

## Transcript of statement by ESM Managing Director Klaus Regling

Eurogroup Press Conference, 25 May 2016

### *Introductory remark*

I also welcome the progress we achieved today in the Eurogroup. We found an agreement for the disbursement of the second tranche under the current programme. The second tranche will amount to €10.3 billion; this will follow the first tranche of €21.4 billion, which was disbursed, as you remember, from September to December last year.

To move quickly, Greece now needs to implement all the outstanding prior actions. Once this is done, the ESM Member States will go through their national procedures in order to give a mandate to their Board members to take the necessary legal decisions in the ESM Board of Directors.

The €10.3 billion would be paid out to Greece in several disbursements: A first disbursement of €7.5 billion to cover Greece's debt service obligations, and to start clearing domestic arrears that have accumulated, could happen in the second half of June, if all the preconditions that I mentioned are in place. The following disbursement by the ESM to Greece would happen after the summer and be used to further clear government (domestic) arrears and for debt servicing payments. The disbursements related to debt service would only take place if the Greek government fulfils another set of milestones related to privatisation including the new Privatisation and Investment Fund, bank governance, revenue agency and energy sector related milestones.

Let me say a few words about the debt agreement that was described by the President (Dijsselbloem). I think it's very positive that we were able to agree on the framework and on the benchmarks that we will apply in the future. I think we talked about that in the past, so we don't need to say very much here. There's agreement that Greece's gross financing needs should remain below 15% of GDP over the next 20 years and afterwards below 20% of GDP. I think that consensus is very important.

Let me give you a few more details on the debt-related measures, and I follow the format used by the President: short-term and medium-term measures. **Under the short-term measures**, the ESM in our own responsibility will do debt management exercises, **first to smoothen the EFSF repayment profile under the current weighted maximum average maturity**. This is possible because through certain activities last year, our average maturity at the moment has been reduced to 28 years. This comes mainly from the fact that the HFSF buffer of almost €11 billion was returned to the EFSF last year, at the end of the programme on 30 June. So we now have an average maturity of 28 years, it can be extended to 32 years, so there's room for future disbursements to take that into account and smoothen the repayment profile of Greece, and that will be very helpful to eliminate particularly strong payment gaps in certain years to have a smoother profile. That will be especially relevant for years when gross financing needs are particularly high – there are some years in the 2030s and 2040s. So that will have a positive impact on Greek debt sustainability in the longer term, although we will start taking the measures very soon.

Overall, the EFSF has loans outstanding to Greece that amount to €130.9 billion, so that gives you an idea that it's quite a big amount of money with which we can work to achieve this objective.

**The second measure** agreed under the short-term bucket is that we will use our diversified funding strategy to **reduce interest rate risk** for Greece without incurring additional costs for former programme countries, or for ourselves at the EFSF.

As you may remember, both the EFSF and the ESM fund their outstanding loans of over €250 billion by going to the market on a regular basis, and we issue short-term bills, and bonds with a very long maturity of up to 40 years. We will now look more carefully at lengthening the maturities of our issuance; of course this also depends on market conditions – markets for the very long end of bond issues are limited. But we can, we believe, extend the average maturity on our liability side, and that will then indeed contribute to reducing the interest rate risk for Greece.

**But one also has to understand that does not necessarily, and certainly not in the short run, lead to savings for Greece. Actually, if we extend our maturities, in the short run, interest costs may go up.** But then we would lock it in, so that's a benefit in itself, that the risk of interest rate change is reduced. And then, in the longer run, there should be savings if the expectation that interest rates go up globally in the longer run materialises.

**The third point is the elimination of the step up interest rate margin** related to the debt buy-back.

It's very technical; it goes back to a decision taken in the 2012 debt operation, where a certain amount of EFSF money was reserved for debt buy-back operations – the amount was €11 billion, and this amount was set aside to be covered by privatisation proceeds in subsequent years. And to encourage Greece to accelerate privatisation, this high interest margin was built into the system. This is now less relevant because we cover the privatisation operations and intentions of Greece through different mechanisms, so therefore it's quite appropriate that these margins are eliminated. In the short run, we are talking about the first step in 2017, and the savings for Greece in that context would amount to €220 million.

For the medium term, as the President said, there is another set of measures; they are more difficult to quantify, at least some of them. Of course, they would only be delivered if the programme is implemented as agreed. Here we are talking again about the step up interest rate margin related to the €11 billion buy-back operation, so that would be another €220 million. We are also mentioning the 2014 SMP profits that we actually already have in a segregated ESM account – this is €1.8 billion, and that would be released in the medium term, under the conditions that have been mentioned.

Then there is the early partial repayment of existing loans to Greece by using unused resources from the ESM programme – the precise figure is €19.6 billion – that were not needed last year for bank recapitalisation, and that could be used now for other purposes. So I think those are the numbers that can be quantified; the additional measures targeted – EFSF reprofiling – will depend on the debt sustainability analysis, and I cannot really quantify that at the moment.

*Response to question on prior actions:*

The ESM Board of Directors takes the legal decision to agree on the first disbursement of this second tranche. The prior actions are related to the legislation on the opening of the sale of loans (non-performing loans). There are some corrections because the institutions are not completely happy with the legislation that went through the Greek parliament very quickly. This is not unusual, because it's a very thick legal package and there are some corrections that are necessary. There are also some open issues in the area of pension reform and privatisation. Those are the prior actions – only if we are satisfied, and hopefully this can happen in the next few days, then the Member States that need to go through parliamentary procedures will do that. Then, once that is successfully concluded, we will have the legal decision of the Board of Directors.

Then, for the decisions on the second disbursement under this second tranche, after the summer, we are looking at milestones related to privatisation, particularly the new Privatisation and Investment Fund. There also issues on bank governance, the new revenue agency and energy sector, and on top of that, because a lot of the money is earmarked for domestic arrears clearance, the Commission will establish a framework to supervise that this really happens and the money is used for that purpose.

*Response to question on which official loans could be included in buy-back by the ESM:*

That is not decided; the example that you gave – GLF, IMF – are all possible, but that is not decided.