



Eurogroup
The President

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To the members of the Eurogroup

Subject: Eurogroup of 24 May 2016

Dear Colleagues,

I would like to share with you the main content and course of our discussions at the Eurogroup meeting of 24 May 2016 in Brussels. Besides Vice-President Valdis Dombrovskis, Commissioner Pierre Moscovici, President of the ECB Mario Draghi, and ESM Managing Director Klaus Regling, we welcomed Poul Thomsen, Director of the IMF's European Department, who joined us for the discussions on Greece with a number of colleagues.

1. Economic situation in the euro area – Commission spring forecast

We discussed the economic situation in the euro area, on the basis of the recently published Commission Spring Forecast. The Commission presented the main results of its forecasts, according to which the recovery of the euro area is ongoing, at a modest pace and amid considerable downside risks to the economic outlook. The Commission also reported on the implications of the Eurostat notifications of the 2015 fiscal outcomes and of the forecasts for fiscal surveillance in euro area Member States. The Commission briefly presented the budgetary decisions related to the Stability and Growth Pact adopted by the College on May 18 and recalled the Commission's intention to come back to the assessment of Spain and Portugal in July. I invited the Commission to deliver its assessment sufficiently early in July so they can be discussed at the ECOFIN Council before the summer break. The point was made that decisions should not hamper the credibility of the SGP and that the SGP should be applied consistently across time and across countries.

2. Spain – post programme surveillance – 5th review

We were debriefed by the institutions on the main findings of the 5th Post-Programme Surveillance (PPS) mission in Spain, which took place in April. We concurred with the assessment of the institutions that whilst the situation of the Spanish economy has been improving over the past years, there were still a number of important challenges to tackle in particular with regards to high

level of public and private debt.

3. Greece – 1st review state of play

We were informed by the institutions that a full staff-level agreement was reached with the Greek authorities, including on the contingency fiscal mechanism in line with the criteria set out at our meeting on 9 May. The latter 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. In that context, we also briefly recalled the provision in the draft supplemental MoU that in the event of permanent fiscal over-performance vis à vis the programme targets, the authorities may – in agreement with the institutions – consider the use of the available fiscal space to strengthen social protection (in particular the Guaranteed Minimum Income programme) and/or to reduce the tax burdens provided the achievement of the fiscal targets is assured.

We also welcomed the assessment by the institutions that Greece has successfully implemented most of the agreed prior actions for the first review. We mandated the EWG to verify the full implementation of the outstanding prior actions on the basis of an assessment by the institutions. In that context, we expressed concerns at the ongoing criminal proceedings against independent technical experts advising on the privatisation strategy and welcomed the commitment of the Greek authorities to take, rapidly, additional legislative steps to strengthen the protection of such experts in the performance of their duties as regards civil and penal liability issues. We concurred that the second tranche of EUR 10.3 bn will be disbursed to Greece following the full implementation of all prior actions and subject to the completion of national procedures. The first disbursement in June will be followed by further disbursements in the autumn subject to the effective clearance of arrears by the Greek authorities and subject to milestones related to the programme.

Guided by the principles put forward by the leaders last summer and those agreed at our previous meeting, we have reached an agreement on debt measures to address the sustainability of Greek debt. We agreed on a benchmark for Gross Financing Needs (GFN) to assess the sustainability of Greek debt. In line with the assessment by the institutions, GFN should remain below 15% of GDP during the post-programme period for the medium term, and below 20% thereafter. We stressed the agreed medium-term primary surplus target of 3.5% of GDP as of 2018 and underlined the importance of a fiscal trajectory consistent with the fiscal commitments under the EU framework.

We further agreed on a package of measures which will be phased in progressively, as necessary, to meet the agreed benchmark on GFN and that will be subject to the pre-defined conditionality of the ESM programme. The measures are further specified in the Eurogroup statement which we adopted at the end of our meeting. We underlined that, when designing the measure related to the early partial repayment of existing official loans to Greece by utilizing unused resources within the ESM programme, due account will be taken of exceptionally high burden of some Member States.

Finally, against this background, we welcomed the intention of the IMF management to

recommend to the Fund's Executive Board a financial arrangement for Greece before the end of 2016. We 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.

We endorsed a Eurogroup statement (see annex) to communicate the outcome of our discussions.

4. Miscellaneous

(a) Work programme of thematic discussions – H2 2016

We endorsed the work programme of the thematic discussions on growth and jobs for the second half of 2016. Related to this, some Ministers emphasized the importance of discussing the issue of investment, on which a discussion is foreseen at the July Eurogroup.

(b) Invitation of the European Parliament to an exchange of views on a budgetary capacity for the euro area

I informed you that I will reply positively to the invitation of the European Parliament's committees on Budgets and Economic and Monetary Affairs to all euro area Finance Ministers for an exchange of views on a budgetary capacity for the euro area, scheduled for 11 July. In my quality of President of the Eurogroup, I offered to represent euro area Finance Ministers in this exchange of views.

Yours sincerely,

Jeroen DIJSSELBLOEM

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) smoothing 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:

- Smoothing 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 smoothing 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-profilng 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.