Short and Medium-Term Debt Relief Measures

The May 25th 2016 agreement opened an array of debt relief measures in the process of being implemented

May 25th 2016 agreement

Based on the current ESM Debt Sustainability analysis, a series of measures have been designed by the Eurogroup to alleviate the Greek debt burden

Overall, with the short and medium term measures €400-500m savings in interest payments savings to EFSF over 2025-2040 are expected

Short-term measures

To be implemented after the closure of the first review up to the end of the programme:

- Smoothen the EFSF repayment profile under the current weighted average maturity
- Use EFSF/ESM diversified funding strategy to reduce interest rate risk without incurring any additional costs for former programme countries
- Waiver of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme for the year 2017

Medium-term measures

To be implemented following the successful completion of the ESM programme if needed to meet the GFN benchmark:

- Abolish the step-up interest rate margin as of 2018 and further
- Transfer of ANFA/SMP profits
- Early partial repayment of existing official loans to Greece by utilizing unused ESM resources
- If necessary, some targeted EFSF re-profiling

Long-term measures

These would be activated after the ESM programme to ensure debt sustainability in the long run, provided additional debt measures are needed to meet the GFN benchmark

These measures would be subject to a decision by the Eurogroup confirming that Greece complies with the requirements under the SGP:

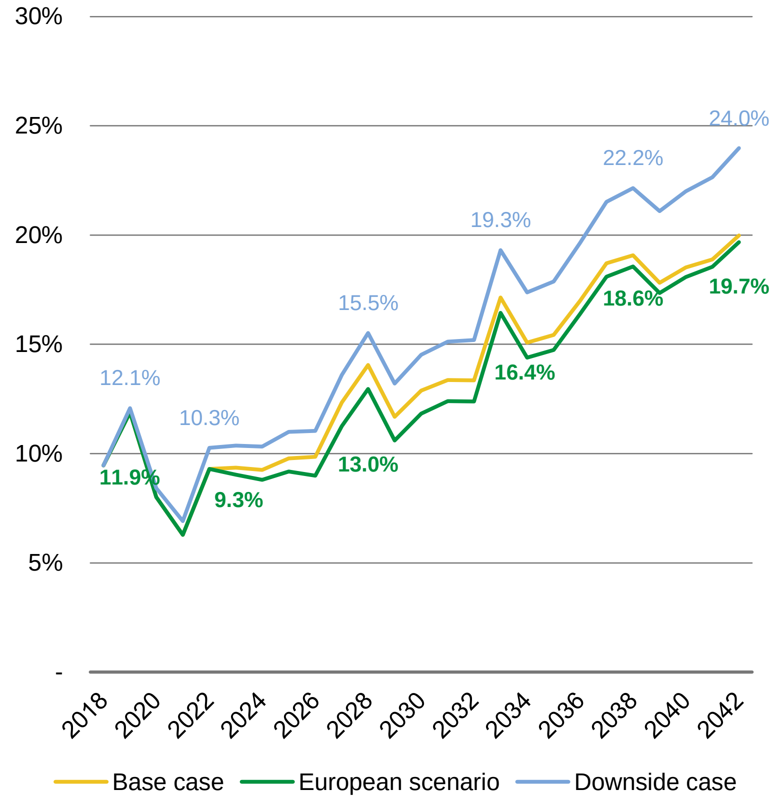
- Further EFSF re-profiling
- Capping and deferral of interest payments

Overview of Greek debt sustainability

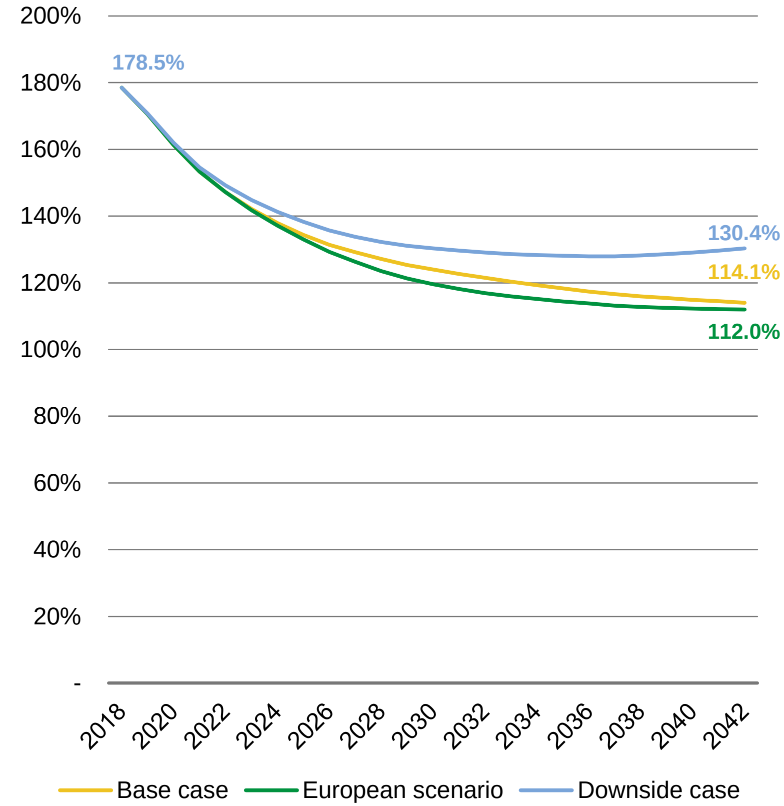
All scenarios underline (i) a downward sloping debt to GDP ratio and (ii) GFN peaks remaining below 20%, which constitutes the key threshold of sustainability for Greece

The November 2017 PSI bond exchange significantly improved the debt liquidity and the refinancing perspectives, which will enable the refinancing of the refinancing peaks

Gross financing needs (% of GDP)[1]



Debt ratio (% of GDP)[1]



Note

1 Primary balance hypotheses are as follows. Base case: 5 years at 3.5%, trend at 1.9% as of 2027. European scenario: 6 years at 3.5%, trend at 1.5% as of 2033 . Downside case: 1 year at 3.5%, trend at 1.5% as of 2028.

Focus on the short Term Debt Relief Measures

Short-term debt measures implemented from January 2017 after approval by ESM's board

Three short term measures implemented significantly decreasing GFN in the MT

Smoothening of EFSF repayment profile

- The smoothening applies to €85.1bn of Greek government liabilities corresponding to the Master Financial Assistance Facility loans within the EFSF envelope
- The smoothening exercise extended the weighted average maturity of MFFA loans from 28.2 years in 2016 to 32.4 years in 2017
- The smoothening pushed peak maturities from the 2030s and 2040s into a 14-year time frame expanding from 2043 to 2056

Waiver of step-up interest rate margin

- The waiver of a 200bps step-up interest rate margin for a €11.3bn tranche of the EFSF programme in 2017
- The waiver of the step-up margins was provided for 2017 only (savings of €226m) with permanent suppression in medium-term measures

EFSF / ESM specific funding strategy

- The EFSF/ESM diversified funding strategy reduces the interest rate risk facing Greece in the long-term, through three elements:
- Exchange of Floating Rate notes extended to Greece as part of the recapitalization of the country's banking sector and held by Greek banks into fixed rate instruments, stabilizing the cost of funding and reducing interest rate risk
- Interest rate swaps, engaging the ESM into fixed-for variable interest rate swaps and transferring the costs and benefits to Greece
- Matched funding strategy, matching the future disbursements of the Third Economic Programme by the ESM to Greece with fixed rate long term issuances up to 30 years

Focus on the short Term Debt Relief Measures

Short-term debt measures implemented from January 2017 after approval by ESM's board

GFN as % GDP – *Fully-loaded* short-term measures