

July 8 Eurogroup announcement

Modalities & implications for Greece's adjustment programme

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Important clarification

In our 8 July 2013 Greece Macro Monitor (page 4) we referred to a couple of recent local press reports signaling the possibility of a fortnight extension (to end-July 2013) in the deadline for the sale of the two bridge banks, New Hellenic Postbank (TT) and Nea Proton Bank, which are currently controlled by the Hellenic Financial Stability Funds (HFSF). We stress that the possibility of such an extension has *neither* been confirmed by the HFSF (or any other official source) *nor* does it necessarily reflect Eurobank's Financial Markets Research view on the issue.

Eurogroup approves next EFSF disbursement to Greece

Following a staff-level agreement between the Greek government and the troika on the 4th review of the present adjustment programme, the Eurogroup of July 8, 2013 mandated the Eurogroup Working Group (EWG) to approve the next EFSF installment, which amounts to €3.0bn. According to an accompanying official statement, the said installment will be disbursed in two sub-tranches, subject to the fulfillment by the Greek side of a number of agreed programme milestones. As per Table A below, the first EFSF sub-tranche (€2.5bn) will reportedly be disbursed by the end of July, with the second one (€0.5bn) expected by end-October 2013. In addition to new EFSF financing, Greece is also expected to receive, over the said period: (i) €2.0bn equivalent to the income on the SMP portfolio accruing to euro area national central banks (NCBs); and (ii) €1.8bn from the IMF under the present Extended Fund Facility. Note that, the next IMF Board meeting is scheduled for July 29, 2013. Furthermore, the disbursements coming from the profits accruing to the SMP portfolio will also be released in two sub-tranches, with the first one (€1.5bn) expected by the end of July (along with the 1st EFSF sub-tranche) and the second by end-October 2013 (along with the 2nd EFSF sub-tranche).

Table A - Next EFSF/IMF disbursements (EURbn) & programme milestones

Schedule of disbursements	Amount (EURbn)	Milestones	
<i>July 2013 disbursement</i>			
EFSF	2.5	<ul style="list-style-type: none"> - parliamentary approval of omnibus bill incorporating required legislation for implementation of agreed prior actions - transfer of 5.5k public employees to mobility scheme - Income Tax Code - sale of New Hellenic PostBank and Nea Proton Bank - other (see Greece Macro Monitor, Eurobank Research, 8 July 2013) 	
SMP portfolio	1.5		
<i>August 2013 disbursement</i>			
IMF	1.8		
<i>October 2013 disbursement</i>			
EFSF	0.5	<ul style="list-style-type: none"> - transfer of another 7k public employees to mobility scheme - 2k mandatory exits of public sector employees - restructuring of Hellenic Aerospace Industry (EAB), Greek Vehicle Industry (ELVO) & General Mining and Metallurgical (LARCO) - clearance of state arrears to Athens Water (EYDAP) & Thessaloniki Water (EYATH) - adoption of new code for lawyers - other (see Greece Macro Monitor, Eurobank Research, 8 July 2013) 	
SMP portfolio	0.5		
Total (Jul.-Oct. 2013)	6.8		

Source: Local Press, Eurobank Research

Taking into account all aforementioned figures, the next EU/IMF installment to Greece will sum up to €6.8bn, an amount lower than that expected ahead of y-day's Eurogroup (€8.1bn). A number of press reports quoted Greece's Minister of Finance as saying that the Eurogroup actually discussed the possibility of approving the release of a higher EFSF installment (relative to that endorsed at y-day's meeting), but such a frontloading of official financing would constitute a deviation from the present funding programme (Table B), necessitating a special approval by national parliaments. Although the size of the new EFSF disbursement will be lower than expected earlier, the overall amount of the next EU/IMF installment is deemed adequate to cover the government's funding need until the end of October 2013. Looking beyond that period, Greece's finance minister was quoted as saying that official lenders are likely to consider after October the timely release of the remaining installment for the current year, earmarked to Greece under the present funding programme (Table B). As per the same sources, this should be conditional on the progress made by the Greek side in fulfilling the agreed programme targets.

As regards the government's funding need for the remainder of this year, these include: (i) ca €3.3bn in maturing sovereign debt (next major bond redemption comes on August 20, for a notional amount of €2.17bn); (ii) ca €2.9bn in interest payments; (iii) ca €500-700mn/per month for the clearance of government arrears to suppliers and other third parties (as per the current planning); (iv) any remaining budgetary needs that may arise in the following months. Reportedly, the government also reached a staff-level agreement with the troika on a downward revision in the revenues expected this year from the implementation of the privatization programme (to €1.6bn from €2.6bn, expected earlier). If so, this would imply an ensuing funding gap of €1bn in FY-2013 relative the earlier troika baseline projections.

On the other hand, Greece has reportedly paid €1.8bn year-to-date for maturing Greek government bonds (GGBs) in the euro area NCBs investment (ANFA) portfolio. According to press reports quoting Greece's finance minister Yiannis Stournaras, the potential rollover of ANFA holdings as a means of securing additional financing to Greece is currently under discussion with euro area authorities. As per the European Commission report on the first review of the second adjustment programme for Greece (Dec 2012, page 54), the revised troika baseline scenario for the general government financing needs and sources of funding over the forecasting horizon 2012-2016 assumed a rollover of ANFA holdings of NCBs on equal terms, while acknowledging that this option

would still need to be assessed and independently decided by NCBs. Such a rollover would reduce the financing need and smoothen the debt repayment profile in the programme period, without having a significant impact on the evolution of the debt-to-GDP ratio over the period 2012-2022. As per the same source, the overall financing secured by the rollover of ANFA GGB holdings would amount to €3.7bn in 2012-2014 and €1.9bn in 2015-2016.

As regards the issue of a new funding gap in the Greek adjustment programme being reportedly identified by the troika staff in their latest mission to Greece (ca €2bn by the end of 2014), this appears to have been broadly addressed by a number of corrective actions and policies agreed by the two sides during the last round of negotiations in the context of the 4th programme review.¹

Table B - Financing programme: quarterly financing needs and disbursements of official assistance

in bn EUR, unless otherwise noted	2012				2013				2014				2012-14
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Financing needs:													
A. Government cash deficit	2.7	2.2	2.7	1.9	2.0	1.9	1.5	0.6	1.4	0.5	1.3	0.3	18.9
Primary deficit ("-" is surplus)	0.7	0.7	0.7	0.7	0.3	0.5	-0.5	-0.3	-0.7	-0.7	-0.7	-0.7	0.0
Interest payments	2.0	1.5	2.0	1.2	1.7	1.4	2.0	0.9	2.0	1.2	2.0	1.0	18.9
B. Other government cash needs	1.4	-1.0	0.1	3.3	1.2	4.8	1.6	1.7	-0.1	-0.1	-0.1	0.0	13.0
Estimated cash adjustments (2)	0.1	0.2	0.2	0.4	0.1	0.5	0.1	0.2	-0.1	-0.6	-0.1	0.0	1.2
Arrears	0.0	0.0	0.0	0.5	1.1	3.4	1.5	1.5	0.0	0.0	0.0	0.0	8.0
Cash buffer	1.3	-1.2	-0.1	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
ESM capital	0.0	0.0	0.0	0.9	0.0	0.9	0.0	0.0	0.0	0.5	0.0	0.0	2.3
C. Maturing debt	4.9	4.0	0.0	0.3	4.4	6.8	3.8	1.3	3.5	11.7	7.5	2.6	50.8
Bonds & loans after exchange	4.9	4.0	3.4	0.3	1.0	6.8	3.0	0.3	2.2	9.8	5.7	0.3	41.7
Bonds after PSI and DBB (3)	4.7	3.8	3.1	0.0	0.7	6.5	2.8	0.0	1.9	9.5	5.4	0.0	38.4
other, incl. loans	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	3.2
EU repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IMF repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.7	1.0	1.3	1.9	1.9	2.3	9.1
Short-term debt	0.0	0.0	-3.4	0.0	3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
D. Cost of PSI	34.6	25.0	0.0	17.3	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	94.0
Cash upfront for PSI (sweetener and accrued interest)	34.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	34.6
Bank recapitalisation	0.0	25.0	0.0	16.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	48.2
Cash upfront for Buyback	0.0	0.0	0.0	11.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	11.3
E. Gross financing needs (A.+B.+C.+D.)	45.6	30.3	2.8	32.7	14.9	13.5	6.8	3.6	4.8	12.1	8.8	2.9	176.7
Financing sources:													
F. Private financing sources	0.0	0.0	0.0	0.1	0.0	0.0	1.0	1.5	0.5	0.5	0.5	0.5	4.5
Market financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatisation 1/	0.0	0.0	0.0	0.1	0.0	0.0	1.0	1.5	0.5	0.5	0.5	0.5	4.5
G. Additional financing sources													
ANFA & SMP profits	0.0	0.0	0.0	0.3	0.0	2.7	0.0	0.0	0.0	2.5	0.0	0.0	5.5
Contingency measures													0.0
H. Financing needs: per quarter	45.6	30.3	2.8	32.3	14.9	10.8	5.8	2.1	4.3	9.2	8.3	2.4	166.7
I. Official assistance disbursements													
- EU	42.0	33.6	0.0	34.3	15.3	12.1	4.8	4.4	9.2	4.7	1.8	1.8	163.9
- IMF	4.4	33.6	0.0	34.3	12.0	10.3	3.0	2.6	5.7	2.9	0.0	0.0	144.7
- IMF	1.6	0.0	0.0	0.0	3.3	1.8	1.8	1.8	3.5	1.8	1.8	1.8	19.1

Notes:

1/ Includes: interest due on bonds and loan outstanding after PSI and DBB

2/ Includes: guarantees on SOE debt, transfers from/to SSFs and other consolidation items.

3/ No haircut on ECB holdings. Maturity profile of ECB holdings: proportional to outstanding bonds.

Source: European Commission, "The Second Economic Adjustment Programme for Greece, Second Review- May 2013"

¹ See Greece Macro Monitor "July 8th Eurogroup expected to approve release of the next EFSF/IMF loan tranche", Eurobank Research July 8, 2013.

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