Factsheet

FRIEDRICH EBERT STIFTUNG

A BRIEF HISTORY OF GREEK DEBT

In 2009, Greece's ballooning budget deficit raised concerns about the sustainability of the country's debt. This triggered a crisis that lasted almost a decade. It led to three adjustment programmes agreed with the European Commission, the ECB and the International Monetary Fund (IMF), led to the largest sovereign default in history, cost around a quarter of Greek GDP and pushed the unemployment rate to a peak of 28 per cent.

Given that Greece's general government debt has exceeded 350 billion euros in recent years and the debt-to-GDP ratio reached 160 per cent of GDP in 2023, the question is often asked whether the country is still vulnerable and at risk of another crisis.

This paper outlines the reasons why the current situation is different from 2009. It also presents the key variables that show that Greece's public debt is not such a pressing concern as long as prudent fiscal policies remain in place.

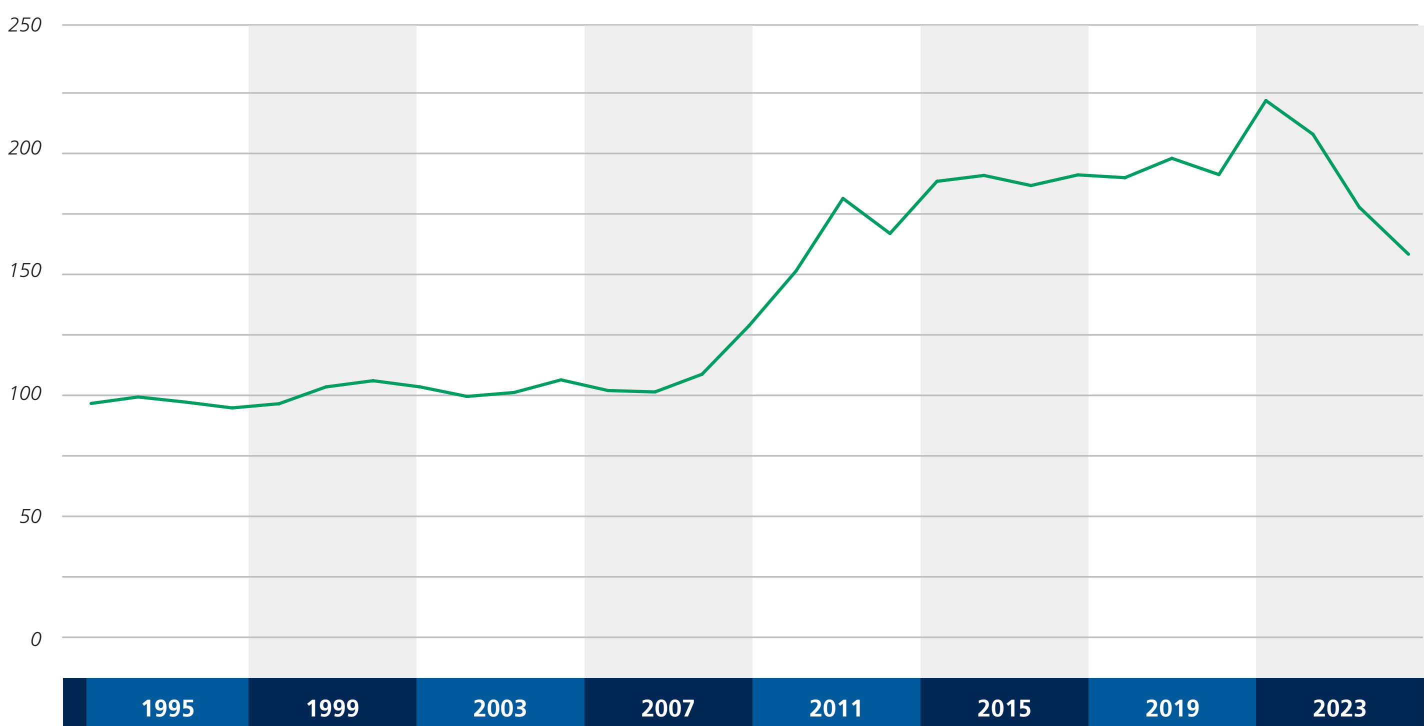
BACKGROUND

In the aftermath of the 2008 global financial crisis, Greece's public finances deteriorated rapidly in 2009. Revenues fell sharply and the conservative New Democracy government appeared to make little effort to control spending. This led to a final budget deficit of more than 15 per cent of GDP for that year.

The centre-left PASOK government, which came to power in the last quarter of 2009, revealed that the previous government had perpetrated a number of statistical irregularities. This created an explosive combination of unsustainable fiscal position and credibility risk. These factors attracted the attention of the markets, which were already looking for vulnerabilities around the world as the effects of the financial crisis unfolded.

In this difficult environment, the Greek government had to issue significant amounts of debt to meet bond maturities and finance its budget deficit in the years immediately following 2009. With investor confidence severely shaken by the infamous »Greek statistics«, Greece lost market access in early spring 2010, leading to the hasty adoption of bailout programmes.

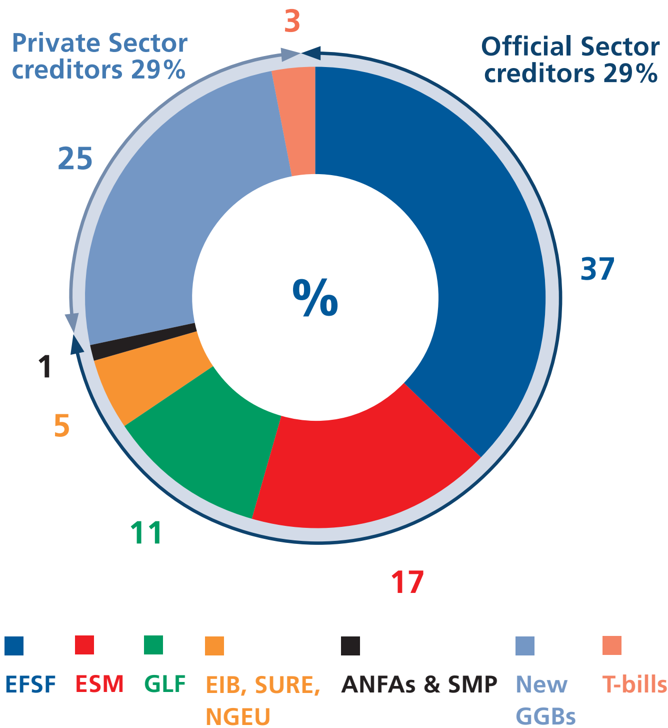
General Government Debt, Annual, as % of GDP



Source: Hellenic Statical Authority (ELSTAT)

DEBT COMPOSITION

These programmes completely changed the composition of Greece's debt and included several – and progressive – debt relief measures. The last intervention took place at the end of the third programme in summer 2018.



After the private debt haircut of the first quarter of 2012, official sector loans – in other words, money owed to the EU and IMF rather than private investors – made up 82 per cent of the debt. The latest official data, for the end of 2023, indicate that 71 per cent of total debt was in public hands, as Greece started repaying the initial bilateral loans it received from fellow Eurozone member states.

The first adjustment programme comprised 53 billion euros of bilateral loans (also known as the Greek Loan Facility or GLF) and 20 billion euros from the IMF; the second programme involved roughly 142 billion euros from the European Financial Stability Facility (EFSF) and 12 billion euros from the IMF; and the final programme comprised the European Stability Mechanism (ESM), lending Greece 72 billion euros.

After several early payments, Greece has fully repaid all the IMF loans. It started repaying the GLF loans in 2021. This involves annual repayments of 2.65 billion euros from 2022 and complete repayment by 2041.

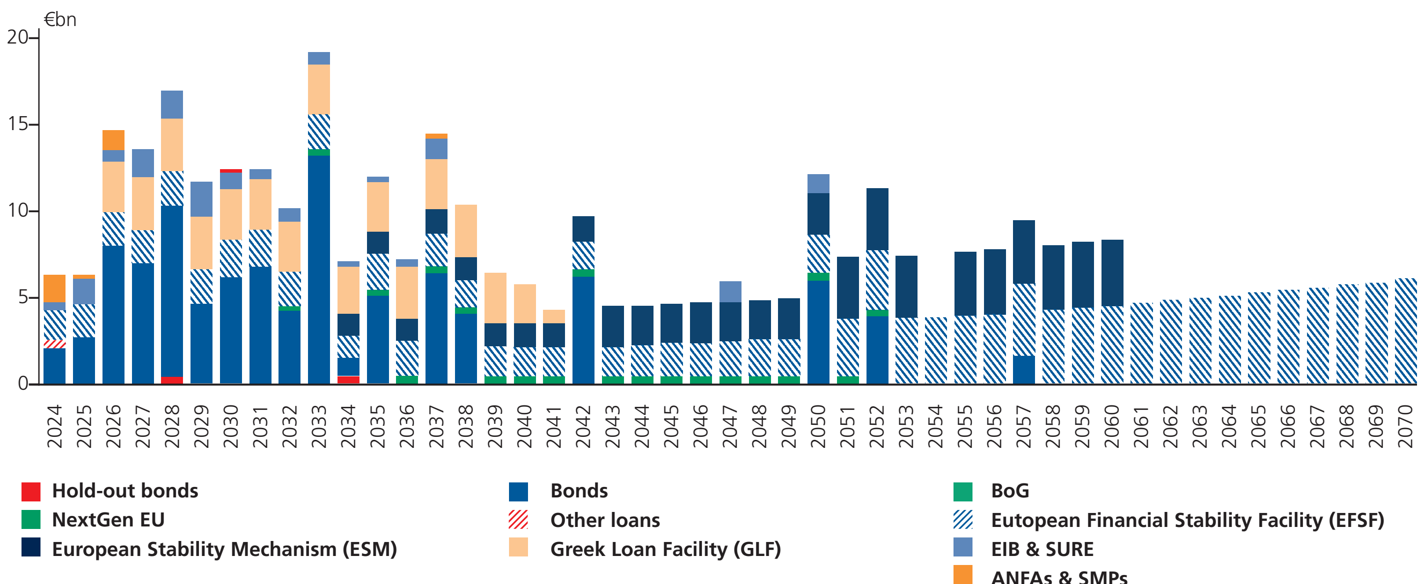
The first repayment of the EFSF loans was made in 2023, in the amount of 1.74 billion euros. ESM repayments are set to start in 2034 and all EFSF and ESM loans are due to be repaid by 2070. Repayments to the ESM will peak in 2060 at 7.36 billion euros.

With the ESM holding more than 200 billion euros of Greek debt, Greece enjoys rather concessionary terms and very favourable maturities. This was one of the main objectives when the crisis mechanism was created by the Eurozone, together with a strong AAA credit rating backed by the entire single currency zone.

DEBT PROFILE

Greece has a fairly benign debt maturity profile up to 2033. This means that gross funding needs are low, allowing the country's Public Debt Management Agency (PDMA) to pursue a debt-issuing strategy that does not involve high risks.

Over the past two years, the PDMA has managed comfortably to follow debt strategies of approximately 10 billion euros with rather manageable yields. The yields were higher in 2023 due to the tighter monetary policy implemented by the European Central Bank, which caused interest rates to rise.



Greece's total funding needs in 2024 will amount to just under 19 billion euros. Of this, roughly 5.5 billion euros are needed to meet debt maturities. Bond maturities account for 3.21 billion euros, GLF repayments stand at 2.65 billion and the repayment of the EFSF loans comes to 1.74 billion euros. Interest payments total 4.85 billion euros.

The PDMA plans to cover those needs primarily with the issuance of 10 billion euros in new bonds, and another 3.64 billion euros from the use of Greek cash reserves.

The debt maturity profile increases significantly from 2026, but remains below 15 billion euros annually. It will be around 10 billion per year in 2029–2032, before the peak of the forecast horizon in 2033, on the back of 11.36 billion euros of bond maturities that year.

This manageable maturity profile, in which official sector loans play a dominant role, is the outcome of progressive debt relief measures that Greece was granted to ensure that gross funding needs did not exceed 10 per cent of GDP in the forecast horizon.

The weighted average maturity of 96.4 billion euros in EFSF loans from the second programme is 42.5 years. The average maturity of around 62 billion euros of ESM loans from the third programme is 32.5 years.

After the inaugural bond transaction of 2024, which consisted of a 4-billion-euro 10-year issuance, private sector bonds stand at just under 95 billion euros. They mature between 2024 and 2057.

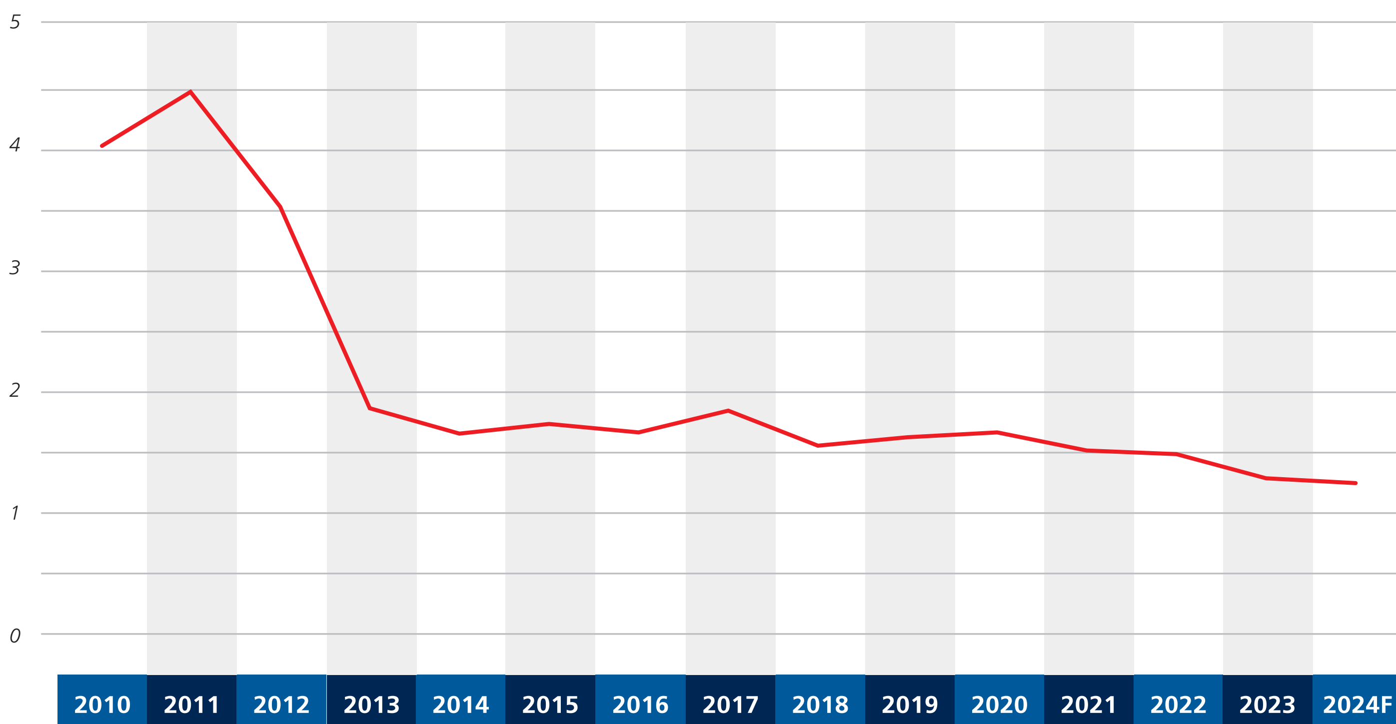
At the end of 2023, the average maturity of Greek debt was just short of 17 years, which all credit rating agencies argue is one of the best in the world, even for countries with better credit ratings than Greece's.

DEBT SERVICING

Because of the composition of its debt Greece also enjoys favourable servicing terms thanks to the scale of the official sector loans and the highly concessional terms of the loans granted by the EFSF/ESM.

The average lending rates of the EFSF and ESM loans have converged at around 1.3 per cent. The EFSF loans have been broadly stable in the region of 1.2 per cent in recent years, while ESM lending rates have increased since 2023 from under 1 per cent.

In addition, because of the medium-term debt relief measures agreed by the Eurogroup early in the summer of 2018, the interest rate deferral period on the 96.4 billion euro EFSF loan was extended by 10 years until December 2032. Greece is not currently paying interest on this significant portion of its debt and the amount is accrued for the deferral period.



Source: Ministry of Finance

Another mitigating factor contributing to the low servicing costs is the PDMA's success in cushioning Greek debt from interest rate volatility by securing fixed rates for the entire portfolio through interest rate swap transactions. Also important was the ESM's use of funding instruments regarding the loans granted to Greece and the incorporation of the risk metrics of EFSF's liability portfolio into Greece's debt portfolio.

Based on the latest official data from the Hellenic Statistical Authority (ELSTAT), interest costs have been steadily falling as a percentage of GDP, from around 4 per cent a decade ago to 2.5 per cent up to 2022, edging up to 3.3 per cent of GDP in 2023 and estimated at 3.2 per cent of GDP in 2024.

Furthermore, the effective interest rate that Greece pays, which is the interest cost over the stock of debt, is at lows of around 1.6 per cent, up from 4.5 per cent in 2011.

CASH BUFFER

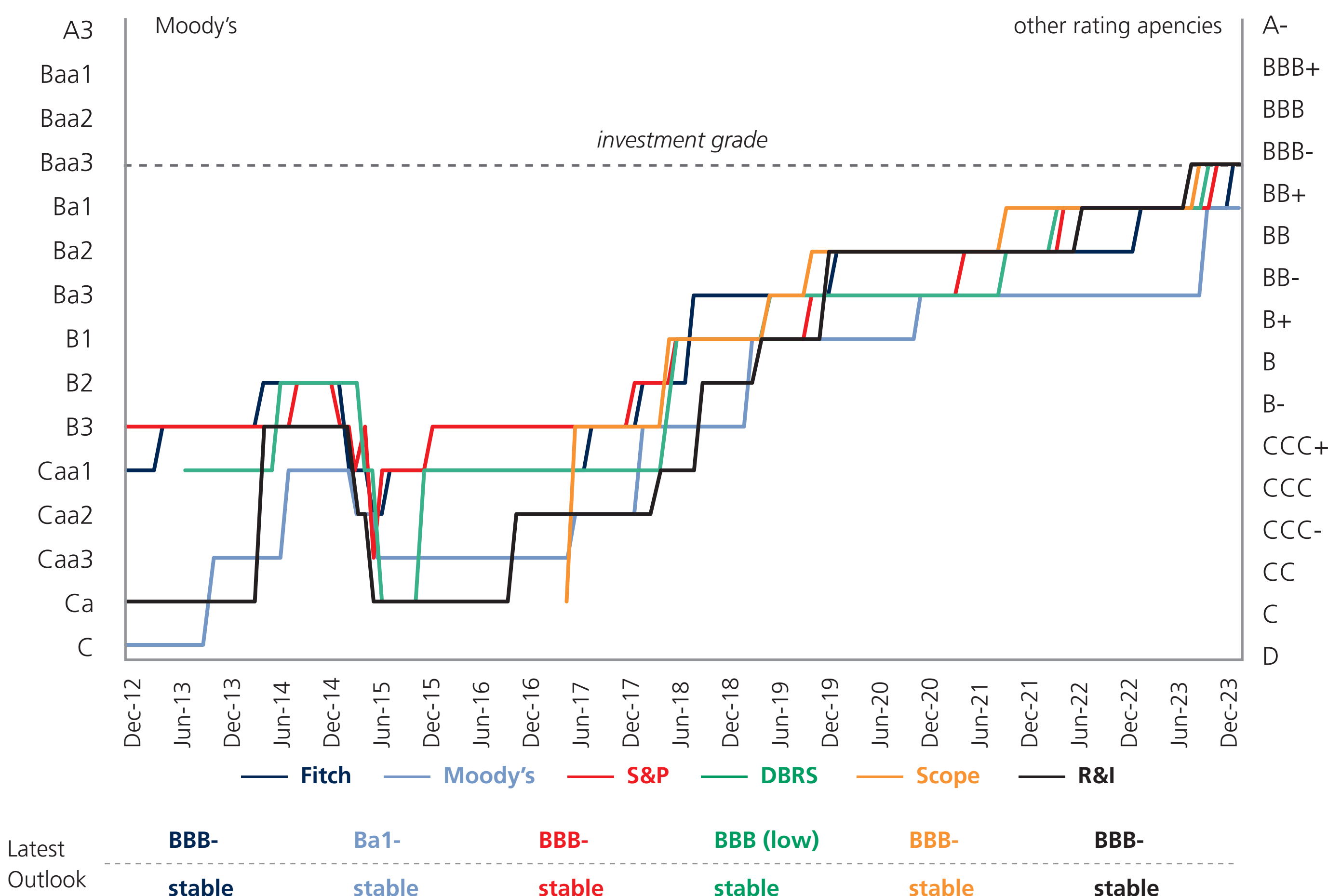
Another product of the debt relief measures that Greece was granted in the summer of 2018 as the third programme concluded was the disbursement of ESM resources to build a cash buffer ready for Greece's exit from the programme.

The main objective was to cushion Greece from any market turbulence by building cash reserves that would allow the authorities to sit out any rise in borrowing costs without any urgent need for market access to cover funding needs.

The last ESM disbursement in August 2018 included 9.5 billion euros that went towards Greece's cash reserves, enabling it to leave the programme with 24 billion euros in hand. At the time this covered the state's funding needs for close to two years, a sizable backstop against risk.

According to the latest Finance Ministry data for the end of 2023, the cash reserves stood at 33.6 billion euros. This means that Greece is fully funded for up to three years. This is highly regarded by the rating agencies and has been cited as one of the reasons that Greece secured investment grade.

INVESTMENT GRADE



After more than a decade in the speculative category, having sunk as low as selective default in the course of the Private Sector Initiative (PSI) that led to a debt haircut of around 100 billion euros, Greece managed to regain investment grade at the end of 2023.

Scope Ratings of Germany and DBRS were the first agencies to confer investment grade in August and September, followed by S&P in October and Fitch in December. In between, Moody's had upgraded Greece by two notches to just one step below the investment grade threshold. Greece is in the desired category for four of the five leading agencies. Moody's did not take a further step in its March review this year.

Investment grade has several benefits. These are already visible for Greek government bonds and other Greek assets. The most notable benefit is the prospect of opening up such bonds to a much wider investor pool as they are now included in various bond indices monitored by fixed income investors (their composition determines how they allocate funds).

Investment grade also allows more cautious investors, such as pension funds, to participate in Greek bond issues. It is estimated that because the Greek sovereign debt market is no longer in the »junk« category it could attract more than 20 billion euros of additional demand.

DEBT SUSTAINABILITY ANALYSIS

The European Commission is the gatekeeper of Greece's debt sustainability analysis (DSA). It took over this role from the IMF, which gradually took a backseat during the third adjustment programme.

The cornerstone of Greece's debt sustainability is the large primary surpluses the country has committed to, stretching until 2060.

The average primary surplus in the period 2023–2060 stands at 2.6 per cent of GDP.

The main debt sustainability assumptions envisage that real GDP growth in the same period will average 1.5 per cent, while refinancing rates – as official loans are replaced by market rates – are seen as likely to average 3.1 per cent.

This combination keeps gross financing needs at around 10–11 per cent of GDP, peaking at 12.8 per cent of GDP in 2026. The debt-to-GDP ratio will drop to under 100 per cent in 2040 and 31.6 per cent in 2060.

		2022	2023	2024	2025	2026	2030	2040	2050	2060	average 2023-2060
Assumptions	Primary balance (% of GDP)	-1.9	1.3	2.7	3.4	3.7	2.5	2.3	2.3	3.6	2.6
	Real GDP growth	3.5	3.1	2.7	1.9	1.1	0.9	1.7	1.6	1.5	1.5
	Nominal GDP growth	8.4	5.2	4.9	4.1	3.4	3.3	4.0	3.6	3.6	3.7
	Re-financing rate (10year maturity)	2.2	2.2	2.2	2.2	2.2	2.2	3.0	3.9	4.0	3.1
Results	Gross financing needs (% of GDP)	19.2	14.4	8.2	7.6	12.8	11.2	11.6	10.0	5.1	
	Gross government debt (% of GDP)	185.7	180.4	172.0	164.9	159.8	141.1	97.8	62.4	31.6	

Source: Commission services

RISKS

Despite several mitigating factors keeping the near-term outlook of Greece's debt broadly under control, there are longer-term uncertainties. Debt sustainability is assessed over a period of several decades, which means that there is a higher probability of risks materialising.

A key variable is Greece's ability to deliver large primary surpluses in the period up to 2060. The recent past, including the Covid pandemic and the energy crisis, has shown that significant shocks can emerge, which might push long-term assumptions off track and necessitate a reassessment of debt sustainability. Geopolitical developments or »black swan« events could put the delivery of such large fiscal savings beyond the control of even the most compliant and responsible Greek administration.

That said, Greek policymakers seem to have developed a high sense of fiscal prudence. Commitments have been honoured by governments across the political spectrum, ranging from the governing coalition led by the leftist Syriza party to the conservative New Democracy administration.

Growth is also a key component of debt sustainability. This has become evident over the past couple of years, as inflation has pushed up nominal GDP. As a result, Greece's debt-to-GDP ratio fell from more than 200 per cent of GDP in 2020 to 160 per cent in 2023. It is estimated as likely to fall further, to 152 per cent in 2024.

The long-term trajectory of Greek growth may be challenged by various structural issues. Although rating agencies have granted Greece investment grade, they have also suggested that further upgrades hinge on higher growth for the Greek economy.

The economic outlook currently faces the challenge of a big investment gap compared with Greece's Eurozone peers, low productivity due to the nature of the Greek economy, which relies heavily on services provided by small companies, and unfavourable demographics.

The IMF has assessed Greece's long-term growth potential as moderate, with an average below 1 per cent real growth per year.

Another element of uncertainty is the interest rates Greece will be able to secure on the markets as it will gradually have to issue more debt to repay the official sector loans.

The overall assumption that market rates will average just over 3 per cent until 2060 has already been challenged by the inflation wave that forced the ECB to tighten monetary policy and pushed up the cost of borrowing for Greece.

In 2022, the yield of the 10-year Greek government bond benchmark exceeded 5 per cent and remained above 4 per cent for most of the year. Similar market volatility could reemerge, and interest rates may provide headwinds whatever the Greek authorities' intentions.

AUTHOR

Yiannis Mouzakis

Yiannis Mouzakis is the co-founder of MacroPolis.

Friedrich-Ebert-Stiftung | Athens Office

Responsible: Arne Schildberg | Director

Arne.schildberg@fes.de, Phone +30 210 72 44 670

14. May 2024 | **„A BRIEF HISTORY OF GREEK DEBT"**

Yiannis Mouzakis, Athens 2024

www.fes.de/apb