitly acknowledging fundamental weaknesses of the welfare state and the judicial system.

The third programme was mostly made necessary by domestic political instability in 2015, which derailed the end of the second programme and delayed a sustainable return to financial markets. Yet, Greece still had a lot of progress to make in terms of completing both the fiscal adjustment and the reform process to ensure long-term sustainability. The third programme's objectives were identified in line with the ones of the previous programme, but with some additions. It explicitly pursued a threefold objective: i) restore competitiveness, sustainable growth and investment; ii) modernize state and public administration; and iii) create jobs and reduce inequalities. Through an adequate financial envelope and long-term measures in support of debt sustainability, the additional time that was given to Greece to credibly return to financial markets, was expected to deliver not only a stronger fiscal position, but also to fix deep structural problems in the banks, and enhance growth. Instrumental to this was the modernization of the public administration and the strengthening of the welfare state. For the first time, the programme paid major attention to the quality of governance and to addressing major social issues like inequalities, pension system fragmentation, accessibility to healthcare and undeclared work. To a certain extent, the first two EPAs were an important learning process to account for in the third programme. But not all lessons were learnt. Growth, and in particular potential growth, is the one aspect where little was done beyond stating it as broad objective.

On paper the fiscal objectives and banking sector restructuring seem to respond to key identified needs of Greece at that time and the three programmes seem to identify the major challenges characterizing the labour, product and market services. Yet, it took long time to understand the peculiarities of the Greek economy and its socio-political system and hence to properly identify specific objectives. With hindsight, not sufficient emphasis was put on how reforms and policies could contribute to deliver on economic growth.

A few lessons can be drawn.

1. The correct understanding of the structure of the economy and its functioning (strengths and weaknesses) is critical to properly identify the needs and the problems at the start. When a crisis is rooted in broad-based economic and fiscal inefficiencies combined with weak governance and limited administrative capacity, the programme should take into account implementation risks and include a clear strategy to address *most critical weaknesses.* In this respect, effective preventive monitoring is crucial in the euro area. In principle, this is now largely undertaken by the MIP and the economic policy coordination under the EU Semester and should not be downplayed.
2. A realistic and pragmatic programme design that pays specific attention to the institutional, political and socio-economic context of the country is crucial for success. Some of the major shortcomings of the design economic adjustment programmes and subsequent economic policy making can come from an over-reliance on "one-size-fits-all" approach and policies. The design of the economic adjustment should take into account the economic structure (domestic savings, state of public finances, openness etc.), socio-economic conditions (lack of social safety net, peculiarities of pension system etc.) and institutional and political features (public administration, clientelism, weak payment culture and an ineffective debt enforcement framework etc.)
3. A country which is characterised by structural and institutional weaknesses is likely to need a longer (than the usual 3-year) programme and large financing upfront. This is even more the case when the required fiscal adjustment is large (e.g. greater than 5%). Under such conditions, a design of the programme mostly centred on fiscal adjustment, as a typical IMF programmes, may not be appropriate. On the one hand a longer period of adjustment requires an adequate (larger) financing envelope for the programme. On the other hand, structural and institutional reforms must be part of the objectives from the start and concomitant with the fiscal adjustment.
4. While conditionality may hamper ownership, it may also be critical to achieve progress towards financial stability and fiscal sustainability objectives, through reforms and changes which otherwise would remain undone.
5. Persistent lack of economic growth can make the fiscal and structural adjustment more difficult and longer, and even jeopardise them. While it is acknowledged that in the short term growth tends to be negatively affected by fiscal consolidation and reforms, if it does not resume quickly measures need to be put in place to support it, including the possibility of an explicit fiscal budget.
6. As nominal exchange rate is not an available adjustment mechanism in the euro area, persistent REER appreciation and low productivity are likely to lead to internal devaluation, when a crisis erupts. This may be inevitable to restore competitiveness. If labour markets are rigid and the social safety net is weak, the economic (fall in GDP in the short term) and social costs of internal devaluation

may be very large. The design of the programme should anticipate them and their discount the impact on the GDP forecasts.

7. Earmarking a financial envelope for the banking sector, including the explicit provision of buffers, helps enhance confidence in the banking system.

Effectiveness

To what extent have the objectives of the economic adjustment programmes been achieved?

The first programme is considered a failure by the largest majority of stakeholders when the assessment is done against the objective of Greece being able to return to capital markets. However, the first EAP had another, more or less explicit, objective, which was actually the main one for several parties involved in the design of the programme and the provision of financial assistance: avoid the risk of contagion to other euro area countries. Such an objective was, costly, but achieved.

The fiscal adjustment path of the first EAP, with a too tough consolidation and a too short time horizon, is considered by most stakeholders inappropriate. It is broadly recognized, however, that there was no other choice given the size of the fiscal deficit, the severity of the crisis and the tools available at that time. In the following two programmes, a less frontloaded consolidation path was accepted. In practice, in the end the third EAP was quite front loaded, as the 4.5% of GDP fiscal consolidation package between 2015 – 2018 was fully adopted by the time of the first review (spring 2016). Yet, as the initial deficits had declined, monetary policy in the euro area had become more accommodative and official lending terms had become much more favourable, the fiscal adjustment path became more realistic. The strategies to achieve consolidation paths changed over time, moving away from expenditure cuts progressively to revenues, and reforms focused on revenues, in order to deliver a long-term impact on fiscal sustainability.

However, some problems were not effectively tackled not even with three programmes and despite the efforts. The most prominent, though not the only one, was NPLs. Although the reform of the framework for NPL resolution and debt enforcement laid the base for the subsequent development of the NPLs secondary market and the overhaul of the insolvency framework NPLs were still very high at the end of the programmes. They were, at the same time, the result of a deep and long recession and responsible (among other factors) for weaker than expected growth outcomes.

From an economic perspective, the main failure of Greece to effectively achieve the objectives set in the different programmes was associated with the depth of the recession in the first years and the lack of robust economy recovery later on. Lack of growth made the fiscal adjustment harder and longer, PSI largely ineffective, the social costs higher and the credibility of a robust solution to problems hard to believe.

Three sets of problems lay at the core of it: i) structural weaknesses, like low competitiveness and productivity and poor quality of governance; ii) the political instability, and iii) the complete absence of a credible growth strategy focused on skills of the workforce and high-quality production. Investment, both private and public, have been on a declining path during the three programmes. For public investment, cuts were driven by the limited absorption capacity of EU funds, but also by the fact that political opposition was lower than for cuts on other expenditure items. For private investment, persisting fears of Greexit, contributed to increase funding costs and to discourage both domestic and foreign investors.

On the side of structural reforms, the assessment of their effectiveness is unequivocal. Labour market reforms were successfully implemented, especially between the first and

second adjustment programme, but they did not manage to deliver the expected effect of higher competitiveness and higher employment. Product and service market reforms were delayed and, sometimes watered-down, because of strong opposition of organised interests, low political support, and high degree of technical complexity.

Against the stated objective of relaunching export-led competitiveness and support growth, the reform policy mix was not effective, at least not as expected and within the planned framework. The cost-competitiveness gains of labour market reforms were largely offset by the increasing cost of financing corporate loans, the increasing taxation of capital and persisting distortion in the taxation system. In addition, delays in the product market reforms in part diminished the achievement of the labour market reforms and did not boost the supply side as expected. In practice, a weak coherent approach to structural reforms from the start was in part also aggravated by a weak political governance on the side of the Greek authorities, including lack of coordination across ministries and the centralization of powers in the hands of the prime minister office.

A few lessons can be drawn.

1. Sequencing of policies matters. When structural reforms are needed on a large scale, as it was the case in Greece, an overarching and coherent approach is necessary from the start. Some reforms, like horizontal or institutional ones (e.g. PA and judicial system), typically have limited measurable (even less fiscal) impact but in practice they are pre-condition for all other reforms to deliver. They should not be postponed. In theory, labour, product and service reforms should be pursed in parallel, as lack of progress in one area could undo and limit the gains generated in other areas. When this not possible, product market should be frontloaded since the timing of their implementation is usually longer, they are technically more difficult and interest's groups are usually better organized and economically more relevant. Overall they require higher political capital to be invested, which is usually available at the beginning.

2. Ownership. Based on the experience of the second EAP, which contained a long list of detailed reforms, several stakeholders pointed to the need to avoid the repeat of such an approach. While this was introduced in response to a first programme, which did not manage to progress much on the agreed reforms and revealed limited capacity of the public administration, excessively detailed plans and micro-management of reforms tend to be perceived as intrusive and even coercive. In the end, this does not lead to increased ownership, on the contrary it can result in growing opposition on the side of the country under programme and high degree of frustration from the side of the Institutions. Overall, this may deliver poor results and can jeopardise the relationship between the parties.

3. Politics can play a key role in determining the failure and success of a programme. On the one hand, political stability and cohesion in the country is key to build internal ownership but also (re-)gain confidence, domestically and from abroad. On the other hand, a clear framework with predefined roles and decision making on the side of the lender are equally important to create certainty. In the context of the euro area, strong collaboration with the various European institutions, regulators, and supervisors is essential.

4. Proper communication about the reasons and the purpose of the programme is crucial in the country concerned but also in the EU. In the country, good communication is crucial to gain the support of the public and foster as much as possible social cohesion and unity to overcome common problems. In the EU, to accept solidarity vis-à-vis another member state. Several stakeholders emphasized that the need for structural

reforms within the Greek economy alongside the fiscal adjustment could have been communicated in a better way by the Institutions and the Greek government. In addition, different narratives running in different countries created a sentiment of mutual mistrust between the Institutions, the Greek government, the Greek and the European civil society.

5. Trust among the parties is a fundamental ingredient of an effective and efficient programme. Based on the experience of different euro area programmes, trust, mature behaviour of the parties and cooperative attitude can make a substantial difference in the effective achievement of the objectives. In Greece, these ingredients were often missing. In some cases, this jeopardised the success of policies or made it very costly.

Efficiency

Was the financial envelope and its disbursement appropriate? Was conditionality appropriate in relation to the intended outputs and results? Did the programme have unintended effects?

The efficiency of the programmes' policy conditionality and its implementation varied in the different areas, but it was overall low.

The overall policy approach to fiscal consolidation and fiscal structural reform (pensions and welfare) in the end contributed to deliver the fiscal sustainability objectives, but it was very costly for the Greek people, it took longer than expected and required more financing than foreseen. This was especially the case of the first and second adjustment programmes, where the fiscal consolidation objectives to a large extent disregarded the social outcomes. By contrast, the third economic adjustment programme adopted a more comprehensive approach, which combined the fiscal consolidation objective with an attention to the reform of the welfare system towards more inclusivity and fairness.

The first programme financing turned out to be markedly lower than the actual needs. While this was certainly a problem, it was not a surprise given the context in which the financial envelope was agreed. This was different in the case of the second and third programme, whose financial envelope was based on detailed calculations of the financing needs and in the end not all resources were used.

The stabilization of the financial sector also took very long and was costly, both in terms of liquidity and recapitalization, as political instability severely undermined confidence. With the benefit of hindsight, the programme could have been more efficient by pursuing a more comprehensive strategy on NPLs and the reform of the banks' governance at an earlier stage, but both met political resistance. Furthermore, other issues had to take precedence to ensure financial stability and avoid market disruption, including a series of bank resolutions and the first bank recapitalisation, which led to a necessary consolidation of the domestic banking sector. Lastly, it was difficult to predict ex ante how early legislative initiatives from the side of the authorities (e.g. the so-called *Katseli Law* of 2010) would further weaken payment culture and result in extensive strategic defaulting by borrowers, while subsequent amendments aiming to address this issue were also met with political opposition.

The efficiency of the structural reforms was overall very low. This was largely due to the lack of ownership of the reforms, the low political support for some interventions, the lack of coordination, the lack of administrative capacity and the lack of prioritization of the policy intervention. While the first EAP was rather broad and identified areas of intervention for the Greek authorities, the second one became much more detailed and intrusive. This new approach was the result of the poor outcome of the first programme but, to some extent, also of the call from certain Greek stakeholders to received technical support and an external push for change. In practice, it backfired in several areas. A too

long list of detailed reforms resulted in a long list of not-done or unfinished reforms. In the end, most reforms were approved, under the threat of no disbursement of funds, with no actual support for the change. This is proved by the fact that several reviews and disbursements were delayed (even though monitoring reports were not issued when compliance was not ensured) and some approved reforms were not implemented at all. The low political support for the intervention is in part due to the Greek government internal governance which until the third EAP was decentralised in the hands of the ministries – often driven by specific interests and unwilling to lose their constituencies' political support – and not very open to coordination.

Overall, the programmes were not efficiently managed by the Greek administration that in most cases was not sufficiently committed to implementation of the measures formally agreed and coordination between ministries was often lacking. But the management was not efficient from the EU side either. The large set of parties involved (in practice in addition to the Institutions, almost every euro area member state had a view and a say) made the decision process long, uncertain and sometimes driven by diverging objectives.

In response to the lack of administrative capacity to implement reforms, Greece received technical support almost during the entire length of the three EAPs, first from the Task Force and then from the SRSS. These initiatives positively contributed to the implementation of the reforms. Yet a comprehensive strategy to modernize the Greek PA, including the Greek justice system, was adopted only with the third EAP, reducing the efficiency of the reform process.

Finally, frontloading of labour market reforms, technically easier to be implemented, combined with the incapacity to adopt product market reform, politically more difficult, resulted in a sense of unfairness in the burden sharing of the cost of reforms. In addition, benefits of them did not fully materialise.

A few lessons can be drawn.

1. Programme's measures, their sequencing and the time horizon should be realistic, in terms of economic likelihood, political feasibility (e.g. a large primary surplus over many years should not be considered such) and commensurate to the administrative capacity of a country. While conditionality is a key pillar of an adjustment programme, unrealistic conditions can negatively affect its credibility and, more in general, economic confidence, making the programme inefficient.
2. Systematically disappointing results can affect negatively the willingness to engage and to continue with reforms. It can be detrimental to ownership and commitment, by generating a sense of fatigue both on the country's and the EU Institutions' side making institutional relations more difficult. With hindsight, reform programmes should be designed with a clearer prioritisation.
3. Economic adjustment programmes should consider the negative externalities of fiscal consolidation and their social consequences. Several EU stakeholders admitted that the adverse social impact of the economic reform programmes on social inclusions was acknowledged only during the second and third adjustment programme when the societal reluctance grew considerably and disruption of social cohesion in the Greek society became apparent. In this respect, the distribution of the adjustment burden of reforms should be taken in consideration and mitigation measures considered.
4. The costs of internal devaluation and fiscal consolidation should be considered as a side effect of the necessary macroeconomic adjustment. The social impact of the crisis and of the adjustment process should be monitored and, above all, the capacity of the

existing social safety nets to absorb the impact of the adjustment should be assessed ex-ante.

5. PSI, which in the euro area only occurred in Greece, should not be considered a standard measure to achieve debt reduction. PSI should only be considered in extreme circumstances, if and only if, no other solution could work. In such a case, it should come at an early stage of the crisis, agreed and implemented in a rapid way. This requires that commitment to it should be firm from all relevant parties. Such are the conditions to deliver debt reduction and avoid market disruptions.
6. The lack of government ownership, both at the higher political level (some governments were openly opposed to the content of the MoU signed by the previous government) but also at the level of the public administration, which delayed the actual implementation of the reforms, can contribute to political instability and overall reduce the efficiency (and effectiveness) of programme. Ownership can be negatively affected by the absence of clear communication on the reasons and the long term benefits as well as on the distributional impact of the reforms. The disappointment generated by a sequence of failures.
7. The lack of administrative capacity of public institutions to implement policy changes can make the process of reform extremely inefficient. This must be taken into consideration in the design of the programme, when setting objectives and the time horizon. Also potential solutions to improve administrative capacity should be part of the programme.
8. Coordination across ministries is crucial for an efficient implementation of policies and changes in the context of an adjustment programme. In addition, single contact point with the Institutions, who has clear responsibilities and coordinates and delegates the implementation of tasks, plays a key role for efficient, but ultimately also for an effective, implementation of the programme. According to stakeholders, compared to other countries with a programme, Greece completely lacked such an approach.

Coherence and EU value added

What was the rationale for an intervention at EU level? Were the measures consistent across policies areas and over time? was the intervention coherent with other EU policies?

Anchoring the action of the Greek authorities to a set of measures agreed with, and regularly monitored by, the IMF and European Commission was expected to add to the credibility of the adjustment. However, this did not materialise during the first EAP. If anything, after the first few months, when it became clear that the fiscal adjustment was too tough and impossible to meet, credibility strongly declined. The wavering political commitment of the national authorities to the programme and a programme strategy that appeared too difficult for the economy, resulted in a shift in market expectations towards a failure. The insufficient size of the financial envelope to meet growing financing needs also contributed to the decline of credibility.

In the second EAP, credibility was mainly based on the content of the programme (including the size of financial assistance), the strong commitment of the EU partners to reduce the sovereign debt burden, through concrete measures (PSI and OSI), and to accompany the Greek authorities in the reform process. However, the expected outputs did not materialise.

Ownership of the programme by the Greek authorities was weak since the start and it never improved. This was not the case even during the third programme, when the fiscal adjustment was milder, but some reforms (governance of banks and reform of NPL resolution framework) triggered fierce opposition.

The involvement of the EU, through its member states, the EFSF the ESM, but also the ECB, was necessary to deliver an adequate financing envelope, and could not have been offered by any other partner. Although the first financial envelope was insufficient, the programme could not have been done by Greece alone, or with the support of the IMF only. In absence of it, uncontrolled sovereign default would have been unavoidable. In the end, financial resources at EU and euro area level (through EFSM/EFSF), allowed Greece to benefit from very low costs of financing, a grace period and significant extension of the maturities.

Financial assistance made possible for Greece to meet its obligations (though not all) and support the stabilisation of the banking sector, thorough resolution and recapitalization. Yet, the banking sector remained incapacitated (NPLs and tax credits) to serve the economy and failed to support an early recovery. EU competition policy was enforced in a largely closed banking market, which never managed to open up due to the difficulties of attracting investors from outside the Greece. In the end, this may have delayed the process of restructuring, as plan required more time for approval, and did not result in a better access to finance for the economy.

While EU policies are typically driven by the broad objective of promoting sustainability, the design of the Greek programmes seems to have applied such principle mostly to fiscal policy and debt. It is only over time that reforms like those of pensions, welfare and public administration focused on improving long term sustainability of the economic system and the state. From this perspective, coherence with EU objectives was at times suboptimal.

Overall, the involvement of the EU programme partners, despite often painful and not always efficient, contributed to implement needed structural changes, like the reform of an unfair and complex pension system or the establishment of a guarantee minimum income, which otherwise, as indicated by several stakeholders, would not have taken place.

A few lessons can be drawn.

1. The EU intervention can add significant value by providing for an adequate financing envelope at very favourable conditions.
2. The intervention at EU level can add significant value in terms of expertise, credibility, and policy coherence. However, each of them can be disrupted or vanished in absence of national ownership.
3. There is an inherent incoherence in an adjustment programme designed to regain market access in the shortest period of time, when the underlying reason for losing market access is deeply structural. Structural problems require much longer time to be addressed and ownership is much more important for success.
4. Market confidence cannot be restored if fiscal sustainability and the stability of the banking sector are addressed independently. More in general interlinkages between different policy areas and measures are essential to ensure a coherent programme strategy and ultimately impact. Improving competitiveness or reforming the tax collection system or dealing with NPLs entail a correct diagnosis and the implementation of a broad set of policy changes in different areas, most often the judiciary system, but also systems of inspections, supervision mechanism etc.
5. Coordinated approach to reforms in different policy areas. The lack of coordinated approach to reforms across competent ministries can undermined the achievements of the policy intervention and decreased its effectiveness.

6. For major reforms, whose implementation goes beyond the time horizon of the programme (e.g. NPLs and tax collection in the case of Greece), a follow up after the end of the programme is crucial to avoid losing previous gains. Economic surveillance in the context of the European Semester should ensure the time-consistency of the reform process. This should also be done by the ESM. Based on the ESM Treaty, the ESM has to monitor economic and financial policies until the loans have been repaid in full, in the case of Greece this implies a very long time horizon.

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Tier I papers (black) – *Tier I papers include papers of immediate relevance for the three thematic areas.*

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Annex 1. Methodological approach to the Systematic Literature Review (SLR)

The team undertook a thorough desk review of documentary evidence on the economic adjustment programmes of Greece which has supported the analysis throughout the report. Key to this desk review is a systematic evidence review of the extant literature. The review was conducted in order to identify articles that were published starting from 2010 up to recently. These articles would have had to contain specified key words. The criteria for paper selection will make use of thematic analysis where contributions will have to explicitly refer to at least one of the three broad thematic areas identified in the report, following a standard approach in the literature (Wallace et al., 2004; Lenoel et al., 2018; Soaita et al., 2020). While this literature review is restricted to the adjustment programmes in Greece, it also naturally captured the evidence from other European countries that went through an adjustment programme to the extent that this is relevant to the Greek experience.

The literature mapping is carried out using some of the most common and relevant platforms looking for data that matches the ex-post evaluation criteria. Based on all the above, the aim of the review is to present a systematic overview of the consequences that three adjustment programs had for the macroeconomy in Greece based on the evidence from the intervening literature. The main initiative was to determine macroeconomic, financial and labour market-related effects due to the economic adjustments, where these macro-topics are identified consistent with the broader objectives of this study. Detecting the repercussions of the macroeconomic adjustments, now that all three programs have concluded, could contribute to the development of stronger policies (see, e.g., Arksey and O'Malley; Gough et al., 2012; 2013), as well as help draw conclusions regarding the governance structure and the lessons learned in terms of the reforms and "durability" of both the EU legal, as well as crisis-response architecture.

1. Sample reduction

The literature search was performed via online resources using up to five of the following research platforms: Scopus, Thomson Reuters Web of Knowledge, Econ-Papers, Ideas RePEc, Google Scholar, EBSCO Host, ProQuest/IBSS and Science Direct (see, e.g., Simou and Koutsogeorgou, 2014; Lenoel et al., 2018).

The search was conducted in the title and abstract of papers using keywords and logic operators. This is usually an iterative process that involves starting with generic keywords and expanding or reducing the scope of the search at each step based on the relevance and quantity of the results that the search is producing. The iterative process can be described as follows: when search S_1 returns an article A_1 that references another article A_2 on the same subject that is not in the output list of search S_1, we search for A_2 in the same database and, if found, ascertain which keyword can be added to search S_1 to capture A_2 as well as A_1. The resulting search S_2 will capture both A_1 and A_2, and we start over again until all the articles judged relevant are captured. Conversely, if the search returns an article that is 'off topic', we will look to understand where the ambiguity comes from and then either modify our keyword accordingly or add an exclusion field. We repeat this process until the off-topic articles are excluded.

The following search terms/keywords (or a subset of it)have been used:

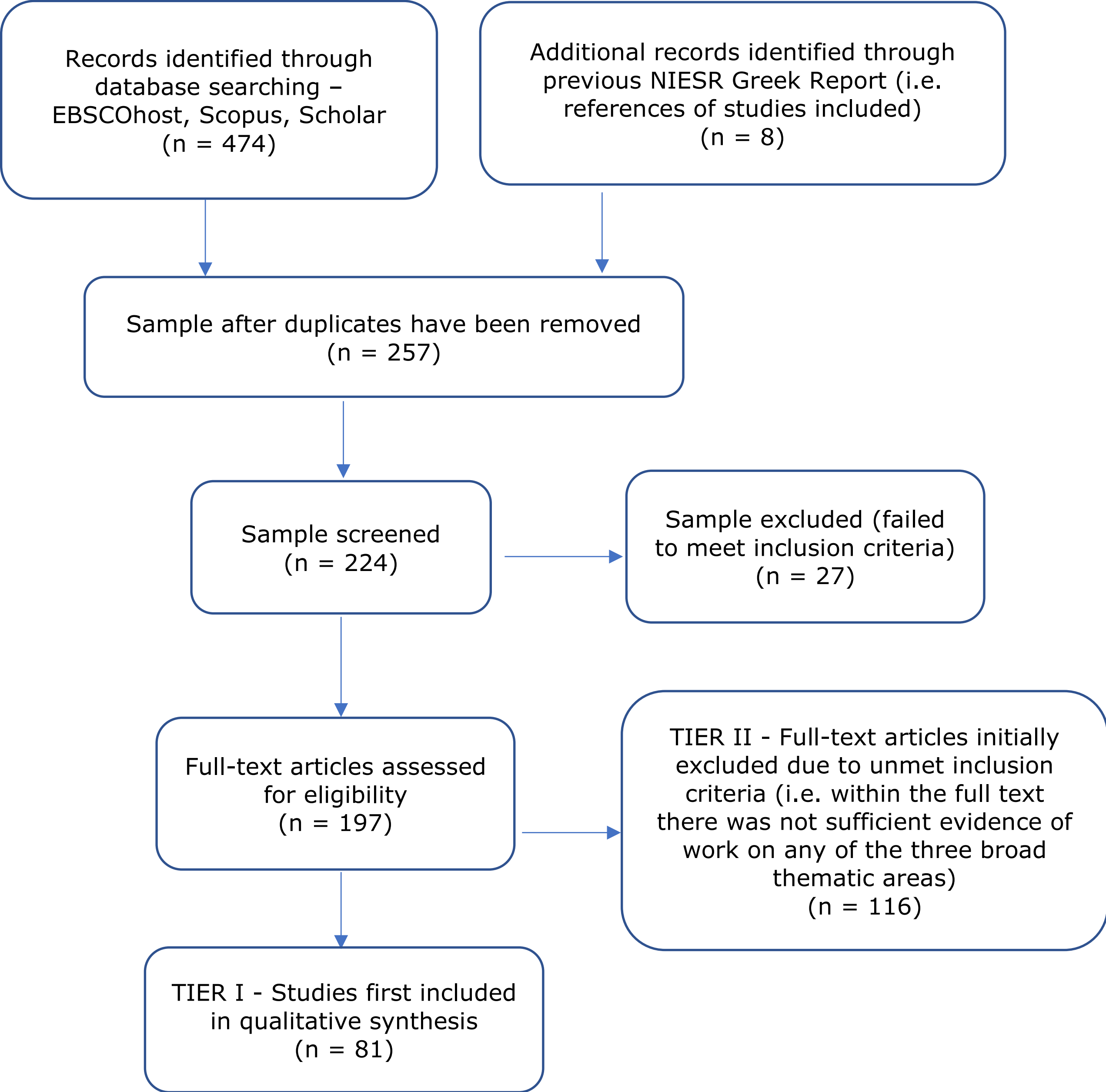
Macroeconomic adjustment and sovereign debt sustainability + Financial sector

("crisis" AND "bailout" AND "European Commission") AND ("debt" OR "austerity") AND "measures" AND ("Greece" OR "Greek") AND ("adjustment program") AND ("first " OR "second" OR "third")

Structural reforms

("crisis" AND "structural reforms" AND "European Commission") AND ("labour" AND "wages" AND "austerity") AND "measures" AND ("Greece" OR "Greek") AND ("adjustment program") AND ("first" OR "second" OR "third")

Figure 64. Example of flow chart of selection process



Source: Own elaboration

Because each database has its own search engine and its own focus, we undertook a process of optimizing our search formula for each database. The sample only includes

articles published in English between May 2010 and January 2020 (Figure 1). This time period is appropriate as it reflects a period which marked the beginning of the first adjustment programme up to most recent studies.

In addition to academic publications, the literature review included the 'grey literature' (reviews, policy notes and blog entries) to the extent that these are capture by search engines. We will exclude from the search results newspaper articles because they generally contain opinions rather than original analysis or evidence. The criteria for inclusion are based on the principle that they should capture all studies of interest and are not narrowly defined in order to avoid the risk of excluding potentially relevant studies, while, at the same time, allowing generalization of the results. Because the review of the literature is defined by a quite narrow topic already, i.e., evaluating the adjustment programmes in Greece, we did not necessarily need to confine our search to an arbitrary number of results returned by the search engine.

Data was extracted and categorized according to their most dominant meaningful concept, under the following categories:

- 1st Adjustment Programme (2010-12)
- 2nd Adjustment Programme (2012-15)
- 3rd Adjustment Programme (2015-18)

Identifying, at the same time, in which of the thematic areas the contribution belongs to:

- Macroeconomic adjustment and sovereign debt sustainability
- Financial sector
- Structural reforms

All papers included in the current study were semi-quantitatively analysed based on the frequencies of the characteristics of included publications and data extracted. All papers were categorized under three publication types: conceptual papers (including commentaries, editorials, blogs etc.); reviews; and original research papers (**Table *10***).

Table 11. Example of frequencies of the characteristics of the overall sample

	Frequency N = ##	%
Country		
Greece	91	45%
Portugal	8	4%
Italy	6	3%
Spain	5	3%
Germany	3	2%
Europe/Euro /Eurozone/EU	85	43%
Other	2	1%
Year of publication		
2021	1	1%
2020	9	5%
2019	15	8%
2018	15	8%

2017	32	16%
2016	26	13%
2015	38	19%
2014	30	15%
2013	19	9%
2012	15	8%
2011	2	1%
2010	1	1%
Type of Publication		
Conceptual papers	15	8%
Original research papers	185	92%
Thematic areas		
Macroeconomic adjustment and sovereign debt sustainability (TIER I)	28	15%
Financial sector (TIER I)	25	12%
Structural reforms (TIER I)	29	15%
Political Economy (TIER II)	55	27%
Eurozone + area studies (TIER II)	39	19%
Non-Greece (Ireland, Italy, Portugal, etc) (TIER II)	20	10%

Source: Own elaboration

Robustness check

The political nature of the topic would imply that sometimes estimates' dispersion will tend to vary greatly depending on subjective bias, error, etc. As a robustness check, we will perform a review of the policy and compliance reports and literature limited to those reports produced by high-end users, such as European and International policy institutions, foundations, and think tanks listed in the 2019 Top International Economics Policy Think Tanks among the think tanks catalogued in the TTCSP's Global Think Tank Database from the University of Pennsylvania. To ensure high-quality of the evaluation and the construction of a homogenous database, only papers published conforming to a level consisting to ABS list of grade 3* (internationally relevant) or above are considered in this narrower sample.

Annexe 2. Evaluation methods and process

A 2.1. The intervention logic

This Annex describes in detail the intervention logic of each programme.

First economic adjustment programme, 2010 –12

The rationale for the intervention: Why was the first EAP established?

The first adjustment programme was launched in May 2010, to accompany a large financial assistance envelope agreed at the time Greek was about to lose access to financial markets. Financial assistance and the EAP were established to address five specific **needs** of the Greek economy:

- Covering financing needs (estimated at around EUR 193 billion between May 2010 and June 2013)
- Fiscal consolidation and balance of payments adjustment;
- Domestic price adjustment;
- Restoring external competitiveness;
- Addressing tight liquidity conditions in the Greek banking system.

Such needs were estimated to emerge from major **problems.** The first programme outlines several issues that explain the difficult situation of Greece:

- Unsustainable fiscal policies, partly hidden by unreliable statistics and temporarily high revenues;
- Unsustainable pension system, with a gap equal to 14.1% of GDP;
- Rigid labour and product markets;
- Loss of external competitiveness with respect to the rest of the Euro area due to productivity gains outplaced by real wage growth;
- Rising external debt, due to persistent fiscal and external imbalances;
- Confidence crisis affecting the banking sector particularly due to the sovereign-banking feedback loop, resulting in tight liquidity conditions in the Greek banks, which lost access to wholesale markets at end 2009.

The objectives of the first adjustment programme can be presented in a hierarchical order, where the achievement of lower level objectives is normally a pre-condition for attaining the higher-level ones. In this respect, three levels of objectives have been identified:

- **General objectives**, concerning the overall rationale of an intervention and its longer-term and more diffuse effects, i.e. pertaining to the questions: "why has the first programme been set up?" and "what ultimate goal was it expected to contribute to?".

- **Specific objectives**, providing a basis for assessing an intervention in relation to the short-term or medium-term results that occur at the level of direct beneficiaries/recipients of the intervention.

- **Operational objectives**, providing a basis for assessing an intervention in relation to its direct outputs, i.e. "what is directly produced/supplied during the first programme's implementation?".

Based on the Letter of intent, the Memorandum of Economic and Financial Policies, the Memorandum of Understanding on Specific Economic Policy Conditionality and the Technical Memorandum of Understanding, the three levels of objectives have been identified.

General Objective:

- **General Objective #1:** To avoid the sovereign default of a euro area member state in light of the perceived contagion risks to other euro area countries and systemic risks to the financial system.
- **General Objective #2:** To temporarily finance budgetary deficits, with strict limits that decline over time, and until a return to a healthier public finance situation and restored private investors' confidence could be achieved.

Specific Objectives:

- **Specific Objective #1:** To secure fiscal sustainability;
- **Specific Objective #2:** To safeguard financial stability;
- **Specific Objective #3:** To improve competitiveness;
- **Specific Objective #4:** To alter the economy's structure towards a more investment- and export-led growth model.

The **operational objectives** are listed in the first column of **Table 11** in which they are matched with expected outputs and performance indicators.

Table 12 Overview of operational objectives and expected outputs of the first EAP

Operational objectives	Expected outputs
Operational Objective (1): To generate savings in the public sector expenditure and improving governments revenue raising capacity	• Reduction of public expenditure by 7% GDP • Increase in revenues by the equivalent of around 4% GDP
Operational Objective (2): To reassure on the durability of the fiscal adjustment	• Increase the sustainability of the pension system • Increase the cost-effectiveness of the healthcare system • Increase the efficiency and equity of the tax system • Improve tax administration
Operational Objective (3): To manage tight liquidity conditions in the banking sector	• Avoid massive deposit outflows • Provide liquidity support to the banking system
Operational Objective (4): To strengthen banking supervision and anticipate a deterioration in asset quality	• Providing capital support to banks as needed • Maintenance of credit discipline and close monitoring of banks' asset quality in the context of revamping the supervisory reporting system; • Restructuring of state banks (e.g. ATE bank); • Maintain a close coordination between home and host country supervisors with respect to the Greek banks' foreign subsidiaries; • [Avoid market disruption and preserve financial stability and depositor confidence in case of individual bank failures]
Operational Objective (5): To modernise the public sector	• Generate efficiency gains and ensure transparency • Reduce waste and corruption throughout the public administration
Operational Objective (6): To render labour market more efficient and flexible	• Promote employment creation (especially for groups at risk) • Allow cost moderation for an extended period of time
Operational Objective (7): To improve business environment for domestic and foreign investors and bolster competitive markets	• Cut procedure, costs and delays for starting new enterprises • Opening of restricted professions

Source: Authors' own elaboration

The intervention: "what actions are supported by the first EAP?"

Within the intervention logic, activities and inputs represent the means used to address the needs and problems, and to achieve the objectives (see Figure 2 for an overview). In this context, these means largely correspond to the actions of the Memorandum of Economic and Financial Policies and the Memorandum of Understanding on Specific Economic Policy Conditionality.

The first action consisted in providing Greece with financial assistance (which was requested by Greece). The resources were provided by the IMF and the Member States and amounted to EUR 110 billion. They were distributed over time as follows: EUR 38 billion in 2010, EUR 40 billion in 2011, EUR 24 billion in 2012, and EUR 8 billion in 2013[156]. Except for the EUR 10 billion allocated to the Financial Stabilisation Fund, the full amount was projected to be used to cover public sector financing needs. The programme financing came through bilateral lending from euro area member states in proportion to their shares in ECB capital (€80 billion) and from the IMF (€30 billion). Financial support was planned to be disbursed periodically and strictly conditional to a list of policy measures to be implemented over time. The actions envisaged in the Memoranda were grouped under three main headings: fiscal policies, financial sector policies and structural reforms. Below we provide a detailed account of the measures to be implemented.

1. Fiscal policies
    a. Expenditure reduction: cut on public investments; nominal wages and pension frozen for the duration of the program; elimination of the solidarity allowance; reduction of public employment (20% replacement rate rule); reduction transfer to municipalities and local councils; introduction of a means-test for unemployment benefits.
    b. Revenue measures: increase in VAT and excises taxes (fuel, cigarettes and alcohol) and non-alcoholic beverage; increase taxation of liberal professions, luxury goods, high-profitable entities and properties.
    c. Pensions reform: introduction of a contributory system; increase of the retirement age in line with life expectancy; benefits indexed to prices; restriction of early retirement; reduction of the list of arduous professions.
    d. Health sector reform: implementation of double-entry accrual accounting in hospital; improving in pricing and costing mechanisms; centralization of health-related activities.
    e. Tax reform: reduction of tax exemptions and deductions; measures to fight tax evasion.
    f. Tax administration: stronger enforcement and auditing of high-wealth individuals and self-employed; introduction of compliance risk management framework.
    g. Strengthening public financial management (PFM) system and fiscal framework: creation of General Accounting Office (GAO); creation of independent fiscal agency.
    h. Review of the debt management framework.
    i. Strengthening of the Greek Statistical Office and implementation of the Statistical Action Plan.

2. Financial sector policies

[156] The first programme was planned to last 3 years but a new one was agreed before its end, in 2012.

a. Provision of three additional tranches of EUR 15 billion (May 2010), 25 billion (September 2010) and EUR 30 billion (May 2011) of government guarantees on bank bonds to facilitate access by Greek banks to wholesale markets and to increase repo-eligible collateral
b. Creation of Hellenic Financial Stability Fund (HFSF), to provide capital support to banks as needed.
c. Study on strategic options for the banking sector and due diligence analysis of state-controlled banks – Restructuring plan for ATE Bank - unbundling of the commercial activities of HCLF (Hellenic Consignment and Loan Fund)
d. Increase in the frequency and speed of supervisory data reporting.
e. Further development of a comprehensive framework for regularly stress-testing financial institutions.
f. Strengthening of the supervisory framework for insurance companies (The supervisory function was taken over by the Bank of Greece in December 2010 as indicated in the MoU).

These measures were complemented by ECB and the Bank of Greece interventions, such as emergency liquidity assistance (ELA) granted to banks and backed by state guarantees.

3. Structural policies
    a. Labour market: Eliminate asymmetry in arbitration; reform of the legal framework for wage bargaining in the private sector (decentralization); new control system for undeclared work; extension of probationary period; recalibration rules collective dismissal; revision of part-time and temporary work regulations (facilitation use part-time work)
    b. Product market: revision of firing rules and costs; creation of one-stop shops for starting enterprises; implementation of EU Services Directive; reducing fixed tariffs and other restrictions in the legal, pharmacy, notary, engineering, architect, road haulage and auditing professions; strengthening Hellenic Competition Commission (HCC)
    c. Plan for divesting state assets, including of land owned by public enterprises or governments; liberalisation of the energy sectors and transport sector
    d. Income policies: enhancement of social safety net for the most vulnerable

The expected results of the intervention: "what are the expected effects of the actions supported by the first EAP?"

At the time of enactment, the first programme was expected to generate output, outcomes and impacts (i.e. to cause changes) on different categories of stakeholders.

The expected **outputs** of the programme are the most immediate deliverables/products of the funded actions. As the intervention logic looks at a certain intervention by simulating an ex-ante perspective, it is necessary to identify the outputs that were expected to stem from the programme when it was initially adopted. It is worth emphasising that expected outputs should reflect the operational objectives, as identified in previous analytical steps and summarised **Table 11**.

The expected **outcomes** of the programme, which represent the short-term and medium-term changes, are usually connected to the specific objectives and in the first EAP were spelled out as follows:

- To secure fiscal sustainability (specific objective #1)

    - Reduction of the debt to GDP ratio (from 2014);
    - Reduction of net external debt (from 2013);
    - Reduction of the government deficit to below 3% of GDP (in 2012);
    - Reduction of fiscal balance to below 3 percent of GDP (in 2014).

- To safeguard financial stability (specific objective #2) by preserving depositor confidence[157] and financial sector's soundness:
    - Preservation of sound level of bank capital;
    - Management of the tight liquidity conditions;
    - Strengthening of banking supervision and close coordination with host country supervisors
    - Establishing a safety net for the banking sector to cover potential recapitalisation needs and, when necessary, ensure orderly bank resolutions
    - .

- To improve competitiveness and alter the economy's structure towards a more investment- and export-led growth model (specific objectives #3 and #4)
    - Increase labour force participation;
    - Reduce wage escalation;
    - Improve transparency of public sector employment;
    - Reduce state intervention in the real economy;
    - Improve market efficiency;
    - Improve the business environment and bolstering competitive markets;
    - Improve corporate governance, and enhanced oversight of state-ownership;
    - Improve absorption of EU structural and cohesion funds.

As mentioned above, the intervention logic also includes the so-called expected **impacts**, i.e. the changes caused by an EU intervention over a longer period and also affecting the entire society rather than only the direct addressees of the intervention itself. These changes are expected to meet the general objectives of the intervention and in the context of the first EAP consisted in restoring private investors' confidence and avoid a default.

The Second economic adjustment programme, 2012-2015

The rationale for the intervention: Why was the second EAP established?

The first programme was undermined by an unstable political situation, social unrest, issues related to administrative capabilities and a much-deeper-than-expected recession. The implementation of structural reforms was only partially achieved and did not contribute to growth as quickly as was previously forecasted. Moreover, important fiscal targets were missed. Thus, a second adjustment programme was launched in March 2012. The new programme was largely in line with the previous one with three notable differences.

First, it was recognised that the Greek economy had no access to international capital market; thus, it was necessary to use official sources to meet the financing needs of the country. Therefore, this became a clear final objective of the programme, while

[157] Together with avoiding a disruption of the markets, depositor confidence was a key objective of the resolution actions that were undertaken in October 2011 (Proton Bank), at the end of 2011 (T bank) and in March 2012 (Cooperative banks of Achaia, Lamia and Lesvos-Limnos).

in the first programme it was initially assumed that Greece still had limited access to market funding.

Second, in this programme the importance of growth was emphasised, not only as a clearly intended result but also in the structural reforms necessary for the success of the programme, which were defined as 'growth-enhancing' reforms.

Finally, after a deterioration of debt dynamics, debt sustainability became an important objective of this programme. This is also highlighted by the introduction of an entire section, in the review of the programme, focusing on debt sustainability analysis (DSA).

The following needs underlying the second programme are identified:

- Fiscal and balance of payments adjustments;
- ***Debt restructuring;***
- Domestic price adjustments;
- Restoration of external competitiveness;
- Covering of financing needs;
- ***Restoration of access to international capital markets and funding for the Greek banks.***
- Restructuring and recapitalisation of Greek banks

When it comes to problems, the second programme first takes into account the progress in the implementation of the first programme and then indicates three main overarching challenges for Greece, which broadly reflect the ones identified in the first programme:

- Fiscal unsustainability due to ***growing public debt***, persistent deficit, negative GDP growth, failure of the privatization programme and rising unemployment.
- Lack of competitiveness due to the persisting tax evasion, high level of arrears, unsuccessful divesting state assets.
- Financial sector facing liquidity and solvency issues due to its exposure to the sovereign, deteriorating quality of domestic loan portfolio and a steady loss in deposits.

As anticipated above, the objectives identified in the Memorandum of Economic and Financial Policies and the Memorandum of Understanding on Specific Economic Policy Conditionality and the Technical Memorandum of Understanding, are largely in line with the ones of the first programme.

General Objective:

- **General Objective #1:** To avoid the default of a Euro-Area member in light of the perceived contagion risks to other euro-area countries and systemic risks to the financial system.
- **General Objective #2:** To temporarily finance budgetary deficits, in the absence of access to capital markets, with strict limits that decline over time, until a return to a healthier public finance situation and restored private investors' confidence could be achieved.

Specific Objectives:

- **Specific Objective #1:** To secure fiscal sustainability and public debt reduction;

- **Specific Objective #2:** To safeguard financial stability and maintain depositor confidence;
- **Specific Objective #3:** To restore competitiveness and economic growth;
- **Specific Objective #4:** To alter the economy's structure towards a more investment- and export-led growth model;

Some differences, however, are identified when it comes to the operational objectives. Given the problem of debt sustainability and the prominence of the growth-enhancing structural reform agenda, we observe some additional specific objectives. **Table 12** below presents the operational objectives introduced with the second programme and the relative expected outputs.

Table 13 Overview of additional operational objectives and expected outputs of the second EAP

Operational objectives	Expected outputs
Operational Objective (1): stabilize primary balance and allow debt to gradually decline	• Public sector wage bill reduction (reform public sector employee compensation, personnel reduction, control on hiring). • Rationalization and better targeting of social spending (pension and healthcare). • Restructuring of government operations.
Operational Objective (2): To reassure on the durability of the fiscal adjustment through reform of the fiscal institution	• Strengthening fiscal institutions. • Reform of the revenue administration. • Prevent accumulation of arrears and secure control over general government spending. • Strengthening of the Hellenic Statistical Authority.
Operational Objective (3): To support banking system liquidity	• Continuous access to central bank liquidity support.
Operational Objective (4): To create a viable and well-capitalized banking sector that can support economic recovery and sustainable growth	• Resolution of banks that do not raise the capital needed to meet regularly requirement of the BoG, without market disruption. • Further recapitalization. • Strengthening of the Banks' business autonomy de jure and de facto. • Reduction of the NPL.
Operational Objective (5): To render labour market more efficient and flexible	• Adjustment of wage floors and revision of the collective bargaining system (easing contract renegotiation and promoting wage flexibility). • Reduction of minimum wage.
Operational Objective (6): To improve the business environment for domestic and foreign investors and bolster competitive markets	• Reduction of rents and inefficiencies associated with public monopolies. • Reduction of risks for the government associated with the management of public companies. • Privatisation (EUR 5.2 billion by end 2012; EUR 9.2 billion by end 2013; EUR 14 billion by end 2014; EUR 19 billion by end 2015)

Source: Authors' own elaboration

The intervention: "what actions are supported by the second EAP?"

The first action of the second programme consisted of providing financial assistance to Greece. The IMF, through the Extended Fund Facility, and the Member States, through the European Financial Stabilisation Facility, agreed to a bailout of EUR 130 billion plus the undisbursed amount from the first adjustment. These disbursements were subject to strict conditionality. The actions envisaged in the Memoranda can be grouped under three main headings: fiscal policies (including fiscal institution reforms), financial sector policies and structural reforms (including privatisation reforms).

1. Fiscal policies
    a. Expenditure reduction/government primary surplus: public sector wage bill reduction included reform of the public sector employee compensation (revision of the special wages regime), personnel reduction (1:5 hiring attrition ratio), controls on hiring (reduction annual intake into schools for public sector employees; augment the labour reserve annually; eliminate vacant position in the public sector); reduction of the public investment budget (PIB); restructuring government operations (outsource functions, identify redundancies, restructure central and local public administrations).
    b. Pensions reform: changes in supplementary pension funds and pension funds with high average pensions or which receive high subsidies from the budget; reduce with a progressive schedule supplementary pensions above €200 per month; (ii) adopt a framework law to eliminate the structural deficit in supplementary pension funds over time; and (iii) reduce by 12 percent the part for main pensions exceeding €1,300 a month.
    c. Health sector reform: reduce public spending on outpatient pharmaceuticals;
    d. Other social benefit programmes: improve targeting family allowance (exclusion of high income dual earners); revision social spending with an aim to reduce it by 1.5% GDP
    e. Fiscal Institution Reform
        i. Tax reform: introduction of budget-neutral tax reform; removal of tax exemptions and preferential regimes; simplification of VAT and property tax; uniform tax treatment of individual capital; simplified personal and corporate income tax schedule;
        ii. Tax administration: extensive revenue administration reforms (dispute resolution system, use of anti-money laundering tools, upgrading personnel, anti-corruption measures, establishing key functional units, greater control over local tax offices, independence of tax revenue administration, enforcement tax code, tightening control over government spending and fiscal reporting, clearance domestic arrears)
        iii. Hellenic Statistical Authority (ELSTAT): revision of the statistics law to reform ELSTAT governance arrangements; establishment of ELSTAT Board as advisory

2. Financial sector policies
    a. Financial sector reform strategy:
        i. Assessment of capital needs
        ii. Strategic assessment of the banking sector
        iii. Recapitalization and resolution actions
    b. Enactment legislation to support strategy for bank recapitalization and resolution
        i. Capital adequacy requirements
        ii. Technical aspects of bank resolution

iii. Recapitalization framework
iv. Resolution framework
v. Framework for managing NPL

c. Access to central bank liquidity support
d. Financing to provide recapitalization and resolution: EUR 50 billion
e. Enactment of legislation to strengthen governance arrangements in financial oversight agencies
    i. Reform of the Hellenic Financial Stability Fund
    ii. Reform of the Hellenic Deposit and Investment Guarantee Fund

3. Structural policies
    a. Labour market: Structural measures to level the playing field in collective bargaining (length of collective contracts and revisions of the 'after effects' of collective contracts; removal of 'tenure' in all existing legacy contracts in all companies; a freeze of 'maturity' provided by law and/or collective agreements until unemployment falls below 10 percent; elimination of unilateral recourse to arbitration); Adjustment of wage floors (immediate realignment of the minimum wage level determined by the national general collective agreement by 22 percent at all levels based on seniority, marital status and daily/monthly wages; freeze until end programme period, 10% decline youth minimum wage); Adjustment of non-wage labour costs (reduction of social security contribution)
    b. Product and service market reforms: Liberalization of professions; Screen the retail, wholesale, and distribution sectors and prepare an action plan to promote competition and facilitate price flexibility in product markets.
    c. Business environment: improve the functioning of the fast-track investment law; elimination of registration requirements in Export Registry, simplification of licensing legislation;
    d. Judicial System: addressing case backlog in the courts; speed up case processing; improve performance and accountability of Courts, reform of the Code of Civil Procedure
    e. Privatisation: Identification of assets to be privatised for a total amount of EUR 50 billion (appointment of advisors, transfers of assets to privatisation fund (HRADF), preparations of state-owned enterprises, preparation of real estate asset, policy coordination, offer of assets for sale)
    f. Health care sector: improve health system governance, rationalising pharmaceutical spending (prescribing protocols, monitoring/countering overprescribing, increasing the use of generics), reorganisation and improving the management of the health care sector, introduction of centralised procurement.

In addition to the financial assistance and the conditionality, the second adjustment programme introduced a third input to achieve its objectives, namely the private sector involvement to improve the sustainability of Greece's debt. This happened in the spring of 2012, after almost one year of negotiation and the failure of a first proposal. PSI was an exchange of old GGBs for new GGBs[158]. Investors accepting the Greek offer of 21 February 2012 would receive for every EUR 100 of their old GGBs:

- EUR 15 in short-term EFSF securities;

[158] At the moment of the exchange, there were 117 eligible securities with a total nominal amount of EUR 205.6 billion (of which EUR 9.8 billion in 36 securities was guaranteed). Of these, EUR 177.3 billion consisted of Greek-law directly issued GGBs, EUR 6.7 billion was Greek-law guaranteed, EUR 19.9 billion was English-law directly issued and guaranteed, and EUR 1.7 billion was governed by Italian, Swiss or Japanese law. The total Greek debt at the end of 2011 included bonds held by the ECB (EUR 42.7 billion), national central banks (EUR 13.5 billion) and the EIB (EUR 315 million). This additional EUR 56.51 billion was not included in the offer, and Greece swapped these bonds for new ones with identical characteristics apart from their issue date.

- New GGBs of a total face value of EUR 31.5, with maturities from 2023 to 2042 and escalating annual coupons ranging from 2 % to 4.3 %;
- Detachable GDP-linked security that could provide an extra payment stream of up to 1 % of the face value of the outstanding new GGBs if GDP were to exceed the IMF's growth projections for Greece; and
- Payment of all accrued interest under the old GGBs, in the form of six-month EFSF securities.

This implied that Greece offered a substantial amount of near-cash (the 15 % and the accrued interest) and moderately structured GDP warrants to make the offer attractive to investors, who would lose 53.5 % of their nominal principal amount and closer to 70 % in net present value (NPV) terms. In addition, an array of more attractive legal terms for the new GGBs was offered. These were now all governed by English law, and they were subject to a Co-Financing Agreement with the EFSF. In essence, this arrangement ensured that Greece could not default on the new GGBs without at the same time defaulting on the EFSF loan.

While the PSI did not include official sector bondholders, the deepening recession in 2012 made it clear that PSI alone would not be sufficient for Greece to meet repayments and that official sector involvement (OSI) would also be required.

In November 2012, the EU partners agreed to provide debt relief by reducing the net present value (NPV) of their claims while maintaining the position of avoiding nominal direct haircuts, which was considered politically unacceptable. This was made possible by the reduction in interest rates to a fixed 1 % and the lengthening of maturities.

More specifically, the euro area finance ministers and the IMF agreed to:

- lower the interest rate charged to Greece on the loans provided in the context of the Greek Loan Facility (GLF) by 100 basis points;
- lower the guarantee fee costs paid by Greece on the EFSF loans by 10 basis points;
- extend the maturities of the bilateral and EFSF loans by 15 years and defer Greece's interest payments on EFSF loans by 10 years;
- a commitment by EU countries to transfer to Greece an amount equivalent to the income on the Securities Markets Programme (SMP) portfolio accruing to their national central bank starting from the budget year 2013.

The measures were supposed to reduce Greece's debt to 124 % of GDP by 2020 and hence to save at least 50 % of the debt obligations in terms of NPV.

1.1.2.3 The expected results of the intervention: "what are the expected effects of the actions supported by the second EAP?"

As above, the **outputs** of the programme are its most immediate effects, i.e. the deliverables/products of the funded actions. Table 12 above summarises the expected outcomes.

The **outcomes** represent the short-term and medium-term changes that occur at the level of the direct addressees of the programme. Except for the revision of the fiscal targets, the expected outcomes remained largely the same as the first programme:

- To secure fiscal sustainability
    - Reduction of the debt to GDP ratio (117% by 2020)
    - A primary deficit of 1% in 2012
    - A primary surplus of 4.5% in 2014

- To safeguard financial stability and maintain depositor confidence
    - Preservation of the financial sector's soundness;
    - Preservation of sound level of bank capital;
    - Manage the tight liquidity conditions;
    - Strengthen safety net for the banking sector to cover potential recapitalisation needs and, when necessary, ensure orderly bank resolutions

- To restore competitiveness and economic growth and alter the economy's structure towards a more investment- and export-led growth model
    - Increase labour force participation;
    - Reduce labour costs in the business economy by 15% in three years;
    - Improve transparency of public sector employment.
    - Reduce state intervention in the real economy and complete the privatization plan for EUR 50 billion;
    - Improve market efficiency;
    - Improve the business environment and bolstering competitive markets;
    - Improve corporate governance, and enhanced oversight of state-ownership;
    - Improve absorption of EU structural and cohesion funds;
    - Rationalisation of the governance of the health care system.

Finally, with respect to the expected **impacts** of the second programme, they remained the same as the first one, as the general objectives did not change.

The third economic adjustment programme, 2015-2018

The rationale for the intervention: Why was the third EAP established?

The second adjustment programme expired in June 2015, but the possibility of asking for additional financial assistance had been debated since the beginning of the year. In a context of very high domestic political uncertainty, a referendum about the conditions attached to the financial support and tense negotiations, eventually, the Greek government accepted a new adjustment programme. In August 2015, the Eurogroup agreed on additional measures to ensure that Greece's gross financing needs (GFNs) remained at a sustainable level.

The third programme differed significantly from the other two. First, it put debt sustainability at the centre of its analysis of the needs and problems of the Greek economy (Alcidi et al. 2020). In doing so, it moved from a stock- to a flow-based approach to debt sustainability assessment (DSA). The traditional DSA was complemented by an analysis based on GFNs. Based on this approach, the debt re-profiling was identified as one of the needs underlying the new financial support. Second, the third programme put the issues of social justice and fairness for the first time among the needs of Greece by acknowledging the burden of fiscal adjustment on the most vulnerable parts of the society. Third, the programme took stock of the political dissatisfaction generated by the first two adjustment programmes and acknowledges the need for ownership to guarantee the success of the reform agenda in Greece.

When it comes to problems, the third programme broadly reflects the ones identified in the first programme: fiscal unsustainability due to high public debt, high deficit, low growth and lack of investments; financial instability due to high market interest rates which threaten both Greece and the Euro area as a whole; lack of competitiveness due to the persisting tax evasion, high level of arrears, unsuccessful

divesting state assets. In addition, a comparatively weak welfare state is indicated as additional problem in Greece.

The general objectives of the programme remained the same as the first two ones, namely avoiding Greece default and temporary financing budgetary deficits, in the absence of access to capital markets. Similarly, also the specific objectives were maintained, with the addition – however – of two new ones: 1) relaunching investments; and 2) reducing inequalities and creating jobs.

Table 13 below presents the operational objectives of the third programme and the relative expected outputs.

Table 14. Overview of additional operational objectives and expected outputs of the second EAP

Operational objectives	Expected outputs
Operational Objective (1): To ensure sustainable public finance and achieve sustainable primary surpluses	• Increased revenues • Contained expenditure
Operational Objective (2): To reassure on the durability of the fiscal adjustment	• Strengthening fiscal institutions • Reform of the revenue administration • Reduction of arrears and control over general government spending • Enhanced compliance and reduction tax evasion • Strengthening of the Greek statistical agency
Operational Objective (3): To increase the sustainability of social welfare	• Improved sustainability of the pension system and healthcare sector • Provision of immediate support for the most vulnerable groups
Operational Objective (4): To restore liquidity and capital in the banking system and resolution of NPL	• Stronger capital base of banks • Further reduction of NPLs
Operational Objective (5): To strengthen the monitoring of liquidity and asset quality	• Resolution of banks that do not raise the capital needed to meet regularly requirement of the BoG • Recapitalization of banks that regularly raise capitals • Strengthening of the Banks' business autonomy de jure and de facto • Reduction of the NPL
Operational Objective (6): To render the labour market more efficient and flexible, at the same time guaranteeing fairness	• Review of labour market institutions • Reduction of undeclared work • Modernize and expand vocational training and education • Improve capacity building
Operational Objective (7): To improve the business environment for domestic and foreign investors and bolster competitive markets	• Reduction of the administrative burden • Relaunch of investments • Opening of restricted professions • Trade facilitation • Reduction of monopolistic rents and inefficiencies • The liberalisation of the regulated network industries (energy, transport, water)

Source: Authors' own elaboration

The intervention: "what actions are supported by the third EAP?"

As in the case of the other programmes, the first action of the third adjustment programme consisted of providing financial assistance to Greece. The ESM guaranteed EUR 86 billion over three-years (2015-18). These disbursements were subject to strict conditionality. The actions envisaged in the Memorandum can be grouped under three main headings: fiscal policies (included fiscal institution reforms), financial sector policies and structural reforms (included privatisation reforms.

1. Fiscal policies
    a. Increase revenues: abolish the refund of excise tax on diesel oil for farmers; increase the tonnage tax; tax on television advertisements; extension of Gross Gaming Revenues (GGR) taxation; increase of the tax rate on income for rents.
    b. Pension reform: rules on eligibility for minimum guaranteed pensions, improvement the link contributions-benefits, phase out exemptions and integrate social security funds under a single entity.
    c. Health sector reform: expenditure ceiling to pharmaceuticals spending.
    d. Other social benefit programmes: introduction of Guaranteed Minimum Income (GMI).
    e. Fiscal Institution Reform:
        i. Tax reform: review of the income tax; review of the Tax Codes; simplification of the VAT; alignment of property assessment values with market prices (property tax).
        ii. Tax administration: extensive revenue administration reforms with the aim to enhance compliance; fight tax evasion, prioritise action on collectable taxes, improve the collection of tax debt and social security contribution.

2. Financial sector policies
    a. Buffer of up to €25bn to address potential bank recapitalisation needs of viable banks and resolution costs of non-viable banks
    b. Resolution of Non-Performing Loans (NPLs)
        i. NPL monitoring and targets for banks
        ii. Revision of the Code of Conduct for debt restructuring by the Bank of Greece
        iii. Amend the out-of-court workout law to encourage debtors to participate while ensuring fairness among private and public creditors
        iv. Take specific actions to accelerate NPL resolution, including by removing any unnecessary legal or other impediments to NPL servicing and disposal
        v. Amend corporate insolvency law to cover all commercial debtors and to introduce time-bound stay on enforcement
        vi. Amend the law on government guarantees on deferred tax assets
        vii. Judicial framework for corporate and house insolvency matters
        viii. Establish Credit and Wealth Bureau as Independent Authority
    c. Reform of the governance of the Hellenic Financial Stability Fund (HFSF)
    d. Reform of the governance of banks to avoid government interference

3. Structural policies
    a. Labour market and human capital: action plan to fight undeclared work; strengthen the Ministry of Labour capacity building in terms of policy formulation; legislation on VET/apprenticeship; a system for identification of skills need; reform of the education system
    b. Product market: open the restricted professions; eliminate non-reciprocal nuisance charges; reduction of administrative burden;

c. Rationalising pharmaceuticals spending (increasing the penetration of generics, improving negotiations, introducing health technology assessments, pharmaceuticals, improving the financial management of hospitals, improve performance of health care providers

The expected results of the intervention: "what are the expected effects of the actions supported by the third EAP?"

As above, the **outputs** of the programme are its most immediate effects, i.e. the deliverables/products of the funded actions. ***Table 13*** above summarises the expected outcomes.

The **outcomes** represent the short-term and medium-term changes that occur at the level of the direct addressees of the programme. Except for the revision of the fiscal targets, the expected outcomes remained largely the same as the first and second programme. Outcomes are usually connected to the specific objectives below:

- To restore fiscal sustainability and reduce debt
  - Reduction of the debt to GDP ratio
  - A primary surplus of 3.5% in 2015, 2016 and 2017
  - Improved public finance management
  - Increased efficiency and transparency of the Greek public procurement system
  - Sustainable debt path
- To safeguard financial stability
  - Restoration of liquidity and depositor confidence in the banking system, together with access to long-term unsecured funding
  - Completion of the recapitalization process
  - Substantial reduction of NPL by improving the insolvency framework and through the development of NPL secondary market
  - Strengthened governance of the HFSF
  - Strengthened governance of Greek banks
- To restore competitiveness, sustainable growth and investments
  - Strengthened labour market institutions;
  - Enhanced human capital;
  - Improved business environment and competitiveness
  - Increase in private investments
- To modernize the State and the public administration;
  - Increase the efficiency of the public sector in the delivery of public goods and services
  - Enhance efficiency judicial system and upgraded fight against corruption
  - Increased independence revenue administration and the Hellenic Statistical Authority (ELSTAT)
- To create jobs and reduce inequalities
  - Increase employment participation
  - Increased social protection of vulnerable groups

Finally, with respect to the expected **impacts** of the programme, they remained the same as the other ones, as the general objectives did not change.

A 2.2. Evaluation framework

The evaluation criteria are used to build an evaluation framework that contains the following items:

- **Evaluation criteria**, as listed above;
- **Evaluation questions**, as spelt out in the RfS;
- **Success/judgment criteria**, i.e. the operationalisation of the evaluation questions by making the phenomenon for observation explicit;
- **Indicators/targets,** i.e. qualitative and quantitative variables to empirically assess the evaluation questions by applying the success/judgement criteria;
- **Data sources**, i.e. the relevant sources of data for measuring indicators/targets and applying success/judgment criteria;
- **Data collection and analysis methods**, lists the proposed approach to collect data and information from different sources and analyse them in order to answer the relevant evaluation questions.

Table 15. Overview of the evaluation framework

Evaluation questions	Success/judgment criteria	Indicators	Data sources	Data collection / analysis methods
Evaluation criterion #1: Relevance				
1. To what extent was the design of the programmes appropriate in relation to the outputs and the objectives achieved?	• Degree of alignment between stakeholders' perception of needs and problems immediately prior to each programme and the objectives of the programmes. • Suitability of the reforms and their sequencing • Objectives proven to be appropriate given the identified needs	• Share of stakeholders confirming the alignment between needs and problems addressed by the programmes and prevailing needs and problems. • Share of stakeholders confirming the alignment between the objectives of the programme and prevailing needs and problems. • Qualitative assessment of the alignment between the objectives of the programmes and prevailing needs and problems.	• Primary information on needs and problems from the following categories of stakeholders: ○ Programmes and reviews ○ Stakeholders responsible for drafting programmes. ○ Experts. • Secondary information on needs and problems from operational documents, other official documents and economic literature, such as ○ Economic adjustment programmes reviews. ○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector) ○ DG-ecfin sectoral studies (health, energy, privatization and public administration)	• Desk research. • Interviews with the following categories of stakeholders: ○ Greek Authorities ○ European Commission ○ European Parliament ○ Eurogroup Working Group ○ ECB ○ ESM ○ IMF ○ Banking sector ○ Pensions sector ○ Public authorities ○ Social partners ○ NGOs ○ Experts/Academia • Short survey to members of the Economic Financial Committee (EFC). • Quantitative assessment of responses to interviews and surveys (Likert scale). • Qualitative assessment of responses to interviews and surveys and data and information collected via desk research.
Evaluation criterion #2: Effectiveness				
1. To what extent have the programmes achieved their objectives? 2. What have been the qualitative and quantitative effects of the programmes?	• Degree of alignment between actual and expected results of the programme. • Degree of alignment between objectives and actual results of the programme. • Impact of external factors on the	• Share of stakeholders confirming the alignment between actual and expected results of the programme. • Share of stakeholders confirming the alignment between the objectives and actual results of the programme.	• Primary information on needs and problems from the following categories of stakeholders: ○ Programmes; Reviews ○ Stakeholders responsible for drafting programmes. ○ Experts. • Secondary information on needs and problems from operational	• Desk research. • Interviews with the following categories of stakeholders: ○ Greek Authorities ○ European Commission ○ European Parliament ○ Eurogroup Working Group ○ ECB ○ ESM

Evaluation questions	Success/judgment criteria	Indicators	Data sources	Data collection / analysis methods
3. What have been the unintended effects of the programmes?	performance of the programme. • Measurement of the indicators summarising the outputs of the programme (see Table 11)	• Share of stakeholders identifying external factors contributing to/jeopardising the performance of the programme. • Qualitative assessment of the alignment between objectives, expected and actual results of the programme. • Quantitative assessment of performance indicators	documents, other official documents and economic literature, such as ○ Economic adjustment programmes reviews. ○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector) ○ DG-ecfin sectoral studies (health, energy, privatization and public administration) • Quantitative data from macroeconomic databases, publicly available	○ IMF ○ Banking sector ○ Pensions sector ○ Public authorities ○ Social partners ○ NGOs ○ Experts/Academia • Short survey to members of the Economic Financial Committee (EFC). • Quantitative assessment of responses to interviews and surveys (Likert scale). • Qualitative assessment of responses to interviews and surveys and data and information collected via desk research.
Evaluation criterion #3: Efficiency				
1. Could each programme have had a different strategy to achieve its objectives at lower economic and social costs? 2. To what extent were the focus, timing and flexibility of conditionality within each programme appropriate given the information available at that time? 3. To what extent was the implementation of the	• Degree of alignment between stakeholders' views • Consideration of previously produced counterfactual analysis performed by NIESR-CEPS in the preliminary studies on debt sustainability, macroeconomic and fiscal adjustment. • Systematic review of the literature classified for each of the three programmes, as well as by the three thematic areas, namely: macroeconomic and debt sustainability; financial; structural reforms.	• Share of stakeholders confirming that the selection process of the actions is fit-for-purpose. • Qualitative assessment of the alignment between the specific objectives of the programme and the outcomes. • Quantitative assessment of the alignment between the wider policy goals, the specific objectives of the programme	• Primary information on needs and problems from the following categories of stakeholders: ○ Programmes; Reviews ○ Stakeholders responsible for drafting programmes. ○ Experts. • Secondary information on needs and problems from operational documents, other official documents and economic literature, such as ○ Economic adjustment programmes reviews. ○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector) ○ DG-ecfin sectoral studies (health, energy, privatization and public administration)	• Desk research. • Interviews with the following categories of stakeholders: ○ Greek Authorities ○ European Commission ○ European Parliament ○ Eurogroup Working Group ○ ECB ○ ESM ○ IMF ○ Banking sector ○ Pensions sector ○ Public authorities ○ Social partners ○ NGOs ○ Experts/Academia • Short survey to members of the Economic Financial Committee (EFC). • Quantitative assessment of responses to interviews and surveys (Likert scale).

Evaluation questions	Success/judgment criteria	Indicators	Data sources	Data collection / analysis methods
programmes efficient? 4. Were the programme exit strategies appropriate?				Qualitative assessment of responses to interviews and surveys and data and information collected via desk research.
Evaluation criterion #4: Coherence				
1. To what extent were the programmes strategies coherent across the different areas? (internal coherence) 2. To what extent were the programmes strategies coherent with EU policies? (external coherence)	• Degree of coherence among actions in the area of fiscal policies, financial sector and structural reform (internal coherence). • Degree of coherence between the programmes and other EU policies (external coherence). ○ Focus on implementation of EU directives and use of ESI funds	• Share of stakeholders identifying synergies/overlaps between the programmes' areas and objectives • Share of stakeholders identifying synergies/overlaps between the programmes and other relevant EU programmes/policies. • Qualitative assessment of synergies/overlaps between the programmes' areas and objectives • Quantitative assessment of synergies/overlaps between objectives of the programme and other relevant EU programmes/policies.	• Primary information on needs and problems from the following categories of stakeholders: ○ Programmes; Reviews ○ Stakeholders responsible for drafting programmes. ○ Experts • Secondary information on needs and problems from operational documents, other official documents, economic literature, books such as ○ Economic adjustment programmes reviews. ○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector) ○ DG-ecfin sectoral studies (health, energy, privatization and public administration)	• Desk research. • Interviews with the following categories of stakeholders: ○ Greek Authorities ○ European Commission ○ European Parliament ○ Eurogroup Working Group ○ ECB ○ ESM ○ IMF ○ Banking sector ○ Pensions sector ○ Public authorities ○ Social partners ○ NGOs ○ Experts/Academia • Short survey to members of the Economic Financial Committee (EFC). • Quantitative assessment of responses to interviews and surveys (Likert scale). Qualitative assessment of responses to interviews and surveys and data and information collected via desk research
Evaluation criterion #5: EU added value				
1. What was the rationale of a euro area level intervention for each programme?	• Achievement of objectives that could not be otherwise attained with national intervention. • Achievement of objectives at a cost	• Share of stakeholders confirming the need for an EU intervention to achieve the objectives of the programmes. • Share of stakeholders confirming that an EU intervention is able to	• Primary information on needs and problems from the following categories of stakeholders: ○ Programmes; Reviews ○ Stakeholders responsible for drafting programmes. ○ Experts.	• Desk research. • Interviews with the following categories of stakeholders: ○ Greek Authorities ○ European Commission ○ European Parliament ○ Eurogroup Working Group

Evaluation questions	Success/judgment criteria	Indicators	Data sources	Data collection / analysis methods
	lower than what could be attained via national intervention. • Contribution to the advancement of common EU policies. • Stakeholders' perception of the role of the programme in restoring fiscal sustainability, safeguarding financial stability, relaunching growth, competitiveness and investment	achieve the objectives of the programmes at a cost lower than the costs of national interventions. • Qualitative assessment of the contribution to the advancement of common EU policies.	• Secondary information on needs and problems from operational documents, other official documents, economic literature, and books such as ○ Economic adjustment programmes reviews. ○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector) ○ DG-ecfin sectoral studies (health, energy, privatization and public administration)	○ ECB ○ ESM ○ IMF ○ Banking sector ○ Pensions sector ○ Public authorities ○ Social partners ○ NGOs ○ Experts/Academia • Short survey to members of the Economic Financial Committee (EFC). • Quantitative assessment of responses to interviews and surveys (Likert scale). Qualitative assessment of responses to interviews and surveys and data and information collected via desk research

Source: Authors' own elaboration

Stakeholder consultation strategy

Consultation strategy	
Title:	**Ex-post Evaluation on: The economic adjustment programmes of Greece: 2010-2018**
Background information:	Since early 2010, the Greek government was confronted with sizeable fiscal financing needs. Following the worsening of market conditions in April 2010, the government requested financial assistance from the euro area Member States and the IMF. The financial assistance agreed by euro-area EU countries was part of a joint package, with the IMF. In May, Greece signed with the Commission, acting on behalf of the lending Member States, a Memorandum of Understanding (MoU) specifying detailed policy measures that served as benchmarks for assessing policy performance under the financial assistance programme. On 20 June 2011, euro area Ministers agreed that the required additional funding of the Greek programme would be financed through both official and private sources, i.e. a voluntary private sector involvement. On 14 March 2012, euro area finance Ministers approved financing of the second economic adjustment programme of Greece. Greece and the Commission, acting on behalf of the EFSF, signed a new MoU laying down the conditionality of the assistance. After the second programme expired on 30 June 2015, the Greek government made a formal request for stability support from the ESM and signed a third MoU. In 2018, the conclusion of the ESM stability support programme marked the end of the 8 years of financial assistance programmes

Consultation objectives and scope	
Objectives:	During the evaluation process, a number of consultation activities are foreseen in order to collect views and opinions on seven evaluation criteria: • Relevance, i.e. the alignment between the objectives of the programmes and the current needs and problems experienced by stakeholders; • Effectiveness, i.e. the extent to which the programmes have achieved their objectives; the qualitative and quantitative effects of the programmes; and the unintended effects of the programmes; • Efficiency, i.e. the extent to which the programme's objectives are achieved at a minimum cost; the appropriateness of the focus, timing and flexibility of conditionality within each programme, given the information available at that time; the appropriateness of the exit strategies; • Coherence, i.e. the alignment between the programmes and comparable EU initiatives as well as the overall EU policy framework; • EU added value, i.e. the additional impacts generated by the programmes, as opposed to leaving the subject matter in the hands of Member States;
Scope:	For each consultation activity, the following tables present the targeted stakeholder groups and the addressed evaluation criteria. **Consultation activity: In-depth interviews**

	Relevance	Effectiveness	Efficiency	Coherence	EU-added value
Greece institutional representatives (government, central bank, national authorities)	✓	✓	✓	✓	✓
"Lending" institutions (EC, IMF, ESM, ECB)	✓	✓	✓	✓	✓
Private sector (Banks, hedge funds, pharma)	✓	✓	✓	×	×
Social partners	✓	✓	×	×	×

Non-governmental organizations	✓	✓	×	×	×
Experts	✓	✓	✓	✓	✓

Consultation activity: Targeted online survey

	Relevance	Effectiveness	Efficiency	Coherence	EU-added value
Greece institutional representatives (government, central bank, national authorities)	✓	✓	✓	✓	✓
"Lending" institutions (EC, IMF, ESM, ECB)	✓	✓	✓	✓	✓
Private sector (Banks, hedge funds, pharma)	×	×	×	×	×
Social partners	×	×	×	×	×
Non-governmental organizations	×	×	×	×	×
Experts	×	×	×	×	×

Consultation activity: Validation workshop

The workshop is open to the public, registration is required. It aims to stress test and validate the analysis and findings of the evaluation. The workshop will give an opportunity to the experts to learn more about the evaluation itself and its preliminary findings and will give the participants the occasion to provide valuable feedback on the different aspects of the programme under evaluation.

	Relevance	Effectiveness	Efficiency	Coherence	EU-added value
Greece institutional representatives (government, central bank, national authorities)	✓	✓	✓	✓	✓
"Lending" institutions (EC, IMF, ESM, ECB)	✓	✓	✓	✓	✓

	Private sector (Banks, hedge funds, pharma)	×	×	×	×	×
	Social partners	×	×	×	×	×
	Non-governmental organizations	×	×	×	×	×
	Experts	✓	✓	✓	✓	✓

Identification and mapping of stakeholders

Stakeholders:

The ISA² programme aims at making public administrations more interoperable, thus enabling them to provide more user-centric digital public solutions to businesses and citizens. Consequently, besides the European public administrations, the programme may have positive impacts on citizens and businesses as well. Moreover, as the interoperability solutions, developed by ISA² and by its predecessor programme ISA, are made available for use free of charge they can reach a broader audience – like researchers, ICT communities or practitioners. Relevant stakeholders' categories are outlined in the following table.

Category	Stakeholders
Greece institutional representatives (government, central bank, national authorities)	▪ Prime ministers of Greece ▪ Ministries of finance ▪ Government officials ▪ Bank of Greece ▪ Greece Member of the European Parliament
"Lending" institutions (EC, IMF, ESM, ECB)	▪ DG ECFIN ▪ DG EMPL ▪ European Working Group ▪ IMF Athens Office ▪ ESM Management Board ▪ ECB – DG Economics ▪ Economic and Financial Committee
Private sector (Banks, hedge funds, pharma etc.)	▪ Hellenic Bank Association ▪ Hellenic actuarial authority ▪ Unified Social Security Fund ▪ Hellenic Union of Institutions for Occupational Retirement Provision ▪ Panhellenic Union of Pharmaceutical Industry ▪ Greek Chambers of Commerce ▪ Economic Chamber of Greece ▪ Piraeus Traders Association
Social partners	▪ Hellenic Federation of Enterprises ▪ Greek General Confederation of Labour
Non-governmental organizations	▪ Hellenic Red Cross ▪ Director Caritas Hellas ▪ Medicines for Europe
Experts	▪ Academia and research institutes ▪ Areas of expertise: macroeconomics, labour laws, health economics, industrial relations, social and employment policies and finance

Selection of consultation activities & their accessibility

Consultation activities:

Given the scope and the composition of the stakeholder base, the following activities are foreseen in the consultation process. All consultation activities will take place between Q4 2018 and Q1 2019.

	• In-depth interviews with selected stakeholders from the following categories identified above: Greece institutional representatives (government, central bank, national authorities), "Lending" institutions (EC, IMF, ESM, ECB), Private sector (Banks, hedge funds, pharma etc.), Social partners, Non-governmental organizations, Experts. • An online survey targeted to all stakeholders belonging to the following categories identified above: Greece institutional representatives (government, central bank, national authorities), "Lending" institutions (EC, IMF, ESM, ECB) • A full-day 'validation' workshop, open to all interested stakeholders.
Accessibility:	• In-depth interviews will be conducted in English (and Greek), either face-to-face or via teleconference, based on a written questionnaire that will be provided to interviewees in advance. • The targeted online survey will be accessible on the EUSurvey platform via a dedicated link. The survey will be drafted in English and only answers in English will be accepted. The link to the survey will be distributed as widely as possible to the targeted categories of stakeholders. • The 'validation' workshop will be hosted by the Commission around the time of the submission of the draft final report. The sessions could be take place over two days in case the event will take place online, due to travel restrictions which may still be in place. In this case, the possibility to web stream the workshop could be envisaged, in accordance with the client.

In total 60 stakeholders have been interviewed between mid-February and end of May 2021.
The targeted survey was launched on 15 April 2021 for four weeks (until 13 May). Fifteen out of the 19 members of the EFC responded to the survey.

Triangulation

Triangulation allows for increasing confidence in collected data and providing a clearer understanding of the problem. Triangulation is part of the quality strategy for this assignment and ensures the validity of the results. Validity requires checking "whether the findings of a study are true and certain: "true" in the sense that research findings accurately reflect the situation; and "certain" in the sense that research findings are supported by evidence". In this respect, the Team will rely on three different type of triangulation to provide a solid basis from which robust conclusions can be drawn:

- **Triangulation of data**. For each evaluation questions, data are collected from multiple sources and stakeholders.
- **Triangulation of methods**. For each evaluation question, data will be collected via at least two different data collection methods (e.g. semi-structured interviews, targeted questionnaire, and desk research).
- **Triangulation of evaluators**. All members of the Core Team and Support Team will be involved in data collection activities; in addition, each evaluation question will be addressed by at least two members of the Core Team. Hence, conclusions will be determined by at least two evaluators.

Strengths and limitations

The evaluation process has been robust and the data gathered has been reliable. The process has benefitted from the skills and knowledge of the team, the comments of the ISG, the validation workshop with informed experts and stakeholders. In addition, a significant volume of literature and data was available as well as the thematic background studies which served as basis for the evaluation.

Although the evaluation was made several years after the beginning of the first programme, the team did not encounter major difficulties with respect to to the non-availability of individuals involved in programme design/implementation. A number of officials who are now retired or have a different position openly and frankly recollected

facts and shared their view. While current representatives from some institutions did not participate in phone/video interview, they provided written responses to an ad hoc questionnaire and/or comments on the main findings of the report.

Although, the Greek programmes were charge of political meaning, and stakeholders and experts tended to stress different angles and views, different sources of evidence converged sufficiently to provide reassurance to the assessments made in this report.

Yet, a key point to keep in mind is that the under the Greek programmes, especially the first two, uncertainty was extremely high and the overall context was very complex and complicated. For this reasons, a clear-cut judgement always requires qualifications. While each of the individual sources of evidence (data, literature, stakeholder consultation) may be subject to specific weaknesses, strong contradictions in views were limited and are duly highlighted in the report.

The main limitation of this evaluation should be found in detailed results of the empirical exercises conducted to estimate counterfactual scenarios. Given the importance of the political context and of institutional features in shaping the dynamics of the programmes, the outcome of counterfactual analyses based on quantitive/economic inputs only should be taken with a pinch of salt. Their value added is in giving a broad sense of where Greece could have been, all things equal.

Overall, the conclusions on programmes’ achievements can be considered strong.

Questionnaire guidelines

Building on the general questionnaire guideline (see below) which was filled in by a few interviewees, the team developed a guideline with 10 broad, open questions, which was used in interviews with high level officials (both from EU institutions and the Greek government). Furthermore, adapted interview guidelines were prepared for specific stakeholders, like social partners and NGOs, but also for stakeholders with sectoral expertise in the banking sector, labour market, social protection and pensions. Such guidelines are available on request.

General Interview Guideline

PART I – General

EUVA.01 What was the **rationale** for a **euro area level intervention** in the Greek crisis?

EFF.01. To what extent the programme achieved its main **objective**? Did the programme have the intended consequences? Why?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme (restore market confidence)						
2nd programme (debt sustainability)						
3rd programme (fiscal sustainability)						

REL.01 Given the information available at that time, to what extent was the **design of the programme appropriate** in relation to the objectives?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

REL.01a What were the relevant measures? What were the non-relevant measures?

REL.02 To what extent were the **objectives of the EAP appropriate** given Greece needs? Were they realistic?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

REL.03 To what extent the programme took into account, in a proper manner, Greek:

- Economic structure features (low domestic savings, limited openness etc.)

- Institutional features
- Social conditions
- Other

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFF.02 Did the programme have **unintended effects**? If yes, which ones?

	No	Yes, minor	Yes, large	Yes, they should have been foreseen	Which ones
1st programme					
2nd programme					
3rd programme					

EFF.03 How was the design/implementation of the programmes affected by the economic situation/political developments (e.g. elections) in other euro area countries?

	Negatively	Somewhat negatively	Neither positively, nor negatively	Somewhat positively	Positively	Comments (consider trust, credibility etc.)
1st programme						
2nd programme						
3rd programme						

EFF.04 How did the **political developments** in Greece affect the effectiveness of the EAP?

	Negatively	Somewhat negatively	Neither positively, nor negatively	Somewhat positively	Positively	Comments (consider trust, credibility etc.)
1st programme						
2nd programme						

3rd programme						

EFF.0.5 – Were the programmes flexible enough in relation to exogenous factors or shortfalls against key deliverables?

	No	Only partially	To some extent	Yes	Comments
1st programme					
2nd programme					
3rd programme					

EFY.01 To what extent the **implementation** of the EAP was efficient (e.g. delays, political support)? Why?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFY.02 To what extent have the **social implications** of the EAP been taken into account in the design of the programme?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFY. 0.3 Were the programme **exit strategies** appropriate?

	No	Only partially	To some extent	Yes	Comments
1st programme					
2nd programme					
3rd programme					

COH.01 To what extent was the **programme's strategy coherent** with its objectives across the different policy areas?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

COH.02 To what extent **financial assistance** was coherent with the **timing** of the EAP?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

COH.03 To what extent was the programme’s strategy coherent with **EU framework and policies**?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EUVA.02 What was the main **EU added value** in response to **Greek needs**?

	None	Low	Medium	High	Comment
Joint financial assistance					
Technical assistance					
Push for the reform process					
Monitoring of implementation					
Debt sustainability					
Support to the banking sector					
Credibility vis-à-vis Financial markets					
Other: specify					

EUVA.03 To what extent the **subsidiarity** principle was taken into account in the design of the programme?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EUVA.04 To what extent the measures envisaged in the programme were **proportional** to the severity of Greece' needs?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

PART II – M*acroeconomic adjustment and sovereign debt sustainability*

REL.04 To what extent was the design of the **macroeconomic trajectory** appropriate to achieve the required adjustment of the economy?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

Was the quality of the adjustment (e.g. category of expenditure cuts, trade-off consolidation –growth etc.) taen into consideration?

EFF.06 To what extent the **fiscal adjustment** (expenditure cuts, tax hikes, pension and health sector reforms) contributed to **fiscal sustainability**? How?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFY.04 To what extent the **fiscal adjustment** pattern led to economic **recession**? Why?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFY.05 To what extent the **fiscal adjustment** led to **social cost**? Why and how?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFF.07 To what extent did **Private Sector Involvement (PSI)** contribute to debt sustainability? Why?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

- Would an earlier PSI have been a realistic option?
- Would it have been more effective in reducing debt?

EFF. 08 To what extent did **Official Sector Involvement (OSI)** contribute to restore market access? How? (Please refer to the two debt reprofiling events, in 2012 and 2017)

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

EFY. 06 Would an earlier **OSI** have assured a less costly fiscal sustainability? Why? Was a realistic option?

REL.05 To what extent **debt restructuring** (both PSI and OSI) was necessary to respond to Greece needs? Why?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

EFF. 09 To what extent did the **privatisation plan** contribute to achieve fiscal sustainability?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

- What was the impact of the plan?

EFY.07 Did the **privatisation process** led to benefits?

None	Very low	Low	Substantial	High

- Was the privatisation plan a realistic strategy for debt reduction?
- Was the privatisation plan an efficient strategy to improve the structure of the economy?

PART III – *Financial sector*

EFF.10 To what extent the measures taken for the **banking sector** were successful in addressing issues related to:

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
Liquidity conditions						
Market confidence						
Financial stability						

EFF.11 To what extent **ECB extraordinary measures** succeeded in stabilizing the Greek banking system? How?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

EFF.12 To what extent were programme policies successful in addressing **NPLs**? How? What specific policy measures?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

EFF.13 To what extent was the programme successful in improving the **governance of Greek banks**?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

- Was the role of the Hellenic Financial Stability Fund adequate?

EFY.08 To what extent the **weaknesses of the banking sector** were properly taken into account in the design of the programme?

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
1st programme						
2nd programme						
3rd programme						

EFY. 09 To what extent **PSI** lead to cost for the banking sector? Why?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

- Did the PSI led to any benefit for banks?
- Did the design matter?

REL.06 To what extent the approach to **recapitalisation** of the banking sector was necessary and appropriate?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

REL.07 To what extent a **deeper restructuring** of the banking sector would have been appropriate?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

PART IV– *Structural Reforms*

REL.08 To what extent was the design of the **labour market reform** (e.g. decentralization of wage bargaining; revision of firing rules and costs; reduction of minimum wage; cuts in non-wage labour cost) were successful in **restoring competitiveness**? Which one and why? Were the goals realistic?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

EFF. 14 To what extent changes in relative **wages and prices** been supportive of the sought-after economic **reallocation** towards tradable sectors? Did they have other effects?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments

EFY.10 To what extent **labour market reforms** (e.g. decentralization of wage bargaining; revision of firing rules and costs; reduction of minimum wage; cuts in non-wage labour cost) led to**:**

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
Social costs						
Social benefits						
Economic costs						
Economic benefits						

- Were the potential costs taken into account through mitigation or compensatory measures?

REL.09 To what extent was the design of the **product market reform appropriate** in relation to the objective of fostering **competitiveness** and growth? Were the goals realistic?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

EFF.15 To what extent the **product market reforms** had an impact on **growth/productivity and employment**? Why?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments

EFY.11 To what extent the **product market reforms** led to:

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
Social costs						
Social benefits						
Economic costs						
Economic benefits						

Which cost? And why? (timing, focus and implementation)

EFY. 12 To what extent **pension reforms led to:**

	Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent	Comments
Social costs						
Social benefits						
Economic costs						
Economic benefits						

Which cost/benefits? And why? (timing, focus and implementation)

REL.10 To what extent was the design of the **pension reform appropriate** in relation to the objective of fiscal sustainability? Was the goal achieved?

Not at all	To a very limited extend	To a limited extend	To a large extent	Full extent

Annex 3. Synopsis of the in-depth interviews

A non-exhaustive and non-specific summary from the replies to the interviews is reported below. The reference to 'respondents' or 'stakeholders', 'interviewees' or similar references must not be interpreted as majority, tendency, unanimity or necessarily 'more than one'. This summary aims at providing an overview of the main controversial assessments mentioned in at least two replies. This is not a statistical exercise based on sampling, representativeness and questions with open answers. Of course, not all opinions could be reported, but they have been duly taken into consideration in the analysis.

General assessment

Representatives from the lending institutions are relatively consistent in assessing the level success of the three economic adjustment programmes as quite different. Regarding the appropriateness and the realistic objectives of the three programmes, representatives from the lending institutions have a generally positive assessment of the third programme and to some extent of the second programme. The main limit of the third programme was the inability to foster growth. By contrast the second programme is considered as relatively successful but the political instability of 2015 is unanimously judged as one of the worst moment of the Greek programmes period and what made necessary the third programme.

The first economic adjustment programme receives a less positive assessment. This is attributed to the fact that the first programme had to be set up within a very quick time in a very difficult political context, with very little established formal instruments, to deal with the magnitude of the economic crisis in Greece. The standard design and time-horizon did not fit the case of Greece which was special in many respect.

There is also general agreement that the social implications of the adjustment have been taken into account (to a large extent) only in the third economic programme. A few interviewees however stressed that the social dimension was somewhat present through the design of the EAPs, others that it was up to the Greek government to take care of the social impact, but no imitative was taken and the existing safety nets were inappropriate.

During the interviews it became apparent, that several representatives considered the 1st programme as a steep learning curve. Important weaknesses of the Greek economy were understood only in the course of the first programme (not before) and addressed in the two subsequent programmes.

Taking the three programmes as a whole, and looking at the intended outputs, the representatives from the lending institutions assessed the conditionality measures as largely appropriate and proportional to the severity of the Greek needs (more so for the third and second programme and less so for the first programme). There is only slight disagreement with regard to the design of the measures and the sequencing of reforms. Most interviewees argued that the insistence on an extremely strict fiscal policy and large primary government surpluses was necessary. A strong frontloaded fiscal effort upfront (first programme) helped to avert repeated calls for more measures later on. Some of the interviews further stress that the fiscal adjustment could not have been carried out in a more gradual approach due to the large amount of sovereign debt accumulated by Greece and the huge financing needs. However, some interviewees believe that, with hindsight, a more gradual implementation approach of fiscal austerity could have been considerably less damaging for economic growth. Lastly, some interviewees pointed out that the debate about the sequencing of reforms and fiscal adjustment is somewhat misleading in the context of the first EAP. Given the huge fiscal deficit and financing needs, at that time, it was unrealistic to consider that reforms could come before the fiscal adjustment.

The attitudes of representatives from the Greek authorities vis-à-vis three economic adjustment programmes are very mixed. Overall, Greek stakeholders provide a less positive overall assessment of the three economic adjustment programmes if compared to the representatives from the lending institutions. On the one hand, the majority of Greek stakeholders agree that the overall focus of the economic adjustment programme was appropriate for achieving the main objectives, given the challenges that brought Greece to request financial assistance. On the other hand, some see the objectives, especially of the first programme, as too ambitious, politically impossible, self-defeating and even driven by the national interest of some lenders.

While the majority of Greek stakeholders agree with the necessity of the first and second economic adjustment programme, some respondents argued that the third economic adjustment programme could have been avoided if there had been more political stability in Greece.

With regard to the design of the programmes, there is general agreement across most Greek stakeholders that the first programme can be regarded as an ad hoc intervention whose main assumptions proved to be unrealistic and overly optimistic (e.g. rebalancing the economy and fiscal adjustment within three years; impact of austerity on GDP, unemployment and poverty).

In line with the findings for the Representatives from the lending institutions, Greek stakeholders point out that the social costs were highest under the first programme as there was little attention to the social implications of the fiscal austerity measures. The majority of Greek interviewees also believe that the possible social implications of the adjustment have received the highest attention in the 3rd programme and to some extent already in the 2nd programme.

When it comes to the sequencing of the three programmes, responses are mixed. Some respondents argue that the programmes did not intend to implement structural reforms from the beginning, but focused primarily to address the fiscal deficit. Another group of respondents, however, highlight that structural reforms were an important part of the programmes from the very beginning but that the timing of reforms was wrong in some sectors (for example, frontloading labour market reforms without having in place an adequate social welfare system). Several respondents would have welcomed a more backloaded austerity policy and a more gradual fiscal adjustment, whereby the focus should have been on promoting structural reforms first with some forms of financing for investment to fill financing/investment gaps in the public sector and private sector.

Fiscal policy

Overall, most interviewees tend to agree that the fiscal adjustment did eventually improve fiscal sustainability, however, most point to potential improvements to different aspects of design and implementation of the measures.

All lending institutions representatives agree that there was a discrepancy between the planning of the programmes and how they deployed in practice. Some lending institutions representatives assess the fiscal and macroeconomic adjustment of Greece as not optimal in the first EAP. **Some point to lack of sufficient planning of the country's macroeconomic trajectory**, due to the urgency and short timeframe to design the programmes, and/or a limited understanding of Greece's conditions and inadequate cooperation and communication between Greece and lending institutions. In practice, shortcomings and side effect led to different outcomes than expected. For instance, under-spending from Greece's side in an attempt to reach fiscal objectives, limited absorption capacity of EU funds, limited credibility for the markets which increased losses.

Several representatives of the lending institutions are believers that **front loading the fiscal adjustment was an appropriate way to address Greece's situation**. They support that frontloading is necessary for political reasons, while reforms require longer timeframes to be designed, approved, and implemented. In addition, recovery was expected to be quicker than in practice.

Interviewees from the Greek government and authorities highlighted a few issues regarding the fiscal and macroeconomic adjustment, while acknowledging the particularities of Greece as part of the Eurozone and lack of experience in dealing with such programmes both from the Greek side as well as the lending institutions. A few interviewees, indicate that **the country's administrative capacity and potential was overestimated** (especially in the design of the first programme) at the beginning, and **a more gradual fiscal path and as a more long-term trajectory** - as it happened in practice, throughout the three programmes- **would have been more beneficial** if designed as such from the beginning. For instance, some consider that while a fiscal adjustment was necessary, a longer timeframe would be required for an economy in recession. However, some raised the concern, that this would not be feasible politically. Most interviewees consider the fiscal consolidation responsible for the recession, but it's unclear what alternative approach could have been followed given the constraints. Overall, Greek government and authorities reckon that **throughout the programmes the objectives were becoming more rational and realistic.** For instance, the multiplier during the first programme was much higher than expected. After assessing the effects of the first programme a reduced multiplier was used.

Other interviewees, from academia and civil society, point to some shortcomings of the fiscal adjustment. These include the lack of proper design and implementation of the first programme, which is why the subsequent two were necessary. In addition, some criticize the **extensive use of tax measures, as well as cuts to salaries and pensions, to ensure fiscal consolidation, which had a negative impact on economic activity**.

Most interviewees argue that **earlier PSI (i.e. in 2010) would have certainly been optimal and economically advantageous for Greece,** bringing earlier market confidence, however, there are significant reasons to believe this was not a realistic option. Several reasons were mentioned during the interviews including:

- The need for long and complex discussion with all involved stakeholders (e.g. Greek government, ECB, IMF);
- Initial opposition to the idea by certain stakeholders (e.g. ECB, US affecting IMF);
- The idea of conditionality, i.e. that financial assistance should have as prerequisite the implementation of reforms, which was dominant at the time;
- The risk of adverse spill overs given the lack of firewalls in Europe considering how close after the global financial crisis these strains materialized;
- The political cost and political unpreparedness at a time that a few interviewees claim that there was lack of political ownership by the Greek government and a conflictual political system;
- Insufficient money for an early PSI, which would mean that investors, such as private banks would have suffered more;
- The absence of relevant mechanisms;
- The structure of the Greek economy, lacking bigger players with tradition of coordination that could have enabled more private sector engagements.

Several interviewees state that the PSI reduced the stock of Greek debt. Regarding the **negative effects of the PSI**, some interviewees, indicate that these **were to some extent foreseeable (i.e. creating issues of liquidity at times, losses for banks and weakening of the banking sector, disproportionately affecting small investors),**

and rather significant. Even-though it is not possible to quantify those, some interviewees indicate that these effects were by comparison not as negative as the effect of the fears of collapse of the programme leading to capital controls and increase of NPLs. A potential improvement would be to target specifically NPLs.

A few interviewees indicated that late PSI led to more pains than gains, considering the need for recapitalisation of the banks, questioning its necessity altogether, due to amongst other increased market uncertainty. In addition, some stressed, that even in the scenario of an earlier PSI, it should have not replaced structural reforms and other measures, but in terms of order, first PSI and then structural adjustments is more logical.

Similar to the discussion on the PSI, many interviewees indicated that **OSI was necessary for debt sustainability and needed early on (even before 2011)**. Some stress that **OSI needed to be complementary and not substitute to other measures** (i.e. structural reforms), in this sense it was properly sequenced and well received by the markets. Regarding the timing of OSI, the macroeconomic environment with a shrinking euro area economy, was not favourable for additional concessions and the relation between Greece and the lender tense.

Overall, with insights, some interviewees supported the view that an earlier OSI would have higher benefits such as through its impact on the gross financing needs, leading to earlier access to markets and better fiscal sustainability. One interviewee noted, however, that OSI would not have had a sensible impact if applied to a small amount of debt. From this perspective, it only made sense when most of the Greek debt was in "official hands".

Another criticism shared referred to the fact that despite the almost 300 billion lent to Greece not much reached the Greek economy and promoted growth, and EU banks were protected before anything else.

Financial stability

Representatives from the lending institutions assess the financial stability in Greece achieved to some extent. All interviews agree that the Greek crisis was not a banking crisis, but the sector had structural weaknesses, not least related to the governance, that emerged only over time.

Some interviewees point at a very low starting point, referring to a problematic banking sector, which several issues (e.g. high number of NPLs, governance issues, lack of banking union and proper supervision) and identify measures on the governance as well as other measures (electronic auctions, NPE service licenses) as essential improvements.

Amongst the successful measures that interviewees listed are the governance measures such as the changes in the composition of the board members, adding members with less political exposure and higher experience with key issues. The impressions regarding the set-up of HFSF were varying as due to losses it was impossible to recuperate money.

Moreover, **liquidity is recognised as constant major issue for banks**, and of which political instability and Grexit fears (which drove deposit flight) were among the main drivers. Central bank's financial support (through the Eurosystem and through ELA) is unanimously mentioned as key in addressing the issue and supporting the banks survive the shock. The introduction of capital controls is considered necessary given the crisis and loss of depositor confidence. While necessary, the introduction of capital controls was also costly by limiting access to finance, increasing costs for domestic and cross-border transactions, and undermining confidence.

Recapitalisation of the banks was deemed by many interviewees as necessary, in particular to restore market confidence. Even though, capital needs might have initially been underestimated, overall, representatives from the lending institutions also perceived it as s**uccessful for the four main systemic banks**. The **resolution of smaller banks and the absence of market disruption was also considered as successful.**

On the other hand, despite the efforts during the third programme to address **NPLs, the ratio remains very high. This is seen by most as a key remaining challenge.** Weak core profitability, market values of NPEs below book valuation, and lukewarm investor interest given the risk of dilution from the high and rising share of Deferred Tax Credits (DTCs) in bank capital impeded faster organic solutions. On the policy front, the Greek and European authorities relied on financial engineering to reduce NPEs without triggering DTC conversion or high, upfront, fiscal costs, while adhering to EU-wide state aid rules. Interviewees indicate that **NPL ratio rose throughout the programmes**, the overall shape of the economy is deemed responsible during the first two programmes. Regarding the third programme some point to the measures for protection of borrowers as responsible for the collapse of a payment culture. Unlike Ireland and Spain no asset management company was set-up in Greece to address the issue yet, due to weak finances, also there was an attempt to avoid nationalisation of the banks and lack of appropriate tools to address the issue, some also point to issues with the judicial system as partly responsible for the high percentage of NPLs. Regarding the possibility of a deeper restructuring, some representatives from the lending institutions argue that higher foreign bank involvement would have been beneficial, by enhancing competition and market dynamism.

Interviewees from the Greek government and authorities also highlighted **NPLs as a still burning issue of the banking sector**. On top of the aforementioned arguments, they indicated political opposition, lengthy judicial processes, initially high number of non-payers as key factors for the persistence of the issue. Some interviewees propose as the most effective solution the establishment of Bad Bank early on, is that way the situation would have not been affected as heavily by the economic situation. In addition, many stressed the **collateral damage of the equity capital of Greek banks after the debt restructuring, which led to banks facing a negative equity**. This situation made recapitalisation rather hard, and the process had negative impacts on the banks' market (e.g., having to withdraw their branches from the Balkans, due to state aid, consolidating the number of banks from more than 60 to four systemic banks). Some argued that the recapitalisation was a very expensive process, as only public money was used, capital levels increased much above the supervisory limits, but led to a delusion of private investors. Also Greek government and authorities highlighted the vast negative impact of the political instability, harsh negotiation processes and fear of Grexit leading to deposit outflows and was the reason to implement capital controls. This led to a need for further capital injections in the coming years. **Regarding governance aspects**, some indicated that both the changes in the composition of boards, the enhanced transparency, new tools and procedures, new audit systems and the establishment of HFSF **were important improvements modernising the rather traditional banking system and bringing it up to European standards**. One interviewee considered the governance restructuring as going too far, beyond what was necessary.

Structural reforms

Representatives from the lending institutions evaluate the structural reform measures as mixed, as progress in implementation varies across different sectors. In terms of implementation some interviewees note that a number of reforms have not been implemented or have been implemented only partially. Those include

privatisations, public sector reforms regarding the functioning of public administration and governance of state-owned entities. Several interviewees also highlighted the sequencing and impact of labour market reforms versus product market reforms. While there was to some extent visible progress in certain labour market reforms, product market reforms went much slower. This caused a big problem because the two sides of the market, labour and capital, faced reforms at a different pace, which affected power in the economy and hence income distribution, creating yet another challenge in the implementation of the EAPs. Several interviewees pointed out that the pension reforms (in particular the establishment of the central administration of EFKA, and the increase of replacement rate of the main pensions), were one of the most beneficial area of reforms. Thanks to the EAPs, far-reaching reforms such as the improvement of its long-term sustainability, generating fiscal savings and consolidating its fragmented structure, could be realised which in turn contributed to the aim of fiscal consolidation, given that pensions were the backbone of the Greek social protection system taking up the largest share of social expenditure. However, it is acknowledged that significant challenges remain, such as the relatively high contribution rates and the pension system's burden on the economy.

Greek stakeholders also have split views on the structural reforms part of the programme. They also report a mixed track record in line with the opinion expressed by some representatives from the lending institutions. Several Greek respondents note a number of reforms have not been implemented or have only been implemented partially. Examples mentioned include that few privatisations have taken place and judicial and public administration reforms have been moving rather slowly. Among the main factors contributing to the success of the programme, structural reforms are rarely mentioned with a few exceptions.

The big majority of representatives from Greek authorities greatly acknowledge that many of the reforms of the Greek welfare system (employment, social assistance, pensions, health care) were unlikely to have been pursued without the impetus of the EAPs. However, many Greek respondents point out that the major structural reforms of the Greek welfare system consisted of both austerity and social protection initiatives, albeit skewed to the former. To be more specific, during the first EAP the majority of policy conditions on reforming the Greek welfare system were focused on austerity measures while a social safety net of last resort was not in place. The 2nd EAP was also directed primarily at austerity measures even though a few social protection measures were introduced (such as the introduction of the guaranteed minimum income as pilot project (2014-2016), unemployment assistance and employment activation policies). Greek stakeholders noted that besides several austerity measures, the 3rd EAP also included significant social policy initiatives. In the area of social protection reforms, several Greek stakeholders greatly acknowledged the successful universal enforcement of the guaranteed minimum income with a link to employment activation from 2017 onwards. However, it is also noted that public spending for social protection remains low by European standards and more could be done in this area to provide more support to vulnerable groups (young and old population, disabled people). This is particularly relevant since the majority of stakeholders consider that the burden of the structural adjustment has not been fairly distributed among the Greek population and has mostly affected vulnerable groups of the population.

In line with the findings for the representatives from the lending institutions, a few Greek authorities regard the pension reforms (in particular the establishment of the central administration of EFKA) as one of the most needed and successful reform areas.

While several measures on the labour market are considered to have been effectively implemented, several stakeholders, in particular representatives from the workers'

organisations, point out that there should have been more initiatives from the Commission to promote effective social dialogue on the needs of economic adjustment.

Those structural reforms that affected the health sector were primarily characterised by enhancing efficiency and large-scale cost-containment which was coherent from a fiscal perspective. However, austerity measures under the EAPs also increased household out of pocket payments and reduced health insurance coverage and access to services.

Greek economy still relies a lot on non-tradable sectors (domestic consumption), so evidence suggests that the structural reforms did not have any impact on reallocation of productive resources towards the tradable sector.

In terms of economic competitiveness, the success is judged as medium/moderate by most Greek respondents. There is very little evidence that the EAPs had a positive impact on restoring competitiveness. During the 1st and 2nd EAP, Greek exports did not increase while the external balance decreased due to collapse in imports and the PSI. Greece has not really achieved to become an export-oriented economy. While the large fall in wages could have made a positive impact on competitiveness, the structural reforms did not lead to greater investment and higher productivity.

The main concern of several Greek representatives is that many of the structural reforms were not presented as structural reforms but as fiscal necessities imposed by the lending institutions. As a result, several important parts of the structural reforms were rolled back almost immediately after the end of the third programmes.

The reform of the public administration is seen crucial by few stakeholders who were involved in the process, but not very visible from the outside.

Political developments

Regarding the political landscape in Greece, the majority of interviewees highlight that there was a **lack of political will among Greece's political parties, little appetite for cooperation, a lack of consensus how the economy should adjust which contributed to high levels of political instability throughout the three programmes.** Several stakeholders pointed out that Greece has a very fragmented and highly confrontational political system. While the different consecutive governments in power during the economic adjustment programmes had to act responsibly, (thereby deepening the tension between its representative and governing function often in favour of the latter) the opposition parties had two major political opportunities. First to cooperate with the incumbent political party to influence the direction of far-reaching socio-economic reforms in order to overcome the crisis. Second, the chance to weaken a fragile government even further by opposing the far-reaching socio-economic reforms and possibly get into power if elections are held. There was a strong tendency by the opposition parties to favour the latter over the former. Furthermore, opposition parties that came to power were hesitant to implement things that the previous government agreed to as they could not sell certain things to their voter base. As a result, certain points for reforms had to be repackaged in such a way that they became acceptable to their voters, thereby delaying the implementation of reforms.

Several stakeholders emphasized that the different institutional mandates and approaches by the lending institutions contributed to a lack of common understanding about the strategies and objectives of the EAPs for Greece. The lending institutions consisted of four different actors (EC, ESM, ECB and IMF) which led to an increased source of complexity. Different institutional mandates and approaches at the beginning of the first economic adjustment programmes meant that important time was lost which contributed to a delay of the first EAP. The partnership of the different lending

institutions was characterized by different institutional perspectives and open disagreements on several issues (such as fiscal policy, debt sustainability, prioritization of structural reforms, debt restructuring, the Grexit issue) among programme partners and key stakeholders throughout the implementation of the EAPs. This inherent clash between shorter and longer term crisis resolution perspectives also adversely affected cooperation and programme implementation.

Institutional arrangements

The majority of respondents consider the level of ownership of the programme by the Greek authorities and their level of commitment to effective programme implementation as low/non-satisfactory. Several stakeholders mainly attributed the delay of reform implementation in all three programmes to the lack of political support from the Greek government side. Some interviewees provided a more nuanced response arguing that government ownership was uneven across different kind of reforms. Others argued that the Greek governments had ownership at the three programmes at a high strategic level, but to a lesser extent down to the level of specific policies. A few respondents see a clear link between political stability and government ownership. While there was a lack of government ownership at the beginning of the third programme, the political stability from 2016 onwards allowed for a smoother implementation if compared to the two earlier programmes.

Shortcomings in the administrative capacity of the Greek authorities were another obstacle to the speedy implementation of the measures in the programme. A few EU stakeholders admitted that the implementation capacity of the Greek public administration was significantly overestimated at the beginning of the first economic adjustment programme. Several EU and Greek stakeholders highlight that the weak capacity of Greek public administration had a negative impact on efficient implementation. The major challenges within the Greek public administration were linked to the segmentation of the different ministries within the Greek government, and the lack of a centralized coordination committee within the Greek government. A significant time lag existed between the enactment of a legal instrument and its implementation due to the volume of reforms that were called for to be legislated, voted on and implemented during all 3 programs. While the Greek public sector may be overpopulated, some key services have been understaffed or not staffed with personnel with the right skills (e.g. project management). Even though not all policies to reform public administrations were implemented by the Greek authorities, very recently, some improvements in the administrative capacity of the Greek authorities, both in the area of personnel and public servants, are visible.

Several EU, Greek and international stakeholders believe that programme implementation could have benefitted from more determination by programme partners, better communication and better cooperation. Things that could have done differently to improve programme implementation essentially go into several directions: first, the lenders should have insisted more on a full programme implementation. Secondly, there should have been better communication and public debate on the need for the economic adjustment programmes from the creditors side vis-à-vis the Greek society, without the intermediation of the Greek government. The lack of clear communication from the EU side vis-à-vis the Greek society regarding the objectives and importance of the economic adjustment programmes created a vacuum that was filled by far-right and far-left political parties. The lack of clear communication also contributed to the perception among the Greek people that the EU was insensitive to the adverse impacts of the programmes Greece and that the reform agenda was primarily driven by a few big countries (in particular Germany). When EU MS countries and the lending

institutions were more aligned with the Greek government on the deliverables, the programme proved to be more successful (the debt relief package agreed in 2016) and helped to restore Europe's solidarity image somewhat.

Social Impact

Greek stakeholders generally consider that the reform of the Greek **welfare system was appropriate, although they believe that the burden of adjustment was not evenly shared across society**. There tends to be general agreement by almost all stakeholders that the first two economic adjustment programmes paid insufficient attention to social needs. The policy conditions of the first economic adjustment programme focused primarily on austerity measures in terms of welfare state reform. In the second economic adjustment programme, policy conditions on welfare state reform were still heavily skewed towards austerity with some smaller elements of social investment. In contrast to the first and second economic adjustment programme, the third economic adjustment programme also initiated a much more significant social investment policy (such as the introduction of universal health care coverage).

A number of stakeholders also point out that there has been a tremendous asymmetry in sharing the social costs. Several stakeholders consider that private sector employees (possibly with the exception of those working in the financial sector) have been hit stronger than public sector employees, thereby sharing a larger burden of the adjustment.

There are several voices in almost all stakeholder groups who emphasize the relatively strong negative effects for vulnerable groups of the population, in particular the young people, low-income children, and economically disadvantaged people, in particular high unemployment rates, rising poverty rates and a higher level of precarious work.

Lessons learnt

One major lesson learnt expressed by different types of stakeholders was the importance of a **realistic and pragmatic programme design that pays specific attention to the institutional, political and socio-economic context of the country.** Some interviewees attributed some of the major shortcomings of the design economic adjustment programmes and subsequent economic policy making to an over-reliance on "one-size-fits-all" approach and policies.

Several representatives from both the EU creditors and the Greek government highlighted that the design of the economic adjustment programmes (in particular the 1st and 2nd) did not take into account the economic structure (low domestic savings, weak public finances, limited openness etc.), socio-economic conditions (lack of social safety net, peculiarities of pension system etc.) and institutional and political features (weak public administration, clientelism). At the beginning of the adjustment programmes, the Troika had very little knowledge of how the Greek economy operated, and significantly overestimated it capacity to absorb the shocks. Only gradually it became aware of the country-specific challenges for an effective and efficient implementation of the programmes. Some interviewees pointed out that at hindsight the Troika should have accepted a longer adjustment process (i.e. a gradualist approach that spreads various reforms over an extended period) and accept that Greek public debt was going to be higher for a longer period. Some interviewees went even further and pointed out that Greece did not need an IMF type of adjustment but rather a World Bank type of programme.

Many interviewees believe that there are very important lessons learnt about the importance of **government ownership and the importance of the (lack of)**

administrative capacity of public institutions to implement economic reform programmes. A lack of government ownership and administrative capacity of public institutions contributed to reform fatigue and political instabilities in Greece. Given that the success of a programme crucially depends on the degree of ownership on behalf of the authorities that implements it, the design of economic adjustment programmes should include positive incentives in order to maximise the chances of win-win outcomes.

Another important lesson is the importance of the social dimension**. Economic adjustment programmes should have been more attuned to the social sensitivities in Greece.** The 'social dimension' refers to the ability of EU economic governance mechanisms and policy instruments to be able to identify, take into account and address challenges related to employment and social policies. Several EU stakeholders admitted that the adverse social impact of the economic reform programmes on social inclusions was acknowledged only during the second and third adjustment programme when the societal reluctance grew considerably and disruption of social cohesion in the Greek society became apparent. In this respect, the distribution of the **adjustment pain of reforms should be taken in consideration and mitigation measures considered.** Above all, if the country is not endowed with effective automatic stabilization mechanisms.

Another important point lesson relates to PSI, which before Greece never occurred**.** If PSI is deemed necessary by the extreme circumstances, if and only if, **PSI should come at very early stage, agreed and implemented in a very quick way**. This implies that commitment to it should be firm. Such are the conditions to maximise the impact of debt reduction and avoid disruptions associated with the event

Prioritization of policy measures and focus on macro critical issues. Based on the experience of the second EAP, which contained a long list of detailed reforms, several stakeholders pointed to the need to avoid the repeat of such an approach. While this was introduced in response to a first programme which did not manage to progress much on the reforms and the limited capacity of the public administration, excessively detailed plans and micro-management of reforms in the end tend to be perceived as intrusive and even coercive. In the end, this does not lead to increased ownership, on the contrary it can result in growing opposition on the side of the country under programme and high degree of frustration from the side of the lenders. Overall this may risk jeopardising the relationship between the parties.

Another major lessons learnt is the **importance of communication between the creditors, the government and civil society.** Several stakeholders emphasized that the need for structural reforms within the Greek economy alongside the fiscal adjustment could have been communicated in a better way by both the lending institutions and the Greek government. Both the EU Troika and the Greek governments used different narratives running through the crisis in different countries which created a sentiment of mutual mistrust between the EU Troika, the Greek government, the Greek and wider European civil society. Moreover, several Greek stakeholders pointed out that the different narratives contributed to a loss of the importance of the claim of the European identity to Greek civil society.

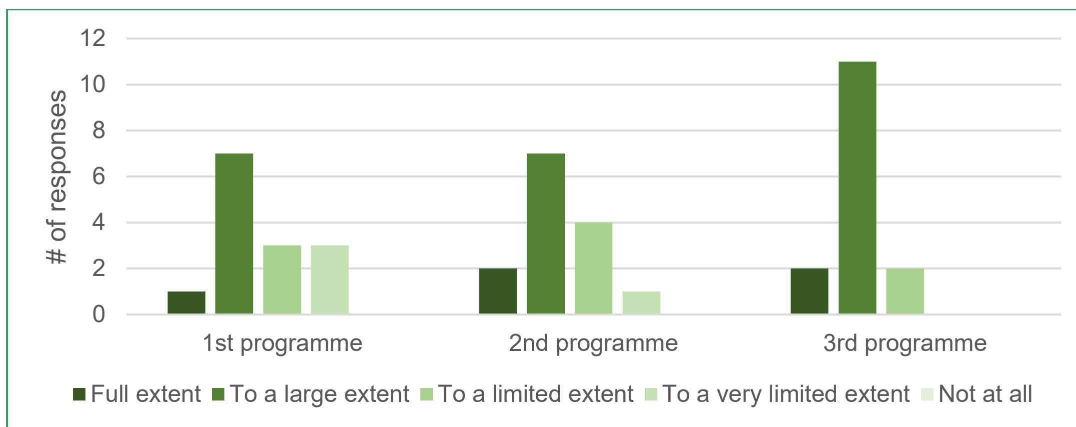
Lastly, as many stockholders involved in the negotiations and preparation of the programmes highlighted, **politics can play a key in determining the failure and success of a programme**. On the one hand, political stability and cohesion in the country is key to build ownership. On the other hand, a clear framework with predefined roles and decision making on the side of the lender are equally important to create certainty. In the context of the euro area, strong collaboration with the various European institutions, regulators, and supervisors is essential.

Annex 4. The Online Survey Results

Questions:	15
Panelist count:	19
Total responded:	15 (78.9%)

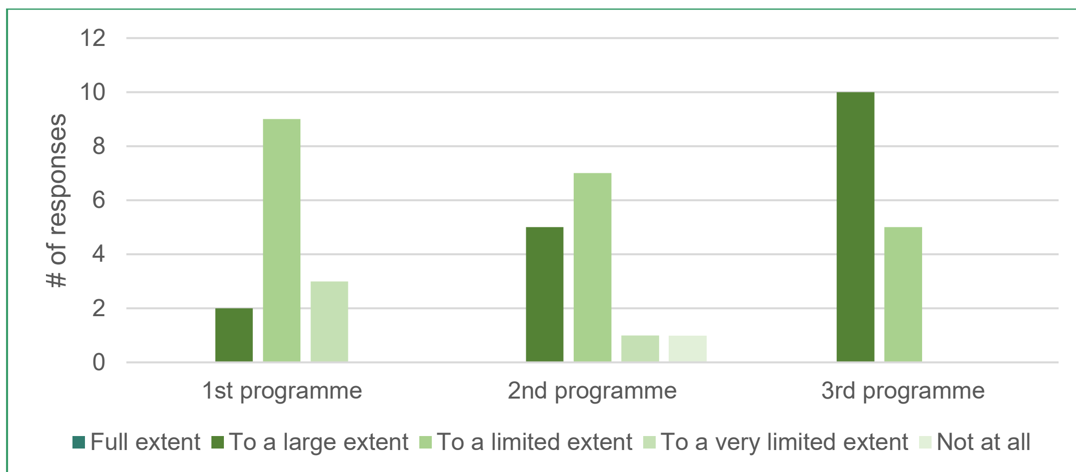
SURVEY QUESTIONS

1. **(REL.01) Given the information available at that time, to what extent was the programme appropriate to address the Greek problems?**



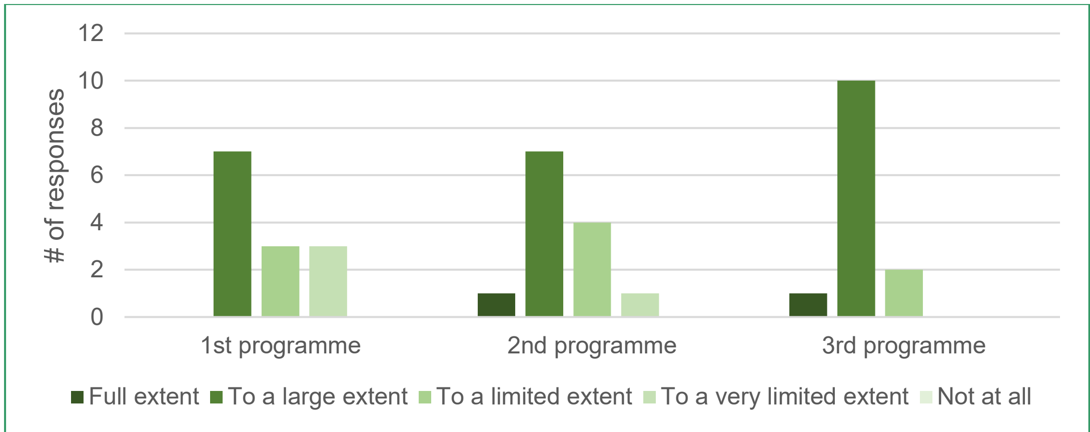
Respondents: 15

2. **(REL.02) Given the information available at that time, to what extent were the objectives of the programme realistic?**



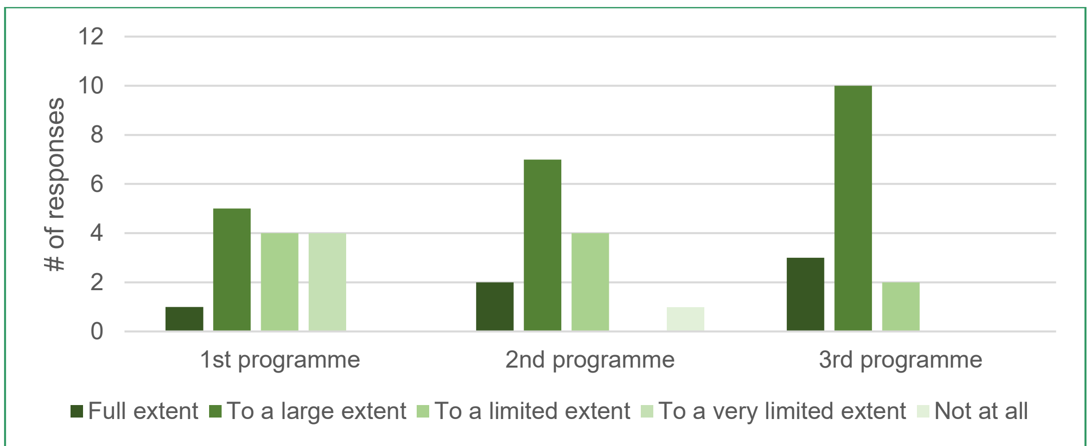
Respondents: 15

3. **(COH.02) To what extent was the timing of the adjustment programme coherent with the financial assistance?**



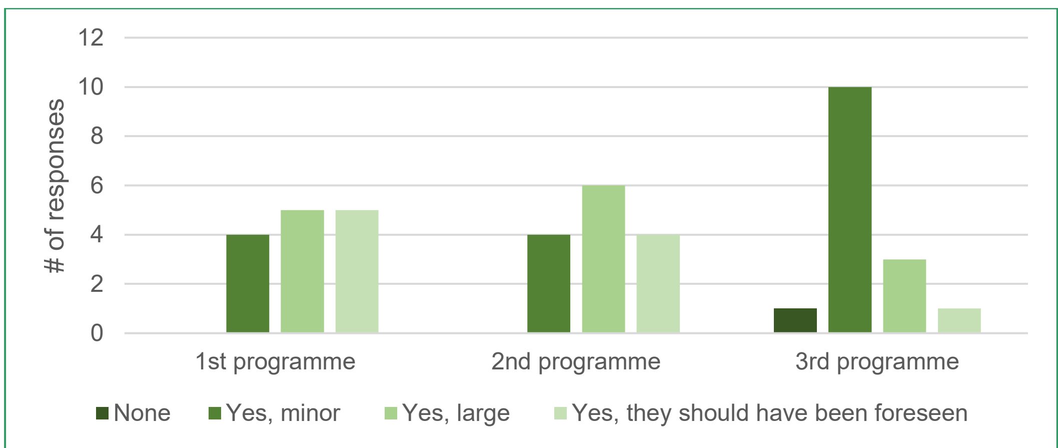
Respondents: 15

4. **(EUVA.04) To what extent were the conditionality measures envisaged in the programme proportional to the severity of Greek needs?**



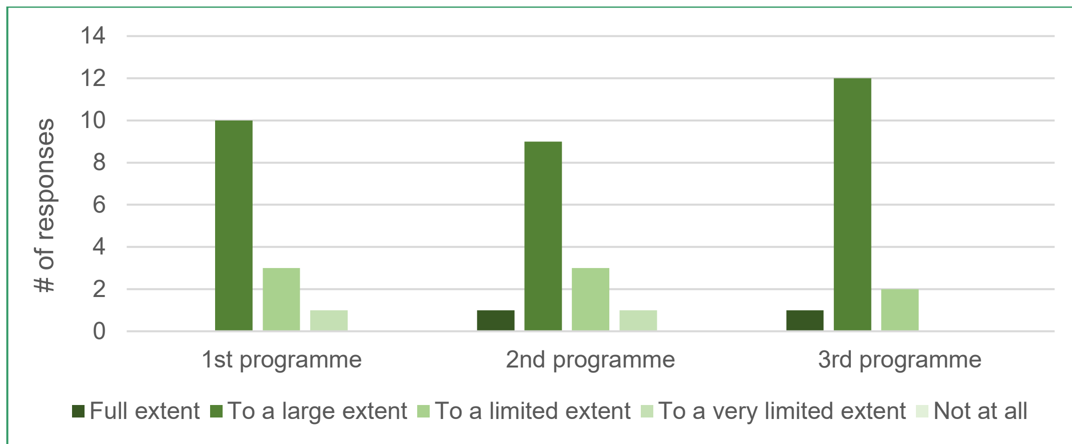
Respondents: 14

5. **(EFF.02) Did the programme have unintended effects?**



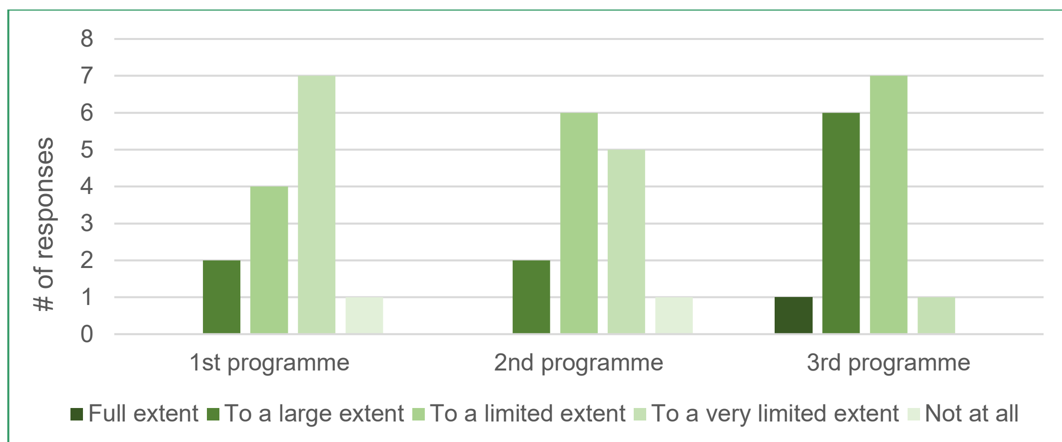
Respondents: 15

6. **(EFY.01) To what extent did the process of implementation of the policy measures affect the success of the programme (e.g. timing, political support)?**



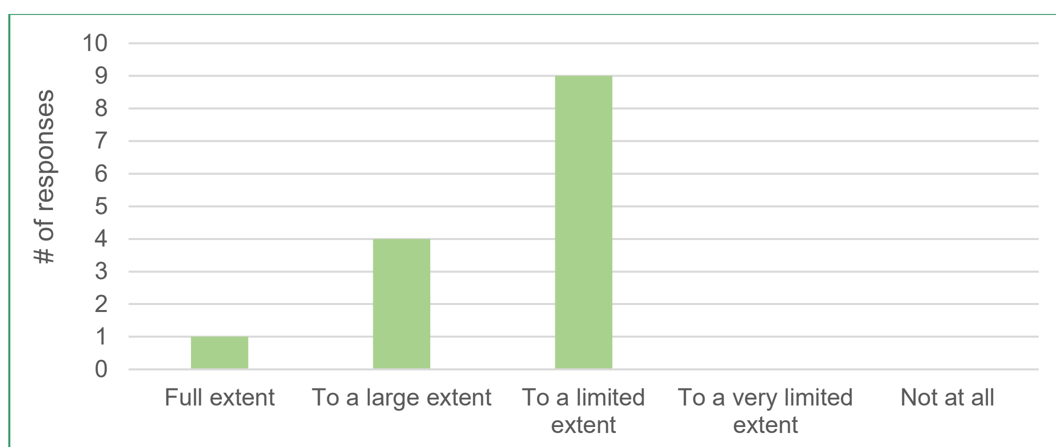
Respondents: 15

7. **(EFY.02) To what extent have the social implications of the adjustment been taken into account in the programme?**



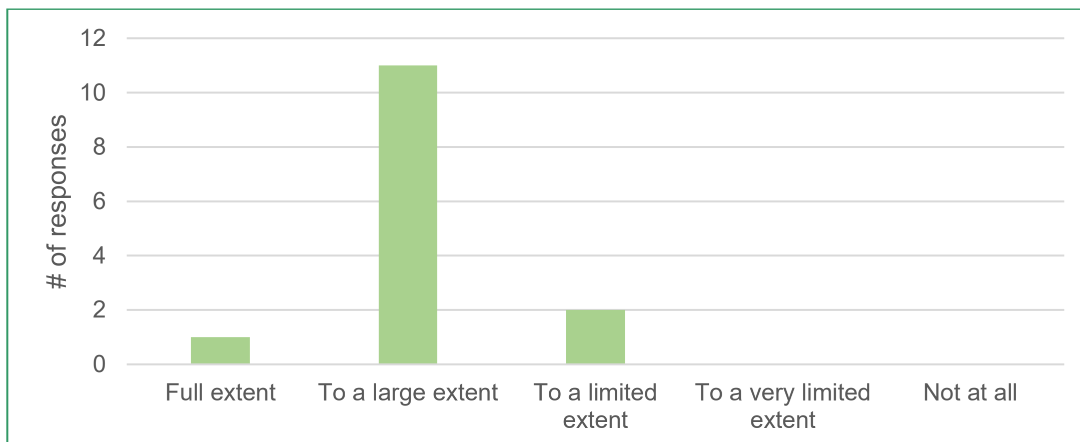
Respondents: 15

8. **(REL.03) To what extent was the Private Sector involvement in 2012 successful?**



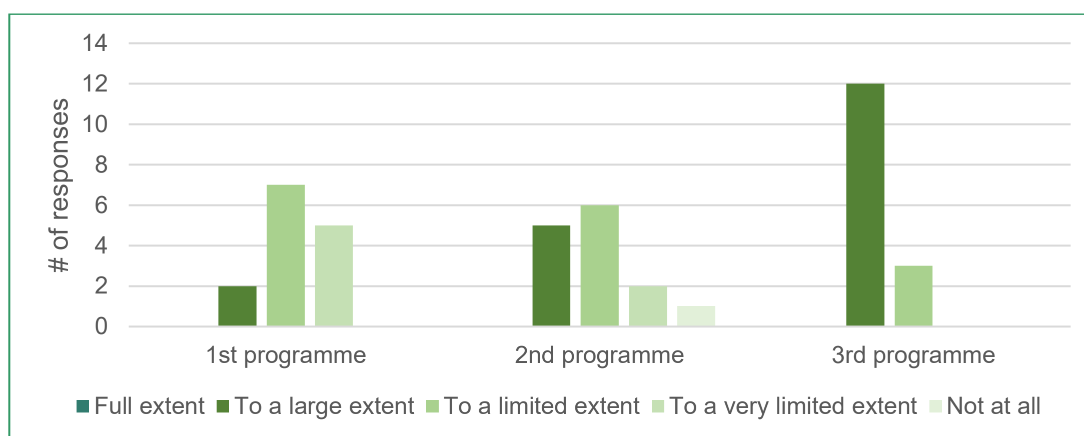
Respondents: 14

9. **(REL.03) To what extent was the Official Sector Involvement (in 2012 and 2017) successful?**



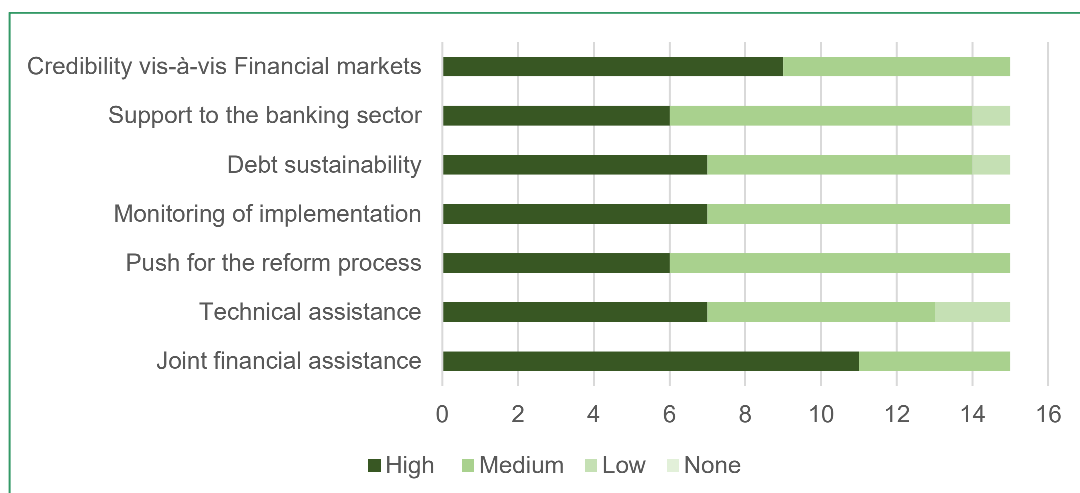
Respondents: 14

10.(EFF.01.) Overall, to what extent was the programme successful?



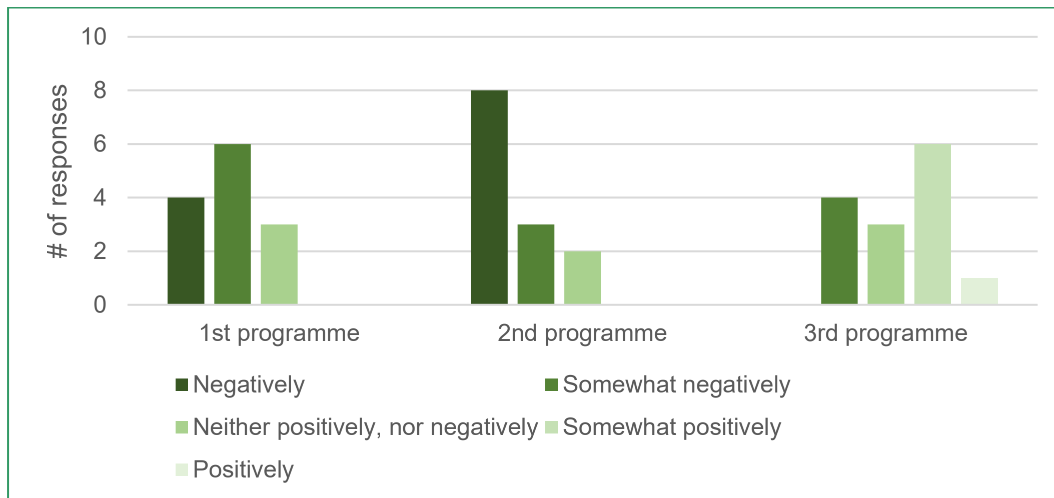
Respondents: 15

11.(EUVA.02) What was the main EU added value in response to Greek needs?



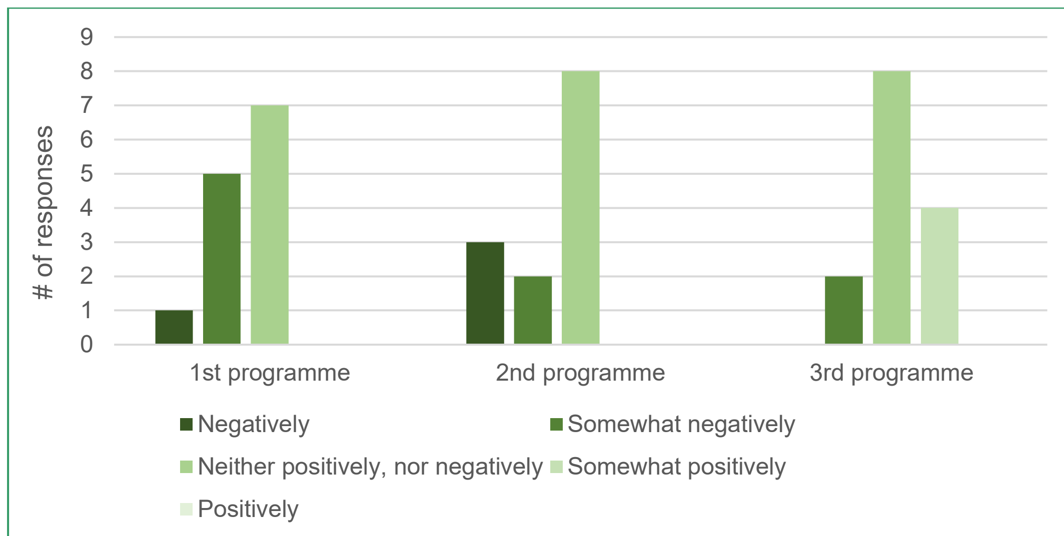
Respondents: 15

12.(EFF.03) How did the political developments in Greece affect the success of the programme?



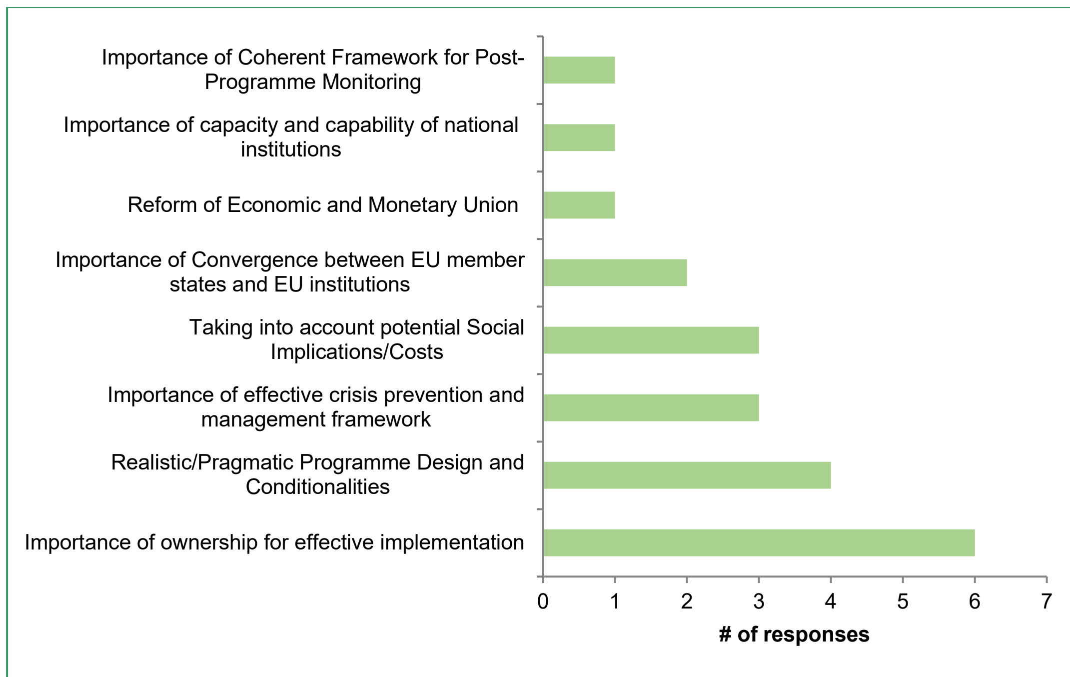
Respondents: 15

13.(EFF.03) How did the political developments in other EU countries and at the EU level affect the success of the programme?



Respondents: 15

14.What are the main lessons learnt from the Greek experience?



Respondents: 11

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