In 2016, the ALM and Lending team played an important role, for example, in evaluating the short-term debt relief measures for Greece, which the Eurogroup requested in May and endorsed in December. For more information, see the section explaining short-term debt relief. The team participated in the design of the measures and provided support in the technical discussion with Greece and other Member States. Alongside other divisions, ALM and Lending has also contributed to the implementation of the measures.

Other activities of the ALM and Lending team involved the management of the loan portfolio, with a total outstanding amount of €249 billion at the end of 2016. It also contributed to the preparatory work for the use of new instruments.

Spain makes fourth voluntary prepayment

In November 2016, Spain executed the fourth voluntary early repayment on its bank recapitalisation programme, which had concluded successfully in 2013. This €1 billion voluntary prepayment brings the total outstanding amount of the ESM loan down to €34.72 billion.

Spain had made an initial €1.3 billion prepayment in July 2014, followed by another two totalling €4 billion in 2015.

The maximum average maturity was set at 12.5 years.

How our lending creates budget savings

EFSF/ESM's favourable lending terms generate substantial budgetary savings for programme countries.

The EFSF/ESM has provided loans to Ireland, Greece, Spain, Cyprus, and Portugal at much lower interest rates than those the market would have offered for the amounts they needed. These favourable lending terms generated substantial budgetary savings. As such, they gave authorities additional leeway to implement fiscal and structural reforms to foster growth, or to recapitalise their banking sector, thereby ultimately supporting a country's market access.

The EFSF/ESM estimates these savings in two steps.

We estimate these savings by comparing the effective interest rate payments on EFSF/ESM loans with the interest payments that these countries would have paid had they covered their financing needs in the market. Estimating total budgetary savings requires two steps.

First, we estimate direct savings by comparing the spread between market rates and EFSF/ESM loan costs.

First, we estimate the direct budget savings per disbursement using the spread between the market rates and the actual EFSF/ESM cost. In short, for every disbursement, the EFSF/ESM rate is compared to the 10-year bond yield, used as a proxy long-term market rate, although the actual refinancing would probably be done at a shorter maturity in periods of stress. For our calculations, we apply a cap of 6.4% on market rates. This rate reflects the experience of the European crisis where an elevated yield approaching 7% has suggested significant sovereign stress and imminent loss of market access.[23] This maximum rate of 6.4%, used in the ESM calculations, also ensures consistency among countries.

Then we compute the indirect benefits based on the lower EFSF/ESM refinancing costs.

Second, we calculate the indirect benefits for the programme countries from the favourable EFSF/ESM refinancing costs. In particular, for every annual disbursement, the ESM calculates the gains from the previous year's reduced financing needs, making the same market rate assumptions as for direct budget savings.

[23] The development of market yields preceding the requests for official assistance from Greece (April 2010), Ireland (November 2010), and Portugal (April 2011) support these views. In all three cases, yields rapidly increased once they exceeded these levels. Empirically, the maximum yield at which countries in the euro area have been able to issue over the past eight years has been 6.4%. Therefore, we use this as a relevant benchmark.

As Table 2 shows, budget savings are significant for all programme countries, especially at the peak of the crisis. Greece has benefited the most, with budget savings reaching 5.6% of GDP in 2016 from EFSF and ESM loans and another 0.7% savings from the deferred interest, which will only come due after 2022. For the rest of the programme countries benefits remain, although of lower magnitude, as the countries have secured market access and successfully exited their programmes.

Table 2
Total budget savings
(in % GDP)

Total budget savings (in % GDP)	2011	2012	2013	2014	2015	2016
Ireland	0.1	0.3	0.3	0.3	0.3	0.3
Greece		1.6	4.1	5.0	5.3	6.3
EFSF		1.6	3.7	4.3	4.4	4.8
Deferred interest			0.4	0.7	0.7	0.7
ESM					0.2	0.8
Spain		0.0	0.2	0.2	0.2	0.2
Cyprus			0.1	0.2	1.9	2.1
Portugal	0.1	0.4	0.6	0.7	0.7	0.7

Source: ESM calculations based on European Central Bank data

VILIUS ŠAPOKA
Minister of Finance of the Republic of Lithuania, ESM Governor

“The single currency in 19 Member States offers huge benefits for everyone, i.e. from a state to a citizen, from a big company to small business. It removes barriers among countries and creates better conditions for trade and export and, hence contributes to stronger GDP growth and helps ensure economic stability.”