Opinion **Brussels blog**

Leaked: Greece's new debt restructuring plan

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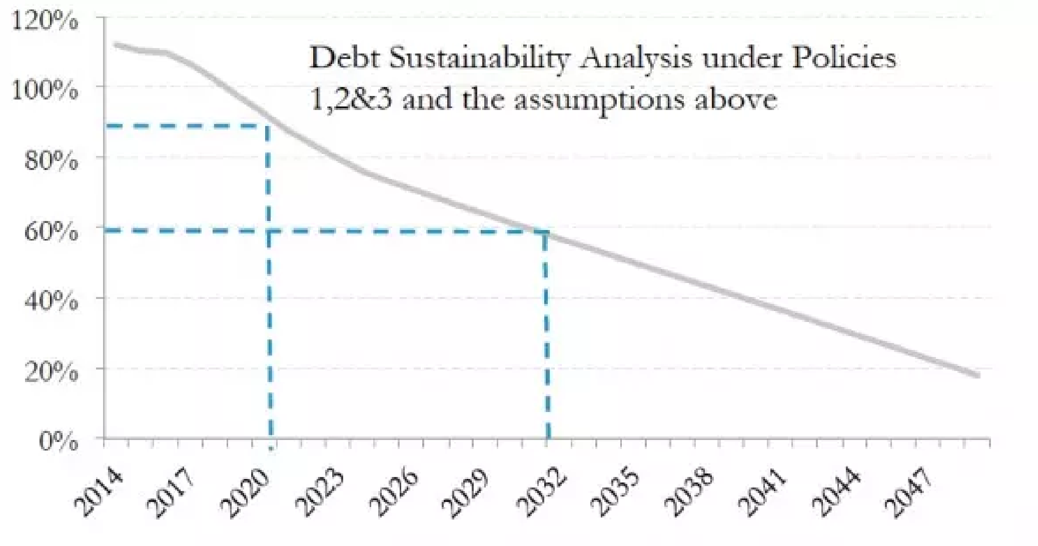
The Greek government of prime minister Alexis Tsipras has long argued debt relief must be part of any new agreement to complete its current €172bn bailout. But the compromise plan drawn up by its international creditors and presented to Tsipras on Wednesday night in Brussels (obtained by the Greek daily To Vima, and posted here) contains no such promise.

So Athens is intending to present its own restructuring plan that the government claims will cut its burgeoning debt load from the current 180 per cent of gross domestic product to just 93 per cent by 2020.

The plan is touched on in the 47-page counter-proposal Athens sent to its creditors Monday night (see page 44 in the document, posted by the German daily Tagesspiegel here). But it is given a full treatment in a new seven-page document authored by the government and entitled "Ending the Greek Crisis". Brussels Blog got a copy and posted it here.

The restructuring plan is ambitious, offering ways to reduce the amount of debt held by all four of its public-sector creditors: the European Central Bank, which holds €27bn in Greek bonds purchased starting in 2010; the International Monetary Fund, which is owed about €20bn from bailout loans; individual eurozone member states, which banded together to make €53bn bilateral loans to Athens as part of its first bailout; and the eurozone's bailout fund, the European Financial Stability Facility, which picks up the EU's €144bn in the current programme.

If all the elements of the new plan are adopted, the Greek government reckons its debt will be back under 60 per cent of GDP – the eurozone's ceiling agreed under the 1992 Maastricht Treaty – by 2030, as this chart from the document shows:



Paying the ECB

The proposal starts with a plan for the ECB holdings, acquired as part of the central bank’s bond purchase programme that attempted to stabilise Greek borrowing costs. This idea has already been publicly articulated by finance minister Yanis Varoufakis on several occasions, and is very straightforward: the eurozone’s €500bn rescue fund, the European Stability Mechanism (which replaced the EFSF) would loan Greece €27bn, which Athens would then use to pay off the ECB bonds.

The ESM’s loans are at longer maturities and lower interest rates than the Greek bonds held by the ECB, so it’s a debt restructuring without a real debt restructuring. Two of the ECB-held bonds come due in July and August, with payments totaling €6.7bn, so figuring out a way to deal with these is a matter of urgency. The problem is, the plan is basically a bailout with no strings attached (all eurozone bailouts are essentially loans from the ESM), so it’s very unlikely to fly in eurozone capitals.

Early IMF payment

The 47-page submission made by Athens on Monday talks vaguely about repaying the IMF through “an agreement which includes the repayment gradually or in installments following Greece’s choice on the matter.” The new paper makes more explicit what that plan would be.

The €27bn owed to the ECB though its bond holdings includes €9bn in profits. As part of an agreement reached in 2012, eurozone governments have agreed to give up their profits on Greek bonds purchased by the ECB, so the Greek plan would use this €9bn to pay off nearly half of what it owes the IMF early. The rest is paid the old-fashioned way, by either raising funds on the market (which Greece currently can't do) or using new bailout loans.

The early payment of IMF loans would help lower Greece's overall debt levels. But because it is contingent on eurozone creditors agreeing to the ECB restructuring, it too is unlikely to be acceptable to them.

The first bailout

When Greece was first bailed out in May 2010 (a €110bn programme, of which only €73bn was actually disbursed), there were no eurozone-wide institutions to dole out rescue funds. So all eurozone governments pulled together to make bilateral loans to Athens, with the exception of Slovakia, which ultimately rejected the plan.

These loans, formally called the Greek Loan Facility, have been repeatedly restructured, with their interest rates lowered to where they are now near the cost of the facility's borrowing, and their payment schedules extended for years. The new Greek plan would extend those payment schedules even further.

The first idea is a so-called "perpetual bond", which is exactly what it sounds like: a loan to Athens that is never paid back in full, but has interest payments that go on forever. As odd as that sounds, these perpetual bonds are not new, and the Greek government proposes annual interest payments of 2-2.5 per cent of the value of the bond.

The problem with a perpetual bond is that it is essentially an admission that Greece will never pay back what it owes to eurozone governments, which would be hard to sell politically in capitals like Berlin. The Greek plan foresees that difficulty and offers as an alternative lengthening the payment period for the GLF bailout loans to 100 years.

Another possibility offered up by Athens are "GDP indexed bonds". Again, they are what they sound like: Greece would only have to make payments to creditors if its economy starts growing again, and in amounts tied to the rate of growth.

Eurozone governments have expressed a willingness to extend maturities of the Greek Loan Facility loans, so the most likely option to get any traction here is the 100-year maturities. But such an offer is unlikely to come immediately. Some officials say it could be vaguely promised as part of a eurogoup statement if a new deal is struck in the current negotiations.

The second bailout

Once the current bailout agreement is completed, the eurozone's old bailout fund, the EFSF, will have doled out €144bn. Those loans are at already very low rates, with very favourable repayment schemes. But the new Greek plan offers something far more radical. It would break the EFSF loans in half, with one half of the outstanding debt being restructured into a loan paying 5 per cent interest (double the 2.5 per cent currently paid) and the rest essentially being written off.

The argument for this plan is that the annual interest payments made by Greece would remain the same (5 per cent of half the loans is the same as 2.5 per cent of all the loans). But by writing off half of the original loan total, Greece's overall debt load is cut substantially. The write-off would occur in phases under the Greek plan. At first it would become a zero-coupon bond (essentially an interest-free loan), which would gradually be cancelled.

But because this involves a full-scale write-off, it is also unlikely to pass muster in eurozone capitals.

In summary, the document is as ambitious as it is creative. But most of it is also politically unacceptable to eurozone lenders. Other than extending maturities on the GLF loans, eurozone governments have proven singularly unwilling to countenance any debt relief — despite the fact the IMF has increasingly argued Greece's debt is unsustainable without it.