



ESM Factsheet

ESM inaugurated on 8 October

Following the ratification of the ESM Treaty by euro area Member States, the **European Stability Mechanism** was inaugurated on 8 October 2012 in Luxembourg during the first meeting of the ESM Board of Governors, comprising finance ministers of the euro area countries.

The initial rescue facility of the euro area – **the EFSF** – will in principle only remain active in financing programmes that started prior to the ESM's establishment. However, for a transitional period until June 2013, the EFSF may engage in new programmes to ensure that the ESM's full lending capacity of €500 bn can be attained. Afterwards the EFSF will continue functioning in an administrative capacity until all outstanding loans and bonds have been repaid.

The ESM's lending capacity is €500 billion, and the combined lending ceiling of the EFSF/ESM is set at €700 billion.

What is the ESM?

The ESM is a **permanent crisis resolution mechanism** for the countries of the euro area. Its purpose is to provide stability support through a number of financial assistance instruments to ESM Member States which are experiencing, or are threatened by severe financing problems. For this purpose, the ESM is entitled to raise funds by issuing capital market instruments and engaging in money market transactions.

Status of EFSF lending

The ongoing lending programmes for Ireland, Portugal and Greece will remain with the EFSF.

ESM and EFSF compared

Although both institutions serve the same purpose, there are some key differences in their structure:

	ESM	EFSF	
Legal structure	Intergovernmental institution under international law	Private company under Luxembourg law	
Duration	Permanent institution Temporary (June 2010 – June 20		
		* applies to new support programmes	
Capital structure	Authorised capital stock of €700 billion divided into: €80 billion in paid-in capital €620 in committed callable capital	Backed by guarantees of euro area Member States for up to €780 billion	
Capital contribution vs. guarantee scheme	Obligation to contribute to paid-in capital stock not affected if Member State requests or receives financial assistance	Member States may 'step out' of guarantee scheme when they request financial assistance	
Max. lending capacity	€500 billion	€440 billion	

ESM stability support instruments:

All financial assistance to Member States is linked to appropriate conditionality specified in an MoU concluded by European Commission, ECB, IMF (where applicable) and beneficiary Member State

- > providing loans to countries experiencing or threatened by severe financing problems
- purchasing bonds of an ESM Member State in primary and secondary debt markets,
- > providing precautionary financial assistance in the form of a credit line,
- ➤ financing recapitalisations of financial institutions through loans to governments including in non-programme countries.



ESM paid-in capital

Subscription to the paid-in capital will be made in five instalments. The first three instalments amounting to €48 billion have already been paid by all ESM Members.

- Authorised unpaid capital may be called in to restore the level of paid-in capital if the latter is reduced by the absorption of losses
- Minimum 15% ratio between paid-in capital and outstanding amount of ESM issuance will be maintained during the capital phasein period; paid-in capital is not available for lending - it is invested in high quality liquid assets

Capital contribution of ESM Member States

	Capital Paid-in capita		
	ESM	subscription	(€ bn)
Country	Key (%)	(€ bn)	
Austria	2.783	19.48	2.22
Belgium	3.477	24.34	2.77
Cyprus	0.196	1.37	0.16
Estonia	0.186	1.30	0.15
Finland	1.797	12.58	1.43
France	20.386	142.70	16.31
Germany	27.146	190.02	21.72
Greece	2.817	19.71	2.25
Ireland	1.592	11.14	1.27
Italy	17.914	125.39	14.33
Luxembourg	0.250	1.75	0.20
Malta	0.073	0.51	0.06
Netherlands	5.717	40.02	4.57
Portugal	2.509	17.56	2.00
Slovakia	0.824	5.77	0.66
Slovenia	0.428	2.99	0.34
Spain	11.904	83.32	9.52
Total	100	700.00	80.00

"The establishment of the ESM is an important event for the euro area. Having adequate firepower and backed by a robust capital structure paid-in by the Member States, the ESM stands ready to provide various forms of financial assistance to countries whose borrowing costs are unsustainable. The launch of a permanent stability mechanism, along with fiscal consolidation efforts and structural reforms at national level, as well as improved governance at EU level, are key elements necessary for the Eurozone to resolve the current crisis and prevent future crises."



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2013

2014

Initially programmed over 5 years, the capital instalments by ESM Members have now been accelerated and will be paid in full by 2014.

€bn

2012

ESM governance structure



ESM's credit rating

The ESM has been assigned the highest long-term rating by Fitch (AAA). Moody's has assigned the ESM an AA1 rating. Both Fitch and Moody's have assigned their highest short-term ratings to the ESM (F1+, P-1, respectively). S&P has not assigned its rating yet.

ESM funding

- Diversified funding strategy: ESM may issue bills and bonds with maturities ranging from 1 month to 30 years
- Funds raised are pooled and not attributed to a particular country
- Issues may be made via syndications, auctions, private placements, taps of existing lines

ESM staff

- Managing Director: Klaus Regling
- Currently 80 staff members from 22 countries
- ESM staff will continue to perform tasks for FFSF

For more information, please visit the ESM website: www.esm.europa.eu