European Financial Stability Facility

EFSF

Newsletter

N°3 November 2011

Our mission is to **safeguard financial stability in Europe** by providing financial assistance to euro area Member States

On 26 October 2011, the euro zone summit gave a comprehensive response to the sovereign debt crisis.

The decisions taken by the Heads of State and Governments include a second rescue package for Greece, the maximisation of the resources of the EFSF, the recapitalisation of the European banking sector and the strengthening of economic and fiscal coordination and surveillance.

All measures must now be implemented swiftly. The decision to increase EFSF's firepower aims to optimise its lending capacity whilst ensuring that EFSF's top credit rating is maintained. Two options are available. The first would be a credit enhancement approach which would provide a partial protection certificate attached to sovereign bonds and thus reducing the funding cost. The second option would be a creation of a Special Purpose Vehicle (SPV) combining public and private capital. Recent talks with investors were very promising and we are taking all necessary steps to be fully operational in the new framework before the end of the year.

The comprehensive package by the Euro Summit builds on a serious of measures already implemented to ensure fiscal consolidation, financial assistance to euro area Member States in difficulties and a strengthening of euro area governance leading to deeper economic integration and an ambitious agenda for growth. These Measures include reinforcing the Stability and Growth Pact, the introduction of a new Procedure to tackle excessive macro-economic imbalances and the "European Semester" to avoid negative spill-over by early presenting national budgets to euro partners before adoption in national parliaments.

Member States also announced ambitious national fiscal consolidation plans and structural reforms to enhance competitiveness. Portugal, Spain and Italy are considering introducing or have already introduced national debt brakes. I am confident that all these measures will lead to a better functioning of the European Monetary Union and will strengthen the euro.

However, further action is needed to restore confidence. The legislative package on economic governance will enter into force in January 2012. Additional national measures will be implemented such as the translation into national legislation of rules on balanced budgets. In addition, closer monitoring and surveillance by the Commission and the Council will be carried out. Finally, the decision to make the euro summit at least a bi-annual event will improve coordination and communication.

The decisions taken this week are not stand alone decisions. They are part of the European strategy over the last two years to ensure fiscal consolidation, support countries in difficulty and a strengthening of euro area governance.

Important progress has been made and progress will continue.

Klaus Regling
EFSF Chief Executive Officer

Triple A credit rating confirmed

Following the amendments to the EFSF, all three credit rating agencies have confirmed the EFSF's triple A rating. In addition, EFSF has been assigned the highest quality short-term rating by the three agencies: Standard & Poor's A-1+, Moody's P-1 and Fitch F1+

Euro zone ratifies the new EFSF

Following the approval of the Slovak parliament on 13 October, all 17 euro zone countries have now ratified the new version of the EFSF as agreed at the euro zone summit of 21 July 2011.

Increased guarantee commitments

One of the key amendments is the raising of the guarantee commitments to €780 billion. Consequently, EFSF's effective lending capacity will now be €440 billion.

Elements to improve debt sustainability

In order to improve debt sustainability of beneficiary Member States, two key elements have been introduced:

- Lower interest rates on EFSF loans. The new lending rate will comprise EFSF funding costs plus operational costs.
- Extended maturities from the current average of 7½ years to a minimum average of 15 years and up to 30 years

New Instruments

In addition to providing loans to Member States, EFSF will now be authorised to use the following instruments :

- Intervene in the **debt primary markets.**
- Intervene in the **debt secondary markets** but only on the basis of an ECB analysis recognising the existence of exceptional financial market circumstances and risks to financial stability
- Act on the basis of a precautionary programme
- Finance recapitalisations of financial institutions through loans to governments including in non-programme countries

All financial assistance to Member States is linked to appropriate conditionality.

An improved credit enhancement structure

The new credit enhancement structure is made up of a 165% overguarantee. This new structure ensures the AAA rating which confirms EFSF as a quality issuer. It also makes the structure more cost efficient as the borrower countries no longer need to deduct the cash reserve and loan specific cash buffer from the amount of the loan, which was necessary under the previous structure.

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More firepower

Following the decision to increase guarantee commitments to €780 billion, the new guarantee commitment contribution per country is as follows:

Euro zone ratifies the new EFSF

	New EFSF Guarantee Committments (€m)	New EFSF contribution key (%)	EFSF Amended Guarantee Committments* (€m)	EFSF amended contribution key* (%)
Austria	21,639	2.78	21,639	2.99
Belgium	27,032	3.47	27,032	3.72
Cyprus	1,526	0.20	1,526	0.21
Estonia	1,995	0.26	1,995	0.27
Finland	13,974	1.79	13,974	1.92
France	158,488	20.31	158,488	21.83
Germany	211,046	27.06	211,046	29.07
Greece	21,898	2.81	-	0.00
Ireland	12,378	1.59	-	0.00
Italy	139,268	17.86	139,268	19.18
Luxembourg	1,947	0.25	1,947	0.27
Malta	704	0.09	704	0.10
Netherlands	44,446	5.70	44,446	6.12
Portugal	19,507	2.50	-	0.00
Slovakia	7,728	0.99	7,728	1.06
Slovenia	3,664	0.47	3,664	0.51
Spain	92,544	11.87	92,544	12.75
Total	779,783	100	726,000	100

* The amended contribution key and Amended Guarantee Committments take into account the stepping out of Greece, Portugal and Ireland

EFSF future issues Q4 2011

EFSF is planning to issue one benchmark €3 billion bond for Ireland in the near future. The issues initially scheduled in Q4 2011 in support of Portugal could now be issued in early 2012. Details will be disclosed in due time.

"The additional instruments now available to the EFSF means that our funding strategy will be more flexible. In particular, it will include the implementation of a short-term programme."

Christophe Frankel
CFO and Deputy CEO of EFSF

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