

Independent
Evaluator
appointed by the
ESM Board
of Governors

Lessons from Financial Assistance to Greece

INDEPENDENT EVALUATION REPORT



Print	ISBN 978-92-95085-78-7	doi:10.2852/082453	DW-01-19-845-EN-C
PDF	ISBN 978-92-95085-79-4	doi:10.2852/04790	DW-01-19-845-EN-N

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Luxembourg: Publications Office of the European Union, 2020

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Printed in Luxembourg
PRINTED ON PROCESS CHLORINE-FREE RECYCLED PAPER (PCF)

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Foreword

This evaluation assesses the EFSF and ESM financial assistance provided to Greece, focusing on the ESM programme. The extraordinary support provided to Greece in the past decade helped the Greek economy to stabilise and to grow – despite present shocks. The financial assistance also enabled Greece’s institutions to improve and better meet European standards.

At the same time, Greece and its citizens suffered the consequences of eight years of economic adjustment. Greece made the world’s headlines with the largest debt restructuring in history, an unprecedented fiscal consolidation, and the resulting loss of output and social consequences. The programmes raised fundamental questions about the economic, financial, and political interdependence of the currency area.

On 21 February 2019, the Chairperson of the ESM’s Board of Governors appointed me to lead this independent evaluation. The purpose of the exercise was to draw lessons from the EFSF/ESM financial assistance programmes to support informed policy decision-making going forward, to further increase the transparency and accountability of the ESM’s programme activities, and to enhance the ESM’s ability to tackle future crises.

The evaluation assesses the EFSF/ESM programmes’ contribution to euro area financial stability, their relevance to promote sustainable growth and resilience of the Greek economy to shocks, as well as the efficiency and effectiveness of the ESM’s engagement with national and international partners.

To carry out its analysis, the evaluation team conducted desk studies, surveys, extensive interviews with authorities in Greece and international partner institutions and assessed input from other evaluations and published literature. Five background papers and a technical appendix complement this evaluation report.

I would like to thank the dedicated evaluation team under the leadership of Kari Korhonen with Rolf Strauch as the project sponsor. Composed of Olga Francová, John Goossen, Dušan Kovačević, Georgios Palaiodimos, Dóra Siklós, Carsten Eppendorfer, and Iakov Frizis, the team worked independently of the ESM to deliver an unbiased assessment of the programmes. I would also like to thank the external advisory group for this evaluation and all those who contributed with responses, comments, and through frank discussions during the months this report was drafted.

I hope the final report will provide a useful basis for reflection by everyone who has a stake in stability and prosperity, both in Greece and in the euro area as a whole. My recommendations are meant to inspire follow-up work, so that the ESM, in collaboration with its partner institutions, may build further on its role as a guardian of financial stability in the euro area.



JOAQUÍN ALMUNIA
High-Level Independent Evaluator
11 June 2020

For quality assurance purposes, this evaluation exercise enjoyed the support of an advisory group consisting of David Goldsbrough, John Hicklin, Barry Kolodkin, Bastiaan de Laat, and Ritva Reinikka. The evaluation team would like to express their gratitude for the valuable guidance.

The evaluation team would also like to thank Rachel Calero and Sharman Esarey for their editorial assistance as well as Martin Hillebrand and Olivier Pujal for their analyses presented in the technical appendix of this report. Also, we would like to convey our appreciation to Oana Picincu, who contributed to the evaluation process through end-August 2019.

Executive summary

This report evaluates the relevance, effectiveness, efficiency, sustainability, and cooperation of financial assistance provided to Greece. It primarily focuses on the ESM programme, while taking into account its links with the preceding EFSF programme. The report also assesses the post-programme developments up to end-September 2019. This evaluation follows the cross-country evaluation report published in 2017 and other evaluations and audits addressing many aspects of the assistance that the Institutions¹ provided to Greece.

The main evaluation objectives are to enhance the ESM's ability to tackle potential future crises, strengthen informed policy decision-making, and draw lessons that support the institution's commitment to continuous improvement in performing its mandate. Secondary objectives are to contribute to the transparency of the ESM's programme activities and thereby promote accountability to stakeholders. Given the complex partnerships with the other institutions in providing financial assistance, some of the outcomes and conclusions of this report may also be more broadly pertinent. In this context, some recommendations may also be of relevance to the partnership of the European institutions, even though they are primarily addressed to the key stakeholders – ESM governing bodies and management.

Main findings

Although the starting positions of both Greek EFSF and ESM programme were dire, they managed to preserve the integrity of the euro area, stabilise Greek public finances and strengthen institutions. Programmes fostered financial stability, dampening outward spillovers and protecting Greek depositors, although numerous political events made adjustment more drawn out and costly. In the later phases, financial assistance improved attention to social needs.

Relevance

The overall objective of the Greek programmes was to preserve the integrity of the euro area, and to restore financial stability in Greece. They helped to attain this objective and allowed Greece to exit from its almost decade-long reliance on official sector financing, but at a considerable financial and social cost.

The EFSF and ESM programmes lacked a framework to systematically develop strategic programme objectives, resulting in inadequate strategies. The strained implementation capacity and lack of a common diagnosis of the Greek problems contributed to weak ownership and reduced chances of a durable success.

The programmes provided Greece with emergency funding, avoiding a forced exit from the single currency. There was, however, insufficient attention to the underlying social needs of the Greek population. Under the ESM programme, responding to the negative social impact of the programme became an additional strategic objective.

Consistency with mandates and country needs

Overall objective

Grexit avoided

Stabilisation and growth Though the EFSF and ESM programmes addressed the key financial stability needs in line with their stabilisation mandate, stakeholders implicitly settled for a low-growth equilibrium under the ESM programme; they prioritised fiscal targets over growth-enhancing product market reforms that would have required targeting corporatist interests. The composition of the fiscal adjustment was not conducive to inclusive growth, and lacked a long-term economic outlook.

Financial sector priorities Financial sector measures aimed to prevent spillovers and restore bank solvency and liquidity. The EFSF financial sector programme focused mostly on restoring liquidity and bank solvency, whereas the ESM programme intensified emphasis on resolving the non-performing loan problem and improving the payment culture, albeit with limited success.

Programme outcomes **Effectiveness**

Prioritisation of fiscal consolidation The ESM programme aimed to mitigate sovereign risk by prioritising fiscal sustainability. Despite the milder fiscal consolidation target, it did not succeed in swiftly accelerating economic activity close to potential, although it did strengthen the focus on product market reform by implementing an array of granular measures. While liberalisation of the labour market was achieved, progress in the product market remained only partial. This put a strain on the promotion of a business-friendly economic environment and the Greek economy's resilience to shocks. Measures to address financial sector problems restored financial stability, but the system is still fragile. The liquidity position of some banks remains weak and the high share of deferred tax credits in banks' capital raises concerns over long-term prospects. Policy actions to streamline the legal framework were implemented with delays, slowing the resolution process and leaving Greece with the highest non-performing loan ratio in the euro area. Governance in systemic banks and the Hellenic Financial Stability Fund improved considerably, partly thanks to the involvement of the European institutions, including the ESM, in the reform process.

Inclusive growth Greece entered the crisis with high and worsening income inequality. Labour market improvements, and the strengthening of the social welfare system under the ESM programme led to a fairer income distribution. Despite progress, income inequality remained above euro area average, and the overall poverty rates and unemployment stayed relatively high due to ineffective labour integration policies.

Institutional reform The EFSF and the ESM programmes recognised the need to modernise the public administration and judicial systems, but only partial progress was made. The ESM programme focused on a narrow set of targets aimed to enhance the efficiency, independence, and transparency of targeted national administrations such as the tax administration, the Hellenic Corporation of Assets and Participations (HCAP), and the Hellenic Financial Stability Fund. The efficiency of the judiciary improved but is still below the EU average. Reforms to investment licensing are ongoing. Public procurement improved considerably, but public administration reforms made insufficient headway.

Unintended consequences Unintended programme consequences included a sharp drop in private investment because of credit scarcity and declining demand; a significant rise in unemployment and brain drain; and the growth of the informal economy at the expense of the formal economy. It is nevertheless plausible that these consequences would have been worse in the absence of the assistance programme.

Efficiency

The 2012 private-sector debt restructuring – which was a prior action to the EFSF programme – reduced Greek sovereign liabilities, but it was marked by significant delays and therefore inefficiencies, reducing its contribution as a source of financing and increasing financing needs from other sources. Given the extent of their government bond holdings, Greek banks suffered from impaired loans. The size of the financial sector programme envelope was sufficient to restore confidence.

The ESM efficiently designed loans and executed disbursements, including previously untested practices for sovereign lending. It also showed flexibility in adjusting terms. In the medium term, the EFSF/ESM measures contributed to reducing Greek borrowing risks, thereby supporting debt sustainability. The ESM showed flexibility and managed to mitigate risks through the implementation of debt relief measures, but replicating similar transactions would be demanding from an operational perspective.

There is evidence that the disbursement process was driven more by Greece's liquidity needs than by reform implementation. Lack of access to sufficiently granular data, however, prevented the team from confirming that the strategic objective of euro area integrity by avoiding payment defaults strongly influenced the assessments. The ESM lacked a policy on conditionality compliance assessment, which aggravated the problem of weak programme design, poor prioritisation, and protracted decision-making processes.

Sustainability

The ESM programme failed to systematically and vigorously pursue the objective of longer-term macroeconomic sustainability and resilience. The macroeconomic impact of structural reforms was not taken into account systematically by the Institutions in their forecasts, programme design, or review agenda. The joint effects of various weaknesses meant the benefits of structural reforms materialised much later than expected.

The resilience to shocks of the main macroeconomic indicators and institutions improved, but long-term growth prospects are subdued due to slow productivity and competitiveness gains as well as incomplete reform implementation. Debt sustainability was improved, re-profiling under the ESM programme made the debt burden more manageable and strengthened sovereign financial resilience to shocks, but was not fully restored. While restrictive fiscal targets staved off a further debt increase, fiscal consolidation undermined the growth that was necessary to significantly reduce the debt-to-gross domestic product ratio. Future subdued growth, fiscal imbalances, and interest rate increases could still represent a risk to Greece's long-term sustainability. The Eurogroup, therefore, committed to revisiting the situation in 2032 to assess whether these risks have materialised and require any further EFSF or ESM loan adjustment.

Both the EFSF and ESM programmes increased the resilience of the banking sector. However, its shock-absorbing capacity remains weak. Lack of profitability and thin capital buffers are amongst the main reasons why the banking sector struggles to support stronger economic growth. Subdued lending is present in all economic activities despite favourable monetary policy conditions. The cost of borrowing remains high for both Greek households and non-financial

Private sector involvement

Disbursement and compliance dynamics

Continuity of benefits beyond programme completion

Pursuit of long-term sustainability

Improved resilience

Banking sector resilience

corporate sectors, reflecting high non-performing loans in both segments. While policymakers actively addressed the high non-performing loans, further efforts are necessary to dampen another non-performing loan build-up.

Necessity of societal transformation

Programmes set in motion a change in attitudes but little evidence supports a more fundamental transformation. No broadly accepted analysis on why the country fell into crisis and what should be rectified has emerged. This reflects weaknesses in societal unity, although some grassroots solidarity movements have emerged. Interlocutors still called for continued external support, even pressure, to maintain reform momentum and eliminate the threat of policy complacency. There are signs of a missed opportunity for long-term planning under the strict programme schedules. Governments, for example, failed to establish a holistic growth strategy until programme exit approached in 2018. Clientelism and a segmented administrative culture may have hampered the central government's strategic planning.

Relevance and effectiveness of partnerships

Cooperation

The Institutions achieved a considerable degree of cooperation in a complex environment, but different institutional mandates and approaches contributed to a lack of common understanding on key strategies and objectives. The ESM programme was marked by open disagreement on debt sustainability among the Institutions, which exposed the inherent clash between shorter- and longer-term perspectives on crisis resolution. This adversely affected cooperation and reform implementation. Even if the differences in debt sustainability assessment assumptions between the institutions were not presented with sufficient transparency, the debt sustainability assessment remains, nevertheless, a useful tool for focusing decision-making.

Reform advocacy

At the outset, the Institutions failed to fully grasp the root causes of weak ownership. The rationale for reforms and their long-term benefits were not well explained to a broader group of stakeholders and the Greek public. Effective communication is key to building broad reform coalitions in support of programme implementation, and while national authorities should take a leading role in communicating reforms to the public, the Institutions could have supported and facilitated these efforts more throughout the crisis period.

Technical independence

ESM staff's operational independence is important in safeguarding the ESM's reputation as an institution whose contribution is consistently constructive, professional, and technically sound. This is even more important in high-stakes programmes driven by a political process, as was the case in Greece. ESM Members' national policy preferences at times hampered the Institutions' ability to effectively design and negotiate policy measures best suited for Greece.

The ESM did not explore how best to maximise potential synergies with institutions beyond the primary partnerships.

In the long-run, potential challenges remain in the framework for post-programme engagement. While market and peer pressures can exert some level of discipline, the ESM and its partners should assume a more active policy advocacy role in the post-programme period.

The current pandemic emergency demonstrates that future triggers for crisis could be more complex events that are hard to foresee. As the ESM is preparing to take a broader role in programme negotiations and design together with the European Commission, it would benefit from an increasingly structured approach, diagnostic tools, and pre-set broad ESM board guidance to draw upon to avoid unnecessary costs from protracted debates. Such guidance and tools would ideally help the ESM to focus on key problems, foresee bottlenecks, and prioritise resource use.

Recommendations

Recommendation 1.

Future ESM programmes must clearly define strategic objectives based on a long-term view.

Growth in the beneficiary country is a necessary condition for the success of every programme, and by implication for its credibility. Besides the necessarily ambitious fiscal adjustments to restore budgetary and public debt positions, fostering endogenous growth must be one of the key objectives of every financial assistance programme.

1.1 The programme design should derive its objectives and length from an analysis of the main problems to be tackled, including societal realities. Programme duration must hinge on these objectives. Some of the important elements to be assessed in programme design are the degree of the beneficiary country's institutional capacity and the improvements necessary to achieve the programme's strategic objectives. The programme should also include an analysis of risks, including how to adjust the initial timetable to changing circumstances.

1.2 ESM management, in cooperation with its Members and the European Commission, should develop the necessary analytical frameworks and data sources, beyond a macroeconomic approach, required to satisfactorily establish and prioritise objectives. A timetable for the different actions must be established, taking resourcing issues into account.

1.3 Whereas political decisions belong to the ESM Boards, ESM management must strengthen internal processes that ensure the independence of staff analysis to provide sound and robust technical assessments. The ESM should plan to avoid complacency and deterioration in acquired skills at times of low programme demand.

Recommendation 2.

ESM Boards should develop high-level guidance on programme design.

2.1 ESM Boards should develop the necessary overarching policy frameworks or principles to facilitate effective and coherent programme design, review, and decision-making. Recognising inevitable uncertainty, the programme design should be sufficiently flexible to deal with unintended consequences.

All programmes should also ensure a fair distribution of effort across society, not only for equity reasons but also as a means to improve effectiveness and ownership. A failure to foster long-term sustainable and inclusive growth will have negative consequences, in particular for the most vulnerable sectors of

society. This will undermine both ownership in the recipient country and confidence in the other countries and in the markets.

Mistakes in the design or implementation of programmes can result in longer adjustment periods, higher funding needs, and larger social costs. Fiscal adjustment should not jeopardise an effective social safety net. The programmes should also define clear priorities that take into account the country's implementation capacity.

2.2 Programmes should establish a limited number of macro-critical conditions, derived from the strategic objectives to address the real challenges facing the country. Programme conditionality should facilitate standardised, transparent, and time-consistent assessment of compliance. ESM Boards should ensure coherence among the conditionality measures.

2.3 The ESM Boards should foster an appropriate sequencing of reforms. Certain issues should be handled upfront. These include debt restructuring, in exceptional cases and where applicable in accordance with a debt sustainability assessment analysis, and banking sector solutions. Requirements for fiscal adjustment must consider the risks of downward pressures on growth generating unintended consequences. The implementation of these fiscal measures should take place rationally, in step with structural reforms. This must also be the case when sequencing labour and product market reforms.

Recommendation 3.

ESM Boards should improve programme governance by setting out clear expectations and instructions for the institutions.

ESM Boards, in cooperation with the other European institutions, should agree and set up programme governance guidelines to ensure sustainable outcomes. Debt sustainability assessment exercises must be carried out during and after programme completion. Their results provide a useful basis to assess progress towards programme completion and to support the post-programme interaction between the institutions and the recipient country authorities.

3.1 ESM Boards should insist upon the use of a consistent and transparent methodology when conducting and presenting debt sustainability assessment exercises and risk assessments for the purposes of the early warning system.

3.2 Sustainability assessment needs a broader focus beyond debt levels. The ESM should maintain flexible lending terms to accommodate country-specific needs while controlling its financial risks. However, where programme tools cannot realistically put public debt on a sustainable path, lessons learnt from the Greek experience with the private sector involvement should be considered.

3.3 Programme approval should explicitly assess exit strategy options, including potential use of precautionary facilities, to help sustain reform momentum in key areas of vulnerability beyond the programme period. At the end of a programme, a clear post-programme incentive structure is needed to consolidate achievements, further progress on pending reforms, and avoid the backtracking of adopted reforms.

Recommendation 4.**The institutions, with the support of country authorities, should coordinate the preparatory and implementation phases of a programme.**

When a programme is requested, the European institutions should coordinate ex ante their analyses and align as much as possible their assumptions. The decision-making process in the Eurogroup, and in the ESM Board, should facilitate an ex ante process of coordination, and avoid unjustified delays in the adoption of decisions. To enable early cooperation, ESM Members, as well as potential beneficiary countries, should become cognisant of their own vulnerabilities, likely strengthening their ownership of programme objectives and conditions.

4.1 The division of roles and responsibilities between the European Commission and the ESM should be further clarified in terms of their competences and responsibilities concerning surveillance, communication, and advocacy. In this context, the framework for cooperation and coordination with the International Monetary Fund should also be clearly delineated.

4.2 The ESM Boards, in coordination with the European Commission, should develop analyses of the risks based on a sufficiently good knowledge of domestic conditions and limitations. The ESM's responsibilities, and capabilities, to signal any risks to future sustainability should be robust enough to internally prepare and enable it to appropriately and in a timely manner pursue its tasks.

4.3 The building and improvement of a beneficiary country's institutional and administrative capacities underpinning sustainable long-term growth require improved ESM cooperation with the European Commission, including with the Structural Reform Support Service, as well as with other international organisations.

Recommendation 5.**A strong, coherent framework for post-programme monitoring is needed to safeguard the adjustment gains made and ensure sustainability in the context of the ESM's long-term creditor role.**

The benefits of successful programme completion go beyond the achievements in the beneficiary country.

5.1 ESM management, in cooperation with the European Commission, must pay attention to the role of advocacy as a means to complement market and peer pressures and to preserve the sustainability of the achievements of the programmes beyond their completion in the medium- and long-term. In this context, the ESM should foster strong mechanisms for signalling about emerging vulnerabilities.

5.2 ESM management must strengthen relations with the authorities of the beneficiary country, as well as with political forces and civil society, to increase ownership and establish an efficient system of cooperation.

5.3 ESM management, in coordination with the other responsible institutions, should develop capacities that enable them to be aware of the interconnections

and potential negative spillovers with the other euro area economies, especially those that impact the weakest.

ESM Boards should encourage any initiative conducive to the stability and efficient functioning of the euro area. The completion of banking union, progress on capital markets union, and other steps to complete the design of the Economic and Monetary Union will minimise risks for its stability and mitigate negative spillovers. Of course, a firm political commitment to ensure the integrity of the euro area is essential.

1. Introduction

1.1. Overview

Risks arising from an abrupt upward revision of the Greek fiscal deficit in October 2009 shocked financial markets, and by the spring of 2010, market scrutiny of the country's accumulated imbalances had developed into a full blown crisis. In 2009, the fiscal deficit hit 15% of gross domestic product (GDP), well above the 3% ceiling stipulated by the European Union's (EU) Stability and Growth Pact (SGP). Government debt grew to 126.7% of GDP by the end of 2009, an increase of more than 23 percentage points in two years. Banks and investors had grown used to financing widening deficits. Greece was amassing foreign liabilities with the external deficit also climbing to 15%. While Greece was not alone in requesting financial support following the global financial crisis, it required three support programmes over an eight-year period. In contrast, the other euro area countries that received assistance returned to market access within three years. Over those eight years, European official support reached a historic €256 billion, corresponding to about 113% of Greek GDP in 2010, but Greek output continued to fall steeply for several years. The abrupt adjustment, large financial resources expended, and the depth of reforms and adjustments needed set Greece apart from the other countries assisted. The crisis resolution became a complex political, social, institutional, and economic endeavour with domestic and international challenges.

Organising and raising emergency financing to underpin Greece's reform agenda necessitated an unprecedented effort, from assembling political consensus to crafting and implementing innovative economic and financial solutions. Before the crisis, the euro area relied almost exclusively on policy coordination and peer review to maintain coherent policies designed to protect EMU from instability and its members from default. Obviously, these processes proved ineffective when a loss of market access threatened several of the region's countries during the global financial crisis.

The Greek crisis stemmed from long-standing financial, economic, and structural weaknesses. Its resolution underwent political upheavals that sometimes interrupted progress and required frequent confidence-building measures. Table 1.1 outlines the sequence of Greek programmes.

This evaluation is the first to focus on the ESM supported programme for Greece after its completion in August 2018. It also considers a preceding European Financial Stability Facility (EFSF) financed programme, given the close links between the two programmes. This evaluation follows the cross-country evaluation report published in 2017 and other evaluations and audits addressing many aspects of the assistance that the Institutions provided to Greece.

1.2. Mandate and supporting structures

Following a recommendation in the 2017 evaluation, the Chairperson of the ESM Board of Governors (BoG) appointed Joaquín Almunia, a former European Commission Vice President and Spanish Minister, on 21 February 2019, as the High-Level Independent Evaluator to lead the second independent evaluation on the rescue fund's activities. This evaluation focuses on the 2015–2018 Greek ESM programme – referred to as ESM programme throughout the report – and the first year of the post-programme period. The terms of reference recognise that the ESM programme was designed as a follow-up to the previous programmes. It therefore acknowledges that the evaluation needs to give due consideration to earlier EFSF decisions and their implications, starting with the implementation of the private sector involvement (PSI) exercise in 2012. The ESM BoG approved the terms of reference at the ESM annual meeting on 13 June 2019, following two consultations with the ESM Board of Directors (BoD). The terms of reference are included in the technical appendix to this report.

This evaluation considers the EFSF and ESM financial assistance as a partnership with other European institutions and, where relevant, the International Monetary Fund (IMF). Although it assesses the relevance and effectiveness of the partnership from the ESM's perspective, it does not attempt to assess the individual partner institutions' contributions. The mandates and objectives of the partner institutions nevertheless affected the design of the joint objectives. While the EFSF and ESM mandates are anchored in safeguarding financial stability in the euro area and its member states, the other institutions' participation subjects the endeavour to a broader set of economic and social policy objectives. As a relatively new and small institution, the ESM's strategy is not to cover all policy areas on its own, but to benefit from a cooperative approach. The ESM Treaty also assigns certain tasks directly to the European Commission and the European Central Bank (ECB). This institutional framework is described in Box 1.4. Throughout this report, the term *Institutions* refers to a partnership formed by the European Commission, the ECB, the IMF and the EFSF/ESM. Where reference is not made to the IMF, the partnership is addressed as the *European institutions*.

The main evaluation objectives are to enhance the ESM's ability to tackle potential future crises, strengthen informed policy decision-making, and draw lessons to support the institution as a learning organisation. Secondary objectives are to contribute to the transparency of the ESM's programme activities and thereby promote accountability to stakeholders, although the ESM governing bodies and management form the primary audience of the report. Given the complex institutional partnership with other European institutions and the IMF in providing financial assistance, some of the outcomes and conclusions of this report may also be more broadly pertinent.

Box 1.1: Five themes

In evaluating the financial assistance to Greece, this report attempts to provide conclusions on five themes specified in the terms of reference:

- Contribution of the Greek programmes to euro area financial stability, including spillovers to other member states, and the evolving crisis management framework;
- Relevance of the programme strategies to sustainable and inclusive growth in Greece; and the programme’s implications for resilience to economic and financial shocks;
- Whether key risks to the EFSF/ESM were identified upfront and alternatives assessed, and how programmes adapted as adverse outcomes materialised;
- Debt sustainability assessment (DSA) in light of programme objectives; to examine the assumptions used for the analysis, and the extent to which DSA influenced the EFSF/ESM programme objectives and design;
- Efficiency and effectiveness of the ESM’s engagement with the national and international partners over time.

An evaluation team of six ESM internal and two external members, together with a senior external advisor, supported the High-Level Independent Evaluator. The evaluation framework also included an external advisory group to provide quality assurance. The group reviewed the draft terms of reference and the evaluation team’s work plan, subsequently endorsed by the Independent Evaluator. The advisory group also discussed the first evaluation report draft.

The report is organised as follows: the second part of the introduction sets the scene for the EFSF and ESM programmes’ assessment. Chapter 2 provides an executive summary on the evaluation methodology and programme intervention logic. Chapter 3 evaluates the relevance of programme objectives for addressing key needs. Chapters 4 and 5 concentrate on the financial assistance’s effectiveness and certain aspects of efficiency. Chapter 6 evaluates the contribution to sustainability and the economy’s resilience to shocks, while Chapter 7 evaluates the ESM’s cooperation and partnerships with other institutions, as well as the ESM’s engagement with the Greek authorities and other stakeholders. Chapter 8 draws conclusions on the five themes. The report concludes on the High-Level Independent Evaluator’s recommendations to the ESM governing bodies and management. The report is accompanied by five background papers and a technical appendix, which contains a detailed crisis timeline.

1.3. Setting the scene

The euro area public debt crisis erupted in early 2010, but its sources had been developing for a long time. For decades, Greece had operated a lax economic policy framework infused with weak fiscal and financial management practices and insufficient efforts to boost competitiveness compared with its regional partners (Andersen, 2020).

Once it joined the euro area, Greece, like many euro area countries, was able to borrow money at far lower rates than before. This turned fiscal policy procyclical. Europe's strong growth in the early 2000s helped worse-off countries to converge with those better-off. The size of the public sector grew rapidly without a similar revenue increase because of poor tax compliance and administration. The rapid convergence stalled in 2007 as growth peaked: the country had lost competitiveness, in part owing to wages rising too quickly and lagging product market reforms. Export performance proved weak and the country consumed more than it produced. The current account deficit ran in double digits for the five years to 2010. Box 1.2 summarises the history from the 1980s, drawing mostly on the background paper (Andersen, 2020) to this report.

When the global financial crisis hit, Greece responded by boosting government spending. Public debt quickly soared. After a surprise fiscal data revision in October 2009, Greece's credit rating was downgraded in December 2009, and further downward revisions continued in the following six months as the situation became increasingly tense. Markets lost confidence in the sustainability of government debt. As a consequence, Greek banks – the last market makers for Greek government debt – lost wholesale market access to fund their operations at end-2009, and their maturing interbank liabilities were not renewed (IMF, 2010).

Prior to this, the non-performing loans (NPLs) across the banking system had accounted for 7.7% of total loans, which encouraged a perception of a reasonably healthy banking system. The sovereign crisis nevertheless amplified the risks to the banking system and reversed credit growth.

Box 1.2: Greek vulnerabilities and other reasons for the crisis

The underlying economic and financial vulnerabilities that led to the 2010 crisis had accumulated over several decades. Until EU membership anchored its macroeconomic policies, the Greek economy had had a history of heavy regulation and government involvement, serial devaluations as well as growth constrained by public finance crises. The country had been assimilated into the European Economic Community in 1981 to support its recent transformation into a democratic republic (Andersen, 2020, Hellenic Republic, 2018 and Reinhart-Rogoff, 1999).

Policymaking discipline intensified in the mid-1990s as Greece tried to secure Economic and Monetary Union (EMU) membership, employing tighter fiscal policies, financial services deregulation, and enhanced price stability. Greece entered the Exchange Rate Mechanism of the European Monetary System, and policy-makers targeted entry into the euro. Foreign claims on Greek assets increased rapidly, especially flows from Germany. A large drop in interest rates eased adjustment towards the EMU convergence criteria, but the transformation was superficial because the employment rate and the current account deteriorated and competitiveness failed to improve. Transfers from the EU supported activity without encouraging lasting job creation. Greece joined the euro area even though the 104.4% debt ratio exceeded the 60% debt-to-GDP criteria (Andersen, 2020 and Rehn, 2019). Greece was not the only country benefiting from flexibility in the convergence criteria but other factors such as less reliable statistics and certain swap operations intervened in the Greek case. Inflation prospects were seen as dependent on structural policies aimed at improving the functioning of product and labour markets (ECB, 2000).

Despite high Greek debt, interest rates fell, cutting government interest expenditure to 5% of GDP, but higher pensions, social transfers and wages in the first decade of the 2000s accelerated public spending. The budget deficit, which had not fallen below 4% of GDP since 1981, hit 15% in 2009. Weak institutions and excessive state spending had become lasting causes for concern (Andersen, 2020). A dearth of trust in the political leadership and management prompted tax evasion and a rise in overdue corporate taxes. Eurostat data (2015) showed that popular trust in the Greek national political system was among the lowest in the euro area. The perception existed that the state granted privileges rather than committing itself to protect citizens' rights, which persuaded many citizens to limit trusting relationships to a family circle only (World Bank, 2019b).

After adopting the euro, Greece, unlike most other euro area members, failed to fully reap the benefits of the single market. Economic growth relied on falling financing costs and unproductive expenditure and investment. The public sector continued to grow and wages increased, despite serious inefficiencies. The country accumulated years of deficits and borrowing became excessive on the back of lax lending practices, including by foreign investors and financial institutions that had become complacent about Greek deficits (Andersen, 2020 and Rehn, 2019).

In October 2009, a newly elected government announced substantial revisions to the public deficit and debt. This was followed by a 2010 forecast for a general government deficit, expected to exceed 9% of GDP, adding reasons to financial market instability. In January 2010, the Greek government announced an updated stability programme that increased the deficit estimate even further and projected general government debt to peak at 121% of GDP in 2011. Although the government committed to implementing a series of corrective measures, and European authorities announced their support for the actions, market calm failed to return in the ensuing months. Market instability also threatened other euro area countries that reported weak fiscal balances, or which were home to banks exposed to Greek assets. When the credit ratings for Portugal and Spain were downgraded in March 2010 (Figure 4.4), investor confidence in the euro area periphery countries declined further, and bond market yields increased dramatically. This was in line with the repricing of default risks that was taking place at the time, following the bursting of the United States real estate bubble and the Lehman Brothers collapse (Andersen, 2020 and Rehn, 2019).

Greek developments were taking place amid distressed financial markets. The global financial crisis, which had prompted a coordinated fiscal stimulus in several countries, triggered a euro area sovereign debt crisis in which Greece played a major role, although it was just the most extreme example of EU governments failing to live up to their fiscal promises (Kierkegaard, 2010). Insufficient transparency on bank risks had alerted financial markets, and liquidity pressures from the 2009 events had not dissipated. With the international surveillance framework foundering, surveillance failed to prompt the Greek decision-makers to change their policies, and peer pressure in the euro area had been damaged since the two largest members had refused to accept SGP disciplinary procedures against them in 2005. (Andersen, 2020) This made it difficult to discipline other Member States in the crisis. The lack of risk-sharing mechanisms and safety nets stemming from the incomplete EMU institutional structure eventually prompted the creation of the EFSF and ESM, establishing the banking union, and considering a capital markets union.

Table 1.1
European programme arrangements for Greece

	Greek Loan Facility	EFSF programme	ESM programme
Request	23 April 2010*	8 February 2012	8 July 2015**
Approval***	2 May 2010	15 March 2012****	19 August 2015*****
Initial expiry	June 2013	31 December 2014	19 August 2018
Exit		30 June 2015	20 August 2018
ESM/EFSF involvement	No	Financing	Financing and monitoring
Partners	EC, ECB, IMF	EC, ECB, IMF	EC, ECB
Total official financing envelope	€110 billion	€142.9 billion	€86 billion

Notes: *ECA (2017), p. 12, **Eurogroup agreed to provide assistance on 12 July 2015 (SN 4070/15), ***Date on which facility agreement was entered into, ****Eurogroup formally approved the second adjustment programme on 14 March 2012, *****The ESM Board of Governors decided, on 17 July 2015, to grant – in principle – financial assistance to Greece amounting to up to €86 billion.
Source: ESM

First programme (2010–2012)

In May 2010, euro area member states and the IMF agreed on a first aid package for Greece of about €110 billion. European contributions were arranged through a package of bilateral loans which came to be called the Greek Loan Facility (GLF). The programme aimed to restore market confidence by stabilising the Greek government debt ratio and regaining a healthier external balance by 2013–2014. It was supposed to help achieve these objectives through front-loaded fiscal adjustment, competitiveness improvements, and confidence-boosting institutional reforms. But the results were mixed. Successes included avoiding disorderly default, keeping Greece in the euro area, and achieving strong fiscal consolidation in numbers. The IMF emphasised achievements in labour market reforms.² The programme proved valuable because it curbed spillovers from Greece into other countries, and the crisis triggered much-needed policy adjustments in other euro area countries. The GLF disbursements amounted to €52.9 billion, before the programme went off track in 2012.

Crucially, the GLF programme failed to garner popular support. Output in Greece continued to fall dramatically (Figure 1.1), because structural reforms could not support growth to offset the combined demand-sapping effects of the crisis itself as well as the fiscal adjustment. In the summer of 2011, it became clear that Greece would not be able to access markets in 2012 as planned. Banking system liquidity deteriorated and the government debt ratio continued to climb. Concerns over contagion turned acute again as other countries' market access became a worry, with Spain and Italy coming under threat (IMF, 2015b and Rehn, 2019). The concentration of external exposures to Greek assets in French and German banks had peaked in 2009, but these banks, or their resident customers, continued to hold by far the largest stakes in 2011. They were also heavily invested in Italy and Spain despite the ongoing deleveraging. Globally, cross-border holdings of Greek assets were nevertheless limited in comparison to those in most other euro area countries.

The advanced economies' sovereign borrowing needs were, however, increasing rapidly in 2010–2011, and in some extreme cases market access became a huge test for the issuers. Financial stress had risen dramatically, in particular in the euro area, with various adverse feedback loops connecting banks and the real economy (Blommenstein et al., 2010 and 2011). Given market conditions,

Greece was a source of instability for other euro area member states. According to Arghyrou and Kontonikas (2012) Greece actually also received reverse contagion effects from other periphery EMU members.

Institutional cooperation for financial assistance

At the onset of the euro area crisis, the EU lacked a mechanism for providing financial assistance to the euro area countries, and had to set up such a mechanism in the midst of the crisis. Greece was the first euro area country to receive a financial assistance programme jointly provided by the euro area member states and the IMF. The Heads of State or Government on 25 March 2010 originated the joint operation, establishing a framework for the so-called Troika that consisted of the European Commission, ECB, and IMF. The Troika was tasked with designing, negotiating, and monitoring a financial assistance programme for Greece, and later for several other euro area countries (Rehn, 2019). Beyond the EU leaders' original statement (European Council, 2010), however, no detailed agreement or guidance emerged on how the Troika partners should cooperate. The subsequent high degree of informality exposed weaknesses in the ad hoc mechanism as the crisis years unfolded.

The Greek programmes achieved considerable success despite the arduous process and complex decision-making. The Institutions first had to agree on a common approach to the Greek crisis, which then had to be negotiated with the Greek authorities. Once an agreement emerged between the Institutions and Greece, other euro area countries had to be convinced to lend their support and taxpayer funds to Greece. The Greek programmes came to be associated with protracted negotiations, late night deals, and brinkmanship that at times put at risk the integrity of the euro area.³

Each institution was expected to bring its complementary expertise and resources to the discussions. On the European side, the European Commission was effectively in charge of leading the work, but it lacked the experience needed to design and implement stability support programmes (ECA, 2015a). Furthermore, some Member States and market participants felt that the Commission lacked sufficient leverage to enforce common economic and fiscal rules. The Commission also looked to be performing two roles – one as an agent of the Member States and one as an EU institution – raising concerns about possible conflicts of interest (European Parliament, 2013 and Pisani-Ferry et al., 2013). So, the required credibility needed to design financial assistance programmes fell largely upon the IMF, given its near-universal membership and close to seven decades of lending to sovereigns in balance of payments difficulties. At the advent of the Greek crisis the IMF was regarded as having a critical, if not a leading role, in designing a programme for Greece (for more, see Box 1.3). The ECB was also brought in to provide its advice and expertise in the areas relevant for monetary policy and the financial stability of the euro area.

Establishment of EFSF and ESM

In parallel with the first Greek programme, the European Commission and the Member States worked on several initiatives to strengthen the euro area economic policy coordination mechanism and build a firewall against financial instability. The currency union members established, in mid-2010, the EFSF as a temporary crisis resolution mechanism, which by end-2012 was succeeded by the ESM as the permanent rescue fund for the euro area. The EFSF first financed Ireland at the beginning of 2011 and subsequently extended assistance to Portugal.

Box 1.3: IMF participation in the Greek programmes

European institutions needed IMF engagement to enhance credibility, but difficulties in securing IMF participation in the ESM programme sprang from divergence in operating environments and economic and policy assumptions. The IMF demonstrated substantial flexibility throughout its involvement in the GLF and EFSF programmes for Greece and drew its own important lessons, aiming for a more effective modus operandi with currency unions and Regional Financial Arrangements (RFA) (IMF, 2017b and 2017d). The IMF also contributed important technical assistance to resolving the Greek crisis.

However, the IMF operates in a multilateral environment and follows its own rules and policies, whereas the European institutions' crisis responses had to respect EU rules. This led to protracted programme negotiations and repeated setbacks, notably in the 2015 arrears, which rendered IMF involvement more difficult and increased perceptions among some stakeholders of a lack of even-handedness.

From 2010 to 2014, the IMF disbursed special drawing rights (SDR) of 27.8 billion to Greece under a Stand-by Arrangement (SBA) and an Extended Fund Facility (EFF), with both arrangements facing high implementation and macroeconomic risks (see Table 7.1 in the Technical appendix). The IMF had to introduce a systemic exemption clause to its exceptional access policy to be able to lend to Greece in May 2010, a modification to its lending framework that would also be necessary for two other euro area members.

In the end, it was not able to cover the committed one third of the Greek financing needs that had been its informally agreed share.

Active IMF programme engagement with Greece ended in mid-2014 after EFF went off track, but the IMF continued to support Greek reform efforts with policy advice. Negotiations on a subsequent arrangement took until July 2017 when a new precautionary SBA was agreed in principle.

From June to July 2015, Greece became the first advanced country to run into arrears to the IMF after accumulating SDR 1.6 billion in missed payments (IMF 2015d). The arrears situation was quickly reversed when Greece's European partners arranged bridge financing, but non-European IMF shareholders regarded this development as a serious setback to relations (Spiegel, 2013 and Wroughton et al., 2015).

The IMF did not join financing of the August 2015 ESM programme because of worries about debt sustainability, but the IMF did welcome the Memorandum of Understanding (MoU) between Greece and its European partners agreed that month as an important step forward (IMF, 2017e). The IMF viewed Greek debt as unsustainable and incapable of being restored without further debt relief; this conclusion did not differ when considering either a stock-of-debt assessment or an assessment on debt servicing and gross financing needs. It also did not consider the Eurogroup's policy commitments for eventual debt relief as sufficient. As a percentage of GDP, the debt servicing and gross financing needs assessment later did accord with the IMF's external financing requirements criteria (IMF, 2015c).

The IMF asked the European partners to commit to significant debt relief in the first ESM programme review, with the Greek authorities encouraged to meet policy commitments fully, and the IMF also noted a need to further specify fiscal reforms and other measures necessary to improve confidence in banks.

In May 2016, the IMF accepted that debt relief could not be approved immediately, but depended on Greece meeting programme targets. At that time the IMF regarded a 1.5% of GDP primary surplus target more consistent with growth and political economy realities. However, the European Commission and the ESM felt some countries had successfully achieved a 3.5% surplus in the past.

IMF participation in the ESM programme was, therefore, conditional on further verification of prior actions and on the debt measures necessary to deliver relief needed by the end of the programme (IMF, 2017e). The IMF wanted high-quality measures, notably covering income taxation and pensions, to ensure conditional debt relief would not be blocked should a primary surplus target be missed. After the Greek authorities pre-legislated the income tax and pension measures, the IMF Executive Board approved in principle a precautionary SDR 1.3 billion (€1.6 billion) SBA in July 2017 (IMF 2017c). The arrangement was to become effective once specific, credible assurances on debt relief had been received, but the precautionary SBA lapsed in 2018 without being activated.

The EFSF and ESM were initially seen purely as financing mechanisms, while the crux of programme design and implementation remained with the Troika partners. However, the newly created rescue fund gradually gained a more prominent role in programme work.

The 2010 Deauville Franco-German summit defined debt restructuring involving private investors as the new standard for euro area stability support. Discussions on alleviating the Greek government debt burden had started in the summer of 2011 because confidence in achieving a swift three-year adjustment envisaged under the GLF programme had evaporated. The total financial assistance available was judged insufficient to alleviate the adjustment needs. Official financing was as large as politically feasible without private sector participation (IMF, 2015b; IMF IEO, 2016; and Xafa, 2014).

1.4. EFSF and ESM financial assistance

The Greek economy's structural weaknesses were more severe than originally estimated. Additional financing was needed, and the four-year IMF EFF and three-year EFSF programmes were agreed in February and March 2012.

The EFSF provided the bulk of the programme financing, in which a total of €141.9 billion was disbursed, again with a contribution from the IMF. Banks and other investors contributed by writing down part of the value of their debt holdings in the so-called PSI. In line with the Deauville commitments, this debt restructuring was a precondition for the crisis management programme. The EFSF established several facilities to support the PSI operation and subsequently financed the recapitalisation of Greek banks that had incurred losses from their bond holdings and the protracted recession.

In parallel, after the EFSF's firepower failed to fully calm the markets, the euro area member states finalised agreement to set up in late 2012 the ESM as a permanent crisis resolution mechanism with the combined lending capacity of the EFSF and ESM at €700 billion. The banking union project was also formulated in this period.

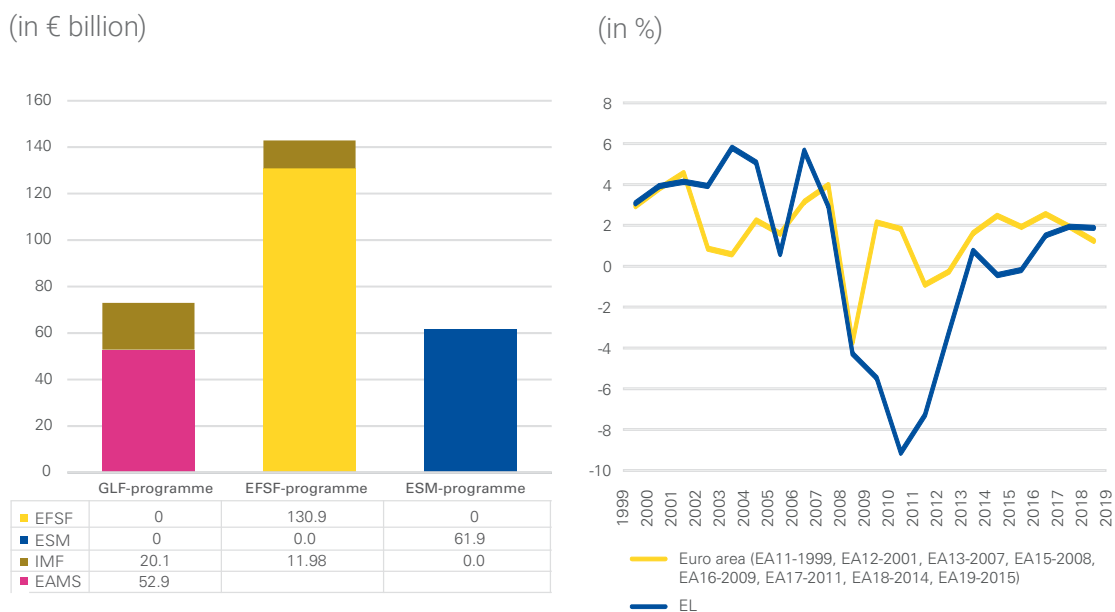
With a protracted economic recession and steadily rising unemployment, Greece requested further relief in the second half of 2012. The Eurogroup decided to reduce loan interest rates, extend maturities, and defer interest rate payments. The EFSF financed a debt buyback operation to improve the Greek debt position, after the ECB had announced its commitment to do "whatever it takes" to eliminate the heightened market tensions.

The economy started showing timid signs of an incipient recovery in 2014, but the reforms were progressing slowly and their implementation was becoming increasingly difficult. By late 2014, the EFSF programme was headed off track. Reform fatigue was settling in after four years of adjustment and a steep recession in which the equivalent of one quarter of output had been lost since 2009. As shown by subsequent evaluation reports, including the first ESM evaluation report (ESM, 2017a), the large number of reforms demanded of a country with weak administrative capacity, and a frontloaded fiscal adjustment via cuts in expenditure, further prolonged the recession. It was becoming apparent that the projections for recovery embedded in the GLF and EFSF programmes would not materialise as Greece's public debt-to-GDP ratio continued to rise. The fiscal multipliers had been underestimated. Growth-friendly structural reforms were difficult to design and implement due to the weak administrative capacity and strong vested interests in Greece. Fragile recovery in the broader euro area provided little external demand. By late 2014, Greece had entered into another political cycle and concerns about possible Grexit arose.

Through the summer of 2015, a dramatic series of events saw Greece enter into arrears on its IMF payments and teeter at the precipice of an exit from the euro area (Dendrinou and Varvitsioti, 2019). On 30 June 2015, after months of vetting its options, Greek authorities requested a new assistance programme stating that the new loan would “be used exclusively to meet the debt service payments of Greece’s external and internal debt obligations,” and also asked for a re-profiling of the EFSF loans. The ESM programme was agreed in August 2015, and the IMF endorsed “in principle” a precautionary SBA programme in July 2017, which was never activated. Greece formally exited the ESM financial assistance in August 2018 after eight years under stability support. Figure 1.1 shows the institutional shares of the Greek programme financing in 2010–2018.

The GLF and EFSF loans initially carried high costs, but the European partners modified the loan terms on several occasions. Loan margins were cut, grace periods were added for interest payments, and maturities were extended well beyond those of other available financing. The EFSF/ESM assistance consisted of a range of loans disbursed in several tranches during the programme periods. According to the statutes, assistance is strictly subject to conditionality, and each disbursement decision by the BoD – or the Eurogroup Working Group, in the case of the EFSF – is subject to a compliance assessment. Disbursements were treated as separate loan agreements with varying financial conditions, including margins and maturities. Ultimately, the members decided that the maximum weighted average maturity could reach 42.5 years for the EFSF loans and 32.5 years for the ESM loans.

Figure 1.1
Greek financial assistance, disbursed amounts by programme and real GDP growth



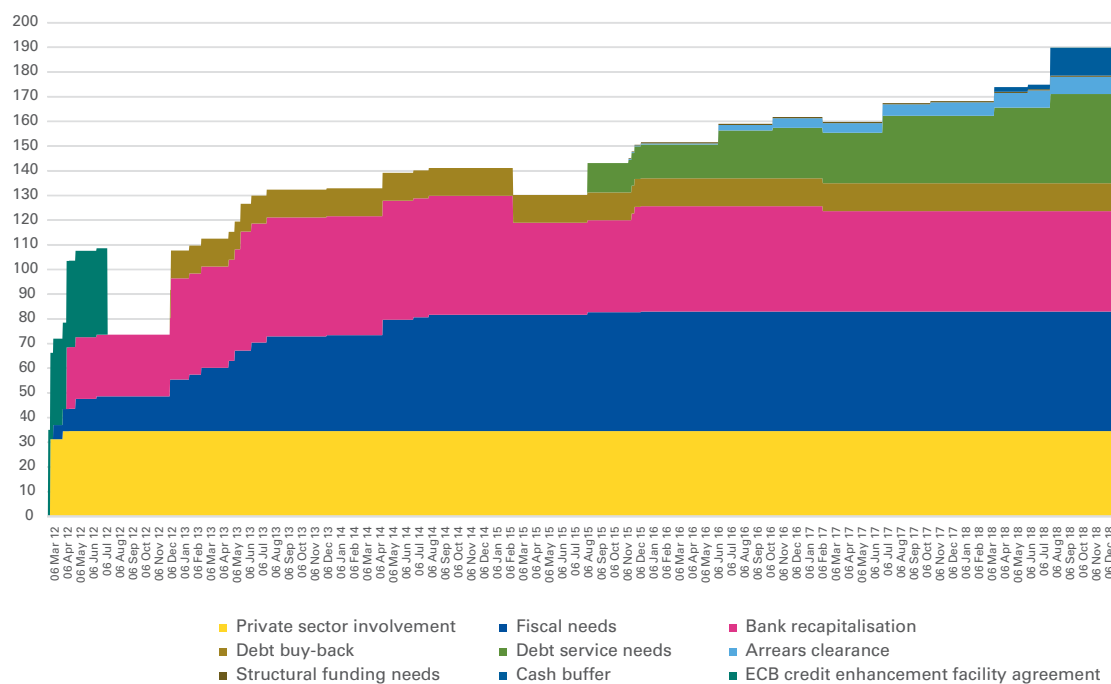
Notes: IMF amounts are approximate totals of special drawing rights (SDR) in euro terms. EAMS: euro area member states’ bilateral loans to Greece.
 Sources: ESM, European Commission, IMF

Source: Eurostat

The key programme objectives evolved as well. While the focus remained on financial stability and fiscal sustainability, the ESM programme paid more attention to ensuring sustainability and social protection, as well as a properly functioning Greek banking system. Even though the financing was meant to be used for debt servicing, the attached conditionality aimed to address the underlying weaknesses of the Greek economy more broadly. Chapter 3 discusses the relevance of programme objectives and key strategies to address these objectives. Given the exceptionally large imbalances and implementation challenges, the Greek programme strategies imposed a large number of deliverables, often with tight deadlines. Chapters 5 and 7 discuss the implications of the way in which conditionality was defined.

Across the programme period, the EFSF and ESM lent over €200 billion to Greece. These funds were primarily channelled to support debt restructuring and service, re-build the banking sector, and provide budget support for the state to maintain public services. A sustainable fiscal position was intended to facilitate the recovery of sovereign market access (Figure 1.2).

Figure 1.2
Use of outstanding EFSF and ESM funds across the programmes
 (in € billion)

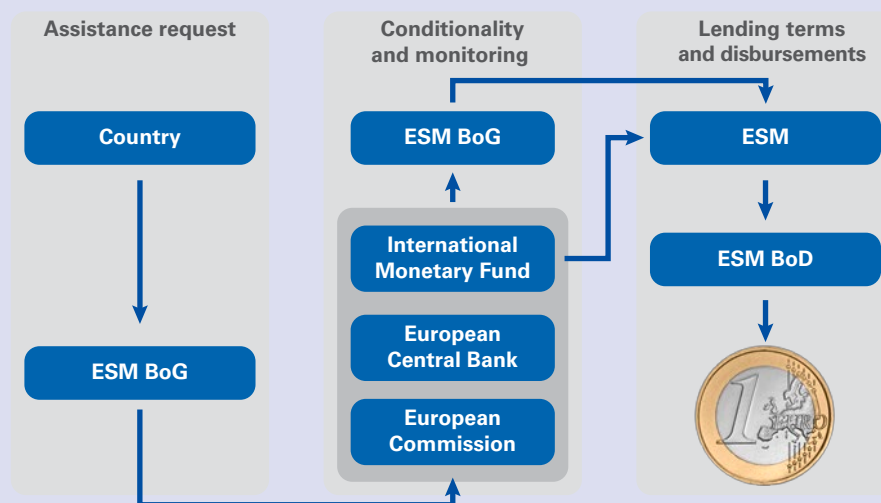


Notes: To calculate the outstanding amount the following amounts were subtracted from overall disbursed funds: this final amount is derived by excluding the undisbursed amount of €0.95 billion of the PSI facility as well as €10.93 billion "Bank Recapitalisation Instalment" and €1.81 billion instalment of the Master Financial Assistance Facility Agreement, whose availability periods have ended and are therefore no longer available and a repayment of €2.03 billion due to a contractual obligation following sale of assets of recapitalised National Bank of Greece.

Source: ESM programme database 2020

Box 1.4: Governance framework

Governance structure of ESM programmes



Source: ESM

The ESM is governed by euro area finance ministers who form the ESM BoG; each minister nominates a member for the BoD. These bodies take formal decisions on financial assistance and institutional issues. The ESM Treaty assigns certain policy tasks to peer institutions, and decisions are often discussed in the Eurogroup, which is an informal euro area formation of the Ecofin council of the EU finance ministers.

The ESM provides stability support via financial assistance programmes that are conducted jointly with the partner institutions. As illustrated in the Figure, in addition to the Managing Director, the ESM Treaty assigns tasks to the BoG, the BoD, the European Commission, the ECB, and wherever possible, the IMF. The BoG takes key decisions by unanimity. These include approving programmes, changing the authorised capital stock or the list of instruments, and admitting new ESM Members. It takes other decisions by qualified majority. The BoD takes decisions, mostly by qualified majority, on topics such as disbursements of financial assistance or the adoption of instrument guidelines. The most important tasks assigned to the European Commission are to negotiate conditionality with programme countries, and to assess risks to financial stability, debt sustainability and potential financing needs prior to programme approval by the BoG, and to monitor and report on compliance. The ECB is tasked with liaising with the Commission on some of these activities, and where possible the IMF is involved as well. The Managing Director conducts the current business of the ESM. In practice, several national parliaments also play a significant role in decision-making processes, based on different domestic arrangements (Kreiling, 2019).

The institutional framework governing the cooperation between the EFSF/ESM and partner institutions worked reasonably well but its complexity caused some coordination difficulties. The joint nature of the programmes required a strong alignment of objectives among the partner institutions. This posed challenges for all the Institutions given their diverse mandates and accountability to different stakeholders (for more, see Chapter 7).

Both the ESM Treaty and EU law contain provisions to ensure the consistency of ESM conditionality with the measures of economic policy coordination provided for in the EU Treaties. Article 13 of the ESM Treaty stipulates that “The [Memorandum of Understanding] MoU shall be fully consistent with the measures of economic policy coordination provided for in the [Treaty on the Functioning of the European Union] TFEU, in particular with any act of European Union law, including any opinion, warning, recommendation or decision addressed to the ESM Member concerned.” In parallel, EU Regulation 472/2013, reflecting the role of the Commission as guardian of the Treaties, provides that “The Commission shall ensure that the memorandum of understanding signed by the Commission on behalf of the ESM [...] is fully consistent with the macroeconomic adjustment programme approved by the Council.”

The compatibility and complementarity of EU and ESM law was confirmed by the Court of Justice of the EU in its Pringle judgment, where the Court held that “the conditionality prescribed [...] is intended to ensure that the activities of the ESM are compatible with, inter alia, Article 125 TFEU and the coordinating

measures adopted by the Union [...] It is apparent [...] that the Commission is to check, before signing the MoU defining the conditionality attached to stability support, that the conditions imposed are fully consistent with the measures of economic policy coordination”, and that “the MoU which is to be negotiated with the Member State requesting stability support must be fully consistent with European Union law and, in particular, with the measures taken by the Union in the area of coordination of the economic policies of the Member States. Accordingly, the conditions to be attached to the grant of such support to a Member State are, at least in part, determined by European Union law.” (judgment of 27 November 2012, Pringle, C-370/12, ECLI:EU:C:2012:756, paragraphs 111, 112, and 174).

Box 1.5: ESM’s technical role in the Greek programmes

The ESM provides financial assistance in partnership with the other institutions. Each Institution has its own responsibilities in line with its mandate and core competences. As the newest partner, the ESM’s role in the Greek programmes gradually increased over time. During the second programme, the EFSF/ESM was responsible for mobilising funding for the stability support provided under appropriate conditionality defined by the European Commission in cooperation with the other partner institutions. The ESM Early Warning System provided the formal framework for the assessment of programmes’ financial and macroeconomic risks during the programme and under post-programme monitoring (for more, see Chapter 7).

The ESM became active in areas where its close interaction with financial markets brought additional insights. In particular, the ESM was involved in the assessment of the gross financing needs and sovereign liquidity needs as well as in the DSA. More specifically, the assessment of the Member’s liquidity position, sovereign bond market access, and debt issuance plans, including potential risks stemming from the structure of outstanding debt and interest rate developments, helped inform decision making (for more, see Chapters 5, 6, and 7).

Moreover, the ESM was involved in planning and implementing measures needed to support the sustainability of Greek debt, known as the short- and medium-term debt relief measures, and helped assess the effects of the measures. The ESM also provided technical assistance to the Greek debt management office (for more, see Chapters 5 and 6).

Regarding public sector management, the ESM contributed to the design and strengthening of public asset management, including privatisations, through interactions with the HCAP (for more, see Chapter 3). The ESM also financed the public sector arrears clearing programme that aimed to ease the liquidity situation of the suppliers to various public entities, including hospitals (for more, see Chapter 4).

The EFSF/ESM’s role in the financial sector reforms concentrated on governance issues and funding bank recapitalisation needs, and contributing to the broader financial sector policy agenda. The 2015 reform of the Hellenic Financial Stability Fund (HFSF) assigned new roles to the ESM. First, it appointed one independent member in the selection panel, which in turn selects the members of the HFSF executive board and general council. Second, ESM delegates one observer to these two HFSF decision-making bodies (for more, see Chapter 3).

Beyond these technical strands, the EFSF/ESM gained a more prominent role in overall policy and strategy discussions through the Eurogroup and Eurogroup Working Group policy discussions, and public appearances (for more, see Chapter 7).

2. Approach and methodology

2.1. General approach

A multidisciplinary team prepared the evaluation using a mixed-methods approach. This involves the verification of collected evidence against various sources together with quantitative and qualitative data analyses.

The analysis is based on various data sources. The team reviewed data and document libraries, interviewed external and internal parties, and carried out two surveys with various stakeholders between September and December 2019. One survey consulted the members of the ESM BoG and BoD, and the EFSF BoD, and their supporting staff, while the other collected ESM country experts' experience on the Greek programmes. Additionally, a consultant conducted an online and social media study. With the objective of meeting good practice for stakeholder engagement, the evaluation team conducted 123 semi-structured interviews, of which 119 were documented in detail: 98 were transcribed based on an audio recording and 21 were summarised. For the four remaining interviews, only a brief outline was drawn. The team also accessed some interviews conducted for the first ESM evaluation (Figure 2.1).

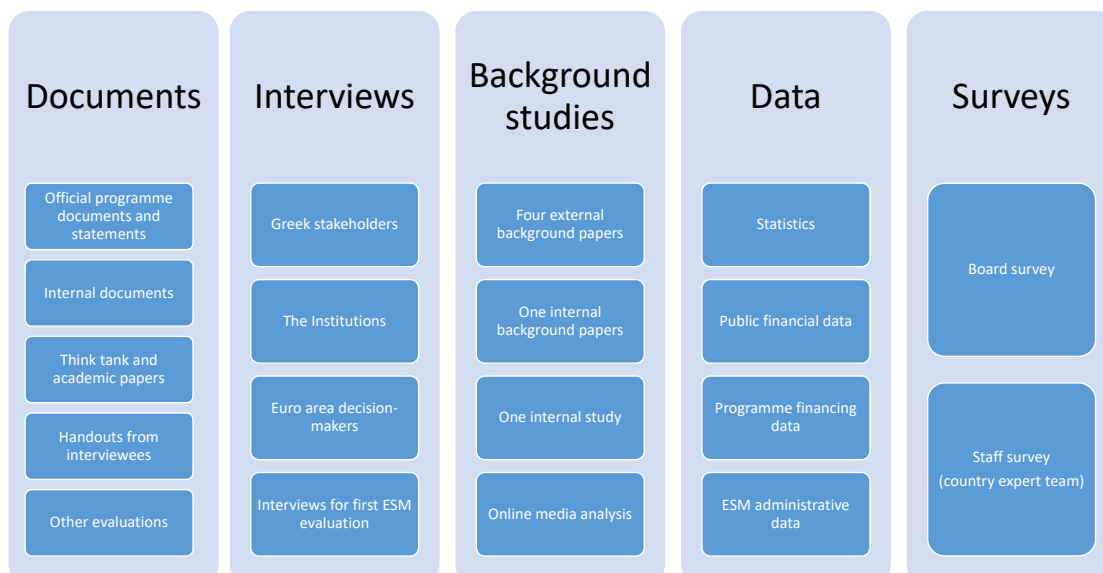
Several rounds of consultation were key for report production. The High-Level Independent Evaluator participated in interviews with other high-level officials, commented on the work plan, reviewed draft texts and interim assessments, and discussed his draft recommendations with ESM management. External evaluation advisers also guided the team on the completion of the draft report for consultation, and on the evaluation work plan. The team analysed the interview transcripts and summaries using qualitative data analysis software to identify key themes, and triangulated these with available documents and survey results. Draft versions of the evaluation report were subject to consultation with the advisory group, the partner institutions, and the ESM BoD.

The evaluation criteria anchor the analysis. These criteria, which are applied by other international institutions, include: relevance, effectiveness, efficiency, sustainability, and cooperation and partnerships (see definitions in the terms of reference). The team used these criteria to define targeted evaluation questions on which to draw conclusions for each theme stemming from the terms of reference (for more, see Box 1.1). The technical appendix documents the detailed working processes.

Additional background studies support the analysis. The evaluation team procured five background papers from different authors as further input to the evaluation report. The papers have been published in parallel with the evaluation report as ESM Discussion Papers and are referred to in various parts of the report. Benny Andersen analysed the path that brought Greece to the crisis; Gong Cheng assessed the 2012 PSI linked to the EFSF programme, and Srichander Ramaswamy examined Greek banks' capacity to finance growth. These are complemented by an analytical paper by the Organisation for Economic Co-operation and Development (OECD) on long-term and inclusive

aspects of programme measures, and an ESM Working Paper on outward bond market spillovers from Greece illustrating the interdependencies among euro area countries. These background papers represent only the views of their authors.

Figure 2.1
Data sources for the evaluation



Source: ESM

Part of the feedback received from the Institutions during the consultation on the draft report referred to the evaluation’s anchoring to the concept of a partnership that supported the recipient member. Given the ESM’s Treaty framework that in many ways leans on the powers and capacities of the other Institutions, the conduct of programme assistance naturally resembles a partnership of complementary actors. From the ESM’s governance perspective, it was crucial to consider the relevance and effectiveness of this partnership and whether there is room for further improvement. Recommendations will point to some potential strands of follow-up work. Since the evaluation did not assess the performance of the individual institutions, what matters most from the standpoint of this exercise is to provide useful ideas to those that will take decisions in a crisis, so that the partnership delivers timely and effective stability support at a reasonable cost, while addressing the most acute problems.

Effective cooperation among the Institutions is key to delivering efficient financial assistance. As this report goes into print during an unprecedented global crisis caused by the Covid-19 pandemic, the current economic and institutional context confirms that focus on the common goal of safeguarding euro area financial stability serves as the best guidepost despite possible remaining ambiguities on precise details of the Institutions’ relationships.

Another area of criticism ranged from the breadth of policy areas discussed to limited focus on a specific task or policy area. The High-Level Independent Evaluator and his support team deemed that at this stage of the ESM’s development it was most fruitful to understand key friction points or unexplored opportunities in programme cooperation rather than learn detailed or technical lessons on very specific policy sectors. This approach also made it possible to address the ESM’s interests as a long-term creditor and provide further transparency to the longest programme engagement.

2.2. Intervention logic

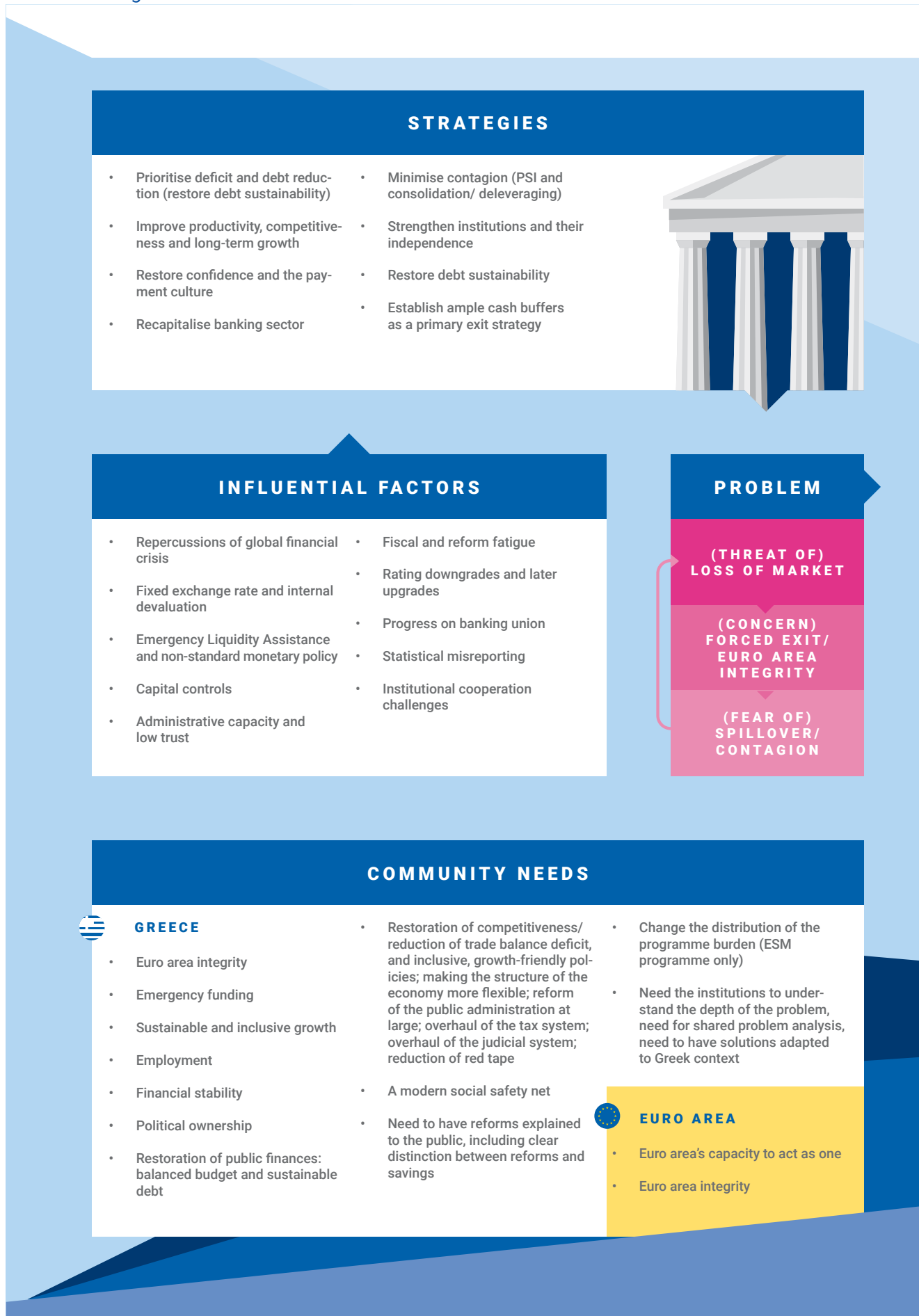
While the EFSF and ESM programmes are legally separate arrangements, this evaluation considers the two programmes as closely linked despite a brief gap in the formal transition from one to the other in 2015. The official programme documents list major programme objectives, the MoUs negotiated by the European Commission that set reform requirements, and the ESM Managing Director proposed the financing, taking into account the Commission’s financing needs assessment and the jointly prepared debt sustainability analysis.⁴

The evaluation approach explored a high-level dissection of the relevant programmes, resulting in a logic model. Programme documents focus mainly on key programme measures and occasionally on programme targets. Programme design documents do not specify in detail the mechanisms or channels through which the agreed measures were thought to contribute to the stated objectives and targets. In their absence, the evaluation team reconstructed a logic framework drawing on various documents and consulted the ESM country expert team for Greece. Figure 2.2 sketches this framework using an adapted Kellogg logic model.

This approach provides structure to the exercise by specifying how the joint activities of the programme partners contributed sequentially to distal changes and the ultimate objectives. Macroeconomic adjustment programmes contain complex parallel pathways, so-called result chains, and feedback loops. Therefore, the model developed should be considered as a simplified analytical framework for the three financial assistance programmes. Macroeconomic and societal dynamics create various lags and links between short- and long-term outcomes that are inherently subject to uncertainty, and are therefore not modelled. Programme changes often cannot be explained in terms of individual contributions and are therefore unattributed to any partner organisation.

The logic model consists of six pillars. The main elements of this model are the core problems to be solved, programme outcomes – both intended and unintended – in various timeframes, key strategies to address the problem, and contextual factors affecting them. In addition, the programmes faced broader expectations or community needs that affected the different stakeholders’ assessment of programme success. The relevance chapter (Chapter 3) describes the specific and overall goals of the programmes and outlines underlying assumptions and various programme strategies to address the problem. The effectiveness chapter (Chapter 4) discusses the programme outcomes and the most important contextual factors. An assessment on the efficient use of ESM resources is presented in the efficiency chapter (Chapter 5). Chapter 6 presents contributions towards the sought long-term impacts. A dedicated chapter presents an analysis on the relevance and effectiveness of the programme partners’ collaboration towards the achievement of the strategic programme objectives (Chapter 7). A more extensive description of the intervention logic can be found in the technical appendix.

Figure 2.2
Intervention logic



ASSUMPTIONS

- The fiscal policy mix works, also in the currency union. Integrity of the euro area is a red line
- A three-year programme is sufficient/ no follow-up programme is needed
- PSI sets investor incentives right
- National ownership and administrative capacity were initially assumed to be present, and later believed to be unachievable, which led to the next assumption namely that:
- Granularity of conditionality improves implementation
- Recapitalised banking sector would promote growth



IMMEDIATE OUTCOMES	INTERMEDIATE OUTCOMES	IMPACT
<ul style="list-style-type: none"> • Deep reduction of expenditure and increased public revenue • Labour market and product market reforms • GFN covered by financial assistance (disbursements, PSI sweetener, and recap in kind) • Banks recapitalised and restructured • Stronger institutions 	<ul style="list-style-type: none"> • Balanced budget • Internal devaluation • Increased confidence and sustained market access • Asset quality improved and credit activity restarted • Fairer burden sharing and administrative capacity 	<ul style="list-style-type: none"> • Sustainable public finances • Restored competitiveness and growth • Public debt sustainability • Financial stability restored • Societal support for transformation • Quality of life sustainably improved
<ul style="list-style-type: none"> • Establishment of firewalls 	<ul style="list-style-type: none"> • Limited contagion, and capacity to act as one 	<ul style="list-style-type: none"> • Integrity of euro area
<ul style="list-style-type: none"> • Deep recession: bankruptcies, unemployment and poverty increased • Public investment drought, damaged health care and education systems 		<ul style="list-style-type: none"> • Loan repayment



3. Assessment – Relevance

Relevance, as an evaluation criterion, assesses the extent to which the objectives of an intervention are consistent with a country’s needs, institutional mandates, partners’ policies and, where appropriate, global priorities, and logic. This involves a thorough analysis of the programme’s objectives, the consistency of its design with final outcomes, and its adaptability to evolving needs. In the Greek programmes, the assessment also needs to take into account the evolution of the institutional framework within which programme lending took place, notably the creation of the EFSF and then the ESM, and consequent changes to mandates and decision-making.

Box 3.1: Key questions of the relevance assessment

- The contribution of the Greek programmes to euro area financial stability and integrity
- The appropriateness of programme design, given the country’s needs
- The degree to which key objectives and underlying assumptions were realistic, given prevailing circumstances
- The influence of banking sector issues on programme design
- The extent to which the focus on different strategies shifted during the evaluation timeframe

3.1. Strategic objectives

Initially, the overall strategic objectives were twofold: firstly, to preserve the financial stability of the euro area; and secondly, to restore financial stability in Greece, with the euro area financial stability objective striving to preserve euro area integrity, contain spillovers from Greece to other countries, and protect the euro area banking system. Then, during the ESM programme, another strategic objective for Greece made its way in – the need to pursue sustainable inclusive growth, and social justice.⁵

Euro area financial stability was emphasised over Greece’s objectives. Euro area political leaders regarded the preservation of euro area integrity as paramount, but close linkages between the currency area and Greece’s financial stability meant changes in one quickly affected the other.

Non-intervention would likely have proved costlier for all stakeholders. Before assessing the relevance of the financial assistance programme strategies in more detail, the intervention as a whole should first be assessed by comparing it to the plausible or likely effects of non-intervention (counterfactual). Many scholars argue that a euro area break-up, together with a Greek default, would have had profound consequences for welfare in the euro area including Greece, and would have come at a much higher cost – financial and societal – than the cost of intervention.⁶ In that sense, financial assistance to Greece was relevant: the ultimate objective was consistent with community needs, institutional mandates, and partners’ and global policies.

The programme documents put forward strategic objectives for the successive Greek adjustment programme framework (Table 3.1). Long-standing financial, economic, and structural weaknesses in Greece led to the country losing access to financial markets. The ensuing possibility of default raised concerns about redenomination risk and contagion to other euro area countries. Decision-makers had to improvise,⁷ because no one had contemplated a crisis spreading from one country to another. Against this backdrop, the main GLF programme objectives were defined.

Table 3.1
Strategic objectives

Strategic objective	Programme strategy	Measure
<ul style="list-style-type: none"> Restore euro area financial stability Restore financial stability in Greece Achieve sustainable inclusive growth 	<ul style="list-style-type: none"> Minimise contagion Prioritise deficit and debt reduction (restore debt sustainability) Improve productivity, competitiveness and long-term growth Strengthen institutions and their independence Restore confidence and payment culture Establish ample cash buffers as a primary exit route 	<ul style="list-style-type: none"> Spending cuts, increased revenue, privatisation, broader tax base Bank consolidation, deleveraging Labour market reform Product market reform Public administration reform, addressing misreporting, increased ownership, recapitalised banking sector, banking governance reform Tax morale, arrears clearance, depositor confidence, debtor moral hazard/strategic defaulting Short- and medium-term debt measures

Source: ESM evaluation team

All Greek economic adjustment programmes aimed at mitigating sovereign risk. The underlying rationale was that by 2009 market access was drastically undermined and thus sovereign risk-premia reflected the high fiscal deficit and rising public debt. The only way to anchor expectations of Greece's solvency was by radically decreasing the risk of default.

The GLF short-term programme objectives aimed to restore confidence and maintain financial stability by containing the Greek government's financing needs through fiscal consolidation, relying on measures that generated public sector expenditure savings and improved revenue-raising capacity. These included policies to ensure fiscal adjustment durability, such as pension system reform and a strengthening of the fiscal framework. The medium-term objectives aspired to improve competitiveness through an ambitious structural reform agenda, while an overarching objective was to durably restore Greece's credibility in the eyes of private investors by improving data reporting and policy implementation, deemed critical for the programme's success because Greece needed to raise €60 billion in financial markets in 2014 and 2015.⁸

The main objectives of the EFSF programme strategy were essentially the same,⁹ but the growth-enhancing structural reform agenda gained prominence in the overall implementation of the programme, while debt restructuring and higher official financing were meant to support a slower fiscal adjustment and more gradual privatisation. The fiscal targets for 2012 and the following years were revised to counter unfavourable macroeconomic developments while ensuring sufficient progress towards the objective of a 120% debt-to-GDP ratio by 2020.¹⁰

The key ESM programme objectives were: to restore fiscal sustainability; to safeguard financial stability; to enhance competitiveness and growth; and to modernise the state and the public administration. The plan also aimed to address specific risks emanating from Greece and affecting euro area financial stability, thereby rapidly re-establishing a sound and sustainable economic and financial position in Greece, and so restoring its capacity to fully finance itself in international financial markets.¹¹

The strategic objectives chosen were broadly in line with the EFSF/ESM mandates and appropriate to address Greek needs. Greece suffered from numerous high sovereign vulnerabilities that threatened its external sustainability and thereby posed contagion risks to the broader euro area (Figure 3.1). In particular, fiscal and institutional aspects required deep reform when the crisis broke.¹² Also Greek pension expenditure as a percentage of GDP was relatively high and needed to be addressed urgently.

Figure 3.1
Evolution of sovereign vulnerability

	09Q4	10Q4	11Q4	12Q4	13Q4	14Q4	15Q4	16Q4	17Q4	18Q3	19Q3
Overall vulnerability score	1.7	1.6	1.5	1.6	1.6	1.7	1.8	1.9	2.0	2.0	2.1
1 Government borrowing needs, conditionality, and debt structure	2.3	2.0	2.0	2.0	1.7	1.8	2.0	1.9	2.3	2.0	2.0
2 Economic strength	1.4	1.4	1.4	1.7	1.7	1.8	1.9	2.0	2.0	2.1	1.9
3 Fiscal position	1.1	1.1	1.1	1.6	1.6	2.1	1.8	2.4	2.7	2.6	2.8
4 Financial sector and other contingent liabilities	1.3	1.3	1.2	1.3	1.5	1.5	1.5	1.5	1.7	1.8	1.8
5 Institutional parameters	1.2	1.0	1.0	1.0	1.0	1.3	1.3	1.3	1.3	1.3	1.5
6 Private leverage, credit and real estate	2.5	2.3	2.3	1.8	2.1	1.6	2.1	2.1	2.1	2.1	2.5
Score	1.0 to 2.0		2.0 to 2.5		2.5 to 3.0		3.0 to 4.0				
Vulnerability	High		Elevated		Moderate		Low				

Note: We visualise Q3 for 2018 and 2019 as the timings show programme exit and the end of the evaluation period.
Source: ESM

Conducting the Greek programmes became essentially a political process...

The programmes addressed a euro area-wide problem so their legitimacy and relevance needed to be measured at this scale. The crisis imposed profound consequences on Greece but also across the euro area, prompting a discussion on where legitimacy lay (Ioannidis, 2016), and requiring member states to develop capacities to act together.¹³

...which called into question whether financial stability needed euro area integrity, and under what conditions countries could participate in the currency area.

Greece adopted the euro despite the fact that it did not fulfil the entry criteria (Andersen, 2020). At that time it was not clear what cost members were prepared to incur to preserve Greece's position within the currency area. In the early programme phases the view that Grexit could happen, and that the euro area integrity was not irreversible, raised concerns by itself as well as because other countries could face an exit, too. When programme outcomes disappointed, public and political support for Grexit emerged in some areas. The Eurogroup never had a mandate to discuss such an exit but eventually it was deliberated upon by the leaders,¹⁴ and confirmed that it was undesirable to allow any exit – even if temporary.

The ESM programme embraced efforts to achieve sustainable inclusive growth.

Objectives were modified gradually after a larger-than-expected initial output decline and as more onerous social costs emerged. The first GLF programme review already included plans for a means-tested minimum guaranteed income to protect the most vulnerable;¹⁵ but significant progress was only made under the ESM programme which established inclusive growth as a strategic objective to mitigate the increasingly high social costs.

Debt sustainability discussions moved from a stock to a flow concept.

This shift represented a major change from the GLF programme within which the Institutions mainly targeted the debt stock and employed debt-to-GDP measures to assess a country's position. During the ESM programme, targets focused on the adequacy of gross financing needs (GFN), justifying the use of this comprehensive flow metric because funding shortages occur when a mismatch arises between the GFN and available financing sources; the larger the GFN, the harder it becomes for the sovereign to fill the gap. Large debt stocks could signal solvency problems, but tuning debt management towards GFN would safeguard a debtor's ability to cover forthcoming payment obligations.

3.2. Programme strategies

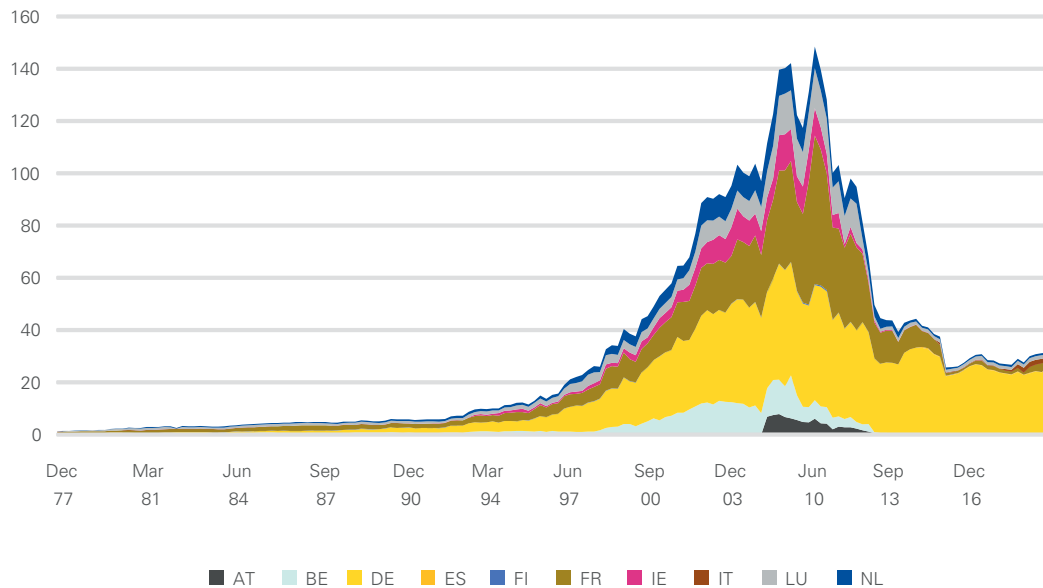
Minimise contagion

The impact of any negative spillovers from Greece on other euro area countries would have been even more substantial without financial assistance.

Financial spillovers happen mostly through capital market and banking channels. The high likelihood of a credit event in 2010 inhibited the efficient functioning of the sovereign bond markets (Calice, 2012) and contributed to funding difficulties for several euro area sovereigns. Box 3.2 summarises how negative sovereign bond market spillovers spread from Greece to other euro area countries in various phases during the crisis. The impaired sovereign bond market consequently inhibited the financial system's ability to play a growth-supporting role for the euro area economy, particularly in Greece.

Holdings of Greek assets on bank balance sheets in other European countries presented another contagion channel. Given the exposure of euro area banks to Greek residents at end-2009 (Figure 3.2), the impact of the sovereign crisis in Greece would have spread financial instability across the euro area, with German and French banks particularly exposed to risk. Therefore, measures aimed at mitigating any repercussions were necessary to preserve financial stability across the monetary union.

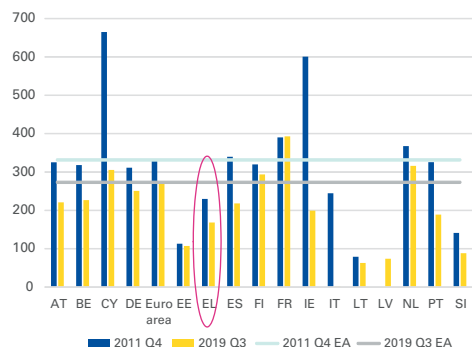
Figure 3.2
Euro area bank exposures to Greek residents
(in USD billion)



Source: Bank for International Settlements

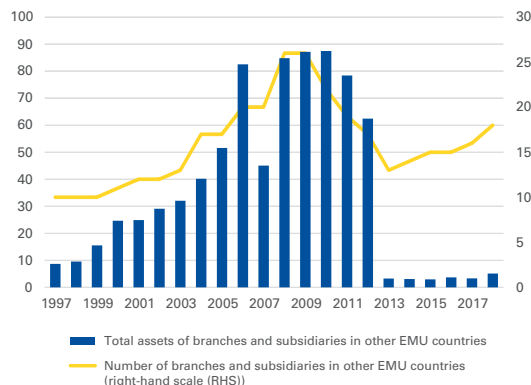
Consolidating Greek banks contributed to limiting cross-border contagion and an orderly wind-down of non-viable institutions.¹⁶ Funds had to be allocated to consolidate the Greek banking sector even though the banking system was not large in terms of the country's GDP (Figure 3.3). This action was crucial to wind down non-viable, less systemically important institutions in an orderly way. Banks operating business models that the Bank of Greece as supervisor considered unsustainable were resolved within a new bank resolution framework, and recapitalised banks were obliged to reduce international operations under the restructuring plans (Figure 3.4) to reduce the risk of cross-border contagion.

Figure 3.3
Total assets to GDP
 (in %)



Note: Luxembourg and Malta were removed from the chart as outliers given the size of their banking sectors.
 Sources: ECB, Eurostat, ESM calculations

Figure 3.4
Cross-border activity of Greek banks
 (left-hand axis in € billion, right-hand axis in number of units)



Source: Bank of Greece

Box 3.2: Bond market spillovers from Greece

The systemic importance of a country is a crucial component in the decision to provide official sector assistance, particularly when a country accessed financial support over a prolonged period. The risks from the Greek crisis channelled to euro area integrity among other things through the sovereign spreads of other countries, when news related to a Greek programme reached markets and were accounted for in investors' expectations.

Significant spillovers emerged in the run-up to each of the three Greek financial assistance programmes. Changes in the risks related to the Greek sovereign bond returns rapidly translated into Irish, Italian, Portuguese, and Spanish sovereign bond returns. The value of these findings lies mainly in structural interpretation obtained by relating the changes in sovereign bond spreads of five sovereigns to a newly developed Greek news event study database. Clancy et al. (2020) confirms that negative news on a relatively small-sized economy, such as Greece, can trigger adverse effects and worsen investors' perception of sovereign risk:

- Before the GLF programme, the Irish and Portuguese markets were consistently the most vulnerable to developments in Greece. The Italian and Spanish markets also remained very exposed at times.
- The enormous market volatility of 2011 and 2012, after the Greek programme went off track, triggered spillover effects which surpassed those of 2015 when Greece was far more decoupled from the rest of the region due to the political events in the country.
- In comparison, the overall level of the contagion effect was dramatically weaker before the Greek ESM programme in 2015 than before the GLF programme. At the same time, bond spread volatility was considerable despite the ECB's secondary market interventions. Italy and Portugal were affected most but the spillovers were absorbed quite quickly. The Irish and Spanish exposure to negative effects increased to a similar magnitude when the Greek crisis escalated, before returning to normal just before the enactment of the Greek ESM programme, but the persistence of the stress varied from one market to another. The German market served as a safe haven.

Negative spillovers from the uncertainties around Greek financial assistance also retreated with enhanced euro area structures and the graduation of some countries from financial assistance programmes. Containing spillover effects on sovereign financing costs, i.e. bond spreads, was one of the main driving forces behind the euro area efforts to rescue Greece and enhance the single currency's architecture.

Also other studies, such as the analysis by Hillebrand in the technical appendix, indicate that bond market segmentation changed during the crisis years. Market tiering increased when the Greek PSI was being negotiated, as Austrian, French, and Belgian bond yields moved as a loose block between the EMU periphery and core markets. In the course of the Greek ESM programme, however, these and the other periphery countries gradually decoupled from Greece as spillover risks faded.

Prioritisation of deficit and debt reduction

All the programmes prioritised deficit and debt reduction as the way to restore financial stability and confidence in Greece, including market access.

Fiscal policy under the three economic adjustment programmes targeted the credible closure of previous fiscal imbalances and the stabilisation of the high public debt. The short-term programme objective under the GLF was fiscal consolidation, relying on measures to generate public sector expenditure savings and better revenue-raising capacity. Planned adjustments relied primarily on expenditure cuts equivalent to 7% of GDP over the programme period. The programme intended to frontload consolidation, with difficult measures implemented first, mostly of a structural nature. The programme included fiscal-structural measures such as pension system reform, stronger budgeting and fiscal procedures, and reforms to the tax system and tax administration.

The EFSF programme again focused on fiscal reforms, mostly on the expenditure side, and fiscal-structural reforms.

EFSF programme documents recognised that progress on the fiscal and the external accounts had so far been insufficient, with a cumulative 5.5% fiscal gap identified for 2013 and 2014. The PSI was also to make a significant contribution to programme financing, and implementing growth-enhancing structural reforms was equally prominent. Under the baseline scenario of the DSA, the debt-to-GDP ratio would decline to below 117% in 2020 and below 90% in 2030. Also, programme documents specified that a target to collect €50 billion in privatisation receipts remained viable, although over a much longer horizon than initially envisaged.¹⁷

Under the ESM programme, the agreed fiscal adjustment path aimed to achieve a primary surplus

of -0.25% in 2015, 0.5% in 2016, 1.75% in 2017 and then to reach 3.5% in 2018 and beyond. This would be achieved through a combination of initial fiscal reforms to include the value added tax (VAT) and pension systems, together with an ambitious programme to strengthen tax compliance and fight tax evasion while ensuring adequate protection of vulnerable groups (European Commission, 2015a).

Strong fiscal and fiscal-structural measures were unavoidable,

given that Greece entered the crisis with a 15% twin deficit. This was reflected in the programme strategies. Other sources of programme financing were also targeted, but with limited success. A PSI agreement covering about €197 billion, or 95.7%, of eligible bonds was a prior action to the programme,¹⁸ but evidence suggests that notwithstanding its historic size, the net result of the PSI for the Greek taxpayer (so including PSI-related financing in the EFSF programme¹⁹) was much lower than it could have been because of delays (Cheng, 2020). The privatisation revenue target was deemed unrealistic by all interviewees.

Strengthen institutions and their independence

The Greek economy had to cope with exceptionally weak institutions

(Figure 3.1).²⁰ The GLF programme documents already note that public administration reform was an urgently needed key programme element,²¹ given that the public sector was responsible for many of Greece's problems. However, focus fell more on budget savings from administrative reforms than on a more efficient provision of public goods and services.²² The EFSF programme also aimed to strengthen institutions and their independence, especially revenue administration as the top priority.²³ The ESM programme also featured revenue administration reform prominently,²⁴ alongside reforms to public administration and justice.²⁵

The ESM programme emphasised governance issues concerning the HFSF.

The programme stipulated that HFSF independence would be fully respected when the governance structure was reinforced, to counter any political interference in its management or activities.²⁶ The HFSF governance framework had been reformed following a 2012 capital injection when the HFSF became the major shareholder of the four largest banks. During the ESM programme, further streamlining of bank and HFSF governance was deemed necessary because a rapid rise in NPLs was raising concern about the ability of bank management to cope with mounting distressed assets. The programme introduced procedures to govern the selection and appointment of board members, aiming to ensure the independence of the HFSF and banks from government interference. The European institutions, including the ESM, assumed a larger role in the HFSF's operations, while remuneration policy and other employment conditions were revised to safeguard independence and ensure adequate and relevant HFSF management experience. And to reinforce bank management, the HFSF was empowered to review and change the boards and committees of the banks it controlled, if necessary (for more, see Box 3.3).

Box 3.3: The Hellenic Financial Stability Fund²⁷

The HFSF was created as an independent institution in July 2010. It has administrative and financial autonomy and operates exclusively under the rules of the private economy. Its objective is to contribute to maintaining the stability of the Greek banking system, for the sake of public interest.

The HFSF mandate is manifold. It provides capital support to banks in compliance with EU state aid rules. It monitors and assesses how banks provided with capital support comply with the restructuring plans, and ensures the banks' business autonomy. As a shareholder, HFSF exercises its holding and voting rights, which includes the disposition, in whole or part, of any equity or other financial instruments issued by the banks in which it participates. HFSF also provides loans to the Deposit Insurance Fund for resolution purposes and facilitates the management of non-performing loans.

The HFSF has established two decision-making bodies since 2015. The Executive Board consists of three members, two of whom – including the chief executive officer – have international banking experience and one nominated by the Bank of Greece. Members are selected by the Selection Panel for three years, and the term can be renewed. The Executive Board is responsible for proposing issues to be discussed at the General Council and for implementing the General Council decisions. It also ensures the necessary administrative and operations functions are in place. The Board adopts any decision by majority vote with each member having one vote.

The General Council consists of seven non-executive members. Five of these – including the Chair – must have international experience in banking and finance. The other two members are representatives of the Ministry of Finance and the Bank of Greece. Similar to the Executive Board, members are selected by the Selection Panel for a three-year period. The General Council's main responsibilities include – amongst others – decisions on capital support, the HFSF's general policies and on organisational structures. It appoints the senior management and approves the annual budget, annual report, and the external auditors' report. The chief executive officer is responsible to the General Council for the executing Council decisions. Decisions are taken by majority vote, with each member having one vote.

The Selection Panel comprises of six independent expert members of recognised integrity. Three – including the Chair – are appointed by the European Commission, the ECB and the ESM accordingly. Two other members are chosen by the Ministry of Finance and one by the Bank of Greece. The five institutions mentioned delegate their own observers to the Selection Panel.

The HFSF has one internal committee to oversee the internal audit. The Audit Committee is responsible for recommending the external auditor appointment, and the scope of external audits. It submits its reports to the General Council.

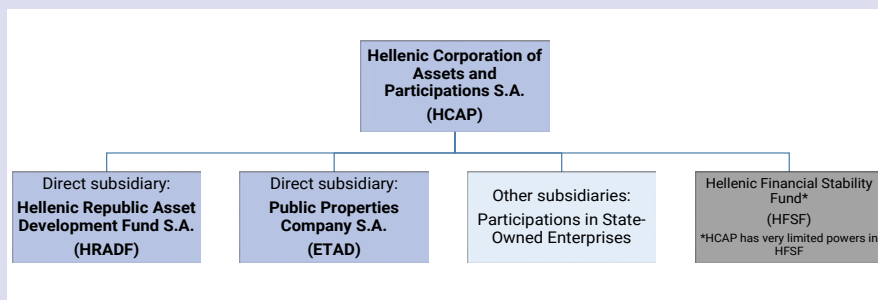
Another institutional aspect of importance for the ESM's approach was strengthening the management of public assets through the HCAP (for more, see Box 3.4). Addressing, for example, the efficiency of public administration and the quality of the judicial system were also important for the ESM's long-term interests (for more, see Chapter 4.3).

Box 3.4: Hellenic Corporation of Assets and Participations – Origins, set-up, and ESM's role

HCAP's origins are in the Euro Summit statement of 12 July 2015* which paved the way for the ESM programme. In their statement, the euro area leaders called for the Greek authorities to develop "a significantly scaled up privatisation programme with improved governance". This entailed transferring the valuable Greek assets to an independent fund that could monetise the assets through privatisation and other means.

The monetisation of the assets was meant to be a source for repayments of the ESM loan and to generate over the life of the programme a targeted total of €50 billion of which €25 billion were meant to be used for the recapitalisation of banks and other assets. Of each remaining euro, 50% was earmarked for decreasing the debt-to-GDP ratio and the remaining 50% for investments. The setting up of this fund was designated as a prior action for the completion of the first programme review, which was eventually fulfilled. The fund was seen as an important step in the ESM programme's privatisation process and in improving the competitiveness of the Greek economy.

The law establishing HCAP was adopted in May 2016. HCAP was organised as a holding company that has as the main subsidiaries under its management the already-existing privatisation agency (HRADF, or in Greek Taiped) and the entity to monetise the considerable real estate assets of the Greek state (State Owned Real Estate Corporation S.A, ETAD).



Source: HCAP website <http://www.hcap.gr/en/structure/>

Establishing HCAP required an innovative governance reform. HCAP's independence was ensured by the creation of a supervisory board whose members are appointed jointly by the Greek authorities and the European institutions, specifically the Commission and the ESM.

The ESM played an important role in providing support for developing a legislative framework based on best international practices to ensure transparent procedures and adequate asset sale pricing, including by adhering to OECD principles and standards on the management of state-owned enterprises.

HCAP is more akin to a private equity fund, even though it also has a privatisation agency as its subsidiary. The important feature is that HCAP can earn dividend income, which allows it to develop a business model and strategy that is not only based on the privatisation of state assets, but also on their development and maximisation of their value.

The process of setting up HCAP took a long time and the privatisation revenue has fallen significantly short of the programme targets. Nevertheless, HCAP recorded a profit for the first time in 2018, and is expected to continue having a positive impact on the Greek economy, including by promoting high standards in corporate governance, oversight, and transparency of reporting standards, and compliance.

*Euro Summit statement, 12 July 2015. Available at: <https://www.consilium.europa.eu/media/20353/20150712-eurosummit-statement-greece.pdf>.

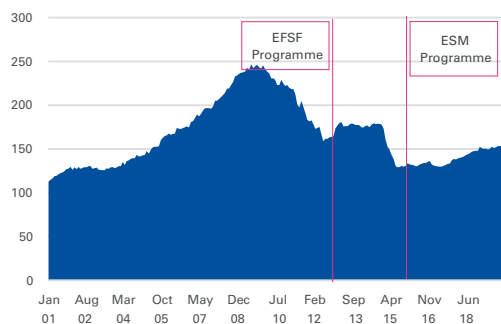
Restore confidence and payment culture

The Institutions recognised that Greek economic performance could be improved with a policy agenda that focused on tax administration, public finance management, and banking sector performance. For the sake of efficiency this section focuses on banking issues while Chapter 4 deals with the other perspectives.

Bank of Greece emergency liquidity support in 2012 was crucial to preserve confidence and eventually financial stability. Escalating political uncertainty in the spring and autumn of 2011 triggered rapid deposit withdrawals, and by March 2012 deposits outstanding had fallen 30% from a June 2009 peak (Figure 3.5). The banking system needed emergency liquidity assistance (ELA) to close the funding gap, restore confidence, and preserve financial stability.

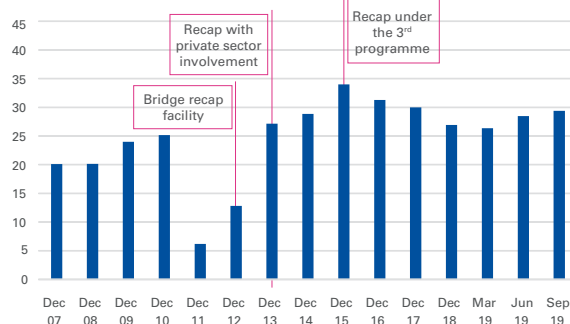
Recapitalisation of systemically important banks under the EFSF programme was necessary to ensure vital financial intermediary functions. The PSI caused major banking sector losses,²⁸ given the large Greek bank domestic government bond holdings. The combined impact of the PSI and a credit-loss projection exercise identified some €40 billion in capital needs across the financial sector. A public funds capital injection was therefore unavoidable in 2012, to ensure banks remained compliant with regulatory capital requirements and to avoid damaging financial stability.

Figure 3.5
Deposits in the Greek financial system
(in € billion)



Source: Bank of Greece

Figure 3.6
Total capital of systemically important Greek banks
(in € billion)

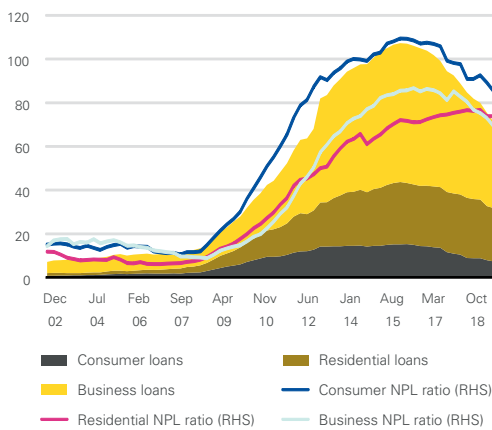


Sources: SNL financial database, FitchConnect, ESM calculations

Revived political uncertainty in early 2015 required more recapitalisations and liquidity support. Uncertainty about a potential Grexit deepened after the January 2015 parliamentary elections and a victory of the Coalition of the Radical Left (Syriza). Bank deposits shrank almost 20% from January 2015 before the new government agreed an economic adjustment programme with the European institutions in July 2015 (Figure 3.5). To stop the deposit outflow, the Bank of Greece introduced capital controls and provided banks with additional ELA. The political uncertainty also adversely impacted the assumptions of credit risk metrics. The redenomination risk increased expected loan portfolio losses, which led to capital shortfalls; the ECB and Bank of Greece assessed bank capital needs as amounting to €25 billion.²⁹

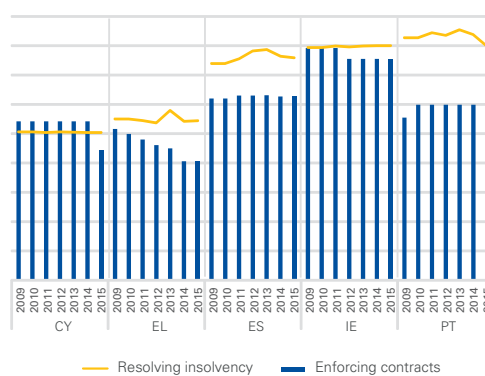
NPLs reached a peak, requiring more comprehensive policy action. The expansion of bad assets on bank balance sheets underlined a deteriorating payment culture and legal framework weaknesses, and banks lacked the capacity to deal with this effectively. By the end of the EFSF programme, it was evident banks could not identify sustainable restructuring solutions for distressed borrowers as NPLs continued to grow (Figure 3.7). Legal system impediments to collateral enforcement (Figure 3.8) meant the number of viable borrowers refusing to meet debt obligations – strategic defaulters – had reached a critical level: Asimakopoulos et al. (2016) identified one out of six firms as strategic defaulters in 2015. A more comprehensive approach to resolve the NPL problem was vital to preserve financial stability and restore the capacity of banks to support economic growth.

Figure 3.7
Non-performing loans in the Greek banking system
(left-hand axis in € billion, right-hand axis in %)



Source: Bank of Greece

Figure 3.8
World Bank Doing Business scores on 'Enforcing contracts' and 'Resolving insolvency'



Source: World Bank Doing Business Indicator

The ESM financial sector programme had a broader scope to foster financial stability. It was structured around four pillars: normalising liquidity and payment conditions and strengthening capital; addressing NPLs; enhancing governance of the banks and the HFSF; and promoting awareness and financial literacy of borrowers.³⁰ The resolution of NPLs received more emphasis because the stocks of non-performing assets were increasing rapidly.

Changing the focus of the programmes was crucial to dampen any further accumulation of NPLs. The EFSF programme centred on the recapitalisation and resolution of banks as well as streamlining the HFSF governance structure, but the ESM programme put more emphasis on resolving NPLs and improving the payment culture, switching towards this policy area because of the increasing NPL dynamic.

Ample cash buffers feature as primary exit strategy

Exit discussions only started when the programme expiry approached. As identified in the first evaluation report,³¹ exit strategies were not formulated explicitly in the initial plans and exit discussions tended to start only when the arrangement's expiry loomed. The Greek ESM programme was no exception and explanations mirrored those in other country cases. Towards any

programme end, the country involved needs to regain market access for the arrangement to conclude successfully. One possibility is to ask for a precautionary credit line providing assurance to investors. However, as already noted in the first ESM evaluation report, countries may perceive that this has a negative signalling effect for investors as it may question their financial soundness. For the same reason, creditor countries may face political questions and parliamentary inquiries in supporting such a request. This meant an exit strategy based on a precautionary instrument might not be considered politically feasible, although Greece had not created a track record of renewed issuance on the international capital markets before the completion of the ESM programme. Against that background, the ESM Boards agreed to disburse a large cash buffer, as in other financial assistance programmes. This negatively affected post-programme reform incentives in Greece, and contributed to reform reversals in some areas. Some interlocutors argued that a large cash buffer allowed a modification of pension reforms.

3.3. Was something fundamentally wrong or missing?

The ESM lacked a pre-designed framework to define the Greek programme strategic objectives. The early phases of the Greek programmes emerged at a time of crisis so no documented framework defined the strategic objectives. However, later, euro area decision-makers had more control, and better defined strategic objectives emerged to guide the implementation of adjustment measures. Nevertheless, the euro area still lacks a structure or pre-agreed framework to define strategic objectives for future assistance programmes.

Better outcomes could have been achieved by paying closer attention to lessons already learnt before the start of the GLF programme. With the benefit of hindsight from previous evaluations of other crisis cases, a recognised feature that could have been partly avoided was optimism bias in programme design. The IMF's Independent Evaluation Office (2003a) had already signalled that "growth optimism, and especially the reluctance to forecast downturns in programs, has many causes, including especially the understandable desire of both the IMF and the authorities to present a relatively upbeat recovery scenario. However, this has important implications for program design because it understates potential risks and preempts a systematic discussion of the appropriate role of fiscal policy in the event of a significant economic downturn".

Similarly, lessons had been learned about macro-critical structural reforms in programme conditionality and structural reforms linked directly to domestic and external sustainability. Focusing reforms on macro-critical areas is usually essential to restore market confidence, as demonstrated by the Asian crisis: "The crisis should not be used as an opportunity to seek a long agenda of reforms just because leverage is high, irrespective of how justifiable they may be on merits. This should be the approach even if reformist groups within the government are keen to use the leverage of the programme to push reforms. When significant distortions are known to exist, and the government is committed to reform, laying out a roadmap for these reforms as an indicative direction by the government is appropriate, but these measures do not need to be the focus of IMF conditionality. The principle of parsimony should guide IMF conditionality in such situations" (IMF IEO, 2003b).³²

As an ex ante social impact assessment was done only late in the process, programme design took insufficient account of potential evidence on the social impact of adjustment policies. In its 2014 political guidelines,³³ the

Juncker Commission prepared a social impact assessment for the ESM's programme for Greece (European Commission, 2015c), but evidence from the evaluation suggests it was superficial. The World Bank's technical assistance in helping design and implement the social protection measures established in the programme conditionality was regarded as pertinent and appreciated by the Greek authorities. Awareness started to emerge during the EFSF programme about the usefulness of World Bank expertise when covering gaps in reform implementation; an even earlier involvement on such issues would have been helpful. The first ESM evaluation highlighted the structural weaknesses,³⁴ and there is evidence that the lessons would have been valid for the Greek programmes.

Financial assistance did address some of Greece's most immediate needs but insufficient attention was paid to the social needs of the population (for more, see Box 3.5). A broad range of interviewees said the programme design did not advance the structural reform agenda enough in all areas. The partners' communication efforts on these reforms did not meet popular expectations. Pension reforms were prioritised because of their fiscal implications and the aim to secure debt sustainability, and they were seen as successful – even though partially reversed afterwards, reflecting disagreement between the Institutions. The programme design clearly intended to restore competitiveness but during implementation this attracted much less attention from the authorities and the European institutions. Some interviewees thought the programme was successful in that it reduced the trade deficit, but others noted this came about through falling demand rather than higher exports.

Box 3.5: Community needs

The Greek community needs were the following:

- To prevent the country from exiting the euro area and to obtain emergency funding while the country lacked access to international capital markets
- To restore public finances: balanced budget and sustainable debt
- To regain competitiveness and reduce trade balance deficit
- To foster sustainable and inclusive economic growth
- To provide a modern safety net to protect the most vulnerable groups from the effects of the internal adjustment
- To communicate the need for reforms to the general public
- To change the distribution of the programme burden during the ESM programme

The Institutions adapted to unintended outcomes but only slowly, partly because they initially underestimated the problems, and partly because they suffered from recognition lags... In 2010, the Institutions underestimated the depth of the problems in Greece, and were unaware of the magnitude of structural reforms needed, including the weak state of tax administration which impeded its efficient functioning. A stronger stance on the steady implementation of the structural benchmarks was needed. The Institutions had assumed almost frictionless economic adjustment and a rapid shift of resources from a rather unproductive non-tradable sector towards more productive tradable sectors. A recognition lag is partly justifiable by operational constraints. The

crisis situation, multiple reform efforts, and limited administrative capacity of Greek authorities implied data delays and high degree of data uncertainty. At the same time, decision-makers wanted hard evidence before there could be any agreement on programme adjustment. At the outset, European political leaders also took time to react when the euro was threatened, according to some observers.

...while the ESM programme approach changed to better fit Greece's social needs. When the new programme was agreed in July 2015, the EFSF programme had expired so procedures offered no time to negotiate new measures: what was on the table was an offer that could not be refused. With the ESM programme different accents emerged. Some measures, like public sector lay-offs, insisted on by the IMF as part of a broader effort to modernise the public sector and break with patronage of the past,³⁵ were dropped and more attention than under the EFSF programme was given to reforms to public administration and the justice system. The introduction of a guaranteed minimum income scheme that had been an item since the first review in 2010 now became a prominent feature. Government social measures were seen as countering the negative impact of the adjustments, and revived growth helped alleviate poverty and inequality.³⁶

Rigidities and constraints reduced the Institutions' flexibility. Budget constraints limited overall flexibility and a feeling grew that little room existed to loosen the fiscal targets, given debt sustainability concerns. Moreover, conferring priority on fiscal targets over structural reforms during the ESM programme seemed politically convenient for both the European institutions and the Greek authorities; creditors could demonstrate enforced fiscal targets and the Greek authorities could avoid unpopular structural reforms that aroused the opposition of vested interests. An imperfect policy mix emphasised a painful fiscal-side adjustment, and fiscal multipliers made the adjustment more severe than planned; a more phased adjustment would have generated less social and political impact – and through a more limited recessionary impact, would possibly have also led to lower financing needs – but this would have required more financial assistance, which was not politically feasible. Programme buffers nevertheless expanded for the ESM programme, mainly for bank recapitalisations, which did increase flexibility.³⁷

When market access looked doubtful towards the programme's expiry, loan terms including maturities had already been modified in March 2011. The Eurogroup reflected openly on a new programme and debt restructuring in May 2011. The EFSF programme largely followed up on the GLF programme emphasising fiscal targets and pension reform. In addition, the design contained important elements focused on institutional structures and labour market policies. Whereas flexibility to adapt the EFSF programme existed, it was not fully implemented, and similar practices flowed from one programme to the next. A failure to reform the insolvency framework marked a missed opportunity to address banking system challenges, highlighting a parallel between mild approaches to banking sector problems and a lack of growth. Under the ESM programme, banking supervision strengthened, reflecting regulatory changes, and information asymmetry on the status of Greek banks declined.

It was challenging for ESM Boards to agree shifts in programme priorities. The ESM Boards were at times overly intrusive (for more, see Chapter 7.2). Instead of setting an overall direction and then assessing compliance broadly, shifting the priorities became a negotiation more with the member states than with Greece.³⁸

The programmes were not fully customised to Greek conditions. The European institutions did not develop sufficient understanding of Greek economic and political circumstances. For example, the internal devaluation strategy failed to fully capture the impact on domestic demand given that the country's production involved small companies that found it difficult to shift to export markets, although some progress was made. Despite this progress, the shift took much longer than assumed. Another example involved the historical context of tax evasion. The European institutions needed to find a balance between standing firm against arguments presented as political red lines by various stakeholders and the opposite approach of understanding political constraints and developing flexibility to deal with them. Such criticisms were not new,³⁹ even in the early programme phases.

Lack of common analysis on Greece's problems contributed to low ownership and chances of success. Ownership was assumed to be present in the early programme phases, but later came to be regarded as lacking, leading to considerable micromanagement by the European institutions, deemed to be counter-productive. In 2010,⁴⁰ 2012, and 2015, the Greek government was confronted with an analysis and a set of solutions that it could only implement with delay, if at all, given its limited capacities. Due to this constraint, questions whether the analyses were correct, and whether solutions were fit for purpose or not sufficiently tailor-made could not be addressed from the start (for more, see Chapter 7).

A three-year programme was too short to address Greece's long-standing vulnerabilities. With hindsight, it was impossible to resolve all the challenges facing Greece within just three years (for more, see Chapter 7.2). Some recognised this and flagged it early,⁴¹ but a longer programme was not deemed politically feasible at the start, in view of the need to be aligned with an IMF setting and the financing needs involved. In addition, the importance of post-programme monitoring should be highlighted. Evidence suggests that even when a government has more room to manoeuvre in any post-programme phase, being under scrutiny of institutional reviews and facing financial incentives through transfers can help to reduce the risk of backtracking or reform reversal. There is broad agreement that securities markets programme (SMP) and agreement on net financial assets (ANFA) measures provide a good incentive structure to support post-programme reform commitments.

3.4. Conclusions

The Greek crisis demonstrated that even a single monetary union member can be of systemic relevance when other members have also accumulated vulnerabilities that leave them exposed to shocks and the EMU lacks adequate buffers. The strong interdependencies uncovered between euro area countries prompted them to strengthen the EMU architecture. The establishment of the EFSF and ESM, banking union, non-conventional monetary policy, and national reform efforts were the defining factors of the strategy to minimise negative spillovers.

The paramount strategic objective was to preserve the integrity of the euro area, closely connected with the need to restore financial stability in Greece. The programmes helped to attain this objective and allowed Greece to exit from its almost decade-long reliance on official sector financing. Given the often difficult circumstances, obvious areas of improvement nevertheless exist.

The ESM programme lacked an explicit, documented framework to systematically develop strategic objectives. Not all the programme strategies addressed the strategic objectives fully, and the resulting large number of measures strained the implementation capacity. The lack of a common diagnosis of Greek problems contributed to low ownership and chances of programme success. With the benefit of hindsight, a standard IMF programme length was too short to help resolve the challenges. Some stakeholders flagged this early on, but sufficient financing for a longer programme was not deemed politically feasible.

The political process involved a trial-and-error policy approach reacting to changing assumptions. The programmes provided Greece with emergency funding, avoiding a forced exit from the euro. However, there was insufficient attention to the underlying social needs of the Greek population – maybe not at the level of programme design but at the level of implementation and monitoring. Under the ESM programme, responding to the negative social impact of the programme became an additional strategic objective.

Even if the programme design showed flexibility to changing outcomes and circumstances, this would often not trickle through to implementation, and changes were limited as a result. There were important rigidities on the side of the Institutions: they found it challenging to shift programme priorities as the ESM Boards had been overly intrusive instead of limiting themselves to giving an overall direction and assessing compliance. The programmes were also considered to be insufficiently tailored to Greek needs and specificities, and there was insufficient room to take account of political constraints.

The Greek EFSF and ESM programmes addressed the key financial stability needs in line with their stabilisation mandate. But stakeholders implicitly settled for a low-growth equilibrium under the ESM programme against the backdrop of the border settlements: fiscal targets had to be absolutely met, while a flexible approach was undertaken to growth-enhancing product market reforms which required targeting vested interests in Greece. Also, the composition of the fiscal adjustment was not conducive to inclusive growth, suppressing the outlook.

Programme measures aimed at preventing spillovers, while restoring bank solvency and liquidity were crucial, given the euro area banks' exposure towards Greece, alongside substantial Greek bank losses on domestic bond portfolio and the rapidly evaporating confidence in the financial system. The EFSF financial sector programme mainly focused on measures to restore liquidity and bank solvency (European Commission, 2012a), preventing contagion, and adjusting the governance framework for recapitalisations.

But changing the focus of the financial sector programmes was crucial to prevent any further accumulation of NPLs, and the ESM programme increased emphasis on resolving the NPL problem and improving the payment culture.

4. Assessment – Effectiveness

An assessment of a programme’s effectiveness reflects the extent to which the objectives were met, taking into account their relative importance. The effectiveness criterion is used to assess the achievements or failures of short- and medium-term strategies, or the likelihood that the objectives will be achieved in the period ahead, by contrasting intended and unintended outcomes with the expected outcomes and objectives. This chapter concentrates on programme strategies, measures, and their outcomes during the EFSF and ESM programmes.

Box 4.1: Key questions of the effectiveness assessment

- Did the prioritisation of deficit reduction come at the cost of economic growth? How did efforts to restore confidence and payment culture contribute to an improved fiscal balance position?
- Did programme design and reforms described in the programme help in the improvement of productivity and competitiveness?
- What were the unintended consequences of the programme?
- How has the programme policy mix fostered inclusive growth? What measures did partner institutions advocate over time to redistribute the adjustment burden and promote inclusive growth?
- How have the financial sector reforms contributed to restoring financial stability, the containment of contagion and the strengthening of the banking sector? What constraints were encountered?
- Were alternative options investigated for tackling non-performing loans? Has the creation of a bad bank been considered part of financial sector strategies?

The overall assessment suggests that the EFSF and ESM programmes were partially effective in reaching programme goals and meeting social expectations. They fulfilled the most crucial requirements of reducing the deficit, stabilising public debt, and preserving the financial intermediary functions of the banking sector by avoiding a meltdown. However, delayed implementation of some key measures, such as product market reforms, establishing a targeted social safety net, and creating a comprehensive NPL resolution framework offered to less effective results. Also a suboptimal prioritisation of policy actions and some unintended consequences moderated the short- and medium-term growth impacts of the programme in the evaluation horizon. The supporting analysis is centred on six dimensions: the evolution of public finances; developments in the payment culture; achievements of structural reforms; efforts promoting inclusive growth; strengthening public institutions; and restoration of financial stability and confidence in the banking sector. Conclusions are drawn from international and historical comparison of selected performance indicators.

4.1. Restoring public finances

To restore market access, fiscal policy under the three economic adjustment programmes targeted the credible closure of previous fiscal imbalances. During the EFSF programme, the primary deficit dropped to 3.6% of GDP in 2012 from 10.1% of GDP in 2009 (EDP definition). Then in 2014, the primary deficit turned into a small surplus of 0.4% of GDP. After some deterioration in 2015, the ESM programme continued the work on fiscal adjustment and produced large primary surpluses of 4.3% of GDP in 2018 and in 2019.

The Greek programmes required large fiscal corrections that could not avoid severe growth repercussions. This was particularly evident in the GLF and EFSF programmes. Greece suffered a deeper recession than initially envisaged in the programmes (see assumptions and targets of the GLF, EFSF and ESM programme in Table 4.1) with slumping revenues and spending pressures requiring further measures to meet the fiscal targets.

As in the earlier programmes, the ESM programme prioritised the fiscal sustainability objective. But the agreed fiscal targets did not support a swift closure of the output gap. In addition, the fiscal over-performance undermined growth mostly during the first and also the later programme years, which was unnecessary because the European institutions had not initially required such a high surplus. The ESM programme did incorporate some growth-enhancing elements in the fiscal policy mix but the excessive reduction of the public investment budget impeded growth effects.

High fiscal balances to stabilise public debt

An impressive fiscal adjustment was achieved under the EFSF/ESM adjustment programmes. While fiscal policy during the EFSF programmes mainly reflected the implementation of the targets with some over-performance in specific years, Greece consistently over-achieved the ESM programme targets, cumulatively by almost 7% of GDP, leading to a steadily high fiscal balance (Figure 4.1).

The fiscal targets adopted under the EFSF/ESM programmes contributed to stabilising high public debt as a percentage of GDP. During the EFSF programme, the primary deficit turned to a surplus and improved debt dynamics. Under the ESM programme, the primary balance over-performance helped to stabilise Greek public debt as a percentage of GDP. Greece's commitment to the agreed fiscal path was expected to reduce public debt to close to 160% of GDP by 2021 (European Commission, 2019g), broadly in line with the programme objectives (Figure 4.3 and Table 4.1).

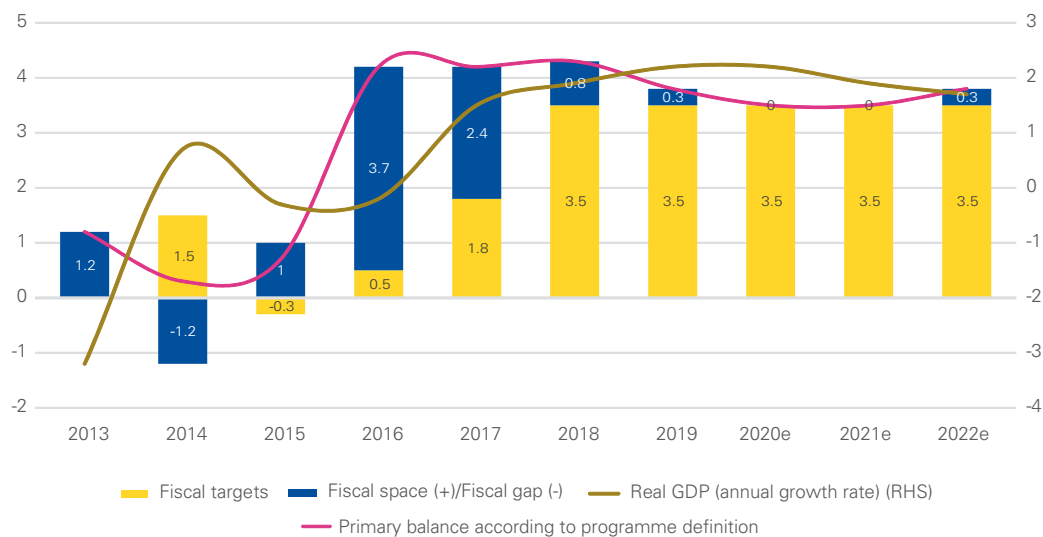
Table 4.1
Key targets underpinning the financial assistance programme to Greece

Policy areas		Restoring public finances		Macroeconomic environment			
Year	Programme	Primary surplus target (% of GDP)	Public debt (% of GDP)	Annual GDP growth rate (in %)	Unemployment rate (in %)	Inflation rate (HICP) (in %)	External balance of goods and services (% of GDP)
2010	GLF	-2.4	133.2	-4	12	1.9	-10
2011	GLF	-1	145.2	-2.6	14.7	-0.4	-7.4
2012	EFSF	-1 (-1.5)	According to the MoU "Under our program baseline, public debt will remain high during the program period, but is projected to fall to about 120% of GDP by 2020, with continued declines thereafter."	-4.7 (-6)	17.9 (22.4)	-0.5 (1.1)	-4.8
2013	EFSF	1.8 (0)		0 (-4.2)	17.8 (22.8)	-0.3 (-0.8)	-3.1
2014	EFSF	4.5 (1.5)		2.5 (0.6)	16.7 (21)	0.1 (-0.4)	-2.4
2015	ESM	-0.3	Target described in scenario A for 2020: 160	-2.3	22.5 (*)	-1.1 (**)	-0.2 (***)
2016	ESM	0.5		-1.3	19.5 (*)	0 (**)	0.1 (***)
2017	ESM	1.8		2.7	17.1 (*)	1.27 (**)	0.9 (***)
2018	ESM	3.5		3.1	15.9 (*)	0.8 (**)	1.5 (***)

Notes: For the EFSF programme targets are taken from the MoU (figures in parenthesis represent the revised targets of the first review in December 2012). The ESM programme targets are retrieved from the MoU and the compliance report (first review). (*)(**)(***) Given that in the ESM programme no targets were set, we resort to the forecast of the fourth review (April 2014). (**) HICP targets as set in the 3rd review of the ESM programme (March 2018).

Sources: MoUs of the GLF, EFSF, and the ESM programme

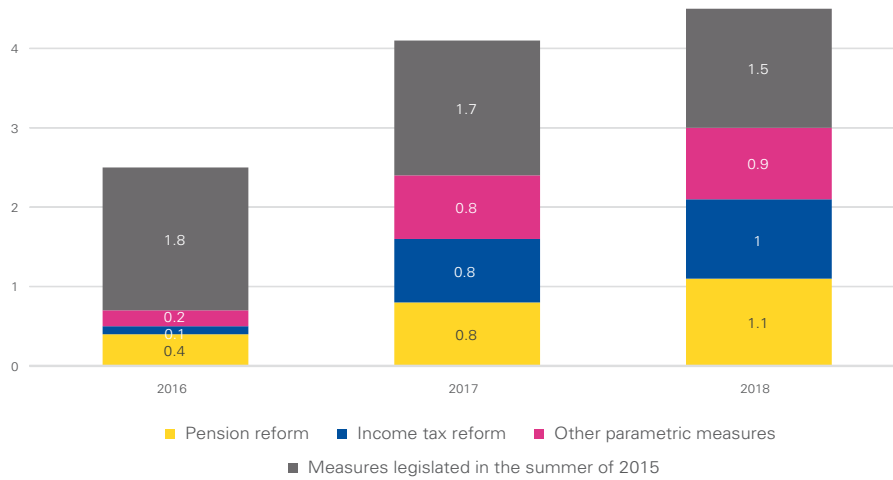
Figure 4.1
Fiscal balances improved radically during the ESM programme
 (left-hand axis in % of GDP, right-hand axis in %)



Notes: e: estimate. The definition of the primary balance as defined under the ESM programme excludes one-off revenues and expenditures associated with banking sector support, privatisations, and ANFA/SMP revenues. Furthermore, the programme definition of the primary balance was adjusted to exclude migration-related expenditure net of EU transfers to the Greek budget, subject to a proper monitoring mechanism and a defined cap. Lastly, the definition contains an adjustor related to the payment of tax refunds.

Source: European Commission (2017b)

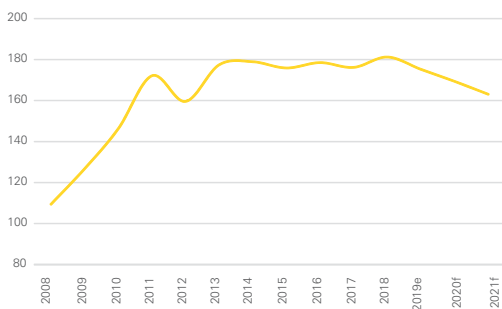
Figure 4.2
Composition of fiscal consolidation efforts in the ESM programme
 (2015–2018, net savings in % of GDP)



Source: European Commission (2017b)

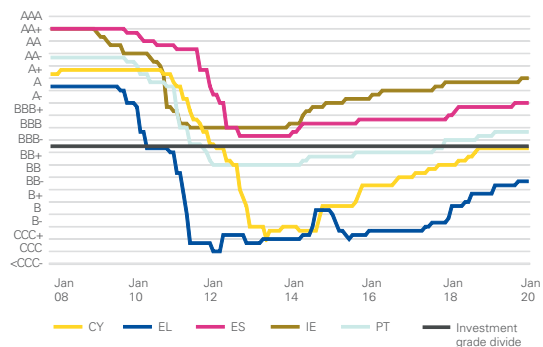
The achievement of fiscal targets under the EFSF/ESM programmes together with comfortable cash buffers, enhanced Greek credibility and supported it in regaining market access. The front-loaded fiscal adjustment and credibility in attaining these targets set the foundations for better Greek sovereign ratings, which were approaching investment grade (BBB-) by the end of the evaluation period (Figure 4.4), although still trailing the other former programme countries. Greece also benefitted from lower servicing costs as the implicit interest rate for the general government debt steadily declined (Figure 4.5). The Greek 10-year government bond yield reflected this improvement except during the period of political uncertainty in 2015. By the end of the evaluation period, the yield was approaching that of Ireland, Spain, and Portugal (Figure 4.6). The ESM sovereign vulnerability index (Lennkh et al., 2017) (Figure 3.1) also indicates an improvement for the fiscal position and as an overall score. Given this favourable environment, Greece returned to international bond markets on various occasions in 2017, 2018 and also 2019.⁴²

Figure 4.3
Public debt
 (% of GDP)



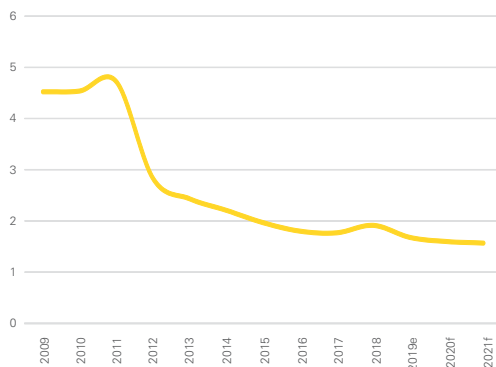
Note: f: forecast, e: estimate.
 Source: European Commission Ameco database

Figure 4.4
Average ratings of former programme countries



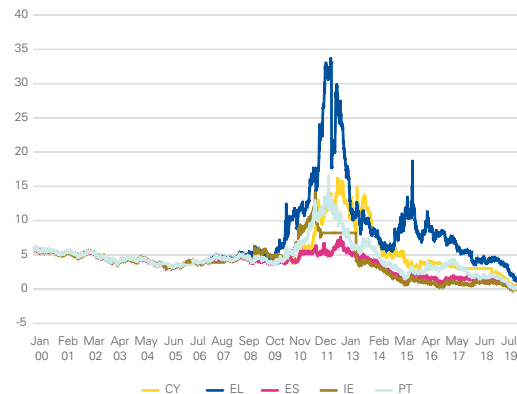
Sources: ESM, Moody's, Fitch, S&P, Bloomberg

Figure 4.5
Implicit interest rate – general government debt (in %)



Note: f: forecast, e: estimate.
Source: European Commission Ameco database

Figure 4.6
10-year government bond yields (in %)



Sources: ESM, Moody's, Fitch, S&P, Bloomberg

Fiscal policy mix under the ESM programme

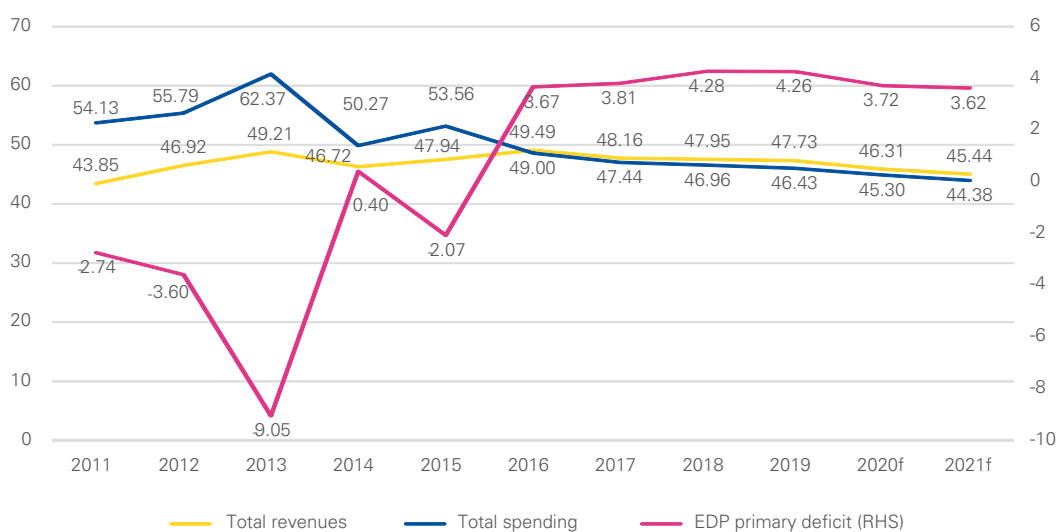
During the ESM programme, resilient macroeconomic conditions, improved tax collection, one-off factors, and some spending restraint drove the fiscal over-performance vis-a-vis the targets. Over-performance in 2016 mainly mirrors increased revenues due to a strong pick-up in economic activity, some one-off revenues, and unprogrammed cuts in productive government spending (European Commission, 2016b). In 2017 and 2018, cuts in productive government spending, for example spending on education and on the national and co-funded investment programme, were repeated as a way to over-perform fiscal targets.

In terms of fiscal consolidation, the mixture between revenue and spending remained broadly balanced during the ESM programme. The policy mix relied almost equally on the revenue and the spending side for most of the programme period, moving Greece close to euro area averages.⁴³ Total receipts increased by 1.4 percentage points to 48% of GDP from 2014 to 2018, above the average euro area performance. Taxes, including VAT on production and imports, mainly contributed to this increase (Figure 4.7). Simultaneously, spending fell to 47% of GDP in 2018 from a high of 50% in 2014 converging to the euro area average. Planned cuts focused on social spending, public investment, and public wages (Figure 4.2).

Despite the obvious implications for market confidence, the primary balance over-performance per se had short-run costs to growth (Figure 4.7). The high target of 3.5% of GDP set under the ESM programme, and the fiscal over-performance from 2015 to 2017 involved negative short-run effects on aggregate demand,⁴⁴ partly offset by some positive contributions from net exports (European Commission, 2016b).

The adopted cuts in productive spending under the ESM programme made the policy mix less growth friendly (OECD, 2020), though the almost equal mixture of revenue increases and spending cuts reflected an improvement on previous programmes, because the average revenue multipliers were higher than those for spending. Moreover, according to some interview respondents, the room for further savings from unproductive spending in the ESM programme was narrower after the sequence of cuts adopted in the previous programmes, making increases in revenue collection to achieve a high primary balance inevitable. As a consequence, the high tax burden for the overall economy under the ESM programme continued to burden investment and employment, delaying the rebound of growth in the medium-run.

Figure 4.7
Fiscal policy mix
 (left- and right-hand axes in % of GDP)



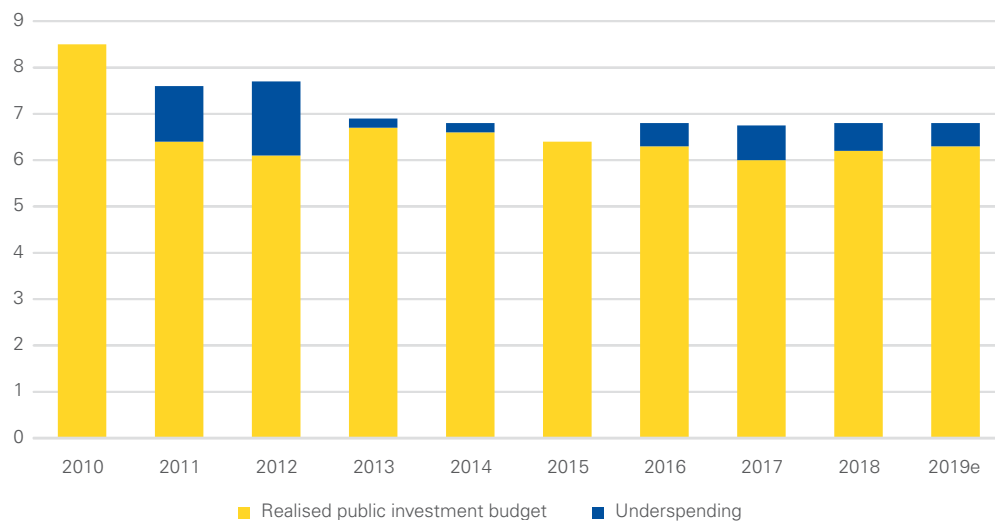
Note: EDP: excessive deficit procedure; f: forecast.
 Source: European Commission Ameco database

The spending compression in public investment adopted during the ESM programme affected both short- and long-term growth. The authorities originally planned significant public investments, including numerous investment projects, but in practice undershot targets.⁴⁵ This underspending, in both the national and the co-funded part of the investment budget, contributed to achieving the fiscal targets, but it dampened the growth stimulus (Figure 4.8).⁴⁶ This was mostly evident in both the GLF and the ESM programmes.

A scenario involving higher public investment for Greece would have gradually increased capital accumulation and strengthened potential output (OECD, 2020). The initial public deficit increase resulting from the additional spending would have been gradually absorbed before being completely offset after about 10 years.⁴⁷ Initial public debt increases would progressively fall to below their baseline level after 40 years (see Figure 4.3 in the Technical appendix).

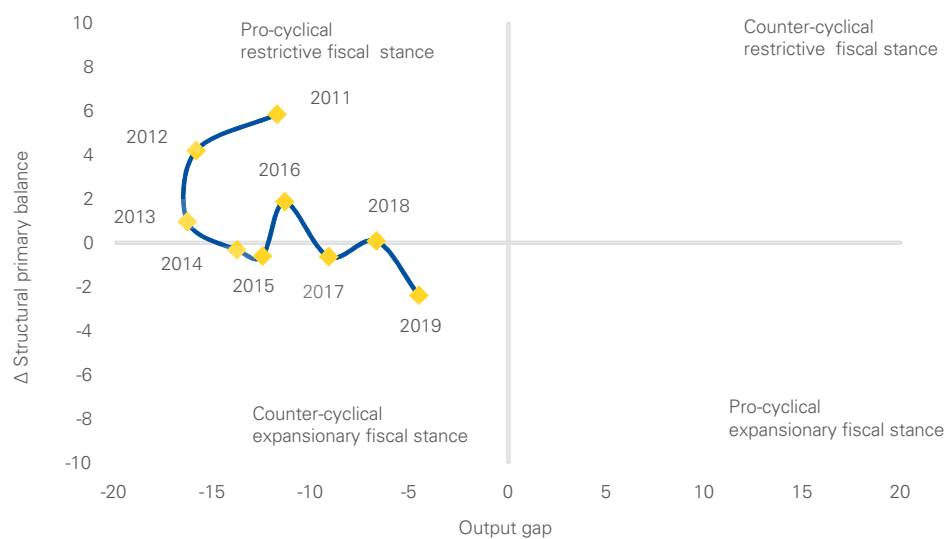
In structural terms, fiscal policy in the later years of the ESM programme managed to shift from a pro-cyclical and restrictive fiscal stance in the earlier programmes to slightly counter-cyclical but expansionary stance (Figure 4.9). The fiscal stance during the ESM programme helped to avoid a deeper recession but did not make a major contribution to closing the output gap. The delay mainly focused on 2016, reflecting the fiscal over-performance that contributed to a mild recession in that year. The same occurred in 2018, but to a lesser extent, while in 2019 the growth pick-up closed the output gap further based on a countercyclical and expansionary policy scenario.

Figure 4.8
Spending in public investment
 (in € billion)



Note: e: estimate.
 Source: Hellenic Republic - Draft Budget 2012-2020

Figure 4.9
Fiscal policy stance in Greece



Note: Δ Structural primary balance denotes the year-on-year change to the structural primary balance.
 Source: European Commission Ameco database

During the post-programme period, Greece continued to exceed the agreed primary surplus target of 3.5% of GDP for a fifth year in a row in 2019. In doing so the administration revised spending ceilings downward to more realistic levels, while additional tax revenues provided fiscal space. The 2020 Draft Budgetary Plan included a package of new growth-friendly measures and while the full set of measures seemed broadly budgetary neutral, Greek interviewees said in the autumn of 2019 that they expected the quality of public finances to improve, boosting growth and further reducing the output gap.⁴⁸

Efforts to restore confidence and payment culture

Confidence building measures focused on public financial management (PFM) and banking sector resilience. The effectiveness of the banking sector policies is discussed in Chapter 4.5. The limited integration between the ordinary and public investment budgets remains an impediment to improved effectiveness in the area of public finance management reforms, although there have been improvements across the Greek programmes. Despite considerable institutional progress in tax collection, broadening the tax base and containing tax evasion have so far met limited success compared to other euro area countries. An example of improvement in the payment culture is reflected in better VAT collection and the positive impact from the wider adoption of electronic transactions. The ESM programme’s focus on the clearance of arrears had important positive implications for economic growth by reducing delays in public payments, and increasing liquidity provided to the private sector (Checherita et. al., 2016).

In addition to the package of fiscal measures, policy effectiveness depends on the public administration responsible for managing tax collection and allocating available resources. A large number of public finance management reforms were introduced in the MoU for the ESM programme, focusing on improvements in tax collection and the fight against tax evasion, and on producing savings through spending reviews. According to the first review of the ESM programme (2016), these could generate a yield of up to 0.75% of GDP if properly implemented, to provide a buffer against possible fiscal slippages. Still the quantification of each of these effects is inherently difficult.

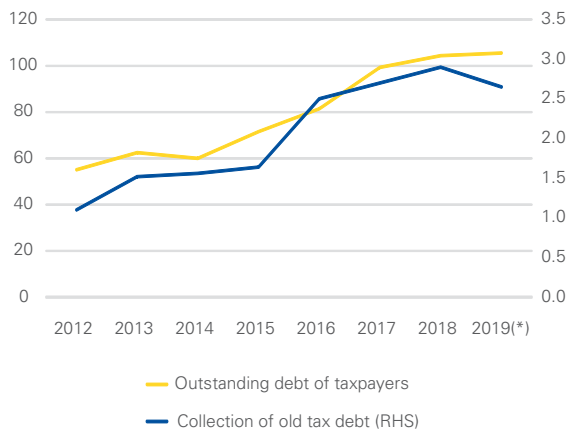
A series of strategic measures improved the payment culture and enhanced control of payments; the most important are:

- granting the public revenue administration operational independence;
- concentrating salary and pension payments into a single payment account, enabling its effective monitoring;
- optimising cash management⁴⁹ by establishing a single treasury account;
- using spending reviews to improve the effective use of budget resources; and
- improving compliance and revenue collection by modernising working techniques and introducing risk-based audits.

Efforts to improve the payment culture and reduce tax evasion produced some first tentative results during the ESM programme because upward pressure on the outstanding debt of taxpayers seemed to stabilise during 2019. Despite some small improvements, effective collection of the “old tax debt” stock remained low with collections at €2.5 billion against a stock of around €100 billion (Figure 4.10). Changes in the income tax code and simplified reporting

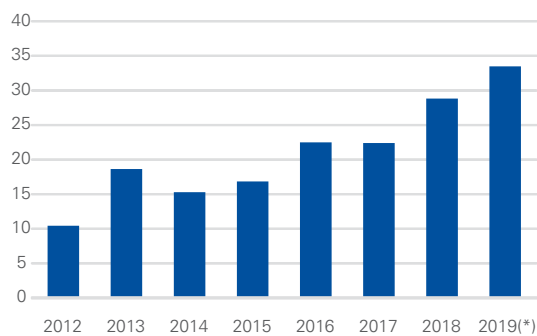
procedures reduced tax avoidance opportunities. Collection rates of “new tax debt” improved substantially from 2015 (Figure 4.11).

Figure 4.10
Performance in the collection of tax debt
(in € billion)



Notes: “Old debt” is defined as the debt accrued before 30 November of the previous year. 2019(*) : November.
Source: Greek Tax Administration (2019)

Figure 4.11
Collection rate of new tax debt
(in %)



Notes: The figure displays outstanding “old debt”, defined as the debt accrued before 30 November of the previous year. 2019(*) : November.
Source: “Tax Administration Monitor” published on the website of the Greek Tax Administration. Available at: <https://www.aade.gr/open-data/KPIs>

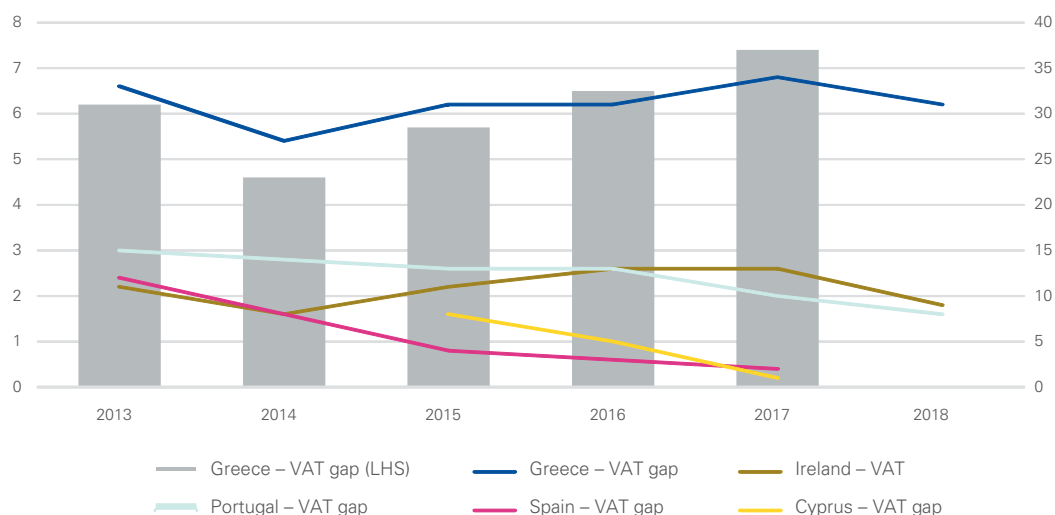
Improvements to reforms in VAT collection remain slow. Wider use of electronic transactions had a positive direct effect on VAT compliance. The restrictions on cash withdrawals introduced in July 2015 triggered a surge in card payments and consequently VAT revenue (Hondroyiannis et. al., 2017). They conclude that a one percentage point increase in the share of card payments in private consumption raised about 1% extra revenue through increased compliance. Facilitating card transactions may support further tax buoyancy (see Figure 4.4 in the Technical appendix). Despite this, a considerable part of potential revenues from this source remain in the shadow economy given the very high VAT gap⁵⁰ compared to other post-programme countries. Since 2013, Greece has lost more than €30 billion in VAT revenues, with the VAT gap remaining one of the highest in the EU-28 (Figure 4.12). There is a large fiscal space to be gained from reducing tax evasion (Kelmanson et. al., 2019), given that the shadow economy has reached a third of the formal economy since 2016, higher than the rest of the euro area.

Fiscal policy effectiveness also depends on the quality of the institutions involved in the budgeting process. According to the OECD (2019) and various interviewees, the transformation of the General Accounting Office into an institution responsible for budget coordination and general government oversight enabled reforms. Moreover, the establishment of the Hellenic Fiscal Board and the Hellenic Budget Parliamentary Office together with the spending reviews supported transparent and prudent fiscal policies by incorporating more systemic scrutiny into the budget processes. The EU surveillance framework and the standards defined by the OECD (2019) also show that Greece improved spending efficiency and enabled the reallocation of resources.

The ESM programme to clear arrears had important positive implications for economic growth. Improvements in the reporting of unpaid obligations have been widespread at the general government level, including hospitals (for more,

see Box 4.2) and local government, reducing arrears to €2.4 billion in end-2018 from almost €10.5 billion in May 2016.

Figure 4.12
VAT gap for Ireland, Greece, Spain, and Cyprus
 (left-hand axis in € billion, right-hand axis in % of VAT total tax liability)



Note: VAT total tax liability reflects the amount of VAT theoretically collectable within a country under VAT legislation and ancillary regulations.
 Source: European Commission DG taxation and duties

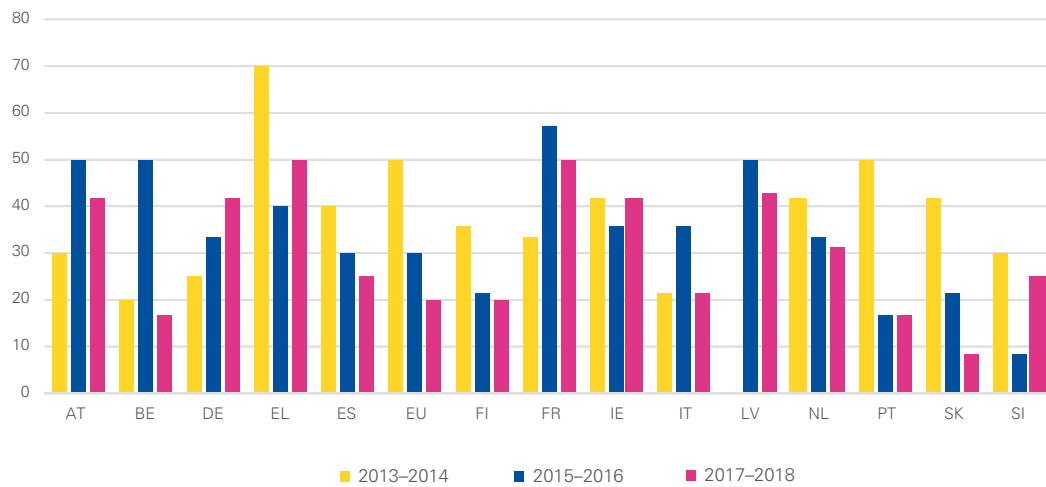
Budget process reforms⁵¹ and better policy coordination also improved the financial outcome of the social budget. This package of reforms strengthened spending controls which, together with specific fiscal measures, helped social security funds and local governments generate primary surpluses and reduce arrears (OECD, 2019).

Limited integration of the ordinary and public investment budgets remains an obstacle to overall fiscal policy effectiveness. Most OECD countries have an integrated budget, but Greece is among those where integration between the ordinary and capital budgets is limited, constraining the effectiveness of fiscal policy. It results in a limited exchange of information on the execution of the public investment budget compared to that of the ordinary budget, and in delayed warnings of underperformance against the foreseen fiscal targets.

4.2. Structural reforms to improve competitiveness and productivity

The crisis acted as a catalyst for structural reforms in many former programme countries, including Greece. Compared to the pre-crisis period, the responsiveness to the OECD’s “Going for Growth” recommendations on average increased (OECD, 2012), enhancing labour productivity and output utilisation. While reform activity in Greece is higher than the EU average, it has passed

Figure 4.13
Responsiveness to reforms
 (total)



Note: The reform responsiveness indicator is based on a scoring system in which each priority set in the previous edition of Going for Growth takes a value of 100 if "significant" action is taken the following year, and zero if not. The indicator is therefore the ratio of the total number of years in which some action is taken to address the policy priority to the total number of years since the policy priority has been identified.
 Source: OECD

through distinct high and low phases since the start of the crisis. Additional efforts to promote reforms are concentrated on 2013 and 2014, encountering a temporary slowdown from 2015 to 2016 followed by a slight rebound from 2017 to 2018. Figure 4.13 portrays the evolving phases of reform responsiveness.

In the GLF and EFSF programmes, structural reforms played an important role in medium-term economic performance. Greek programme design assumed that the ambitious labour market reforms would be followed by equally important reforms in goods and services markets. If not, the reduction in wage costs would translate into higher profit margins, putting more pressure on the purchasing power of the middle-to-lower income population and undermining the achievability of optimistic medium-term growth projections.

Still, during programme implementation, priority was given to reforms that focused on the labour market, given difficulties in liberalising several other sectors. Delays in implementing the product market reforms under the GLF and the EFSF programme (see key targets in Table 4.2) triggered an ESM programme revamp. Its focus turned to the take-up of the OECD "Going for Growth" recommendations (toolkits I, II, III), including a simplification of licensing procedures, a lower administrative burden to support business investment, and the opening up of regulated professions. To improve effectiveness, under the ESM programme these policies focused on the adoption of primary legislation, supported by sufficiently granular secondary legislation, such as ministerial decisions.

Table 4.2:
Key targets underpinning the Greek financial assistance programmes

Policy area:		Structural policies to enhance competitiveness and growth	
Year	Programme	Labour markets	Product markets
2010	GLF	No explicit quantitative targets set. According to the MoU "labour and wage reforms will help to curb undue wage pressures, which affect Greek competitiveness negatively. Reforms will ease entry to the formal labour market for groups like women and the young, and facilitate transition from temporary to permanent contracts".	No explicit quantitative targets set. According to the MoU "the Government plans to adopt the horizontal legislation for the implementation of the Services Directive, as well as some sector specific legislation. However, the programme asks for a more ambitious implementation, so that the main principles will apply early to sectors such as tourism, education and retail and, at a later stage, to regulated professions for which no plans to liberalize (auditors, lawyers, pharmacists, engineers, architects) had been envisaged".
2011	GLF		
2012	EFSF	No explicit quantitative targets set. According to the MEFP*, "competitiveness is programmed to improve at an accelerated pace, supported by upfront labour market reforms. Inflation is projected to drop significantly below the euro area level as cost-reducing reforms and wage reductions filter through to prices...".	No explicit quantitative targets set. According to the MEFP, "competitiveness is programmed to improve at an accelerated pace, supported by a comprehensive set of product market reforms. Inflation is projected to drop significantly below the euro area level as cost-reducing reforms and wage reductions filter through to prices...".
2013	EFSF		
2014	EFSF		
2015	ESM	No quantitative targets set explicitly. According to the MoU: "The Greek authorities are committed to achieve EU best practice across labour market institutions and to foster constructive dialogue amongst social partners". In terms of prior actions: a labour market review was requested together with the launch a consultation process led by a group of independent experts to review a number of existing labour market frameworks, including collective dismissals, industrial action and collective bargaining, taking into account best practices internationally and in Europe.	No quantitative targets set explicitly. According to the MoU: "The authorities will legislate as prior actions: (i) implement all pending recommendations of the OECD competition toolkit I and a significant number of the OECD toolkit II recommendations; (ii) open restricted professions in some areas; (iii) eliminate non-reciprocal nuisance charges and align the reciprocal nuisance charges to the services provided; (iv) reduce red tape, including on horizontal licensing requirements of investments and on low-risk activities as recommended by the World Bank, and administrative burden of companies based on the OECD recommendations, and establish a committee for the inter-ministerial preparation of legislation".
2016	ESM		
2017	ESM		
2018	ESM		

Sources: MoU, *MEFP stands for Memorandum of Economic and Financial Policies from the GLF and EFSF programmes

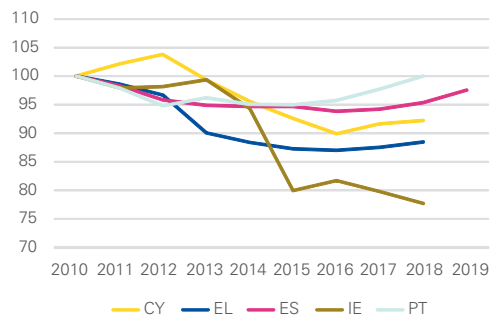
So far, the structural reforms adopted have led to some positive steps towards more price competitiveness, which is needed. The greatest improvements have appeared in unit labour costs, an indicator of cost competitiveness, and a somewhat better export performance (Figures 4.14 and 4.15). During the period covered by the three programmes, the real effective exchange rate also depreciated, to support some competitiveness gains (Figure 4.16). Nevertheless, developments in productivity growth offer only limited optimism. These reforms remain stuck, with productivity growth performing only weakly against the euro area (Figure 4.17). The productivity gap between Greece and the euro area, together with the weak response to the ongoing structural reforms, translate into low potential growth for Greece in the medium to long run.

Greece improved its relative World Economic Forum competitiveness ranking in 2019, climbing to position 59 from 91 in 2015. However, it remains a weak performer compared to peer euro area countries. It lost 18 positions in product market (58th out of 141 in 2019) and four positions in labour market reforms (111th out of 141 in 2019) compared to 2018. This primarily reflected weakness in promoting the reform agenda internally and secondly the dynamic global environment and the continued efforts of other countries in the same reform areas. A current account balance deterioration in 2018 and a negative position in 2019 confirms the relative fragility of competitiveness gains attained so far and the need to maintain the reform momentum (Figure 4.16).

Structural reforms under the ESM programme are assessed as partially effective given the gradual nature of the improvements achieved.⁵² The EFSF programme saw some clear improvements in the inflation differential against the euro area that are also seen in the ESM programme (see Figure 4.5 in the Technical appendix). Labour market reforms mainly drove the improvement, including simplified decentralised bargaining, the facilitation of flexible forms of employment, and reduced rigidity in employment protection legislation. Gains from product market reforms were somewhat scarcer due to the strategy of granular interventions. This approach aggravated political ownership concerns, particularly the adoption of secondary legislation, given harm foreseen to vested interests.

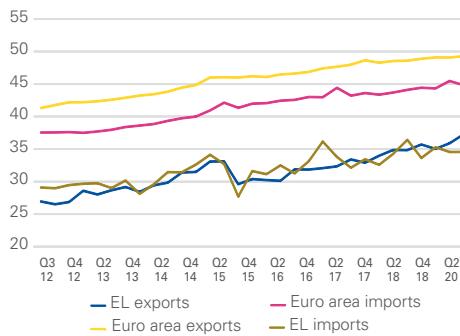
While it is impossible to say if a different approach to programme negotiations and conditionality would have improved effectiveness in these areas, it is striking that the response to perceived weak ownership was a proliferation of conditionality on many relatively minor aspects. This was in direct contrast to the lessons that emerged from the IMF and the World Bank on streamlining conditionality, emphasising conditionality limited to macro-critical actions. In this respect, the recommendations by the European Court of Auditors (ECA) from 2017 about prioritising conditionality and being transparent about the underlying reasoning could provide helpful guidance in developing a tailored approach (for more, see Chapter 3).

Figure 4.14
Nominal unit labour cost
(based on people employed 2010 = 100)



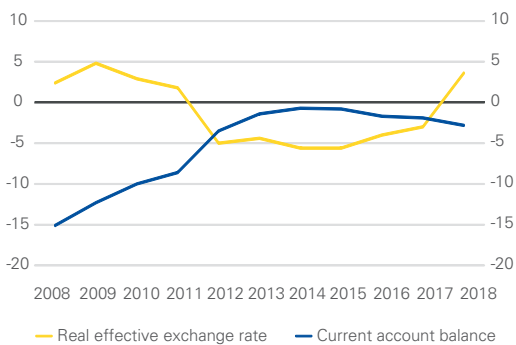
Source: National accounts – Eurostat

Figure 4.15
Export and import performance
(in % of GDP)



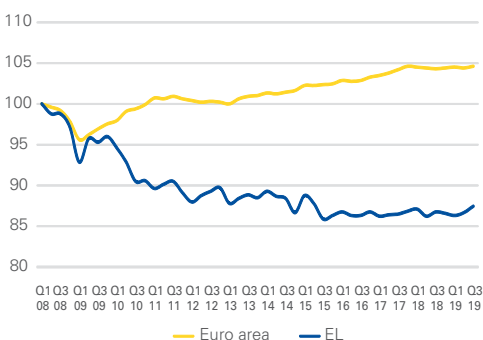
Source: National accounts – Eurostat

Figure 4.16
Real effective exchange rate
(left-hand axis in % (t/t-3) 42 trading partners based on HICP/CPI, right-hand axis in % of GDP)



Source: National accounts – Eurostat

Figure 4.17
Real labour productivity per person
(Q1 2008 = 100)



Source: National accounts – Eurostat

A persistent promotion of labour market reforms at the cost of other reforms, the inconsistent adoption of reforms, and generally limited ownership and administrative capacity reduced the overall impact of reforms during the programme. In addition to the scant evidence of improvements in product market operations, the main factors that curbed the overall effectiveness of structural reforms were: the limited administrative capacity in the case of Greece, the lack of political and societal reform collaboration, the lack of clear focus, the low euro area inflation during the Greek programmes; the hindered competitiveness from high taxation, and a large number of small- and medium-sized enterprises.

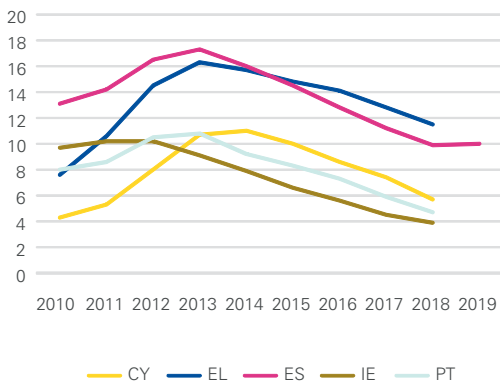
Efforts to promote reforms continued during the post-programme period. Despite some reversals observed in the labour market⁵³ immediately after the ESM programme,⁵⁴ the range of actions has fostered a business environment improvement to support investment and non-price competitiveness. These efforts are monitored and supported by the EU surveillance framework (i.e. European Semester, enhanced surveillance), OECD (detailed Competition Toolkits) and the World Bank (investment licensing and inspections) through the European Commission’s Structural Reform Support Service (SRSS).

Progress in labour market reforms

Labour market adjustment continued to play a key role in the ESM programme strategy. The ESM programme aimed to safeguard EFSF programme achievements and mitigate existing rigidities to improve the balance between flexibility and fairness. It focused on simplifying decentralised bargaining, facilitating flexible forms of employment, and reducing rigidities in employment protection legislation. To this end, collective bargaining, dismissal, and industrial action regulations were comprehensively reviewed.

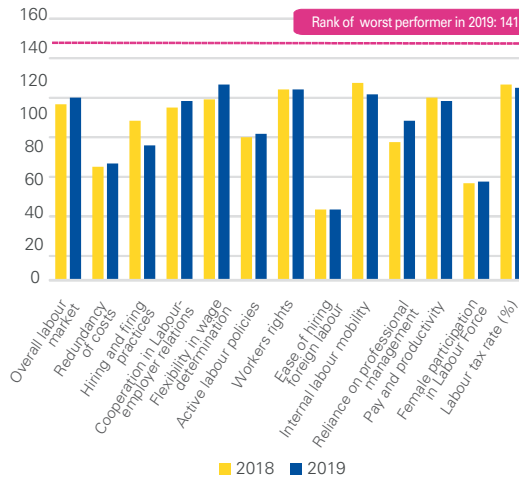
Despite these improvements, Greece suffers the euro area’s highest unemployment rate (Figure 4.18). While overall unemployment has declined overall since 2012, it remains structurally higher than in other post-programme countries. Moreover, gains in employment came with a large expansion of part-time and temporary contracts and female and youth unemployment remains the highest of the post-programme countries. However, the World Economic Forum’s global competitiveness report (2019) identifies some improvements in redundancy costs, hiring and firing practices, and wage determination (Figure 4.19).

Figure 4.18
Unemployment rate
 (in % of total population)



Source: Eurostat

Figure 4.19
Labour market performance ranking as measure of competitiveness



Source: World Economic Forum (WEF) global competitiveness indicators (2019)

Given the outcomes so far, labour market reforms have been effective in reducing unemployment and supporting competitiveness. Still, Greece needs further labour market reforms aimed at enhancing flexibility in wage determination, labour mobility, a strengthened wage-productivity link, and a reduced tax wedge on labour. Further progress in active labour market policies and measures are important to boost labour force participation and reduce high structural unemployment. Policies need to be revamped to better address constraints for those entering the workforce and to support female employment and, given envisaged demographic trends to promote older age group participation.

Reform progress regarding product and services market

Reforms in the product market suffered the most delays and inconsistencies during the GLF and EFSF programmes. Some important gains were achieved—notably the opening of some closed professions and of network markets such as energy and telecoms and their supporting infrastructure. Nonetheless, these reforms have been less of a priority and lacked political and societal ownership during the GLF and the EFSF programmes. Effectively, the ESM programme attempted to revamp reforms in the product market through more elaborate policy conditionality.

Greece improved product market regulation and its contribution to competitiveness compared to the OECD average from the onset of the crisis to 2013. After 2013, Greek economic performance gradually converged towards the OECD average in product market regulation flexibility. During the same period, other former programme countries also improved further, with some eventually ranking among the top five OECD performers (Figure 4.20).

Despite somewhat fruitful efforts, the implementation strategy was only partially effective during the programme period. According to the World Economic Forum’s global competitiveness report (2019), Greek taxes and state subsidies, complex structure of tariffs, and weaker competition in services exert a highly distortive effect on competition and were the source of weak performance (Figure 4.21). The service market saw some marginal improvements

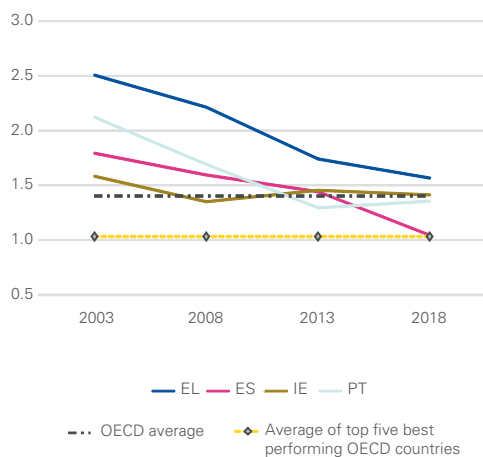
as Greece lowered the restrictions and impediments to entry⁵⁵ between 2014 and 2019, yet Greece’s performance still lags its euro area peers.

The programmes overall had a mixed effect on investor protection. Greece performs below the OECD average in contract enforcement and insolvency resolution (OECD, 2020 Doing Business Report), but it has recently improved in terms of investor protection, with the country now ranking above the OECD average in some areas. This improvement stems from reforms relating to disclosure, review, and approval requirements for related-party transactions and corporate transparency on ownership stakes, compensation, audits, and financial prospects.

To improve competitiveness, post-programme actions focused on promoting a reduction in the time and costs needed to establish new businesses, rationalise licensing, simplify exporting procedures, and carry out various improvements in the network industry regulation. These efforts are part of the 2018 growth strategy adopted by authorities that detail policy commitments with precise implementation timetables. Those policy commitments include additional reforms to strengthen the business environment, promote social inclusion, and improve both regional cohesion and environmental performance. They also contain new commitments on transport, energy, and other sectoral policies.

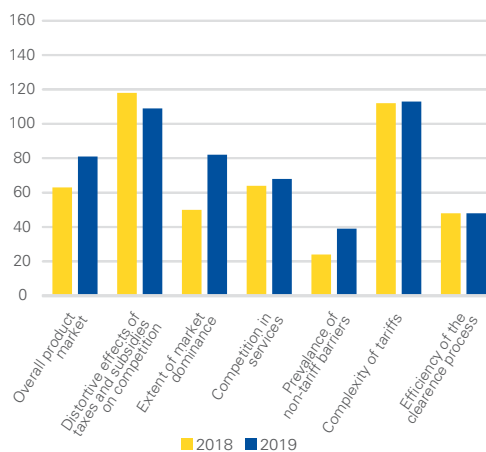
Given these findings, the effectiveness of this reform agenda should be considered limited compared to others. The main impediments to speedy progress were: the flawed sequencing with other reforms (stronger promotion of labour market reforms and less focus on product market reforms); the large numbers of reforms required at the micro level to effectively open product and service markets; the limited administrative capacity to monitor improvements or delays; and the short time horizon of the economic programmes. Adding an element of prioritisation based on the macro impact (macro-criticality) with a narrower focus might help attain an effective product market strategy (for more on the efficiency of structural conditionality under the ESM programme, see Chapter 5).

Figure 4.20
OECD product market regulation indicator



Source: OECD industry and services indicators

Figure 4.21
Product market performance ranking as a measure of competitiveness



Note: Product market regulation indicator ranges between (0) and (6) from the most to the least competitive economies.
Source: WEF global competitiveness indicators (2019)

4.3. Strengthening institutions

EFSF/ESM programmes identified strengthening formal institutions as a key strategy to achieve financial stability. Independent, transparent, well-functioning formal institutions foster economic growth by efficiently producing and supplying public goods and services. Programme documents and interview findings with stakeholders helped identify three key areas where programme intervention is needed to enhance Greek institutional arrangements – in the judiciary, across public administration, and at the authorities producing important statistics.

Programme strategies only partly improved Greek institutional quality. The ESM programme did address the issue of independence within the public administration, while the GLF programme strengthened considerably the provision of high quality statistics with the adoption of the statistical law 3832/2010 (for more, see Box 6.2). The GLF programme also corrected a lack of land law transparency, but did not deal sufficiently with weaknesses in the judiciary. The latest data only identifies minimal progress, if any, towards rectifying judicial inefficiencies that hindered economic activity. The programme only partially addressed public administration efficiency, but monitoring improved.

Legal framework and judiciary

The Greek justice system was inefficient, a weakness that impeded economic growth. Problems included complexity, law obscurity, a lack of case bundling, and court delays. In addition, the few specialised first-instance courts diluted the efficient adjudication of similar disputes. While some progress has been recorded, these flaws inhibit economic activity (Meghir et al., 2017).⁵⁶

The EFSF and ESM programmes worked to accelerate judgements and effective case clearance. The Greek authorities hired more judges and, under the EFSF programme, developed a civil procedure code to simplify judicial processes. The programmes also helped modernise these arrangements by introducing new technologies, e-justice, and out-of-court work-outs. By leveraging the technical assistance provided, Greece introduced a dispute resolution mechanism and retrained some judges in specialised legal fields, such as in insolvency law.

Data suggests that EFSF/ESM programmes were not effective in improving judicial efficiency. Greek procedures are still among the most protracted and least efficient in the EU,⁵⁷ even though the administrative court backlog had contracted by 2017, as had the time needed to achieve an adjudication, also in civil and commercial litigation. Despite the availability of electronic technology tools, take-up remains low and varies from city to city (European Commission, 2019d).⁵⁸

Survey-based data on judicial system quality underscores the limited effectiveness of EFSF/ESM programmes. In a 2017 comparison of euro area member states, Greece performed poorly in the enforcement of legal contracts. Performance in three areas underlined scarce, if any, improvement (Vásquez and Porčnik, 2019), and identified deterioration in procedural justice, civil justice, and court impartiality between 2010 and 2017.

Completion of a Greek land tax register – the cadastre – has enhanced property rights over private and public land, and therefore property tax collection. Before the programmes, Greece was the only European country without a cadastre register, but 41% of the country was mapped by 2019, with another 11% now in the final mapping process. Completion is forecasted for mid-2021 (European Commission, 2019b). Where mapping is complete, the Greek state has a data source to document privatisation and property taxes. The administration is now linking the land register to the taxation database.

Public administration

The EFSF and ESM programmes addressed, in part, inefficiencies in Greece’s public administration and its lack of independence. Public administration struggled in the face of political influence. Also, employment volatility across the core of senior civil servants has limited institutional memory. Inefficiency led to suboptimal offerings of public goods and services that were expensive, low in quality, and sometimes limited. The EFSF and ESM programmes partly addressed these problems.

The ESM programme extended the achievements of the EFSF programme in shrinking the public sector and creating an independent public revenue authority. The programme worked to improve public administration quality by sharing knowledge using technical assistance and strengthened the position of independent authorities. It helped improve the unified salary payment by adjusting the unified and special wage grid, as well as the process on public procurement. A mobility scheme was introduced, along with annual performance assessments together with the competitive selection of senior public administration management. In addition, the SRSS helped launch a *Manual on Inter-Ministerial Coordination* that was adopted in April 2018.

The unified salary payment and public procurement reforms have been implemented successfully, improving salary bill monitoring and transparency in public spending. In 2018, the single payment authority covered some 98% of entities and a digital database charts changes to the quantity and quality of public sector employees – and the Hellenic Statistical Authority (Elstat) now receives updates to changes in the Register of Services and Agencies. In terms of public procurement, Greece took note of bottlenecks causing excessive administrative burden that the European Commission (2016c) and the OECD (2014) pointed out. By 2018, Greece had implemented a wide range of OECD recommendations set out in 2015, enacting measures to counter corruption, such as obligations to declare private interests, and limiting the ability of some public officials and political appointees to participate in public procurement (OECD, 2020).

EFSF/ESM programme strategies only partially addressed the public administration issues Greece faced. Public sector downsizing brought the size of the Greek public sector closer to the EU average, without reducing citizens’ expressed appreciation of core public services in health, education, and the national government (OECD, 2013; 2015; 2019). However, recent estimates show citizens’ confidence and satisfaction still score Greece below the OECD average in national government, health care and education (OECD, 2019).

Box 4.2: Reform of the Greek health care system

Greece's health care system has undergone a decade of continuous reforms as a consequence of the crisis. As a first key step, Greece established the National Organisation for the Provision of Health Services (EOPYY) in 2011, which manages a single unified health insurance fund and acts as the sole purchaser for publicly funded health services delivered by the National Health System. Next, after a number of legislative attempts starting in 2013, Greece instituted universal coverage in 2016, bringing Greece in line with EU health system best practices. This achievement was an explicit objective of the health system reforms under the first and second adjustment programmes, and was a priority for technical assistance under the EU Commission's Task Force for Greece. According to the new framework, all Greek citizens, including uninsured Greeks as well as other vulnerable categories, are entitled to receive public health care and medicine under the same conditions as insured citizens.

Under the ESM programme, Greece implemented further structural reforms of the health care system, including: further rationalisation of overall health care expenditures; the introduction of centralised procurement, with the potential to generate important additional efficiency savings; improved demand management for pharmaceuticals and health care through evidence-based e-prescription protocols; the reduction of pharmaceutical spending by regular downward revisions of pharmaceutical prices; and significant steps to improve the governance of the health care system, from improved auditing to the creation of patient registries and the implementation of pre-approval for high cost drugs. After peaking at 9.6% of GDP in 2010, health care expenditure in Greece dropped to 8% in 2017, well below the EU average of 9.8% of GDP (European Commission, 2019f).

Though they were reduced significantly under the ESM programme, arrears of EOPYY (€193 million) and public hospitals (€354 million) still accounted for 37% of Greek general government arrears (€1.48 billion) at the end of 2019 (Hellenic Republic Ministry of Finance, General Accounting Office, 2020). The EOPYY and public hospital arrears reflect, to a large degree, overspending vis-à-vis budget ceilings in pharmaceutical and medical services from private sector providers, which by law can be claimed (clawback mechanism) or rebated from private sector providers. To contain public spending on health, the maximum admissible yearly increase in the expenditure ceiling reflects the real GDP growth forecast for the year at the time of the adoption of the budget. Under the ESM programme, the Greek authorities completed the collection of long-outstanding clawbacks (2013–2015) and committed to the extension of all closed budgets up to 2022. The macroeconomic impact of arrears clearance under the ESM programme is significant, as it partly counterbalances the negative liquidity impact of fiscal consolidation targets.

While the overall resilience of the Greek health care system has increased, several challenges remain. Adequate funding for health services is needed, particularly to improve the overall quality of care and to support the development of a functioning primary care system. Governance could be strengthened through a clearer definition of strategic, evidence-based objectives and a comprehensive national plan (European Commission, 2015a, 2018b, and 2019b).

4.4. Efforts to promote inclusive growth

Before the crisis, there was an array of Greek welfare programmes without means testing. Greece traditionally spent almost 25% of GDP on social protection, mainly to provide pensions, with very low social assistance expenditure programmes for the most vulnerable. A plethora of such programmes was spread through central and local expenditures, but their effectiveness was far from clear. During the GLF programme, fiscal consolidation hurt the upper income distribution deciles, then the EFSF programme started hitting the bottom of the income distribution array. Unemployment, poverty, and inequality started to rise, a trend that intensified when labour and product market reforms affected the low-to-middle income population. Poverty indices kept rising.

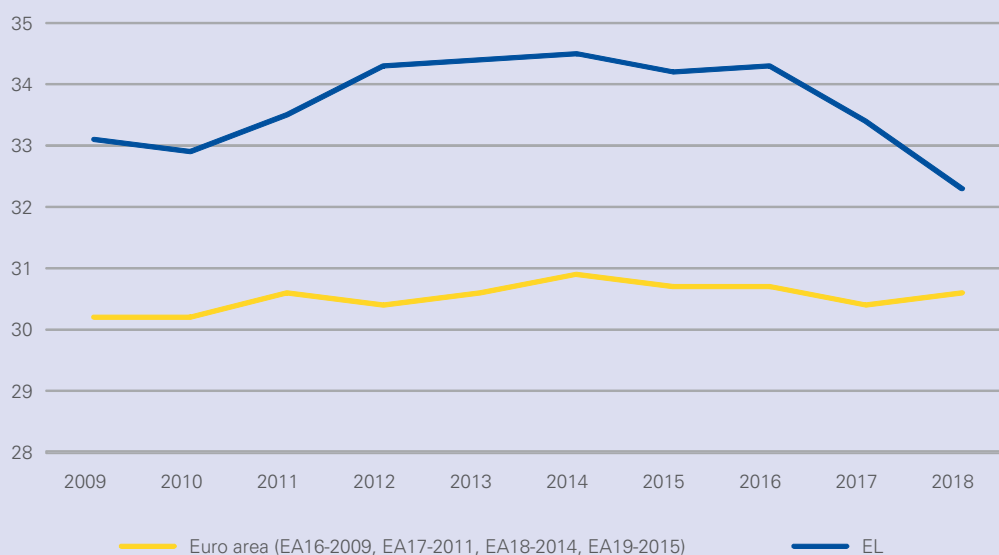
Box 4.3 Developments in income equality

Greece entered the crisis with high income inequality, which worsened further during the early years of the crisis (Figure 4.22). The unequal fiscal burden (Giannitsis and Zografakis, 2016) and rise in unemployment contributed to the increase in income inequality prior to 2014.

Post 2014, labour market improvements and the strengthening of the social welfare system led to a fairer income distribution. The introduction of a guaranteed minimum income (2017), strengthened family benefits (2018) and a rent subsidy (2019) contributed increasingly to the revenues of the lower income households. Overall, the income share of the poorest households increased, that of the top 20% decreased, and middle incomes remained stable (European Commission, 2020b).

Although Greek income inequality declined to pre-crisis levels, it remained above the euro area average, primarily due to labour market developments. The employment rate remained below the euro area average, with the country exhibiting a persisting high gender gap (European Commission, 2020b).

Figure 4.22
Gini coefficient of equivalised disposable income



Source: EU statistics on income and living conditions

Strengthening social safety nets qualified as an urgent EFSF programme priority. When entering the crisis, Greece was one of two EU countries lacking a uniform social safety net, for example it lacked a guaranteed minimum income. A comprehensive review of social welfare and social protection spending was planned for end-June 2014 to gather details about the benefits. It aimed to assess the purpose of social protection spending, identify gaps in coverage, and then increase the effectiveness of social welfare spending.

The ESM programme re-introduced a social solidarity income (SSI) programme to play the social safety net role. The scheme involved launching a guaranteed minimum income (GMI) scheme in consultation with the World Bank, followed by family and rental benefits.⁵⁹ Effectively, the programme also operated as an unemployment assistance scheme for the long-term unemployed deprived of regular unemployment benefits. Financing, originally meant to be drawn from the savings generated by the social welfare review, eventually came instead from the fiscal over-performance following the 2016 pension

reform and lower-than-expected public investment. However, the SSI only helped redress to a small extent the social budget allocation balance between pensions and social benefits.

According to the World Bank (2019a), the SSI programme was very effective in identifying poor households as almost 60% of all SSI beneficiaries belong to the lowest income distribution decile. The programme constitutes a significant source of income as the benefits represent about 69% of the aggregate income of households in the first decile, and about one third of the aggregate income of the poor.

With its narrow targeting, the SSI did not help those closer to the poverty threshold. It increases the income of the poorest households, reduces the poverty gap, and lowers income inequality (OECD, 2020). By targeting the very poorest, it is less successful at reducing the overall poverty rate, especially since the allowance is small and the eligibility threshold well below the poverty line. So even after receiving the allowance, the income of beneficiaries often remained below the poverty line. Moreover, the coverage among its intended and potential beneficiaries remained low, in part due to difficulties in reaching them and limited information campaigns (World Bank, 2019a).

Despite these limitations, under the ESM programme,⁶⁰ the SSI scheme offered some first tentative positive poverty-reduction results. The programme helped the better targeting of the SSI scheme supporting effectively those in real need.⁶¹ The improvements coincided with a lower long-term unemployment at 13.6% in 2018 against 19.5% in 2014. Overall, the figures denote a reduction in extreme poverty and an upgrade in inclusive growth.

Given a growing tendency in countries to link SSI programmes with labour market programmes, Greece could also potentially improve the effectiveness of this scheme by establishing stronger incentives for the recipients to participate more actively in the labour market. This would require closer cooperation among various public sector services to promote the development of more effective labour market integration programmes. Even countries with an effective public administration have been slow in getting these SSI programmes up and running. The SSI programmes still need to find a good balance between generosity and stronger employment incentives.

4.5. Banking sector

Banking sector support prevented a systemic meltdown. Given the macro-economic challenges, the liquidity support and recapitalisations of the banks during the EFSF and ESM programmes proved crucial in helping to stabilise the Greek banking system and restore financial stability across the euro area. It also effectively halted the outflow of deposits, as banks became compliant with the minimum regulatory capital requirements.

Nonetheless, the system is left with fundamental weaknesses. After a full repayment of the ELA (see Figure 4.6 in the Technical appendix), the liquidity position of some banks still remained weak (Moody's, 2019). The overall liquid asset distribution across the banking system is uneven indicating dysfunctional

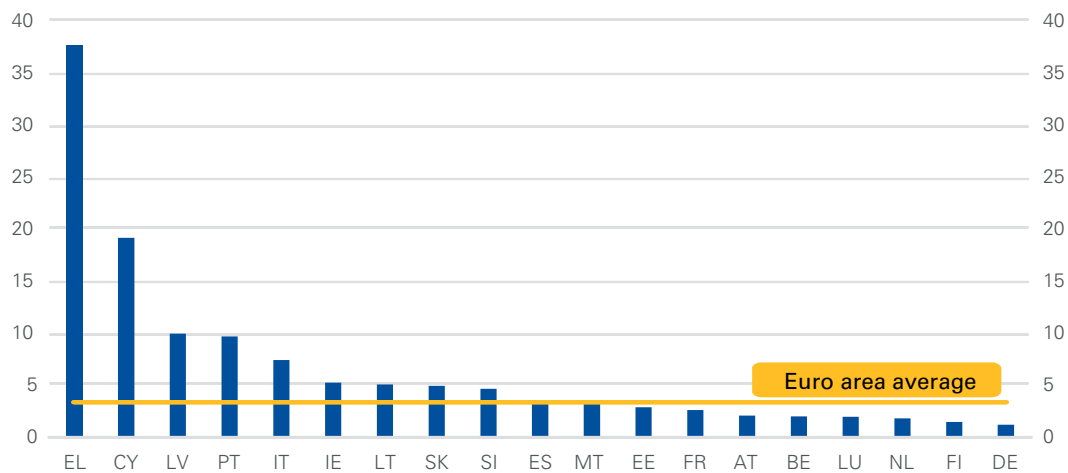
interbank lending.⁶² However, growing confidence supported a gradual easing of capital controls, which were abolished in September 2019. ELA repayments help lower bank costs and reduced capital controls attract foreign investments, but it is important such steps are aligned with preserving bank liquidity positions.

The high share of DTCs is a major challenge concerning the banks' common equity tier 1 (CET1) capital. Bank losses on their government bond portfolios after the 2012 debt restructuring entitled them to use such losses to lower their taxable incomes in ensuing years. Legislation allowed these tax assets to be transferred into DTCs, which are not contingent on future profits and so can be taken into account in capital calculations regardless of whether banks are profitable. They can be counted as capital without a state voting right. However, conversion of DTCs would dilute private investors because the state would acquire ordinary shares. The current high level of DTCs weakens the ability of banks to attract fresh capital (see Figure 4.7 in the Technical appendix). Low investor appetite led to the postponement of the HFSF exit from bank capital to the post-programme period.

Consolidation of the sector reduced contagion risk and was necessary to stabilise the Greek banking system. As a result, the banking sector became highly concentrated. After the EFSF programme, the five largest banks' share in the banking system's total assets – a standard euro area concentration measure – reached almost 100%, (see Figure 4.8 in the Technical appendix) establishing a highly concentrated banking sector by international comparison (see Figure 4.9 in the Technical appendix) and the four largest institutions follow the same, universal banking business model. This high concentration works against further consolidation, so any profitability upgrade needed to underpin long-term banking system sustainability would require novel elements to the bank business models.

Efforts to reduce NPLs were partially effective over the period covered by this evaluation. Greece's NPL ratio remains the highest in international comparisons (Figure 4.23). Based on Kaskarelis and Siklos (2019), effective NPL management requires an approach that combines supervisory, legislative and bank-specific measures. EFSF/ESM programme documentation shows Greece has introduced legislative measures to improve NPL resolution, including streamlining the insolvency and foreclosure framework and out-of-court workout procedure for companies. Legal requirements to launch a secondary NPL market were established by a sale-of-loans law that allowed individual bank's internal restructuring units to enter into loan-servicing arrangement and conduct NPL portfolio sales through outsourced experienced staff and technology.

Figure 4.23
Non-performing loan ratio in euro area countries
 (Q3 2019, in %)

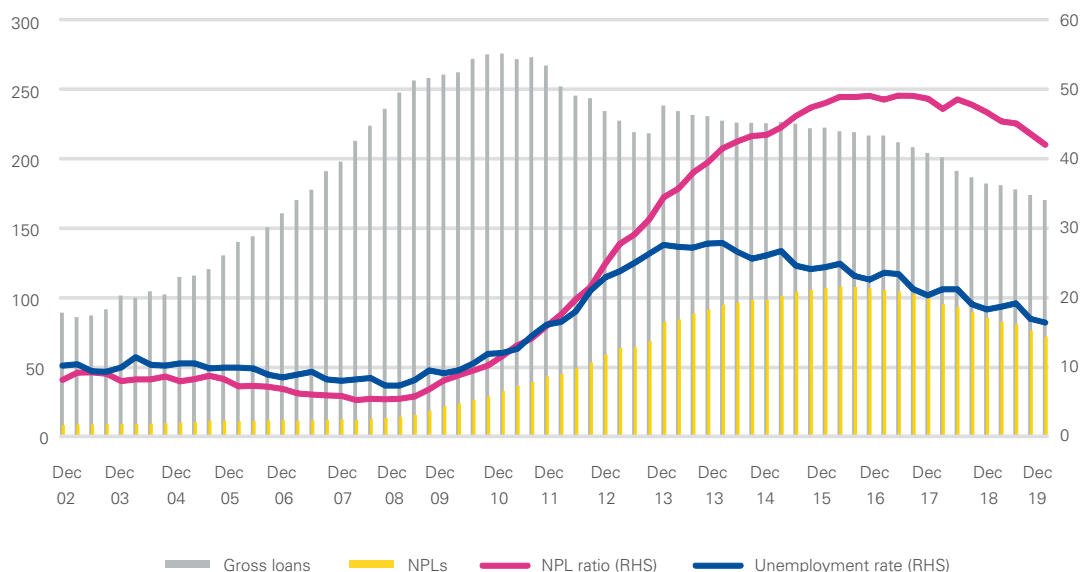


Source: ECB

The limited success was mainly due to implementation delays because actions to streamline the legal framework only emerged when NPLs reached extremes. Reforms have not yet increased the effectiveness of loan enforcement procedures with collateral enforcement and insolvency still taking longer than before the crisis (see Figure 4.10 in the Technical appendix), mainly because administrative loopholes offer borrowers various ways to delay. This inefficient enforcement system encourages moral hazard and has expanded the number of strategic defaulters significantly. The current foreclosure process still does not act as a credible threat to push non-performing borrowers to cooperative solutions with creditors. The World Bank identifies Greece within the list of countries that underwent economic adjustment programmes as the one with the highest NPL ratio, and the least efficient legal framework (see Figure 4.11 in the Technical appendix).

Missing social safety nets contributed to NPL accumulation. As the economy contracted in 2011, unemployment started increasing rapidly, affecting people who had outstanding loans (Figure 4.24). Greece's incomplete social protection system, which normally serves as a compensation for losses in income, was replaced by legislation (Katseli law) aiming to lengthen the collateral enforcement process. This led to a rapid NPL increase. Later, under the ESM programme, measures to strengthen social safety were introduced, such as a GMI, but these targeted the most vulnerable social groups that typically did not possess loans, and so did not result in substantial NPL reduction.

Figure 4.24
Non-performing loans and unemployment in Greece
 (left-hand axis in € billion, right-hand axis in %)



Sources: Bank of Greece, Eurostat

Programme measures focused on bank-by-bank solutions rather than a systemic NPL resolution framework. The main idea behind measures to try and resolve the NPL problem was to provide banks with the tools needed, then leave them to identify the most effective way to reduce their NPLs, an approach that aspired to preserve the relationships between banks and borrowers. However, in theory, the size of the problem might have justified establishing a system-wide solution similar to Ireland and Spain. This concept of an asset management company (AMC) was discussed during the programme design but rejected for various reasons. Explaining why this did not happen, interviewees mentioned the versatility of loan portfolios and concern about governance within any public AMC. Bank resistance contributed, as did concerns that a long timeframe might have been needed for any AMC to become fully operational. Other reasons mentioned were: potential implications for public debt; difficulties in establishing an optimal pricing strategy; a lack of bank capital and the potential impact on private sector indebtedness. Nonetheless, numerous stakeholders with the benefit of hindsight felt the decision not to implement an AMC within the programmes was a missed opportunity (see Figure 4.12 in the Technical appendix).

Governance at banks and in the HFSF improved. New measures meant banks and the HFSF are now well equipped with independent board members who have sufficient knowledge about banking and finance. On average since 2012, the number of board members has fallen at the four largest banks; the governance system overhaul during the ESM programme meant some banks experienced a relatively high turnover on their boards (see Figure 4.13 in the Technical appendix) and stricter board member selection rules sometimes became a bottleneck.

Banking union helped accelerate NPL reduction and improve Greek banks' governance structures. The Single Supervisory Mechanism (SSM) was established in 2014 as the first pillar of the banking union's institutional framework. It is charged with ensuring independent supervision of the euro area banking system. In its guidance on NPLs, (ECB, 2017 and 2018) the SSM lays down supervisory expectations for bank workout strategies that include a requirement for banks carrying high NPLs to submit a reduction plan and an expected provisioning pace. Supervisors can challenge the ambition and credibility of the plans, which could trigger additional supervisory measures under the supervisory review and evaluation process. This exercise is particularly relevant for Greece and involves all its systemic banks. After the submission of the NPL plans, the NPL ratio in the country started to fall. The SSM also assessed that banks have made progress but that most large banks needed to improve their governance and risk frameworks to meet international best practices and guidelines. The supervisory expectations on governance were made public in 2018 and showed euro area banks needed to improve in five critical areas: fit and proper assessments; board oversight functions; supervisory board independence; risk appetite frameworks; and risk data aggregation (Fioretti et al, 2019). The SSM action means the governance of Greek banks has now been scrutinised according to harmonised criteria across the euro area.

The Single Resolution Board and the minimum requirement for eligible liabilities (MREL) exert discipline towards deeper harmonised supervision, and bank engagement with commitments to reduce NPLs. Systemically important institutions had to raise bail-inable liabilities in the short and medium term. Since the riskiness of a particular bank influences the cost of its fund-raising, reducing NPLs without delay has become an important profitability consideration. The SSM's comprehensive due diligence and the binding MREL requirements meant Greek banks' NPL reduction performances – and governance – improved considerably.

4.6. Unintended consequences of the EFSF/ESM programme

The Greek EFSF/ESM programmes generated unintended outcomes. A strong focus on restoring euro area financial stability and ensuring Greece returned to the markets had unintended consequences. Here the focus is on outcomes that emerged during the EFSF/ESM programmes, although these should be considered in the light of the combined programmes rather than be ascribed to just one.

Front-loaded fiscal consolidation exacerbated a fall in demand, contributing to an output decline close to 27%. A rise in unemployment and deeper-than-expected contraction during the first programme expanded the shadow economy, leading to a tax base contraction and shrinking social contributions. To compensate, programmes covered the gap by increasing taxation and reducing productive public spending below some critical limits. The disposable income of households fell almost 40%, reducing savings. This trend appeared in all the programmes but most clearly during the ESM programme, and acted as another impediment to financing private investment (Figure 4.25).

Delayed judiciary reform is likely to have impaired the economy's capacity to produce investment-led growth. Weak investor protection and judicial decision delays fostered an environment of constrained bank credit that offered only

short-maturity loans at high interest rates. This leads to low venture capital investment (Papaioannou, 2009; Demirgüç-Kunt and Maksimovic, 1998; Djankov et al., 2003), and consequently an unusually high number of small companies operating with a limited network of collaborators. These weaknesses favoured an environment known as an insider-outsider setting; well-connected firms prosper by avoiding legal system costs while entrants faced insurmountable expenditures that stymie expansion. In this setting, foreign investors found it difficult to enter the market and the economy became trapped by low productivity and sluggish resource reallocation towards sectors offering high potential (Ciccone and Papaioannou, 2006; 2007).

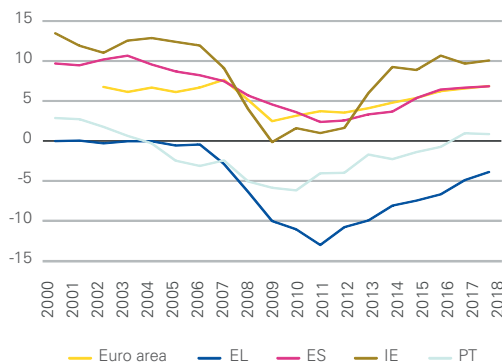
Sovereign issues become banking issues and increase corporate funding costs, limiting investment plans. During the programmes, Greek banks had to resort to ELA, an expensive funding source compared to normal activity. Interview responses show that even healthy corporates experienced disappearing credit lines and the only way to endure higher domestic interest rates, was to suppress some investment plans (Figure 4.26), or borrow from international capital markets.

Harsh economic adjustment generated a sense of social injustice that prompted resistance to reforms. The sizeable cuts in public expenditure and the economic contraction during the programmes, had a detrimental effect to poverty, in addition to the impact of the sizeable increase in unemployment. This triggered social resistance towards adopting reforms. Many interviewees felt that a focus on reducing the number of public servants intensified uncertainty without establishing clear economic benefits for society at large.

Another unintended consequence from high primary surplus targets under the ESM programme was the high taxation impact on competitiveness. Efforts to improve Greece's terms of trade through liberal market reform stalled because taxation and duty costs remained high compared to competitors. Exporters who gained from the supply side policies and started to reduce export prices found the benefits were limited by the introduction of higher tax rates. Despite some improvements seen during recent years the overall export performance continues to lag peers. These competitiveness side effects were never explicitly assessed in the EFSF/ESM programme documentation.

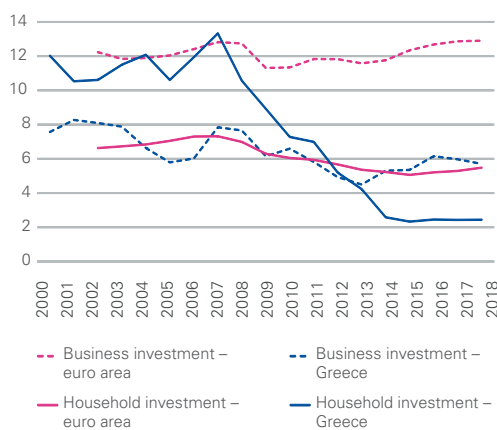
Brain drain followed the sharp increase in unemployment. Interviewees regarded the brain drain that followed the sharp unemployment increase as one of the important unintended consequences of the crisis. The Hellenic Federation of Enterprises (SEV, 2020) estimates the amount of talent leaving Greece between 2008 and 2017 at some 470,000, with 51.4% aged 25 to 44. This large labour outflow involved the well-educated and cut the labour force by almost 10%. The same report estimated almost €4 billion in public money had been spent to educate them. With 36% of companies reporting difficulties in hiring qualified staff, this labour supply change could limit Greece's economic potential, which was not explicitly foreseen in the programme documentation of the three adjustment programmes.

Figure 4.25
Savings rate
(total, in % of GDP)



Sources: OECD, Eurostat

Figure 4.26
Non-governmental investment in
Greece and the euro area
(in % of GDP)



Sources: OECD, Eurostat

4.7. Conclusions

All Greek economic adjustment programmes aimed at the mitigation of sovereign risk by prioritising fiscal sustainability. Given the 2015 economic uncertainty, the ESM programme was no exception. Despite the milder targeted fiscal consolidation, compared to previous programmes, the ESM programme addressed to a limited extent the need to quickly move economic activity close to potential. More specifically, the fiscal policy mix was contradictory in its approach to growth, because the cutback in the public investment budget offset gains from the lower fiscal targets and the overall balanced mix of revenue and spending measures.

In contrast to product market reforms, labour market changes delivered competitiveness improvements. The ESM programme revamped the focus on product market reform by implementing an array of granular measures to overcome weak Greek ownership. But while labour market liberalisation was achieved, progress in the product market remained only partial. This had important implications for the promotion of a business-friendly economic environment.

The ESM programme contributed to inclusive growth and some progress toward a social safety net. Signs of a stabilisation in both poverty and income distribution resulted from the work of the SSI scheme, which better targeted disposable income in the lower-income distribution deciles. The SSI envelope proved to be effective in reducing poverty in the poorest groups, but its effectiveness in reducing overall poverty rates remains limited.

Measures to address financial sector weaknesses restored financial stability, but the system remains fragile. The liquidity position of some banks remains weak and the high share of DTCs within the banks' capital raises concerns for long-term prospects. Policy actions to streamline the legal framework

were implemented, with delays, after accumulated NPLs had expanded to extreme amounts. This slowed the NPL resolution process and left Greece with the highest NPL ratio in the euro area. Governance in the banks and the HFSF improved considerably, partly thanks to the involvement of European institutions, including the ESM, in the reform process. The establishment of the banking union helped accelerate NPL reduction and improve the banks' governance structures.

The EFSF and the ESM programmes recognised the need to modernise the public administration and judicial systems while supporting the operation of independent authorities, but progress was only partial. The ESM programme focused on a narrow set of targets aimed at enhancing the efficiency, independence, and transparency of targeted national administrations such as tax administration, HCAP, and HFSF. Efficiency in the judiciary improved but is still below the EU average. Reforms to investment licensing are ongoing. Public procurement improved considerably, but the government is struggling with public administration reforms.

As in earlier programmes, the ESM intervention had some unintended consequences. The most detrimental consequences were: first, a sharp drop in private investment because of credit scarcity and compressed demand; second, a rise in unemployment and an extensive brain drain; and, third, the way the black economy harmed those in the formal economy who bore the fiscal consolidation cost.

5. Assessment – Efficiency

This chapter describes key efficiency aspects in the EFSF/ESM's provision of financial assistance. A standard efficiency evaluation would assess how EFSF/ESM resources and inputs are converted into results. The key competence of emergency assistance is the ability to structure its lending in a way that supports the debt sustainability and market access of the beneficiary country while limiting the impact on its lending capacity, own risk exposure, and costs. The ESM needs to have the capacity to make available or raise and disburse exceptionally large amounts of liquidity to support a sovereign's immediate and short-term financing needs. Authorities interviewed for the first ESM evaluation emphasised as priorities the immediate access to large amounts of financing and later maturity extensions of such loans.

Box 5.1: Key questions of the efficiency assessment

- Did the EFSF/ESM adopt efficient solutions under changing circumstances?
- Was the scope and design of conditionality conducive to promoting programme implementation?
- How did efficiency and ESM risk considerations balance out?
- How did the EFSF/ESM adapt to unexpected scenarios requiring implementation of ad hoc innovative measures resulting from political decisions?

The analysis assesses the ESM's agility in responding to financing needs and managing related processes. It covers issues such as set-up, timeliness, and quality of the financial assistance provided. As the immediate crisis pressures dissipated, the cost of financing became an issue of greater importance for Greece than for other countries. The chapter concentrates on how efficiently the ESM adapted to changing political preferences and whether ESM solutions adopted in response to changing circumstances were efficient; and especially whether the ESM was able to cater for potentially arising risks. The ESM-related risks include uncertainties associated with programme implementation and potential negative consequences stemming from imprecise assessment of compliance with conditionality requirements. The evidence is presented on programme financing and its use; the link between conditionality and disbursements; and lending terms and debt relief measures announced in 2017 and 2018. Mitigating ESM risks requires further consideration and policy action.

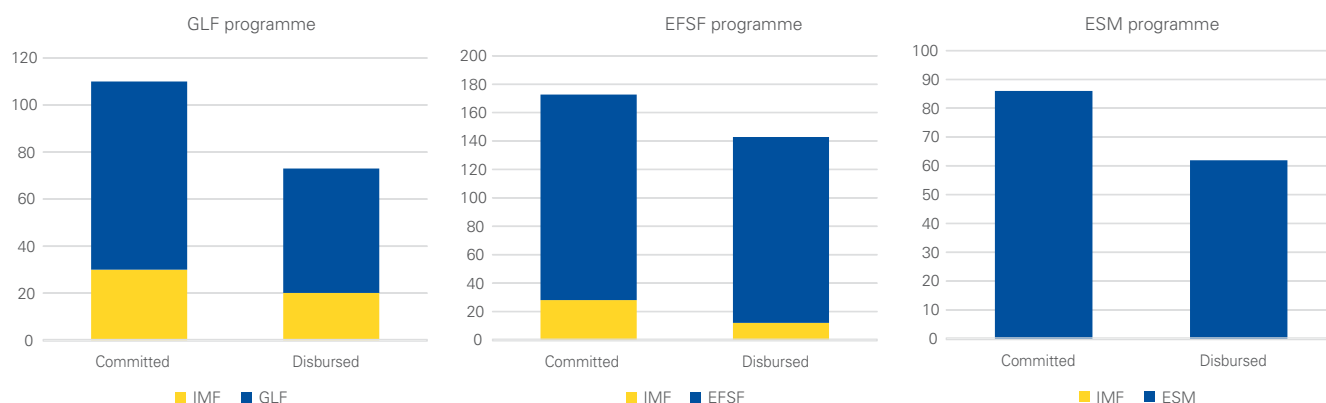
5.1. Programme financing

Any assessment of EFSF and ESM operations needs to consider the rapidly changing institutional environment. Limitations imposed by the initial euro area institutional architecture and political constraints impacted successive programme envelopes. The enhanced safety net and crisis resolution mechanisms, along with gradually increasing euro area capacity to provide financial assistance, allowed policymakers to rethink initial ad hoc solutions such as the GLF. In addition, alternative remedies such as the PSI became more palatable over time, given the pressing financial needs. However, the programme financing

envelopes were always the result of negotiations between the Institutions and the Member States, thereby reflecting borrowers’ and lenders’ constraints, including national political considerations (for more, see Chapter 3).

The share of EFSF/ESM programme envelopes in the total financing expanded as the role of external, non-euro area financial assistance diminished. The initial programme was supported by the IMF and bilateral loans from euro area member states so-called the Greek Loan Facility. Originally, the IMF agreed to cover one third of the financing needs (IMF, 2010 and Rehn, 2019). The IMF staff assessment regarded the Greek arrangements as subject to very high implementation and macroeconomic risks, and had to modify its lending framework to accommodate what it considered a high-risk undertaking. When disagreements on debt sustainability and growth prospects intensified, the IMF was unable to successfully conclude its programme reviews; its last disbursement was in May 2014. Consequently, the EFSF provided about 90% of the programme financing under the EFSF programme and the ESM provided all official financing for the ESM programme.⁶³

Figure 5.1
Programme financing composition by institution
 (in € billion)



Sources: European Commission (2012a), ESM calculations

Long EFSF/ESM loan maturities translate into their long-term exposure to Greece. Greek government debt is funded from multiple sources (see Figure 5.1 in the Technical appendix). The IMF share phases out in 2024 at the latest, provided Greece makes no early repayments. Over the long term, the EFSF will remain the key creditor of Greece until 2070 and ESM until 2060.

5.2. Use and sizing of financial assistance

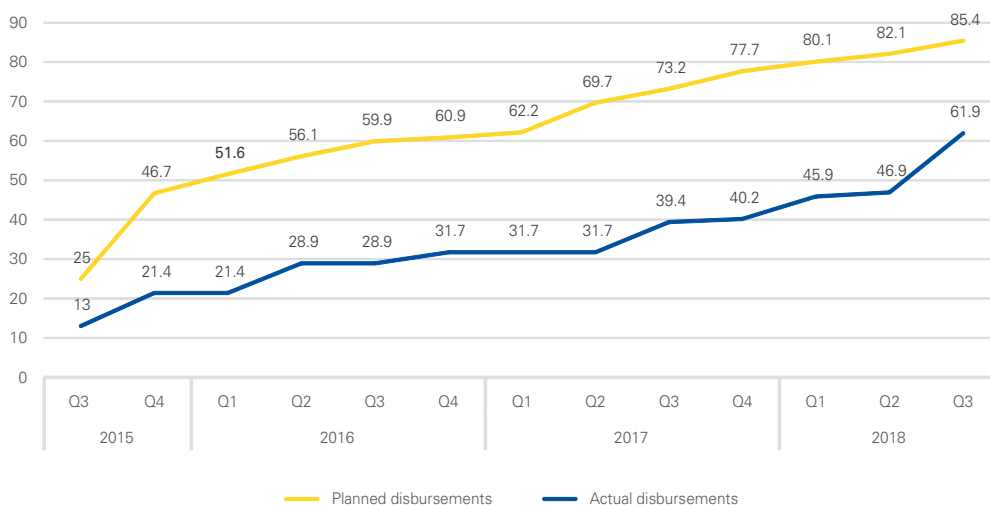
The EFSF and ESM committed programme amounts reflected negotiated estimates of Greece’s financing needs and discussions about the appropriate size of contingency buffers. Financing committed by the EFSF and ESM totalled €230.7 billion, of which €193 billion was disbursed. The disbursed amounts reached 90% and 72% of commitments, respectively. Contingency buffers were discussed in both programmes, specifically for bank recapitalisation (Bank of Greece, 2012). However, the programme documents lacked any clear communication about contingency buffers for debt servicing or for the financing of the budget deficit (European Commission, 2015b and ESM, 2017a). Insufficiently delineated contingency buffers reduced the transparency

towards stakeholders and the markets, an issue that also arose in other euro area programmes (ESM, 2017a).

EFSF and ESM programme financing was principally devoted to budgetary financing and to servicing existing creditors. The primary use was to service existing liabilities towards creditors and then to finance the government’s budget deficit. Under the EFSF programme, the PSI represented another large financing category. Original GFN estimations under the ESM programme included a specific cash buffer (European Commission, 2015b and ESM, 2017a) (see Table 5.2 in the Technical appendix).

The difference between the planned and actual disbursed amount of the ESM programme stemmed from an unused amount for substantially lower bank recapitalisation needs. In February 2015 the HFSF returned €10.9 billion to the EFSF that was originally earmarked for bank recapitalisation, but then not needed. Under the ESM programme, Greece used only €5.4 billion of a maximum €25 billion for this purpose. Improved cash management of government resources through increased repurchase operations contributed to higher available domestic resources. In addition, €11.4 billion was used to accumulate Greece’s cash buffer towards the programme exit. The planned disbursements structure was further modified by two sets of debt relief measures.

Figure 5.2
Planned versus actual disbursements in the ESM programme
(in € billion)



Source: ESM calculations

The use of financing reflected a change in the programmes’ objectives. In general, the programme financing aimed to put Greek public finances and its economy back on a sustainable track, while safeguarding Greek and euro area financial stability. The financing provided by the EFSF also included the first extension of loan maturities and participation in the PSI through a cash sweetener to cooperating investors. ESM financing further contributed to the strategy of restoring sustainable growth, creating jobs, and reducing inequalities. As part of this financial support, a key undertaking was the implementation of the measures needed to support the long-term sustainability of Greek debt. This includes several types of actions, which are explored below.

Box 5.2: Private sector involvement process and implementation

The PSI was a restructuring of the sovereign bonds issued by the Greek government or selected state-owned enterprises and held by private investors in March 2012. Initial discussions on the need to conduct a sovereign debt restructuring began in May 2011. The Greek government formally announced the final debt exchange offer on 24 February 2012. By end April 2012, about €197 billion or 95.7% of privately held Greek bonds took a 53.5% nominal haircut. The final PSI act involved a bond buy-back in December 2012 at market prices, financed by the EFSF (Cheng, 2020). To encourage creditor participation, the Greek Bondholder Act 4050/12 passed on 23 February allowed a retrofit of the collective action clause in the Greek law government bonds. Zettelmeyer et al. (2013) highlight that the largest cash sweetener ever offered in a debt restructuring was one of the factors behind the high participation rate.

By end 2012, Greece concluded the bond buyback with its domestic and foreign private creditors. The operation aimed to buy back debt instruments issued or guaranteed by the Greek government, especially the new series of bonds issued in April for the PSI bond exchange. Conducting this operation became a necessity during EFSF and IMF programme reviews. Had the Greek government not reduced its debt, the IMF could no longer have disbursed funds available under its EFF programme. The EFSF and the ECB supported this operation. As a result, Greece retired €31.8 billion in bonds issued in April using €10.8 billion of EFSF funds. Out of the total €31.8 billion, €14.1 billion came from Greek banks and the rest was bought from foreign creditors. The operation reduced the Greek debt stock by another €20 billion, equivalent to 8% of Greek 2012 GDP.

During the PSI, the parties involved, including the EFSF, adopted tailor-made financial operations to successfully operationalise the bond exchange (see Annex 5.1 in the Technical appendix). They developed a number of necessary legal and financial innovations to engineer an orderly debt exchange with private creditors. Besides the staged coupon payments detailed in the bond exchange, the EFSF also provided GDP-linked warrants of an initial notional amount equal to the face value of the new bonds. The new bonds were also issued under a “co-financing agreement” with the EFSF that created an exact symmetry between Greece’s debt service to the new bondholders and its debt service on the EFSF notes and bills that it had received for the purposes of the debt exchange. In this regard, the EFSF contributed in March 2012 to the very first voluntary liability management exercise by Greece. A trustee for the holders of the new bonds was also appointed to ensure payment to the bondholders. Finally, the buyback of Greek marketable debt instrument was agreed before the PSI started, and was scheduled for December 2012 at market prices.

With the benefit of hindsight, it is possible to examine counterfactual approaches, but they might not have been feasible at the time of PSI implementation. Zettelmeyer et al. (2013) suggest a number of counterfactual approaches that might have resulted in greater PSI savings. A uniform 70% haircut would have created additional debt relief of almost €30 billion in face value terms and €23 billion in present value terms, even if the official cash would have remained capped at €30 billion as in the actual debt exchange. They also highlight that if the buyback had happened at the reference price mentioned in the Eurogroup statement of 27 November 2012 (Eurogroup, 2017), Greece would have obtained an additional €6.0 billion in debt relief in present value terms. If it had been conducted at the price quoted by most traders shortly before the intention of a buyback was leaked to the press, around 11 October, the debt relief could have been €14 billion higher. Theoretically, additional savings could have been achieved if a more comprehensive approach had been adopted to hold-out creditors. According to the authors, it could have generated €3 billion more in debt relief.

Institutional constraints and a lack of coordination had a negative impact on programme financing. Insufficient clarity on the division of roles and responsibilities among the European institutions hampered the PSI process. It had an especially negative impact on timing (for more, see Chapters 3.3 and 7.2). The interviews highlighted two costly delays. First, the PSI was not a politically palatable solution associated with resolution of the euro area crisis at the time when the GLF was conceived, and its delayed implementation during the EFSF programme undermined market confidence. Second, interview respondents referred to the costs associated with the time elapsed in carrying out the PSI from May 2011 to March 2012.⁶⁴ Because no standstill of payments on the debt stock was imposed, the Greek government continued to pay investors in full while PSI negotiations dragged on. Some estimate that an earlier PSI would have lowered the debt stock by a further 18% of GDP.⁶⁵

The PSI meant Greek banks suffered losses on their domestic government bond portfolio and had to be recapitalised. The EFSF provided the recapitalisation financing, disbursing €25 billion to Greece specifically for bank recapitalisation on 19 April 2012 immediately after the PSI was concluded (ESM programme database). It made another €16 billion disbursement for bank recapitalisation on 19 December 2012. In a narrow sense, the PSI-linked programme financing was well designed and implemented because new funds from official creditors immediately offset Greek bank losses. As a side effect, however, Cypriot banks also suffered considerable collateral damage, given their Greek sovereign bond holdings. This contagion effect from the Greek PSI to the Cypriot banking crisis would later require ESM financial resources for Cyprus. Such unintended consequences were not factored into EFSF or ESM activities at the PSI inception.

The size of the envelopes envisaged for financial sector repair restored confidence. The EFSF programme envisaged €50 billion to recapitalise and resolve banks. Overall, €48.2 billion was disbursed, out of which €37.3 billion was used for such purpose. The remaining €10.9 billion was disbursed to the HFSF and at the end of the programme transferred back to the EFSF in February 2015. The ESM programme foresaw a €25 billion recapitalisation need, but only €5.4 billion was used (ESM programme database).

Initial estimates led to a higher-than-necessary envelope and more intensive use of EFSF/ESM's resources, in particular in the ESM programme. Restoring financial sector confidence demands a sufficiently large envelope; given the ESM's lending capacity is capped at €500 billion, the amount committed to any one programme reduces its lending capacity to other member states. Higher than expected private participation drove the underuse of the envelopes as did conservative assumptions in asset quality reviews (AQRs) and stress tests. During the ESM programme, a new actor entered into force – the SSM – that became responsible for estimating the capital shortfall. The new institutional setup did not formalise cooperation, which created an information asymmetry among stakeholders. This lack of transparency on assumptions applied in the capital shortfall estimate meant no opportunity arose for the other institutions to challenge these assumptions and led the European institutions involved to adopt a conservative stance and project a higher envelope size.

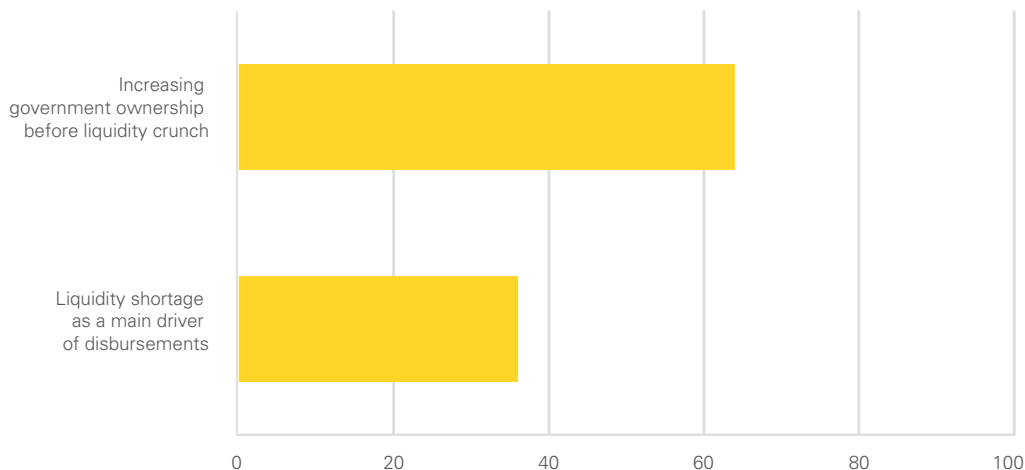
5.3. The link between conditionality and disbursements

Disbursements were linked to compliance with conditionality. The ESM Treaty, the support instrument guidelines, and the ESM lending framework all call for the ESM BoD to make a judgement on compliance with conditionality – whose terms are detailed in the MoU – before taking any decision on disbursements. Such decisions are based on the European Commission's assessment of the country's programme performance.⁶⁶ The EFSF/ESM has replicated the IMF practice of requiring prior actions for certain key measures that must be implemented before a review is concluded or a disbursement made, but this is not formalised in the guidelines.

Administrative processes remained flexible. An ESM disbursement usually starts with the BoD approving a tranche disbursement. The beneficiary Member then sends a request for funds to the ESM, which returns a signed acceptance notice for countersigning. Following that, the ESM makes the disbursement and sends a confirmation notice to the ESM Member (see Figure 5.3 in the Technical appendix). The interviews underlined overall satisfaction with this

EFSF/ESM disbursement process.⁶⁷ Under the EFSF programme a decision by EFSF guarantors was needed first in the Eurogroup Working Group (EWG), but in reality the EWG also prepared disbursement decisions under both the EFSF and the ESM programme based on the Institutions'/Troika's proposal.

Figure 5.3
Views on main drivers of positive assessment preceding the disbursements
 (in %)



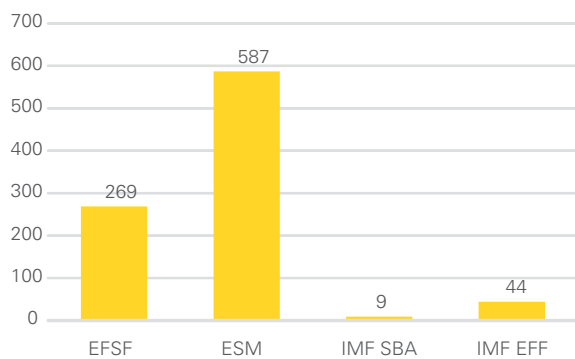
Note: The bars represent the percentage of mentions in 11 interviews explicitly referring to drivers of disbursements.
 Source: Evaluation team interviews

Conditionality compliance assessments represent a key input for Member States’ decision on disbursement, but the assessment criteria are still not fully transparent. In the ESM legal framework, the assessment of compliance with conditionality represents a basis for any BoDs’ decision on disbursements, yet throughout the EFSF/ESM programmes, the BoD was not presented with a transparent and consistent conditionality compliance assessment. Although the practice improved over the years, especially during the ESM programme, the different categories for compliance and high number of conditions could undermine credible decision-making (see ECA, 2017, European Commission, 2019e, and Annex 5.2 in the Technical appendix). Best practices of international organisations could serve as an inspiration and provide re-assurance to ESM Members when decisions that could impact the euro area economy are taken (IMF IEO, 2018 and IMF, 2019e).

The interviewees generally considered that Greece’s liquidity needs drove the disbursement decisions and speed of delivery on the side of Greek authorities. Interviewees suggested that the Greek government accelerated reform implementation only when faced with liquidity constraints. In addition, maintaining euro area financial stability and containing negative spillover effects motivated the EFSF/ESM shareholders to act in a flexible way to find a successful conclusion to any review when Greece was facing a liquidity shortage. Consequently, such an approach undermined the role of conditionality compliance assessment. Despite frequent references during the interviews, corroborating these attitudes by empirical analysis has been hampered by measurement difficulties, especially the lack of access to adequate granular data, and by methodological problems (see Figure 5.4 in the Technical appendix).

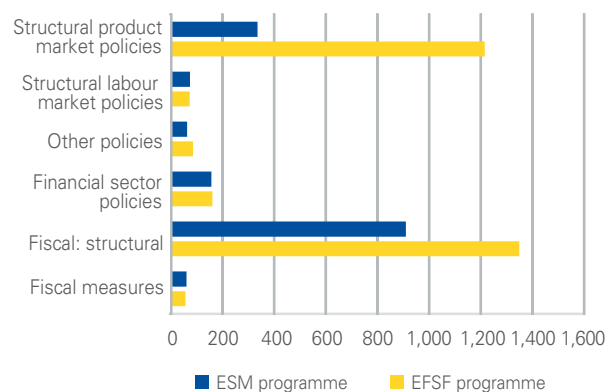
The absence of an ESM compliance assessment policy compounded issues in programme design, including a proliferation of conditionality. Many respondents highlighted the lack of transparent and consistent criteria for conditionality compliance monitoring and reporting reflecting the specific needs of the euro area. Such gaps resulted in ambiguous links between conditionality and disbursements.⁶⁸ The high number of ESM programme prior actions compared to the EFSF programme was related to the difficulties in assessing compliance with EFSF conditionality as well as concerns about a lack of a strong commitment from the Greek authorities. The number of prior actions was especially high compared to IMF programmes. In this regard, programme design failed to incorporate lessons on streamlining structural conditionality highlighted in several IMF conditionality reviews (IMF IEO, 2018 and IMF, 2001). Many respondents felt that complex conditionality rendered programme management and implementation less efficient.⁶⁹ The interviews also confirmed that the relatively low number of successful reviews also stemmed from problems with compliance assessments and related protracted discussions at technical and political level.⁷⁰ Overall, only four reviews were concluded over the three years of the ESM programme compared to the IMF practice of quarterly reviews.⁷¹

Figure 5.4
Comparison of number of prior actions per programme



Note: The bars represent the number of subconditionalities in respective categories.
Sources: IMF IEO (2016b), IMF (2017a), ESM programme database, ESM calculations

Figure 5.5
EFSF and ESM programme conditionality structure

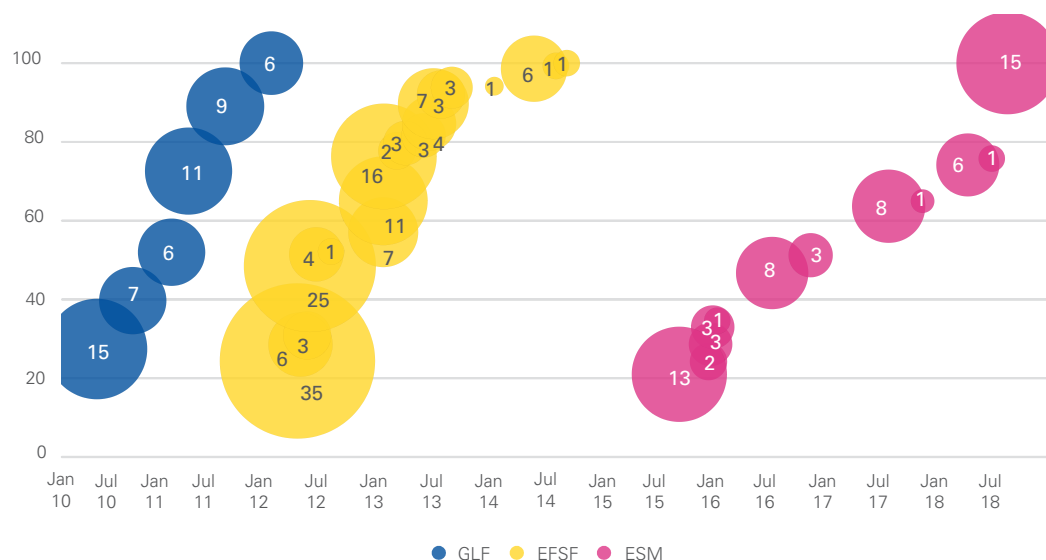


Note: The bars represent the number of subconditionalities in respective categories.
Sources: ESM programme database, ESM calculations

5.4. Size and financial structure of disbursements

The European institutions and euro area policymakers demonstrated flexibility in re-engineering Greek loan conditions to adapt to changing circumstances. The financial structure of disbursements evolved over the three financial assistance programmes to meet changing country needs and mitigate potential risks. Under the GLF, financial support to Greece was provided at high rates, starting with a 3% margin rate for the first three years and 4% thereafter. To ease Greece’s overall debt repayment burden, the programme passed through a series of adjustments 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. During the second Greek programme, the PSI required the EFSF to disburse in the form of in-kind floating rate notes for bank recapitalisation, pay a PSI ‘sweetener’ of €29.69 billion, and conduct the debt buyback. Later, the EFSF increased its efficiency by adapting its funding and lending strategies and reducing the lending rate.⁷² Figure 5.6 depicts the pace of disbursements under the Greek programmes provided by the European entities.

Figure 5.6
Programme disbursements to Greece in European arrangements
 (Cumulative amounts of disbursements, size of the bubbles represents the disbursed amount in %, rounded)



Source: ESM calculations

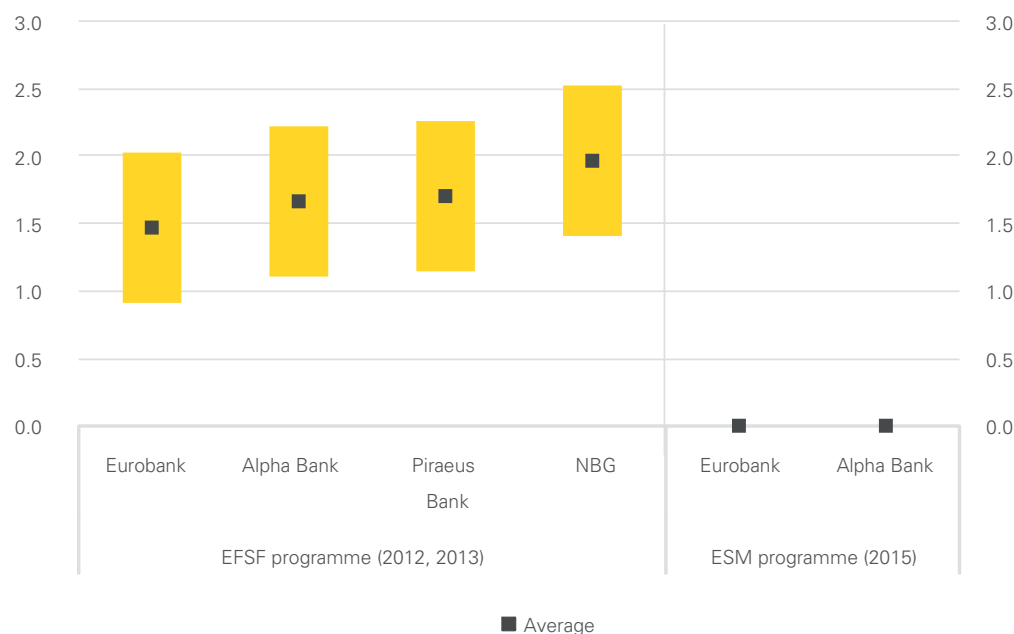
‘Disbursement in kind’ in the bank recapitalisation was efficient for both the ESM and the Greek banks. For operational reasons, it was easier for the ESM to provide funding in EFSF/ESM bonds rather than in cash. This reduced the immediate market impact of EFSF/ESM funding operations. It also benefitted the Greek banks, because they could use these bonds as collateral in liquidity operations with the ECB. Having a more diversified risk-free bond portfolio also helped reduce the sovereign-bank nexus in the Greek banking system.

The EFSF/ESM disbursed efficiently in a quickly evolving environment. The European institutions also discussed various exit strategies. The EFSF/ESM customised and front-loaded disbursements under both programmes to cater to Greek financing needs. Towards the end of the ESM programme there was a steep increase in disbursements as Greece built up its liquidity buffer. The European institutions discussed alternative solutions that potentially represented a more efficient use of ESM resources and a less costly route for the Greek government in the negative interest rate environment. The euro area could not, however, reach political agreement due to an overall preference for a clean exit. This allowed Greece to communicate its independence to the markets and European authorities to confirm the end of the crisis (for more, see Chapter 3.2.5).

The ESM programme ran fewer disbursement risks than the EFSF programme. In the EFSF programme, the unused programme envelope remained at the HFSF until it was transferred back to the EFSF at the programme's end. In contrast, the disbursed funds from the ESM programme were directly linked to actual bank recapitalisation needs. The remaining amount stayed available in an escrow account and was not disbursed to the HFSF upfront. This approach reduced the ESM's risks from political uncertainty and any potential siphoning of funds for other budgetary purposes, however, it resulted in higher costs for Greece because the custody and issuance costs were devolved.

Under the ESM programme, disbursements for bank recapitalisation were made more efficiently after restructuring plans were approved (Figure 5.7). This avoided a time lag between disbursement and effective recapitalisation under the EFSF programme and mitigated the ESM's risks. There was no risk that ESM funds might be misdirected because the banks' restructuring plans were known at the time of disbursement, so they were sized appropriately.

Figure 5.7
Time lag between the disbursement and approval of the restructuring plans
(in years)



Note: The bars represent the difference between the approval of the restructuring plans and the first and the last disbursements.
Sources: European Commission, ESM programme database

EFSF/ESM actions efficiently addressed requirements demanded by the changing political landscape. EFSF/ESM operations adapted to changes in disbursement timings, and also designed solutions that responded to shifting euro area and individual country needs. Over time, political constraints shifted and resulting decisions required swift implementation. The EFSF/ESM contributed, for example, to implementing the PSI. In addition, disbursement timing remained flexible despite repeated schedule changes. The EFSF/ESM solutions reflected shifts in lenders' openness to innovative solutions. In response to Eurogroup statements, the ESM/EFSF designed, approved, and implemented two sets of innovative financial operations reducing the Greek GFN and debt-to-GDP ratio.

5.5. Lending terms

EFSF and ESM lending systematically contributed to declining Greek interest costs (Figure 5.8). A key contributing factor was that the EFSF and ESM passed on to Greece their funding costs, which reflected their high creditworthiness. Initially these costs, topped up by a margin, were meant to reflect risk exposure, which was then successively reduced. Moreover, given the different maturity extensions adopted, Greece benefitted from grace periods and interest rate deferrals that reduced the repayment burden in the years following the EFSF and ESM programmes. The lower refinancing needs during these years created additional fiscal space and cut the risk premium requested by investors when Greece taps financial markets.

Box 5.3: EFSF/ESM funding and pricing strategies developed over time

The EFSF/ESM funds its assistance programmes by issuing capital market debt instruments, but the approach was altered to maximise funding flexibility. The original back-to-back strategy used by the EFSF matched funds raised in the capital markets to each programme country's disbursement schedule. In March 2012, the EFSF adopted a diversified funding strategy that was later also applied by the ESM. This approach allows the issuance of rescue funds at optimal market times, rather than when required to immediately disburse. Funds raised are allocated to short-term and long-term pools used for financing disbursements.

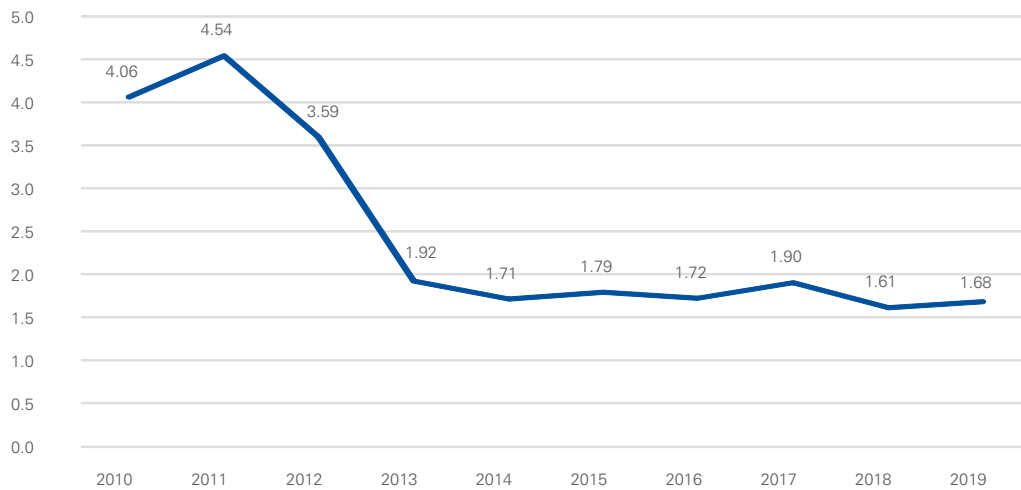
The EFSF/ESM pricing strategy objectives changed over time. Based on the IMF model, initial EFSF loans were granted for relatively short periods at high interest rate margins. Over time, the maturities were extended and fees declined. At the outset, it was unclear if countries subject to different sustainability risks should benefit from the lowest rates possible and the same lending conditions. During the crisis, the euro area resolution objective strategy shifted towards underpinning debt sustainability. This solution rested on the EFSF/ESM's ability to obtain low-cost funding and then pass the low cost on to programme countries, without country-specific risk premiums.⁷³

The adoption of debt relief measures requested by Greece created an exception to the standard ESM/EFSF pricing policy. The approach endorsed by the Eurogroup in May 2016⁷⁴ required that financial market operations aimed at reducing interest rate risk be conducted without former programme countries incurring any additional costs. As a result, the additional transaction-related costs were only passed on to Greece.

During the ESM programme, additional measures reduced the interest rate risk for Greece, but this involved up-front costs. The implementation of the risk reduction measures requested by Greece and endorsed by the Eurogroup in December 2017 were designed to stabilise Greek interest rate volatility, for example by extending the EFSF repayment profile and reducing the interest rate risk for Greece with a bond exchange programme. The ESM cost of conducting specific long-term issuances and the interest rate swaps (IRS) programme for

Greece increased the cost of Greek financial assistance in return for a fixed rate liability to the beneficiary. This was because the cost of undertaking these swaps was charged to the beneficiary in accordance with the general ESM pricing policy.⁷⁵ Overall, this operation helped to stabilise the country’s interest rate volatility, and reduced the risk that it would have to pay a higher interest rate on its loans when market rates increased. The trade-off between possibly higher future interest rates and higher initial borrowing costs due to long-term maturities was analysed in repeated DSAs and simulations (for more, see Chapter 6).

Figure 5.8
Central government effective weighted average interest rate
 (on an annual service cost cash basis, in %)



Source: PDMA (2019)

Figure 5.9
Comparison of yields on 10-year government bonds: Germany versus Greece
 (in %)



Note: Highlighted period coincides with the approval of short-term debt relief measures.
 Source: Bloomberg database

Many respondents emphasised how the debt relief measures contributed to a successful conclusion of the ESM programme. The measures are among others based on a forward-looking concept of GFN that markets monitor closely. Markets perceived their implementation positively, seeing it as a step towards ensuring the credibility of Greek debt sustainability over the medium to longer term.

Box 5.4: Debt relief measures for Greece announced in 2017 and 2018

After EFSF and ESM board approvals in January 2017, the two rescue funds implemented short-term debt relief measures for Greece (ESM, 2017b). These measures⁷⁶ aimed to make Greek debt sustainable for the future and support Greece's return to market financing (Figure 5.9). Starting in 2017, the ESM entered into IRS agreements with long maturities to reduce interest rate variability for Greece⁷⁷ (see Annex 5.3 in the Technical appendix). Greece has covered the costs related to the implementation of the IRS programme and bond exchange.

In June 2018, the Eurogroup, followed by the EFSF and ESM Boards, approved the medium-term debt relief measures for Greece (ESM 2018a). The key element of the medium-term measures⁷⁸ for Greek debt relief was an extension of maturity and grace periods on €96.9 billion of loans granted under the EFSF programme to smooth debt-servicing peaks in future decades. These measures rescheduled the loan repayment profile, eliminating many repayment bumps on the Greek EFSF loans in the 2030s and 2040s. As part of the medium-term debt relief measures, the EFSF lengthened the maturity for the EFSF loans provided from 2012 to 2014 by 10 years to mature in 2070.

In its statement of 22 June 2018, the Eurogroup reiterated its long-term commitment to ensuring the sustainability of Greek debt. It agreed that based on a debt sustainability analysis by the European institutions, it would review in 2032 whether additional debt measures were needed to adhere to Greece's agreed GFN targets, provided the EU fiscal framework was respected, and take appropriate actions, if needed. The Eurogroup said it would take into account a positive assessment in the post-programme surveillance, particularly in the areas of fiscal and economic reform policies.

Operationalisation of the medium- and short-term measures brought important lessons for the future. The measures implemented differed in operational complexity. Conducting medium-term measures implied only limited alterations to existing systems, but implementing the short-term measures required swift adjustment to ESM internal processes and information systems, especially with regard to conducting IRS arrangements. Timely conduct of the transactions necessitated ad hoc solutions to comply with internal policies. This experience highlighted flexibility of the EFSF/ESM framework, but it might be difficult to replicate in future programmes.

Replicating similar transactions would be operationally demanding. Carrying out transactions to implement Eurogroup political decisions confirmed by the EFSF/ESM bodies required intense collaboration among teams across the organisation and created operational challenges within the existing institutional framework. Despite intensive work, operational incidents could not be entirely prevented (see Annex 5.3 in the Technical appendix). The current way of funding financial assistance programmes could limit efficient implementation of similar measures for other beneficiary Members if needed in the future.

5.6. Conclusions

An assessment of EFSF and ESM programme financing needs to take into account the rapidly evolving institutional and economic landscape. An initial lack of a crisis resolution safety net was addressed by creating the ad hoc and operationally and financially relatively inefficient GLF, later replaced by the EFSF and ESM (see e.g. European Parliament, 2013 and Rehn, 2020).

The ESM actions proved its flexibility and operational efficiency. The ESM operated efficiently when designing loans and executing disbursements, including previously untested practices for sovereign lending, with flexibility to adjust terms in response to Eurogroup statements. In the medium term, the EFSF/ESM measures contributed to low borrowing costs for Greece, supporting the debt sustainability discussed in Chapter 6.

The Greek private-sector debt restructuring reduced Greek liabilities, but was delayed and therefore marked by inefficiencies. Additional institutional constraints and political reluctance caused two types of delays in implementing the PSI. First, the slow political recognition of the need for the PSI, and second, the protracted implementation itself. Both had a negative impact on programme efficiency and debt service costs for Greece. In potential future cases when PSI is implemented, the Institutions need to draw on lessons learned from the Greek experience. Despite its inevitability, the PSI generated another source of financial costs; Greek banks suffered from impaired loans given the extent of their government bond holdings. In addition, Greek public debt to GDP increased as a consequence of bank recapitalisations.⁷⁹

The size of the envelopes envisaged for financial sector repair was sufficient to restore confidence. Nevertheless, the initial estimates proved conservative, which led to a higher-than-necessary envelope and more intensive use of ESM resources. The conservative estimate in the ESM programme partly reflected a lack of information available to stakeholders who were, therefore, unable to challenge the underlying assumptions. The ESM programme involved fewer risks in terms of disbursements. First, the time lag between the disbursement of funds for bank recapitalisations and the approval of restructuring plans had disappeared by that time. Second, the use of an escrow account mitigated political risks. The ‘disbursement in kind’ was efficient from both the ESM’s and the Greek banks’ point of view. It was the most efficient way for the ESM to raise funds and it provided Greek banks with high-quality liquid assets.

The ESM lacked a policy on compliance assessment, which aggravated the problem of weak programme design and poor prioritisation. Several respondents confirmed that the programme review processes accelerated when government liquidity was tight which motivated it to speed up delivery on reform commitments. However, the evaluation team lacked data to corroborate this story. The large number of EFSF/ESM prior actions compared to the IMF reflected lack of compliance under the initial programme, but was not in line with lessons learnt on the importance of streamlining structural conditionality (see European Commission, 2019e and ECA, 2017). Many respondents highlighted the way complex conditionality rendered programme management and implementation less efficient.

During the implementation of the debt relief measures, the ESM mitigated risks, but to operationally replicate similar transactions would be demanding. The ESM’s internal setting provided flexibility to implement debt relief measures. However, similar operations on a large scale could reduce efficiency and introduce increased operational risks without further system adaptation.

6. Assessment – Sustainability

The sustainability criterion assesses the continuity of macroeconomic benefits from the Greek financial assistance programme after its completion.

In particular, it considers the likelihood of long-term benefits and of enhanced economic resilience to shocks, safeguarding the programmes' net benefits. It also examines to what extent debt workouts and the PSI contributed to the sustainability of public finances. The evaluation team assessed macroeconomic data and documents and conducted interviews and surveys using the following key questions as a guide.

Box 6.1: Key questions of the sustainability assessment

- How did the programme define the scope (short-, medium- and long-term) of its key outcomes and the timeline against which to gauge the pay-off of programme measures?
- What were the anticipated key outcomes (growth, external account, fiscal, financial) after programme completion? Are these expected to be sustained in the long-term?
- How did the programme intend to promote institutionalisation of reforms and introduce best practices?
- How did the programme support capacity building?
- To what extent did the programme strategies improve Greek economic resilience to economic shocks?
- How did the financial sector-related reforms contribute to stronger resilience against future crises?
- To what extent have the various debt re-profiling measures contributed to the sustainability of public finances?

The assessment shows that the necessary shift in programme focus from fiscal and financial stabilisation to sustainability – in particular long-term growth and growth potential – has not been sufficiently achieved.

The EFSF and ESM programmes emphasised structural reforms, which improved overall growth performance also in the long term. However, the long-term sustainability prospects could have been more robust had the objective of macroeconomic sustainability been pursued more vigorously and systematically. Without a higher growth trajectory, the risks to sustainability from the considerable fiscal and external current account adjustments will be larger. This conclusion is outlined in the following chapters on: (1) reach of structural reforms, (2) capacity building and technical assistance, (3) institutionalisation of reforms and best practices and (4) resilience of the Greek economy to shocks, assessing the contributions and limitations of programme measures and design to achieve macroeconomic sustainability. The evaluation compares pre- and post-programme data and benchmark indicators against the euro area average for sustainability of *growth* (GDP, investments, unit labour costs, exports), *external account* (financial account), *fiscal* (primary and structural balance), and *financial* (NPL, regulatory capital to risk-weighted assets) indicators (Figure 6.2). The discussion on debt sustainability includes the effects of the PSI and the debt workouts outlined in earlier chapters.

6.1. When to expect full benefits from structural reforms

Institutional forecasts, programme design, and review agendas did not systematically consider the macroeconomic impact of structural reforms in the medium- and long-term. Earlier programmes understandably focused on financial and fiscal targets, with only the later ESM programme systematically conducting more comprehensive impact assessments of structural reforms. Official programme documents and statements rightly stressed the importance of structural reforms to enhance growth, but programme projections (Figure 6.1) did not indicate any significant impact on growth from structural reforms nor when such benefits might occur, because the return to growth hinged decisively on confidence and external demand during the crisis. The high granularity of the structural measures further complicated the assessment. To date, no post-programme project closing report has been made public. The lack of transparent institutional communication about the long-term benefits of programme measures and an increasingly complex reform agenda failed to support the Greek authorities either in implementing reforms or in taking ownership of them.

Figure 6.1
Declining growth projections in official programme and post-programme monitoring documents
 (Annual % change)

Year	European Commission forecast Aug-15	European Commission forecast May-16	First review Jun-16	Second review Jun-17	Third review Mar-18	Fourth review Jul-18	Enhanced Surveillance Report Nov-18	Enhanced Surveillance Report Feb-19	Enhanced Surveillance Report Jun-19
2015	-2.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
2016	-1.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
2017	2.7	2.7	2.7	2.1	1.6	1.4	1.4	1.5	1.5
2018	3.1	3.1	3.1	2.4	2.5	1.9	2	2	1.9
2019					2.5	2.3	2.2	2.2	2.2
2020					2.3	2.3	2.3	2.3	2.2
2021					2.1	2.1	2.1	2.1	1.9
2022			1.5	1.5		1.8	1.8	1.8	1.7
2023			1.5	1.5	1.5	1			1
2024-2030			1.5	1.5	1.5	1			
after 2030			1.25	1.25	1.25	1			

Note: Blue (short- and medium-term projections), Gold (long-term projections).
 Source: European Commission

Economic and political uncertainty resulted in large revisions and increasingly cautious programme forecasts. Initial macroeconomic scenarios for each programme were overly optimistic due to a focus on rebalancing measures and attempts to achieve quick wins (e.g. fiscal consolidation), an unrealistic perception of Greece’s economic position, and the unanticipated crisis-related slowdown in economic activity. Early programme forecasts were too optimistic on growth because they did not account adequately for the strong multiplier effects of unusually high and frontloaded fiscal adjustment during the crisis. The amplification of second-round effects, the deterioration of collateral and wealth, and pre-crisis legacies were underestimated, and the administrative capacity to implement reforms was initially overestimated. (IMF IEO, 2014a, 2016 and IMF, 2017a). In this regard, the Greek programme design did not incorporate the lessons learned from the IMF’s experience with growth over-optimism, especially in a capital account crisis (IMF IEO, 2003b)⁸⁰, as

depicted in the ESM programme's forecast revisions in Figure 6.1. The unprecedented adjustment needs of the Greek economy further aggravated the forecast quality.

It is understandable for institutions to present a relatively upbeat recovery scenario, but this understates potential risks and pre-empts a systematic discussion of the appropriate role for fiscal policy during any major economic downturn. The European and IMF baseline assumptions for growth and debt differed widely, although political efforts were made to align forecasts and enable IMF participation in the ESM programme. Different time horizons and financial interests led to varying risk assessments among the partner institutions. On the Greek side, tactical procrastinations about regular macro-economic projections and reviews arose in the early programme period. Accordingly, Institutions frequently recalibrated assumptions when economic adjustments required by the programmes were not feasible.

A number of factors complicated judgments about the potential to resume growth after structural reforms (IMF, 2017a, Pagoulatos, 2018 and European Commission, 2015a). Labour market and product market reforms rarely generate quick growth payoffs and may even carry short-term output costs (IMF, 2015b). Programme reform scenarios were further undermined by reform delays or reversals, a lack of credibility surrounding the Greek institutions and programmes, and the Greek population's low confidence in reforms. An additional temporary backlash stemmed from the 2015 Greek government change and the withdrawal of major reforms, e.g. labour market reform, alongside a home-grown deterioration of consumer and investor confidence. Forecast uncertainties accumulated over time and IMF interviewees noted caution about forecasting reform benefits.

Incomplete reform implementation and the timing of major reforms resulted in a longer adjustment period and delayed reform benefits (OECD, 2020 and interviewees). Major successful reforms, including labour market and product market flexibility, or privatisations, started yielding visible results, for example in improved unit labour costs. But missed, and unfinished, reforms – including delays to secondary legislation – still limit growth potential; these delays stem from weak ownership in public administration, political constraints, and concern in areas such as the financial sector about the lack of an updated insolvency law. The positive early labour market reforms that led to an internal devaluation and enhanced wage competitiveness did not fully translate into a more price-competitive Greek economy because product and service market reforms were only implemented much later.

Ambitious fiscal targets set by the Institutions continue to weigh on the growth outlook. Swift fiscal consolidation as a political priority of the GLF and EFSF programmes, combined with a non-optimal fiscal mix, yielded a quick adjustment of the macroeconomic imbalances but evidently hampered growth. Moreover, the GLF and EFSF programmes did not make compensating supply-side reforms a sufficiently high priority from the start. This reflects both the priorities in programme design as well as the constraints on the Greek authorities to carry through an already heavy and broad adjustment agenda. Although fiscal multipliers were underestimated initially, the improvements in the fiscal balance paid off later because risk premia fell significantly during the ESM programme and afterwards within an overall accommodative market environment.

Also a still-weak financial sector hampers growth. Improvements in the banking sector have now become visible, but many interviewees see the financial sector as weighing on growth, with low entrepreneurial or investment financing, given the banks' limited capacity to provide credit and uncertainty about corporate access to finance. Other problems include incomplete reforms, for example the lack of a modern insolvency law, while bank balance sheets are still burdened by high NPLs (Figure 6.2). Investor and depositor confidence is low. However, some argue that the fundamental problem does not lie with liquidity and credit supply, but instead with a lack of demand from good-quality projects.

Growth benefits from reforms are expected to materialise in three-to-12 years after the evaluation period, with major long-term constraints being demographic pressures, slow competitiveness gains, and general uncertainty about continued reform implementation (key interviewees).⁸¹ The first positive improvement signs started emerging during the first year of post-programme engagement. It is likely Greek GDP per capita, now at 60% of the EU average, will catch up, but productivity and competitiveness gains will take time to fully pay off. The economy's long-term growth potential is projected at no more than 1%. Two key issues will define how long-term growth and growth potential will result from structural reforms. First, more foreign direct investment will be needed to close a massive investment gap given that the capital stock collapsed during the crisis and the focus on fiscal consolidation in the GLF and the EFSF programmes effectively curbed public investment (see Figure 6.4 in the Technical appendix). Second, Greece needs to attract qualified labour after a substantial crisis-driven human capital drain. Greece adopted a widely supported national "Growth Strategy for the Future"⁸² at the end of 2018, but income potential is limited by the economy's reliance on tourism, shipping, agriculture and fisheries rather than on industry. An expected stronger export increase has yet to materialise, and public infrastructure investments are emerging only slowly as a driver of growth (Figure 6.2). In the long run, social inequality exacerbated by the programmes, risks to the sustainability of the pension system, and insufficient spending on health and education are detrimental to productivity and growth. Some backtracking of reforms, despite improved ownership, and a more adverse international macroeconomic environment, persist (IMF, 2019a and key interviewees).

6.2. Capacity building and technical assistance

The Institutions underestimated the weakness of Greek public administration and early instruments to address much-needed capacity building proved inefficient. The lack of administrative capacity in Greece undermined its ability to take on board the technical assistance offered to implement reforms. Technical assistance is generally considered an essential tool for effective programme implementation, including preparatory management, monitoring, evaluation, audit and control activities. Under the GLF and EFSF programme, the Task Force for Greece (TFGR) had to provide and coordinate technical assistance. However, technical assistance did not receive a high priority from the outset, even though the Eurogroup invited the European Commission in early 2012 to significantly bolster the TFGR's capacities through an enhanced and permanent presence on the ground (Eurogroup, 2012). In particular, the Troika failed to efficiently link technical assistance to programme reform priorities, so programme implementation risks materialised after each review, undermining sustainability objectives (ECA, 2017). Furthermore, as stated by some interviewees, corruption and strong vested interests worked against programme targets and weighed on technical assistance.

Capacity building improved considerably under the ESM programme through the European Commission’s SRSS, which provided more coordinated and less politically sensitive technical assistance that helped enhance reform ownership.⁸³ Under the ESM programme, technical assistance provision moved to the SRSS from the TFGR.⁸⁴ Many Greek officials said the authorities had political difficulty accepting technical assistance directly from other EU Member States under the TFGR. In contrast, the SRSS improved capacity building through a more politically neutral and comprehensive process of technical assistance, establishing an explicit link between technical assistance and programme conditionality, and incorporating the expertise of relevant stakeholder institutions such as the OECD and individual Member States.⁸⁵ Consequently, many interviewees felt the SRSS was widely respected as a separate entity of the European Commission, contributing to the ownership needed to implement reforms and a sentiment of greater sovereignty. However, the SRSS was neither involved in all reform decisions of the institutions at political level nor in every phase of the programme cycle. The SRSS focused on monitoring, which led to some inefficiencies and implementation delays. Furthermore, while technical assistance increased, the Greek political elite’s weak levels of trust in their own administration paradoxically led to lower capacity building across the Greek administration.

To accord with best practice, technical assistance provision should be aligned with the beneficiary member’s national capacity-building strategy.

Technical assistance best supports programme implementation when focused on key policy areas such as fiscal, structural, and social policies. Acceptance in Greece needed to be leveraged by raising awareness about the need for reform, to engender economic transformation by overcoming historically rooted patronage practices in the public administration, so reducing resistance to change. The TFGR had tried to identify the best expertise for technical assistance⁸⁶ but because of “crisis solidarity” some national administrations were chosen that were not best qualified or aligned to the specific tasks. Some interviewees said some technical assistance providers adhered to predetermined reform concepts rather than fostering the necessary dialogue needed to adapt capacity building to local circumstances.

Overall, capacity building and technical assistance improved the quality of public administration in a number of areas, but earlier, stronger, efforts could have further strengthened economic sustainability.

Capacity building and depoliticising the Greek administration and institutions at all levels was a defined ESM programme objective (European Commission, 2015a), aiming to contribute to good governance and the long-term sustainability of the Greek economy. However, more time and fiscal space should have been secured to build capacities at an earlier stage, applying stricter requirements and conditionality. Joint mission reports by the IMF and Commission and an OECD assessment, reported that the overall performance of technical assistance was unsatisfactory before the ESM programme (ECA, 2015b and 2017a). Overall, progress was made in reforming the weak public administration, in particular tax administration – in cooperation with the European Commission and the IMF – public financial management, statistics (for more, see Box 6.2), judiciary, cadastre, labour administration and the business environment. The insolvency framework was supported by building up an infrastructure for out-of-court settlements for banks and companies, and training for accountants, lawyers, and advisors. Capacity building in industry sectors focused on health, transport, and logistics. These included cooperation with, for example, the European Investment Bank (EIB), International Labour Organization (ILO), the World Bank, and the World Health Organization.

Box 6.2: Quality of statistics in Greece

Eurostat and the European Commission intervened in 2010 to improve and safeguard Elstat's independence, integrity, and accountability. The immediate need for reforms became clear after in 2009 the Greek authorities transmitted very different sets of excessive deficit procedure (EDP) notifications to Eurostat. In the October 2009 notification, the Greek government deficit for 2008 had to be revised up to 7.7% of GDP from 5.0% of GDP (reported by Greece and validated by Eurostat in April 2009). At the same time, the Greek authorities revised the planned deficit ratio for 2009 to 12.5% of GDP from 3.7% of GDP, reflecting the impact of the economic crisis, budgetary slippages in the electoral year and accounting decisions. However, according to the European Commission (2010c), these "...revisions are an illustration of the lack of quality of the Greek fiscal statistics (and of macroeconomic statistics in general) and show that the progress in the compilation of fiscal statistics in Greece, and the intense scrutiny of the Greek fiscal data by Eurostat since 2004 (including 10 EDP visits and five reservations on the notified data), have not sufficed to bring the quality of Greek fiscal data to the level reached by other EU Member States".

The institutional changes introduced since 2010 substantially improved the quality of Greek statistics. The adoption of the statistical law 3832/2010 to establish an independent statistical office, with a view to ensure its professional independence, was a key turning point for improving the quality of Greek statistics. This was underscored by the commitment on confidence in statistics approved by the Greek authorities in 2012, to improve the reliability of official statistics and ensure a clear Greek statistical system reference to the European Statistics Code of Practice. Action to improve the hiring of experienced staff and to enhance the exchange of information and the cooperation between the General Accounting Office (GAO) and the Bank of Greece helped Greece to avoid a reservation on the quality of its statistical data after 2010.

The Eurostat 2019 report on the quality of national and regional accounts data acknowledges Greece's consistent work to adapt the national statistical systems to the requirements of the European System of Accounts (ESA) 2010 by 2020. The main recommendations for Greece refer to the methodological adherence and coherence of ESA Table 27 with other government finance statistics and the EDP, in particular with EDP Table 3, further ensuring the consistency of annual and quarterly non-financial sector accounts. Other recommendations refer to reducing discrepancies between financial and non-financial sector accounts and the compliance improvement in completeness and punctuality. An adaptation to administrative data instead of survey data in benchmark revisions will be important to ensure the compilation of high-quality statistical data. The IMF 2019 Article IV Report emphasised Greece's achieved progress since 2010 due to various technical assistance projects. It noted fiscal source data and reporting shortcomings such as cash versus accrual discrepancies (IMF, 2019a).

6.3. Institutionalisation of reforms and best practices

Institutionalisation of reforms and the use of international best practices were emphasised by the Institutions to strengthen the economic ratio of programme reform decisions and enhance the Greek economy's sustainability.

Much like technical assistance, the institutionalisation of reforms as a process of normalisation and standardisation serves to enhance institutional capacity with the aim to sustain reform implementation. According to the European Commission, institutionalisation and the use of EU best practices, e.g. in the wage-setting process or by aligning Greek labour market institutions, strengthened programme ownership and the economic impact of reform decisions.

Institutionalisation particularly progressed in the areas of public administration, public financial management, and product market reforms.

- In the area of **public administration**, the programmes strengthened public procurement, governmental autonomy, and effectiveness by further integrating the EU acquis into Greek legislation and by benchmarking against EU best practices (ESM, 2018b). Examples of this are the establishment of an independent tax collection authority with new and improved procedures,

the establishment of a tribunal to solve tax cases out-of-court, and the incorporation of OECD corporate governance principles in HCAP and its subsidiaries – although some interviewees considered that its institutional independence was still not fully respected by the authorities.⁸⁷

- The **public financial management** framework to control and monitor overall expenditures, which covers general government units including extra-budgetary entities such as social security funds and hospitals, was established to better achieve fiscal targets also using an automated clawback mechanism (for more, see Box 4.2) and improved GAO and Elstat data, now aligned with the principles of the ESA. The fiscal council was established as an independent entity, and it introduced medium-term fiscal frameworks, a permanent spending review process, and performance budgeting in ministries. The budget law was reformed to rationalise the schedule and procedures by which the budget is prepared, approved, executed, and accounted for. Payment clearance procedures in ministries were simplified, operational costs reduced, and a platform for efficient private out-of-court debt management went operational.
- Progress in institutionalisation can also be observed in **product market** reforms. Obstacles to full compliance with EU requirements – a broader community need – were removed and national technical standards harmonised with EU standards. The health and transport sectors were reformed to follow EU best practices. To achieve sustainable growth, the Greek authorities also designed a blueprint for a national development bank, with its objectives, instruments, and governance based on international best practice, supported by technical assistance.

However, much institutionalisation is still pending or at risk of backtracking.

Within the public financial management framework, a key area still pending is the public investment budget where expertise and capacity expansion at the central level needs to be transferred to the public financial management of municipalities and other entities. Also, little has been done to improve legal system efficiency. Although the audit and control of institutions have been improved and consolidated, public administration such as cross-departmental coordination is often still ineffective, particularly at the regional and local level. And while the independence of Elstat (for more, see Box 6.2) and the GAO are not expected to be reversed at present, according to some Greek interviewees, several public entities are at risk of again being excluded from reporting requirements to the GAO because reform acceptance has not improved in all subsectors. Accordingly, the OECD recommends finding new “allies” among institutions against backtracking and using the enhanced surveillance period to pass more structural reforms. Overall, the European institutions misjudged the time needed to institutionalise. Cultural changes, which naturally evolve gradually, and improved ownership need to precede reforms. Some interviewees recommended that an independent institute or think tank scrutinise economic and fiscal policy implementation in Greece.

6.4. Resilience of the Greek economy to shocks

The Greek economy became more robust under the ESM programme but remains one of the most vulnerable in the euro area (IMF, 2019b, European Commission, 2018a, 2018c and 2019a, and World Bank, 2019b). Economic resilience is defined as the policy-induced ability of an economy to withstand or recover from shocks, with vulnerability increasing alongside economic openness and the exposure of the economy to exogenous shocks. After the ESM programme started, the Eurogroup articulated more clearly the objective of improving Greek economic resilience (Eurogroup, 2015). Structural programme

reforms and debt workouts, including the PSI, improved the overall resilience of the Greek economy beyond initial expectations (European Commission, 2016b). Evaluation results, however, support the conclusion that Greece remains highly vulnerable compared to the rest of the euro area and continues to experience significant legacy stock imbalances, such as elevated bank balance sheet risks that include NPLs, public-sector debt, and a weak payment culture. These imbalances underscore its vulnerability to both external shocks, such as a global slowdown or a sharp tightening of financial conditions, and internal shocks, such as any reversal of programme reforms. The European Commission concludes that Greece faces particular risks to financial stability and sovereign repayment capacity, with potential adverse spillovers to other euro area member states (European Commission, 2018c).

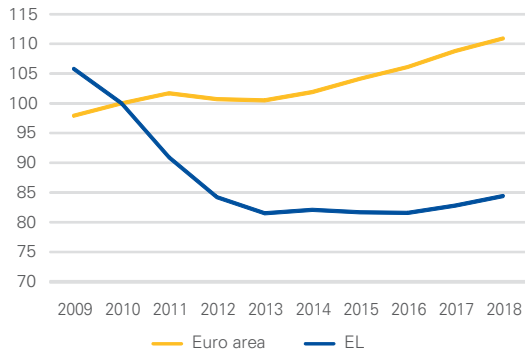
Long-term prospects are subdued, despite improved macroeconomic indicators. In particular, early labour market reforms improved wage competitiveness and contributed to an internal devaluation of the Greek economy by lowering unit labour costs after 2010 (Figure 6.2 and Chapter 4). These measures increased the economy’s capacity to absorb shocks and rebound. Remaining product market rigidities and delayed privatisation efforts still constrain improved resilience to shocks. Substantial long-term benefits are limited by Greece’s industrial structure, including the prevalence of small- and medium-sized enterprises, only slow competitiveness gains and insufficient investment spending compared to the euro area average (Figure 6.2). Also, an expected increase in exports has yet to fully materialise to overcome the limited openness of the economy lagging behind the euro area average since the crisis (Figure 6.2).

By addressing labour market conditions, collective bargaining, and employment protection, the programmes may have supported the build-up of trust (World Bank, 2019b). Societal trust generates resilience to shocks and capacity to rebound. It allows economic agents to take a longer-term view in negotiations and look for mutual benefits in the long run. The absence of a flexible exchange rate requires a country to strengthen institutions that help absorb shocks. A faster and more inclusive rebound from shocks generally increases trust and avoids vicious circles. Also rigid product market regulations tend to limit the capacity to respond to shocks. According to World Bank (2019b), Greece is one of the euro area countries where trust in formal institutions is lowest.

Demographic change in Greece may also affect the long-term resilience of the economy. Yoshino and Miyamoto (2019) found that an ageing population weakens the effectiveness of any fiscal stimulus. Monetary or fiscal policy are not likely to be effective in ageing economies, so structural reform measures play a more important role. The crisis experience suggests that the strength of macroeconomic fundamentals requires a policy focus on the lasting effects of long-term unemployment and inactivity, including strategies to enhance marketable skills for youths and the unemployed, and adequate social protection programmes. Product market deregulation tends to broaden an economy’s ability to withstand shocks. The least resilient economies suffer from the lowest trust in institutions, entities that, for example, maintain high transaction costs, and fail to support longer-term negotiations or look for mutual benefits in the long run (Doemeland et al., 2016 and World Bank, 2019b).

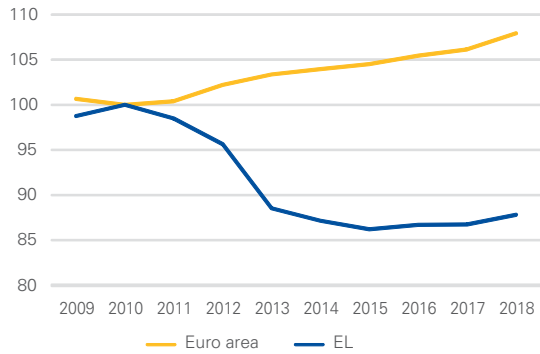
Figure 6.2
Key macroeconomic indicators in a euro area average comparison

Gross domestic product at market prices
(2010 = 100)



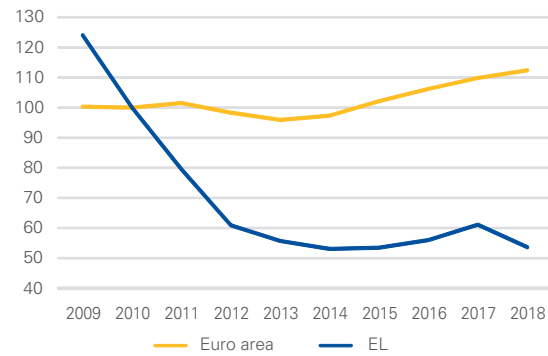
Source: Eurostat

Unit labour cost (employment based)
(2010 = 100)



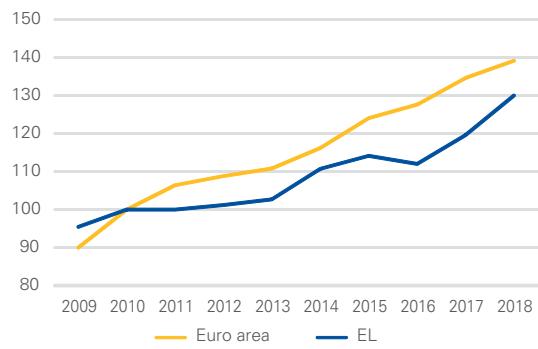
Source: OECD

Gross fixed capital formation
(2010 = 100)



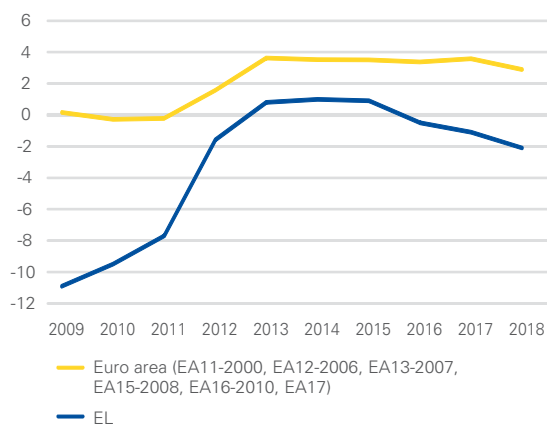
Source: Eurostat

Exports of goods and services
(2010 = 100)



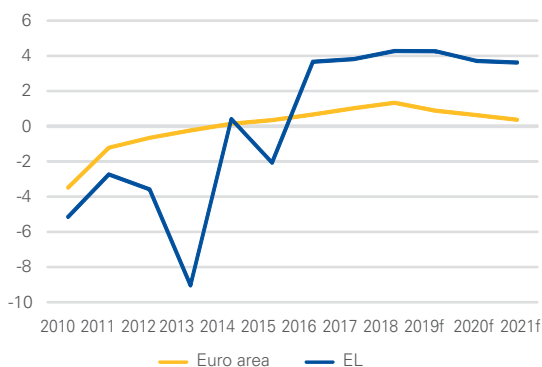
Source: Eurostat

Financial account
(in % of GDP)



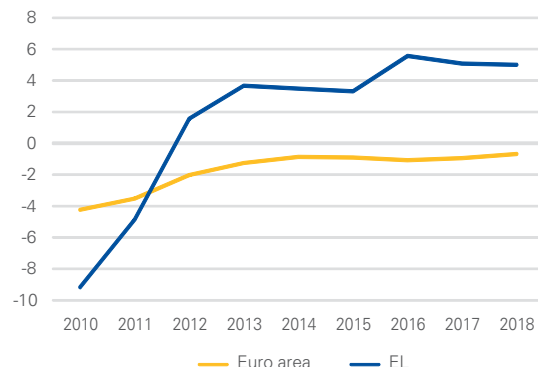
Note: Euro area estimates are own calculations.
Sources: Eurostat, ESM calculations

General government net lending (+) or net borrowing (-) excluding interest
(excessive deficit procedure (UBLGIE), national currency, in % of GDP)



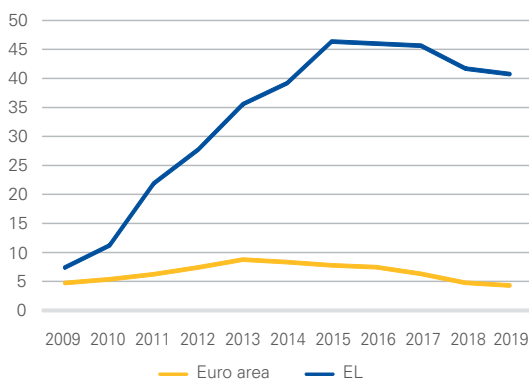
Note: f: forecast.
Source: European Commission Ameco database

General government structural balance
(in % of potential GDP)



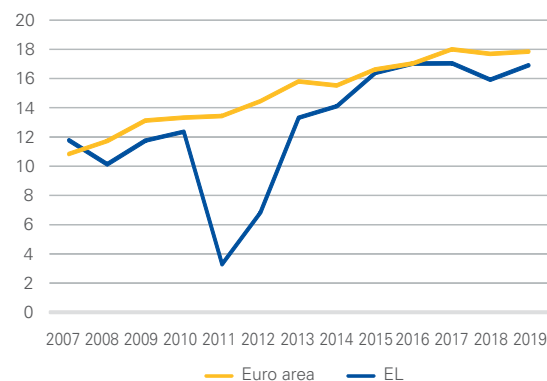
Source: Eurostat

NPLs
(in % of gross loans)



Sources: SNL, FitchConnect, ESM calculations

Total capital
(in % of risk-weighted assets)



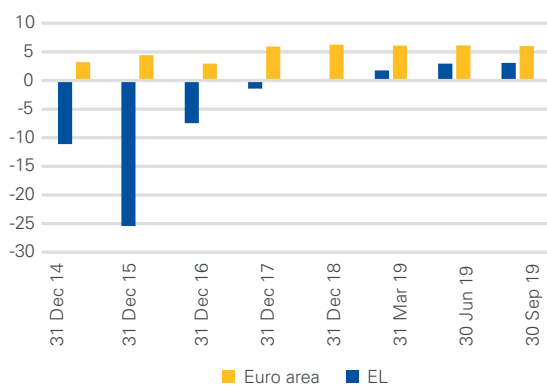
Sources: SNL, FitchConnect, ESM calculations

Key risks to future economic resilience are related to ownership and potential reform fatigue after years of cost-cutting and structural reform efforts. The ambitious fiscal targets and policy mix set by the European institutions continue to weigh on growth, as does a still weak financial sector, even though fiscal savings from an improved tax collection system and better public financial management have contributed to public finance and debt resilience. While improving income and social inclusion, recent labour market policies – notably a sharp hike in the minimum wage and renewed collective bargaining arrangements – potentially reduce labour market responsiveness to shocks and pose risks to employment and the competitiveness gains achieved (interviewees).⁸⁸

Greek institutions became stronger but still face capacity constraints and partially lack political independence. The programmes addressed the major weaknesses of the Greek public administration and institutions, improving their flexibility to implement reforms and their ability to benefit from future technical assistance. However, capacity building and the implementation of best practices are still lagging, in particular at regional and municipality levels. The ESM programme clearly aimed to depoliticise the Greek administration and institutions at all levels to contribute to good governance. The programme did not, however, achieve full political independence of institutions, such as the HCAP; the risk of reform backtracking has increased (interviewees). Though there are signs of more robustness, continuous advocacy is needed, both from inside Greece and from the Institutions for the reform process to continue and to strengthen the resilience of the Greek economy.

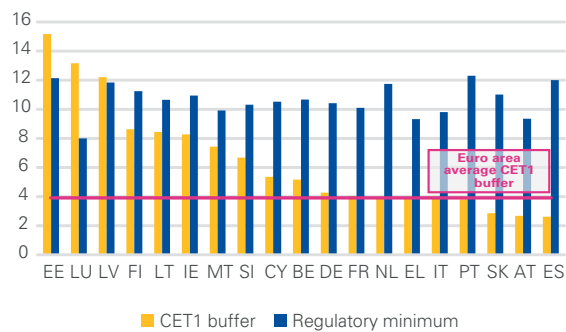
The programmes increased banking sector resilience, but its shock-absorbing capacity remains weak. Given the low interest rate environment and high NPLs, Greek bank profitability – its first line of defence – is weak, which hampers organic capital generation (Figure 6.3). The CET1 capital buffers leave little room for additional loss absorption without requiring a need for DTC conversion into ordinary shares, which entails an injection by the State (Figure 6.4). The thin loss absorption buffers already pose short-term challenges. Banks need to comply with the MREL requirements, roughly equivalent to twice the minimum capital requirement. This means that Greek banks either have to issue MREL-eligible liabilities or increase capital on a large scale. Given the high level of NPLs and the weak profitability outlook, attracting funding at favourable prices seems unrealistic at this juncture.

Figure 6.3
Return on equity in Greece and euro area
(in %)



Note: The sample covers SSM-supervised banks.
Sources: SNL, FitchConnect, ESM calculations

Figure 6.4
Voluntary CET1 buffers and minimum
regulatory requirements
(in % of risk-weighted assets, Q3 2019)

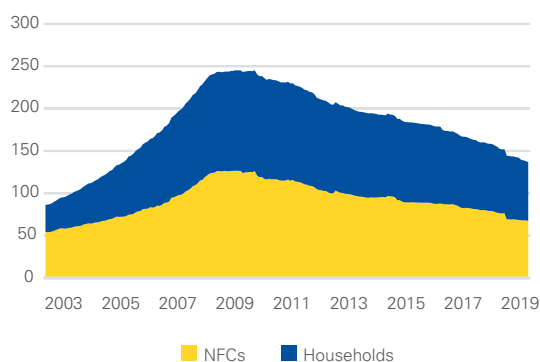


Note: Voluntary buffer means capital that can be used for loss absorption without breaching any regulatory requirement including Pillar 1 and Pillar 2.
Sources: SNL, FitchConnect, ECB Banking Supervision, ESM collection, ESM calculations

Despite the adoption of a systemic NPL solution, further efforts are necessary to prevent future NPL accumulation. In autumn 2019, the Greek government created a system-wide Asset Protection Scheme,⁸⁹ which is expected to remove €30 billion NPLs from bank balance sheets. Nonetheless, Greece needs more steps to improve the population's financial literacy and the payment culture. Greece ranks among the weaker EU countries in adult financial literacy (Klapper et al., 2015), which combined with inefficient loan repayment enforcement, could lead to another NPL accumulation should the country experience an economic downturn.

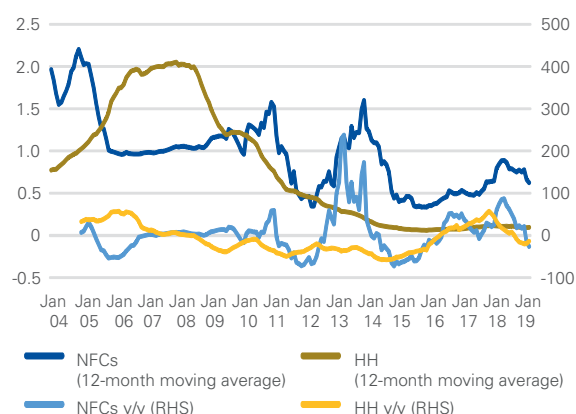
Fundamental weaknesses restrain the banking sector's long-term capacity to support economic growth. Bearing in mind that the evaluation period ended in September 2019 – and notwithstanding the current pandemic shock – the report assessed that fundamental weaknesses restrain the banking sector's longer term capacity to support economic growth, or to finance by itself the investment boom that the 2018 national growth strategy proposes. The economy's outstanding loans are falling in both the household and corporate segments (Figure 6.5). Gross new lending started recovering in early 2017 following a two-year decline, but the latest data shows that since autumn 2019 new lending has turned negative (Figure 6.6) with lending since end-2010 shrinking in every economic area other than for real estate. The most pronounced reduction occurred in shipping loans, followed by consumer lending (see Figures 6.1 and 6.2 in the Technical appendix).

Figure 6.5
Outstanding amount of loans in the Greek banking system
 (in € billion)



Note: NFC: non-financial corporates.
 Source: Bank of Greece

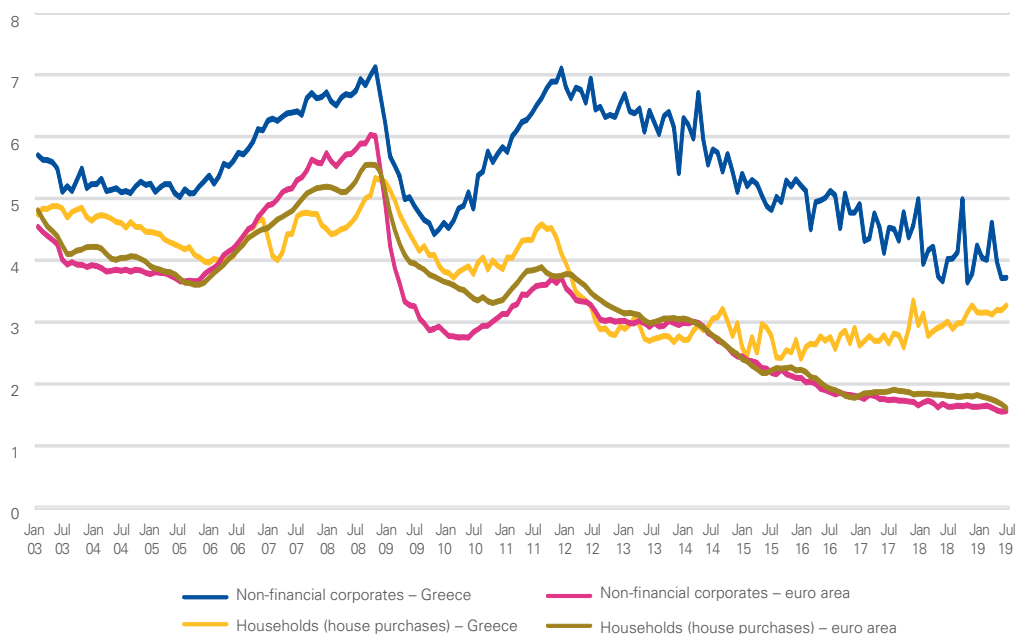
Figure 6.6
New lending in Greece
 (left-hand axis in € billion, right-hand axis in %)



Notes: NFC: non-financial corporates; HH: households. New lending volumes are presented in 12-month moving averages.
 Source: ECB

Despite the favourable monetary policy conditions, the cost of borrowing remained high in both the household and the non-financial counterparty sectors. The current higher interest rates reflect historically higher default rates in banks’ portfolios. The large amount of NPLs on bank balance sheets leads to a higher cost basis that maintains high lending rates (Figure 6.7). While the cost of borrowing for corporates consistently stood above the euro area average, interest rates in the household sector only started climbing above the euro area average in 2015.

Figure 6.7
Lending conditions – cost of borrowing
 (in %)



Source: ECB

Contribution of debt workouts to resilience

The PSI temporarily reduced Greek sovereign debt stock but did not restore debt sustainability or banking sector stability. Despite the large €107 billion debt relief for Greece negotiated with bondholders, the public debt-to-GDP ratio did not fall significantly because private debt reduction was offset by an increase in official loans from the EFSF and IMF. To a large extent, these addressed the consequences of the debt restructuring on the Greek banking sector and the effects of the deepening crisis. Accordingly, the debt stock fell only temporarily, to 159.6% of GDP by the end of 2012, but immediately surged to 177.4% by the end of 2013 – surpassing the debt level before the PSI. While the PSI countered contagion risks and improved Greece’s debt sustainability, it achieved no overall reduction of Greek sovereign borrowing. The board survey supports this view. Furthermore, the PSI could have come earlier to increase the likelihood of programme success (benefitting economic confidence and contaminated banks), but interviewees challenged this view because of the banks’ good liquidity positions.

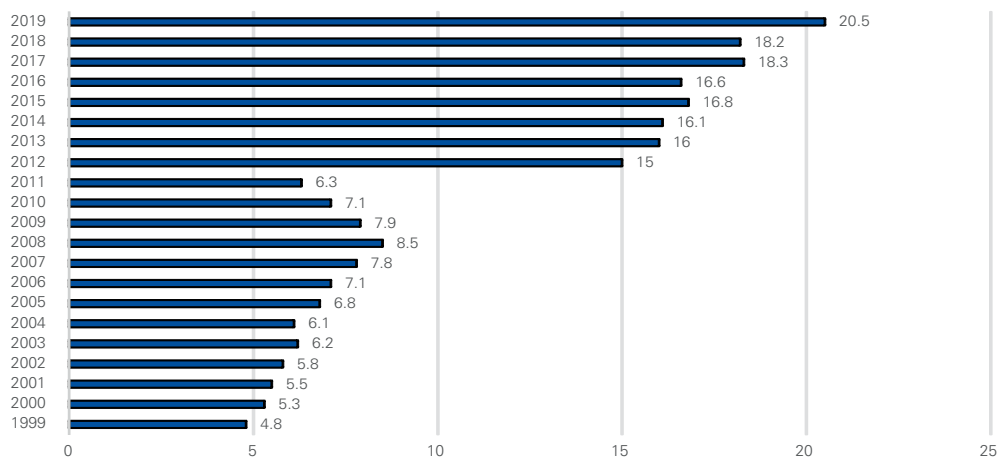
PSI and re-profiling made the debt burden more manageable and improved sovereign financial resilience to shocks. In addition to stock analysis, debt sustainability analysis under the ESM programme introduced a flow analysis that focused on sovereign gross financing needs. Prolonged programme credit maturities and reduced credit interest rates by the EFSF after the PSI eased public debt management – with average maturities increasing to 20.5 years in 2019 from 6.3 years in 2011 – and the medium-term measures removed a hump in the Greek maturity structure (Figure 6.8). The annual debt service costs fell to 1.68% in 2019 from 4.54% in 2011 (Figure 5.8). The combined effects of these longer maturities and lower debt service costs led to a gradual but significant decline in the government’s gross financing needs (for more, see Table 6.1), and increased cash buffers improved sovereign financial resilience to shocks, helping to improve market access as investor uncertainty waned.

Restrictive fiscal programme targets helped contain any further debt increase, but weighed on the growth needed to significantly reduce the debt-to-GDP ratio over the long term. The swift fiscal consolidation was a key political priority for the programmes, contributing to stabilising rising public debt after the crisis at well below 180% of GDP. At the same time, high primary surpluses – including some fiscal target overachievements – and a less-than-optimal fiscal mix still weigh on growth and structural reforms. This drag prevents the debt-to-GDP ratio from embarking on the stronger downward path that would improve debt sustainability.

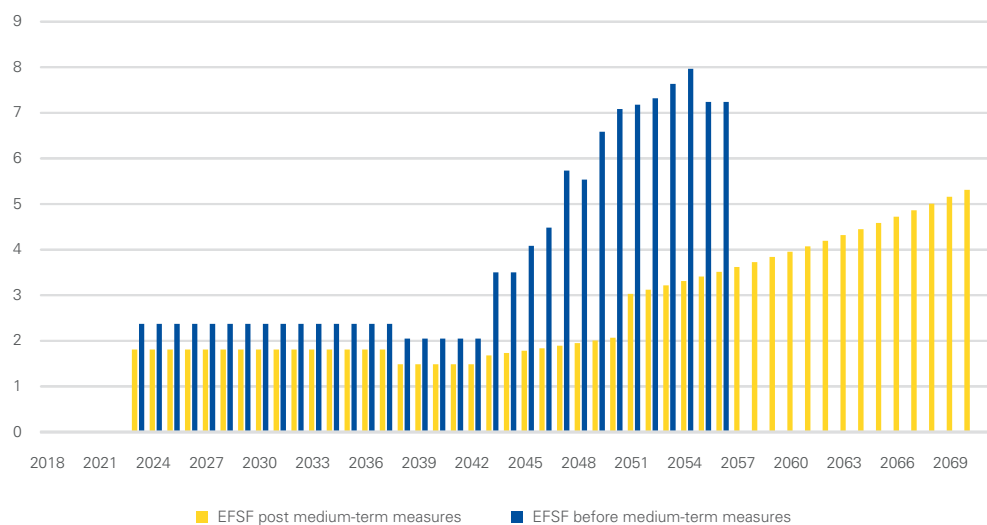
Subdued Greek growth potential puts long-term debt sustainability at risk (OECD, 2020). The IMF continues to stress the risks threatening Greece’s debt sustainability, emphasising the need for realistic economic assumptions and expressing concern about Greece’s ability to run high primary surpluses in the long run. Stepping away from the IMF’s assessment, from a gross financing needs perspective, the debt appears sustainable for the foreseeable future (for more, see Box 6.3). However, available evidence does not clarify whether a larger nominal debt would exert any dampening effect on potential private investment, because, for example, future investors might be reluctant to invest for fear they could be taxed more in the future to service the debt. More generally, debt sustainability analysis forecasts by the Institutions, in particular with a horizon until 2060, are highly uncertain. Interviewees also question their reliability because they see these debt sustainability analyses as largely the requirement needed to foster a political consensus between euro area members on debt sustainability and primary fiscal balance targets. Interviewees think markets will have to alter expectations towards a longer adjustment process.

Figure 6.8
Effect of debt workouts on Greek government maturity profile

Evolution of weighted average maturity of central government debt (in years)



Effect of medium-term measures on EFSF Greek debt redemption profile (comparison, in € billion)



Sources: PDMA, ESM calculations

Box 6.3: Post-programme debt sustainability analysis of European Commission and IMF for Greece

The European Commission's latest assessment of Greece's debt sustainability expects the debt-to-GDP ratio to remain above 100% until 2039, while firmly anchored on a downward path until 2060, and government GFN to reach around 12% of GDP in 2060. This assumes – among other matters – full implementation of all medium-term measures to ensure debt sustainability agreed in June 2018, full compliance with the post-programme agreed primary balance path and meanwhile reduced debt risks due to a more favourable interest rates environment (European Commission, 2020a). Given the specificities of the Greek debt structure, notably the large share of official sector lending, the analysis of fiscal sustainability deviates from European Commission's standardised horizontal approach (S0, S1 and S2 indicators for the short, medium and long-term fiscal sustainability analysis⁹⁰). For Greece, the European Commission (2020d) provides the S0 early-warning indicator, which remains at 0.26, well below the critical threshold – and signalling no fiscal distress in the short term because official lenders hold most of the government debt – as well as the S1 indicator reaching a value well above the upper threshold at 5.5pps. of GDP, highlighting the “significant debt challenge” of Greece and pointing to a very demanding fiscal position to be sustained in order to bring the debt-to-GDP ratio to the SGP reference threshold of 60% of GDP within 15 years.

The IMF acknowledges that – although risks remain – re-profiling of public debt implemented by the European institutions (for more, see Table 6.1) mitigates refinancing risks and secures a steady reduction in debt and GFN, improving Greece's debt sustainability over the medium term. After the debt re-profiling, the debt-to-GDP ratio is projected to decline to about 145% in 2028. GFN would remain well below 15% of GDP until 2028, supported by the large cash buffer that the government will be gradually drawing down (IMF, 2019a). However, the IMF indicates that the “longer-term prospects remain uncertain” (IMF, 2018). The IMF considers the European institutions' assumptions on growth and Greece's ability to sustain large primary fiscal surpluses as too optimistic. It expects Greece to encounter difficulties in sustaining market access over the longer term without more debt relief measures, and welcomes the undertaking of European institutions to provide additional relief if necessary, which needs to be contingent on more realistic assumptions (IMF, 2018 and 2019a).

6.5. Conclusions

The ESM programme put more emphasis on structural reforms and growth than previous programmes, but did not pursue an objective of longer-term macroeconomic sustainability and resilience in a systematic and vigorous manner. The macroeconomic impact of structural reforms was not taken into account systematically by the Institutions in forecasts, programme design, or the review agenda. Forecasting uncertainties emerged because of some political upward bias by the Institutions, insufficient Greek administrative capacity, a clear underestimation of the political risks to reform implementation, and early optimism about the growth benefits of reforms. This gave way to a longer adjustment period than expected for structural reforms to materialise. While overall capacity building and technical assistance – including ownership and the cooperation with key stakeholders such as the OECD – were enhanced, progress under the ESM programme was not sufficient to significantly improve growth sustainability. Major institutionalisation of reforms and the use of best practices is still pending or at risk of reversal. Greek institutions strengthened but still face capacity constraints and partially lack political independence.

The initial focus on reducing the fiscal deficit and public debt was justified, given the immediate threat posed by these imbalances and the ESM's mandate to preserve euro area financial stability. However, restoring a stronger long-term growth path was also needed to sustain the adjustments; therefore, it is also a stability concern viewed from a longer-term perspective.

The Greek economy became more robust under the ESM programme, but Greece remains one of the most vulnerable countries in the euro area.

Economic resilience to shocks by main macroeconomic indicators and institutions improved, but long-term growth prospects are subdued due to slow productivity and competitiveness gains as well as incomplete reform implementation. Debt sustainability was improved but not restored, and the PSI reduced Greek sovereign debt stock only temporarily. Re-profiling under the ESM programme made the debt burden more manageable and improved sovereign financial resilience to shocks. While restrictive fiscal programme targets staved off a further debt increase, fiscal consolidation weighs on the growth needed to significantly reduce the debt-to-GDP ratio. Future subdued growth, higher deficits, and interest rate increases may still represent a risk to Greece's long-term sustainability. For this reason the Eurogroup is committed to revisit the situation in 2032 to assess whether these risks have materialised and require any further adjustment to EFSF or ESM loans.

Both the EFSF and ESM programmes increased the resilience of the banking sector, however, its shock-absorbing capacity remains weak.

Lack of profitability and thin capital buffers are among the main reasons why the banking sector is unable to support stronger economic growth. Subdued lending is present in all economic activities despite favourable monetary policy conditions. The cost of borrowing remains high for both the household and non-financial corporate sectors, reflecting high NPLs in both segments. The inability of banks to contribute to economic growth seems persistent because banks are not easing credit conditions or expecting increasing demand. While policy-makers actively addressed the high NPL issue, further efforts are necessary to dampen another build-up of NPLs.

Programmes set a change in attitudes in motion but little evidence supports a more fundamental transformation.

The analysis provides weak evidence of a durable change. There are signs of a missed opportunity for long-term planning under the strict programme schedules. Governments, for example, failed to establish a holistic growth strategy until programme exit approached in 2018. Clientelism and segmented administrative culture may have hampered the central government's strategic planning. No political or societal consensus on why the country fell into crisis and what should be rectified has emerged (Hellenic Republic, 2018 and SGI, 2019). This reflects weaknesses in societal unity, although some grassroots solidarity movements have emerged, and these attributes have historically come to the fore in the event of national emergencies. Interlocutors still called for continued external support, even pressure, to maintain reform momentum. Many indicated that they were aware of the risk of complacency.

Table 6.1
Overview of debt and loan re-profiling measures

Date	Event
11/03/2011	Euro area leaders agree to lower interest rate on GLF emergency loans to Greece to 4.2% from 5.2% and to extend the repayment period of the loans from three to 7.5 years.
14/06/2011	GLF amended, with loan maturities extended to 10 years, grace period lengthened to 4.5 years and interest rate margin lowered to 2% in the first three years and 3% thereafter.
21/07/2011	<p>Euro area leaders decide on a new programme for Greece including: a voluntary PSI, with a net contribution corresponding to a 21% haircut to strengthen Greek public debt sustainability; a secondary market debt buy-back programme for Greece.</p> <p>Leaders also agree to longer loan- and repayment grace periods for future EFSF loans to Greece. They extend loans to a minimum of 15 and a maximum of 30 years, from 7.5 years, lengthen the Greek grace period to 10 years. They also agree to lower the interest rate on assistance loans to about 3.5%.</p> <p>Euro area leaders agree to extend substantially the maturities of the existing Greek facility.</p>
26/10/2011	Euro area leaders agree to the PSI (50% haircut on Greek bonds held by private investors) and to extend a new financial assistance package worth €130 billion to Greece. They said the measures aimed to reduce Greek public debt to around 120% of GDP by 2020.
21/02/2012	<p>Euro area leaders agree on the terms for a second financial assistance programme for Greece, involving elements of PSI aimed at reducing Greek public debt to around 120% of GDP by 2020. Greece launches a bond swap offer to private holders of its bonds on 24 February.</p> <p>Eurogroup states that the Lenders have agreed to an additional retroactive lowering of the interest rates of the Greek Loan Facility so that the margin amounts to 150 basis points.</p>
27/02/2012	Second amendment to GLF. Loan maturities extended to 15 from 10 years and grace period lengthened to 10 years from 4.5 years. Interest rate margin lowered to 1.5% over the entire period from previous level of 2% in the first three years and 3% thereafter.
01/03/2012	<p>Greece and the European Commission sign the PSI MoU with four measures: a voluntary bond exchange between Greece and private investors; a buy-back of Greek bonds held as collateral by Eurosystem national central banks; payment of interest on the exchanged bonds financed by EFSF; and bank recapitalisation support.</p> <p>EFSF and Greece enter into Financial Assistance Facility Agreements to (partially) finance the PSI exchange and buyback measures.</p>
09/03/2012	Greek Finance Ministry announces an 85.8% participation rate in the PSI operation, cutting the debt by about €105 billion.
15/03/2012	Greece and EFSF sign a Financial Assistance Facility Agreement of up to €109.1 billion.
26/11/2012	<p>Euro area finance ministers reach agreement with the IMF to complete the first EFF-supported programme review for Greece. The agreement includes Greek debt buybacks, return of SMP profits to Greece, reduction of interest rates, significant extension of maturities, and the deferral of interest rate payments.</p> <p>Eurogroup agrees to adjust GLF interest rate to 50 from 150 basis points and extend loan maturities to 30 from 15 years.</p> <p>EFSF guarantee fee is set to zero and interest payments deferred by 10 years; weighted average loan maturities extended to 32.5 from 17.5 years.</p>
03/12/2012	Greek government launches a debt buyback scheme seeking to retire about half of the €62 billion in debt owed to private creditors.
12/07/2015	Euro area leaders pledge that if Greece receives a new aid programme and meets its policy commitments, additional debt relief steps may be taken that would include longer maturities and grace periods, but not writedowns on the outstanding assistance loan principal.

01/12/2016	<p>Eurogroup endorses short-term debt relief measures:</p> <p>Extension of the EFSF loan repayment profile for Greece,</p> <p>Reduction of the interest rate variability for Greece with a bond exchange programme for ESM and EFSF bonds in the amount of €29.6 billion,</p> <p>IRS arrangements (swap hedging on ESM loans to Greece reducing interest rate variability),</p> <p>Waiver for a 2% step-up interest rate margin on €11.3 billion loans for EFSF loans to Greece.</p>
21/06/2018	<p>Eurogroup approves medium-term debt relief measures for Greece:</p> <p>Mechanism for the conditional abolition of the step-up interest rate margin related to the debt buy-back tranche of the Greek EFSF programme from 2018 onwards,</p> <p>Further deferral of EFSF interest and amortisation by 10 years on €96.4 billion of EFSF loans to Greece,</p> <p>Extension of the maximum weighted average maturity on the above-mentioned portion of EFSF loans by 10 years to 42.5 years,</p> <p>Authorised use of 2014 SMP profits from the ESM segregated account and restoration of the transfer of SMP and other central bank income equivalent amounts to Greece, as of budget year 2017.</p>
22/06/2018	<p>Eurogroup agrees that based on a debt sustainability analysis to be provided by the European institutions, it will review in 2032 whether additional debt measures are needed to respect Greece's agreed GFN targets, provided that the EU fiscal framework is respected, and take appropriate actions, if needed. The Eurogroup will take into account a positive assessment in the post-programme surveillance, particularly in the fiscal area and economic reform policies. The Eurogroup also recalled the May 2016 agreement on a contingency mechanism on debt, which could be activated in the case of an unexpectedly adverse scenario. If activated by the Eurogroup, it could entail measures such as a further re-profiling and capping and deferral of interest payments of the EFSF to the extent needed to meet the GFN benchmarks.</p>
22/11/2018	<p>EFSF implements medium-term debt relief measures for Greece.</p>
04/12/2018	<p>ESM implements short-term debt relief measures for Greece.</p>

7. Assessment – Cooperation and partnerships

The institutional framework within which the EFSF and ESM Greek programmes were negotiated makes the cooperation and partnership criterion especially relevant. This chapter considers cooperation between the ESM and its partner institutions as well as that between the ESM and Greek stakeholders, assessing the level and quality of cooperation during the Greek ESM programme and the post-programme period, which were not covered by the first evaluation. The Greek programmes – the longest-lasting and largest of euro area stability support packages – have at times tested the limits of the cooperation framework and, therefore, can provide valuable lessons for future financial assistance programmes.

Cooperation and partnership considerations are approached from the ESM's perspective in an attempt to address key questions (for more, see Box 7.1). Specifically, the assessment focuses on (i) the effectiveness of collaboration between the ESM and its partner institutions, (ii) the effectiveness of collaboration with the Greek authorities, (iii) challenges posed by disagreements, including on DSAs, (iv) ESM's engagement in Greece, including how the ESM was perceived by the Greek authorities and other stakeholders, (v) complementarities and synergies beyond the primary partnership, (vi) the effectiveness of reform communication and policy advocacy, and (vii) the interaction between the Institutions' key assessment frameworks in the post-programme period.

Box 7.1: Key questions of the cooperation and partnerships assessment

- From the perspective of managing the ESM's risks, what was the achieved degree of effectiveness of collaboration and interactions between the various stakeholders?
- How effective was the interaction between the Institutions' key frameworks in the programme and post-programme periods?
- How were disagreements among various partners addressed, and what were the implications for programme strategies, as well for the post-programme period?
- What was the contribution of the DSA to the programme partners' common understanding of the success prospects, as well as overall to decision-making?
- Were synergies with other institutions beyond the primary partnership explored?
- What role did the ESM play in the engagement and communication with stakeholders in Greece?
- How was the ESM's engagement in Greece perceived by the authorities, academics, and the general public?

The assessment shows that a sufficient degree of cooperation achieved during the ESM programme contributed to Greece’s exit from a prolonged period of official support, despite certain legacy issues in cooperation that carried over from the first two programmes and the first half of 2015. Different institutional mandates and perspectives, as well as ownership issues on the side of the Greek authorities, posed challenges to effective cooperation, and at times tested its limits. The disagreement among the Institutions on the DSA in 2015 exposed the difference in perspectives and a divergence in programme strategies. The ESM gradually gained a more prominent role and came to be seen as the more technical and independent among the European institutions. The assessment also shows programme reforms were not communicated and explained effectively to a broader range of stakeholders in Greece. In this context, the assessment underlines the importance of policy advocacy to support reform momentum, particularly in the post-programme period.

7.1. Why is cooperation important?

Cooperation is embedded by design in the ESM’s operating framework.

The emergence of the Greek crisis was partly the consequence of a cooperation breakdown between the Greek authorities and their European partners. Repeated data misreporting,⁹¹ economic policy mismanagement, and shortcomings in the euro area architecture were symptoms of a deeper malaise in cooperation.⁹² This was unfortunate given that stability support programmes require even deeper cooperation than more tranquil times. Unlike the IMF, which traditionally provides lending based on its own decision-making process, ESM financial assistance takes place by mandate in partnership with the European Commission and the ECB. The ESM Treaty stipulates that the ESM also closely cooperate with the IMF at both a technical and financial level. To ensure the successful implementation of its programmes, the ESM must not only establish effective and efficient cooperation with the country authorities, but also with its partner institutions. Therefore, the ESM has a particular interest in learning from the experience of institutional cooperation accumulated during the euro area crisis. As the longest and largest of euro area financial assistance packages, the Greek programmes put the cooperation framework to the test and that makes them important case studies when drawing lessons for the future.

7.2. Cooperation between the ESM and its partner institutions

Despite many challenges during the protracted period of financial assistance to Greece, the Institutions achieved a considerable degree of cooperation in a complex global, regional, and local environment. While important lessons can be learned for the future, the degree of cooperation achieved was sufficient to attain the principal objectives of preserving the integrity and financial stability of the euro area, and allowing Greece to exit from its almost decade-long reliance on official sector financing.

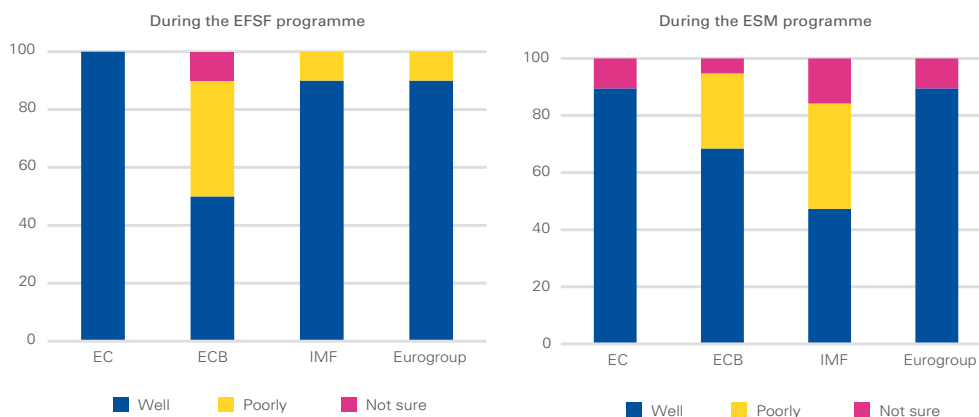
From the ESM’s perspective, the institution entered into the pre-existing partnership, known as the Troika,⁹³ which had not been fully fit for purpose.

Different mandates and approaches of the Troika institutions contributed, from the early days, to a lack of common understanding about the Greek adjustment programmes’ objectives and strategies.⁹⁴ The first ESM evaluation report found evidence of different institutional mandates in all euro area programmes. The IMF’s standard approach has been to provide a three-year programme of

financial assistance while the beneficiary country undertakes reforms to correct its accumulated imbalances and places its economy on a more sustainable trajectory. For middle-income and developed economies, this means improving debt sustainability during the programme period. In Greece, however, this approach encountered difficulties and the IMF-supported programmes under the GLF and EFSF went off track.

The Troika members found themselves in uncharted territory from the onset of the Greek crisis. The European Commission lacked an adequate toolkit and firepower to resolve the crisis on its own.⁹⁵ The IMF, despite its global expertise and long history of providing stability support, found itself for the first time designing a programme for an advanced economy in a currency union. The ECB, with its mandate to ensure price stability, played a somewhat ambiguous role. In the early days of the euro area crisis, its involvement was deemed necessary to imbue the crisis resolution strategy with much needed confidence. However, some observers (Gros, 2015 and European Parliament, 2015) and evaluation interviewees questioned whether the ECB should have a role in deciding on programme country measures such as fiscal adjustment. Figure 7.1 shows the relevant board survey responses.

Figure 7.1
How clearly were the roles of the Institutions defined?
(in %)



Source: ESM evaluation team board survey

All major partners considered the addition of a new player, the EFSF and later the ESM, as a positive development. For the European Commission, increasingly cognisant that a standard IMF approach might not be best suited for euro area countries, and Greece in particular, the addition of another institution with a European perspective was seen as a positive step, based on interviews with senior officials. Having to adopt a “systemic exception” to its own rules to provide assistance to Greece in 2010, then its largest-ever exposure, the IMF supported the establishment of the firewall in Europe in the form of the EFSF and later on the ESM. In the context of the global financial crisis, when markets were questioning whether the IMF had adequate resources to assist its global membership, having a rich currency union pooling its own resources to tackle its own crisis was welcomed in Washington. In the IMF’s view, well-functioning regional financing arrangements, like the EFSF/ESM, were an additional layer of defence in the Global Financial Safety Net (GFSN) at whose centre stood the IMF (IMF, 2013a).

The EFSF/ESM gradually gained a more prominent role. The board survey, interviews with interlocutors, and the first evaluation report all confirm this finding. In Greece, the ESM came to be perceived as a particularly independent, technical, and constructive voice among the Institutions. Especially in the early days, however, some interlocutors in Greece viewed the ESM as a compliant player, one that simply adopted the leading views of other institutions. In later stages of the ESM programme, most interlocutors expressed broadly positive views of the ESM, particularly related to the implementation of the short- and medium-term debt relief measures. Many interviewees said the ESM provided important input also on banking sector reform, debt sustainability, arrears clearance, and the privatisation strategy (for more, see Boxes 3.3 and 3.4).

Changes in the EFSF/ESM Greek team composition reflected the evolving role of the EFSF/ESM and a maturing of the institution. Managing the Greek programmes implied increased staff engagement for all participating institutions. On the EFSF/ESM side, the country team grew in size commensurate with the institution’s role during the ESM programme. The ESM team, however, remained relatively small compared to other institutions’ teams, reflecting both its narrower mandate and the effective synergies achieved among the teams of different institutions. ESM staff indicated that assignment continuity, mix of expertise, and country-specific knowledge were generally adequate in the EFSF/ESM country team.⁹⁶

Table 7.1
Summary of days spent in Greece by ESM staff

Year	2015		2016		2017		2018		2019	
	Number of days	Number of FTE	Number of days	Number of FTE	Number of days	Number of FTE	Number of days	Number of FTE	Number of days	Number of FTE
Banking	18.5	1	138	2	102	2	76.5	2	32	2
Legal	20.5	1	121	1	57	1	29	1	33	1
Lending	43	1	86	1	52	1	44	1	50	1
Country team coordinator	22.5	1	79	1	39.5	1	17	1	10.5	1
Economists	34	2	141.5	2	95	5	71	3	95	4

Note: The data covers only time spent in Greece. It does not account for the time dedicated to programme management of all ESM staff involved. It does not include information about meetings outside Greece. FTE stands for the number of full-time employees involved throughout the year. In case of substitution or cover, the number of FTE increases by 1.

Source: ESM

ESM Members’ national policy preferences at times hampered the Institutions’ ability to effectively design and negotiate policy measures best suited for Greece. The ESM represents 19 different countries, which share many similarities in terms of the structure of their economies, but also differ with regards to, for example, pension systems or labour and product markets. When it came to designing specific policy measures for Greece, according to senior officials involved in the process, ESM Members at times expressed strong preferences for measures that were most in line with their domestic policy choices. This included, for example, benchmarking some proposed measures on pension and labour market reforms in Greece, against certain national standards in other ESM Members. Some interviewees feel ESM Members did not demonstrate sufficient understanding of the country-specific circumstances in Greece. In certain cases, ESM Members whose national parliaments have a strong role in decision-making on financial assistance,

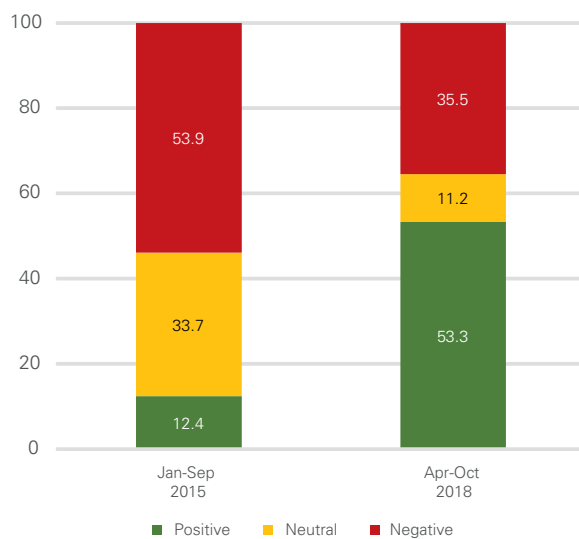
favoured policy measures for Greece that were most likely to garner sufficient support in their respective national parliaments. This posed challenges for the work of the Institutions and often led to negotiations with ESM Members rather than with Greece. In this context, there were calls for the ESM to safeguard the operational independence of its staff, as well as to support ESM Members in developing better understanding of policy measures best suited to the specific country case.

7.3. Cooperation with the Greek authorities

Lack of programme ownership in Greece is often cited as one of the key challenges to cooperation and successful programme implementation.

Interviewees and most observers⁹⁷ agree that ownership⁹⁸ on the part of the Greek authorities was weaker than in other EFSF/ESM programmes. Strong ownership by the authorities requires a degree of popular support, which was lacking in Greece. The prevailing sentiment in Greece was, instead, overwhelmingly negative, although it improved towards the end of the ESM programme (Figure 7.2).⁹⁹

Figure 7.2
Greek sentiment relating to the financial assistance
(in %)

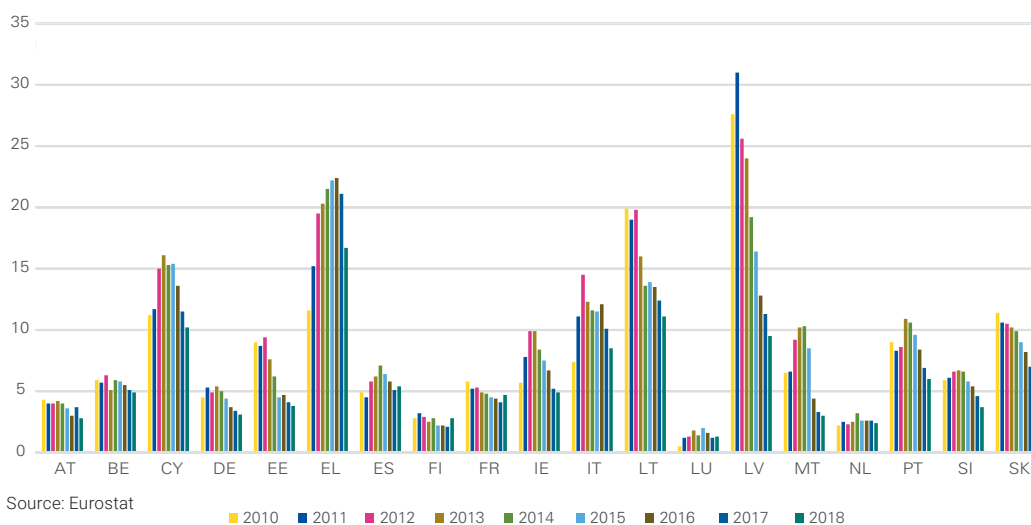


Source: Social and online media analysis

Many factors contributed to weak programme ownership in Greece. First, the level of accumulated imbalances in Greece was much higher than in other countries, and the crisis necessitated a far more ambitious adjustment. Key players involved in the design of the first Greek programme – and the prevailing global conditions at the time – contributed to the creation of an overly ambitious adjustment programme in 2010 (IMF IEO, 2016). The sheer volume of reforms and deep adjustments required made it difficult for any government in Greece to take full ownership. Most of the reforms, though beneficial in the long run, carry significant short-term political costs. Anywhere around the globe, implementing deep fiscal adjustment is rarely domestically popular (Henriksson, 2007). Second, the Greek political system in recent decades has been very polarised (Andersen, 2020). Governments in power have tended to shift the blame for unpopular measures and outcomes to their predecessors, thereby evading any determination of the ultimate responsibility for misconduct and

adverse outcomes. Weak administrative capacity and a politicised civil service further contributed to this poor accountability (Andersen, 2020 and OECD, 2020). Finally, the unfair burden of adjustment and inefficient social safety nets in Greece before the crisis meant that once a deep and protracted recession hit the economy, large segments of the population found themselves at risk of poverty (Figure 7.3). This, in turn, further weakened popular support for the reforms under the successive programmes.

Figure 7.3
Severe material deprivation rate in euro area economies
 (from 2010–2018, % share of population)



Cooperation between Institutions and Greek authorities encountered serious setbacks in early 2015. There is a broad consensus among interviewees that cooperation between the Institutions and the Greek authorities was weakest in the first half of 2015. A new government was elected early that year on a promise to redefine Greece’s relationship with its creditors. According to those involved in negotiations during this period, the level of mistrust was high on all sides, with the period marked by late-night negotiations, emergency euro summits, and last-minute diplomacy (Dendrinou and Varvitsioti, 2019). Eventually, an agreement on the new ESM programme was reached in August 2015, but only after Greece had entered into arrears with the IMF.

Paradoxically, it took the dramatic events of 2015, which brought Greece to the verge of euro area exit, to finally improve programme ownership. Faced with the real possibility of abandoning the common currency, and even the EU, a consensus emerged between the Greek authorities and the main opposition parties in the second half of 2015 that the new ESM programme had to be supported. From that point on, most interviewees considered that ownership strengthened. Many interlocutors in Greece pointed out that the general population’s support for the programme also increased since the events of 2015, which is consistent with the online and social media analysis findings in Greece.¹⁰⁰ Having experienced the capital controls and uncertainty caused by the developments of the first half of 2015, and increasingly aware that cooperating with the European partners was better than any alternative, public opinion shifted in favour of stronger programme implementation.

Cooperation with the Greek authorities improved as ESM programme implementation progressed. Better-targeted conditionality compared to the earlier programmes helped lead to this improvement. The adjustment efforts focused on achieving fiscal targets. A gradual improvement in social indicators during the ESM programme, including reductions in unemployment and the proportion of the population in severe material deprivation (Figure 7.3) contributed to increased popular support, and thus ownership, of the reforms. However, with the reform focus on fiscal targets, even on outperforming those targets, other, more structural reforms, were repeatedly delayed. While regularly attaining fiscal targets has contributed to restoring the credibility of reform efforts, delays in structural reforms continue to weigh on long-term macroeconomic sustainability.

7.4. Challenges to cooperation posed by debt sustainability assessments

Disagreements among the Institutions and key stakeholders came out in the open in mid-2015 with the IMF’s publication of its DSA, which differed from that of the European institutions.¹⁰¹ The discord stemmed from differing underlying assumptions about long-term growth and the prospects of maintaining a historically high primary surplus over a longer period. Even when switching to a GFN from a stock basis for assessing debt sustainability, an approach advocated by the European institutions, the IMF staff “could not affirm that debt is sustainable with high probability as required under the [Fund’s] exceptional access policy” (IMF, 2015a). Most board survey responses note that the DSA discord was the most contentious aspect of the ESM programme cooperation. It had wide-ranging implications, from the IMF’s participation in the ESM programme to the primary surplus target and the decisions on the short- and medium-term debt relief measures.

Divergence among the Institutions and key stakeholders on the DSA posed challenges to cooperation and hampered programme implementation. For the IMF, upfront and firm commitment to unconditional debt relief became an essential condition for Greece’s recovery, and for any potential IMF involvement in the new rescue package. This was consistent with the IMF’s policy for programmes for middle- and high-income countries; their debt sustainability is supposed to show signs of improvement during the programme period. The Greek authorities saw merit in the IMF’s proposal for additional debt relief but, at the same time, found the European Commission and the ESM generally more flexible and willing to listen to their views in other programme areas. Among the euro area member states, the assessment was that there would be no outright additional debt relief. Such relief was politically unacceptable, in particular to Eurogroup members with lower income levels than Greece. On the other hand, some euro area member states insisted on the IMF’s continued involvement in the new programme for Greece in 2015, despite the IMF’s call for additional upfront debt relief.¹⁰² The credibility the IMF lent to the process was still seen an important factor in 2015. Some interlocutors also noted that this approach allowed certain member states to maintain leverage over the programme negotiations.

The role of the IMF during the ESM programme was tainted by Greece’s entry into IMF arrears in June 2015. Some European interviewees note that the IMF continued to see itself as playing a central role in the design and implementation of the ESM programme, although not providing any financing. For the IMF, this was consistent with its role in the GFSN. The European Commission and the ESM, on the other hand, continued to uphold a longer-term perspective when it came to DSA, which implied a different programme strategy from the

one advocated by the IMF. At the crux of the matter lay different assumptions about potential growth embedded in each DSA, as well as different time horizons deemed relevant for programme strategies (for more, see Chapter 6). The disagreement persisted. A compromise was only found in June 2017 when the IMF approved “in principle” a precautionary SBA programme for Greece to coincide with the remaining duration of the ESM programme. The IMF programme was to become effective only “after the Fund receives specific and credible assurances from Greece’s European partners to ensure debt sustainability” (IMF, 2017e), and provided Greece continued to implement agreed reforms. In the event, these conditions were not met and the IMF programme was never activated.

The differences in DSA assumptions among the Institutions and key stakeholders were not systematically highlighted, nor did ESM board documents include a robust sensitivity analysis to better inform policy choices that were being made inconsistently among the programme partners. Each institution had its own red lines when it came to ensuring debt sustainability, driven at times by the political constraints posed by its members. Once these different assumptions were added to the DSA framework, the results pointed to different policy choices even when the same methodology was used.

From a technical instrument of fiscal surveillance, the DSA morphed into a political decision-making tool that exposed the inherent clash between shorter- and longer-term perspectives on crisis resolution. For a period, the IMF did project its DSA far into the future, but its conclusions were ultimately driven by the maturity profile of its loans, shorter than that of the ESM loans. In contrast, the European institutions embed in their DSA any potentially available official support and its characteristics, including long-term ESM support at very low interest rates (Cheng, 2020). Despite these disagreements, most respondents to the board survey, as well as many interviewees, believe that DSA was a useful tool for focusing decision-making on critical aspects, as well as for communicating why some decisions could or could not be taken.

As the ESM programme implementation progressed and the exit finally appeared on the horizon, IMF financing became less crucial. Towards the end of the ESM programme, a consensus emerged on the European side to suggest the IMF’s involvement in individual future euro area programmes would no longer be seen as critical.¹⁰³ The existing practices between the European Commission and the ESM were formalised in the MoU agreed by the two institutions in April 2018.¹⁰⁴ The European Commission and the ESM further specified their division of labour and commitment to working together on a DSA methodology to apply across the euro area in November 2018 (ESM, 2018c).

7.5. ESM’s engagement

The Institutions generally approached programme negotiations somewhat differently, each reflecting its own internal processes, mandates, and culture. The first evaluation report and IMF IEO (2016) found evidence of this in all euro area programmes. The IMF has for decades had a well-established internal process to formulate a detailed institutional view ahead of consultations with the authorities. This internal institutional policy defines the parameters within which the IMF mission team is allowed to operate during programme negotiations. For Greece, many interviewees observed that, among the Institutions,

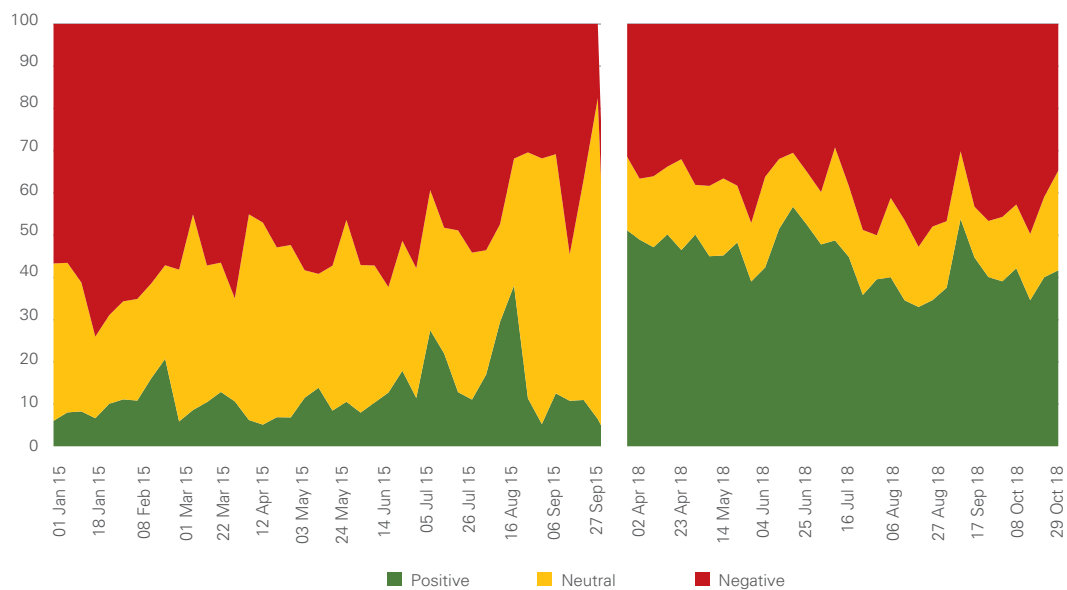
the IMF generally exhibited the least flexibility during negotiations because of its strong focus on programme implementation risks. Many interviewees also observed that the European Commission and the ESM demonstrated more flexibility. These perceptions left many interlocutors in Greece with the impression that the Commission and the ESM were more open to listening to the views of the authorities, and on occasion adapt their positions.

The ESM and European Commission worked well together. Most interviewees in Greece considered that the Commission and ESM worked well together; many said it was difficult to distinguish the Commission’s views from the ESM’s because they were closely aligned. The Commission compliance reports prepared for each programme review benefited from ESM inputs.

Global and Greek perceptions about the financial assistance improved from the beginning of the ESM programme, although an overall negative sentiment remained pronounced (Figure 7.4). This is the main conclusion of the social and online media analysis that investigated perceptions of the financial assistance during the two focus periods: (i) January to September 2015, and (ii) April to October 2018.¹⁰⁵ The focus periods were chosen as they coincided with the negotiations on the ESM programme in the first half of 2015 and the discussions about the programme exit during 2018. The analysis of media in Greek and English offers useful insights into global perceptions of the programme, perceptions in Greece, and ESM-specific perceptions. The main findings are:

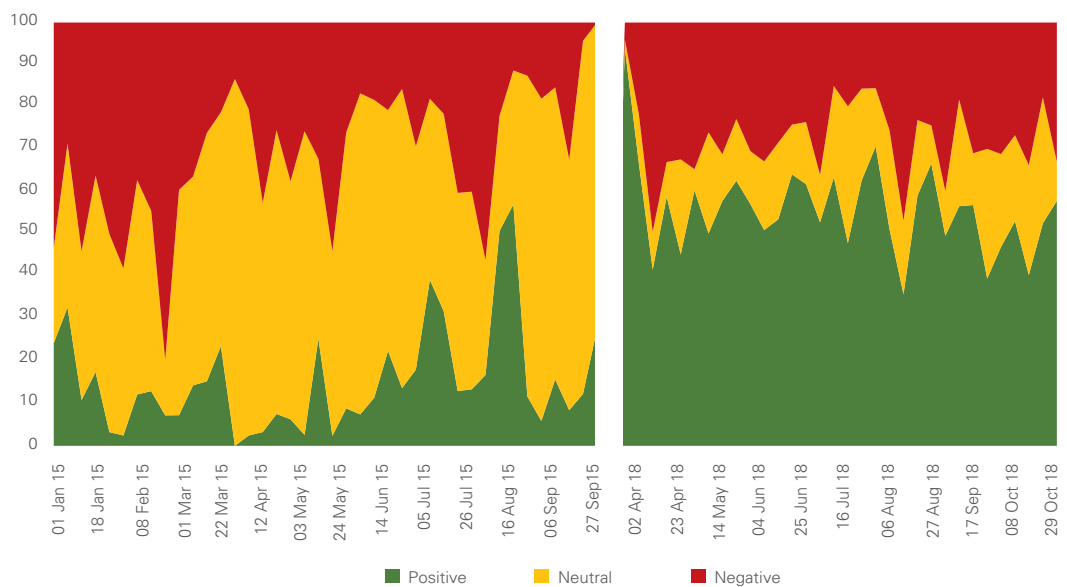
- *The global level of interest in the Greek crisis was far greater from January 2015 to September 2015 than around the ESM programme exit in 2018.*¹⁰⁶ This finding reflects the high degree of uncertainty during the first nine months of 2015, including on Greece’s place in the euro area, which was the subject of many conversations both in Greece and globally.
- *During the first period, anti-austerity voices primarily shaped the global public discourse and propelled the Syriza government to power in Greece.* The negative sentiment about the financial assistance was expressed in 52% of total mentions, and also the Institutions were seen in this light. In this period, positive sentiment accounts for only 17% of total mentions. Around the programme exit, positive sentiment prevailed in 44% of the mentions, compared to 41% for the negative sentiment. The polarisation is explained by an almost evenly split perception among those who saw the programme exit as a positive outcome that would enable Greece to stand on its own feet, and those who questioned whether the costs that the Greek society and economy had incurred to graduate from the programme were necessary.
- *The ESM became more widely recognised towards the end of the programme.* Although there was generally less attention globally on the Greek crisis around the period of the programme exit, the ESM featured more prominently in global chatter in 2018. The sentiment of posts discussing the ESM becomes increasingly positive (57% on average in the 2018 period from the average of 30% in the 2015 period) in line with a general overall sentiment trend¹⁰⁷ (Figure 7.5).

Figure 7.4
Sentiment about the financial assistance to Greece over time
 (% share in total)



Source: Social and online media analysis

Figure 7.5
ESM-related sentiment over time
 (% share in total)



Source: Social and online media analysis

Most interviewees viewed the ESM’s engagement in Greece as constructive, professional, and technically sound. Some, however, felt that while technically independent, the ESM was also strongly influenced by its largest shareholder, whose national parliament had a significant role in the overall programme decision-making process (Kreilinger, 2019). Several interviewees involved in programme negotiations described a process where any adaptation of programme strategies, once agreed between the Greek authorities and the Institutions, then had to be presented and agreed in turn with the ESM Members whose national parliaments were directly involved in programme decisions. Given that all programme-related decisions in the ESM governing bodies have to be reached either by unanimity or an 80% qualified majority, the two largest shareholders of the ESM – Germany and France – effectively have veto power over all such decisions. Other international financial institutions, such as the IMF and World Bank, have the largest shareholder with veto power too, but only on, for example, decisions related to adjustments in voting shares and governance reforms. In the case of the IMF, a decision to grant financial assistance requires a simple majority of the IMF Executive Board, even though in practice a consensus is sought.¹⁰⁸ While most interviewees agree that ESM Governors should continue to be in charge of making strategic and political decisions, they also stress how important it is for the ESM to preserve and safeguard the operational independence of its staff.

7.6. Synergies beyond the primary partnership

Synergies with other institutions, beyond the primary programme partnership, were insufficiently explored and used. Apart from the Troika members, which later came to be known as “the Institutions”¹⁰⁹, other international organisations were engaged in Greece during the crisis years. These engagements were not, however, the result of any structured or coherent approach to maximise synergies and bring additional expertise on board. Instead, they came about by different members of the primary partnership (i.e., the ESM, Commission, ECB, IMF, and the Greek authorities) exploring synergies with other actors bilaterally.

Several institutions, beyond the primary programme partners, engaged in Greece during the programme and post-programme periods. The European Commission, with its extensive number of services and directorates, including the structural funds, played an important role in addressing some deep-rooted structural bottlenecks in certain Greek sectors. In this context, the role of the Commission’s SRSS was particularly important (for more, see Chapter 6). The World Bank provided technical assistance in designing and successfully implementing social protection measures, which Greek authorities appreciated and found particularly pertinent. The World Bank played a crucial role for example in introducing the Guaranteed Minimum Income scheme, the first means-tested social protection scheme in Greece ever; an even earlier involvement on these issues would have been helpful. The European Bank for Reconstruction and Development was involved in work with subsidiaries of Greek banks in the Balkans. Other organisations, such as the OECD and ILO, also provided important input to the structural reform agenda. The EIB extended several loans to Greece during the crisis to support several multisector projects. However, the partners’ overall approach to cooperation with other organisations was rather ad hoc and lacked proper planning.

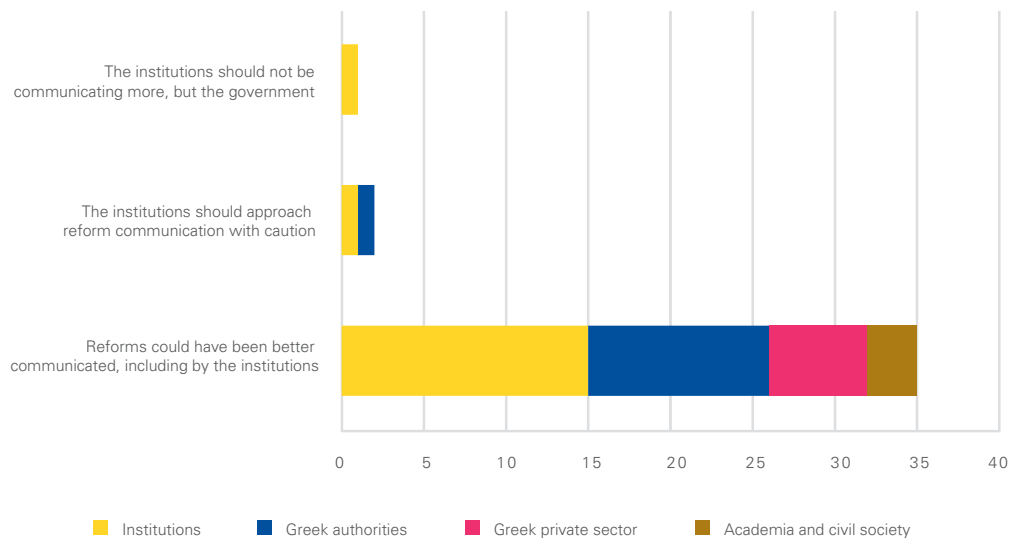
For its part, the ESM did not explore how to maximise potential synergies with institutions beyond the primary partnership. According to ESM staff involved in the Greek programmes, the ESM had neither sufficient time nor adequate procedures to seek additional complementarities and synergies beyond the primary partnership. If there is a parallel to be drawn from the complementary roles of the IMF and World Bank, such complementarity is largely absent between the ESM and EIB, which have broadly similar types of mandates as their Washington peers. The IMF and World Bank operate the joint-Financial Sector Assessment Programme (FSAPs) with a formal agreement on the distribution of tasks. Furthermore, for low-income countries, IMF financing has a catalytic role in unlocking the financing from the World Bank, multilateral development banks, and bilateral donors.

7.7. Importance of communication and policy advocacy for programme success

A thorough understanding of country-specific context and political economy is key to building effective reform coalitions to support sustainable and inclusive growth. This is also critical to garner programme ownership and was one of the findings of the first ESM evaluation report. The role of reform communication during the programme period, and that of policy advocacy in the post-programme period, are particularly important. While there is no one “cookbook” of recipes for how this is best done, and the experience varies from country to country, this evaluation found that the ESM and its partners could have been more actively involved in explaining and advocating critical reforms. Peer institutions like the IMF have a communications strategy based on the premise that timely and flexible communications are an important strategic tool to develop better understanding around key issues and to strengthen the traction of the IMF’s policy advice (IMF, 2014).

The lack of coordinated and comprehensive communication on the long-term reform benefits contributed to overall weak programme ownership in Greece. The first best case is when the government takes on the responsibility of explaining why certain unpopular reforms are needed, and their long-term benefits. However, when successive Greek governments lacked the capacity or willingness to engage in a campaign to “sell” the reforms to the population, the Institutions could have done more to promote those reforms, as noted by a vast majority of interviewees (Figure 7.6) This is even more so the case in programmes that envisage a large number of reforms over a limited time period. Ambitious reforms can strain even countries with strong administrative capacity (Henriksson, 2007). In a crisis-context, finding time and resources to explain and promote reforms is easily relegated to the back burner, but the consequences can be weak ownership and backtracking on programme commitments.

Figure 7.6
Interviewees' views on reform communication by key stakeholder group
 (in number of interviewees)



Source: ESM evaluation team

Although external actors can only do so much, the Institutions, including the ESM, failed to successfully explain the rationale for reforms to key stakeholders outside the Greek government. The programme reforms were not well understood by stakeholders in Greece, including parliamentarians, civil society organisations, and the general public, according to a broad consensus of interviewees. Board and ESM staff survey responses indicate that while the ESM programme strategies were communicated well to the Greek authorities and Greek banks, this was far less the case for Greek parliamentarians and labour unions (see Figure 7.1 in the Technical appendix). ESM staff involved in the Greek programme corroborated this view, noting that missions in Greece were characterised by long drawn-out negotiations with the authorities, leaving no time for outreach to representatives of the civil society, labour unions, academia, and other interested parties. Contacts with parliamentarians, including opposition parties, were also very limited. As a result, journalists became the main messengers about the reforms. They ended up translating, and in the process interpreting, the official communication from the Institutions to the Greek public. However, the media in Greece, much like the political landscape, tended to be highly polarised. Therefore, key messages on the necessary reforms differed, depending on where the media outlet sat on the political spectrum.

To date, there has been no national reckoning as to what led to the crisis and where the onus of responsibility lies. Lack of domestic acknowledgement of the root causes of the crisis and insufficient communication about the reform rationale contributed to weaker programme implementation. Successive Greek governments ended up blaming one another, and/or external factors, for the root causes of the crisis. And the blame game continued when it came to deciding on measures to address the crisis.

Programme negotiations, particularly those in 2015, were conducted in a tense atmosphere that exacerbated mistrust between the parties. From the public's viewpoint, the negotiations were shrouded in mystery, which left ample room for various interpretations, even conspiracy theories, as to what was being

demand of Greece and why. This further polarised society and fed a widespread misunderstanding of the rationale for reforms. The analysis of social media and news outlets in Greek and English in 2015 also corroborate this finding (Figure 7.4). The Greek crisis dominated global headlines and social media conversations in the summer of 2015 before the agreement on the ESM programme was reached. More than half of all conversations in this period had negative sentiment, with themes like “austerity” and “Troika demands” dominating the conversation.¹¹⁰

Once the programme was agreed, the subsequent reviews saw the legislation needed to implement the agreed reforms rushed through parliament without any real debate. In most cases, measures required to complete each programme review were subject to protracted negotiations. Final agreements were reached very late in the process, often when the state coffers were running low in liquidity (for more, see Chapter 5). These agreements then had to be quickly implemented, which often meant passing large volumes of legal text through parliament with little public or parliamentary debate. The nature of the Greek political system, where a ruling party or coalition has full control over the majority of parliamentary seats, meant that the legislation could be enacted with little or no discussion using emergency procedures. As a result, most programme reforms were not well explained to parliamentarians or to the public.

The Institutions, particularly during the EFSF programme, gave insufficient attention to the domestic political environment, vested interests, and programme ownership by Greek authorities.¹¹¹ More attention was paid to these issues during the ESM programme, when programme ownership also improved. A stakeholder analysis tool developed as a follow-up to first evaluation report recommendations, was designed to help address these issues. In addition to effective reform communication, other issues of relevance to support programme ownership and implementation include thorough social impact assessments of the proposed reforms, measures to mitigate the negative impact on the most vulnerable groups, technical assistance, and measures to enhance mutual trust among programme partners. These would all benefit from advance planning and resourcing. More timely and robust social impact assessments, for example, could have led to an earlier design of the GMI with World Bank assistance.

7.8. The role of the ESM in the post-programme period

Cooperation during the first year of the post-programme period worked well. Following the programme exit in August 2018, the European Commission activated enhanced surveillance for Greece, with reports to be published quarterly in line with key steps of the European Semester. During the post-programme period covered by this evaluation (September 2018 to September 2019), three enhanced surveillance reports were published, and four surveillance missions undertaken,¹¹² respecting the envisaged schedule. The missions were conducted jointly by the European Commission, ECB, IMF and ESM. The ESM participated in line with its Early Warning System and the 27 April 2018 MoU on working relations between the Commission and the ESM. During this period, cooperation between the programme partners and with Greek authorities worked well. The missions were generally well coordinated and the Institutions’ teams provided their respective inputs in line with the division of responsibilities.

Table 7.2
Post-programme monitoring arrangements for Greece

	ESM	European Commission	IMF
Name	Early Warning System	Enhanced surveillance*	Post-programme monitoring
Legal basis	Article 13 (6) ESM Treaty	Article 2(1) of Regulation (EU) 472//2013.**	IMF Articles of Agreement
Timespan foreseen	Until the loans are repaid in full	Activated by EC Implementing Decision (EU) 2018/1192 of 11 July 2018, can be prolonged every six months by EC decision. On 20 February 2019, enhanced surveillance was prolonged for further six months by EC Implementing Decision (EU) 2019/338, and then further prolonged on 26 July 2019 by another six months by EC Implementing Decision (EU) 2019/1287.*** This may stay in place until the end of policy-contingent debt measures, 2022.	Depends on the time it will take the country to reduce outstanding credit below the following thresholds: 200% of its quota from the Fund's general resources account (GRA), or an amount equivalent to SDR 1.5 billion for credit from the Fund's GRA; In addition to this, the country should not be subject to any financial assistance programme with the IMF.
Frequency	Quarterly	Renewed every six months, with quarterly reporting	Biannual****
Notes	Takes place in liaison with the EC. The ESM closely coordinates its mission schedule with the European Commission and ECB to avoid duplication of meetings and ensure the efficient organisation of Early Warning System missions.		In the event where post-programme monitoring is shown to be required, in spite of outstanding credit not exceeding the stipulated thresholds, monitoring may continue for up to an additional year.

Notes: *Following the programme exit, Greece was placed under Enhanced Surveillance in accordance with Article 2(1) of Regulation (EU) 472//2013. Other members that received financial assistance from EFSF/ESM have been subject to Post-Programme Surveillance, which remains in place until at least 75% of the financial assistance received have been repaid, as defined by Article 14(1) of Regulation (EU) 472/2013. **<https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:140:0001:0010:EN:PDF> ***[http://www.europarl.europa.eu/RegData/etudes/BRIE/2014/497721/IPOL-ECON_NT\(2014\)497721_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/BRIE/2014/497721/IPOL-ECON_NT(2014)497721_EN.pdf). ****IMF (2019d).

Source: ESM evaluation team

However, some differences remain as to the frameworks that govern the partner institutions' engagement after the programme concludes. As summarised in Table 7.2, the ESM's legal basis for continuous monitoring to ensure Greece's repayment capacity until the loans are repaid in full remains Article 13(6) of the ESM Treaty that establishes the early warning system (EWS). The Commission's enhanced surveillance framework is based on EU law, in particular Regulation 472/2013, and requires biannual renewal. The IMF continues its post-programme monitoring as long as the borrowing country's outstanding loan amount to the IMF remains above a certain threshold. During the first year of the post-programme period, the Institutions' missions and activities were well-coordinated and jointly conducted to maximise synergies while reducing the burden on Greek authorities in hosting mission visits.

Given the long maturity of ESM loans to Greece, it is conceivable that at some future point, the Commission and IMF may decide, in accordance with their respective frameworks, to halt Enhanced Surveillance and IMF Post-Programme Monitoring, respectively. In such a scenario, Greece would still remain subject to the Commission's post-programme surveillance framework until 75% of its loans have been repaid. As the ESM is required to keep monitoring until the loans are repaid in full, this would effectively leave the ESM alone in assessing Greece's repayment capacity.

The Institutions' leverage in the post-programme period is limited because financial incentives to implement good policies in support of sustainable and inclusive growth diminish over time. For Greece, the medium-term debt relief measures maintained some financial incentives. The ESM completed implementation of the short term measures. However, part of the medium-term debt measures were designed to be made available to Greece biannually until mid-2022 (for more, see Table 6.1). These include the return of SMP and ANFA profits,¹¹³ and the reduction of the step-up interest margin to zero for part of the loans provided by the EFSF. However, the actual calendar for transferring SMP and ANFA equivalent income to Greece was subject to delays compared to the envisaged schedule. The first tranche originally scheduled for December 2018 was instead approved by the EFSF BoD in April 2019 and transferred to Greece in May 2019.¹¹⁴

After the expected implementation of the medium-term measures in mid-2022, market and peer pressure need to maintain external incentives to continued reform momentum in Greece. Peer pressure exerted by the Eurogroup, as well as the regular economic surveillance framework for euro area countries under the European Semester, will provide some leverage. Many interlocutors in Greece believe that a number of policies enacted during the programme will have lasting positive effects, and that the risk of policy reversals in such cases is limited. They say that popular reform support increased after the 2015 events, as the negative consequence of capital controls and high uncertainty had lingering detrimental effects. Other interviewees refer to an expectation that an effective peer review among the finance ministers after the programme exit, and in particular the role that the Eurogroup as an informal body plays in this regard, is the most effective mechanism to incentivise sustained reformed efforts and thus the ESM loan repayment.

The economic outlook generally improved during the first year of the post-programme period but some early signs of potential policy slippages emerged. The third enhanced surveillance report in June 2019 voiced some concern about the package of permanent fiscal measures adopted by the Greek authorities in May 2019.¹¹⁵ The objective of the measures was to make public finances more growth-friendly and to increase social spending for the most vulnerable groups. However, the report (European Commission, 2019b) noted the adopted measures on pension and VAT were not in line with the previously agreed measures in 2012 and 2016, and would reduce the fiscal space for growth-enhancing reductions in labour and corporate tax rates. In addition, the report took note of the Greek authorities' intention to adopt further expansionary fiscal measures for 2020 and to revisit the June 2018 agreement on the annual primary surplus target of 3.5% of GDP up to 2022. Overall, the report concluded that the pace of reform implementation had slowed, calling into question the previous reform commitments.

As a long-term lender and partner to Greece, the ESM has a strong interest in ensuring the sustainability of the country's economy, which in turn would ensure ESM's loans are repaid. Many interviewees emphasise the importance

of policy advocacy by the Institutions, and the ESM in particular, in the post-programme period. This is even more pertinent given a widely held view that many of the deeper structural reforms remained unfinished during the last programme, which focused primarily on achieving agreed fiscal targets. Product market reforms, further strengthening of the public administration capacity and protecting the governance of independent national institutions, to name just a few, remain of critical importance for achieving higher long-term growth rates. The significance of these reforms must be explained and supported not only by the present and future governments in Greece, but even more importantly by Greek citizens. Policy advocacy of those reforms remains crucial.

The ESM's unique long-term perspective requires it to pay more attention to the sustainability of reforms and the country's economy in general. Several interviewees suggested that the ESM's toolkit and post-programme framework should better reflect this perspective. Understanding the country's political economy, the sources of reform opposition, and how to build effective reform coalitions are key to the ESM's role in future programmes, and also in post-programme periods.

7.9. Conclusions

The Institutions achieved a considerable degree of cooperation in a complex environment allowing Greece to finally exit from a protracted period under official financial assistance. Even before the EFSF/ESM entered into partnership to provide Greece with stability support, the partnership was already burdened by challenges to cooperation and programme ownership. Different institutional mandates and approaches contributed to a lack of common understanding about the Greek programme strategies and objectives. Although there was a gradual improvement as the ESM programme implementation proceeded, the partnership remained hobbled by different institutional perspectives.

The ESM programme was marked by open disagreement on debt sustainability among programme partners and key stakeholders. This disagreement exposed the inherent clash between shorter and longer term crisis resolution perspectives by different partners. This adversely affected cooperation and programme implementation. The differences in DSA assumptions among the Institutions and key stakeholders were not always presented with sufficient transparency. The DSA, nevertheless, remains a useful tool for focusing decision-making.

On the Greek side, one main challenge to effective cooperation was the Greek authorities' often weak ownership of programme reforms. At the onset, the Institutions failed to grasp fully the root causes of weak ownership, including the political economy in Greece, political polarisation, subdued administrative capacity to implement the ambitious reform agenda, fragile accountability, and a lack of effective social safety nets to protect the most vulnerable groups. In response to this weak ownership, the list of conditionality measures grew ever longer during the EFSF programme, which in turn had further adverse effects on ownership. Ownership, however, improved under the ESM programme as the political tensions due to the behaviour of authorities in the first half of 2015 demonstrated to the broader public that any alternative to continued financial assistance would be far worse.

The rationale for reforms and their long-term benefits were not explained well to a broader group of stakeholders and the Greek public, which contributed to weak ownership. Effective communication is key to building broad reform coalitions to support programme implementation. Public perceptions about the financial assistance to Greece improved from 2015 to 2018, although the overall negative sentiment remained pronounced. While national authorities should play a leading role in communicating reforms to the public, the Institutions could have supported and facilitated these efforts more throughout the crisis period.

Operational independence of the ESM staff is important to safeguard the ESM's reputation as an institution whose contribution is consistently constructive, professional, and technically sound. This is even more important in high-stakes programmes driven by a political process, as was the case in Greece.

In the long run, potential challenges remain in the ESM framework for post-programme engagement. While market and peer pressures can exert some level of discipline, a more active policy advocacy role by the ESM and its partners is key in the post-programme period.

The Greek crisis was the first of its kind in the euro area for all institutions involved. Programme strategies have evolved over time and there is a reasonable expectation that cooperation can work better in future. The European Commission and the ESM now have a framework in place for the division of tasks and responsibilities in future programmes.

Box 7.2: Key takeaways from other relevant evaluations

Financial assistance to Greece has been subject to several evaluations by the IMF staff, IMF's Independent Evaluation Office (IEO), and the ECA. The ESM's first evaluation report assessed the EFSF programme for Greece up to December 2014 along with the other four country cases. Several important findings were corroborated by these evaluations, namely:

- Greek programmes incorporated overly optimistic growth projections (IMF IEO, 2016 and IMF, 2017a).
- The front-loaded fiscal adjustment envisaged under the EFSF programme was too ambitious (IMF, 2017a).
- Political instability threatened and ultimately derailed the EFSF programme, reflecting fragile ownership and strong opposition from vested interests (IMF, 2017a).
- Securing adequate financing and debt relief would have increased the EFSF programme's chances of success (IMF, 2017a).
- Fiscal adjustment plans did not sufficiently take into account the country's implementation capacity (IMF 2017a).
- Adopting well-sequenced structural reforms based on strong ownership and parsimonious conditionality is important for programme success (ECA, 2017, and IMF, 2017a).

Further relevant findings are available in the ECA Special Report No 18/2015 entitled *Financial assistance provided to countries in difficulties* – a performance audit of the Commission's management of financial assistance programmes. The report concluded that the Commission was not prepared for the first requests for financial assistance. The Commission's assessment of the countries' budgetary positions was overly optimistic. Prior to 2009, there was inadequate reporting on the build-up of contingent public-sector liabilities, which in many cases became real liabilities during the crisis. Surveillance did not pay enough attention to the links between large foreign financial flows, bank balance sheets, and government finances. The report also found that given

the initial time constraints and limited previous experience, the Commission's role in programme management, negotiations, forecasting, and mobilisation of financing could be considered as important achievements.

Crisis requires certain adaptability. The IMF's Independent Evaluation Office (IEO) published several pertinent reports. The IEO's 2016 report *The IMF and the Crises in Greece, Ireland, and Portugal* examined the effectiveness of the IMF's engagement in the three euro area economies from 2010 to 2014, and as such focused mostly on the first Greek programme. The report offers some relevant conclusions for the ESM evaluation, including on gaps in the IMF's surveillance in the euro area, and the suboptimal decision-making process which allowed for bending the IMF rules on providing exceptional access financing to Greece even when its public debt had not been deemed sustainable with full confidence.

It is difficult to totally eliminate political pressure. The IEO's 2016 report also examined the IMF's cooperation with its European partners in the Troika arrangement, concluding that the IMF's technical judgement was potentially subjected to political pressure from an early stage. On the European side, the report found that political feasibility in euro area creditor countries was an important consideration for the European Commission staff (IMF IEO 2016, p. 33). Finally, the IMF's handling of the euro area crisis raised issues of accountability and transparency. This IEO report prompted a series of discussions both outside and inside the IMF, including by the IMF Executive Board. The IMF's smaller role, in particular in the ESM programme, could be attributed to some of the lessons drawn by the IEO. Some of the above findings were corroborated in other more thematic and less regionally focused IMF IEO reports. For example, IMF IEO (2014a) report on IMF forecasts found that there was a forecasting optimism bias for high-profile crisis countries, in particular in case of exceptional access. At the same time, for other programmes the bias was either on the side of pessimism or it was not significant.

An overview of the first 20 years of IMF evaluations (IMF IEO, 2014b) found that one of the most common themes in the IMF experience was that structural conditionality was often subject to unrealistic deadlines due to insufficient consideration of country-specific implementation capacity, feasibility, or political constraints. It also found a repeated criticism by various country authorities that the analytical framework used in IMF research was not suited to the realities of their countries, and that the advice of IMF staff was often overly generic and "one size fits all".

European Commission ex post evaluations on the other ESM-supported programmes (European Commission, 2016a and 2019e) presented, among other things, the following conclusions that are broadly aligned with the findings and conclusions of this evaluation, suggesting that euro area programmes may have faced some systemic challenges:

- They find that programme conditionality which is realistic and aligned with a country's priorities, and technical and administrative capacity, facilitates the achievement of programme objectives. This seemed to apply especially to structural reforms which should ideally be scaled to what is needed to achieve the programme's strategic objectives. Given often lengthy implementation periods, the most important reforms should be front-loaded during the programme period.
- They concluded that it was difficult to effectively contribute to a fundamental change in banks' business models and that the efforts to overcome the hurdles for asset quality improvement tended to take longer than expected.
- Institutions should be prepared to adjust fiscal strategy if it weighs too much on growth. It would be helpful to agree the path of fiscal and structural policy measures for the aftermath of a programme.
- Insufficient communication of programme design and reforms' long-term benefits and lack of prioritisation of reforms hampers programme ownership (European Commission, 2019e). Continued dialogue with key stakeholders can bolster programme ownership.
- Systematic monitoring of social developments in programme documents and transparent communication of social equity and burden sharing arrangements bolsters programme credibility and popular support.
- Demand-driven technical assistance supporting application of best practices contributes to programme success.

In addition to institutional evaluations, the euro area programmes have been subject to many academic assessments. Pisani-Ferry et al. (2013), for example, found that in Greece, the Troika partners made unrealistic early assumptions about the ability of the Greek economy to adjust and of the local political system and administrative capacity to implement programme reforms. As for the European institutions' cooperation with the IMF, the authors found tensions originating in different approaches and rules by different institutions, though overall they succeeded in cooperating.

8. Conclusions

This chapter draws conclusions on the Greek EFSF and ESM programmes including the experiences of the first year of post-programme engagement, drawing on the analysis presented in the previous chapters.

8.1. Contribution of the Greek programmes to euro area financial stability and the evolving crisis management framework

The Greek crisis started a chain reaction that developed into a regional crisis, which tested euro area member states' and institutions' capacity to respond to shocks.

Ensuring the success of the Greek programmes was fundamental to restoring confidence in the single currency. The EFSF programme after the PSI, helped to arrest fears over global growth contraction that could have resulted from a further intensification of the euro area crisis. The Greek crisis demonstrated that any monetary union member's imbalances can be of systemic relevance when other members have also accumulated vulnerabilities that leave them exposed to shocks. Contagion risks emerged repeatedly and became most acute after the GLF programme went off track in mid-2011 and discussions on the PSI were launched, notwithstanding the earlier statements to the contrary. The PSI had serious repercussions through bond market spillovers on the funding capacity of both sovereigns and banks in other parts of the euro area in 2011–2012.

Programme strategies deployed to address the Greek crisis reflected the gradually evolving recognition of the common currency's design flaws and gave rise to a number of innovative approaches, including the creation of the ESM and the implementation of new single supervisory and resolution arrangements, and the implementation of the 2012 PSI. Gaps in the initial single currency institutional architecture required the speedy establishment of a crisis resolution mechanism and the build-up of the euro area's capacity to provide financial assistance. In addition, remedies previously seen as redlines were now implemented, including the PSI. With the IMF facing increased constraints in extending financial assistance to the euro area, the share of EFSF/ESM programme envelopes increased. As a result, the EFSF provided approximately 90% of the financing for the second Greek programme, and the ESM provided all official financing for the third programme.

The risk to euro area integrity re-emerged in the first half of 2015, but the negative spillovers to other euro area member states were less pronounced than in 2011 and 2012. By 2015, the European response to the crisis, including the building of the EFSF/ESM firewall, had gained credibility in the markets as other crisis-hit euro area economies began to successfully graduate from financial assistance programmes. Nevertheless, the protracted negotiations and heightened uncertainty during first half of 2015, including about Greece's place in the euro area, left a lasting legacy of subdued Greek economic growth.

The Greek programmes contributed to a greater focus on banking sector issues in programme strategies, and more broadly, underscored the necessity of launching efforts to construct the banking union. While monetary policy became highly accommodative throughout the EFSF and ESM programmes as the ECB introduced a series of unconventional measures, with important effects on sovereign debt sustainability and market access, it was not able by itself to reduce the cost of Greek bank lending to the level prevailing in most other euro area countries.

8.2. Effects on the Greek economy and society during the programme and post-programme periods

Overall, the EFSF programme and particularly the ESM Greek programme was a qualified success in stabilising the economy and laying the foundations for longer-term reforms. But the stark adjustment that had started under the GLF programme came at considerably higher social costs than that to the other euro area countries assisted. The assistance provided, however, allowed Greece to remain a member of the euro area, a key political objective.

The EFSF and ESM Greek programmes were both designed to reduce sovereign risk by prioritising fiscal sustainability through reliance on a high primary balance. Although the ambitious fiscal targets were met, the ESM programme only partly addressed the large output gap. The persistent downsizing of public investment undermined the improvements from a more balanced mix of revenue and spending measures, moderating fiscal policy's positive growth impact.

Product market reforms failed to complement adjustments in the labour market. During the GLF and EFSF programmes, this exacerbated the negative impact on the poorest, creating frictions in the promotion of structural reforms. The ESM programme revamped the focus in this policy area by implementing a range of granular conditionality measures to overcome ownership issues. While the liberalisation of the labour market progressed, product market reforms remained only partially complete. The Greek authorities and the Institutions failed to explain to the public how critical these measures were for resolving core economic problems and spurring growth, so implementation bottlenecks remained in place.

Measures to address financial sector weaknesses largely restored confidence and financial stability in Greece but have not yet laid the foundations for stronger medium-term growth. The liquidity positions of some banks remained weak and the high share of DTCs in bank capital is a major challenge for banks' capital in the long-term. Policy actions to streamline the legal framework for non-performing loan resolution came late, when asset quality issues had accumulated to critical levels. Programme measures related to non-performing loan reduction focused on tailored, bank-by-bank solutions rather than on developing a systemic framework during the evaluation period.¹¹⁶ Reformed supervisory arrangements stemming from the establishment of banking union helped both speed non-performing loan reduction and improve the governance structure of banks. The governance of public shareholding through the Hellenic Financial Stability Fund improved significantly, crucial for the sector's dynamism and the gradual divestment of public shareholdings.

The EFSF and ESM programmes recognised the need to modernise the public administration and judicial system, and support the operation of independent authorities. The ESM programme placed a special focus on a narrow set of targets on efficiency, independence, and transparency of the targeted institutions and succeeded in producing some results. The EFSF and ESM programmes worked to accelerate judgements and effective case clearance, for example by developing a civil procedure code to simplify judicial processes, and by hiring more judges. Nevertheless, data suggests that EFSF/ESM programmes were only partially effective in improving judicial efficiency.

8.3. Programme strategies for sustainable and inclusive growth

The GLF and EFSF programmes had to concentrate on delivering swift adjustment and then stabilising the economy. With deep recession and reform sequencing unable to foster markedly stronger price competitiveness that was thought to induce export-led growth, unemployment rose rapidly and middle-to-low incomes declined dramatically.

Strengthening social safety nets qualified as an urgent EFSF programme priority, but relevant measures became effective only during the ESM programme. Greece introduced with the support of the World Bank a guaranteed minimum income scheme that effectively supported the poorest of society and improved popular support of the reform agenda. In parallel, the unsustainable pension system had to be rationalised as part of the measures to restore public finances and to eliminate excessive inequalities.

Banking sector reform was needed to support investment and growth as the lack of an effective safety net amidst the recession contributed to bank asset quality problems. Policy focus on the lasting effects of long-term unemployment and inactivity, strategies to reverse brain drain and enable youth and the unemployed to acquire marketable job skills were absent or not effective.

The programme exit strategy chosen included some important trade-offs and had implications for post-programme monitoring. Discussions on programme exit started only as the expiry of the ESM programme loomed. Because of political economy considerations, stakeholders resorted to the disbursement of a large cash buffer intended to support investor confidence and normalise market access. But it simultaneously limited the Institutions' leverage on post-programme policy commitments and the ability to prevent reform reversals in certain areas.

In the long-run, potential challenges remain in the ESM framework for post-programme engagement due to its long loan maturities and differences in partner institutions' engagement needs. From the ESM's perspective, the early warning system relies on effective cooperation with other institutions, and could benefit from more active policy advocacy to promote long term reform efforts. Such advocacy would also complement market and peer pressure and encourage greater policy discipline going forward.

8.4. Implications for the Greek economy's resilience to shocks

The ESM programme put more emphasis on structural reforms and growth than previous programmes. But the macroeconomic impact of structural reforms was not systematically taken into account in the Institutions' forecasts, programme design, or the review agenda. Given forecast uncertainty, early optimism about the structural reforms' growth benefits gave way to a longer adjustment period than expected. While the Institutions stepped up support through capacity building and the use of best practices, the programmes could not fix all fundamental institutional weaknesses in Greece. Even though they emerged stronger from these programmes, the Greek institutions still face capacity constraints and risks of political interference.

The reform agenda is not yet completed. Economic resilience to shocks improved, but long-term growth prospects remain subdued due to slow productivity and competitiveness gains as well as incomplete reform implementation. Unnecessary product market regulations limit the economy's capacity to rebound from shocks. Debt reduction and re-profiling made the debt burden more manageable and improved sovereign financial resilience to shocks. While restrictive fiscal targets helped to contain a further debt increase, they also continue to weigh on growth.

Both the EFSF and ESM programmes increased the resilience of the banking sector, but its shock-absorbing capacity remains weak. Banks are struggling to finance the recovery, and the cost of borrowing has not declined as further efforts are necessary to clean up balance sheets and dampen any future NPL accumulation.

Programme strategies challenged societal unity and little evidence emerged on a fundamental transformation of the society, although some grassroots movements of solidarity have appeared. Broad programme conditionality provided little opportunity for longer-term planning, and clientelism and segmented administrative culture hindered authorities in building a society-wide consensus on development objectives. Greek authorities and institutions still need to tackle this challenge in the post-programme period.

8.5. Debt sustainability assessments in programme governance

The ESM programme was marked by an open disagreement on debt sustainability among the programme partners and key stakeholders. This disagreement adversely affected cooperation and programme implementation.

While the DSA is a useful tool for focusing decision-making, the differences in DSA assumptions among the Institutions and key stakeholders posed challenges for cooperation and programme implementation. The ESM board documents failed to consistently include a robust sensitivity analysis to better inform policy choices that were instead being made inconsistently among the programme partners.

From a technical instrument of fiscal surveillance, the DSA morphed into a politicised tool for decision-making that exposed the inherent clash

between the shorter and longer term perspectives on crisis resolution. Each institution had its own red lines when it came to ensuring debt sustainability. Once these different assumptions were embedded in the DSA framework, the results pointed to different policy choices even when using the same methodology. Nevertheless, if well-implemented and communicated consistently by all programme partners, DSA can be a useful tool for focusing decision-making on critical aspects, as well as for communicating why certain decisions could or could not be taken.

The DSA focus repeatedly unveiled a need to adjust the reform measures. While restrictive fiscal programme targets staved off a further short-term debt increase, fiscal consolidation weighed on the growth necessary to significantly reduce the debt-to-GDP ratio. Subdued growth potential still represents a clear risk to Greece's long-term sustainability.

8.6. Programme risks and adaptability

The parties involved did not share a common diagnosis of the root causes of Greece's vulnerabilities, nor did they find commonly shared solutions, which further undermined ownership. The ESM programme framework did not provide a structure to define strategic objectives and design policy conditionality to address the broader Greek needs. The absence of ESM board policy on transparent and consistent compliance assessment exacerbated the problem of weak programme design and poor prioritisation. Conditionality measures proliferated and overburdened the Greek state's constrained administrative capacity. The European institutions' compliance assessments nevertheless became more lenient each time the government's liquidity situation worsened.

The EFSF and ESM governing bodies agreed extensive measures to mitigate programme risks. The financial sector envelope under the ESM programme involved fewer disbursement risks, because of changes in the institutional set-up as well as innovative and efficient ESM disbursement solutions. Moreover, the agreement and swift implementation of short- and medium-term debt-relief measures underpinned external stakeholders' trust in the programme.

Under the ESM programme, stakeholders implicitly settled for a low-growth equilibrium. Fiscal targets had to be met at all costs, which resulted in fiscal overshooting and underinvestment in the economy, while insufficient attention was paid to growth-enhancing economic reforms which required targeting vested interests in Greece.

Each time, the agreed programme period was too short. It was not realistic to resolve all the challenges Greece faced in a three-to-four year time span. Some stakeholders recognised and flagged this early on, but a longer programme was not deemed politically feasible at that time, which contributed to recurrent instability in the Greek political system and increased social costs. Programme duration should be commensurate with the size and depth of adjustment, fair burden sharing, and implementation capacity.

ESM Boards left the European institutions insufficient room to shift programme strategies in response to changing circumstances. Liquidity needs drove the review process more than compliance with conditionality, and talks

often got mired in details that were of little relevance to programme success, reflecting the political nature of the programmes.

The Institutions adapted to unintended outcomes and consequences, but they did so only gradually, partly because they underestimated the problems and partly because they suffered from recognition lags. During the ESM programme, such outcomes included a large drop in private investment given the lack of credit and the compressing demand, and the extensive brain drain. Also an expansion of the informal economy accentuated the adjustment burden of those employed in the formal economy, in particular through high taxation.

8.7. ESM's engagement with national and international partners: Communication and cooperation

Despite many challenges during the protracted period of financial assistance to Greece, the Institutions achieved a considerable degree of cooperation in a complex global, regional, and local environment. While important lessons can be learned for the future, the degree of cooperation achieved was sufficient for attaining the principal objectives of preserving the integrity of the euro area and allowing Greece to exit from its almost decade-long reliance on official sector financing.

The EFSF/ESM entered into institutional partnerships for the provision of stability support to Greece that had already been burdened by challenges in cooperation and programme ownership. Different institutional mandates and approaches contributed to a lack of common understanding concerning programme strategies and objectives. Despite gradual improvement as implementation progressed, different institutional perspectives continued to hamper the partnerships.

The partnership allowed the ESM to concentrate on a few critical policy areas. But the effectiveness of ESM engagement occasionally suffered from incomplete or missing policy frameworks. Still the focus on fiscal resilience, banking sector viability, liquidity conditions through arrears clearance and institutional governance was justified given their importance for recovery.

On the Greek side, a key challenge to effective cooperation was the authorities' volatile ownership of programme reforms. The Institutions failed to fully grasp the root causes of weak ownership, including the political economy in Greece, weak administrative capacity to implement the ambitious reform agenda, and the lack of effective social safety nets to protect the most vulnerable groups. However, ownership improved under the ESM programme as the dramatic events of 2015 demonstrated to the broader public that an alternative to the continued financial assistance would be far worse.

The lack of coordinated and comprehensive communication of long-term reform benefits contributed to the overall weak programme ownership in Greece. Although there are clear limits to how much external actors can do, the Institutions, including the ESM, did not adequately explain the rationale behind

programme reforms to key stakeholders outside Greek governments. Public perceptions about the financial assistance to Greece improved significantly from 2015 to 2018, although the overall sentiment remained predominately negative and associated with austerity measures.

Beyond the primary programme partnership between the ESM, European Commission, ECB and IMF, synergies with other institutions were insufficiently explored and used. Though other institutions contributed significantly to the crisis resolution efforts in Greece, the European institutions' overall approach to cooperation with these organisations was rather ad hoc and lacked proper planning. Exploring complementarities with other organisations and bringing in additional expertise in programme implementation support would have been beneficial. This is particularly pertinent in programmes with deep structural reforms, which require technical and highly specialised knowledge.

While the Greek crisis was the first of its kind in the euro area for all the Institutions involved, there is a reasonable expectation for effective future cooperation. In addition to significant experience in joint operations accumulated thus far, the European Commission and the ESM now have a framework in place for the division of tasks and responsibilities in future programmes.

Recommendations by the High-Level Independent Evaluator

The EFSF and ESM programmes for Greece reached the main objectives pursued but suffered from a number of weaknesses and gaps. To avoid these would have required an ex ante comprehensive assessment of the nature of the country's problems, generated well before the outbreak of the financial crisis. Such an assessment should have included a deep understanding of the nature of the problems from economic, social, and institutional perspectives, and of the interplay between Greek vulnerabilities – ranging from large fiscal, macro-economic, and structural imbalances to clear deficiencies in its social safety net – and the institutional and administrative capacities. Although it is difficult even for the participating institutions to cover all areas, the main strands of this information could have been fed into programme design, financial planning, technical assistance, and communication agenda, to better target the programme and its conditionality at key problem areas.

The recommendations point to five major areas that should be addressed to improve future programmes. The High-Level Independent Evaluator considers that key lessons can be drawn on a need for strategic objectives and overarching policy principles for programme design, enhanced programme governance, and ensuring the ESM's analytical competence in cooperation with the partner institutions. While the recommendations are addressed to the key stakeholders – ESM Boards and management – it is hoped that they may support efficient operations of the partnership of the European institutions. Lastly, a stepped up focus on sustainability to safeguard the ESM's long-term interests is called for.

Recommendation 1.

Future ESM programmes must clearly define strategic objectives based on a long-term view.

Growth in the beneficiary country is a necessary condition for the success of every programme, and by implication for its credibility. Besides the necessarily ambitious fiscal adjustments to restore budgetary and public debt positions, fostering endogenous growth must be one of the key objectives of every financial assistance programme.

1.1. **The programme design should derive its objectives and length from an analysis of the main problems to be tackled, including societal realities.**

Programme duration must hinge on these objectives. Some of the important elements to be assessed in programme design are the degree of the beneficiary country's institutional capacity and the improvements necessary to achieve the programme's strategic objectives. The programme should also include an analysis of risks, including how to adjust the initial timetable to changing circumstances.

1.2. ESM management, in cooperation with its Members and the European Commission, should **develop the necessary analytical frameworks and data sources**, beyond a macroeconomic approach, required **to satisfactorily**

establish and prioritise objectives. A timetable for the different actions must be established, taking resourcing issues into account.

1.3. Whereas political decisions belong to the ESM Boards, ESM management **must strengthen internal processes that ensure the independence of staff analysis to provide sound and robust technical assessments.** The ESM should plan to avoid complacency and deterioration in acquired skills at times of low programme demand.

Recommendation 2.

ESM Boards should develop high-level guidance on programme design.

2.1. ESM Boards should **develop the necessary overarching policy frameworks or principles to facilitate effective and coherent programme design, review, and decision-making.** Recognising inevitable uncertainty, the programme design should be sufficiently flexible to deal with unintended consequences.

All programmes should also ensure a fair distribution of effort across society, not only for equity reasons but also as a means to improve effectiveness and ownership. A failure to foster long-term sustainable and inclusive growth will have negative consequences, in particular for the most vulnerable sectors of society. This will undermine both ownership in the recipient country and confidence in the other countries and in the markets.

Mistakes in the design or implementation of programmes can result in longer adjustment periods, higher funding needs, and larger social costs. Fiscal adjustment should not jeopardise an effective social safety net. The programmes should also define clear priorities that take into account the country's implementation capacity.

2.2. Programmes should establish a **limited number of macro-critical conditions**, derived from the strategic objectives to address the real challenges facing the country. Programme conditionality should facilitate standardised, transparent and time consistent assessment of compliance. ESM Boards should ensure coherence among the conditionality measures.

2.3. The ESM Boards should foster an appropriate sequencing of reforms. Certain issues should be handled upfront. These include debt restructuring, in exceptional cases and where applicable in accordance with a DSA analysis, and banking sector solutions. Requirements for fiscal adjustment must consider the risks of downward pressures on growth generating unintended consequences. The implementation of these fiscal measures should take place rationally, in step with structural reforms. This must also be the case when sequencing labour and product market reforms.

Recommendation 3.

ESM Boards should improve programme governance by setting out clear expectations and instructions for the institutions.

ESM Boards, in cooperation with the other institutions, should agree and set up a programme governance guidelines to ensure sustainable outcomes. Debt sustainability assessment exercises must be carried out during and after

programme completion. Their results provide a useful basis to assess progress towards programme completion and to support the post-programme interaction between the institutions and the recipient country authorities.

3.1. ESM Boards should insist upon the **use of a consistent and transparent methodology** when conducting and presenting debt sustainability assessment exercises and risk assessments for the purposes of the early warning system.

3.2. Sustainability assessment needs a **broader focus beyond debt levels**. The ESM should maintain flexible lending terms to accommodate country specific needs while controlling its financial risks. However, where programme tools cannot realistically put public debt on a sustainable path, lessons learnt from the Greek experience with the private sector involvement should be considered.

3.3. Programme approval should **explicitly assess exit strategy options**, including potential use of precautionary facilities, to help sustain reform momentum in key areas of vulnerability beyond programme period. At the end of a programme, a **clear post-programme incentive structure** is needed to consolidate achievements, further progress on pending reforms, and avoid the backtracking of adopted reforms.

Recommendation 4.

The institutions, with the support of country authorities, should coordinate the preparatory and implementation phases of a programme.

When a programme is requested, the institutions should coordinate ex ante their analyses and align as much as possible their assumptions. The decision making process in the Eurogroup, and in the ESM Board, should facilitate an ex ante process of coordination, and avoid unjustified delays in the adoption of decisions. To enable early cooperation, ESM Members as well as potential beneficiary countries should become cognizant of their own vulnerabilities, likely strengthening their ownership of programme objectives and conditions.

4.1. The division of roles and responsibilities between the European Commission and the ESM should be clarified, in terms of their **competences and responsibilities concerning surveillance, communication, and advocacy**. In this context, the framework for cooperation and coordination with the IMF should also be clearly delineated.

4.2. The ESM Boards, in coordination with the European Commission, should develop analyses of the risks based on a sufficiently good knowledge of domestic conditions and limitations. The ESM's responsibilities, and capabilities, to signal any risks to future sustainability should be sufficiently robust to internally prepare and enable it to appropriately and in a timely manner pursue its tasks.

4.3. The building and improvement of a beneficiary country's institutional and administrative capacities underpinning sustainable long-term growth require improved ESM cooperation with the European Commission, including with the Structural Reform Support Service, as well as with other international organisations.

Recommendation 5.

A strong, coherent framework for post-programme monitoring is needed to safeguard the adjustment gains made and ensure sustainability in the context of the ESM's long-term creditor role.

The benefits of successful programme completion go beyond the achievements in the beneficiary country.

5.1. ESM management, in cooperation with the European Commission, must pay attention to the role of advocacy as a means to complement market and peer pressures and to preserve the sustainability of the achievements of the programmes beyond their completion in the medium- and long-term. In this context, the ESM should foster strong mechanisms for signalling about emerging vulnerabilities.

5.2. ESM management must strengthen relations with the authorities of the beneficiary country, as well as with political forces and civil society, to increase ownership and establish an efficient system of cooperation.

5.3. ESM management, in coordination with the other responsible institutions, should develop capacities that enable them to be aware of the interconnections and potential negative spillovers with the other euro area economies, especially those that impact the weakest.

ESM Boards should encourage any initiative conducive to the stability and efficient functioning of the euro area. The completion of banking union, progress on capital markets union, and other steps to complete the design of the Economic and Monetary Union will minimise risks for its stability and mitigate negative spillovers. Of course, a firm political commitment to ensure the integrity of the euro area is essential.

Going forward

The EFSF and ESM programmes served their main purpose: they kept Greece in the currency union and safeguarded the financial stability of Greece and the euro area. But a number of things could have been done better. Such improvements could have sped the successful conclusion of financial assistance and more quickly put Greece back on solid, sustainable financial footing, while exacting a less painful social cost. The lessons drawn here from this past decade of assistance to Greece will serve as guidance on how to make the successes of the EFSF/ESM programmes more sustainable in the future, correct their mistakes, and strengthen the ESM's capacities going forward.

Two recommendations from the 2017 evaluation on EFSF/ESM financial assistance have not received full follow-up as the Members were in train of reviewing the ESM Treaty in the 2018–2019 period. They would deserve to be considered as part of the follow-up to the above recommendations.

While conducting this evaluation, it became evident that limited data granularity and reporting lags complicated certain analyses. Over the longer term, ESM Members might rethink the post-programme monitoring framework for those programmes with long loan maturities. An evaluation of the ESM Early Warning System could contribute to such reflections, if full access to monitoring data is explicitly granted in advance by both the ESM management and the recipient country. The first ESM evaluation also called for assessing the EWS in the future.

The findings of this evaluation also suggest that ESM engagement and communication with a broader set of stakeholders in the beneficiary countries would be worth further study.

Finally, ESM governance and decision-making, including the role of the Eurogroup and Eurogroup Working Group vis-à-vis the ESM Boards, could benefit from additional assessment.

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All hyperlinks were checked on 26 May and worked correctly.

Acronyms and country codes

AMC	Asset management company
ANFA	Agreement on net financial assets
AQR	Asset quality review
BoD	Board of Directors
BoG	Board of Governors
CET1	Common equity tier 1
DSA	Debt sustainability assessment
DTC	Deferred tax credit
EC	European Commission
ECA	European Court of Auditors
ECB	European Central Bank
EDP	Excessive Deficit Procedure
EEC	European Economic Community
EFF	IMF Extended Fund Facility
EFSF	European Financial Stability Facility
EIB	European Investment Bank
ELA	Emergency liquidity assistance
Elstat	Hellenic Statistical Authority
EMU	Economic and Monetary Union
EOPYY	Greek National Organisation for the Provision of Health Services
ESA	European System of Accounts
ESM	European Stability Mechanism
ETAD	Public Properties Company S.A.
EWG	Eurogroup Working Group
EWS	ESM's early warning system
FSAP	Financial Sector Assessment Programme
FTE	Full-time employee
GAO	General Accounting Office
GDP	Gross domestic product
GFN	Gross financing needs
GFSN	Global Financial Safety Net
GLF	Greek Loan Facility
GMI	Guaranteed minimum income
GRA	General resources account
Grexit	Made up from Greek and exit and referring to the exit of Greece from the single currency
HCAP	Hellenic Corporation of Assets and Participations
HFSF	Hellenic Financial Stability Fund
HH	Households
HICP	Harmonised index of consumer prices
HRADF	Hellenic Republic Asset Development Fund S.A.
IEO	IMF Independent Evaluation Office
ILO	International Labour Organisation
IMF	International Monetary Fund
IRS	Interest rate swap
MEFP	Memorandum of Economic and Financial Policies
MoU	Memorandum of Understanding

MREL	Minimum Requirement for Eligible Liabilities
NFC	Non-financial corporations
NPL	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
PDMA	Public Debt Management Agency
PFM	Public financial management
PIB	Public investment budget
PSI	Private sector involvement
RFA	Regional Financing Arrangements
SBA	IMF Stand-by Arrangement
SDR	Special drawing rights
SGP	Stability and Growth Pact
SMP	Securities markets programme
SNL	SNL financial database (provided by S&P)
SRSS	Structural Reform Support Service
SSI	Social solidarity income
SSM	Single Supervisory Mechanism
Taiped	Greek abbreviation for Hellenic Republic Asset Development Fund S.A.
TFEU	Treaty on the Functioning of the European Union
TFGR	Task Force for Greece
Troika	European Commission, International Monetary Fund, European Central Bank
USD	United States dollar
VAT	Value added tax
WEF	World Economic Forum

Country codes

AT	Austria
BE	Belgium
CY	Cyprus
DE	Germany
EE	Estonia
EL	Greece
ES	Spain
FI	Finland
FR	France
IE	Ireland
IT	Italy
LT	Lithuania
LU	Luxembourg
LV	Latvia
MT	Malta
NL	Netherlands
PT	Portugal
SI	Slovenia
SK	Slovakia
EA	Euro area
EU	European Union

Endnotes

1. Throughout this report, the term 'Institutions' refers to a partnership formed by the European Commission, the ECB, the IMF and the EFSF/ESM. Where reference is not made to the IMF, the partnership is addressed as the European institutions.
2. The employment protection and collective bargaining reforms were adopted in 2010 and 2011, respectively; the arbitration framework in 2012. The implementation of the minimum wage framework extended to 2012-13.
3. See, for example, Dendrinou and Varvitsioti (2019), Dijsselbloem (2018), and Irwin (2015).
4. Article 13 of the ESM Treaty defines the division of responsibilities among the institutions.
5. See p. 1 of EC (2015a).
6. See, for example, Eichengreen (2010), Belke (2011), de Santis (2015), Winkler and Saravelos (2017), Bayer et al. (2018).
7. See p. 21 of Van Middelaar (2019).
8. See p. 10 of European Commission (2010a).
9. See p. 1 of European Commission (2012a): "these objectives are the same as under the first programme".
10. See p. 1 of European Commission (2012a).
11. European Commission (2015a). Evidence suggests that there was very little time available to renegotiate the ESM MoU once political agreement on the programme had been reached (for more, see Chapter 3.3).
12. For the methodology of the Sovereign Vulnerability Index see Lennkh et al. (2017).
13. See pp. 30-31 of Van Middelaar (2019): "In the Union the European Council is the obvious place for assuming shared responsibility, for mobilising the personal political authority called for by events-politics. On 11 February 2010 the European Council was acting in its role of "shaper". To be more precise, its members acted in their capacity as "heads of state or government of the European Union" (as they called themselves in their closing statement). The same gathering, in short, but not meeting as formal EU institutions called the European Council but rather as an informal circle of national leaders. This allowed them to tread on territory the Treaty had not mapped, while still acting jointly as members of the club."

Van Middelaar (2019) argues (pp. 170-171) that the Greek crisis also supplemented the EU's old 'community method' with a new 'Union method' in which the European institutions worked with the member states as a team: "For this intended teamwork between institutions and member states, Chancellor Angela Merkel launched, with great historical insight, the term 'Union method'. Although the basic conceptual shape of the Union – governmental authority concentrated in and around the European Council, legislative power for Parliament and Council of Ministers, political impetus and administrative execution by the Commission, judicial power for the Court – had in practice been defining itself for a long time, the Lisbon Treaty confirmed these relationships in a way that was visible to all. The Chancellor was therefore looking for words that fitted the situation. The term 'Union method', however, touched a nerve in Brussels circles. There were cries of shame; the deployment of the term was taken to be an attack. Merkel had violated a taboo. Under pressure from prominent party colleagues in the European Parliament, she dropped the term. The episode is revealing. Even though the Community no longer exists, the 'Community method' remains inviolable. Anyone who tries to interpret or explain in detail what is characteristic of the new Union is out of order. Taboo as a method. The old thinking restricts Europe's understanding of itself. This is counter-productive and ultimately self-destructive. In my view the rigid belief that the 'true Europe' has to be built in

- defiance of the member states rather than with them fosters precisely the public scepticism and disruptive nationalism against which it has no defence, aside from breathless curses.”
14. See pp. 208-220 of Dijsselbloem (2018).
 15. See paragraph 28 of European Commission (2010b).
 16. While the main goal of selling international operations of banks was to achieve profitability and viability of the recapitalised banks, consolidation contributed to the reduction of international spillovers.
 17. See paragraph 28 of European Commission (2012a).
 18. For more, see Box 4 of European Commission (2012a).
 19. Notably the debt buyback programme and credit enhancement, see Cheng (2020).
 20. Greece scored lower than any other euro area member state in the World Bank governance effectiveness and regulatory quality as well as rule of law indicators, sub-indices in the ESM Sovereign Vulnerability Index.
 21. See paragraph 25 of European Commission (2010a).
 22. As noted in paragraph 25 of European Commission (2010a): “As part of the fiscal adjustment, the government has already introduced measures to curb the government’s wage bill via prices and quantities. The Government also plans large savings from the local administration reform. However, the programme has set additional conditionality requirements in the area of public wages [...], which will [...] ultimately lead to savings.” This was corroborated by interviews, and in fact the evaluation team found broader criticisms of savings measures that were presented as (structural) reforms, which was deemed detrimental to public support for the programmes.
 23. See paragraph 31 of European Commission (2012a).
 24. See under 2.3 and 2.4 of European Commission (2015a).
 25. See under 5.1 and 5.2 of European Commission (2015a).
 26. See pp. 97-98 of European Commission (2017b).
 27. See HFSF: <http://www.hfsf.gr/en/>.
 28. See p. 18 of European Commission (2012b).
 29. See p. 18 of European Commission (2015a).
 30. See pp. 17-21 of European Commission (2015a).
 31. See p. 59 of ESM (2017a).
 32. See also p. 20 of IMF IEO (2008): “Staff should work with country authorities to identify clearly the main goals of each program and to set structural conditions that contribute significantly to these goals. Fewer prior actions and performance criteria should be used, and they should focus on reforms that are expected to have a significant and sustainable impact.”
 33. See Juncker (2014): “If, in the future, further economic adjustment programmes were to be introduced (although I see no need why this should be the case in the next few years) I would like to see a very rigorous social impact study carried out before any adjustment programme is implemented. I would like to know how adjustment programmes impact on people’s lives. In future there will be no adjustment programmes unless they are preceded by a thorough social impact assessment.”
 34. Chapters 2 and 3 of ESM (2017a).
 35. See IMF (2014) page 13.
 36. The first ESM programme MoU, as well the supplemental MoUs for the Second and Third reviews, include the following language: “The economic crisis has had an unprecedented impact on social welfare.” The first MoU for ESM programme (European Commission, 2015a) on p. 4 also states: “A fairer society will require that Greece improves the design of its welfare system, so that there is a genuine social safety net which targets scarce resources at those in most need.”
 37. According to Rehn (2019), the ECB exacted €25 billion for bank support.
 38. See also in Chapter 7.
 39. See paragraph 39 of IMF IEO (2014b): “For example, past IEO evaluations have found that: (i) structural conditionality was subject to unrealistic deadlines because of insufficient consideration of country-specific implementation capacity, feasibility, or political constraints (IEO, 2004a and 2009b); (ii) authorities across country groups complained that the analytical framework used in IMF research was not suited to the realities of their countries (IEO, 2011b); and (iii) a number of country authorities complained that IMF staff lacked adequate knowledge of country-specific background and operational details, so that their advice was overly generic and “one-size-fits-all” (IEO, 2007b and 2013).
 40. See p. 123 of Papaconstantinou (2016): “The three institutions were in full force; their combined teams numbered over thirty people. They had fanned out across the General Accounting Office, the Bank of Greece, the Hellenic Statistics Authority and ministries to collect data, assess specific policy measures and make proposals. We were outgunned.”

41. See p. 116 of Papaconstantinou (2016): "Strauss-Kahn suggested that the three-year horizon for the deficit to fall below 3% of GDP was too short; we should move the goalposts from 2012 to 2013 or even further back."
42. Greece returned to bond markets in July 2017 for the first time since 2014, raising €3 billion in 5-year bonds at 4.6%. The issue was oversubscribed as market bids amounted to €6.5 billion. During 2018, Greece successfully tapped markets in February, raising €3 billion in 7-year bonds at 3.5%. The issue was again oversubscribed by a factor of around 2. In 2019 there have been more issuances with the first one on 29 January raising 2.5 billion euros in 5-year bonds at 3.6%, the second, on the 5 March raising 2.5 billion euros in 10-year bonds at 3.9%, the third one on 16 July raising 2.5 billion euros in 7-year bonds at 1.875%. On 8 October, Greece raised €1.5 billion euros in 10-year bonds at 3.9%.
43. According to the European Commission Ameco database on the discretionary fiscal measures (i.e. discretionary current revenues and spending) 2016 was the only year where the policy mix focused on the revenue side. This has to do with the gradual introduction of spending cuts partly in pensions. However, for the years 2017 and 2018, and 2017 and 2018 taken together, the analogy of spending and revenues measures converged to the 50:50 ratio. In cumulative terms, taken together 2016 to 2019 the analogy was right at 50:50. Still these comparisons have to be treated with caution as they do not reflect the size of the adjustment that each programme contributed.
44. Given the extensive literature on the size of fiscal multipliers related to the Greek crisis, this report focuses on the estimates of Kilponen et. al. (2019). Short-run revenue multipliers are estimated negative ranging between -0.5 and -0.8 while government spending multipliers are estimated between +0.7 and +0.9. These findings hold irrespective of the existence of a ZLB or not. According to the same paper, permanent reductions in government consumption are clearly more growth friendly than permanent increases in labour income tax, capital income tax and consumption tax (see Figures 4.1 and 4.2 in the Technical appendix).
45. Concerning the reduction of the public investment budget (PIB), other detrimental factors were the lack of sufficiently mature projects in the pipeline (for instance public construction and roadway plan) and weak administrative capacity. The initial targets set in the draft budgets did not reflect fully these relevant limitations for the PIB planning. The European institutions worked with the authorities in the later stages of the ESM programme to improve absorption of the PIB capacity.
46. The relation between PIB underspending and the attainment of the fiscal targets has also been documented in various ESM compliance reports (see European Commission (2017a), European Commission (2018d), European Commission (2018e)).
47. According to OECD (2020), the potential growth gains generated by an increase in public investment depend heavily on the quality of the investment projects selected, the specific assessment of the cost-effectiveness of these projects and the effectiveness of their implementation. Available international comparisons, however, suggest that the governance of infrastructure projects in Greece, and in particular their planning and execution, needs improvement.
48. The package includes a reduction in the corporate income tax and social security contributions together with a reduction in the dividend tax, and a personal income tax reform to increase the tax-free threshold for taxpayers with children.
49. Initially, Greece could not use the surpluses generated by certain public entities to finance the deficits of others. When the reform was put in place (repo operations) it allowed the government to use all available funds – now consolidated in the general government debt stock.
50. The VAT gap reflects the difference between the expected revenues and actually collected VAT revenues, and is used to estimate revenue loss from tax fraud, tax evasion and tax avoidance, but also losses due to bankruptcies, financial insolvencies or miscalculations.
51. This entailed enhanced monitoring of the social security funds by the Ministry of Labour, Social Security and Solidarity. The Memorandum of Understanding set financial targets, reporting and communication between parties. Analogous is also the case for local governments where the introduction of an Observatory for the Financial Autonomy of Local Governments and the monitoring from the Ministry of Finance and the Ministry of the Interior has improved the financial information available.

52. Assessing the effectiveness of structural reforms and their implications for competitiveness requires, in principle, a medium to long-term horizon after their legislative adoption. In this respect, this evaluation only partially captures the effects from the policy agenda over the programme period.
53. These reversals included the restoration of the favourability and extension principles of collective bargaining and the attempts to revise the 2019 statutory minimum wage ahead of the schedule.
54. Still, new legislation that was voted in autumn 2019 (after the reference period of the report) has introduced significant exemptions to their applicability, including for companies that are under financial distress.
55. The Services Trade Restrictiveness index refers to the following five policy areas: restrictions on foreign ownership and other market entry conditions, other discriminatory measures and international standards, restrictions on the movement of people, barriers to competition and public ownership, regulatory transparency and administrative requirements.
56. Weak investor protection and judicial delays contribute to an environment of constrained bank credit, short maturity loans at high interest rates, extremely high number of small and micro firms with limited network of collaborators, and low venture capital investment (Papaioannou, 2009; Demirgüç-Kunt and Maksimovic, 1998; Djankov et al., 2003). These frictions favour an insider-outsider setting, where well-connected firms prosper by avoiding the costs associated to the quality of the legal system, new entrants face insurmountable costs to grow large, foreign investors find it difficult to enter the market, and the economy is stuck at an equilibrium of low aggregate productivity due to sluggish resource re-allocation towards high potential sectors (Ciccone and Papaioannou 2006; 2007).
57. Since 2015 the courts have resolved between 148% and 183% of cases presented that year. However, the number of pending administrative cases per 100 inhabitants remains among the highest in Europe.
58. For example, in 2017, the judicial system provided electronic tools to foster case submissions and state-of-procedure monitoring, but these tools have only been employed in just 25% of cases. Interview findings suggest that numerous courts still did not possess precise information about the volume and type of cases in their backlog, because they lacked the necessary consolidated digital information.
59. Since February 2017, Greece has applied, for the first time on a nationwide basis, a general minimum income scheme: the “Social Solidarity Income” (SSI). This is a variation on the six-month pilot “Guaranteed Minimum Income” scheme which was implemented from November 2015 to April 2016. In May 2016, a new Law (Law 4389, article 235) provided for gradual national implementation of the SSI. Its first phase was launched in mid July 2016 and lasted until 31 December 2016, covering 30 selected municipalities and benefitting about 48,000 households (i.e. approximately 120,000 persons). The national roll-out of the SSI scheme, which constitutes the second phase, began in February 2017 and is now fully implemented. The SSI is addressed to households living in extreme poverty and is based on three pillars: i) income support; ii) access to social services and goods; and iii) provision of support services for (re)integration into the labour market. It is a means-tested scheme, requiring the beneficiaries to be legal and permanent residents of the country and to fulfil specific income and property criteria, depending on the size and composition of the household. For more information see Ziomas et al. (2017).
60. Data available up to 2016.
61. Standard relative poverty indicators – defined by a threshold set at 60% of median income – show that the poverty rate and poverty gap increased considerably between 2009 and 2011, before broadly stabilising under the ESM programme. When measuring poverty with an anchored poverty line set in 2005, the improvements become more marked; it rose to 35% of households in 2013 from 10% in 2009; then declined slightly during the ESM programme.
62. Based on the interviews and Ramaswamy (2020).
63. In 2015, during the transition from the EFSF to ESM programme, the European Financial Stabilisation Mechanism provided a bridge financing amounting to €7.16 billion.
64. See pp. 187-197 and pp. 208-210 of Papaconstantinou (2016): “Countries had barely agreed to put money on the table and Greece had not yet proved that it

- would mend its fiscal ways, so at that point nobody was willing to entertain the idea of debt forgiveness. There were some voices in the IMF arguing in that direction, with its Latin American experience in mind; but these were overruled by the IMF leadership when it became obvious it was a deal-breaker with the ECB and EU countries. Still, the IMF hinted at some sort of debt reprofiling in its May 2010 report [...] By early 2011, sentiment on debt restructuring was shifting, even in the Eurogroup. In February, [...] Wolfgang Schäuble surprised everyone. [...] He broached the subject no one else would, stating bluntly: "we need to open the issue of debt restructuring." In this he was joined by the Dutch finance minister Jan Kees de Jager. [...] Finally, in October 2011, [the ECB] would accept a nominal haircut on the Greek debt; but not before Trichet had retired as ECB President."
65. See Thomsen (2019): "Would it have made a major difference if this PSI had come already at the outset? All other things being equal, debt-to-GDP would have been lower by some 18 percentage points of GDP. While this is not a large difference considering that the debt-to-GDP ratio peaked at 181 percent, "all other things" would not have been equal. The lower debt would have enabled some limited easing of the fiscal adjustment. More important, it would presumably have had a positive impact on sentiments, by lessening the sense of unfairness and loss of public support caused by the bail-out of foreign creditors."
 66. In line with Article 13 and Article 16 of the ESM Treaty, and Article 4 of the ESM Loan Guideline.
 67. For details on the link between the disbursements and conditionality compliance see Annex 2 to Chapter 5 in the Technical appendix and ESM (2017a).
 68. For comparison see ECA (2017).
 69. The existing evidence on bolstering ownership relies on key problem-focused conditionality. Many evaluations, including European Commission (2016a and 2019e) and ESM (2017), make this finding, which is supported by experiences from IMF and World Bank programmes. In the consultation process of this evaluation, interlocutors noted that one of the ESM's long-term interests in Greece was in legal or judicial reforms, but they questioned to what extent it was necessary to keep them as part of the programme conditionality when they actually broadened the scope. Such reforms need more time to be properly conceptualised and adapted to the country-specific context. Similarly, high-quality statistics are fundamental for programme design, implementation and the ESM's risk monitoring. Interlocutors asked why this aspect was not more prevalent in the ESM programme deliverables. If they are considered to be of inadequate quality, statistics and reporting quality should become a more formal standard item under ESM supported arrangements.
 70. In its feedback to the consultation on the draft evaluation report with the ESM Board of Directors in April 2020, one institution held the view that while there were some differences of views in assumptions on DSA parameters between the institutions, the fundamental difference of views was between the Member States themselves on burden sharing and what constitutes an economically viable primary surplus target. It said that this difference in views persisted throughout the ESM programmes and often caused delays.
 71. In its comments to the report, the European Commission highlighted that the third and fourth reviews under the ESM programme were concluded without liquidity pressure.
 72. The first EFSF disbursements had the same interest payment and maturity dates as the issuance. The EFSF also kept part of the proceeds as cash buffers. The 2012 introduction of EFSF over-guarantee allowed for abolition of buffers previously kept for rating purposes and increased efficiency. In addition, multiple disbursements were funded from a single issuance. Further innovations such as developing a liquidity pool by issuing long-term and short-term notes allowed the EFSF to find maturity and payment dates better suited for the country profile.
 73. Decisions of the 21 July 2011 Summit (specified in the Eurogroup on 16 September 2011), established new pricing, reducing charging to the funding costs plus the operational costs of the EFSF.
 74. For details see the Eurogroup Statement on Greece of 25 May 2016.
 75. The Eurogroup Statement on Greece of 25 May 2016 states that implementation of the short-term measures' includes "Use [of the] EFSF/ESM diversified funding strategy to reduce interest rate risk without incurring any additional costs for former programme countries".

76. They consist of the following measures: a) extending the EFSF repayment profile for EFSF loans to Greece; b) a bond exchange programme for ESM and EFSF bonds in the amount of €29.6 billion; c) IRS arrangements; swap hedging on ESM loans to Greece reducing interest rate variability; d) and waiving a 2% step-up interest rate margin on €11.3 billion loans for EFSF loans to Greece.
77. Starting in 2017, the ESM entered into two types of transactions: a) long-term IRS agreements paying swap rates and b) long-term IRS receiving fixed rates to offset the rate the ESM pays on the pool issuances. For details see Annex 5.3 in the Technical appendix. According to the *ESM 2018 Annual Report*, on 31 December 2018, the [outstanding] derivative instruments had a maximum maturity up to 30 years.
78. These measures comprised the elimination of the step-up interest rate margin on debt buy-back loans of the second Greek programme as of 2018 and the transfer of profits from the Eurosystem holdings of Greek government bonds through its SMP and ANFA to Greece. In addition, the Eurogroup approved deferring Greek interest payments and amortisation by 10 years while lengthening the maximum weighted average maturity by 10 years on €96.4 billion of EFSF loans.
79. Greek public debt to GDP was higher in 2013 (177.4%) than before the PSI (172.1% in 2011, 159.6% in 2012). For details see Chapter 6.
80. See p. 49 of IMF IEO (2003b): "Reform in macro-critical areas is usually essential to restore market confidence, as in the case of financial sector reform in Indonesia and Korea, as well as fiscal policy reform in Brazil. The crisis should not be used as an opportunity to seek a long agenda of reforms with detailed timetables just because leverage is high, even though such reforms may be beneficial to long-run economic efficiency. If reform in areas that are not generally regarded as macro-critical is required (in the sense that they are not directly linked to domestic and external sustainability) – when for example widespread distortions are well known and the authorities are committed to reform – the principles of parsimony and focus should apply. This implies a broad approach of identifying such areas of reform, but providing maximum flexibility to the authorities on implementation details as a means of enhancing ownership." Further see p. 53 of IMF IEO (2003b): "A crisis should not be used as an opportunity to force long-outstanding reforms, however desirable they may be, in areas that are not critical to the resolution of the crisis. When political judgment necessitates addressing significant distortions that are known to exist, and the government is committed to reform, it should be sufficient to lay out a road map for these reforms as an indicative direction outside IMF conditionality, and this fact should be communicated to the public. Parsimony and focus should be the principles to guide the design of structural conditionality in a program whose objective is to restore confidence quickly. In this respect, we endorse the current initiatives of the IMF to streamline conditionality, while stressing that, in a capital account crisis, the critical test of a particular measure involves whether or not it helps to restore confidence."
81. The case of Spain, nevertheless, provides an example of faster growth impact.
82. In 2018, Greece adopted a "Growth Strategy for the Future", which envisages measures to ensure fiscal sustainability, to foster sustainable and inclusive growth and to improve the infrastructure and financing conditions for future growth.
83. In October 2015, the Greek authorities and the European Commission finalised a medium-term technical assistance plan in line with the August 2015 MoU.
84. European Commission (2020c) provides a comprehensive assessment of the Technical Assistance provided by the Task Force for Greece.
85. ESM provided technical assistance on debt management to the Greek PDMA during the ESM programme. The ESM has strengthened its capacity to advise its Members and other institutions on issues related to financial market access, banking sector repair, and debt sustainability, also as part of its technical assistance activities.
86. Such as France for tax collection and Germany for the reform of the public and regional administration.
87. Further examples include: The social security system was consolidated into six categories under one authority from 200 benefits and 25 authorities. The licensing system for companies was reformed. The civil procedure code, the corporate insolvency law, and competition law, such as for the energy sector

- under the OECD toolkit, were aligned with international best practices. A framework to monitor the banking sector was established.
88. While IMF (2019a) concludes respective risks from minimum wage increases and renewed collective bargaining arrangements to the resilience of the labour market and to competitiveness, empirical evidence is not yet conclusive.
 89. Hercules Asset Protection Scheme.
 90. The European Commission's multidimensional, horizontal approach integrates the longer-term with an assessment of more immediate challenges and risks to fiscal sustainability. Short-, medium- and long-term analysis are underpinned by indicators pointing to the scale and the scope of the sustainability challenges. Short-term fiscal challenges are analysed using the S0 indicator. Through a weighted set of fiscal, financial and macro-competitiveness indicators, the S0 indicator uses the signalling power of its components to detect fiscal stress and gives an early warning of risks within a one year timeframe. Medium-term fiscal challenges are captured through the S1 indicator. The medium-term sustainability gap indicator S1 shows the upfront fiscal adjustment (improvement of the government structural primary balance) required over five post-forecast years to bring the debt-to-GDP ratio to 60% within fifteen years, including any additional expenditure such as the cost of ageing. Long-term fiscal challenges are assessed using the S2 indicator. This long-term sustainability gap indicator shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over an infinite period, including the costs of ageing. S1 and S2 indicators are used together with the debt sustainability analysis to capture medium- and long-term dynamics of high public debt. S0, S1 and S2 indicators are used as part of the European Commission evaluation of EU countries' budgetary plans within the Stability and Growth Pact (see European Commission, 2017c and 2019c).
 91. See Catsambas (2017).
 92. As noted by many observers, the lack of coordination of national economic policies, led to the accumulation of imbalances in the euro area in the years preceding the crisis. See, for example, Baldwin and Giavazzi (2015) and Collignon (2012). The latter notes that the euro area crisis emerged partly due to "fundamental economic developments, such as growth and competitiveness, and partly [due to] uncooperative behavior between the main policy makers in Europe".
 93. The Troika refers to the European Commission, European Central Bank and International Monetary Fund as partners as defined in the Statement by the Heads of State and Government of the Euro Area, see Euro Summit (2010).
 94. See European Parliament (2013), enquiry report on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro area programme countries.
 95. See the summary of ECA (2015a): "When the 2008 financial crisis triggered a European sovereign debt crisis, some Member States were forced to seek macrofinancial assistance. This report examines how well the European Commission managed the assistance provided to five countries – Hungary, Latvia, Romania, Ireland and Portugal. We found that the Commission was unprepared for the magnitude of the crisis, which largely explains the significant initial weaknesses in its management processes. A number of the weaknesses we identified still persist, and the main message of the report is that the Commission has to strengthen its procedures for the management of financial assistance.
 96. Based on the ESM staff survey and interviews.
 97. See, for example, Katsimi and Zoega (2015), which concludes that "weak ownership of the Greek programme contributed to the fear of Grexit fuelling expectations that another major economic disturbance may be around the corner for Greece, a factor that was absent for Iceland." The authors also note that "Greek politicians had an ambiguous attitude towards the programme's ownership depending on whether their audience was their political constituency or foreign creditors. It seems that Greek politicians perceive a trade-off between ownership and the political cost of adjustment. Ownership implies accepting the consequences and so should be avoided. On the other hand, in order to bargain a successful deal that will improve the probability of programme's success (e.g. debt restructuring), it is necessary to convince voters in other Eurozone countries that the programme has a real chance to work. This can only be the case if the Greek government does take ownership. Thus, weak ownership decreased the

credibility of policymakers, leading to the imposition of stricter measures, which in turn make ownership more difficult. This vicious cycle led to a recessionary programme, created issues of democratic accountability, and became a source of citizens' resentment towards Europe."

98. See p. 3 of Boughton (2003) for a definition of ownership as "a willing assumption of responsibility for an agreed program of policies, by officials in a borrowing country who have the responsibility to formulate and carry out those policies, based on an understanding that the program is achievable and is in the country's own interest."
99. Further detail on the social and online media analysis is provided in Section 7.5 on the ESM's engagement and in section 8 of the Technical appendix: Appendices to Chapter 7 – Social and online media analysis.
100. For more details, see section 8 of the Technical appendix: Appendices to Chapter 7 – Social and online media analysis.
101. In its feedback to the consultation on the draft evaluation report with the ESM Board of Directors in April 2020, one institution held the view that while there were some differences of views in assumptions on DSA parameters between the institutions, the fundamental difference of views was between the Member States themselves on burden sharing and what constitutes an economically viable primary surplus target. It said that this difference in views persisted throughout the ESM programmes and often caused delays.
102. See, for example, Thomas (2015).
103. Based on interviews with key stakeholders and public statements of key officials, including Klaus Regling, the ESM Managing Director, see CNBC (2010).
104. The Euro Summit of 14 December 2018 endorsed a proposal for reform of the ESM, which among other changes, envisages a stronger role for the ESM in the design, negotiation, and monitoring of conditionality in future financial assistance programmes. Any future MoU detailing conditionality clauses will be signed by both the Commission and the ESM Managing Director. In 2019, ESM Members continued these discussions. For more details on ESM Reform see <https://www.esm.europa.eu/about-esm/esm-reform>.
105. The analysis was conducted for the evaluation project. Despite some limitations, the social and online media analysis offers useful insights into the evolution of global and Greek public perceptions of the financial assistance. The main limitation of the analysis is that outside of Greece, it focused only on English-language discussions about financial assistance. This left domestic discussions and prevailing sentiment in other euro area economies insufficiently analysed. The analysis in English is, however, sufficiently robust as it captures the perceptions and sentiments that ultimately influence the reactions of the international financial markets where English is the dominant language. For more details, see section 8 of the Technical appendix: Appendices to Chapter 7 – Social and online media analysis.
106. The analysis observed 2.4 million mentions of the financial assistance to Greece in the first period, compared to around 180,000 in the second period. For more details, see section 8 of the Technical appendix: Appendices to Chapter 7 - Social and online media analysis.
107. A comparison of the variation in the volume of mentions between the two periods shows that ESM-related mentions accounted for only 2.6% of total during the first period (January – September 2015), while in the second period (April – October 2018) they spiked to 18.2% of total. While the negative sentiments about the ESM remained pronounced in 2018 as well, the share of neutral dropped from 47% in the first period to 17% in the second. For more details, see section 8 of the Technical appendix: Appendices to Chapter 7 – Social and online media analysis.
108. For more on the IMF's decision-making, see IMF (2019c).
109. As noted in the introduction of this report, the Institutions refers to the ESM and the Troika partners – the European Commission, ECB, and IMF.
110. According to the social and online media analysis, which is presented in more detail in section 8 of the Technical appendix: Appendices to Chapter 7 – Social and online media analysis.
111. According to the board survey respondents and most interviewees.

112. The fourth enhanced surveillance mission was carried out from 23 to 26 September 2019, and the report was published in November 2019, which is after the end of the period under evaluation.
113. Income equivalent amounts stemming from national central banks' holdings of Greek bonds under the Security Markets Programme (SMP) and the Agreement on Net Financial Assets (ANFA).
114. The second tranche of medium-term debt relief measures was agreed in December 2019. As defined by the evaluation's Terms of Reference, the period under this evaluation ends at 30 September 2019.
115. The Fourth Enhanced Surveillance Report was published in November 2019, and the fifth one in February 2020. As defined by the evaluation's Terms of Reference, the period under this evaluation ends at 30 September 2019.
116. The evaluation period ended in September 2019. An asset protection scheme was, however, legislated slightly later in 2019.



Publications Office
of the European Union

Print	ISBN 978-92-95085-78-7	doi:10.2852/082453	DW-01-19-845-EN-C
PDF	ISBN 978-92-95085-79-4	doi:10.2852/04790	DW-01-19-845-EN-N

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