

# Establishment of the European Monetary Fund

On 6 December 2017, the European Commission made a proposal to transform the intergovernmental European Stability Mechanism (ESM) into a European Monetary Fund (EMF) under EU law. It would get additional prerogatives, and the decision-making mechanisms would be fundamentally altered, shifting power away from the Member States. The proposal has met considerable resistance at Council level, and at the December 2018 Euro Summit it was decided to maintain the ESM's intergovernmental character. The European Parliament is expected to vote on an interim report during the March I plenary session, with a view to its future consent vote on the proposal – should the Council reach agreement on it.

## Background

The [ESM](#) was created during the height of the European sovereign debt crisis as a permanent rescue mechanism, which would help governments of the euro area which had lost – or were about to lose – access to the capital markets. The ESM provides loans subject to strict conditionality. It replaced a number of ad hoc mechanisms, such as the [European Financial Stability Facility](#) (EFSF, 2010). Of the seven countries whose governments needed urgent help, three were not using the euro. For these the EU Treaties provide a mechanism, the [balance of payments facility](#), but euro-area countries were deliberately excluded from this kind of support in the Maastricht Treaty. Therefore, when the need to help euro-area countries arose, the ESM was created in 2012 through an [intergovernmental treaty](#). All decision-making is in the hands of governments, paired with strong participation of national parliaments in some countries. The lawfulness of the intergovernmental approach was confirmed by the Court of Justice of the EU in its 2012 [Pringle judgment](#).

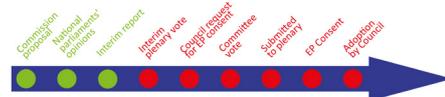
## European Commission proposal

The Commission [proposal](#) seeks to establish an EMF within EU law, which would succeed and replace the ESM, with all its rights and obligations. However, many decisions, especially the granting of financial support, would be taken by reinforced qualified majority (85 % of the votes cast), whereas current ESM procedures require unanimity. In addition, the role of national parliaments, which in several Member States have the power to veto ESM decisions, would be reduced to no more than ex-post scrutiny. The EMF would serve as a common backstop to the Single Resolution Fund ([SRF](#)). Furthermore, in future there would be the possibility to develop new financial instruments supplementing or supporting other EU financial instruments and programmes, such as a [stabilisation function](#) (without conditionality) to deal with large asymmetric shocks. The proposal, which requires unanimity in Council, is not making visible progress in this institution. Instead, following demands by the [New Hanseatic League](#), it was [decided](#) in December 2018 that the ESM would remain intergovernmental. It will however provide a backstop function for the SRF.

## European Parliament position

Under the consent procedure, the European Parliament intervenes only at the very end, when it accepts or rejects the Council's text, but it cannot amend it. Therefore, to provide Council with guidance, Parliament has decided to prepare an interim report. This [report](#), voted jointly (Rule 55) by the Economic and Monetary Affairs Committee (ECON) and the Committee on Budgets (BUDG) on 20 February 2019, is highly supportive of the addition to the ESM of a backstop function for the SRF, and encourages the integration of the ESM into EU law at a later stage, while keeping its current name.

Interim report: [2017/0333R\(APP\)](#); Committees responsible: ECON and BUDG: (Rule 55); Rapporteurs: Pedro Silva Pereira (S&D, Portugal) and Vladimír Maňka (S&D, Slovakia). For more information see our 'EU Legislation in progress' [briefing](#).



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