Bailing out Greece means haircuts totalling 47 billion euros at the expense of public creditors

Munich, 7 December 2012 – In the night from 26 to 27 November 2012 the euro states and the IMF agreed with Greece to a bundle of measures aimed at reducing the crisis-afflicted country's debt burden. This note calculates the cost.

The individual measures decided upon were as follows:

- A debt buy-back programme: Greece should buy back its own bonds, which are currently trading at far below their issue price. It is reckoned that sovereign bonds worth 30 billion euros can be bought back with a 10 billion euro loan from the EFSF. This would lower Greece's debts by 20 billion euros.
- The central banks of other euro states (with the exception of Ireland and Portugal, which are themselves receiving support from an international programme) should transfer the book profits, generated thanks to secondary market purchases of sovereign bonds by the ECB that drove up the prices of these bonds, to a special Greek account. This sum should total around 10 billion euros by the time that the last bond matures.
- The interest rates on the bilateral loans made by the euro countries (again without Ireland and Portugal) from the first bail-out programme are reduced by one percentage point. These countries would then forego annual revenues of around 0.5 billion euros. At the same time the term of the loan would be extended by 15 years until 2041. The present value – calculated at a discount rate (approximately at the level of the interest rate on ten year German state bonds) of 1.5% – of waived payments for Greece would total 12 billion euros.
- A reduction of 0.1 percentage points in the fees on EFSF loans. For the loans issued to date of 74 billion euros that means annual savings of around 0.1 billion euros. Insofar as the fee reduction also applies to future tranches of the programme, the present value of the sum to be saved by 2042 is a good 3 billion euros. As the term of the EFSF loans has generally been 15 years to date, an extension by another 15 years means a term ending in 2042 for the majority of the loan tranches.
- An extension of the terms of bilateral and EFSF loans by 15 years and a deferral of the interest rates on EFSF loans for 10 years. Based on the as-

PRESS, PUBLICATIONS, CONFERENCES:
phone +49-89-9224-0
Aleksander Szumilas, extn. -1218, szumilas@ifo.de
www.cesifo-group.de

sumption that the interest rate remains at 2.5%[1], the interest deferral generates annual savings of around 2 billion euros for Greece for the EFSF loans that have already been paid out. If the credit tranches scheduled up until 2014 are included in the calculation, the present value of the credit deferral should be 32 billion euros

Table 1 offers an overview of the total amounts of the newly agreed assistance and various countries' share in it. They measure the present value of the implicit haircut granted to Greece. In other words, the established present values measure the implicit public debt that is additionally generated for the donor countries and/ or the reduction in the openly established public debts that would be necessary today if the sum of future burdens from the official public debt burden and the newly agreed financial assistance were to be kept constant over time. If the present values of the reductions in interest rates, fees and payment deferrals are added up, the implicit haircut guaranteed to Greece at the expense of public creditors amounts to a total of around 47 billion euros. Germany’s share of this sum totals 13.8 billion euros, France's 10.4 billion euros, Italy's 9.1 billion euros, Spain's 6.1 billion euros and the Netherland's 2.9 billion euro. The public deficits for 2012 would rise by these sums due to the newly agreed bail-out measures for Greece, if they were to be correctly calculated on an actuarial basis.

Table 1

Present value of interest and fee reductions for Greek bail-out funds

Decisions of 27 November 2012						
Billions of euros						
	Total	Germany’s share	France’s share	Italy’s share	Spain’s share	Netherlands’ share
Interest deferral for EFSF loans for 10 years 1)	31.8	9.3	7.0	6.1	4.1	2.0
Interest rate reduction of 1.0% for bilateral loans	12.0	3.5	2.7	2.3	1.6	0.7
Fee reduction on EFSF loans of 0.1 percent	3.4	1.0	0.7	0.7	0.4	0.2
Total	47.3	13.8	10.4	9.1	6.1	2.9

1) Assumption: the interest rate is 2.5%

Source: Eurogroup, Federal Ministry of Finance, calculations by the Ifo Institute

[1] The interest rates for EFSF loans are at around the same level as the financing costs for the EFSF (see EFSF “Frequently Asked Questions” available online: http://www.efsf.europa.eu/about/publications/index.htm). The EFSF’s last 10 year bond had an interest rate of 2.25% (see EFSF, Transactions, available online at: http://www.efsf.europa.eu/investor_relations/issues/index.htm).

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phone +49-89-9224-0
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www.cesifo-group.de

The latest bail-out agreements mean an implicit debt haircut for Greece, which comes on top of the haircut agreed upon in spring (66 billion euros, affecting private creditors only). The two haircuts combined account for a total of 113 billion euros.

The nominal loans with repayment burdens that will be reduced by the new implicit debt haircut are shown in table 2.

Table 2

International financial assistance for Greece	
In billions of euros	
	Agreed (and/or bail-out payments made by the ECB)
2nd bail-out package (EFSF)	145
2nd bail-out package (IMF)	28
1st bail-out package (euro countries)	53
1st bail-out package (IMF)	20
Purchases of Greek government bonds*	45
Target liabilities (end of Sept. 2012)	107
Disproportionate issue of bank notes (end of Sept. 2012)	16
Total	**414**
*Estimated	
Source: EU, IMF, ECB, calculations of Ifo Institute	

The table illustrates that Greece has received a total of 414 billion euros in public credit to date. That amounts to 199% of GDP of Greece in 2011. 59% (246 billion euros) of this credit was approved by the Eurozone's parliaments and 41% (168 billion euros) by the ECB Council. (See H.-W. Sinn, Die Target-Falle, Hanser, Munich 2012, Chapter 9.)

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