Independent Evaluation of Financial Assistance to Greece

LESSONS FOR THE FUTURE

About the evaluation

Joaquín Almunia, the High-Level Independent Evaluator appointed by the ESM Board of Governors, led this independent evaluation, which aimed to:

- draw lessons from the EFSF/ESM financial assistance programmes to Greece to support future informed policy decision-making,
- further increase the transparency and accountability of the ESM's programme activities, and
- enhance the ESM's ability to tackle future crises and deliver timely and effective assistance at reasonable cost while addressing the most acute problems.

The report covers the period following the bilateral European Union (EU) loan programme, from 2012 to the first year of post-programme surveillance in 2019.

Methodology

This evaluation uses a mixed-methods approach anchored in a theory of change model and draws on a wide variety of data, surveys, and interviews.

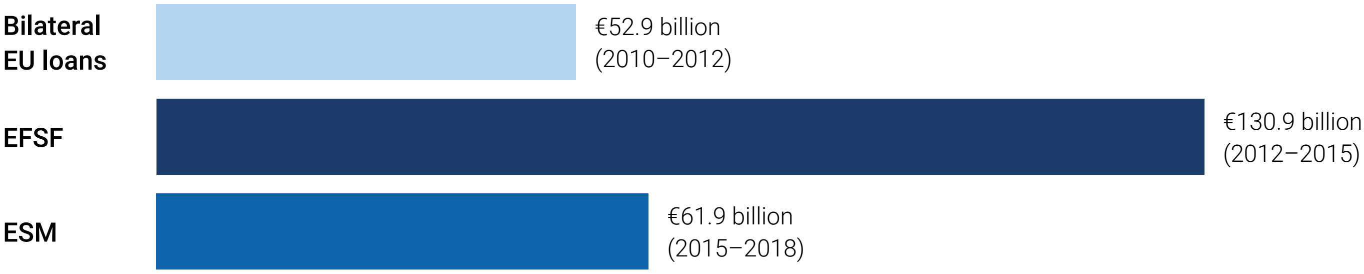
"The programmes raised fundamental questions about the economic, financial, and political interdependence of the currency area."

"Assistance met its main objectives, and Greek shock resilience strengthened. But the reform momentum should persist."

"Programme design should contain safeguards to prevent negative spillovers that affect the weakest."

JOAQUÍN ALMUNIA
High-Level Independent Evaluator

€245.7 billion disbursed



Programme outline

STRATEGIC OBJECTIVES

- Preserve euro area integrity and the stability
- Restore financial stability in Greece.
- Achieve sustainable inclusive growth

PROGRAMME STRATEGIES

- Prioritise deficit and debt reduction
- Minimise contagion
- Improve competitiveness and long-term growth
- Strengthen institutions
- Restore confidence and payment culture
- Establish a cash buffer to ease return to market financing

"This is a very good repository of lessons for the euro area."

"Social and political sustainability is crucial for sustained progress."

"Setting an analytical framework to support our decision making is a very important recommendation."

ESM GOVERNORS

"Significant improvement took place on several fronts like external and fiscal balances, and labour markets. And the collapse of the state was avoided."

"Taking care of the very, very poor was a major success factor."

INTERVIEWED STAKEHOLDERS

Selected conclusions

The Greek EFSF and ESM programmes successfully maintained the integrity of euro area, stabilised Greek public finances, and strengthened institutions. They reached their main objectives but suffered from gaps that inhibited better targeting at some key problem areas.

- √ **Institutional partnership** allowed the ESM to focus on a few key policy areas. Varied institutional mandates and approaches challenged common understanding on programme objectives and strategies.
- √ Programme designed to reduce sovereign risk by **prioritising fiscal sustainability through reliance on a high primary balance**. The initial lack of an effective safety net amidst the deep recession contributed to bank asset quality problems. Poor public support and numerous political events delayed or made implementation incomplete drawing out adjustment and increasing costs.
- √ **ESM engagement occasionally suffered from incomplete or missing policy frameworks**. ESM Boards left the institutions insufficient room to shift programme strategies in response to changing circumstances.
- √ **Programme strategies challenged social consensus and cooperation**, and the Institutions failed to fully grasp the root causes of volatile ownership of reforms and to systematically assess the macroeconomic impact of structural reforms.
- √ Measures to **address financial sector weaknesses** largely restored confidence and financial stability but failed to lay the foundations for stronger medium-term growth. The governance of public shareholdings, however, improved significantly.
- √ **Progress in institutionalisation of reforms in public administration and public financial management** helped contain immediate risks while subdued growth potential maintained long-term sustainability risks. A belated focus on social distress managed to reduce income disparities.
- √ **Debt workouts** extended longest maturities to 2070 and reduced refinancing costs and risks.

Selected recommendations by the Independent Evaluator to ESM Boards and Management

- Define strategic objectives based on a long-term view considering beneficiary country growth as a necessary condition for success.
- Derive programme objectives from an analysis of the main problems to be tackled, including societal realities.

- Develop overarching policy frameworks for effective and coherent programme design, review, and decision-making.
- Limit conditionality to a number of macro-critical conditions, based on the strategic objectives, and ensure appropriate sequencing.

- Clarify governing bodies' expectations and instructions regarding ex ante coordination of analyses and assumptions.

- Coordinate preparatory and implementation phases of a programme.
- Develop knowledge of country vulnerabilities and limitations for risk analysis and cooperation to build a beneficiary's institutional capacity that underpins long-term growth.
- Ensure the independence of staff analysis to provide sound and robust technical assessments.

- Ensure strong post-programme monitoring framework to safeguard adjustment gains and sustainability in the context of the ESM's long-term creditor role.
- Develop policy advocacy to support good policymaking.

The independent evaluation report and supporting materials are available at:
https://www.esm.europa.eu/financial-assistance/evaluation-efsfesm-programmes

Independent Evaluator appointed by the **ESM Board of Governors**

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