



European Council  
Council of the European Union

# Greece: the third economic adjustment programme

## Archived content

The content on this page is provided for reference purposes only. This content has not been altered or updated since 03/05/2019

## Infographic - Financial assistance to Greece 2010-2018



[See full infographic](#)

The third economic adjustment programme for Greece started on 19 August 2015 and ran until 20 August 2018.

In total, Greece received €61.9 billion of financial assistance by the European Stability Mechanism (ESM), out of a total programme envelope of up to €86 billion.

The conditions for receiving financial assistance include a number of measures and reforms that Greece has committed to implementing in order to address its current economic challenges.

The overall aim of the programme is to secure a return to sustainable economic growth in Greece.

## Overview

Greece made an **official request for stability support** in the form a government loan from the ESM on 8 July 2015. It made the request in order to meet its debt obligations and to ensure the stability of the financial system.

On 8 July 2015, the ESM Board of Governors tasked the European Commission with assessing the existence of risks to the financial stability of the euro area, the debt sustainability of Greece and its potential financing needs. This evaluation is necessary before negotiations on a programme can begin.

Following the European Commission's evaluation, carried out in liaison with the ECB and issued on 10 July 2015, the ESM board of governors agreed that the negotiation of a new financial assistance programme for Greece could begin.

## Debt sustainability

The debt sustainability analysis for Greece, carried out by the European Commission in liaison with the ECB, concluded that debt sustainability could be achieved through a far-reaching and credible reform programme and additional debt-related measures without nominal haircuts.

In line with the 12 July Euro Summit statement, on 14 August 2015, the **Eurogroup confirmed it was ready to consider possible additional measures to ensure that Greece's gross financing needs remain at a sustainable level**. These measures might include possible longer grace and repayment periods and will be conditional on full implementation of measures agreed in the programme.

› Analysis of Greece's debt sustainability by the European Commission (July 2015)

At its meeting on 24 May 2016, **the Eurogroup agreed on a number of measures to ensure the sustainability of Greece's public debt**. The measures are divided into short-, medium- and long-term. Some of them are to be implemented before the end of the programme, and others - upon successful conclusion of the programme. The scope of the latter will be determined based on an updated debt sustainability analysis.

› Eurogroup statement on Greece, 24 May 2016

On 5 December 2016, the **Eurogroup endorsed the full set of short-term debt relief measures** for Greece. These measures will have a significant positive impact on the sustainability of Greece's public debt. They include:

- smoothing Greece's repayment profile within the current weighted average maturity of loans up to 32,5 years
- reducing interest rate-related risk using EFSF and ESM funding strategy, without incurring additional costs for the former programme countries
- waiving the step-up interest rate margin for 2017, related to the debt buy-back tranche of the 2nd Greek programme

The boards of directors of the ESM and the EFSF have formally adopted the measures on 23 January 2017 and opened the way for their implementation.

› Eurogroup statement on Greece, 5 December 2016

## Prior actions

Following the assessment of risk, financing needs and debt sustainability, on 13 July 2015 the leaders of the euro area countries reached an agreement with Greece on a set of prior actions that needed to be implemented **in order for negotiations to start** on the conditions to be set out in the memorandum of understanding.

The agreed prior actions included:

- VAT and pension reform measures
- transposition of the Bank recovery and resolution directive (banking union rules)
- safeguarding the independence of Greek statistical authority (ELSTAT)
- adoption of a Code of Civil Procedure

**Greece implemented these agreed prior actions by 14 August 2015.**

The **Eurogroup agreed to start negotiations on the new programme on 16 July 2015**, and the ESM board of governors decided, in principle, to grant stability support to Greece on 17 July 2015.

## Memorandum of understanding

The ESM board of governors approved the memorandum of understanding, specifying the reform policies which Greece is expected to fulfil, on **19 August 2015**, after it was endorsed by the ESM member states in accordance with their national procedures.

On the same date the board of governors also approved the **loan agreement** (the 'Master financial assistance facility agreement').

› Memorandum of understanding, 19 August 2015

**In June 2016**, during the first review of the programme, **a supplemental memorandum of understanding was signed**. It updated the conditionality until the third quarter of 2017 by specifying the deliverables in the areas of the original memorandum of understanding.

- › Supplemental memorandum of understanding with Greece (June 2016)
- › Updated asset development plan (annex to the supplemental MoU with Greece)
- › Privatisation programme: government pending actions (annex to the supplemental MoU with Greece)

## Greece's programme: key points

The reforms agreed in the memorandum of understanding can be grouped into four main strands:

- restoring **fiscal sustainability**
- safeguarding **financial stability**
- implementing reforms conducive to **growth and jobs**
- **modernising the government sector**

Among other agreed conditions, Greece has committed to make full use of the available EU technical assistance for designing the reforms. Such technical assistance is coordinated by the new Structural Reform Support Service (SRSS) of the European Commission.

## Restoring fiscal sustainability

### What is a primary surplus?

A government is considered to have achieved a primary surplus **when its current revenue is higher than its current spending** (except for interest on debt). Running primary surpluses over the medium term makes it possible to reduce public debt and restore fiscal sustainability, which is essential for returning the economy to sustainable growth.

Greece is expected to target a **medium-term primary surplus of 3.5% of GDP**. It is to be achieved primarily through:

- **fiscal reforms**, including reforms of the VAT and pension systems, supported by an ambitious programme to strengthen tax compliance and public financial management
- **fighting tax evasion**, while ensuring adequate protection of vulnerable groups

The agreed fiscal adjustment path to achieve the primary surplus is as follows:

- -0.25% in 2015
- 0.5% in 2016
- 1.75% in 2017
- 3.5% in 2018

## Safeguarding financial stability

Greece is expected to take measures to put its financial sector on a sound footing.

The conditions agreed in the memorandum of understanding include:

- addressing the **non-performing loans** (NPLs) in the banking sector
- **recapitalising banks**
- **strengthening the governance** of the Hellenic Financial Stability Fund (HFSF) as well as that of banks

## Bank recapitalisation

The comprehensive assessment and asset quality review of major Greek banks was carried out by the ECB in the autumn of 2015. Following the assessment, the affected banks have been recapitalised as agreed in the Eurogroup statement of 14 August 2015.

For this purpose the **European Stability Mechanism disbursed €5.4 billion** to the Hellenic Financial Stability Fund to complement private capital raised by the banks, following the required European Commission decisions on state aid.

- › Results of ECB comprehensive assessment of four major Greek banks, 31 October 2015
- › Directive on the recovery and resolution of credit institutions and investment firms
- › Hellenic Financial Stability Fund

## Growth, competitiveness and investment

Greece is expected to design and implement a wide range of reforms conducive to increased growth, competitiveness and investment. The reforms are expected particularly in **labour markets** and **product markets**, including the **energy market**. The reforms should **ensure full compliance with the EU requirements** and aim at converging to European best practices.

The labour market reforms are expected to review the frameworks for collective bargaining and wage setting, industrial action and collective dismissals. Addressing undeclared work should also be one of the priorities.

## Privatisation programme

Greece is also expected to implement a privatisation programme as well as policies that support investment. The Greek authorities committed to adopt legislation **to ensure transparent privatisation**.

In addition, among the programme's conditions there is a requirement **to establish an independent fund**, to be managed by the Greek authorities under the supervision of the relevant EU institutions. The task of the fund is to privatise independently evaluated Greek state assets.

According to the Euro Summit statement of 12 July 2015, the **funds that the privatisation programme is expected to yield, will be used for:**

- the repayment of recapitalisation of banks and other assets
  - decreasing Greece's debt to GDP ratio
  - investments
- › Euro Summit statement, Brussels, 12 July 2015

## Modernising the state and public administration

Modernisation of the state and public administration is one of the key priorities of the programme. A particularly important goal is to **increase the efficiency** of the public sector in delivering essential public goods and services.

The programme includes measures to enhance the efficiency of the **judicial system** and to strengthen the **fight against corruption**. It also requires enhancement of the institutional and operational independence of national institutions such as revenue administration and the statistics authority (ELSTAT).

## Financial assistance under the programme

The European Stability Mechanism is ready to provide financial assistance of **up to €86 billion**. The ESM raises the funds on financial markets and then provides loans to the Greek government.

A new International Monetary Fund programme for Greece would reduce the amount needed from the ESM.

In addition, the amount of financial assistance needed for Greece could be reduced if the country regained access to borrowing on financial markets during the implementation of the programme. The amount will also be affected by the success of the reform measures carried out by Greece, including privatisation of state assets.

› ESM financial assistance for Greece

## Support from the European Financial Stabilisation Mechanism (EFSM)

During the negotiations on the new programme, in July 2015, the EFSM provided Greece a **bridge loan of €7 billion**.

**The loan was repaid** when the ESM programme began, and it was included in the overall amount of €86 billion earmarked for the ESM programme.

# Payment of the financial assistance

Financial assistance for Greece is provided in separate tranches, which are further divided into sub-tranches and instalments.

The release of each instalment depends on the successful implementation of the agreed conditions.

The first tranche under the ESM programme amounts to €26 billion; it was released following approval by the ESM board of governors on 19 August 2015, and the overall amount of €24.1 billion was paid out to Greece.

On 24 May 2016, the Eurogroup endorsed the staff-level agreement on the first review of the programme, which paved the way for the disbursement by the ESM of the second tranche (€10.3bn) of financial assistance in several instalments, following the relevant endorsement procedures by the ESM and the euro area member states.

On 9 June 2016, the European Commission published a report on compliance with the memorandum of understanding in the context the first review of the programme. The compliance report, which also includes an updated debt sustainability analysis, gave an overall positive evaluation of the programme's implementation and issued an opinion that the next release of financial assistance to cover debt servicing needs and clear the arrears would be possible.

On 15 June 2017, the Eurogroup and the institutions finalised the discussion on the second review of the programme, which paved the way for releasing the third tranche of assistance, amounting to €8.5 billion.

On 27 March 2018, the ESM board of directors authorised the release of the 4th tranche, amounting to €6.7 billion.



<b>Tranche</b>	<b>Amount</b>	<b>Availability</b>
<b>1st tranche</b>	<b>€26 billion</b>	<b>Released following approval of the financial assistance by the ESM board of governors on 19 August 2015.</b>
1st sub-tranche	€10 billion	Earmarked for bank recapitalisation and resolution. It was available as of 23 November 2015. In December 2015, €5.4 billion of funds were released from the ESM segregated account to the HFSF (Hellenic Financial Stability Fund), following the relevant European Commission decisions on state aid. The remaining amount has not been used.
2nd sub-tranche	€16 billion	Disbursed in several instalments.
2nd sub-tranche, 1st instalment	€13 billion	Released on 20 August 2015.
2nd sub-tranche, 2nd instalment,	€2 billion	Released on 24 November 2015, following the successful implementation of the first set of milestones.
2nd sub-tranche, 3rd instalment	€1 billion	Released on 23 December 2015 on successful implementation of the second set of milestones.

<b>2nd tranche</b>	<b>€10.3 billion</b>	<b>The second tranche was authorised by the ESM board of directors on 17 June 2016.</b>
2nd tranche, 1st sub-tranche	€7.5 billion	The disbursement authorised by the ESM board of directors on 17 June 2016.
2nd tranche, 2nd sub-tranche	€1.1 billion	Eurogroup political approval was granted on 10 October 2016. The ESM board of governors authorised the disbursement on 25 October. This amount is to be used for debt servicing.
2nd tranche, 3rd sub-tranche	€1.7 billion	The ESM board of directors authorised the disbursement on 25 October, after receiving a positive assessment of the clearance of net arrears by Greece. This amount will be disbursed to a dedicated account for clearing arrears.
<b>3rd tranche</b>	<b>€8.5 billion</b>	<b>The Eurogroup politically endorsed the payment of the third tranche on 15 June 2017.</b>

3rd tranche, 1st sub-tranche	€7.7 billion	The 1st sub-tranche was disbursed by the ESM on 10 July 2017. Out of this amount, €6.9 billion will be used for debt servicing needs and €0.8 billion for arrears clearance. The decision to disburse the 1st sub-tranche was taken by the ESM board of directors after it approved the third tranche - €8.5 billion - on 7 July 2017.
3rd tranche, 2nd sub-tranche	€0.8 billion	On 26 October 2017, the ESM board of directors authorised the release of the remaining €0.8 billion to Greece for the clearance of arrears.
<b>4th tranche</b>	<b>€6.7 billion</b>	<b>The fourth tranche was authorised by the ESM board of directors on 27 March 2018.</b>
4th tranche, 1st sub-tranche	€5.7 billion	The 1st sub-tranche was disbursed by the ESM on 28 March 2018.
4th tranche 2nd sub-tranche	€1 billion	The ESM board of directors authorised the release of €1 billion to Greece for the clearance of arrears on 14 June 2018.
<b>5th tranche</b>	<b>€15 billion</b>	<b>The ESM disbursed the fifth and final tranche on 6 August 2018, amounting to €15 billion.</b> €9.5 billion of the tranche will be used for building up Greece's cash buffer and €5.5 billion will be used for debt service.

# Monitoring

The progress of the implementation of the programme is monitored by the institutions (European Commission, in liaison with the ECB, ESM and the IMF). The review missions to Athens take place at regular intervals (typically every three months) and can be supplemented by interim missions.

The reviews, depending on the progress achieved by the Greek authorities in implementing the conditions of the programme, provide an opportunity to update the macroeconomic assumptions and conditions of the programme.

## First review

The first review of the programme was **completed in June 2016**, paving the way for the release of the 2nd tranche of financial assistance, amounting to €10.3 billion.

- › Eurogroup statement on Greece, 24 May 2016
- › Compliance report in the context of the first review of the Greece's macroeconomic adjustment programme, June 2016

## Second review

The second review of the programme was **completed in June 2017**, paving the way for the disbursement of the 3rd tranche of the financial assistance available for Greece under the programme. The tranche amounts to €8.5 billion. It was used to cover Greece's current financing needs, arrears clearing, and possibly create room to start building up a cash buffer.

- › Eurogroup statement on Greece, 15 June 2017
- › Compliance report in the context of the third economic adjustment programme for Greece - second review, June 2017

## Third review

The third review of the programme was **completed in January 2018**. It paves the way for the disbursement of the 4th tranche of the financial assistance available for Greece under the programme, amounting to €6.7 billion.

- › Eurogroup statement on Greece, 22 January 2018

- › Compliance report in the context of the third economic adjustment programme for Greece - third review, January 2018

## Fourth review

The fourth review of the programme was **completed in June 2018**, paving the way for the 5th tranche of financial assistance available for Greece under the programme, amounting to €15 billion.

- › Eurogroup statement on Greece, 22 June 2018
- › Compliance report in the context of the third economic adjustment programme for Greece - fourth review, June 2018

## IMF involvement

In line with the ESM Treaty, an IMF programme is usually sought alongside an ESM programme. In the case of the third programme for Greece, the decision of the Fund to provide further financial support to Greece will depend on its assessment of the policy reforms that are undertaken and the public debt sustainability of the country.

At the Eurogroup meeting on 15 June 2017, the IMF informed of its intention to recommend to the IMF's Executive Board the approval in principle of Greece's request for a 14-month standby arrangement.

- › IMF Managing Director Christine Lagarde to propose approval in principle of new standby arrangement for Greece, 15 June 2017 (press release)

## Previous programmes

Greece has had two adjustment programmes in the period 2010-2015.

### The first programme

Financing during the first adjustment programme was provided on the basis of bilateral loans from euro-area member states to Greece via the 'Greek Loan Facility' mechanism. It was announced by the Eurogroup on 2 May 2010.

Under the first programme Greece received the total of **€52.9 billion** in financial assistance. The IMF disbursed an additional amount of about €20 billion.

## The second programme

The second adjustment programme replaced the first. It was endorsed by the Eurogroup on 9 March 2012 and ran until June 2015.

The financing was provided by the euro-area member states via the European Financial Stability Facility (EFSF) mechanism. In this period, the EFSF disbursed **€141.8 billion** and the IMF approximately €12 billion.

### See also

- › Financial assistance to Greece (European Commission website)
- › ESM financial assistance for Greece

Topics:

Share

