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GREECE MACRO MONITOR

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Focus notes: Greece

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Greek PSI: Public offer results, debt exchange timeline and impact on sovereign liquidity & solvency

Contents

Part I - Greek PSI offer results

A public offer for the exchange of privately-held Greek government bonds closed in the late hours of Thursday March 8, 2012. The offer was official launched on February 24, 2012. The Greek Ministry of Finance announced the results of the public offer earlier today, adding that:

a) the invitation period (to the public offer) for each series of PSI-eligible foreign-law bonds and of bonds issued by state enterprises and guaranteed by the Hellenic Republic has been extended until 9:00 p.m. (C.E.T.) on March 23, 2012. Accordingly, the settlement date for the *exchange-only securities* will be deferred to April 11, 2012; and

b) an invitation will be issuedto the holders of Greek law bonds issued by state enterprises (DEKOs) and guaranteed by the Republic - including bonds that have been tendered in the exchange offer but have not been accepted by the Republic -, soliciting consents to amend these bonds as contemplated by the Greek Bondholder Act (CACs legislation - Law 4050/2012).

As regards to the overall investor participation in the proposed debt exchange, please note the following:
Private-sector holders of approximately **€172bn** principal amount of bonds issued or guaranteed by the Republic (~ 83.7% of all PSI-eligible debt) *tendered* their bonds for exchange or *consented* to proposed amendments to the terms of the to Greek-law eligible bonds, as per the Greek Bondholder Act (CACs legislation - Law 4050/2012).
Specifically,

i) Of the approximately **€177bn** of bonds issued by the Hellenic Republic and governed by Greek law and being subject to the official invitation:

  o Holders of ca **€152bn** face amount of Greek-law bonds (representing 85.8% of the total outstanding notional of such PSI-eligible bonds) ***tendered*** their bonds for exchange and ***consented*** to proposed amendments to the terms of these bonds.

  o Holders of ca **€9.4bn** of Greek-law bonds (or 5.3% of the total outstanding amount of such bonds) ***participated*** in the consent solicitation and ***opposed*** the proposed amendments.

i) Of the approximately **€28.6bn** of foreign-law government bonds and of bonds issued by state enterprises and guaranteed by the Republic:

- o Holders of ca **€20bn** aggregate face amount of these bonds (or 69% of the total outstanding notional of such PSI-eligible bonds) submitted ***tenders*** for exchange and ***consents*** to the proposed amendments.

The official statement released by the Greek Ministry of Finance earlier today read that:

"The Republic has advised its official sector creditors that upon confirmation and certification by the Bank of Greece as process manager under the Greek Bondholder Act (Law 4050/2012), ***it intends to accept the consents received and amend the terms*** *of all of its Greek law government bonds, including those not tendered for exchange pursuant to the invitation, in accordance with the terms of the Greek Bondholder Act"*

We take the above statement as a strong indication that CACs on Greek-law bonds will be activated. If so, tenders for exchange and consents to the proposed amendments will total approximately €197bn or 95.7% of the overall outstanding amount of all PSI-eligible debt. Table A below provides a breakdown of the major categories of eligible debt and the PSI participation.

Overall, the Greek PSI is turning to be a very successful deal, especially in view of its sheer size and complexity. The successful completion of the Greek debt exchange is likely to provide a positive catalyst to sentiment, at least in the short-term.

Table A – Breakdown of eligible debt & PSI participation

	Total outstanding notional of PSI-eligible debt (€bn)	% of total eligible debt
I. Greek-law government bonds	**177.3**	**86.2%**
Of which:		
Tendered for exchange (and consented to change of terms)	146.2	
Only consented to amendement of terms	5.9	
Total (tendered or consented)	**152.1**	
Opposed amendment of terms	9.4	
II. Foreign-law government bonds and bonds guaranteed by the Hellenic Republic	**21.6**	**10.5%**
Of which:		
Tendered for exchange (and consented to change of terms)	**13.1**	
III. Exchange-only Greek-law bonds guaranteed by the Hellenic Republic	**6.7**	**3.3%**
Of which:		
Tendered for exchange	6.4	
Total PSI-eligible debt (I+II+III)	**205.6**	**100%**

Source: Greek Finance Ministry, Eurobank Research

Part II – PSI & official funding programme for Greece: Implications for sovereign liquidity and solvency

New rescue package – key figures

- **Up to €170bn of total financing commitments from official sources for the period 2012-2014, consisting of:**

— **€100bn** of new official (EFSF/IMF) financing for the period 2012-2014.

— **€30bn** in the form of 1-year & 2-year EFSF notes to be offered to private-sector bondholders participating in the debt exchange (PSI).

— Some **€34bn** of committed, *yet still undisbursed*, financing under the 1st EU-IMF programme (Greek Loan Facility).

— Additional financing of up to €6bn for the period 2012-2014 implied by a number of debt-reducing operations decided at the Feb 21st Eurogroup (= **€1.4bn** from lower interest rates on already-disbursed EU bilateral loans + **€1.8bn** from future income accrued to GGB portfolios of member state central banks that will be allocated to reduce Greece's public debt + **additional financing** from somewhat more aggressive PSI terms relative to those assumed in the troika's latest debt sustainability analysis (Feb 15, 1012)).

- **More than €60bn of PSI financing for the period 2012-2014 (Eurobank Research estimate)**

— Private-sector financing to primarily take the form of deferred maturity payments and lower interest rate expenditure as a result of the debt exchange.

— Estimate assumes near universal participation in the proposed debt swap.

- **The above points imply an overall financing package in excess of €230bn for the period 2012-2014**

— The above figure does not account for any additional funding than could result from a decision by euro area member states to allocate profits on the ECB's Greek bond holdings to reduce Greece's debt burden.

Concluding remarks to this section

- **The new bailout package offers full coverage of the government's borrowing requirement in the period 2012-2014.**

— The assessment above assumes that the domestic macro economy and relevant fiscal variables will evolve broadly in line with the baseline projections of the new troika DSA (Feb. 15, 2012).

- **The government's financing gap will fall bellow €50bn cumulatively in the period 2015-2020 (Eurobank Research estimate).**

— Presumably, the latter amount could be covered by a combination of domestic sources (e.g. additional privatization revenue) and some extra external financing.

- **The points above imply that Greece can potentially secure adequate government financing for the period 2012-2020 without having necessarily to resort to market funding via the issuance of medium- and long-term bonds.**

Notes:

- The exact IMF participation in the new rescue program has not been clarified yet (it will be decided by the Fund's Executive Board in the second week of March 2012).
- The July 21st EU Council decisions apply as regards the new (more favorable) terms of 2nd lending program - **i.e.,** average maturity of new EFSF loans to be extended from ca 7.5 years to a minimum of 15 years and up to 25 years with a grace period of 10 years; EFSF funding to remain at cost (Feb 2012 IMF/EC/ECB DSA).
- The interest rate on already disbursed EU bilateral loans will be lower by 150bps (Eurogroup Feb 21st Statement)
- As per the October 26-27th EU Summit Statement, a *temporary* EFSF credit enhancement (up to €35bn) will be provided to ensure collateral eligibility of Greek sovereign bonds in ECB liquidity operations. Presumably, the EFSF credit enhancement will remain in place for as long as Greece's sovereign debt rating remains on "selective default" as a result of the debt swap. This amount is not included in the €100bn figure (new EFSF/IMF financing) quoted above.

Impact on solvency

The new rescue package is expected to have a significant beneficial effect on the country's solvency outlook. This will be mainly due to:

An upfront (gross) reduction in the general government debt burden by ca €107bn as a result of the PSI *i.e.,* 53.5% reduction in the nominal face value of *eligible* Greek sovereign bonds held by private investors. (The €107bn figure quoted above assumes universal investor participation in the debt exchange).

— A significant decline in the government's interest rate expenditure as a result of:

a. lower interest rates on new and old EU/EFSF loans;

b. lower coupon payments on the new government bonds post the debt exchange (lower coupon rates applied to discounted principal);

c. extended maturity profile and a 10-year grace period for new and old EU/EFSF loans; and

d. extended maturity profile of new discounted government bonds to be offered to private sector investors participating in the debt exchange. Note that the latter two factors, c) and d), will particularly affect (i.e., compress) interest rate expenditure in the initial 10-year period after the signing of the new rescue program.

Notes & tables

- As per the new baseline scenario laid out in the revised IMF/EC/ECB DSA (Feb 15, 2012), the terminal value of the gross public debt-to-GDP ratio in FY2020 is 129%.
- Following the debt-reducing operations decided at the February 21th Eurogroup, the general government debt-to-GDP ratio is projected to reach 120.5% in 2020 (table A1):

- **Table A1– Evolution of public debt ratio (before and after the debt-reducing operations decided at the Feb 21st Eurogroup)**

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
IMF/EC/ECB baseline scenario (Feb 2012 DSA)										
Real GDP growth (%)	-6.1	-4.3	0.0	2.3	2.9	2.8	2.8	2.6	2.5	2.2
GDP deflator (%)	1.7	-0.7	-0.4	0.0	0.8	1.0	1.3	1.5	1.7	1.8
Nominal GDP growth (%)	-4.5	-5.0	-0.4	2.3	3.7	3.8	4.1	4.1	4.2	4.0
Primary balance (% GDP)	-2.4	-1.0	1.8	4.5	4.5	4.5	4.5	4.3	4.2	4.3
Avrg. nominal interest rate on debt (%)	4.7	2.1	3.8	4.0	4.1	4.2	4.2	4.3	4.3	4.2
Public sector debt (% of GDP)	**164**	**163**	**168**	**166**	**160**	**154**	**147**	**141**	**135**	**129**
IMF/EC/ECB baseline scenario after debt-reducing operations decided at the Feb 21, 2012 Eurogroup										
Real GDP growth (%)	-6.1	-4.3	0.0	2.3	2.9	2.8	2.8	2.6	2.5	2.2
GDP deflator (%)	1.7	-0.7	-0.4	0.0	0.8	1.0	1.3	1.5	1.7	1.8
Nominal GDP growth (%)	-4.5	-5.0	-0.4	2.3	3.7	3.8	4.1	4.1	4.2	4.0
Primary balance (% GDP)	-2.4	-1.0	1.8	4.5	4.5	4.5	4.5	4.3	4.2	4.3
Avrg. nominal interest rate on debt (%)	4.7	2.0	3.7	3.9	4.0	3.9	3.9	4.0	4.0	3.9
Public sector debt (% of GDP)	**163.9**	**159.0**	**163.7**	**161.7**	**155.1**	**148.2**	**140.7**	**134.0**	**127.2**	**120.5**

Source: IMF, EC, ECB, Eurobank EFG Research

- **Total interest rate savings – as a result of: a) more favorable terms applied to new and old EU/EFSF loans and b) the PSI operation - will amount to ca €98bn in the period 2012-2020 (Eurobank EFG Research estimate).** In percentage points-of-GDP terms, the corresponding saving due to lower interest rate expenditure will be ca 4.7 per annum (table A2).

Table A2 – Total interest rate expenditure before and after the new bailout package (in billions of euros and in ppts-of-GDP)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
					In billions of euro				
Before 2nd bailout package *Based on IMF's July 2011 DSA*	18.2	19.7	22.0	23.1	22.4	24.0	26.4	26.4	26.9
After 2nd bailout package *Based on IMF/EC/ECB Feb 2012 DSA & Feb 21st Eurogroup*	7.1	12.1	13.1	13.6	13.1	13.0	13.2	13.1	12.6
					In ppt-of-GDP				
Before 2nd bailout package *Based on IMF's July 2011 DSA(*)*	8.8%	9.6%	10.5%	10.6%	9.9%	10.2%	10.8%	10.3%	10.1%
After 2nd bailout package *Based on IMF/EC/ECB Feb 2012 DSA & Feb 21st Eurogroup*	3.5%	5.9%	6.2%	6.2%	5.8%	5.5%	5.4%	5.1%	4.7%

Source: IMF, ECB, EC, Eurobank EFG Research
(*) Based on new baseline GDP projections (Feb 2012 DSA)

Concluding remarks to this section

— The new bailout package implies significant benefits to Greece's solvency outlook, mainly as a result of: a) an upfront *gross* public debt reduction of ca €107bn due to the PSI (assuming near universal participation); and b) a significant decline in interest rate expenditure i.e., by an estimated 4.7ppt-of-GDP per annum.

— Apparently, the aforementioned results are sensitive to the underlying assumptions regarding nominal GDP growth, fiscal primary balances, privatization revenue and other debt-creating flows. The good news is that the latest (Feb. 2012) baseline DSA seems to incorporate much more plausible and realistic assumptions than both the 5th & 4th program reviews (Dec 2011 and July 2011, respectively).

Part III- Updated timeline of key dates and events

In what follows, we present an updated timetable of the key dates and events investors need to closely monitor in the crucial sessions ahead. The timetable discussed below is based on the most recent information we managed to collect from a number of press reports and other sources.

March 9

— An official statement issued following the conclusion of a Eurogroup teleconference stated that a), euro finance officials were informed that the Greek government will invoke the collective action clauses (CACs) applicable to Greek-law government bonds and b) the Eurogroup gave the final approval for "the disbursement of the euro area's contribution to the PSI operation in the form of EFSF bonds for the settlement of the Greek-law bonds as well as the accrued interest on the exchanged bonds".

— ISDA meets at 13.00GMT to determine if Greek sovereign event has occurred

March 12

— Eurogroup gives the final approval for the Greek 2nd bailout package. Likely increase in the combined EFSF/ESM lending capacity may also be a topic of discussions.

— The Greek government exchanges €177bn face value old local-law bonds.

March 14

— The Euro Working Group will reportedly meet to validate the terms of the new loan agreement (i.e. loan installments, timetable of payments)

March 15

— IMF Board convenes to decide the Fund's contribution to Greek 2nd bailout package. Local press wires suggested that the IMF considers contributing €18-29bn, more than ca €10bn previously reported. As a reminder, the IMF committed €30bn to the first Greek bailout programme, an amount equaled to about 27% of the whole package.

March 20

— 3-year government bond redeems

March 23

— Public offer for exchange of foreign-law bonds closes

March 27-29

— Bondholder meetings to decide on the consent solicitation process

April 11

— Exchange of foreign law bonds takes place

Late April / Early May

— Assuming that everything goes according to plan, national elections will be reportedly held on April 29 or May 6.

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