Eurogroup statement on the ESM programme for Greece

The Eurogroup welcomes the agreement that has been reached between Greece and the European Institutions, with input from the IMF, on the policy conditionality underlying the new ESM macroeconomic adjustment programme. The Eurogroup commends the Greek authorities for their demonstrated strong commitment as shown by the normalisation of the working methods with the Institutions and the conduct of the negotiations in a determined and swift manner. This agreement is in line with the parameters and key objectives set by the Euro summit on 12 July and provides a comprehensive framework for restoring the Greek economy to a sustainable path.

The Eurogroup welcomes the wide scope of the policy measures contained in the Memorandum of Understanding (MoU), which, if implemented with determination, will address the main challenges facing the Greek economy. We are confident that decisive and as swift as possible implementation of the reform measures as spelled out in the MoU will allow the Greek economy to return to a sustainable growth path based on sound public finances, enhanced competitiveness, high employment and financial stability.

Greece will target a medium-term primary surplus of 3.5% of GDP with a fiscal path of primary balances of -0.25% in 2015, 0.5% in 2016, 1.75% in 2017 and 3.5% in 2018 to be achieved notably through upfront parametric fiscal reforms supported by measures to strengthen tax compliance and fight tax evasion. Greece will undertake an ambitious reform of the pension system aimed at ensuring its sustainability, efficiency and fairness. It will specify policies to fully compensate for the fiscal impact of the Constitutional Court ruling on the 2012 pension reform and to implement the zero deficit clause or mutually agreeable alternative measures by October 2015. Greece has furthermore committed to key labour and product market reforms to open up the economy to investment and competition, as well as to modernise and depoliticise the public sector. With regard to the financial sector, Greece has committed to take decisive measures to safeguard stability, including a recapitalisation of the banks as required, measures to enhance the insolvency framework and a significant improvement of the governance of the banks and the Hellenic Financial Stability Fund (HFSF). Following the results of the Asset Quality Review and Stress Tests before the end of the year, the bail in instrument will apply for senior debt bondholders whereas bail in of depositors is excluded. The Eurogroup stresses that the agreed conditionality needs to be further specified as requested by the IMF a matter of priority, in particular in the areas of pension reforms and financial sector strategy and governance, in agreement with the three Institutions in time for the completion of the first review under the ESM programme. Moreover, Greece will take urgently needed steps to tackle the non-performing loan (NPL) problem in the banking sector. Given the magnitude of the problem, we urge the authorities to develop all necessary instruments to that end, including opening the market for NPL servicing and disposal with the appropriate safeguards to protect vulnerable debtors and exploring the possibility of a bad bank.

Compliance with the conditionality of the MoU will be monitored by the Commission in liaison with the ECB and together with the IMF, as foreseen in Article 13(7) of the ESM Treaty.

The Eurogroup stresses that a significantly strengthened privatisation programme is a cornerstone of the new ESM programme. The Eurogroup welcomes the Greek authorities' commitment to adopt new legislation to ensure transparent privatisation procedures and adequate asset sale pricing, according to OECD principles and standards on the management of State Owned Enterprises (SOEs). To ensure a more ambitious privatisation process, an independent fund will be established in Greece under the supervision of the relevant European institutions by end-2015 and encompass the privatisation of independently valuated state assets, while avoiding fire sales. The Eurogroup expects the Greek government to endorse the plan for this fund by the end of October 2015 so that it can be operational by the end of the year. Its task will be to quickly identify, transfer over the lifetime of the programme, and manage valuable Greek assets through privatisation and other means, including minority shareholdings and to increase their value on a professional basis. This will include the shares in Greek banks after their recapitalisation, thus also enhancing banks' governance. This should ensure that a targeted value of EUR 50 bn can be realised, by putting the assets on the market, of which EUR 25bn will be used for the repayment of recapitalization of banks and other assets and 50 % of every remaining euro (i.e. 50% of EUR 25bn) will be used for decreasing the debt to GDP ratio and the remaining 50 % will be used for investments. The legislation to establish the Fund shall be adopted in agreement with European institutions.

The Eurogroup appreciates that the Greek authorities have taken additional important legislative steps over the last few days. This supports the gradual process of rebuilding trust, demonstrating the authorities policy resolve and programme ownership. Those steps include notably additional fiscal measures on the tax and expenditure side, legislation on early retirement as well as an extensive set of actions in relation to the financial sector and product markets. In addition, in line with the Eurogroup statement of 16 July, the Greek authorities took measures to adjust and complete the legislation adopted on 15 July 2015. The authorities have also repealed a number of provisions backtracking on previous programme commitments.

The Eurogroup welcomes that the implementation of those prior actions has been assessed positively by the Institutions. The Greek authorities have confirmed their intention to complete by September the follow up actions identified by the Institutions, including the need to bring the adopted household insolvency law in line with the proposal of the Institutions.

Based on the assessment of the Institutions, the ESM financial assistance facility agreement will cover an amount of up to EUR 86 bn. This includes a buffer of up to EUR 25 bn for the banking sector in order to address potential bank recapitalisation and resolution costs.

The first tranche under the ESM programme of EUR 26 bn will consist of two sub-tranches. The first sub-tranche of EUR 10 bn will be made available immediately in a segregated account at the ESM for bank recapitalisation and resolution purposes. The second sub-tranche of EUR 16 bn will be disbursed to Greece in several instalments, starting with a first disbursement of EUR 13 bn by 20 August, followed by one or more further disbursements in the autumn subject to the implementation of key milestones based on measures outlined in the MoU and to be specified by the European Institutions and agreed by the EWG.

A second tranche for banking recapitalisation and resolution needs of up to EUR 15 bn can be made available after the first review and no later than 15 November, subject to the completion of the planned Asset Quality Review and Stress Test and the implementation of the financial sector deliverables of the review. These funds will initially be transferred to the segregated ESM account and can be released upon the agreement of the ESM Board of Directors.

The debt sustainability assessment was conducted by the Commission, in liaison with the ECB, as foreseen in Article 13(1) of the ESM Treaty. The analysis concludes that debt sustainability can be achieved through a far-reaching and credible reform programme and additional debt related measures without nominal haircuts. In line with the Euro summit statement of 12 July, the Eurogroup stands ready to consider, if necessary, possible additional measures (possible longer grace and repayment periods) aiming at ensuring that Greece's gross financing needs remain at a sustainable level. These measures will be conditional upon full implementation of the measures agreed in the ESM programme and will be considered after the first positive completion of a programme review. The Eurogroup reiterates that nominal haircuts on official debt cannot be undertaken.

The Eurogroup considers the continued programme involvement of the IMF as indispensable and welcomes the intention of the IMF management to recommend to the Fund's Executive Board to consider further financial support for Greece once the full specification of fiscal, structural and financial sector reforms has been completed and once the need for additional measures has been considered and an agreement on possible debt relief to ensure debt sustainability has been reached. Resulting policy conditionality will be a shared one as the policy conditionality underlying the ESM macroeconomic adjustment programme is developed in parallel to the one of the IMF. Once approved, the full re-engagement of the IMF is expected to reduce subsequently the ESM financing envelope accordingly. The Eurogroup welcomes the positive assessment of IMF staff of the policy conditionality contained in the MoU as confirmed by the IMF Managing Director and looks forward to an IMF programme based on the latter.

The Eurogroup considers that the necessary elements are now in place to launch the relevant national procedures required for the approval of the ESM financial assistance. The Eurogroup expects that the ESM Board of Governors will be in a position to authorise the European Commission signing the MoU on behalf of the ESM and approve the proposal for a financial assistance facility agreement by 19 August, subject to completion of national procedures, and thereby unlock the initial tranche of up to EUR 26 bn.

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