What it takes to cover Greece's General Government financing shortfall in 2015 and beyond

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This note updates our recent analysis as regards interest and amortization payments falling due this year as well as projected General Government borrowing needs and sources of funding in 2015 and over the coming 5-years. Our analysis points to an urgent need to secure the uninterrupted access of the Greek banking system to ECB liquidity operations and the smooth coverage of government borrowing needs until a new agreement is reached on Greece's future relations with official lenders. That is to prevent any unforeseen liquidity shortages in the following months, especially as State cash buffers are already running at worryingly low levels.

Greece's Finance Minister reveals main axes of government's debt restructuring proposal

In an interview to the *Financial Times (FT)* on February 2, Minister of Finance Yanis Varoufakis was quoted as suggesting that the new government no longer calls for a write-down of Greek public debt. Instead, it aims to reaching an agreement with official lenders on a "menu of debt swaps" that would involve two types of new bonds. The first, indexed to nominal economic growth, would replace European rescue loans. The second, consisting of "perpetual bonds", would replace ECB-owned Greek bonds. The Minister stated that his proposal constitutes a form of "smart debt engineering" aiming to replace the term "haircut", seen as politically unacceptable in a number of creditor EU countries, including Germany. On the fiscal front, Mr. Varoufakis said that the new government would aim to maintain an annual primary surplus of 1 to 1.5% of GDP, even if this means that major ruling coalition partner SYRIZA would not fulfil all of its pre-election spending promises. Additionally, he outlined the government's priority to rigorously clamp down on tax evasion and confront vested interests[1]. Mr. Varoufakis said that Greece hopes to secure a four month-long "bridging program" extending to June 1st, during which the ECB would keep the domestic financing system afloat by continuing to supply liquidity on favorable terms. Furthermore, he said that instead of requesting the €7.2bn financing tranche that was earlier scheduled for release upon completion of the last (still incomplete) program review, the new government will request only €1.9bn out of that amount, equivalent to profits accrued on the Eurosystem's SMP and ANFA portfolios. Financial markets reacted positively to Mr. Varoufakis's comments (ASE main equity index up 11.3% and 3-year Greek/Bund yield spread down by more than 300bps y-day), but a follow-up *FT* article raised some doubts over their feasibility, especially as regards the purported ECB involvement in the debt restructuring deal. Quoting two unnamed euro area officials understood to be involved in the deliberations, the article suggested that the ECB seems unwilling to approve the debt swap proposed by the Greek side. Moreover, the Central Bank would not approve a requested €10bn increase in the €15bn present celling on T-bill issuance. Further clarity on these issues is expected in the days ahead. Greece's Prime Minister Alexis Tsipras is scheduled to meet later today French President Francois Hollande and the European Commission Chief Jean-Claude Juncker. Separately, Greek Finance Minister meets ECB President Mario Draghi today and his German counterpart Wolfgang Schaeuble tomorrow, whereas, Eurozone Finance Ministers will hold emergency talks on February 11 to discuss the Greek government's proposals.

[1] The Greek government intends to present its proposals in detailed form to its European partners before the end of this month.

Current structure of Greek public debt

Table A1 below presents our estimated structure of Greece's gross public debt as of the end of January 2015. As per the said table, around 77% of Greek debt is currently held by official accounts *i.e.,* IMF, euro area member states (GLF), EFSF as well as the European Central Bank & the Eurosystem of NCBs. As percent of GDP, General Government debt is presently around 178%, while its cumulative increase since end-2009 (by c. 51ppts-of-GDP) has exclusively been due to the snowball effect *i.e.,* the automatic increase in the debt ratio when nominal GDP growth falls short of the nominal effective interest rate on the debt stock[2]. On the troika loans disbursed thus far in the context of the 1st and 2nd bailout program (*i.e.,* €226.3bn or €217.2bn on a *net* basis, after excluding principal payments made already to the IMF), Greece currently enjoys a 10-year grace period on principal payments on EFSF and EU bilateral loans as well as a 10 year deferral of interest payments on most EFSF loans (excluding a €34.5bn loan provided in the context of the 2nd program for the implementation of the PSI). As regards the average effective interest rate on the debt stock, under a no-policy-change/no-additional-debt relief scenario this is expected to remain amongst the lowest in the euro area in 2015-2020, averaging around 3.3%. Furthermore, according to official data the average maturity of Central Government debt stood in the end of last September at c. 16.5 years.

Table A1 – Greece: Greece's Central & General Government gross public debt (EURbn)

Greek Central Government debt composition (EURmn) as of end January 2015	
A. Short-term securities *(a1+a2)*	**14.7**
a1. T-Bills	14.6
a2. T-Bills (in physical form)	0.1
B. Bonds *(b1+b2+b3+b4)*	**65.4**
b1. SMP & ANFA - Greek government bonds	27.1
b2. PSI Greek government bonds	29.6
b3. New Greek government bonds (issued in 2014)	6.2
b4. International Bonds (PSI holdouts)	2.6
C. Loans *(c1+c2+c3+c4+c5)*	**233.7**
c1. Troika loans under 1st & 2nd bailout programme (c11+c12)	217.2
c.11 IMF loans (1st & 2nd programme)	22.4
c12. EU loans	194.8
EU Bilateral loans (1st programme)	*52.9*
EFSF (disbursed under 2nd programme until Jan. 2015)	*141.9*
c2. Bank of Greece loans	4.3
c3. Other loans (domestic)	0.1
c4. Special purpose & transnational loans	7.1
c5. Other loans (foreign)	5.0
D. Short-term loans (via repos operations)	**8.6**
E. TOTAL (A+B+C+D)	**322.4**
Greek General Government debt composition (EURmn) as of end January 2015	
A. Central Government debt *(line E of table above)*	**322.4**
B. ESA adjustments	**3.4**
C. Central government debt in ESA terms (A+B)	**325.8**
D. Local governments and social security system minus inter-governmental debt	**-7.2**
E. General Government debt (C+D)	**318.6**
E1. General government debt	***178.0***

Source: PDMA, EC, IMF, Eurobank Global Markets Research

Monthly General Government interest & amortization payments in 2015

Under a no-policy-change/no-additional-debt relief scenario, this year is a pretty demanding one as regards Greece's General Government borrowing needs. As suggested by our January 7th *Greece Macro Monitor*, the country needs to cover a projected financing gap of c. €21bn in 2015. Government finances are to become more manageable in the period 2016-2020, with the projected net financing shortfall reaching €6.9bn next year and averaging around €8.5bn/annum over the remainder of the said

[2] Based on the most recent European Commission data (AMECO database), the snowball effect on Greece's general government debt has been around 69ppts since the end of 2009.

period *i.e.,* 2017-2020[3]. Notably, these estimates assume fulfilment of the current program targets for the fiscal balance (primary surplus of 3%-of-GDP in 2015 and between 4.2% and 4.5% of GDP in 2016-2020) and privatization revenue (€2.2bn in 2015 and € 3.3bn on average in 2016-2020). Focusing next on 2015 borrowing news, *Tables A2 & A3* below provide an updated/revised account of interest & amortization payments for the remaining of the current year, while *Table A4* portrays respective T-bill maturities.

Table A2 – Greek General Government amortization payments in Feb-Dec 2015 (EURbn)

	IMF	Greek government (pre-PSI) bonds, mainly held by the Eurosystem (ECB & NCBs)	Greek Government International Bonds (PSI holdouts)	Hellenic Railways Organization SA
Feb-15	0.747			
Mar-15	1.532			0.063
Apr-15	0.449			
May-15	0.747			
Jun-15	1.532			
Jul-15	0.449	3.49	0.086	
Aug-15		3.19		
Sep-15	1.532			
Oct-15	0.449			0.174
Nov-15				
Dec-15	1.120			
Feb-Dec 2015	8.557	6.679	0.086	0.237
Total February-December 2015		c. €15.6bn		

Source: PDMA, EC, IMF, Eurobank Global Markets Research

Table A3 – Greek General Government interest payments in Feb-Dec 2015 (EURbn)

	IMF	**GLF interest payments** (loans disbursed under 1st program)	**EFSF interest payments** (€34.5bn loan disbursed under 2nd program)	**Greek government bonds**	**Greek Government International Bonds (PSI holdouts)**	**Railways Organization SA**	**Athens Urban Transportation Organisation**	**Other (non-tradable) debt**
Feb-15	0.229		0.497	0.595	0.011			
Mar-15		0.075		0.112	0.002	0.02		0.549
Apr-15				0.274	0.012			0.082
May-15	0.196				0.003	0.002		
Jun-15		0.075	0.181	0.085		0.001		0.190
Jul-15				0.764	0.047			0.105
Aug-15	0.175		0.085	0.197	0.014			
Sep-15		0.071		0.006			0.008	-0.030
Oct-15				0.208		0.008		0.065
Nov-15	0.154				0.003			
Dec-15		0.068				0.008		0.058
Feb-Dec 2015	0.75	0.29	0.76	2.24	0.09	0.04	0.01	1.02
Total (Feb-Dec 2015)	**c. €5.5bn (includes some interest payments not shown in the columns above)**							

Source: PDMA, EC, IMF, Eurobank Global Markets Research

[3] Greece Macro Monitor, "*General government borrowing requirement, the need for a post-program precautionary credit facility and the case for OSI*", Eurobank Global Markets Research, 7 Jan 2015
http://www.eurobank.gr/Uploads/Reports/GREECE_MACRO_FOCUS_Jan7_2015.pdf

Table A4 – scheduled T-Bill maturities (EURbn)

3.00	2.35	4.43	2.40	1.40	2.00	2.00

Source: PDMA, EC, IMF, Eurobank Global Markets Research

Key takeaway and concluding remarks

- Under a no-policy-change/no-additional-debt relief scenario, remaining total interest and amortization payments in 2015 are currently projected to amount to slightly over €20bn. This figure relates to full-year servicing costs on both official and privately-held Greek debt and excludes T-bill maturities.
- The annual interest & amortization payments profile is expected to be more manageable in the coming years, with the General Government net financing gap now projected to reach €6.9bn in 2016 and to average c. €8.5bn/annum in the period 2017-2020.
- These projections assume fulfillment of the agreed fiscal and privatization targets over the corresponding period. Note that for every 1ppt-of-GDP (downward) deviation from current fiscal targets, the General Government net financing gap increases by c. €1.8bn. On the other hand, any slippage from current program targets as regards privatization revenue exerts a one-to-one impact on the overall financing shortfall. That is, in the absence of a new debt restructuring operation (OSI) that would provide considerable cash-flow relief.
- As things stand at this point, a new restructuring of Greek public debt involving only EU (GLF and EFSF) official loans would not do much to lighten up the total debt servicing cost in 2015 (and in the coming few years). That is because Greece already enjoys a 10-year deferral of principal payments on respective EU bilateral loans and EFSF loans provided in the context of the 1st and 2nd bailout programs. There is also a 10-year grace period for interest payments on *most* EFSF loans (except of a €34.5bn tranche provided for the implementation of the PSI operation)[4].
- A restructuring /rescheduling of both EU loans and Greek bonds currently held by the ECB (SMP) and the Eurosystem of NCBs (ANFA) - via *e.g.* a swapping of these bonds with "perpetual bonds" as proposed by Greece's New Finance Minister Yanis Varoufakis in his February 2nd interview to the *Financial Times* - could provide a more significant cash-flow relief, though is not clear at this point whether such an arrangement would be approved by the European Central Bank. As shown in *Table A1*, the total notional amount of these bonds currently stands at c. €27bn.
- In addition to any cash-flow relief provided by a new debt restructuring operation (OSI), the Greek government may also count on the following main sources of funding: *i)* full-year primary surplus (on a cash basis); *ii)* privatization receipts; *iii)* short-term borrowing from various general government entities running cash surplus positions (reportedly, more than €8bn have already been borrowed from that source, with the remaining space for additional borrowing being rather limited); *iv)* any additional T-bills issuance *i.e.,* over and above the present program limit of c. €15bn, with our understanding being that this would require an approval by the ECB); and last but not least, *v)* official sector financing.
- As regards the latest source, still undisbursed loan commitments in the context of the present program include €16.3bn from the IMF and €1.8bn from the EFSF. Moreover, Greece could potentially utilize most of the HFSF cash buffer (say, c. up to €10.5bn out of a total present buffer of c€ 11.4bn – EFSF approval require), while it could also receive c. €3.9bn in ANFA and SMP profits this year.

The bottom line here is that there is an urgent need to secure the uninterrupted access of the Greek banking system to ECB liquidity operations and the smooth coverage of government borrowing needs until a new agreement is reached on Greece's future relations with official lenders. That is to prevent any unforeseen liquidity shortages in the following months, especially as State cash buffers are already running at worryingly low levels (reportedly, they are currently less than €2bn).

[4] Greece Macro Monitor, *"Hard and soft OSI scenarios for the restructuring of Greek public debt - Stock and cash flow implications",* Eurobank Global Markets Research, 26 Jan 2015
http://www.eurobank.gr/Uploads/Reports/GREECE_MACRO_FOCUS_Jan26_2015.pdf

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