››› European financial assistance – Germany's exposure is average

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The bailout programme for Greece ended on 20 August. The last instalment of the programme has already been disbursed. For the first time now since 2010, all euro countries are back on their feet financially. We take this as an opportunity to briefly take stock.

The ESM – an important milestone

The consequences of the global financial and economic crisis took some euro states to the limits of their financial capacities. What followed were massive upheavals in the government bond markets that threatened the stability of the entire European financial system and revealed the weaknesses in the architecture of the monetary union. In order to safeguard the solvency of the affected countries, the euro countries set up a bailout scheme together with the IMF and made assistance loans available in return for reform pledges. The first rescue packages were financed from a set of provisional instruments (GLF, EFSF, EFSM[1]) before the permanent European Stability Mechanism (ESM) for the euro area followed in autumn of 2012.

The ESM can provide member states with loans up to a total of EUR 500 billion in the event of a crisis, thereby considerably strengthening the financial stability of the monetary union.

European financial assistance is a long-term endeavour

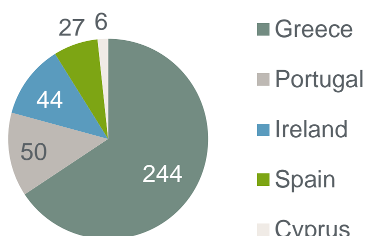
Bailout schemes were not only used by Greece but also by Portugal, Ireland, Spain and Cyprus. The main features of the schemes are long maturities and favourable conditions. That explains why the bulk of the European financial support has not yet been repaid, even though the countries have returned to the financial markets (see Figure 1). Portugal and Cyprus are scheduled to begin their repayments in 2025 and Ireland not before 2029. Spain alone has repaid just under EUR 15 billion early, significantly reducing its debt towards the European partners from EUR 41 billion to EUR 27 billion. It is an entirely different story for the assistance payments financed by the IMF. Ireland has already repaid its IMF loan in its entirety and Portugal, Greece and Cyprus have also paid back a significant part of their obligations towards the monetary fund.

A joint effort

The public debate often creates the impression that Germany is carrying the burden of Europe's financial support more or less on its own. What is true is that the German state has assumed the highest default risk because of its size and economic strength. The exposure under the outstanding assistance loans is thus around EUR 100 billion. But Germany is by no means alone in this. Every euro member state is participating in providing coverage for the bailout packages. Figure 2 illustrates that the contributions of France, Italy and Spain in particular are significant. Furthermore, the loans so far have not resulted in any costs to the taxpayer. Instead, the federal budget has even earned net interest income. After all, the absolute amount alone is not a reliable measure for the potential burden resulting from the assumption of risk for European bailout packages. A better estimate can be obtained by comparing a country's exposure with its economic performance capacity. Thus it can be seen that when measured against gross domestic product per capita, Germany's risk burden is 3 % (see Figure 3), while the countries that applied the largest shares of economic output to guaranteeing the bailout packages were Slovenia, Italy and Spain. ■

Figure 1: Outstanding assistance loans

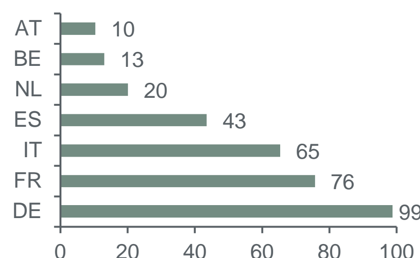
By recipient country, in EUR billions, excl. IMF



Sources: ESM, EU Commission, Irish Department of Finance, own calculations.

Figure 2: Exposure under outstanding assistance loans

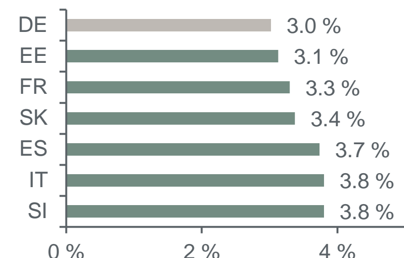
In EUR billions, excl. IMF loans



Sources: ESM, EU Commission, Irish Department of Finance, own calculations.

Figure 3: Exposure under outstanding assistance loans

In per cent of GPD per capita, excl. IMF loans



Sources: ESM, EU Commission, Irish Department of Finance, Eurostat, own calculations.

[1] GLF stands for Greek Loan Facility. It refers to the sum of the euro countries' bilateral loans under the first rescue package for Greece. EFSF is short for European Financial Stabilisation Facility, the euro countries' temporary rescue fund. EFSM stands for European Financial Stabilisation Mechanism, a joint EU instrument covered by the EU budget.

Note: This paper contains the opinion of the authors and does not necessarily represent the position of KfW.