MARKET FLASH

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Greek proposals: Ingredients for a deal?

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The program, which has been presented by Alexis Tsipras to the troika, reflects the will to catch an agreement as soon as next Sunday during the meeting of the European Chiefs of government. Measures are expected to be approved in order to keep Greece in the Euro Area. Its aim is to get EUR 50bn on three years in order to repay Greek's debt.

All the proposals that have been made by the Prime Minister are close to those on which the troika agreed on before the referendum.
The expected profile for the Greek public finance is to converge to a primary budget surplus of 3.5% of GDP in 2018. This surplus will be less than 1% this year. It will then not feed the debt anymore.

Among the main measures we notice **the hike of the VAT** rate at 23% (except on hotels for which it is 13% (this can be a source of discussion with the troika as tourism is a large source of revenues for Greece)). Island VAT exemption will be removed. The change in VAT rate will take place between now and the end of October. For the tax exemption of the islands it will start with the richest islands and will finish at the end of 2016.
The target is to increase government receipts by 1% of GDP.

The second important measure is on retirement. The legal age for full pension will now be 67 years of age or 62 for people having worked 40 years in 2022. For early retirement, penalties will be taken to reduce dramatically incentives. Some subsidies on which there were a lot of discussions will be removed progressively. The target is to reduce pensions' amount by 1% of GDP as soon as 2016.
A global reform on the retirement system will be launch on October 31, 2015 in order to have a consistent system through time.

Other measures on taxation, corruption and on competition on product market will be taken in order to improve the efficiency of both the economy and the government.

Tomorrow, finance ministers will meet at a special meeting of the Eurogroup (3pm). On **Sunday** a meeting at 4pm with the chiefs of government of the Euro Area will take place then at 6pm a new meeting with all the chiefs of government of the European Union.

Questions:

The program contradicts the "no" at the referendum: how can we understand that?
The referendum was only a political operation for Tsipras in order to be the clear leader. It's now the case, as all the other government parties have taken him as the delegate for Greece in Europe.
Tsipras had to find a way to be followed by a large majority of Greeks. The referendum was its tool.

What will be the economic profile in the coming years?
Measures that will be taken imply the convergence to a 3.5% primary surplus in 2018 versus less than 1% this year. The convergence will come from higher taxes (VAT) and lower pensions. This will lead to a lower internal demand and the risk of a weak GDP profile. Impulse could come from outside or from tourism. We cannot exclude one or two years of recession at the top of already 5 years of depression.

What will happen to the debt?
The primary surplus will converge to 3.5% but the GDP momentum remains weak or negative then the Public Debt to GDP ratio will not improve. This means that there is a need to have a parallel negotiation on debt relief. Instead in 1, 2 or 3 years from now, the sustainability will come back in the forefront.
The first step was to negotiate measures; the second step will be on public debt relief.

Will the Greek Parliament vote for the program?
Probably; MPs of other parties will vote for him in reference to the agreement mentioned earlier. If some Syriza MPs do not vote the reform, this will give Tsipras a stronger legitimacy.

Can we be optimistic on a final agreement that will keep Greece in the Euro Area?
Yes, I want to be.

Written on July the 10^Th

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Limited liability company - Share capital €50,434,604.76
Regulated by AMF under no. GP 90-009 RCS Paris n°329 450 738
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