EFSF: effects from possible non-repayment of Greek financial assistance

- In light of recent discussions surrounding Greece, we have received several questions regarding the effects on the **European Financial Stability Facility (EFSF; Aa1s/AAn/AAs)** of a possible non-payment of loans granted under the financial assistance package. Below, we provide an overview of the key facts related to the EFSF's support mechanisms for Greece, and we point out the most important messages.

  – **Support for Greece:** The EFSF has issued EUR 141.8bn of loans to Greece under the second economic adjustment program for the country. The EFSF will grant Greece a further EUR 1.81bn from this program until February 2015 under a two-month technical extension.

  – **Member state guarantees:** The support for the EFSF is based on explicit, unconditional and irrevocable guarantees from 17 euro area member states. Each member state guarantees up to 165% of its own share of the bonds issued by the EFSF (over-guarantee).

  – **Contribution keys:** Given each member states' contribution according to set keys, the individual guarantee amounts differ. Should the EFSF call on its shareholder guarantees related to Greece, Germany carries the largest share (EUR 41.31bn), followed by France (EUR 31.02bn), Italy (EUR 27.26bn) and Spain (EUR 18.11bn, see table below).

  – **Non-payment of an EFSF loan:** Should the EFSF fail to receive any repayment for loans made to Greece, it can demand funds from the member states up to their respective over guarantees. If this does not cover the shortfall, the EFSF can also use its cash reserve.

- **Key message 1:** The credit worthiness of EFSF bonds as a whole is determined by the creditworthiness of the EFSF's guarantors, and not by whether or not Greece repays its loans. If any loans to Greece are not redeemed, this loss of repayment or loss of interest payments will be covered by the EFSF's existing liquidity and after that by the guarantees from EFSF shareholders. Should Greece not be able to pay its EFSF loans, this would not become relevant for the EFSF immediately, but only upon maturity of EFSF bonds. Should the EFSF's existing liquidity lines not be sufficient to redeem outstanding bonds, the guarantees of the individual governments will be called upon.

- **Key message 2:** The earliest deadlines for repayment of Greece's EFSF loan are in 2023, when Greece will be required to repay EUR 2.4bn annually. Following that, a EUR 2.8bn facility will finally mature on 30 April 2032. Ahead of these maturities, Greece could miss interest payments on outstanding loans. The exact amounts of these interest payments are not disclosed. In case of a maturity of a bond or an interest payment, the EFSF can roll the debt or pay any shortfall out of its existing liquidity. Only if this is insufficient would the EFSF call on its guarantors. Ultimately, it is the EFSF's shareholders, i.e. the euro area member states that provide liquidity.

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EFSF web site
www.efsf.europa.eu

Links to
EFSF lending facilities
EFSF FAQs
EFSF Framework Agreement
Eurostat on EFSF debt (January 2011)

Related Publications

SSA Chartbook – December 2014

Sector Report - SSA: Outlook 2015 – 11 December 2014

Sector Flash RAS – Sub-sovereigns, supras and agencies: A regulatory guide – 2 December 2014

Sector Flash RAS – Solvency II: treatment of SSA exposure – 6 November 2014

Sector Flash – LCR treatment of SSA issuers – 15 October 2014

Sector Flash – Agencies & supras: supply wrap-up 3Q14 – 1 October 2014

Sector Report – Green Bonds – An Introduction – 7 August 2014

Credit Flash – KfW lowers 2014 funding target, enters green bond segment – 7 July 2014

Credit Flash – EFSF vs. state of NRW: Trading idea – 23 June 2014

Sector Report SSA - European Agencies & Supras – 27 May 2014

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Greek nonpayment scenario – EFSF effects

Total debt

The European Financial Stability Facility (EFSF; Aa1s/AAn/AAs) has disbursed EUR 141.8bn to Greece under the financial assistance package and plans to supply a further EUR 1.81bn to the country in 2015 (by February). If Greece does not pay all or part of this debt, EUR 143.6bn would be the maximum loss. This loss would then have to be shouldered by the member states according to their guarantee commitments.

EFSF LOANS TO GREECE - MATURITIES

Interim maturity	Final maturity	Disbursed amount (EUR bn)	Disbursement date	Comment
2022 to 2024	n.a.	16	19 December 2012	Most likely to be rolled into cash loans; average maturity is 38.06 yrs.
2023 to 2042	**24 February 2042**	**34.6**	**09 March 2012**	**EUR 1.8bn to be repaid annually from 2023 to 2037; EUR 1.4bn annually from 2038 to 2042**
2023 to 2042	**17 June 2042**	**11.3**	**17 December 2012**	**EUR 0.565bn to be repaid annually between 2023 to 2042**
2024 to 2025	n.a.	7.2	30 May 2013	Most likely to be rolled into cash loans; average maturity is 39.5 years
n.a.	30 April 2032	2.8	29 April 2013	
2034 to 2039, 2043 to 2046	19 April 2046	25	19 April 2012	Amortizing between 2034 to 2039 & 2043 to 2046
n.a.	28 June 2040	1	28 June 2012	
n.a.	04 October 2041	3.3	04 October 2012	
n.a.	05 October 2042	4.2	05 October 2012	
n.a.	31 January 2043	2	31 January 2013	
n.a.	28 February 2043	1.4	28 February 2013	
n.a.	17 May 2043	4.2	17 May 2013	
n.a.	28 February 2044	1.4	28 February 2013	
n.a.	25 June 2045	3.3	25 June 2013	
n.a.	17 December 2046	7	17 December 2012	
n.a.	19 March 2047	5.9	19 March 2012	
n.a.	31 July 2048	2.5	31 July 2013	
n.a.	18 December 2050	0.5	18 December 2013	
n.a.	07 September 2053	1	07 September 2014	
n.a.	14 August 2053	1	14 August 2014	
n.a.	28 April 2054	6.3	28 April 2014	
Weighted average maturity:	**32.38 years**	**141.8**		

Source: EFSF, UniCredit Research, shading denotes earliest repayments

EFSF guarantee mechanism

In case of Greece's nonpayment of EFSF loans under the financial assistance program, the member states guarantee the repayment of outstanding EFSF bonds, according to the EFSF framework agreement. The support for the EFSF is based on guarantees from 17 euro area member states. "Bonds, notes, commercial paper, debt securities or other financing arrangements […] are backed by irrevocable and unconditional guarantees of the euro area Member States", according to the EFSF framework agreement. For that reason, loans to Greece are not backed by the EFSF itself, but ultimately by its shareholders. Each member state guarantees up to 165% of its own share of the bonds issued by the EFSF (over guarantee). This over guarantee aims to ensure "the highest credit worthiness for funding instruments issued or entered into by EFSF", according to the EFSF framework agreement. The shareholder contribution from the 17 EFSF member states was amended after the four countries Portugal, Greece, Ireland and Cyprus stepped out, because a member state that requested financial assistance is no longer required to make contributions as a shareholder (their new EFSF contribution key is 0% – see table). The contribution keys were adjusted among the remaining guarantors and their guarantee commitment increased accordingly.

The effective lending capacity of the EFSF is EUR 440bn, which is equal to the guarantee commitments of triple A member states. The two new member states Lithuania and Latvia, which joined the eurozone in January 2015, are not EFSF shareholders.

Failure of payment by Greece

Consequences for the EFSF: Should the EFSF fail to receive any repayment for loans made to Greece, and subsequently suffer a shortfall in liquidity, it can demand funds from the member states up to their respective over guarantees. If this does not cover the shortfall, the EFSF can also use its cash reserve. Additionally, the member states can issue subordinated loans, liquidity lines or backstop facilities to the EFSF. In practice the EFSF must prove 10 days before an outstanding bond matures that it has access to funding, and it must have the cash available three days before maturity. Those six member states that carry a triple A rating (Germany, Netherlands, France, Finland, Austria, Luxembourg) have to ensure that the EFSF has sufficient liquidity.

STEP BY STEP – NONPAYMENT OF AN EFSF LOAN

Mechanisms to be taken by the EFSF – EFSF Framework Agreement	
Event: failure to pay	**Section 5 (2):** In the event that there is a delay or **failure to pay by a beneficiary member state** of a payment under a financial Assistance and accordingly there is a shortfall in funds available to meet a scheduled payment of interest or principal under a funding instrument issued by EFSF.
Step 1	**Section 5 (2) a:** The EFSF shall **make a demand on a pro rata, pari passu basis on the guarantors,** which have guaranteed such funding instrument up to the applicable over-guarantee percentage of their respective adjusted contribution key percentage of the amount due but unpaid;
Step 2	**Section 5 (2) b:** if the steps taken in Article 5(2)(a) do not fully cover the shortfall, to **release an amount from the cash reserve** (provided that the EFSF may not use any amounts credited to the cash reserve prior to the effective date of the amendments to cover shortfalls arising in respect of financial assistance facility agreements entered into after such date) to cover such shortfall;
Step 3	**Section 5 (2) c:** take such other steps as may be available in the event that additional credit enhancement mechanisms have been approved under Article 5(3).
Further steps	**Section 5 (3):** The euro area member states may, by unanimous decision, approve and adopt such other credit enhancement mechanisms as they consider appropriate or, as the case may be, modify the existing credit enhancement mechanisms in order to enhance or to maintain the creditworthiness of the funding instruments issued or contracted by the EFSF or to enhance the efficiency of funding of the EFSF. **Such other credit enhancement measures might include**: - provision of **subordinated loans**, **warehousing arrangements**, **liquidity lines** or **backstop facilities** to the EFSF - the issuance by the EFSF of **subordinated notes** and/or - the adoption of available **credit enhancement mechanisms** used by the EFSF in relation to financial assistance disbursed prior to the effective date of the amendments.

Source: EFSF Framework Agreement, UniCredit Research

Effect on member states

Given each member states' contribution according to the set keys, the individual guarantee amounts differ. In the theoretical case that Greece does not pay all of its EUR 141.8bn in loans, and the EFSF calls on shareholder guarantees, Germany would have to carry the largest share (EUR 41.31bn), followed by France (EUR 31.02bn), Italy (EUR 27.26bn) and Spain (EUR 18.11bn, see table below). A call on the guarantee of EFSF commitments would not increase the states' debt levels, because "funds raised in the framework of the EFSF must be recorded in the gross government debt of the euro area member states participating in a support operation," according to a Eurostat decision from 27 January 2011.[1] This means that the member states' current debt-to-GDP ratios already include their liabilities to the EFSF. Note, however, that not all loans to Greece fall due at the same time, but according to a debt schedule.

Key message

The credit worthiness of EFSF bonds as a whole is determined by the creditworthiness of the EFSF guarantors, and not by whether or not Greece repays its loans. If any loans to Greece are not redeemed, this loss of repayment or loss of interest payment will be covered by the EFSF's existing liquidity and after that by the guarantees from the EFSF's shareholders. Should Greece not be able to pay its EFSF loans, this would not become relevant for the EFSF immediately, but only upon maturity of EFSF bonds. Should the EFSF's existing liquidity lines not be sufficient to redeem its outstanding bonds, the guarantees of the individual governments would be called upon.

[1] see *The statistical recording of operations undertaken by the EFSF*, January 2011

EFSF SHAREHOLDER CONTRIBUTIONS

Member state	Credit Rating	New EFSF contribution key*	New EFSF max. guarantee commitments (EUR mn)	Guarantee call in case of non-payment by Greece on entire debt (EUR bn)	Guarantee call in case of non-payment by Greece on one third of debt (EUR bn)	Government gross debt (relative to GDP) - 2013	Gross general government debt at year end (EUR mn)
Austria	AA+/Aaa/AAA	2.9869%	21,639	**4.24**	1.41	81.20%	261,977.80
Belgium	AA/Aa3/AA	3.7313%	27,031	**5.29**	1.76	104.50%	413,245.70
Cyprus	B+/B3/B-	0.0000%	0	**0.00**	0.00	102.20%	18,518.80
Estonia	AA-/A1/A+	0.2754%	1,994	**0.39**	0.13	10.10%	1,887.50
Finland	AA+/Aaa/AAA	1.9289%	13,974	**2.74**	0.91	56.00%	112,664.00
France	AA/Aa1/AA	21.8762%	158,487	**31.02**	10.34	92.20%	1,949,475.00
Germany	AAA/Aaa/AAA	29.1309%	211,045	**41.31**	13.77	76.90%	2,159,467.90
Greece	B/Caa1/B	0.0000%	0	**0.00**	0.00	174.90%	319,133.00
Ireland	A/Baa/A-	0.0000%	0	**0.00**	0.00	123.30%	215,550.00
Italy	BBB-/Baa2/BBB+	19.2233%	139,267	**27.26**	9.09	127.90%	2,069,840.90
Luxembourg	AAA/Aaa/AAA	0.2687%	1,946	**0.38**	0.13	23.60%	10,668.90
Malta	BBB+/A3/A	0.0972%	704	**0.14**	0.05	69.80%	5,241.00
Netherlands	AA+/Aaa/AAA	6.1350%	44,446	**8.70**	2.90	68.60%	441,039.00
Portugal	BB/Ba1/BB+	0.0000%	0	**0.00**	0.00	128.00%	219,225.00
Slovakia	A/A2/A+	1.0666%	7,727	**1.51**	0.50	54.60%	40,178.40
Slovenia	A-/Ba1/BBB+	0.5058%	3,664	**0.72**	0.24	70.40%	25,428.10
Spain	BBB/Baa2/BBB+	12.7739%	92,543	**18.11**	6.04	92.10%	966,181.00
Total		**100%**	**724,474**	**141.8**	**47.27**		**9,229,722.00**

Source: EFSF investor presentation, January 2015; UniCredit Research

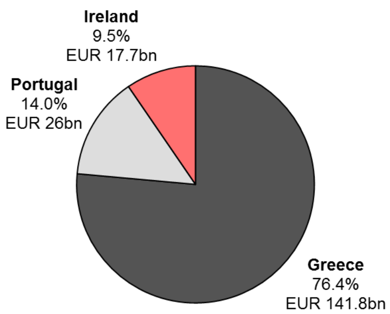
EFSF – support for Greece

EFSF support for member states

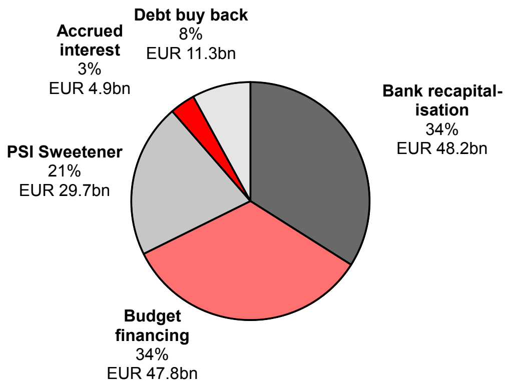
The EFSF has paid a total of EUR 185.5bn to Greece, Portugal and Ireland, and the funding for Greece makes up more than three quarters of that (see chart). The EFSF plans to supply a further EUR 1.81bn to Greece until 2015, taking the total to EUR 143.65bn. It allowed Greece a two-month technical extension of its second economic adjustment program after a request from the Greek finance minister, and this program will now end on 28 February 2015 instead of 31 December 2014. According to EFSF CEO Klaus Regling, this gives Greece time to conclude the current review by the Troika (The Troika comprises the ECB, the International Monetary Fund and the European Commission). In addition, the EFSF extended the availability of EUR 10.9bn of EFSF bonds until 28 February 2015. The EFSF bonds were transferred to the Hellenic Financial Stability Fund (HFSF) as part of the second economic adjustment program. The HFSF can use the bonds to recapitalize banks. **The support program for Greece includes 1.** EUR 35.5bn under the public sector involvement facilities with an availability period ending on 30 April 2014. The EFSF lent Greece EUR 34.55bn while the remaining EUR 0.95bn were not needed and **2.** EUR 109.1bn for bank recapitalization and for the master financial assistance facility.

EFSF – SUPPORT FOR MEMBER STATES

Support for Greece, Portugal & Ireland (total: EUR 185.5bn)



Lending program for Greece (total: EUR 141.8bn)



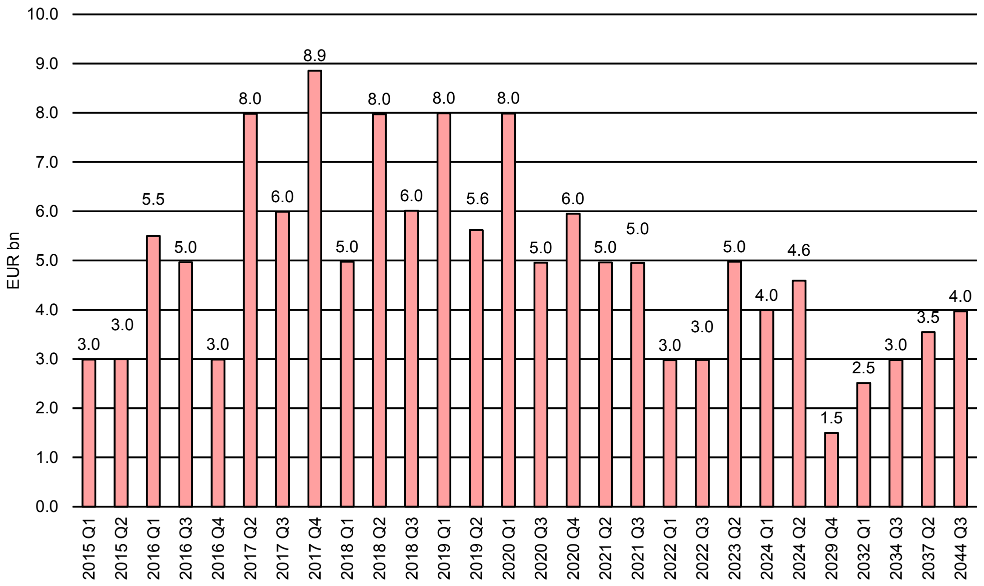
Source: UniCredit Research

Key message

The earliest deadlines for repayment of an EFSF loan by Greece are in 2023, when a EUR 1.8bn tranche and a EUR 0.565bn tranche fall due. From 2023, Greece will be repaying EUR 2.4bn annually. Note that a EUR 16bn facility for bank recapitalization has an interim maturity in 2022, but it will likely be rolled at the interim maturity. Following that, a EUR 2.8bn facility will finally mature on 30 April 2032. Ahead of these maturities, Greece may miss interest payments on outstanding loans. The exact amounts of these interest payments are not disclosed. In case of an imminent maturity of a bond or an interest payment, the EFSF can roll the debt or pay any shortfall out of its existing liquidity. Only If this was insufficient would the EFSF call on its guarantors. Ultimately, it is the EFSF shareholders, i.e. the euro area member states that provide liquidity for bond repayments or non-payment of interest rates. The weighted average maturities of all outstanding loans to Greece is 32.38 years.

Appendix

EFSF – QUARTERLY MATURITY PROFILE IN EUR BN



Source: Dealogic, UniCredit Research

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