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The budgetary cost of solidarity in the Eurozone: getting things clear and into perspective

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Introduction

The negotiations of the bailout plans for Greece, Ireland and Portugal as well as the adoption of new solidarity mechanisms have triggered a lively debate on the cost of these solidarity actions, particularly in those countries that are making the biggest contribution to those efforts such as Germany, The Netherlands, Finland and France.

This Policy Brief aims to clarify some points concerning the cost of interstate solidarity exercised within the Eurozone. Our analysis will focus on the budgetary cost of that solidarity, which has been at the heart of this debate[1]. We start by clarifying the nature of these solidarity actions as well as their impact on national public finances. We then analyse the current controversy over the budgetary implications of the growing imbalances in TARGET2 positions (the payment and settlement system between the central banks in the Eurozone) and, more generally, of the exceptional actions undertaken by the European Central Bank (ECB). Lastly, in order to give an order of magnitude of this solidarity effort, we place the total cost of interstate solidarity efforts in perspective by comparing it to the amount of money set aside by the states to help their banks since the start of the crisis.

1. Solidarity in the form of loans rather than gifts

In many countries of the Economic and Monetary Union (EMU), certain media or political parties have – wrongly – described the aid granted to countries in difficulty as a fully-fledged fund transfer. In Germany, for instance, shortly before the first aid plan for Greece was approved, the *Bild* newspaper accused the government of offering billions of euro to the Greeks at the very same time as it was cutting expenditure on German schools and parks[2]. Yet, the idea that funds granted to countries receiving financial assistance could have been allocated to other national spending priorities is false.

In this respect, it is important to stress that the financial aid offered to member states in difficulty has not consisted into the concession of grants but of non-concessional loans at an interest rate initially higher than 5%. Indeed, it is precisely because the member states have not taken over their partners' debts but simply granted them loans that the aid deployed is not in breach of Community law – in the case in point, it is not in breach of the no-bailout clause in the Lisbon Treaty.

1. One should notice that there are other, non-budgetary costs at debate, in particular those related to the exceptional ECB actions (a potential hike in inflation, a loss of credibility of the ECB action in the long term, the creation of 'zombie' banks, etc.)

2. In late April 2010, *Bild* remarked: "We are told that we do not have the resources to cut taxes, to renew our schools, to maintain our public parks, to repair our roads... and all of a sudden our leaders find billions of euro for the Greeks, who have betrayed Europe". (Manolopoulos, Jason, *Greece's'Odious' Debt : The Looting of the Hellenic Republic by the Euro, the Political Elite and the Investment Community*, London : Anthem Press, 2011, p. 229).

1.1. Need to distinguish between the various financial aid instruments

In order to get an accurate picture, it is important to distinguish between the first aid plan for Greece (granted before the creation of European rescue mechanisms) and the aid plans for Ireland and Portugal as well as the second "rescue" package for Greece, all three of which were guaranteed by the new European solidarity arrangements and by the International Monetary Fund (IMF).

Table 1 – Financial assistance granted to Eurozone member states (in billions of euro)

	Bilateral loans - Eurozone	EFSF	EFSM	IMF	Bilateral loans - non Eurozone (UK, DK, SE)	Total
Greece 1st plan *2010-2011*	52.9			20		72.9*
Ireland *2010-2013*		17.7	22.5	22.5	4.8	67.5
Portugal *2011-2014*		26	26	26		78
Greece 2nd plan *2012-2015*		144.6**		28		172.6
Total	**52.9**	**152.8**	**48.5**	**99.4**	**4.8**	**391**

* The amount of the first aid plan granted to Greece came to 110 billion euro; however, the second aid plan which came into force in March 2012 replaced the first aid plan and, by that date, only 72.9 billion euro of the original 110 billion euro had been disbursed.

** The contribution from the EFSF to the second aid plan for Greece includes 35.5 billion euro allocated to the private sector involvement operation. On top of these 144.6 billion euro, the EFSF provided 35 billion euro as collateral enhancement to the ECB to cover Greece's selective default.

Source: *Notre Europe*

Box 1:
The new European financial stability mechanisms

Since May 2010 the EU and EMU countries have created three financial stability instruments which it is worthwhile distinguishing:

- The European Financial Stability Facility (FESF): a temporary intergovernmental instrument set up in 2010 for a period of three years. It borrows money on the capital markets on the basis of guarantees issued by the 17 Eurozone member countries. It has an effective lending capacity of 440 billion euro;
- The European Financial Stability Mechanism (EFSM): an instrument set up at the same time as the EFSF in 2010. It allows the European Commission to borrow money on the capital markets using the EU budget as guarantee. It has a borrowing capacity of 60 billion euro;
- The European Stability Mechanism (ESM): a permanent intergovernmental instrument due to come into force in July 2012. It will borrow money on the basis of its own capital comprised of payments from the 17 Eurozone member countries (80 billion) and of a callable capital of 620 billion euro. It will have an effective lending capacity of 500 billion euro.

In the first case, the EU financial assistance has consisted into direct bilateral loans between each EMU country and Greece for an amount proportional to each EMU country's ECB capital share[3]. In the second case, the Eurozone member countries did not lend directly to Ireland, Portugal and Greece. They provided the EFSF with the guarantees that it needed to be able, in its turn, to borrow capital on the money markets and to then lend that capital to member states requiring assistance. As in the case of the loans granted to Greece, the guarantees offered by the member states are in proportion to the share that each one holds in the ECB's capital.

3. Slovakia did not take part in the first aid plan for Greece, nor did Estonia, which only joined the single currency in January 2011.

Table 2 – Bilateral loans granted to Greece by EMU countries as part of the first aid plan and maximum guarantee pledges to the EFSF (in billions of euro)

	Bilateral loans granted to Greece (May 2010)	Maximum guarantee pledges to the EFSF
Austria	2.30	21.64
Belgium	2.90	27.03
Cyprus	0.16	1.53
Estonia	0.00	2.00
Finland	1.50	13.97
France	16.80	158.49
Germany	22.30	211.05
Greece	0.00	21.90
Ireland	1.30	12.38
Italy	14.70	139.27
Luxembourg	0.21	1.95
Malta	0.07	0.70
Netherlands	4.70	44.45
Portugal	2.10	19.51
Slovakia	0.39	7.73
Slovenia	0.36	3.66
Spain	9.80	92.54
Total	**79.59**	**779.80**

Sources: www.efsf.europa.eu and European Commission, Directorate General of Economic and Financial Affairs, The Economicadjustment programme for Greece – First review summer 2010, *Occasional papers 68*, August 2010.

1.2. The EFSF: need to distinguish between maximum guarantee pledges and guarantees issued

Table 2 shows the bilateral loans granted to Greece and the maximum guarantee pledges made to the EFSF by the EMU member states. We can see, for instance, that Germany granted Greece a loan of 22.3 billion euro over three years[4] and pledged to provide the EFSF with a maximum guarantee of 211 billion euro. The latter figure is important because it accounts for some 70% of the German federal budget for 2012[5]. However, one should be clear about what this figure means.

Firstly, 211 billion euro is a maximum pledge. It is not the sum of the guarantees that Germany has actually handed over to the EFSF to date. In fact, EMU countries provide guarantees in a gradual manner to reflect the sums that the EFSF needs in order for it to borrow capital on the money markets and to make payments to the countries benefiting from financial assistance. Up to the end of February 2012, the EFSF had borrowed 22.5 billion euro in the context of the aid plans for Ireland and for Portugal, which translates into a guarantee provided by Germany to the tune of approximately 9 billion euro (*see Table 3*). Secondly, EFSF guarantees will not be called upon unless one of the countries benefiting from financial assistance makes default. In other words, if the risk does not materialise (that is, if the bailed-out countries reimburse their loans) the EMU countries will recover the money they have lent to Greece and the guarantees they have made to the EFSF will not be called in.

Table 3 – Guarantees granted by the EU-17, France and Germany for EFSF issues up to February 2012 (in billions of euro)

EFSF Issues				Total guarantee					
				Over-collateralisation[6]	EU 17 Guarantee	French Guarantee		German Guarantee	
Date	Amount	Rate	Maturity		Amount	Share	Amount	Share	Amount
25.01.11	5	2.75%	18.07.11	120%	6	21.26%[7]	1.3	28.38%	1.7
15.06.11	5	3.38%	5.07.21	120%	6	21.83%	1.3	29.07%	1.7
22.06.11	3	2.75%	5.12.16	120%	3.6	21.83%	0.8	29.07%	1.0
07.11.11	3	3.50%	4.02.22	165%	5	21.83%	1.1	29.07%	1.5
13.12.11	2	0.22%	15.03.12	165%	3.3	21.83%	0.7	29.07%	1.0
05.01.12	3	1.63%	4.02.15	165%	5	21.83%	1.1	29.07%	1.5
17.01.12	1,5	0.27%	19.07.12	165%	2.5	21.83%	0.5	29.07%	0.7
Total	**22.5**	–	–	–	**31.2**	–	**6.8**	–	**9.1**

Source: *Notre Europe* and French Senate Report n°395 relative to the ratification of the treaty establishing the European Stability Mechanism dated 21 February 2012.

4. In view of the fact that the bilateral loans granted to Greece by the EMU member states were taken over by the EFSF when the second bailout plan came into force in March 2012, the amount of Germany's bilateral loan to Greece has ended up totalling 15.17 billion euro over two years.
5. Germany's federal budget for 2012 is 306.2 billion euro.
6. Until the EFSF reform of October 2011, EFSF issues were guaranteed to the tune of 120% by the member states. Since the reform came into force, the overcollateralisation mechanism has been raised to 165 %.
7. France's share of the EFSF guarantees stands at 20.31%. However, without the Greek and Irish guarantees its contribution rises to 21.26%; as of the second EFSF issue, its share was raised to 21.83% after Portugal was granted EFSF financial aid and so it withdrew from the Fund's guarantee system. The same reasoning applies to Germany's share of the guarantees.

2. Impact of solidarity actions on national public finances

A concern voiced with regard to the cost of solidarity in the Eurozone is the damage to public finances occasioned by the actions undertaken. In effect, the bilateral loans granted to Greece and the debt issued by the EFSF do need to be recorded into the public accounts of each Eurozone member state. More specifically, the cost of these actions is taken into account when calculating the gross sovereign debt of each country. However, contrary to a currently fairly widely held opinion, they do not impact public deficits as long as none of the countries benefiting from financial assistance find themselves defaulting on payment.

Aside from this common point (impact on public debt but not on public deficit), there are differences between the way in which loans to Greece, guarantees issued to the EFSF and member states' endowments for the future ESM are recorded into the public account of the member states.

2.1. Impact of the loans to Greece and of the guarantees granted to the EFSF

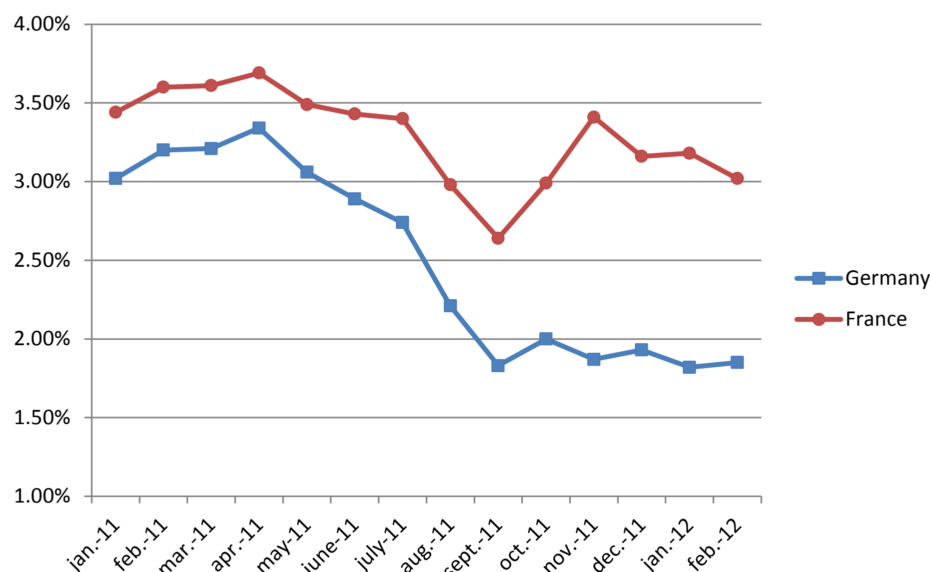
The three-year bilateral loans granted to Greece in May 2010 have indeed increased the sovereign debt of each EMU member state. In fact, each country has been forced to issue new bonds in order to be able to grant Greece a loan. Yet, given that Greece pays them interest at a rate higher than that at which they themselves are borrowing on the money markets, these new issuances of debt have not increased their public deficit because the costs of issuing have been balanced out by the interests paid by Greece.

Concerning the EFSF, Eurostat has published a detailed note explaining the way EFSF actions will be accounted for in national public finances[8]. Eurostat's opinion is that the EFSF does not possess all the characteristics to be treated as an independent "institutional unit" (that is, an entity with sufficient independent financial and decision-making power to be responsible for its acts). In consequence, the debt incurred by the EFSF has to be recorded in the gross government debt figures of the Eurozone countries which guarantee it, and according to the size of their guarantee[9]. This implies that, as the EFSF issues debt, member states will see their debt increase. However, contrary to what happens with the bilateral loans granted to Greece, the debt increase in this case is purely an accounting operation. In other words, the EFSF's operations increase the debt-to-GDP ratio in the Maastricht sense of the term, but they do not force the member states to raise any capital on the money markets. The accounting would only become real if the countries had to pay their guarantees to the EFSF (i.e. if the country benefiting from financial aid were to default on payment).

For the moment, the impact of Greek loans and EFSF actions on member states' public debt-to-GDP ratio has been rather limited. According to Eurostat's forecasts, the increase in national sovereign debts caused by solidarity actions in 2011 is going to account for less than 1% of GDP[10]. In France, for example, the loan to Greece and the guarantees for the EFSF for the aid plans for Ireland and for Portugal pushed the sovereign debt up by 0.8% in 2011[11]. This observation does not fit well with an oft-repeated argument in certain countries, which claims that increasing solidarity efforts towards the peripheral countries have translated into higher costs of servicing the debt for Eurozone member countries as well as higher risk of downgrading. In fact, data does not confirm this argument. As shown in Graph 1, in both Germany and France (the two biggest contributors to aid plans) interest rates have declined since the EFSF made its first issuance of debt (January 2011). Note that France has enjoyed an overall decline in interest rate from January 2011 to January 2012 despite the fact of being downgraded in its rating by Standard & Poor's. It is also interesting to note that the rating agency has justified its downgrading not by the amount of solidarity displayed by France, but rather the lack of a EU compromise to bolster the EFSF's lending capacity as well as other domestic factors hampering the long-term dynamic of debt sustainability in France (the relatively high general government debt and the French labour market rigidities)[12].

8. Eurostat, "New decision of Eurostat on deficit and debt: The statistical recording of operations undertaken by the European Financial Stability Facility", *News Release 13/2011*, 27 January 2011.
9. As explained in the news release by Eurostat: "The debt issued by the EFSF for each support operation for a member of the euro area must be reallocated to the public accounts of States providing guarantees, in proportion to their share of the guarantees for each debt issuing operation. [...] The recording of these flows via the Member States providing guarantees will have an impact on their gross government debt (as defined in the Maastricht Treaty), but this transaction will be neutral in terms of debt, net of the loans they have granted for support operations to other Member States".
10. Eurostat, "Euro area government debt down to 87.4% of GDP", *News Release 20/2012*, 6 February 2012.
11. According to the Court of Accounts' Annual Public Report for 2012 (February 2012), France's sovereign debt in 2011 stood at 84.9% in 2011, while it would only have stood at 84.1% without the loan to Greece and the guarantees to the EFSF for the Irish and Portuguese aid plans.
12. Note on rating agency Standard & Poor's downgrading of France on 13 January 2012: "This [the downgrade] is a reflection of our view that the effectiveness, stability and predictability of European policymaking and political institutions (with which France is closely integrated) have not been as strong as we believe are called for by the severity of what we see as a broadening and deepening financial crisis in the Eurozone".

Graph 1 – 10-year interest rate on French and German bonds



Source: *Notre Europe* according to European Central Bank figures

2.2. Impact of ESM on national public finances

The European Stability Mechanism (ESM) is due to come into force in July 2012. Unlike the EFSF, the ESM will have a capital structure of its own, worth 80 billion euro[13]. This paid-in capital will be provided by the EMU member states in accordance with an allocation key based on their share in the ECB's paid-up capital (*see Table 3*). The member states' initial paid-in capital for the ESM (which amount to approximately 16 and 22 billion euro respectively for France and for Germany) will be considered as an increase in equity for the participating member states, which means that they will have an impact on their gross sovereign debt level but not on their public deficit.

Table 4 – Contribution of each Eurozone member state to overall ESM (called and callable) capital (in billions of euro)

ESM participating state	ESM capital allocation key in %	Capital subscriptionl	Contribution to own initial capital
Belgium	3.477	24.3	2.8
Germany	27.146	190.0	21.7
Estonia	0.186	1.3	0.15
Ireland	1.592	11.1	1.3
Greece	2.817	19.7	2.3
Spain	11.904	83.3	9.5
France	20.386	142.7	16.3
Italy	17.914	125.4	14.3
Cyprus	0.196	1.4	0.15
Luxembourg	0.25	1.8	0.2
Malta	0.073	0.5	0.06
Netherlands	5.717	40.0	4.6
Austria	2.783	19.5	2.2
Portugal	2.509	17.6	2.0
Slovenia	0.428	3.0	0.34
Slovakia	0.824	5.8	0.7
Finland	1.797	12.6	1.4
Total	**100**	**700**	**80**

Source: Treaty establishing the European Stability Mechanism

13. Member states will pay this 80 billion euro in five instalments: two in 2012, two in 2013 and the final one in the first semester of 2014.

Unlike the EFSF, the ESM is going to be treated as an independent "institutional unit" by Eurostat calculus. In other words, it is an entity with sufficient independent financial and decision-making power to be responsible for the issue of its own bonds. Thus its indebtment will not be consolidated with that of the member states, which is what happens with the EFSF's bond issues today[14]. Therefore, compared to the EFSF, the ESM has the advantage of not causing the funding it raises to weigh down on the member states' gross sovereign debt. In other words, aside from the 80 billion euro in called capital, each country's gross sovereign debt will not be impacted by the ESM's fund raising as long as there are no losses to record. As with the EFSF, if the ESM's called capital (or callable capital if a call has to be made) needs to cover any losses, the sums in question (in accordance with each state's share) will have to be recorded into each country's sovereign debt.

3. TARGET2 and the ECB actions: a financial transfer in disguise among Eurozone member states?

Another issue currently at the heart of the debate concerns the ECB action and the risks that that entails for national public finances. The debate concerns, in particular, the Eurosystem's TARGET2 payment and settlement system (*see Box 2*) via which it is alleged that states in the Eurozone are conducting financial transfers in disguise.

Box 2 - TARGET2: What is that?

TARGET2 is a system of compensation among the national central banks in the Eurozone. It facilitates cross-border operations between commercial banks in different Eurozone countries and ensures effective liquidity management within the Eurozone. On a more concrete level, TARGET2 allows national central banks to respond to the liquidity requirements of their commercial banks, and the commercial banks to settle cross-border transactions by mutually transferring to one another their liabilities with their national central bank. At the end of each working day, national central banks' liabilities and debts with their commercial banks are cumulated and replaced by a net liability or net debt that each central bank has with the Eurosystem. This daily liability or daily debt is then built into the calculation of each central bank's cumulated TARGET2 balances.

The cross-border transactions conducted through TARGET2 can be either financial or commercial. A difference in TARGET2 balances between central banks may therefore reflect differences in current balances between euro-zone member countries, but also net capital transfers from one country to another.

3.1. Growing gap in the TARGET2 balances

Before the crisis, the various national central banks' TARGET2 positions were close to balance. Current account deficits of the Eurozone's peripheral countries were compensated by net inflows of capital into those same countries. Yet as of 2007 we start to see a growing gap in TARGET2 balances with, in particular, a major increase in TARGET2 liabilities for the *Bundesbank* and a parallel deterioration in TARGET2 balances for the central banks of the Eurozone's peripheral countries. This gap in the TARGET2 balances is due primarily to two factors: on the one hand, there has been considerable capital flight from countries in difficulty towards banks in "safe" countries, with Germany topping the list; on the other hand, the commercial banks in the Eurozone's central countries have become more reluctant to lend money to banks in the peripheral countries, which has forced the latter to resort increasingly to their own national central banks in order to refinance themselves. Under such circumstances, the ECB's adoption of an exceptional programme of support for bank liquidity has translated into a major increase in the number of operations by banks in peripheral countries to refinance themselves with their central bank, and thus into an increase in the latters' negative TARGET2 balances[15].

The growing gap between TARGET2 balances, and especially the exorbitant amount of TARGET2 liabilities held by the *Bundesbank* (approximately 500 billion euro at the end of 2011), has raised concern regarding the risks being run by the Eurosystem's creditor central banks (and their sov-

14. "(…) the future ESM should be treated as a EU international institution (…). As a consequence, the debt possibly incurred by the ESM on the markets will be recorded as ESM debt, and not rerouted to euro area member states, and the debt of the borrowing country will be recorded as debt due to ESM, and not to other euro area member states", from the Eurostat note: "Eurostat's preliminary view on the recording of the future ESM" dated 7 April 2011.

15. See the ECB Monthly Bulletin for October 2011, pp. 35-40.

ereigns in last resort). Yet the notion that Germany is exposed to the risk of massive losses due to the exorbitant total of *Bundesbank*'s TARGET2 liabilities is completely unfounded. The risks run by the Eurosystem's central banks do not depend on their TARGET2 positions but on their participation in the ECB's capital. Thus in the event of losses, Germany would indeed shoulder a higher share than, say, Italy. However, this would not be because it has a higher credit balance but because the *Bundesbank* holds a 27% stake in the ECB's capital while the *Banca d'Italia* holds only a 17.8% stake. The only scenario in which Germany would have to shoulder the risks linked to its TARGET2 liabilities single-handed would be if the Eurozone were to implode in a disorderly fashion, a scenario in which no central bank would honour its commitments to the ECB. Such a scenario is unrealistic and *Bundesbank* President Jens Weidmann is the first person to acknowledge that[16].

In fact, Jens Weidmann's real source of concern is not that unrealistic hypothesis. In the *Bundesbank* president's view, the TARGET2 balances are only a symptom of a far more important problem, namely the fact that the ECB, with its exceptional measures in support of the banks[17] and its Securities Market Programme to buy up sovereign bonds, is increasingly exposing itself to the risk of major losses. While these ECB exceptional actions are particularly beneficial for those countries most hit by the crisis, in the event of any losses, it is the German government that would pay the highest price on account of the *Bundesbank*'s share in the ECB's capital. Through these operations, concludes Jens Weidman, the ECB is *de facto* performing a "redistribution of banks' and governments' bankruptcy risk among the Eurozone's taxpayers"[18].

3.2. Is the ECB running the risk of taking losses?

No one questions the fact that the ECB's special action is risky. Not only does it expose the ECB to losses, but it also entails other risks that should not be overlooked (such as a loss of credibility for the ECB's action in the longer term or a dangerous increase in the exposure of commercial banks to their country's debt). But having said that, the notion that the ECB is probably going to take losses, and that those losses are inevitably going to translate into losses for the national taxpayer, needs to be qualified for three main reasons.

First of all, the Eurosystem has a considerable capacity for absorbing losses. Contrary to what has become a very widely held view, that capacity exceeds the sum of the Eurosystem's capital and of its reserves (81.7 billion euro), including also the re-evaluation accounts (the unrealised gains corresponding to the re-evaluation of its golden stock, its foreign currency and other assets at current market price) valued at 394 billion euro[19]. That makes a total of approximately 500 billion euro, a considerable sum to absorb any losses resulting from the purchase of sovereign bonds (approximately 220 billion euro to date) and from its special action in support of banks (approximately 1 trillion euro at the end of March 2012).

Secondly, we need to bear in mind that the ECB lends to banks in return for collateral, which serves as a guarantee in the event of losses. While it is true that the ECB has relaxed its requirements in terms of that collateral's quality, it takes into account the differences in the quality of assets proposed by applying a system of "discounts" which vary between 0.5 and 46%. In addition, banks are accustomed to offering higher collateral than is generally asked of them. Thus, the overall value of collateral deposited with the ECB today stands at approximately 2 trillion euro, a sum which is far higher than value of the loans that the ECB has made to the banks[20].

And lastly, unlike commercial banks, the ECB is not subject to the requirements of regulatory capital. That means that, in the event of losses, the ECB could choose to carry on operating with a negative balance[21]. Such a scenario is not something to be hoped for, of course, but at the same time it is important to bear in mind that the ECB statutes do not stipulate any obligation to recapitalise in the event of losses.

16. "In my view, the commitments involved in TARGET2 do not represent a threat in themselves, because I consider the collapse of the Eurozone to be patently absurd", quote from a letter by Jens Weidmann published in *Frankfurter Allgemeine Zeitung* on 13 March 2012.
17. In particular the LTRO (*Long-Term Re-Financing Operation*) Programme.
18. Cited letter from Jens Weidmann.
19. Ducrozet F., "BCE : le champ des possibles", *ECO focus*, n° 16/11, Crédit Agricole-Direction des études économiques, 25 November 2011; Buiter W. and Rahbari E., "Looking into the deep pockets of the ECB", *Citibank report*, 27 February 2012.
20. Buiter and Rahbari, *op. cit.*
21. Buiter and Rahbari, *op. cit.*; De Grauwe, "Only a more active ECB can solve the euro crisis", *CEPS Policy Brief*, No. 250, August 2011.

4. Putting this solidarity into perspective: a comparison with the amount of money set aside to help banks

In the course of a seminar organised by *Notre Europe* in April 2011, former Belgian Finance Minister Didier Reynders made a very apposite remark: "When one considers the doubling of the EFSF's lending capacity, for a country like Belgium that represents a guarantee worth an additional 15 billion euro designed to cover all of the risks in the Eurozone. We should agree on a guarantee worth 30 billion euro in all. I understand that this doubling is a particularly sensitive issue in some countries, but on the other hand, when it was necessary to respond to the banks' problems, a guarantee worth 90 billion euro was found to be necessary for a single bank in Belgium alone! And it only took a weekend to put it together without hardly any delay"[22].

22. Didier Reynders, "Europe has always moved forward in times of crisis", The Euro, the investors and the governance – Proceedings of the seminar in honour of Tommaso Padoa-Schioppa, *Notre Europe*, June 2011.

In effect, following the Lehman Brothers collapse in 2008, the EU member states showed no hesitation in adopting aid plans in support of their banking system. As we can see from Table 4, between 2008 and 2011, the Commission authorised aid for the financial industry up to a maximum ceiling of approximately 4.5 trillion euro for all 27 member states, some 1.6 trillion of which were used between 2008 and 2010 to provide guarantees or liquidity to the banks (1.199 trillion euro) and for recapitalisations or impaired asset relief (409 billion euro). Even though only about one-third of the sums authorised were used through to 2010, we can still see that Germany made over 600 billion euro available to its banks, while it is reluctant to increase its EFSF guarantee, which stands at approximately 200 billion euro.

Table 4 – Amount of aid (in billions of euro)

	Amount of aid for financial institutions approved in 2008-2011	Amount of aid for financial institutions used in 2008-2010	% of amount of aid granted actually used as of December 2010
Belgium	325.37	72.36	22.24
Bulgaria	0.00	0.00	0
Czech Republic	0.00	0.00	0
Denmark	600.11	157.41	26.23
Germany	620.33	252.55	40.71
Estonia	0.00	0.00	0
Ireland	570.11	413.28	72.49
Greece	108.47	38.85	35.82
Spain	336.96	88.80	26.35
France	351.10	116.39	33.15
Italy	20.00	4.05	20.25
Cyprus	3.00	2.82	94
Latvia	8.78	2.33	26.54
Lithuania	1.74	0.00	0
Luxembourg	7.32	4.94	67.49
Hungary	10.33	2.24	21.68
Malta	0.00	0.00	0
Netherlands	313.33	95.16	30.37
Austria	91.25	27.11	29.71
Poland	9.24	0.00	0
Portugal	47.45	5.24	11.04
Romania	0.00	0.00	0
Slovenia	12.25	2.15	17.55
Slovakia	3.46	0.00	0
Finland	54.00	0.12	0.22
Sweden	161.56	20.70	12.81
United Kingdom	850.30	301.50	35.46
Total EU 27	**4506.47**	**1607.98**	**35.68**
Total EU 17	**2864.40**	**1123.82**	**39.23**

Source: European Commission, Report on state aid granted by EU member states – Autumn 2011, COM (2011) 848, 1.12.2011.

In any event, the amounts shown in Table 4 do not represent the final cost of bailing out the banks. To start with, the figures that we have only go as far as 2010, while in some countries further payments have been made since then. In addition, the European banking system continues to remain fragile, and in all likelihood more public aid for the financial industry is going to be required in the future. Yet while that aid has already led to a worsening of the public deficit in some countries, it has not done so in all of them. Thus, Eurostat reports that for the period stretching from 2008 to 2010, that aid has contributed to an increase in the public deficit in certain countries (approximately 23% for Ireland and between 0.5 and 3% for a group of countries comprising Germany, The Netherlands, Austria, Portugal and the United Kingdom) while in other countries, in particular France, Greece, Spain and Belgium, up until 2010 support for banks had a positive, albeit marginal, impact on the public deficit (thanks to the contribution made to state income by the fees on guarantees granted to financial institutions and by the interest accrued on the financial instruments acquired by governments-debt securities and loans)[23].

In the case of France, for instance, all of the banks that resorted to the aid plan put in place by the government in 2008 have already repaid the government, bar one: Dexia. Thus the aid granted to date has had a positive impact on French public accounts, with the risk of losses now restricted solely to the case of Dexia. Indeed, it is interesting to compare France's pledges to a single bank, Dexia, with those that it has made to Greece, the former being far higher than the latter.

Box 3 – Bailing out Dexia *vs* bailing out Greece: the potential cost for France

Comparison of France's pledges to Dexia (in the context of aid plans in which also the governments of Belgium and Luxembourg are taking part) with its pledges in the two aid plans for Greece (participation in the second plan estimated on the basis of its share of guarantees to the EFSF).

Participation in the Dexia bailout plan	Participation in the Greek bailout plan
1st aid plan – 2008 - 1 billion euro – recapitalisation - 55 billion euro – issue of guarantees 2nd aid plan (dismantlement) – 2011 - 32.85 billion euro – issue of loan guarantees - 6.65 billion euro – issue of an additional guarantee against any losses linked to the restructuring of certain loans to local French communities	1st aid plan – 2010 - 11.4 billion euro bilateral loan (the initial amount of the loan that France granted to Greece over three years was 16.8 billion euro, but a part of that loan was picked up by the EFSF in 2012). 2nd aid plan – 2012 - Approximately 31.6 billion euro in guarantees to the EFSF (France is to underwrite 21.83% of the 144.6 billion euro granted by the EFSF).
Total : 95.5 billion euro	Total : 43 billion euro (estimation)

Source: *Notre Europe* and French Senate Report n° 35 on the budget adjustment bill, 18 October 2011.

23. Eurostat, "Supplementary table for the financial crisis", Background note, October 2011.

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Conclusion

In the face of the sovereign debt crisis, the Eurozone countries have put on a show of solidarity towards the countries in difficulty. This solidarity naturally entails costs for those exercising it. There is always a risk that the loans granted may not be paid back, and guarantees and loans granted to the countries in difficulty do have an impact on national public finances. Yet, in the media and in public debates, there has been some confusion concerning the nature of the aid provided as well as its implications for national budgets. Contrary to a widely held opinion, the countries receiving financial assistance have not been granted subsidies but loans at non-concessional interest rates. There is also a tendency to amplify the cost of this solidarity by treating the maximum guarantee pledges made to the EFSF by each member state as guarantees effectively issued. Finally, whereas these solidarity actions have increased the public debt of Eurozone countries, until now the aid deployed has not worsened national public deficits.

In any case, the magnitude of this cost must be measured against the yardstick of the cost of a non-intervention. The latter had most likely triggered a disorderly default on payment in the Eurozone, which would have had in turn a contagion effect on other countries weakened by the crisis. The economic and political costs associated with such a scenario are huge, even if difficult to quantify. As pointed out by Wolfgang Schäuble in his letter to the members of the *Bundestag* at the moment of the adoption of the second aid plan for Greece, there is no guarantee that the action being undertaken will be successful, but the prospects of success for the alternatives to that action are even weaker.

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