National Treasury Management Agency

Technical Note on EU - IMF Programme Borrowing Costs

The Government agreed on 28 November 2010 to the provision of a €85 billion financial support programme for Ireland by members of the EU and the International Monetary Fund (IMF). The State's contribution to the programme will be €17.5 billion while the external support will amount to €67.5 billion.

The external support will be as follows:

(i) **€22.5 billion from the IMF**
(ii) **€22.5 billion from the European Financial Stability Mechanism (EFSM) and**
(iii) **€22.5 billion from the European Financial Stability Fund (EFSF) and bilateral loans from the UK, Sweden and Denmark.**

The average interest rate on the €67.5 billion available to be drawn from these three external sources under the EU – IMF programme is 5.82 per cent on the basis of market rates at the time of the agreement. The actual cost will depend on the prevailing market rates at the time of each drawdown. The average life of the borrowings, which will involve a combination of longer and shorter dated maturities, under each of these sources is 7.5 years and the interest rates applying to borrowings from each are as follows, based on market rates at the time of the agreement:

(i) **IMF: 5.7 per cent per annum: The IMF lending is denominated in the Fund's unit of account, Special Drawing Rights (SDRs). The SDR comprises a basket of four currencies, Euro, Sterling, the US Dollar and Japanese Yen. The IMF's SDR lending rate is based on the three month floating interest rates for the currencies in the basket. In the presentation of the financial support programme the interest cost on the IMF's floating rate SDR lending is expressed as the equivalent rate when the funds are fully swapped**

into fixed rate Euro of 7.5 years duration. This expresses the interest rate in terms which can be compared with the cost of borrowing from the EU sources.

(ii) EFSM: The EU has agreed that funds from the EFSM will be at a rate similar to the IMF funds, i.e. 5.7 per cent per annum.

(iii) EFSF: 6.05 per cent per annum. In order to obtain funds for on lending to Ireland the EFSF will borrow on the international capital markets on the strength of guarantees provided by Euro area countries (excluding Ireland and Greece). In order to obtain the top AAA rating from the credit rating agencies it was necessary for the EFSF to put in place certain credit enhancements in the form of collateral and the cost of this arrangement is reflected in the interest rate charged by EFSF on its lending. The technical assumption is made that the bilateral loans from the three EU Member States will be on the same terms as the funds from the EFSF.

The EFSM is the European Union's mechanism for providing assistance to any EU Member State. The European Union borrows directly in its own name on the capital markets to fund any such aid.

The EFSF is the European Union's mechanism for providing assistance to any Euro area member. It is a separate legal entity based in Luxembourg and operating under Luxembourgish law. It obtains funds for any aid it provides through borrowing on the capital markets on the strength of guarantees provided by Euro area members.

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