ISSN: 2241-4843

Eurobank Research
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Eurobank

NEW EUROPE
ECONOMICS & STRATEGY

March 26, 2013

FOCUS NOTES: CYPRUS

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Eurogroup reaches last-minute agreement on Cyprus; worst-case scenario averted

A last-minute agreement on Cyprus was reached at the March 25 Eurogroup, hours before the expiration of an earlier ECB deadline to discontinue liquidity assistance to Cypriot banks via the Emergency Liquidity Assistance (ELA) facility. Cutting off liquidity assistance to ailing Cypriot banks would risk an immediate meltdown of the domestic banking system with severe consequences for the country's euro membership status. The agreement came after a new round of dramatic negotiations between President Nikos Amnastasiades and the heads of the European Commission, the ECB and the IMF, during which the Cypriot President reportedly threatened to resign if pushed too far. Following the conclusion of the Eurogroup meeting, a Cyprus government spokesman said that the country averted a disorderly bankruptcy which would have led to Cyprus's exit from the euro zone with unforeseeable consequences. On his part, German finance minister Wolfgang Schaeuble said that the agreement was "much better" than the deal struck last week (i.e., at the March 15 Eurogroup) and clarified that that Cypriot Lawmakers would not need to vote on the new package, since they have already enacted a law on procedures for bank resolution.

March 25 Eurogroup deal on Cyprus and adjustment programme modalities

As per the official statement released shortly after the completion of the March 25, 2013 Eurogroup, the agreed adjustment programme for Cyprus aims to restore the viability the domestic financial sector and to facilitate a return to sustainable economic growth and sound public finances over the coming years.

As regards domestic banking sector restructuring, the adjustment programme will aim to an appropriate downsizing of the Cypriot financial sector, with the latter expected to reach the EU average by 2018. Specifically, the following actions will be implemented:

Based on a decision by the Central Bank of Cyprus and in compliance with Cyrpus's newly adopted Bank Resolution Framework, Laiki bank will be subject to immediate resolution. It will be split into a good bank and a bad bank, with the bad bank expected to run down over time. On its part, the good bank along with €9bn of ELA liquidity will be transferred to Bank of Cyprus (BoC). Only uninsured deposits (i.e., deposits in excess of €100k) in BoC will remain frozen until the completion of the bank's recapitalisation, and may subsequently be subject to appropriate conditions. BoC will be recapitalised through a deposit-equity conversion of uninsured deposits with full contribution of equity shareholders and bond holders. The conversion will be such that a capital ratio of 9 % is secured by the end of the programme period. On the other hand, all insured deposits in all banks (i.e., deposits below €100k) will be fully protected in accordance with the relevant EU legislation.

The Eurogroup urged for the immediate implementation of the agreement between Cyprus and Greece on the Greek branches of the Cypriot banks. Note that Greece's Piraeus Bank has already been selected by the Hellenic

Financial Stability Fund (HFSF) to acquire the assets (ca €20bn) and the liabilities (ca €14bn) of these branches *i.e.,* the Greek branches of BoC, Laiki and Hellenic Bank. According to reports, the agreement for the absorption of these braches by Piraeus Bank is expected to have been completed by mid-day on Tuesday. After remaining closed for more than a week, the Greek branches of the three Cypriot banks will reportedly reopen on Wednesday at the earliest. However, according to the Cypriot President, banks in Cyprus will remain closed until Thursday and even then subject to capital controls to prevent a run on deposits.

Separately, the Eurosystem will continue to provide liquidity to the BoC in line with applicable rules, while the official programme financing earmarked for Cyprus (up to €10bn) will not be used in the recapitalizations of Laiki and BoC.

In addition to the above and in line with the March 15, 2013 Eurogroup agreement, Cypriot authorities have reaffirmed their commitment to step up efforts in the areas of fiscal consolidation, structural reforms, privatisation, capital & corporate income taxation, anti-money laundering as well as securing possible financial contributions from the Russian Federation. The Eurogroup also endorsed the Cypriot authorities' decision to introduce administrative measures (i.e., capital controls) for a swift reopening of the domestic banks, noting that these measures should be temporary, proportionate, non-discriminatory, and subject to strict monitoring in terms of scope and duration in line with the Treaty.

The Eurogroup requested the Cypriot authorities and the Commission, in liaison with the ECB, and the IMF to finalise the MoU at staff level in early April. The Eurogroup expects that the ESM Board of Governors will be in a position to formally approve the proposal for a financial assistance facility agreement by the third week of April 2013 subject to the completion of national procedures

Key highlights of the dramatic week leading to the March 24-25 Eurogroup

March 15, 2013 Eurogroup: Main parameters of initial agreement on Cyprus

Nearly nine months after Cyprus formally requested financial assistance from its euro area partners and the IMF, an agreement on the main parameters of a troika bailout plan was reached at an extraordinary Eurogroup on March 15. According to a post-meeting statement, official lenders approved a bailout package worth up to €10bn, aiming to cover debt service costs and other budgetary needs as well as part of a domestic bank recapitalization plan.

In an effort to contain the expected increase in the public debt ratio post the rescue agreement, the Cypriot side reportedly committed to undertake additional measures, including among others, a controversial levy on bank deposits estimated to raise €5.8bn. According to that plan, resident and non-resident depositors with bank accounts up to €100k would be charged with an upfront levy of 6.7% while deposits over €10ok would be liable to a 9.9% levy.

According to an official statement released after the conclusion of the March 15th Eurogroup, the deal would aim to restore Cyprus's medium-term fiscal sustainability, with the country's public debt to GDP ratio expected to decline to 100% by FY-2020. On that basis, IMF Managing Director Christine Lagarde announced soon after the conclusion of the meeting her intention to make a recommendation to the Fund's Executive Board to contribute to the financing of the Cypriot rescue package.

Other components of the March 15th proposed rescue package included:

i) Cypriot authorities' commitment to step up efforts in the area of privatization (estimated proceeds to the tune of €1.4bn including selling stakes in three public enterprises, telecom company Cyta, the ports' authority and the Electricity Authority of Cyprus).

ii) increase of the withholding tax rate on capital income (ca 20%-30% estimated to yield €200mn);

iii) an increase of the statutory corporate income tax rate to 12.5% from 10%, currently (estimated to raise €200mn);

iv) a bail-in of junior bondholders of Cypriot banks (no numerical figures were attached to this particular measure);

v) a restructuring and recapitalization of the Cypriot banks, aiming to downsize the domestic banking sector towards the EU average (relative to GDP) by 2018;

vi) agreement between Cyprus and the Russian Federation on financial contribution; and

vii) a separate agreement regarding the Greek branches of the Cypriot banks, aiming to safeguard the stability of both the Greek and the Cypriot banking systems, without weighing on the Greek government's efforts to address fiscal imbalances.

Cypriot Parliament rejects horizontal levy on domestic depositors

The initial levy plan on depositors sparked a widespread outrage in the Cyprus and raised contagion fears across the euro area periphery markets, despite repeated reassurances by the EU side that Cyprus is a "unique" case and the bail-in in depositors will not be repeated elsewhere. Note here that since the eruption of the euro area sovereign debt crisis there has been a widespread belief that deposits under €100k were sacrosanct. To complicate things even further, the proposed one-off levy on bank deposits was formally rejected by the 56-seat Cypriot Parliament. Specifically, none of the parliamentary deputies casted a positive vote, with 36 of them voting against and 20 abstaining (19 of those abstaining being members of President Nicos Anastasiades's Democratic Rally Party). Parliamentary rejection occurred even though the relevant bill submitted to Parliament deviated somewhat from the March 15 Eurogroup agreement, exempting deposits below €20k and imposing respective levies of 6.75% on deposits between €20k and €100k and 9.9% on those above €100k.

Following parliamentary rejection of the proposed one-off bank levy scheme, Cypriot authorities moved to hammer out a so-called Plan B, which would purportedly aim to fulfill the following conditions: (i) be acceptable by the Cypriot Parliament; ii) satisfy official lender demands for depositor participation in covering part of bank recapitalization needs; and iii) safeguard sustainability of the Cypriot public debt post a troika bailout agreement. The said plan was approved by the Cypriot Parliament last Friday, in the form of as many as nine draft bills that were submitted under an emergency procedure. Among others, Plan B involves:

i) Establishment of a National Solidarity Fund to securitize, among others, social security fund reserves, state assets, central bank gold reserves, church property and expected natural gas revenues.

ii) Resolution framework for Cypriot banks. As a first step, the resolution framework will be applied to the country's second largest bank, Cyprus Popular Bank (Laiki), whereby deposits up to €100k will remain intact, while deposits over €100k will be subject to potential future losses. Specifically, Cyprus Popular Bank will be split into two parts; deposits up to €100k and servicing loans will be transferred to a "good bank", while no-performing loans and deposits in excess of €100k will be transferred to a "bad bank", before being eventually cleared out. According to the Cypriot side, the winding down of Cyprus Popular Bank would save Cyprus €2.3bn thus, reducing the amount required to reach a final agreement with the troika from €5.8bn to €3.5bn.

ii) Imposition of capital controls on banks in times of emergency;

v) Amending Law of banking services

v) Amending Law on special tax charged on credit instructions;

/i) Amending Law on management of financial crises;

ii) Establishment and operation of a plan for the protection of deposits as well as the consolidation of credit institutions & other entities

ii) Amending Law on cooperative businesses.

A Eurogroup teleconference took place late last Thursday, without making any formal announcement. Euro area finance ministers signaled their readiness to renegotiate with the Cypriot authorities the bailout terms making clear that discussions will be based on a troika analysis. They also stressed the importance of "fully guaranteeing of bank deposits below €100k", suggesting that any new plan submitted by the Cypriot side would need to incorporate a bank levy to be imposed only on deposits above that amount.

No concrete results from the financial assistance request from Russia

Discussions between Cypriot Finance Minister Yiannis Sarris and his Russian counterpart Anton Siluanov on possible financial assistance to Cyprus ended late last week without bearing concrete results. Russian Finance Minister said that his country is not currently interested in investing in Cyprus's energy resources or its financial sector and that the terms of the €2.5bn outstanding loan were not included on the agenda. According to press reports, Cyprus had asked Russia for new financial aid in exchange for banking and energy assets as well as a restructuring of a €2.5bn Russian loan provided to Cyprus in late 2011 (i.e., maturity extension and a reduction in its current interest rate of

4.5%). Yet, Russian Prime Minister Dmitry Medvedev appears to have left the door ajar for possible future assistance to Cyprus. Addressing a news conference in Moscow following talks with European Commission President Jose Manuel Barroso last Friday, the Russian PM said that once a final troika agreement on a bailout package for Cyprus is reached, his country "is ready to discuss various forms of support".

How did we get here? An intertemporal view of domestic macro & political developments

(Excerpts from our 28-29 January 2013 Trip Notes Cyprus[1])

From strong output growth and benign imbalances to exacerbated twin deficits and a bloated banking system

After an initial output slump following the Turkish invasion in the northern part of the island (July 1974), the Republic of Cyprus experienced a long period of positive GDP growth, low unemployment, relatively benign twin deficits and a broadly manageable public debt burden. This favorable backdrop culminated in the country's entry to the euro area in January 2008. Unluckily, the strong growth trajectory experienced in the period leading to the 2007/2008 global financial crisis was accompanied by a significant acceleration of domestic bank credit and overheating conditions in key sectors of the domestic economy *e.g.* construction and retail trade. These problematic trends conspired with public sector over-spending and broadly untargeted social transfers to aggravate domestic and external imbalances.

The current account shortfall hit a record high of 15.6%-of-GDP in 2008, while the general government balance swung from a surplus position to deficits in excess of 5.0%-of-GDP in every single year since 2009. In addition, the public debt ratio rose from 71.1%-of-GDP at the end of 2011 to 83.3%-of-GDP after the (partial) recapitalization of Cyprus Popular Bank by the Cypriot government in June 2012. The debt ratio has increased further since then reaching an estimated 85.8%-of-GDP at the end of 2012, with further significant increases expected this year and the next. The latter is anticipated to be mainly as a result of the use of public funds to recapitalize domestic banks (to be provided under a formal bailout agreement with the troika) and the continuation of negative GDP growth dynamics in 2013-2014 (as per the current official projections).

On the back of these negative trends and also reflecting worsened consumer and business sentiment in the domestic market, the Cypriot economy entered a recessionary phase in Q3 2011, with real GDP contracting last year by a further 2.4% (preliminary national accounts data). According to the Cypriot finance ministry's latest forecasts (December 2012), the domestic economy is expected to remain in recession both this year and the next (official real GDP growth forecasts: -3.5% in FY-2013 & -1.3 in FY-2014), before embarking on a gradual recovery thereafter (+1.1% in FY-2015). In our view, these forecasts are subject to downward revisions following the latest phase of the domestic banking crisis and the ensuing imposition of capital controls.

Formal request of official bailout assistance in June 2012

Faced with worsened domestic fundamentals and an increasingly difficult external environment (lingering sovereign debt crisis in the euro area and heightened market worries over Greece) the Cypriot government formally requested in June 2012 a bailout package from its euro area partners and the IMF. A big chunk of the package was meant to cover respective losses in excess of €4.5bn (25%-of-GDP) and €4bn (22%-of-GDP) inflicted on Cypriot banks as a result of the Greek PSI and their exposure to the Greek loans market in addition to losses generated by their exposure to the ailing domestic real estate sector.

In parallel with the official request for a sovereign bailout package from the euro area and the IMF, the Cypriot government also tried to secure a €5bn loan from Russia. This came on top of a €2.5bn Russian loan to Cyprus that was disbursed in late 2011. The said loan does not bear strict conditionality and it was earmarked to fill in the country's debt servicing costs for FY-2012. It has 4.5-year maturity and carries an interest rate of 4.5%.

Following Cyprus's request in mid-2012 for an additional loan from Russia, the Russian government hinted that any new financial aid to the country would only be granted in partnership with the troika. Yet, the country requested a 5-year maturity extension to the earlier €2.5bn Russian loan with principal payments beginning in 2018. Given the historically close relations between the two countries, the latter request may well receive a positive response down the road, especially in view of the March 24, 2013 Eurogroup agreement on Cyprus.

Recent fiscal developments and draft Nov 2012 MoU conditionality

Following a two-week troika visit to Cyprus in November 2012, the government said that a preliminary agreement on the terms of a Memorandum of Understanding (MoU) with official lenders was reached. A troika statement released shortly after read that significant progress was indeed made in the negotiations with domestic authorities, though a final agreement was still pending. According to the preliminary MoU that leaked to the press in late November, the proposed programme was meant to span four years, targeting a primary surplus of 4.0%-of-GDP by 2016 vs. an expected shortfall of ca 0.7% in 2013. It also envisaged the implementation of a new frontloaded fiscal austerity program as well as a package of structural reforms and financial sector policies (***Table 1***).

The new fiscal package envisaged in the preliminary MoU included, among others: (i) scaled reductions of 6.5%-12.5% in the emoluments of public and broader public sector pensioners and employees; (ii) a reduction in public sector headcount *via* a 3-year hiring freeze to first-entry posts in the broader public sector, the application of a 1:4 hiring rule (only one new entry per four retirements), an enhancement of civil servant mobility within and across line ministries and the implementation of a 4-year plan envisaging the elimination of at least 1,88o permanent posts; (iii) increases in VAT and excise duties on tobacco, energy & alcohol products; and (iv) an increase in a levy applied to domestic bank deposits from 0.095% to 0.110%. Separately, the envisaged package of structural measures incorporated, among others: i) an extension of an earlier suspension applied to the wage indexation mechanism (i.e., the so-called Cost of Living Allowance or COLA); (ii) pension reforms; (iii) the enactment of legislation introducing the provisions of the Treaty on Stability Coordination and Governance (TSCG); (iv) a Medium Term Budgetary Framework; and (v) the endorsement of legislation on Debt Management.

Out of the total fiscal adjustment of 7¼ppts-of-GDP envisaged for the entire programme period (2012-2016), some 5½ppts-of-GDP worth of measures were being specified and incorporated in the preliminary MoU. The Cypriot Parliament has legislated - along with the 2013 Budget and the updated medium-term fiscal plan - the main bulk of fiscal and structural measures identified and agreed with the troika. That is, even for measures coming into effect in subsequent years (2014). Furthermore, and in relation to earlier calls for a strengthening of Cyprus's anti-money laundering rules, a number of related measures proposed by the troika were legislated in December 2012.

Banking sector developments

The sear size of Cypus's banking system has arguably been one of the most significant risks to the domestic economy in recent years. According to official data, total banking sector assets in December 2011 amounted to ca €146.2bn or 820%-of-GDP. The two largest domestic banks, Bank of Cyprus and Cyprus Popular Bank, posted respective net losses to the tune of €211mn and €1.09bn in the first three quarters of 2012, as a result of the Greek debt restructuring (PSI) and higher provisions for non-performing loans. The situation has aggravated further by a new classification methodology for NPLs agreed with official lenders as part of the conditionality laid out in the preliminary MoU (November 2012).

NPLs for these two banks have increased significantly over the last four years. This trend has gained momentum since mid 2011 and, more recently, is has been aggravated by rising NPLs in the Greek market. It is worth noting that loans to Greek residents account between 34% and 44% of the total loan portfolios of the aforementioned banks. In order to align their capital position with the European Banking Authority (EBA) recommendations, Bank of Cyprus and Cyprus Popular Bank had to meet a 9% core Tier 1 capital ratio by June 30, 2012.

To fulfill the said target they had to plug respective capital shortfalls of €1.56bn and €1.971bn. The banks were not able to fully cover these amounts on their own means, in spite of undertaking a series of actions. They proved to be short of a cumulative amount of €2.3bn (€0.5bn and €1.8bn, respectively) as their regulatory capital was depleted by the Greek debt exchange. As a result, they sought financial assistance from the government. The latter bailed out CPB in June 2012, injecting €1.8bn into the bank.

Another potential vulnerability for the domestic banking system lies in the face of the relatively high private sector indebtedness. Private sector loans reached €47.54bn in November 2012, corresponding to 265.5%-of-projected-GDP. Nonetheless, domestic bank deposits provided pretty strong coverage of bank loans back then, with the overall loans-to-deposits ratio standing at ca 102.3% in November 2012. A significant slowdown in the rate of growth domestic bank deposits has been evident since late 2010, amid heightened worries over the domestic macroeconomic outlook. Nonetheless, the year-on-year growth of total (i.e., resident + non-resident) deposits to domestic banks was marginally positive at the end of 2012.

In view of the worsened domestic financial conditions, Cyprus's sovereign credit ratings came under significant pressure since late 2010. Following a series of rating downgrades the country has lost access to international credit markets. In June 2012, Fitch was the last of the three major rating agencies to downgrade Cyprus's long-term foreign currency bonds to non-investment grade status. Shortly after the latter downgrade, the European Central Bank announced that the Republic of Cyprus bonds were no longer eligible as collateral for the domestic banking sectors' refinancing operations via its regular liquidity facilities. Note that the ECB's minimum eligibility criterion is for at least one of the major ratings agencies to value government bonds as investment grade. On March 21, 2013, S&P cut Cyprus's long-term sovereign credit rating deeper into junk status (to CCC from CCC+), citing "acute problems in Cyprus' banking sector". The ratings agency maintained a negative outlook, suggesting that further downgrades are possible should the government fail to secure a credible alternative source of capital and fiscal financing or the troika representatives and the Cypriot authorities do not manage to reach an alternative agreement.

In view of the tightened liquidity conditions and the lack of adequate collateral for refinancing through the regular ECB liquidity facilities, Cypriot banks have increasingly relied to more expensive funding options, such as the Emergency Liquidity Assistance (ELA). Notably, ELA borrowing increased by approximately €3.7bn in H2-2012, while the outstanding amount of ECB lending fell by €5.7bn over that period.

Domestic banking system recapitalization

Apart from domestic political considerations, one of the main reasons that delayed for so long a final bailout agreement on Cyprus has been uncertainty about the overall size of domestic bank recapitalization needs. This was to be determined by the final results of a due-diligence exercise conducted by investment firm PIMCO, originally expected to be published in mid-January 2013. According a number of preliminary PIMCO findings leaked to the press last December, domestic bank recapitalization needs under an extreme scenario were estimated at ca €10bn or nearly 50% of the country's GDP.

This estimate was broadly in line with earlier press reports estimating the total size of the rescue package to amount to around €17.5bn, including up to €10bn for banks, €6bn for servicing public debt and €1.5bn for plugging other budgetary holes. With Cyprus's gross domestic product at current prices coming in at around €18bn in 2011, the financial aid package would amount to ca 100% of GDP, if the above figures were to be eventually vindicated. In early January, the Cypriot government called BlackRock to provide a separate assessment on the methodology PIMCO used to determine the domestic banking system's capital requirement. They have noted that their aim was not to oversee PIMCO, but to achieve a better understanding of the methodology used to evaluate the sector's recapitalization needs and to examine whether different results from those of PIMCO might be drawn. Reportedly, this procedure was being followed amid hopes that it might yield recapitalization estimates falling at the lower end of PIMCO figures, so as to provide some leeway in any new negotiations with the troika.

Note here that any troika funding utilized to recapitalize Cypriot banks will add up the government's balance sheet, further exacerbating public debt dynamics. National authorities were hoping that direct recapitalization of domestic banks via the ESM would be a potential strategy facilitating an eventual return to a more sustainable fiscal position. Regarding the latter issue, we noted in an earlier research piece on Cyprus[1] that (i) conditions for direct capital injections to euro area bank from the ESM are not yet in place; (ii) several Member States including Germany, Netherlands and Finland have reportedly opposed the mechanism's retrospective application; and (iii) even in the case of direct bank recapitalizations, the ESM is unlikely to take any losses incurred as a result of the difference between the overall size of capital injections and the future revenue raised from the divesture of bank assets acquired through the recapitalization process.

[1]New Europe Economics & Strategy "Trip Notes Cyprus 28-29 January 2013", Eurobank Research; February 2013.

State cash reserves close to depletion

Cyprus has been unable to access international funding markets for more than a year now. Yet, the government has so far managed to cover its financing needs through issuance of Treasury bills (bought mainly by domestic banks) and short-term loans provided by semi-state organizations, such as the Electricity Authority of Cyprus (EAC), the Cyprus Telecommunications Authority (Cyta) and the Cyprus Ports Authority. With a final agreement on a sovereign bailout package for Cyprus still pending, the Cypriot government said recently that it has secured the necessary funding to meet its immediate financing needs until March 2013. Our understanding is that some future revenue (up to €150mn) in the form of signature fees from natural gas exploration may provide some additional breathing space, but a final agreement with the troika (or some other form of external financing) to avoid a complete depletion of State coffers would be necessary to prevent an inability to meet payments after May 2013. Note that the first major bond redemption comes in early June, when a €1.4bn issue expires. Another debt maturity of €715mn is due in the month after (**Table 2**).

Table 2

Date of Redemption	Redemption Amount (in mn EUR)
Jan-13	159
Apr-13	2
Jun-13	1,415
Jul-13	715
Oct-13	1

Source: Bloomberg, Eurobank Research

Revenue from natural gas exports expected no earlier than in 2019

Cyprus announced its first natural gas discovery in December 2011 following a concession to U.S. Noble Energy to explore Block 12, an area offshore Mediterranean Exclusive Economic Zone (EEZ). Notably, Noble reported significant gas findings in the tune of 5-8 trillion cubic feet. In late January 2013, the government offered licenses to Italian ENI and South Korea's Kogas for the exploration of hydrocarbons in three additional offshore blocks in the south and south-east of the island. The new contracts are expected to generate €150mn of revenue for the government (in the form of signature fees), assisting it with meeting its financing needs through to May 2013. Additional income may also be generated from another license to French company Total, which is bidding for the exploitation of two more blocks. Talks on the latter are currently in progress. Apart from the short-term favorable impact of gas exploitation, such as income from licensing contracts, significant benefits are also seen longer-term. Government officials have expressed hopes that gas findings will be available for domestic consumption as early as in 2017, while by 2019 the country will be in a position to proceed with gas exports. A state company responsible for handling the sales of gas reserves was established in 2012. According to current planning, a liquefaction facility will also be constructed for export purposes, which will also boost domestic investment. The government has noted that revenue generated from hydrocarbons exploitation will be party used to finance investments in infrastructure in the energy sector, while another portion will be destined to the State budget.

Debt sustainability outlook

According to Cypriot finance ministry's recent estimates (December 2012), under an adverse scenario, the gross public debt ratio would hit a sub-140%-of-GDP peak in 2014, before embarking on a descending path towards ca 100%-of-GDP by 2020. This projected sharp rise in the debt ratio from an estimated 85.8%-of-GDP at the end of FY-2012 assumed the finalization of an agreement with the troika over a sovereign bailout programme for Cyprus, with the bank recapitalization package providing the main driver behind deteriorating debt dynamics. The finance ministry also envisaged a number potential remedies and relief strategies that could be employed to alleviate debt dynamics. These include, among others: (i) concessional terms in ESM loans; (ii) the generation of primary surpluses from FY-2014 onwards (as envisaged in the baseline macro scenario assumed in the preliminary MoU); (iii) a 5-year maturity extension of the €2.5bn Russian loan; (iv) bail-in of junior bondholders (€1.2bn); (v) privatization revenue of €3bn (= €1bn from the sale of stakes in three publically-controlled enterprises + €2bn from the sale of government stakes in the domestic banking sector) over the DSA-relevant forecasting horizon (2012-2016); (vi) interest income from hybrid instruments and the Wealth Fund; and (vii) low refinancing needs.

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ISSN: 2241-4843