24 November 2012

Note on the implications of a Greek Interest Deferral in the Programme Authorised Amount of EFSF

1. Background

Under the initial setup of EFSF, funding instruments were matched by guarantees and the cash reserves. Loans were funded back to back with bonds. Under the enlarged EFSF, Member States stepped up their guarantee amounts and the degree of over-guarantee. Therefore the cash reserves became unnecessary. In parallel the diversified funding strategy was introduced, which allows EFSF to fund a pool from which loans are disbursed.

2. Programme Authorised Amount

The Programme authorized amount determines the maximum amount EFSF is authorized to fund under the deeds of guarantee. The current Programme Issuance Authorized amount is set to 241 billion Euros and it will be impacted by the current programmes outstanding for Portugal, Ireland and Greece:

Table 1 – EFSF Commitments

Commitment Amount	Description
144.60	Greece
26.10	Portugal
17.70	Ireland
188.40	**Total Committed EFSF (after Spanish transfer)**

When interest rates are deferred for Greece, these amounts will have to be financed by EFSF. Accordingly the Programme Authorized Amount needed in this setup will be affected by future interest rates and cannot be predicted with certainty. Under a scenario of an interest deferral for 10 years and an expected interest rate of 3%, the additional financing required would amount to 43.5 billion. Correspondingly the available headroom remaining under the Programme Authorized Amount taking into account existing commitments would be the following:

Table 2 – Available Headroom under EFSF commitments (static/excluding Liquidity Requirements)

Commitment Amount	Description
241.00	Programme Issuance Authorized Amount
188.4	Total Committed EFSF (after Spanish transfer)
52.60	Headroom
43.8	Forecasted Greek Interest Deferral 10 years 3%/flat scenario
8.80	**Available Headroom**

This computation does not yet include the cash reserves and the redemption of existing loans. The chart below therefore outlines the scenario of a Greek programme with an interest deferral and 15 years extension assuming a flat interest rate of 3% and interest deferral over 10 years with amortization of the accumulated balance in a constant amortization profile over the consequent 20 years) taking into account the amortization profile for Portugal and Ireland, the cash reserves and the liquidity buffer requirements.

Under this more precise computation, shown in Chart 1 below, the lowest residual Programme Authorised Amount with 15 billion remaining capacity available would occur in year 2020. This estimate would diminish to 9 billion for an interest rate of 3.5% and 3 billion with an interest rate of 4%.

According to these scenarios, higher interest rates during the deferral period, increases of the programme amounts or other modifications of loans which would prolong the repayment profile before 2020 would imply that the Programme Authorized Amounts may have to be raised in the course of the coming years.

Chart 1 – Amortization Profiles (Base Case)

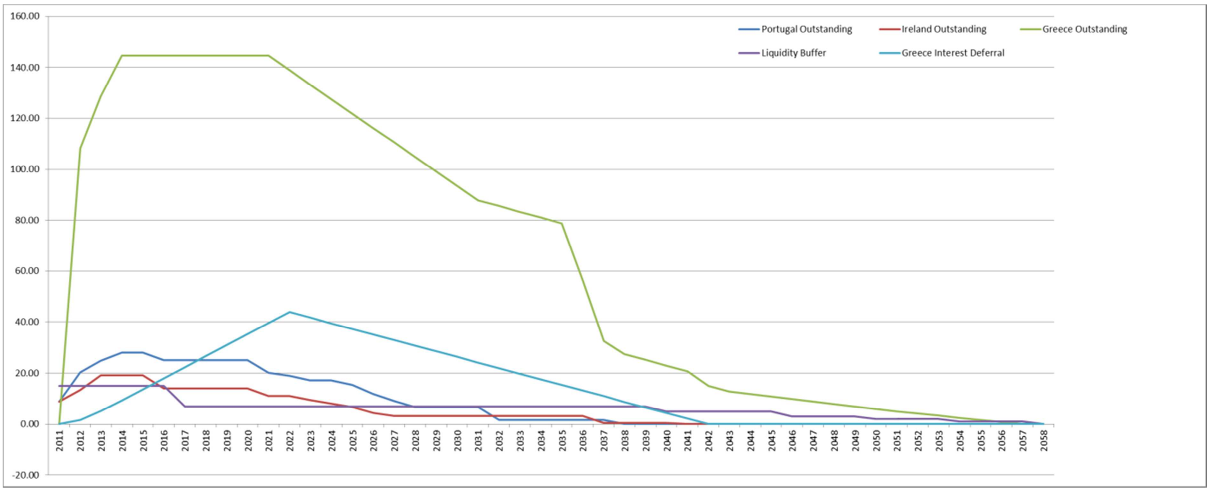

Chart 2 – Residual Programme Authorised Amount (Base Case, 3% interest rate)