



**The Role of Regional Financial Firewalls in  
Safeguarding Financial Stability:  
a European Perspective**  
*(slides accompanying speech)*

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# EFSF & ESM: overview



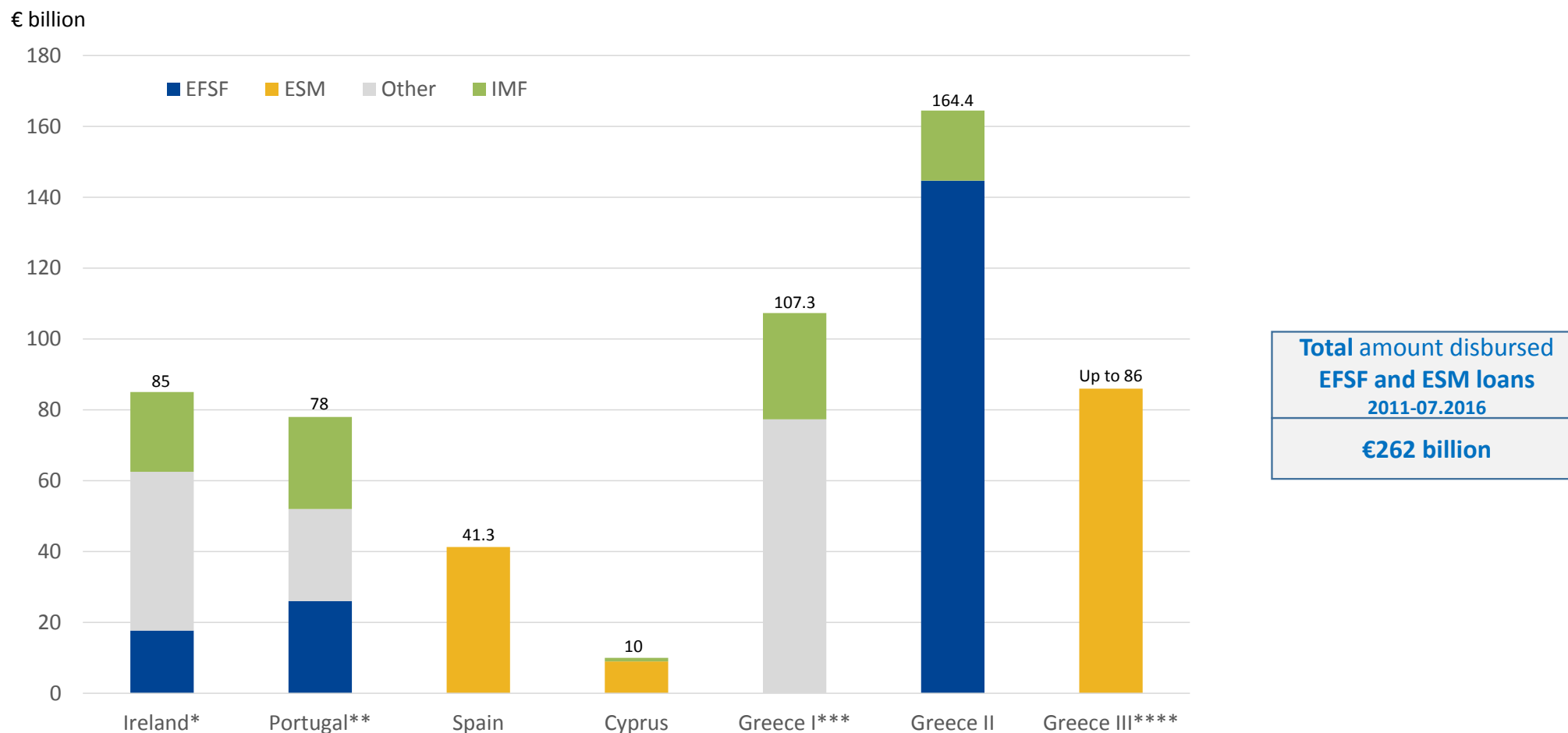
Legal Structure	Private company under Luxembourg law	Inter-governmental institution under international law
Framework	Lending June 2010-June 2013 Funding until 2054	Permanent institution
Capital structure	Backed by guarantees of euro area Member States	Subscribed capital of €704.8bn* €80.55bn in paid-in capital €624.3bn in committed callable capital
Maximum Lending capacity	€174.6 bn outstanding loans to Ireland, Portugal & Greece	€500bn
Creditor status	Pari passu	Preferred creditor status (after IMF) **
Credit Rating	AA (negative) / Aa1 (stable) / AA (stable)	- / Aa1 (stable) / AAA (stable)
Risk Weighting / HQLA designation	0% Risk Weighted / High Quality Liquid Asset for LCR***	

\* The initial subscribed capital of €700 bn has increased since the accession of Latvia in March 2014 and Lithuania in February 2015

\*\* For the financial assistance for recapitalisation of the Spanish banking sector, pari passu will apply

\*\*\* Regulation (EU) no. 575/2013 (Capital Requirements Regulation), Article 118. Following a decision published by the Basel Committee on Banking Supervision on 18 March 2014, EFSF & ESM securities will be included in the list of entities receiving a 0% risk weighting under Basel II, as well as received HQLA categorisation for Liquidity Coverage Ratio computation under Basel III

# Large resources mobilised by European RFAs and IMF



Note: All figures indicate the initial financial commitment, which may differ from actual disbursements.

\* Other financing for Ireland comes from the European Financial Stabilisation Mechanism (EFSM), bilateral loans from Sweden, Denmark, the United Kingdom, as well as funds from the Irish Treasury and National Pension Reserve Fund.

\*\* Other financing for Portugal comes from the European Financial Stabilisation Mechanism (EFSM).

\*\*\* Other financing for Greece I comes from the pooled bilateral loans from European countries. The undisbursed amounts under Greece I were transferred to Greece II.

\*\*\*\* The precise amount of ESM financial assistance in Greece III will depend on the participation of the IMF and on the success of reform measures by Greece.

Source: ESM staff calculation

# ESM toolkit tailored to specific regional problems

**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**

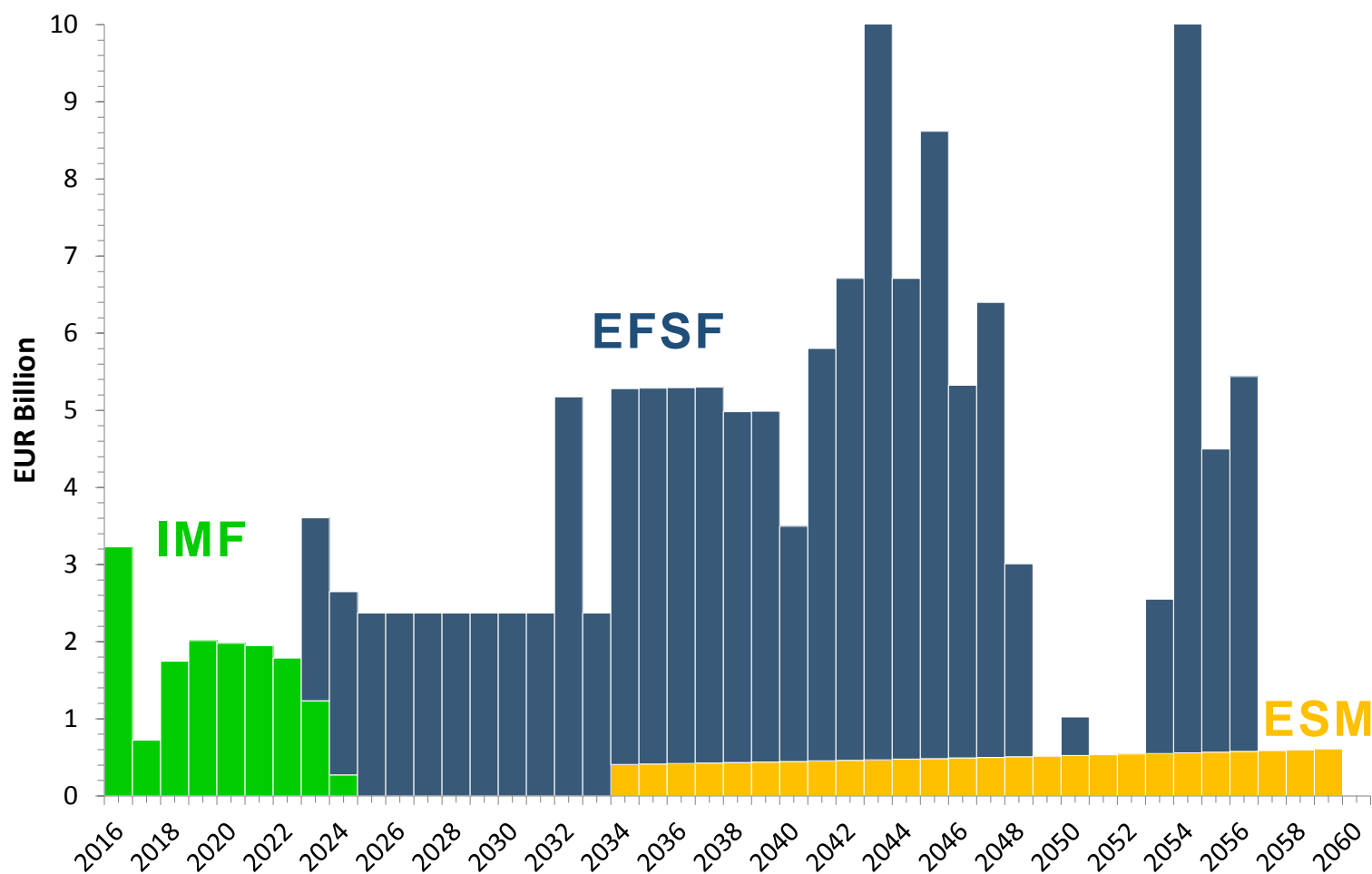
**Direct bank recapitalisation**

All assistance is linked to appropriate conditionality.

ESM and EFSF finance their activity by issuing bonds or other debt instruments

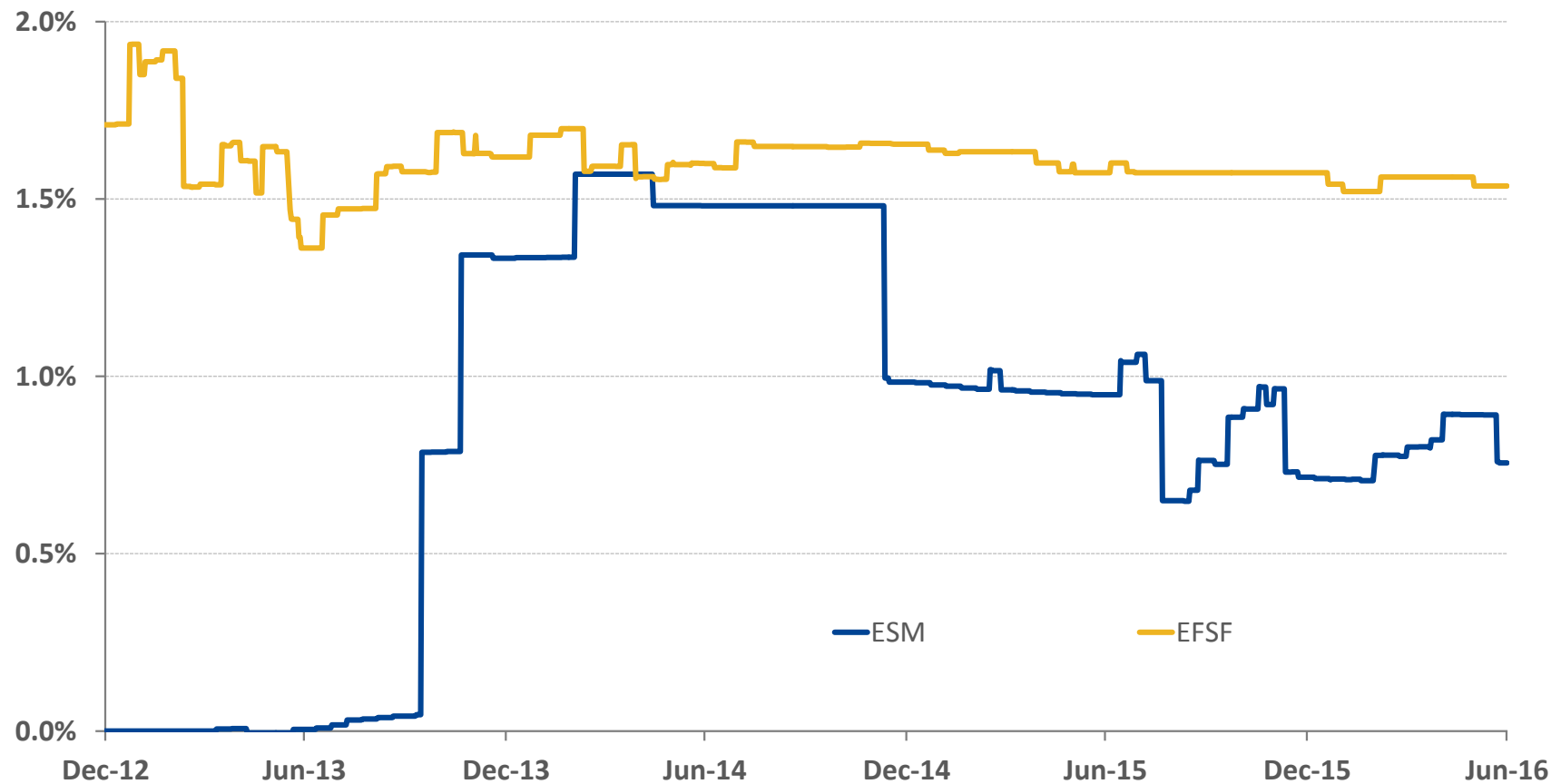
# Assistance with favourable lending terms: long maturity

## Greek debt redemption profile: EFSF/ESM vs. IMF



# Assistance with favourable lending terms: low cost of funding

## ESM and EFSF historical cost of funding



Source: ESM staff calculation

# Favourable lending terms generate budgetary savings

## Estimated budgetary savings from EFSF/ESM financing in 2015

	In € billion	% of GDP
Cyprus	0.34	1.94%
Greece*	9.29	5.28%
Ireland	0.69	0.32%
Spain	3.38	0.31%
Portugal	1.28	0.71%

Note: The theoretical market financing cost is calculated based on the debt profile vis-à-vis EFSF/ESM and the 10-year government bond yield spread to German Bund in each beneficiary country. \*For Greece the numbers indicate the total budgetary savings from both EFSF and ESM programmes, including savings from low interest rates and from deferred interest payment.

Source: ESM staff calculation

# Lessons for future IMF-RFA cooperation



- Recital 8 of the ESM Treaty stipulates that “[t]he active participation of the IMF will be sought, both at technical and financial level. A euro area Member State requesting financial assistance from the ESM is expected to address, wherever possible, a similar request to the IMF.”
- Shared approach and objectives in providing financial assistance: containing spillovers and correcting imbalances and weaknesses
- Jointly agreed conditionality enshrined in legal documents
- Develop complementary financial assistance taking into account regional specific challenges and political constraints
- Complementarity in terms of instruments, financial terms, and speed of activation



# Further information

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**Learn more about the ESM on our website:**

[www.esm.europa.eu](http://www.esm.europa.eu)

**Follow the ESM on Twitter:**

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**Detailed information on the ESM programme for Greece:**

<http://www.esm.europa.eu/assistance/Greece/index.htm>

**ESM 2015 Annual Report:**

[http://www.esm.europa.eu/pdf/ESM\\_Annual%20 Report\\_2015.pdf](http://www.esm.europa.eu/pdf/ESM_Annual%20Report_2015.pdf)