Explainer on EFSF medium-term debt relief measures for Greece

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When were the medium-term debt relief measures for Greece agreed?

Following the completion of the fourth and final review of Greece's ESM programme, the medium-term measures were agreed by the Eurogroup on 22 June 2018. The implementation of the measures was approved by the EFSF Board of Directors on 22 November 2018.

What do the medium-term measures consist of?

The medium-term debt relief measures for Greece consist of (i) a mechanism for the conditional abolition of the step-up interest rate margin related to the debt buy-back tranche of the second Greek programme from 2018 onwards; (ii) a further deferral of EFSF interest and amortisation by 10 years on €96.4 billion of EFSF loans to Greece; and (iii) an extension of the maximum weighted average maturity on the above-mentioned portion of EFSF loans by 10 years, respecting the programme authorised amount.

What is the step-up interest rate margin?

This is the margin applied to the €11.3 billion loan instalment of the EFSF programme for Greece (second Greek programme), which was used to finance a debt buy-back in 2012. A margin of 2% had originally been foreseen from 2017 onwards.

Under the short-term debt-relief measures, the step-up interest margin was waived and not charged for the year 2017.

As part of the medium-term measures, the EFSF Board of Directors agreed to the mechanism to abolish the margin starting with the year 2018. For the period until 2022, the margin can be abolished by decision of the Board every half-year, in respect of the following half-year period. Each half-yearly decision to reduce the margin to zero will be based on a positive assessment of Greece's continued implementation of key reforms adopted under the ESM programme and compliance with its post-programme policy commitments. The final confirmation of the abolition for the years following 2022 will be taken by the Board at that time.

What are the details of the deferral of interest and amortisation on EFSF loans?

The current interest deferral period, ending on 12 December 2022, was extended by 10 years. Thus, until December 2032, interest accruing on the Master Financial Facility Agreement (MFFA), i.e. €96.4 billion of EFSF loans to Greece is not due and payable but deferred.

The start of amortisation (principal repayments) on the aforementioned loan amount will also be deferred by 10 years, from 2023 to 2033.

How will the loan maturities be extended?

The maximum weighted average maturity (WAM) of all the loan tranches under the MFFA was extended by 10 years from 32.5 years to 42.5 years. The exact maturity of each loan tranche will be published once the EFSF carries out the process of re-profiling Greece's payment schedule. This is expected to be completed by the end of 2018.

What is the status of the SMP and ANFA profits, specified in the Eurogroup statement of 22 June 2018?

This transfer of SMP/ANFA profits to Greece is regulated outside ESM/EFSF governance, therefore, is not part of the current EFSF measures.

What savings will the measures bring for Greece?

The total package of medium-term debt relief measures[1] is estimated to reduce the Greece's debt-to-GDP ratio by 30 percentage points by 2060, and the gross financing needs-to-GDP ratio by around eight percentage points. This comes on top of the effect of short-term debt relief measures already implemented.

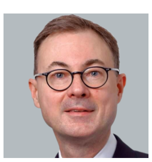
Will there be further debt relief measures in the future?

The Eurogroup, in its statement of 22 June 2018, agreed that based on a debt sustainability analysis to be provided by the European institutions, it will review in 2032 whether additional debt measures are needed to respect Greece's agreed gross financing needs (GFN) targets, provided that the EU fiscal framework is respected, and take appropriate actions, if needed. The Eurogroup will take into account a positive assessment in the post-programme surveillance, particularly in the fiscal area and economic reform policies.

The Eurogroup also recalled the May 2016 agreement on a contingency mechanism on debt, which could be activated in the case of an unexpectedly adverse scenario. If activated by the Eurogroup, it could entail measures such as a further re-profiling and capping and deferral of interest payments of the EFSF to the extent needed to meet the GFN benchmarks.

[1] This includes the transfer of SMP/ANFA profits to Greece.

Contacts



Cédric Crelo
Head of Communications and Chief Spokesperson
+352 260 962 205
c.crelo@esm.europa.eu

Anabela Reis
Deputy Head of Communications and Deputy Chief Spokesperson
+352 260 962 551
a.reis@esm.europa.eu

Juliana Dahl
Principal Speechwriter and Principal Spokesperson
+352 260 962 654
j.dahl@esm.europa.eu