European Stability Mechanism

FAQ document on Greece

Last updated: 3 July 2015

1. How much has the EFSF disbursed to Greece?

The European Financial Stability Facility (EFSF) did not exist when the first programme of bilateral loans by the euro area Member States for Greece, the Greek Loan Facility (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 has 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) has disbursed €34.8 billion.

2. Did the euro area partners decide to end the EFSF programme for Greece?

No. 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.

The EFSF made all the preparations necessary to further prolong the programme before the expiry date. Four days before the programme's end, the Greek government abandoned negotiations and decided to hold a referendum on the terms of the extension as proposed by its partners, to take place after the programme expiry. After negotiating for five months and accepting most of the terms on the table, the Greek government advised voters to reject the programme in the referendum. Under these circumstances, the Eurogroup decided that there was no possibility to extend the programme.

3. What are the amounts that Greece missed out on?

An extension would have allowed Greece to continue to be eligible for a disbursement of the last EFSF loan tranche of €1.8 billion. Additionally, Greece could have benefitted from the €10.9 billion of EFSF funds that are earmarked for bank recapitalisation or bank resolution. With an extension of the EFSF programme, Greece would have been eligible in principle for a disbursement on 30 June to cover a €1.6 billion repayment to the IMF. It would also have had access to funds from related agreements including the transfer by euro area Member States of the profit from Greek government bonds held by Eurosystem central banks in an amount of €1.85 billion.

4. What happens with EFSF loans now that Greece defaulted on the IMF, and may default on the ECB?

For the EFSF, Greece officially defaulted on the IMF when the IMF Managing Director informed the IMF Board on 1 July 2015 that Greece 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.

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 of Rights, the EFSF keeps all its options open as a creditor as events in Greece evolve. The situation will be continuously monitored and the EFSF will consider its position regularly.

A failed redemption of the maturing bond held by the ECB would mean Greece has defaulted on its obligation under the terms of that bond. If the amount is above €250 million it also triggers cross-default clauses.

6. Will this impact the EFSF's market access?

There is no reason for the EFSF's market access to be affected. Under the EFSF operating model, the irrevocable guarantees issued by the euro area Member States back the EFSF funding instruments and the EFSF's ability to service its debt. In other words, the EFSF's repayment capacity is not dependent on the ability of its debtors to honour their obligations in a timely fashion but on the credit strength of its guarantors. Market activity has sent no signal that investors doubt the validity of the EFSF guarantees.

7. What impact, if any, will this have on the EFSF rating?

All EFSF debt is backed by irrevocable and unconditional guarantees and over-guarantees provided by the euro area Member States. The EFSF rating therefore reflects the rating of its guarantors and not the credit quality of its borrowers, including Greece. According to the rating agencies' assessments, the EFSF's rating would not be impacted even under an adverse scenario, such as a Greek default.

In addition, there is a strong willingness and commitment by all the guarantors to honour their guarantees and the EFSF has robust processes surrounding the need for a guarantee call. The Early Warning System and the asset and liability management processes enable the EFSF to anticipate the risk of a shortfall that would lead to a guarantee call well in advance of its execution.

Greece's principal repayments are largely due between 2023 and 2054. Before that, Greece has only modest payments to make. These could be covered by the EFSF liquidity buffer or with further issuances. Therefore guarantee calls are unlikely in the foreseeable future.

8. Will the EFSF have to write off its exposure to Greece now?

No. There is no automatic connection between a default and writing off Greece's debt. Even after a default, the EFSF expects to be repaid in full by Greece. EFSF bondholders are in no way at risk, as EFSF bonds are guaranteed by shareholders.

9. Will Member States now have to supply the money Greece is not paying?

No. EFSF Members will only be asked to step in with cash if EFSF guarantees are called, which would only occur if the EFSF were at risk of failing to make a payment to EFSF bondholders. In other words, as long as the EFSF continues to have favourable market access and can refinance its debt instruments, it will not need to call the guarantees from Member States. There is no reason to believe that the EFSF will lose this market access.

To clarify the EFSF guarantee structure: the EFSF member countries guarantee the issuance of EFSF bills and bonds, not the loans to Greece or other former programme countries. Therefore calling guarantees will only be required if the EFSF does not have the necessary liquidity to repay its bonds. In fact, principal repayments by Greece are largely due between 2023 and 2054. Before that, Greece has only modest payments to make which the EFSF liquidity buffer or with further issuances could cover until 2023. Therefore, the liquidity situation for the EFSF would not change over the coming years even if Greece decided not to fully repay its obligations.

The total amount of guarantees would be shared by the guarantors, according to their EFSF contribution key. Greece and Ireland are not guarantors of EFSF bonds. Portugal and Cyprus will honour any guarantee commitments they made before stepping out of the guarantee mechanism when receiving financial assistance.

Thus the potential yearly budget implications for each of the EFSF guarantors would be very limited. Ultimately, the EFSF, and thereby its shareholders, will retain its claim on Greece even if the guarantees are called and EFSF bondholders reimbursed. Any writedown of this claim can only occur by mutual agreement between the debtor and creditors.

10. Wasn't it clear from the start that the EFSF strategy would not work in Greece?

No. 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 were adjusted, 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. But these improvements were interrupted in late 2014, pushing investors away.

11. Why did the EFSF not write down its exposure to Greece in its 2014 annual accounts?

According to the International Financial Reporting Standards, the accounting standards used by the EFSF, such a writedown, or impairment, is recorded only when a specific event triggers a loss. In 2014, the EFSF did not identify such an event with respect to Greece, which the EFSF's external auditor confirmed.

In 2014, Greece's economy returned to growth after several years of recession. Uncertainty on the future direction of policies affected confidence from the beginning of 2015. European authorities closely reviewed the situation of Greece and its public finances during the first months of 2015. The EFSF took part in these discussions and closely monitored developments through its Early Warning System. No events that could be objectively qualified as loss-triggering were identified in 2015 in the period leading up to the finalisation and approval of the EFSF's annual accounts for 2014. In particular, Greece met all its scheduled payment obligations to the EFSF.

12. 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 monitoring and 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 the EFSF programme to Greece

13. 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 deficit levels 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.

14. 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 loans from euro area Member States (known as the Greek Loan Facility, GLF), 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.

15. 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.

16. 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 large 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.

17. What was the Private Sector Involvement (PSI) and what was the EFSF's role in it?

Under the PSI, the 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.

18. 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 loans provided by the Greek Loan Facility (GLF) 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 (SMP) portfolio accruing to their national central bank as from budget year 2013.

19. 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.