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REPORT FROM THE COMMISSION TO THE COUNCIL

Report on the Union's facility providing medium-term financial assistance for Member States' balances of payments pursuant to Article 10 of Council Regulation (EC) No 332/2002

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1. SUMMARY

This is a **report of the Commission to the Council** on the use of the Union's facility providing medium-term financial assistance for Member States' balances of payments pursuant to Council Regulation (EC) No 332/2002[1] of 18 February 2002 (the 'BoP Regulation' or 'BoP Instrument'). On the basis of this report by the Commission and taking into account the opinion of the Economic and Financial Committee (EFC), the Council is required to examine the extent to which the instrument still serves its purpose in terms of its principle, arrangements and the ceiling for outstanding loans under the instrument.

Since 2012, **Romania** has requested and received precautionary assistance under the instrument. **Hungary** repaid its loan in April 2016 whereas EUR 0.7 billion in loans to **Latvia** is still outstanding. These beneficiary Member States saw the sustainability of their balance of payments situation improve rapidly, enabling renewed access to market-based financing.

The Commission assesses the instrument as follows:

- Since the last revision in May 2009, **the instrument has proven its effectiveness** given that beneficiary Member States have seen the sustainability of their balance of payments improve rapidly and have quickly regained access to market-based financing.

- **Currently at EUR 50 billion,** the **ceiling** for outstanding loans (in terms of principal) and credit lines under the instrument **appears appropriate**.

- The **modifications suggested in the Commission proposal for a new Council regulation** (COM(2012) 336 final) remain both necessary and appropriate: developments in the regulatory framework and the same borrowing rules as those under Regulation (EU) No 407/2010[2] of 11 May 2010 establishing a European financial stabilisation mechanism should be introduced and the use of credit lines clarified. In addition, it should be clarified that the instrument may be used to finance the (indirect) recapitalisation of credit institutions and that policy conditions may be adjusted primarily to address these problems.

2. INTRODUCTION

Pursuant to the BoP Regulation, the BoP Instrument was created to provide Union medium-term financial assistance to Member States which have not adopted the euro[3] (Member States with a derogation) and are experiencing, or are threatened with, difficulties in their balance of payments. This financial assistance is either in the form of an EU loan or a credit line. Furthermore, the BoP Regulation stipulates that the Council should regularly examine the extent to which the instrument still serves its purpose in terms of its principle, arrangements and ceiling. The Council examination should be made on the basis of a report from the Commission and after the EFC has delivered an opinion.

[1] OJ L 53, 23.2.2002, p. 1.
[2] OJ L 118, 12.5.2010, p. 1.
[3] Currently, nine Member States fall into this category: Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, and the United Kingdom (concerning the latter, Protocol 15 annexed to the Treaties specifies that Articles 143 and 144 of the Treaty on the Functioning of the European Union (TFEU) continue to apply).

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Based on its most recent assessment, the Commission submitted a proposal dated 22 June 2012 (COM(2012) 336 final) to modify the BoP Regulation. However, Council members were unable to agree a common position because of objections by one Member State.

3. STATE OF PLAY AND APPROPRIATENESS OF THE BOP INSTRUMENT

Since 2012, one Member State, **Romania,** has requested and received assistance under the instrument. The assistance was formally agreed in October 2013 and expired in September 2015. It ran in parallel with a stand-by arrangement (SBA) of the International Monetary Fund (IMF). As with the agreement covering 2011-13, the assistance available for 2013-15 was treated as precautionary and not drawn upon.

The precautionary assistance by the EU amounted to EUR 2 billion, while the IMF contributed up to SDR 1.75 billion (around EUR 2 billion) on the basis of an equally precautionary SBA. The aim of the supported adjustment programme was to assist Romania in consolidating macroeconomic, fiscal and financial stability, and in so doing increase the resilience and growth potential of its economy; improve its administrative capacity; reform the tax administration; improve public financial management; and restructure state-owned enterprises.

Hungary fully repaid its loan in April 2016 whereas EUR 0.7 billion of **Latvia's** loan is still outstanding. The precautionary assistance for **Romania,** following up on two previous arrangements (one of which on a precautionary basis), has demonstrated the versatility of the instrument. Romania still had EUR 3.5 billion left to repay from the non-precautionary support disbursed in 2010-11.

Table 1: Residual repayment obligations under the BoP Instrument (as of August 2017)

Year	*Country*	*Capital repayment*	*Interest payment*	*Grand Total*
2017	Latvia		6	6
	Romania	1,150	32	1,182
2018	Latvia		23	23
	Romania	1,350	77	1,427
2019	Latvia	500	23	523
	Romania	1,000	34	1,034
2020	Latvia		6	6
2021	Latvia		6	6
2022	Latvia		6	6
2023	Latvia		6	6
2024	Latvia		6	6
2025	Latvia	200	6	206
Grand Total		**4,200**	**231**	**4,431**

In EUR million

Against this backdrop, the remaining capacity of the instrument currently stands at EUR 45.8 billion. No request for further support has been received so far.

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Generally, all of the beneficiaries mentioned above saw the sustainability of their balance of payments situation improve rapidly, and therefore access to market-based financing could be re-established. Hence, the instrument fulfilled its role effectively.

At the same time, during 2010-13, the toolbox of international financial assistance instruments had been extended to include more flexible and more preventive instruments. In the euro area, the European Stability Mechanism (ESM) has a comprehensive toolkit to address the funding needs of its members. In the Union, the European Financial Stabilisation Mechanism (EFSM), broadly similar in its workings to the BoP Instrument, introduced a more flexible framework for borrowing and lending operations for macro financial purposes. In contrast, the BoP Instrument had not witnessed further change.

By consequence, it was suggested that the rules for credit lines in the BoP Regulation should be clarified, while those for borrowing and lending operations should be aligned to the more flexible ones applicable to the European Financial Stabilisation Mechanism (EFSM).

Furthermore, the multilateral surveillance framework was enhanced, with the adoption of the ‘six pack’ and the ‘two pack’. Regulation (EU) 472/2013[4] on the strengthening of economic and budgetary surveillance, in particular, contains a number of provisions to avoid duplication of reporting obligations for euro area countries receiving financial assistance, via a suspension of the Macro-economic Imbalances Procedure (MIP) and the European semester and monitoring under the financial arrangements of these countries instead of under the preventive arm of the Stability and Growth Pact (SGP). Moreover, Regulation 472/2013 also sets a very clear framework for the surveillance of euro-area countries after the end of financial assistance ("post-programme surveillance). It was suggested that similar provisions should be introduced for non-euro area Member States receiving support through the BoP Instrument.

4. CONTENT OF THE LEGISLATIVE PROPOSAL AND STATE OF PLAY

The Commission submitted a legislative proposal, COM(2012) 336 final, to revise the BoP Instrument on 22 June 2012. But rather than amending the BoP Regulation, the proposal consists in a new regulation to cancel and replace the existing one. It contains the following main modifications to the BoP Instrument:

- A more flexible toolkit: a dedicated credit line instrument can take the form of a precautionary conditioned credit line (PCCL), which is a credit line based on eligibility conditions, or an enhanced conditions credit line (ECCL), which is a credit line based on the combination of eligibility conditions and new policy measures. Access to a PCCL is to be limited to Member States whose economic and financial situation is still fundamentally sound and which fulfil an agreed set of eligibility criteria. Access to an ECCL is to be open to Member States which do not qualify for accessing a PCCL but whose general economic and financial situation remains sound. They are to adopt corrective measures.

- Greater transparency and accountability: the relevant committee of the European Parliament may offer the Member State concerned the opportunity to participate in an exchange of views on progress made in the implementation of the adjustment programme. Commission representatives may be invited by the national parliament of the Member

[4] 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, 27.5.2013, p. 1.

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State concerned to participate in an exchange of views on the progress made in the implementation of the macro-economic adjustment programme.

- Enhanced surveillance: consisting in wider access for the Commission to the information needed for a close monitoring of the economic, fiscal and financial situation of the Member State concerned and a regular reporting by the Commission. A Member State under enhanced surveillance is to adopt measures to address the potential sources of economic difficulties.

- Streamlining of surveillance procedures: by replacing a number of monitoring steps under the preventive arm of the SGP and the European semester by the macro-economic adjustment programme and its monitoring. In the same way, the revised Regulation also suspends the MIP when a Member State is subject to a macro-economic adjustment programme and requires post-assistance surveillance for Member States that have reimbursed less than 75% of the financial assistance received.

In addition to these changes proposed by the Commission, the European Parliament requested including the possibility to provide loans to non-euro area Member States to recapitalise financial institutions (indirect recapitalisation instrument). In response to this request, the Commission agreed to clarify that financing needs stemming from the necessity to re-capitalise financial institutions could be addressed with the instrument and that the necessary conditionality could be adjusted to address primarily these problems.

The Council discussed the amended Commission proposal for the last time in December 2013 with a view to agreeing a Common Position. The proposal received broad support, with the exception of one Member State. Since then, the legislative process has been at a standstill.

5. CONCLUSIONS AND RECOMMENDATIONS

Since 2012, the BoP Instrument has been effectively fulfilling its role, with the latest beneficiary Member States successfully restoring a sustainable balance of payment position and repaying the assistance on time.

The ceiling of EUR 50 billion for outstanding loans in principal appears adequate. There is no need to revise this ceiling taking into consideration that the remaining capacity of the instrument currently stands at EUR 45.8 billion with no further requests.

It has proven highly effective in the past and is a strong signal that the Union has both the willingness and capacity to stand by all of its Member States in difficult times. This is proof of particular value given the current uncertainties.

At the same time, it became apparent that the instrument had to be adapted to reflect the institutional innovations that have been taking place since the last revision of the BoP Instrument, mainly concerning the euro area. For this purpose, the Commission submitted proposal COM(2012) 336 final which remains under discussion in the Council. The Commission proposes to finalise the legislative process, because it improves the procedure and therefore contributes to a level playing field between Member States. Furthermore, the Commission sees the changing political environment as an opportunity to provide new momentum to the proposal.

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