Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

Eurobank

GREECE MACRO MONITOR

November 30, 2012

Focus notes: Greece

Platon Monokroussos
Assistant General Manager
Head of Financial Markets Research
pmonokrousos@eurobank.gr

Paraskevi Petropoulou
G10 Markets Analyst
ppetropoulou@eurobank.gr

The arithmetics of the November 26th Eurogroup

The arithmetics of the November 26th Eurogroup

On November 26, euro area finance ministers and the IMF managed to bridge their differences and reach an agreement on a series of strategies to repair Greece's sovereign liquidity and solvency outlook. The deal aims to reduce the country's public debt-to-GDP ratio to 124% by FY-2020 and to sub-110% levels by FY-2022. Under certain conditions, the endorsement of new debt relief strategies for Greece opens the way for the release of new official funding to the tune of €43.7bn by the end of Q1 2013. In what follows, we summarize the main elements of the November 26 Eurogroup agreement and provide a preliminary assessment of its potential implications for the evolution of the public debt to GDP ratio as well as the general government borrowing needs and sources of funding.

Key elements of the November 26 Eurogroup agreement

Debt buy-back of new and old GGBs. The Eurogroup statement offered virtually no information on the modalities of a debt buy-back operation Greece's Public Debt Management Agency is reportedly expected to launch early next week. The only detail euro area finance ministers revealed was that the tender or exchange prices are expected to be no higher than those at the close on Friday, November 23, 2012 (the average closing price of the GGB strip at that day was around 28 cents). Speaking to reporters earlier this week, Greek Minister of Finance Yiannis Stournaras said that participation will be *voluntary* and that the scheme will be funded by a *new* EFSF loan, which has already been factored in the troika's debt sustainability analysis. He added that, if the scheme does not attract the expected participation, there is a "Plan B", which he refused to elaborate on. Local press reports suggested that the debt buy-back, expected to be completed by December 13, will be funded by ca €10.2bn in EFSF loans and the offer prices will range between 28% and 30% of par. Note that the total nominal value of new GGBs (nGGBs) amounts to ca €62bn. Greek banks are estimated to currently hold around €15bn and Greek pension funds ca €8bn. The scheme will also address holdouts of old GGBs (currently estimated to possess around €4bn).

New sovereign debt relief and liquidity-enhancing strategies. Conditional on a positive debt buy-back outcome and a reassurance of Greek authorities' resolve to continue implementing the agreed fiscal measures and structural reforms, official lenders are prepared to consider the following relief strategies for Greece: (i) a 100bps reduction in the interest rate charged on the EU bilateral loans (€52.9bn in total) disbursed under the 1st bailout programme; (ii) a 10bps reduction in the guarantee fee costs paid on the EFSF loans; (iii) a 15-year maturity extension of both EU bilateral and EFSF loans as well as a 10-year deferral of interest payments on EFSF loans; and (iv) a commitment by euro area member states to pass on to Greece an amount equivalent to the income on the SMP-related portfolio of GGBs accruing to their national central banks as of FY-2013. *Euro area countries that are currently under a EC/IMF/ECB financial assistance programme are not required to participate in the schemes (i) and (iv).*

Euro area finance ministers are expected to formally approve the next loan disbursement to Greece amounting €43.7bn by December 13, subject to: (i) approval of the November 26 Eurogroup agreement by national euro area parliaments (Germany, Finland, the Netherlands, Slovenia, Estonia, Spain and Malta); and (ii) a formal review of the debt buy-back programme by official lenders. The said loan disbursement will be released in four tranches. Speaking during the post-Eurogroup press conference, IMF Managing Director Christine Lagarde said that the Fund will wait for the completion of the bond buy-back before deciding to release its share of Greece's next loan installment.

The 1st loan tranche of €34.4bn is planned to arrive to Greece's state coffers in December. Out of this, €23.8bn will come in the form of EFSF bonds earmarked for bank recapitalization and €10.6bn for budgetary financing needs, part of which will be utilized for the settlement of outstanding State arrears to the private sector (~€8.3bn as of the end of September 2012). The remaining €9.3bn will be released in three sub-tranches during the first quarter of 2013, provided that Greece fulfills all prior actions agreed with official lenders by that time.

Euro area finance ministers committed themselves to consider further measures and assistance to Greece, if necessary, until it regains market access, conditional upon a vigorous implementation of the requirements and objectives of the agreed adjustment programme. Note that the November 26 Eurogroup agreement came after Greece fulfilled a number of key pre-conditions for the release of the next EU-IMF loan tranche set by official lenders, including: (i) parliamentary approval of both the Budget for FY-2013 and an omnibus bill comprising, among others, a new package of labor market related measures; and (ii) the submission to parliament of two Legislative Acts. The said Acts entail, among others: (a) the introduction of stricter supervisory mechanisms in Local Government Organizations (OTA), public entities (DEKO) and ministries; and (b) some alterations in the existing legal framework governing the segregated account that was established in the Bank of Greece earlier this year for ensuring that priority is granted to debt servicing payments on a rolling quarterly forward looking-basis.

A preliminary assessment of the potential implications of agreed strategies for the evolution of the public debt to GDP ratio and the general government borrowing needs and sources of funding

Table A below depicts the projected impact of the relief measures announced at the November 26 Eurogroup on the evolution of Greece's public debt to GDP ratio over the period 2012-2022. The scenarios presented adjust our revised baseline (***Scenario 0***) so as to incorporate the announced relief strategies. Note that *Table A* does not account for a number of (still unspecified) contingency measures necessary to facilitate a reduction of the debt ratio to 124%-of-GDP by 2020 and to levels "substantially" lower than 110%-of-GDP by 2022.

Table B provides a summary of the projected impact of agreed relief strategies on Greece's net cumulative borrowing gap in the period 2012-2016 as well as on the terminal debt ratio in FY-2020. Note that the full implementation of endorsed initiatives would reduce the cumulative general government borrowing need in 2012-2016 (estimated earlier at ca €32.6bn) by €24.7bn to just €7.9bn. If so, the latter gap could then be bridged by a re profiling (i.e., amortization deferral) of GGBs currently held by Eurosystem national central banks.

Table A

	Scenario 0 *(New baseline)*											
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Nominal GDP growth (%)	-6.1	-6.5	-5.4	0.2	3.2	4.9	4.7	4.7	4.6	4.4	4.2	4.2
Primary balance (% GDP)	-2.3	-1.5	0.0	1.5	3.0	4.5	4.5	4.3	4.3	4.2	4.2	4.2
Avrg interest rate on debt (%)	4.5	3.0	2.9	3.2	3.5	3.7	3.7	3.6	3.6	3.5	3.5	3.6
Stock flow adjustment (% GDP)	3.6	-12.6	-2.7	-3.2	-3.4	-2.5	-1.6	-1.6	-2.0	-2.3	-1.0	0.0
Gross public debt (% GDP)	**170.6**	**176.8**	**189.4**	**190.1**	**184.7**	**175.7**	**167.9**	**160.2**	**152.2**	**144.4**	**138.3**	**133.2**
	Scenario 1 *(Scenario 0 with debt buyback)*											
Gross public debt (% GDP)	**170.6**	**164.6**	**176.2**	**176.5**	**171.1**	**162.2**	**154.6**	**147.1**	**139.2**	**131.5**	**125.4**	**120.3**
	Scenario 2 *(Scenario 1 incorporating 100bps reduction in interest rate of GLF loans)*											
Gross public debt (% GDP)	**170.6**	**164.6**	**175.9**	**176.0**	**170.3**	**161.2**	**153.4**	**145.7**	**137.6**	**129.8**	**123.6**	**118.4**
	Scenario 2.1 *(Scenario 2 incorporating 10bps reduction in EFSF guarantee fee)*											
Gross public debt (% GDP)	**170.6**	**164.6**	**175.8**	**175.8**	**170.1**	**160.9**	**153.0**	**145.3**	**137.2**	**129.3**	**123.0**	**117.8**
	Scenario 3 *(Scenario 2.1 with return of SMP profits)*											
Gross public debt (% GDP)	**170.6**	**164.6**	**174.4**	**173.0**	**166.5**	**157.3**	**149.3**	**141.5**	**133.2**	**125.5**	**119.3**	**114.2**
	Scenario 4 *(Scenario 3 with deferral of EFSF interest payments)*											
Gross public debt (% GDP)	**170.6**	**164.6**	**174.4**	**173.0**	**166.5**	**157.3**	**149.3**	**141.5**	**133.2**	**125.5**	**119.3**	**114.2**
	Scenario 5 *(Scenario 4 with increased T-bil issuance in 2013-2016)*											
Gross public debt (% GDP)	**170.6**	**164.6**	**174.6**	**173.5**	**167.3**	**158.3**	**150.2**	**142.4**	**134.0**	**126.3**	**120.1**	**114.9**

Source: EC, IMF, Eurobank Research

Table B

	Δ Net cumulative borrowing gap in 2012-2016 (EURbn)	Δ Gross public debt-to-GDP in FY-2020 (ppts)
Debt buyback	7.1	-12.9
100bps cut in GLF interest rate	-2	-1.7
10bps reduction in EFSF guarantee fee	-0.6	-0.5
Return of SMP profits	-7.2	-3.8
EFSF interest payment deferral	-13.4	0.0
Increased T-bill issuance	-8.6	0.8
Other measures & adjustments	0.0	-1.9
Total	-24.7	-20.0
	End of FY-2016	
Cumulative borrowing gap (EURbn)	7.9bn	
	End of 2020	End of 2022
Gross public debt (% GDP)	124	<110

Source: EC, IMF, Eurobank Research

Research Team

Editor, Professor **Gikas Hardouvelis**
Chief Economist & Director of Research Eurobank Group

Financial Markets Research Division

Platon Monokroussos: *Head of Financial Markets Research Division*
Paraskevi Petropoulou: *G10 Markets Analyst*
Galatia Phoka: *Emerging Markets Analyst*

Economic Research & Forecasting Division

Dimitris Malliaropulos: *Economic Research Advisor*
Tasos Anastasatos: *Senior Economist*
Ioannis Gkionis: *Research Economist*
Vasilis Zarkos: *Economic Analyst*
Stella Kanellopoulou: *Research Economist*
Olga Kosma: *Economic Analyst*
Maria Prandeka: *Economic Analyst*
Theodosios Sampaniotis: *Senior Economic Analyst*
Theodoros Stamatiou: *Research Economist*

Eurobank 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr