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“Does Europe have the Firepower Necessary to Resolve the Debt Crisis”

Klaus Regling, CEO of EFSF

The European Institute, Washington 20 April 2012

Europe's reaction to the sovereign debt crisis

1) At the national level

- Member States are making progress on fiscal consolidation and structural reforms

2) At the European level

- Europe improves economic governance
- EU reinforces financial market supervision
- "Europe 2020"

3) Emergency financing

- ECB has taken significant non-standard measures
- Europe has set up financial backstops

Decisive action on the euro area periphery

- Ireland is a success story
  - Financial support linked to strict conditionality
  - Ireland regained competitiveness – current account balance back in surplus
  - Yields of Irish debt more than halved

- Portugal is on track
  - Fiscal adjustment
  - More flexibility in labour market
  - Competitiveness improving

- Italy starts far reaching austerity and reform programme
  - Pension reform
  - Major drive to tackle tax evasion
  - Balanced budget in 2013/14
  - Liberalisation of economic activity

- Spain committed to comprehensive adjustment
  - Budget deficit target 3% of GDP in 2013
  - Improving health of banking sector
  - Labour market reforms
  - Current account deficit has decreased significantly

Greece – a unique case

- **Greece does not have a liquidity problem, but a solvency problem**
- Following established IMF policies involvement of private sector (PSI):
  - Reduction of Greek debt by €107 billion
  - Voluntary bond exchange with a nominal discount of 53.5%
  - Reduction of Greek debt to 120% of GDP by 2020 - currently close to 170%
  - Official sector provides financing of €129 billion until 2014 (second Greek programme)
  - Adjustment programme will cover recapitalisation of Greek banks – up to €48 billion
  - Eurozone Member States support PSI
- EFSF contribution for Greek PSI:
  - Bonds (1 and 2 years) as “sweetener” of €26.6 billion – can go up to €30 billion
  - Bills (6 months) for accrued interest of €4.6 billion – can go up to €5.5 billion
  - Bonds for a total of €35 billion as collateral enhancement to ECB to cover Greece’s SD

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Action at the European level

- Strengthening the Stability and Growth Pact
- Treaty on Stability, Coordination and Governance in the EMU
  - Automatic sanctions to correct excessive deficits
  - Member States to introduce national debt brakes
- European Semester to avoid negative spill-over
- New procedure to tackle excessive imbalances within euro zone (EIP)
  - Focus on competitiveness
- More power for Eurostat
- New supervisory architecture
  - European Systemic Risk Board to identify macro-prudential risks
  - Three new European authorities to supervise banks, insurance and securities markets

"Europe 2020" to strengthen potential growth

Restoring normal lending to economy

- Stengthening banks' capital positions

Completing the Single Market

- Simplification of accounting requirements
- Stronger coordination of tax policies

Strengthening innovation

- 3% of EU's GDP invested in R&D

Combatting climate change

Cutting red tape

- Modernising public administration

Euro area crisis resolution mechanisms

	Size\Capacity	Funding	Instrument
Greek Loan Facility	€80 bn loans, disbursed €52.9 bn	Bilateral loans pooled via EU	Programme loans
EFSF	€440 bn guarantees, effective lending capacity: €250 bn	EFSF bond issuance	Programme loans
New EFSF	€780 bn guarantees, effective lending capacity: €440 bn	EFSF bond issuance	- Programme loans - Precautionary facilities - Recapitalisation of financial institutions - Primary and secondary market bond purchases
ESM	€700 bn subscribed capital, effective lending capacity: €500 bn	ESM bond issuance	- Programme loans - Precautionary facilities - Recapitalisation of financial institutions - Primary and secondary market bond purchases

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Firewalls are substantial

	Commitments from Europe
■ First Greek support package	€53 bn
■ Adjustment programmes for Ireland and Portugal	€97 bn
■ Second Greek support package including PSI	€144 bn
■ ESM	€500 bn
■ Europe will provide additional resources to IMF	€150 bn
■ ECB Securities Market Programme	€220 bn
■ **All in all: $1.5 trillion mobilised in response to the crisis**	**€1,164 bn**

In addition,

- ECB provides unlimited liquidity to banks
- EFSF/ESM will leverage resources

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EFSF

Sufficient firepower available

	Commitments from Europe	Still available
First Greek support package	€53 bn	✓
Adjustment programmes for Ireland and Portugal	€97 bn	**€50 bn**
Second Greek support package including PSI	€144 bn	**€100 bn**
ESM	€500 bn	**€500 bn**
Europe will provide additional resources to IMF	€150 bn	**€150 bn**
ECB Securities Market Programme	€220 bn	✓
More than $1 trillion available for disbursement	€1,164 bn	**€800 bn**

In addition,

- ECB provides unlimited liquidity to banks
- EFSF/ESM can leverage resources

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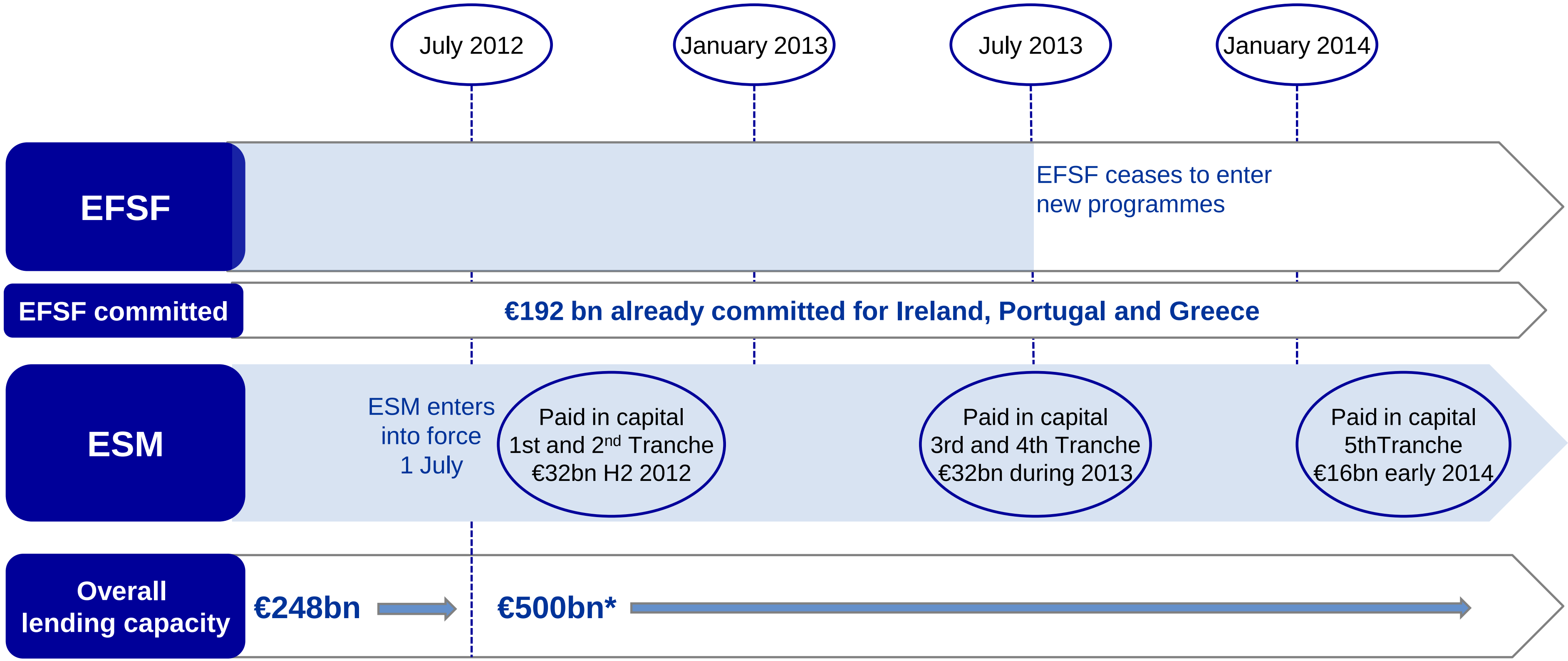
The way forward



*From July 2012-2013 EFSF may engage in new programmes in order to ensure a full fresh lending capacity of €500 billion. From mid 2013 – early 2014, €500 bn lending capacity can be reached through accelerated capital payments, if needed.

EFSF funding programme

Preliminary EFSF funding programme
(subject to market conditions and requests by programme countries)

	Q1 2012 (completed)	Q2 2012	Q3 2012	Q4 2012	2012	2013	2014
Ireland	4.5	2.3	0	1.3	8.1	2.03	-
Portugal	2.7	7.8	1.8	1.6	13.9	3.55	1.65
Greece	7.0	10.9	5.9	8.4	32.2	32.3	32.1
Total	14.2	21.0	7.7	11.3	54.2	37.9	33.7

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EFSF/ESM compared to IMF

Whilst the EFSF (and the future ESM) have been modelled on the IMF, fundamental differences exist.

EFSF

- Private company («Societe Anonyme»)
- For euro zone countries
- Loans pari passu*
- Does not decide programmes
- Loans, credit lines, primary/secondary market intervention, financing recapitalisation of banks in EAMS via loans to governments
-

ESM

- Intergovernmental organisation based on an international treaty
- For euro zone countries
- Preferred creditor status, junior to IMF
- Does not decide programmes
- Loans, credit lines, primary/secondary market intervention, financing recapitalisation of banks in EAMS via loans to governments

IMF

- Intergovernmental organisation
- For IMF members
- Preferred creditor status
- Part of mission to decide programmes
- Broad range of instruments (credit facilities, stand-by arrangements, flexible credit lines etc) but no market intervention

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* equal rights of payment or level of seniority