

## **European Stability Mechanism**

### **Guideline on Precautionary Financial Assistance**

#### **Article 1**

##### *Aim and scope*

The objective of precautionary financial assistance is to support sound policies and prevent crisis situations by allowing ESM Members to secure the possibility to access ESM assistance before they face major difficulties raising funds in the capital markets. Precautionary financial assistance aims at helping ESM Members whose economic conditions are still sound to maintain continuous access to market financing by reinforcing the credibility of their macroeconomic performance while ensuring an adequate safety-net.

#### **Article 2**

##### *Types of precautionary financial assistance*

1. Precautionary financial assistance may be provided via a Precautionary Conditioned Credit Line (PCCL) or via an Enhanced Conditions Credit Line (ECCL). A PCCL and an ECCL credit line can be drawn via a loan or a primary market purchase. Both types of credit line shall have an initial availability period of one year and shall be renewable twice, each time for six months.
2. Access to a PCCL shall be based on pre-established conditions and limited to ESM Members where the economic and financial situation is still fundamentally sound. A global assessment shall be made on whether a potential beneficiary ESM Member qualifies for a PCCL, using as a basis the following criteria:
  - (a) Respect of the commitments under the stability and growth pact. An ESM Member under excessive deficit procedure may still access a PCCL, provided it fully abides by the Council decisions and recommendations aimed at ensuring a smooth and accelerated correction of its excessive deficit.
  - (b) A sustainable general government debt.
  - (c) Respect of the commitments under the excessive imbalance procedure (EIP). An ESM Member under EIP may still access a PCCL, provided it is established that it remains committed to addressing the imbalances identified by the Council.
  - (d) A track record of access to international capital markets on reasonable terms.
  - (e) A sustainable external position.
  - (f) The absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system.



3. The beneficiary ESM Member shall ensure a continuous respect of the eligibility criteria after the PCCL is granted, which shall be monitored by the European Commission, in liaison with the ECB.
4. Access to an ECCL shall be open to ESM Members that do not comply with some of the eligibility criteria required for accessing a PCCL but whose general economic and financial situation remains sound. The beneficiary ESM Member shall, after consultation of the European Commission and of the ECB, adopt corrective measures aimed at addressing the above-mentioned weaknesses and avoiding any future problems in respect of access to market financing, while ensuring a continuous respect of the eligibility criteria which were considered met when the credit line was granted. The monitoring of the respect of the eligibility criteria and of any corrective measures shall be ensured by the European Commission, in liaison with the ECB, in line with the provisions foreseen in Article 5.

### Article 3

#### *Procedures for granting precautionary financial assistance*

In order to benefit from an ESM credit line, the request by the ESM Member shall follow the following steps:

1. An ESM Member may address a request for precautionary financial assistance to the Chairperson of the ESM Board of Governors.<sup>1</sup> On receipt of such a request, the Chairperson of the Board of Governors shall entrust the European Commission, in liaison with the ECB, with the following tasks:
  - (a) to assess the existence of a risk to the financial stability of the euro area as a whole or of its Member States;
  - (b) to assess whether general government debt is sustainable. Wherever appropriate and possible, such an assessment shall be conducted together with the IMF;
  - (c) to assess the actual or potential financing needs of the ESM Member concerned.
2. In addition, the European Commission shall be requested to, in liaison with the ECB, assess whether the ESM Member concerned meets the conditions for accessing a PCCL or an ECCL as set out in Article 2(2) and 2(4), respectively.
3. On the basis of the request of the ESM Member and the assessments referred to in paragraphs 1 and 2, the Managing Director shall prepare a proposal for financial assistance consistent with the aforementioned assessment and taking into account the financial situation of the ESM. On this basis, the Board of Governors may decide to grant, in principle, precautionary financial assistance to the ESM Member concerned in the form of a PCCL or an ECCL as well as its amount and duration in accordance with Article 13(2) of the ESM Treaty.
4. If a decision is adopted pursuant to paragraph 3, the Board of Governors shall, in accordance with article 13(3) of the ESM Treaty, entrust:

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<sup>1</sup> This should be done taking into account Recital 8 of the ESM Treaty.



- a. The European Commission – in liaison with the ECB and, wherever possible, together with the IMF – with the task of negotiating, with the ESM Member concerned, an MoU detailing the policy conditions attached to the precautionary financial assistance.
  - b. The Managing Director of the ESM, with the task of preparing, in parallel, a proposal for a financial assistance facility agreement (FFA), detailing the financial terms and conditions of the precautionary financial assistance, to be adopted by the Board of Governors.
5. The European Commission shall sign the MoU on behalf of the ESM, subject to compliance with the conditions set out in paragraph 4(a) and approval by the Board of Governors. The Managing Director of the ESM shall sign the financial assistance facility agreement, subject to approval by the Board of Directors.

#### **Article 4**

##### ***Activating a credit line***

1. The activation of the credit line shall be at the initiative of the beneficiary ESM Member. The Member shall have the flexibility to request the draw-down of funds at any time during the availability period of the credit line according to the agreed terms. It shall inform the ESM at least a week in advance of its intention to draw funds, depending on the intended size.
2. The maximum size of a tranche or primary market purchase shall be set in the initial decision to grant a credit line.

#### **Article 5**

##### ***Enhanced surveillance***

1. Where an ECCL is granted or a PCCL drawn, the ESM Member shall be subject to enhanced surveillance by the European Commission for the availability period of the credit line. An ESM Member under enhanced surveillance shall, in consultation and cooperation with the European Commission, acting in liaison with the ECB, the European Supervisory Authorities (ESA) and the European Systemic Risk Board (ESRB), and where appropriate the IMF, adopt measures aimed at addressing the sources or potential sources of difficulties.
2. On a request from the European Commission, the ESM Member under enhanced surveillance shall:
  - a) Provide the ESM with all necessary information required for the execution of its lending activity and related risk management, such as monthly information regarding its financial condition, cash balance and other key information that would usually be provided for facilities of this type and any of the information mentioned in points (b) to (f);



- b) Communicate to the European Commission, the ECB, and the relevant ESA(s) at the requested frequency disaggregated information on developments in its financial system. The European Commission, the ECB, and the relevant ESA(s) shall preserve the confidentiality of the disaggregated data received;
  - c) Carry out, under the supervision of the relevant ESA(s), stress test exercises or sensitivity analyses as necessary to assess the resilience of the financial sector to various macroeconomic and financial shocks, as specified by the European Commission and the ECB in liaison with the relevant ESA(s) and the ESRB, and share the detailed results with them;
  - d) Be subject to regular assessments of its supervisory capacities over the banking sector in the framework of a specific peer review carried out by the relevant ESA(s);
  - e) Carry out and report on a comprehensive independent audit of the accounts of the general government conducted in coordination with national supreme audit institutions, aiming at assessing the reliability, completeness and accuracy of these public accounts for the purposes of the excessive deficit procedure. In this context, the European Commission (Eurostat) shall assess the quality of data reported by the beneficiary ESM Member in accordance with Regulation (EC) No 679/2010;
  - f) Where appropriate, provide additional information for the purposes of monitoring the progress towards the correction of the excessive deficit.
3. The European Commission shall conduct, in liaison with the ECB and the ESA(s) as needed, and where appropriate the IMF, regular review missions in the ESM Member under surveillance to verify the progresses made in the implementation of the adopted measures. It shall communicate, every quarter, its findings to the Board of Directors and assess notably whether further policy measures are needed.

## **Article 6**

### ***Warning system***

The ESM shall establish an appropriate warning system, in accordance with Article 13(6) of the ESM Treaty, to ensure that the ESM receives any repayments due by the ESM Member under the stability support in a timely manner.

## **Article 7**

### ***Re-examination of the adequacy of the precautionary financial assistance***

1. The adequacy of the precautionary financial assistance shall be assessed on a proposal from the ESM Managing Director based on the findings referred to in Article 5(3) or, where a PCCL has been granted but not drawn, the results of the regular EU multilateral surveillance procedure. The Board of Directors shall decide on the basis of this proposal whether the credit line should be maintained.



2. In case the beneficiary ESM Member deviates from its policy conditions or if those commitments have become clearly inadequate to resolve the threat of financial disturbance, the Board of Governors may decide to close the credit line. The beneficiary ESM Member would then be expected to request a regular stability support, with a full macroeconomic adjustment programme, following the procedure applicable to it.
3. After the beneficiary ESM Member has drawn funds for the first time via a loan or a primary market purchase, the Board of Directors shall decide on a proposal from the Managing Director and based on an assessment conducted by the European Commission, in liaison with the ECB, whether the credit line continues to be adequate or whether another form of financial assistance is needed.