Economic governance: facility for financial assistance for Member States whose currency is not the euro

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PURPOSE: to establish a facility for providing financial assistance for Member States whose currency is not the euro.

PROPOSED ACT: Council Regulation.

BACKGROUND: **Regulation (EC) No 332/2002** established a facility providing Union financial assistance. The Regulation aims at easing the external financing constraint of Member States that are experiencing or are seriously threatened by difficulties in their balance of payment. **It applies only to Member States whose currency is not the euro.** With deterioration in the government deficit, balance of payment and debt position, a number of Member States now seek financial assistance.

In the context of the economic and financial crisis, new assistance tools have been created with the establishment of the European Financial Stability Facility (EFSF), the European Financial Stability Mechanism (EFSM) and also the European Stability Mechanism (ESM) which will enter into force in the near future.

These financial stability mechanisms have established new precautionary instruments to provide financial assistance to the Member States of the euro area. The revision of the current 2002 Regulation will allow non-euro Member States to have similar financial instruments at their disposal.

IMPACT ASSESSMENT: no impact assessment was undertaken.

LEGAL BASIS: Article 352 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the proposed Regulation **sets up a facility for Union financial assistance that may be granted to a non euro area Member State** which is experiencing or is seriously threatened with difficulties in its balance of payments.

Financial assistance from the Union: the financial assistance can take **the form of a loan, or of a credit line with a total outstanding amount limited to EUR 50 billion in principle**. Two credit lines are created:

- a precautionary conditioned credit line (PCCL), which is a credit line based on eligibility conditions; or

- an enhanced conditions credit line (ECCL), which is a credit line based on the combination of eligibility conditions and new policy measures.

Both credit lines are based on eligibility conditions, and the ECCL also requires new policy measures.

Conditions and procedure for granting loans: the draft regulation provides that the Council may decide to grant a loan on a recommendation from the Commission. The granting of a loan is made conditional upon the Member State **adopting a macroeconomic adjustment programme** aimed at re-establishing a

sustainable balance of payments positions and at restoring its capacity to finance itself fully on the financial markets.

The Commission, with the ECB and wherever relevant the IMF, shall monitor the progress made in the implementation of the macroeconomic adjustment programme.

Transparency and accountability: the revised regulation contains new provisions in order to **enhance the dialogue** on the implementation of financial assistance. More specifically, the **competent Committee of the European Parliament** may offer the opportunity to the Member State concerned to participate to an exchange of views on the progress made in the implementation of the adjustment programme. Representatives of the Commission may be invited by the Parliament of the Member State concerned to participate in an exchange of views on the progress made in the implementation of the macro-economic adjustment programme.

Procedure for granting credit lines: the Council shall decide to grant a PCCL or an ECCL on a recommendation from the Commission. Access to a PCCL shall be limited to Member States whose economic and financial situation is still fundamentally sound and which fulfil an agreed set of eligibility criteria. Access to an ECCL shall be open to Member States which do not comply with some of the eligibility criteria required for accessing a PCCL but whose general economic and financial situation remains sound. Member States concerned shall adopt corrective measures aimed at addressing the eligibility criteria that are considered as not met and at ensuring a sustainable balance of payments position while ensuring a continuous respect of the eligibility criteria which were considered met when the credit line was granted.

Enhanced surveillance: a Member State will be subject to enhanced surveillance when it is receiving precautionary financial assistance, with a view to ensuring its swift return to a normal situation and to protecting other Member States against possible negative spill over effects. This enhanced surveillance should include a wider access for the Commission to the information needed for a close monitoring of the economic, fiscal and financial situation of the Member State concerned and a regular reporting by the Commission. A Member State under enhanced surveillance shall adopt measures aimed at **addressing the potential sources of economic difficulties.**

Alignment with the excessive deficit procedure and with the European Semester for economic policy coordination: it is proposed that the new Regulation should be aligned to a number of important procedural steps in the new Regulation based on Article 136, which is aimed at Member States in a delicate financial situation. The aim is to ensure the largest possible level playing field between all the EU programme countries regardless of whether they belong to the euro area or not. The revised regulation provides for replacing a number of monitoring steps under the Excessive Deficit Procedure and the European semester with monitoring under the macroeconomic adjustment programme. Because of its comprehensive nature, the macroeconomic adjustment programme can replace some processes of economic and fiscal surveillance for the duration of the adjustment programme with a view to avoiding a duplication of reporting obligations.

In the same way, the revised regulation also ensures the suspension of the macroeconomic imbalances procedure when a Member State is subject to a macroeconomic adjustment programme. It requires the establishment of post-assistance surveillance for Member States having reimbursed less than 75% of the financial assistance received.

Borrowing and lending operations: lastly, borrowing and lending operations are made slightly more flexible for the Commission so as to limit possible difficulties to raise funds in case of difficult financial market conditions.

BUDGETARY IMPLICATIONS: the proposal has no implications for the EU budget.