

European Monetary Fund

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PURPOSE: to establish the European Monetary Fund (EMF) to replace the European Stability Mechanism (ESM).

PROPOSED ACT: Council Regulation.

ROLE OF THE EUROPEAN PARLIAMENT: Council may adopt the act only if Parliament has given its consent to the act.

BACKGROUND: the unprecedented financial and economic crisis that hit the world and the Union since 2007 seriously threatened financial stability and damaged economic growth, resulting in a strong deterioration in the government deficit and debt position of several Member States, leading a number of them to seek financial assistance within and outside the framework of the Union.

In response to the exceptional situation of a severe deterioration of the borrowing conditions of several Member States, a number of measures were adopted:

- a **European Financial Stabilisation Mechanism** (EFSM) through which the Union could provide financial assistance to Member States was established in 2010 but with a limited financial capacity and on a purely temporary basis.
- in 2010, the Member States whose currency is the euro also established among themselves the **European Financial Stability Facility** (EFSF), on a temporary basis. The EFSF has provided financial assistance to Ireland, Portugal and Greece;
- the European Stability Mechanism (ESM) was established as an international financial institution by the Treaty establishing the European Stability Mechanism of 2 February 2012, concluded **outside the framework of the Union**. The ESM assumed the EFSF's task of providing financial assistance to Member States whose currency is the euro and became operational in October 2012.

Over the years, the ESM has proven decisive in helping to preserve the financial stability of the euro area by providing additional financial support to euro area Member States in distress.

The Commission considers that the ESM's transformation into a European Monetary Fund (EMF) will further strengthen its institutional anchoring. It will help to create new synergies within the EU framework, notably in terms of transparency, efficiency of the EU financial resources and legal review, thus offering a better support to Member States. It will also help improve further cooperation with the Commission and accountability to the European Parliament. This will be done without affecting the way in which national governments are held to account by their own national Parliaments and preserving the ESM commitments.

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CONTENT: this proposed Regulation builds on the well-established structure of the European Stability Mechanism by creating a **European Monetary Fund anchored within the EU's legal framework**. The EMF shall succeed to and replace the European Stability Mechanism, including its legal position and

assuming all its rights and obligations. This means that the European Monetary Fund will continue to provide financial stability support to Member States in need, to raise funds by issuing capital market instruments and to engage in money market transactions. The membership will not change and the participation of additional Member States will remain possible, once they adopt the euro.

Given that the European Monetary Fund would become a Union body, the proposal includes the introduction of an approval process by the Council for decisions taken by the Board of Governors or Board of Directors which exhibit political discretion and the related publication requirements, and **dedicated accountability provisions towards the European Parliament and national Parliaments.**

In addition, the proposal adds a limited number of new features:

- the EMF will be able to provide the **common backstop to the Single Resolution Fund** and act as lender as a last resort to facilitate the orderly resolution of troubled banks;
- **faster decision-making in the event of an emergency** and more direct involvement in the management of financial assistance programmes alongside the European Commission;
- lastly, the EMF could **develop new financial instruments** that may complement or support other EU programmes and financial instruments. This could be useful if the EMF were to play a supporting role in providing a possible function in the future.

The Annex to the proposed Regulation contains the **Statute of the EMF**. It contains changes in order to ensure consistency with Union law such as: the determination of the lending capacity, the principles for stability operations, inclusion of the instrument for providing assistance for the direct recapitalisation of credit institutions, the procedure related to the EMF budget, the annual accounts, the financial statements and the annual reports and the external audit.

BUDGETARY IMPLICATION: the proposal shall have **no budgetary implications**. The EMF's capital will be subscribed by the euro area Member States. The Union budget will not be liable for any expenses or losses of the EMF. The EMF will also have a self-financed budget.