

Deepening Economic and Monetary Union (EMU) and the role of the European Stability Mechanism (ESM)

05/05/2021
13.00 – 14.00 CEST

WEBINAR

Introduction: **Steven VANACKERE**, Vice-governor National Bank of Belgium

Introductory remarks: **Vincent VAN PETEGHEM**, Deputy Prime Minister and Minister of Finance in charge of the Fight against Tax Fraud

Klaus REGLING

Managing Director of the European Stability Mechanism (ESM)



THE ESM'S MISSION



The European Stability Mechanism (ESM) has the mandate to preserve financial stability in the euro area by providing financial assistance to euro area countries with severe financing problems.

Through an ESM programme, euro area countries at risk of losing market access can obtain cheaper financing to improve their debt sustainability.

KEY DIFFERENCES BETWEEN THE EFSF AND THE ESM

		
Year of creation	2010	2012
Legal structure	Private company under Luxembourgish law	Inter-governmental institution under international law
Framework	Lending June 2010 - June 2013 Funding until 2070	Permanent institution
Capital structure	Backed by guarantees from euro area countries	Subscribed capital of €704.8 billion*, of which €80.5 billion paid-in Maximum lending capacity: €500bn
Creditor status	Pari passu	Preferred creditor status (after IMF) **
Credit rating	AA (stable) / Aa1 (stable) / AA (stable)	AAA (stable) / Aa1 (stable) / AAA (stable)
Legal structure	Private company under Luxembourgish law	Inter-governmental institution under international law

* The initial subscribed capital of €700 bn has increased since the accession of Latvia in March 2014 and Lithuania in February 2015

** For the financial assistance for recapitalisation of the Spanish banking sector, pari passu will apply

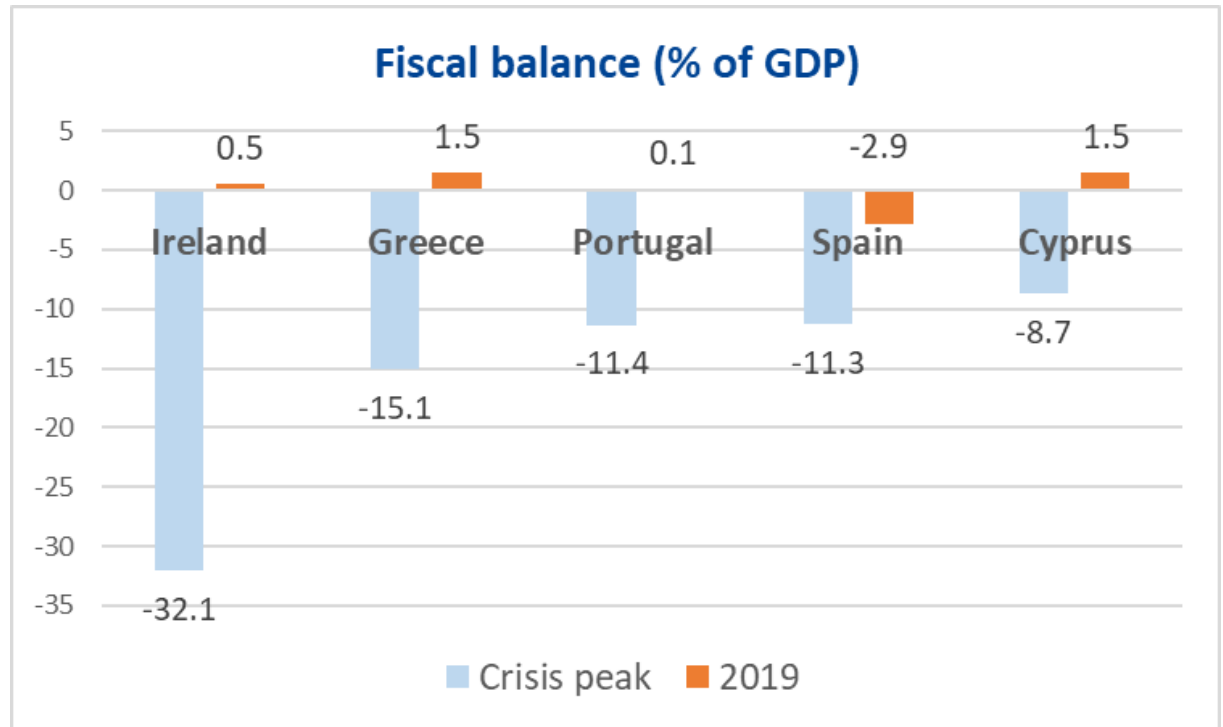
EFSF AND ESM PROGRAMMES

EFSF	ESM
 <p>Ireland (2010-2013) €17.7 bn</p>	 <p>Spain (2012-2013) €41.3 bn</p>
 <p>Portugal (2011-2014) €26 bn</p>	 <p>Cyprus (2013-2016) €6.3 bn</p>
 <p>Greece (2012-2015) €141.8 bn</p>	 <p>Greece (2015-2018) €61.9 bn</p>

Total amount
disbursed by EFSF
and ESM:
€295 bn

ALL FIVE EFSF/ESM PROGRAMMES WERE SUCCESSFUL

- EFSF and ESM financial assistance gave programme countries time to implement **vital reforms**
- As a result, all programme countries were able to **regain market access**, i.e. they could finance themselves again by issuing bonds
- All five countries **returned to economic growth**, with rates above the euro area average until the outbreak of the pandemic



Source: European Commission (AMECO)

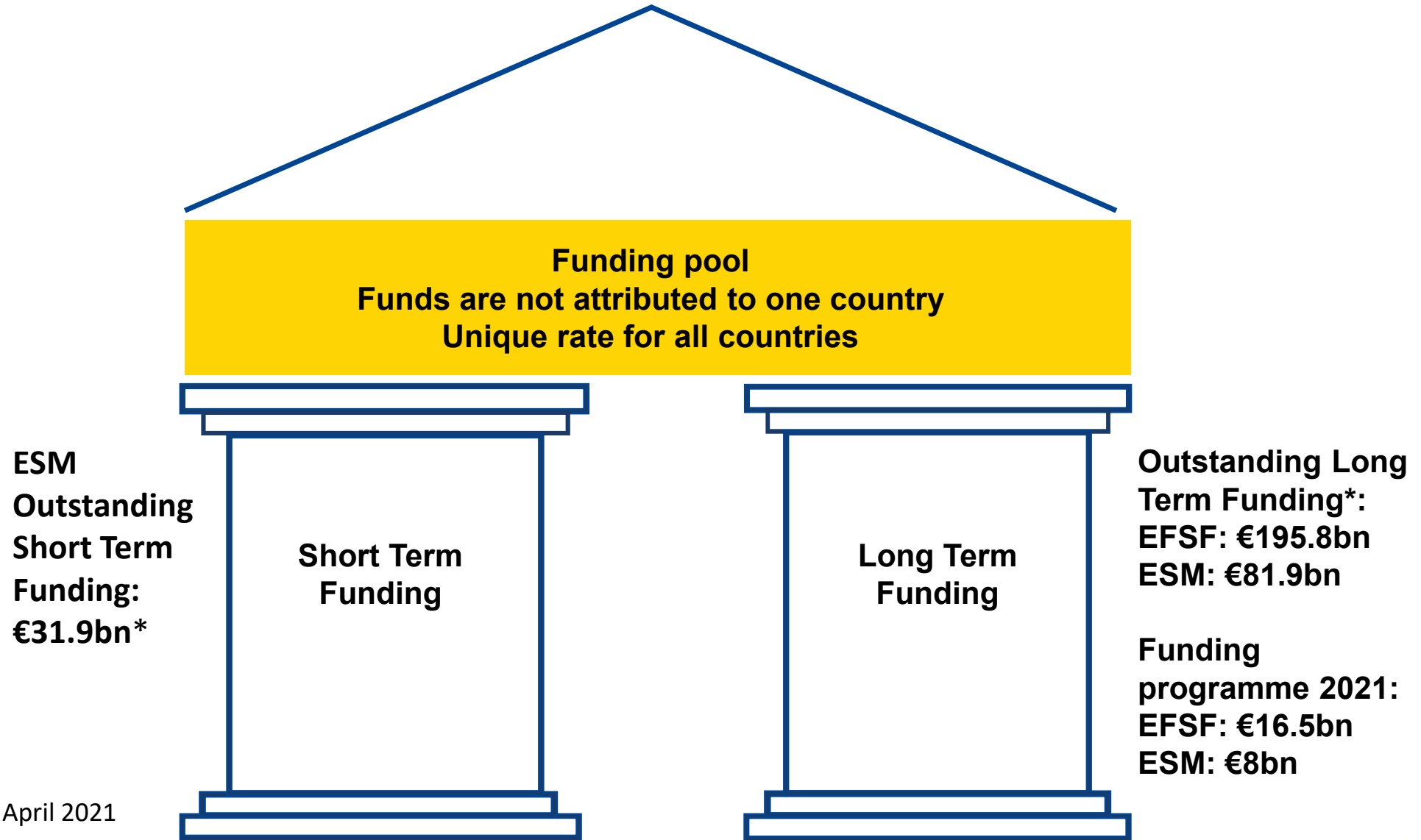
ESM PAID-IN CAPITAL

- Total capital of nearly €705 billion, of which **€80 billion is paid-in capital** provided by the euro area countries
- The ESM invests its **paid-in capital in high-quality liquid assets**
- Paid-in capital cannot be used for lending

ESM paid-in capital contributions

	ESM key (%)	€ thousand
Germany	26.9449	21,703,670
France	20.2346	16,298,640
Italy	17.7807	14,322,100
Spain	11.8153	9,517,060
Netherlands	5.6746	4,570,800
Belgium	3.4513	2,779,930
Greece	2.7957	2,251,930
Austria	2.7627	2,225,350
Portugal	2.4906	2,006,100
Finland	1.7841	1,437,070
Ireland	1.5804	1,272,960
Slovakia	0.8184	659,200
Slovenia	0.4678	376,830
Lithuania	0.4063	327,200
Latvia	0.2746	221,200
Luxemburg	0.2486	200,220
Cyprus	0.1948	156,900
Estonia	0.1847	148,800
Malta	0.0899	72,440
Total	100%	80,548,400

FUNDING STRATEGY WITH TWO PILLARS



*figures as of 30 April 2021

SUPPORTING THE FIGHT AGAINST THE CORONAVIRUS PANDEMIC



IMMEDIATE EU RESPONSE TO THE CORONAVIRUS PANDEMIC

In May 2020, the EU Heads of State committed € 540 billion to fight the Covid-19 crisis



Support for workers

Up to €100bn in loans to EU member states under the **European Commission's SURE** programme in support of national unemployment schemes.



Support for companies

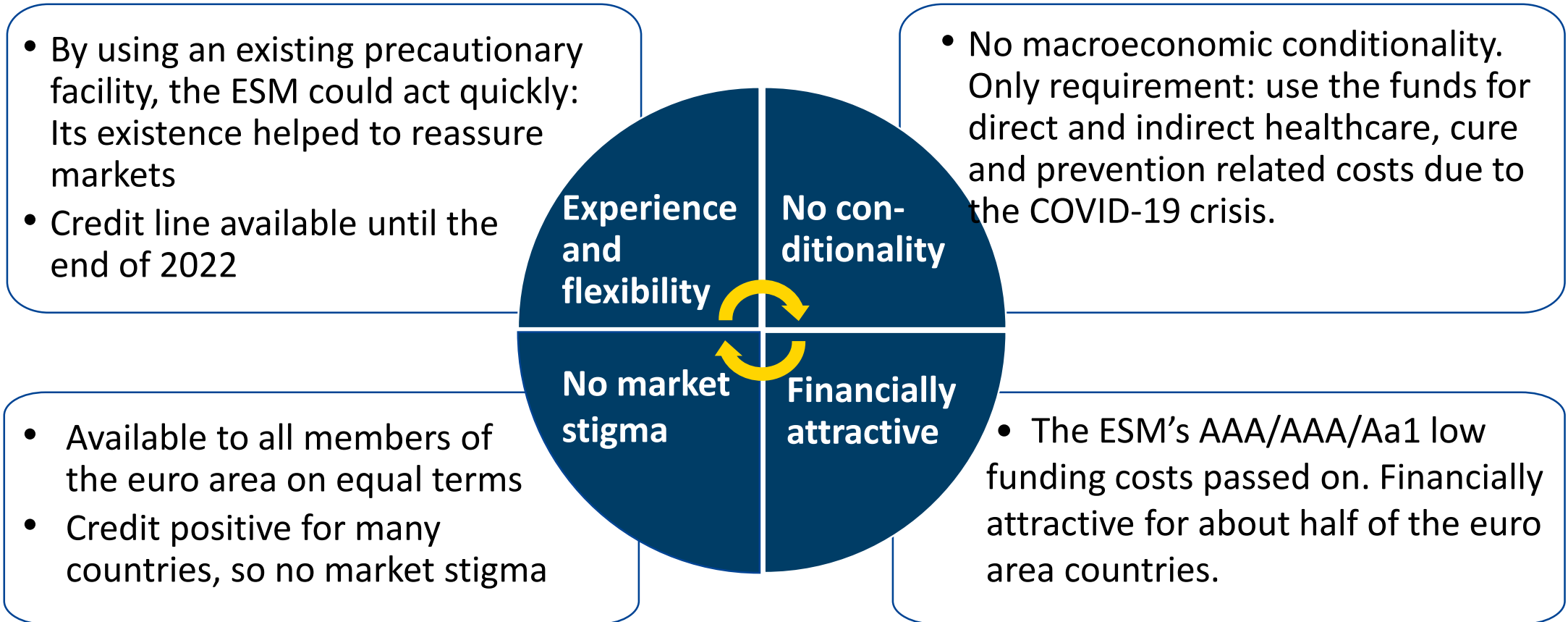
A pan-European **guarantee fund** by the European Investment Bank (EIB) of €25bn, which could provide around €200bn of financing for companies, especially SMEs.



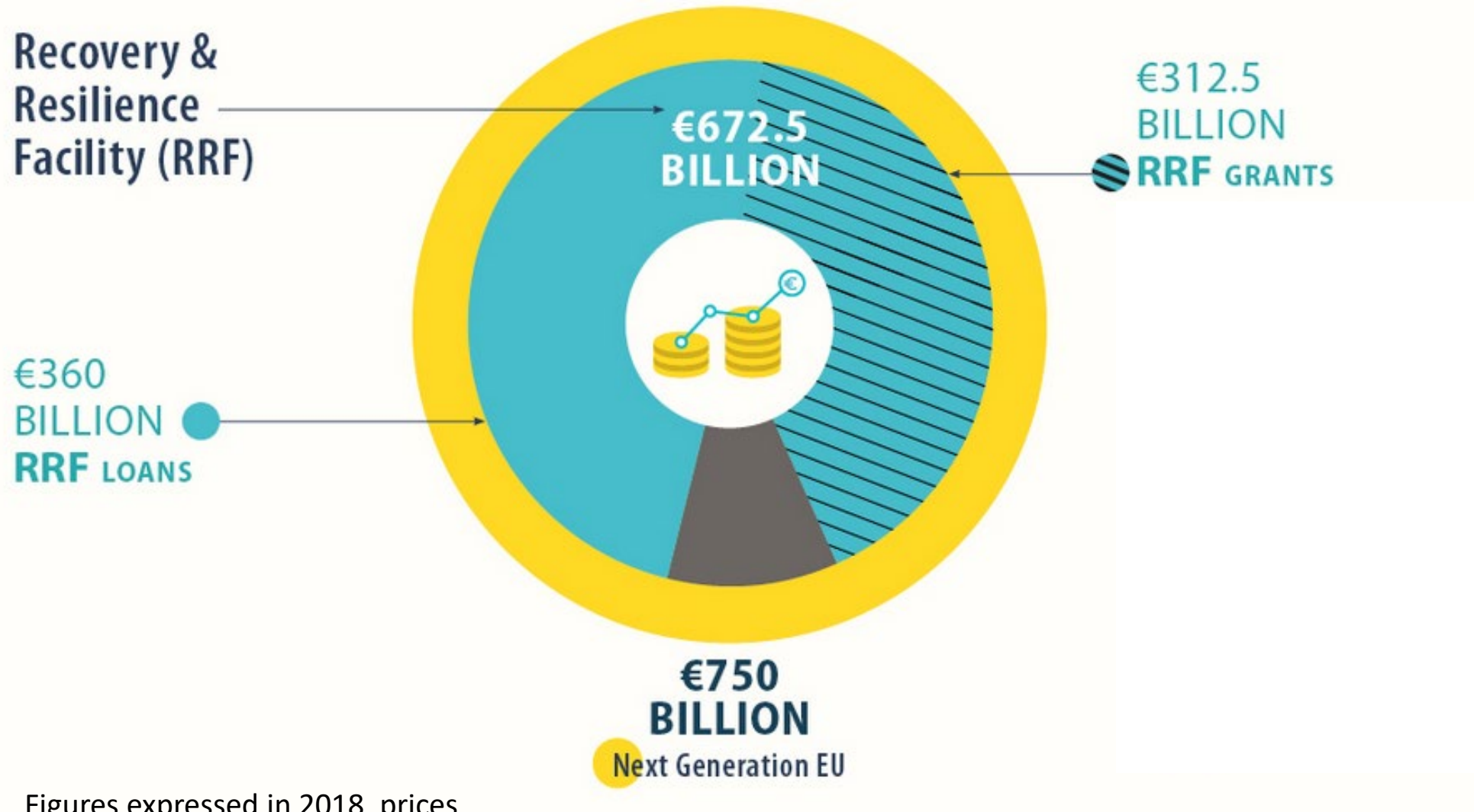
Support for countries

The **ESM's Pandemic Crisis Support**, a precautionary credit line with a total volume of up to €240bn, is available to all euro area countries until the end of 2022 to support healthcare related costs of up to 2% of GDP.

THE ESM CONTRIBUTION



LONG-TERM EU RESPONSE TO THE PANDEMIC: NEXT GENERATION EU



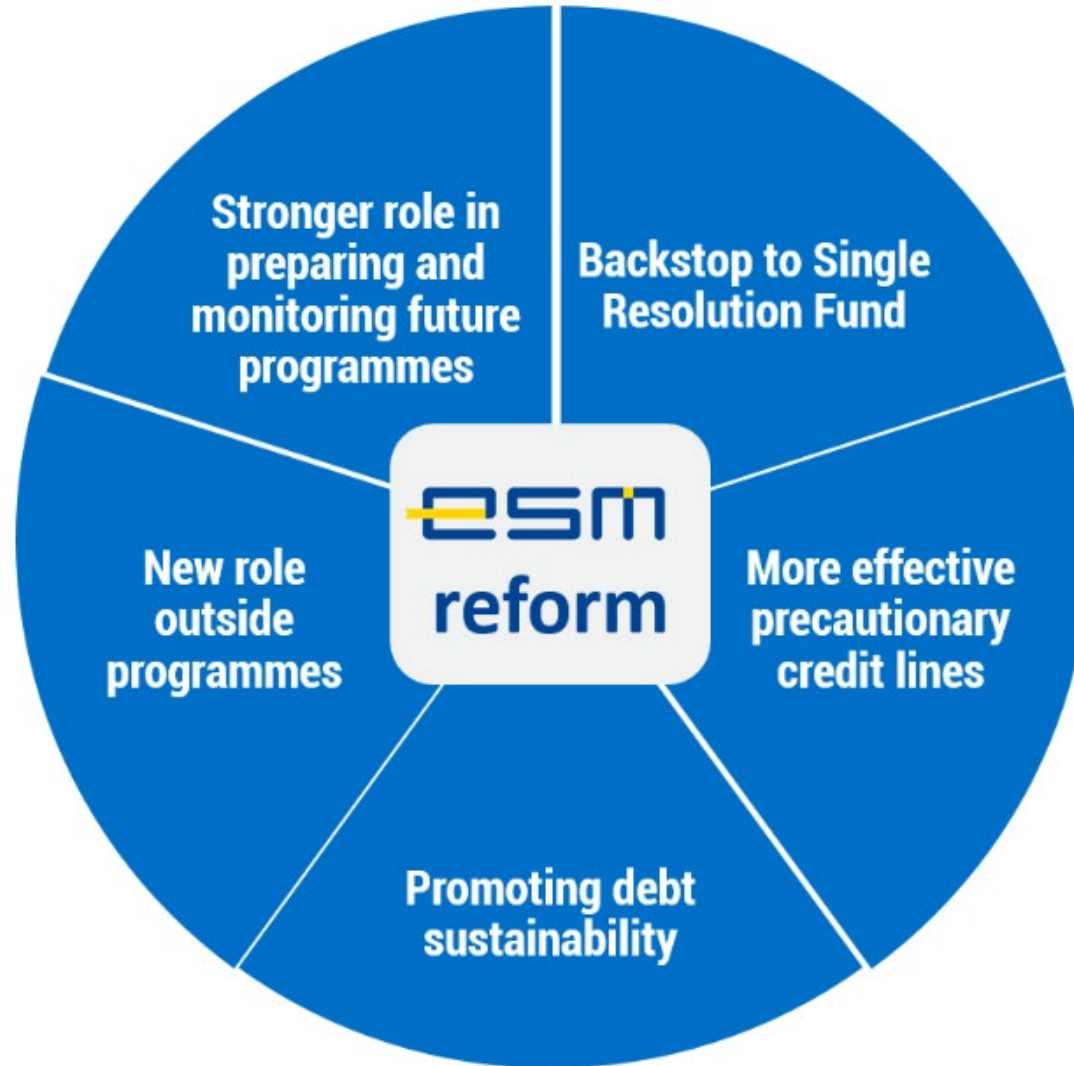
Figures expressed in 2018 prices
Source: Council of the European Union, 2021

THE ESM REFORM TO SUPPORT EMU



THE REFORM OF THE ESM : A STRONGER ROLE

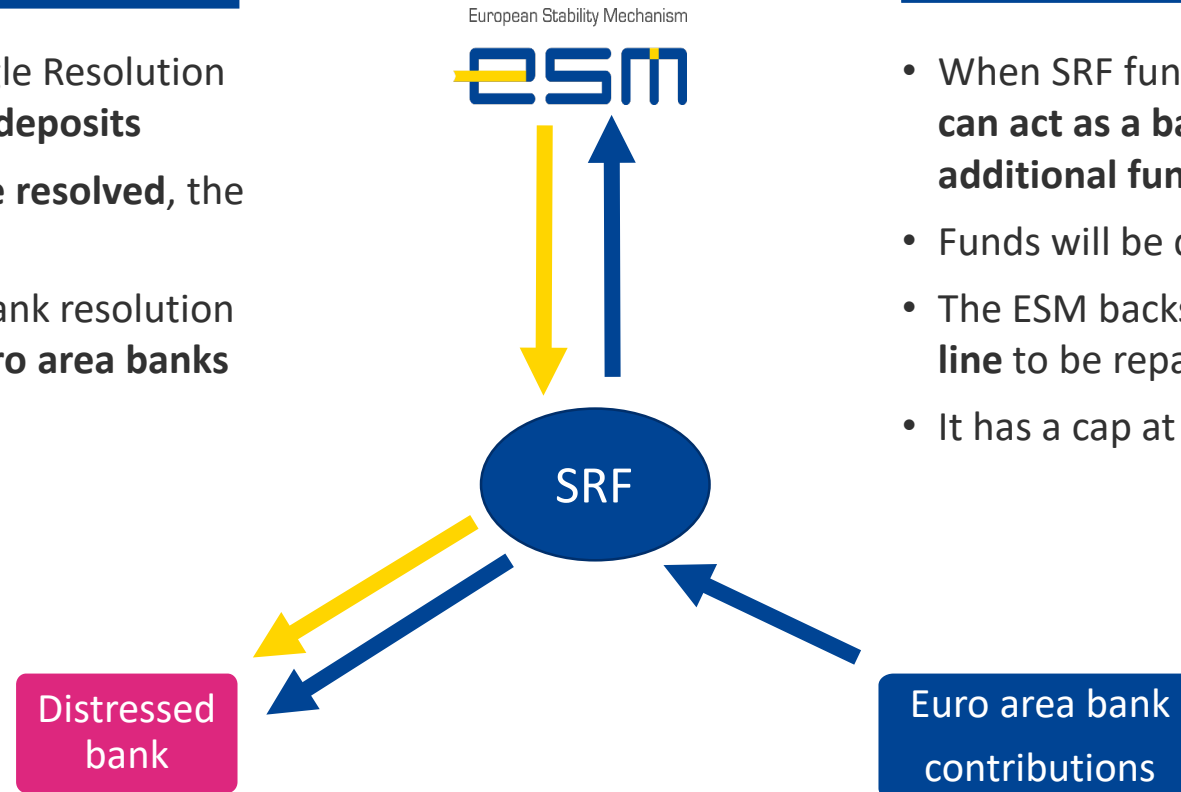
The revised ESM treaty was signed on 27 January 2021. It will be ratified in all 19 euro area countries in 2021



ESM BACKSTOP TO THE SINGLE RESOLUTION FUND

SRF/banking sector funds

- The target size of the Single Resolution Fund (SRF) is **1% of bank deposits**
- **When a bank needs to be resolved**, the SRF funds may be used
- The funds used for the bank resolution **must be repaid by all euro area banks**

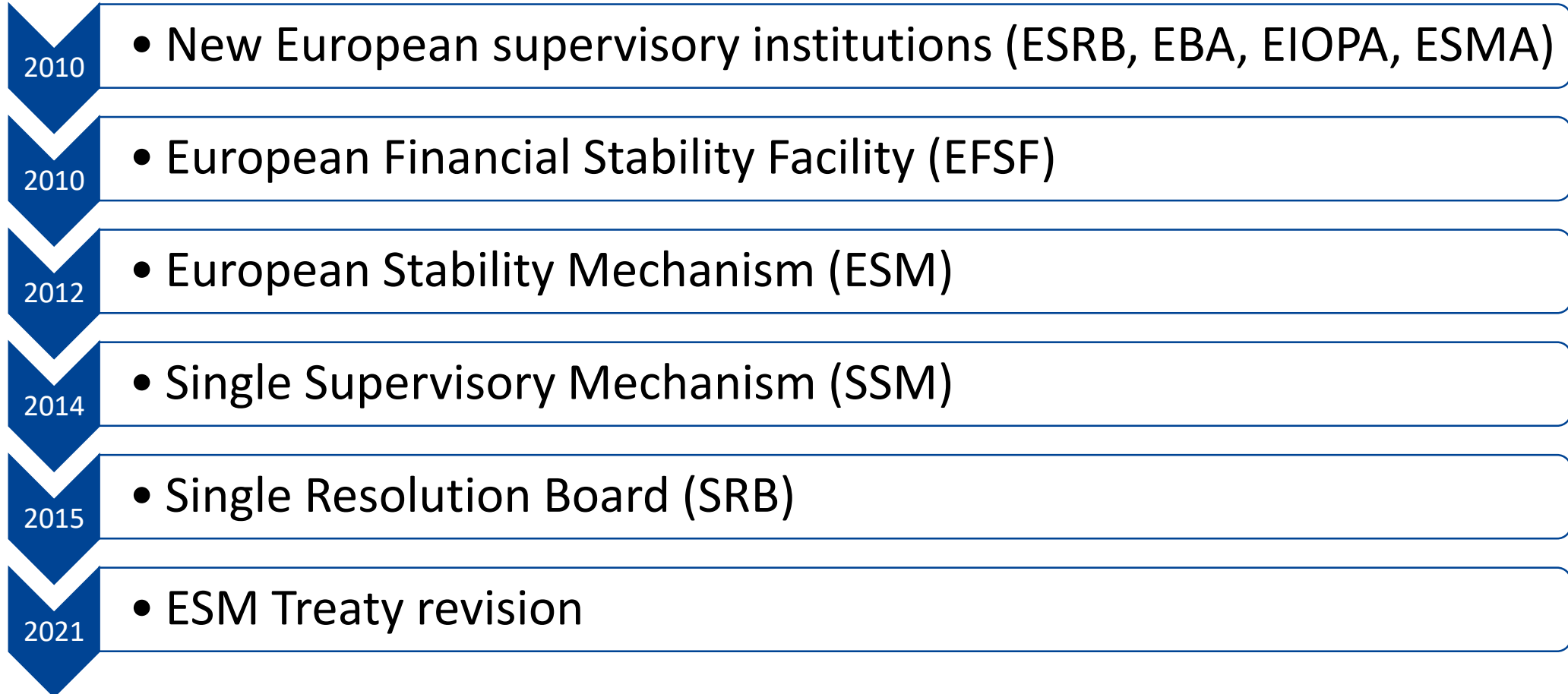


ESM funds

- When SRF funds are depleted, **the ESM can act as a backstop by providing additional funding**
- Funds will be disbursed in **12-24 hours**
- The ESM backstop is a **revolving credit line** to be repaid in 3 to 5 years by SRB
- It has a cap at **68 billion euro**

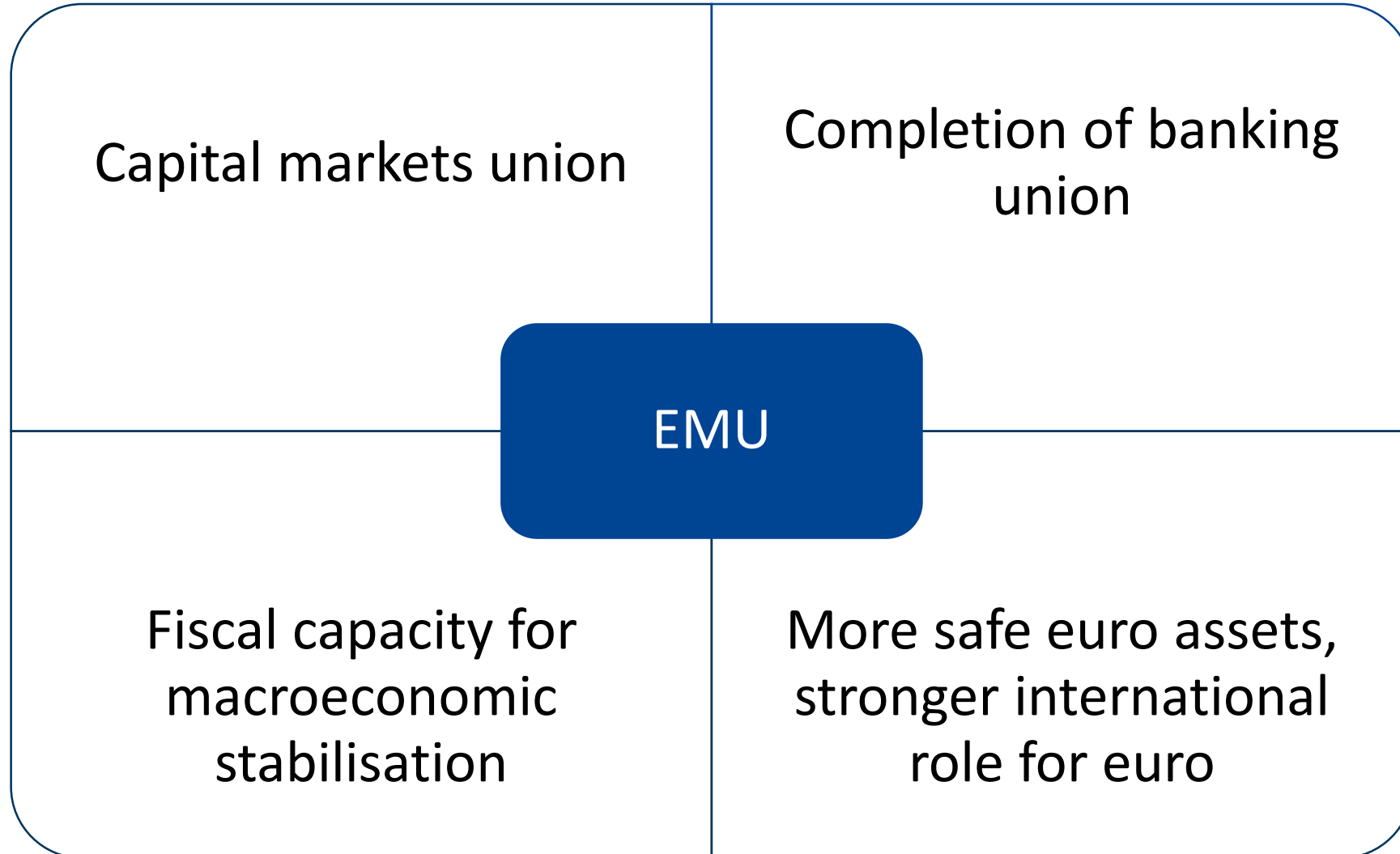
FURTHER DEEPENING OF ECONOMIC AND MONETARY UNION

SIGNIFICANT INSTITUTIONAL PROGRESS IN THE LAST DECADE



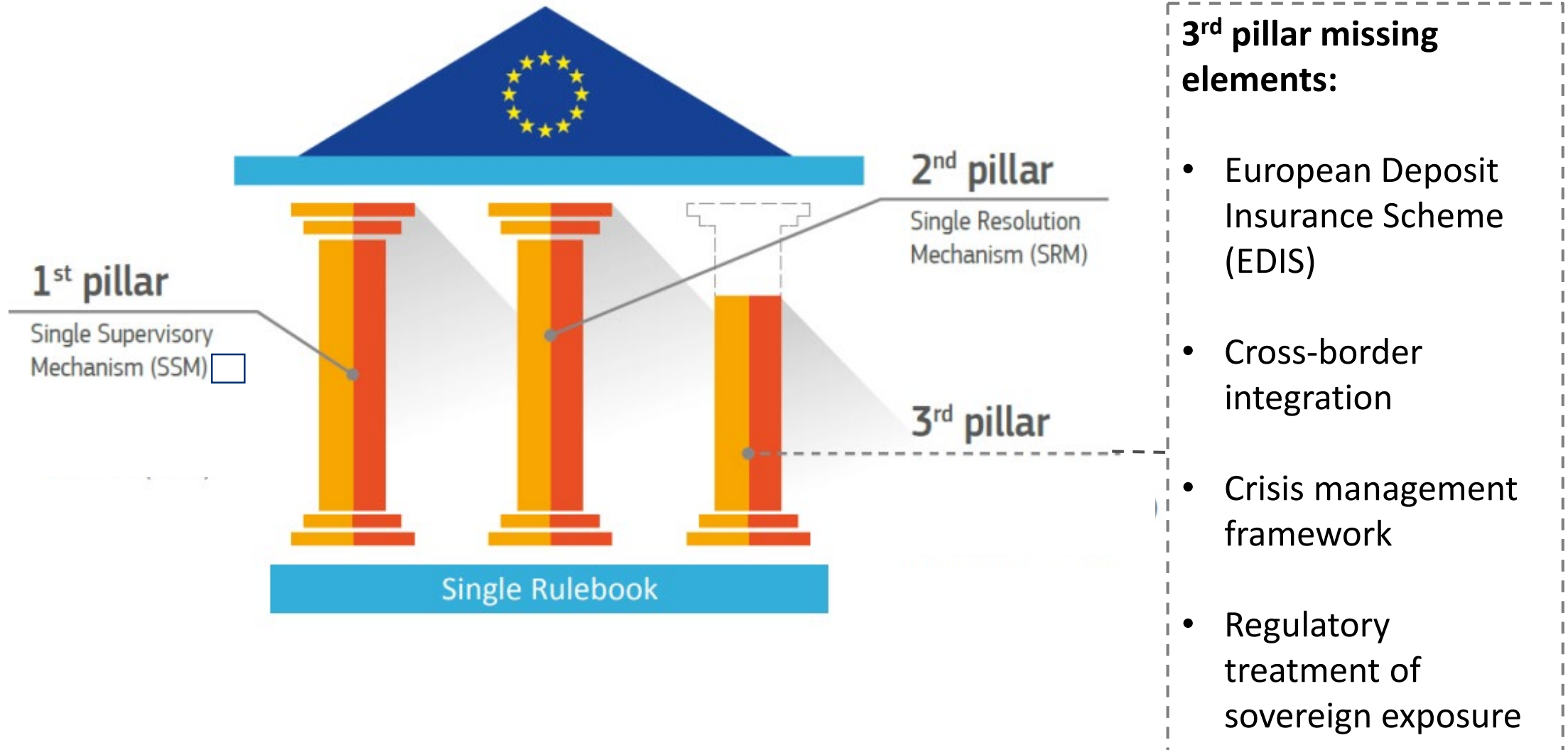
FURTHER DEEPENING OF ECONOMIC AND MONETARY UNION

PROMOTING PRIVATE AND PUBLIC SECTOR RISK SHARING



COMPLETING BANKING UNION TO DEEPEN EMU

PRIVATE SECTOR RISK SHARING



CAPITAL MARKETS UNION

The aim is to create a single market for capital to facilitate the flow of investments and savings across the EU.

16 CMU-actions to strengthen the single market, including:

Enhance the single rulebook for capital market and encourage **supervisory convergence**

Harmonise **insolvency rules** across countries

Simplify **withholding tax** procedures

Enhance cross-border **settlement services** in the EU through CSD passporting

Strengthen the **protection of shareholders** and further facilitate cross-border investments through improved dispute resolution mechanisms

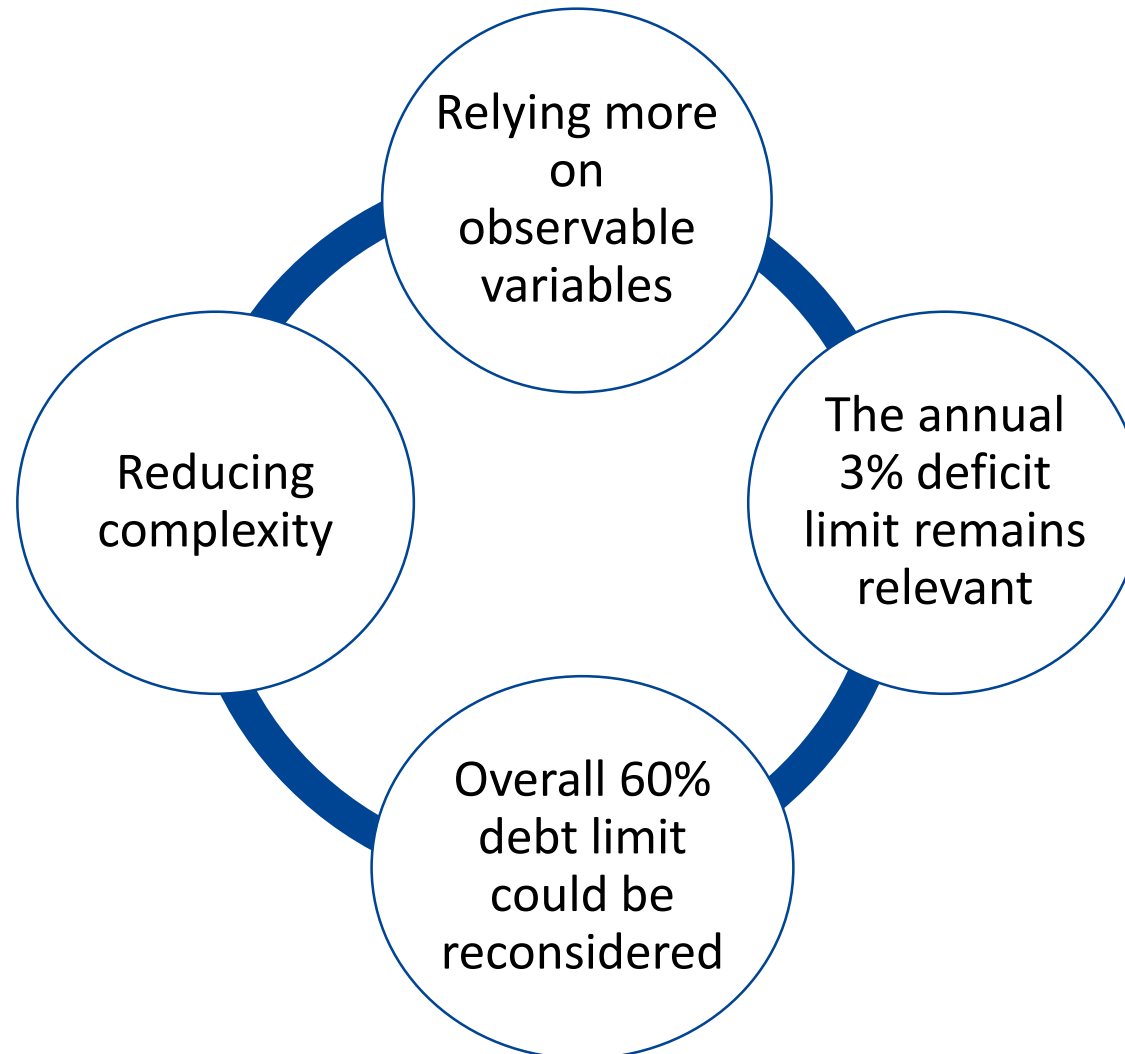
Review the Solvency II framework to encourage insurers and banks to invest in equity and other long-term assets

Simplify the listing rules for public markets to give small and innovative companies easier access to funding

Review the **securitization** framework

REFORMING THE EU'S FISCAL FRAMEWORK

EU fiscal rules are rightly suspended until next year. Reform considerations should centre around



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