

# European Monetary Fund

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## **OPINION of the European Central Bank on a proposal for a regulation on the establishment of the European Monetary Fund.**

The ECB supports the European Commission's initiative to bring the European Stability Mechanism (ESM) into the Union legal framework. The establishment of the ESM as a body of the Union would allow it to better achieve its objective of contributing to safeguarding the financial stability of the euro area, as well as of the Member States participating in the banking union.

The ECB emphasises that the proposed regulation is an **important first step**, and that further reforms of the ESM will be essential:

(1) **the ESM should be provided with the financial instruments necessary to achieve its objectives and to fulfil its tasks.** The ECB recommends that these financial instruments should be further reviewed, to ensure that these are adequate to effectively address the causes of financial instability and contagion in situations of acute market instability and to support the Banking Union. In particular, the precautionary financial assistance instruments, with adequate conditionality, should be improved in order to better contribute to crisis prevention;

(2) in order to effectively apply these instruments, it is important to **enhance the ESM's governance arrangements**, in order to achieve swift and credible decision-making procedures, based on high quality independent technical advice.

**The role of the ECB:** the role of the ECB under the proposed regulation remains largely the same as under the ESM Treaty.

The ECB recommends that, in the light of further development and enhancement of the Union's permanent crisis management framework in a post-crisis environment, any contributory role of the ECB should be further clarified to better reflect the ECB's tasks and independence under the Treaties and the clear allocation of technical expertise and responsibilities in the future framework of the ESM. Going forward, the ECB may deal, in an appropriate manner and where necessary, in accordance with its competences, with financial sector policies and macro-critical issues, such as headline fiscal targets and sustainability and financing needs.

The ECB recommends that clarifications should be introduced to the proposed regulation to **reflect the role of the ECB under other pieces of legislation**, including, in particular, the role of the ECB within the [Single Supervisory Mechanism](#) (SSM), which was established in 2013, after the entry into force of the ESM Treaty. Financial assistance instruments addressed to the banking sector should take into account the responsibilities of the ECB for the supervision of credit institutions within the framework of the SSM. In this respect, the proposed regulation should ensure adequate and timely involvement of, or provision of information to, the ECB, as appropriate, in preparation for providing support under those instruments.

**Support to the Single Resolution Board:** the ESM is tasked with providing financial support, in the form of credit lines or guarantees, to the Single Resolution Board (SRB), which was established in accordance with Regulation (EU) No 806/2014 of the European Parliament and of the Council.

The ECB **supports the initiative to assign the ESM with the task to provide a credible common backstop to the Single Resolution Fund (SRF).** Such a backstop should be implemented as soon as

possible, and at the latest before the end of the transition period on 1 January 2024 provided for under [Regulation \(EU\) No 806/2014](#).

It is very important that the **backstop supports all possible measures by the SRB**, including the provision of both solvency support and liquidity support to institutions under resolution.

The ECB emphasises the need to **ensure that the whole procedure regarding such support to the SRB can be completed rapidly** and does not delay the adoption and execution of the SRB's decision on the resolution scheme. Decisions on ESM disbursements should be as automatic, swift and efficient as possible.

Renaming the European Stability Mechanism (ESM): the ECB suggests that the **existing name of the ESM should be maintained**, as this will ensure clarity and continuity for the public. In this respect, the use of the term 'monetary' in the new name of the Union body under the proposed regulation is inaccurate, in particular as the objectives and tasks of the ESM are not 'monetary' in nature.

In accordance with the Treaties, economic policy is based on the close coordination of Member States' economic policies, on the internal market, and on the definition of common objectives, while the basic tasks to define and implement the monetary policy of the Union and to conduct foreign exchange operations are conferred on the ESCB, which is governed by the decision-making bodies of the ECB.