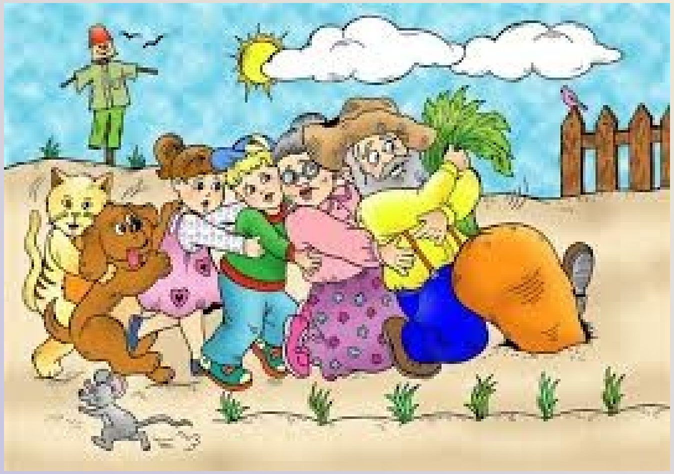
PULLING OUT OF THE FINANCIAL CRISIS



Dr. Nellie Munin

Timetable

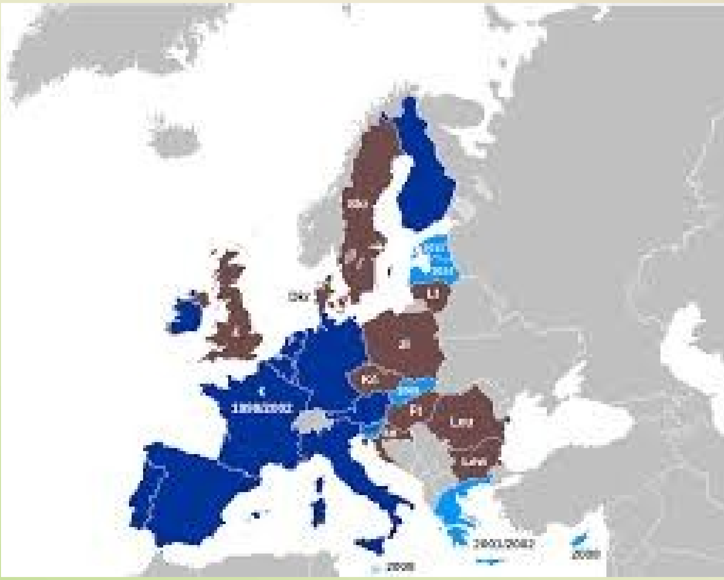
- 2008 - The financial crisis hit.
- 2010 - Temporary assistance mechanisms established: EFSF+EFSM
- 2010 – initiation of ESFS
- March 2011 - Amendment of Art. 136 TFEU.
- 2012 – Conclusion of ESM + FCT Treaties.
- October 2012 – Start of ESM operation.
- December 2011 - the‘Six Pack’ come into force.
- May 2013 the ‘Two Pack’ comes into force.
- 2013 – the Single Rule Book.
- November 2014 - SSM becomes operative.

Eligibility to Financial Assistance

EMU Members:

Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxemburg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, Spain.

Eligible to EFSF+EFSM , replaced by ESM



Non-EMU Members

Bulgaria, Czech Republic, Croatia Hungary, Poland, Romania, Sweden, Denmark, the UK.

Eligible to assistance by EU Member States, international organizations (IMF, World Bank) and EU's Balance of Payments (BoP) Program.

(Hungary, Romania & Latvia before joining the EMU received this assistance).

The Temporary Instruments: EFSF and EFSM (2010-11)

- Financially assisted EMU Members in financial crisis.
- Issued bonds or other debt instruments on the market.

EFSF

- Guaranteed by EMU Member States in proportion to their share in the paid-up capital of the ECB.
- Originally authorized to borrow 440 bn Euro. This amount was enlarged in 2011 to 780 bn Euro.

EFSM

- Guaranteed by EU Commission, Using EU budget as collateral.
- Authorized to raise up to 60 bn Euro.
- It was possible to combine the two resources + IMF Assistance.
- Assisted Ireland, Portugal and Greece.
- Current status: does not lend, continues to manage given loans.

The ESM (European Stability Mechanism)

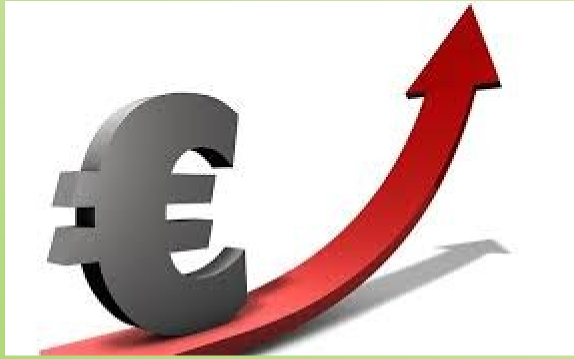
- Legal framework: international organization.
- Establishment means: an intergovernmental treaty, governed by public Intl. law.
- Entry into force date: 27 September 2012.
- Ratification CzR: 23 April 2013, entry into force: 1 May 2013.
- Maximum lending capacity: 500 billion Euro.
- Total subscribed capital of €704.8 billion, with paid-in capital (€80.5 billion) and committed callable capital (€624.3 billion)
- Resources: Member States’ contribution.
- Shareholders: 19 Member States.
- Management: headquarters in Luxembourg city:

http://esm.europa.eu/

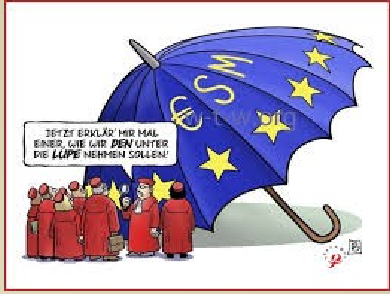
- ESM assistance can be combined with IMF and bilateral assistance.

The ESM: three Circles of Decision Making

- Board of Governors (finance ministers) – political circle. 'May invite' ad hoc observers to its meetings.
- Board of Directors – professional directors appointed by the Governors. 'May invite' ad hoc observers to its meetings.
- Managing director – professional appointed by the Board of Governors.



Voting



- **Board of Governors:**
  - **Mutual agreement Art. 5(6) ESMT**
  - **qualified majority (80% of the votes cast) Art. 5(7) ESMT**
  - **Simple majority – all other cases.**

  "[i]n respect of all decisions, a quorum of 2/3 of the members with voting rights representing at least 2/3 of the voting rights must be present." (Article 4(2) ESMT)

  file:///C:/Documents%20and%20Settings/Nellie%20Munin/My%20Documents/Downloads/20150203%20-%20ESM%20Treaty%20-%20EN.pdf
- **Board of Directors**
  - qualified majority, unless the Treaty states otherwise

ESM Assistance Instruments

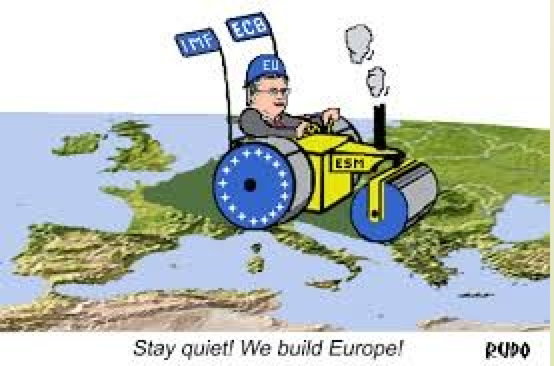
- Provide loans in the framework of a macroeconomic adjustment program.
- Purchase debt in the primary and secondary debt markets.
- Provide precautionary financial assistance in the form of credit lines.
- Finance recapitalizations of financial institutions through loans to the governments of ESM Members.
- Directly recapitalize financial institutions (as an instrument of last resort - when bail-in and contribution from resolution fund are insufficient to return an institution to viability).

Preconditions for Assistance

- **Full ratification of the 'Fiscal Compact'** (stricter version of the Stability and Growth Pact).
- **Analysis of the requesting country's economy by the EU Commission, ECB and IMF to determine the due manner of assistance.**

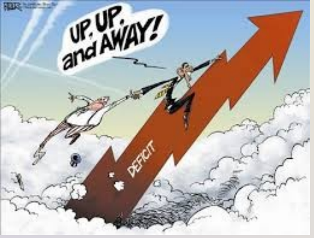
‘Fiscal Compact’: Part of The Treaty on Stability, Coordination and Governance (TSCG)

- A general budget deficit less than 3.0% of the gross domestic product (GDP).
- A structural deficit of less than 1.0% of GDP if the debt level is below 60%. Otherwise, it must fall below 0.5% of GDP.
- Defining thresholds:
  - The ‘debt break’ criteria.
  - The ‘balanced budget rule’.



Assisted Countries

- Greece
- Spain
- Portugal



The 'Six Pack' Components

- Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure. OJ L 306, 33.

- Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States. OJ L 306, 41.

- Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, OJ L 306, 1.

- Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on enforcement measures to correct excessive macroeconomic imbalances in the euro area. OJ L 306, 8.

- Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. OJ L 306, 12.

- Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances. OJ L 306, 25.

‘Six Pack’ Principles

Aim: speeding up and clarifying the implementation of the excessive deficit Procedure – guidance for governments and instructions for Commission.

- lays down detailed rules concerning the characteristics of the budgetary frameworks of the Member States, necessary to ensure Member States avoid excessive government deficits.

- Providing for the effective enforcement of budgetary surveillance in the euro area and specifying enforcement measures to correct excessive macroeconomic imbalances in the euro area: sanctions (fines).

Aim: strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

- Setting out the rules covering the content, the submission, the examination and the monitoring of stability programs and convergence programs:
  - ‘European Semester for Economic Policy Coordination’.
  - Economic Dialogue.
  - Statistical Independence.

The ‘Two Pack’

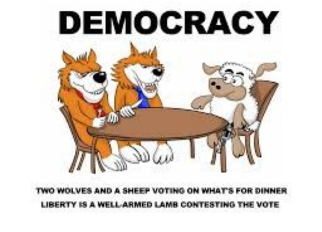
- **Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability. OJ L 140, 1.**
- **Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area. OJ L 140, 11.**

Regulation (EU) No 473/2013

- Applies to all Member States uncovered by regulation 472/2013.
- These Member states will submit their draft fiscal budget for the upcoming year to the European Commission no later than 15 October; and they shall then await receiving the Commission's opinion before it is debated and voted for in the national parliament.
- The Commission does not have veto right but may issue warnings to national parliaments whose draft budget seems to compromise the European Fiscal Compact.
- Reporting intervals of 6 and 3 months for Eurozone Members subject to Excessive Deficit Procedure or do not comply to it, respectively.

Regulation (EU) No 472/2013

- Applies to Eurozone Members subject to an ongoing Excessive Imbalance Procedure or being involved in a financial assistance program from EFSF, EFSM, ESM, IMF or other bilateral basis.
- For them, “status reports for corrective action" needs to be published on a quarterly basis.
- The Commission on that basis will be allowed to send warnings to the national parliament of the member state concerned, about a likely missed compliance with program targets and/or the fiscal adjustment path to comply with EDP deadlines, at such an early stage in the process, that the affected member state still have sufficient time to implement needed counter-measures to prevent the possible delay of the required compliance.



SSM Regulation

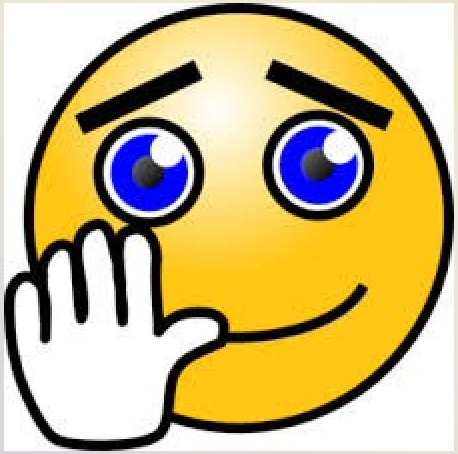
* Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority). OJ L 331/12, 15.12.2010.
* Regulation (EU) No. 1022/2013 Of the European Parliament and of the Council of 22 October 2013 amending Regulation (EU) No 1093/2010 establishing a European Supervisory Authority (European Banking Authority) as regards the conferral of specific tasks on the European Central Bank pursuant to Council Regulation (EU) No 1024/2013. OJ L 287/5, 29.10.2013.
* Council Regulation of 15 October 2013 (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions. OJ L 287/63, 29.10.2013.
* Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.
* Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.
* Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.
* Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

Single Banking Supervision

- 2010: EBA (European Banking Authority) replaces a former Committee.
- Together with a Joint Committee of the European Supervisory Authorities, the supervisory authorities in the Member States and a European Systemic Risk Board (ESRB) they form the European System of Financial Supervision (ESFS).
- 2013: a Single Rule book was initiated for all 28 EU Member States.
- Towards the three pillars of the Banking Union:
  - SSM – operative since November 2014.
  - SRM (Single resolution mechanism) – Board + fund (55bn Euro) – helping banks in difficulties.
  - Deposit guarantee – national until 2019.

Single Banking Supervision Mechanism

- All banks at the EMU Members are subject to banking supervision by the ECB (including branches in EU, non-EMU Members.
- The deciding authority: ECB Governing Council, where only EMU Members have voting rights.
- Non-EMU members can participate on voluntary bases – by now did not.
- National bank supervisors cooperate with ECB.
- EU regulation specifies the rules of supervision.
- Supervision should take into account the specific circumstances of the supervised country.
- 11 instances are involved in the process.



Thank You

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