Greece: Debt sustainability outlook post the Oct. 26th EU Summit

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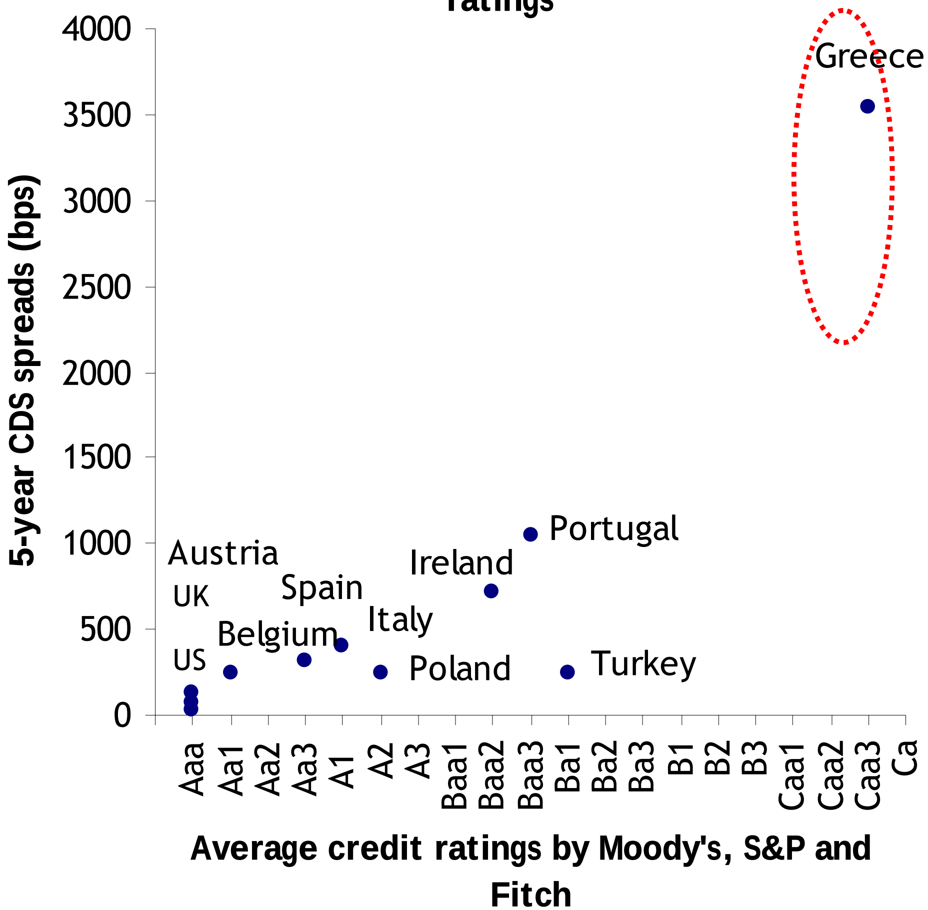
Part I

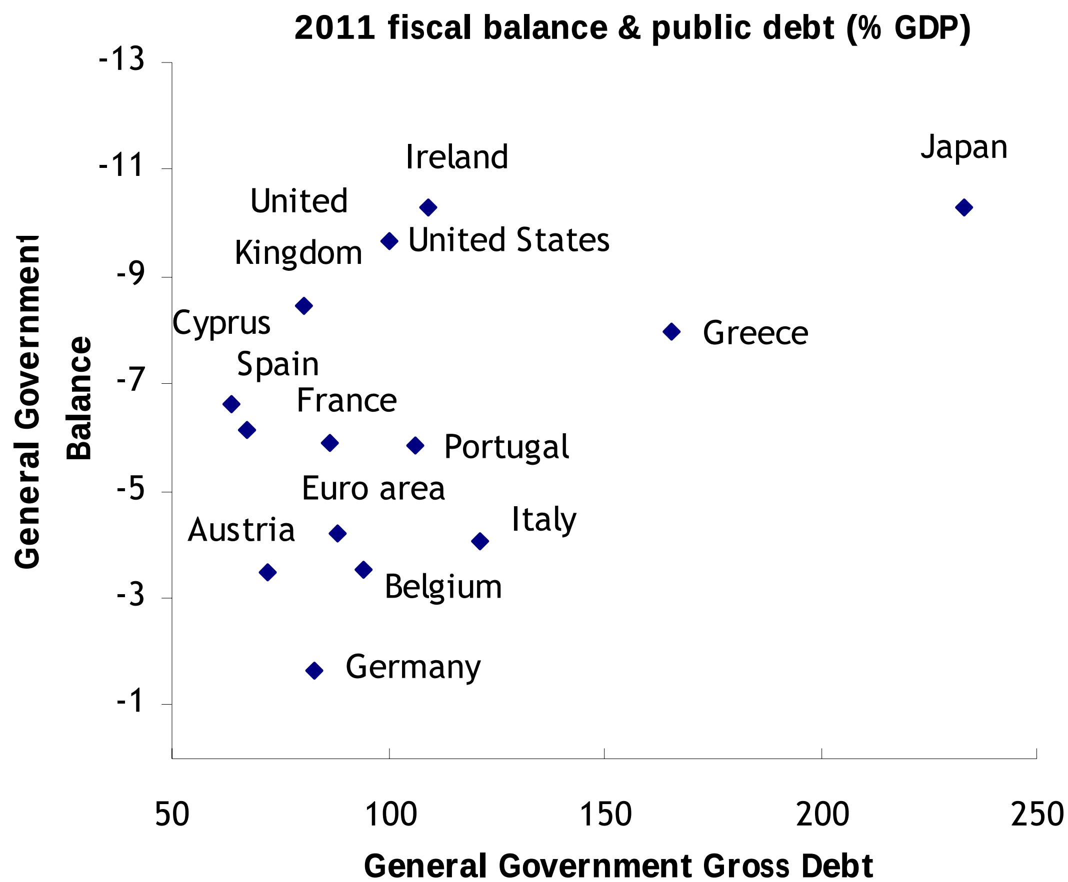
Euro area debt crisis

Fundamental drivers & market pricing

Greece and the euro area debt crisis
Fundamental drivers & market pricing



Source: Eurobank EFG, Reuters



Source: IMF World Economic Outlook (Sept. 2011)

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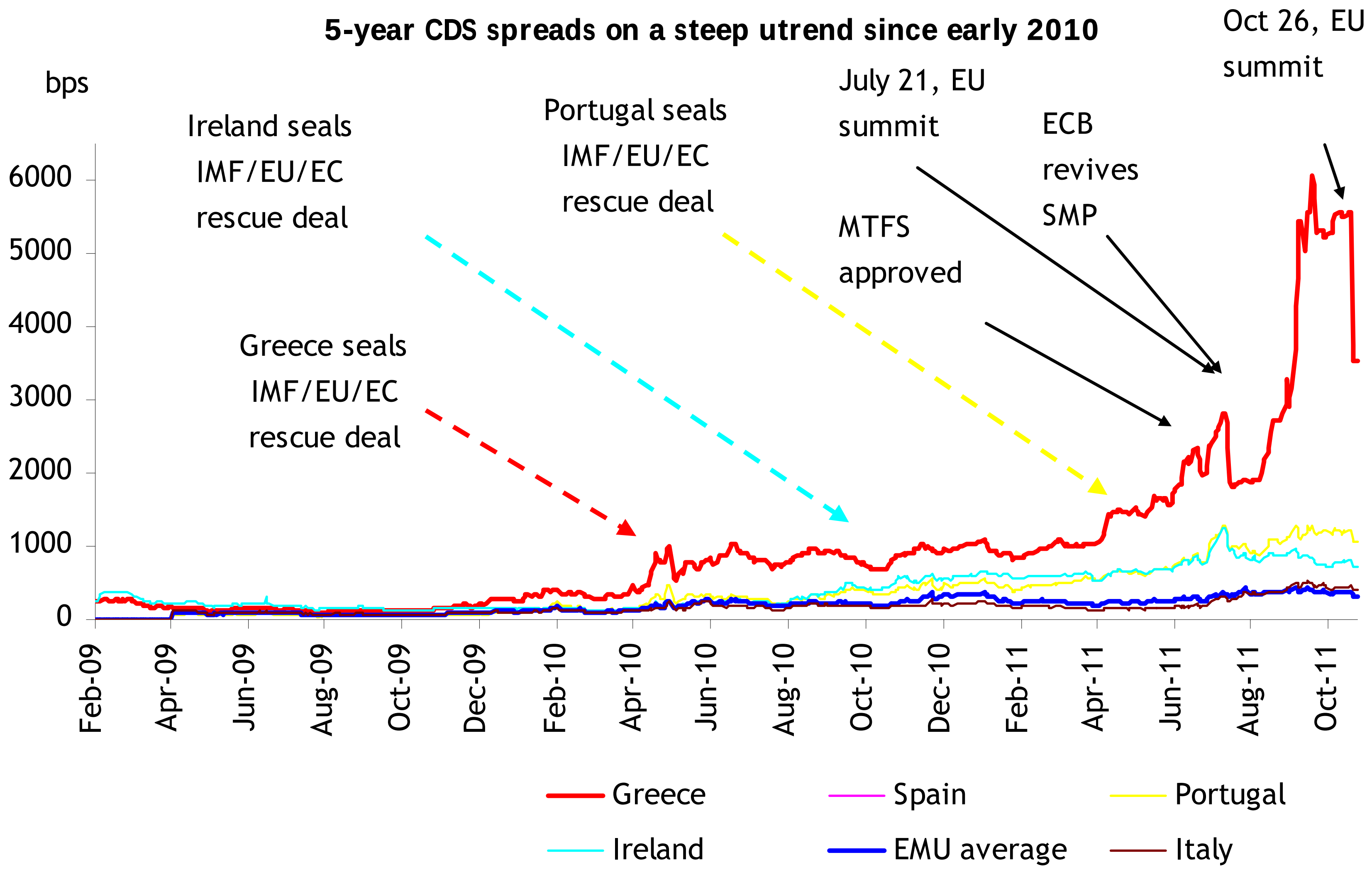
Euro area debt crisis
Evolution of sovereign credit spreads

5-year CDS spreads on a steep utrend since early 2010



Source: Bloomberg, Eurobank EFG

Greece: Debt sustainability analysis
Official sector forecasts (new Vs. old)

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2030
Real GDP growth (%)	**Revised troika baseline (Oct 21, 2011)**	**-5.5**	**-2.9**	**0.5**	**2.1**	**2.7**	**2.9**	**2.8**	**2.8**	**2.7**	**2.4**	**1.5**
	IMF 4th review **(July 2011)**	-3.8	0.6	2.1	2.3	2.7	2.9	3.0	3.0	3.0	3.0	n.a.
GDP deflator (%)	**Revised troika baseline (Oct 21, 2011)**	**1.4**	**0.2**	**0.3**	**0.4**	**0.6**	**0.8**	**1.0**	**1.2**	**1.5**	**1.7**	**1.8**
	IMF 4th review **(July 2011)**	1.5	0.7	1.0	1.0	0.9	1.1	1.3	1.4	1.7	1.8	n.a.
General gvtn primary balance (% of GDP)	**Revised troika baseline (Oct 21, 2011)**	**-2.3**	**1.4**	**2.5**	**4.5**	**4.5**	**4.5**	**4.3**	**4.3**	**4.3**	**4.3**	**3.5**
	IMF 4th review **(July 2011)**	-0.8	1.5	3.5	6.4	7.7	6.4	6.4	6.4	6.4	6.4	n.a.
Average nominal interest rate on public debt (%)	**Revised troika baseline (Oct 21, 2011)**	4.5	5.1	4.3	4.5	4.5	4.5	4.6	4.7	4.7	4.7	5.1
	IMF 4th review **(July 2011)**	4.6	4.9	5.0	5.5	5.9	6.1	6.4	6.9	6.7	6.7	n.a.
Gross public debt (% of GDP)	**Revised troika baseline (Oct 21, 2011)**	162	183	186	184	179	173	168	163	157	152	130
	IMF 4th review **(July 2011)**	166	172	170	160	146	143	140	138	134	130	n.a.

Source: Eurobank EFG Research based on EC/IMF/ECB revised debt sustainability report (Oct 21, 2011)

Part II

October 26th EU Summit statement

Main Components & assessment

October 26th EU Council statement
Main elements

New bailout plan for Greece

- new EU-IMF programme financing
- enhanced (and voluntary) PSI

EFSF leverage

- insurance scheme to guarantee "first loss" on newly-issued EZ sovereign bonds
- SPV open to potential funding from the IMF as well public & private financial institutions and investors; structure aims to maximize funding arrangements of the EFSF
- leverage effect of each option to vary with specific futures & market conditions, but could be up to 4 or 5 times

EU-wide bank recapitalization; state guarantees to improve long-term bank funding

- required core tier-1 ratio increased to 9%; new capital threshold to be attained by June 30, 2012
- EFSF to be used only as last resort in bank recapitalizations

Further fiscal consolidation

especially, by member states that are currently experiencing tensions in sovereign debt markets e.g. Italy, Spain

Tighter economic and fiscal governance in the euro area

EU deficit and debt rules should be embedded in national legislation, preferably at constitutional level by the end of next year; Commission to get more power in monitoring national budgets; limited Treaty changes likely

October 26th EU Council statement
Risks, key components and operating modalities yet to be clarified

New bailout plan for Greece

– exact PSI structure & realized participation rate
– impact on domestic banks & social security funds
– sovereign rating implications

EFSF leverage

– extent and cost of insurance scheme
– concrete commitments by potential investors to fund proposed SPV
– creditor status of SPV
– continuity of ECB's Securities Markets Programme (SMP)

EU-wide bank recapitalization, state guarantees to improve long-term bank funding

– type of capital banks should raise to achieve the new capital ratio
– options to ensure that achievement of new capital bar does not impede flow of credit to the real economy
– options for a EU-wide scheme to guarantee long-term bank funding

Tighter economic and fiscal governance in the euro area

– a new round of time-consuming parliamentary ratification procedures?

New bailout plan for Greece
Main components

Total official financing earmarked for Greece until the end of 2014

– up to €100bn in new EFSF/IMF funding

– up to €30bn in euro area Member State contributions for a new voluntary PSI

– some €42bn of *still undisbursed* funds under the existing *Greek Loan Facility*

An enhanced (and voluntary) PSI scheme

– exact structure still unknown, but should be such that:

- 50% nominal discount applied on notional Greek debt held by private-sector investors
- facilitates drop in public debt ratio towards 120%-of-GDP by 2020

Other components

– credit enhancements to improve quality of collateral used by Greek banks in Eurosystem liquidity operations

– strengthening of monitoring mechanisms to ensure rigorous implementation of reforms programme

– up to €15bn of privatization revenue *in excess* of those already included in the adjustment programme

– July 21th Council decisions to apply as regards the improved terms of (existing & new) EZ/EFSF loans

Breakdown of Greek public debt by type of holder (€bn)

A. PSI-plus eligible debt	
Greek banks	47
Greek pension funds	23
Foreign accounts	137
Total PSI eligible debt	**207**
B. Non PSI eligible debt	
ECB holdings	55
T-bills	16
Troika loans	65
Other debt (*)	17
Total non PSI eligible debt	**153**
Total Greek government debt (A+B)	**360**

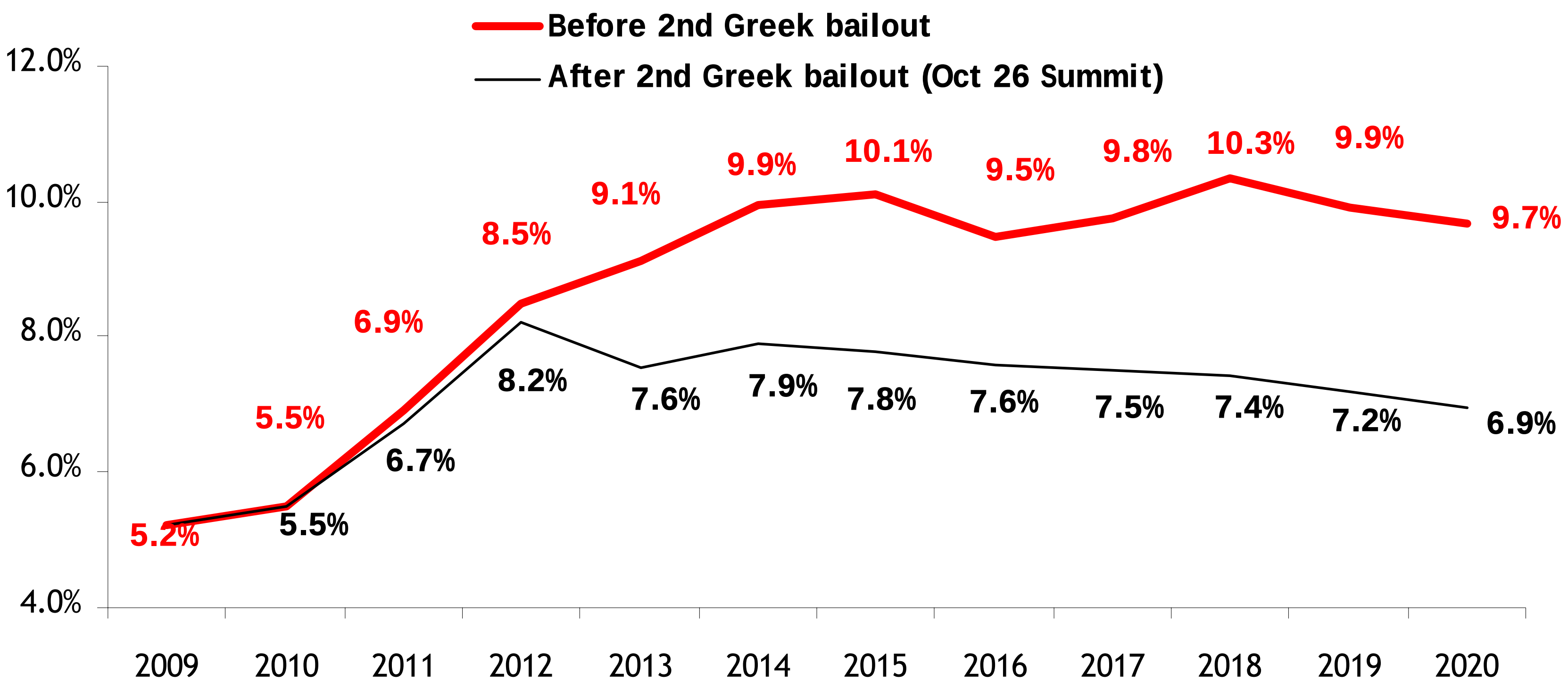
Source: Greek MoF, IMF, Eurobank EFG Research estimates

(*) Incluses e.g. loans to Greek public enterprices (~€10bn), Titlos (~€5.4bn) etc.

Reportedly, the new PSI-plus scheme will cover the entire universe of privately-held Greek government debt, with a total outstanding amount of ca €206bn and maturities extending up to 2035. As a reminder, the initial PSI scheme involved government paper maturing up to 2020, with the corresponding notional of eligible bonds estimated at ca €150bn.

Debt sustainability improvement mainly as a result of (i) nominal discounts applied on notional private-held debt & (ii) lower interest rates on EZ/EFSF loans

Evolution of general government interest rate expenditure (ppt.-of-GDP)*



Source: Eurobank EFG Research forecasts based on new EC/IMF/ECB baseline projections

(*) Assumes full investor participation in new PSI deal

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Greece debt sustainability
Scenario analysis - Evolution of public debt net of PSI collateral (ppt-of-GDP)

Key Macroeconomic and Fiscal Assumptions Underlying Baseline

(in GDP percent, unless otherwise indicated)

	Actual			Projections								
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Scenario 0 - EC/IMF/ECB baseline *(Greece: Debt sustainability analysis; Oct 21, 2011)*												
Real GDP growth (in percent)	-3.3	-3.5	-5.5	-2.9	0.5	2.1	2.7	2.9	2.8	2.8	2.7	2.4
Inflation rate (GDP deflator, in percent)	1.1	1.7	1.4	0.2	0.3	0.4	0.6	0.8	1.0	1.2	1.5	1.7
Primary balance	-10.4	-5.0	-2.3	1.4	2.5	4.5	4.5	4.5	4.3	4.3	4.3	4.3
Avrg. nominal interest rate on debt (in percent)*	4.7	4.2	4.5	5.1	4.3	4.5	4.5	4.5	4.6	4.7	4.7	4.7
Spreads above German Bund (10-year)	-	1,175	1,175	1,000	800	495	475	400	345	300	250	250
German bund rate	-	225	275	350	350	350	350	350	350	350	350	350
Public sector debt	**129**	**145**	**162**	**183**	**186**	**184**	**179**	**173**	**168**	**163**	**157**	**152**
Scenario 1- EC/IMF/ECB baseline, incorporating 50% nominal discount applied on notional debt held by private investors**												
Public sector debt	**129**	**145**	**162**	**153**	**156**	**152**	**147**	**142**	**136**	**130**	**124**	**120**
Scenario 1.1- EC/IMF/ECB baseline, incorporating: (i) 50% nominal discount applied on notional debt held by private investors and (ii) €10bn additional privatization revenue relative to the baseline (~46bn in 2011-2020)**												
Public sector debt	**129**	**145**	**162**	**153**	**155**	**151**	**145**	**139**	**133**	**127**	**121**	**115**
Scenario 2- EC/IMF/ECB baseline, incorporating: (i) 50% nominal discount applied on notional debt held by private investors; (ii) €15bn additional privatization revenue relative to the baseline (~46bn in 2011-2020) and (iii) 0.5ppt/annum higher inflation after 2012**												
Public sector debt	**129**	**145**	**162**	**153**	**153**	**148**	**142**	**135**	**128**	**121**	**114**	**107**

Source: Eurobank EFG Research forecasts based on new EC/IMF/ECB baseline projections (Oct 2011)

* Derived as nominal interest expenditure divided by previous period debt stock

** Assumes full investor participation in the new PSI-plus scheme

Full coverage of the government's borrowing requirement until 2014

Table: Projected gross borrowing need & financing source in €bn (period 2012-14)

1. Gross borrowing need (A1+A2+A3+A4+A5)	**252.6**
A1. General government deficit	**34.4**
A2. Amortizations (B1+B2+B3)	**125.2**
B1. MLT debt held by private-sector creditors & the ECB (b1+b2)	**97.1**
b1. Residents	34.8
b2. Non-residents	62.3
B2. ST debt (c1+c2)	**18.6**
c1. Residents	14.9
c2. Non-residents	3.7
B3. Official creditors (d1+d2)	**9.5**
d1. IMF	9.5
d2. EU	0.0
A3. Recognition of implicit/contingent liabilities	**27.8**
A4. Other (bank recap, deposit buffer etc.)	**35.2**
A5. PSI "sweeteners"	**30.0**
2. Gross financing source (C1+C2)	**30.6**
C1. Privatization receipts	**12.0**
C2. Market access (e1+e2)	**18.6**
e1. MLT debt	0.0
e2. ST debt	18.6
Financing gap (1.-2.)	**222.0**
Available funding from official sources & PSI (C4+C5+C6+C7)	**222.0**
C4. Offical financing already commited from 1st EU/IMF program*	**29**
C5. EZ contributions to PSI-plus package	**30**
C6. New official financing (EFSF/IMF)	**100**
C7. PSI financing	**63**

Source: Eurobank EFG Research forecasts based on new EC/IMF/ECB baseline scenario (Oct 2011)

(*) Assumes disbursement of next two EU/IMF loan tranches (€8bn and €5bn) before end-2011

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Full implementation of new bailout plan for Greece (Oct 26 EU Summit) implies significant drop in market borrowing needs after 2014

Greece - General gvnt borrowing requirement & financing source (EURbn)

Cumulative (Period 2015-2020)

	2015-2020
1. Gross borrowing need (A1+A2+A3)	**208.2**
A1. General gvnt deficit	46.4
A2 Amortizations (b1+b2+b3)	160.9
b1. MLT debt held by private investors & the ECB	102.6
b2. ST debt	37.2
b3. Official creditors (IMF)	21.2
A3 Other	0.9
2. Gross financing source (C1+C2+C3)	**171.0**
C1. Privatization receipts	43.8
C2. Market access (e1+e2)	37.2
e1. MLT	???
e2. ST	37.2
C3. PSI-plus financing (100% participation)	90
Financing gap (1.-2.) (*)	**37.2**

Source: Eurobank EFG Research based on new EC/IMF/ECB baseline scenario

(*) to be risen via e.g. new official funding

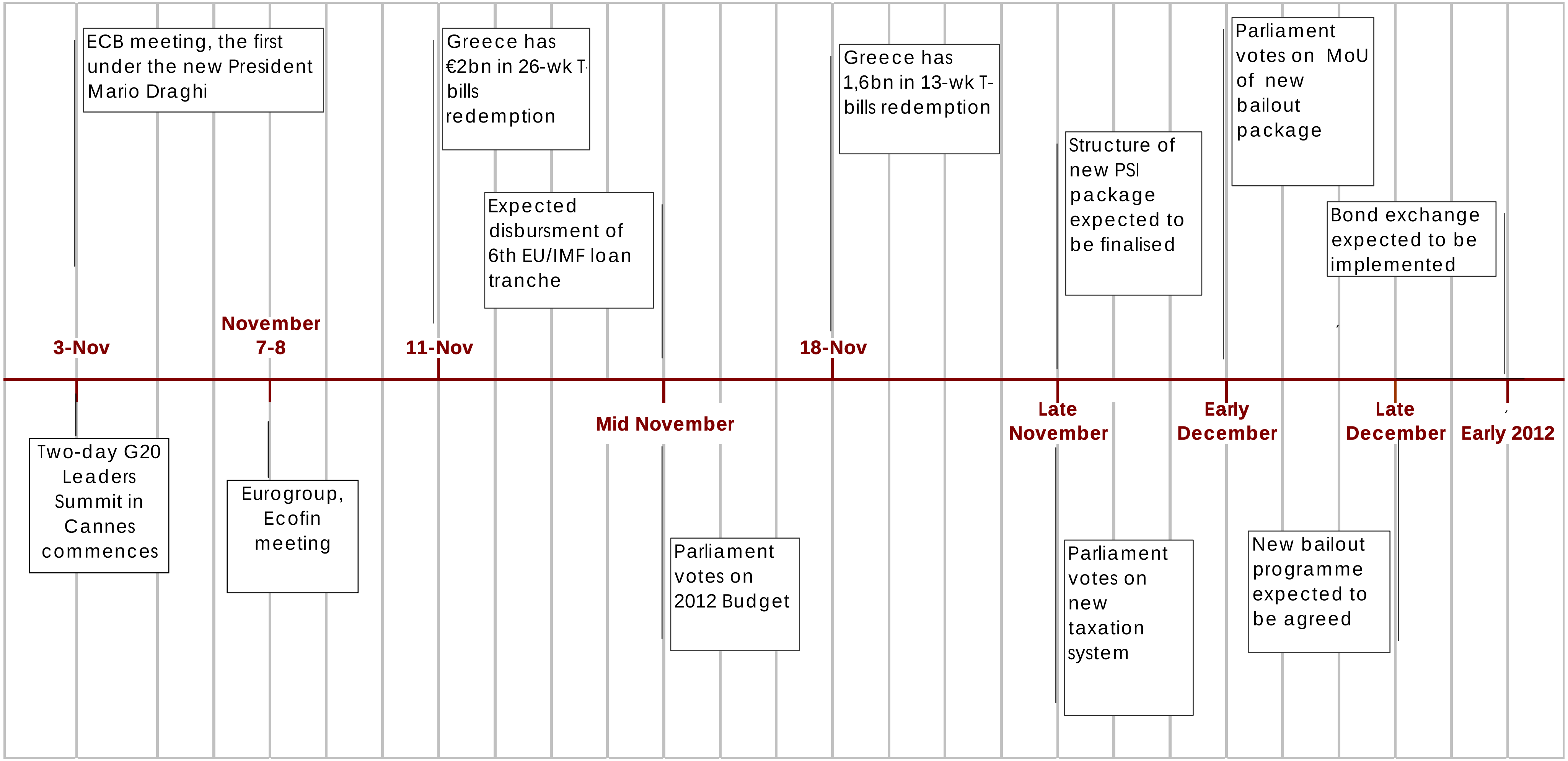
Part III

Greek sovereign crisis

Risk calendar ahead

Euro area debt crisis - Focus Greece
Risks calendar

Greece: Key dates & events in the coming weeks



Concluding remark

–Taken at face value (and from a pure debt-sustainability standpoint), the new bailout plan for Greece appears to constitute an improvement relative to that announced at the July 21 EU Council

–Yet, a number of important challenges and risks remain with respect to its implementation

–A more throughout assessment of these uncertainties could not be possible at this stage, given that important parts and modalities of the new package still remain unknown

–The deployment of such risks will potentially be a function of, among others:

- the final structure of the new PSI scheme;
- its implications for domestic banks and social security funds;
- the reaction of rating agencies; and
- the evolution of the domestic economy and sociopolitical environment in the subsequent period

For more info, please consult the Eurobank website:

http://www.eurobank.gr/research

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