

December 2017

## European Stability Mechanism

### Summary

A [proposal](#) to transform the European Stability Mechanism (ESM)<sup>1</sup> into a European Monetary Fund (EMF) within EU law was adopted by the Commission on 6 December 2017. The publication of the proposal was announced in Annex I of the [2018 Commission work programme](#), as one of the actions within the item 'Completing the Economic and Monetary Union'.

In the context of the proposal, this briefing provides information on the functioning of the ESM, which recently celebrated its [fifth anniversary](#).

The European Stability Mechanism is an intergovernmental organisation that began operating on 8 October 2012, with the aim of providing financial assistance to euro-area countries experiencing or threatened by severe financing problems, and with a lending capacity of €500 billion. During the last five years, five EU countries: Ireland, Portugal, Greece, Cyprus and Spain have received support from the ESM. Around 33 % of the ESM's lending capacity has been committed.

### 1. Background and current legislation

The European Stability Mechanism was established by euro-area countries and began operations on 8 October 2012. The seat of the ESM is in Luxembourg City. The legal basis for the functioning of the ESM is given in the [Treaty establishing the European Stability Mechanism](#), based on an amendment to Article 136 of the Treaty on the Functioning of the European Union.<sup>2</sup>

The ESM is designed as an intergovernmental organisation under public international law, and the ESM is therefore set up outside the EU budget, outside the Treaty provisions and not subject to European Parliament scrutiny. Nevertheless, the 2016 ESM Annual Report underlines that reform of the ESM is 'required to be consistent with the measures of economic policy coordination provided for in the Treaty on the Functioning of the European Union'.<sup>3</sup>

The main aim of the ESM is to provide financial assistance to euro-area countries experiencing or being threatened by severe financing problems. This assistance is granted only if it is proven necessary to safeguard the financial stability of the euro area as a whole, and of ESM members.<sup>4</sup>

<sup>1</sup> Abbreviations: European Stability Mechanism (ESM); European Financial Stability Facility (EFSF); European Monetary Fund (EMF).

<sup>2</sup> [Article 136\(3\)](#): 'The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality', European Council Decision of 25 March 2011, amending Article 136 of the Treaty on the Functioning of the European Union with regard to a stability mechanism for Member States whose currency is the euro, OJ, L 91 of 6 April 2011. See also the Court of Justice of the European Union [Pringle case](#).

<sup>3</sup> [2016 Annual Report](#), European Stability Mechanism.

<sup>4</sup> [How the ESM works](#), ESM website.

## Five years of ESM – key figures

Amounts disbursed:		
Spain €41.3 bn (2012-13)	Cyprus €6.3 bn (2013-16)	Greece €39.4 bn (2015-18)

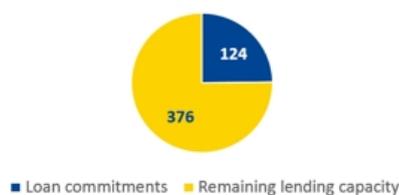
Total disbursed by ESM: **€87 bn**

Total disbursed by EFSF and ESM: **€272 bn**

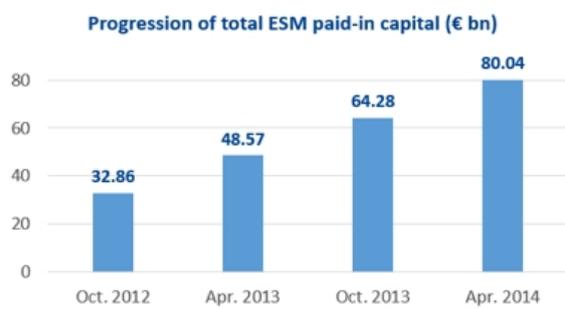
Programme exits			
 Ireland (EFSF) 2013	 Spain (ESM) 2013	 Portugal (EFSF) 2014	 Cyprus (ESM) 2016
Projected GDP growth in 2017			
4%	2.8%	1.8%	2.5%

	Total amount disbursed by EFSF and ESM to Greece: <b>€181 bn</b>
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ESM's loan commitments and remaining lending capacity (€ bn)



Average blended ESM interest rate: **1.06%**  
(as of 30/09/2017)



Source: [Factsheet: Five years of the ESM](#), ESM.

The (permanent) European Stability Mechanism is a successor to the (temporary) European Financial Stability Facility (EFSF) created in May 2010 in response to the euro-area crisis.<sup>5</sup> Since the creation of the ESM, the EFSF no longer provides financial assistance, but addresses, in particular, 'exceptional situations where practical, procedural or financial reasons call for its use, generally before or alongside ESM financial assistance'.<sup>6</sup> From the organisational point of view, the staff of the ESM are also responsible for the implementation of the EFSF.<sup>7</sup>

ESM offers its members financial support in different forms: a) loans to cover their financing needs; b) loans and direct equity injections to recapitalise financial institutions; c) credit lines to be used as precautionary financial assistance; and d) primary and secondary debt market purchases of members' national bonds.<sup>8</sup>

The financial support should assist in the implementation of the necessary reforms (fiscal, economic, structural and supervisory reforms) in the programme country.<sup>9</sup>

The ESM's maximum lending capacity is €500 billion. In September 2017, the remaining lending capacity was €376 billion (see graph).

So far, the ESM has granted two types of loan; loans within macroeconomic adjustment programmes were used in [Cyprus](#), [Greece](#), [Ireland](#) and, [Portugal](#); while loans for indirect bank recapitalisation were used in [Spain](#).

The loans are gradually repaid by countries. For example, the ESM recently accepted Spain's sixth early repayment, by which Spain's remaining debt to the ESM will be €31.7 billion, of an initial €41.3 billion.<sup>10</sup>

<sup>5</sup> The European Financial Stability Facility was created as a temporary crisis resolution mechanism by the euro-area Member States, to provide financial assistance to Ireland, Portugal and Greece, [www.esm.europa.eu](http://www.esm.europa.eu).

<sup>6</sup> M. Hradiský, [Financial assistance to EU Member States](#), Fact Sheet, European Parliament, June 2017.

<sup>7</sup> There are five EU financial stabilisation mechanisms at present: a) Balance-of-payments Assistance Programme, reserved for EU Member States outside the euro area; b) European Financial Stabilisation Mechanism, reserved for euro-area countries; c) Greek Loan Facility set up specifically for Greece; d) European Financial Stability Facility; and e) European Stability Mechanism. Instruments a)-b) are part of the EU budget structure, while instruments c)-e) are intergovernmental, set up outside the EU budget, C. Alcidi, D. Gros, J. Núñez Ferrer and D. Rinaldi, [The Instruments Providing Macro-Financial Support to EU Member States](#), CEPS, March 2017. Further information can be found in [The European Stability Mechanism](#), European Central Bank Monthly Bulletin, July 2011.

<sup>8</sup> [2016 Annual Report](#), European Stability Mechanism. See also the ESM [lending toolkit](#).

<sup>9</sup> M. Hradiský, [Financial assistance to EU Member States](#), Fact Sheet, European Parliament, June 2017,.

<sup>10</sup> [ESM approves Spain's sixth early repayment](#), European Stability Mechanism.

## Evaluation of the EFSF/ESM programmes

In June 2017, the ESM published the results of the first evaluation of the previous EFSF/ESM programmes, prepared by an independent evaluator.<sup>11</sup> The main findings of the report are generally positive. The report shows, inter alia, that 'the EFSF/ESM fulfilled their mandate of safeguarding financial stability in the euro area and its members, with support from other crisis measures'; 'countries considerably improved their resilience, but macroeconomic outcomes of the programmes were mixed'; and 'the financing envelopes were sufficient to implement the programme strategies'. The institutional framework governing the EFSF/ESM financial assistance, according to the report, 'worked reasonably well, but its complexity posed coordination challenges and raised efficiency concerns'.

The report's recommendations mention, for example, that the ESM should focus on programme credibility and support ownership; that it should enhance programme transparency and facilitate evaluation; and that programme design should have clear objectives and priorities. It also mentions that the Board of Governors should further refine and develop the ESM governance framework.

## 2. First and second EU reviews

In November 2017, the Commission published its report reviewing the ongoing support programme implemented in Greece.<sup>12</sup> The main findings and conclusions of the report are generally positive. The report shows, inter alia, that 'supported by the launch of the ESM programme, the Greek economy demonstrated greater resilience than initially expected', achieved through undertaking 'significant reform efforts across all policy areas'. The report also points out that, since the start of the ESM stability support programme: 'significant progress has been made in improving the operational management of public finances' and 'financial market conditions have improved significantly, though vulnerabilities remain'. The report concludes that 'efforts will have to continue and implementation will be the cornerstone of the remaining year under the ESM programme' and recommends 'continued implementation of policy conditionality on the ground, with full commitment and ownership across all parts of the administration'.

## 3. European Parliament position/MEPs' questions

### 3.1 Related European Parliament resolutions

#### European Parliament [resolution of 13 March 2014](#) on the role and operations of the Troika with regard to the euro-area programme countries

The resolution focused on the role and operations of the Troika (ECB, Commission and IMF) with regard to the euro-area programme countries and, inter alia, calls for the creation of a European Monetary Fund (EMF) on the basis of Union law, which should be accountable and have a transparent decision-making process. Referring to the Troika, the resolution clarified that in actions in countries at risk of insolvency, the EMF should take over the Commission's role, the ECB should be a 'silent observer', and the role of the IMF should be marginal.

The Commission's [follow-up](#)<sup>13</sup> document pointed out that 'the Troika functions well and effectively in difficult circumstances'. On the future governance of the euro-area financial assistance mechanism and the possibility of establishing an EMF, the Commission is in favour of further cooperation to find a method that combines efficiency and appropriate checks and balances.

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<sup>11</sup> [EFSF/ESM Financial Assistance. Evaluation Report](#), European Stability Mechanism.

<sup>12</sup> [The ESM Stability Support Programme. Greece, First & Second Reviews – July 2017. Background Report](#), Institutional Paper 064, European Commission, November 2017. In 2017, the Commission also published post-programme surveillance reports on programmes implemented in [Cyprus](#), [Ireland](#), [Portugal](#) and [Spain](#).

<sup>13</sup> Minutes of the 2091st meeting of the Commission held in Brussels (Berlaymont) on Wednesday 25 June 2014, (SP(2014)457).

### 3.2 Questions by MEPs

Members of the European Parliament have addressed, in writing or orally, several questions to the European Commission, in which they have asked the Commission to provide answers or explanations with regard to various issues related to ESM. The following examples provide an excerpt of questions where the Commission has already provided an answer.

[Written Question by Rachida Dati \(EPP, France\)](#), 27 March 2017

The Member inquired about the Commission view on the proposed conversion of ESM into EMF with 'adequate lending and borrowing capacities and a clearly defined mandate' and the entitlement to monitor the finances of euro-area Member States.

[Answer given by Valdis Dombrovskis on behalf of the Commission](#), 22 June 2017

The Commission Vice-President replied that [the reflection paper](#) of 31 May 2017 contained possible ways to deepen the Economic and Monetary Union up to 2025, as did [the Five Presidents' report](#). Dombrovskis explained that the idea of creating an EMF is aimed at giving the euro area more autonomy from other international institutions when it comes to financial stability. He also underlined that this proposal still required further discussion of the possible goals, design and financing between the Union institutions and Member States.

[Written Question by Maite Pagazaurtundúa Ruiz \(ALDE, Spain\)](#), 6 February 2015

With regard to the Troika's role and activities (especially related to its employment and social aspects), the Member found that the Troika lacks transparency as a body, and 'as a platform, it has no legal existence', and asked whether the Commission was planning to form a European Monetary Fund to take over the Troika's role and act as a democratic supervisory body.

[Answer given by Pierre Moscovici on behalf of the Commission](#), 13 April 2015

The Commissioner explained that any proposals to transform the Troika into an EMF would have to be discussed and agreed with Member States. Furthermore, he noted that there is a possibility of replacing the Troika, over time, with a more democratically legitimate and more accountable structure, based around European institutions, with enhanced parliamentary control, both at European and at national level.

### 4. Other sources of reference

[The Instruments Providing Financial Support to EU Member States](#), Policy Department for Budgetary Affairs, European Parliament, January 2017.

[A European Monetary Fund?](#), Economic Governance Support Unit, European Parliament, May 2017.

[An evolutionary path towards a European Monetary Fund](#), Economic Governance Support Unit, European Parliament, May 2017.

[European Stability Mechanism \(ESM\): Main Features, Instruments and Accountability](#), Economic Governance Support Unit, European Parliament, June 2017.

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To contact the Ex-Post Evaluation Unit, please e-mail: [EPRS-ExPostEvaluation@ep.europa.eu](mailto:EPRS-ExPostEvaluation@ep.europa.eu)

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