Special Report

13 April, 2010

EU Support Package for Greece

1 What's new on the Greek front?

Euro zone countries have finally agreed this weekend on the terms of the financial package for Greece, should the country face financing problems on the capital markets.

The package set forward by the European Union and the IMF will cover a three years period. A total size of around € 45 bn (including €30 bn by EU & €15 bn by IMF) in the form of loans will cover the first year. The financial support for the following years is not yet defined and will be decided upon agreement of the joint programme according to the EU statement.

The funding will be split among Eurozone countries in respect to their quotas in the ECB's capital:

Euro-zone Countries	% Contribution	Amount
Germany	28%	8.4bn
France	21%	6.3bn
Italy	18%	5.5bn
Spain	12%	3.6bn
Holland	6%	1.8bn
Others	15%	4.5bn
Total		**30**

Fixed rate loans will be based on the Euribor swap rates for the relevant maturities + 300 basis points +100 basis points for the amount to be given for more than 3 years + max 50 bp to cover operational cost and to be paid up front.

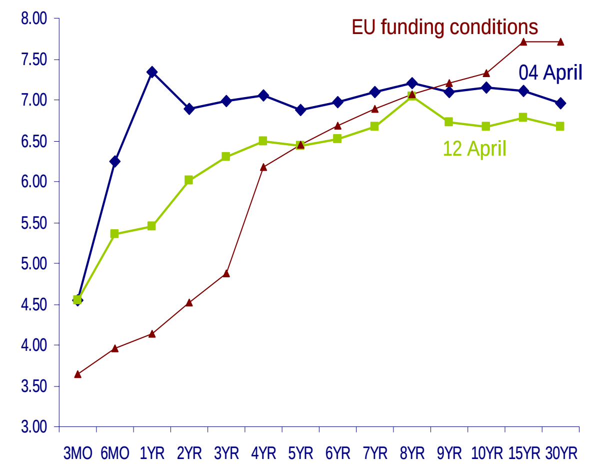
The package came with no extra budgetary conditions for Greece, although the later should respect the set of recommendations proposed by Ecofin council in last February and bring its deficit down to less than 3% by 2012.

In order to activate the package, Greece should first ask for financial help and declare that it cannot access financial markets, then the European commission and the ECB will assess the situation and evaluate if Greece is on a good track in implementing the fiscal consolidation measures. Finally, the Euro-zone countries have to decide unanimously on the bilateral loans.

2 Positive aspects of the support

- Risk aversion on Greece has decreased. Greek yields fell as investors welcomed the proposed detail rescue package. Two years Greek borrowing cost fell from 6.9% (Friday closing rate) to 5.97% (Monday closing rate).
- The size of the package (€ 45 bn) is generous and should completely cover Greece's remaining financial needs in 2010 (€32bn, remaining redemptions & deficit financing). The critical April-May financing hurdle should thereby be passed.
- The support package reduces the funding cost of Greece. We can estimate that Greece will save up to € 0.6 bn. (versus Friday 9 April market levels) on a one year basis if the country would lend € 30 bn. via 3 years bilateral loans. This corresponds to 5.5% of total 2009 Greek interest rate charges. Despite the financial support, Greek interest rates remain the highest in the euro zone.
- No extra budgetary measures are conditioned to this support package.
- On Tuesday, Greece managed to auction €1.5bn via 6 and 12 months T-Bills issuance (Bid to cover ratio were ranging at 6-7)

Greek Curve Yield & EU Funding Conditions



Source: Bloomberg, Dexia AM, EU statement

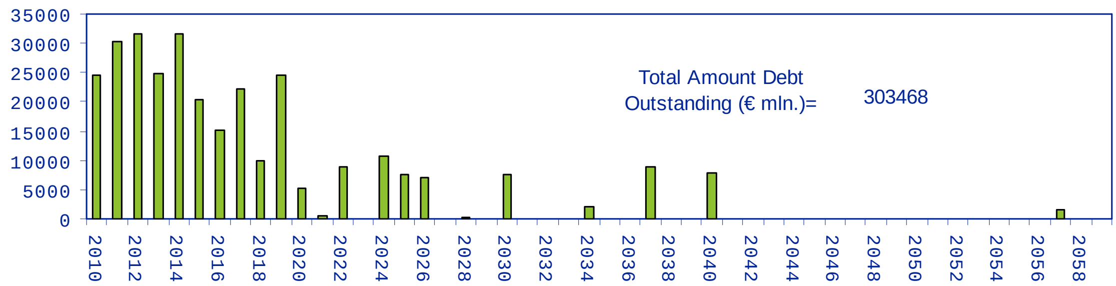
Detailed Cash Flow Calendar Greece

Date	Type	Amount	CF without extra funding
			23.6
Quarter 1	Coupon payments	-2.3	**21.3**
13/04/2010	Redemption Bills 52 W	-1.00	**20.3**
16/04/2010	Redemption Bills 52 W	-1.30	**19**
20/04/2010	Redemption GGB 3.1% 20/04/10	-8.20	**10.8**
20/04/2010	Coupon Payment	-0.30	**10.50**
23/04/2010	Redemption Bills 13 W	-1.60	**8.90**
18/05/2010	Coupons	-0.80	**8.10**
19/05/2010	**Redemption GGB 6% 19/05/10**	**-8.10**	**0**
19/05/2010	Coupons	-0.50	**-0.5**
20/05/2010	Coupons	-0.90	**-1.4**
31/05/2010	Redemption GGB 6% 31/05/10	-0.40	**-1.8**
16/07/2010	Redemption Bills 52 W	-0.90	**-2.70**
16/07/2010	Redemption Bills 26 W	-1.00	**-3.7**
19/07/2010	Coupons	-0.90	**-4.6**
20/07/2010	Coupons	-1.40	**-6**
23/07/2010	Redemption Bills 13 W	-1.60	**-7.6**
12/08/2010	Q2 GDP		**-7.6**
20/08/2010	Coupons	-1.60	**-9.2**
20/09/2010	Coupons	-1.60	**-10.80**
29/09/2010	Redemptions GGB 6% 29/09/10	-0.20	**-11**
15/10/2010	Redemption Bills 52 W	-1.30	**-12.3**
22/10/2010	Coupons	-1.00	**-13.3**
23/10/2010	Redemption Bills 13 W	-1.60	**-14.9**
Total			**-14.9**

3 More challenges on the road

- Up to now, €23.6bn (taking today's bills issuance into account) of financing needs have been covered. However more funding pressures should be expected in 2011-2012 as redemptions will increase to respectively €30.3 bn and € 31.7 bn in the upcoming two years.
- The loan from euro area member states require approval from all the euro group members and in some cases the bilateral disbursement might require approval from the respective parliaments (Germany..)
- In a default scenario, the market assumes that IMF loans would be senior to bonded debt
- It's not clear that the IMF support would be contingent on the EU loan.
- Lending conditions could lead to reallocation in Greek curve and favour a steepening of the curve.

Redemption Profile Greek debt (in € mln.)



Source: Bloomberg, Dexia AM

4 Conclusion

The EU support package will give Greece more time to implement its ambitious budgetary plan (a deficit reduction towards 3% by 2012). If necessary, the € 30 bn facility will be large enough to cover Greece short term funding requirements. The facility should lead to a further reduction of Greek yield levels in the coming months and therefore a reduction of their funding cost. On the longer term, the support package is not in itself a solution for Greek debt burden as Greece needs to fulfil its ambitious budget program. The package is a first necessary step to resolve the Greek budgetary issue. The next step now is that Greece will have to deliver on their 2010 fiscal targets.

Addendum:

Statement on the support to Greece by Euro area Members States

Following the statement by the Heads of State and Government of the Euro area on 25 March, Euro area Members States have agreed upon the terms of the financial support that will be given to Greece, when needed, to safeguard financial stability in the Euro area as a whole. Euro area Members States are ready to provide financing via bilateral loans centrally pooled by the European Commission as part of a package including International Monetary Fund financing. The Commission, in liaison with the ECB, will start working on Monday April 12th, with the International Monetary Fund and the Greek authorities on a joint programme (including amounts and conditionality, building on the recommendations adopted by the Ecofin Council in February). In parallel, Euro area Members States will engage the necessary steps, at national level, in order to be able to deliver a swift assistance to Greece. Euro area Member States will decide the activation of the support when needed and disbursements will be decided by participating Member States. The programme will cover a three-year period. The euro area Member States are ready to contribute for their part up to € 30 billion in the first year to cover financing needs in a joint programme to be designed with and cofinanced by the IMF. Financial support for the following years will be decided upon the agreement of the joint programme. In order to set incentives for Greece to return to market financing, Euro area Members States loans will be granted on non-concessional interest rates. The pricing formula used by the IMF is an appropriate benchmark for setting Euro area Members States bilateral loan conditions, albeit with some adjustments. Variable-rate loans will be based on 3-month Euribor. Fixed-rate loans will be based upon the rates corresponding to Euribor swap rates for the relevant maturities. A charge of 300 basis points will be applied. A further 100 basis points are charged for amounts outstanding for more than 3 years. In conformity with IMF charges, a one-off service fee of maximum 50 basis points will be charged to cover operational costs. For instance, as of April 9th, for a three year fixed-rate loan granted to Greece, the rate would be around 5%. The Eurogroup is confident that the determined efforts of the Greek authorities and of its European Partners will allow to overcome the fiscal and structural challenges of the Greek economy. In this context, the Eurogroup welcomes the budget execution in the first months of the year, which shows that the measures taken so far are bearing fruit.