EU Says Greece Needs More Debt Relief Despite Buffer

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Greece will need additional debt relief to regain the trust of investors, even though it's likely to exit its bailout with a 9 billion euros ($10 billion) cash buffer, the European Commission said in a draft report obtained by Bloomberg.

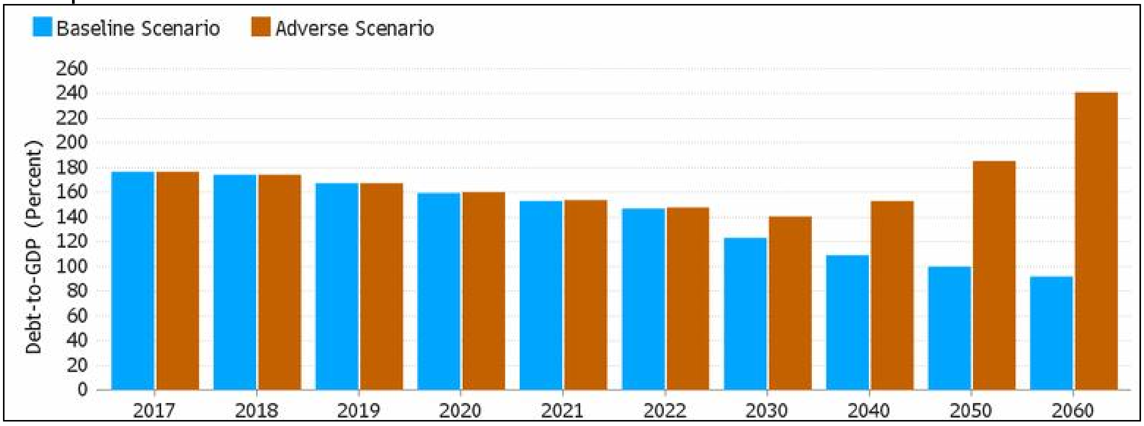
The country's 86 billion-euro third bailout program from the European Stability Mechanism, agreed by Prime Minister Alexis Tsipras and European creditors in 2015, will expire in August 2018 with 27.4 billion euros left unused, the Commission estimates in the so-called "compliance report" dated June 16. Disbursements up to then should also "cater for the build-up of seizable cash buffer" of around 9 billion euros, according to the document.

The report contains an analysis of the country's public debt that points to potential wrangling with the International Monetary Fund following an agreement last week to disburse bailout funds, in which the Washington-based fund only agreed to a new program "in principle." Even as the commission's analysis points "to serious concerns regarding the sustainability of Greek public debt," its assumptions about the country's future growth prospects are still more optimistic than those of the IMF.

The IMF hasn't disbursed funds to Greece in almost three years on fears that the country's debt is unsustainable. Last week's compromise deal averts a Greek financing crisis this summer by allowing release of 8.5 billion euros of ESM funds, while the IMF holds out for more Greek debt relief from European creditors at a later stage before it gives out new loans.The June 15 deal by euro-area finance ministers commits to capping gross financing needs at 15 percent of GDP for the medium term, and 20 percent thereafter. The country's gross financing needs will drop to 9.3 percent of gross domestic product in 2020 from 17.5 percent this year, before rising again and surpassing 20 percent after 2045, according to the baseline scenario of the commission's debt sustainability report.

In Debt

European Commission estimates show that Greece needs additional debt relief



Source: European Commission Greek Debt Sustainability Analysis obtained by Bloomberg

The conclusion drawn from the report points to the need for additional "additional debt-mitigating measures," even under the baseline assumptions. "An appropriate combination of debt management measures," including an "extension of maturities and grace periods for principal and interest," is necessary to "bring Greek debt back to a sustainable level in gross financing needs terms," commission staff said.

The Athens Stock Exchange Index gained for a third day, rising to 827.01, the highest since June 2015, at the end of the trading session. The yield on government two-year bonds fell to 4.22 percent.

The baseline scenario is based on nominal GDP growth rates between 3 and 4 percent until 2060, considerably higher than past IMF baseline estimates. The fund's own assessment will be released before its executive board meets to approve the in-principle stand-by arrangement next month.

The debt dynamics "become explosive" from the mid-2030s in the the most adverse scenario. In this scenario, which is still more optimistic than IMF assumptions, Greece's gross financing needs exceed 20 percent in 2033, reaching 56 percent by 2060, while debt skyrockets to 241.4 percent of Greek GDP by 2060.

"Debt sustainability, and thus the need for additional debt measures, should be assessed in a manner that caters for a number of downside risks," according to the report. "There is uncertainty surrounding the capacity of the Greek government to sustain high primary surpluses over several decades. In addition, there are significant downside risks to growth linked to aging populations and trends in total factor productivity."