Eurogroup statement on Greece

The Eurogroup welcomes that a full staff-level agreement has been reached between Greece and the institutions. Also, the Eurogroup notes with satisfaction that the Greek authorities and the European institutions have reached an agreement on the contingency fiscal mechanism, which is in line with the Eurogroup statement adopted on 9 May in particular as regard the possible adoption of permanent structural measures, including revenue measures, to be agreed with the institutions. It therefore provides further reassurances that Greece will meet the primary surplus targets of the ESM programme (3.5% of GDP in the medium-term), without prejudice to the obligations of Greece under the SGP and the Fiscal Compact.

The Eurogroup also welcomes the adoption by the Greek parliament of most of the agreed prior actions for the first review, notably the adoption of legislation to deliver fiscal parametric measures amounting to 3% of GDP that should allow to meet the fiscal targets in 2018, to open up the market for the sale of loans and to establish the agreed Greek Privatisation and Investment Fund that should operate in full independence. The Eurogroup mandates the EWG to verify in the next few days the full implementation of the outstanding prior actions on the basis of an assessment by the institutions, in particular the corrections to the legislation on the opening up of the market for the sale of loans, and on the pension reform, as well as the completion of all prior actions related to the government pending actions in the field of privatization.

Following the full implementation of all prior actions and subject to the completion of national procedures, the ESM governing bodies are expected to endorse the supplemental MoU and approve the disbursement of the second tranche of the ESM programme. The second tranche under the ESM programme amounting to EUR 10.3 bn will be disbursed to Greece in several disbursements, starting with a first disbursement in June (EUR 7.5 bn) to cover debt servicing needs and to allow a clearance of an initial part of arrears as a means to support the real economy. The subsequent disbursements to be used for arrears clearance and further debt servicing needs will be made after the summer. The disbursements for arrears clearance will be subject to a positive reporting by the European Institutions on the clearance of net arrears. The additional disbursement for debt servicing needs will be subject to milestones related to privatization, including the new Privatization and Investment Fund, bank governance, revenue agency and energy sector to be assessed by the European institutions and verified by the EWG and the ESM Board of Directors.

In line with the 9 May Eurogroup statement, and in view of the forthcoming full implementation of all the prior actions by Greece and completion of the first review, the Eurogroup considered today the sustainability of Greek public debt.

The Eurogroup agrees to assess debt sustainability with reference to the following benchmark for gross financing needs (GFN): under the baseline scenario, GFN should remain below 15% of GDP during the post programme period for the medium term, and below 20% of GDP thereafter.

The Eurogroup recalls the medium-term primary surplus target of 3.5% of GDP as of 2018 and underlines the importance of a fiscal trajectory consistent with the fiscal commitments under the EU framework.

The Eurogroup recalls the following general guiding principles agreed on 9 May for possible additional debt measures: (i) facilitating market access in order to replace over time public financed debt with privately financed debt; (ii) smoothening the repayment profile; (iii) incentivising the country's adjustment process even after the programme ends; and (iv) flexibility to accommodate uncertain GDP growth and interest rate developments in the future. On 9 May the Eurogroup also reconfirmed that nominal haircuts are excluded, and that all measures taken will be in line with existing EU law and the ESM and EFSF legal frameworks.

Guided by these principles and on the basis of technical work carried out by the EWG, the Eurogroup agreed today on a package of debt measures which will be phased in progressively, as necessary to meet the agreed benchmark on gross financing needs and will be subject to the pre-defined conditionality of the ESM programme.

For the short-term, the Eurogroup agrees on a first set of measures which will be implemented after the closure of the first review up to the end of the programme and which includes:

- Smoothening the EFSF repayment profile under the current weighted average maturity
- Use EFSF/ESM diversified funding strategy to reduce interest rate risk without incurring any additional costs for former programme countries
- Waiver of the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme for the year 2017

The Eurogroup asks the EFSF and ESM management to take these measures forward within their mandate, on the basis of preparatory work by the EWG, and where needed to prepare formal decision making by the relevant EFSF and ESM decision-making bodies. The decision on the smoothening of the EFSF repayment profile and the reduction of interest rate risks should be taken as a matter of priority.

For the medium term, the Eurogroup expects to implement a possible second set of measures following the successful implementation of the ESM programme. These measures will be implemented if an update of the debt sustainability analysis produced by the institutions at the end of the programme shows they are needed to meet the agreed GFN benchmark, subject to a positive assessment from the institutions and the Eurogroup on programme implementation.

- Abolish the step-up interest rate margin related to the debt buy-back tranche of the 2nd Greek programme as of 2018
- Use of 2014 SMP profits from the ESM segregated account and the restoration of the transfer of ANFA and SMP profits to Greece (as of budget year 2017) to the ESM segregated account as an ESM internal buffer to reduce future gross financing needs.
- Liability management - early partial repayment of existing official loans to Greece by utilizing unused resources within the ESM programme to reduce interest rate costs and to extend maturities. Due account will be taken of exceptionally high burden of some Member States.
- If necessary, some targeted EFSF reprofiling (e.g. extension of the weighted average maturities, re-profiling of the EFSF amortization as well as capping and deferral of interest payments) to the extent needed to keep GFN under the agreed benchmark in order to give comfort to the IMF and without incurring any additional costs for former programme countries or to the EFSF.

For the long-term, the Eurogroup is confident that the implementation of this agreement on the main features for debt measures, together with a successful implementation of the Greek ESM programme and the fulfilment of the primary surplus targets as mentioned above, will bring Greece's public debt back on a sustainable path over the medium to long run and will facilitate a gradual return to market financing. At the same time, the Eurogroup agrees on a contingency mechanism on debt which would be activated after the ESM programme to ensure debt sustainability in the long run in case a more adverse scenario were to materialize. The Eurogroup would consider the activation of the mechanism provided additional debt measures are needed to meet the GFN benchmark defined above and would be subject to a decision by the Eurogroup confirming that Greece complies with the requirements under the SGP. Such mechanism could entail measures such as a further EFSF reprofiling and capping and deferral of interest payments. Also, the Eurogroup commits to long-term technical assistance to boost Greek growth.

The Eurogroup recognises that over the exceptionally long time horizon of assessing debt sustainability there can be no forecasts, only assumptions, given the sizable degree of uncertainty over macroeconomic developments.

Against the background of the forthcoming successful completion of the first review and the agreement on debt relief, the Eurogroup welcomes the intention of the IMF management to recommend to the Fund's Executive Board to approve a financial arrangement before the end of 2016 that will support the implementation of the agreed fiscal and structural reforms. It is recognised that, consistent with IMF policies, approval of this arrangement will also be based on a new DSA and the assessment of possible debt relief measures mentioned above. The possible debt relief will be delivered at the end of the programme in mid-2018 and the scope will be determined by the Eurogroup on the basis of a revised DSA in cooperation with the European Institutions for purposes of taking into account the European policy framework, subject to full implementation of the programme.

The Eurogroup stands ready, in line with usual practice, to support the completion of future reviews provided that the policy package considered today, including the contingency mechanism, is implemented as planned. The Eurogroup confirms that programme implementation, as well as policy conditionality and targets, will be reviewed regularly based on input from the institutions.

Remarks by J. Dijsselbloem following the Eurogroup meeting of 24 May 2016

Good evening and welcome to this press conference.

The main topic of today's Eurogroup was of course Greece, so I will concentrate on that. We've reached a full staff-level agreement; well actually, the institutions and Greece had already reached the full staff-level agreement and that was welcomed and agreed and adhered to by the Eurogroup today. So on the package of all these major reforms that Greece had committed to last summer - we have now a full agreement, a lot of legislative work has been done by the Greek government and the institutions will do a final check on that to look at the last legislative work and to see whether that's all in agreement. Part of that is of course the contingency mechanism that makes sure that Greece stays on the fiscal path.

On that basis and of the full implementation of those prior actions and the completion of the national procedures, the ESM will be able to endorse the supplementary MOU and then approve the disbursement of the 2nd tranche of this programme. The figure that we have outlined for that is €10.3 billion, to be disbursed in several disbursements but perhaps I'll leave it to Klaus to outline how that works both in substance and in procedure. So this is very good news, already this part of the agreement of today is very good news because it shows that the programme is fully back on track and that Greece has done a lot and is delivering a lot and we are making good progress there.

Of course this should lead to a full and positive conclusion of the first review, and as you remember, on that basis we've promised to look at debt and discuss debt sustainability. And we did. We prepared that in a couple of Eurogroups behind us already when we said we would discuss it, when we said we had agreed on the method to look at gross financing needs on an annual basis to take as a standard the maximum of 15% of GDP and in the future, once the debt has gone down, that can go to 20%. So on the methodology we already have agreement. We also already agreed in the previous Eurogroup to take it step by step, so we have designed and agreed today a number of measures that can be taken on in the short run. We have a number of measures already for the medium term, if and when needed, and we have designed an additional mechanism for the long term. Let me give you little more information on that.

The short term is basically a debt management so we've asked the ESM management to look at the measures, which have to do with repayment profiles, which have to do with reducing interest rate risks and which also outline a waiver of the step-up interest rate margin related to the debt buy-back tranche which was in the second Greek programme. So along those lines we've asked the ESM management to see what is possible and to take decisions on that in the short run and to take that on.

It's difficult now and of course Klaus now probably will say more about what in economic terms the impact of that will be, but that is yet to be developed further by the ESM management.

For the medium term -- this is a second term of measures -- will come into play upon the full implementation of the programme, so this is mid-2018, and the programme runs until July 2018 to be precise. If all is implemented and the programme has come to a successful end, we intend to do more along the following lines to abolish the step-up interest rate margin to the debt buy-back tranche of the 2nd Greek programme as of 2018 and the following years. It is the same measure that was also in the short-term package, but then it was only for 2017 so we will continue that measure for the longer term.

A second element here is the use of the SMP profits and the restoration. If you remember, this was also the part of the second programme where we agreed to return the SMP profits and the profits from ANFA holdings to Greece. When the programme got into trouble in 2014, that stopped, the transfer of these profits. Some are still in the segregated account at the ESM in Luxembourg, that's the 2014 June tranche, so that will be made available. And as of budget year 2017, we will restart this transfer of ANFA and SMP profits to Greece.

A third element in the medium term package: liability management, where we will consider early partial repayment of existing official loans to Greece. Utilizing unused resources within the ESM programme. To be a little more precise, you remember that part of this programme last summer: we reserved €25 billion for the recapitalization of banks; a lot less was needed -- roughly €5 billion -- so there's €20 billion so far unused. Part of that we will set aside for possible future problems in banks, but the larger part of that could be made available and used to swap existing official loans to Greece in order to reduce the interest rate costs or extend maturities.

A final element in the medium term package is targeted EFSF re-profiling: that could be extension of weighted average maturities re-profiling of EFSF amortization, as well as capping and deferral of the interest payments. And here we will make sure that we don't incur any additional costs for former programme countries or to the EFSF.

Then finally for the long term we've agreed to put in place a mechanism, which if needed and activated by the Eurogroup could provide additional debt measures to meet the gross financing benchmarks if it were to be a problem in the future. Of course, as you know, the whole loan package has a long maturity period so we also need to consider the longer period ahead. All of this of course under the agreement that Greece complies with the requirements of our fiscal frameworks.

Now having said that, the key issue that will certainly interest you is whether the IMF is coming on board and tonight I am very glad to be able to say that the IMF has expressed its intention to recommend to the Fund's board to approve the financial arrangement before the end of the year. So the IMF will go to the board on the basis of this agreement to be part again of the support programme for Greece. Of course this requires a number of steps still to be taken. I will mention just two -- one is of course that before the IMF goes to the board we have a new DSA, to assess where we are, take into account all that is in this agreement and the IMF will of course assess the possible debt relief measures that we, the Eurogroup members, agreed tonight. So those are two key issues that IMF will have to assess before taking that board decision.

The possible debt relief -- mainly talking about the medium-term package -- will be delivered at the end of the programme, so we are talking mid-2018. The scope will be determined by the Eurogroup on the basis of a revised DSA which will be designed in cooperation with European institutions, also taking into account the European fiscal policy framework -- and this is an important point brought by a number of ministers and also by Klaus -- that of course even after the programme, Greece will, as all Eurogroup members, remain under supervision for its fiscal policies by the Commission. So that is an important element also to take into consideration when we look at the future.

On that basis we look forward to not just the successful completion of the first review, but also the intention of the IMF management to go to the board. I think this is an important moment in the long Greek programme -- an important moment for all of us since last summer when we had a major crisis of confidence between us -- that confidence has begun to recover. I think that this helped us very much in this Eurogroup and in the last Eurogroups, starting to talk about where we are in the programmes, talk about what is further needed to support Greece, also looking at its debt. And I want to extend my thanks to also to the Greek finance minister and his staff; they have been working very constructively, very seriously, with us, with the institutions, to get us where we are now and I think that is a new phase that I welcome very much.

Thank you.