BRIEFING

European Parliament

Macro-Financial Assistance to EU Member States
State of Play – December 2017

This document provides regularly updated information on EU Member States receiving financial assistance from the ESM, EFSF, EFSM, the EU balance of payments assistance facility, other Member States and/or the IMF. It also covers the post-programme reviews undertaken by the European Commission (EC) in liaison with the ECB (Post-Programme Surveillance, PPS), the IMF (Post-Programme Monitoring, PPM) and the ESM (Early Warning System, EWS).

On-going programme implementation

Greece: The second economic adjustment programme expired on 30 June 2015. On 9 July 2015, Greece submitted to the ESM a request for financial assistance (a separate request was sent to the IMF). On 20 July 2015, Greek banks reopened after a three-week bank-holiday, following the adoption by the Greek Parliament of the required actions to initiate negotiations on a third programme. The reopening was accompanied by capital control measures (subsequently repeatedly relaxed). The EC eventually signed on 19 August 2015 (on behalf of the euro area members) a Memorandum of Understanding (MoU) with Greece for a third economic adjustment programme (for 2015-18) of up to €86 billion. In June 2016, the EC published a report on the compliance with the MoU upon conclusion of the first review. Short-term debt relief measures were endorsed by the Eurogroup in December 2016 and adopted by the ESM in January 2017. The December 2016 Eurogroup welcomed the agreement on a 2017 budget which confirms the primary balance target of 1.75% of GDP and which allows for the national rollout of the Guaranteed Minimum Income. In May 2017, Greece agreed with the institutions on policy reforms (such as pensions, income tax, privatization, land use, labour market as well as the financial and energy sectors) updating the policy conditionality presented in the original MoU, including the prior actions for the second review. In June 2017, the Eurogroup finalised its discussion on the second review. It welcomed the adoption of the prior actions for the second review by Greece's parliament. The Eurogroup also invited Greece and the institutions to develop and support a holistic, growth enhancing strategy. On debt measures, it reiterated that they would be implemented after successful completion of the programme, if a new debt sustainability analysis were to confirm that such measures are necessary.

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PE 497.721 - December 2017

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The Eurogroup welcomed Greece's commitment to maintain a primary surplus of 3.5% of GDP until 2022 and a fiscal path consistent with the European fiscal framework thereafter (according to EC of equal to or above but close to 2.0% of GDP over the period 2023-2060). During the Eurogroup meeting, the IMF informed of its intention to recommend to the IMF's Executive Board the approval in principle of Greece's request for a 14-month standby arrangement. Also in June 2017, the Compliance Report completing the second review was published. It assessed that the Greek authorities have completed the 140 prior actions set out in the supplemental MoU and required for the disbursement of the third tranche of the ESM programme. The supplemental MoU was published only in July 2017, i.e. after its implementation has been assessed in the Compliance Report. In July 2017, on the basis of the above mentioned Eurogroup agreement and the Compliance Report, the ESM disbursed €7.7 billion (€6.9 billion for debt servicing needs and €0.8 billion for arrears clearance) and in October 2017 (following the clearance of net arrears by the Greek government) another €0.8 billion for further arrears clearance. The third tranche is therefore completed. It brings the total amount of disbursed ESM funds to €40.2bn. On 2 December 2017, the Greek authorities and the institutions reached a staff-level agreement on policy conditionality under the third review. According to statements by Jeroen Dijsselbloem after the Eurogroup meeting of 4 December 2017, the focus now shifts to the implementation of the agreed prior actions by the Greek government. He expects that the review will be completed in January 2018. In November 2017, the European Court of Auditors published a special report on the EC's management of the three economic adjustment programmes for Greece; the auditors make a series of recommendations to the EC to improve the design and implementation of Economic Adjustment Programmes; the EC has fully accepted them.

Post-programme surveillance

Ireland: End of 2013, Ireland exited the 3-year-programme (see ex-post evaluation of 2015) and is since then subject to PPS/EWS/PPM. The latest PPS was conducted in in May 2017. The conclusions (also included in the PPS report of July 2017) of the EC and ECB mission staff were that growth of the domestic economy remains robust, driven by positive labour market developments, consumption and core investment. However, it was also noticed that some of the striking headline figures are heavily distorted by activities of multinational enterprises. Recent efforts to develop complementary economic indicators were welcomed. Further conclusions were that risks remain tilted to the downside, notably due to uncertainty linked to the Brexit, and that high external uncertainty puts an even greater premium on prudent fiscal policy amid calls for a 'recovery dividend'. In addition, it was noted that resilience of public finances to economic fluctuations and adverse shocks could be strengthened by broadening the tax base. On banking and housing issues, the EC and ECB (mission staff) assessed that (1) the recovery of the banks continues but is yet to be completed (non-performing loans continue to decline but the share of long-term arrears, especially mortgages is still significant); (2) subdued credit demand and the banks' legacy issues are still a drag on their profitability, but the outlook for credit growth is improving; (3) residential property prices accelerated recently and will need to be closely monitored; the fundamental issue remains insufficient housing supply. The EC and ECB conclusions of the latest PPS are similar to those of the IMF after its latest PPM of December 2016 (see staff statement, report and executive board conclusion).

Portugal: Portugal has been subject to PPS/EWS/PPM following the government's decision of June 2014 to exit the programme before its expiration. The sixth PPS/EWS/PPM mission took place in June/July 2017. The EC staff concluded that the short-term economic and financial situation in Portugal has improved and important progress has been made in addressing near-term risks. However fiscal-structural reforms are proceeding at a slow pace and the recovery of the banking sector is not yet complete. Further ambitious growth-enhancing reforms and sustained fiscal consolidation are essential to improve the economy's resilience to shocks and the medium-term growth prospects. In September 2017, the IMF Executive Board reached similar conclusions following the Article IV consultation with Portugal. In particular, it encouraged the authorities to take advantage of the current benign macroeconomic conditions to further improve financial sector resilience, ensure durable fiscal consolidation, and raise potential growth. Portugal made its latest early repayment of €1.0 billion to the IMF in October 2017 and €2.8 billion in November 2017, reimbursing thus about 75% of the IMF funds borrowed.

Spain: The ESM programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. Spain is since then subject to PPS/EWS, with the eight visit taking place in October 2017. The teams from the EC, ECB and ESM concluded (see also PPS report) that "*amid continued strong economic growth, well above the euro area average, banks have further adjusted their business models and cost structures, in turn supporting growth by providing new loans to the economy.*" However, a key challenge for the banking sector is to sustain sufficient profitability over the medium term. As to macroeconomic imbalances, their correction has been supported by "*strong and balanced growth, coupled with dynamic job creation*". Though, several challenges remain, including high government deficit, elevated public debt, still very high unemployment (especially among young and low-skilled workers) and structural weaknesses that hinder higher productivity growth. Against this background, the staff from the institutions urged the Spanish authorities to resume "*reform efforts to achieve higher productivity and ensure a durable and inclusive growth path* [and] *take the opportunity provided by the firm economic recovery to pursue fiscal consolidation with a view to ensuring a decisive reduction in the public deficit and debt ratios and re-building the fiscal buffers*." Spain made its latest voluntary repayment of €2.0 billion to the ESM in November 2017, bringing the total amount of funds repaid to €9.6 billion (about 23% of the funds borrowed).

Cyprus: In March 2016, Cyprus successfully exited from the ESM and IMF financial assistance programme. Cyprus used about €7.3 billion out of €10.0 billion available under the programme. The third PPS/EWS mission took place in September 2017 and was coordinated with the IMF. The EC, ECB and ESM staff concluded (see also PPS report) that the economic recovery has further strengthened, but sustaining growth over the medium term will require renewed reform momentum, continued fiscal discipline and acceleration in the resolution of non-performing loans. Fiscal performance benefited from the favourable macroeconomic conditions and prudent expenditure execution, though important medium-term fiscal risks remain (such as the fiscal impact of the recent healthcare reform and the lack of a mechanism to contain increases in the public wages beyond 2018). In October 2017, the IMF Staff concluded in the context of Art. IV consultation that the Cypriot economy has achieved an impressive turnaround since the 2012-2013 banking crisis. At the same time, important legacies from the earlier boom-bust cycle have yet to be erased, including elevated private and public sector debt and high share of banks' non-performing loans. Against this backdrop, the IMF encouraged the authorities, inter alia, to achieve sustainable deleveraging and NPL reduction, avoid a pro-cyclical fiscal policy, ensure balance and sustainable growth and enhance competition and governance.

Romania: PPS started in October 2015, with the end of the third balance of payments programme. It is linked to the loans under the 2009-2011 BoP programme, when disbursements of €5 billion were made. PPS missions took place in May 2016, March 2017 and November 2017. The first two missions concluded that the overall debt level and government financing performance suggest that risks related to the repayment of the debt to the EU are very low. The second mission further concluded that the medium term outlook presents vulnerabilities due to fiscal policies turned pro-cyclical in 2016. The report of the third mission has not been published yet.

Table overleaf provides an updated overview of various elements of the financial assistance granted to EU Member States since 2009.

	ROMANIA	GREECE	IRELAND	PORTUGAL	SPAIN	CYPRUS
CURRENT STATUS	Post-Programme Surveillance (as of October 2015)	Third Economic Adjustment Programme (2015-2018) IMF (second Programme: March 2010-March 2016)	Post-Programme Surveillance (as of January 2014)	Post-Programme Surveillance (as of July 2014)	Post-Programme Surveillance (as of January 2014)	Post-Programme Surveillance (as of April 2016)
COMPLETED OR ENDED	*BoP Assistance (2009-2011)* *Pre-cautionary BoP Assistance (2011-2013)* *Pre-cautionary BoP Assistance (2013-2015)*	*First Economic Adjustment Programme (2010-2012)* *Second Economic Adjustment Programme (2012- 2015; IMF Extended Fund facility Arrangement ongoing until 2016)*	*Economic Adjustment Programme (2010-2013)*	*Economic Adjustment Programme (2011-2014)* Portugal decided to leave the programme without completing the final review and without re-ceiving the final tranche (€1.7bn by EFSM and €0.9bn by IMF)	*Financial Assistance for Recapitalisation of Financial Institutions (2012-2013)*	*Economic Adjustment Programme (2013-2016)* Cyprus cancelled its financial arrangement with the IMF, effective 7 March 2016
MOUS SIGNED	First: 23 June 2009 Second: 29 June 2011 Third: 7 November 2013	First: 3 May 2010 Second: 14 March 2012 Third: 19 August 2015	07 December 2010	17 May 2011	20 July 2012	26 April 2013
CONDITIONALITY & OBJECTIVES	While there is in accordance with two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	*Third programme:* ► Restoring fiscal sustainability ► Safeguarding financial stability ► Growth, competitiveness and investment ► A modern State and public administration	While there is in accordance with two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	While there is in accordance with Article 14 of the two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	While there is in accordance with Article 14 of the two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	► Restore the soundness of the banking sector and rebuild depositors' and market confidence ► Fiscal consolidation, supported by structural fiscal reforms ► Structural reforms to support competitiveness and sustainable and balanced growth ► Further strengthening of the anti-money laundering framework in line with best practice

MONITORING	▶ EC ECB (PPS) ▶ No PPM by IMF, since Romania's outstanding credit with the IMF has already fallen well below the threshold for PPM by the IMF	▶ EC, ECB, ESM and IMF	▶ EC and ECB (PPS) ▶ ESM (EWS) ▶ MF (PPM)	▶ EC and ECB (PPS) ▶ ESM (EWS) ▶ IMF (PPM)	▶ EC and ECB (PPS) ▶ ESM (EWS) ▶ IMF (regular IMF surveillance)	▶ EC, ECB, ESM and IMF
TECHNICAL ASSISTANCE	-	On 17 June 2015, the EC decided to replace the Task Force for Greece by the structural reform service.	-	-	-	On 17 June 2015, the EC decided to replace the Support Group for Cyprus by the structural reform service,
TOTAL AMOUNT COMMITTED	2009-11 programme: €20n 2011-13 programme: €6bn 2013-2015 programme; €5bn	€331.7bn ▶ commitments under 2nd and 3rd programmes & ▶ disbursed under 1st programme (see rows below)	€85bn	€78bn	up to €100bn	€10bn

BREAK-DOWN BY LENDER (ORIGINAL COMMITMENTS)	*2009-11 programme*: ▶ €5bn - EU (BoP) ▶ €13bn - IMF (SBA) ▶ €1bn – World Bank ▶ €1bn – EIB + EBRD *2011-13 precautionary programme (funds not used)*: ▶ €1.5bn - EU (BoP) ▶ €3.5bn - IMF ▶ €1.15bn – World Bank *2013-2015 precautionary programme (funds not used)*: ▶ €2bn - EU (BoP) ▶ €2bn - IMF ▶ €1bn – World Bank	*All three programmes together* ▶ EA-MSs+ EFSF + ESM: € 308bn ▶ IMF (SBA+EFF): €58bn *First Programme*: ▶ EA MSs: €80bn *(subsequently reduced by € 2.7bn as SK did not participate and IE and PT withdrew as they required financial assistance themselves)* ▶ IMF (SBA): €30bn *Second Programme*: ▶ EFSF: €144.7bn ▶ IMF (EFF): €28bn *[Bridge financing: €7.2 bn EFSM – fully paid back*] *Third Programme*: ▶ ESM: Up to €86bn ▶ Participation of IMF to be determined later	▶ EFSM: €22.5bn ▶ EFSF: €17.7bn ▶ IMF: €22.5bn ▶ Bilateral (UK, DK, SE): €4.8bn ▶ Ireland (Treasury and National Pension Reserve Fund): €17.5bn	▶ EFSM: €26bn ▶ EFSF: €26bn ▶ IMF: €26bn	▶ ESM: up to €100bn	▶ ESM: €9bn ▶ IMF: €1bn
PREFERRED CREDITOR	IMF	IMF	IMF	IMF	ESM	IMF
ALREADY DISBURSED	***Total: € 19.9bn*** ***2009-2011 programme*** ▶ €5bn - EU (BoP) ▶ €12.9bn - IMF (SBA) ▶ €1bn - World IMF ▶ €1bn – EIB + EBRD *2011-13 and 2013-15 programmes* Pre-cautionary assistance; no request for	***Total: € 267.4bn[2]*** ***All three programmes together*** ▶ EA-MSs+ EFSF + ESM: €234.9bn ▶ IMF: €32.3bn *First Programme (closed)*: ▶ EA MSs: €52.9bn ▶ IMF: €20.7bn *Second Programme, including PSI participation (closed)*:	***Total: € 67.5bn*** ▶ EFSM: €22.5bn ▶ EFSF: €17.7bn ▶ IMF: €22.6bn ▶ Bilateral: €4.8bn	***Total: € 76.0bn*** ▶ EFSM: €24.3bn ▶ EFSF: €26.0bn ▶ IMF: €25.7bn	***Total: € 41.3bn*** ▶ ESM: €41.3bn	***Total: €7.3bn*** ▶ ESM: €6.3bn ▶ IMF: €1bn

	disbursement of BoP funds was made	▶ EFSF: €141.8bn ▶ IMF: €11.6bn *Third Programme* ▶ ESM: €40.2bn				
LOANS ALREADY REPAID	▶ €2.65bn – EU (BoP) ▶ €12.9bn - IMF (SBA)	▶ On 27/02/2015, the Hellenic Financial Stability Fund (HFSF) redelivered €10.9 bn in bonds issued by the EFSF for the recapitalisation of Greek banks. This comprised: a full repayment of the €7.2bn disbursed on 30/05/2013; and a partial repayment of €3.7bn of the loan tranche disbursed on 19/12/2012) ▶ €2 billion were paid back (contractual obligation) on 20 February 2017 to the ESM following the sale of assets a bank that took part in the 2015 banking recapitalisation ▶ Altogether €22.0bn to the IMF (the last repayments were carried out on 19/9/2017).	▶ Altogether €19.2bn to the IMF (the last ones were in February and March 2015 and the next ones are expected for 2021). In November 2017, the EFSF approved Irelands plan to go-ahead to fast-track the repayment of €5.5 billion in outstanding loans from the IMF, Denmark and Sweden. It paves the way for the State to repay the remaining €4.5 billion on its IMF bailout loan and another €1 billion in bilateral loans from Sweden and Denmark. ▶ PPS report of January 2016: "The next principal repayment of EFSM/EFSF loans is due in 2018 although maturity extensions granted in 2013 mean 2018 EFSM maturities will be refinanced."	▶ March 2015: €6.6bn (early repayment in a series of installments to the IMF) ▶ June 2015: €1.8bn (early repayments in a series of installments to the IMF) ▶ February 2016: €2.0bn (early repayments in a series of installments to the IMF) ▶ November 2016: €2.1bn (early repayments in a series of installments to the IMF) ▶ December 2016: €0.5bn (early repayments in two installments to the IMF) ▶ February 2017: €1.7bn (early repayments in a series of installments to the IMF) ▶ June 2017: €1.0bn (early repayments in a series of installments to the IMF) ▶ July 2017: €1.8bn (early repayments in a series of installments to the IMF) ▶ August 2017: €0.8bn (early repayments in a	▶ July 2014: €1.3bn (early repayment to the ESM) ▶ July 2014: €0.3bn (repayment of unused funds to the ESM) ▶ March 2015: €1.5bn (early repayment to the ESM) ▶ July 2015: €2.5bn (early repayment to the ESM) ▶ November 2016: €1.0bn (early repayment to the ESM) ▶ July 2017: €1.0bn (early repayment to the ESM) ▶ November 2017: €2.0bn (early repayment to the ESM)	▶ July 2017: €0.3bn (early repayment to the IMF) -

				series of installments to the IMF) ▶ October 2017: €1.0bn (early repayments in a series of installments to the IMF) ▶ November 2017: €2.8bn (early repayments in a series of installments to the IMF) Overview of the planned early repayments to the IMF over the period 2018-2021 (p. 32).		
TOTAL OUTSTANDING LOANS (AS OF 31 OCTOBER 2017)	***Total (EU+IMF):€3.1bn*** ▶ €2.35bn EU (BoP) ▶ €0 – IMF (SBA)	***Total: €222.3bn*** ▶ EA MSs+EFSF +ESM: €210.7bn ▶ IMF: €11.6bn	***Total: €49.5bn*** ▶ EFSM: €22.5bn ▶ EFSF: €17.7bn ▶ IMF: €4.6bn ▶ Bilateral: €4.8bn	***Total: €59.6bn*** ▶ EFSM: €24.3bn ▶ EFSF: €26.0bn ▶ IMF: €9.3bn	***Total: €31.7bn*** ▶ ESM: €31.7bn	***Total: €7.0bn*** ▶ ESM: €6.3bn ▶ IMF: €0.7bn
LATEST COUNTRY RATING (ACCORDING TO FITCH)	**Rating:: BBB-** Grade: Investment Outlook: stable (status 14 July 2017)	**Rating:: B-** Grade: Non-investment Outlook: positive (status 18 August 2017)	**Rating: A** Grade: Investment Outlook: stable (status 7 July 2017)	**Rating:: BB+** Grade: Non-investment Outlook: positive (status 16 June 2017)	**Rating:: BBB+** Grade: Investment Outlook: positive (status 21 July 2017)	**Rating:: BB** Grade: Non-investment Outlook: positive (status 20 October 2017)

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ABBREVIATIONS/EXPLANATIONS

BoP Assistance	Balance of Payments facility for non-euro area MS in BoP difficulties. It usually takes the form of medium-term financial assistance, in co-operation with the IMF.
BoP for Romania	From 2009 to 2011 Romania was under a BoP assistance programme (€5bn) as part of multilateral assistance of €20bn (IMF €13bn; World Bank €1bn; EIB + EBRD €1bn).
EFSF	European Financial Stability Facility: it provides financial assistance to euro area MS. As of 1 July 2013, the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements. The ESM is now the sole and permanent mechanism for responding to new requests for financial assistance by euro area MS.
ESM	European Stability Mechanism; entered into force on 27 September 2012. It is now the main instrument for providing financial assistance for the euro area MS. It has capital base of €704.7987bn (including its recent member Lithuania). It enjoys preferred creditor status, junior only to the IMF.
EFSM	European Financial Stabilisation Mechanism: for any EU MS, it reproduces the basic mechanics of the existing Balance of Payments facility. The lending capacity is €60bn, raised by the EC in financial markets. The EC then on-lends to the beneficiary MS in form of loan or credit line. All interest and loan is repaid by the MS, without any cost for the EU. The EFSM funding has been completed after Portugal´s exit from the programme.
PSI	Private Sector Involvement: in March 2012 existing Greek bonds held by private institutions were exchanged on a voluntary basis. For each 100 of old Greek bonds, the bond holders received 31.5 of new Greek bonds and 15 of EFSF one-year and two-year notes (in equal proportions), which corresponded to a nominal reduction of 53.5% (and NPV loss of about 73%), thus reducing Greek debt by about €100bn. EFSF notes were accounted as a loan made to Greece by the EFSF and thus as part of the EU financial assistance.
DBB	On 11 December 2012 Greece concluded the tendering process for a debt buy-back operation (DBB) to capture a substantial discount on Greek government bonds (GGB), thereby reducing public debt substantially. Before the DBB, the total of new GGBs amounted to €62bn (ensuing from the PSI). The DBB invitation yielded a total participation of approximately €31.9bn at an average price of 33.8% of the nominal value. Following the settlement of the operation, Greek debt was reduced by €21.1bn in net terms.
Greek Loan Facility - EU MS Loans	The Greek Loan Facility was an instrument used for the 1st Greek Adjustment Programme agreed in May 2010: 15 euro area MS committed to provide bilateral loans of up to €80bn, of which €52.9bn were disbursed by the end of the 1st programme. The loans were pooled by the EC, which was entrusted with the coordination, the administration and the disbursement. The 1st programme ceased in March 2012, when the 2nd adjustment programme started with the involvement of the EFSF. The remaining undisbursed part of €80bn was thus transferred to the 2nd programme which was disbursed by the EFSF.
EFF and SBA	When a country faces serious medium-term balance of payments problems because of structural weaknesses that require time to address, the IMF can assist with the adjustment process under an Extended Fund Facility (EFF). Compared to assistance provided under the Stand-by Arrangement (SBA), assistance under an extended arrangement features longer program engagement—to help countries implement medium-term structural reforms—and a longer repayment period.
IMF Disbursements	IMF disbursements are made in Special Drawing Rights (SDRs) and therefore the € amounts change over time, applying the current exchange rate.
PPS	Post-Programme Surveillance: under the so-called "two pack" rules, countries exiting a bailout must be subject to a PPS until 75% of its rescue loans are paid back (see Article 14 of Regulation 472/2013).
EWS	Early Warning System: in accordance with Article 13(6) of the ESM Treaty, the ESM shall establish an appropriate warning system to ensure that it receives any repayments due by the ESM Member under the stability support in a timely manner. EWS thus detects repayment risks and allows for corrective actions. It applies not only to the ESM programme countries (Spain, Cyprus), as foreseen in the Treaty, but also to the EFSF programme countries (Greece, Ireland, Portugal).
PPM	Post-Programme Monitoring by the IMF.