EUROPEAN CENTRAL BANK

EUROSYSTEM

COURTESY TRANSLATION

Mr Nikolaos Chountis
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 8 March 2012

L/MD/12/178

Re: Your letter

Dear Mr Chountis,

Thank you for your letter passed on to me by Ms Sharon Bowles, Chair of the Committee on Economic and Monetary Affairs, and accompanied by a cover letter dated 24 January 2012.

Regarding your question on private sector participation in the restructuring of Greek debt, please take note of the outcome of the Eurogroup meeting of 21 February 2012, and its statement issued after the meeting which mentions that "the Eurosystem (ECB and NBCs) holdings of Greek government bonds (GGBs) have been held for public policy purposes". The public policy purpose has been to restore an appropriate monetary policy transmission mechanism, which is essential to achieve price stability, the primary objective of the ESCB[1].

The public policy purpose of the holdings of GGBs by the Eurosystem was noted also by the Hellenic Republic in the Explanatory Memorandum to the Law 4050/2012 (the Greek Bondholder Act).

The Eurogroup further noted that income derived from the holdings of GGBs will be distributed in accordance with the rules on profit and loss calculation laid down in the ESCB Statute and the statutes of the national central banks. The Eurogroup has agreed that certain government revenues which result from the

[1] Article 127(1) of the Treaty on the Functioning of the European Union (TFEU).

SMP profits disbursed by NCBs may be allocated by Member States to further improving the sustainability of Greece's public debt. Moreover, governments of Member States whose central banks are holding Greek government bonds in their investment portfolio are committed to passing on to Greece an amount equal to any future income accruing to their national central bank from this portfolio until 2020.

Copy of the Eurogroup statement of 21 February 2012 is enclosed. Further information on the invitation to private sector bondholders to tender their holdings of GGBs can be obtained from the Greek Public Debt Management Agency.

Yours sincerely,

[*signed*]

Mario Draghi

Encl. (1)

21.02.2012

Eurogroup statement

The Eurogroup welcomes the agreement reached with the Greek government on a policy package that constitutes the basis for the successor programme. We also welcome the approval of the policy package by the Greek parliament, the identification of additional structural expenditure reductions of € 325 million to close the fiscal gap in 2012 and the provision of assurances by the leaders of the two coalition parties regarding the implementation of the programme beyond the forthcoming general elections.

This new programme provides a comprehensive blueprint for putting the public finances and the economy of Greece back on a sustainable footing and hence for safeguarding financial stability in Greece and in the euro area as a whole.

The Eurogroup is fully aware of the significant efforts already made by the Greek citizens but also underlines that further major efforts by the Greek society are needed to return the economy to a sustainable growth path.

Ensuring debt sustainability and restoring competiveness are the main goals of the new programme. Its success hinges critically on its thorough implementation by Greece. This implies that Greece must achieve the ambitious but realistic fiscal consolidation targets so as to return to a primary surplus as from 2013, carry out fully the privatisation plans and implement the bold structural reform agenda, in both the labour market and product and service markets, in order to promote competitiveness, employment and sustainable growth.

To this end, we deem essential a further strengthening of Greece's institutional capacity. We therefore invite the Commission to significantly strengthen its Task Force for Greece, in particular through an enhanced and permanent presence on the ground in Greece, in order to bolster its capacity to provide and coordinate technical assistance. Euro area Member States stand ready to provide experts to be integrated into the Task Force. The Eurogroup also welcomes the stronger on site-monitoring capacity by the Commission to work in close and continuous cooperation with the Greek government in order to assist the Troika in assessing the conformity of measures that will be taken by the Greek government, thereby ensuring the timely and full implementation of the programme. The Eurogroup also welcomes Greece's intention to put in place a mechanism that allows better tracing and monitoring of the official borrowing and internally-generated funds destined to service Greece's debt by, under monitoring of the troika, paying an amount corresponding to the coming quarter's debt service directly to a segregated account of Greece's paying agent. Finally, the Eurogroup in this context welcomes the intention of the Greek authorities to introduce over the next two months in the Greek legal framework a provision ensuring that priority is granted to debt servicing payments. This provision will be introduced in the Greek constitution as soon as possible.

The Eurogroup acknowledges the common understanding that has been reached between the Greek authorities and the private sector on the general terms of the PSI exchange offer, covering all private sector bondholders. This common understanding provides for a nominal haircut amounting to 53.5%. The Eurogroup considers that this agreement constitutes an appropriate basis for launching the invitation for the exchange to holders of Greek government bonds (PSI). A successful PSI operation is a necessary condition for a successor programme. The Eurogroup looks forward to a high participation of private creditors in the debt exchange, which should deliver a significant positive contribution to Greece's debt sustainability.

The Eurogroup considers that the necessary elements are now in place for Member States to carry out the relevant national procedures to allow for the provision by EFSF of (i) a buy back scheme for Greek marketable debt instruments for Eurosystem monetary policy operations, (ii) the euro area's contribution to the PSI exercise, (iii) the repayment of accrued interest on Greek government bonds, and (iv) the residual (post PSI) financing for the second Greek adjustment programme, including the necessary financing for recapitalisation of Greek banks in case of financial stability concerns.

The Eurogroup takes note that the Eurosystem (ECB and NCBs) holdings of Greek government bonds have been held for public policy purposes. The Eurogroup takes note that the income generated by the Eurosystem holdings of Greek Government bonds will contribute to the profit of the ECB and of the NCBs. The ECB's profit will be disbursed to the NCBs, in line with the ECB's statutory profit distribution rules. The NCBs' profits will be disbursed to euro area Member States in line with the NCBs' statutory profit distribution rules.

- The Eurogroup has agreed that certain government revenues that emanate from the SMP profits disbursed by NCBs may be allocated by Member States to further improving the sustainability of Greece's public debt. All Member States have agreed to an additional retroactive lowering of the interest rates of the Greek Loan Facility so that the margin amounts to 150 basis points. There will be no additional compensation for higher funding costs. This will bring down the debt-to-GDP ratio in 2020 by 2.8pp and lower financing needs by around 1.4 bn euro over the programme period. National procedures for the ratification of this amendment to the Greek Loan Facility Agreement need to be urgently initiated so that it can enter into force as soon as possible.

- Furthermore, governments of Member States where central banks currently hold Greek government bonds in their investment portfolio commit to pass on to Greece an amount equal to any future income accruing to their national central bank stemming from this portfolio until 2020. These income flows would be expected to help reducing the Greek debt ratio by 1.8pp by 2020 and are estimated to lower the financing needs over the programme period by approximately 1.8 bn euro.

The respective contributions from the private and the official sector should ensure that Greece's public debt ratio is brought on a downward path reaching 120.5% of GDP by 2020. On this basis, and provided policy conditionality under the programme is met on an ongoing basis, the Eurogroup confirms that euro area Member States stand ready to provide, through the EFSF and with the expectation that the IMF will make a significant contribution, additional official programme of up to 130 bn euro until 2014.

It is understood that the disbursements for the PSI operation and the final decision to approve the guarantees for the second programme are subject to a successful PSI operation and confirmation, by the Eurogroup on the basis of an assessment by the Troika, of the legal implementation by Greece of the agreed prior actions. The official sector will decide on the precise amount of financial assistance to be provided in the context of the second Greek programme in early March, once the results of PSI are known and the prior actions have been implemented.

We reiterate our commitment to provide adequate support to Greece during the life of the programme and beyond until it has regained market access, provided that Greece fully complies with the requirements and objectives of the adjustment programme.