

## THE PANDEMIC CRISIS SUPPORT PRICING

As part of a broader set of measures agreed in a spirit of solidarity, the Eurogroup has proposed to establish a Pandemic Crisis Support, based on the ESM ECCL framework, to address the consequences of the Covid-19 pandemic. With this in mind, the pricing elements that would normally apply to precautionary instruments could be adjusted to reflect the specific recovery-oriented nature of the Pandemic Crisis Support ECCL, increasing its effectiveness.

As with all existing ESM stability support, the pricing structure under this instrument will comprise of a base rate and commitment fee, to cover costs of financing, the service fees to cover operating costs, and an appropriate margin. This note focuses on changes to the margin and service fees.

The funding of the Pandemic Crisis Support ECCL will be carried out separately (silo-based) from the pools that are used to fund most of the ESM's lending activity, subject to the ESM Members' agreement. It can be implemented swiftly to obtain a lower base rate. The ESM will continue to explore pricing options and may propose them to ESM Members for approval later on.

### **Margin**

According to the ESM Pricing Policy, the margin shall reflect the risk profile of an ESM lending instrument. Currently, a 35 basis points margin applies to the ECCL, compared to a 10 basis points margin for the stability loans.

It is proposed to set the Pandemic Crisis Support ECCL margin at 10 basis points, which would better reflect the specific circumstances and instrument features including absence of moral hazard.

### **Service Fees**

The ESM applies an Up-front Service Fee and an Annual Service Fee to cover its operating expenses. For all ESM instruments an up-front fee of 50 basis points applies for each disbursement and a 0.5 basis point annual fee on the outstanding amounts.<sup>1</sup>

A 50 basis points upfront fee will result in meaningful one-off costs for the beneficiary Member State at the time of disbursement. This will be spread over shorter time period compared to ESM loans, making the Pandemic Crisis Support ECCL relatively more expensive. The Upfront Service Fee for the Pandemic Crisis Support ECCL could be lowered to 25 basis points leaving the annual fee unchanged. This would strike a balance between lowering the overall costs of the instrument while supporting ESM's self-sustained business model.

### **Process**

ESM governing bodies could decide to adjust the Pandemic Crisis Support ECCL pricing when agreeing on a dedicated framework for this support. This specific pricing structure will not apply to other ESM instruments.

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<sup>1</sup> For the ECCL, an upfront service fee of 50 basis points is applied on the maximum agreed amount under a single disbursement at credit line is set up, which is deducted from the upfront fee obligations, which become due upon drawing.