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**EVALUATION**

# Ex-post evaluation of the Economic Adjustment Programmes of Greece during the period 2010-2018

{SWD(2023) 91 final}

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**Glossary**

| ***Term or acronym*** | ***Meaning or definition*** |
|---|---|
| ANFA | Agreement on Net Financial Assets |
| BoG | Bank of Greece |
| CEPS | Centre for European Policy Studies |
| DSA | Debt sustainability analysis |
| DG | Directorate-General |
| EA | Euro area |
| EAP | Economic Adjustment Programme |

| ECA | European Court of Auditors |
|---|---|
| ECB | European Central Bank |
| ECFIN | Directorate-General for Economic and Financial Affairs |
| EFC | Economic and Financial Committee |
| EFSF | European Financial Stability Facility |
| ELSTAT | Hellenic Statistical Authority |
| ESM | European Stability Mechanism |
| ETAD | Public Properties Company (Εταιρεία Ακινήτων Δημοσίου) |
| EU | European Union |
| Eurostat | Statistical Office of the European Union |
| FTE | Full-time employees |
| ISG | Interservice Steering Group |
| GDP | Gross Domestic Product |
| GFN | Gross Financing Needs |
| GGB | Greek Government Bond |
| GLF | Greek Loan Facility |
| HCAP | Hellenic Corporation of Assets and Participations |
| HFSF | Hellenic Financial Stability Fund |
| IMF | International Monetary Fund |
| LFA | Loan Facility Agreement |
| MFI | Monetary Financial Institution |
| MoC | Memorandum of Cooperation |
| MoU | Memorandum of Understanding |
| NIESR | National Institute of Economic and Social Research |
| NPL | Non-performing loans |

| | |
|---|---|
| NPV | Net Present Value |
| OSI | Official sector involvement |
| PSI | Private sector involvement |
| SGP | Stability and Growth Pact |
| SMP | Securities Markets Programme |
| SRM | Single Resolution Mechanism |
| SRSS | Structural Reform Support Service |
| SSM | Single Supervisory Mechanism |
| SWD | Staff Working Document |
| TAIPED | Hellenic Republic Asset Development Fund (Ταμείο Αξιοποίησης Ιδιωτικής Περιουσίας του Δημοσίου) |
| TFEU | Treaty on the Functioning of the European Union |
| TFGR | Task Force Greece |
| TSI | Technical Support Instrument |
| ULC | Unit Labour Force |
| WAM | Weighted average maturity |

# 1. INTRODUCTION

**The European Commission is committed to evaluating in a proportionate way all EU spending and non-spending activities intended to have an impact on society or the economy**. This Staff Working Document (SWD) presents an evaluation of the economic adjustment programmes of Greece ([1]). Its scope includes the design, implementation and results of the programmes and focuses on both policy options and choices. It also takes into account the legal and institutional framework for financial assistance programmes.

**The purpose of this evaluation is to assess the entire intervention over the whole period 2010-2018 in order to draw lessons for future decision-making and identify areas of improvement in the design of future policy interventions.** The evaluation of the economic adjustment programmes of Greece is the fifth ex-post assessment of a euro area adjustment programme and follows the completion of evaluations of the programmes of Ireland, Portugal and Cyprus as well as the financial assistance operation for Spain ([2]). Although not formally part of the ex-post evaluation, the analysis and lessons learned cover the initial years of the post-programme environment under enhanced surveillance from 2018 until mid-2022.

**To ensure the credibility, independence and reliability of the exercise, a Commission inter-service steering group (ISG) oversaw the evaluation by providing information, expertise and quality assurance in line with evaluation standards.** The main sources of evidence used to inform the evaluation include official programme documents, thematic background studies, legal documents, data-based economic analysis, academic literature on the Greek economy and targeted stakeholder consultations.

**The overall evaluation approach followed the principles of the European Commission Better Regulation Guidelines ([3]) and assessed whether:**

- The objectives and conditionality of the economic adjustment programmes were relevant to the economic and financial challenges faced by Greece (**relevance**);

([1]) For 2010–2012 the 1st programme (co)-financed by the Greek Loan Facility (GLF), for 2012–2015 the 2nd programme (co-)financed by the European Financial Stability Facility (EFSF), and for 2015–2018 the 3rd programme financed through European Stability Mechanism (ESM) Stability Support.

([2]) All these ex-post evaluations have been published in the European Economy Institutional Papers series and are available at https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en.

([3]) See European Commission (2021).

- The conditionality (programme design and implementation) and financial assistance were appropriate, given the intended and unintended outputs and results (**efficiency**).
- The intended results and impacts have been achieved or can be expected to materialise in the medium/long term (**effectiveness**).
- The EU intervention added value (**EU added value**) and was in line with the set objectives and relevant EU policies (**coherence**).

**The primary scope of this evaluation did not include Commission-internal procedures and working arrangements among the programme partners.** However, as the governance arrangements played a central role in decision-making and on the agreed policy conditions of the three programmes, the roles, responsibilities and the working practices of the Institutions, the Eurogroup and Eurogroup Working Group are taken into consideration in the evaluation and reflected in the analysis.

**In this SWD, Commission staff presents its views on the three adjustment programmes of Greece, and in doing so has drawn upon a number of published studies** (see Annex I). More specifically:

- **Four external studies** on specific topics contracted by the Commission, notably on debt sustainability, the macro-fiscal adjustment path, financial sector reforms and pension reforms ([4]).
- **Two discussion papers** by Commission staff with a detailed understanding of specific policies addressed under the Greek programmes on public administration reforms and energy sector reforms ([5]).
- An **external evaluation report** contracted by the Commission and prepared by CEPS, ECORYS and the National Institute of Economic and Social Research ([6]). The report was concluded in September 2021 and is published together with this SWD. Main sources of evidence used to inform the external evaluation report include official programme documents, thematic background studies, legal documents, data-based economic analysis, academic literature on the Greek economy and targeted stakeholder consultations. Readers are encouraged to consult the report for more detailed analysis.

**This ex-post evaluation follows, and indeed draws upon, a performance audit which was undertaken by the European Court of Auditors in 2017 with respect to the Commission's intervention in the Greek financial crisis ([7]).** The audit concluded that,

([4]) See CEPS, ECORYS and NIESR (2020a and b) and ICF and IOBE (2020a and b).

([5]) See Ioannidis (2022) and Nikitas and Vasilopoulou (2022).

([6]) See CEPS, ECORYS and NIESR (2021).

([7]) See European Court of Auditors (2017).

overall, the programmes' design did make the progress of reform in Greece possible, but some weaknesses were found and a number of recommendations to the Commission for future support programmes were made and were all accepted by the Commission.

**As for the other euro area adjustment programmes, financial assistance operations for Greece were also subject to evaluation by partner institutions, notably the IMF and the European Stability Mechanism (ESM) ([8]).** The analysis and findings of these evaluations by partner institutions were part of the analysis considered in this SWD.

**Overall, the evaluation process has been robust and the data gathered reliable.** Whilst the evaluation was undertaken many years after the beginning of the first programme, no significant difficulties were encountered in reaching key stakeholders involved in design and implementation of all programmes. An appropriate range of tools was used to capture stakeholder input, with different sources of evidence converging sufficiently to support the assessments made. While each of the individual sources of evidence (data, literature, and stakeholders' consultation) may be subject to specific weaknesses, strong contradictions in findings were limited and are duly highlighted in the external report. Overall, the conclusions on the programmes' achievements can be considered to be based on strong evidence.

**However, the financial assistance programmes for Greece were especially complex and undertaken against a background of very high economic and political uncertainty which makes the construction of reliable quantitative counterfactual scenarios extremely difficult**. This methodological limitation is in line with how ECFIN has evaluated other economic adjustment programmes and macro financial assistance operations where a crisis makes counterfactual scenarios underpinned by econometric modelling less reliable.

**This SWD is organised as follows. Section 2** highlights key economic trends and the challenges faced by Greece until 2010 when the economic adjustment programmes started; it outlines the way the programmes were aimed to address them as well as programme financing. **Section 3** reviews the evolution of those key characteristics and underlying objectives during the programme period until the end in mid-2018. **Section 4** structures the main findings of the evaluation process by criteria as these have been defined in the context of the evaluation of the Greek programmes. The final **section 5** is aimed at collecting the conclusions and lessons learned. Given that the present evaluation completes a series of *ex post* assessments of euro area programmes (following those of Ireland, Portugal, Cyprus and Spain), it presents not only country-specific lessons learnt but also lessons that have general relevance, drawing also on the evaluations of other programmes.

([8]) See International Monetary Fund (2013) and European Stability Mechanism (2017).

## 2. WHAT WAS THE EXPECTED OUTCOME OF THE INTERVENTION?

*To understand the expected outcomes of the programmes, it is important to see the economic and political context of each financial assistance programme, in which relevant policy choices were made. Following the global financial crisis 2008/09, the concerns about the fiscal situation in Greece triggered a loss of confidence and access to international financing. To avoid a major financial crisis, with severe economic and social impacts in Greece and possible spillovers to the euro area and the EU as a whole, EU Member States and the International Monetary Fund (IMF) agreed to provide loans as of 2010. Disbursements were subject to policy conditionality aiming to restore access to market financing. The main objectives of this conditionality were fiscal consolidation to ensure debt sustainability, the stabilisation of the banking sector, structural reforms to regain competitiveness, as well as reforms to improve the capacity and efficiency of the public administration.*

***The run-up to the crisis at the level of the euro area***

**In the course of the global financial crisis 2008/09, many EU Member States saw a significant increase in their public debt.** While the specific circumstances varied across countries, a common feature was that investors reduced their exposure to sovereign debt. As spreads kept rising, many banks saw a deterioration of their balance sheets where domestic sovereign debt was an important part of their asset portfolio. This often required additional public support to banks which created a negative feedback loop.

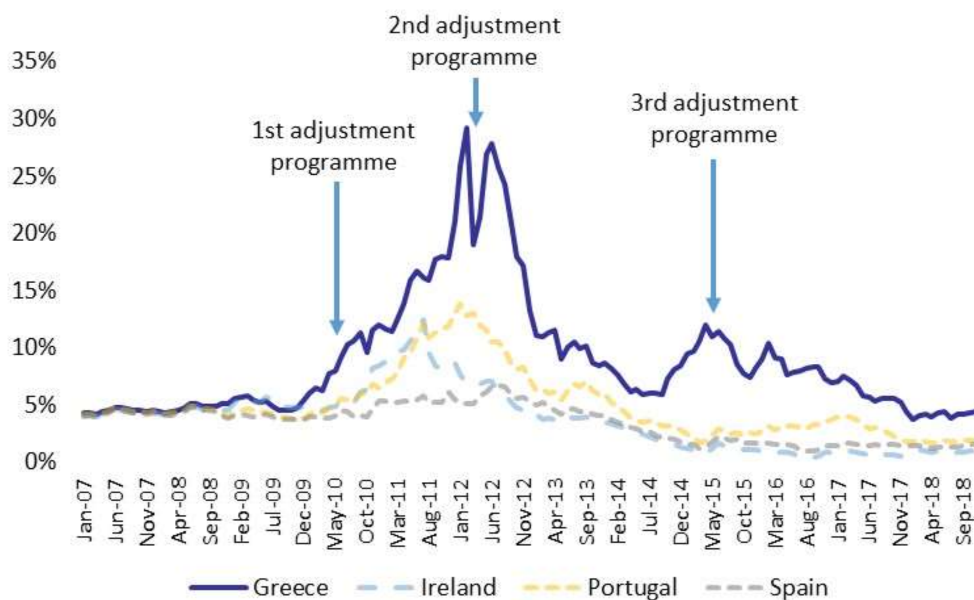
**Financial markets reflected concerns about the sustainability of Greece's fiscal position.** In October 2009, the Greek government announced that the planned fiscal deficit for 2009 was 12.5% of GDP (in spring 2009, the target for 2009 as presented in the Stability Programme([9]) had been set at 3.7% of GDP), admitting that official statistics had been systematically misreported which served to undermine confidence.

**At the end of 2009, Greek banks lost access to international money and capital markets, whilst at the same time they started to experience a considerable deposit outflow.** In October 2009 (the time of the announcement of the revised data on the budget deficit), private-sector deposits in banks, which had grown quite strongly in the previous year, started to decline, fuelled by concerns about the solvency of the State and the resulting contagion risk for the banking sector stemming from the banks' high and rising holdings of Greek Government Bonds (GGBs), as well as the increased tax obligations of depositors that might emanate from the higher government deficit and the need to address it. The combination of these two factors, affecting the two main funding

([9]) See Council of the EU (2009)

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 the external funding of banks.

Figure 1: **Long-term government bond yields of Greece, Ireland, Portugal and Spain (2007-2018)**



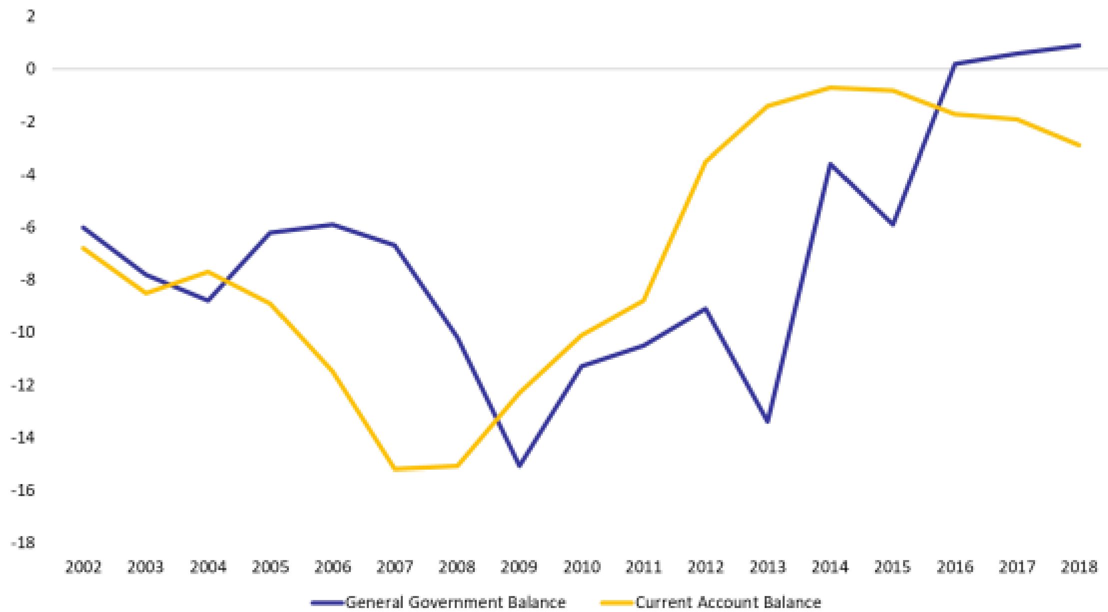

**Source:** Eurostat

*A closer look at the root causes of the Greek crisis*

**To understand the intervention logic as it evolved through the three programmes (see Annex II), there is a need to look at the root causes of the Greek crisis**. These were**,** notably, the build-up of internal and external imbalances, structural market weaknesses and an inadequate policy response in the initial years of the financial assistance programmes.

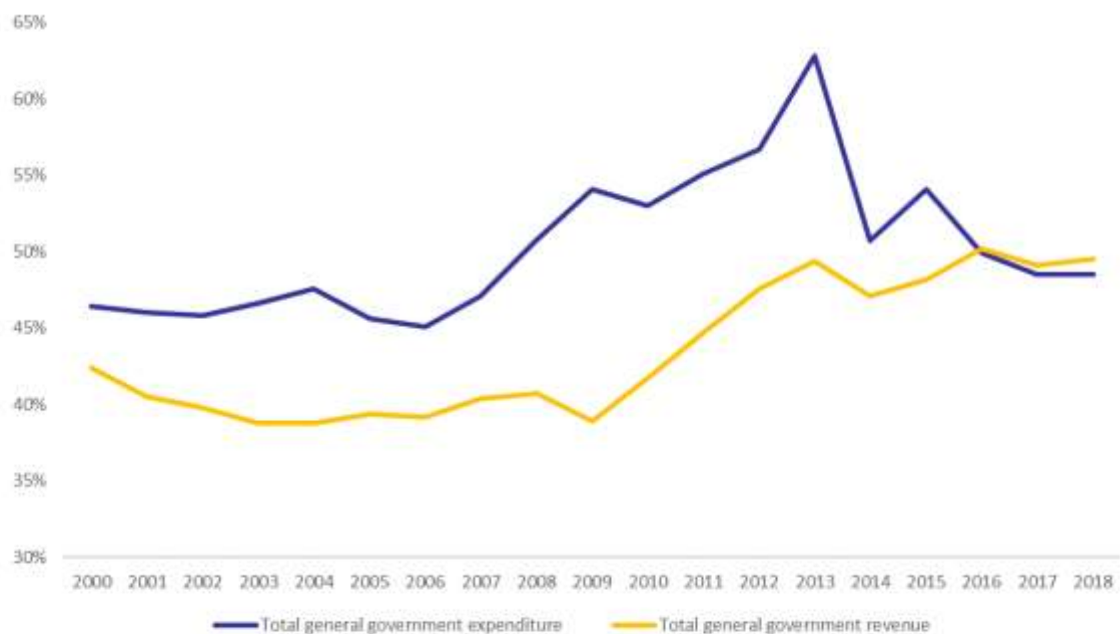
**First of all, the crisis was preceded by a parallel build-up of the fiscal and external twin deficits.** For many years, the government ran large and persistent fiscal deficits, well above the 3% of GDP reference value set by the Treaty (Figure 3). Greek public expenditure had been growing rapidly for years and some of the main expenditure items, such as social benefits and compensation of employees, had doubled in nominal terms between 2001 and 2009. Revenues had also increased, but they were insufficient to cover such expenditure levels (Figure 4). The public deficits came along with a decade of economic boom fuelled by public borrowing in international markets, and were associated with a large current account deficit, driven by large imports and low exports. When the global financial crisis erupted, the government's ability to pay back the high level of debt appeared to be very weak.

Figure 2: **General government and current account balance of Greece (2002-2018), % of GDP**




**Source:** Eurostat

Figure 3: **General government revenue and expenditure of Greece (% of GDP, 2000-2018)**

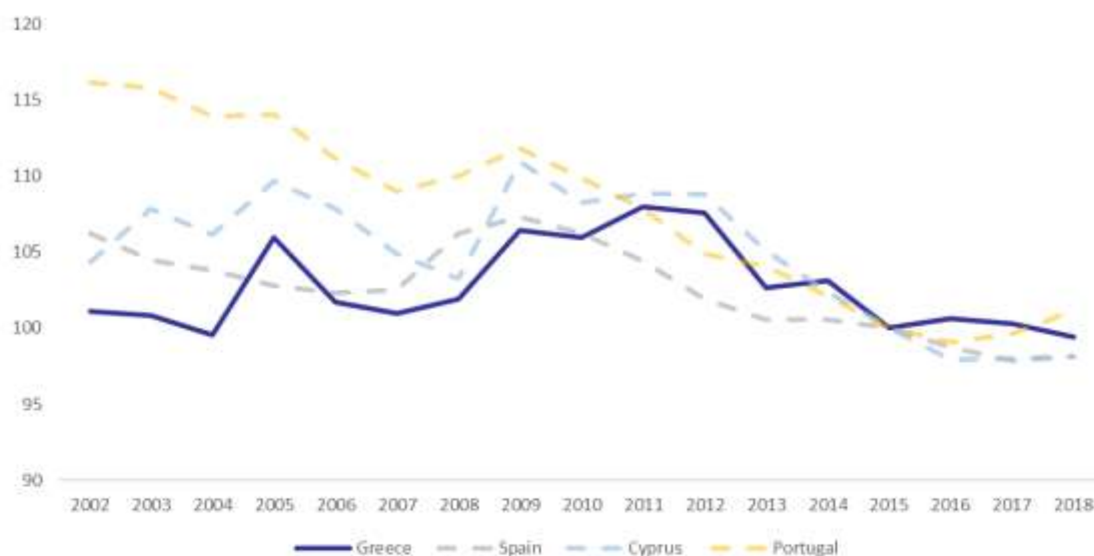



**Source:** Eurostat

**Underlying the external deficit, a loss of competitiveness manifested itself in a strong increase in unit labour costs and stagnating productivity.** Structural weaknesses included a fragmented labour market, vested interests hampering the functioning of product markets and network industries, a weak welfare state and

dysfunctional and clientelistic domestic governance. In the first decade after the adoption of the euro in the country, high wage growth resulted in an increase in the nominal unit labour cost (ULC) of 35.6%, double the ULC increase in the euro area (17.8%). With labour compensation growing in excess of labour productivity, this resulted in a cumulative appreciation of the ULC-based real effective exchange rate of about 60% relative to all trading partners, and about 20% relative to the 19 countries in the euro area from the start of 2001 through the end of 2009([10]). During the boom years, labour costs increased by about 44%([11]). Over many years, productivity had increased only modestly, and started to decline in 2008 (Figure 6). The absence of EU surveillance tools to identify and correct structural weaknesses implied that the magnitude and depth of these pre-existing problems in Greece only became clearer over time during programme implementation.

Figure 4: **Real Unit Labour Costs of Greece, Spain, Cyprus, Portugal (2015=100, 2002-2018)**

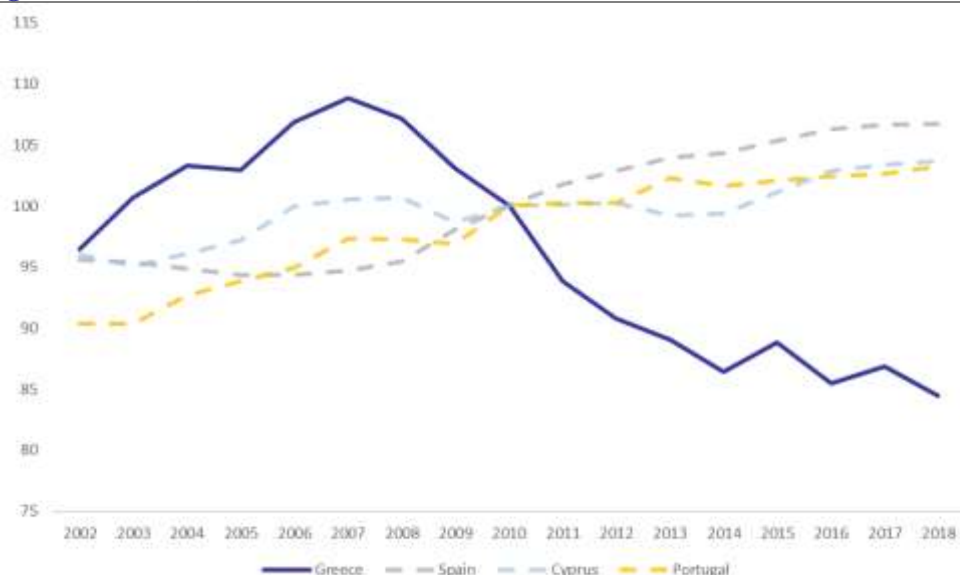



**Source:** AMECO

([10]) See CEPS, ECORYS and NIESR (2021), p.97.

([11]) See CEPS, ECORYS and NIESR (2021), p.23.

Figure 5: **Real labour productivity per person employed of Greece, Spain, Cyprus, Portugal (2010=100, 2002-2018)**




**Source:** Eurostat

**At the outbreak of the global financial crisis, the Greek banking sector appeared relatively sound.** It was not heavily dependent on wholesale funding and it had suffered very limited impacts of the subprime crisis. Historically, Greece had a relatively small banking sector in terms of the assets to GDP ratio, also compared to the euro-area average, engaging primarily in traditional banking activities, i.e. granting loans to households and companies financed by domestic customer deposits ([12]). Comparing key indicators of the Greek banking system in 2008 with those of other euro-area countries that later implemented an adjustment programme (Ireland, Portugal, Spain), it can be seen that Greek banks did not appear to be particularly vulnerable (see Table 2). Indicators related to leverage, liquidity and profitability performed not that differently from EU peers, although it is true that their capital adequacy at the end of 2008 was lower than for most EU banks as a percentage of risk-weighted assets. Moreover, Greek banks could count on the liquidity support from the Bank of Greece (BoG) and the European Central Bank (ECB), subject to the availability of eligible collateral ([13]).

([12]) See CEPS, ECORYS and NIESR (2021), p.70.

([13]) See ICF and IOBE (2020a).

Table 1: **The Greek banking sector in comparison - selected indicators, end-2008**

| Banks | Total assets of banks as % of GDP | Market share of the five largest banks | Capital Adequacy Ratio (CAR) | Return on Equity (RoE) |
|---|---|---|---|---|
| Greece | 192.1 | 69.6 | 10 | 12.4 |
| Ireland | 923.3 | 50.3 | 12.1 | 1.3 |
| Portugal | 269.5 | 69.1 | 9.4 | 5.6 |
| Spain | 305.4 | 42.4 | 11.3 | 12.6 |
| EU average | 333.5 | 59.5 | 12.5 | 7.6 |

**Source:** ICF and IOBE (2020)

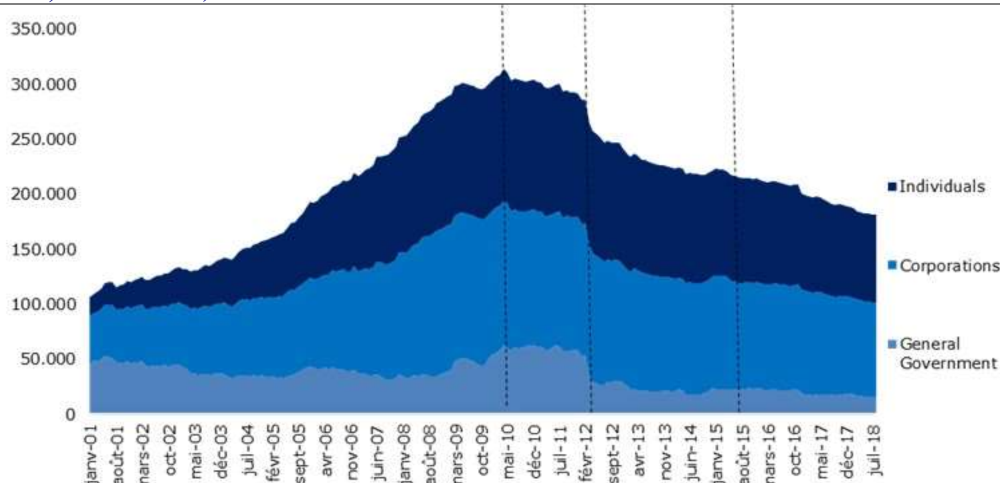
**However, a boom in domestic credit expansion occurred in the years prior to the crisis**. Between the adoption of the euro and 2008, the Greek banking system's growth was driven by credit expansion, acquisitions in southeast Europe and the entry of foreign banks into the Greek market. Between 2001 and 2010, total loans almost tripled, from about EUR 100 billion to EUR 300 billion. Loans to households, mostly mortgages, increased by a factor of seven, and loans to corporations by a factor of almost three. In addition, lending to general government, which had been progressively decreasing between 2001 and 2008, albeit remaining above the euro-area average, surged strongly after 2009. Particularly for the period from the end of 2007 to the end of 2010, the balance sheet expansion was funded initially by new funds from banks in other euro-area countries and domestic depositors (until 2009), but after mid-2008 above all by funds from the central bank ([14]). With domestic economic conditions worsening, the prior rapid expansion of the domestic credit portfolio increased impaired losses, as banks were exposed to a sharp rise in non-performing loans. As a result, banks' profitability rapidly declined and turned negative in 2011.

**With hindsight, at the start of the first programme in May 2010, the banking sector was exposed to substantial vulnerabilities, which built up mostly between 2007 and 2010**. In addition to the fast growth of credit to the domestic private sector and increasing reliance on short-term ECB financing, following the tightening of conditions in the wholesale markets after 2007, other factors played a role including (1) rising banks' holdings of Greek Government Bonds (GGBs), (2) increasing risks of non-performing loans (NPLs), (3) an ineffective regulatory framework, and (4) banks' loose credit conditions and weak risk management over a prolonged period, coupled with reported political interference in corporate governance, particularly among state-owned banks ([15]).

([14]) See CEPS, ECORYS and NIESR (2021), p.71.

([15]) See CEPS, ECORYS and NIESR (2021), p.73

Figure 6: **Credit to domestic non-Monetary Financial Institutions of Greece, (EUR million, 2001-2008)**




**Source:** CEPS, ECORYS and NIESR (2021), p.71

**The fear of contagion to other countries, which could jeopardise the euro area as a whole, was a key factor driving the decision process to offer support to Greece, both by the European Union and the International Monetary Fund (IMF).** Notably Ireland, Portugal and Spain also saw their credit ratings downgraded and their spreads rising. The risk of contagion was aggravated by debt exposures of a number of European banks vis-à-vis the Greek government. Fears that a euro-area Member State facing default would have dramatic effects on the stability of the euro area increased ('denomination risk'). Having Greece regain market access was seen as instrumental to achieving the ultimate goal of financial stability in the euro area.

**In late 2009 and early 2010, the euro area was largely unprepared to manage a sovereign debt crisis.** Greece was – as it turned out later - the first of several euro area countries to be on the brink of sovereign default and in need of emergency financial support to avoid it. As the Treaty on the Functioning of the European Union (TFEU) did not foresee any crisis management mechanism for the euro area, the currency union was endowed neither with a governance structure nor with funds to be able to respond quickly and adequately to such a crisis.

**The initial lack of a framework for crisis management meant that financial support had to come from individual Member States through the Greek Loan Facility (GLF)([16]).** The GLF was codified by two agreements governed by English law: an Intercreditor Agreement, which regulated the relationship between the lending member states, and a Loan Facility Agreement (LFA). The Intercreditor Agreement of 8 May 2010 provided, among others, that: i) the commitment of each party was subject to the

([16]) See Alcidi et al. (2017), pp.10 and 11.

fulfilment of any procedures required; ii) any disbursements were to be made by unanimity of the lenders; iii) all lenders were ranked *pari passu*; and iv) unanimity was required to modify the terms of the Intercreditor Agreement, the Memorandum of Understanding (MoU) or the Loan Facility Agreement ([17]). Under the GLF, the Commission was responsible for coordinating and implementing the programme on behalf and under the instructions of the Euro area member states, providing support for, as well as negotiating and signing, the LFA and a Memorandum of Understanding (MoU) on policy conditionality with Greece. Financial resources were on a voluntary basis from the State budget of euro area member states and in proportion to their shares in ECB capital. Financial support 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, a series of adaptions were passed 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.

**The legal construction of the GLF had important implications for the governance of the first financial assistance programme to Greece as it was an intergovernmental agreement outside the EU legal framework.** Key decisions had to be made or backed by unanimity by all Member States but Greece, in the context of the Eurogroup. The lack of a euro-area crisis management framework also contributed to the need to involve the International Monetary Fund (IMF) in providing financial support to Greece. The IMF was the prime international organisation with long-standing experience in dealing with sovereign financial crises, offering financial assistance and designing macroeconomic adjustment programmes ([18]).

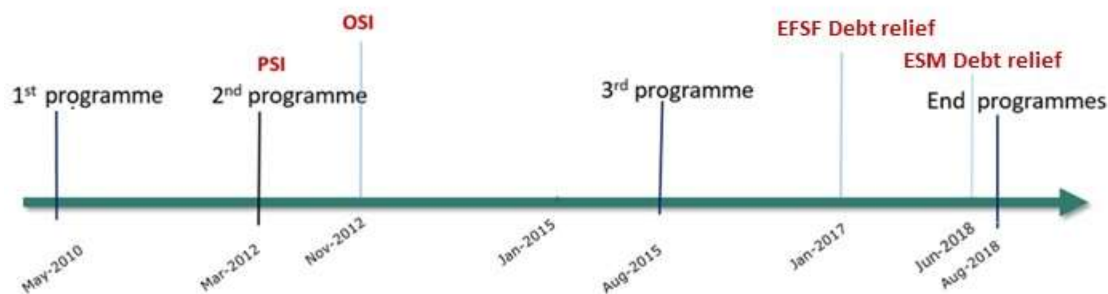
**Following the GLF, the euro-area crisis management framework evolved substantially.** The European Financial Stability Facility (EFSF) was created by an intergovernmental agreement (the EFSF (Amended) Framework Agreement) as a temporary crisis resolution mechanism for euro area countries in June 2010. It provided financial assistance to Greece (from 1 March 2012 to 30 June 2015) and also to Ireland and Portugal. The European Stability Mechanism (ESM) was created by the ESM Treaty between EU Member States whose currency is the euro. It is an intergovernmental institution and the only permanent mechanism compared with its predecessors. As it is based on public international law, it lies outside EU law. The ESM Treaty entered into force on 27 September 2012 and replaced the EFSF. The ESM provided financial assistance to Greece during the third adjustment programme (8 July 2015 to 30 June 2018)([19]).

([17]) See CEPS, ECORYS and NIESR (2021), p.35.

([18]) See CEPS, ECORYS and NIESR (2021), p.31.

([19]) See CEPS, ECORYS and NIESR (2021), p.32-33

Figure 7: **Timeline of key events for the programmes of Greece (2010-2018)**




**Source:** European Commission

**Unprecedented financial support was channelled to Greece over a period of eight years**. In support of the first programme, between May 2010 and December 2011, Greece received EUR 52.9 billion of bilateral loans from euro area Member States whose currency is the euro, pooled by the Commission under the Greek Loan Facility. In support of the second programme, between March 2012 and February 2015, Greece received additional loans provided by the European Financial Stability Facility of EUR 130.9 billion. Between August 2015 and June 2018 Greece received an additional amount of EUR 59.8 billion in the form of loans from the European Stability Mechanism (ESM). Altogether, Greece's outstanding liabilities towards the euro-area Member States, the European Financial Stability Facility (EFSF) and the ESM came to a total amount of EUR 243.7 billion. In addition, in support of the first and second Economic Adjustment Programmes, Greece also received financial assistance from the IMF, amounting to EUR 32.1 billion.

Table 2: **Timeline of total disbursements under the adjustment programmes of Greece (2010-2018)**

| Programme | Disbursements |
|---|---|
| First Adjustment Programme<br>May 2010-March 2012 | • EU Member States Bilateral Loans (GLF)<br>• Committed EUR 80 billion – Disbursed EUR 52.9 billion<br>• IMF disbursed: EUR 20.1 billion<br>• Total disbursed: EUR 73 billion |
| Second Adjustment programme<br>March 2012-June 2015 | • European Financial Stability Facility (EFSF): Committed EUR 144.7 billion – Disbursed 141.8<br>• IMF Committed EUR 19.8 billion - disbursed 11.98 billion<br>• Total disbursed: EUR 153.8 billion |
| Third Adjustment programme<br>August 2015-August 2018 | • European Stability Mechanism (ESM): Committed EUR 86 billion – Disbursed EUR 61.9 billion |
| TOTAL disbursed | • Euro Area, EFSF, ESM: EUR 256.6 billion<br>• IMF:EUR 32.1 billion<br>• Total: EUR 288.7 billion |

**Source:** CEPS, ECORYS and NIESR (2021), p.41

***The first financial assistance programme for Greece financed under the Greek Loan Facility (GLF)***

**As Greece lost sovereign market access, a first financial assistance programme to Greece was agreed and approved on 8 May 2010([20]), financed under the GLF.** Public sector gross financing needs were estimated, ahead of the first programme, at some EUR 193 billion between May 2010 and June 2013. The financing envelope of the first Greek programme was EUR 110 billion, estimated to cover about 57% of that amount. The euro area member states provided bilateral loans pooled by the Commission for a total amount of €80 billion over three years, while the IMF committed an additional EUR 30 billion under a separate arrangement**.** According to the official financial assistance plan, €38 billion was allocated to 2010, €40 billion to 2011, €24 billion to 2012 and €8 billion to 2013. With the exception of the €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 implied that Greece had to undertake a massive fiscal consolidation. The programme also included a privatisation plan for the divestment of state assets and enterprises with the aim of raising at least €1 billion a year during the period 2011-13([21]).

**Against this background, a main focus of the first programme's policy conditionality was on fiscal consolidation.** It was essentially designed to generate significant savings in public sector expenditure and to improve the government's revenue-raising capacity. In order to ensure lasting effects of the fiscal adjustment, the first programme also planned a set of fiscal-structural reforms in pensions, healthcare and the tax system.

**The first programme also aimed at rebalancing the current account by boosting the size of the tradable sector and progressively increasing the flexibility in the labour market.** Labour market reforms in the programme 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 adjustments in relative prices and nominal wages in order to correct the large imbalances that existed in the external accounts. The economic rationale behind these two objectives was that an overregulated labour market creates an inflexible

([20]) See CEPS, ECORYS and NIESR (2021), p.34).

([21]) See CEPS, ECORYS and NIESR (2021), p.34.

labour market, resulting in higher unemployment, lower productivity growth and labour-market segmentation ([22]).

**Additional stated objectives of the first programme were to improve the business environment for domestic and foreign investors, and to bolster competitive markets**. According to the OECD indicators of Product Market Regulation (PMR), in 2008 Greece ranked as a highly regulated country compared to its peers, with distortions induced by state involvement and barriers to domestic and foreign entry in the local markets ([23]). To this end, actions were envisaged to cut procedures, costs and delays for starting new enterprises and to open restricted professions. The aim was to facilitate the entry of firms and to increase competition, so that the transmission channels of product market reforms could kick in: reductions in mark-ups and input prices could allow an expansion of 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 design of the first programme also addressed certain problems of the banking sector**. This approach reflected the broad consensus at the time that, in spite of the vulnerabilities, the banking sector was not the main source of risk, unlike in other euro-area member states (most notably Spain and Ireland). Nevertheless, the sovereign debt crisis in Greece increasingly spilled over into the banking system and became the main cause of their acute liquidity pressures. This is reflected in the definition of a specific objective of safeguarding financial stability, which was supposed to be reached through the achievement of two main operational objectives: (i) Managing the tight liquidity conditions of Greek banks by preventing outflows of deposits and implementing liquidity support measures; and (ii) Strengthening banking supervision and anticipating a deterioration in asset quality ([24]). This included the establishment of a safety net for the financial sector, through the creation of the Hellenic Financial Stability Fund (HFSF) in July 2010, in anticipation of a further worsening in asset quality and losses down the road for the banks affecting their equity position. The HFSF was set up as a private legal entity, enjoying administrative financial autonomy, with the intention to be independent of political influence and the mandate to contribute to the stability of the Greek banking system in the public interest by providing capital support to banks as needed, in compliance with EU state aid rules ([25]). EUR 10 billion of the overall financing envelope of the first programme were earmarked to finance a potential recapitalisation of one or

([22]) See CEPS, ECORYS and NIESR (2021), p.100.

([23]) See CEPS, ECORYS and NIESR (2021), p.111.

([24]) See CEPS, ECORYS and NIESR (2021), p.74.

([25]) The HFSF also provided loans to the Hellenic Deposit and Investment Guarantee Fund during the Greek programmes for bank resolution purposes.

more banks by the HFSF if such need arose, but were not used during the first programme.

**Although the first economic adjustment programme did not include a dedicated pillar on public administration, the urgent need for fiscal consolidation led to substantial reforms also taking place in this area.** At the time, the public administration in Greece was characterised by overstaffing as its size had grown significantly, and in particular the state-owned companies had increased their staffing levels disproportionately, without however delivering corresponding improvements in the quality of public services offered to citizens. In order to tackle the overstaffing and enhance fiscal consolidation, the government introduced measures to rationalise public service employment. The reduction of permanent staff in the public administration was achieved by imposing a limitation to hires through freezing recruitments in 2010 and applying an attrition rule that permitted one (1) new recruitment for every ten (10) exits in 2011. Similarly, a restriction was imposed on the number of temporary personnel and elected staff, through a 50% decrease in approvals/renewals in 2011 compared to 2010 and an additional 10% decrease in 2012. As a result, the total number of public sector personnel decreased by more than 21% between 2009 and 2012. Further, reforms were initiated to address the remuneration system that was seen as outdated and arbitrary. The first coordinated effort towards a simplified and uniform remuneration system was made in 2011, but again the results was mainly relating towards fiscal consolidation rather than structural reform. Nevertheless, the public sector wage bill saw a significant decrease by more than 27% in the period 2009 to 2012. This took Greece's wage bill closer to the EU average in relation to the country's GDP. Finally, some more structurally oriented reforms did take place, notably the creation of a census database with up-to-date staffing figures and the establishment of the Single Payment Authority. Both of these initiatives proved to be key building blocks in the efforts to establish a comprehensive human resource management system.

**In summer 2011, to support the implementation of the reforms required by the MoU and to accelerate the absorption of EU funds, the Commission created the Task Force for Greece (TFGR)([26]).** Technical support aimed to increase the capacity of the public administration (at central, regional and local level) to design and implement reforms and covered a wide range of economic sectors, from the financial sector to public procurement, but also anti-corruption, anti-money laundering, anti-fraud, the business environment, healthcare, and the judicial system. The added value of technical support was important; however, the effective use of the technical assistance provided and the actual implementation of structural reforms were hampered by recurrent periods of protracted political instability. When the TFGR concluded its mandate in June 2015,

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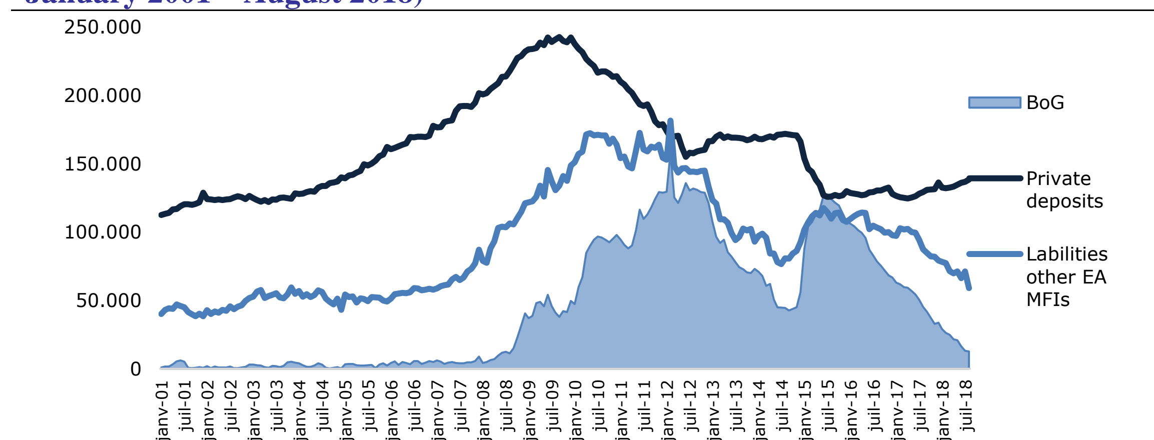
([26]) See European Court of Auditors (2015b).

technical support continued to be provided by the Commission's Structural Reform Support Service (SRSS).

Figure 8: **Greek Monetary Financial Institution's selected liabilities (EUR billion, January 2001 – August 2018)**




**Source:** CEPS, ECORYS and NIESR (2021), p.76

**Despite some initial improvement, it became clear that Greece would not be able to return to market financing within the time horizon and financing envelope of the first financial assistance programme.** Despite large improvements in the fiscal balance, Greece achieved a substantial reduction in the general government deficit: from 15¾ per cent of GDP in 2009 to 9¼ percent in 2011 ([27]). The sharp decline in economic growth and continuing fiscal deficits further increased the debt-to-GDP ratio, undermining efforts to restore investors' confidence and to regain market access. Depositor confidence and banks' asset quality equally suffered from the large fall in GDP and the political uncertainty, with continued deposit flight intensifying banks' liquidity needs. In June 2011, the Eurogroup recognised the considerable progress achieved, particularly in the area of fiscal consolidation ([28]). However, given the difficult financing circumstances, which in part was exacerbated by market concerns about debt sustainability, it became evident by early 2012 that Greece was unlikely to regain private market access in the near term. Ministers agreed that the required additional funding would be financed through both official and private sources. It welcomed the pursuit of voluntary private sector involvement (PSI) 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.

([27]) See European Commission (2012).

([28]) See Eurogroup (2011).

*The second financial assistance programme for Greece financed under the EFSF*

**The second adjustment programme was agreed in March 2012 with an additional €130 billion until 2014, financed by the European Financial Stability Facility (EFSF) ([29]) and supported by voluntary private sector involvement (PSI) to reduce the debt burden.** Similarly, to the GLF, the EFSF was an intergovernmental mechanism set up outside of the EU legal framework, which required a unanimous decision from participating Member States to authorise the disbursement of financial assistance. The EFSF relied on guarantees provided by participating Member States to issue debt instruments on capital markets which financed the financial assistance it provided. The EFSF remains active only to service the bonds it has emitted.

**The estimated gross financing needs amounted to around €178.5 billion until 2014 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 €78.3 billion to cover costs associated with PSI, €48.8 billion for bank recapitalisation and €29.5 billion of cash up front. The EFSF and IMF committed the undisbursed amounts of the first financing package plus an additional €130 billion. Overall, the EFSF committed to an overall amount of €144.7 billion (including the already committed or disbursed amounts for PSI and bank recapitalisation), while the IMF committed to contribute €28 billion over four years, under the Extended Fund Facility for Greece approved by the IMF in March 2012.

**A successful PSI operation was a necessary condition for the second programme financed by the EFSF([30]).** It consisted of an exchange of old Greek Government Bonds (GGBs) for new ones corresponding to a haircut of 53.5% of their nominal principal amount and closer to 70% in net present value (NPV) terms. The PSI was concluded in April 2012. Its main objective was to reduce the public debt burden and improve debt sustainability. Greece was offering a substantial amount of near-cash (the 15% and the accrued interest) and moderately-structured GDP warrants to make the offer attractive to investors. In the end, Greece achieved a total participation of €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 €107 billion, or 52% of the eligible debt ([31]).

**In the later stages of the second programme in November 2012, the euro area partners agreed to consider debt relief measures.** While PSI did not include official

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([29]) The EFSF was created by an intergovernmental agreement as a temporary crisis resolution mechanism by the euro area Member States in June 2010. It was later replaced by a permanent mechanism, the European Stability Mechanism (ESM).

([30]) See Eurogroup (2012a)

([31]) See CEPS, ECORYS and NIESR (2021), p.52.

sector bondholders, in early 2012 it appeared that PSI alone would not have been sufficient for Greece to meet repayments. In November 2012 ([32]), the euro area partners agreed to consider debt relief by reducing the net present value (NPV) of their claims. The possible measures consisted of a reduction in interest rates to a fixed 1% and a lengthening of maturities. More specifically, the euro area finance ministers agreed to consider:

- 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 securities markets programme (SMP) portfolio accruing to their national central banks, starting from budget year 2013.

The measures were supposed to reduce Greece's debt to 124% of GDP by 2020, saving 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 ([33]).

**Taking account of the suboptimal results of the first programme and following debt restructuring (PSI), the second programme focused on three main pillars of (1) ensuring debt sustainability, (2) implementing growth-enhancing reforms and (3) stabilising the banking sector.** On the fiscal side, the operational objectives of the programme focused on stabilising the primary balance and reducing debt along with private sector involvement (PSI) and fiscal reforms. The programme envisaged to achieve a primary deficit of 1% in 2012 and a primary surplus of 4.5% in 2014, and to gradually reduce the debt-to-GDP ratio to the level of 117% by 2020. The target was defined in a manner that required a similar fiscal effort as before, while letting automatic stabilisers operate. Primary expenditure cuts of a permanent nature were also planned ([34]).

**The second programme also devoted greater attention to the problems of the banking sector**. Key challenges were arising from liquidity and solvency issues due to banks' exposure to the sovereign, the deteriorating quality of domestic loan portfolios

([32]) See Eurogroup (2012b).

([33]) See CEPS, ECORYS and NIESR (2021), p.59.

([34]) See European Commission (2012).

and the steady loss in deposits ([35]). Moreover, the PSI had a twofold impact on the financial sector: a direct one, driven by the haircuts to sovereign bonds held by banks, and an indirect one, driven by the fall in confidence until the PSI's execution and as a result of the high domestic political uncertainty that existed at the time. More specifically, the impact of the restructuring of Greek government bonds implied losses of about EUR 38 billion for the Greek banks (EUR 28 billion for the four systemic banks), corresponding to about 170 % of their total Core Tier I capital at that time([36]). At the same time, PSI was concomitant with high domestic political uncertainty (double election in May 2012) ([37]) and persistent fears of a Grexit, which 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 were withdrawn from the banking system. As a result, Greek banks became heavily reliant on the ECB and, as banks' access to Eurosystem refinancing suffered due to a lack of eligible collateral, increasingly on emergency liquidity assistance (ELA) from the Bank of Greece for their liquidity needs. The programme therefore identified as priorities for the Greek banks: i) the restoration of access to international capital markets and funding; and ii) restructuring and recapitalisation, including the need to compensate for the systemic banks' losses from the PSI**.** For this reason, a financing envelope of EUR 50 billion (including a confidence buffer) was earmarked for the recapitalisation and resolution costs of the banking sector, of which EUR 39.9 billion were used by the HFSF for recapitalisation and resolution purposes over the period 2011-2013.

**The second programme broadly maintained the same priorities as the first one regarding structural reforms and the public administration**. In addition, its policy conditionality aimed to reduce rents and inefficiencies associated with public monopolies, privatise public assets with the aim of reducing barriers in sheltered sectors of the economy, enhance competition to reduce excessive rents, improve the business environment and reallocate resources to the tradable sector ([38]). Efforts were also made to deepen reforms in areas such as energy and education which have, over the longer run, a significant impact on underlying competitiveness and the Greek authorities were encouraged to develop their own broader growth strategy.

**On public administration, the efforts that started during the first economic adjustment programme to rationalise the size of the public sector continued.** In particular, regarding the permanent staff, an attrition rule that permitted one (1) new

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([35]) See CEPS, ECORYS and NIESR (2021), p.79.

([36]) See CEPS, ECORYS and NIESR (2021), p.80.

([37]) See European Court of Auditors (2017), Annex 1, p.3.

([38]) See CEPS, ECORYS and NIESR (2021), p.112.

recruitment for every five (5) exits applied for the whole period until 2015 while for the temporary staff a 10% in approvals/renewals in 2012 and onwards compared to the previous year was imposed– until 2016. As a result, the overall number of public servants at the end of 2015, when the second economic adjustment programme had ended, decreased significantly, by more than 26% compared to 2009.

**In 2014, Greece carried out an unprecedented fiscal consolidation.** Following a primary deficit of over 9% of GDP in 2013, the general government balance recorded a small primary surplus in 2014. With such a fiscal effort, the growth of the debt-to-GDP ratio could be tamed, as the debt ratio increased only 2 percentage points to 180% of GDP in contrast to the 16-percentage point increase in 2013. As a sign of returning confidence, in April 2014 Greece was able to issue government bonds for the first time in four years, and a second issuance followed in July, raising around EUR 6 billion in total. Some significant reforms had been enacted during this period on issues such as taxation and tax administration, the civil code, energy sector and the public sector. These reforms did not have time to make a tangible impact on the real economy yet, but were important foundations for the future progress under the third programme and enhanced surveillance. The partially regained market access was lost against a background of growing uncertainty and a change of government at the beginning of 2015.

**In 2014, the final year of the second programme Greece received a total of EUR 8.3 billion from the EFSF and EUR 3.6 billion from the IMF.** When the second programme expired in June 2015, Greece still had no market access and it became clear that a third programme was needed to avoid default. Political developments in early 2015 quickly unwound much of the progress made in Greek banks, as renewed fears of Grexit and a generalised loss of confidence quickly led the banking sector to a dramatic state at the end of the programme. The reliance on ELA was back to the levels of 2012 ([39]), NPLs continued to grow and the loss in deposits was so severe that capital control had to be imposed on 28 June 2015 ([40]). At the same time, the banking system had no capital buffers to absorb increasing losses on the back of the growing volume of NPLs and this led to a third bank recapitalisation, following an AQR and stress-test exercise for the four systemic Greek banks launched by the ECB in August 2015.

([39]) See also section 3.

([40]) In June 2015, following the decision by the Greek authorities to hold a referendum and the non-prolongation of the EU adjustment programme for Greece, the ECB's Governing Council decided against further increases in the ELA limit, adjusting further in July the haircuts imposed on collateral accepted by the Bank of Greece for ELA. With banks' liquidity buffers close to being exhausted, access to additional ELA restricted and deposit outflows not abating, banks almost ran out of cash. See CEPS, ECORYS and NIESR (2021), p.80-81.

*The third financial assistance programme to Greece financed through the ESM*

**The third programme, exclusively financed by the European Stability Mechanism (ESM), was set for a period of three years starting in August 2015.** The ESM is a permanent crisis resolution mechanism for the euro area based on public international law, created in 2012 to replace the temporary EFSF. The ESM retained the intergovernmental structural and governance of its predecessor, including the unanimity requirement for disbursements of financial assistance. Participating Member States endowed the ESM with its own capital, which includes both paid-in capital and callable capital. Similarly, to the EFSF, the ESM issues debt instruments on capital markets to finance the financial assistance it provides.

**At the beginning of the ESM programme, the estimated financing needs were EUR 90.6 billion.** Accounting for government surpluses, SMP/ANFA profits, and the receipts from privatisation, the financing gap was estimated at EUR 74 billion. The total financial envelope under the ESM was EUR 85.5 billion, of which EUR 25 billion was earmarked to meet recapitalisation needs for the banking sector. An assessment conducted by the Commission, in liaison with the ECB, on the debt sustainability of Greece in August 2015 concluded that debt sustainability can be achieved through a far-reaching and credible reform programme and additional debt related measures without nominal haircuts. Namely, the Eurogroup[41] was ready to consider, if necessary, possible additional measures to ensure that Greece's gross financing needs remain at a sustainable level. The Eurogroup also welcomed the intention of the IMF management to recommend to the Fund's Executive Board to consider further financial support for Greece once: the full specification of fiscal, structural and financial sector reforms has been completed; the need for additional measures has been considered; an agreement on possible debt relief to ensure debt sustainability has been reached. No further financial support by the IMF was ever proposed or agreed though. ([42])

**The ESM programme was built around the four pillars of (1) restoring fiscal sustainability, (2) safeguarding financial stability, (3) enhancing growth, competitiveness and investment, and (4) building a modern State and public administration.** The design of the programme differed from the previous ones in particular along mainly four dimensions.

([41]) See Eurogroup (2015).

([42]) The ESM is encouraged to operate with the participation of the IMF at the technical and financial level, and the relevant euro area member state is encouraged to seek support from both the ESM and the IMF. Recitals 7 and 8 ESM Treaty. This does not mean that IMF lending is a condition as seen in the 2015 ESM Programme for Greece, which the IMF has refused to support owing to concerns about the sustainability of Greek debt.

- First, the long-term sustainability of public finances was meant to be better underpinned by fiscal-structural changes, including a pension reform and measures on the revenue side. While the vast majority of the fiscal consolidation measures was adopted in the first year of the third programme, more time was given to those structural measures to deliver their full impact, and hence for Greece to complete the fiscal adjustment. In addition, by improving the conditions for debt owed to official creditors, the focus of attention shifted from the level of debt to the level of annual financing needs. Finally, very conservative assumptions were included on privatisation proceeds in the estimation of the financing envelope, and the focus was put more of efforts towards privatisation of public assets.
- Second, the programme was in general more geared towards deep structural changes with a focus on implementation, and it addressed more forcefully the difficulties in administrative capacity. In this respect, the TFGR's successor service, the SRSS, continued to assist Greece in building its capacity to implement growth-enhancing reforms.
- Third, the programme intended to address deficiencies of the social safety nets, including the reform of selected social benefits, the introduction of a generalised minimum income scheme; it further addressed the deficiencies of the health care system as they emerged from the first and second programme, such as the lack of universal access to health-care services, including by supporting a primary health-care reform and by furthering efficiency-enhancing measures introduced during previous years. In addition, the programme was accompanied by a social impact assessment, which was a novelty for a euro area adjustment programme and had significant implications for the design of the programme.
- Fourth, it included a specific chapter on the modernisation of the public administration and the justice system. Elements of reform in these areas were included in earlier financial assistance programmes but were reinforced and brought to the fore.

At the same time, the Commission worked to increase financing from EU and European Financial Institutions (EBRD, EIB, EIF) ([43]). A new approach was introduced in July 2015 focusing on maximising the use of EU funds ([44]). The Jobs and Growth Plan for Greece was meant to flank the comprehensive set of reforms that formed part of the ESM programme. Both elements – the reforms and the mobilisation of funds for investment and cohesion – were essential preconditions for restoring jobs and growth in Greece, improving the absorption capacity of available funding and returning the country to prosperity.

([43]) See European Court of Auditors (2017), p.6 of Commission replies.

([44]) See European Commission (2015).

**The ESM 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, with both revenue and spending contributing to the deficit reduction. In terms of specific measures, the focus was mostly on the fiscal reforms, aiming to boost the revenue side in a durable way. Effort focused on strengthening the fiscal institutions and reforming 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.

**A second package of debt relief measures took place in 2017 and the decision was made in 2016 in response to a debt-to-GDP ratio that 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 significant lengthening of the already long maturity profile on official credits. The measures included:

- Increasing the weighted average maturity of loans from 28.3 to 32.5 years.
- Reducing the interest rate risk by exchanging EFSF/ESM floating-rate bonds used to recapitalise banks, for cash funded through long-dated fixed-rate bonds, interest rate swaps and matched funding for future disbursements; and
- Waiving the step-up interest rate margin (originally set at 2%) for 2017 on a €11.3 billion EFSF loan instalment.

The impact of these measures on 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 would substantially reduce Greece's gross financing needs (GFN) by an estimated six percentage points over the same period. The GFN was expected to remain below 15% of GDP over the medium term and to comply with the 20% threshold in the long run.

**Debt sustainability became an explicit objective as of the second adjustment programme.** Its assessment (DSA) evolved over time slowly shifting from stock to flows. While the standard DSA linking the debt level to deficits, growth and interest rates remained the reference, the Gross Financing Needs (GFN) analysis gained increased attention as a complement to emphasise the flow dimension of debt sustainability. Technically, the GFN in a given year is the sum of the public debt falling due, the general government deficit and other 'below the line' expenses, e.g. interest payments on swaps and arrears clearance payments. For countries under a programme, the maturity of financial support can heavily influence GFN in the short to medium run. In the case of Greece, the focus on GFN was seen as a helpful benchmark not least because debt relief

measures (first and second debt relief measures) came primarily as payment deferrals and maturity extensions, instead of nominal haircuts.

**In the course of the three programmes, the focus of privatisation shifted from mainly fiscal objectives, i.e. to generate cash and reduce the debt burden, to more structural objectives.** 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 stakeholder interviews, in practice the government did not know exactly what assets it held, and these often represented significant costs ([45]). In view of the disappointing progress on privatisation made during the first two programmes, the third programme introduced a number of landmark institutional changes. In particular, the establishment of the Hellenic Corporation of Assets and Participations (HCAP) 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. HCAP is a holding company which became the owner of State-owned enterprises, a public real estate holding (ETAD), the Hellenic Financial Stability Fund (HFSF) and the Hellenic Republic Asset Development Fund (TAIPED). The establishment of the HCAP was intended to complement the fiscal and structural goals of the privatisation process ([46]).

**The main focus of the financial stability part of the third programme was on resolving the issue of non-performing loans (NPLs), in addition to catering for possible financing needs.** The programme, agreed shortly after the imposition of capital controls, included in its financial envelope a buffer of up to EUR 25 billion to address potential bank recapitalisation needs of viable banks and resolution costs of non-viable banks. It specified actions to improve the effectiveness of the resolution of non-performing loans, including a list of measures targeting existing legal, judicial and administrative impediments and fostering the establishment of a secondary market for NPL servicing and sales. The programme also envisaged a range of measures aiming to reform the overall governance of the Greek banks and financial sector ([47]). A third bank recapitalisation took place in November 2015, following an Asset Quality Review and stress-test exercise for the four systemic Greek banks conducted by the ECB. The majority of funds that were necessary to cover the total capital needs identified under the adverse scenario for Greek banks (EUR 13.7 billion) was raised from private investors (EUR 8.3 billion). The remaining EUR 5.4 billion, injected into two systemic banks, came from the HFSF, mainly through contingent capital instruments rather than direct cash injections. After the introduction of capital controls in 2015 and the signature of the

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([45]) See CEPS, ECORYS and NIESR (2021), p.117.

([46]) See CEPS, ECORYS and NIESR (2021), p.118.

([47]) See CEPS, ECORYS and NIESR (2021), p.88.

third programme, 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.

**While all three programmes included reforms focused at improving the public administration's efficiency, the third programme included the modernisation of the public administration as a key pillar of the programme.** In 2010, the Greek public administration was assessed to be overstaffed and characterised by complex, burdensome and lengthy administrative procedures. The first two programmes aimed to modernise the public sector by generating efficiency gains and ensuring transparency, as well as by reducing corruption. To this end, the focus was on cutting staff and costs (including wage bills), restructuring the central administration (outsourcing functions, identifying redundancies and restructuring central and local public administrations) and increasing the monitoring capacity and transparency of the public sector. While efficiency gains had been made, it was also evident that the experience with the first and second programmes had shown that the lack of capacity of the public administration to design and implement reforms had played a key role in explaining some of the shortcomings of these programmes. The third programme therefore paid particular attention on reforms aiming to increase the efficiency as well as the effectiveness of the public administration in the delivery of essential public goods and services. This included an ambitious reform agenda covering: human resource policies, open selection processes for managers to promote the depoliticisation of the public administration and to strengthen the central administration's coordination capacity as well as its transparency and accountability. This programme pillar was backed up by technical support from the Commission's SRSS ([48]). It is clear that reforms launched during the programme period have improved the overall performance of the public administration while starting to act as a catalyst for further reforms. However, Greece still ranks amongst the EU Member States with low scores on various indicators used to measure the performance of the public administration, but certain indicators([49]) where Greece has traditionally scored poorly, including those concerning complexity of administrative procedures and perceived provision of public service, have been gradually improving.

**There was also a significant change in the approach to social policies under the third programme as, for the first time in 2015 social fairness and inequality reduction figured among the specific objectives ([50]), backed by the Social Impact**

([48]) See CEPS, ECORYS and NIESR (2021), p.105-106.

([49]) A composite indicator framework prepared by the European Commission, which looks into five broad performance areas (policy planning, development and coordination; civil service and human resource management; accountability; service delivery; and public financial management), placed Greece in the 26th position in 2019.

([50]) See CEPS, ECORYS and NIESR (2021), p.125.

**Assessment of the stability support programme for Greece ([51]).** When Greece entered the crisis, several structural weaknesses of its welfare state became evident. First, even though public expenditure for social protection in 2009 was just below the average of the EU27 relative to GDP, it was inadequately distributed. Pension expenditure amounted to around 11% of GDP and was projected to rise to 21.4% of GDP in 2040 and 24.1% in 2060. Second, the design of social protection policies, like unemployment benefits, unemployment assistance, healthcare and pensions, was highly fragmented and overall unfair, granting people in need unequal access to social protection, while a minimum income scheme did not exist ([52]) As a consequence, the Greek welfare system was not prepared to cope with the social consequences of the crisis and found itself in the crossfire of increasing demand for social protection and the need to reduce public expenditure to achieve fiscal consolidation. Both the first and second programmes already included a reform of the social safety nets among their priorities, notably a reform of unemployment benefits and unemployment assistance schemes.

**The inefficient operation of the judicial system was identified right from the start of the first EAP as a weakness eroding citizens' trust and harming the business climate in Greece; extensive legislative reforms were enacted and numerous measures were introduced to enable implementation on the ground.** Under the first programme, Greece took mainly legislative initiatives to reform the procedural framework in civil and administrative justice, aiming at reducing the length of judicial disputes and at enhancing the effectiveness and efficiency of the court system; the single most important measure was a thorough review of the outdated Code of Civil Procedure, which introduced and/or expanded the use of IT in judicial proceedings. The revised code was adopted during the second EAP and entered into force under the ESM EAP, in January 2016.

**Under the second programme, a partial reorganisation of the judicial map was implemented.** This led to drastically reducing the number of Magistrate's courts so as to eliminate excessive fragmentation and to achieve a greater degree case of management efficiency. Work on court statistical data progressed, as did the work on the ongoing implementation of the e-Justice action plan.

**Finally, under the third (ESM) programme, an array of measures was deployed to facilitate the implementation of the reformed Code of Civil Procedure and to enhance the positive impact of its new streamlined and simplified proceedings, including enforcement.** Moreover, selective improvements were made, e.g. regarding interim measures proceedings, the incorporation of EU legislation on the issuance of payment orders and the strengthening of the position of secured creditors, to align their

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([51]) The Social Impact Assessment was prepared both as a way to feed the negotiation process from the Commission side and to guide the follow-up and monitoring of its implementation.

([52]) CEPS, ECORYS and NIESR (2021), p.122.

treatment with EU best practices. Additional reforms included the intensification of the use of e-justice tools in the context of the Integrated Project for the Management of civil, penal and administrative cases, enhancing case-processing capacity by the provision of training to judges and court employees, setting up a better case-monitoring system, deregulating lawyers' fees, developing arbitration and encouraging alternative dispute resolution mechanisms to increase the number of out of court settlements. A strategic project for the improvement of the functioning of the justice system was agreed upon in May 2016, as part of the country's growth strategy. It included both horizontal actions (across all jurisdictions) and actions specific to each branch of the Judiciary (Civil, Criminal and Administrative Justice), for the improvement of the functioning of the judicial system, by enhancing judicial efficiency, speeding-up proceedings and addressing shortcomings in the functioning of courts, expanding the use of IT, developing and encouraging the use of alternative dispute resolution, rationalising the cost of litigation, introducing improvements in court functioning and revising fundamental legislation affecting the operation of all branches of the Judiciary (e.g. the code of administrative procedure, the code of administrative processes, the penal code, the code of penal procedure, the code on the organization of courts, etc.). The first phase of the project, covering selected metropolitan areas, was completed in 2018, with the second phase, covering the rest of the territory, due for activation under the enhanced surveillance framework. At the close of the ESM Programme, while the legislative framework for addressing issues that affected the judiciary had been put in place, with the implementation mechanisms being either under development or at least partially operational, considerable challenges remained to be addressed by Greece in the ensuing period.

***The end of the Financial Assistance Programmes: Enhanced Surveillance and a new package of debt relief***

**By the end of the ESM programme, in June 2018, the fiscal and financial situation was sufficiently consolidated and the structural reform implementation sufficiently advanced for Greece to successfully exit the third economic adjustment programme, accompanied by some debt measures.** As agreed in 2015, upon successful completion of the programme, the Eurogroup looked at the sustainability of the Greek debt and agreed to implement, in addition to the short-term debt measures already in place, a set of medium-and long-term debt measures. It was agreed that the Eurogroup will review, at the end of the EFSF grace period in 2032, whether additional debt measures are needed to ensure sustainability and take appropriate actions, if needed and taking into account a positive assessment in the post programme surveillance, particularly in the fiscal area and economic reform policies.

**The Greek authorities, in turn, committed to maintain a primary fiscal surplus of 3.5% of GDP until 2022 and to be compliant with the EU fiscal framework**

**afterwards.** In addition, Greece committed to continue the implementation of reforms initiated under the programme and made a general commitment to continue the implementation of all key reforms adopted under the ESM programme. The implementation of the abolition of the step-up interest rate margin and the transfer of ANFA and SMP income equivalents were made conditional on compliance with specific policy commitments against agreed deadlines in six broad reform areas: (i) fiscal and fiscal structural; (ii) social welfare; (iii) financial stability; (iv) labour and product markets; (v) HCAP and privatisation; and (vi) public administration.

**The European Commission activated the enhanced surveillance procedure as from 21 August 2018.** The quarterly reports under Enhanced Surveillance have enabled closer monitoring of the economic, fiscal and financial situation and the post programme policy commitments and have served as a basis for the Eurogroup to agree on the release of the policy-contingent debt relief measures. Up to November 2022, Greece had progressed with its commitments and all eight tranches of the policy-contingent debt measures have been released; the permanent reduction of the step-up interest margin for certain loans provided by the European Financial Stability Facility as of 2023 until 2049 was also confirmed end-2022([53]).

## 3. HOW HAS THE SITUATION EVOLVED OVER THE EVALUATION PERIOD?

*The situation did not evolve as expected. A succession of three financial assistance programmes was required to allow Greece to gradually return to sovereign markets. This reflected both the depth of problems in Greece but also external factors that partly explain the underperformance of the first years. Greece also experienced recurrent protracted periods of political instability that reignited uncertainties regarding the policy course, commitment to reforms and their effective implementation. Significant progress was made by 2018 in correcting the fiscal deficit to help restore debt sustainability, stabilising the financial sector, implementing a number of important reforms restoring competitiveness, and improving the efficiency of the public sector. However, important reforms still remained to be addressed after the exit from the programmes.*

**Significant progress was made and many reforms were implemented in the programme period 2010-2018.** However, Greece exited the programmes with a remaining legacy stock of imbalances and vulnerabilities as well as with a need to continue and finalise the implementation of structural reforms:

- Following its peak of 180.8% of GDP at end-2016, **public debt** remained at 178.6% of GDP end-2017, the highest level in the EU.

([53]) See Eurogroup (2022

- The **net international investment position** of close to -140% of GDP in 2016 also remained highly elevated; moreover, in spite of the current account being close to balance, it was still insufficient to support a reduction of the large net international investment position to prudent levels at a satisfactory pace.

- The **business environment** needed considerable further improvement as Greece still lagged far behind the best-performance frontier in several areas of the structural components of leading comparative economic performance indicators (e.g. enforcing contracts, registering property, resolving insolvency, etc.).

- While **the banking sector** was sufficiently capitalised and the governance and risk culture had improved, it continued to face challenges linked to low levels of profitability, large stocks of non-performing exposures. At end-March 2018, the stock of non-performing exposures was still very high at EUR 92.5 billion or 48.6% of total on-balance sheet exposures ([54]). Greece has adopted key legislation under the ESM financial assistance to facilitate the clean-up of banks' balance sheets, but continuous efforts were needed to bring the non-performing-exposure ratio to sustainable levels and enable financial institutions to fulfil their intermediation and risk management function at all times.

- **Unemployment**, while declining from its peak of 27.9% in 2013, still stood at 20.1% in March 2018. Long-term unemployment (15.3% at the end of 2017) and youth unemployment (43.8% in March 2018) also remained very high.

*The correction of the twin deficits*

**As a result of the actions undertaken by the Greek government during the entire period covered by the financial support, fiscal and external flow imbalances have been largely corrected**. The general government primary balance turned positive in 2016 and Greece overachieved the primary surplus targets (Figure 7). Ex post, the third programme substantially improved the government primary balance, from a EUR 3.7 billion deficit in 2015 to a surplus of EUR 7.9 billion in 2018, which represents a cumulative improvement of EUR 11.6 billion, equivalent to 4.3% of GDP. Overall, the programme not only achieved its fiscal target in terms of primary balance, but it overperformed. However, as regards external imbalances, the current account deficit has deteriorated from 0.8% of GDP in 2015 to 2.9% of GDP in 2018, on the back of weaker performance of the external sector ([55]), as the notable uptick in exports over the same

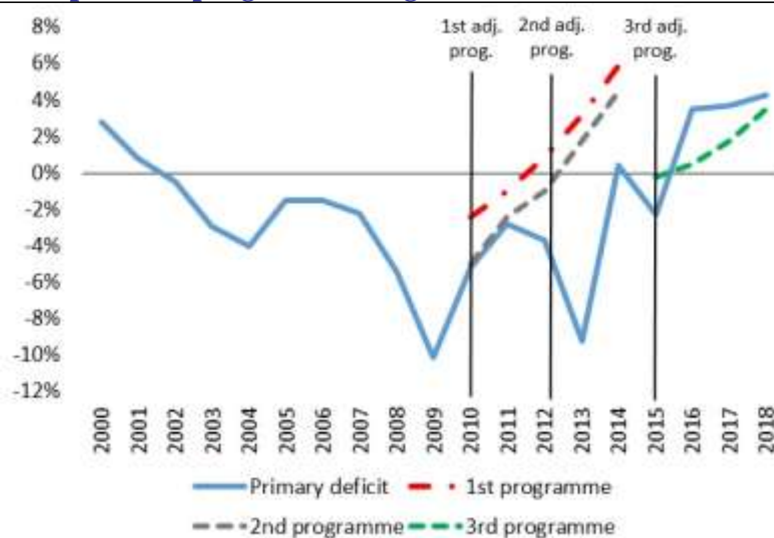
([54]) The data source is Bank of Greece (on a solo basis).

([55]) According to Balance of Payments data, the trade balance deficit increased from 0.6% of GDP in 2015 to 1.8% of GDP in 2018.

period could not offset the subsequent rise in imports, which was fuelled by the recovery in domestic demand.

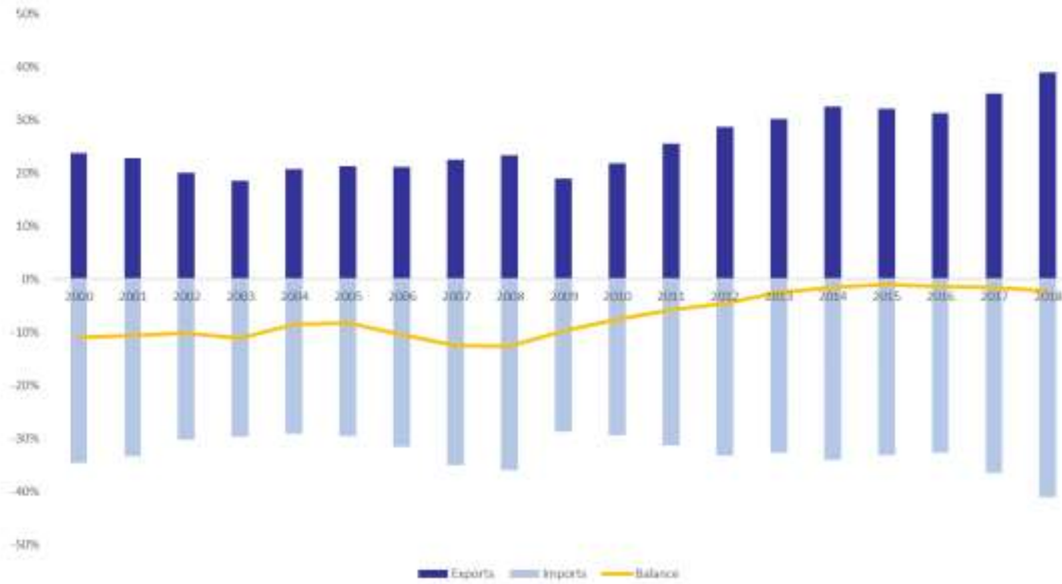
**However, the substantial fiscal adjustment amidst an economic downturn, especially during the first and second programmes, generated negative feedback loops which undermined the consolidation efforts.** The government debt-to-GDP ratio stood at high levels throughout the programme period. The significant fiscal consolidation efforts led to negative short-run effects on economic activity and aggregate demand. Nominal GDP fell by 22% between 2010 and 2016 and domestic demand fell by 27%. This has made the structural adjustment of public finances particularly difficult: in particular, while the public wage bill was reduced by 24% over the same period and total pension payments fell by 8%, in terms of GDP, the remuneration adjustment was much smaller, with wages reducing only by 0.2 percentage points of GDP, while pensions increased by 2.8 percentage points of GDP. The negative impact of the fiscal adjustment on domestic demand was only partly offset by positive contributions from net exports which was driven both by lower imports and improving export performance albeit at a slow pace (Figure 8). The economy started to recover with real GDP growth at 1.4% in 2017, and unemployment was put on a declining path.

Figure 9: **Primary Balance of General Government of Greece (% of GDP, 2000-2018, actual compared to programme targets)**



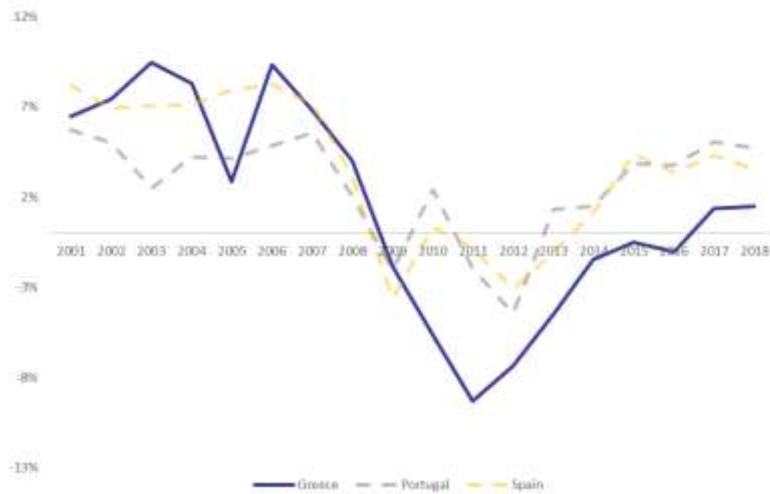

**Source:** AMECO

Figure 10: **Trade Balance, Imports and Exports of Greece (% of GDP, 2000-2018)**



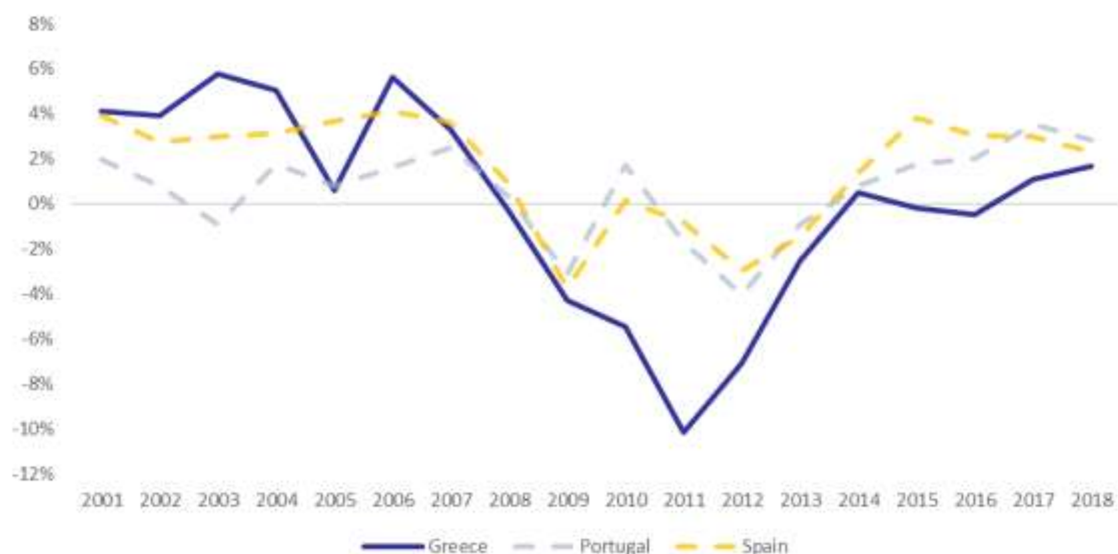

**Source:** Eurostat

Figure 11: **Nominal GDP growth rate of Greece, Portugal and Spain (year-on-year % change, 2001-2018)**



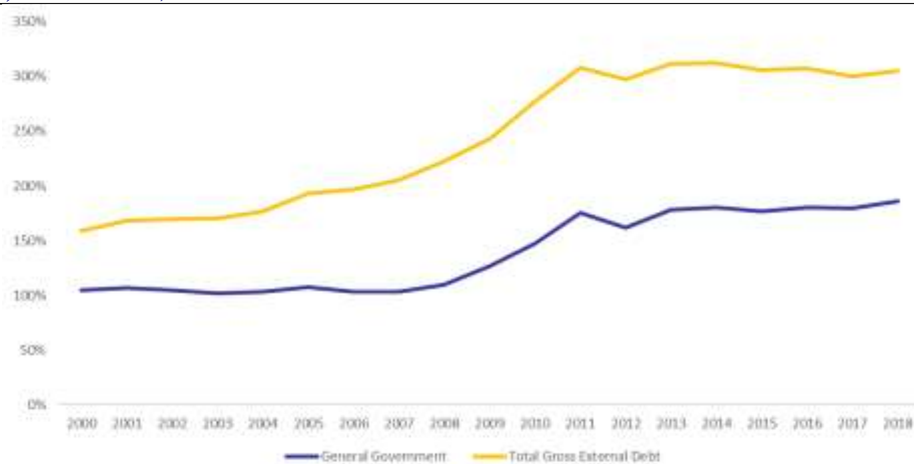

**Source:** Eurostat

Figure 12: **Real GDP growth rate of Greece, Portugal and Spain (year-on-year % change, 2001-2018)**



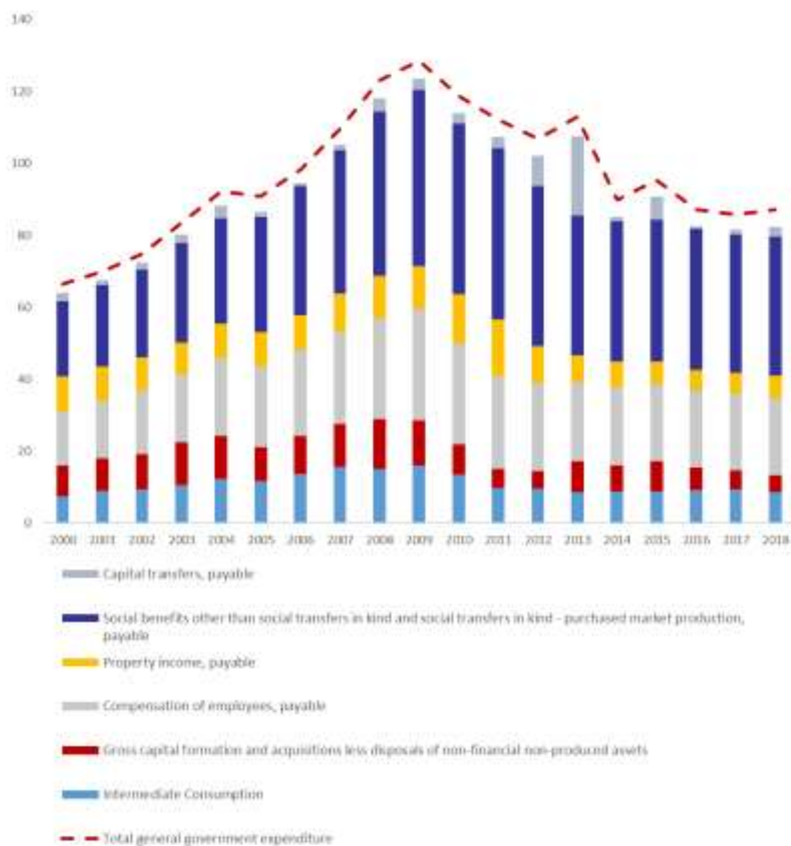

**Source:** Eurostat

Figure 13: **General government and total gross external debt position of Greece (% of GDP, 2000-2018)**



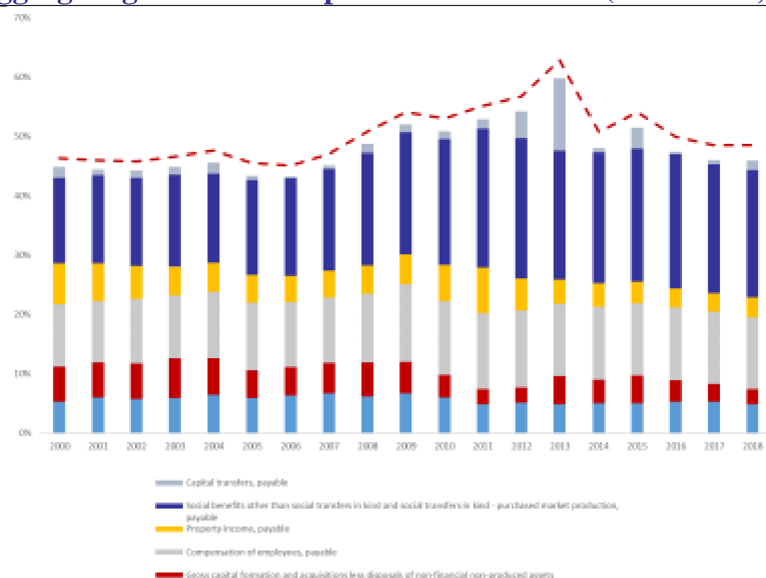

**Source:** Eurostat

Figure 14: **Aggregate government expenditure of Greece (EUR billion, 2000-2018)**



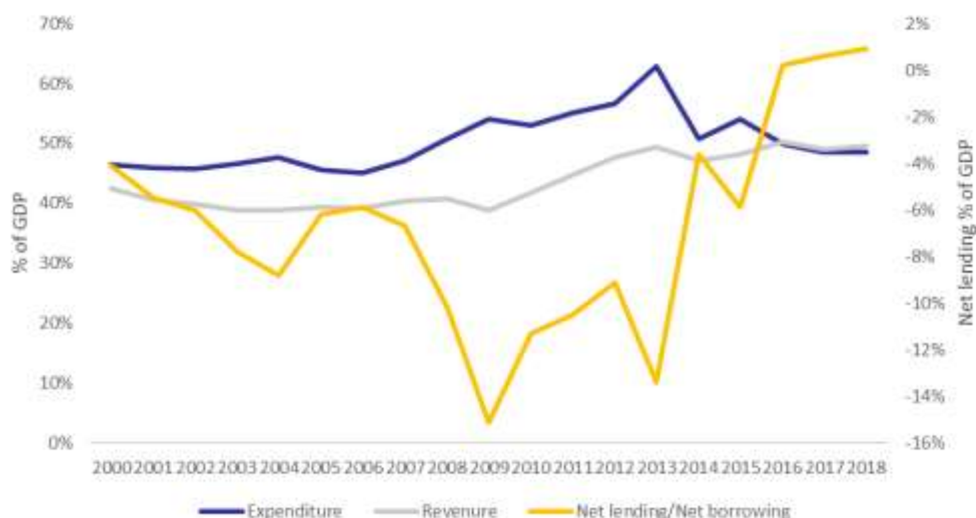

**Source:** Eurostat

Figure 15: **Aggregate government expenditure of Greece (% of GDP, 2000-2018)**




**Source:** Eurostat

Figure 16: **Expenditure, revenue and net lending/borrowing of Greece (% of GDP, 2000-2018)**

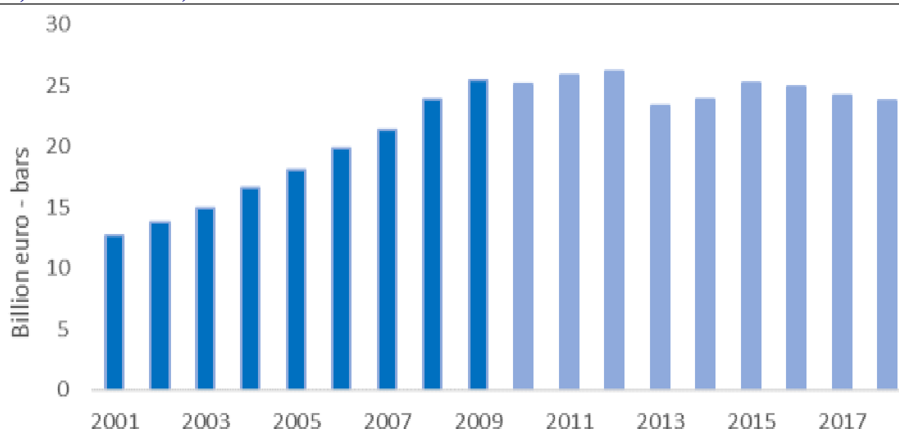



**Source:** Eurostat

*Fiscal-structural efforts*

**While the fiscal gains from most fiscal-structural reforms did not deliver on the expected contributions to short-run fiscal adjustment, the implied structural changes gradually improved the quality of public finances and over time underpinned fiscal sustainability.** Several fiscal-structural reforms were implemented to ensure lasting positive effects of the fiscal adjustment which became increasingly focused on enhancing efficiency, cost effectiveness and long-term sustainability of the underlying systems. These included reforms of 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. At the same time, given the acquired rights of incumbent pensioners, pension reforms presented little scope to achieve large immediate fiscal savings. Hence, despite a relatively large decline of total pension expenditure of 10.8% in 2013, the expenditure on pensions at the end of 2018 was at its 2008 level. Similarly, several efficiency-enhancing healthcare sector reforms were implemented throughout the programmes to improve the governance and to increase the cost-effectiveness of the Greek healthcare system. Another set of fiscal-structural reforms focused on the Greek tax system with the objective of increasing its efficiency and equity. A very important element of the programmes was focussing on the tax administration of the country aimed at improving revenue collection, tackling tax evasion (including governance changes involving the creation of a new autonomous revenue agency), and strengthening public financial management and public procurement.

Figure 17: **Government expenditure on old age pension level of Greece (EUR billion, 2001-2018)**




**Source:** CEPS, ECORYS and NIESR (2021), p.45

**Privatisation proceeds fell significantly short of expectations in the first and second programmes; the shift of focus from financial to structural aspects by the third programme contributed to improving the management of state assets and underpinned a more realistic financing envelope.** The privatisation of public assets was designed in the first and second programme as a means of reducing public debt, as part of the fiscal adjustment measures to produce cash for debt purposes. In March 2011, it was decided to significantly increase the privatisation initiative, with highly ambitious targets aimed at collecting EUR 50 billion by the end of 2015 and lowering public debt by more than 20% of GDP. However, as market conditions and the state of the Greek banking system at the time were not taken into account, the targets set were hardly met if at all. The goal of structurally and financially improving the value of public assets before privatisation was introduced only with the third programme. Similarly, the reform of the tax administration was initially considered as just a means to combat tax evasion and improve tax collection. Again, the overall modernisation of the public administration became a clear programme objective only under the third programme.

**The long-lasting crisis and the required adjustment brought unintended results, notably in terms of social impact, although reforms have over time contributed to modernising social protection and the benefit systems.** On the government expenditure side, cuts in social spending (pensions), public wages and public investment were unavoidable. The recession also steered a loss of confidence among businesses and households, which could only gradually be restored by the subsequent adjustment programmes. As a consequence of the recession and the impact of fiscal consolidation, households' real disposable income fell by 35% ([56]). The programme contributed to implementing several structural reforms that mitigated some of the negative social effects (see below).

([56]) See CEPS, ECORYS and NIESR (2021), p.50.

*Financial sector*

**Overall, by the end of the first programme, although a generalised financial market disruption was averted, banks' liquidity needs were much more acute than at the beginning of the programme.** The combination of a deepening recession and high political uncertainty affected depositor confidence and banks' asset quality ([57]), while banks' access to Eurosystem refinancing suffered due to a lack of eligible collateral ([58]). Legislative changes by the Greek authorities removing the threat of foreclosure contributed to a deterioration of payment discipline and the persistence of high mortgage NPLs. Despite this challenging backdrop, the financial stability of the system was preserved, as the ability to rely on Eurosystem and ELA lending proved critical. The first bank resolutions also took place, while the Hellenic Financial Stability Fund (HFSF) was set up (in July 2010) ([59]) and efforts were made to restructure state-controlled banks, in order to preserve the soundness of the financial sector. An asset quality review was undertaken to perform an appropriate diagnostic of the banking sector.

**The second programme was crucial for the banking sector and has a dual assessment.** On the one hand, viable systemic banks were recapitalised and several small banks were resolved, without major impact on the stability of the financial system. Overall, 14 bank resolutions took place during the three adjustment programmes. Liquidity conditions improved in 2013-14, as Greek banks gradually eliminated their dependence on ELA and were able to issue debt in the international markets during 2014. On the other hand, efforts on the side of improving the management of non-performing loans and fostering non-performing loan reduction had a limited impact, while bank governance was still not an area of focus. Most importantly, political developments in early 2015 quickly unwound much of the progress made, as renewed fears of Grexit and a general loss of confidence quickly led the banking sector to a dramatic state at the end of the programme. Reliance on ELA was back to 2012 levels, non-performing loans continued to grow, and the loss in deposits was so severe that capital controls had to be imposed.

**While three bank recapitalisations took place within two years, their nature varied and depositors have been protected.** The first recapitalisation, which was completed in the first half of 2013, was largely driven by the Private Sector Involvement (PSI) which

([57]) See CEPS, ECORYS and NIESR (2021), p.79.

([58]) 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. As a result, in August 2011 Greek banks started to rely on emergency liquidity assistance (ELA) from the Bank of Greece. See CEPS, ECORYS and NIESR (2021), p.75.

([59]) See CEPS, ECORYS and NIESR (2021), pp.73-75.

caused losses of about EUR 38 billion for the Greek banks (EUR 28 billion for the four systemic banks), corresponding to about 170% of their total Core Tier I capital at that time. The capital base of most of the Greek banks was entirely wiped out in 2012, while the protracted and unprecedented recession fuelled a significant increase in non-performing loans (NPLs), which continued to erode banks' capital bases in the following years as Grexit fears continued to drive deposit outflows. A financing envelope of EUR 50 billion was earmarked for the recapitalisation and resolution of the banking sector. The Hellenic Financial Stability Fund (HFSF) used EUR 39.9 billion of this amount for recapitalisation and resolution purposes over the period 2011-13 ([60]). The second was driven by the prolonged and severe recession, was relatively small and fully private (it took place between May and June 2014). The amount raised by the four systemic banks was EUR 8.3 billion and resulted in a substantial increase in private ownership. Finally, the third recapitalisation was caused by exogenous factors, i.e. the political developments of 2015, which could hardly have been anticipated at the time when estimates were being made on the amount of capital needs: 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 National Bank of Greece (NBG) and Piraeus Bank from the HFSF ([61]).

**The recapitalisations between 2012 and 2015 kept the CET 1 capital adequacy ratio of the four systemic banks above the minimum threshold ([62]).** The uplift in the CET 1 was particularly important under the first recapitalisation, where the ratio of two out of four systemic banks was negative. Following the third recapitalisation, the CET 1 capital adequacy ratio reached circa 15% by December 2015 and further rose to 15.8% in 2018, compared to 14.4% for the euro-area average ([63]). By the end of the programmes, the NPL ratio was still very high, as the authorities were relatively late in devising and implementing a comprehensive strategy to address this issue, which became a priority only under the third programme. Even then, key reforms, such as the establishment of a secondary market for NPLs (2017) and the mandatory use of e-auctions for all immovable property (2018), were adopted only in the last years of the third programme and had only partially been implemented by the end of it. As a result, their benefits materialised after the end of the programmes. Although delays in the implementation of reforms linked to the resolution of NPLs was a shortcoming of the programmes, this was partially offset by a stronger post-programme surveillance framework, with specific commitments linked to NPL resolution, which led to the entry into force of a new and

([60]) See CEPS, ECORYS and NIESR (2021), p.80.

([61]) See CEPS, ECORYS and NIESR (2021), p.89

([62]) See ICF and IOBE (2020a), p.69.

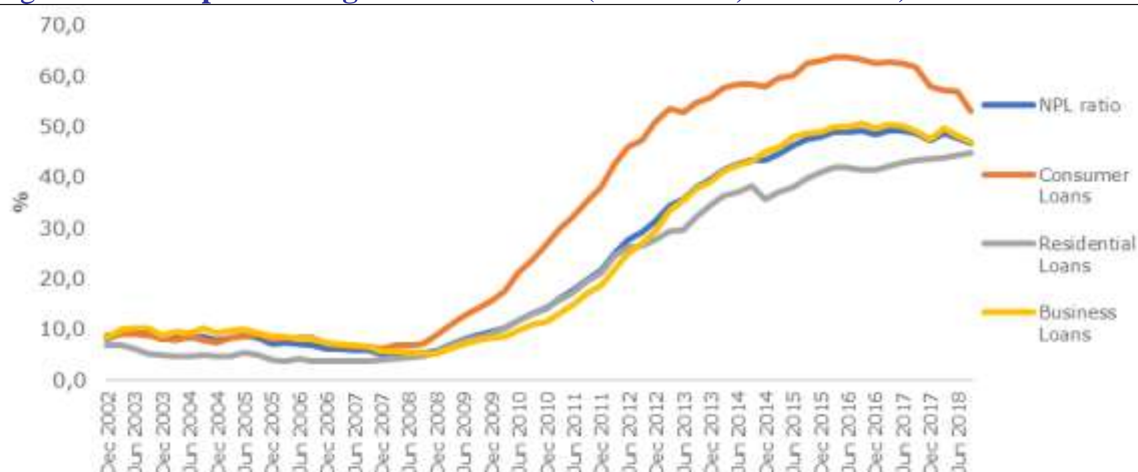
([63]) See ICF and IOBE (2020a), p.68.

modern insolvency framework in 2021, while efforts to reduce the stock of legacy NPLs also benefitted from the establishment of the Hercules Asset Protection scheme. This has allowed the reduction of the NPL ratio from its peak 48.5% in 2015 to 12.8% by end-2021 ([64]).

Figure 18: **Assets and liabilities of the Greek banking system (ratio and % of GDP, 2000-2018)**

**Source:** Eurostat

Figure 19: **Non-performing loans of Greece (ratio in %, 2002- 2018)**




**Source:** CEPS, ECORYS and NIESR (2021), p.86

*Structural reform outcomes*

**The objectives of structural reforms established at the beginning of the programmes proved to be overly ambitious in terms of timeline and against the backdrop of a**

([64]) Bank of Greece data (on a solo basis)

**low implementation capacity.** As a result, their implementation often took much longer than expected and the objectives were only partially achieved. The ambition was to restore the external balance and regain competitiveness through a number of product and labour market reforms. Structural weaknesses included an inflexible and fragmented labour market, a high regulatory burden, a low degree of competition protected also by vested interests in product markets and network industries, a weak welfare state and an ineffective public administration. For many years, labour compensation had been growing in excess of the only modestly growing productivity. With little progress visible by the end of the first two programmes, also due to implementation problems, the reform agenda was strengthened in the third programme, including by focussing reforms in the public sector on the capacity to deliver on reforms. At the end of the programmes and after many reforms implemented, the business environment was still in need of considerable further reform steps. Moreover, the net international investment position remained high, in spite of a current account close to balance.

**A wide range of reforms on product markets and the business environment were implemented during the three programmes, but there was a clear need to continue the reform agenda beyond the end of the programmes.** Ahead of the programmes, Greece was considered to be a highly-regulated country compared to its peers. Several product markets reforms, including the liberalisation of professions and the recognition of professional qualifications, were implemented. While Greece started to gradually converge towards the EU average in terms of product market flexibility and visible progress was made in particular on reforms in the areas of energy and the management of state-owned assets, it still lagged behind on a number of comparative business environment indicators. Despite the many reforms implemented, the functioning of the public sector, including the public administration, and the effectiveness of the judiciary remained areas in need of further improvement.

**The successive programmes focused the energy reforms on increasing competition in the Greek energy markets. ([65])** The functioning of the gas market was improved with the breaking of the gas distribution monopolies with the ensuing structural change in the supply and distribution networks, the full ownership unbundling, and the privatisation of the gas transmission system operators. In the electricity market, the market share of the national incumbent Public Power Corporation (PPC) decreased from 95% in 2015 to 66% in 2019. In addition to the creation of a power exchange Henex (Hellenic Energy Exchange), the full ownership unbundling of the Greek transmission system operator was one of the most important reforms. Moreover, the energy mix had changed, particularly in terms of a reduction of lignite-based power and an increase in renewable energy.

([65]) See Ioannidis (2022).

**The programmes contributed to progress in the modernisation of the Greek public administration.** In 2010, it was assessed to be overstaffed and characterised by complex, burdensome and lengthy administrative procedures as well as by corruption. As the first and second programmes had shown the lack of capacity of the public administration to design and implement reforms, the third programme aimed in particular at increasing the capacity to deliver essential public goods and services. While several reforms improved the overall performance of the public administration and acted as a catalyst for further reforms, Greece still shows low scores on various indicators even though these improved in areas such as the complexity of administrative procedures or the perceived provision of public services.

**While the overly ambitious objectives on privatisation of the first two programmes were not achieved, notably in terms of proceeds, there was significant progress in the management of state-owned assets.** Prior to its adjustment programmes, Greece had one of the broadest portfolios of state-owned assets in the EU which were managed with a very low efficiency and transparency. Notably with the third programme, new structures were introduced focusing on the corporate governance of managing the state-owned assets and allowing the state to gain financially from its assets through dividend revenues and outright sale.

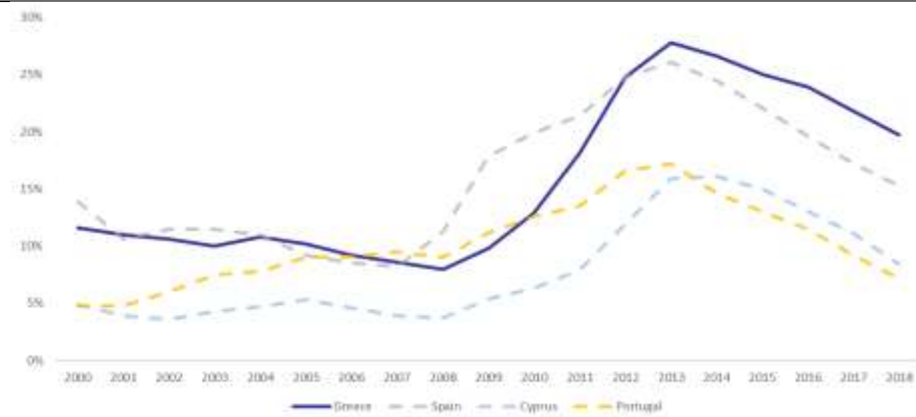
**Across the three programmes, several reforms enhancing the efficiency of the judiciary were implemented, also with a view to improving the business environment.** The inefficient operation of the judicial system was identified right from the start as a weakness eroding citizens' trust and harming the business climate in Greece. Numerous measures were introduced, including a thorough review of the outdated Code of Civil Procedure, which introduced and/or expanded the use of IT in judicial proceedings. An array of measures was deployed to facilitate the implementation of the reformed Code of Civil Procedure and to enhance the positive impact of its new streamlined and simplified proceedings, including enforcement. Work on court statistical data marked some progress, as did the work on the ongoing implementation of the e-Justice action plan. However, IT penetration in judicial proceedings remained low, due to infrastructure deficiencies and limited uptake by judges and courts' clerical staff as well as legal professionals. A partial reorganisation of the judicial map led to drastically reducing the number of Magistrate's courts so as to eliminate excessive fragmentation and to achieve a greater degree case of management efficiency. A strategic project for the improvement of the functioning of the justice system was agreed upon in May 2016, and the first phase of the project, covering four selected courts (three of them in metropolitan areas), was completed in 2018. While its positive impact was felt in the affected courts, the coverage of the rest of the country's territory remained limited, due to the above-mentioned low rate of IT use and the delays that prevented the launch of the second phase of the project. As a result, the overall court processing capacity of Greek courts, predominantly regarding civil and commercial litigation at first instance, as measured in time needed to resolve pending cases, remained the highest among EU countries in 2018

and 2019. In conclusion, despite the progress marked, the organisational and operational challenges affecting the Greek judicial system were unresolved to an appreciable extent and remained to be addressed in the post-programme period.

**Labour market reforms in the context of the programmes aimed to support the ongoing adjustment in the economy through more flexible labour market regulations and to enhance cost competitiveness gains through the reallocation of factors towards tradable sectors.** There was also a need to achieve a better match between labour compensation, on the one hand, and productivity, competitiveness and other key economic fundamentals, on the other hand, and to increase participation to the market, especially among women. Key reforms successfully implemented included making the employment protection legislation more flexible, decentralising collective bargaining, cutting the statutory minimum wage (by 22% in 2012), and reducing the labour tax wedge. While particular attention was given to preserving existing jobs as much as possible or to creating new ones, the deep economic adjustment process temporarily led to higher unemployment that reached a peak in mid-2013. After declining steadily from that peak, the unemployment rate stood at 20.1% in March 2018 (see Figure 20) and long-term unemployment and youth unemployment remained very high, although all these indicators continued to improve in subsequent post-programme years. After employment had fallen sharply, it started increasing again from 2015 and the share of part-time employment decreased progressively. The sizeable reductions in labour costs translated only moderately into price competitiveness gains partly due to the relatively high share of self-employment and the structure of the economy, as well as the long time needed for some product market reforms to unfold (e.g. in the energy sector). The tradables sector has started to expand during the programme period but, coming from a very low starting point, it remained relatively small.

**Reforms of the welfare state in the context of the programmes mitigated the social hardships of the economic crisis to some extent.** When Greece entered the crisis, it became evident that the Greek welfare system was not well prepared to cope with the short-term social consequences of economic adjustment. Even though public expenditure for social protection and pensions was comparatively high, the design was highly fragmented and unbalanced. In particular, there was an absence of a social safety net with no fallback income support scheme or universal access to health care. Under the programmes, the pension system was transformed into a universal single system with unified rules, resulting in increased actuarial fairness, longer working lives and reduced waste and inequalities. The efficiency and effectiveness of the health care system was strengthened whilst promoting universal access. Reforms of the social safety net included notably the introduction of child benefits in 2014 and a universal minimum income scheme from early 2017 as well as a series of welfare reforms made to family and housing benefits. As a result, the at-risk-of-poverty rate initially rose steeply from 20% in 2010 to 23% in 2013, falling back to 18% by 2018 after the introduction of the minimum income scheme.

Figure 20: **Unemployment rates of Greece, Spain, Cyprus and Portugal (% of active population, 2000-2018)**




**Source:** AMECO

# 4. EVALUATION FINDINGS

## 4.1. To what extent was the intervention successful and why?

*The EU intervention in the Greek sovereign debt crisis has been effective in achieving its objectives and avoiding more negative consequences. At the same time, looking at efficiency and coherence, the adjustment had high costs in terms of income and social impact. The counterfactual scenario (a financial system collapse) would have brought about far more significant financial, economic and social costs. Following a painful adjustment process, the main macroeconomic fundamentals of Greece came closer again to its peers and to euro area averages. Despite the still high public debt, public finance was put on a sustainable path, and market confidence was gradually re-established. The management of the programmes, which initially suffered from a lack of trust and a weak ownership and implementation record, gradually improved over time.*

**The main programme objectives were achieved only in the later stages and some were still pending at the end of the third programme and followed up under Enhanced Surveillance.** The first programme was not effective in achieving its primary objectives as fiscal deficits persisted and market access was not restored. It had to be set up within a short timeframe in a very difficult political and economic context, with very few established formal instruments to deal with the magnitude of the economic crisis in Greece. The standard design and time-horizon of adjustment programmes did not fit the case of Greece, which was special in many respects ([66]). Important underlying weaknesses of the Greek economy were only understood in the course of the first years and addressed in the two subsequent programmes. The second programme achieved market access only for a short period in early 2014. The third programme delivered better results in terms of fiscal consolidation, structural reforms and financial sector stability, resulting in market access being regained in 2019, after the end of the programme. Greece experienced recurrent protracted periods of political instability that reignited uncertainties regarding the policy course, commitment to reforms and their effective implementation. The Eurogroup agreement of June 2018 agreed on medium-term policy-contingent measures that helped ensure sustainability of the Greek debt and provided a pathway towards the sustained recovery of market access.

**In addition to Greece's profound structural problems, the first and second Greek programmes faced limitations also due to the lack of euro area governance framework.** EU and euro area surveillance was not yet equipped to address serious economic risks in Member States at an early stage. The introduction of a strengthened EU macroeconomic coordination and surveillance framework in 2011 and progress towards capital market and banking union, aimed to correct for these shortcomings by

([66]) See CEPS, ECORYS and NIESR (2021), p.207.

reinforcing the Stability and Growth Pact and by introducing the Macroeconomic Imbalances Procedure, together with a more integrated perspective through the European Semester. The absence of a framework and the necessary supporting institutions for Member States requiring financial assistance also made it more difficult to react quickly once the need for financial assistance in Greece became apparent. Only through a learning-by-doing process was the EFSF and ultimately the ESM established.

### *Fiscal consolidation*

**The first programme aimed at a very drastic and sustained fiscal consolidation, which was economically, socially and politically extremely challenging.** The general government deficit stood at 9.1% of GDP in 2012 down from 15.1% in 2009. In nominal terms, this improvement corresponded to a 50% reduction from the 2009 level, while nominal GDP fell by around 20% and continued to fall until 2016 loosing 25% of its 2009 level. This adjustment took a heavy toll on the population and the society as unemployment increased (Figure 7) and the poverty rate surged. At the same time, the adjustment fell short of targets as the programme had aimed to reduce the government deficit to below 3% of GDP in 2013, the original end year of the first programme.

**The difficulties of fiscal consolidation amidst a major economic downturn put a continuous strain on debt sustainability and, combined with political uncertainty, delayed market access**. Despite considerable fiscal efforts in reducing the deficit further and the PSI carried out in 2012, the programmes did not achieve their main objective of reducing the debt-to-GDP ratio: public debt amounted to 186.4% of GDP in 2018, compared to 126.7% in 2009. Market access did not materialise either: after a 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.

**Attention shifted only over time to the quality of consolidation**. In the first programme in particular, expenditure was cut across the board. This was to some extent inevitable and necessary, given the exceptionally large fiscal deficit. Permanent savings were introduced only from the second programme. Later, and especially in the third programme, the provision of additional financial support and more realistic targets have made it possible to balance the policy-mix and focus on a longer-term perspective, without the pressure of achieving immediate results.

### *Financial sector stability*

**Outcomes of measures for stabilising the banking sector were mixed.** Three bank recapitalisations in three years and the mounting level of NPLs still at the end of the programmes suggest that their effectiveness, in terms of financial stabilisation and a

strengthening of the banking sector, may have been limited. The deteriorating economic conditions, which had a direct impact on the banks' ability to generate capital internally, and a gradual better understanding of the wider framework and capacity constraints under which the banking sector operated, led to an evolution in the approach to achieve financial stability and the design of the interventions during the three programmes. As a result, it was the third programme that focused in a more comprehensive way on the deeper and structural weaknesses of the banking sector, namely NPLs and governance, through measures that, however, typically take a long time to show their effects. The weak and deteriorating payment culture, exacerbated by legislative changes which led to the abuse of foreclosure protection by strategic defaulters, also slowed down the solution to the problem of increasing NPLs. Nonetheless, throughout the three programmes the Eurosystem and the national central bank, through ELA, played a vital role in providing liquidity to banks and preventing the collapse of the entire system. This was despite the banks' extensive and mostly increasing liquidity needs ([67]). Moreover, actions on insolvent credit institutions until 2015 were successful in avoiding market disruption and safeguarding depositor confidence.

**Depositors were protected throughout the three programmes**, not only in the systemic banks' recapitalisation exercises but also in the 14 smaller banks' resolution that took place ([68]). At the same time, this also resulted in higher costs for the sovereign due to increasing funding needs under the programmes. In mid-2015, capital controls were imposed to stop deposit outflows caused by exogenous factors, i.e. the political developments of 2015. This was an extreme measure for extreme circumstances, but 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 exercising international financial transactions. These constraints persisted for some time, with controls only fully lifted on 1 September 2019.

**A number of bank governance measures were successfully implemented, as it was recognised to be one of the reasons for the limited success of previous measures to stabilise the banking sector.** Stakeholder interviewees identified key measures such as the changes in the composition of Board members, including the addition of members with less political exposure and higher experience, as important steps. Views on the setup of the HFSF varied as losses made it impossible to recuperate money. Although the process of setting up the HFSF turned out to be difficult, several Greek stakeholders recognised that many of those changes were seriously needed to improve the stability and performance of the banking system well before the crisis started ([69]).

([67]) With the exception of the period 2013-14.

([68]) See CEPS, ECORYS and NIESR (2021), p.96.

([69]) See CEPS, ECORYS and NIESR (2021), p.97.

*Structural reforms*

**The identification of important structural reforms required in Greece only became apparent in the course of the three programmes.** This implied that there was not a well-prepared strategy or sequencing of fiscal-structural, product and labour market reforms. On the other hand, while there may be economic arguments for such sequencing, in practice the political, economic and legal complexity of most structural reforms would have made it difficult to implement such a strategy in practice, thus requiring a high degree of pragmatism. Nonetheless, the sequencing of the reforms in Greece was questioned by many of the interviewed stakeholders as it jeopardised the coherence of reforms at different points in time.

**Despite the overall successful implementation of labour market reforms, the assessment is less unequivocal on the extent to which they contributed to achieving the objectives of preserving employment and increasing competitiveness**. Firm surveys in Greece confirmed that the labour market reforms implemented over the adjustment programmes made the Greek labour market much more flexible and reduced rigidities that could have hampered businesses' room to adjust to a very difficult environment. In terms of competitiveness, the reduction in labour costs partially translated into price competitiveness gains ([70]). Greece managed to improve its product market regulation (PMR index as measured by the OECD) relative to the EU average from the onset of the crisis to 2013. After 2013, the Greek economic performance gradually converged towards the EU average in terms of PMR flexibility. Several business environment reforms, the liberalisation of professions and the recognition of professional qualifications were successfully implemented, although with several delays and low political and societal ownership, and contributed to meeting operational objectives.

**The labour cost reduction may have only partially translated into price competitiveness gains.** While wages fell substantially during the adjustment programme, the impact on exports was limited. Prices fell only by about 5% which may have offset most of the expected competitiveness gains. ([71])

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([70]) See CEPS, ECORYS and NIESR (2021), p.104.

([71]) See CEPS, ECORYS and NIESR (2021), pp.103-104: "The IMF looking at the impact of minimum wage reductions, shows that even though a negative 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 earning the minimum wage did not translate into lower output prices on average in the same sectors, compared to other sectors with a low share of minimum wage earners. Gros et al. find that those Greek exports of goods and services that might have benefited from an "internal devaluation" amount to only 12% of GDP, compared to about 25% for Portugal and much higher

**The Greek economy still relies a lot on non-tradable sectors for domestic consumption.** This suggests that the structural reforms did not have a large impact on the reallocation of productive resources towards the tradable sector, and there is limited evidence that the programmes had a visible positive impact on restoring competitiveness. During the first and second programme, Greek exports did not increase while the external deficit narrowed largely due to a collapse in imports. While the large fall in wages could have made a positive impact on competitiveness and make the economy more export-oriented, the structural reforms by themselves did not lead to higher investment and productivity. Overall, among the main factors contributing to the success of the programme, structural reforms are rarely mentioned. ([72])

**However, it is widely acknowledged that many of the reforms of the Greek welfare system (employment policies, social assistance, pensions, healthcare) were unlikely to have been pursued without the impetus of the programmes.** In terms of implementation, a number of reforms have not been implemented or have been implemented only partially. Those include public sector reforms regarding the functioning of public administration and governance of state-owned entities.

***Programme management***

**The programmes managed to improve the coherence among the different objectives (fiscal, structural and financial policies) only gradually over time.** It was difficult to design a coherent approach from the start in view of the sizeable challenge of the required fiscal adjustment, the urgency of the intervention while lacking a clear crisis management framework, and the increasing scope of structural reforms necessary. Compared to other euro area countries that had financial assistance programmes; coherence was poor in Greece as regards the government's management of the programmes in terms of allocation of power, resources and responsibilities. In practice, shortcomings and side effects often led to outcomes that were different from those expected. On the other hand, EU funds and policies supported the programme implementation in Greece and helped in avoiding major inconsistencies in the programme.

**For a long time, a lack of trust dominated the relations between Greece and several euro area countries.** The news of misreported data about the Greek public finances had worked as a catalyst of a looming crisis. As a result, a large part of the three programmes

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values for most other small euro area countries. This could imply that even if the intended adjustment in wages materialised, the extent to which Greece's economy could recover through export growth was very limited".

([72]) See CEPS, ECORYS and NIESR (2021), p.212.

was marked by difficult relations, and even antagonism, between Greece and the institutions, as well as limited ownership of reforms from the side of the Greek authorities. While the Greek crisis emerged as a fiscal one, its swift spread to the financial sector, coupled with the country's deep and widespread structural weaknesses, increased its complexity. In addition, political changes, both in Greece and in other EU countries, often interrupted progress and made the formation of political consensus that was needed to take decisions more difficult.

**The design and implementation of the programmes' policy conditionality by the Greek authorities could have been more efficient.** Overall, the programmes were poorly managed by the Greek administration, which was often not sufficiently equipped or committed to implementing the measures as agreed. Ultimately, this was a result of the lack of reform ownership by the Greek authorities. Accordingly, communication by the authorities was often not supportive to the programmes and the institutions. Moreover, the lack of an effective coordination between ministries and limitations in the administrative capacity contributed to a weak programme management.

**There was low ownership of the programmes by the Greek authorities.** While this was clear to most involved in the programme implementation, the stakeholder consultations and interviews as reported in the external evaluation largely confirm this. The level of ownership of the programme by the Greek authorities and their level of commitment to effective programme implementation is generally seen as low/non-satisfactory. The delay of reform implementation in all three programmes is mainly attributed to the lack of political support from the Greek government side, even though government ownership was uneven across different areas of reforms. Over time, while there was a lack of government ownership at the beginning of the third programme, political stability from 2016 onwards allowed for a smoother implementation when compared to the previous programmes ([73]).

**Programme management and coordination amongst the institutions and with the Eurogroup encountered challenges throughout the three programmes which at times impeded reaching timely agreement on policy choices.** The large number of parties involved ([74]) made the decision-making process long, uncertain and sometimes driven by diverging objectives. The role played by the euro area's intergovernmental governance structure, relying on unanimity in decision making, also shaped the evolution of the Greek programmes. Hence, delays in completing programme reviews were due not only to the lack of ownership on the Greek side. The absence of an adequate framework for assessing compliance and setting conditionality in macroeconomic adjustment

([73]) See CEPS, ECORYS and NIESR (2021), p.214.

([74]) In practice, in addition to the EU institutions, almost every euro area Member State had a view and a say, as well as the IMF.

programmes on the institutions' side also played a role. Equally, amongst the institutions and between euro area member states, notably on debt sustainability ([75]), there were also challenges in reaching common position despite the evolution of the EU institutional framework through time. The intergovernmental nature of the financing instruments, whose governance and decision-making required consensus, resulted in national, or even regional, political cycles outside Greece impacting the conclusion of reviews.

### 4.2. How did the EU intervention make a difference?

*An even more severe financial crisis in Greece, and its spillover to the rest of the euro area, has been avoided with the involvement of the EU and the euro area. Through their members and institutions, it was possible to deliver a substantial financing envelope for the programmes. The EU added value was also essential in supporting the design and implementation of reforms, being guided by the EU's policy and legal frameworks. In this respect, EU technical support further helped in the design and implementation of a number of structural reforms.*

**The involvement of the EU, through its institutions, its Member States, the EFSF and the ESM as well as the ECB (with a view to bank liquidity) was necessary to deliver an adequate financing envelope.** Although the first financing envelope was insufficient, the programme could not have been undertaken by other financing sources, or with the support of just the IMF given the size of the amounts needed. In the absence of suitable financial support, uncontrolled sovereign default would have been unavoidable. In the end, financial resources provided at EU and euro area level (through the EFSF/ESM) allowed Greece to benefit from very low costs of financing, a grace period and a significant extension of the maturities starting already at the end of 2012 ([76]). Moreover, financial assistance also made it possible for Greece to support the necessary stabilisation of the banking sector, through resolution and recapitalisation.

**The EU added value was also essential in guiding and supporting the implementation of reforms.** Product markets and energy market reforms were broadly designed and implemented in coherence with the EU framework. Labour market reforms were also implemented to a large degree in following EU policies.

**Technical support further helped in informing about, and transferring, good practices across the EU in a number of structural reform areas (including revenue administration and public financial management).** While the IMF was providing technical support in specific policy areas even before the programmes, the creation of the

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([75]) See CEPS, ECORYS and NIESR (2021), p.139.

([76]) See Eurogroup (2012).

Commission's Task Force for Greece (TFGR) ([77]) at the early stages of the programmes brought complementary EU added value. The TFGR had a positive impact in assisting the design and implementation of key reforms. Its activities further triggered positive spillover effects, mostly related to the administrative and policy-making capacity in Greece. After 2015, technical support to Greece was provided through the SRSS([78]), a Commission department that originated from a merger of the TFGR and the Cyprus Support Group with a broader mandate covering all Member States.

### 4.3. Is the intervention still relevant?

*The outcome of the programmes remained relevant after the end of the programmes in 2018. There has been a lasting positive impact of having sustainable public finances, a more resilient banking sector and of implementing a very significant package of deep structural reforms. Moreover, Greece became subject to the same regular EU economic surveillance as all other Member States. In addition, enhanced surveillance of Greece built on the Eurogroup's commitment of June 2018 to disburse debt relief measures upon the implementation of well-specified policy conditions. These arrangements proved successful which was confirmed by the continuation of reform implementation, despite the challenging conditions of the pandemic during much of the period. Greece transited from enhanced surveillance into post-programme surveillance in August 2022.*

**Developments under the first and second programmes did not allow for a preparation of a timely exit strategy; this could only be achieved and successfully executed under the third programme.** At the end of the first programme, the focus of attention was on getting an agreement on the PSI and controlling its negative effects, notably on banks' balance sheets. This context did not allow for properly drawing lessons from the first programme and having a timely preparation of the follow-up arrangements. While the end of the second programme was characterised by the discussions between a new government and the euro area, at the risk of an imminent default, there was somewhat more time to prepare the third programme.

([77]) In summer 2011, the Commission launched a programme of technical support to be coordinated by the Task Force for Greece (TFGR), to help implement the reforms agreed by the Commission and the Greek authorities and accelerate the absorption of EU funds. The European Court of Auditors (2015b) found that, notwithstanding the shortcomings affecting the setting-up of the TFGR, in all the areas audited, the delivery of technical support was relevant and broadly in line with the programme requirements.

([78]) The SRSS also procured and financed technical support from other institutions such as the World Bank, OECD, WHO, ILO and others. In 2020, the SRSS became DG REFORM, a Directorate-General of the European Commission.

**At the end of the third programme, an exit strategy was developed, building on the Eurogroup's agreement to deliver debt relief upon the successful implementation of conditionality and considering Greece's economic and financing conditions at that time**. On 21 August 2018, the Commission activated enhanced surveillance for the monitoring of macro-fiscal-financial developments and of progress with reform implementation ([79]). The Commission concluded that Greece continued to face risks with respect to its financial stability which, if they materialise, could have adverse spill-over effects on other euro area Member States".

**The final set of debt relief measures was agreed at the June 2018 Eurogroup ([80]).** In addition to the short-term debt measures already in place, the Eurogroup agreed to implement medium-and long-term debt measures in order to ensure that the agreed GFN objectives are respected also under cautious assumptions. For the medium term two measures were agreed, including the following upfront measures:

- The abolition of the step-up interest rate margin related to the debt buy-back tranche of the second Greek programme as of 2018.
- The use of 2014 SMP profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP income equivalent amounts to Greece (as of budget year 2017). The available income equivalent amounts will be transferred to Greece in equal amounts on a semi-annual basis in December and June, starting in 2018 until June 2022, via the ESM segregated account and will be used to reduce gross financing needs or to finance other agreed investments.
- A further deferral of EFSF interest and amortization by 10 years and an extension of the maximum weighted average maturity (WAM) by 10 years, respecting the programme authorized amount.

The first two measures mentioned above were subject to compliance with policy commitments that the Greek authorities committed to undertake and monitoring, as outlined in the Eurogroup statement, and were agreed to be disbursed on a semi-annual basis. Furthermore, the Eurogroup agreed that, based on a debt sustainability analysis to be provided by the European institutions, it will review at the end of the EFSF grace period in 2032 whether additional debt measures are needed to ensure the respect of the agreed GFN targets, provided that the EU fiscal framework is respected, and take appropriate actions if needed. Quarterly enhanced surveillance reports served as a basis

([79]) According to Article 2(1) of Regulation (European Union) 472/2013.

([80]) See Eurogroup (2018).

the Eurogroup's promise decisions to execute the debt relief measures agreed in June 2018.

**These arrangements proved successful as confirmed by the continuation of reform implementation following the exit from the programmes in spite of the challenging conditions of the pandemic during much of the period**. These also have Greece to continue improving its resilience which proved particularly important in addressing the pandemic's economic impact. Also, following the end of the programme, market participants and credit rating agencies viewed these arrangements as a necessary and sufficient reassurance for the continued implementation of structural reforms.

**Moreover, when exiting the third programme, Greece became subject to the same regular EU economic surveillance and, as all other Member States, was reintegrated into the European Semester.** This includes annual country reports summarising the economic challenges faced by the country and annual country-specific recommendations issued in June/July every year. Greece is also integrated in the coordination of fiscal policies of euro-area Member States through the submission of their draft budgetary plans in October and the update of the stability programme in April. Fiscal policy recommendations are issued as part of the country-specific recommendations. In addition, Greece has been identified as facing excessive imbalances under the Macro-economic Imbalance Procedure. Moreover, Greece transited from enhanced surveillance into post-programme surveillance in August 2022.

## 5. WHAT ARE THE CONCLUSIONS AND LESSONS LEARNED?

### 5.1. CONCLUSIONS

**In this Staff Working Document (SWD), Commission staff presented its views on the evaluation of the economic adjustment programmes of Greece over the period 2010–2018.** By drawing upon publicly available evidence and analysis, it aimed to assess the effectiveness, efficiency, relevance, coherence and EU added value of the programmes.

**To understand the expected outcomes of the programmes, it is important to see their political and economic context.** Following the global financial crisis 2008/09, the concerns about the fiscal situation in Greece triggered a loss of confidence and access to international financing. To avoid a major financial crisis, with severe economic and social impacts in Greece and possible spillovers to the euro area and the EU as a whole, Member States and the International Monetary Fund (IMF) agreed to provide loans as of 2010. Disbursements were subject to policy conditionality aiming to restore access to market financing. The main objectives of this conditionality were fiscal consolidation to ensure debt sustainability, the stabilisation of the banking sector, structural reforms to regain competitiveness, as well as reforms to improve the capacity and efficiency of the public administration.

**The situation did not evolve as expected.** A succession of three financial assistance programmes was required to allow Greece to gradually return to sovereign markets. This reflected both the depth of problems in Greece but also external factors that partly explain the underperformance of the first years. While significant progress was made by 2018 in correcting the fiscal deficit to help restore debt sustainability, to stabilise the financial sector, and to implement a number of important reforms restoring competitiveness and improving the efficiency of the public sector, a challenging reform agenda remained to be addressed after the exit from the programmes.

**The EU intervention in the Greek sovereign debt crisis has been effective in ultimately achieving its objectives and avoiding more negative consequences. At the same time, looking at efficiency and coherence, the adjustment had high costs in terms of income and social impact.** Following a painful adjustment process, the main macroeconomic fundamentals of Greece came closer again to its peers and to euro area averages. Despite the still high public debt, public finance was put on a sustainable path, and market confidence was gradually re-established. The management of the programmes, which initially suffered from a lack of trust and a weak ownership and implementation record, gradually improved over time.

**An even more severe financial crisis in Greece, and its spillover to the rest of the euro area, has been avoided with the involvement of the EU and the euro area.** Through their members and institutions, it was possible to deliver a substantial financing envelope for the programmes. The EU added value was also essential in supporting the design and implementation of reforms, being guided by the EU's policy and legal frameworks. In this respect, EU technical support further helped in the design and implementation of a number of structural reforms.

**The outcome of the programmes remained relevant after the end of the third programme in 2018.** There has been a lasting positive impact of sustainable public finances, a more resilient banking sector and a very significant package of deep structural reforms. Moreover, Greece became subject to the same regular EU economic surveillance as all other Member States. In addition, enhanced surveillance of Greece built on the Eurogroup's commitment of June 2018 to disburse debt relief measures upon the implementation of well-specified policy conditions. These arrangements proved successful, which was confirmed by the continuation of reform implementation, despite the challenging conditions of the pandemic during much of the period. Greece transited from enhanced surveillance into post-programme surveillance in August 2022.

**Overall, this evaluation concludes that the programmes did not initially perform as expected, but their performance improved over time.** Regarding effectiveness, it took a succession of three programmes with significant financing volumes over the period 2010–2018 before achieving their main objectives and gradually returning to sovereign markets. Due to the depth of problems and several adverse external factors, the initial shortcomings with a view to the programmes' efficiency and coherence became apparent in high costs in terms of economic and social impact. The main EU value added was that, because of the EU's and the euro area's financing and support for the implementation of reforms, an even more severe financial crisis in Greece – possibly spilling over to the rest of the euro area - was avoided. Regarding relevance, reforms still to be implemented at the end of the programmes were followed up through the EU's regular economic and enhanced surveillance of Greece.

## 5.2. Lessons learned

**In the past years, the Commission services, led by DG ECFIN, carried out ex-post evaluations of all macroeconomic adjustment programmes in the euro area ([81]).** The evaluation of the Greek programmes completed this cycle. The purpose of these

([81]) All these ex-post evaluations have been published in the European Economy Institutional Papers series and are available at https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en.

evaluations was to assess the interventions from an economic point of view using the framework of the Commission's evaluation standards, in order to draw lessons for future decision-making and identify areas of improvement for any similar interventions in the future, whether in the euro area or elsewhere.

**This section summarises a number of insights learned from the Greece evaluation and the other programme ex-post evaluations.** While some of the insights are country-specific, most of them have general relevance and are broadly in line with many of those identified in previous programme evaluations and audits by other institutions (e.g. ESM, ECA) ([82]).

**The five financial assistance programmes of euro area Member States occurred after the global financial crisis and exhibited a number of common features.** To begin with, there was a reluctance on the part of Member States in crisis to acknowledge the need for financial assistance programmes due to political considerations on possible negative signalling effects. In some instances, the Member States concerned sought to 'buy time' through recourse to the use of bilateral loans. The consequent delays in launching programmes ultimately deepened the scale of the economic crisis and thereby increased economic, social and financial costs of a programme. The lack of take-up of the ESM's Pandemic Crisis Support instrument ([83]), developed as a response to the Covid-pandemic in 2020, may suggest that the political considerations on possible negative signalling effects continue, including because of concerns about policy conditionality.

**A further common feature, albeit with hindsight, is that the underlying economic problems were evident long before the crisis had started.** Indeed, many risks (with the exception of financial stability risks which were neglected worldwide in the run-up to the global financial crisis) and many of the policy measures actually implemented during the programmes had hitherto been identified in EU's economic surveillance tools. Improved economic governance, which is currently undergoing a review process, including through the robust implementation of policy recommendations, is expected to help prevent the need for financial assistance programmes. Equally, the completion of efforts to create a full Capital Markets Union and Banking Union could mitigate such risks and also make the management of programmes easier should the need materialise.

**Whilst acknowledging common features, each financial programme is unique and needs to be tailored to the specific needs of the country concerned, avoiding a one-size-fits-all approach.** A realistic and pragmatic programme design that pays attention to the specific institutional, political and socioeconomic context of the country is crucial for

([82]) See ESM (2017 and 2020) and European Court of Auditors (2015a).

([83]) See ESM (2022).

a successful implementation. As outlined below, consideration needs to be given to the institutions and the capacity of the public administrations to implement reforms, especially the capacity to implement complex structural reforms. In addition, ownership by national stakeholders of the measures included in a financial assistance programme is also key, which underlines the importance of engagement with key stakeholders and clear communication throughout.

**In drawing lessons from past programmes, it is important to take account of the institutional and administrative realities which evolved over time.** Economic governance arrangements evolved considerably over the past decade and these need to be factored into the design and governance of future financial assistance programmes. Moreover, the European institutions substantially augmented their technical capacity and tools for the design and implementation of financial assistance programmes since the initial Greek programme of 2010.

**The insights should also be viewed in conjunction with the ongoing review of the EU's economic governance framework, as well as the pending amendment of the ESM Treaty.** Any decisions on the design of future programmes, also in the light of the insights compiled in this ex-post evaluation, will have to be compatible and consistent with possible changes to the wider EU economic governance framework and the institutional arrangements.

### A. Preparing in advance for potential future programmes

**1. Act quickly once the need for a financial assistance programme becomes apparent.** A more assertive dialogue and communication may be needed with Member States facing severe financial challenges and risks to avoid unnecessary delays in requesting financial assistance. The Regulation (EU) 472/2013 *inter alia* establishes Enhanced Surveillance as an early intervention measure for preventing a situation in a euro area Member State deteriorating to the point of a need for a macroeconomic adjustment programme ([84]). Moreover, the pending amendment of the ESM Treaty also goes in this direction by further clarifying the process in the run-up to a programme.

**2. Clarify the implications of the current and evolving economic governance framework for the design and implementation of financial assistance programmes.** Particular attention should be paid to the implications of the Banking Union (with the SSM, SRM etc.) as the situation now is vastly different from the past when programme

([84]) In addition, Article 3(7) of the Regulation provides the option that "Where the Commission concludes that (…) further measures are needed and the financial and economic situation of the Member State concerned has significant adverse effects on the financial stability of the euro area or of its Member States, the Council, acting by a qualified majority on a proposal from the Commission, may recommend to the Member State concerned to adopt precautionary corrective measures or to prepare a draft macroeconomic adjustment programme".

funds were used to recapitalise banks under stress. The design of future financial assistance programmes will need to take this changed landscape into account, and equally clarify how information can be shared with the institutions involved in programme design and implementation so that they can adequately assess risks to financial stability and their underlying causes whilst at the same time respecting the independence of the SSM.

**3. Review and, where necessary, strengthen the analytical tools used in a programme context beyond those required for surveillance during 'normal' times.** *Inter alia*, this could involve increasing the granularity of fiscal surveillance (e.g. on a cash basis) to the level actually used by the Member State when the need arises, as well as having tools to better monitor and assess government financing needs on a real-time basis. The Commission could further strengthen its capacity for analysing potential institutional and administrative bottlenecks for programme implementation as well as for assessing the social impact of the necessary policy conditionality.

### B. Overall programme design

**4. At the outset of a programme, a robust diagnosis and shared understanding of the underlying root cause(s) is essential.** Experience with the five euro-area programmes to date shows that the underlying causes can be manifold, including a combination of (i) risks to fiscal sustainability (ii) financial stability and viability of the banking sector as well as (iii) structural challenges, including external imbalances associated with problems of price and non-price competitiveness. The failure to adequately recognise the depth of the structural challenges facing Greece led to shortcomings in the initial programme design that were only corrected during subsequent programmes. It is important to have upfront shared views among all programme partners on the main reasons for the crisis in a country and the policy priorities to resolve the problems.

**5. The financing envelope of a programme should be based on prudent assumptions that reflect the uncertainties prevailing at the time and should include a safety margin based on an explicit downside scenario.** It is important to realistically take into account the main contingent liabilities of the public sector and possible market access developments, including the extent of interlinkages between the State and the financial sector, while preserving debt sustainability. Earmarking a dedicated financial envelope of the programme for the financial sector, including the explicit provision of buffers, can help enhance confidence in the financial system during the crisis, provided it is accompanied by a timely comprehensive assessment of capital needs for the banking sector on the basis of a realistic macroeconomic scenario. Proceeds from privatisation should be estimated on a very conservative basis as the timing and scale of such proceeds are uncertain and are not directly under the control of a government.

**6. The fiscal consolidation strategy should be based on a robust scenario analysis of the effects of different strategies on economic growth, employment and debt sustainability, taking into account confidence effects, the composition of fiscal consolidation, as well as the implied financing needs.** The strategy should adequately assess the expected benefits of ensuring upfront debt sustainability and boosting confidence against the possible negative effects on economic growth and employment. On the one hand, a too frontloaded consolidation strategy can be self-defeating in eroding the tax base and increasing social spending needs while decreasing GDP which will allow little progress on reducing the debt-to-GDP ratio and may put pressure on the asset quality of the domestic banking sector. On the other hand, a lengthy consolidation strategy increases the financing needs and the size of the programme's financial envelope, which adds to the country's debt and delays a return to the markets. The long-run macroeconomic assumptions underpinning the debt sustainability analysis can draw upon the methodology used by the EPC Ageing Working Group.

**7. Fiscal-structural policy conditionality can buttress the fiscal consolidation strategy, but estimates of fiscal yield of such reforms during the programme horizon should be based on prudent assumptions.** Taking account of country-specific circumstances, policy conditionality often can usefully be included on measures to strengthen tax compliance and enforcement, to strengthen the institutional and operational independence of tax administrations, to ensure that public financial management practices are in line with international best practice or to strengthen the role of independent fiscal institutions and other entities, for example statistical institutes. Such measures should be considered critical to improving public finance management and reducing fiscal risks in a country.

**8. Particular attention is to be given to the design of programmes where the underlying (as opposed to the proximate) cause for the loss of market access is deeply structural, especially linked to problems of non-price competitiveness.** Most structural reforms require more time to be prepared and implemented compared to fiscal/financial measures, and some may entail significant political costs and/or can take several years to have a visible impact on the real economy. For programme design, this poses several challenges because of the trade-off between ownership and the objective of a swift return to the market. Programme ownership tends to diminish at some stage in the programme as reform fatigue sets in and sovereign market access is gradually regained. This argues in favour of frontloading the adoption of the most politically difficult reforms to the early years of a programme and including potential costs within the financing envelope. However, frontloading is very challenging for deep structural reforms as (i) policy makers at the outset of programmes are often focussed on more immediate challenges of restoring fiscal balance and/or shoring up financial stability, and (ii) they are complex and usually involve Ministries outside the responsibility of the Ministry of Finance where ownership is more difficult to secure and adequate implementation harder to enforce. Whilst the design of programmes needs to be country-specific, the following

principles might be considered as regards conditionality on structural reforms in programme design:

- **Programmes should focus on those macro-critical structural reforms that are clearly needed to achieve the programme objectives and to support the adjustment process.** These should be embedded in a clear strategy that allows a focus on the most critical weaknesses affecting the functioning of the economy. To this end, existing policy recommendations addressed to a Member State under the European Semester and other EU surveillance instruments are a good starting point that will require further specification, based on further in-depth analysis. Care should be taken to avoid conditionality becoming embroiled in emblematic stand-offs on reforms which have 'high political cost and low economic impact' (e.g. water charges in Ireland).
- **The timing of structural reform components should be carefully considered.** While the preparation and full implementation of reforms can take a long time, it should be feasible to adopt at least the primary and secondary legislative acts within three years which is the standard length of IMF and euro area financial adjustment programmes. In some instances, the full implementation of structural reforms can take longer than three years and thus requires follow-up implementation steps in the post-programme period. To ensure that Member States complete difficult structural reforms, it would be useful to link such follow-up steps to the exit strategy (see below section H) or to a possible successor programme. If possible, further incentives might be envisaged by linking EU funding sources to the continued implementation of reforms initiated under a financial assistance programme.
- **The sequencing of labour and product market reforms needs to be decided pragmatically.** Ideally, product market reforms should precede or be implemented in parallel with labour market reforms to avoid that companies appropriate most of the gains from labour market reforms in non-competitive product markets. In practice, product market reforms are difficult to frontload as they consist of a multitude of small legislative and administrative changes that require time and are subject to significant vested interests by those trying to protect their rents.

**9. Programme design and conditionality, especially its timing and sequence, should take into account the administrative capacity of a country.** Over-burdening a programme with conditionality that is not critical for the adjustment process and goes far beyond the capacity of a national administration can negatively affect a programme's credibility and economic confidence. The Commission should come to an informed view on administrative constraints at the outset of a programme, notably drawing upon its work with Member States in the context of other EU surveillance and funding tools. Where necessary, essential institutional structural reforms (e.g. improving the coordination at the central government level, strengthening the tax service, insolvency framework, or missing parts of the social welfare system) could be included in the scope

of conditionality. Reforms that are beyond the administrative capacity of the Member State and are not considered critical for a return to the markets, should be approached cautiously. In addition, the Commission (see below section F) should stand ready to step up its technical support to assist the Member State in programme implementation, provided that this is requested by the Member State, and also reserve programme or other funding to finance such technical support.

**C. Policy conditionality**

**10. Policy conditionality that takes into account the interlinkages between different policy areas and measures is essential to ensure a coherent programme strategy and to achieve the desired impact**. For example, improving competitiveness, reforming the tax collection system or dealing with non-performing loans require an adequate comprehensive diagnosis and an efficient implementation of a broad set of policy reforms in different areas, like the judiciary system, insolvency law, systems of tax inspection, financial supervision mechanisms, payment culture, creditor rights or the private debt resolution framework.

**11. National authorities should meaningfully engage with relevant national stakeholders in the design and implementation of policy conditionality ([85]), building upon the experiences under the European Semester and EU funding instruments.** In full respect of national practices, the Commission together with other programme partners should also engage with social partners and civil society organisations, usually in the context of programme missions.

**12. Conformity of the reforms with the constitutional framework should be verified ex ante to the extent possible.** Some of the early consolidation measures implemented in the Greek and Portuguese programmes, notably on fiscal consolidation, were successfully challenged at the constitutional court later on, mostly on account of retroactivity, unequal treatment or insufficient justification. Therefore, the design of conditionality in future programmes should (i) be better informed about possible legal risks and (ii) frontload systemic reforms within which specific measures can be legally safely implemented.

**13. While respecting the EU's generally neutral view on public versus private company ownership, conditionality on privatisation can potentially be included in a programme with the objectives of enhancing the efficiency of the public sector in a sustained manner and contributing to a more efficient allocation of economic resources, thus supporting potential growth and competitiveness.** This, however, needs to be assessed on a case-by-case basis. Based on the experience with programmes,

([85]) This is also a legal requirement. See Article 8 of the Regulation (EU) 472/2013 on the involvement of social partners and civil society.

the following guidelines could be employed when considering including privatisation in policy conditionality:

- The main objective of privatisation should be related to its contribution to economic efficiency and competition.
- Proceeds from privatisation should not be included, or only moderately so, in estimates of programme financial envelopes or estimates of financing needs (see also point 5 above). Very prudent assumptions could be included of estimates on yields from privatisation in a DSA.
- Particular care is needed related to the design of privatisation strategies involving network industries to avoid turning public monopolies into private monopolies. Privatisation should only be envisaged after competitive market structures have been established and function effectively, including via the creation, modernisation or strengthening of the relevant independent regulators. Relevant EU policy frameworks, including on open strategic autonomy, should also be taken into account.
- The timing of the privatisation of marketable commercial assets should be undertaken with care so as to avoid fire sales during periods of macroeconomic uncertainty and risks.
- Complex privatisation projects require proper management by experts, and consideration should be given to establishing or using dedicated entities, such as HRADF/TAIPED developed in Greece.

**14. Conditionality on public administration reform should focus on achieving structural improvements in administrative capacity.** The possible contribution of such reforms to fiscal consolidation during a programme period should be treated with caution given the need to preserve the quality and capacity of a public administration, including for the business environment. For example, changes to public sector wage frameworks need to ensure that public sector jobs remain attractive for the most qualified. Priority attention should be given to reforms establishing a consistent remuneration structure and hiring rules across the public sector, with incentives to retain and attract the right skills. Reducing an over-crowded low-skilled segment of public employment, along with greater emphasis on digitalisation of the public administration, may also reduce the wage bill and contribute to fiscal consolidation over the medium-term.

**15. Reforms of network industries (telecom, energy, transport) can be part of policy conditionality where these are macro-critical for the competitiveness of key sectors that rely strongly on their services as inputs.** The focus should be on improving the efficiency of the usually state-owned enterprises and the regulatory framework so as to improve the quality of services and/or reduce their costs and prices. In the design of any future policy interventions, an additional focus will have to be on facilitating the green

and digital transitions. As mentioned above, a privatisation of parts of network industries should only be envisaged once competitive market structures have been adequately established.

16. **The preparation of major investment projects is typically very complex and requires collaboration across line ministries, e.g. for the environmental impact assessment, as well as with the private sector and financial institutions.** To shore up the administrative capacity of the Member State concerned, it could be considered to entrust the preparation of such complex projects to a dedicated institution (a project preparation facility), while the responsibility for implementation would remain with the line ministry or other established entities.

17. **Financial sector programme design and conditionality should incorporate potential second-round effects of different macroeconomic scenarios on the asset quality and capital position of the banking sector, as well as their impact on depositor confidence and payment discipline.** It should identify and address upfront structural (e.g. governance), institutional (e.g. a weak debt enforcement framework) or other capacity constraints facing the banking sector, as well as any policy mistakes in place that are deemed to be harmful (e.g. for the payment culture). This should also be reflected in the financing envelope dedicated to the financial sector, where needed, that should be sizable enough to restore confidence and conditional upon appropriate reforms to address such weaknesses. At the same time, financial sector programme design should take into account - and seek to benefit from - improvements in the supervisory and regulatory landscape following the creation of the Banking Union.

### D. Addressing the social impact of the crisis and of reforms

18. **The distributional and social implications of a programme should be factored into the design of policy conditionality so as to take equity and social considerations into account, aiming at a fair and progressive burden-sharing and the protection of the most vulnerable.** A more systematic monitoring and reporting of the main social developments in subsequent programme documents would support the respect of social policy goals. Methodological tools to assess the social impact of key programme measures could be further developed and applied (see also point 3 above).

19. **Ensure that a well-designed minimum safety net is in place to mitigate the social implications of the adjustment process on the most vulnerable.** Where not yet the case, such a safety net should be created or reinforced with appropriate budget allocations included in the programme design and consistent with fiscal targets. Where appropriate, such schemes should be aligned and integrated with labour market activation policies. In this context, emphasis should also be given to reforming poorly targeted social benefit schemes which can serve at the same time both objectives of fiscal consolidation and of providing better social protection in times of an economic and social crisis.

**20. Social security reforms should be complemented with administrative and operational reforms of the key social policy institutions.** Social security systems are often fragmented both at the level of entitlements as well as organisation, which creates inefficiencies and slows down the implementation of reforms. The policy conditionality should therefore include administrative reforms creating strong institutions that are capable to deliver on the implementation of systemic reforms as well as a targeted protection of vulnerable households. This may include the digitalisation of processes and records of social entitlements, bringing in leaner and more efficient organisation structures, and well-designed active labour market policies targeting the vulnerable.

**21. The modernisation of pension systems may be a useful part of programme design with the aim of ensuring the longer-term sustainability of public finances, improving the functioning of labour markets and ensuring the adequacy of pension incomes over the long term.** In designing pension reforms, in view of the lasting legal, economic and social implications, particular efforts should be made to secure good ownership of reforms, including by social partners, also with the goal of avoiding policy reversals once the financial assistance programme is over.

**22. To the extent that these are macro-critical, efficiency-improving reforms of the health care system could be implemented with an emphasis on bringing in best practices, modernising the system and ensuring equal access to health care.** Measures to implement efficiency savings in health expenditure are often justified by objective benchmarking of health expenditure against the outcomes in specific areas and can be an important element of the fiscal consolidation strategy. These are politically sensitive reforms that need to be carefully communicated and embedded in a broader reform of the sector that would safeguard its capacity to deliver high-quality care and guarantee equal access.

### E. Arrangements for programme implementation and for institutional cooperation

**23. Strong and sustained ownership by the national authorities and key stakeholders is crucial for the successful implementation of a programme.** A strong prioritisation on what is economically sound and effectively achievable within the short time horizon of a programme is necessary for maintaining country-wide ownership of fair and efficient reforms.

**24. A powerful coordinating body within the government is an essential element for a smooth programme implementation and could be part of the policy conditionality.** A good coordination across ministries is crucial for the efficient implementation of policies and reforms in the context of an adjustment programme. In addition, a single contact point within the government, which has clear responsibilities, coordinates and delegates the implementation of tasks, plays a key role in the implementation of a

programme. Regular contact between the coordinating body and Commission staff on the ground can also be conducive to a smooth programme implementation.

<u>25.</u> **Transparency and a good flow of information are essential to build trust and ensure efficient working relationships between creditor institutions and the authorities**. Programme reporting and monitoring requirements should be well designed and implemented, while avoiding being administratively burdensome for the authorities. A schedule of interim deliverables can be agreed through policy roadmaps reducing the detail of conditionality requirements. Where necessary, key performance indicators (KPIs) and other objective indicators should be included in a Technical Annex. Regular programme reviews are necessary, together with quarterly reporting on programme implementation. Dedicated Commission staff based in national capitals, who can maintain close and regular contacts with all programme-relevant stakeholders and authorities, proved instrumental in supporting the Member States in programme implementation.

<u>26.</u> **Other EU funds and policies should support the programme objectives and avoid inconsistencies with the programme.** An option to consider is developing a nationally owned and credible medium-term economic and social strategy accompanying the programme that would take up all policy elements that go beyond the reach of the programme in time and scope. It would provide linkages to the programme's macro-fiscal framework as well as to its policy conditionality with a view to preparing and starting reforms with a medium-term time horizon. Such a document could further include a public investment strategy, including the contribution from EU funding, also to avoid that public investment unduly falls victim to fiscal consolidation.

<u>27.</u> **The respective roles and involvement of the different European and international institutional actors in a programme should be clearly defined upfront, also in consultation with the euro area Member States.** In particular, this should be founded upon an *ex-ante* shared diagnosis of the underlying challenges and the type and scale of the programme that is required. Defining the ESM's role, a common understanding should be derived in particular from Regulation 472/2013, the amended ESM treaty, and the ESM-Commission Memorandum of Cooperation. Alongside achieving a common understanding of the roles of the SSM and SRM, it should be clarified on what topics ECB participation is foreseen, as their participation is in accordance with the European Central Bank's competences and expertise on financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs. The nature of the IMF's involvement in a particular programme context should be well-defined, if advisory or in a funding capacity, including the scale and proportion of any financing contribution.

<u>28.</u> **At the outset of a programme, it is important to clarify the procedural and work arrangements (e.g. documents, timelines) for engagement with the Member States**

**through the various fora.** *Inter alia,* this should include arrangements for national procedures (e.g. Parliamentary scrutiny) linked to the approval of financing envelopes, disbursements etc. In establishing national procedures, Member States are encouraged to have in place efficient arrangements ensuring timely disbursements.

**29. It is important for the European Commission to maintain a close engagement with the European Parliament on programme work, building upon the positive experience during the third financial assistance programme for Greece**. It could agree on a reporting and debriefing framework that respects institutional responsibilities and confidentiality requirements.

### F. Organisational lessons for the European Commission

**30. Given the importance of the success of financial assistance programmes for the euro area, the responsible Commission services need to be adequately staffed in a timely and flexible manner for the duration of the programme and the initial post-programme period**. A number of organisational principles could guide this. In particular, DG ECFIN, under the guidance of the responsible College members, should be the lead service in the Commission for the design and implementation of the programme and be the focal point for contacts with the national authorities. The Commission's country team responsible for a programme, led at least at Director level or equivalent, should be quickly and adequately resourced. The team should be able to call upon the resources of other Commission services to support the design and implementation of programme conditionality.

**31. Technical support to enhance the administrative capacity and the implementation of selected programme measures should be provided if requested by the authorities.** The different arrangements for technical support by the Commission in the programme countries, notably in Greece and Cyprus, offer some insights into what worked well and what less so. With the Technical Support Instrument (TSI) managed by DG REFORM, the Commission has now a well-developed institutional and financial framework in place that could be quickly activated and scaled up to support programme implementation if needed, subject to this being requested by the authorities.

### G. Communication

**32. The Commission, alongside the national authorities, should engage in communication about the underlying reasons, objectives, design and implementation of the programme in the country concerned on a regular and continuous basis.** This should be done in close cooperation with the other European institutions and the IMF. The modalities of communication should be tailored to the specific circumstances of the Member State. Particular attention is required to communication around review missions: this should be organised in a manner which avoids complicating discussions with national authorities, but at the same time is sufficiently transparent. Beyond standard press briefings, consideration should be given

to the organisation of dedicated workshops with journalists and other stakeholders. A clearly articulated communication strategy towards the wider public should also be considered to foster a positive narrative, which could put reforms implemented during a programme into a context of best practices in other Member States and aim to build ownership by focusing on measures to modernise the economy.

**33. A broad consensus across the political spectrum for a programme can support programme design and implementation and a swift return to market access.** It is important to communicate clearly and explain the approach and expected effects of the programme.

**34. The Commission, in a shared responsibility and cooperation with the programme country's authorities, should devise and implement appropriate communication strategies and actions in the country and with key financial market actors.** Experience with programmes has shown that a good understanding about the main underlying reasons for the crisis in a country and the approach taken by a programme can facilitate programme implementation and the return to markets. The wider public, key actors in taking policy decisions in creditor countries as well as key financial market players need good access to information on a programme that enables them to adequately assess the risks they could be taking when providing funding to a country benefitting from financial assistance.

### H. The exit strategy

**35. An exit strategy should be prepared 12 to 18 months in advance of the end of a programme and come to a decision on the trajectory ideally 12 months and no later than six months in advance of programme exit.** A specified and transparent target for cash buffer developments can contribute to regaining market access and a smooth exit from the programme.

**36. A robust assessment should inform the design of a successor programme where this is needed, in particular regarding the adequacy of market access.** Experience across the programmes has demonstrated the strong desire for Member States to exit the programme framework as they have regained market access, in some cases following a build-up of sizeable cash buffers, even when markets were tapped at relatively high rates. Precautionary programmes can potentially serve as a useful short-term bridge, stabilising expectations of markets and allowing Member States to continue reform momentum, in particular where there are unfinished major reforms that will continue past the lifetime of the original programme.

**37. An effective surveillance regime after the end of a programme can contribute to stabilising market confidence.** Notably, in addition to regular economic surveillance in the context of the European Semester, post-programme surveillance is to monitor the country's repayment capacity by regularly assessing the economic, fiscal and financial

situation. Exceptionally, enhanced surveillance can be usefully considered as a surveillance framework for the immediate post-programme years for Member States which exit a programme with more elevated risks and where there is a large number of reforms to finalise. The Greek example showed that such a surveillance framework can work successfully, in particular if combined with financial incentives. Nevertheless, it should be acknowledged that the original purpose of enhanced surveillance was a pre-emptive one, i.e. to intensify surveillance so as to avoid the need for a programme. This has not been applied until now, possibly also because of Member State authorities' concerns about negative signalling effects. Whatever the surveillance regime, reforms started during the programme but going beyond its time horizon need to be followed up after the end of the programme to address legacy problems, and these should be clearly set out.

## ANNEX I: PROCEDURAL INFORMATION

In March 2019, the European Commission's DG ECFIN commenced the process of collectively evaluating the three economic adjustment programmes of Greece. The purpose of the evaluation is to assess the entire intervention over the whole period in order to draw lessons for future decision-making and identify areas of improvement for similar on-going or future possible interventions. The evaluation also aims to support transparency and accountability. ([86])

The evaluation of the economic adjustment programmes of Greece is the fifth ex post assessment of a euro area adjustment programme and follows the completion of evaluations of the programmes of Ireland (published in July 2015), Portugal (November 2016) and Cyprus (October 2019) as well as the financial assistance operation for Spain (January 2016). All ex-post evaluations have been published in the *European economy institutional papers* series and are available here:

https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en

In line with the European Commission Better Regulation guidelines an evaluation roadmap was published online from 1st October to 29th November 2020. The roadmap summarised the context, purpose and scope of the evaluation. Publication of the roadmap provided EU citizens and stakeholders an opportunity to provide feedback on the planned evaluation. During the feedback period two responses were received, which have been noted by the evaluation team.

To ensure the credibility, independence and reliability of the exercise, this evaluation relies primarily on the analysis and conclusions of various reports by external evaluators. Main sources of evidence used to inform the evaluation include official programme documents, thematic background studies, legal documents, data-based economic analysis, academic literature on the Greek economy and targeted stakeholder consultations.

To contribute to the evidence base of the external evaluation, DG ECFIN commissioned a number of external studies on a range of topics relevant to the Greek economic adjustment programmes. The results of the studies were published in October 2020 and used as input to this evaluation. The topics covered were (i) debt sustainability, (ii) the macro-fiscal adjustment path, (iii) financial sector reforms and (iv) pension reforms ([87]). In addition, Commission staff with a detailed understanding of the programmes made available a number of papers on specific competency areas related to the Greek programmes over the same period.

([86]) The Decide planning entry for the evaluation is PLAN/2020/6585.

([87]) See CEPS, ECORYS and NIESR (2020a and b) and ICF and IOBE (2020a and b).

Moreover, this evaluation has been supported by an external evaluation report which combines established quantitative and qualitative methods of analysis ([88]). The report was prepared by CEPS, ECORYS and the National Institute of Economic and Social Research (NIESR). It was commissioned by DG ECFIN in December 2020 and was concluded in September 2021.

In preparing the lessons learned chapter of the SWD evaluation, the results of the external report were supplemented by the conclusions in the ex-post evaluation reports on the other euro area adjustment programmes.

A Commission inter-service steering group (ISG) oversaw the external evaluation by providing information, expertise and quality assurance in line with evaluation standards. The ISG was chaired by DG ECFIN and included SG, DG FISMA, DG EMPL, DG COMP and DG REFORM. The ISG met on four occasions to review report deliverables: kick-off meeting 7th January 2021, Inception report meeting 23rd February 2021, Interim report meeting 23rd April 2021 and Draft final report meeting 21st June 2021. In addition, a workshop with senior officials involved in the programmes and independent academics took place on 6th July 2021 to discuss the preliminary findings of the evaluation and share insights with the external evaluator. An ISG meeting on 27th September 2022 approved the finalisation of this evaluation report in the form of a Commission Staff Working Document based on input from various Commission services.

([88]) See CEPS, ECORYS and NIESR (2021).

## Annex II. Methodology and Analytical models used

### General Approach

**This evaluation aims at striking an adequate balance between providing an understanding of the context of the intervention and a judgement benefitting from hindsight.** The Greek programmes were a long learning curve; only with the passage of time did the limits of previous programmes and the impediments to success become increasingly clear. Yet, major decisions had to be taken in a context of high uncertainty, with risks of instability extending within and beyond Greece, as well as a multiple constraints of a financial, political, economic, social or legal nature. Only as time passes after the end of the programmes has it become clearer which parts worked well and which parts did less so. The evaluation aims at assessing whether programme decisions taken were adequate given the information available at the time, even though ex post they might have turned out to be not entirely adequate. In this way, lessons can best be learnt for making more adequate decisions in future programmes.

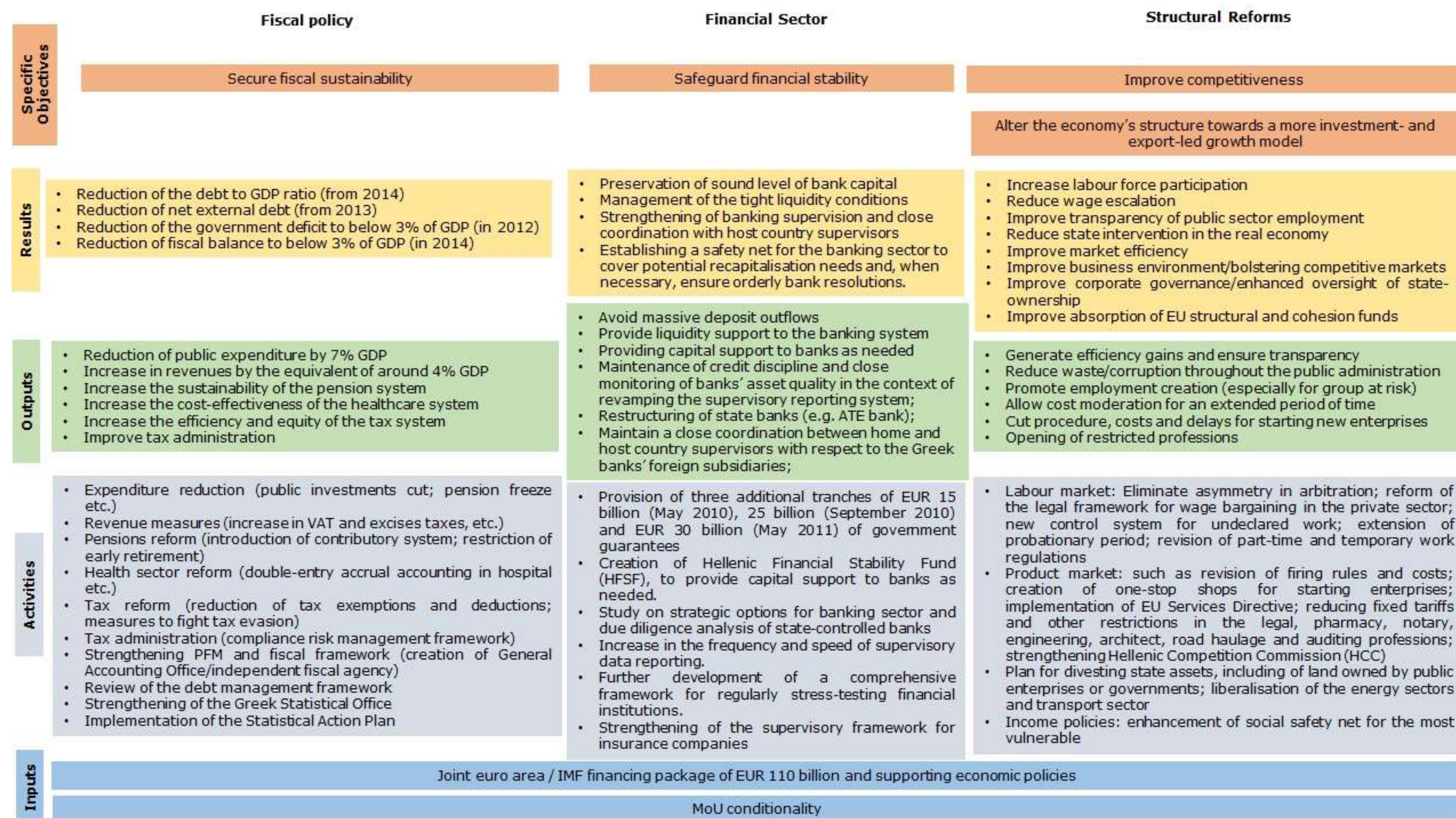
**The judgement is evidence-based.** The thematic assessments in the evaluation build on quantitative research and qualitative analysis. More specifically, data collection consists of a blend of quantitative and qualitative data collection methods. Data has been drawn from two main sources:

| | |
|---|---|
| 1. | **Primary data** collected via the following activities: |
| | • Targeted in-depth interviews;<br>• Targeted online survey;<br>• Experts workshop;<br>• Primary legal sources. |
| 2. | **Secondary data** collected by reviewing: |
| | • Official documents (e.g. MoU, reviews);<br>• Secondary legal sources;<br>• Specific thematic studies related to the assessment of the Greek adjustment programmes, produced by independent research institutes and published by the European Commission and internal studies prepared by the European Commission;<br>• Quantitative data produced by Eurostat, Ameco, Bank of Greece and ELSTAT.<br>• European Commission ex post evaluations of euro area economic adjustment programmes;<br>• Evaluations and reports from other partner institutions (e.g. IMF, ESM);<br>• Academic economic literature in peer-reviewed journals though a systematic literature review approach;<br>• “Grey” literature from think tanks, research institute and international organisations, non-published in academic journals;<br>• A range of additional documents (including several books). |

### Intervention Logic

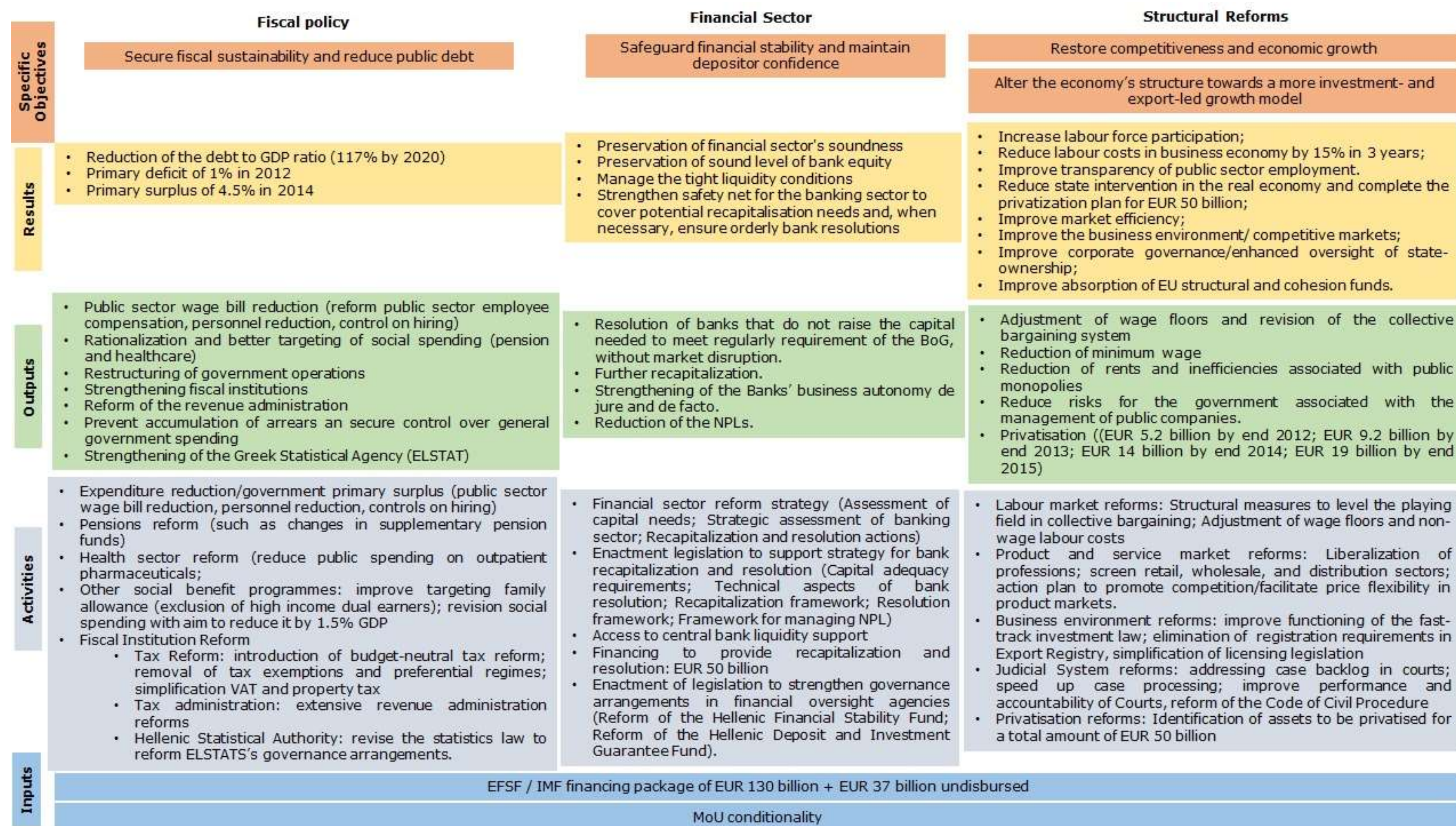
**Official programme documents provide the basis for the intervention logic,** which has been constructed for each of the three economic adjustment programmes as follows:

**Figure A.II.1. The intervention logic of the first Economic Adjustment Programme**



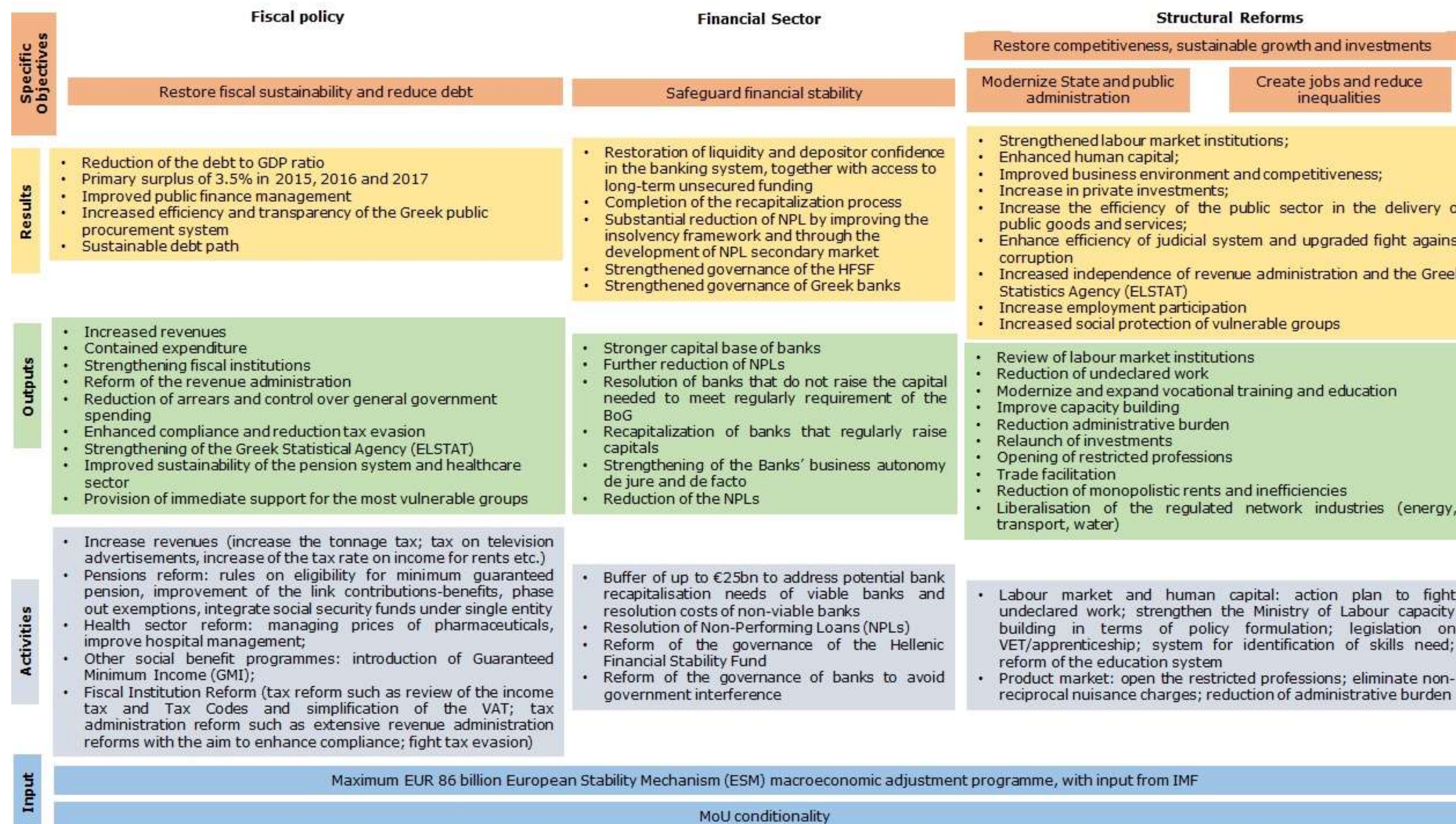

Source: CEPS, ECORYS and NIESR (2021).

## Figure A.II.2. The intervention logic of the second Economic Adjustment Programme




Source: CEPS, ECORYS and NIESR (2021).

**Figure A.II.3. The intervention logic of the third Economic Adjustment Programme**




Source: CEPS, ECORYS and NIESR (2021).

**External Evaluation report**

**The SWD is supported by an external evaluation report prepared by CEPS, ECORYS and the National Institute of Economic and Social Research.** The report was overseen by a Commission ISG and has been prepared to a high standard ([89]). The conclusions of the external report are robust and reliable and act as the primary source of evidence to inform the SWD.

**Desk Research**

**A thorough desk review of documentary evidence on the economic adjustment programmes of Greece was undertaken to support the data-based economic analysis throughout the report.** Desk research uses publicly available data, including Eurostat and Ameco, Commission, ECB and IMF reports, documents published by the Greek authorities and other international organisations as well as private sector and academic research. While this literature review is restricted to the adjustment programmes in Greece, it also captured evidence from other European countries that went through an adjustment programme, where this is relevant to the Greek experience. In addition, the lessons learned chapter of the SWD draws upon the results of previous economic adjustment programme evaluations produced by the European Commission. Therefore, country-specific findings are supplemented with wider lessons learned that have general relevance in the euro area or elsewhere.

**Stakeholder Consultation**

**A wide and representative stakeholder consultation was undertaken to provide economically informed programme-specific input and context to the economic analysis.** The consultation strategy was part of a focussed economic evaluation of the measures contained within the three reform programmes. Therefore, given the precise economic and financial nature of the intervention, the stakeholder consultation element of the evaluation was targeted and organised at three levels, applying Chatham House rules:

1. A wide and representative **stakeholder interview programme** involving bodies with an informed understanding of the economic adjustment programmes – or the context in which they were implemented – was undertaken. This included individuals and organisations directly involved in the development and implementation of the programmes. The objective was to collect a broad and multi-dimensional understanding of issues surrounding the programmes and benefit from the experience and knowledge of those directly involved.

([89]) See Annex I.

The discussion was guided by the key evaluation questions. In order to maximise the quality and usefulness of the information obtained from these interactions, it was necessary to ensure the confidentiality of the exchanges. In total sixty in-depth, semi-structured, targeted interviews were conducted between February – May 2021 ([90]). Interviewees can be grouped as follows:

10 x officials and former officials of partner institutions

13 x Greek government / authorities officials, former officials and former Ministers

9 x Greek social partner organisations

6 x financial sector

2 x charitable organisations / NGOs

11 x research / academia

9 x European Commission officials / former officials and former Commissioners

2. An **online survey** was distributed to the current members of the Economic Financial Committee (EFC), with the purpose of capturing the views of representatives of the euro area member states during major EU decisions, as well as their judgement of the Greek crisis. The survey ran from 15th April – 13th May 2021. Fifteen out of 19 member states responded. The content of the survey was designed based on the interview guideline prepared for the institutional stakeholders.
3. On 6th July 2021 an **experts' workshop** with senior officials involved in the programmes and independent academics took place, to discuss and stress-test the preliminary findings of the evaluation.

**Annex 3** of the external evaluation report provides a synopsis of the in-depth interviews undertaken, while **Annex 4** of the external report provides the results of the online survey.

### Evaluation Criteria

**The overall evaluation approach follows the established principles of the Better Regulation Guidelines and accompanying Toolbox** ([91]). 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. The assessment framework (or evaluation matrix ([92])) follows the **five criteria** generally used for the evaluation of EU policies. These criteria are functionally defined for the context of this Assignment as follows:

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([90]) All the stakeholders who were approached, with the exception of IMF officials still in service, participated in the interview programme.

([91]) See European Commission (2021).

([92]) See Annex III.

- **Relevance** assesses 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** assesses 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 the 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 understanding whether or not the costs borne by various stakeholders to achieve the objectives/benefits, discussed under the 'effectiveness' criterion, could have been minimized.
- **Coherence** measures the degree to which the adjustment programmes are consistent among each other (so-called 'internal coherence' ([93])) and with the EU policy framework at large (so-called 'external coherence' ([94])).
- **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 has been collected from multiple sources and stakeholders using a range of difference tools. Data collected has been validated via **triangulation** in order to ensure the robustness of evidence and that all the findings are based on well-grounded evidence.

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

([94]) In the context of this evaluation, external coherence includes the analysis 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.

**Strengths and limitations**

**The evaluation process has been robust and the data gathered is reliable**. Whilst the evaluation was undertaken many years after the beginning of the first programme, no significant difficulties were encountered in reaching key stakeholders 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 views. Although 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. Therefore an appropriate range of tools was used to capture stakeholder input, with different sources of evidence converged sufficiently to support the assessments made.

**It is recognised that during the Greek programmes, especially the first two, uncertainty was high and the overall circumstances were complex and complicated.** Given the importance of the political context and institutional features in shaping the dynamics of the programmes, the main limitation experienced has been estimating reliable counterfactual scenarios based on quantitative / economic inputs. This issue is consistent with how the Commission has evaluated other economic adjustment programmes where a crisis scenario makes counterfactuals underpinned by econometric modelling less reliable.

**Economic adjustment programmes must be flexible in order to react to both internal and external changes of economic circumstances, which are bound to be substantial in countries that have requested external assistance.** Uncertainty is also very high and structural changes need to occur in countries experiencing crises. The quarterly reviews allow close monitoring of the implementation and prompt adaptation of the different sets of measures to evolving circumstances. There is a continuous loop between design and implementation, which makes a programme a "living body". In this context, considerations about design and implementation are difficult to disentangle and do not necessarily allow useful conclusions to be reached.

**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 external report.** A significant volume of literature and data was available as well as the thematic background studies which served as basis for the evaluation.

**The fact that this ex-post evaluation was undertaken about three years after the end of the ESM programme in 2018 represents a limitation for making a definitive assessment about the medium to long-term objective of a return to sustainable growth**. In addition, the impact of the Covid-19 pandemic and the energy crisis as well as related policy measures made the results of the adjustment programmes less visible.

**Overall, the conclusions reached on the achievements of the programmes can be considered strong.** The process has benefitted from the independence of the external evaluator and the expertise of informed stakeholders during the validation workshop. Finally,

the skills and knowledge of the ISG have supported the quality assurance of the external report and the SWD evaluation.

## Annex III. Evaluation matrix

### Table A.III.1. Overview of the evaluation matrix used to guide the evaluation

| 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.<br>• Suitability of the reforms and their sequencing<br>• 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.<br>• Share of stakeholders confirming the alignment between the objectives of the programme and prevailing needs and problems.<br>• 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:<br>○ Programmes and reviews<br>○ Stakeholders responsible for drafting programmes.<br>○ Experts.<br>• Secondary information on needs and problems from operational documents, other official documents and economic literature, such as<br>○ Economic adjustment programmes reviews.<br>○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector)<br>○ DG-ecfin sectoral studies (health, energy, privatization and public administration ) | • Desk research.<br>• Interviews with the following categories of stakeholders:<br>○ Greek Authorities<br>○ European Commission<br>○ European Parliament<br>○ Eurogroup Working Group<br>○ ECB<br>○ ESM<br>○ IMF<br>○ Banking sector<br>○ Pensions sector<br>○ Public authorities<br>○ Social partners<br>○ NGOs<br>○ Experts/Academia<br>• Short survey to members of the Economic Financial Committee (EFC).<br>• Quantitative assessment of responses to interviews and surveys (Likert scale).<br>• 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?<br>2. What have been the qualitative and quantitative effects of the programmes? | • Degree of alignment between actual and expected results of the programme.<br>• Degree of alignment between objectives and actual results of the programme. | • Share of stakeholders confirming the alignment between actual and expected results of the programme.<br>• Share of stakeholders confirming the alignment between the objectives | • Primary information on needs and problems from the following categories of stakeholders:<br>○ Programmes; Reviews<br>○ Stakeholders responsible for drafting programmes.<br>○ Experts.<br>• Secondary information on needs and problems from operational documents, other official documents | • Desk research.<br>• Interviews with the following categories of stakeholders:<br>○ Greek Authorities<br>○ European Commission<br>○ European Parliament<br>○ Eurogroup Working Group<br>○ ECB<br>○ ESM |

| Evaluation questions | Success/judgment criteria | Indicators | Data sources | Data collection / analysis methods |
|---|---|---|---|---|
| 3. What have been the unintended effects of the programmes? | • Impact of external factors on the performance of the programme.<br>• Measurement of the indicators summarising the outputs of the programme | and actual results of the programme.<br>• Share of stakeholders identifying external factors contributing to/jeopardising the performance of the programme.<br>• Qualitative assessment of the alignment between objectives, expected and actual results of the programme.<br>• Quantitative assessment of performance indicators | and economic literature, such as<br>○ Economic adjustment programmes reviews.<br>○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector)<br>○ DG-ecfin sectoral studies (health, energy, privatization and public administration)<br>• Quantitative data from macroeconomic databases, publicly available | ○ IMF<br>○ Banking sector<br>○ Pensions sector<br>○ Public authorities<br>○ Social partners<br>○ NGOs<br>○ Experts/Academia<br>• Short survey to members of the Economic Financial Committee (EFC).<br>• Quantitative assessment of responses to interviews and surveys (Likert scale).<br>• 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?<br>2. To what extent were the focus, timing and flexibility of conditionality within each programme appropriate given the information available at that time?<br>3. To what extent was the implementation of the programmes efficient?<br>4. Were the programme exit | • Degree of alignment between stakeholders' views<br>• Consideration of previously produced counterfactual analysis performed by NIESR-CEPS in the preliminary studies on debt sustainability, macroeconomic and fiscal adjustment.<br>• 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.<br>• Qualitative assessment of the alignment between the specific objectives of the programme and the outcomes.<br>• 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:<br>○ Programmes; Reviews<br>○ Stakeholders responsible for drafting programmes.<br>○ Experts.<br>• Secondary information on needs and problems from operational documents, other official documents and economic literature, such as<br>○ Economic adjustment programmes reviews.<br>○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector)<br>○ DG-ecfin sectoral studies (health, energy, privatization and public administration) | • Desk research.<br>• Interviews with the following categories of stakeholders:<br>○ Greek Authorities<br>○ European Commission<br>○ European Parliament<br>○ Eurogroup Working Group<br>○ ECB<br>○ ESM<br>○ IMF<br>○ Banking sector<br>○ Pensions sector<br>○ Public authorities<br>○ Social partners<br>○ NGOs<br>○ Experts/Academia<br>• Short survey to members of the Economic Financial Committee (EFC).<br>• Quantitative assessment of responses to interviews and surveys (Likert scale).<br>Qualitative assessment of responses to interviews and surveys and data and information collected via desk research. |

| Evaluation questions | Success/judgment criteria | Indicators | Data sources | Data collection / analysis methods |
|---|---|---|---|---|
| strategies appropriate? | | | | |
| **Evaluation criterion #4: Coherence** | | | | |
| 1. To what extent were the programmes strategies coherent across the different areas? (internal coherence)<br>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).<br>• Degree of coherence between the programmes and other EU policies (external coherence).<br>○ Focus on implementation of EU directives and use of ESI funds | • Share of stakeholders identifying synergies/overlaps between the programmes' areas and objectives<br>• Share of stakeholders identifying synergies/overlaps between the programmes and other relevant EU programmes/policies.<br>• Qualitative assessment of synergies/overlaps between the programmes' areas and objectives<br>• 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:<br>○ Programmes; Reviews<br>○ Stakeholders responsible for drafting programmes.<br>○ Experts<br>• Secondary information on needs and problems from operational documents, other official documents, economic literature, books such as<br>○ Economic adjustment programmes reviews.<br>○ Preliminary studies on ex-post evaluation in Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector)<br>○ DG-ecfin sectoral studies (health, energy, privatization and public administration) | • Desk research.<br>• Interviews with the following categories of stakeholders:<br>○ Greek Authorities<br>○ European Commission<br>○ European Parliament<br>○ Eurogroup Working Group<br>○ ECB<br>○ ESM<br>○ IMF<br>○ Banking sector<br>○ Pensions sector<br>○ Public authorities<br>○ Social partners<br>○ NGOs<br>○ Experts/Academia<br>• Short survey to members of the Economic Financial Committee (EFC).<br>• Quantitative assessment of responses to interviews and surveys (Likert scale).<br>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.<br>• Achievement of objectives at a cost lower than what could be attained via national intervention.<br>• Contribution to the advancement of common EU policies. | • Share of stakeholders confirming the need for an EU intervention to achieve the objectives of the programmes.<br>• Share of stakeholders confirming that an EU intervention is able to achieve the objectives of the programmes at a cost lower than the costs of | • Primary information on needs and problems from the following categories of stakeholders:<br>○ Programmes; Reviews<br>○ Stakeholders responsible for drafting programmes.<br>○ Experts.<br>• Secondary information on needs and problems from operational documents, other official documents, economic literature, and books such as<br>○ Economic adjustment programmes reviews.<br>○ Preliminary studies on ex-post evaluation in | • Desk research.<br>• Interviews with the following categories of stakeholders:<br>○ Greek Authorities<br>○ European Commission<br>○ European Parliament<br>○ Eurogroup Working Group<br>○ ECB<br>○ ESM<br>○ IMF<br>○ Banking sector<br>○ Pensions sector |

| Evaluation questions | Success/judgment criteria | Indicators | Data sources | Data collection / analysis methods |
|---|---|---|---|---|
| | • Stakeholders' perception of the role of the programme in restoring fiscal sustainability, safeguarding financial stability, relaunching growth, competitiveness and investment | national interventions.<br>• Qualitative assessment of the contribution to the advancement of common EU policies. | Greece (on debt sustainability, macroeconomic and fiscal adjustment, pension and financial sector)<br>○ DG-ecfin sectoral studies (health, energy, privatization and public administration) | ○ Public authorities<br>○ Social partners<br>○ NGOs<br>○ Experts/Academia<br>• Short survey to members of the Economic Financial Committee (EFC).<br>• Quantitative assessment of responses to interviews and surveys (Likert scale).<br>Qualitative assessment of responses to interviews and surveys and data and information collected via desk research |

Source: CEPS, ECORYS and NIESR (2021).

## ANNEX IV. OVERVIEW OF BENEFITS AND COSTS

The Better Regulation toolbox, as revised in 2021, requires that this Annex provides a record of the resources used by an intervention and the changes generated by it (i.e. an assessment of costs and benefits). All costs and benefits that can be linked to the intervention, as identified by the evaluation, should be summarised clearly in a tabular format, separated by different target groups (citizens/consumers, businesses, administrations, other) and by different types of costs (direct compliance costs, enforcement costs and other indirect costs) and of benefits (improved welfare, market efficiency and wider economic effects). The structure of the table can be adjusted as the evaluation sees fit, but in all cases, costs should be classified according to the EU Standard Cost Model that aims to assess the net cost of administrative obligations imposed by EU legislation.

However, applying this approach in the context of this evaluation would be very challenging for various reasons:

- Such types of costs and benefits of target groups have not been the focus of this evaluation. In identifying the costs and benefits linked to an intervention, the Commission's Better Regulation agenda asks costs to be classified according to the EU Standard Cost Model (SCM). The application of the SCM serves to assess the net cost of administrative obligations imposed by EU legislation EU-wide. The definition of costs in this evaluation is, however, very different from the SCM, and the distribution of costs and benefits was not EU-wide but Member State-specific.
- Moreover, the costs and benefits of adjustment programmes are largely of a macroeconomic nature and difficult to quantify or to disentangle from other macroeconomic developments. The administrative costs associated with the management of the programmes are negligible by comparison.
- It should also be noted that the programme financing came in the form of loans which are not a cost to the extent that they are repaid. Moreover, the interest payments associated to the loans were reduced significantly over time and became less important. In the first two programmes they were complemented by IMF loans that would be difficult to separate from the costs and benefits of the EU intervention.

It was therefore concluded that a presentation of the costs and benefits of the Greek programmes would not have been meaningful.

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