FINANCIAL ASSISTANCE TO EU MEMBER STATES

European financial assistance mechanisms are aimed at preserving the financial stability of the EU and the euro area, as financial distress in one Member State can have a substantial impact on macro-financial stability in other Member States. Financial assistance is linked to macroeconomic conditionality (it is a loan rather than a fiscal transfer), to ensure that Member States receiving such assistance implement the necessary fiscal, economic, structural and supervisory reforms.

LEGAL BASIS

— Article 3 of the Treaty on European Union (TEU);

— Articles 2-5, 119-144 and 282-284 of the Treaty on the Functioning of the European Union (TFEU);

— Protocols 12, 13, 14 annexed to the TFEU.

OBJECTIVES

Mechanisms for the provision of financial assistance to Member States are designed to preserve the financial stability of the EU and the euro area. They are fundamental elements of a stronger economic and governance framework for Economic and Monetary Union (4.1.4).

ACHIEVEMENTS

A. In May 2010 the EU Member States set up a temporary stabilisation mechanism to preserve their financial stability in the context of the sovereign debt crisis. It comprises the following two loan programmes:

1. The European Financial Stabilisation Mechanism (EFSM)

Under the EFSM, the Commission is allowed to borrow up to a total of EUR 60 billion on financial markets on behalf of the Union under an implicit EU budget guarantee. The EFSM can provide assistance to all EU Member States.

The mechanism has been activated for Ireland, Portugal and Greece.

Since the creation of the European Stability Mechanism (ESM), the EFSM remains in place to address, in particular, exceptional situations where practical, procedural or financial reasons call for its use, generally before or alongside ESM financial assistance.

2. The European Financial Stability Facility (EFSF)

The EFSF has a total effective lending capacity of EUR 440 billion. Loans are financed by the EFSF's bond and other debt instruments on capital markets, and are guaranteed by the shareholders (euro area Member States).

The facility was activated for Ireland, Portugal and Greece. Since the creation of the ESM, the EFSF does not provide any further financial assistance.

B. October 2012 saw the creation of the primary support mechanism in the shape of the European Stability Mechanism (ESM).

The ESM, whose main features build on the EFSF, is currently the sole and permanent instrument for financial assistance to euro area Member States.

Its total, the effective lending capacity is EUR 500 billion. Loans are financed by the ESM's borrowings on financial markets, and are guaranteed by the shareholders (euro area Member States).

The ESM has provided financial assistance to Spain, Cyprus and Greece.

C. May 2013 saw the entry into force of the 'Two-pack', which consists of two EU regulations (472/2013 and 473/2013) applicable to Member States whose currency is the euro. It is one of the building blocks of a stronger economic and governance framework within the EMU.

In particular, Regulation (EU) No 472/2013 strengthens the monitoring and surveillance procedures for Member States experiencing, or threatened with, severe difficulties with regard to their financial stability or the sustainability of their public finances.

Under this regulation, the Commission may decide to subject a Member State to enhanced surveillance if its financial stability difficulties are likely to have spill-over effects on the rest of the euro area. A Member State that requests financial assistance has to prepare a draft macroeconomic adjustment programme in agreement with the Commission (acting in liaison with the ECB and, where appropriate, the IMF).

The provision of financial assistance is thus linked to macroeconomic conditionality — a set of measures aimed at addressing the sources of instability. This ensures that Member States receiving such assistance implement the necessary fiscal, economic, structural and supervisory reforms.

Financial assistance is disbursed in tranches and may therefore be suspended if the beneficiary Member States do not comply with the obligations specified in the adjustment programme.

D. The balance of payments assistance facility

Since February 2002, the balance-of-payments (BoP) assistance facility has been available to non-euro-area Member States experiencing, or seriously threatened with, external financing constraints. The amount of outstanding loans granted under this facility is in principle limited to EUR 12 billion per country.

The loans usually take the form of medium-term financial assistance, typically in cooperation with the IMF.

ROLE OF THE EUROPEAN PARLIAMENT

By adopting the 'Two-pack', Parliament has helped to establish an EU legal framework for enhanced economic governance in the euro area, in terms of both budgetary surveillance and the decision-making and surveillance procedure for Member States under a macroeconomic adjustment programme.

Moreover, the ‘Two-pack’ gives Parliament a tighter scrutiny role in that the competent committee can invite the institutions concerned (the Commission, the Council, the Eurogroup, the ECB and the IMF) to engage in economic dialogues with Parliament.

Martin Hradiský
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