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REPORT FROM THE COMMISSION TO THE COUNCIL

**Report on the European 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**

1. SUMMARY

This is a **report of the Commission to the Council on the use of the EU's facility providing medium-term financial assistance for Member States' balances of payments** ('BoP Facility') for Member States that have not yet adopted the euro. According to Article 10 of Council Regulation (EC) No 332/2002¹ of 18 February 2002 (the 'BoP Regulation'), based on a Commission report and taking into account the opinion of the **Economic and Financial Committee (EFC)**, the Council is required to examine '[...] whether the facility established still meets, in its principle, arrangements and ceiling, the need which led to its creation.'

Since the previous report² and discussion in the Council³, the BoP Facility has not been activated, and no new loans have been granted. This means that the latest disbursement under the BoP Facility took place in June 2011 with an instalment of EUR 150 million of a loan to Romania.

Romania and Hungary have fully repaid the assistance received, whereas EUR 217 million out of EUR 2.9 billion in loans to **Latvia**, disbursed between 2009 and 2010, remains to be repaid in line with the agreed repayment schedule. Following the economic adjustment supported by the BoP Facility, these Member States saw the sustainability of their balance-of-payments situation improve rapidly, leading to renewed access to market-based external financing and allowing for timely repayments.

The Commission assesses the instrument as follows:

- **Since its last amendment in May 2009, the Facility has been working properly** and beneficiary Member States have been able to address balance-of-payment difficulties and systemically access capital markets following financial assistance. In all instances, the repayment schedule was also respected.
- **Currently at EUR 50 billion**, the overall **ceiling** for outstanding loans (in terms of principal) and credit lines under the instrument **appears appropriate**.
- **In 2012, a Commission proposal for a new Council Regulation** (COM (2012) 336 final) set out several amendments to reflect changes in the EU economic policy coordination framework for the euro area, equipped with the European Financial Stability Facility (EFSF)⁴ and later its successor the **European Stability Mechanism (ESM)**⁵, to disburse financial assistance. The aim was to reflect some of these changes also in the framework for non-euro area Member States. For example, the Commission's proposal envisaged adding precautionary credit lines to the BoP Facility to mimic the ESM's precautionary financial assistance toolkits. The Council discussed the Commission proposal, but due to a lack of consensus, the legislative process has not progressed since 2013.

¹ OJ L 53, 23.2.2002, p. 1.

² COM(2017) 459 final, 30.8.2017.

³ Council Conclusions of 10 November 2017, available at: <https://data.consilium.europa.eu/doc/document/ST-14201-2017-INIT/en/pdf>.

⁴ Established in 2010.

⁵ Established in 2012.

- **Since then, further institutional and economic developments have taken place, most** notably with the creation of the Single Resolution Mechanism in 2014 and the ESM reform agreed in late 2020.
- **Following the change in context since the last amendment of the Facility in May 2009**, during its examination on whether the Facility still meets, in its principle, arrangements and ceiling, the need which led to its creation, the Council is invited to discuss the lessons to be drawn from the recent crises and the institutional and economic developments that have taken place since 2009 regarding the design and implementation of the BoP Facility.

2. INTRODUCTION

According to the BoP Regulation, the BoP Facility was set up to provide EU medium-term financial assistance to Member States that have not yet adopted the euro⁶ ('Member States with a derogation') and are *experiencing, or are threatened with*, difficulties in their balance of payments. Such balance-of-payments financial assistance can be granted either in the form of an EU loan or a 'financing facility' (e.g. credit line). The latter can also be granted as a precaution. BoP financial assistance is always conditional on the implementation of a programme of policies fostering an adjustment of the economy to its external financing constraints.

The BoP Regulation requires the Council to regularly examine the extent to which the Facility serves its purpose in terms of its principle, arrangements, and ceiling. The Council examination is to be based on a report from the Commission and to be conducted after the EFC has delivered an opinion. This exercise led to the proposal of 22 June 2012 (COM (2012) 336 final) to reform the BoP Facility (see dedicated section below) in light of the institutional developments since the creation of the Facility. However, the Council was unable to agree a common position and the legislative process has not subsequently progressed. Since then, further institutional developments have occurred, most notably with the creation of the Single Resolution Mechanism in 2014 and the ESM reform agreed in late 2020⁷.

Against this background, this report invites the Council to examine whether the Facility still meets, in its principle, arrangements and ceiling, the need which led to its creation, and to discuss the lessons to be drawn from the recent crises and the institutional and economic developments since 2009 in implementing the BoP Facility.

3. LATEST DEPLOYMENT AND APPROPRIATENESS OF THE BOP FACILITY

Since 2017, when the last report required under Article 10 of the BoP Regulation was discussed, no Member State has requested or received assistance under the Facility. The last balance-of-payments assistance operations took place between 2008 and 2015, for:

- Hungary (EUR 5.5 billion disbursed in 2008/2009);
- Latvia (EUR 2.9 billion disbursed in 2009/2010) and

⁶ Currently, seven Member States fall into this category: Bulgaria, Denmark, Czechia, Hungary, Poland, Romania and Sweden; Denmark and Bulgaria participate in ERM II. Following a Council decision on 12 July 2022, Croatia joined the euro area on 1 January 2023.

⁷ Statement of the Eurogroup in inclusive format on the ESM reform and the early introduction of the backstop to the Single Resolution Fund, 30 November 2020.

- Romania (EUR 5.0 billion disbursed in 2009-2011; two successor operations (2011-2013 and 2013-2015) were treated as precautionary, and hence no funds were disbursed).

Repayments have always been made on schedule: after Hungary's repayment, Romania fully repaid the assistance it received in 2019. Regarding Latvia, EUR 217 million of its loan is still outstanding, in line with the agreed repayment schedule (see Table 1)⁸.

Table 1: Residual payment obligations under the BoP Facility

<i>Year</i>	<i>Country</i>	<i>Capital repayment</i>	<i>Interest payment</i>	<i>Total</i>
2023	Latvia		5.8	5.8
2024	Latvia		5.8	5.8
2025	Latvia	200	5.8	205.8
Grand total		200	17.4	217.4

In EUR million

Against this backdrop, the remaining capacity of the BoP Facility currently stands at EUR 49.8 billion, available to support non-euro area Member States facing balance-of-payments financing issues. The BoP Facility's EUR 50 billion ceiling is equivalent to around 3% of the 2021 GDP of non-euro area Member States. As a point of reference, the ESM's total lending capacity represents 4% of the 2021 GDP of euro area⁹ Member States. On this basis and considering the financing needs of previous balance-of-payments programmes, the current ceiling of the BoP Facility appears appropriate.

The successfully concluded BoP Facility operations have demonstrated the effectiveness and versatility of the instrument. Beneficiary Member States addressed their balance-of-payment issues and regained or maintained access to capital markets following their use of the BoP Facility.

While the BoP Facility arguably still serves its purpose in terms of its principle and ceiling, some improvements to its arrangements could be considered, for instance to its funding¹⁰ mechanism.

4. CONTENT OF THE 2012 LEGISLATIVE PROPOSAL

On 22 June 2012, the Commission submitted a legislative proposal to reform the BoP Facility. This proposal was for a new regulation to repeal and replace the existing BoP Regulation. The overall aim of the Commission proposal was to mirror the institutional set-up for financial assistance and policy coordination established for euro area Member States, in particular with the ESM, to non-euro area Member States. The proposal suggested the following main amendments to the BoP Facility:

⁸ Latvia made an interest payment of EUR 5.8 million on 20 October 2020.

⁹ This figure does not include Croatia which joined the euro area in January 2023.

¹⁰ Different techniques are available to the Commission to access capital markets funding, differing in flexibility: (i) back-to-back funding, where borrowing and lending operations have the same value date; (ii) funding in anticipation of later disbursements; and (iii) a diversified funding strategy allowing the Commission to issue in function of market conditions, collect the proceeds in a central funding pool, and subsequently allocate the funds to the designated programme at any point in time.

- i. **A more flexible toolkit:** mirroring the innovations of the EFSF/ESM, the proposed revisions to the BoP Facility would have introduced a dedicated credit line instrument taking the form of a precautionary conditioned credit line (PCCL) or an enhanced conditions credit line (ECCL). The granting of a PCCL would be conditional on the fulfilment of eligibility criteria only, whereas the granting of an ECCL would be conditional on a combination of eligibility criteria and corrective policy measures being adopted. Access to a PCCL was to be limited to Member States whose economic and financial situation is assessed to be ‘fundamentally sound’ based on said criteria¹¹. Access to an ECCL was to be open to Member States that do not qualify for accessing a PCCL but whose general economic and financial situation remained sound, and who in addition committed to implement (a limited set of) corrective measures. In contrast to a precautionary BoP Facility loan, credit lines would therefore not require the implementation of a macroeconomic adjustment programme but rather include either no (PCCL) or a reduced (ECCL) set of economic policy conditions.
- ii. **Closer surveillance:**
 - As is the case for euro area Member States (according to Regulation (EU) No 472/2013), *enhanced surveillance* would be triggered when an ECCL is granted or a PCCL is drawn upon. Enhanced surveillance means wider access for the Commission to the information needed for a close monitoring of the economic, budgetary and financial situation of the Member State concerned and regular reporting. A Member State under enhanced surveillance would adopt measures¹² to address the potential sources of economic difficulties.
 - Codification of the practice of *post-assistance surveillance*: after the assistance ends, Member States’ repayment capacity would remain under scrutiny until they had reimbursed 75% of the financial assistance received¹³.
- iii. **Streamlining of surveillance procedures:** by avoiding duplication between the EU’s budgetary and economic surveillance and the monitoring of the macroeconomic adjustment programme in the same way as for euro area Member States according to Regulation (EU) No 472/2013¹⁴.

¹¹ Such as a sustainable general government debt, respect of the commitments under the excessive imbalance procedure (EIP), a track record of access to international capital markets on reasonable terms, a sustainable external position, and an absence of bank solvency issues posing a systematic threat to the euro-area banking system.

¹² Continued access to a PCCL would not be conditional on implementing corrective measures in accordance with enhanced surveillance.

¹³ The provisions for post-programme surveillance for non-euro area Member States were established by the EFC in 2011, with the update of the ‘EU procedures for providing financial assistance for non-euro area EU Member States’, commonly referred to as the ‘Green File’.

¹⁴ When under a macroeconomic adjustment programme (MAP), Reg.(EU) No 472/2013 exempts euro-area Member States from: (i) submitting a stability programme under Article 3 of Regulation (EC) No 1466/97 which is integrated instead in the MAP; (ii) submitting reports under Article 3(4a) and Article 5(1a) of Regulation (EC) No 1467/97 when subject to a recommendation under Article 126(7) TFEU or of a decision to give notice under Article 126(9) TFEU for the correction of an excessive deficit; (iii) from Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances; and (iv) from the monitoring and assessment of the European Semester for economic policy coordination under Article 2-a of Regulation (EC) No 1466/97 for the duration of the MAP.

- iv. **Timing of borrowing operations:** by authorising the Commission to borrow on the markets well before the planned loan disbursements to benefit from the most advantageous market conditions.

In addition to these changes proposed by the Commission, the European Parliament requested that a dedicated instrument be created to provide loans to Member States to recapitalise (non-euro area) Member States' financial institutions ('indirect recapitalisation')¹⁵. The Commission supported this request.

Like the BoP Regulation, the 2012 Commission proposal on the BoP Facility was based on Article 352 TFEU. It therefore required a unanimous approval in the Council and consent from the European Parliament.

The Council discussed the Commission proposal for the last time in December 2013 in order to agree a common position. The proposal was not adopted and the legislative process has not progressed since 2013. Nevertheless, the amendments set out in the Commission's 2012 proposal remain necessary to align the financial assistance toolkits between euro area and non-euro area Member States.

5. CURRENT STATE-OF-PLAY

While the BoP Facility has been successful and effective in the past, the landscape of the EU's general financial assistance and economic policy coordination framework has undergone some major changes since the last revision of the BoP Regulation in 2009.

1. The EFSM, established in 2010 as an EU-wide instrument and broadly similar in its workings to the BoP Facility, allowed borrowing operations in anticipation of later loan disbursements, departing from the Commissions' traditional back-to-back financing, in order to benefit from the most advantageous market conditions.
2. The EFSF was set up in 2010, and subsequently replaced by the ESM in 2012, to provide financial assistance to euro area Member States. The ESM's toolkit includes loans conditional on a macroeconomic adjustment programme, precautionary financial assistance, primary and secondary market sovereign bonds purchases, loans for indirect bank recapitalisation and direct recapitalisation of financial institutions. The ESM relies on a diversified funding strategy to raise funds on capital markets.
3. In 2014, co-legislators adopted the Bank Recovery and Resolution Directive¹⁶, the cornerstone of the EU's bank resolution framework. Further integration was

¹⁵ European Parliament resolution of 17 April 2013 on the proposal for a Council regulation establishing a facility for providing financial assistance for Member States whose currency is not the Euro (2016/C 045/04) available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52013IP0174>.

¹⁶ 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 Text with EEA relevance

achieved with the creation of the Single Resolution Mechanism, strengthening the legislative framework for banking in resolution, and forming the Banking Union's second pillar. As part of this framework, the Single Resolution Fund was established in 2014. It is financed by the banking sector contributions and can be relied upon as last resort, to ensure the effective application of the resolution tools.

4. In 2013, the economic surveillance framework for the euro area expanded with the entry into force of the 'two pack'¹⁷. Regulation (EU) No 472/2013¹⁸ introduced an enhanced surveillance monitoring regime for euro area Member States experiencing or threatened with serious financial stability difficulties and in particular for Member States receiving precautionary financial assistance¹⁹. This Regulation also sets out several provisions to avoid duplication of reporting and monitoring obligations for euro area Member States subject to a macroeconomic adjustment programme²⁰. Finally, it sets out a framework for monitoring euro area Member States after they receive financial assistance in the form of 'post programme surveillance'²¹.
5. The ESM reform, enshrined in the revisions to its Treaty and agreed in late 2020 but not yet ratified, further clarifies the eligibility and conditionality of the ESM's precautionary conditioned credit line (PCCL) and enhanced conditions credit line (ECCL). The ESM reform also sets up a backstop to the Single Resolution Fund (SRF). In the event that the SRF is depleted, the ESM can lend the necessary funds to the SRF to finance a resolution in the form of a revolving credit line granted to the institution, subject to the approval of the ESM governing bodies.
6. In November 2022, as part of the ongoing economic governance review, and in reaction to the European Court of Auditors 2021 report on post programme surveillance, the Commission proposed to leave the concerned legislation intact but to conduct the post programme surveillance differently, with clearer objectives, and to link the intensity of the framework to those objectives²². In particular, the Commission has proposed that post programme surveillance focus on: (i) assessing the repayment capacity of Member States; (ii) monitoring the implementation of unfinished reforms that begun under the adjustment programme; and (iii) assessing whether further corrective measures are needed.

¹⁷ The '2 pack' includes Regulation (EU) No 473/2013 and Regulation (EU) No 472/2013.

¹⁸ Regulation (EU) 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.

¹⁹ Unless the financial assistance is not conditional on the adoption of policy measures and remains undrawn.

²⁰ This is done by suspending the application of the macro-economic imbalances procedure (MIP) under Regulation 1176/2011 and the monitoring and assessment of the European Semester for as long as the Member State concerned is implementing its programme.

²¹ The provisions for post programme surveillance for non-euro area Member States were established by the EFC in 2011, with the update of the 'EU procedures for providing financial assistance for non-euro area EU Member States', commonly referred to as the 'Green File'.

²² See COM (2022) 583 final 'Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions: Communication on orientations for a reform of the EU economic governance framework'.

7. The Financial Regulation²³ was amended in late 2022 to enable the Commission to implement a diversified funding strategy comprising the borrowings authorised under Article 5(1) of Council Decision (EU, Euratom) 2020/2053²⁴ and, except in duly justified cases, borrowing and debt management operations to fund programmes of financial assistance.
8. On 26 April 2023, as part of the economic governance review, the Commission presented a legislative proposal on the effective coordination of economic policies and multilateral budgetary surveillance. This proposal sets out the interaction with Regulation (EU) No 472/2013 on the strengthening of economic and budgetary surveillance of euro area Member States experiencing or threatened with serious difficulties with their financial stability. Under the Commission's proposal, euro area Member States subject to a macroeconomic adjustment programme would be exempted from submitting a medium-term fiscal-structural plan and an annual progress report. The proposal would also require that euro area Member States under enhanced surveillance consider recommendations addressed by the Council under Article 121(4) TFEU in case of a deviation from the net expenditure path.

In contrast, putting aside the 2009 legislative amendments which increased the ceiling of the BoP Facility and clarified the responsibilities of the Commission and of the Member States, the workings of the BoP Facility have remained unaltered since 2002. For example, the EU must borrow tightly 'back-to-back' with lending operations to fund financial assistance under the BoP Facility.

6. CONCLUSIONS AND RECOMMENDATIONS

Since 2009, the BoP Facility has fulfilled its role effectively. The latest beneficiary Member States have restored a sustainable balance-of-payment position and repaid the assistance on time. The ceiling's amount of EUR 50 billion for the principal of outstanding loans appears appropriate. It has helped to meet the demand for the BoP Facility while maintaining spare capacity. This provides a strong signal that the EU has both the willingness and capacity to stand by all of its Member States in difficult times.

Nevertheless, there is scope to adapt the BoP Facility to reflect the institutional reforms that have taken place since the last revision of the BoP Facility in 2009, which was the spirit of the Commission's 2012 proposal. The amendments suggested under this proposal remain necessary to align the financial assistance toolkits between euro area and non-euro area Member States. Against this background, the Council is invited to discuss the lessons to be drawn from the recent crises and the institutional, economic and

²³ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 - OJ L 193 30.7.2018, p.1.

²⁴ Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom (OJ L 424, 15.12.2020, p. 1).

financial sector developments since 2009, and their implications for the design and implementation of the BoP Facility.