European Financial Stability Facility

European Financial Stability Facility (EFSF)

Section A – EFSF general questions

➢ A1 - What is the EFSF?

The European Financial Stability Facility (EFSF) was created as a temporary crisis resolution mechanism by the euro area Member States in June 2010. The EFSF has provided financial assistance to Ireland, Portugal and Greece. The assistance was financed by the EFSF through the issuance of bonds and other debt instruments on capital markets.

The EFSF is a company incorporated in Luxembourg under Luxembourgish law on 7 June 2010. The shareholders are euro area countries with the exception of Latvia and Lithuania.

➢ A2 – What is the current status of the EFSF?

As of 1 July 2013, the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements. This is in accordance with the EFSF Framework Agreement signed by the euro area Member States, and the EFSF Articles of Incorporation. From that date, the European Stability Mechanism (ESM) is the sole and permanent mechanism for responding to new requests for financial assistance by euro area Member States. The EFSF will remain active in order to:

- receive loan repayments from beneficiary countries;
- make interest and principal payments to holders of EFSF bonds;
- roll over outstanding EFSF bonds, as the average maturity of loans provided to Ireland, Portugal and Greece is longer than the maturity of bonds issued by the EFSF.

The EFSF will be dissolved and liquidated when all financial assistance provided to euro area Member States and all funding instruments issued by the EFSF have been repaid in full.

More information on the ESM is available at http://www.esm.europa.eu/ .

A3 – How are EFSF issues backed?

EFSF issues are backed by guarantees given by the euro area Member States for €724.47 billion in accordance with their share in the paid-up capital of the European Central Bank (see table below).

EFSF amended contribution key* (%)	
Austria	2.9869
Belgium	3.7313
Cyprus	0.00
Estonia	0.2754
Finland	1.9289
France	21.8762
Germany	29.1309
Greece	0.00
Ireland	0.00
Italy	19.2233
Luxembourg	0.2687
Malta	0.0972
Netherlands	6.1350
Portugal	0.00
Slovakia	1.0666
Slovenia	0.5058
Spain	12.7739
Total	**100**

(*As of 30 April 2013*)

* The amended contribution key takes into account the stepping out of Greece, Ireland, Portugal and Cyprus as guarantors

A4 - Where is the EFSF headquartered?

The EFSF is located at 6a, Circuit de la Foire Internationale, L-1347 Luxembourg.

A5 – How big is the EFSF?

The EFSF and the ESM share the same staff. The number of employees is currently around 150 people.

A6 - Who manages the EFSF?

The Chief Executive Officer is Klaus Regling, a former Director General of the European Commission's Directorate General for Economic and Financial Affairs who also worked at the International Monetary Fund (IMF) and the German Ministry of Finance and has professional experience of working in financial markets.

A7 - Who oversees the EFSF?

The board of the EFSF comprises high level representatives of the 17 EFSF Member States i.e. Deputy Ministers or Secretaries of State or director generals of national treasuries. The European Commission and the European Central Bank (ECB) each have observers on the EFSF board. The EFSF board is headed by the Chairman of the EU's Economic and Financial Committee.

A8 - Does the European Parliament have an oversight role?

Although there is no specific statutory requirement for accountability to the European Parliament, EFSF has a close relationship with the relevant committees.

A9 - Is the EFSF a preferred creditor?

No. Unlike the IMF the EFSF has the same standing as any other sovereign claim on the country (pari passu). Private investors would be reluctant to provide loans to the country concerned if there were too many preferred creditors.

A10 - Are EFSF bonds eligible for ECB repo facilities?

EFSF debt instruments are eligible as collateral in European Central Bank refinancing operations[1].

EFSF as an "Agency – non-credit institution" falls under liquidity category II of the Eurosystem collateral approach. Talks with other Central Banks and regulators (inter alia FSA, SEC) for EFSF eligibility and classification are ongoing.

A11 - What rating does the EFSF have?

The EFSF has been assigned an AA rating by Standard & Poor's, an Aa1 rating by Moody's and an AA by Fitch Ratings.[2]

EFSF has been assigned the highest possible short-term rating from all three major credit rating agencies – Standard and Poor's (A-1+); Moody's (P-1) and Fitch Ratings (F1+).

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[1] The ECB List of eligible marketable assets can be consulted using the following link:
http://www.ecb.europa.eu/mopo/assets/assets/html/index.en.html
https://mfi-assets.ecb.int/query_EA.htm

[2] See http://www.efsf.europa.eu/investor_relations/rating/index.htm

➢ A12 - Would the EFSF default if one of its borrower countries defaulted?

The guarantee mechanism under the Framework Agreement is designed to exclude such a situation. If a country were to default on its payments, guarantees would be called in from the guarantors. The shortfall would be covered by the:

- Guarantees
- Grossing up of guarantees (up to 165% over-collateralisation)

If a guarantor did not respect its obligations, guarantees from others could be called in to cover the shortfall. All guarantors rank equally and pari passu amongst themselves.

➢ A13 – Are the guarantees provided by euro area Member States unlimited?

No guarantor is required to issue guarantees which would result in it having a guarantee exposure in excess of its aggregate guarantee commitment, as stated in the EFSF Framework Agreement.

➢ A14 – Do the guarantees vary between series of bonds?

Guarantees would vary between bonds that were issued under the original EFSF and bonds that will be issued under the amended EFSF due to the change in the credit enhancement structure of the amended EFSF.

Furthermore, the composition of the list of guarantors and their respective Guarantee Contribution Key % may vary between different bonds by reason either of a Guarantor becoming a Stepping-Out Guarantor or the adherence of a new euro area Member State to EFSF. Such adjustments do not change the composition of the list of Guarantors or their Guarantee Contribution Key % for Notes already issued but only for the bonds issued after the relevant event.

➢ A15 - Can countries step down from a guarantee already made?

No – guarantees are “irrevocable and unconditional”.

Section B – Funding

➢ B1 – What is the EFSF’s funding strategy?

Initially the EFSF used a simple back-to-back funding strategy. In November 2011, a diversified funding strategy was adopted using a liquidity buffer as a key component.

One consequence of our diversified strategy is that funds raised are no longer attributed to a particular country. The funds are pooled and then disbursed to programme countries.

➢ B2 – Which banks may act as lead managers?

The lead managers are mandated from international institutions that make up the ESM/EFSF Market Group. The lead managers are chosen following a rigorous and transparent selection process.

- B3– Who are the main investors in EFSF bonds?

Investors in EFSF bonds are predominantly institutional investors such as banks, pension funds, central banks, sovereign wealth funds, asset managers, insurance companies and private banks. The investor base is varied geographically with interest from around the world.
Detailed information showing geographical breakdown and breakdown by investor type for each issue is available on the EFSF website
(please see http://www.efsf.europa.eu/investor_relations/issues/index.htm).

- B4 – Does EFSF issue in euros only?

Yes.

- B5 – Are EFSF bonds listed on the stock exchange?

Yes, they are listed on the Luxembourg Stock Exchange. However, the vast majority of trading volume takes place through over-the-counter trading platforms.

- B6 – Is EFSF part of the main indices for SSA investors?

EFSF is included in the following indices: iBoxx Euro Sub-Sovereigns, JP Maggie Euro Credit Index, BoA ML EMU Broad Market Index, Barcap Euro Aggregate Index, Citi EuroBig Index and ML EMU Broad Investment Grade Index.[3]

- B7 – Which EFSF issues can be tapped?

Issues of notes by EFSF made prior to 28 June 2013 cannot be tapped, because of amendments made to the EFSF Deed of Guarantees.

Section C – The programme for Ireland (concluded on 8 December 2013

- C1 – Why did Ireland need financial assistance?

The Irish economy has suffered as a consequence of a devastating boom-bust cycle in the housing market. House prices increased four-fold from 1997 to 2007, when the bubble burst. As the property boom was financed through aggressive lending by Irish banks, the decline in property prices and the collapse in construction activity resulted in severe losses in the Irish banking

[3] See http://www.efsf.europa.eu/investor_relations/indices-platforms/index.htm

system. The government of Ireland responded by injecting public funds into banks to restore their solvency (over €60 billion). This led to a huge increase in Ireland's public debt, while the sharp decline in economic activity caused GDP to fall and unemployment to rise. At that time the Irish government was not able to resolve the situation on its own, and therefore requested financial assistance from the euro area countries, the EU and the IMF.

➢ C2 – How was the decision to grant financial assistance to Ireland taken?

On 28 November 2010, the ECOFIN Council (i.e. finance ministers of the EU) concurred with the European Commission and the ECB that providing financial assistance to Ireland was warranted to safeguard the financial stability in the euro area and the EU as a whole. The IMF Executive Board approved the arrangement on 16 December 2010.

➢ C3 – Who contributed to the financial assistance package?

The programme for Ireland was financed as follows:

- €67.5 billion in external support including
    - €17.7 billion from EFSF (this was the EFSF's first financial assistance programme);
    - €22.5 billion from EFSM (European Financial Stabilisation Mechanism – an EU facility funded through bonds issued by the European Commission);
    - €22.5 billion from IMF;
    - €4.8 billion in bilateral loans from the UK (€3.8 billion), Sweden (€0.6 billion) and Denmark (€0.4 billion);
- €17.5 billion contribution from Ireland (from the Treasury and the National Pension Fund Reserve)

➢ C4 – What were the policy conditions that the Irish government had to implement in order to receive financial assistance?

- A financial sector strategy comprising fundamental downsizing and reorganisation of the banking sector (including recapitalisation and deleveraging);
- A strategy to restore fiscal sustainability (expenditure restraint, tax system reform, generation of additional revenue);
- A structural reform package to underpin growth, focusing on competitiveness and job creation.

➢ C5 – How were the funds used by the Irish government?

The majority of total programme amount was used for budget financing needs and a substantial component was assigned for the purpose of recapitalisation of banks.

➢ C6 – Has Ireland achieved the objectives of its macroeconomic adjustment programme**?**

According to a statement issued in November 2013 by the European Commission, ECB and IMF following the 12th and final review of Ireland's economic adjustment programme, the implementation of the programme has been rigorous and effective. Growth prospects are strengthening, unemployment has been declining. The fiscal deficit target for 2013 (7.5% of GDP) will be met comfortably, and the target of 4.8% for 2014 is more ambitious than the deficit ceiling of 5.1% set under the Excessive Deficit Procedure. The overall health of the Irish banking sector has also significantly improved and Irish banks have enjoyed better funding conditions and improved market access.

- C7 – What is the significance of the fact that Ireland is now able to issue long-term bonds again?

Ireland's return to long-term bond issuance means that financial markets have a positive assessment of the country's creditworthiness, which in turn stems from favourable prospects for the Irish economy and the ability to service debt. Ireland will no longer have to rely on external assistance to meet its financing needs, and the Irish people deserve recognition for their efforts under difficult circumstances.

- C8 – When will Ireland have to repay the loans?

Ireland will repay the principal of the loan tranches starting from 2029, and the repayment is scheduled to end in 2042. Initially, the average maturity of loan tranches was up to 15 years, but this period was extended in April 2013 by members of the Eurogroup by 7 years.

- C9 – Has the Irish government requested a precautionary programme from the ESM?

No, in November 2013 the Irish government announced that it would exit the 3-year financial assistance programme without seeking precautionary financial assistance (a line of credit) from the ESM. This decision was fully supported by other euro area Member States, as well as by the European Commission, ECB and IMF.

- C10 – Will the Irish economy be subject to surveillance now that the financial assistance programme is over?

Yes. The "Two-Pack" regulation introduced a new system of post-programme monitoring for Member States emerging from adjustment programmes or precautionary assistance.[4] Euro area countries will remain subject to post-programme monitoring until they have paid back a minimum of 75% of the assistance received. The European Commission (in liaison with the ECB) will carry out missions twice a year to assess the economic, fiscal and financial situation of the post-programme country. The European Commission is required to communicate its assessment to the European Parliament, the EFC, the parliament of the Member State concerned and will assess, in particular, whether corrective measures are needed.

In order to ensure timely loan repayments by Ireland, EFSF will continue to work closely with the Irish authorities and participate in post-programme missions when appropriate.

[4] See Article 14 of Regulation (EU) No 472/2013 of 21 May 2013 "on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability"

Section D - The programme for Portugal (concluded on 18 May 2014)

➢ D1 – Why did Portugal need financial assistance?

Portugal had suffered from low GDP and productivity growth for more than a decade before the onset of the crisis. During this period, the low interest rates resulting from adoption of the euro boosted private and public consumption as well as indebtedness. Moreover, Portugal's competitiveness was undermined by rising labour costs and structural problems. The lack of fiscal discipline added to the rising imbalances as growth in public spending far exceeded economic growth. Fiscal risks intensified through the expansion of state-owned enterprises and public-private partnerships. In early 2011, increasing funding pressures associated with rising sovereign yields tipped Portugal into an acute economic crisis. The country became unable to refinance itself at sustainable rates and therefore requested financial assistance from the euro area countries, the EU and the IMF.

➢ D2 – How was the decision to grant financial assistance to Portugal taken?

On 17 May 2011, the Eurogroup (i.e. the finance ministers of the euro area) concurred with the European Commission and the ECB that providing financial assistance to Portugal was warranted to safeguard the financial stability of the euro area and the EU as a whole. The IMF Executive Board approved financial support for Portugal under the Extended Fund Facility on 20 May 2011.

➢ D3 – Who contributed to the financial assistance package?

The programme for Portugal was financed as follows:

- €78 billion in external support over three years, comprising
  - €26 billion from the EFSF;
  - €26 billion from the EFSM (European Financial Stabilisation Mechanism – an EU facility funded through bonds issued by the European Commission);
  - €26 billion from the IMF;

➢ D4 – What were the policy conditions that the Portuguese government had to implement in order to receive financial assistance?

The financial assistance provided was conditional upon the implementation of a macroeconomic adjustment programme, comprising actions in three main areas:

- A fiscal consolidation strategy, supported by structural-fiscal measures, aimed at setting the debt/GDP ratio on a downward path in the medium term;
- Structural reforms to boost potential growth, create jobs, and improve competitiveness; and
- Stabilisation of the financial sector strategy based on recapitalisation and deleveraging, with efforts to safeguard the financial sector against disorderly deleveraging through market based mechanisms supported by backstop facilities.

➢ D5 – How were the funds used by the Portuguese government?

The majority of total programme amount (€66 billion) was used for budget financing needs, while €12 billion was assigned to Bank Solvency Support Facility for the purpose of recapitalisation of banks.

➢ D6 – Has Portugal achieved the objectives of its macroeconomic adjustment programme?

The programme has put the Portuguese economy on a path towards sound public finances, financial stability and improved competitiveness, according to a statement issued on 2 May 2014 by the European Commission, ECB and IMF following the 12th and final review of Portugal's economic adjustment programme. Targets were adjusted in the course of the programme, which achieved its overall objective. During the past three years, the external current account has moved from a substantial deficit into surplus, the budget deficit has been more than halved, and public debt continues to be seen as sustainable. There have been ambitious reforms across all the main sectors of the economy, and bank capitalisation has been considerably strengthened. Portugal has started to regain access to long-term debt financing amid sharply declining yields.

➢ D7 – Why is it important that Portugal can now issue long-term bonds again?

Falling yields (from 16.6% in January 2012 to 3.5% in May 2014 for 10-year bonds) have enabled Portugal to return to long-term bond issuance. This means that financial markets positively assess the country's creditworthiness, based on the favourable prospects for the Portuguese economy and the ability to service debt. As a result, Portugal has returned to self-reliance in terms of financing its budget. This is also a consequence of the reforms implemented by the government, and the hardships endured by the Portuguese people have started to pay off. With continued determination to complete necessary reforms, recovery can be completed and economic gains can become visible to all parts of the population.

➢ D8 – When will Portugal have to repay the loans?

Portugal will repay the principal of the loan tranches starting from 2025, and the repayment is scheduled to end in 2040. Initially, the average maturity of loan tranches was up to 15 years, but this period was extended in June 2013 (following a decision by members of the Eurogroup) by 7 years.

➢ D9 – Has the Portuguese government requested a follow-up programme from the ESM?

No, in May 2014 the Portuguese government announced that it would exit the 3-year financial assistance programme without seeking a follow up programme from the ESM. This decision was fully supported by other euro area Member States, as well as by the European Commission, ECB and IMF.

➢ D10 – Will the Portuguese economy be subject to surveillance now that the financial assistance programme is over?

A new system of post-programme monitoring for Member States emerging from adjustment programmes or precautionary assistance was introduced by the "Two-Pack" regulation.[5] Euro area countries will remain subject to post-programme monitoring until they have paid back a minimum of 75% of the assistance received. The European Commission (in liaison with the ECB) will carry out missions twice a year to assess the economic, fiscal and financial situation of the post-programme country. The European Commission is required to communicate its assessment to the

[5] See Article 14 of Regulation (EU) No 472/2013 of 21 May 2013 "on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability"

European Parliament, the EFC, the parliament of the Member State concerned and will assess, in particular, whether corrective measures are needed.

- D11 – What will be the ESM's role in Portugal from now on?

The ESM will continue to work closely with the Portuguese authorities in the framework of the ESM's early warning system. This is a procedure foreseen in the ESM Treaty (which also applies to EFSF programmes) aimed at ensuring timely loan repayments by detecting repayment risks and allowing for corrective actions.[6] Acting under the early warning system, the ESM protects its claims on behalf of all the euro area Member States until all loan repayments are completed. In order to avoid an additional reporting burden for Portugal, the ESM will join the European Commission twice a year when it performs its post-programme surveillance.

Section E – The programme for Greece (expired on 30 June 2015)

- E1 – How much did the EFSF disburse to Greece?

The EFSF did not exist when the first programme of bilateral loans by the euro area Member States for Greece, the GLF, was agreed in early 2010. The EFSF programme, part of the second Economic Adjustment Programme for Greece, started on 1 March 2012. The EFSF disbursed €130.9 billion, making it Greece's largest creditor by far. The GLF had a total volume of €52.9 billion. The International Monetary Fund (IMF) disbursed €34.8 billion.

- E2 – When did the EFSF programme for Greece end?

Without an agreement to extend it, the EFSF programme expired on 30 June. Greece's euro area partners were prepared to extend the EFSF programme further, just as they had extended it twice in the past. Instead of ending on 31 December 2014, the EFSF Board of Directors' decision of 19 December 2014 extended the programme until 28 February 2015. On 27 February 2015, the EFSF Board of Directors extended the availability period of the EFSF loan contract with Greece, called the Greek Master Financial Assistance Facility Agreement (MFFA), by a further four months, until 30 June 2015.

- E3 – What happened with EFSF loans when Greece defaulted on the IMF?

For the EFSF, Greece officially defaulted on the IMF when the IMF Managing Director informed the IMF Board on 1 July 2015 that Greece had failed to meet a payment obligation. According to the EFSF loan contract (Master Financial Assistance Facility Agreement, MFFA) with Greece, such a default triggers the MFFA's cross-default clause.

[6] For more information on the ESM's early warning system, please consult http://www.esm.europa.eu/pdf/2014-04-02%20FAQ%20EWS.pdf

In line with a recommendation by the EFSF CEO, Klaus Regling, the EFSF Board of Directors decided on 3 July 2015 to opt for a reservation of rights on EFSF loans to Greece. The other two possible options were to request immediate repayment of its loans or to waive the EFSF's right to action. By issuing a reservation, the EFSF keeps all its options open as a creditor as events in Greece evolve. The EFSF will continuously monitor the situation.

Greece cleared its arrears with the IMF and Bank of Greece when it received a loan from the European Financial Stabilisation Mechanism (EFSM). During the default period, Greece made all scheduled payments to the EFSF in a timely manner.

➢ E4 – Wasn't it clear from the start that the EFSF strategy would not work in Greece?

The EFSF and ESM strategy of providing loans against macroeconomic reforms, called 'conditionality', worked successfully. Ireland, Spain, and Portugal reformed their economies and budgets, regained full market access at very favourable conditions, and started growing again. This shift had also begun in Greece. Current account and budget deficits declined strongly, signs of positive growth returned, and Greece became a top reformer, according to the Organisation for Economic Co-operation and Development and World Bank assessments. In response, the markets started to accept Greek debt issuance again in mid-2014. But these improvements were interrupted in late 2014, leading to a renewed recession and loss of market access. With the new ESM programme, Greece should return to the previous path of economic recovery.

➢ E5 – What kind of progress did Greece make in the implementation of reforms?

After six years of recession, Greece's economy returned to growth in 2014. In recent years, Greece significantly improved its fiscal balance: the government deficit was reduced to -3.5% of gross domestic product (GDP) in 2014 from -12.3% in 2013. It recorded a positive primary balance (i.e. excluding interest payments on debt) of around 1% of GDP in 2014 which was expected to continue in the coming years.

Greece made important progress on public finances and completed the recapitalisation of the four largest banks. It also made headway in correcting public expenditure, including the downsizing of the public administration. Labour cost competitiveness and the business environment improved. The government implemented several important structural reforms in health care, the opening of professions, and public financial management.

A major success for Greece was its return to the bond markets in 2014, when it issued 3-year and 5-year bonds. This was a sign that it had started to regain the trust of investors.

Background on financial assistance to Greece

➢ E6 – What led to Greece's economic problems?

In the decade before the crisis, Greece failed to modernise its economy towards efficiency and productivity gains while the public sector grew at unsustainable levels. After Greece adopted the euro in 2001, it was able to borrow at much lower interest rates despite its deteriorating competitiveness and public finances.

While government spending and borrowing increased, tax revenues – the main source of government income – weakened due to poor tax administration. At the same time, rising wages undermined Greece's competitiveness compared to other euro area countries. Low productivity and structural problems also contributed to the increasing economic difficulties. As a result, Greece's economy contracted and unemployment began to climb to alarming levels.

Greece's reliance on external financing for funding budget and trade deficits left its economy very vulnerable to shifts in investor confidence. In 2009, the Greek government revealed that previous governments had been misreporting government budget data. Much higher-than-expected deficits eroded investor confidence, causing the yields on Greek sovereign bonds, which correspond to the cost of borrowing money, to rise to unsustainable levels. The situation worsened to the point where the country was no longer able to refinance its borrowing, and it was forced to ask for help from its European partners and the IMF.

E7 – What did the first package of financial assistance for Greece consist of?

The first financial support programme for Greece, agreed in April 2010, consisted of bilateral GLF loans, amounting to €52.9 billion, and a €20.1 billion loan from the IMF. The EFSF, which was only established in June 2010, did not take part in this programme.

E8 – What kind of reforms and policy measures did Greece agree to implement?

The objective of the macroeconomic adjustment programme was to durably restore Greece's credibility with private investors by securing fiscal sustainability, safeguarding the stability of the financial system, and boosting potential growth and competitiveness.

This was to be achieved by carrying out fiscal consolidation, aimed at increasing government revenues and reducing expenses. Another major part of the programme was the implementation of structural reforms, including reforms in the: labour market to stimulate job creation and increase wage flexibility; product markets, especially in the services sector; public administration; and pension system. In addition, Greece was to privatise and restructure state-owned enterprises.

Reforms were also initiated to fight waste and corruption, along with measures to tackle tax evasion and step up collection of unpaid taxes.

E9 – Why was it necessary to have a second financial assistance package for Greece from the EFSF?

Greece made major efforts to implement wide-ranging measures, which were tied to the first financial assistance package. The challenges confronting Greece remained significant, however, with a wide competitiveness gap, a large fiscal deficit, a high level of public debt, and an undercapitalised banking system. The economic recession in Greece proved to be more serious and damaging than expected. The financial assistance provided under the first programme through bilateral loans from euro area countries and the IMF was not sufficient for Greece to make the necessary adjustments and to regain market access.

Furthermore, Greece's public debt-to-GDP ratio was considered unsustainable. A restructuring of debt held by private creditors became necessary to bring the total debt level back to a sustainable path. Additional time and funds were required to underpin Greece's fiscal consolidation efforts with structural reforms, to boost growth, and improve competitiveness.

- E10 – What was the Private Sector Involvement (PSI) and what was the EFSF's role in it?

Under the PSI, Greek debt held by private investors, mainly banks, was restructured in March 2012 to lighten Greece's overall debt burden. About 97% of privately held Greek bonds (about €197 billion) took a 53.5% cut of the face value (principal) of the bond, corresponding to an approximately €107 billion reduction in Greece's debt stock.
The EFSF provided two facilities to Greece to encourage bondholders to participate in the PSI. These were the:

- PSI facility – as part of the voluntary debt exchange, Greece offered investors 1- and 2-year EFSF bonds. These EFSF bonds, provided to holders of bonds under Greek law, were subsequently rolled over into longer maturities.

- Bond interest (accrued interest) facility – to enable Greece to repay accrued interest on outstanding Greek sovereign bonds under Greek law which were included in the PSI. Greece offered investors EFSF 6-month bills. The bills were subsequently rolled over into longer maturities.

- E11 – What decisions did the Eurogroup take in November 2012?

When the second programme was agreed, the Eurogroup noted that the outlook for the sustainability of Greek government debt had worsened compared to March 2012, mainly due to a deteriorated macroeconomic situation and delays in programme implementation. Therefore, the Eurogroup approved a set of measures designed to ease Greece's debt burden and bring its public debt back to a sustainable path, so that debt-to-GDP could be reduced to 124% by 2020 and to substantially below 110% by 2022. These measures included:

- reducing the interest rate charged to Greece on the bilateral GLF loans by 100 basis points;

- cancelling the EFSF guarantee commitment fee (conditional upon the continued implementation of reforms by Greece) of 10 basis points, which Greece pays on the EFSF loans. It is estimated that this measure will save a total of €2.7 billion over the entire period of EFSF lending to Greece;

- extending the maturity of GLF and EFSF loans by 15 years (to an average loan maturity of over 30 years), significantly improving the country's debt profile;

- deferring interest rate payments on EFSF loans by 10 years, allowing Greece to reduce substantially its financing needs after a decade. This operation will not create any costs for the EFSF since Greece will pay interest charges on the deferred interest. It is estimated that this measure will lower the country's financing needs by €12.9 billion by 2022;

- passing on to Greece an amount equivalent to the income of the ECB's Securities Markets Programme portfolio accruing to their national central bank as from budget year 2013.

E12 – How did Greece benefit from the extension of loan maturities and deferral of interest payments decided in November 2012?

The extension of loan maturities and deferral of interest payments significantly reduced Greece's annual financing needs. This was instrumental in helping to bring Greece's public debt service back to a sustainable path, and made it easier for Greece to return to bond markets in 2014.

EFSF financial assistance in general has generated substantial savings for Greece: in 2013, these savings amounted to €8.6 billion, or 4.7% of Greece's GDP. For 2014, they were €7.9 billion, or 4.4% of Greece's GDP (based on reasonable assumptions; for details see the ESM 2013 and 2014 Annual Reports). These savings were possible because the EFSF provided loans to Greece (as well as to Ireland and Portugal) at much lower interest rates than those that the market theoretically would have offered.

The savings increase further when we include all the other measures the euro area governments took to alleviate Greece's debt burden, such as the extension of the maturity of the EFSF and bilateral GLF loans to more than 30 years, the reduction in the GLF interest rates, the 10-year interest rate deferral or the cancelation of the interest rate margin. All combined, these improvements produced an economic reduction of the debt burden of 49% of Greece's 2013 GDP or of 50% of the European official sector loans. These savings greatly improved debt sustainability and provided Greece with fiscal space.