



# **EU budget's response to the financial crisis**

## **Balance of Payments loans and European Financial Stabilisation Mechanism**

European Commission – DG Budget  
Jose Madeira



# Context

- Global economy: probably the deepest and most widespread recession in post-war era
- EU economy was not spared
  - financial crisis exacerbated existing imbalances in the EU
  - Several Member States (MS) experienced severe deterioration of borrowing conditions.

=> New financial assistance at European level made available



# New EU Financial Assistance

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- EU Financial assistance to MS:
  - Existing Balance of Payments (BoP) loans Facility reactivated
  - Creation of new instrument: European Financial Stabilisation Mechanism (EFSM)

# Bop and ESFM



- Conditional on implementation of economic and financial adjustment programme
- Joint EU/IMF support
- No expected impact on EU budget (back-to-back)
- Guaranteed/limited by margin available under the Own Resources ceiling for PA (1.23% GNI)



# Revival of the BoP Facility

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- Legal basis: Art. 352 of EU Treaty
- EU loans to MS experiencing/ or threatened with BoP problems
- Facility in place since the mid-seventies, not used in a long time
- Potential beneficiaries: Non-Euro area MS
- At onset of financial crisis maximum amount of outstanding loans was increased to € 50 billion

# Overview of outstanding BoP loans



<b>Country</b>	<b>Balance of Payments Loans (in € billion)</b>	
	Approved/Granted <sup>3</sup>	Already disbursed (in %)*
Hungary	6.5	5.5 (84.6%)
Latvia	3.1	2.7 (87.1%)
Romania	5.0	2.5 (50%)
<b>Total</b>	<b>14.6</b>	<b>10.7 (73.3%)</b>

\* as of 05 July 2010



# European Financial Stabilisation Mechanism (EFSM)

- Addressing Greece' abrupt sovereign crisis, fragile financial markets and the risk of contagion
- On 10th May 2010, MS agree on
  - European Financial Stabilisation Mechanism
  - European Financial Stability Facility (Special Purpose Vehicle)



# EFSM

- Legal basis: Art. 122 (2) of Treaty
- Facility allows for EU financial assistance (loans/credit lines) to MS in/ or threatened with difficulties caused by exceptional circumstances
- Potential beneficiaries: All EU MS
- Temporary mechanism





## Expected impact

- Discouraging excessive speculation
- Quickly providing urgently needed liquidity at more advantageous funding conditions
- Stabilisation of non-Euro currencies of MS
- Improving MS' access to private market financing/rates
- Supporting Member States' fiscal consolidation and structural reforms => reduction of EU imbalances



# But credible structural reforms remain a must

- Recovery is underway in the EU and globally, but it is proving more tentative than in past upturns.
  - Its speed is forecast to vary across countries.
- Financial markets remain concerned about fiscal sustainability.
- In the medium/long term only continued structural reforms enhancing the potential growth rate will guarantee a return to financial and economic stability



Thank you

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**THANK YOU FOR YOUR ATTENTION!**



# Links

1 BoP Facility: Council Regulation No 332/2002 of 18.02.2002 establishing a facility providing medium-term financial assistance:

<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CONSLEG:2002R0332:20090528:EN:PDF>

2 EFSM: Council Regulation No 407/2010 of 11.05.2010 establishing a European financial stabilisation mechanism: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:118:0001:0004:EN:PDF>

3 Council decision D2009/102/EC of 4.11.2008 providing Community medium-term financial assistance to Hungary: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:037:0005:0006:EN:PDF>

Council decision 2009/290/EC of 20.01.2008 providing Community medium-term financial assistance to Latvia: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:079:0039:0041:EN:PDF>

Council decision 2009/459/EC of 06.05.2009 providing Community medium-term financial assistance to Romania: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:150:0008:0010:EN:PDF>