European Stability Mechanism

The ESM at a glance

The rescue funds

- ESM is the rescue fund for euro area member states that lose market access
- Total lending capacity: € 700 billion (ESM and temporary predecessor EFSF)
- Five programme countries, four success stories
- Since 2011, around € 274 billion have been disbursed in rescue loans with no cost for taxpayers
- Economic reforms are the precondition for the rescue loans, making programme countries reform champions
- ESM has the highest capital (€ 700 billion) and the highest paid-in capital (€ 80 billion) of any international financial institution
- Loans are financed via the markets (as opposed to the IMF)
- Beneficial loan conditions as a result of the good rating, the strong backing of the ESM shareholders, the 19 euro area Member States
- Without the ESM, some countries would have been forced to leave the euro area

ESM as part of Europe's comprehensive response to the crisis

- Comprehensive reforms in the programme countries
- Better coordination of economic policies
- Unconventional monetary policy
- Banking Union
- Banks have strengthened their capital basis
- Creation of the rescue funds (EFSF in 2010, ESM in 2012) as lender of last resort to sovereigns

Special case Greece

- Greece in its 7th programme year; ESM programme ends in August 2018
- The extent of problems and the administrative weakness was much bigger than anywhere else; Greece moved into the wrong direction in early 2015
- The rescue funds have granted rescue loans of about € 182 billion to Greece
- Thanks to the advantageous loan conditions (low interest rates, long maturities) the Greek budget saves around € 10 billion every year (more than 5% of GDP) in debt service payments
- Even Greece can stand on its own two feet after 2018 if the agreed reforms are fully implemented
- Eurogroup will assess the need for additional debt relief towards the end of the programme

The euro area is more robust today than before the crisis

- Europe is stronger economically and institutionally than before the crisis
- Broad-based cyclical recovery, GDP per capita growth in line with US
- Macro-economic imbalances have been reduced
- Income distribution is much better than in the rest of the world
- Employment rate in the euro area is higher today than in 2000, as opposed to the US
- European social model is the best answer to problems of globalization

Europe's economic challenges: increasing potential growth and productivity

- In light of demographic challenges:
  a. Increase labour supply
    - Increase legal and real retirement age
    - Increase the employment rate of women
    - Integrate migrants into the labour market

  b. Promote productivity
    - Structural reforms
    - Increase investment: Juncker-Plan, EIB, EU budget
- Reduce high debt levels, private (non-performing loans) and public (government debt)

Outlook

- Economic recovery started in 2015, has become stronger recently
- Recovery is well-synchronized, each euro area country is growing
- Political risks have decreased after several elections in 2017, although they have not disappeared
- Discussions over measures to strengthen monetary union: banking union, capital market union, fiscal capacity, institutional deepening
- Objective: more risk-sharing via markets and possibly fiscal channels in parallel with risk reduction
- 70% of the Europeans support the Euro, more than any time since 2004

Luxembourg, 30 November 2017