

ESM Members sign revised Treaty, entrusting the institution with new tasks



Members of the European Stability Mechanism (ESM), represented by their Ambassadors to the EU, signed today in Brussels the Agreement Amending the Treaty Establishing the ESM.^[1] The Agreement provides a legal basis for a set of new tasks assigned to the ESM. The reformed Treaty will come into force when ratified by the parliaments of all 19 ESM Members.

ESM reform was initially endorsed by the Heads of State or Government of euro area countries as part of a package of measures to strengthen Economic and Monetary Union (EMU) and to broaden the mandate of the ESM at the Euro Summit on 14 December 2018. The political agreement on completing the Treaty reform process was reached by finance ministers in the Eurogroup on 30 November 2020.

"The reform of the ESM treaty is a crucial stepping stone on our path to strengthen the Economic Monetary Union and an important complement to our efforts in supporting economic recovery. It will boost confidence in the euro area's ability to quell crises before they escalate. We also address a crucial gap in the banking union by empowering the ESM to act as the common backstop to the Single Resolution Fund, as soon as next year", said Eurogroup President Paschal Donohoe.

"The signing of the revised treaty today by ESM Members is an important milestone. Now the ratification process in national parliaments can start. Following the ratification of the Treaty, the ESM will become the backstop to the Single Resolution Fund (SRF), taking us a step closer towards completing banking union, which will make our monetary union more resilient. In addition, the ESM will have a stronger role in future economic adjustment programmes", said ESM Managing Director Klaus Regling.

When the backstop is in place, the ESM will be able to provide loans to the SRF up to an amount equal to its target size (with a cap of €68 billion) to finance a bank resolution. It will be used only as a last resort if SRF funds are depleted and the Single Resolution Board (SRB) is not able to raise sufficient funds at acceptable rates. The loans to the SRF will be repaid from bank contributions.

The revised treaty also gives the ESM a stronger role in future economic adjustment programmes and crisis prevention. In collaboration with the European Commission, the ESM will design, negotiate and monitor future assistance programmes. Outside programmes, the ESM will closely follow macro-financial developments in all 19 euro area countries.

In addition, the reform strengthens the preventive features of the ESM toolkit. Under the revised Treaty, the application process for precautionary credit lines will be easier, and the instruments will be more effective.

[\[1\]](#) Estonia, which was unable to sign today due to change of government, indicated that it remains committed to the agreed ESM reform and will sign as soon as possible.

Update 08/02/2021: Estonia signed the Agreement Amending the ESM Treaty

Further information:

[Agreement Amending the Treaty Establishing the ESM](#)

[Explainer on ESM reform](#)

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