APPENDIX 2

A SUMMARY OF FINANCIAL ASSISTANCE AVAILABLE TO MEMBER STATES UNDER ECONOMIC ADJUSTMENT PROGRAMMES, BALANCE OF PAYMENTS SUPPORT AND SUPPORT FOR BANK RECAPITALISATION

Eurozone and EU financial stability measures

To support Eurozone financial stability, there are now reinforced mechanisms for economic governance for the whole of the Eurozone and optionally for non-Euro Member States. These include the "six-pack" measures, now passed into law, but also, in progress, the additional two-pack measures. Together the measures impose tough debt and deficit targets – no more than 60% of GDP for sovereign debt and no more than 3% of GDP for budget deficits and 0.5% for the assumed "structural" part of deficits. There is strict budget and economic surveillance through the "European Semester" of national and EU level reporting, decisions and penalties. The whole process drives programmes of economic and structural adjustment in Member States at risk/ breaching the targets.

Financial assistance to Member States[1]

Financial assistance (mainly loans) is intended to address sovereign insolvency and to stabilise the macroeconomic position of EU Member States in severe financial difficulties, enabling countries to recover their financial independence and return to market refinancing of sovereign debt in a period of three or more years. Assistance is also intended to preserve the financial stability of the EU and the Eurozone; therefore support is in staged payments following sovereign acceptance and implementation of very strong macroeconomic conditionality.

Since May 2010, assistance has been available from two sources; the European Financial Stabilisation Mechanism (EFSM)[2] and the European Financial Stability Facility (EFSF)[3]. The EFSM is a lending facility of €60b for the EU-27. The EFSF is a company incorporated in Luxembourg that was set up by the countries that share the Eurozone. It has a lending capacity of €440b backed by euro area Member State guarantees. It issues bonds on the capital markets and lends the funds raised to programme countries. Assistance has been strengthened and future primary support will be through a permanent crisis management mechanism, the European Stability Mechanism (ESM)[4], launched in October 2012 and in force from 2013. This is an intergovernmental organisation under international public law.

Economic adjustment programmes

Financial assistance mechanisms are available for Eurozone Member States in financial difficulties whose governments are not able to re-finance government debt on the open market. Financial assistance to programme countries is provided as medium term loans, usually from three institutions, the EU (through EFSM, EFSF and ESM), the European Central Bank (ECB, through purchases of sovereign debt on secondary financial markets) and the International Monetary Fund (IMF).

[1] See http://europa.eu/economy_finance/assistance_eu
[2] See http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm
[3] See http://www.efsf.europa.eu/attachments/faq_en.pdf
[4] See ECB (2011) The European Stability Mechanism, *Monthly Bulletin*, July, accessed at www.ecb.int/pub/pdf/other/art2_mb201107en_pp71-84en.pdf

Macroeconomic conditionality is agreed through signed Memoranda of Understanding and loans are disbursed accompanied by detailed programmes of budget and structural adjustment and close monitoring of implementation and progress. There is joint review and quarterly missions by the "troika" of EU, ECB and IMF to ensure compliance with the programme terms and conditions.

Programme states are Ireland, Portugal and Greece.

The Irish programme[5] was formally agreed on 7 December 2010. The €85b package runs from 2010-2013. It is composed of contributions from the EU/ EFSM (€22.5b); IMF ((€22.5b); euro area Member States/ EFSF (€17.7b) and bilateral aid from the UK (€3.8), Sweden €0.6) and Denmark (€0.4). There is an Irish contribution of (€17.5b from the Treasury and the National Pension Reserve Funds. Loans are disbursed over three years, but the loan maturity dates can range from five to thirty years.

The Portuguese programme[6] was formally agreed on 17 May 2011. The €78b package runs from 2011 to mid-2014. It is composed of contributions from the EU/ EFSM (€26b); Euro area/ EFSM (€26b) and IMF ((€26b). Loan arrangements are as for Ireland (above).

The first Greek programme[7] was agreed on 2 May 2010 to run till 2013. A **second economic adjustment programme** was agreed on 14 March 2012. The first programme (the €77.3b Greek Loan Facility) was financed through bilateral loans pooled by the European Commission as the EFSF was only operational from August 2010. There was an additional €30b stand-by facility available from the IMF. The €164.5b total second programme package runs from 2012-2014. Of this second programme sum, €130b is additional and the remainder is undisbursed from the first programme. The package is composed of loans from the EU/EFSF (€144.7b) and the IMF (€19.8b). The IMF funding is part of a four year Extended Fund Facility of €28b agreed in March 2012.

There is also a technical assistance Task Force for Greece[8] set up by the European Commission and containing Commission and some national personnel to assist implementation of the programme. It runs until 2014, has offices in Brussels and Athens providing quarterly reports to the Greek authorities and the European Commission. It reports to President Barroso and is under the political guidance of the Commission Vice-President. There are concrete projects in tax administration led by the European Commission/ IMF; expenditure control; business environment; administrative reform (led by France and Germany) and health sector (led by Germany).

Balance of Payments (BoP) assistance[9]

BoP assistance is available to non-euro Member States facing financial difficulties due to external constraints caused for example by trade imbalances. Using its triple A rating, funding raised by the European Commission on the open market is lent out to Member States at the same cost, whereas the IMF charges an additional margin. Support is provided as medium term loans from the EU, usually in cooperation with the IMF, though it can be provided by the EU alone and there can be additional resources from other international institutions or countries.

---

[5] See http://europa.eu/economy_finance/assistance_eu_ms/ireland
[6] See http://europa.eu/economy_finance/assistance_eu_ms/portugal
[7] See http://europa.eu/economy_finance/assistance_eu_ms/greek:loans
[8] See http://ec.europa.eu/commission_2010-2014/president/taskforce-greece/index_en.htm
[9] See Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance and also http://ec.europa.eu/economy_finance/eu_borrower/balance_of_payments/index_en.htm

The loans are conditional on implementation of fiscal and economic measures along the same lines as for "Programme" countries. BoP states are Romania (till 2013), Latvia (till 2012) and Hungary (till 2010) but there is post programme surveillance beyond these dates. Hungary was able to access €20b of assistance of which €5.5b was disbursed by November 2010. Latvia could access €7.5b of assistance of which €2.9b was disbursed by January 2012. Over its two periods of assistance Romania could access €25b of which €5b has been disbursed.

Romania[10] receives BoP assistance because of the deterioration in its external account between 2007 and 2009 caused mainly by a reduction in capital inflows in reaction to its relatively large internal as well as external imbalances. Between August 2007 and January 2009 the Romanian currency depreciated 30% against the euro. In May 2009 agreement was reached to provide multilateral financial assistance of €20b to Romania. The programme ran from 2009 to June 2011 and €5b was disbursed. Total package resources were provided by the European Community (€5b under BoP); IMF (€12.95b of Special Drawing Rights, i.e. SDRs, under an IMF stand-by arrangement); the World Bank (€1b under a Development Policy Loan) and €1b combined from the European investment Bank and the European Bank for Reconstruction and Development. Repayment starts in 2015 and the average interest rate is 3%.

Romania requested follow up assistance and a further €5b precautionary programme to 2013 was agreed but was not activated. Resources were provided in March 2011 by the IMF which agreed to provide further stand-by arrangements of €3.5b of SDRs and in May 2011 the EU agreed to provide precautionary medium term financial assistance of €1.5b under BoP. The World Bank continued its earlier commitment and is providing additional "results-based financing" of €750m for social assistance and health reforms.

Financial assistance for recapitalisation of financial institutions

Financial assistance is also available for bank restructuring and recapitalisation in Member States whose banks are in such difficulties that they cannot refinance on the open market. This can happen in the context of a wider assistance programme, as in Romania (see above) or independently of a wider programme, for example in Spain.

Endorsed by the Eurogroup on 20 July 2012, **Spain** will receive up to €100b to recapitalise its financial institutions[11]. The assistance will be provided from the EFSF (and by the ESM when it is fully operational) for the period July 2012 to June 2013. As for other EU assistance arrangements, support is conditional. It requires specific policy measures for the financial sector, but also macroeconomic and structural reform under the excessive deficit procedure and in the framework of the European Semester. The Memorandum of Understanding was agreed with the European Commission in liaison with the ECB, the European Banking Authority (EBA) who will verify conditionality is fulfilled and the IMF will provide technical assistance to support implementation and monitoring.

[10] See http://europa.eu/economy_finance/assistance_eu_ms/romania

[11] See http://europa.eu/economy_finance/assistance_eu_ms/spain