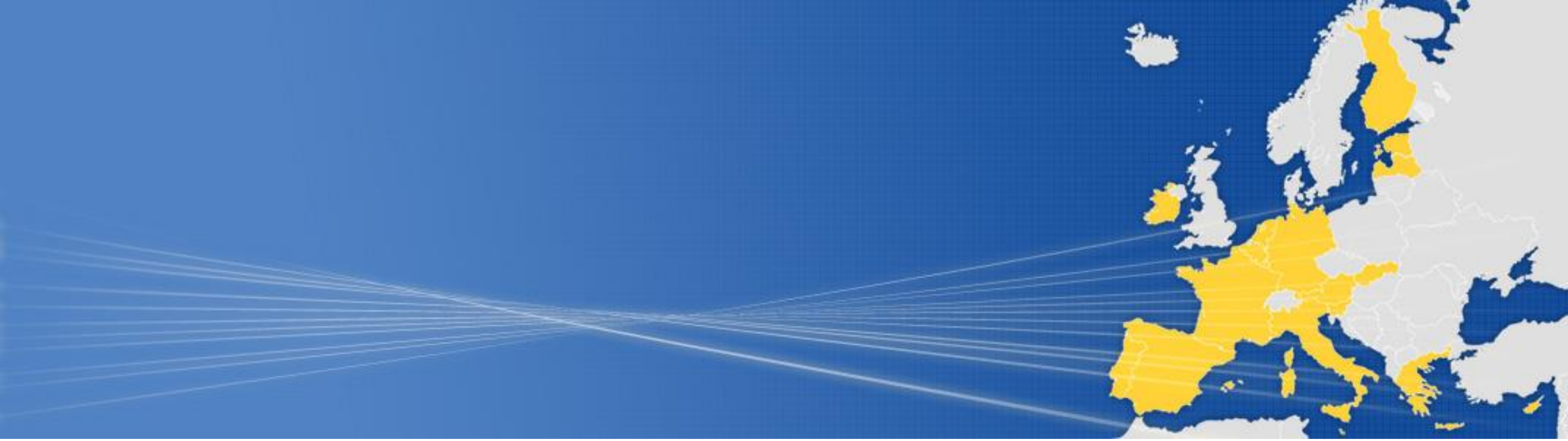

Overcoming the crisis

Klaus Regling, Managing Director, ESM

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

Athens, 9 July 2014

European Financial Stability Facility

European Stability Mechanism

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)

Ranking in OECD report
1. **Greece**
2. **Ireland**
3. Estonia
4. **Portugal**
5. **Spain**

"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**

Euro area solidarity to support Greek debt sustainability

- **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