



# **Conclusion of ESM programme for Greece: an overview**

**20 August 2018**

# Greece no longer relies on rescue loans for first time since 2010

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- On 20 August 2018, Greece successfully concluded the ESM financial assistance programme
- Greece no longer relies on rescue loans for the first time since early 2010
- The country has come a long way since it first requested financial assistance:
  - The **economy** has been **growing** again since 2017
  - Unprecedented fiscal adjustment: from **budget deficit** of 15.1% in 2009 to a **surplus** of 0.6% in 2017
  - Programme fiscal targets (primary surpluses) overachieved in 2015, 2016, and 2017
  - Improved competitiveness: **current account deficit** has fallen from -15.8% in 2008 to -0.9% in 2017
  - Important **reforms** have been legislated in the field of public administration, product, service and labour markets, pensions, personal income tax and VAT, the financial sector
  - Greece returned to the bond market in July 2017, and again in 2018

# ESM programme objectives and achievements

## Pillar I

Restoring the sustainability of public finances

- Personal income tax system revised
- VAT system streamlined to improve efficiency and reduce scope for fraud
- Unsustainable and fragmented pension system overhauled
- Social Solidarity income for poorest households

## Pillar II

Safeguarding financial sustainability

- Governance of Greek systemic banks strengthened and brought in line with international best practice
- Structure of household and corporate insolvency legislation reviewed
- NPLs are slowly decreasing, but stock is still significant

## Pillar III

Structural policies to enhance growth, competitiveness and investment

- Labour market reforms – improved system of collective bargaining
- Product markets – reducing unnecessary barriers, lifting restrictions in regulated professions
- New independent privatisation and investment fund (HCAP)
- Energy market for gas and electricity has been opened

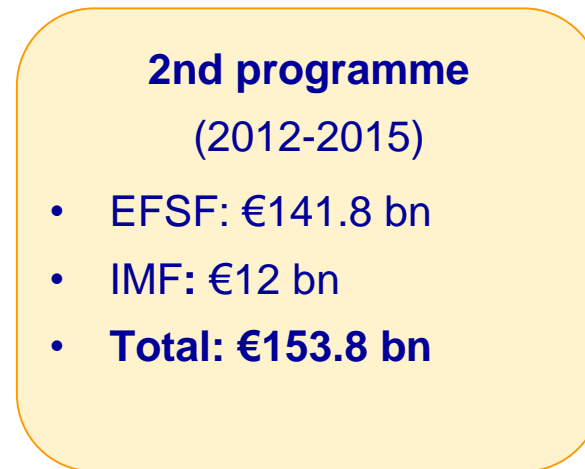
## Pillar IV

The functioning of Greece's public sector

- Size of public sector reduced by 25% between 2009 - 2017
- Annual performance assessments for all public officials; competitive selection of senior management
- Reforms improving efficiency of judicial system

# Three financial assistance programmes for Greece

- The ESM programme was the third package of financial assistance for Greece



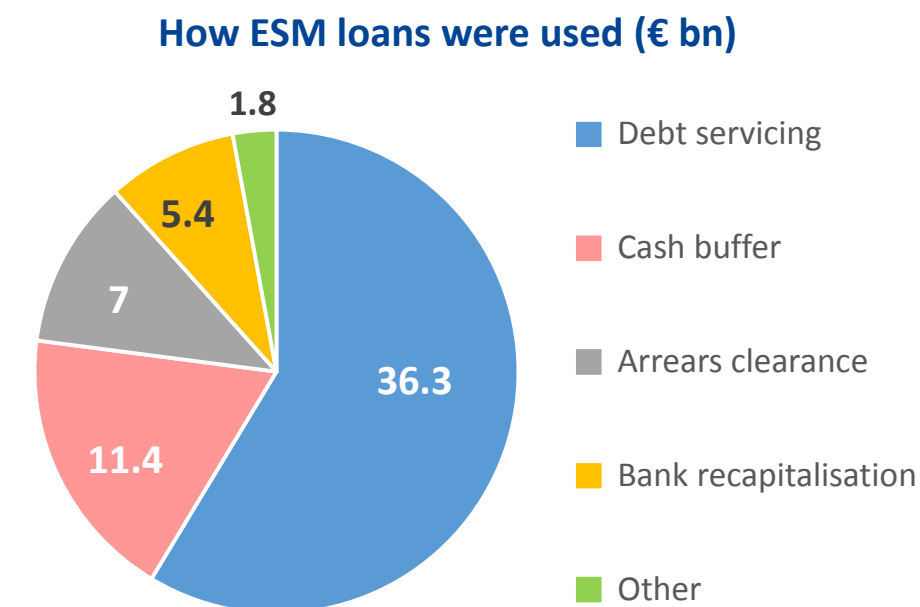
- Total amount disbursed to Greece during all 3 programmes: **€288.7 billion**
- The EFSF and ESM are Greece's largest creditor with a combined **€203.8 billion** in loans

*Note: for IMF loans (disbursed as SDR), the corresponding figure in euros is based on exchange rate at time of disbursement*

# ESM financial assistance for Greece

- The ESM disbursed €61.9 billion to Greece
- The full programme envelope of up to €86 billion was not needed by Greece

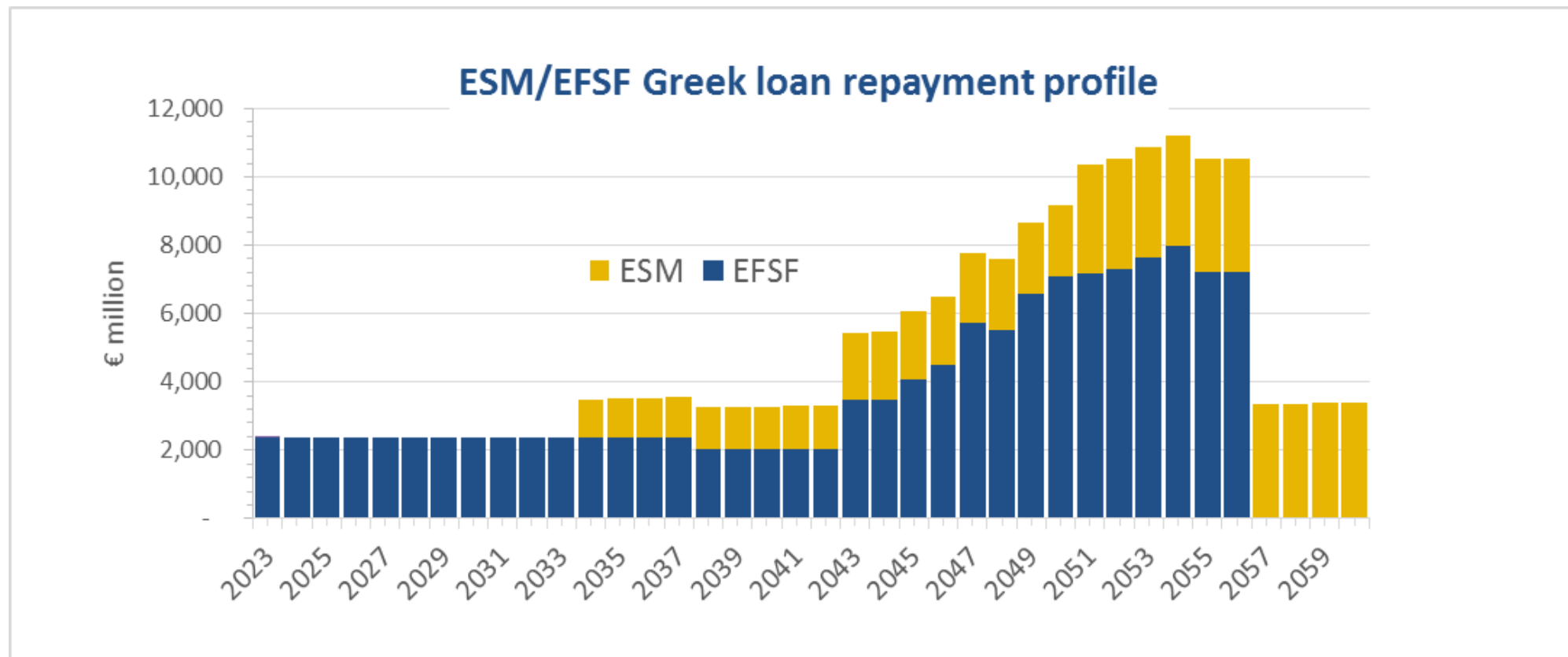
Date of disbursement	Amount disbursed	Type of disbursement	Maturity	Cumulative amount disbursed
20/08/2015	€13 billion	Cash	Amortisation from 2034 to 2057	€13 billion
24/11/2015	€2 billion	Cash	Amortisation from 2034 to 2057	€15 billion
01/12/2015	€2.7 billion	Cashless	Amortisation from 2055 to 2059	€17.7 billion
08/12/2015	€2.7 billion	Cashless		€20.4 billion
23/12/2015	€1 billion	Cash	Amortisation from 2034 to 2057	€21.4 billion
21/06/2016	€7.5 billion	Cash	Amortisation from 2034 to 2058	€28.9 billion
26/10/2016	€2.8 billion	Cash	Amortisation from 2034 to 2058	€31.7 billion
10/07/2017	€7.7 billion	Cash	Amortisation from 2034 to 2059	€39.4 billion
30/10/2017	€0.8 billion	Cash	Amortisation from 2034 to 2059	€40.2 billion
28/03/2018	€5.7 billion	Cash	Amortisation from 2051 to 2054; 2060	€45.9 billion
15/06/2018	€1 billion	Cash	Amortisation from 2034 to 2060	€46.9 billion
06/08/2018	€15 billion	Cash	Amortisation from 2043 to 2060	€61.9 billion



Weighted average maturity of loans: 32.35 years

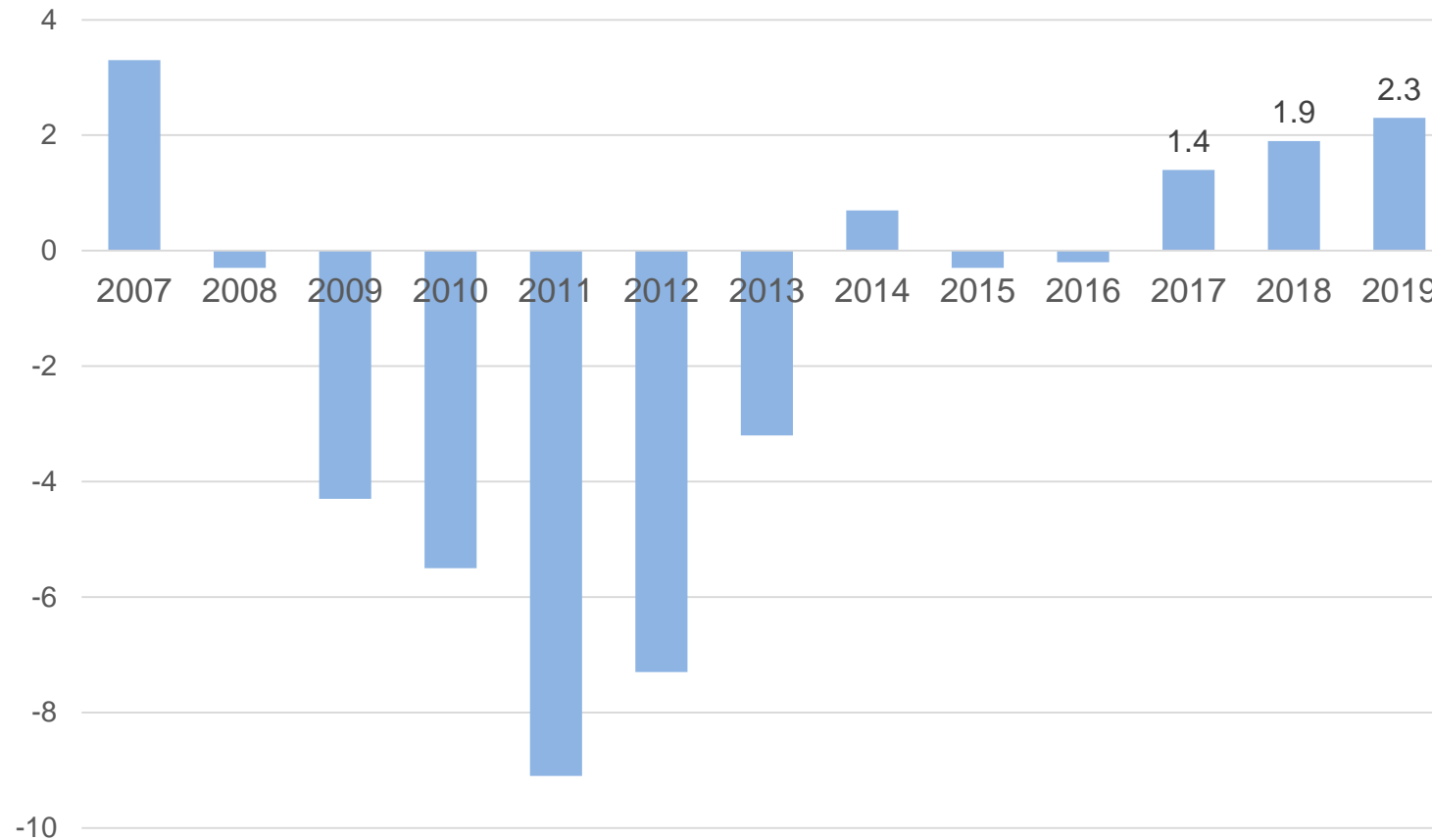
# Repayment schedule

- Greece will repay ESM loans from 2034 to 2060, EFSF loans from 2023 to 2056
- According to the medium-term debt relief measures agreed by the Eurogroup in June 2018, the maximum weighted average maturity will be extended by **10 years** on €96.4 billion of EFSF loans



# The Greek economy is growing again

## Real GDP growth (% annual change)



# Greece has regained investor trust

10-year Greek government bond yields (%)



**Greece has returned to the bond market:**

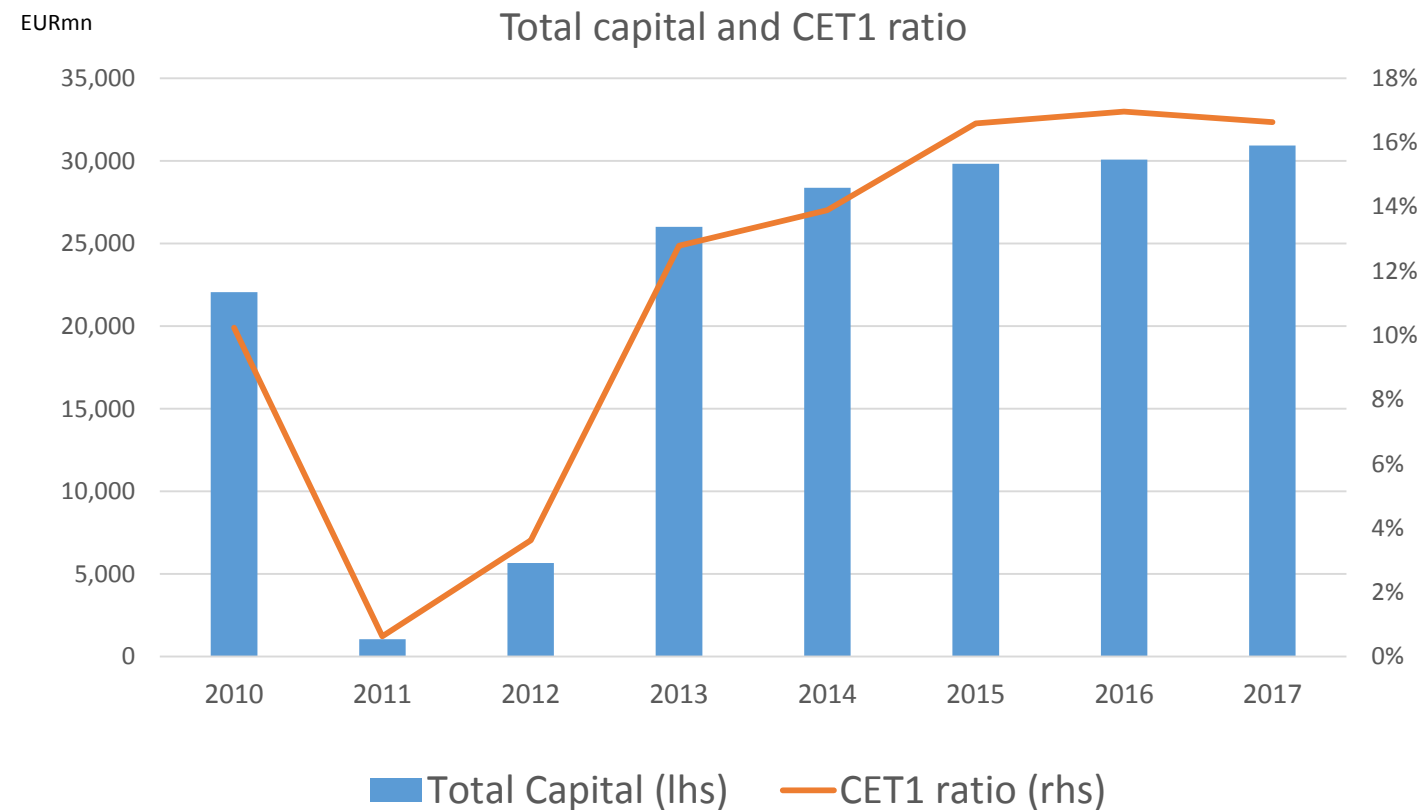
- July 2017: €3 bn 5-year bond (first bond since 2014)
- November 2017: Bond exchange (5 new benchmark issues, 5-25 years)
- February 2018: €3 bn 7-year bond

Source: Bloomberg



# The Greek banking system is stronger (1)

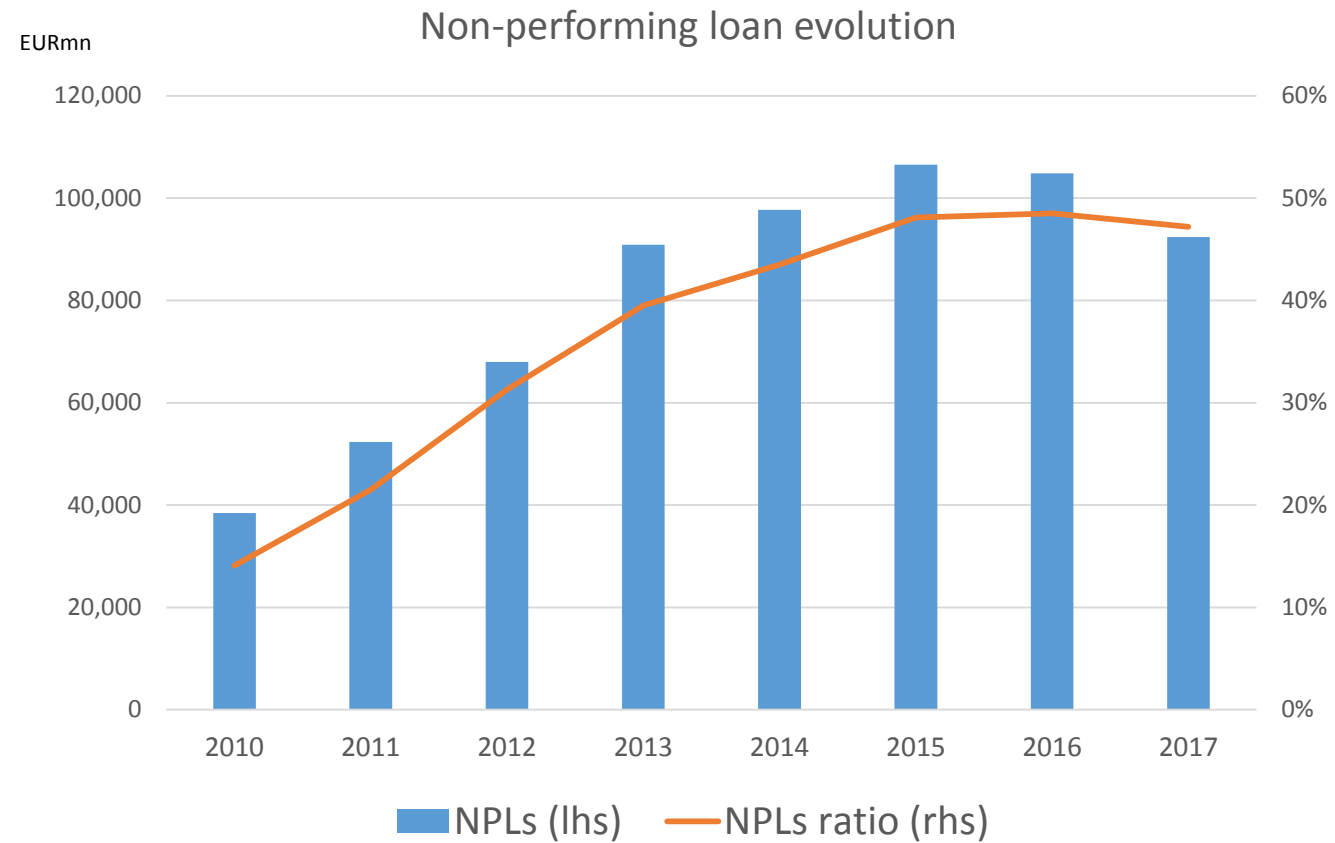
**Greek banks have been recapitalised thanks to ESM loans; the average CET1 ratio is above the euro area average**



Source: SNL Financial, ESM calculations

# The Greek banking system is stronger (2)

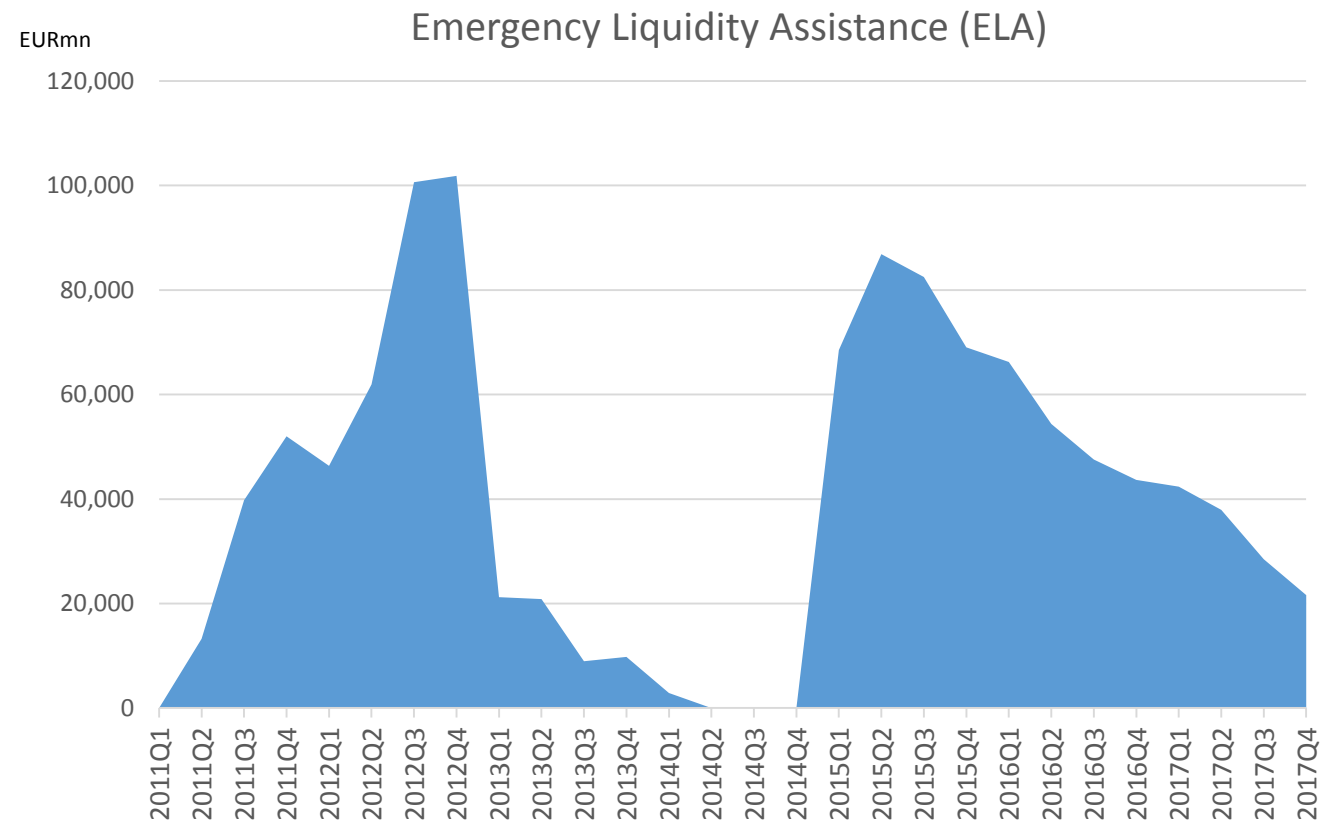
## NPLs peaked in 2015; the pace of reduction accelerated in Q4 2017



Source: Bank of Greece

# The Greek banking system is stronger (3)

**ELA has been repaid rapidly and is expected to be repaid in full in 2018**



Source: Bank of Greece

# The Greek banking system is stronger (4)

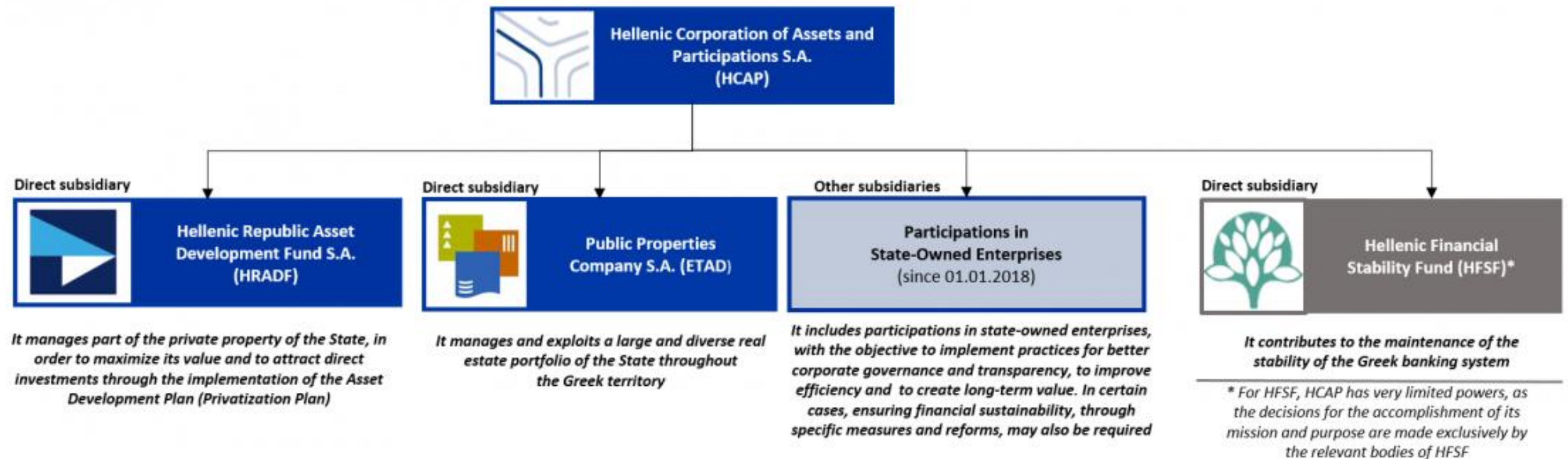
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## But significant challenges remain:

- The NPL ratio remains the highest in the euro area
- Banks have not increased new lending
- Uncertainty of sustainable profitability

# Hellenic Corporation of Assets and Participations (HCAP)

- HCAP has been established to effectively manage and monetise state assets, and increase their value and the quality of services and amenities to the Greek people
- Income earned by HCAP will be used to decrease debt and finance investment
- HCAP is a Greek company, wholly owned by the Greek State, and managed by a board of directors in accordance with strong corporate governance principles



Source: HCAP

# Short-term debt relief measures for Greece

- 1) **Smoothing EFSF repayment profile** (increasing weighted average maturity of loans to 32.5 years from previous 28.3 years)
- 2) **Reducing interest rate risk** for Greece:
  - Exchanging EFSF/ESM floating-rate bonds for fixed-rate bonds; interest rate swaps; matched funding for future disbursements
- 3) **Waiving step-up interest rate margin** for 2017 on €11.3 billion EFSF loan tranche (margin of 2% had originally been foreseen)

- Measures were endorsed by Eurogroup in Dec. 2016 and approved by ESM and EFSF governing bodies in Jan. 2017 and implemented during the course of 2017
- Thanks to these measures:
  - **Greece's debt-to-GDP ratio will be reduced by an estimated 25 pp until 2060**
  - **Greece's gross financing needs will be lower by an estimated 6 pp over the same period**

# Medium-term debt relief measures for Greece

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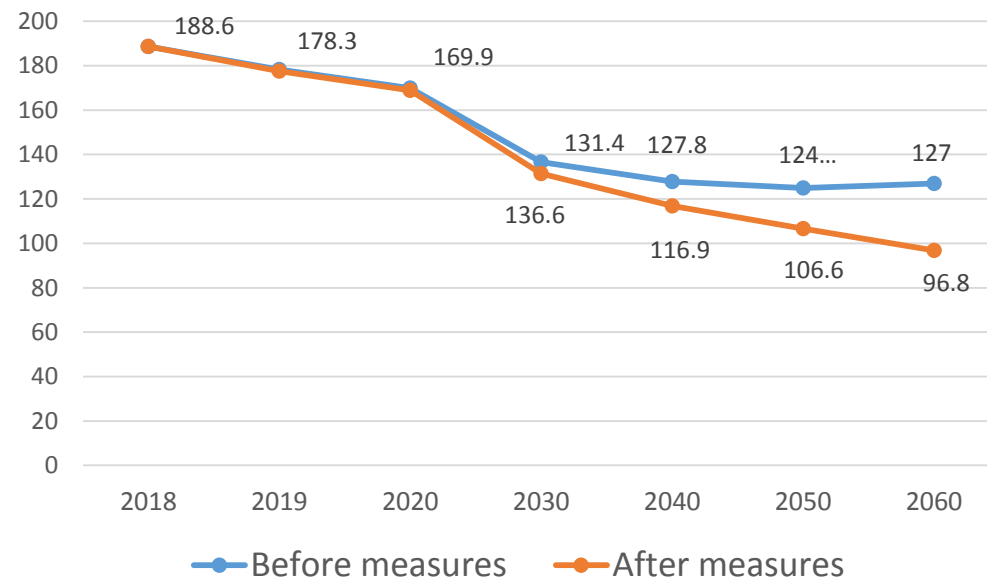
- On 22 June 2018, the Eurogroup agreed three **medium-term debt relief measures** for Greece:
  - 1) The abolition of the step-up interest rate margin related to the debt buy-back instalment of the second Greek programme as of 2018, linked to fulfilment of policy commitments;
  - 2) The use of 2014 Securities Markets Programme (SMP) profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP income equivalent amounts to Greece (as of budget year 2017). The funds will be used to reduce gross financing needs or to finance other agreed investments, linked to fulfilment of policy commitments;
  - 3) A further deferral of interest and amortisation by 10 years and an extension of the maximum weighted average maturity (WAM) by 10 years on €96.4 billion of EFSF loans.

Formal decision by the EFSF Board of Directors and implementation expected this fall.

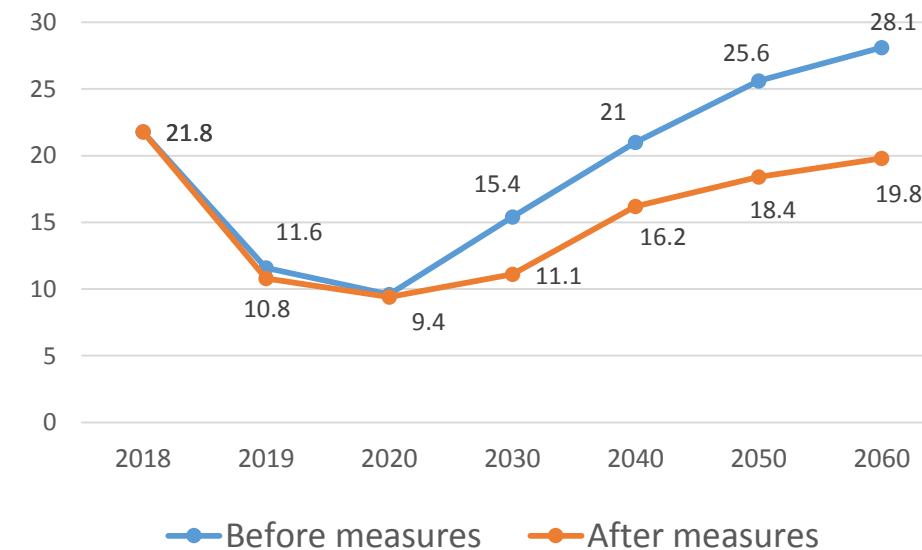
# Debt sustainability

- The implementation of an ambitious growth strategy and prudent fiscal policies by the Greek government will be the key ingredients for debt sustainability
- The medium-term debt relief measures agreed in June 2018 are expected to ensure Greece's debt sustainability under the baseline scenario
- Because of Greece's very long loan maturities, gross financing needs are a more reliable metric of debt sustainability than debt-GDP

**Debt-GDP projection before and after medium-term measures are implemented (% GDP)**



**Gross financing needs (GFN)-GDP projection before and after medium-term measures are implemented (% GDP)**

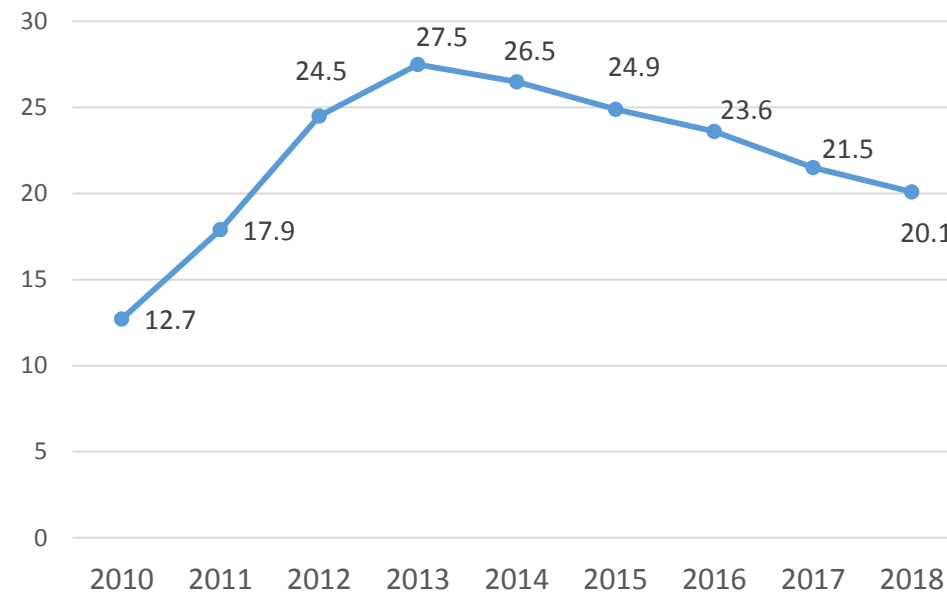




# Reform agenda does not end with the programme

- Unemployment has been falling, but is still the highest in the EU
- Sustainable growth is only way for Greece to deliver more jobs and prosperity for its people
- Efforts must continue to liberalise the economy, create a modern public administration, as well as a business-friendly environment

Unemployment rate in Greece (%)



## After the programme: enhanced surveillance

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- After the ESM programme ended, the European Commission activated the Enhanced Surveillance framework, which implies quarterly reports to assess Greece's economic, fiscal and financial situation and the post-programme policy commitments
- Enhanced surveillance is appropriate due to the large amount of money disbursed by the EFSF/ESM and the unprecedented debt relief
- The ESM will closely collaborate with the Commission in the post-programme phase in the context of the ESM Early Warning System (EWS) as in the case of other beneficiary countries
- EWS assesses a country's short-term liquidity, market access and sustainability of public debt to ensure that Greece and other beneficiary countries repay their loans