Background document on the offer by the International Institute of Finance (IIF) and on Debt Buy Back (DBB)[1]

▪ Gross Private Sector Involvement (PSI) contribution 2011-2020

The gross PSI contribution will be EUR 135 billion via a voluntary exchange of bonds maturing between 2011 and 2020, assuming a 90% participation rate across four schemes:

1. A par bond exchange into a 30-year instrument, with principal collateralised by 30-year zero-coupon AAA-rated bonds and coupons of 4 % (years 1 to 5), 4.5% (years 6 to 10) and 5% (years 11 to 30).

2. A par bond offer involving a rolling over of bonds at maturity into 30-year instruments, with principal collateralised by 30-year zero-coupon AAA-rated bonds and coupons of 4 % (years 1 to 5), 4.5% (years 6 to 10) and 5% (years 11 to 30).

3. A discount bond exchange offered at 80% into a 30-year instrument, with principal collateralised by 30-year zero-coupon AAA-rated bonds and coupons of 6 % (years 1 to 5), 6.5% (years 6 to 10) and 6.8% (years 11 to 30).

4. A discount bond exchange offered at 80% into a 15-year instrument, with principal partially collateralised with 80% of losses being covered up to a maximum of 40% of the notional values of the new instrument and with a single coupon of 5.9%.

It is assumed that the total exchange will be distributed evenly across the four schemes, i.e. EUR 33.75 billion in each scheme.

▪ Cost of credit enhancement 2011-2020

The cost of the credit enhancement, i.e. the collateralisation of new bonds after exchange, will be EUR 42 billion for the period 2011-2020.

[1] This background document has been produced by the services of the European Commission for information purposes only. All figures are based on estimates.

- **PSI net of credit enhancement 2011-2020**

The PSI contribution for 2011-2020, taking account of the cost of credit enhancement for the new bonds after exchange, will be EUR 93 billion (EUR 135 billion minus EUR 42 billion).

- **PSI contribution 2011-2014**

The gross PSI contribution in the programme period 2011-2014 will be EUR 54 billion, from the overall total of EUR 135 billion for the period 2011-2020.

- **Cost of credit enhancement 2011-2014**

The cost of credit enhancement for the total exchange must be paid up-front, except in the case of Scheme No. 2 where the cost of credit enhancement is paid on the maturity date of the bond to be exchanged. This implies that EUR 35 billion in credit enhancement will be required during the programme (EUR 16.8 billion for bonds maturing in the period 2011 to 2014 and EUR 18.4 billion for bonds maturing in the period 2015 to 2020), with an additional EUR 7 billion falling due for payment outside of the programme period and so not covered by official financing.

- **PSI net of credit enhancement 2011-2014**

The PSI contribution, taking account of the cost of credit enhancements for the new bonds after exchange, will be EUR 37 billion (EUR 54 billion minus 16.8 billion) taking into account the credit enhancement linked to bonds maturing during this period and EUR 19 billion (EUR 54 billion minus EUR 35 billion).

- **Debt reduction from PSI**

In two of the schemes for PSI, bonds will be exchanged at a discount of 20%, implying a reduction in the outstanding debt of EUR 13.5 billion, equivalent to 6% of GDP.

- **Net Present Value (NPV) loss**

The four schemes for bond exchange imply a combined NPV loss of 21% for the private bondholders.

- **Official contribution from euro area for DBB**

The IIF proposal includes a debt buy-back operation which will be partially financed by the euro-area Member States. The assumed contribution of the Member States is EUR 20 billion.

- **Debt reduction from DBB**

The EUR 20 billion contribution from the euro area Member States to a debt buy-back operation is assumed to reduce the outstanding debt by EUR 12.6 billion, assuming an average buy-back price of 61.43%.

- **Total debt reduction PSI +DBB**

Combining the effect of the discounts in the bond exchange and buy-back operations, the total reduction in outstanding debt will be EUR 26.1 billion (EUR 13.5 billion PSI and EUR 12.6 billion DBB), which is equivalent to 11.58% of GDP.

- **Calculating official financing needs**

Bringing these various elements together, the total official contribution to financing the second programme can be calculated as follows:

<u>Baseline</u>:		EUR 88 billion:	
	minus	EUR 54 billion:	Gross PSI
	plus	EUR 35 billion:	Credit enhancement in programme period
	plus	EUR 20 billion:	Contribution to DBB
	plus	EUR 20 billion:	Recapitalisation of Greek banks
<u>Total</u>:		EUR 109 billion	

The total of EUR 109 billion in official financing assumes that EUR 28 billion will be realised in privatisation receipts. This total does not include about EUR 45 billion in undisbursed funds under the Greek Loan Facility.

- **Total net PSI contribution including DBB 2011-2014**

Combining the net PSI contribution of EUR 19 billion in the programme period with the PSI of EUR 12.6 billion implied in debt buyback gives a total of EUR 31.6 billion

- **Total net PSI contribution including DBB 2011-2020**

Combining the net PSI contribution of EUR 93 billion in the period 2011-2020 with the PSI of EUR 12.6 implied in the debt buyback gives a total of EUR 105.6 billion.