

LESSONS FROM FINANCIAL ASSISTANCE TO GREECE - INDEPENDENT EVALUATION REPORT

ESM evaluation team
reporting to the
Independent
Evaluator

LSE Hellenic Observatory

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CONFIDENCE AND TRUST ISSUES ACCOMPANIED PROGRAMMES

- The 2018 exit did not signal completion.
- The delay in adjusting Greek policies resulted in an exceptional scale of adjustment, and severe organisational stress.

Most decisive measures

- Fiscal stabilisation was unavoidable
- Technical assistance necessary to strengthen institutions, especially the social income.
- Debt re-profiling cut financing risks, generated external confidence for return to market access.

Recommendations call for

- Better explained reform logic, broader engagement within the beneficiary society,
- Technical support to boost implementation capacity.
- Country knowledge, adaptation

- An early banking sector strategy and better focus on the growth benefits of the structural reforms would have helped speed up recovery.

Intervention logic

STRATEGIES

- Prioritise deficit and debt reduction (restore debt sustainability)
- Improve productivity, competitiveness and long-term growth
- Restore confidence and the payment culture
- Recapitalise banking sector
- Minimise contagion (PSI and consolidation/ deleveraging)
- Strengthen institutions and their independence
- Restore debt sustainability
- Establish ample cash buffers as a primary exit strategy



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

INFLUENTIAL FACTORS

- Repercussions of global financial crisis
- Fixed exchange rate and internal devaluation
- Emergency Liquidity Assistance and non-standard monetary policy
- Capital controls
- Administrative capacity and low trust
- Fiscal and reform fatigue
- Rating downgrades and later upgrades
- Progress on banking union
- Statistical misreporting
- Institutional cooperation challenges

PROBLEM

- (THREAT OF) LOSS OF MARKET
- (CONCERN) FORCED EXIT/ EURO AREA INTEGRITY
- (FEAR OF) SPILLOVER/ CONTAGION

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

COMMUNITY NEEDS

GREECE

- Euro area integrity
- Emergency funding
- Sustainable and inclusive growth
- Employment
- Financial stability
- Political ownership
- Restoration of public finances: balanced budget and sustainable debt

- Restoration of competitiveness/ reduction of trade balance deficit, and inclusive, growth-friendly policies; making the structure of the economy more flexible; reform of the public administration at large; overhaul of the tax system; overhaul of the judicial system; reduction of red tape
- A modern social safety net
- Need to have reforms explained to the public, including clear distinction between reforms and savings

- Change the distribution of the programme burden (ESM programme only)
- Need the institutions to understand the depth of the problem, need for shared problem analysis, need to have solutions adapted to Greek context

EURO AREA

- Euro area's capacity to act as one
- Euro area integrity

TIME TO RETHINK THE APPROACH

- Longer-term sector strategies to complement a more focused reform conditionality assessed against their effects.
- Attention to institutional capacity
- Set policy frameworks leaving room to adapt to unexpected outcomes.
- The Recommendations are an extension to ESM Treaty reform scheduled for ratification in 2021.
- Action plan to develop the capacity to
 - Deliver more coherent and impactful assistance through country knowledge and more established policy frameworks.
 - Upgrade the implementation review and post-programme policy engagement.
- Provision of assistance is a partnership

Many thanks

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AVAILABLE MATERIAL FOR FURTHER STUDY

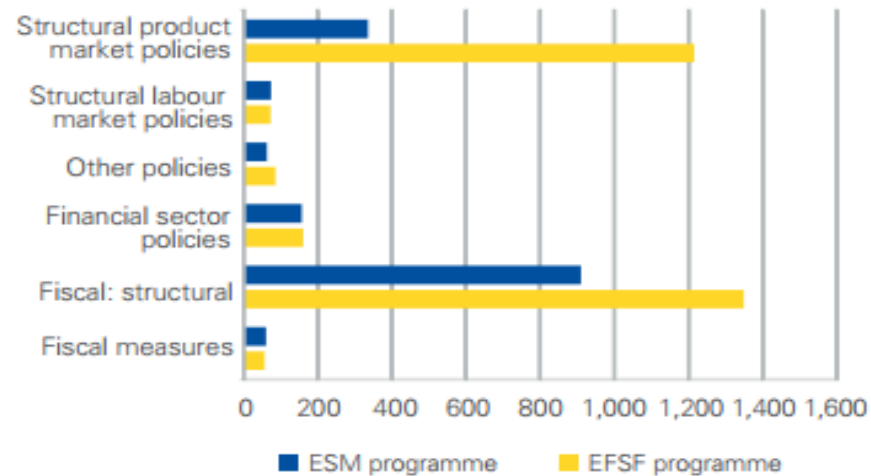
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Sources	Links
Evaluation report	https://www.esm.europa.eu/sites/default/files/lessons-financial-assistance-greece.pdf
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Clancy & al. background study	https://www.esm.europa.eu/sites/default/files/wp45final.pdf
ESM Programme database	https://www.esm.europa.eu/financial-assistance/financial-assistance-database

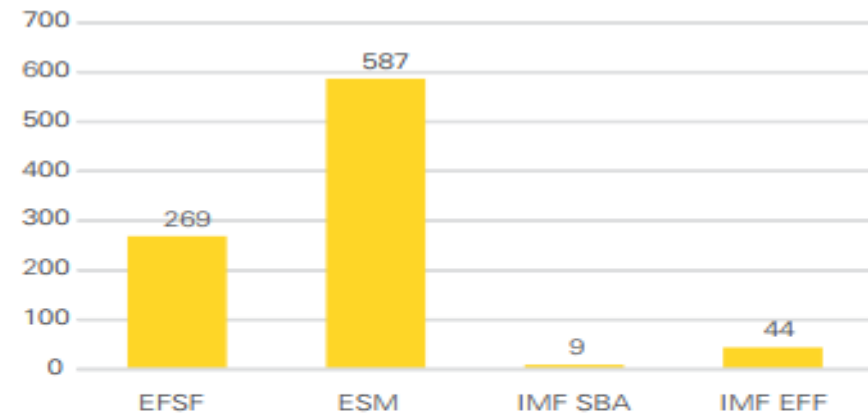
CONDITIONALITY

EFSF and ESM programme conditionality



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

Comparison 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