



# A NEW CHAPTER FOR GREECE

## FURTHER DETAILS ON THE IMPLEMENTATION OF DEBT MEASURES

One of the legacies of the crisis is that public debt in Greece has reached very high levels. A number of debt measures have been implemented and several more have been agreed by the Eurogroup to ease Greece's debt burden. These measures, together with the reforms undertaken as part of the programme, will serve to reassure partners and investors that Greece's debt is sustainable over time and will therefore facilitate a return to market financing, allowing Greece to stand on its own two feet.

### 2012 DEBT MEASURES

The EU has already taken important steps to improve the sustainability of Greek debt. In November 2012, the Eurogroup approved a set of measures designed to ease Greece's debt burden and bring its public debt back to a sustainable path. These measures included:

- ✓ **reducing the interest rate** charged to Greece on the bilateral loans in the context of the Greek Loan Facility by 100 basis points.
- ✓ **cancelling the European Financial Stability Facility (EFSF) guarantee commitment fee** of 10 basis points. It is estimated that this will save a total of €2.7 billion over the entire period of European Financial Stability Facility loans to Greece.
- ✓ **extending the maturity of Greek Loan Facility and European Financial Stability Facility loans** by 15 years to an average loan maturity of over 30 years, significantly improving the country's debt profile.
- ✓ **deferring interest rate payments on European Financial Stability Facility loans** by 10 years. It is estimated that this will lower the country's financing needs by €12.9 billion by 2022.
- ✓ passing on to Greece an amount equivalent to **the income of the ECB's Securities Markets Programme** (SMP) portfolio accruing to euro area Member States' national central banks. Greece has received around €3 billion between 2012-2014.

Already, in March 2012, an agreement had been reached to make Greece's debts more sustainable through a restructuring of its sovereign debt. About 97% of the €205.6 billion in bonds held by private investors participated in the debt exchange, leading to a reduction in Greece's debt burden of about €107 billion.

### 2016: SHORT-TERM MEASURES

In July 2015, the Eurogroup declared itself ready to consider additional measures aimed at ensuring that Greece's gross financing needs (GFN), meaning the amount required to roll over the debt that matures in the course of the year remain at a sustainable level. In May 2016, the Eurogroup laid out a roadmap for more debt relief. In May 2016, the Eurogroup laid out a roadmap for more debt relief. This envisaged measures that could be implemented in the short, the medium and the long term. The first set of measures was implemented in 2017, consisting of three pillars:

- ✓ **smoothing Greece's repayment profile:** the maturity of the loans of the European Financial Stability Facility programme (the second programme) has been brought back up to the maximum of 32.5 years, and the repayment scheduled re-profiled, to avoid a number of repayment humps in the 2030s and 2040s.
- ✓ **reducing interest rate risk** through three schemes: bond exchange, swap arrangements and matched funding.
- ✓ **waiving the step-up interest rate margin for 2017:** this applies to the €11.3 billion instalment of the EFSF programme. A margin of 2% had originally been foreseen for 2017 onwards, but was not charged for the year 2017.

This package will reduce the country's debt-to-GDP ratio by about 25 percentage points by 2060, and Greece's gross financing needs-to-GDP ratio by around six percentage points.

## MEDIUM AND LONG TERM MEASURES

In addition to the short-term debt measures already in place, the Eurogroup agreed in June 2018 to implement medium and long-term debt measures to ensure that Greece's debt is sustainable.

- ✓ The step-up interest rate margin on €11.3 billion of European Financial Stability Facility loans will be waived.
- ✓ The Eurosystem's profits on Greek bonds will be transferred to Greece on a semi-annual basis, starting in 2018 until June 2022.

Implementation of these two measures will be subject to compliance with policy commitments and monitoring under the post-programme enhanced surveillance framework. These commitments ensure the continuity and completion of key reforms already adopted under the ESM programme.

- ✓ Interest payments and the amortisation of European Financial Stability Facility loans will be deferred by 10 years until 2033. Their weighted average maturity will be extended by 10 years.

The Eurogroup also agreed to review whether additional debt measures are needed in 2032.

## FAVOURABLE FINANCING CONDITIONS

While public debt remains at high levels, the implementation of a comprehensive and unprecedented reform package that tackled longstanding and deep-rooted structural issues has laid the foundations for a sustainable recovery. This reform effort, together with the strong package of debt measures agreed at the June 2018 Eurogroup, has succeeded in sending a positive signal. Greece's credit rating has been upgraded by all major rating agencies in the last year, facilitating a return to market financing.

Throughout a period during which Greece was unable to access international market financing, the European Stability Mechanism has supported the Greek people by providing unprecedented amounts of long-term loans at very favourable interest rates. The European Stability Mechanism estimates that these preferential loans result in annual budget savings of almost €12 billion. This is equivalent to 6.7% of Greece's GDP in 2017.

With the final disbursement of €15 billion under the programme in August 2018, Greece will be leaving the programme with a sizeable cash buffer in the region of €24 billion to cover its financing needs in the immediate post-programme period. This represents a significant backstop against any risks.