ifo Institute
Leibniz Institute for Economic Research
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PRESS RELEASE

Further Relief Planned on Bailout Loans to Greece

Munich, 11 February 2014 – On 5 February the news agency Bloomberg reported that discussions over further relief on Greece's bailout loans were taking place at an EU level (http://www.bloomberg.com/news/2014-02-05/eu-said-to-weigh-extending-greek-loans-to-50-years.html). According to these discussions, the term of the loans is to be extended to 50 years, while the interest charged is to be reduced by 0.5 percentage points.

By December 2013 Greece had received 213.4 billion euros from two bailout packages. In May 2010 the so-called Greek Loan Facility was agreed upon, via which around 73 billion euros flowed to the Greek state up to December 2011. Of this sum 52.9 billion euros was loaned in the form of bilateral credit between Greece and the other countries of the Eurozone (excluding Slovakia, Estonia and Latvia), while a further 20.3 billion euros was provided by the International Monetary Fund (IMF). In February 2012 it was decided to grant Greece additional credit from the European Financial Stability Facility (EFSF) in the framework of a second bailout package. By December 2013 133.6 billion euros of this second package had been paid out. Moreover, the IMF also increased its financial assistance to Greece by 6.6 billion euros during this period.

The credit conditions for the 52.9 billion euro of the Greek Loan Facility have already been loosened on several occasions. Initially a maximum term of 5 years and an interest rate equivalent to the three-month Euribor interest rate applicable at the time plus an interest rate margin of 3 percentage points for the first three years and 4 percentage points for the remaining years was applied. The term of all loans was subsequently extended to 7.5 years in June 2011 and the interest rate margin was reduced by 1 percentage point. In February 2012 the term was extended to 15 years and the margin was reduced to 1.5 percentage points for all further interest payments. The first repayments were scheduled to take place as of 2020. The most recent relaxation of conditions, which was approved in November 2012, doubled the term of the loans to 30 years and reduced the interest rate margin to 0.5 percentage points. At that time the Ifo Institute pointed out in a press release (http://www.cesifo-group.de/w/4P68BdYmJ) that this measure amounted to debt relief for Greece (or a

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waiving of debt on the part of the creditor countries) with a present value of around 12 billion euros.[1]

The envisaged further relaxation of credit conditions for the 52.9 billion euros of the Greek Loan Facility – with an extension of the term to 50 years and a reduction of the margin to 0 percentage points (and thus an interest rate charged on the loan corresponding to the three-month Euribor) – would entail further losses of around 9 billion euros for European creditors. This amount is calculated as the present value of reduced income from interest and the spreading out of loan repayments over time on the basis of a discount factor of 1.5%, which approximately corresponds to the average interest on a 10 year German government bond in 2013. The present value measures the reduction in the publicly disclosed state debts in the donor countries 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. Germany would be liable for around 29% of this debt relief. Germany's budgetary deficit therefore stands to increase by around 2.5 billion euros as a result of the planned changes to the loan conditions for bailout funds for Greece, if this deficit was to be correctly calculated on an actuarial basis. The German Ministry of Finance's net borrowing plans for 2014 currently stand at 6.2 billion euros.

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About the Ifo Institute

[1] In the calculation at that time it was assumed, due to a lack of any more accurate knowledge, that the loan would be repaid at the end of the term. If, on the other hand, one assumes – as stated in the revised loan contracts – equally distributed loan repayments between 2020 and 2041, the present value of the debt relief falls to 8 billion euros.