



Hellenic Republic

June 2018

The May 25th 2016 Eurogroup agreement

In May 2016, the Eurogroup agreed on a package of debt measures to be implemented progressively to ensure Greek debt sustainability

May 25th 2016 agreement

The measures were designed by the Eurogroup to alleviate the Greek debt burden according to the following principles:

- (i) facilitating market access;*
- (ii) smoothening the repayment profile;*
- (iii) incentivizing the country's adjustment process even after the programme ends;*
- (iv) ensuring flexibility to accommodate uncertain GDP growth and interest rate developments in the future*

Short-term measures	Medium-term measures	Long-term measures
<p>To be implemented <u>after the closure of the first review</u> up to the end of the programme:</p> <ul style="list-style-type: none"> ● 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 	<p>To be implemented <u>following the successful completion of the ESM programme</u> if needed to meet the GFN benchmark:</p> <ul style="list-style-type: none"> ● 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 	<p>These would be activated <u>after the ESM programme</u> to ensure debt sustainability in the long run, provided additional debt measures are needed to meet the GFN benchmark</p> <p>These measures would be subject to a decision by the Eurogroup confirming that Greece complies with the requirements under the SGP:</p> <ul style="list-style-type: none"> ● Further EFSF re-profiling ● Capping and deferral of interest payments



Key highlights of the June 22nd Eurogroup Agreement

This agreement defines medium term measures, building on the short term measures already implemented



Debt dynamics are clearly sustainable and on a downward path following these debt relief measures

- Debt dynamics are deemed to be sustainable even in the longer term
- **Debt-to-GDP ratio is expected to decline to 128% of GDP in 2032 against 134% previously**
- Over the 2018-2032 period, **annual Gross Financing Needs have been reduced by 2.7 percentage of GDP to 10.6% of GDP on average**



Greece has protracted perspectives without refinancing risks

- Greece will be equipped with a **€24.1bn cash buffer at the end of the programme**, equivalent to **2 years of gross financing needs** (over 4 years of debt maturities assuming T-Bills are rolled over)
- Greece will also receive the profits incurred by European central banks as part of the SMP/ANFA programmes: €5.8bn will be distributed over 2018-2022 while the abolition of the step-up interest rate margin will allow to save €0.2bn per year



Interest rate risk is contained and actively managed

- **Variable rates now represent only 49% of the total portfolio** thanks to the short-term measures implemented and Greece's focus on fixed interest rate market issuances in the last 12 months
- Greece is shielded against interest rate risk by interest rate swap arrangements, limited financing needs, a substantial cash buffer, the low sensitivity of ESM funding costs and future buy-backs



A rendez-vous clause exists in 2032 should the debt dynamics not be deemed satisfactory and require implementation of the long term measures



Short-term debt relief measures

Short-term debt relief measures were successfully implemented in 2017

The ESM estimates that the total package of short-term debt relief measures will reduce the country's debt-to-GDP ratio by about 25 percentage points by 2060, and the gross financing needs-to-GDP ratio by around six percentage points

Short-term debt relief measures

Smoothing repayment profile

Due to several factors, such as the return of bonds by Greece to the EFSF in February 2015, the weighted average maturity of the loans in Greece's second programme with the EFSF dropped to approximately 28 years.

Greece's repayment schedule was re-profiled in order to

- Extend the weighted average maturity and bring it back to 32.5 years
- Avoid a number of peak maturities in the years 2030's and 2040's

Reducing interest rate risk

Three different schemes were implemented to reduce Greece's interest rate risk.

- A bond exchange: The ESM exchanged floating-rates notes Greece benefitted from to recapitalize banks against fixed-rate notes
- Swap arrangements: Swap arrangements were entered to fix the interest rate on existing ESM loans
- Matched funding: the ESM applied a fixed rate to new loans to Greece

Waiving the step-up interest rate margin

This measure applied to the €11.3bn instalment disbursed under Greece's second financial assistance programme by the EFSF/ESM to finance a debt buy-back

The 2% step-up interest rate margin that had originally been foreseen for 2017 was waived and not charged in 2017



Medium-term debt relief measures

Medium-term debt relief measures agreed in June 2018 secure long-term sustainability

Key highlights

The debt relief measures include:

- **Immediate and unconditional measures:** (i) a further deferral by 10 years applied to interest and amortization on €96.9bn of EFSF loans and (ii) an extension of the weighted average maturity by 10 years
- **Measures conditional on the compliance with a set of European benchmarks:** (i) the abolition of the step-up interest rate margin on the debt buy-back tranche of the second programme, representing interest savings of c. €0.2bn per year and (ii) the restoration of ECB profits from 2014 and 2017 onwards for a total amount of €5.8bn to be distributed over 2018-2022

In addition, the ESM will disburse a final loan of €15bn in the context of the completion of the 4th review of the programme. This loan will be used to:

- **Further build up Greece's cash buffer:** Greece will have €24.1bn in total as a precautionary cushion – the equivalent of two years of gross financing needs
- **Buyback past loans / bonds** whose terms are relatively unfavourable in order to reduce debt service costs

Key metrics based on preliminary DSA analysis

	Statu Quo incl. ST measures	Post Eurogroup 22/06/18
EFSF WAM extension	No extension or deferral	10 years + <u>10 years deferral of interest payments</u>
Cash disbursed for buyback	€0bn	€3.3bn
Cash available before buyback	€24.1bn	€27.4bn
Buyback assumptions	n.a.	€3.3bn (e.g. ECB, IMF, etc.)
Debt to GDP ratio in 2060	Reduced by 30 percentage points of GDP (preliminary analysis) ¹	
Financing needs over 2019-2022	10.8% of GDP average	9.9% of GDP average
Financing needs in 2019	11.6% of GDP	10.8% of GDP
Years of GFN covered (excl. T-bills)	4.8	4.9
1st year breaching GFN threshold at 15 / 20 % of GDP	20% of GDP: 2033 15% of GDP: 2028	20% of GDP: no breach 15% of GDP: 2033

Note

¹ According to European Institutions



Medium-term debt relief measures

They bring gross financing needs below 20% of GDP until 2060 which constitutes the key threshold to assess Greek debt sustainability

Macro assumptions

- Long-term nominal GDP growth of 3.0% over 2023-2060
- Average primary surplus of 2.2% of GDP over 2023-2060
- Average refinancing rate of 5.2% over 2023-2060

