Eurogroup reaches ‘historic’ deal on debt relief for Greece

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Commissioner for Economic Affairs Pierre Moscovici speaks with Greek Finance Minister Euclid Tsakalotos, during the Eurogroup on Thursday. [Council]

In the early hours of Friday (22 June), the Eurogroup reached an “historic” deal on a debt relief for Greece, solving the last political hurdle to conclude its rescue programme after more than eight years.

The euro area turned the page on its darkest period as Greece formally completed all the reforms of its bailout programme. In return, the country was offered more than €276 billion in financial assistance by the euro area countries since 2010 to avert a default.

Eurozone ministers seek end to Greece bailout odyssey

Eurozone ministers will on Thursday (21 June) try to resolve their differences over the terms of Greece’s departure from its massive bailout programme with splits over the degree of debt relief needed by cash-strapped Athens.

Now the country is ready to exit the rescue programme on 20 August, but only after the eurozone’s finance ministers finally sealed a deal to reduce the country’s massive debt burden of 178% of its GDP.

Most of the money lent to Greece came from the euro area partners, either through the

European Stability Mechanism or its predecesor, the European Financial Stability Facility (EFSF).

Thanks to a combination of deferred payments, cash buffers and buyback of loans, the Greek debt is now “sustainable”, said Eurogroup President, Mario Centeno after the Eurogroup held in Luxembourg.

The renegotiation of the Greek bonds, wrapped up after an intense negotiation between Germany and the International Monetary Fund (IMF), is key to ensure that the government can return to the markets to finance its needs.

Eurozone fails to reach Greece debt deal amid IMF row

Eurozone finance ministers failed to reach a deal for fresh bailout cash for Greece yesterday (22 May), as a row with the International Monetary Fund over debt relief dragged on.

“This is an historic moment for the eurozone” because it represents the end of the “existential crisis” the euro suffered, said commissioner for Economic Affairs, Pierre Moscovici.

He recalled with emotion how close the euro area came to a Greek exit (Grexit) in 2012 and especially in the summer of 2015.

“I have to say that the Greek government is happy with this deal,” Greek Finance minister Euclid Tsakalotos told reporters.

“I think this is the end of the Greek crisis, I think Greece is turning a page, I think it has all the building blocks there to leave the program with confidence that we can access the markets and we can implement our growth strategy and turn the agenda away from one of fiscal adjustment to one of growth,” he added.

“Greece has come a long way”, summarised the managing director of the ESM, Klaus Regling. Since Greece requested assistance to the European countries in May 2010, the country lost around 25% of its GDP and unemployment reached 27%. Following hundreds of reforms and adjustments (450 only in the third and final programme), the economy is expected to grow at 1.9% this year, after reaching a primary budget surplus of 4.2% in 2017 (before the payment of debt interests.)

“I share the emotion and the seriousness of the moment”, said the managing director of the IMF, Christine Lagarde.

Eurogroup nears debt deal for Greek bail-out exit

Greece and its creditors are getting closer to a deal on a debt relief package to be sealed during the next Eurogroup meeting on 21 June, senior EU officials said on Wednesday (13 June).

As part of the agreement, Greece will not have to pay back any loan or interests on around €100 billion lent by the EFSF until 2033, and the maturity will be extended by 10 years.

Greece will also receive every semester, and until 2022, the profits made by the ECB on its Greek bonds, around €4 billion.

The country will also receive a final tranche from the ESM amounting to €15 billion, which will be used to cover the debt needs of the country. In total, the country will exit the programme with a cash buffer of €24.1 billion, enough to cover all its sovereign financial needs until summer 2020.

Review of debt

As part of the package, the Eurogroup did not include the mechanism previously considered to further reduce the debt burden in the longer run according to the economic growth.

Instead, the euro area finance ministers agreed to review the sustainability of the Greek debt after the grace period in 2032. The ministers will consider to take additional debt measures if needed to ensure that the repayment of the debt does not represent a heavy burden on the economy (namely its gross financing needs would remain below 20% of its GDP each year).

But new debt measures, and those adopted yesterday, would require Greece's compliance with a strict fiscal path over the next four decades.

The country would have to achieve a primary surplus of 3.5% of GDP until 2022 and 2.2% on average from that date until 2060 in order to ensure the sustainability of the economy.

Troika calls for 'strong' debt relief for Greece

The European Central Bank has joined the IMF and European Commission's demand for "strong" and "credible" measures to alleviate Greece's soaring public debt (around 178% of GDP) once the country exits its rescue programme on 20 August.

IMF's reservations

The IMF's verdict on the deal will play a key role in whether investors consider the deal credible. Lagarde expressed yesterday her "full confidence" on the positive impact of the elements for the medium term, but she said that the Fund had "reservations" in the long run.

IMF insists that Greece needs a debt restructuring

The International Monetary Fund (IMF) will participate in the Greek bailout programme on the condition that the country's debt is sustainable and, thus, a restructuring will be needed, IMF chief Christine Lagarde warned on Tuesday (18 April).

The IMF is expected to publish in a couple of weeks its assessment on whether the debt relief would be enough to sustain the economy.

She welcomed the commitment of European partners to review the debt sustainability down the road if needed.

The Fund finally decided not to join the third and last programme, a step that would have strengthened its credibility in the eyes of the markets.

But the Washington-based institution will continue being part of the "enhanced surveillance" that the Commission will activate as soon as Greece exits the programme.

The Greek economy will be subject to quarterly reports to monitor its economic, fiscal and financial situation. The disbursement of €4 billions in the ECB's hands will be subject to maintaining the implemented reforms intact.

Germany earned €2.9 billion from Greece's debt crisis

Germany turns out to be a major beneficiary of Greece's debt crisis as it earned a total of €2.9 billion between 2010 and 2017. This emerges from a response of the Federal ministry of finance in Berlin to a parliamentary request from the Greens (Bündnis90/Die Grünen) in the German Bundestag obtained by EURACTIV.