

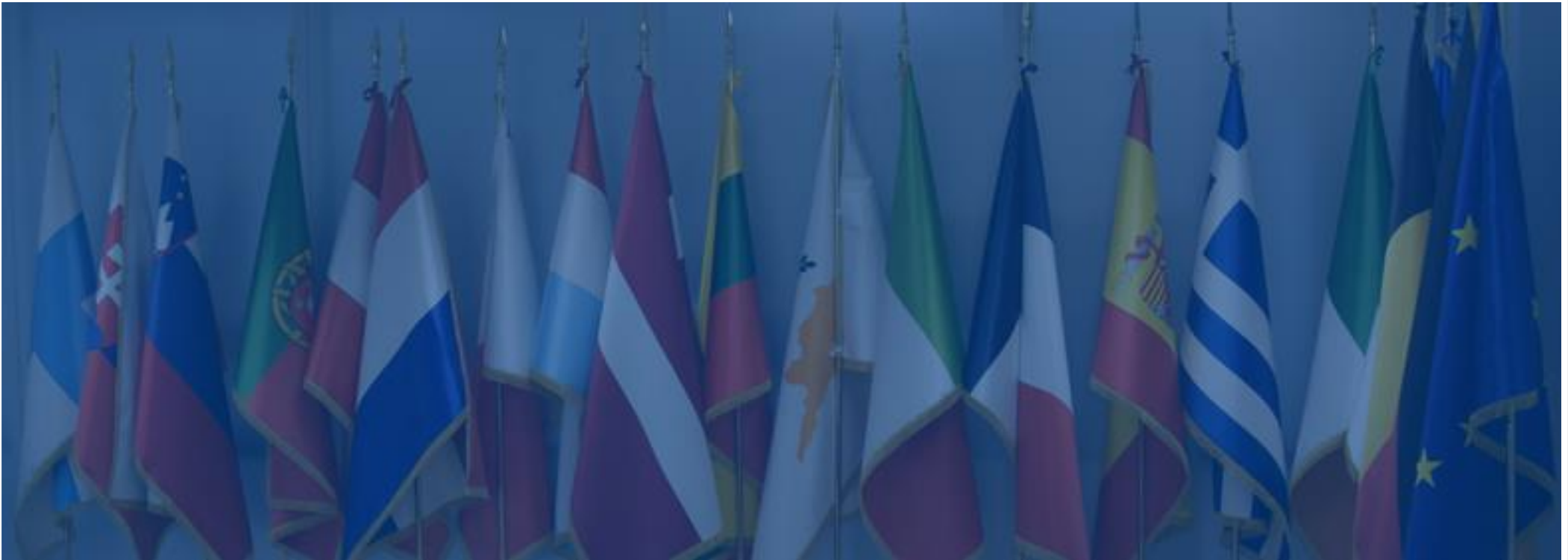
ESM FACILITIES: WHAT HAVE WE ACHIEVED? WHAT IS LACKING?

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WHAT HAVE WE ACHIEVED?



ESM TOOLKIT



Loans



Precautionary
programme



Bank recapitalisations
Through loans
to governments



Direct bank
recapitalisation



Primary market
purchases

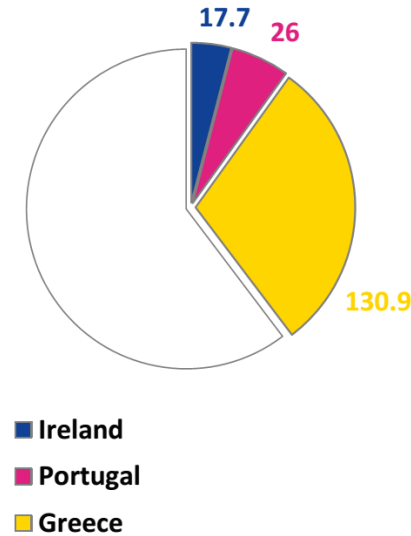


Secondary market
purchases

ESM AND EFSF LOANS

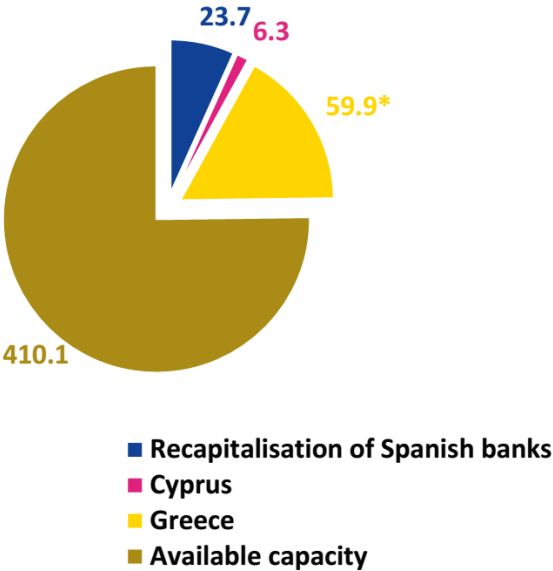
EFSF and ESM together have €264.5 billion of loans

EFSF - €174.6 billion loans



€ billion

ESM - €89.9 billion loans



€ billion

*Original loan commitments to Greece at programme inception was €86bn (ESM). On 20 Feb 2017, the ESM received a loan repayment from Greece of €2bn so total loans reduced by €2bn from €61.9bn to €59.9bn.

ESM REFORM: TIMELINE AND ELEMENTS

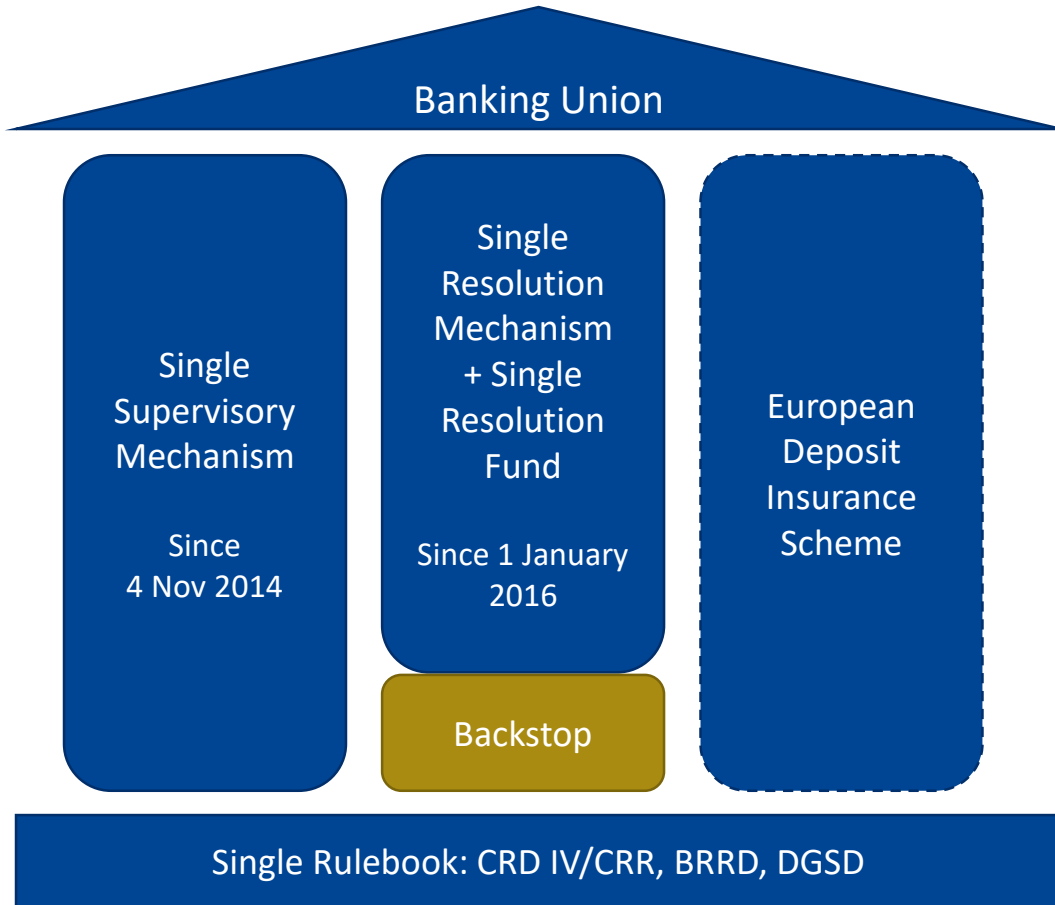


- SRF backstop
- Stronger role in programmes (design, negotiation, monitoring)
- Preventive monitoring of risks (preparedness)
- Reformed precautionary tools
- Robust and transparent DSA framework
- Single-limb CACs
- Facilitator role

ESM TOOLKIT REFORM: OBJECTIVES

- Provide backstop to the Single Resolution Fund (SRF)
- Ring fence Members with sound fundamentals against adverse shocks
- Enhance effectiveness of precautionary instruments
- Make eligibility for precautionary assistance more transparent and predictable

SRF BACKSTOP



- A revolving credit line from the ESM to the SRF.
- Non EA Member States to provide parallel revolving credit lines.
- Size will be aligned with the SRF target level.
- Maturity of 3 years with possible extension by a max. 2 years.
- ESM Direct Recapitalisation Instrument (DRI) to be cancelled.
- The credit lines are fiscally neutral – SRF will repay the borrowing by raising bank contributions from all Banking Union banks.

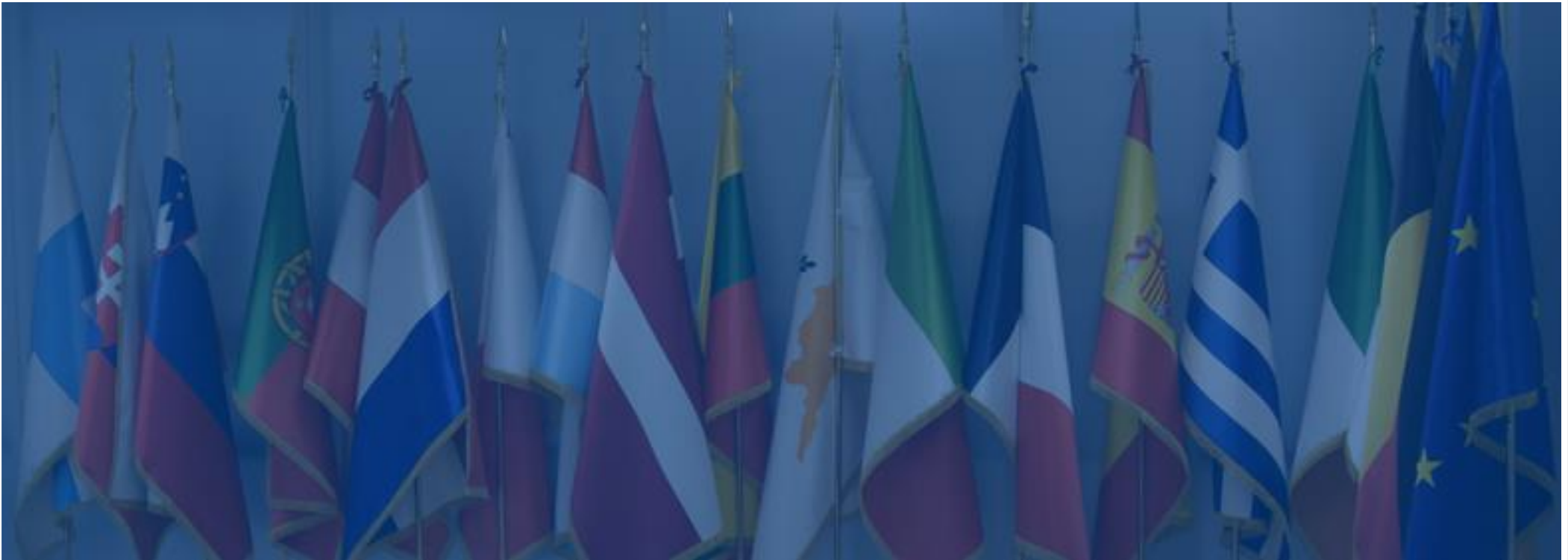
PRECAUTIONARY INSTRUMENTS: REFORM DIAGNOSTICS

Scoping	Diagnostics
Crisis prevention strategies	<ul style="list-style-type: none">- Type of insurance: tail risk, revolving use, bridge financing, programme exit;- ESM-IMF toolkit alignment.
Instrument effectiveness	<ul style="list-style-type: none">- Balanced use of policy and financial safeguards;- Developing conditionality regime;- Financing terms: access caps, tranching, maturity profile, pricing.
Governance	<ul style="list-style-type: none">- Streamlining: no MoU, review frequency, no post drawing reviews;- Strengthen the review-based-system;- Allow requests for two-year instruments.
Transparency and predictability	<ul style="list-style-type: none">- Strengthen ex ante eligibility regime;- Explore scope for prequalification;- Clarify exit expectations.

PCCL ELIGIBILITY: BEFORE AND AFTER

Public finances	
<ul style="list-style-type: none"> - Eligible even if under the EDP, provided that compliant with the Council decisions and recommendation. - Sustainable government debt. 	<ul style="list-style-type: none"> - No EDP, deficit below 3 % of GDP, - Structural balance at or above the minimum benchmark, - Debt below 60 % of GDP or reduced by 1/20th per year.
Economic sustainability	
<ul style="list-style-type: none"> - Eligible even if under the excessive imbalances procedure, provided that compliant with the Council decisions and recommendation. - Sustainable external position 	<ul style="list-style-type: none"> - No excessive imbalances, - Sustainable external position.
Financial soundness	
<ul style="list-style-type: none"> - No bank insolvencies that would pose systemic threat to the euro area stability. 	<ul style="list-style-type: none"> - Absence of severe financial sector vulnerabilities that would put at risk the ESM Member's financial stability.
Market access	
<ul style="list-style-type: none"> - Market access at reasonable rates. 	<ul style="list-style-type: none"> - Market access at reasonable rates, assessed by the ESM.
Track record	
	<ul style="list-style-type: none"> - 2 year for the fiscal benchmarks; - 1 year for the market access criterion

WHAT IS LACKING?



PEER COMPARISON

	CRISIS RESOLUTION						CRISIS PREVENTION
	Financial assistance for ST/MT needs	Financial assistance for MT/LT needs	Urgent liquidity provision	Sectoral assistance	Market support instruments	Concessional support	Precautionary assistance
IMF	✓	✓	✓			✓	✓
AMF	✓	✓	✓	✓		✓	
BRICS CRA	✓		✓				✓
CMIM	✓		✓				✓
EFSD	✓	✓				✓	
ESM	✓	✓		✓	✓		✓
EU Facilities*	✓						✓
FLAR	✓		✓				✓

SHORT-TERM LIQUIDITY NEEDS

- **Instrument design:** informed by the IMF Short-term Liquidity Swap (SLS) proposal, though aimed as a fiscal backstop.
- **Use:** safeguarding against short-term shocks of a limited scale.
- **Qualification:** based on a robust ex ante eligibility framework.
- **Financing:** short-term revolving credit line with access cap.
- **Exit expectations:** state contingent, repeated use possible.

FISCAL CAPACITY IN THE EURO AREA

- **Aim:** cyclical stabilisation and enhanced shock absorption capacity.
- **Options:** borrowing-lending schemes, insurance mechanisms, the euro area budget.
- **Constraints:** moral hazard, link between risk sharing and risk reduction, limited scope for transfers, lending capacity.
- **ESM role:** utilising the ESM on-lending business model would also provide better synergies between crisis resolution and cyclical stabilisation functions.

EUROPEAN SAFE ASSETS

- Liquidity exchange platform
 - Aim: improve allocation of liquidity between the euro area DMOs.
- European safe assets
 - Aim: enhanced resilience through better capital market integration and improved supply of safe assets, stronger international role of the euro.
- The role of public intermediaries
 - Information exchange
 - Leveraging on the existing issuance infrastructure

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