

# GREECE MACRO MONITOR

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## New Greek proposal: solid base for reaching a timely agreement with official creditors

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As broadly anticipated, yesterday's Euro Summit did not reach a final deal on Greece. Yet, following the new proposals submitted by the Greek government, considerable progress has been made towards reaching a long-sought agreement, as suggested by a number of high-level EU officials. Speaking to reporters at the press conference following the conclusion of the Summit, European Council President Donald Tusk said that the new proposals submitted to the three Institutions constitute "a positive step forward" and acknowledged the full commitment of all parties involved to find a timely solution. In a similarly encouraging tone, Jeroen Dijsselbloem said that euro area finance ministers welcomed the new version of Greece's reform plan, adding that the Institutions will work closely with the Greek authorities "using the Greek proposals as a basis". Taking all these into consideration, it appears that an agreement on the current review will likely be reached in the coming few sessions, so as to allow the resumption of much-needed external financing to the Greek State. As to the timeline of key upcoming events, press reports and EU official comments suggest the following:

- **24 June 2015:** conditional on an earlier staff-level agreement, an extraordinary Eurogroup is expected to convene to assess the final outcome of technical talks between the Greek authorities and the Institutions and then submit it to the EU Summit, which is scheduled to commence the next day.
- **25-26 June 2015:** scheduled EU Summit to discuss Greece and give its final approval, which will be subject to the passing of relevant prior actions *first* through the Hellenic Parliament (reportedly till next Monday) and then by a number of euro area Parliaments, including the German Bundestag.
- **30 June 2015:** expiration of 4-month extension to Greece's Master Financial Assistance Facility Agreement (MFFA) with EU creditors.

According to media reports, the envisaged agreement will likely involve a 6 month extension of the present MFFA. Such an agreement should come with new official financing aiming to assist the Greek State to meet debt service obligations and, hopefully, some additional expenditure over the said period. A key issue relates to whether any commitment on more debt relief will be provided by official creditors. According to some local commentators, it is possible that a wording similar to that of the November 2012 Eurogroup statement may be used, conditional on the successful completion of the technical negotiations in the following days, but it remains to be seen whether anything more concrete will be decided at this point.

### New Greek proposal: solid base for reaching an agreement before the end-June deadline

Table A exhibits the main items included in the new proposal submitted by the Greek government to the official creditors and the institutions. For ease of exposition, the table compares the new proposal with the previous one and provides a numerical breakdown of the relevant measures as it has been assessed by domestic authorities. Details about the proposed measures can be found in

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our *Greece Macro Monitor* report of June 15<sup>th</sup> <sup>1</sup>, Greece Macro Monitor “Greek government’s revised proposal: how close, how far apart from a deal?”, June 15, 2015 but a brief assessment of the new proposal is as follows:

- i) As it is presented, the new list of measures fully meets official creditors’ demand for the generation of additional budgetary savings/revenue through *permanent* measures worth 2.5ppts-of-GDP.
- ii) The proposed list of measures appears to be fully in line with official creditors’ demands to have 1ppt-of-GDP in revenue generated by VAT reform, 1ppt-of-GDP in extra savings by social security system reform and 0.5ppts-of-GDP by the introduction of a number of other parametric measures.
- iii) Compared to the previous one, the new Greek proposal appears to be much more solid and easily quantifiable a priori as regards the projected yield of new measures.

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<sup>1</sup> Greece Macro Monitor “Greek government’s revised proposal: how close, how far apart from a deal?”, June 15, 2015, Eurobank Economic Analysis and Financial Markets Research

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Table A – Greek proposal: latest and previous one (EURbn)

	New proposal Submitted on 22 June 2015		Earlier proposal	
	2015	2016	2015	2016
<b>Parametric measures - Total</b>	<b>2.692</b>	<b>5.207</b>	<b>1.995</b>	<b>3.583</b>
<i>Parametric measures (%GDP)</i>	<i>1.51%</i>	<i>2.87%</i>	<i>1.10%</i>	<i>2%</i>
<b>VAT Reform</b>	<b>680</b>	<b>1.360</b>	<b>680</b>	<b>1.360</b>
<i>VAT Reform (% GDP)</i>	<i>0.38%</i>	<i>0.74%</i>	<i>0.38%</i>	<i>0.74%</i>
<b>Pension reform</b>	<b>665</b>	<b>1860</b>	<b>0</b>	<b>71</b>
<i>Pension reform (% GDP)</i>	<i>0.37%</i>	<i>1.05%</i>	<i>0.00%</i>	<i>0.04%</i>
<i>of which</i>				
Early retirement restrictions (accrual)	60	300	0	71
Increased contribution of main pensions by 3.9% - IKA - (previous year level)	350	800	0	0
Increased health contribution for pensioners from 4% to 5% (main pensions)	135	270	0	0
Increased health contribution for pensioners from 0% to 5% (supplementary pensions)	0	240	0	0
Increased health contribution for supplementary funds (from 3% to 3.5%)	120	250	0	0
<b>Corporate &amp; Income tax</b>	<b>1.165</b>	<b>1.065</b>	<b>820</b>	<b>1300</b>
<i>Corporate &amp; Income tax (% GDP)</i>	<i>0.66%</i>	<i>0.58%</i>	<i>0.46%</i>	<i>0.71%</i>
<i>of which</i>				
Special tax 12% on corporate profits above 0.5 mil (vs. 1mn in the previous proposal)	945	405	600	600
Increase corporate income tax from 26% to 29%	0	410	0	450
Increase solidarity contribution rates in PIT	220	250	220	250
<b>Other measures</b>	<b>182</b>	<b>922</b>	<b>182</b>	<b>572</b>
<i>Other measures (% GDP)</i>	<i>0.10%</i>	<i>0.50%</i>	<i>0.10%</i>	<i>0.31%</i>
<i>of which</i>				
Cuts in defence spending	0	200	0	200
TV advertisement tax	100	100	100	100
Increase luxury tax and include private yachts	47	47	47	47
E-gaming – VLTs	35	225	35	225
Licences to 4G and 5G	0	350	0	0
<b>Other parametric/administrative measures</b>	<b>0</b>	<b>0</b>	<b>1938</b>	<b>2641</b>
<i>Other parametric/administrative measures (% GDP)</i>	<i>0.00%</i>	<i>0.00%</i>	<i>1.08%</i>	<i>1.44%</i>
Administrative dispute settlement on property taxation of past years (FMAP, FAP)			50	50
Vehicle technical control inspection			72	50
Uninsured vehicles			51	40
Pharmaceutical rebates			140	140
Fuel smuggling			75	300
Audits on Bank accounts			200	500
VAT fraud (carousel and split payment)			50	700
E-gaming			160	361
Environmental and agricultural compliance with EU regulations			276	0
Transfer pricing			24	0
Fees and licences for TV channels			340	0
Installment scheme			500	500

Source: Documents leaked to the local press

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