

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR GREECE

**As approved by the Board of Directors at its meeting
on 22 June 2016**

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EXECUTIVE SUMMARY

Greece is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

During the period 2008-13, the Greek economy went through a dramatic economic contraction. Output fell by approximately one-quarter during this period, and unemployment rose to more than 25 per cent of the labour force. After a slight upturn in 2014, the year 2015 was economically turbulent. Confidence suffered heavily in the first half of 2015 due to major political uncertainties regarding Greece's debt repayments, and the economy returned to negative growth rates in the second half of the year. Prospects for a quick recovery are weak, given the lack of investment in recent years and the need for further short-term austerity measures to put the debt profile on a sustainable path. However, provided macroeconomic and political stability are maintained, and if investment picks up from current very low levels, the potential for a bounce-back from 2017 onwards is strong. Growth rebalancing is expected to be driven by the ongoing shift to a more export-oriented growth model and the development of Greece's potential in areas such as tourism, logistics, regional energy projects, energy efficiency, food processing and pharmaceuticals.

For a positive growth trajectory, Greece needs to build on some of the reforms introduced in recent years in terms of moving forward towards an efficient and market-oriented economy. Since Greece entered the first bailout programme with international creditors in 2010, progress in structural reforms has been mixed. Before 2015, the authorities had made visible important advances in several areas, such as tax policy reform, public administration modernisation, stabilisation of the financial system, and liberalisation of the electricity and transport sectors. The Memorandum of Understanding (MoU) reached with the European Commission in August 2015 aims to continue to support reforms in these areas. Since the MoU was signed, some good progress was achieved, notably in the banking sector with the successful recapitalisation of the four main banks, in which the EBRD participated, as well as on pension reform. However, full delivery on certain areas of the reform programme, notably privatisations and labour market reform will be a challenging task for the government.

This context has brought the EBRD to Greece for a time-bound period with the overarching objective to contribute to the recovery and enhance the resilience of the Greek economy by strengthening the role of the private sector, acting as a catalyst for investment recovery, supporting reforms, and deepening regional integration. Focusing on areas that leverage its core capabilities and where it is most additional, and in coordination with other IFIs active in Greece, the Bank will be well placed to address these challenges in this country strategy.

Consistent with the decision of the Board of Governors that the Bank shall not engage in new operations in Greece beyond the end of 2020, this country strategy will guide the Bank's engagement in Greece until 2020. Given the limited time for operations, the Bank will make every effort to front-load its activities, where possible and subject to supportive market conditions.

- **Priority 1: Support the resurgence and enhance the resilience of the private sector through a shift to a more export-oriented growth model:** Seven years of deep recession have put substantial stress on the private sector. Starved of capital and facing a fall in private consumption, firms have halted most investment programmes, with capital formation reaching an extraordinarily low 10 per cent of GDP in 2014 vs. 27 per cent in

2007. Exporters, many of which are SMEs, have particularly suffered during the crisis and Greece's export/GDP ratio is lagging by regional standards. At the same time, companies which have survived the crisis are leaner and in a better position to compete on external markets. The significant wage reductions and cost-cutting of recent years is enhancing competitiveness, provided firms can re-access finance. In addition, the product and service markets liberalisation measures pursued by the authorities are supporting this shift to an export-led growth model. In that context, the Bank will support the revival of economic growth by providing debt and equity primarily, albeit not exclusively, to companies with export growth potential. This is expected to demonstrate to local and international investors the viability and attractiveness of doing business in Greece. The Bank will also support improvement in energy efficiency and governance standards, as well as skills transfers, training and advice on export readiness, to increase the resilience of Greek companies to economic volatility.

- **Priority 2: Support the stabilisation of the financial sector and deepen intermediation to unlock private sector access to finance:** Access to finance is among the most significant concerns for businesses, as credit to the economy has been in continuous decline since the crisis began. The banking sector continues to grapple with significant levels of NPLs. The four systemic banks have been recapitalised, with the support of the EBRD, and are able to resume lending to the real economy, provided they can improve their liquidity positions, to which end the Bank will offer a range of financing products including trade finance, as well as finance for SME and energy efficiency and value chain finance facilities. Additional support will come through EBRD's investments in NPL servicing and/or workout and restructuring platforms, which will enable banks to concentrate on new lending, as well as potentially participating in significant individual restructurings alongside local banks and specialised funds. The Bank will also contribute to improving corporate governance in the banking sector, by nominating strong independent candidates to the boards, by being an active shareholder and through policy advisory so that the four banks can provide the real economy with finance again. In addition, the Bank will also support the deepening of financial intermediation for the real economy beyond bank lending, in particular capital markets, by acting as a key investor for corporate and bank bond issuances.
- **Priority 3: Support private sector participation and commercialisation in the energy and infrastructure sectors to enhance regional integration and improve quality of utility services:** Through its geographic position, Greece is a 'natural' trade and investment partner for many of the Bank's surrounding countries of operation. The potential for regional integration can be unlocked further through infrastructure and energy privatisation as well as commercialisation of public utilities, in which the Bank has considerable experience and can offer support. This will allow Greece and its neighbours to deepen their trade and infrastructure linkages, contribute further to regional energy integration, and improve the quality of utility services. The Bank will offer its support both for privatisations and for alternative commercialisations, where these lead to improved quality of public services, increased competition and regional integration. The Bank will also engage in policy dialogue to support market reforms in the energy sector with a view to ensuring that the regulatory and institutional frameworks are conducive to investment.

1 OVERVIEW OF THE BANK'S ACTIVITIES

1.1 The Bank's current portfolio

Private sector ratio: 100 per cent, as of 31 May 2016

Sector Group	Sector Team	Portfolio no of operations	Portfolio (€m)	% Portfolio	Op Assets	% Op Assets
Energy	Natural Resources	1	67	18%	36	11%
	Power and Energy	0	0	0%	0	0%
		1	67	18%	36	11%
Financial Institutions	Depository Credit (banks)	4	228	61%	228	71%
	Insurance, Pension, Mutual Funds	1	6	2%	6	2%
	Leasing Finance	0	0	0%	0	0%
	Non-depository Credit (non-bank)	0	0	0%	0	0%
		5	234	63%	234	73%
Industry, Commerce & Agribusiness	Agribusiness	0	0	0%	0	0%
	Equity Funds	1	20	5%	0	0%
	Information & Communications Technologies	1	50	13%	50	16%
	Manufacturing & Services	0	0	0%	0	0%
	Property and Tourism	0	0	0%	0	0%
		2	70	19%	50	16%
Infrastructure	Municipal & Environmental Infrastructure	0	0	0%	0	0%
	Transport	0	0	0%	0	0%
		0	0	0%	0	0%
Summary		8	371	100%	320	100%

Source: EBRD

1.2 Implementation of the Country Assessment's strategic directions

Greece became an EBRD country of operation on 27 February 2015, on the basis of a Country Assessment which identified the following operational priorities:

- Unlocking private sector's access to finance;
- Supporting private sector participation and commercialisation of infrastructure to enable regional integration and improve quality of utility services.

The Bank's fastest and most visible intervention to date has been its participation in the recapitalisation of Greek banks. While the Country Assessment did not envisage equity investments in the banking sector which appeared at the time adequately capitalised (as confirmed by the ECB's AQR and Stress Test from October 2014), the deepening of the political and economic crisis (which resulted in higher NPL volumes and lower collateral values), as well as more stringent capital requirements imposed by the ECB, revealed a large equity gap in the banking sector. The ECB's asset quality review (AQR) and Stress Test based on end-June 2015 data identified a capital shortfall of €4.4 billion under the baseline scenario,

and €4.4 billion under an adverse scenario for the four systemic banks. These banks raised €9 billion from private investors and €5.4 billion from the ESM financial assistance programme. The EBRD invested €250 million in the four systemic banks, alongside the IFC which invested €150 million. This contributed to supporting a successful recapitalisation, and at the time, bringing back confidence to the banking sector. To further alleviate banks' problems with NPLs, the EBRD has been reviewing potential investments in servicing platforms as well as direct participation in corporate restructurings.

In support of the Country Assessment's first priority (*Unlocking private sector's access to finance*), the Bank has approved €180 million of trade finance facilities to four systemic banks, aiming to support the re-opening of trade lines at a time when most foreign commercial banks had suspended their limits to Greek banks. Greek banks are expected to use EBRD's Trade Finance for trade in services and cash advances benefitting local exporters as well as for imports of intermediate goods and equipment.

In addition, a €20 million investment in a Greek-dedicated equity fund with a target fund size of €150 million, focussing on export-oriented SMEs/mid-caps, is expected to increase the availability of risk capital and act as a catalyst for further mobilisation of external capital in the sector. The Bank has also invested €50 million in a €350 million bond issue by OTE, the leading private telecommunication provider in Greece and the largest telecom group in south-eastern Europe, in support of the upgrade of its infrastructure, in particular on the islands. As the first corporate bond issue in 2015, the operation had an important signalling effect and is expected to be followed by a syndicated loan facility. It has also provided financing for the only private upstream oil and gas company in Greece to support the introduction of new technologies, and is providing assistance to the Greek government to achieve international best practice in the oil and gas sector. In addition, a promising pipeline has been developed in sectors such as agribusiness and information technology. Lastly, the Bank has engaged in dialogue with other IFIs and government agencies with a view to formulating a comprehensive SME financing facility with credit enhancement through the optimal use of EU structural funds.

Business development has progressed under the Country Assessment's second priority (*Supporting private sector participation and commercialisation of infrastructure*). The Bank has offered its potential support for the transactions to which the Government has committed under the Third Economic Adjustment Programme MoU¹, including necessary post-privatisation investments following the regional airports privatisation. Bank has also been exploring opportunities to engage with several municipalities supporting commercialisation of services and/or PPPs.

2 OPERATIONAL ENVIRONMENT

2.1 Political context for reforms

Early general elections, which took place on 25 January 2015, brought a landslide victory to the opposition left political party Syriza, led by Alexis Tsipras, who was sworn in as the new

¹ In August 2015, Greece signed a new MoU with the European Commission (EC), acting on behalf of the European Stability Mechanism (ESM). The MoU envisaged a third Economic Adjustment Programme, with financial assistance of up to €86 billion (see section 2.5 for further details)

Prime Minister on 26 January 2015. The governing coalition was joined, as a junior coalition partner, by a small conservative party ANEL. Together, they achieved a stable majority of 54 per cent of seats in the parliament. The months that followed witnessed contentious negotiations with Greece's international creditors, a dramatic nation-wide referendum, and a split in the governing party, whose radical left wing left Syriza and formed its own party. This protracted political crisis, which eventually led to new elections, was not conducive to consistency in policies and hampered reforms.

The events of August 2015 (new agreement with the creditors) and September 2015 (new early elections) marked an important watershed. The second Syriza government with PM Tsipras at the helm and comprising the same junior coalition partner was established on 21 September 2015. Unlike its predecessor, the current government has been elected on a platform of sustainable economic recovery drawing on the implementation of the agreement with the international creditors. Importantly, it excludes radical leftists, who have been defeated twice: first in Syriza's governing bodies, then at September early elections, having failed to enter the parliament. Although the majority of the governing coalition is fragile (as of mid-2016 - 153 MPs in the house of 300), it has managed so far to have necessary reform bills adopted by the parliament. Furthermore, political infighting aside, MPs from those opposition political parties sharing the objectives of the implementation of the Programme may be supporting necessary reform bills as well.

At the same time, staying the reform course will not be easy for the government. The implementation of the reforms is likely to face strong resistance from the public, powerful trade unions, and vested interests. Social tensions may be additionally aggravated by the problems related to the refugee crisis, which escalated since 2015 and to which Greece is particularly vulnerable as one of the de-facto front-line countries.

2.2 Macroeconomic context

During the period 2008-13, the Greek economy went through a dramatic economic contraction. Output fell by approximately one-quarter during this period, and unemployment rose to more than 25 per cent of the labour force. All components of domestic demand collapsed, especially investment which fell from nearly €60 billion in 2008 to just €20 billion in 2014. Private sector companies became starved of credit and many businesses closed down or cut back severely on operations.

After a slight upturn in 2014, the year 2015 was economically turbulent. The six-year recession, during which GDP had fallen by approximately one-quarter, came to an end in 2014, with GDP growth of 0.7 per cent, as confidence indicators improved (although from very low levels). However, confidence suffered heavily in H1 of 2015 due to major political uncertainties regarding Greece's debt repayments and its future in the Eurozone. Nonetheless, GDP rose by 0.8 per cent y-o-y in H1 of 2015, driven by consumption, especially of durable goods, due to a significant draw-down of bank deposits which declined by €42 billion between December 2014 and July 2015 on the back of people's fears of a "Grexit" and/or confiscation of deposits. However, the escalation of the crisis in July 2015, with the introduction of a three-week bank holiday and the imposition of capital controls (still in place as of early-April 2016, albeit partially relaxed), led to a drop in economic activity in H2 2015. On the positive side, tourism numbers held up well, reaching record levels in 2015. Overall growth in 2015 is estimated at -0.2 per cent. In December 2015, the economy finally emerged from 33 months of deflation, with the inflation rate positive at 0.4 per cent y-o-y, although the rate went negative again in 2016, standing at -0.4 per cent y-o-y in April. Unemployment remains a major

problem at around 25 per cent of the labour force (compared to ca. 10 per cent in the Eurozone), with youth unemployment exceeding 50 per cent.

New fiscal targets have been set under the latest MoU between the EC and Greece. Following a primary surplus of 0.4 per cent of GDP in 2014, Greece experienced a further surplus in 2015, of 0.7 per cent of GDP (excluding the one-off cost of bank recapitalisation), exceeding the MoU target of -0.25 per cent. Under the MoU, the government has agreed to target primary surpluses of 0.5, 1.75 and 3.5 per cent of GDP in 2016, 2017 and 2018 respectively, with the 3.5 per cent surplus being maintained over the medium term. These targets will be achieved by a combination of new measures to raise revenues and others to contain spending (i.e. personal income tax reform, changes in the VAT rate, public sector wage adjustments, motor vehicle taxation, and additional consumption taxes), along with a comprehensive programme to strengthen tax compliance and fight tax evasion, as well as the introduction of pension reform. Overall public debt is around 180 per cent of GDP and is judged by the IMF to be unsustainable. At the same time, much of this debt is on lengthy repayment periods (in excess of 30 years) and with significant grace periods; hence, the debt repayment profile over the country strategy period is correspondingly moderate. Subject to further progress with reforms and political consensus among Greek creditors, it is envisaged that further restructuring (e.g. maturity lengthening and possibly interest rate reductions) of this debt may be granted during the strategy period. This is a key condition for IMF involvement in the new programme between international creditors and Greece.

Significant short-term uncertainties remain. Prospects for a quick recovery are weak, given the lack of investment in recent years (gross fixed capital formation reaching a record low of 10 per cent of GDP in 2014 vs. 27 per cent in 2007) and the need for further short-term austerity measures to put the debt profile on a sustainable path. For 2016, growth will likely be limited and may remain in negative territory; however, quarterly growth is likely to turn positive in the second half of the year. Potential growth drivers in 2016 include disbursement of EU structural funds (up to €7 billion), the clearance of public arrears to the private sector, progress in NPL resolution, and some resumption of private sector investment. The fiscal tightening will be a particular headwind to growth in 2016 because of the need to aim for another primary surplus this year, as noted earlier. Downside risks to the forecast could arise from delays in implementing the MoU and completing reviews on time, which would be damaging to confidence. In addition, the ongoing refugee crisis has imposed significant costs on the economy, estimated at €600 million according to a Bank of Greece report in February 2016 and likely to rise much further if refugees continue to arrive in current numbers during 2016. Conversely, upside risks could arise from a faster rebound in consumer and business sentiment, from tourism which remains a well-performing sector, from Greece's access to the ECB's quantitative easing programme (Greek government bonds could become eligible in the first half of 2016 provided the MoU is on track), and from debt restructuring as the funds designated for debt servicing could be reallocated to public investment.

Provided macroeconomic and political stability are maintained, medium and long-term prospects are favourable. Given the extent of the depression in Greece and the collapse in investment, the potential for a medium-term bounce-back is strong. A pick-up in growth is expected to be driven by the ongoing shift to a more export-oriented growth model and the development of Greece's potential in areas such as tourism, logistics (port of Piraeus is the European nearest port to Suez Channel), energy efficiency and regional energy projects, food processing and pharmaceuticals. This assumes that Greece builds on some of the reforms introduced in recent years in terms of moving further towards an efficient and market-oriented

economy. Those private sector companies that have survived the crisis are often well-run and in a good position to capitalise on an upturn, wages are much more competitive than a few years ago, and the business environment has been simplified and improved in recent years, in particular in the areas of starting a business, protecting investors and trading across borders.

2.3 Structural reform context

A major reform agenda lies ahead for Greece. Since Greece entered the first bailout programme with international creditors in 2010, progress in structural reforms has been mixed. Before 2015, the authorities had made visible important advances in several areas (as noted, for example, by the OECD): tax policy reform (broadening the tax base and improving collection, simplification of tax and accounting legislations); public administration modernisation (streamlining general government employment, improving public financial management); stabilisation of the financial system; and liberalisation of the electricity and transport sectors. Under the MoU reached with the EC in August 2015, the then-government committed to an ambitious reform agenda focused on four areas: restoring fiscal sustainability; safeguarding financial stability; enhancing growth, competitiveness and investment, including by setting up a new privatisation fund, trade facilitation and customs reorganisation reforms; and building a modern state and public administration. This reform agenda is a key platform for the government's detailed growth strategy, which is currently in preparation. As of early-June 2016, progress has been made in several areas, notably in the banking sector with the successful recapitalisation of the four main banks, as well as on pension reform.

Privatisation results have been disappointing but a new momentum may be under way. When the first bailout programme was agreed in 2010, ambitious revenue targets of up to €50 billion were envisaged from the sale of state assets. These proved to be far too optimistic; by late-2014, total transaction receipts amounted to €4 billion either received or committed. While the process was effectively stalled for most of 2015, some progress occurred in the latter part of the year, notably the award of a 40-year concession worth €1.2 billion to the German company Fraport, to run 14 regional airports including those on popular tourist islands such as Mykonos, Rhodes, Kos, Santorini and Corfu. The transfer of operations is expected to be completed by autumn 2016. Under the MoU, revenues from privatisation were envisaged at €6.4 billion in the period 2015-17. Promising future state- or partially state-owned assets for sale or long-term concessions would involve major projects, including in energy (Public Power Corporation, Public Gas Corporation - DEPA); roads (for example, Egnatia motorway – a 648 km toll motorway in northern Greece); railways (Trainose); airports (Athens International Airport); regional ports (Piraeus, Thessaloniki); natural resources (Hellenic Petroleum); and real estate.

Greece's economy is dominated by services. Over the years, the economy has, like many others in the EU, gone through a process of de-industrialisation and, at 12 per cent, the share of industry in GDP is the third lowest in the EU. Presently, manufacturing is mainly related to labor-intensive food processing. On the other hand, real estate related activities account for one-fifth of the economy, reflecting Greece's importance as a major tourist destination. With almost 20 million foreign arrivals per year, the tourism industry, with its strong comparative advantage, represents a major driver of growth for the Greek economy. The economy, with its rich human capital endowment and strategic location, also has major export potential in tradable services, provided exporters can access guarantees and other trade facilitation elements.

Merchandise exports are below potential. At 15.1 per cent of GDP, exports of goods lag behind other EU economies of similar size. The overall level of trade openness (exports plus imports divided by GDP) is just 60 per cent, half the EU average. The reasons for this under-performance are complex and can be linked to the geographical difficulties of integrating into European value chains as well as the deeper structural problems that have inhibited innovation and the development of export-oriented companies and products. The World Bank's Doing Business indicators show that the cost and time to export in terms of border compliance are significantly above EU averages. In recent years, overleverage among exporters, liquidity constraints and deteriorating access to credit and trade guarantees have exacerbated the situation. However, with private sector wages down by about 40 per cent since pre-crisis and with product market liberalisation measures in place, the prospects for developing an export-led growth model are favourable. Although exporters, like other agents in the rest of the economy, have suffered sharply in recent years, some have found ways to redirect some of their exports to non-European markets, making the country less dependent on Eurozone markets than before. Greece now exports about 1/3 to neighboring SEE (including Turkey) countries, 1/3 to the rest of the EU and 1/3 to the rest of the world. Food (especially vegetables and fruit), chemicals, steel and aluminum, are among the major exports of goods.

2.4 Business environment

In recent years, Greece has taken important steps to improve the business environment. This is reflected in the World Bank's Doing Business 2016 report, published in late-October 2015, where Greece is now ranked 60th (out of 189 countries) in overall ease of doing business, improving from 109th position in 2010. Progress is particularly notable with regard to starting a business and protecting minority investors. At the same time, the overall ranking is still below most EU peers, and areas such as enforcing contracts and registering property remain major obstacles. The country's overall competitiveness, as measured by the World Economic Forum's Global Competitiveness Report, has also improved somewhat in the past year from 91st to 81st (out of 140 countries) but Greece continues to score poorly on components related to the macroeconomic environment, financial stability and labour market efficiency. The new MoU is intended to bring further business environment improvements in line with best EU practices. The authorities are working with the World Bank, which is providing technical advice on reform of investment licencing, and with the OECD on an assessment of competition laws and regulations affecting four key manufacturing sectors.

2.5 Access to finance

Access to debt and equity finance is among the biggest obstacles for most businesses at present. Greece has been experiencing contraction in credit to the private sector since late-2010 due to a combination of a weak macroeconomic environment and the banking sector's ongoing restructuring, including through operational rationalisation and disposal of non-core assets. Between end-2012 and July 2015, the banking system lost €9.2 billion in total assets, including a €1.9 billion contraction in the loan portfolio. As of April 2016, total credit to the economy was 4.3 per cent lower than in April 2015.

The four main Greek banks continue to grapple with deleveraging and significant levels of NPLs, which account for 36 per cent of total loans. Preserving capital and addressing NPL problems have absorbed banks' management capacity and time to date, and have prevented banks from considering new business opportunities. In November 2015, the four banks completed their recapitalisations, raising €9 billion of new capital from private sources and two

of them €5.4 billion from the Hellenic Financial Stability Fund (HFSF), meeting the €14.4 billion capital shortfall identified by the ECB's asset quality review and stress tests in October 2015. As a result, the HFSF share in the ownership of the banks was reduced significantly. Having secured this first step, banks now face continued implementation of their restructuring targets as well as management of their NPLs. Progress on these is expected to increase confidence in the banking system and support the banks' capacity to rebuild their depositor base and restart lending activity.

Access to finance has been a particular challenge for SMEs. According to the latest ECB Survey on the Access to Finance of Enterprises (SAFE, September – October 2015), 30 per cent of Greek SMEs selected access to finance as the most important current problem, compared to an average of 10 per cent across the Euro area, citing deterioration in the banks' willingness to lend. Rejected loan applications and unacceptable loan offers have been far above EU averages. About half of the SMEs surveyed have noted that the availability of trade credit has also deteriorated, despite an increased need for this type of financing. Cash flow management is also challenging as Greek SMEs face the second longest waiting time to get paid in the EU with an average of 93 days.

Since the crisis struck, debt and equity capital markets have not played their fundamental role in providing long term finance to the economy. Availability of private risk capital in the form of equity has also been very scarce in the past seven years. Compared to the pre-crisis period, which registered several large buyout transactions by global private equity funds as well as private equity activity by domestic banks, active private equity capital in Greece has been at near-zero levels in the last several years, with only one new institutional fund of less than €50 million raised during this period. In addition, the domestic institutional investor base, which had large exposure to government bonds, suffered greatly from the sovereign debt crisis, which imposed significant haircuts on Greek government bonds held by private investors. Assets under management of existing funds have shrunk from €30 billion before the crisis, to €6 billion. The recovery of the domestic investor base, particularly towards equity, is critical to the long term prospects of corporates across all sectors, especially for SMEs. However, international investors remain mostly opportunistic. Therefore, bringing long-term and structural investors back to the market may be viewed as catalytic and vital to restoring confidence in the economy.

The authorities have launched several initiatives to facilitate access to capital markets for SMEs, supported by EU funds. The Hellenic Securities Market Commission is considering a "documentation light" regime for smaller denomination bond issuance to qualified investors. Athex, the Athens Stock Exchange has established special listing rules for SMEs (ENA list) and start-up companies (ENA Step) and also considers promoting specialised SME equity and bond open ended funds targeting SMEs from specific sectors such as food and beverages.

2.6 Activities of international organisations and areas of cooperation and complementarity with EBRD

The EBRD will work closely and actively co-ordinate its efforts with the EU, ECB, IMF, the EIB Group, the World Bank Group, Council of Europe Development Bank (CEB), Black Sea Trade and Development Bank (BSTDB) and other donors to complement and enhance the leverage of its investment financing.

The Third Economic Adjustment Programme

For several years, Greece was effectively shut out of international capital markets and the funding under the previous EC/ECB/IMF Adjustment Programmes has provided essential financing for Greece. Under the First Economic Adjustment Programme, agreed in May 2010, the Eurogroup committed to bilateral loans to Greece amounting to €80 billion, supplemented by an IMF Standby Arrangement of €30 billion (a total of €110 billion was disbursed). A Second Economic Adjustment Programme was approved in March 2012. The Eurogroup and the IMF committed the undisbursed amounts of the first programme (€25 billion), plus an additional €30 billion for the period 2012-14. This programme therefore foresaw total financial assistance of €164.5 billion until the end of 2014; €144.7 billion from the newly established European Financial Stability Facility (EFSF), and €19.8 billion from the IMF. The IMF's portion was part of a €28 billion four-year Extended Fund Facility approved at the same time, with an expiry date in March 2016 (a total of €154 billion was disbursed). This means that under the First and the Second Programme a total of €229 – 230 billion was disbursed.

In August 2015, Greece signed a new MoU with the European Commission, which was acting on behalf of the European Stability Mechanism (ESM). The MoU envisaged a third Economic Adjustment Programme, with financial assistance of up to €6 billion, including up to €2.5 billion set aside for bank recapitalisation (so far only €5.4 billion was used for the banks' recapitalisation). Following the completion of certain legislation, an initial sum of €3 billion was disbursed, allowing Greece to clear its arrears to the IMF. A further €2 billion was disbursed in November 2015, along with sufficient funds to the HFSF to ensure the full recapitalisation of two of the four main banks (the other two banks covered their needs in full from the private sector). In late-May 2016, a full staff-level agreement was reached between Greece and the institutions on the first review, paving the way for a further disbursement of funds in June. Following a positive recommendation from the Eurogroup (Eurozone finance ministers), on 17 June 2016 the Board of the ESM authorised a second tranche of €10.3 billion of ESM financial assistance to Greece. A first disbursement of €7.5 billion was made on 21 June 2016; the second tranche of €2.8 billion will be made once further milestones are completed. Participation from the IMF in the programme may occur before the end of 2016 provided sufficient debt relief is granted to put Greece's long-term debt on a sustainable path.

European Commission

Cohesion Policy Funds: For the 2014-2020 period, Greece has been allocated €15.35 billion in total Cohesion Policy funding (€20.4 billion for the 2007-2013 period), out of which €180.8 million have been disbursed as of 20 May 2016. These funds will support the priorities set out in the Partnership Agreement agreed in May 2014, namely (i) supporting and promoting competitiveness and innovation (including by accessing Horizon 2020 Policy Support Facility), (ii) tackling and mitigating the severe effects of the economic and social crisis with particular focus on high unemployment, and (iii) triggering and pursuing reforms to modernise and ensure an efficient public administration. Even though Greece has been among leading countries in the EU in terms of disbursing EU funds, only limited amounts have trickled down to SMEs, due to the high level of NPLs, lack of demand, as well as limitations and bureaucratic obstacles for using these funds (regional allocations, absence of refinancing, and lack of quality collateral).

Structural Reform Support Service (SRSS) was set up in June 2015 and replaced the Task Force for Greece. The new service is in charge of steering and coordinating support for growth-

enhancing administrative and structural reforms to all interested Member States. In Greece, it has been providing technical advice supporting the modernisation of the state and public administration (including tackling corruption) and the delivery of sustainable public finances (tax policy and revenue administration reforms, public financial management and procurement, social safety nets). It is also advising on financial sector reforms (NPL resolution, banks' governance), as well as on the development of structural policies to enhance competitiveness, in cooperation with the World Bank and the OECD (in the areas of labour market institutions, undeclared work, competition, investment licensing, administrative burden, trade facilitation, land use, and privatisation). It is also assisting the Greek authorities to tackle the refugee crisis.

- The **European Commission** has made available a €1.5 million Technical Assistance Trust Fund to support IFIs engagement in Greece, which will be managed by the EBRD and to which IFC has also access. The EBRD will look for additional funding from the SRSS once the existing €1.5 million are close to being fully committed. In order to identify suitable priority areas to leverage further funds, the Bank's resident's office is in close contact with the Athens Office of the **Structural Reform Support Service**.

Cooperation with other International Financial Institutions

The **European Investment Bank (EIB)** committed €1.35 billion in 2015 (€1.5 billion in 2014), mostly in energy, infrastructure and projects co-financed with structural funds. At the end of 2015, aggregate loans granted stood at €17.3 billion, out of which €15.3 billion have been disbursed. Over the past five years, the EIB has invested €7.7 billion in Greece, with a focus on large long-tenor transactions on favourable terms for infrastructure (transport, energy and municipal), and indirect lending to SMEs and mid-caps, backed principally during these crisis years by sovereign guarantees. In 2014, it resumed PPP operations. Since 2012, EIB has stepped up its support to SMEs through the provision of some €140 million of loans to SMEs and mid-caps through the main Greek commercial banks over 2012-2013, and an up to €600 million lending instrument for loans to SMEs and mid-caps (through the main Greek banks) under a first loss component backed by Structural Funds (of €300 million) of which €500 million were signed and €303 million disbursed to date. In addition, EIB set up in mid-2013 a €500 million trade finance facility operated through large international banks. This trade finance facility provides up to 3-year guarantees (4 months on average initially, but terms are gradually lengthening as demand for technical guarantees support is increasing) for Greek commercial banks, covering 85 per cent of the local bank risk (subject to collateral) for letters of credit and other trade finance instruments, issued in favour of SMEs and mid-caps. In total, support to SMEs and mid-caps has reached €40 million over 2012-2014, plus €12 million of trade finance limits to three Greek banks.

In addition, the EIB is committed to increasing support for the corporate, infrastructure and banking sectors by deploying additional risk taking capacity under the European Fund for Strategic Investments (EFSI), however it is not in a position to finance asset acquisition, nor take ordinary equity participations. The EIB may also set-up thematic investment platforms in Greece for investment in infrastructure and innovation, or in SME finance alongside the EIF. Financial instruments or grants under ESIF - EU cohesion policy for Greece could also participate in such platforms.

- Focusing on their comparative advantages, the **EIB and the EBRD** can work together and complement each other. The EBRD could co-invest with EIB in some commercial infrastructure projects where the Bank's specific expertise on infrastructure

commercialisation and private sector participation is needed and where the support of IFIs may be required. Given access to debt and equity finance is among the biggest obstacles for most businesses at present, the EIB and EBRD could also co-invest in the corporate sector, where the EIB corporate growth capital finance can complement EBRD's finance. For privatisations, alongside EBRD's privatisation assistance, the EIB could provide support for corporate investment programmes. The EBRD's Trade Finance Facility – with its exports, import, distribution and factoring guarantees, but also cash advances for SMEs and corporates of various sizes as well as its wider network of confirming banks – is complementing well the EIB scheme while adding additional capacity to the market. Lastly, EBRD and other IFIs could also become partners in the thematic investment platforms the EIB is planning to set-up in Greece.

The European Investment Fund (EIF), the SME risk financing arm of the EIB Group, has been actively supporting Greek SMEs since 2010 and portfolio guarantees were signed with local banks, supporting both working capital and investment needs. On the equity side and acting through the JEREMIE programme, EIF helped establishing four ICT funds, two of which operate in the seed and two in the early stage. The JEREMIE investment to these funds totalled approximately €50 million whereas over €20 million were contributed from private investors. EIF also led the establishment of Greece's first ever mezzanine fund and a new growth equity fund. EIF committed a total of €50 million to these two funds. More than 3,200 enterprises benefitted from these financial intermediaries with aggregate disbursement exceeding €20 million.

- In a relatively underdeveloped private equity market, synergies are being explored between **EIF and the EBRD** with particular attention on complementary actions. EIF and EBRD have invested in Diorama Equity Fund and the two organisations could consider further joint participations in future equity or venture capital funds transactions, hence facilitating significantly first closing efforts undertaken by the fund managers which as of to date have been constrained by the limited investment appetite of private investors.

The **IFC**, a member of the World Bank Group was requested to re-engage in Greece to directly support the private sector for a limited timeframe and for selected sectors, where its intervention is deemed to be significant. The IFC invested in all four systemic banks during the recapitalisation for an aggregate amount of €150 million. Other potential areas of intervention include NPLs and credit and trade lines, agribusiness and manufacturing, private sector participation in energy, infrastructure and logistics, as well as supporting foreign direct investors and IFC's existing manufacturing clients.

- The strong alignment between the **IFC and the EBRD's** priority areas for engagement will help generate a critical mass of projects for broader impact. At the same time, investment needs in those areas remain vast, and the two institutions can therefore effectively complement each other, and share risk in some cases on private sector investments, as they successfully did by co-investing in the Greek banks recapitalisation.

The **Black Sea Trade and Development Bank (BSTDB)**, headquartered in Thessaloniki, has limited exposure to Greece, with €42 million of operating assets as of end-2015 (€208 million cumulative investment since 1999 through 15 operations). Activity has declined since the

crisis, with one or two operations per year, focused on sectors such as energy, building materials and information technology.

- Leveraging its experience working with the **BSTDB** on Hygea Hospitals in Albania and Pulkovo Airport on Russia, EBRD will explore investment cooperation opportunities.

After several years of limited activities, the **Council of Europe Development Bank (CEB)** restarted its activities in Greece in 2015 with a €2 million loan to the North Aegean Region to finance accommodation facilities for migrants and refugees who have been arriving in Greece in unprecedented numbers. CEB intends to continue enhancing its activities in Greece. In September 2015 it established the Migrants and Refugees Fund (MRF) to support its Member States in addressing the escalating migrants crisis. So far, two MRF grants totalling €3.4 million, to be channelled through IOM and the Greek Authorities, have been approved in Greece to finance emergency assistance and reception facilities. As of 2014, the CEB had no outstanding loans in Greece (€23 million in 2013).

The World Bank has been supporting the investment licensing process, guaranteed minimum income and social welfare reforms, three key structural benchmarks in the MoU. It is also considering extending its assistance to several additional reform areas (land use, logistics and rail corridors, broadband connectivity, NPL resolution, structural fund absorption, as well as anti-money laundering and terrorism financing). The World Bank is also preparing an analytical study on refugees entering Greece via the island of Lesbos.

The **OECD** is providing support in the implementation of certain areas of the MoU, such as developing a competition assessment with recommended reforms (OECD competition toolkit focusing on foodstuff, beverages, petroleum products, wholesale trade, construction, e-commerce, media and pharmaceutical), helping reduce administrative burden (focus on one-stop shops for business and recommendations on environment and fuel trader licenses), establishing a new central purchasing scheme for public procurement, and preparing an assessment of the Greek education system.

- The Bank will ensure that its policy dialogue complements well the reform advisory engagements of other IFIs, in particular the SRSS, World Bank, OECD and EIB.

2.7 Social Context

The seven-year economic crisis has had a traumatic effect on Greek society. Elevated levels of unemployment (24.9 per cent in 2015) and inactivity were accompanied by sharp cuts in wages, both in the public and private sector, estimated in the latter at 40 per cent. Thirty-six per cent of the population are at risk of poverty or social exclusion and almost 30 per cent of young people not in employment, education or training, one of the highest rates in Europe.

According to the UNDP 2015 Human Development Index (HDI), Greece ranks 29 out of 187 countries, a high human development ranking by comparison to EBRD's other countries of operations, however below the average within its group of high-income OECD countries. Educational attainment is relatively high, with average years of schooling among Greek youth at 12.9 years, which is on par with the average years of schooling observed in many advanced economies. The share of young people (aged 15-24) with no schooling is below 0.5 per cent and tertiary attainment continues to rise, with 28 per cent of Greek adults (aged 25-64) holding a tertiary qualification.

However, youth unemployment (among the active group of individuals aged 15-24) is a particularly severe problem, and reached 60 per cent in mid-2013, double the rate of January 2010. It has been slowly falling since then to 52 per cent in 2014, which is only slightly above that of Spain (at 53 per cent), but still substantially higher than the EU 28 average of 22 per cent. Despite the high levels of educational attainment, there is a significant mismatch between the skills of young labour market entrants and the requirements of the labour market that predates the crisis. Higher education is no guarantee of the possession of skills that are demanded by employers and school-to-work transition is slow. This applies particularly to university graduates who are forced to compete for a very limited number of available jobs, resulting in 49 per cent not transferring into employment after graduation. At the same time, employers complain about a lack of suitable candidates with adequate technical and vocational qualifications, particularly in the construction, business and service sectors (including tourism). The low supply of young people with vocational and technical qualifications can be attributed to the deteriorating quality of vocational education, the poor image of 'blue collar' jobs as well as health and safety risks in the workplace. This creates challenges for the education system and the need for work-based learning opportunities to establish progression routes into formal employment.

According to EBRD's assessment of gender inclusion gaps in 2015, Greece is characterised by medium gaps in relation to access to finance and labour policies, and large gender gaps on employment, legal regulations and social norms. There is a significant gender dimension in labour force participation, where the share of women in employment is 41.1 per cent as compared to 58 per cent for men, both well below the EU average.

Substantial regional disparities persist and have been amplified in recent years because of the crisis. Greece experiences wide disparities in income distribution, access to services and economic opportunities across its regions, particularly between the large industrialised cities (Athens and Thessaloniki), the agricultural regions (Crete, Eastern Greek Macedonia and Western Greece) and the Cycladic Islands. The unemployment rate is highest in Central Greek Macedonia at 28.7 per cent. Exclusion of the Roma communities, which represent around 3 per cent of the population in Greece, constitutes a persistent issue of social and economic inequality in and around urban centres.

The informal economy of Greece is one of the largest in Europe, exceeding 20 per cent of the country's GDP. According to the International Labour Organisation (ILO), undeclared work tends to be performed by young people, women homeworkers and immigrants, primarily in the sectors of textile, tourism, transport and household services.

Greece remains the main transit point for refugees reaching Europe. According to the UNHCR more than 1 million seaborne refugees and migrants arrived in 2015, of which 856,723 entered through Greece (60 per cent were Syrian refugees with the remainder coming mainly from Afghanistan), putting pressure on an already strained economy struggling with unemployment. The recent influx of refugees has been particularly disruptive to the tourism industry on some of Greece's small islands. It should be noted, that most migrants do not seek asylum in Greece but transit through the country as an entry point into the EU (from 2015, 3-4 per cent of immigrant are residing in Greece). According to the IMF, Greece's additional public spending amounted to 0.17 per cent of its GDP in 2015, less than in many countries serving as final destinations for refugees, but migration-related spending pressures have increased in the early part of 2016.

2.8 Energy efficiency and climate change context

Greece is a highly energy-dependent country, with oil imports accounting for over half of its energy consumption. In addition, use of energy per unit of GDP has deteriorated over the last years, significantly exceeding EU average values. This has resulted in high carbon intensity driven by high dependency on oil (in the transport, industry and building sectors in particular) and lignite (50 per cent of electricity is produced from lignite/coal fired power plants), waste of energy at the end user level, and obsolete infrastructure. Many lignite/coal fired plants are in need of modernisation or scheduled to close down. In addition, the majority of the Greek islands are not connected to the mainland electricity network and rely primarily on old and inefficient oil based generators to cover their demand, adding a significant cost and environmental burden as well as risks to the security of supply.

In the residential sector, households heating in Greece have poor performance when compared to other EU member states. Most dwellings using oil or wood, which account for 85 per cent of the energy consumption for heating, need to upgrade or replace their appliances and improve their insulation. In addition more efficient cooling appliances are also needed, as in the summer months these appliances account for a significant share of electricity demand. Lastly, there is a lack of performance based energy service companies (ESCOs) schemes. ESCOs could also help consumers to finance the upfront investments for energy efficiency improvements and in particular in the street lighting and public buildings sector, where important saving potential can be realised.

There is therefore a substantial potential for energy efficiency improvements and renewable energy development in Greece across key sectors of the economy including industries such as tourism and the SME sector. Improving energy efficiency is a key priority in Greece as it offers large cost-effective potential for mitigating climate change, improving competitiveness for companies, saving on energy bills for consumers, and improving energy security. Greece has a large potential for wind and solar energy, but the use of renewable energy remains well below the country's potential.

In the meantime, despite a referral to Court for failing to comply with the Energy Performance of Buildings Directive, there has been appetite for reforms in energy efficiency from the Greek Government, which has committed to aggressive targets in line with the new EU 2030 Energy and Climate Change policy, namely a 40 per cent GHG reduction target, 30 per cent binding renewable energy sources target (beyond the binding 27 per cent of the EU), and 30 per cent EE binding target. Specific measures will be set to promote wind parks, geothermal and biomass as well as ambitious targets for smart grids penetrations and interconnections between the islands and mainland. Furthermore, underfunded municipal and public infrastructure, in terms of waste management, wastewater and public transport systems continues to be a challenge and further support to comply with EU standards will be needed.

Greece's Sixth National Communication to the UNFCCC (2013) states that the country is vulnerable to a range of climate change impacts including temperature increases and extreme heat events, increased intensity and distribution of landslides and floods, and sea-level rise with its associated impacts on coastal erosion. Greece experiences water scarcity across the mainland and its islands especially during the summer months. Water efficiency across the industrial, agricultural as well as the residential sectors is a top climate change adaptation priority. Furthermore, there is potential to develop climate resilience measures in critical

infrastructure including ports and coastal infrastructure, as well as energy generation and transmission, the built environment and agricultural value chains.

3 STRATEGIC ORIENTATIONS

3.1 Strategic Directions

The Greek economy has been in a deep crisis since 2008 and the pace of reforms has been uneven since then. This has left Greece facing significant transition challenges across a number of sectors, comparable to those in many other EBRD countries of operation. A combination of output, funding, demand and investment capacity gaps, together with investors risk aversion, are preventing a pick-up in private sector investment. This context has brought EBRD to Greece for a time-bound period with the overarching objective to contribute to the recovery and enhance the resilience of the Greek economy by strengthening the role of the private sector, acting as catalyst for investment recovery, supporting reforms, and deepening regional integration. Focusing on areas that leverage its core capabilities and where it is most additional, and in coordination with other IFIs active in Greece, the Bank will be well placed to address these challenges in this country strategy. Consistent with the decision of the Board of Governors that the Bank shall not engage in new operations in Greece beyond the end of 2020, this country strategy will guide the Bank's engagement in Greece until 2020. Given the limited time for operations, the Bank will make every effort to front-load its activities, where possible and subject to supportive market conditions.

- Priority 1: Support the resurgence and enhance the resilience of the private sector through a shift to a more export-oriented growth model:** Seven years of deep recession have put substantial stress on the private sector. Starved of capital and facing a fall in private consumption, firms have halted most investment programmes, with capital formation reaching an extraordinarily low 10 per cent of GDP in 2014 vs. 27 per cent in 2007. Exporters, many of which are SMEs, have particularly suffered during the crisis and Greece's export/GDP ratio is lagging by regional standards. At the same time, companies which have survived the crisis are leaner and in a better position to compete on external markets. The significant wage reductions and cost-cutting of recent years is enhancing competitiveness, provided firms can re-access finance. In addition, the product and service markets liberalisation measures pursued by the authorities are supporting this shift to an export-led growth model. In that context, the Bank will support the revival of economic growth by providing debt and/or equity primarily, albeit not exclusively, to companies with export growth potential. This is expected to demonstrate to local and international investors the viability and attractiveness of doing business in Greece. The Bank will also support improvement in resource efficiency and governance standards, as well as skills transfers, training and advice on export readiness, to increase the resilience of Greek companies to economic volatility.

How could success look like in 2020: by 2020, the Bank will seek to have contributed to increase and diversify exports, helped mobilise co-investors in the corporate sector, including through a pick-up in private equity activity, and contribute to an increase in productivity, resource efficiency and market competitiveness of domestic-producers of higher value goods and services.

- Priority 2: Support the stabilisation of the financial sector and deepen intermediation to unlock private sector access to finance:** Access to finance is among the most significant concerns for businesses, as credit to the economy has been in continuous decline since the crisis began. The banking sector continues to grapple with significant levels of NPLs, which account for 36 per cent of total loans. The four systemic banks have been recapitalised, with the support of EBRD, and are able to resume lending to the real economy, provided they can improve their liquidity positions, to which end the Bank will offer a range of financing products including trade finance, as well as finance for SME and resource efficiency and value chain finance facilities. Additional support will come through the EBRD's investments in NPL servicing and/or workout and restructuring platforms, which will enable banks to concentrate on new lending, as well as potentially participating in significant individual restructurings alongside local banks and specialised funds. The EBRD will also contribute to improve corporate governance in the banking sector, by nominating strong independent candidates to the boards, by being an active shareholder and through policy advisory so that the four banks can provide the real economy with finance again. In addition, the Bank will also support the deepening of financial intermediation for the real economy beyond bank lending, in particular capital markets, by acting as a key investor for corporate and bank bond issuances.

How could success look like in 2020: by 2020, the Bank will seek to have contributed to an increase in private sector credit and a reduction of NPLs. It will have supported higher standards of corporate governance and better quality investment decisions in the banking sector. It will also have contributed to improve access to capital markets and alternative sources of finance for banks and corporates, including mid-caps.

- Priority 3: Support private sector participation and commercialisation in the energy and infrastructure sectors to enhance regional integration and improve quality of utility services:** Through its geographic position, Greece is a 'natural' trade and investment partner for many of the Bank's surrounding countries of operation. The potential for regional integration can be unlocked further through infrastructure and energy privatisation as well as commercialisation of public utilities, in which the Bank has considerable experience and can offer support. This will allow Greece and its neighbours to deepen their trade and infrastructure linkages, contribute further to regional energy integration, and improve the quality of utility services. The Bank will offer its support both for privatisations and for alternative commercialisations, where these lead to improved quality of public services, increased competition and regional integration. The Bank will also engage in policy dialogue to support market reforms in the energy sector with the view to ensure that the regulatory and institutional frameworks are conducive to investment.

How could success look like in 2020: by 2020, the Bank will have played a role in progressing privatisations and increasing private sector participation in the provision of energy and infrastructure services. It will have contributed to an increase in regional energy and transport flows, logistics value added and improved efficiency and the financial viability of utilities.

3.2 Key challenges and Bank activities

Priority 1: Support the resurgence and enhance the resilience of the private sector through a shift to a more export-oriented growth model

Transition challenges

- Companies across all sectors suffer from high leverage and low liquidity, and require restructuring to realise their growth potential.
- Access to equity capital provided by local and foreign investors is needed, especially for companies with good growth prospects but already high levels of debt.
- Standards still lag behind in certain areas, in particular resource efficiency and corporate governance, and hinder firms' competitiveness. Resource efficiency is a challenge for many companies, but in a context of highly constrained lending, it is rarely prioritised in investment plans.
- The liquidity crisis has created dislocations in the agribusiness value chain, impeding expansion potential.
- While progress has been made in recent years in improving the business environment, cross-country surveys point to continuing problems with registering property and enforcing contracts, as well as to lengthy processes for permits and licenses.
- The private sector has been hit especially hard in some regions of the country, and associated problems of unemployment (especially among youths) and poverty are particularly severe in these cases.

Operational focus

- The Bank will selectively engage with larger and mid-cap corporates as well as SMEs that have a sound core business and strong growth potential, but may require financial and/or operational restructuring. The focus will be on companies with export growth potential (including tourism) as well as through support for cross-border transactions, in close cooperation with EBRD's other resident offices in the extended region. The Bank will provide direct support with debt (including capital market instruments) and equity finance. Where possible, the Bank will work alongside local commercial banks and private equity and investment funds whilst thereby mobilising other co-financiers, with the view to signal the benefits of successful restructuring. There is also substantial potential for direct financing in industrial resource efficiency.
- To address the challenges in the private equity industry, the Bank will seek to rebuild capacity by supporting institutional quality fund managers that target high-growth, export-oriented sectors or restructuring situations while promoting value creation and best practice in governance and standards.
- The Bank will seek to support the knowledge economy by financing innovative firms (e.g. technology, internet, software) through direct investments or via equity/venture funds, and providing advice on innovation to small businesses as well as on broadband connectivity.
- Provided funding can be identified, advice for small businesses in selected sectors or regions could be deployed to boost the competitiveness of SMEs through provision of know-how with a focus on export readiness and resource efficiency.
- Working directly and through its partner banks, the Bank will seek to support value chain financing in the agribusiness sector, to restore and develop linkages between

processors and smaller suppliers which have been put under stress by the liquidity crisis. The Bank will also seek to support improved operating standards, export capabilities, resource efficiency and better corporate governance in this sector.

Policy dialogue

- The Bank will seek to provide support for initiatives aimed at improving the marketing of agricultural products, potentially under a “Greek” brand (e.g., Geographical Indications), which is also highlighted in the MoU as requiring support.
- The Bank will engage the authorities in a constructive dialogue to tackle unemployment amongst youth, through the promotion of vocational training, enhanced work based learning and the facilitation of school-to-work progression routes in association with its investment projects. This will include structured dialogue between educational authorities and the private sector to enhance training provision and skills standards in line with employer requirements, which is an area of focus of the MoU.

Theme 1: Support the resurgence and enhance the resilience of the private sector through a shift to a more export-oriented growth model

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
1.1	Companies suffer from high leverage across all sectors and require restructuring to realise their growth potential. This is a factor impeding exports, which remain low by regional standards.	Demonstrate the benefits of successful financial and operational restructurings.	<ul style="list-style-type: none"> ▪ Selectively engage (debt and equity) with corporates and SMEs, in particular companies with export potential that have a sound core business and strong growth potential but may require financial and operational restructuring, including through M&A. ▪ Support institutional quality fund managers that target high-growth, export-oriented sectors or restructuring situations promoting value creation and best practice in governance and standards. 	<ul style="list-style-type: none"> ▪ Evidence on improvements in clients' efficiency or financial performance (<i>Baseline – established at projects approval</i>) and a qualitative account of the demonstration effect (<i>Baseline – N/A</i>). ▪ Volume of investment by private equity funds in which the Bank has invested (<i>Baseline – established at projects approval</i>) and a qualitative account of replication and value-add (<i>Baseline – N/A</i>).
1.2	Standards still lag behind in certain areas, in particular resource efficiency and corporate governance, and hinder firms' competitiveness.	Promote resource efficiency, improve governance standards, support innovation and skills enhancement, with a particular focus on exporters, agribusiness, and knowledge economy.	<ul style="list-style-type: none"> ▪ Direct and intermediated investments supporting resource efficiency, innovation and corporate governance improvements. ▪ Advice to SMEs on competitiveness, innovation, resource efficiency, and export readiness (subject to funding). ▪ Promote vocational training opportunities between private sector clients and educational institutions, with a particular focus on young people. 	<ul style="list-style-type: none"> ▪ Evidence of introduction of higher value process and/or product innovation by clients along the existing value chain in corporate sectors (<i>Baseline – 0</i>). ▪ Evidence of successful introduction of best available technology and/or environmental standards by the clients and/or other players (<i>Baseline – 0</i>).
Context indicator: Exports as % of GDP (baseline 2014: 30.5%)				

Priority 2: Support the stabilisation of the financial sector and deepen intermediation to unlock private sector access to finance

Transition challenges

- The crisis has hit the banking sector very hard and lending to the real economy has been on a continuous downward path over the past six years. Once recapitalised, banks need to restore deposits in order to be able to reduce their reliance on Emergency Liquidity Assistance (ELA), continue their restructuring, restart lending and improve governance.
- The current level of NPLs (about 36 per cent) is unsustainable and a key impediment to credit growth. Restructuring, turnaround or closures are long overdue but have so far been hindered by inadequate bankruptcy and restructuring legislation, coupled with the reluctance of banks to digest the impact of potential write-offs or additional provisioning.
- Exporters and importers have struggled, especially during the past few months of capital controls, as the paucity of trade facilitation mechanisms and other trade guarantee programmes prevents them from finding or maintaining partnerships abroad.
- Apart from a handful of top names, Greek banks and mid-corporates have been cut-off from capital markets.

Operational focus

- Having contributed to the stabilisation of the banking sector through participation in the recent bank recapitalisation, the Bank will seek to provide, subject to acceptable risk exposure, financing targeted at resource efficiency, SMEs, and value chain finance in order to help restart lending to the real economy, in close coordination and complementarity with other IFIs active in the banking sector, in particular EIB. This may be combined where needed with technical assistance to the underlying borrowers or to develop specific value chain interlinkages.
- The Bank's Trade Finance Facility, with its export, import, distribution and factoring guarantees, but also cash advances for SMEs and corporates of various sizes, and its wide network of confirming banks, will provide more capacity and be complementary to existing schemes and support the reopening of trade lines by foreign commercial banks.
- EBRD can assist banks in managing their NPLs through investment in specialised servicing, workout and/or restructuring platforms, in the divestment of portfolios of NPLs or by providing finance alongside strategic investors for single, large NPLs which require comprehensive restructuring, as well as through investment in specialised turn-around equity funds.
- The Bank will continue to work with the systemic banks to facilitate non-core asset disposals required under their respective restructuring plans. This could include insurance companies as well as divestment/consolidation of subsidiaries in the Bank's region of operation.
- To support the recovery of the equity and debt capital market, rebuild the confidence of domestic institutional investors and mobilise a wider investor base, the Bank will act as a key investor in bond issuances by corporates, banks and listed investment vehicles, as well as in corporate equity, that may not otherwise meet ready acceptance in the market.

Policy dialogue

- The Bank is providing support to the Hellenic Financial Stability Fund (HFSF) in conducting a comprehensive review of the boards of each of the four systemic banks, which is a requirement of the MoU, and contribute to improved corporate governance, through the provision of an experienced nominee on each of the bank's boards, in coordination with IFC and by being an active shareholder.
- In response to a request by the IMF and in relation to Greece's prior actions on resolution of NPLs, the EBRD will contribute to the implementation of legislation to establish a regulated profession of insolvency administrators. A first diagnostic review has been completed, with a view to providing more intensive support in 2016.
- The Bank will engage with the government on identifying the best way to support SMEs finance, possibly through the establishment of a comprehensive IFI-wide SME financing facility with credit enhancement through the optimal use of EU structural funds.
- The Bank will seek to support potential opportunities to further integrate capital markets in the region, including for promoting regional solutions for improved trading, clearing and settlement solutions, as well as support initiatives that can facilitate SMEs and corporate access to capital markets.

Theme 2: Support the stabilisation of the financial sector and deepen intermediation to unlock private sector access to finance

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
2.1	Credit and liquidity have been severely constrained since the crisis took hold. Now that the banks have been recapitalised, they need to restart lending, reduce reliance on ELA funding and improve governance.	Contribute to bringing back confidence in the banking sector, and facilitate efficient private sector credit creation.	<ul style="list-style-type: none"> Assist HFSF with its review of boards of the four systemic banks and provide experienced nominees. Provide targeted financing (e.g., trade facilitation, resource efficiency, value chain finance) with capacity building. Advice on and support establishment of IFI-wide SME financing facility with credit enhancement through optimal use of EU structural funds. Facilitate banks' assets disposal (e.g. insurance, SEE subs) and banks' privatisations. 	<ul style="list-style-type: none"> Number and volume of total loans and leases extended by client banks/ leasing companies to target segments (SMEs, resource efficiency, trade). (<i>Baseline –established at projects approval</i>) Evidence of introduction of good corporate governance and improved lending and business standards in banks. (<i>Baseline – N/A</i>)
2.2	The current level of NPLs (about 36%) is unsustainable and is a key impediment to credit growth.	Support market mechanisms allowing banks to resolve NPLs.	<ul style="list-style-type: none"> Investment in specialised NPL servicing, and/or workout and restructuring platforms and direct support to single, large corporate restructurings. Offer support to the authorities for the implementation of legislation to establish a regulated profession of insolvency administrators. 	<ul style="list-style-type: none"> Decrease in sector-wide NPL ratios, and, as appropriate, attribution to the Bank's activities. (<i>Baseline –36% as of Q2016</i>)
2.3	Apart from a handful of top names, Greek banks and mid-corporates have been cut-off from capital markets.	Support access of corporates, including mid-caps, and banks to capital markets.	<ul style="list-style-type: none"> Act as a key investor in corporate and bank bond and equity issuances that may not otherwise meet ready acceptance in the market. Support potential opportunities to further integrate capital markets in the region, including trading, clearing and settlement solutions. 	<ul style="list-style-type: none"> Evidence of improvement in equity (e.g., number of new listings, trading volumes) and debt markets (e.g., increased volume, lower yields, longer maturities) and, as appropriate, attribution to the demonstration effect of EBRD capital market transactions. Baseline: –Value of total stocks traded as % of GDP (baseline 2014: 14%, source: WDI World Bank). Outstanding amounts of debt securities issued by private corporates in the domestic market (baseline March 2016: €1.7bn, source: Bank of Greece)
Context indicator: private sector credit as % of GDP (baseline 2015: 113%)				

Priority 3: Support private sector participation and commercialisation in the energy and infrastructure sectors to enhance regional integration and improve quality of utility services

Transition challenges

- Greece's integration into regional markets has not fulfilled its full potential. Regional market forces and cross-border trade and investment could be accelerated by further development of Greece's transport and energy interconnections to facilitate cross-border trading and integration, and by the development of Greece's potential as one of the region's important logistics hubs.
- State involvement in the economy in Greece remains extensive, in particular in transport and energy infrastructure. The lack of private sector involvement in these areas to date has held back Greece's potential as a logistics hub, energy and trading integration with the region. Some important privatisation opportunities exist, which will require support in the years ahead and restructuring in some state-owned enterprises (SOEs) may be necessary before privatisation. Any privatisation measures will fully respect the EU's competition rules to ensure the proper functioning of the energy markets in Greece.
- There have been a number of PPP projects both in the municipal and the transport sectors, but some of the existing projects have faced various problems during the implementation phase. Lessons from global best practice should be used to improve capacity to develop viable PPP projects.
- The energy sector remains largely unreformed and dominated by state-owned utilities. An extensive modernisation programme and market reforms are needed in order to integrate fully with the EU.
- Further development of low carbon generation, the use of best available technologies and the promotion of renewable energy support systems, at least-cost to the consumer, are needed.
- Significant inefficiencies exist in the delivery of municipal services, particularly in the field of solid waste.

Operational focus

- The Bank will support the Government's privatisation programme, particularly in the transport and energy sectors. The Bank may also consider providing support when viable and convincing SOE commercialisation models have been agreed as alternatives to privatisation.
- The Bank will support transport, logistics and energy infrastructure enhancing Greece's integration with regional markets, including gas and power interconnections. Where possible it will co-finance with other IFIs, and seek to engage in well-structured PPPs.
- In support of recent progress on gas market liberalisation, the Bank will seek to finance private distributors.
- The Bank will promote transition to a low carbon economy through private sector investment in renewable energy and energy efficiency.
- In close co-operation with other IFIs, the Bank will consider engaging, selectively, with municipalities and municipal enterprises with a view to enhance the quality, governance, as well as operational and resource efficiency of their services, mainly through the use of PPPs.

Policy dialogue

- The Bank will support the reforms in the natural gas market aiming to the unbundling of distribution, transmission and supply as well as market liberalisation in line with the EU competition rules.
- The Bank will seek to provide support to the new framework for renewable energies, aiming to ensure financial sustainability for renewable energy investments.
- The Bank will engage in policy reform dialogue on oil and gas licensing with the regulator, with the view to ensure that the regulatory and institutional frameworks are conducive to investment. It will also seek to support improved environmental regulation and the implementation of the EU Offshore Safety Directive, which although already transposed into law, needs additional work to ensure that it is appropriately implemented.

Theme 3: Support private sector participation and commercialisation in the energy and infrastructure sectors to enhance regional integration and improve quality of utility services

	CHALLENGES	OBJECTIVES	ACTIVITIES	TRACKING INDICATORS
2.1	Need to mobilise the private sector to address the lack of investment in transport infrastructure and enhance regional linkages.	Support further integration of Greece in the region through promoting commercial solutions to developing key transport links and logistics infrastructure.	<ul style="list-style-type: none"> Provide support to Government's privatisation/PPP programmes in airports, road, ports, rail and real estate. 	<ul style="list-style-type: none"> Evidence of infrastructure services that were successfully outsourced to private sector, through privatisation, concession, PPP, lease of assets, management contracts, and as appropriate, attribution to the Bank's activities. (<i>Baseline – 0</i>) Evidence on expansion of regional cross border transport, logistics or energy infrastructure by the Bank's activities. (<i>Baseline – 0</i>)
2.2	An extensive modernisation and commercialisation programme is needed in the energy sector.	Support energy market restructuring, increased regional inter-connectivity, lower carbon emission, and more efficiently managed assets.	<ul style="list-style-type: none"> Provide support to Government's energy privatisation programme, as well as SOE commercialisation agreed as alternative to privatisation. Support gas and power infrastructure for further integration into regional markets. Provide financing for private renewable energy producers. Policy dialogue on a new framework for renewables, and unbundling of gas distribution, transmission & supply in line with EU competition rules. 	<ul style="list-style-type: none"> Evidence of CO2 emissions reduction as result of the Bank's operations (<i>Baseline – 0</i>) Qualitative account of progress under gas market liberalisation and as appropriate, attribution to the Bank's activities. (<i>Baseline– N/A</i>)
2.3	Significant inefficiencies exist in municipal utility services delivery.	Improve quality of municipal services through commercialisation, better governance and improved operational and resource efficiency.	<ul style="list-style-type: none"> Investments in municipal utilities to support operational efficiency and governance, including through PPP. 	<ul style="list-style-type: none"> Evidence of improvements in efficiency and service delivery on revenue side (including tariff increases) and cost/profit side (cost reductions and profitability improvements) at client level. (<i>Baseline – established at projects approval</i>)
<ul style="list-style-type: none"> Context indicator: Annual Freight transport (baseline 2014: 19 233 million tonne-kilometers). Source: OECD Freight transport. Total energy exports/imports (baseline 2013: -14618ktoe/30790ktoe) Source: International Energy Agency 				

3.3 Potential Risks to Country Strategy implementation

Successful implementation of the proposed strategy is based on the following set of key assumptions, which are expected to result in a pick-up in growth to 2-3% after 2017:

- The Third Economic Adjustment Programme is implemented broadly on time, enabling smooth disbursement of the Financial Assistance and Greece's renewed access to ECB's QE programme (expected in 2016).
- Key reforms are carried out yielding their expected competitiveness benefits.
- There is progress in the privatisation process.
- The clearance of public arrears to the private sector continues.
- Capital controls are gradually eased and ultimately lifted completely by end-2017.
- The banking sector remains adequately capitalised and there is progress on NPL resolution.
- There is some resumption of private sector investment including FDI.
- Capital markets progressively reopen for the private sector and the sovereign.

However, risks to implementation are significant and could result in the economy falling into recession again:

- Political risks remain elevated. Greece reached an agreement with its creditors last year to stave off default, and after some delays a full staff-level agreement has been reached end of May 2016 on the first review of the current programme, but the agreed reforms remain deeply unpopular. Prime Minister Tsipras gained some latitude in September 2015 when Syriza's most leftist faction split from the party improving the overall support for reforms.
- Delay or failure to implement the MoU would cut Greece out of the Financial Assistance, and/or triggering macroeconomic instability. Lack of progress in privatisations would limit opportunities for the Bank in the infrastructure and energy sectors.
- The ability to service government debt remains precarious. At around 180 per cent of GDP, Greece's general government debt is among the highest in the world. While interest rates are low and maturities long, Greece remains dependent on official financing to meet its needs. Delays in reforms or breakdowns in negotiations could reignite concerns about Greece's future in the Eurozone.
- The fundamental credit position of the Greek banks remains weak and is vulnerable to the country and economic backdrop. Shoring up deposits remains a key focus which is challenging whilst capital controls remain in place. Strengthening of capital bases has been positive, though it remains unclear whether this will be adequate to provide a sufficient cushion for potential future asset quality deterioration. NPLs are already significant and resolution challenges exist despite an improving framework.
- Liquidity issues are prevalent with only short term funding available to a highly leveraged corporate sector (SME in particular). Consequently, cash flows that have remained stagnant at best have been directed at deleveraging to reduce annual debt renewal risk rather than into productive investment.
- A significant slowdown in key export markets (Turkey, Italy, Germany, south-eastern Europe), would put drag on Greece's recovery.
- Intensification of the refugee crisis would place a significant additional burden on Greece and likely have negative political and economic consequences.

3.4 Environmental and Social Implications of Bank Proposed Activities

A challenge for Greece is to manage environmental and social resources within the context of the current budgetary constraints. Major cities are facing increased traffic congestion, air pollution and municipal and industrial waste problems. There is increasing demand for water, often in areas experiencing water scarcity, which has led to over-abstraction impacts such as salinization of ground water aquifers. There is a need for improved transport, waste and water infrastructure. The privatisation of public sector services will need to include careful consideration of any proposed changes in tariffs to ensure they are affordable and consider retrenchment issues during any restructuring.

Greece is home to a number of protected and endangered species and there is an acknowledged need to adopt a national biodiversity strategy. Coastal areas in particular are facing degradation, partly due to tourism. The country is home to many cultural heritage assets of international significance. Project impacts on any cultural heritage sites and protected areas will need to be carefully assessed and impacts avoided or mitigated appropriately, taking stakeholder views into account.

Current challenges in health and safety include the development and promotion of an accident prevention culture considering all stakeholders and social partners; the assessment of risks in the workplace with particular focus towards young workers (due to their inexperience and limited access to safety training) and emerging risks and methods to control them; and targeting support towards small and medium size enterprises who are generally more vulnerable due to their limited financial resources and internal capacity.

Road safety is of particular concern. The WHO estimates the number of road traffic fatalities in Greece is 1,013 per year (2013) and that Greece has one of the highest road deaths rates in the EU. Current challenges include improving existing road infrastructure; targeting the road networks with the poorest safety ratings; enforcing driving regulations; and providing education and information to all road users in order to improve the current standards of driver behaviour.

The EBRD will work closely with its clients to minimise the impacts and maximise benefits of projects especially for those who are considered to be vulnerable. This includes refugees, youth, the elderly and the long term unemployed. The Bank's environmental and social due diligence will be designed to ensure that vulnerable groups, who might be disproportionately affected by a project, are identified. This will enable both adequate mitigation measures to be put in place as part of the project design as well as interventions that will enhance these groups' ability to benefit from a project. Moreover, stakeholder engagement will be conducted in a culturally sensitive manner, aimed at including the participation of those groups who might otherwise not have a voice.

Women are more likely to be affected by cuts to the public sector. A full assessment of human resources and labour policies needs to be undertaken to ensure all have fair and safe working conditions.

These issues will need to be reviewed in the context of individual project appraisals and in line with EBRD's Environmental and Social Policy and Performance Requirements, which will apply to all projects carried out in Greece. Specific capacity building of environmental

and social risk management through implementation of the Bank's projects will add to this process and will assist in the process of alignment with EU Directives and Greece's achievement of the Sustainable Development Goals.

Where necessary, the EBRD will also provide training to local banks to ensure that they are capable of implementing environmental and social due diligence procedures in accordance with the Bank's own stringent FI requirements, thus promoting sound development practices within the MSME sector.

ANNEX 1 – POLITICAL ASSESSMENT

Greece is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers, checks and balances in the political system, and guarantees for fundamental rights and for a meaningful role of civil society are largely in line with international and European standards. Elections are conducted in a manner deemed by the OSCE to be free and in line with international standards. Greece has been a member of the European Union since 1981.

Free Elections and Representative Government

Free, fair and competitive elections

The existing legal framework provides a sound basis for democratic elections in accordance with international standards, as assessed by the OSCE's Office for Democratic Institutions and Human Rights (OSCE/ODIHR). However, certain aspects of the legislation could benefit from further refinement. The OSCE/ODIHR has, in particular, recommended introducing in the electoral law explicit provisions related to international and domestic non-partisan election observation at all phases of the electoral process, which are currently lacking.²

Elections are generally competitive, starting with candidate registration procedures offering a diverse choice to the electorate, and are conducted in a calm atmosphere. The candidates are able to campaign freely. There is a high degree of public trust and confidence in the impartiality, professionalism, and transparency of the election administration. The last general elections that were observed by OSCE/ODIHR (June 2012 elections), were assessed positively. Although OSCE did not observe early general elections in January and September 2015, there have been no reports of major irregularities by other domestic and foreign observers.

Under the 1975 Constitution, which marked the beginning of the third Hellenic Republic, Greece is a parliamentary democracy. A unicameral legislature, which is composed of 300 members, is elected for a term of four years based on a proportional system with compensatory seats. The amendment, adopted in 2008, increased to 50 the number of "bonus" seats awarded to the party gaining the plurality of votes, which was designed to prevent inconclusive elections. There are ongoing debates in Greece regarding the possibility of changing this provision.

Separation of powers and effective checks and balances

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and well established procedures of legislative oversight in prescribed domains of decision-making – is in place in Greece and is in line with international and European

² OSCE/ODIHR, Greece, Early parliamentary elections, Election Assessment Mission, Final report, 27 July 2012

standards. The scope of powers of the legislature to hold the government to account and to exercise parliamentary oversight is largely in line with international standards. An appropriate system to ensure the accountability of elected officials is in place.

The functioning of the parliament is in line with democratic practices. Members of the government respond to enquiries in writing from the members of the parliament (MPs) and participate in hearings at the parliamentary committees. However, there is no practice of regular participation of the executive in questions and answers plenary sessions with MPs. The parliamentary committees and MPs exercise their right to amend legislation, but less frequently to initiate the draft bills.

Effective power to govern of elected officials

Greece has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, which are not constrained by any non-democratic veto powers or other undue influences.

Civil Society, Media and Participation

Scale and independence of civil society

There is a satisfactory legal framework for civil society organisations (CSOs) and a vibrant independent civil society in Greece. The financial viability of the civil society sector has been adversely affected by the economic crisis. At the same time, the crisis triggered emergence of new CSOs and an increase in their activities.

The right to form trade unions is enshrined in the law and respected in practice. Trade unions have traditionally been a very influential factor in the political and social life of the country.

Independence and pluralism of media operating without censorship

The media environment in Greece is diverse. It includes more than 1,000 broadcast media outlets and dozens of printed media, which offer citizens a wide range of political views. A legal framework is largely in place and in line with international standards. Media operate freely and without censorship.

The public broadcaster, Hellenic Broadcasting Corporation (ERT), which used to run national television and radio channels, was abolished in 2013. Following the early general elections in January 2015, the new government proposed and the parliament approved the re-opening of the public broadcaster. ERT started broadcasting again in June 2015. Television remains the predominant source of public information, since circulation of printed media is relatively narrow. In contrast to print media, which are self-regulated, television, based on the Constitution, is “under the direct control of the state”.

Recent years witnessed explosive growth in Internet access. According to the International Telecommunication Union (ITU), the percentage of the population with internet access grew from 9.14 per cent in 2000 to 63.21 per cent in 2014. Social media is playing an increasingly important role and about 44.4 per cent of Greeks are active Facebook users.³

³ITU <http://www.itu.int/en/ITU-D/Statistics/Pages/stat/default.aspx> and Internet World Stats: <http://www.internetworldstats.com/europa.htm>

Multiple channels of civic and political participation

Multiple channels of civic and political participation are in place. The system of public consultations is largely in place. For new draft legislation the relevant social partners affected are consulted, although this often happens on a short notice. Civil Society Organisations (CSOs) are regularly invited to hearings in the parliamentary committees.

Freedom to form political parties and existence of organised opposition

The freedom to form political parties is guaranteed by the Constitution and implemented in practice, as highlighted by the existence of a significant opposition able to campaign freely and oppose government initiatives. The opposition political parties and independent MPs currently hold 49 per cent of the seats in the parliament. The main opposition political party currently holds 25 per cent of seats and its representatives head a number of parliamentary committees. 19 political parties participated in the last general elections in Greece, and eight parties are currently represented in the parliament.

Rule of Law and Access to Justice*Supremacy of the law*

Necessary legislative and institutional safeguards for the supremacy of the law are in place. Citizens have the right to a free and fair trial, and are free from arbitrary arrest or detention. Greek legal system has been harmonised with the EU laws. The Constitution formally integrates international laws and conventions into domestic law.

Independence of the judiciary

The independence of the judiciary is guaranteed by the Constitution and key safeguards are in place to ensure its impartiality.

Government and citizens equally subject to the law

The Constitution (Article IV) guarantees the citizens equality before the law and that guarantee is generally upheld in practice, supported by an independent judiciary.

Effective policies and institutions to prevent corruption

Corruption remains a serious problem. The latest (2015) Transparency International Corruption Perception Index (CPI)⁴ ranked Greece 58th among 168 countries, which is an improvement compared to the previous years. While placing it among the best one-third of the EBRD recipient countries, Greece's latest CPI scores place it at the same time at the bottom (26th) of the list of the 28 EU member states.

The institutional and legal framework for fighting corruption is in place, although, as assessed by the Council of Europe's Group of States Against Corruption (GRECO), it is "excessively complex" and might benefit from streamlining.⁵ In the Third Interim Compliance Report on Greece, GRECO concluded that Greece implemented satisfactorily most of the recommendations contained in the previous report. Among the pending recommendations is the abolishment of the provision limiting possibilities for the prosecution of members of government.⁶ This would require a constitutional amendment. Nineteen new recommendations regarding prevention of abuse of office and corruption among members of

⁴ Transparency International, Corruption Perceptions Index (CPI), 2015

⁵ GRECO, Third Evaluation Round, Compliance Report on Greece, 22 June 2012

⁶ GRECO, Third Evaluation Report, Third Interim Compliance Report on Greece, 22 October 2015

the parliament, judges and prosecutors, have been included in the latest evaluation report by GRECO, under which Greece must submit a report regarding their implementation by 31 December 2016.⁷

In 2012, based on the commitments under the Economic Adjustment Programme, the European Commission Task Force and Greece developed a Road Map on Anti-Corruption, which was followed, in 2013, by the adoption by the Greek authorities of a national anti-corruption strategy and action plan. The EU-wide anti-corruption report, published by the European Commission in 2014, while pointing to remaining weaknesses in this area in Greece, noted that the authorities “have started to take a more comprehensive approach to tackling corruption”.⁸ The latest agreement between Greece and its international creditors, reached in summer 2015, mentions the government’s commitment to implement fully and timely the anti-corruption action plans and the recommendations by GRECO.

Civil and Political Rights

Freedom of speech, information, religion, conscience, movement, association, assembly and private property

Overall civil and political rights continue to be generally respected in Greece. Greece is a party to all major international human rights instruments, including the International Covenant on Civil and Political Rights. The Constitution guarantees the basic freedoms and rights of citizens recognised in international law. Freedom of speech, information, religion and conscience, movement, association and assembly, and private property are therefore fully guaranteed. The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property, or social status.

The latest assessment of the track record of Greece in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in 2011. The top three recommendations related to International Instruments (26 per cent of recommendations); migrants (21 per cent); and asylum-seekers (17 per cent). Greece accepted 83 per cent of a total of 141 recommendations made through the review process.⁹

Political inclusiveness for women, ethnic and other minorities

The key legislative elements for gender equality are in place in Greece. Greece is a signatory of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) and has committed to creating an enabling environment for the advancement of women. Despite the legislation on equal pay, on average women earn less than men with equal level of professional qualifications, and women’s participation rates in the labour market are lower as compared to that of men’s. According to the International Labour Organisation, the economic crisis has had a disproportionate impact on women.

Although the electoral law requires that one-third of candidates have to be women, few political parties place female candidates in the potentially winning positions. The current share of female MPs in the parliament – about 18 per cent – has remained unchanged in the course of several recent elections.

⁷ GRECO, Greece, Fourth Evaluation Round, Corruption prevention, 22 October 2015

⁸ EU Anti-Corruption Report, Annex on Greece, 3 February 2014

⁹ United Nations, Universal Periodic Review (UPR), Greece, and UPR Info Statistics http://www.upr-info.org/database/statistics/index_sur.php?fk_sur=66&cycle=1

Greece has not yet ratified the Framework Convention for the Protection of National Minorities. The only recognised minority are the “Muslims of Thrace” (provision that stems from the Lausanne Treaty of 1923). As elsewhere in the region, Roma are the most vulnerable community that still faces prejudice and societal discrimination.

Freedom from harassment, intimidation and torture

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe’s European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last visited Greece in April 2015. The latest report on this visit, published in 2016, acknowledged the measures taken by the Greek authorities to address the previous recommendations of the CPT. At the same time, the committee made some additional recommendations on safeguards against ill-treatment in detention facilities.¹⁰

¹⁰ Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT): <http://www.cpt.coe.int/documents/grc/2016-04-inf-eng.pdf>

ANNEX 2 – SELECTED ECONOMIC INDICATORS

*Greece joined the Euro Area on 1 January 2001

Greece	2008	2009	2010	2011	2012	2013	2014	2015
Output and expenditure <i>(Percentage change in real terms)</i>								
GDP	-0.3	-4.3	-5.5	-9.1	-7.3	-3.2	0.7	-0.2
Private consumption	3.7	-2.0	-6.8	-10.0	-8.3	-2.6	0.5	
Public consumption	-2.3	2.0	-4.2	-7.0	-6.0	-6.5	-2.6	
Gross fixed capital formation	-7.2	-13.9	-19.3	-20.5	-23.5	-9.4	-2.8	
Exports of goods and services	3.5	-18.5	4.9	0.0	1.2	2.2	7.5	
Imports of goods and services	1.3	-20.4	-3.4	-9.4	-9.1	-1.9	7.7	
Labour Market <i>(Percentage change)</i>								
Gross average monthly earnings in economy (annual average)	2.4	5.8	-4.2	-2.5	-3.2	-6.7	-0.8	
Real LCU wage growth ¹¹	-1.8	4.5	-8.9	-5.6	-4.2	-7.6	-2.2	
<i>(In per cent of labour force)</i>								
Unemployment rate (end-year)	8.6	10.7	14.7	21.3	26.4	27.5	25.9	24.6
Prices <i>(Percentage change)</i>								
Consumer prices (annual average), HICP	4.2	1.3	4.7	3.1	1.0	-0.9	-1.4	-1.1
Consumer prices (end-year), HICP	2.2	2.6	5.2	2.2	0.3	-1.8	-2.5	0.4
Fiscal Indicators <i>(in per cent of GDP)</i>								
General government balance	-10.2	-15.2	-11.2	-10.2	-8.8	-12.4	-3.6	
General government revenues	40.6	38.9	41.3	44.0	46.3	48.3	46.4	
General government expenditure	50.8	54.1	52.5	54.2	55.2	60.8	49.9	
General government debt	109.4	126.7	146.2	172.0	159.4	177.0	178.6	
Monetary and financial sectors <i>(Percentage change)</i>								
Broad money (M2, end-year)	15.8	5.2	-10.6	-14.4	-5.8	2.4	-0.1	-17.5
Credit to the private sector (end-year)	9.8	-3.8	32.0	-3.7	-8.3	-4.3	-2.6	-4.6
<i>(In per cent of total loans)</i>								
Non-performing loans ratio	5.0	7.7	10.4	16.0	24.5	31.9	34.2	
Interest and exchange rates <i>(In per cent per annum)</i>								
Euro deposit rate ¹²	2.00	0.25	0.25	0.25	0.00	0.00	-0.20	-0.30
Policy rate	2.50	1.00	1.00	1.00	0.75	0.25	0.05	0.05
Euro lending rate	3.00	1.75	1.75	1.75	1.50	0.75	0.30	0.30
<i>(Euro per US dollar)</i>								
Exchange rate (end-year)	0.72	0.69	0.75	0.77	0.76	0.73	0.82	0.92
Exchange rate (annual average)	0.68	0.72	0.76	0.72	0.78	0.75	0.75	0.90
External sector <i>(In per cent of GDP)</i>								
Current account	-14.5	-10.9	-10.1	-9.9	-2.5	-2.1	-2.1	
Trade balance	-11.1	-7.6	-6.8	-6.0	-2.4	-2.8	-2.2	
Exports of goods and services	22.5	17.9	20.0	23.5	25.7	30.4	30.5	
Imports of goods and services	33.6	25.5	26.8	29.5	28.2	33.3	34.9	
Goods balance	-18.3	-13.0	-12.5	-13.2	-10.3	-11.5	-12.6	
Merchandise exports	8.1	6.4	7.4	9.5	11.4	14.9	15.1	
Merchandise imports	26.5	19.3	20.0	22.7	21.6	26.4	27.7	
Foreign direct investment	-0.7	-0.1	0.4	0.3	-0.4	-1.5	-0.3	
External debt stock	151.6	175.9	185.4	188.2	237.0	237.7	239.0	
Public external debt	79.3	94.7	80.5	75.8	126.9	148.5	149.8	
Private external debt	72.3	81.2	104.9	112.3	110.1	89.2	89.2	
Memorandum items <i>(Denominations as indicated)</i>								
Population (end-year, thousands)	11,095	11,119	11,123	11,086	11,004	10,927	10,812	
GDP (in billions of EUR)	242	237	226	207	191	180	178	
GDP per capita (in EUR)	21,800	21,400	20,300	18,600	17,300	16,500	16,200	
FDI, net (in billions of EUR)	-1.7	-0.2	0.9	0.5	-0.8	-2.7	-0.6	
External debt (in billions EUR)	367	418	419	389	453	423	424	
External debt/exports of goods and services (ratio)	6.8	9.8	9.3	8.0	9.2	7.8	7.3	
Broad money (M2, end-year in per cent of GDP) ¹³	101.9	109.2	102.6	95.9	97.8	106.2	107.8	

¹¹ Average inflation rate deducted from the % change of gross average monthly earnings¹² Interest rates are as of December of each year¹³ Euro Area M2: Greek Contribution

ANNEX 3 – ASSESSMENT OF TRANSITION CHALLENGES

The sectoral transition scores reflect the judgements of the EBRD about progress in transition by sector and the size of the remaining transition “gap” or challenges ahead. The scores are based on an assessment of the size of the challenges in two components: market structure and market-supporting institutions and policies. The scoring for the components is based on either publicly available data or observable characteristics of market structure and institutions. As such, they reflect structural trends and may not capture shorter-term, crisis-induced market failures. The EBRD is currently in the process of collecting additional firm-level data that will feed into the assessment of transition gaps in the Greek economy. In the meantime, the transition impact and benefits of EBRD projects, including the crisis response elements, are being assessed on a case by case basis.

Market Structure	Market Institutions	Key challenges
CORPORATES		
Agribusiness		
Small	Small	<ul style="list-style-type: none"> ▪ Small challenges remain in the sector regulated by EU rules and practices but the issue of land cadastre and registry needs to be resolved in order to enhance productivity of primary agriculture characterised by small-scale farming.
Manufacturing and Services (M&S)		
Small	Small	<ul style="list-style-type: none"> ▪ Strengthen the overall institutional framework to address the issue of difficult property registration, poor contract enforcement and inadequate collateral and bankruptcy laws; ▪ Provide regulatory incentives to enhance linkages between academia and private businesses to stimulate innovation.
Real Estate		
Small	Medium	<ul style="list-style-type: none"> ▪ Further improve the land cadastre system and land registry to achieve full tradability of land and attract investment in the sector; ▪ While the regulatory framework provides for basic regulation concerning energy efficiency in buildings, this could be further strengthened by adopting specific measures concerning energy efficiency audits for buildings as well as information campaigns and training of professionals in the building sector to enhance sustainability.

Market Structure	Market Institutions	Key challenges
Information & Communication Technologies (ICT)		
Small	Small	<ul style="list-style-type: none"> ▪ The EU regulatory framework in the telecommunications sector is implemented and little challenges remain, however, broadband penetration remains relatively low largely due to the geographical challenge and implied high investment costs of roll-out; ▪ The protection of intellectual property rights could be enhanced further for Greece to become a more attractive investment destination for knowledge intensive sectors.
ENERGY AND SUSTAINABLE RESOURCES		
Natural Resources		
Medium	Medium	<ul style="list-style-type: none"> ▪ Strengthen the capacity of the Hellenic Hydrocarbons Resource Management (HHRM) agency and a define licensing model; ▪ Reduce vertical integration and market dominance of Hellenic Petroleum; ▪ Liberalize the retail gas market; ▪ Increase direct and reverse flow of regional interconnection capacities of the gas networks.
Power		
Large	Medium	<ul style="list-style-type: none"> ▪ Increase private sector participation in wholesale power generation; ▪ Improve electricity transparency by further liberalisation of the electricity market through full ownership separation of the transmission grid from the PPC utility; ▪ Fully remove cross subsidies and move towards cost reflective tariffs;
Sustainable Energy		
Small	Small	<ul style="list-style-type: none"> ▪ Reduce the carbon intensity of the economy, 63% higher than the EU average, due to the heavy weight of local lignite and of imports of oil. This can be achieved by supporting the further deployment of renewable energy sources, by promoting energy efficiency solutions across main economic sectors and by progressively phasing out the use of lignite. ▪ Prevent retroactive changes in existing support mechanism for renewable energy sources (based on feed-in tariffs) and develop a new framework aligned with the EU 2014-2020 State Aid Guidelines. ▪ Transpose and effectively apply the Energy Efficiency Directive, which leads to a significant improvement of energy efficiency benchmarks in key sectors such as residential or some industrial segments.
Water Efficiency		

Market Structure	Market Institutions	Key challenges
Medium	Medium	<ul style="list-style-type: none"> ▪ Reduce water losses in agriculture (89% of global consumption), including a reform of water tariffs in the sector, which at present are far below cost recovery level. ▪ Promote the use of advanced water efficiency solutions across other key economic sectors, such as tourism, energy and residential. ▪ Fully implement the provisions of the EU Water Framework Directive, as the country is lagging behind in some key areas and has in the past had a few infringement court cases due to lack of implementation regarding water policy requirements.
Materials Efficiency		
Medium	Medium	<ul style="list-style-type: none"> ▪ Close and rehabilitate dumping sites and non-complying landfills. ▪ Introduce an effective separate collection of the main recyclables streams, and ensure compliance with recycling targets and with the Extended Producer Responsibility principle.
INFRASTRUCTURE		
Water and wastewater		
Small	Small	<ul style="list-style-type: none"> ▪ Restructure and consolidate water utilities throughout the country in order to ensure operational efficiency and professionalism in a highly fragmented sector; ▪ Improve contractual and regulatory arrangements for the water and wastewater utilities in order to promote financial and operational sustainability.
Urban Transport		
Small	Small	<ul style="list-style-type: none"> ▪ Liberalise the urban transport services and introduce competitive tendering for the licenced and regulated urban bus services; ▪ Improve urban mobility planning with a customer oriented approach, better ticketing and traffic management solutions; ▪ Enhanced energy efficiency within the urban transport services and urban street lighting.
Roads		
Small	Small	<ul style="list-style-type: none"> ▪ Further improvements in road sector financing; ▪ Meaningful introduction of competition and performance measures in routine maintenance; ▪ Restructuring of the maintenance company; ▪ Improvements in the terms and conditions in road concessions to become sustainable.

Market Structure	Market Institutions	Key challenges
Railways		
Small	Small	<ul style="list-style-type: none"> ▪ Corporate restructuring (including labour restructuring and line closures) and governance improvements; ▪ Improvements in the financial sustainability by refining the access charge methodology and PSO; ▪ Development of new businesses, including commercial based property management; ▪ Successful privatisation of freight and other entities subject to privatisation.
FINANCIAL INSTITUTIONS		
Banking		
Small	Small	<ul style="list-style-type: none"> ▪ Stabilisation of the financial sector through completion of a market-led recapitalisation process (completed YE 2015); ▪ Reduction and management of NPLs; ▪ Banks' execution of remaining identified restructuring targets (in line with EC requirements) focusing on operational rationalisation, disposal of non-core assets, repayment of Eurosystem funding; ▪ Restoring deposits and depositor confidence; ▪ Restart of lending.
Insurance and other financial services		
Small	Small	<ul style="list-style-type: none"> ▪ Increasing penetration of the non-bank financial sector; ▪ Supporting sector NPL work-outs through NPL resolution vehicles; ▪ Pursuing the pension system reforms.
Micro, small and medium-sized enterprises		
Small	Small	<ul style="list-style-type: none"> ▪ Re-opening availability of bank credit to SMEs; ▪ Increasing availability of and access to non-bank financing alternatives for SMEs; ▪ Support SMEs in acquiring the necessary business skills to achieve greater productivity and access to (non-EU) foreign markets; ▪ Improve the business environment for SMEs, e.g. by introducing one-stop-shops, reducing administrative burdens and increasing regulatory certainty.
Private equity		
Small	Small	<ul style="list-style-type: none"> ▪ Further supporting a restart in PE activity in Greece following a freeze during the crisis period; ▪ Expanding availability of and access to equity financing for Greek SMEs; ▪ Improving governance standards at the fund and investee companies' level; ▪ Mobilising private risk capital into this asset class in Greece.

Market Structure	Market Institutions	Key challenges
Capital markets		
Small	Small	<ul style="list-style-type: none"> ▪ Recovery of equity and debt capital markets through restoring of confidence among domestic and foreign investors; ▪ Banks regaining access to capital markets; ▪ Further integration of capital markets in the region, including trading, clearing and settlement solutions.

ECONOMIC INCLUSION¹⁴ GAP RATINGS – Greece

ECONOMIC INCLUSION		
Inclusion gap dimension	Inclusion gap	Key challenges
Youth		
Youth Employment	Large	<ul style="list-style-type: none"> Establishing work based learning opportunities for young people (such as internships, apprenticeships, trainee programmes) by improving the collaboration between private sector employers and education providers to ensure adequate progress routes for young people, especially graduates, into formal employment.
Financial Inclusion	Medium	<ul style="list-style-type: none"> Developing finance programmes targeted at young entrepreneurs supported by business advisory services and links to universities (with the potential ‘double effect’ of indirect employment creation).
Labour Market Structure	Medium	<ul style="list-style-type: none"> Supporting a regulatory environment that is conducive to (start-up) business operation. Contributing towards improved labour market flexibility, specifically in relation to hiring and wage flexibility.
Skills Mismatch	Medium	<ul style="list-style-type: none"> Supporting the improvement of vocational training quality through partnerships between the private sector and education providers to improve vocational education and training provision in line with employer requirements.
Quality of Education	Medium	<ul style="list-style-type: none"> Supporting initiatives to include private sector companies in the development of improved skills standards that meet employer needs as part of the national qualification framework.
Gender		

¹⁴ The EBRD Economic Inclusion gaps rate the institutions, markets and education systems across all of EBRD’s countries of operation in terms of their capacity to extend economic opportunity to individuals regardless of their gender, age or place of birth. These gaps measure *differences* in opportunities – between 15 to 24-year-olds and older workers, and between women and men – rather than opportunity *levels*. Gaps are reported in this country strategy where there exists an Inclusion Gap above Small. These gaps are consistent with the EBRD 2014 Inclusion Gap update.

Employment and Business	Large	<ul style="list-style-type: none"> ▪ Improving entrepreneurial opportunities and training for women, particularly in relation to financial literacy, business training and access to employment. ▪ Improving client HR policies with regards to increasing female employment and progression routes into management roles. ▪ Improving partnerships between private sector clients and technical universities to enhance opportunities for women in STEM professions (science technology, engineering and mathematics) and thereby incentivise female enrolment.
Legal Regulations and Social Norms	Large	<ul style="list-style-type: none"> ▪ Supporting policy dialogue engagements in relation to gender equality.
Labour Policy and Practices	Medium-Large	<ul style="list-style-type: none"> ▪ Incentivising private sector clients to improve equal opportunities practices, including equal pay and access to employment, access to quality child care and female leadership programmes.
Access to Finance	Medium	<ul style="list-style-type: none"> ▪ Building the capacity of local banks to develop credit lines aimed at female entrepreneurs, combining access to finance, training and business advisory services.

ANNEX 4 – LEGAL TRANSITION

This annex provides analytical background on two sectors where the EBRD Legal Transition Programme is planning to get involved in Greece in the strategy period: (1) corporate governance of systemic banks and (2) regulation of insolvency office holders.

1. Corporate governance of systemic banks

The legal framework regulating corporate governance of banks in Greece is detailed in a number of laws and sublegal acts, the most important of which are:

- Law 4261/2014 on the “Access to the activity of credit institutions and prudential supervision of credit institutions and investment firms (transposition of Directive 2013/36/EU), repeal of Law 3601/2007, and other provisions”;
- Law No. 2190/1920 on “companies limited by shares”, as amended;
- Law No. 3016/2002 on “corporate governance, board remuneration and other issues”, as amended;
- The Hellenic Corporate Governance Code for Listed Companies (October 2013).

The legal framework on corporate governance of banks is harmonised with the EU Acquis and in general comparable with other EU countries. Banks are organised under a one-tier system with a board of directors appointed by the general shareholders’ meeting including executives, non-executives and at least two independent directors. The chair of the board must not exercise simultaneously the functions of a chief executive officer, unless authorised by the Bank of Greece or the Hellenic Capital Market Commission.

Banks are required to have an audit committee, where at least one member is independent, and those institutions that are considered “*significant in terms of their size, internal organisation and the nature, scope and complexity of their activities*” are also required to establish a remuneration committee, a risk committee and a nomination committee. There is no requirement by law that the last three committees are made by independent directors. This is not required by EU law, but in the Greek context might be advisable.

Banks are subject to the supervision of the Bank of Greece and the Hellenic Capital Market Commission. Further, under the EU Single Supervisory Mechanism (SSM), which became operational in November 2014, the European Central Bank (ECB) has become the banking supervisor for all banks in the euro area, directly responsible for supervising the approximately 123 largest banking groups. In Greece, the banks that are under the direct ECB supervision are Alpha Bank, Eurobank, Piraeus Bank and National Bank of Greece. These four banks hold over 90 per cent of banking assets in Greece.

In 2012, all four banks participated in the Greek Government bonds exchange. The debt exchange resulted in very significant losses, depleting the capital base of the banks. The bridge recapitalisation restored the banks' capital ratios to a level that allowed their functioning on the market and access to euro-system operations. The recapitalisation funds were provided by the European Financial Stability Facility and the International Monetary Fund via the Hellenic Financial Stability Fund (HFSF).

The HFSF was founded in July 2010. It is a private legal entity, with the objective of contributing to the stability of the Greek banking system by conditionally providing capital support to licensed credit institutions operating in Greece. Some of the main functions of the

HFSF include: monitoring and assessment of credit institutions' compliance with their respective restructuring plans; exercising of its shareholder rights in credit institutions that have received capital support; and facilitating of non-performing loans' (NPL) management by credit institutions. The HFSF exercises its powers over a credit institution receiving capital support directly or through a representative appointed in the institution's board of directors according to its statutory Law and the Relationship Framework Agreement signed with the credit institutions. The powers of the HFSF include, *inter alia* the authority to: request the convocation of a general shareholders meeting; vetoing of certain decisions at the board level; request the convocation of a board meeting; and to approve the appointment of the chief financial officer. In addition, the HFSF is allowed to have free access to all books and records of the credit institution for the purpose of exercising its rights. Last but not least, in line with the October 2015 legislative amendments, the HFSF is now empowered to assess the corporate governance framework of credit institutions to which it has provided capital support.¹⁵

The bailout agreed at the Eurozone summit in July 2015 included *inter alia* the requirement to “adopt the necessary steps to strengthen the financial sector, including decisive action on non-performing loans and measures to strengthen governance of the HFSF and the banks, in particular by eliminating any possibility for political interference especially in appointment processes.”

The disbursement of bailout funds is linked to progress in delivery of policy conditions, in accordance with a Memorandum of Understanding (MoU) signed on 19 August 2015, between the European Commission (acting on behalf of the European Stability Mechanism) and Greece. The MoU provides that “*by end-February 2016, the Hellenic Financial Stability Fund (HFSF) with the help of an independent international consultant will introduce a program to review the boards of the banks (namely Alpha Bank, Eurobank, National Bank of Greece & Piraeus Bank) [i.e., the banks which the HFSF has bailed out]. This review will be in line with prudent international practices by applying criteria that go beyond supervisory fit and proper requirements*”.

To this end, the Law on the HFSF was amended to empower the Fund to assess the corporate governance framework of credit institutions to which it has provided capital support. Among others, the HFSF can now: assess the size, structure and the allocation of powers and responsibilities within the board of directors, board committees and, if necessary, any other committees of the credit institution on the basis of criteria that it will develop, and propose improvements and amendments to the institution's current corporate governance framework.¹⁶

¹⁵ HFSF rights are defined by law and assigned to the HFSF irrespective of the amount of shares owned in the banks.

¹⁶ Among other requirements, it is worth noting that Art. 10(8) of the HFSF Law now requires that “The evaluation of the structure and composition of the Boards and Committees shall have the following minimum criteria: (i) the Banks' Board of Directors include at least three independent non executive experts as members with adequate knowledge and international experience of at least fifteen (15) years in relevant banking institutions of which at least three (3) years' experience on a board of an international banking group not operating on the Greek market. These experts should have no affiliation over the previous ten years with credit institutions operating in Greece; (ii) the aforementioned independent non-executive members chair all Board committees; (iii) at least one board member shall have relevant expertise and international experience of at least five (5) years in the management of non-performing loans. This board member will focus on and will have sole

In October 2015, the Asset Quality Review and Stress Test undertaken by the ECB identified a capital shortfall of €14.4 billion under an adverse scenario for the four Greek systemic banks.

In November 2015, the four banks completed the capital increase to meet the requirements identified in the ECB Stress Test. In this round, the HFSF supported only two banks, Piraeus Bank and National Bank of Greece. As a result of the last recapitalisation, the HFSF owns 11 per cent in Alpha Bank, 2 per cent in Eurobank, 40.39 per cent in the National Bank of Greece and 26 per cent in Piraeus Bank. Under a financial package that supports the recapitalisation program, the EBRD became shareholder of the four Banks, with a stake of 2.11 per cent in Alpha Bank (corresponding to a €65 million investment), 2.8 per cent in Eurobank (corresponding to a €65 million investment), a stake in the National Bank of Greece corresponding to a €50 million investment; and 5.22 per cent in Piraeus Bank (€70 million investment). As a shareholder the EBRD will play an active role with a special focus on corporate governance.

In December 2015, the EBRD has initiated a technical cooperation project aiming at assisting the HFSF in reviewing the existing boards and committees of the four systemic banks (Alpha Bank, Eurobank, National Bank of Greece & Piraeus Bank), and strengthening HFSF's supervisory capacity over the boards of the four banks, thereby ensuring a better corporate governance of the largest banks in the country.

2. Regulation of insolvency office holders

The Insolvency Code (the “Code”) enacted in 2007 is the main legal text governing insolvency proceedings in Greece. The Code has been repeatedly improved since that time, in order to make it more efficient and responsive to the needs of the economy. In 2014, the Law 4307/2014 was adopted introducing two new emergency proceedings intended to address the mounting NPL problem, either through a streamlined ratification of a restructuring agreement between the debtor and a qualified majority of its creditors, or through an expedited liquidation of its assets on a going concern basis. Currently, the Code provides for four types of proceedings: the insolvency proceedings, the opening proceedings, the ratification proceedings and the special liquidation.

The EBRD recently prepared a detailed assessment of the Insolvency Office Holder (“IOH”) profession in Greece. The assessment shows that the IOH profession is not aligned with international standards and best practices due to the absence of integrated IOH profession or any relevant special certification. The impact of the absence of such specialised professionals on the application of the insolvency laws is compounded by the fact that the courts which have jurisdiction to hear cases under the Insolvency Code are courts of general jurisdiction, therefore, there is limited opportunity to develop in-depth specialization within the judiciary.

In the absence of a specialized IOH profession, the Code and related statutes have filled the respective positions necessary to administer the different procedures with persons of different professional backgrounds (lawyers, auditors, etc.), who hold a variety of credentials. There is

responsibility for management of non-performing loans at board level and chair a specific board committee of the credit institution that deals with Non-Performing Loans”.

no uniformity for the appointment of IOH performing similar or related functions. Importantly, none of these professionals are required to have specialised knowledge or experience in the law or practice of insolvency. The assessment identified the following main weaknesses of the existing regulation that the new regulation should observe:

- Absence of a regulatory body that supervises the work of IOHs;
- Absence of a public register of professionals that are qualified to practice the IOH profession;
- Lack of insolvency-specific skills and experience;
- Lack of a Code of Conduct that captures the specific duties of insolvency office holders;
- Lack of continuing education, except for auditors;
- Appointment system is not very transparent and does not ensure matching of the professional's skills with the case in hand;
- Best practices also suggest that creditors' influence in the appointment of an IOH is desirable. Under the existing system, while pre-insolvency proceedings allow for creditor influence on appointments, there is little opportunity to do so in the insolvency proceedings. A more consistent and uniform approach would be desirable here as well;
- Lack of transparency of the insolvency procedures due to insufficient flow of information from IOHs to other stakeholders;
- Lack of clarity on a reasonable level of remuneration that will ensure reward commensurate with the IOH functions and responsibilities, and clarity as to whether reasonable expenses will be covered. The priority ranking of IOH fees and expenses differ from proceedings to proceedings, which is not logical and creates frictions.

The availability of an experienced pool of insolvency administrators with adequate commercial experience is essential to the successful implementation of the law. The IOHs are court appointed officials that occupy a position of trust and have an obligation to ensure that the law is applied efficiently and impartially. Since they normally have the most up-to-date information regarding the debtor's financial circumstances, they are frequently in the best position to make proper decisions as regards early recovery of viable firms and fast exit of non-viable ones. Considering their important role, it is crucial that IOHs are properly regulated and have proper knowledge of the law and sufficient experience in commercial and financial matters.

A modernised IOH profession would increase the efficiency of insolvency procedures and it would help creating a more reliable insolvency framework, which would consequently improve the investment climate in Greece. A high number of issues/weaknesses identified in the assessment shows that comprehensive work on developing the IOH profession should be undertaken in the coming years.

Under the Greek Memorandum of Understanding with the IMF, the ECB and the EU Commission, Greece is committed to introduce several legal reforms, among others amendments to the IOH framework. The EBRD stands ready to assist with these efforts.

ANNEX 5 – GENDER PROFILE

Human development and gender inequality

Greece ranks high in terms of the UNDP 2014 Gender Inequality Index (GII) at 29 globally out of 155 countries.¹⁷ The 2014 World Economic Forum Global Gender Gap Index ranked Greece 87 out of 145 countries.¹⁸ The different scores can be attributed to the use of different indicators, with GII being composed of five indicators and GGI of fourteen.

Labour force participation and gender pay gap

In 2014, female labour force participation in Greece stood at 41.1% compared to 58% for men. The gender pay gap¹⁹ was 15 per cent, which is close to the EU average of 16 per cent. Women are facing significantly more unemployment than men (30.2 per cent for women compared to 23.7 for men).²⁰ The youth unemployment rates are alarmingly high: according to World Bank data from 2014, youth (15-24) unemployment for women stood at 59.5 per cent, as compared to that of men at 49.3 per cent.²¹

Indicator	Men	Women	Year
Labour Force Participation	58%	41.1%	2015
Gender Pay Gap	15%		2014

Source: Eurostat 2014, 2010.

With regards to enabling women's participation in the labour force, national legislation stipulates that maternity leave is fully paid by the Greek government and should last 119 days at 100 per cent of the wage. However, the same legislation guarantees only 2 days of paternity leave which is fully paid by the employer.²²

Health and education

According to UNICEF (2012) the neonatal mortality rate is at 3 deaths per 1000 births, along with an infant mortality rate of 4 deaths per 1000 births that same year.

UNESCO data for Greece indicate gender disparities in education in certain fields of study:

¹⁷ The GII captures the loss in human development, within a country, due to inequality between female and male achievements in the three GII dimensions: reproductive health (maternal mortality and adolescent birth rates), empowerment (share of parliamentary seats held by women and attainment in secondary and higher education by each gender) and economic activity (labour market participation of men and women).

¹⁸ The Global Gender Gap Index examines the gap between men and women in four fundamental categories (subindexes): economic participation & opportunity, educational attainment, health & survival and political empowerment.

¹⁹ The gender pay gap is the difference between men's and women's pay, based on the average difference in gross hourly earnings of all employees.

²⁰ [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Table_3_Unemployment_rate_by_gender_and_age,_2007-2014_\(%25\).png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Table_3_Unemployment_rate_by_gender_and_age,_2007-2014_(%25).png)

²¹ <http://data.worldbank.org/indicator/SL.UEM.1524.MA.ZS/countries>

²² World Bank – IFC (2015). Women, Business and the Law database.

Distribution of tertiary education graduates by field of study: Greece		
	Female (%)	Male (%)
Education	13.6	6
Humanities and Arts	16.5	7.7
Social sciences, Business, Law	31.2	25.7
Science	9.5	16.4
Manufacturing, Engineering, Construction	8.9	27
Agriculture	3.9	4.9
Health	14.1	8
Services	2.2	4.1

Source: UNESCO Institute of Statistics 2012

Leadership and decision-making

Greece has established binding quotas at the national and sub-national levels, requiring political parties to present at least one-third of candidates of each sex in national, regional, municipal and community elections. Despite efforts to increase women's participation in political and public life, women still remain under-represented: following the parliamentary elections in September 2015, only 56 out of a total of 300 members of parliament were women (19 per cent).²³

Only 10 per cent of board members of the largest publicly listed companies in Greece are women, while in 96 per cent of the cases the president of the board is a man.²⁴ However, women are well-represented in the judiciary: 44 per cent of the Supreme Court (Areios Pagos) judges are female. Moreover, the President and Public Prosecutor are both women.²⁵

Entrepreneurship, access to finance

Women in Greece do not face particular restrictions in securing access to land and other assets. The Greek Civil Code contains gender neutral provisions relating to land and non-land assets, including non-discriminatory provisions for both matrimonial property regimes (separation/community of property) and their termination.

Women and men in Greece enjoy almost equal access to financial services. According to the World Bank's Global Financial Inclusion database in 2015, 88 per cent of men held an account at a formal financial institution as compared to 87 per cent of women.

²³ <http://www.hellenicparliament.gr/en/Vouleftes/Statistika-Stoicheia/Statistika-Stoicheia-ID-Periodou/>

²⁴ http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/business-finance/supervisory-board-board-directors/index_en.htm

²⁵ http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/judiciary/public-prosecutors/index_en.htm
http://ec.europa.eu/justice/gender-equality/gender-decision-making/database/judiciary/supreme-courts/index_en.htm