104

» Print

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.

Exclusive: Greek debt may remain at 160 percent in '20: IMF/ECB

Mon, Feb 20 2012

By Jan Strupczewski

BRUSSELS (Reuters) - Greece will need additional relief if it is to cut its debts to 120 percent of GDP by 2020 and if it doesn't follow through on structural reforms and other measures, its debt could hit 160 percent by 2020, a confidential analysis conducted by the IMF, European Central Bank and European Commission shows.

The baseline scenario in the 9-page report, obtained exclusively by Reuters, is that Greece will cut its debts to 129 percent of GDP by 2020, well above the 120 percent target.

"The results point to a need for additional debt relief from the official or private sectors to bring the debt trajectory down," said the report, which is being discussed by euro zone finance ministers at a meeting in Brussels on Monday to decide on a second financing program for Greece.

"There is a fundamental tension between the program objectives of reducing debt and improving competitiveness, in that the internal devaluation needed to restore Greece competitiveness will inevitably lead to a higher debt to GDP ratio in the near term," says the report, dated February 15.

"In this context, a scenario of particular concern involves internal devaluation through deeper recession (due to continued delays with structural reforms and with fiscal policy and privatization implementation).

"This would result in a much higher debt trajectory, leaving debt as high as 160 percent of GDP in 2020. Given the risks, the Greek program may thus remain accident-prone, with questions about sustainability hanging over it," it said.

The analysis cautioned that Greece may not be able to implement all the necessary changes quickly enough.

"The Greek authorities may not be able to deliver structural reforms and policy adjustments at the pace envisioned in the baseline," it said.

"The debt trajectory is extremely sensitive to program delays, suggesting that the program could be accident prone, and calling into question sustainability," it said.

OFFICIAL SECTOR ROLE

The report said that debt could be reduced to 120 percent from 129 percent through a restructuring of the accrued interest on Greek bonds, which would shave 1.5 percentage points off the final result.

A further 1.5 percent could be obtained from lowering interest rates on bilateral euro zone loans extended to Athens under the first bailout program and 3.5 percentage points could be saved by restructuring the portfolios of Greek bonds held by euro zone central banks in their investment portfolios.

The biggest contribution to the debt reduction, however, could come from the ECB forgoing profits on the Greek bonds the central bank bought under a market intervention program since 2010. That would cut the debt by 5.5 percentage points.

The analysis said that the estimated Greek bank recapitalization needs had increased.

"The Blackrock diagnostic exercise, the PSI exercise (including its likely accounting treatment), and refined estimates of resolution costs (as opposed to recapitalization costs) have pointed to higher needs than assumed at the time of the Fifth program review (?50 billion versus ?40 billion previously)," the analysis said.

PSI is an acronym for private sector involvement -- the losses that investors will agree to take on their Greek bonds to help Athens achieve debt sustainability -- and is part of the new financing package under discussion.

The report said that deal discussed by Greece and private creditors, represented by the Institute of International Finance (IIF), envisaged a 50 percent nominal reduction in the value of their holds of Greek government bonds.

Of the remaining 50 percent, investors would get 15 percentage points paid in short-terms notes issued by the euro zone bailout fund, the European Financial Stability Facility (EFSF) and 35 percentage points in 30-year bonds amortizable after 10 years.

The coupon on the bonds would be 3 percent between 2012 to 2020, then rise to 3.75 percent from 2021 until maturity. Investors would get an additional interest payment linked to Greek GDP growth, which however, would be capped at 1 percent of the outstanding amount of new bonds.

"The creditor participation rate is assumed to be 95 percent," the report said. For every 5 percent decline in the participation rate, the 2020 debt-to-GDP ratio would climb by 2 percent.

Euro zone government support for Greece, paid through the EFSF, would not carry any extra interest, only the same as the EFSF costs to raise the money on the market. This interest would be paid annually rather quarterly.

LONG-TERM FINANCING

The analysis said that Greek financing needs during the period of the second financing program, which is until 2014, would be 170 billion euros, unless the additional actions to reduce debt are taken.

Because there are 34 billion euros left undisbursed from the first Greek bailout, the new financing needs from euro zone governments and the IMF would amount to 136 billion euros.

"For the period 2015-2020 official financing needs could amount to an additional ?50 billion (again before actions to reduce debt), although this figure could be a little lower if Greece is able to gain some limited market access in the last years of the decade," the analysis said.

The report warns that the balance of risks is to the downside -- if Greek primary balance does not rise above 2.5 percent of GDP, from -1 percent in 2012, debt would be on an ever increasing trajectory.

If revenues from privatization are only 10 billion euros rather than 46 billion by 2020, Greek debt would be 148 percent of GDP in eight years.

If Greek economic growth is permanently higher than 1 percent annually, debt would fall to 116 percent of GDP by 2020, but if it is permanently

lower, debt would rise to 143 percent.

Because Greece will be financing itself mainly through the EFSF, a rise in the borrowing costs for the fund of 100 basis points would mean Greek debt at 135 percent in 2020.

(Reporting By Jan Strupczewski; editing by Luke Baker)

© Thomson Reuters 2011. All rights reserved. Users may download and print extracts of content from this website for their own personal and non-commercial use only. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.