Overcoming the crisis

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The Economist Conference: “The Big Rethink for Europe – The Big Turning Point for Greece”

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EFSF/ESM and Greece: partnership and common goals

- EFSF/ESM and Greece are long-term partners
- EFSF owns 43% of Greece’s public debt
- EFSF loans show: euro area invests in Greece’s future
- Cooperation with Greek authorities has been excellent
- Our interests are aligned: stabilize and safeguard the euro area
A comprehensive response to the euro crisis

1) Significant **fiscal consolidation** and **structural reforms** at national level

2) **Monetary policy** measures

3) Improved **economic policy coordination** in the euro area

4) Reinforcing the **banking system**

5) Institutional innovations: **financial backstops**
EFSF/ESM programme countries are the reform champions

- Greece, Ireland, Portugal and Spain are in top 5 of 34 OECD countries with regard to implementation of structural reforms. Policy areas concerned:
  - Labour productivity (e.g. product market regulation, human capital)
  - Labour utilisation (e.g. labour market regulation, social welfare system, active labour market policies)

<table>
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<tr>
<th>Ranking in OECD report</th>
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<tr>
<td>1. Greece</td>
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<td>2. Ireland</td>
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<td>3. Estonia</td>
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<td>4. Portugal</td>
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<td>5. Spain</td>
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"Euro area countries under financial assistance programmes are among the OECD countries whose responsiveness [to the OECD’s structural reform recommendations] was highest and also where it most increased compared with previous period."

- Going for Growth 2013 (OECD Report)

Source: OECD report Going for Growth 2013
Ranking takes into account responsiveness to OECD recommendations on structural reforms in key policy areas
EFSF and ESM: mission and scope of activity

Mission: to safeguard financial stability in Europe by providing financial assistance to euro area Member States

Instruments

- Loans
- Primary Market Purchases
- Secondary Market Purchases
- Precautionary Programme
- Bank recapitalisations through loans to governments

All assistance is linked to appropriate conditionality

EFSF and ESM finance their activity by issuing bonds and other debt instruments
EFSF/ESM lending and assistance

- **Support for five countries (EFSF: Ireland, Portugal, Greece; ESM: Spain and Cyprus)**
  - Combined lending capacity: €700 bn
  - Committed amount to the five countries: €238.6 bn
  - Disbursed so far: €229.6 bn
  - EFSF no longer engages in new financial assistance programmes since 1 July 2013
  - **Ireland, Spain and Portugal** have exited their financial assistance programmes
  - Macroeconomic adjustment programmes for **Greece** and **Cyprus** ongoing

- **Potential concerted ESM – ECB intervention** (Outright Monetary Transactions/OMT)
  - ESM programme provides conditionality
  - The ECB could engage in secondary market purchases
The EFSF and ESM ease beneficiary countries’ debt burden

- New framework for providing financial assistance: very **low rates** and very **long maturities**
- The **very low cost of EFSF/ESM funding** is passed on to the beneficiary MS; only very small operational fees
- In the case of Greece interest payments are **deferred for 10 years**
- The **weighted average maturity of loans** ranges from 12.5 years (Spain) to 32 years (Greece)
- As a result, **debt/GDP** ratio is not a meaningful indicator
- More attention should be given to **very low debt service payments**
Since 2010, successive measures to strengthen Greece’s debt sustainability and reduce liquidity risks:

- Successive reductions of GLF interest rate margin
- Extension of GLF & EFSF loan maturities and grace period
- Deferral of EFSF interest payments
- Cancellation of some EFSF fees
- Transfer of SMP/ANFA profits of NCBs to Greece

These measures have reduced annual financing needs significantly.

**EFSF activity**

- EFSF has disbursed €139.9 bn to Greece so far (43% of total public debt)
- Current EFSF lending rate is much lower than IMF lending rate (3.1%) and Greece’s market rates for corresponding maturities over the past decade (5%)
Conclusion: economic growth is the key to the future

- **Sustained economic growth** is the crucial factor needed for Greece.
- Growth will make it possible for Greece to **sustain its debt** over the years.
- Economic growth will also **make fiscal adjustment easier** in the future.
- Potential growth will rise if **structural reforms are** continued.