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GREECE MACRO MONITOR

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An update on Greece's borrowing needs in 2015-2020

State financing risks to fall significantly after a pretty demanding 3-month period ahead

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This note provides an update on Greece's general government borrowing needs and sources of funding in the remainder of 2015 and in the coming several years. The analysis offers a detailed account of interest and amortization payments in the period ahead and examines the potential impact of a relaxation of primary surplus targets on a multi-year basis. One of the important conclusions highlighted in our study is that if Greece manages to successfully overcome a demanding 3-month period ahead in terms of sizeable debt service obligations (our baseline scenario), then financing risks are expected to fall significantly in Q4 2015 and in the following 5 years. This is due to a much lighter schedule of interest and amortization payments over that period as well as the 10-year deferral currently applied on principal (and a significant part of interest) payments on EU loans given to Greece under the two consecutive bailout programs.

Urgent need for a swift conclusion in the ongoing negotiations

At the time of writing this report negotiations between the Greek government and the institutions continued in an effort to find the necessary common ground to complete the present review and set the stage for a possible follow-up arrangement that would secure adequate state financing until the country has regained full market access. More imminently, a successful completion of the ongoing negotiations is urgently needed to allow the resumption of official-sector financing to the cash-strapped state, especially in view of a heavy schedule of external debt payments in the period ahead and the mere fact that Greece's present loan arrangement with EU creditors is set to expire at the end of this month.[1] In a series of earlier reports we analyzed the serious short-term financing challenges lying ahead, especially in the two-month period July to August. This report updates our analysis of Greece's debt interest and amortization payments in the remainder of 2015. Furthermore, it looks beyond that period, providing a detailed analysis on the evolution of the general government borrowing needs and sources of funding up to the year 2020. One of the important conclusions highlighted in our study is that if Greece manages to successfully overcome a demanding 3-month period ahead in terms of sizeable debt service obligations (our baseline scenario), then financing risks are expected to fall significantly in Q4 2015 and in the following 5 years.

Debt interest and amortization payments in the remainder of t*his* year and beyond

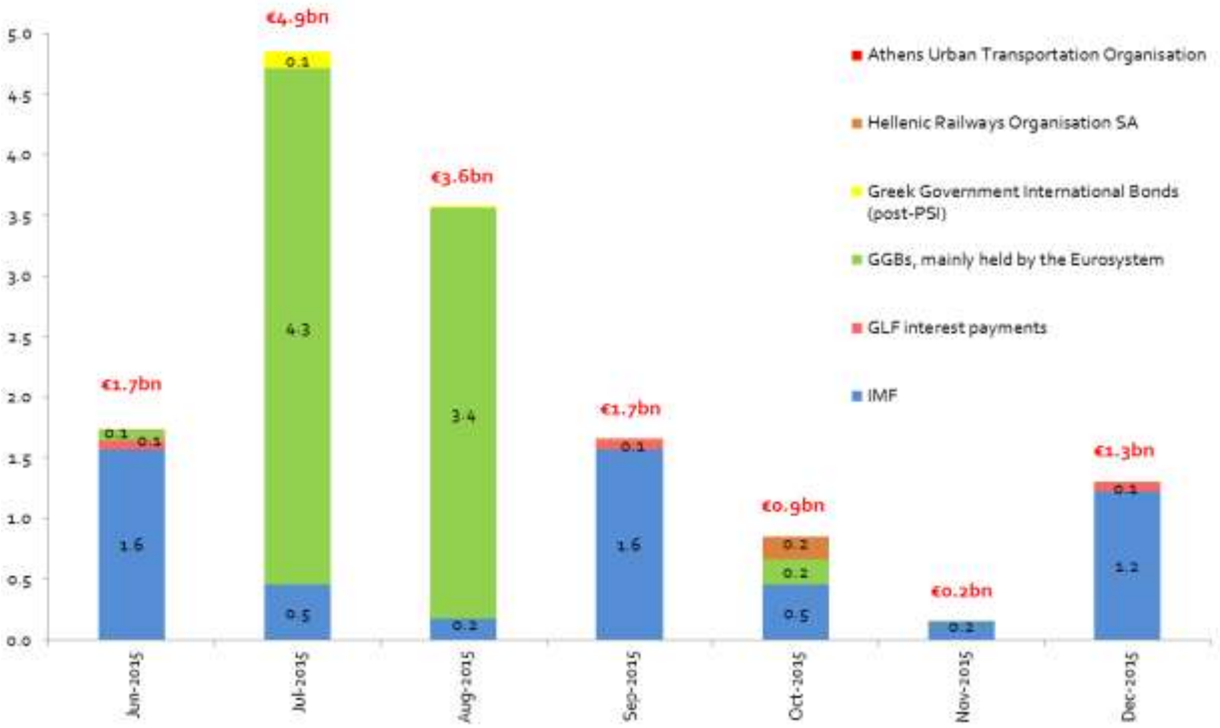
After meeting a debt payment of c. €750mn to the IMF on May 12 (thanks to the tapping of a special drawing rights account)[2], Greece is next scheduled to make a principal payment to the Fund on June 5 (c. €300mn). This would be the first out of four such payments due to the IMF this month, amounting to c. €1.6bn (June 12 c. €340mn, June 16 c. €565mn, June 19 c. €340mn). Speaking to reporters early last week, Greece's government spokesman reassured that the government had the means to meet wage and pension payments due in late May (c. €1.1bn), but fell short of clarifying whether available funds are adequate to also cover the June 5 IMF principal

[1] At the Eurogroup of February 20, 2015 it was decided to extend by four months Greece's existing Master Financial Assistance Facility Agreement (MFFA) with EU creditors.

[2] IMF member states are mandated to hold two relevant accounts; one where they deposit their annual quota, in effect their membership fee, and the other where they store reserves, including gold, in case of emergency.

payment.[3] The government spokesman rejected market talk that Greece may opt, with the IMF's consent, to lump together all four payments due to the Fund in June and meet them at the end of this month.[4] In addition to the scheduled payments to the IMF, Greece has also to pay in June €85mn of interest on GGBs and €75mn of interest on GLF loans. In addition, €5.2bn in T-bills is redeemed this month, while the country will also need to cover monthly wages and salaries amounting to c. €1.5bn. *Figure 1* portrays the full schedule of Greece's interest and amortization payments in the remainder of 2015. As can be inferred by the figure below, the greatest part of debt service costs in Q3 relates to scheduled maturity payments on bonds (GGBs) currently held by the Eurosystem (SMP and ANFA portfolios), while external debt payments are expected to decline significantly in the last quarter of this year. Finally for exposition purposes, *Table A* in Appendix provides the full schedule of amortization payments on Greece's central government debt up to the year 2057.

Figure 1 – General government interest and amortization payments in Jun.-Dec. *2015 (EURbn)**



Source: PDMA, Eurobank Research
(*)The figures do not include maturing T-bills, as the overwhelming outstanding stock of this part of short-term public debt is current held by domestic accounts, which can arguably continue rolling over their exposures.

An update on Greece's general government borrowing needs & sources of funding in 2015-2020

To gain a more comprehensive picture of the kind of financing challenges Greece is going to face in the remainder of 2015 (and on a multi-year basis), we need to look at projected evolution of the total general government borrowing needs and potential sources of funding over that period. This kind of analysis is provided in *Table 1*, which covers the full projection horizon 2015-2020. For purely expositional purposes, the table assumes *no* further official-sector financing to Greece. It also assumes a certain relaxation of the primary surplus target to c. 1.0%-of-GDP in 2015, 2.0%-of-GDP in 2016 and to around 2.5%-of-GDP/annum in the years thereafter.[5,6]

[3] These comments followed earlier remarks by a number of high level Greek government officials, including Interior Minister Nikos Voutsis, who openly said that Greece will not be able to meet its upcoming principal payments to the IMF, unless official funds are received by then.
[4] IMF Standing Borrowing Arrangements do not include any formally defined grace period. Yet, based on the IMF's guidelines, several international press reports suggested that Greece could be potentially considered to be in arrears with the IMF once the Managing Director notifies the Executive Board of the Fund that an obligation is overdue, a development that could take place within a month after the missed payment.
[5] The respective primary surplus targets envisaged in Greece's 2nd bailout program are as follows: 3.0%-of-GDP in 2015; 4.5%-of-GDP in 2016 and between 4.2% and 4.5%-of-GDP in the period 2017-2020.
[6] Note that the selection of the aforementioned targets is rather arbitrary, though some recent press reports suggested that, in line with the February 20th agreement, the Greek government is proposing a relaxation of the primary fiscal target to c. 1.0%-of-GDP in 2015, 2.0%-of-GDP in 2016 and to around 3.0-3.5%-of-GDP/annum in the years thereafter

Based on these (and some other) assumptions included in the accompanying explanatory note, Table 1 shows the projected path of the Greek public borrowing requirement in 2015-2020 along with the potential sources to (partially) cover it.

Table 1 - Greece's general government borrowing requirement & funding sources (EUR bn)*
(Scenario assumes no further official sector financing to Greece)

Gross borrowing requirement 2015-2020 (EURbn)	2015	2016	2017	2018	2019	2020
A. Borrowing need *(I.1 + I.2 + I.3)*	**17.5**	**9.2**	**10.5**	**5.3**	**14.1**	**5.6**
I.1 General gvnt cash deficit[1]	3.8	2.0	0.9	0.7	0.5	0.5
I.2 Amortization *(I.2.1 + I.2.2 + I.2.3)*	16.7	7.2	9.6	4.6	13.6	5.1
I.2.1 Bonds and loans (after PSI & DBB)	7.6	4.2	8.9	2.8	11.6	2.4
of which						
ECB (SMP)	*5.2*	*1.5*	*3.7*	*1.3*	*4.8*	*1.1*
NCBs (ANFA)	*1.5*	*0.9*	*1.6*	*0.6*	*1.0*	*0.2*
EIB	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
Bonds	*0.1*	*0.5*	*2.7*	*0.0*	*4.8*	*0.0*
Other international loans	*0.1*	*0.6*	*0.2*	*0.2*	*0.2*	*0.2*
BoG loan	*0.47*	*0.47*	*0.47*	*0.47*	*0.47*	*0.47*
I.2.2 Short-term (net)[2]	0.0	0.0	0.0	0.0	0.0	0.0
I.2.3 Official creditors	9.1	3.0	0.7	1.8	2.0	2.8
of which						
IMF	*9.1*	*3.0*	*0.7*	*1.8*	*2.0*	*2.0*
EU	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.7*
I.3 Other	-3.0	0.0	0.0	0.0	0.0	0.0
I.3.1 Arrears clearance[3]	-3.0	0.0	0.0	0.0	0.0	0.0
I.3.2 Cash buffer[4]	0.0	0.0	0.0	0.0	0.0	0.0
Sources of financing 2015-2020 (EURbn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
B. Funding source (II.1+II.2+II.3+II.4+II.5)	**3.6**	**3.4**	**2.9**	**3.0**	**3.4**	**3.6**
II.1 Market access	0.0	0.0	0.0	0.0	0.0	0.0
II.2 Privatisation revenue[5]	1.9	3.4	2.9	3.0	3.4	3.6
II.3 ANFA & SMP profits	0.0	0.0	0.0	0.0	0.0	0.0
II.4 Official loan disbursements *of which*	0.0	0.0	0.0	0.0	0.0	0.0
EU	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
IMF	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
II.5 Use of subsector deposits through repos & other[6]	1.7	0.0	0.0	0.0	0.0	0.0
Net financing gap 2015-2020 (EURbn)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
Financing gap (A-B) ***"-" deficit / "+" surplus***	**-13.9**	**-5.8**	**-7.6**	**-2.3**	**-10.7**	**-2.0**

Source: EFSF, IMF, PDMA, Eurobank Research

(*) Explanatory note to Table 1

1/ Assumes relaxation of primary surplus target (% GDP) as follows: 2015: +1.0%; 2016: +2.0%, 2017-2020: +2.5% per annum
2/ Total outstanding amount of T-bills assumed to remain at c. €15bn/annum throughout the period 2015-2020
3/ Total outstanding arrears assumed to peak at c. €6bn at the end of 2015 and to remain at these levels throughout the remaining period
4/ Assumes no rebuilding of government cash buffer
5/ 2015 privatization revenue target revised to €1.9bn from €2.2bn; respective annual targets in 2016-2020 same as in 2nd adjustment program
6/ Net borrowing via repos estimated at c. €10.3bn at end-May 2015 from c. €8.6bn at the end of 2014

In addition to the analysis above, *Table 2* below shows how the government's borrowing requirement could potentially be covered by relying on some new official-sector financial (direct or indirect) and, in the outer years, on small issuance of medium- and long-term market debt. In more detail, *Scenario 0* corresponds to the case of no additional official sector financing, which is portrayed in Table 1 above. *Scenario 1* effectively assumes that the present review is successfully completed and, as a result, Greece receives the pending EU/IMF loan tranche of €7.2bn. This scenario assumes no further official sector financing, with all other underlying assumptions remaining broadly the same as *Scenario 0*. The remaining two cases (*Scenarios 2 & 3*) show how the general government net borrowing gap could potentially be covered fully over the 2015-2020 projection horizon by relying on: *a)* some further official sector financing, be it direct (i.e., additional EU/IMF funds) or indirect (rescheduling of maturities of Greek government bonds currently held by the Eurosystem); and *b)* small issuance of medium- and long-term market debt in the outer years.

Table 2 - General government net financing gap (EUR bn): scenario analysis
(negative sign corresponds to a shortfall)

	2015	2016	2017	2018	2019	2020
Scenario 0 - no new official sector financing *(same as in Table 1)*	-13.9	-5.8	-7.6	-2.3	-10.7	-2.0
Scenario 1 - Release of pendings loan tranche (€7.2bn = €1.8bn EFSF + €1.9bn SMP + €3.5bn IMF) & no additional official-sector financing	-6.7	-5.8	-7.6	-2.3	-11	-2.6
Scenario 2 - Release of pendings loan tranche (€7.2bn), but no additional (direct) official-sector financing. In addition to the above, rescheduling of ANFA & SMP bond maturities (for after 2020), along with €3.5bn increase in T-bill issuance & resumed market access in 2017-2020 (avrg. €2.4bn/annum)	0.0	0.0	0.0	0.0	0.0	0.0
Scenario 3 - Release of pendings loan tranche (€7.2bn) along with 3rd bailout package (€12.5bn remaining IMF commitments & partial utilization of HFSF buffer for budgetary financing c. €9bn). Scenario also assumes full return to Greece of ANFA & SMP profits over the full projection horizon	0.0	0.0	0.0	0.0	0.0	0.0

Source: EFSF, IMF, PDMA, Eurobank Research

Key findings & concluding remarks

In the absence of new official-sector financing in the period ahead (not our baseline scenario), the *cumulative* general government borrowing gap in the remainder of this year and in 2016 would not exceed €25bn, even assuming a sizeable relaxation of the primary surplus target to around 1%-of-GDP in 2015 and to 2%-of-GDP in 2016 (vs. the 2nd program's targets of 3%-of-GDP and 4.5%-of-GDP, respectively).

This could be reduced to less than €15bn, provided that Greece receives the pending EU/IMF loan disbursement upon a successful (and timely) completion of the ongoing negotiations in the context of the February 20th Eurogroup agreement. Clearly, the latter amount compares favorably with some recent analysts' estimates that Greece would need a 3rd bailout package in excess of €30bn, so as to cover its *net* public borrowing requirement in the coming one and a half years.

With respect to the potential sources for covering the aforementioned shortfall, we note that in addition to any funds secured from the privatization program, the general government cash primary surplus and/or other internal sources (e.g. temporary increase in the T-bill issuance), additional official-sector financing, (either direct or indirect) should be included. That is, to ensure the full and timely servicing of external debt obligations and other payments. Importantly, our earlier analysis of a range of new debt relief structures involving the EU loans given to Greece in the context of the first and the second bailout programs suggests that these would be broadly inadequate by themselves to cover the projected financing gap in H2 2015 and in FY-2016.[7]

On the other hand, new official-sector financing could potentially be secured by relying entirely on *existing* commitments under the second EU/IMF bailout package. Based on current exchange rates, IMF commitments under its present Extended Fund Facility for Greece amount to c. €16bn, with the said facility expiring at the end of Q1 2016. Furthermore, a remaining amount of c. €10.9bn from the domestic bank recapitalization program could potentially be used (at least partially) for budgetary financing. Greece could also receive up to €5.6bn by the end of next year (and up to €9.7bn until the end of 2020) in the form of returned profits accrued to the Eurosystem's ANFA and SMP Greek bond holdings.

In addition to the above, an eventual inclusion of Greece in the ECB's expanded asset purchase program (or, alternatively, some kind of rescheduling of the Greek governments bonds currently held by the Eurosystem) could prove to be another (indirect) source of financing the country's public borrowing requirements in the years ahead. Note that, of the total amount of c. €23.9bn of scheduled amortization payments on outstanding sovereign debt (including official sector loans) that Greece needs to honor over the 2-year period 2015-2016, €9bn correspond to maturing Greek government bonds currently held by the ECB (SMP portfolio) and a number of euro area central banks (ANFA portfolios). The respective amounts for the full-period 2015-2020 are as follows: total scheduled amortization payments on outstanding debt of €56.9bn, of which some €23.4bn correspond to maturing SMP & ANFA bonds.[8]

Looking further ahead, the current profile of scheduled debt service payments is such that the general government net borrowing requirement in 2017-2020 will not exceed €10bn/annum on average, even assuming that the respective primary surplus target is relaxed to 2.5%-of-GDP/annum from levels between 4.2% and 4.5%-of-GDP envisaged in the second bailout program. Arguably, the aforementioned shortfalls could be easily financed by the issuance of medium- and long-term sovereign debt, provided of course that, by that time, Greece will have gradually restored market access.

[7] See, "Hard and soft OSI scenarios for the restructuring of Greek public debt - Stock and cash flow implications", Greece Macro Monitor, Eurobank Research, 26 Jan 2015.
[8] These estimates assume that the total outstanding amount of short-term government debt (*i.e.*, T-bills) remains unchanged at around €15bn /annum over the entire projection horizon 2015-2020. By implication, this is equivalent to assuming that that *net* issuance of short-term debt remains unchanged at c. €0bn/annum over the respective period.

Appendix

Greece – Central government amortization payments schedule (EUR bn), as of May 2015

	T-bills	NCBs (ANFA)	ECB (SMP)	Bonds	BoG loans	Special purpose & bilateral international loans (EIB)	Other international loans	EFSF loans	GLF loans (1st bailout)	IMF loans	Repos	Total
2015	14.944	1.529	5.151	0.068	0.472	0.294	0.085			5.498	10.287	38.328
2016		0.852	1.509	0.532	0.472	0.312	0.555			2.995		7.227
2017		1.624	3.656	2.677	0.472	0.302	0.209			0.708		9.648
2018		0.590	1.280	0.029	0.472	0.303	0.163			1.763		4.600
2019		0.996	4.791	4.839	0.472	0.317	0.167			2.046		13.628
2020		0.234	1.132		0.472	0.324	0.166		0.706	2.046		5.080
2021					0.472	0.391	0.171		2.074	2.046		5.154
2022		0.768	0.539	0.005	0.472	0.392	0.176		2.645	1.910		6.907
2023				1.792	0.487	0.391	0.182	2.373	2.645	1.338		9.208
2024		0.215	1.091	1.771		0.398	0.187	2.373	2.645	0.284		8.964
2025		0.059		1.744		0.405	0.193	2.373	2.645			7.419
2026		0.240	0.697	1.499		0.406	0.199	2.373	2.645			8.059
2027				1.470		1.369	0.205	2.373	2.645			8.062
2028				1.725		0.515	0.211	2.373	2.645			7.469
2029				1.504		0.153	0.218	2.373	2.645			6.893
2030		0.086	0.011	1.435		0.446	0.224	2.373	2.645			7.220
2031				1.368		0.106	0.231	2.373	2.645			6.723
2032				1.374		0.093	0.238	5.173	2.645			9.523
2033				1.453		0.045	0.244	2.373	2.645			6.760
2034				1.724		0.026	0.252	4.873	2.645			9.520
2035				1.444		0.026	0.259	4.873	2.645			9.247
2036				1.505		0.026	0.267	4.873	2.645			9.316
2037		0.116	0.017	1.396		0.016	0.275	8.348	2.645			12.813
2038				1.382		0.009		8.480	2.645			12.516
2039				1.337		0.009		9.410	2.645			13.401
2040				1.372		0.009		3.049	1.939			6.369
2041				1.363		0.009		5.349	0.571			7.292
2042				1.433				6.249				7.682
2043								10.100				10.100
2044								6.233				6.233
2045								8.133				8.133
2046								4.833				4.833
2047								5.900				5.900
2048								2.500				2.500
2050								0.500				0.500
2053								2.000				2.000
2054								6.300				6.300
2057				1.138								1.138
Total	14.944	7.309	19.874	39.379	4.263	7.092	5.077	130.906	52.900	20.634	10.287	312.665

Source: PDMA

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