Financing and Debt Management

Assuming that the Greek authorities, its partners and the institutions agree on the reform package that acts as the conditionality for completing successfully the current/final review, Greece's medium term funding shortfall will still need to be financed by means that go beyond provisions already in the current program.

These new provisions must achieve two additional objectives (beyond simply filling in the medium-term funding gap):

1. Eliminate the likelihood that Greece will require a third program in 2016, with a new set of conditionalities to be negotiated over several months and again pushed through various Parliaments (thus causing further uncertainty in markets regarding Grexit etc.)
2. Restore market access to Greece before the end of 2015

The main impediment to achieving these goals are the Greek government SMP bonds (face value of 27 billion euros) retained by the ECB. This Greek liability to the ECB (stemming from the SMP program purchases during 2010/1) is short term and thus creates a funding gap in the short and medium term. Moreover, it prevents Greece's participation in the ECB's quantitative easing program (as it pushes the ECB's holding of Greek bonds below the one-third maximum threshold).

To deal with both issues (the short term funding gap and full QE participation), it is proposed that the set of reforms currently under negotiation is considered to be a **common conditionality** – that it should be:

(i) the condition for successfully concluding the current review and, at once,
(ii) the condition for a new loan arrangement between Greece and the ESM (for the sum of 27 billion) to be used exclusively for repurchasing the EMP bonds from the ECB and retiring them.

Additionally, it is agreed that the ECB's SMP profits (approximately 9 billion) be returned to Greece (as per the current arrangements), be placed in an escrow account to be held with the ECB, and then (after proper review of the prior actions the Greek authorities will have committed to as part of the current negotiation) be disbuursed to the IMF as Greece's IMF repayments occur.

Finally, the Eurogroup makes it known that, by the end of 2017, it will agree upon ways to eliminate the funding gap that Greece faces in 2022 and 2023 in a manner that protects Greece's recovery from deviations of its growth rate around its trend levels