Transcript from Eurogroup press conference on Greece

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Statement by ESM Managing Director Klaus Regling following the Eurogroup's approval of Short-term debt measures for Greece

Press conference following Eurogroup meeting, 5 December 2016

Good evening, let me say a few words about the short-term debt relief measures that I presented to the ministers this evening, and as you heard from the Chairman of the Eurogroup, the ministers endorsed these measures, so we will start implementing them over the next few weeks, and then implementation itself will take a while.

I realise that I don't have to have to go into many details because you all know the paper that the ESM drafted on this, which was leaked, which I regret. But still, let me highlight a few points. Following the mandate the ESM received earlier this year, we put together proposals that we believe are workable. And I think that together, they are an important step to improve Greek debt sustainability. When we have implemented all these measures, they could lead to a cumulative reduction of the Greek debt-to-GDP ratio of around 20 percentage points over the time horizon until 2060. And looking at the so-called gross financing side, the measure that the Eurogroup accepted as a benchmark for assessing debt sustainability, the cumulative positive impact of these short-term measures is that by 2060 the GFN (gross financing needs) would be almost 5 percentage points lower.

Of course, this time horizon until 2060 is unusually long and implies great uncertainty. Therefore one has to be very careful that these are estimates – our best estimates at the moment. But there is a high degree of uncertainty, market conditions can change, and therefore this has to be preliminary. But very clearly, together these measures will improve Greek debt sustainability.

Looking at the proposals a little bit in more detail, there are three sets of short-term measures that we proposed and which are in line with the May Eurogroup statement. The first set is about smoothing of the repayment profile for Greece - this is related to Greece's second programme, which was an EFSF programme. The weighted average maturity of these loans today is 28 years, and this can be brought up to 32.5 years. And as a consequence, repayment humps which existed in the 2030s and 2040s – and could have been a challenge for Greece if nothing had been changed – these humps will now be spread out and there will be a smoother profile for Greece to repay its debt.

The second set of measures is about reducing the interest rate risk for Greece, and there are three different schemes for that second measure. The first is a bond exchange to recapitalise Greek banks. The EFSF and ESM provided loans to Greece for €42 billion. These loans were not disbursed in cash, but in the form of floating-rate notes, as we also did in other countries, such as Spain and Cyprus, it's a normal process. These notes will now be exchanged for fixed-rate bonds with a much longer maturity. And because the new bonds will be at fixed rates, Greece no longer bears the risk that interest rates will go up. Of course it also means that upfront there may be costs because from the beginning then, Greece has to pay a higher long-term rate, but we are very certain that over time, in the longer run, there will be substantial savings.

The second scheme foresees that the ESM would enter into swap arrangements. This would stabilise the ESM's overall cost of funding and thereby also reduce the risk that Greece would have to pay high interest rates on its loans if and when rates in financial markets start rising.

The third scheme, known as matched funding, foresees that the ESM will finance future disbursements to Greece with long-term notes, and therefore this will also stabilise the interest rate cost. This entails issuing long-term bonds that closely match the maturity of the Greek loans. Market conditions may influence the degree to which these measures to reduce interest rate risk can be applied. And the implementation phase will be 12 – 18 months. Finally, there is the third measure in our proposal, the waiver of the step-up interest rate margin. This is related to a tranche of €11.3 billion of the EFSF programme (the so-called second programme) that was used to finance debt buy-backs. On this particular tranche, if nothing happens, there would be a margin of 200 basis points, and that will be waived for the year 2017.

You may ask what are the costs of all these measures – the benefits I talked about, the benefits for Greece are clear. Also we cannot be very precise on the quantification, but the direction is clear that it will improve debt sustainability. Are there costs for the ESM or member states? They are very limited. The cancellation of the step-up interest rate of 200 basis points will save €200 million – that is income that member states are giving up. Otherwise, all costs from the implementation of the different schemes I talked about will be borne by Greece, so that relates to interest rate swaps, where there are costs upfront and savings later. There are no budgetary implications for the ESM member states, so it’s not a change in the existing programme in that sense. And for Greece, as I said already, whatever short-term costs there are, have to be borne, but they will be more than compensated by the longer-term benefits.

I think that’s what I wanted to say on the programme. It will only have a marginal impact on our funding policy, on EFSF and ESM funding for 2017. We will communicate these changes very soon to the markets, because we always do that well in advance before we start the new year. And if you wonder, we will not stop issuing shorter maturities, even though we have a focus now on longer maturities. We will remain present as an issuer in benchmark size along the entire yield curve, also in the future.

Response to question on Greece’s projected debt-to-GDP ratio in 2060

I cannot give you a precise number on that, because for that, we need to agree on the fiscal path, and there are different scenarios. We have our baseline scenario, which we, together with the Commission and the ECB, believe in. But we know there also other scenarios, and given that the time-frame is very, very long, we know that uncertainty is high and nobody can say that one scenario is certainly right and the other is certainly wrong. So I would be reluctant to give you a number. But it’s safer to say what is the positive impact from whatever scenario you start from, that’s how we got to the 20 percentage points [reduction of the debt-to-GDP ratio by 2060 thanks to the EFSF/ESM short-term debt-relief measures].

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