European Stability Mechanism

2010–2020

A decade supporting euro area stability: the EFSF and ESM

The past decade has proven to be a defining phase in the history of European integration; from 2010, with the establishment of the European Financial Stability Facility (EFSF) to address the euro crisis, to 2020, when the coronavirus pandemic struck Europe.

The temporary EFSF and its successor, the permanent European Stability Mechanism (ESM), filled a gap in the European institutional architecture that was not foreseen at the inception of the European Economic and Monetary Union (EMU). In 2010, policymakers moved swiftly to fill that gap in order to reassure markets and mitigate the effects of the crisis. Together with fiscal and structural reforms at both European and national level, the European Central Bank's (ECB) accommodative monetary policy, and the creation of a banking union, they overcame the crisis and made monetary union more resilient.

The EFSF and ESM are dedicated to safeguarding the stability of the euro area and its members by providing financial assistance to those experiencing or threatened by a crisis. The previous crisis underscored the ESM's value as a crisis-fighting institution and its importance in the euro area landscape.

We are now facing another challenge, one that no country can overcome alone. Again, the ESM is playing an important role in the European response and stands ready to activate the Pandemic Crisis Support credit line should it be required.

European Union (EU) and national action to tackle the coronavirus pandemic and its economic fallout have been vital and unprecedented. The EU economic policy response represents almost €2 trillion. As part of this, the ESM, the European Commission, and the European Investment Bank will issue more common debt on the capital market – an expression of European solidarity and another significant step forward in European integration.

Strengthening the mandate of the ESM will be central to enhancing the resilience of our monetary union. As we begin to recover from the coronavirus crisis, it is perhaps even more essential now that our institutions and structures are capable of meeting the challenges that lie ahead. Therefore, I consider it necessary that we implement the new tasks and responsibilities of the ESM in order to help it develop to its full potential as a crisis resolution mechanism. I am certain that the ESM will continue to play its role in safeguarding the euro for many years to come.

PASCHAL DONOHOE

Chairperson of the ESM Board of Governors
President of the Eurogroup
Minister for Finance, Ireland

KLAUS REGLING

Managing Director,
European Stability Mechanism

Ten years ago, the temporary EFSF was created to address a crisis where the survival of the currency union was at stake. Some member states faced the loss of market access, while others began to feel spillover effects. As that crisis gathered steam, it became clear that a permanent response was needed. The ESM was created with the mandate to safeguard financial stability for the euro area as a whole and its member states.

With a solid financial base of €80 billion in paid-in capital, €620 billion in callable capital, €500 billion in lending capacity, and the ability to raise money cheaply on the markets, the ESM provided a convincing answer to the crisis that markets had been looking for. Together with its temporary predecessor, the ESM financed six assistance programmes in five countries: Ireland, Greece, Spain, Cyprus, and Portugal. Today, the ESM and its partners look upon the five programme countries as five success stories.

The mandate of safeguarding financial stability does not mention programme countries' social welfare, but by granting loans to troubled countries when no one else will the ESM allows a country to spread the adjustment burden over several years, thereby easing the pain for citizens.

After a successful first 10 years, we now turn to the future. The ESM is part of the €540 billion European Covid-19 crisis response. The ESM is evolving; like any crisis fund or institution, it is adapting to the circumstances. Our Pandemic Crisis Support credit line demonstrates yet again our commitment to the mandate of safeguarding the euro.

2010

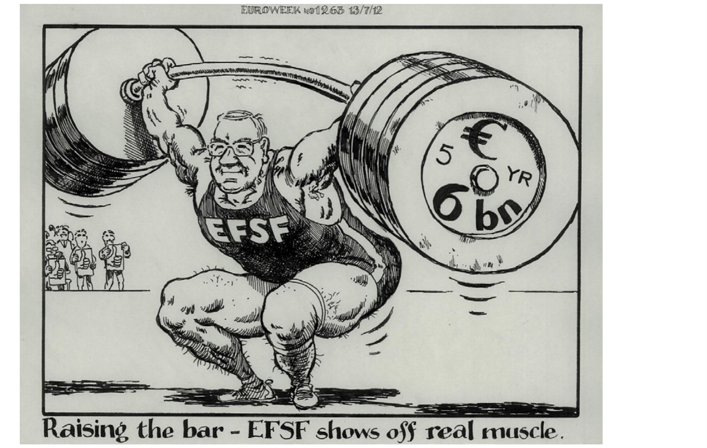
JUN 2010

The EFSF, designed as a temporary institution, is established to tackle the unfolding euro sovereign debt crisis and provide emergency financing to euro area member states.

Signing ceremony of the European Financial Stability Facility on 7 June 2010. *Credit: AFP/George Gobet*

DEC 2010

Euro area and EU finance ministers agree a €67 billion financial assistance package for Ireland, which is suffering an economic crisis. The EFSF contributes €17.7 billion, with loans also provided by the European Commission (via its lending facility, the European Financial Stabilisation Mechanism (EFSM)) and the International Monetary Fund (IMF).



Klaus Regling, the EFSF's CEO and ESM's Managing Director, depicted as a prize weightlifter after a successful bond issue. *Credit: Olly Copplestone*

2011

JAN 2011

EFSF places its first bond, a 5-year, €5 billion issue to fund country loans. Debt issuance is the only source of financing for EFSF and ESM loans, not taxpayer money.

MAY 2011

Portugal starts receiving financial assistance from the EFSF, European Commission (via the EFSM) and the IMF. Each of the institutions provides €26 billion in loans to support Portugal.

2012

FEB 2012

The Treaty establishing the ESM is signed by the then 17 euro area member states; the intergovernmental treaty creates a legal basis for a permanent rescue fund for the euro area.

MAR 2012

Euro area finance ministers approve a second economic adjustment programme for Greece financed by the EFSF and the IMF. The EFSF eventually disburses €141.8 billion to the country. This differs from the first programme for Greece in 2010, which was a set of bilateral loans between individual euro area member states and the country.

OCT 2012

The ESM is inaugurated and starts operating.

NOV 2012

Euro area countries give Greece longer to pay off its debt, cut fees, and defer interest payments. Later, they also ease lending conditions for Portugal and Ireland, testimony to euro area solidarity.

DEC 2012

The ESM grants its first financial assistance for the recapitalisation of weak banks in Spain. Of the €100 billion in assistance made available, the country draws only €41.3 billion to repair its banking system.

The EFSF's first office had a makeshift feel, in keeping with the rescue fund's hasty set-up and a determination to hold down costs. *Credit: EFSF archives*

2013

MAR 2013

The ESM launches a programme for Cyprus. Though originally foreseen for up to €10 billion, with the ESM contributing €9 billion and the IMF €1 billion, Cyprus needs only €6.3 billion from the ESM in the end.

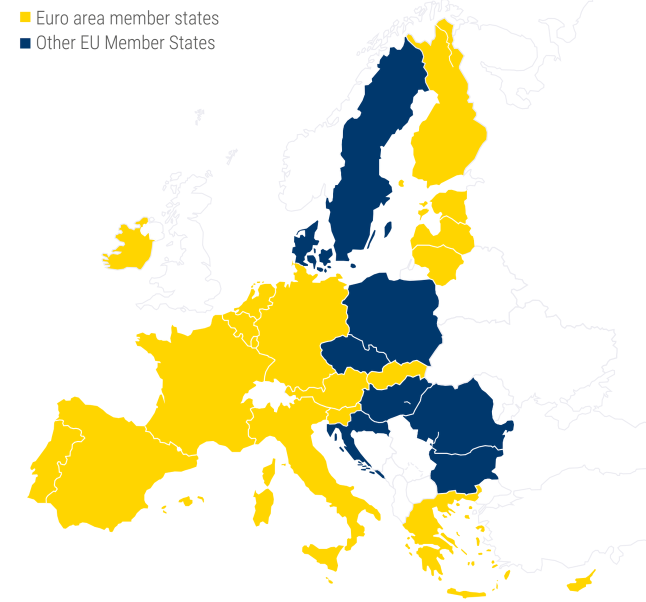
JUL 2013

The temporary EFSF stops accepting new requests for programmes. However, it continues to operate to receive interest and loan repayments, make payments to EFSF bondholders, and refinance outstanding EFSF bonds. The ESM takes over new requests for programmes.

DEC 2013

Ireland completes the loan programme on schedule. Its success demonstrates that the strategy to grant loans in return for reforms not only works but also ultimately rewards countries with faster growth.

Programme recapitalising Spain's banking sector is completed. With the help of the ESM, Spanish banks are restructured and strengthened.



The ESM's shareholders are the 19 euro area member states.

2014

MAR 2014

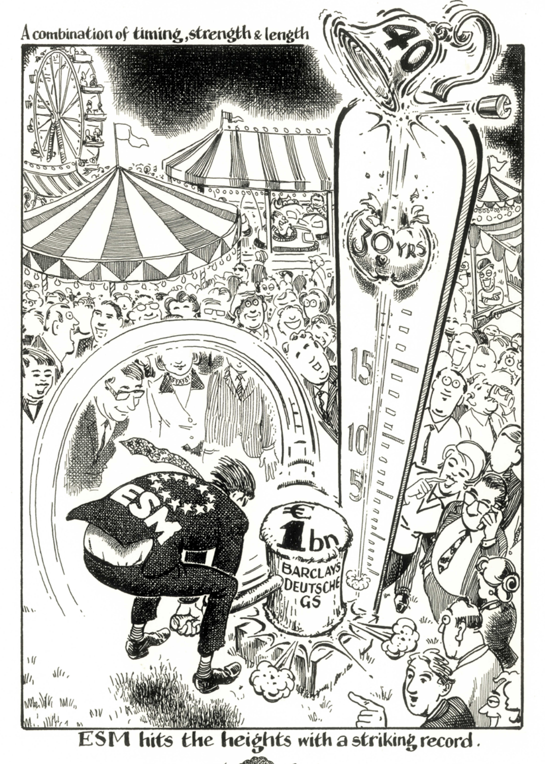
Latvia joins the ESM as first non-founding Member and 18th Member overall.

APR 2014

Founding members fully capitalise the ESM, which reaches the original €80 billion paid-in capital target. Each country contributes according to its population and economic output. The ESM does not use this money to finance its loans. Paid-in capital ensures that the ESM will honour its financial obligations under any circumstances.

MAY 2014

Portugal exits the EFSF programme and regains full market access, including a return to regular bond issuance. Portugal has since already paid back its entire loan to the IMF and has started to pay back the EFSF.



The ESM issued a new €1 billion 40-year benchmark bond, the longest maturity issued to date by the ESM or the EFSF. *Credit: Olly Copplestone*

2015

FEB 2015

Lithuania joins the ESM as 19th Member.

AUG 2015

The ESM adopts the third programme for Greece, with up to €86 billion in financial assistance over three years. In the end, the ESM disburses a total €61.9 billion to Greece.

NOV 2015

ESM extends its yield curve with its first 40-year bond, after having issued a 30-year bond in October. This allows the ESM to increase the duration of its portfolio and lock in low interest rates, the benefits of which are passed on to ESM's beneficiary countries.

2016

MAR 2016

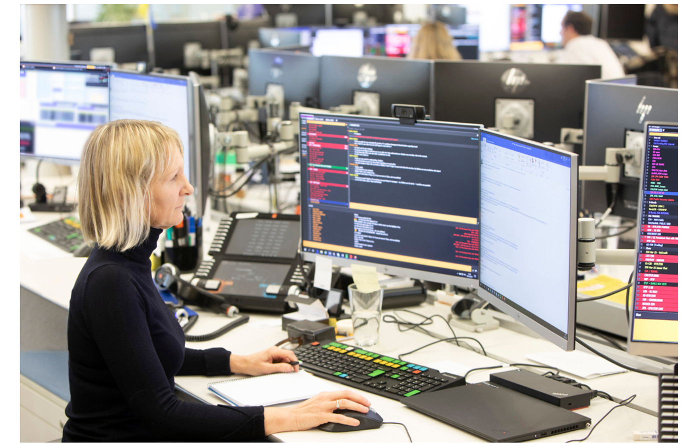
Cyprus successfully exits the ESM programme. Following programme reforms, Cyprus regains market access and the economy begins to improve.

MAY 2016

The EFSF and ESM approve short-term debt relief measures for Greece, by smoothing the EFSF repayment profile, reducing interest rate risk, and waiving the step-up interest rate margin related to the debt buy-back tranche of the second programme for Greece for the year 2017.

OCT 2016

The world's regional rescue funds, or Regional Financing Arrangements, hold first annual high-level dialogue.



Credit: ESM/Steve Eastwood

2017

JUN 2017

The first independent evaluation report of EFSF and ESM programmes is published. The report focuses on all five euro area countries that received stability support: Ireland, Portugal, Spain, Cyprus, and the EFSF Greek programme up to its initial expiry in December 2014.

OCT 2017

The ESM issues its first US dollar-denominated bond, widening its investor base by adding a sizeable number of investors, particularly from the Americas. Today, the ESM issues a regular minimum of one-to-two benchmark dollar transactions per year.

2018

JUN 2018

The Eurogroup agrees to medium-term debt relief measures for Greece, with a further abolition of the step-up interest rate margin related to the debt buy-back tranche of the second Greek programme from 2018 onwards; a further deferral of EFSF interest and amortisation by 10 years; and an extension of the maximum weighted average maturity on the above-mentioned portion of EFSF loans by 10 years.

AUG 2018

Greece successfully exits the ESM programme. This marks the end of the largest sovereign assistance package in history, comprising three distinct programmes. Thanks to unprecedented financial support, granted under very favourable terms and linked to policy reforms, Greece is able to modernise its economy and regain the trust of investors.

DEC 2018

European leaders endorse wide-ranging measures to deepen EMU that broaden the ESM's mandate.

Eurogroup celebrates 20 years of the euro at its December 2018 meeting. *Credit: EU Council - Newsroom*

2019

JUN 2019

ESM publishes its history book: *Safeguarding the euro in times of crisis* chronicling the fund's inception, journey, and political and economic backdrop.

Launch of ESM's history book. *Credit: ESM/Steve Eastwood*

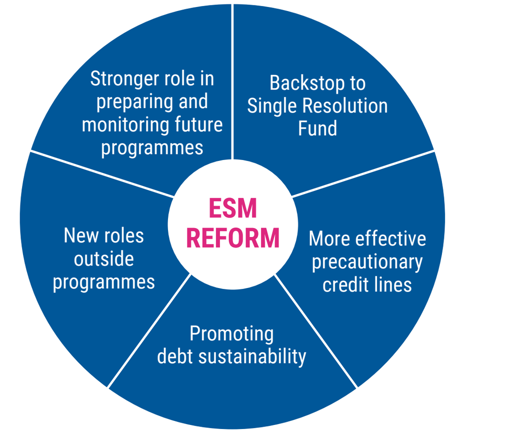
OCT 2019

ESM launches a programme database on its website. This interactive tool enables users to explore a wealth of information on the five financial assistance programme countries in an easy and accessible way.

ESM issues the first bond under Luxembourg law.

DEC 2019

The Eurogroup agrees in principle on ESM reform, subject to the conclusion of national procedures. This includes the further development of ESM instruments, enhancing the ESM's role, and setting up a common backstop for the Single Resolution Fund.



2020

MAR 2020

Coronavirus, the most serious health crisis the world has seen in a century, strikes Europe.

APR 2020

European governments agree on large-scale fiscal and liquidity measures to safeguard jobs, social safety nets, and companies. The ESM's contribution to the European crisis response is the Pandemic Crisis Support credit line.

MAY 2020

Euro area ministers approve ESM's Pandemic Crisis Support credit line, as part of the overall EU response to protect workers, companies, and sovereigns.

JUN 2020

Evaluation report on EFSF and ESM Financial Assistance to Greece is published. It primarily focuses on the ESM programme from 2015 to 2018, while taking into account the preceding EFSF programme and the post-programme developments up to end-September 2019.

10 years

ESM Pandemic Crisis Support

The outbreak of the coronavirus escalated within weeks from a local health issue far from European shores to a global crisis of unprecedented proportions. The March 2020 outbreak confronted Europe with new health and financial realities. European governments responded swiftly with large-scale fiscal and liquidity measures to safeguard jobs, social safety nets, and companies. This extraordinary expenditure is propelling member state deficit and debt levels sharply higher. The European Commission, the European Investment Bank, and the ESM will finance more than €540 billion to complement national efforts in the fight against the pandemic's effects. The safety nets that make up the package match each institution's expertise. They can be deployed rapidly, complementing national measures and ensuring an even-handed policy response across the EU's single market.

The ESM is contributing the Pandemic Crisis Support credit line. Based on its existing precautionary credit line, this credit line is available to all euro area member states, at a volume of 2% of the respective member states' gross domestic product as of end-2019, as a benchmark. The credit line will support domestic financing of direct and indirect healthcare, cure, and prevention-related costs due to the Covid-19 crisis. As a temporary credit line, tailored to the pandemic crisis, the European Commission's surveillance and reporting will be limited to healthcare-related expenses. It will be available until the end of 2022.

These European measures, including the ESM pandemic credit line, are designed to help particularly the most-affected countries. For the medium-term, the European Council decided to establish a recovery fund to finance the repair of the economic damage the pandemic caused in EU Member States.

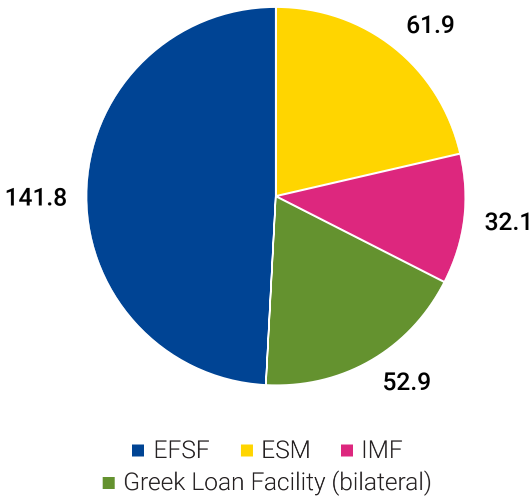
Greece

EFSF (2012–2015) and ESM (2015–2018) programmes

	Total loans disbursed:	€203.8 billion
	Total loans outstanding:	€190.8 billion
	Loan repayments:	2023–2070
	Final weighted average loan maturity:	42.3 years (EFSF) and 32.3 years (ESM)

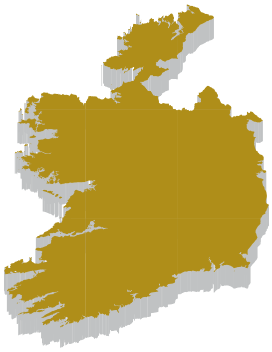
52.7% of Greek public debt is held by the EFSF and ESM (as of March 2020)

Financial assistance disbursed to Greece, 2010–present
(in € billion)

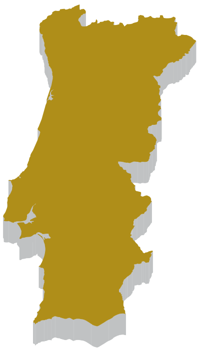


Ireland

EFSF programme (2010–2013)	
Total loans disbursed:	€17.7 billion
Total loans outstanding:	€17.7 billion
Loan repayments:	2029–2042
Final weighted average loan maturity:	20.7 years



Portugal



EFSF programme (2011–2014)	
Total loans disbursed:	€26 billion
Total loans outstanding:	€24 billion
Loan repayments:	2025–2040
Final weighted average loan maturity:	20.8 years

Cyprus

ESM programme (2013–2016)	
Total loans disbursed:	€6.3 billion
Total loans outstanding:	€6.3 billion
Loan repayments:	2025–2031
Final weighted average loan maturity:	14.9 years

Spain

ESM programme (2012–2013)	
Total loans disbursed:	€41.3 billion
Total loans outstanding:	€23.7 billion
Loan repayments:	2022–2027
Final weighted average loan maturity:	12.5 years

Policy-related facts

The ESM's mission is to enable the countries of the euro area to avoid and overcome financial crises and to maintain long-term financial stability and prosperity.

€704.5 billion
Total subscribed capital

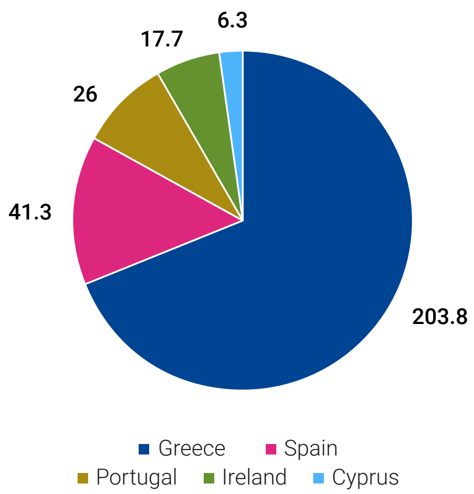
€80.5 billion
ESM paid-in capital

€410.1 billion
ESM's remaining lending capacity

€18.2 billion
Total 2019 budgetary savings of all five programme countries as a result of EFSF/ESM financing

€240 billion
Volume of Pandemic Crisis Support credit lines if all ESM Members apply and draw loans

€295 billion in loans disbursed by EFSF and ESM, by country
(in € billion)



Funding-related facts

€316.4 billion
Total volume of outstanding EFSF and ESM bonds and bills at end July 2020: €198 billion of EFSF bonds, €94 billion ESM bonds, and €24.4 billion ESM bills.

EFSF's and ESM's own profile and funding strategy
Funds use typical elements of government debt market issuers (auctions, issuance calendar, regular bill-programme).

Bill programme
In December 2011, the EFSF started to issue bills on a regular basis via auction.
In January 2013, the bill programme was moved to the ESM, the only supranational issuer with a regular and strategic bill programme.

The ESM issues bonds in euros and in US dollars
This allows the ESM to diversify further its investor base. The ESM runs no currency risk, as it swaps the proceeds back into euros.

1,700 investors
Expanded from a pool of 500 investor in early 2011, the 1,700-strong investor base today is drawn 56% from the euro area and 44% from the rest of the world.

Environmental, Social and Governance considerations
Central to ESM activities in recent years. In June 2020, it announced a framework for issuing the first ESM social bonds.

The ESM's robust ratings
Enjoying Standard & Poor's AAA stable outlook, Moody's Investors Service Aa1 stable outlook, and Fitch Ratings AAA stable outlook, the ESM can raise funds in capital markets at the lowest possible cost.

EUROPEAN STABILITY MECHANISM

6a Circuit de la Foire Internationale
L-1347 LUXEMBOURG
Tel: (+352) 260 962 0

info@esm.europa.eu
www.esm.europa.eu

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