



*Diskussionspapier Nr. 2 (extern)*

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# Does Greece Need More Official Debt Relief? If So, How Much?

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*Jeromin Zettelmeyer, Eike Kreplin and Ugo Panizza*

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# Does Greece Need More Official Debt Relief? If So, How Much?

Jeromin Zettelmeyer<sup>1</sup>, Eike Kreplin<sup>2</sup> and Ugo Panizza<sup>3</sup>

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Creditor countries and international organizations continue to disagree whether Greece should receive additional official debt relief, and if so how much. This paper first shows that these disagreements can be attributed to competing assumptions about Greece's future capacity to repay, particularly about economic growth and the fiscal primary balance. It next evaluates the plausibility of alternative primary balance assumptions using international evidence about fiscal adjustment experiences. It concludes that primary balance paths required to make Greece's debt sustainable are not plausible and that Greece will therefore require additional debt relief. Finally, the paper shows that the debt relief measures suggested by the Eurogroup in May 2016 (albeit with significant caveats on whether they will in fact be granted or not) could be sufficient to address Greece's sustainability problem, provided the Eurogroup is prepared to accept both very long maturity extensions on European Financial Stability Facility (EFSF) debt (to 2080 and beyond) and interest deferrals that could lead to a large rise in EFSF exposure to Greece before it begins to decline. If the Eurogroup wishes to avoid the latter, it will become necessary to either (1) extend the scope of the debt restructuring, (2) lower the interest rates charged by the EFSF significantly below current predictions, or (3) extend European Stability Mechanism (ESM) financing beyond 2018 and delay Greece's return to capital markets for a protracted period.

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1 Petersen Institute for International Economics, Washington

2 German Federal Ministry for Economic Affairs and Energy, Berlin

3 Pictet Chair in Finance and Development, Graduate Institute, Geneva