



## DEEPENING EUROPE'S ECONOMIC AND MONETARY UNION

Update ahead of the Euro Summit of December 2018

#FutureofEurope

# COOPERATION BETWEEN THE EUROPEAN COMMISSION AND THE EUROPEAN STABILITY MECHANISM

## BUILDING ON THE BASIS OF SUCCESSFUL COOPERATION

The European Commission and the European Stability Mechanism share the common objective of safeguarding the stability of the euro area. The two institutions have cooperated successfully in assisting euro area Member States experiencing financial difficulty and have played a decisive role in maintaining the integrity of the euro area.

To further strengthen the resilience of our Economic and Monetary Union, and building on this cooperation, the European Commission and the European Stability Mechanism signed a Memorandum of Understanding in April 2018, setting out principles of cooperation between the two institutions based on their experience of collaboration.

Euro area leaders and finance ministers then mandated the European Commission and the European Stability Mechanism to prepare a joint position paper outlining proposals for future cooperation between the two institutions ahead of the Euro Summit of December 2018. This paper, agreed in November 2018, reflects the need to ensure full compliance with EU law and the European Stability Mechanism Treaty and affirms the longer-term goal of incorporating the European Stability Mechanism into the EU legal framework.

The future cooperation between the institutions does not change the rules and legal framework under which they operate. The existing competences and responsibilities of both institutions, and the European Central Bank, as enshrined in EU law and the European Stability Mechanism Treaty, remain intact. The Eurogroup of December 2018 welcomed the joint position of the European Commission and the European Stability Mechanism and expressed its readiness to prepare the necessary amendments to the European Stability Mechanism Treaty by June 2019.

The formalisation of the cooperation with the European Commission is an important contribution to the broader further development of the European Stability Mechanism, as discussed by the Euro Summit and the Eurogroup.

## COOPERATION IN ALL PHASES OF FINANCIAL ASSISTANCE PROGRAMMES

The joint paper outlines how the two institutions will assume their respective roles at each distinct stage of financial assistance programmes.

### Different phases of financial assistance programmes





## Preparation of financial assistance

When a European Stability Mechanism member requests stability support, the European Commission and the European Stability Mechanism will work closely together, also with the European Central Bank, to prepare the decision in principle by the European Stability Mechanism Board of Governors, particularly on the assessment of the beneficiary Member State's debt sustainability, the assessment of the financial stability risks and the financing needs of the member requesting support.

- ▶ The European Commission will ensure consistency with the Union's economic policy coordination framework and measures adopted in that context.
- ▶ The European Stability Mechanism will perform its analysis and assessment from the perspective of a lender.



## Negotiating conditionality

The European Commission, in liaison with the European Central Bank, and the European Stability Mechanism will collaborate on the design and negotiation of the policies that the beneficiary Member State must implement in order to receive financial assistance.

- ▶ The European Commission, given its broad expertise, role in economic policy coordination and its responsibility to ensure consistency with the Union's legal framework, will design and negotiate individual policy measures.
- ▶ The European Stability Mechanism will contribute from its perspective as a lender in areas which are directly relevant for the beneficiary Member State's financing needs and ability to repay the assistance.
- ▶ Any future Memorandum of Understanding detailing the policies that are to be implemented will be signed by both the European Commission and the European Stability Mechanism.



## Monitoring compliance

The European Commission, in close cooperation with the European Stability Mechanism, and in liaison with the European Central Bank, will monitor the implementation of policies agreed in return for financial assistance.



## Post-programme monitoring

EU law requires the European Commission to conduct, in liaison with the European Central Bank, regular review missions in countries that have received financial assistance to assess their economic, fiscal and financial situation.

The European Stability Mechanism Treaty provides for an Early Warning System Procedure to assess the ability of a Member State to repay the financial assistance which it has received.

Post-programme surveillance missions and Early Warning System missions will continue to be combined, where possible, to prevent unnecessary duplication of analysis and avoid placing unnecessary burdens on the relevant Member State.



## An example of successful cooperation: The stability support programme for Greece

The European Commission, in close coordination with the European Central Bank, the European Stability Mechanism and the International Monetary Fund, established with the Greek authorities what policies would have to be implemented in return for the provision of financial assistance. These policies were set out in a Memorandum of Understanding which was signed by the European Commission, on behalf of the European Stability Mechanism, in August 2015.

These reforms took a coordinated approach to tackle long-standing and deep-rooted structural issues. Improving economic indicators confirm that, while work remains to be done, the reforms are already delivering tangible benefits to the people of Greece by restoring order to public finances, reducing unemployment and securing a return to growth.

Over the course of the programme, the European Stability Mechanism provided a total of €61.9 billion in loans to Greece. Greece successfully concluded its stability support programme in August 2018.

## ASSESSMENT OF ELIGIBILITY FOR PRECAUTIONARY CREDIT LINE

Depending on the precise scope of eligibility criteria and/or conditionality still to be defined, the European Commission and the European Stability Mechanism will assume their respective roles in assessing eligibility for a precautionary credit line in accordance with EU law and the European Stability Mechanism Treaty and guidelines.



The European Commission will assess the Member State's economic situation and policy track record.



The European Stability Mechanism will assess the Member State's access to market financing.

## COOPERATION OUTSIDE OF FINANCIAL ASSISTANCE PROGRAMMES

The joint paper also outlines how the European Commission and the European Stability Mechanism will collaborate outside of financial assistance programmes.



The European Commission and the European Stability Mechanism will discuss and assess macro-financial risks.



When deemed useful and appropriate, the Commission, in agreement with the Member State concerned, will invite European Stability Mechanism staff to join its missions related to economic policy coordination and budgetary monitoring.



Based on reciprocity, and preserving confidentiality obligations, the European Commission and the European Stability Mechanism will share data, analysis and assessments.