

# 2. Public finance

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## 2.1. The evolution and structure of public debt

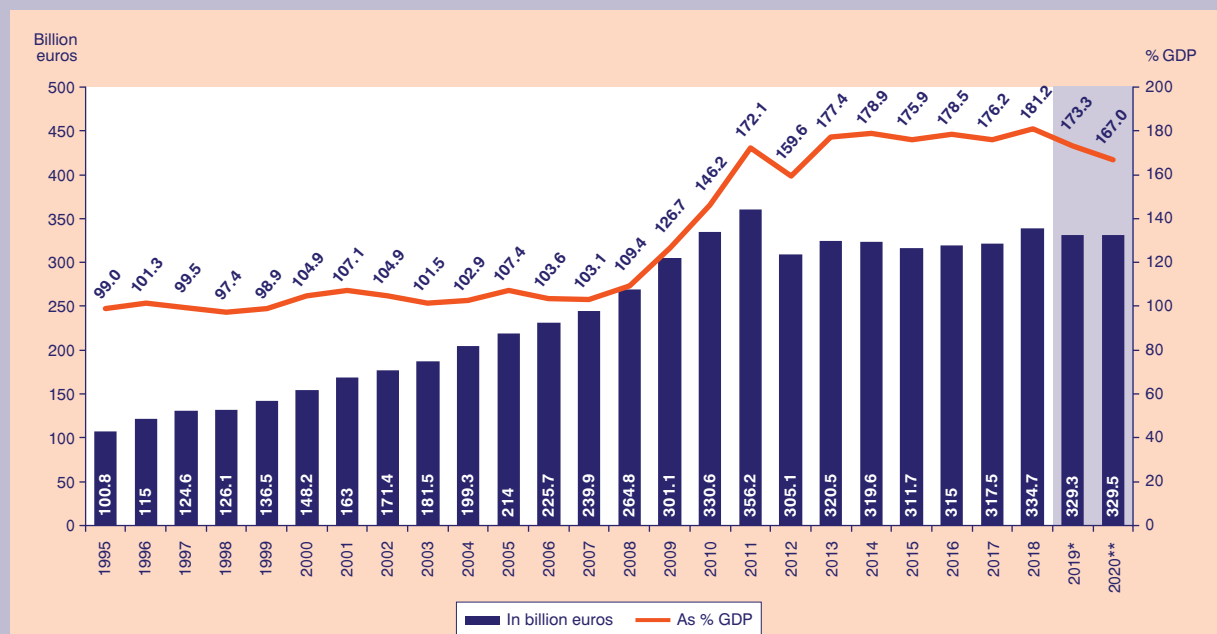
### Fotini Economou

The early repayment of the more expensive portion of the International Monetary Fund's (IMF) loans to Greece (2.7 billion euros) resulted in the improvement of public debt sustainability. This, combined with the upgrade of the country by the international rating agencies (Standard and Poor's, Rating and Investment and

Fitch), the upgrade of the Greek economy's outlook by DBRS and the complete lifting of capital controls enhance the country's credibility and international investors' confidence, resulting also in significantly reduced borrowing costs.

More precisely, according to the Public Debt Management Agency (PDMA) and the latest available credit ratings (at the time of writing this article), Greece received a BB- rating from Standard & Poor's with a positive outlook (October 2019), a BB from Fitch with a positive outlook (January 2020), a B1 from Moody's with a stable outlook (March 2019), a BB from Rating and Investment with a stable outlook (December 2019) and a BB (LOW) from DBRS with a positive outlook (No-

**FIGURE 2.1.1**  
General Government debt (1995–2020)



Sources: Historical data from the European Commission, AMECO (last update 7/11/2019). PDMA estimates/forecasts as presented in the State Budget 2020.

Notes: \*Estimate, \*\* Forecast.

vember 2019). In this context, the country's return to investment grade<sup>1</sup> remains a key objective.

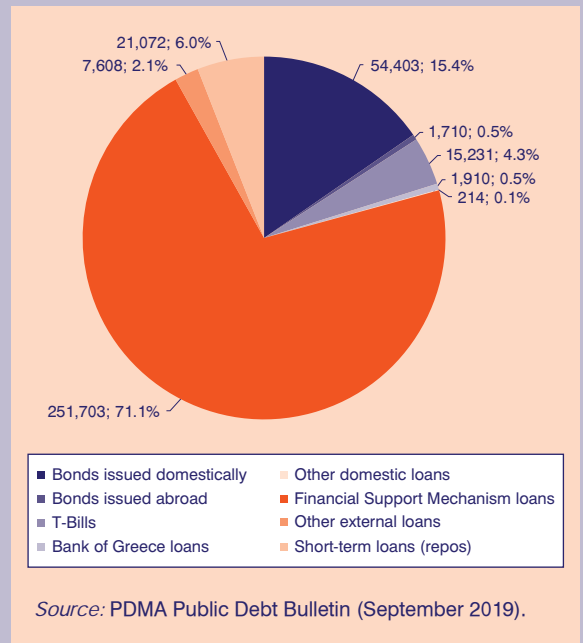
According to the PDMA data presented in the 2020 State Budget, General Government Debt is expected to reach 173.3% of GDP in 2019, i.e., 329.3 billion euros, and is expected to further decline to 167% of GDP in 2020, i.e., 329.5 billion euros. These percentages are the lowest since 2013 (Figure 2.1.1 above).

In addition, according to the quarterly data of the PDMA Public Debt Bulletin, the level of Central Government Debt<sup>2</sup> decreased by 2.7 billion euros in the third quarter of 2019, from 356.55 billion euros in June 2019 to 353.85 billion euros in September 2019 (Table 2.1.1). According to the 2020 State Budget, the Central Government Debt is expected to amount to 350.96 billion euros in 2019 from 358.95 billion euros at the end of 2018.

Also note two key parameters of Government Debt according to PDMA data: (a) the weighted average maturity of the Central Government Debt was 20.8 years in September 2019 including the extension of EFSF loans agreed on Eurogroup of 22/6/2018, from 18.2 years in 2018 and (b) the Central Government Debt annual effective weighted average interest rate (cash basis) was 1.75% in September 2019 from 1.61% in 2018.

Regarding the structure of Central Government Debt, there were no significant changes in the third quarter of 2019 in terms of the share of total debt. Bonds stood at 56.11 billion euros in September 2019, showing a decrease of 1.25 billion euros from 57.37 billion euros in the previous quarter. This amount accounts for 15.9% of the Central Government Debt compared to 16.1% at the end of June 2019. The Central Government financing through short-term securities (Greek government treasury bills) remained at 4.3% of the Central Government Debt, i.e., 15.23 billion euros. The share of debt in loans slightly increased as a percentage of the total debt at 73.9% in September 2019 (Figure 2.1.2), even though it recorded a decrease in absolute terms from 262.02 billion euros in June 2019 to 261.43 billion euros in September 2019. Finally, short-term borrowing through repos agreements with General Government entities remained relatively stable in the third quarter

**FIGURE 2.1.2**  
**Central Government debt (September 2019),**  
**(million euros and % debt)**



of 2019. Specifically, in September 2019 the intra-governmental borrowing through repos slightly dropped by 0.84 billion euros compared to the previous quarter, reaching 21.07 billion euros from 21.91 billion euros in June 2019 (Figure 2.1.3). Thus, in June 2019, this source of funding accounted for 6% of Central Government Debt compared to 6.1% in June 2019.

Regarding the structural characteristics of the Central Government Debt, in September 2019 the share of debt at fixed rate stood at 93.8% of the debt, against 93.2% of the debt in June 2019 (Table 2.1.2). Moreover, the non-negotiable debt rose slightly to 79.8% of the debt from 79.6% of the debt in June 2019; there was no significant change in the debt expressed in euro, which was 98.2% from 98.1% in the previous quarter (Table 2.1.2).

In addition, according to PDMA, the Greek Government's cash reserves<sup>3</sup> stood at 20.23 billion euros in September 2019 from 20.82 billion euros in the previous quarter, and the reserves in the special public

1. A country's bond is considered to be investment grade if it receives ratings BBB- or higher from the international rating agencies S&P and Fitch or Baa3 or higher from Moody's.

2. Central Government Debt differs from General Government Debt by the amount of intra-sectoral debt holdings and other ESA adjustments (see PDMA Public Debt Bulletin, September 2019).

3. Included balance of dedicated cash buffer account, 15,697.3 million euros on 30/6/2019 and 30/9/2019 (PDMA Public Debt Bulletin, September 2019).

**TABLE 2.1.1 Structure of Central Government debt**

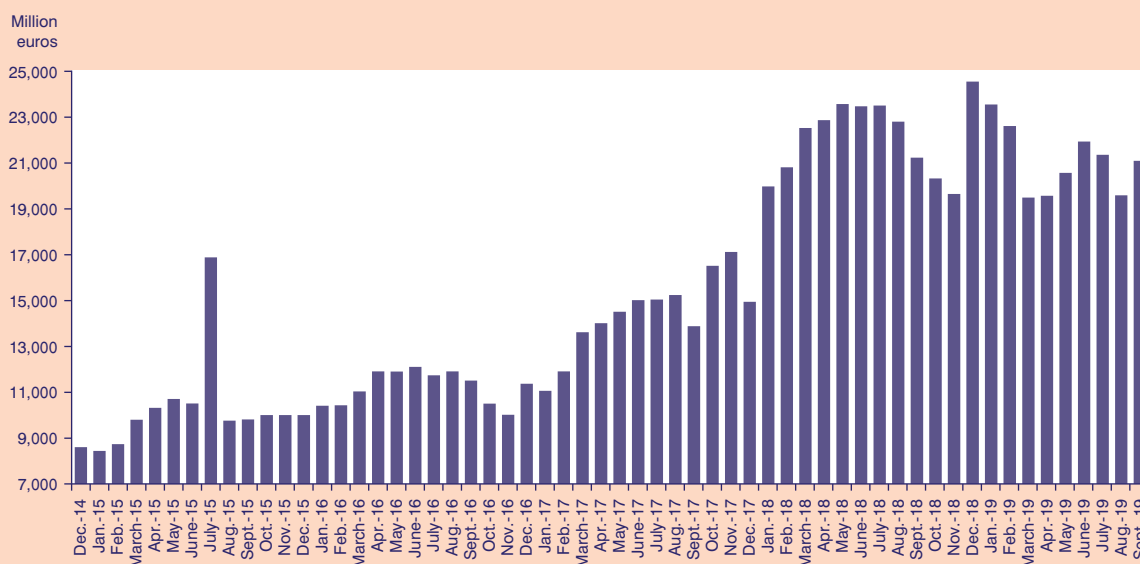
	2011		2013		2017		2018		June 2019		September 2019	
	Million euros	% debt	Million euros	% debt	Million euros	% debt	Million euros	% debt	Million euros	% debt	Million euros	% debt
<b>A. Bonds</b>	<b>259,774</b>	<b>70.6</b>	<b>76,296</b>	<b>23.7</b>	<b>50,457</b>	<b>15.4</b>	<b>51,551</b>	<b>14.4</b>	<b>57,367</b>	<b>16.1</b>	<b>56,113</b>	<b>15.9</b>
Bonds issued domestically	240,940	65.5	73,415	22.8	48,681	14.8	49,779	13.9	55,656	15.6	54,403	15.4
Bonds issued abroad*	18,833	5.1	2,880	0.9	1,776	0.5	1,771	0.5	1,712	0.5	1,710	0.5
<b>B. T-Bills</b>	<b>15,058</b>	<b>4.1</b>	<b>14,970</b>	<b>4.7</b>	<b>14,943</b>	<b>4.5</b>	<b>15,280</b>	<b>4.3</b>	<b>15,252</b>	<b>4.3</b>	<b>15,231</b>	<b>4.3</b>
<b>C. Loans</b>	<b>93,145</b>	<b>25.3</b>	<b>230,210</b>	<b>71.6</b>	<b>248,373</b>	<b>75.6</b>	<b>267,598</b>	<b>74.6</b>	<b>262,017</b>	<b>73.5</b>	<b>261,434</b>	<b>73.9</b>
Bank of Greece	5,683	1.5	4,734	1.5	2,849	0.9	2,377	0.7	1,908	0.5	1,910	0.5
Other domestic loans	836	0.2	115	0	247	0.1	229	0.1	221.68	0.1	214	0.1
Financial Support Mechanism loans	73,210	19.9	213,152	66.3	232,959	70.9	253,105	70.5	252,147	70.7	251,703	71.1
Other external loans**	13,414	3.6	12,208	3.8	12,318	3.7	11,887	3.3	7,739	2.2	7,608	2.1
<b>D. Short-term loans***</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>14,931</b>	<b>4.5</b>	<b>24,521</b>	<b>6.8</b>	<b>21,913</b>	<b>6.1</b>	<b>21,072</b>	<b>6.0</b>
<b>Total (A+B+C+D)</b>	<b>367,978</b>	<b>100.0</b>	<b>321,477</b>	<b>100.0</b>	<b>328,704</b>	<b>100.0</b>	<b>358,950</b>	<b>100.0</b>	<b>356,549</b>	<b>100.0</b>	<b>353,850</b>	<b>100.0</b>

Source: PDMA Public Debt Bulletins (December 2011, December 2013, December 2017, December 2018, September 2019) and Issue No 40 of the Greek Economic Outlook.

Notes: \* Including securitisation issued abroad.

\*\*Including special purpose and bilateral loans.

\*\*\* Including repos.

**FIGURE 2.1.3**
**Central Government short-term loans (repos) (December 2014–September 2019)**


Source: Ministry of Finance, General Government Bulletin (various months).

Note: The July 2015 performance is widely diverted as it includes the short-term “bridge” loan of 7.16 billion euros from the European Financial Stability Facility that Greece received during the period between the second and third adjustment programs.

**TABLE 2.1.2 Composition of Central Government debt**

	December 2011	December 2013	December 2017	December 2018	June 2019	September 2019
<b>A. Rate</b>						
Fixed rate <sup>1</sup>	62.0%	28.5%	48.1%	89.2%	93.2%	93.8%
Floating rate <sup>1,2</sup>	38.0%	71.5%	51.9%	10.8%	6.8%	6.2%
<b>B. Trade</b>						
Tradable	74.7%	28.4%	19.9%	18.6%	20.4%	20.2%
Non-tradable	25.3%	71.6%	80.1%	81.4%	79.6%	79.8%
<b>C. Currency</b>						
Euro	97.5%	95.9%	97.4%	97.9%	98.1%	98.2%
Non-Euro area currencies	2.5%	4.1%	2.6%	2.1%	1.9%	1.8%

Source: PDMA Public Debt Bulletins (December 2011, December 2013, December 2017, December 2018, September 2019) and Issue No 40 of the *Greek Economic Outlook*.

Notes:

- Fixed/floating ratio is calculated taking into account: i) interest rate swap transactions, ii) the use of funding instruments by the ESM regarding the loans that have been granted to the Hellenic Republic and iii) the incorporation of the risk metrics of the EFSF's liability portfolio into the Greek debt portfolio.
- Index-linked bonds are classified as floating rate bonds.

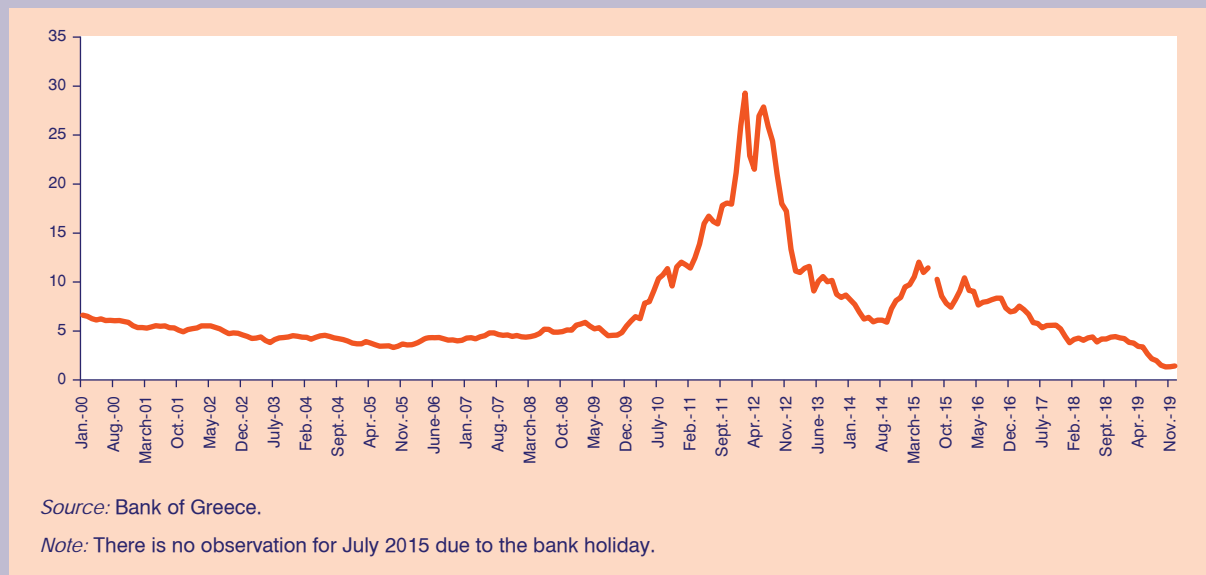
debt account stood at 38.1 million euros in September 2019, from 122.7 million euros in June 2019 (see Public Debt Bulletin, September 2019).

Note that the financial needs in 2019 were covered by the issuance of five-year, seven-year and ten-year bonds, as well as through the issuance of three-month, six-year and one-year Treasury bills and re-

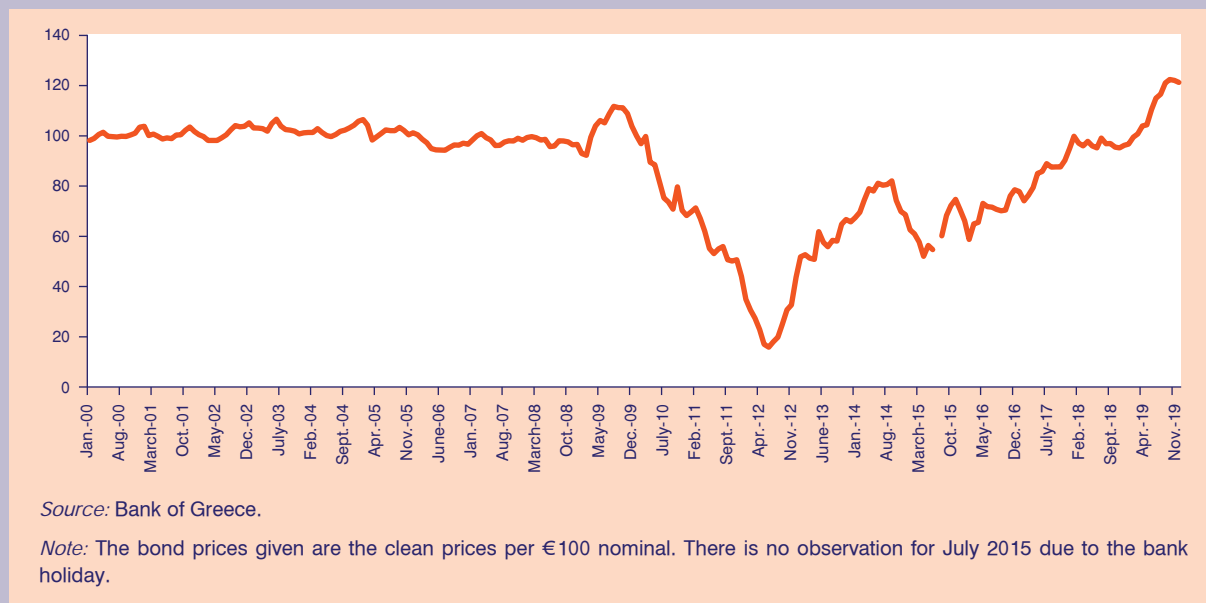
pository cash management operations in the form of repos to refinance short-term debt. The reduced costs of new borrowing reflect the improvement of investor confidence and reduce the cost of public debt financing.

Focusing on ten-year Greek government bonds, in the course of 2019 there was a significant decline

**FIGURE 2.1.4**  
**Greek Government benchmark bond monthly average yield (%)**  
**(January 2000-December 2019)**



**FIGURE 2.1.5**  
**Greek Government benchmark bond monthly average price**  
**(January 2000-December 2019)**



in yields at historically low levels accompanied by rising prices. Specifically, according to Bank of Greece data, the average monthly yield of the 10-year bond reached 1.42% in December 2019 (Figure 2.1.4) and its average monthly price stood at 121.10 euros (Figure 2.1.5). In December 2018 the average monthly yield of the 10-year bond was at 4.28% and its average monthly yield at 96.08 euros. At the same time, at the end of December 2019, the Government raised funds through six-month Treasury bills with zero yield, while in the corresponding issuance in early December, it raised funds with a negative yield of -0.02%. Borrowing costs through three-month Treasury bills in the most

recent issuance of November (-0.083%) and October 2019 (-0.02%) were also negative. Finally, the borrowing cost of the 12-month Treasury bills dropped significantly to 0.07% in the December 2019 issuance from 0.29% in September 2019. The borrowing costs in all bond categories declined sharply compared to the end of 2018 (Table 2.1.3).

Overall, these developments are quite positive, leading to lower borrowing costs as well as to the improvement of the public debt repayment capability, and contribute to the key objective of reaching investment grade by international rating agencies in the near future.

**TABLE 2.1.3 Greek Government T-bills yields**

<b>Auction date</b>	<b>13 weeks</b>	<b>Auction date</b>	<b>26 weeks</b>	<b>Auction date</b>	<b>52 weeks</b>
6/11/2019	-0.083%	31/12/2019	0.00%	11/12/2019	0.07%
9/10/2019	-0.02%	4/12/2019	-0.02%	11/9/2019	0.29%
7/8/2019	0.095%	30/10/2019	0.00%	12/6/2019	0.47%
10/7/2019	0.23%	2/10/2019	0.097%	13/3/2019	0.95%
8/5/2019	0.34%	28/8/2019	0.15%	12/12/2018	1.09%
10/4/2019	0.35%	31/7/2019	0.15%		
6/2/2019	0.50%	3/7/2019	0.23%		
9/1/2019	0.67%	5/6/2019	0.41%		
7/11/2018	0.71%	30/4/2019	0.46%		
		3/4/2019	0.58%		
		27/2/2019	0.72%		
		30/1/2019	0.75%		
		2/1/2019	0.90%		
		5/12/2018	0.90%		

Source: Ministry of Finance.