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. The reforms are agreed and set out in specific documents (memoranda of understanding) published on the Commission website and, when relevant, on the European Stability Mechanism website.

PRIMARY LEGAL FRAMEWORK

— 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 4, 12, 13 and 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 (2.6.4).

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 (as bridge financing).

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, which was established by euro-area Member States as a temporary mechanism, has a total effective lending capacity of EUR 440 billion. Loans are financed by the EFSF's bonds 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 permanent support mechanism in the shape of the European Stability Mechanism (ESM), which was established by an intergovernmental treaty (i.e. outside the EU legal framework).

The ESM is currently the sole and permanent instrument for financial assistance to euro-area Member States. It has an effective lending capacity of 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. The Commission and the ESM have established detailed procedures for their working relationship in providing assistance to euro-area Member States.

C. On 6 December 2017, the Commission made a proposal to transform the ESM into a European Monetary Fund (EMF).

This new body would be anchored within the EU's legal framework, while at the same time essentially preserving the financial and institutional structures of the ESM. In addition, the EMF would provide the common backstop to the Single Resolution Fund (SRF) as part of the Banking Union. In March 2019 Parliament adopted a resolution on the Commission proposal. 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 State does 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 loans usually take the form of medium-term financial assistance, typically in cooperation with the IMF. Financial assistance is conditional on the implementation of policies designed to address underlying economic problems. Balance of payments financial assistance has been granted to Hungary, Latvia and Romania.

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. The competent committee in Parliament has the right of be informed at various instances, namely when a macroeconomic adjustment programme is being prepared and on its implementation.

In its resolution on the Commission proposal to transform the ESM into an EMF, Parliament proposed the establishment of a protocol for an interim Memorandum of Cooperation (MoC) between the ESM and Parliament. The MoC would aim to improve interinstitutional dialogue between the ESM and Parliament and enhance the ESM's transparency and accountability.

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02/2020