

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT **D**
BUDGETARY AFFAIRS



Budgets

Budgetary Control

European Financial Stabilisation Mechanism

NOTE



DIRECTORATE GENERAL FOR INTERNAL POLICIES
POLICY DEPARTMENT D: BUDGETARY AFFAIRS

European Financial Stabilisation Mechanism

NOTE

Abstract:

This note describes the budgetary and institutional aspects of the EUR 60 billion European financial stabilisation mechanism, which forms part of the EUR 750 billion package of measures designed to preserve financial stability in Europe adopted on 9 May 2010.

This document was requested by the European Parliament's Committee on Budgets.

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1. On 9 May 2010 the Council agreed a package of measures worth up to EUR 500 billion for a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional circumstances beyond its control. The package comprised:
 - a European financial stabilisation mechanism¹ allowing financial assistance to a Member State in the form of a loan or credit line guaranteed by the EU budget, up to a total of EUR 60 billion.
 - a Special Purpose Vehicle (SPV) providing extra resources to euro area Member States in the form of bilateral loans, up to a total of EUR 440 billion.
2. The IMF will participate in financing arrangements for the SPV and is expected to provide at least half as much as the EU contribution, taking the total package to EUR 750 billion.
3. This package is in addition to the EUR 50 billion of medium-term financial assistance that may already be called on to assist non euro-area Member States with balance of payments' problems².

Budgetary aspects

4. The euro area Member States adopted a decision by intergovernmental agreement to provide assistance through a **Special Purpose Vehicle** that is guaranteed on a pro rata basis by participating member states in accordance with their share in the paid-up capital of the European Central Bank. This decision **has no impact on the EU budget**.
5. The European financial stabilisation mechanism allows for up to EUR 60 billion loans to Member States to be guaranteed by the EU budget. Loans would be made on terms and conditions similar to the IMF, including a mark-up of a few percentage points on the rate at which the EU can borrow. Reimbursement of the mark-up would be entered in the budget as other revenue.
6. Currently the EU budget can already provide guarantees for loans of up to EUR 50 billion for medium term financial assistance for non-euro area Member States' balances of payments.
7. These two instruments together allow for loans of up to EUR 110 billion. This compares to the 2010 EU budget of EUR 122,9 billion.
8. It should be recalled, however, that these instruments have only a *potential* impact on the EU budget. Assistance is provided only if requested. And in this case the assistance provided is not in the form of grants, but in the form of loans to be repaid. The EU budget guarantees these loans. These loans are not funded so there is no impact on the EU budget even if loans are granted. And both instruments specify that any costs incurred by the Union in concluding and carrying out an operation shall be borne by the beneficiary Member State. Thus **the European financial stabilisation mechanism and the medium term financial assistance for balance**

¹ Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism, OJ L 118 of 12.5.2010, p.1.

² Regulation 431/2009 of 18 May 2009 amending regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance for Member States' balances of payments, OJ L 128, 27.5.2009, p.1.

of payments facility have no impact on the EU budget except in the event of loan default³.

9. It will not be necessary for the Commission to bring forward a proposal for an amending budget in order to implement the European financial stabilisation mechanism regulation. Nor will amending budgets be necessary in the event of decisions to grant loans under the mechanism. Amending budgets would be necessary only in the event that Member States were unable to reimburse loans, in which case resources would have to be taken from the budget, if necessary through additional own resources, to reimburse the creditor.
10. Loans previously made available under the medium term financial assistance facility, to France in 1983, Greece in 1985 and 1991 and Italy in 1993, and under the new community instrument for reconstruction following earthquakes, to Italy and Greece in 1981, have all since been repaid.
11. A total of up to EUR 14,6 billion is currently allocated to Hungary, Romania and Latvia under the medium term financial assistance facility, leaving EUR 35,4 billion available under this facility.
12. Management of the use of these instruments in relation to the financial framework, regarding both size and timing requires further consideration.
13. The conclusions of the 9-10 May Ecofin Council specified that the financial stabilisation mechanism would be limited to €60 billion. However, this limit is not mentioned in the regulation itself. It states, instead, that assistance shall be limited to the margin available under the own resources ceiling for payment appropriations (article 2(2)), taking account of the existing facility providing medium-term balance of payments assistance (article 2(1)).
14. Table 1 below indicates that there is, currently, sufficient margin to provide the full €60 billion mentioned in the Ecofin conclusions for the European financial stabilisation mechanism:

Table 1: Margin available under the own resources ceiling for payments, taking account of the medium-term balance of payments assistance facility, current prices

€BILLION	2010	2011	2012	2013
Own resources ceiling for payments*	147	152	158	165
Medium term balance of payments assistance facility	50	50	50	50
margin available for the European financial stabilisation mechanism	97	102	108	115

* calculated from the figures in COM(2010)160 final, 16.4.2010

15. It should be noted, however, that the Own Resources ceiling is fixed as a percentage of EU GNI, not as an absolute level. The figures in table 1 above are thus illustrative only, based on current information. They will vary depending on developments in EU GNI. In particular, low or negative

³ This compares to EIB lending, which is covered by a loan guarantee fund, to which the EU budget contributes in order to maintain the fund at an agreed target level based on the volume of lending.

growth will reduce the own resources ceiling in absolute terms, and thus the margin available for the financial stabilisation mechanism.

16. If substantial lending is granted under the available instruments and movements in EU GNI cause the volume of loans to exceed the OR ceiling for payments, it is not clear how such an occurrence would be managed.

17. Management of the risk of loan default with regard to the financial framework ceilings also requires further clarification since, as we saw above, it is only the event of loan default that lending under either the Medium term balance of payments assistance facility or the European financial stabilisation mechanism would have an impact on the budget.

18. EIB loans and guarantees are backed by a fund worth 9% of its outstanding liabilities. If the European financial stabilisation mechanism and the medium term financial assistance facility were fully utilised, a similar percentage kept available in the margin of the EU budget in case of default would amount to € 100 billion x 9% = € 9,9 billion.

19. Alternatively, in order to ensure that loans due can always be reimbursed within the limits of own resources, even in the worst case scenario of default on any or all loans due, the total of reimbursements of loans guaranteed by the EU budget in any budget year should be limited to the margin below the own resources payments ceiling.

20. In 2010, total payments in the budget following the adoption of amending budget 1/2010 account for 1,03% of EU GNI. In 2010, the margin available to cover reimbursement of loans due thus amounts to:

	own resources payments ceiling (1,23% of EU GNI)	
-	2010 budget payments (1,03% of EU GNI)	
= margin to cover reimbursements due (0,20% EU GNI or around €25 billion)		

21. For the remainder of the current financial framework, reimbursements due under both instruments should be limited to the margin available between the financial framework payments ceiling and the own resources payments ceiling. This margin is set out in table 2 below:

Table 2: Margin available within the current financial framework to cover reimbursement of loans due, current prices*

	2011	2012	2013
Own resources ceiling for payments, %GNI	1,23	1,23	1,23
Financial framework payments ceiling, %GNI	1,09	1,10	1,07
margin available to repay creditors in event of loan default, % GNI	0,14	0,13	0,16
margin available to repay creditors in event of loan default, € billion	17	17	21

** based on the figures in COM(2010)160 final, 16.4.2010*

22. However it should be recalled here that financial framework ceilings for commitment appropriations, even though they have already been revised five times, currently contain virtually no margins and are under considerable pressure due to a large number of outstanding procedures

with far-reaching budgetary consequences that will need to be concluded by the two branches of the budgetary authority in 2011 (budget review, setting up of the European External Action Service, amending budgets, revision of the IIA, revision of the Financial Regulation, etc). The Commission has also set out a number of priorities (namely supporting the EU economy post-crisis and adapting to new requirements, i.e. implementation of the Lisbon Treaty, new financial supervision authorities, financing of the Global Monitoring for Environment and Security (GMES) initiative, implementation of the Stockholm Programme)⁴. To the extent that any additional commitment appropriations give rise during the current MFF to additional payment appropriations, it is thus possible that the margins available could amount to less than indicated above, particularly if EU economic growth is weak or negative, reducing the own resources ceiling in absolute terms as described in paragraph 15 above.

23. The regulation does not specify the rules and conditions for repayment of loans (duration etc.) - these will be specified in individual decisions taken to grant loans. It is clear, however, that given the tightness of the margin available, loan reimbursements may need to be spread over a longer period. On the other hand, the more loan reimbursements are spread into the future beyond 2013, the more they will restrict the budgetary authority's room for manoeuvre concerning negotiations on the next financial framework.

Institutional aspects

24. Compared to assistance provided under the Medium Term medium term financial assistance for Member States' balances of payments facility, the European financial stabilisation mechanism provides for substantially enhanced control of the administration of loans. The Court of Auditors and OLAF are given the right to carry out in a beneficiary Member State any controls or audits they consider necessary in relation to the assistance.

25. On the other hand, the European Parliament, despite the potentially hugely significant impact on the EU budget of this mechanism, is given no role. The facility has been established by Council regulation under article 122(2) of the Treaty on the Functioning of the European Union. This regulation, other than stating that the Commission shall communicate a Memorandum of Understanding detailing the economic policy conditions attached to Union financial assistance to the European Parliament and Council, makes no other mention of the European Parliament at all. And TFEU article 122(2) requires only that the European Parliament be informed by Council of any decisions taken by Council under this article.

26. In the economic policy field, an alternative legal base could be TFEU article 125 concerning mutual financial guarantees for the joint execution of specific projects in the field of economic policy. The consultation procedure applies to TFEU article 125. Alternatively, given the strong budgetary implications of the proposed regulation, a more horizontal legal base might be considered more appropriate, such as TFEU article 352, under which European Parliament consent is required. In either case, an inter-institutional agreement is also likely to prove necessary to ensure that the European Parliament as budgetary authority can fully participate in the decision-making concerning an issue with such far-reaching budgetary consequences.

27. It may also be necessary to revise the relevant sections of the financial regulation.

⁴ For a description of the pressures currently facing the budget, see the draft report on the mandate for the trilogue on the 2011 draft budget, rapporteur: Sidonia Elżbieta Jędrzejewska.

DIRECTORATE-GENERAL FOR INTERNAL POLICIES

POLICY DEPARTMENT BUDGETARY AFFAIRS **D**

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