

FAQ on the accession of Latvia to the ESM

- 1 – Having joined the euro area on 1 January 2014, was Latvia obliged to become a Member of the ESM?

The ESM Treaty states that “all euro area Member States will become ESM Members ... with full rights and obligations” (recital 7).¹

- 2 – What was the official procedure for becoming an ESM Member?

On 9 July 2013 the Council of the European Union formally approved Latvia’s accession to the euro area from 1 January 2014. The Latvian authorities then sent an application to join the ESM, and the technical terms related to the accession, including Latvia’s capital share, were established. In October 2013, the ESM Board of Governors approved Latvia’s application and the technical terms of its accession. The Latvian parliament (*Saeima*) ratified the ESM Treaty on 30 January 2014, and Latvia officially became the ESM’s 18th Member on 13 March 2014 (and the first new member since the ESM was inaugurated in October 2012).

- 3 – How was the date of Latvia’s accession to the ESM established?

The date of accession is formally the day when the ESM Treaty enters into force for the new ESM Member. According to the ESM Treaty, this is on the twentieth day following the deposit of its instrument of accession (i.e. the national legal act confirming ratification of the ESM Treaty) with the General Secretariat of the Council of the European Union. Latvia deposited the instrument of accession on 21 of February 2014 and thus became an ESM Member 20 days later, i.e. on 13 March 2014.

- 4 – Will Latvia benefit from a temporary correction of its ESM capital contribution key?

Yes. New ESM Members whose GDP per capita (in the year immediately preceding their accession) is less than 75% of the EU average will benefit from a temporary correction of the capital contribution key for a period of 12 years after the date of adoption of the euro. This means that during the indicated period, the initial capital subscription is lower, thus a country temporarily contributes a smaller amount of paid-in capital. The precise formula for calculating the correction is specified in Article 42(2) of the ESM Treaty.

- 5 – How much will Latvia have to initially contribute to the ESM’s capital stock?

During the first twelve years of membership in the ESM, Latvia’s contribution key will be 0.2757%,

¹ Treaty Establishing the ESM, http://www.esm.europa.eu/pdf/esm_treaty_en.pdf

which means that its capital subscription will amount to €1.93 billion, including €221.2 million in paid-in capital. The payment of paid-in capital will be made in five instalments of €44.24 million each. Latvia paid the first instalment in March 2014, and the remaining four instalments will be paid annually until 2018.

➤ **6 – How much is the contribution lowered due to the temporary correction?**

Without the temporary correction, Latvia’s contribution to the ESM’s paid-in capital would have amounted to €324.1 million. With the correction mechanism, Latvia is required to contribute €221.2 million in paid-in capital, and thus an amount of €102.9 million is deferred. Once the temporary correction comes to an end in 2026, Latvia will have to deposit this remaining amount (Latvia’s total capital subscription will then amount to €2.82 billion).

➤ **7 – Are there any other ESM Members which benefit from the temporary correction?**

Yes. Estonia, Malta, Slovakia, Slovenia and Lithuania also benefit from the temporary correction.

➤ **8 – Will the ESM’s overall paid-in capital increase with Latvia’s accession?**

Yes. It will increase (during the temporary correction period) from €80 billion to €80.22 billion.

➤ **9 – Have the capital contribution keys of other ESM Members changed as a result of the accession of Latvia (in 2014) and Lithuania (2015) to the ESM?**

Yes. As the capital subscriptions of current ESM Members remain the same, while the ESM’s total capital (as a result of the contribution of Latvia and Lithuania) has increased, the corresponding capital contribution keys of current ESM Members are slightly lower, as shown in the following table:

ESM Member	Key 2012 (%)	Key 2014 (%)	Key 2015 (%)	Capital subscription (€ bn)	Paid-in capital (€ bn)
Austria	2.7834	2.7757	2.7644	19.48	2.23
Belgium	3.4771	3.4675	3.4534	24.34	2.78
Cyprus	0.1962	0.1957	0.1949	1.37	0.16
Estonia	0.1860	0.1855	0.1847	1.30	0.15
Finland	1.7974	1.7924	1.7852	12.58	1.44
France	20.3859	20.3297	20.2471	142.70	16.31
Germany	27.1464	27.0716	26.9616	190.02	21.72
Greece	2.8167	2.8089	2.7975	19.72	2.25
Ireland	1.5922	1.5878	1.5814	11.14	1.27
Italy	17.9137	17.8643	17.7917	125.40	14.33
Latvia	--	0.2757	0.2746	1.93	0.22
Lithuania	--	--	0.4063	2.86	0.33
Luxembourg	0.2504	0.2497	0.2487	1.75	0.20
Malta	0.0731	0.0729	0.0726	0.51	0.06
Netherlands	5.7170	5.7012	5.6781	40.02	4.57
Portugal	2.5092	2.5023	2.4921	17.56	2.01
Slovakia	0.8240	0.8217	0.8184	5.77	0.66

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Slovenia	0.4276	0.4264	0.4247	2.99	0.34
Spain	11.9037	11.8709	11.8227	83.33	9.52
Total	100	100	100	704.80	80.55

➤ 10 – Did Latvia also become a member of the European Financial Stability Facility (EFSF)?

No. Since 1 July 2013 the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements, and there was no obligation for Latvia to join the EFSF. Latvia will thus not be a guarantor of bonds issued by the EFSF.

➤ 11 – Who represents Latvia in the ESM Board of Governors and Board of Directors?

Latvia is represented in the Board of Governors by finance minister Jānis Reirs. Latvia’s representative in the Board of Directors is Līga Klavina, Deputy State Secretary in the Ministry of Finance.

The Board of Governors is the ESM’s highest decision-making body, and the most important decisions taken by this Board require unanimity. The Board of Directors is responsible for specific tasks mandated to it through the ESM Treaty or delegated by the Board of Governors.

➤ 12 – What kind of support can ESM Members apply for if they are affected by severe financing problems?

The ESM may provide financial assistance if it is necessary to safeguard the financial stability of the euro area as a whole and of its Member States. Financial assistance may be granted in the form of:

- a loan to the government of the beneficiary ESM Member (as in the case of Cyprus, which is currently receiving assistance from the ESM);
- a loan to the government for the recapitalisation of banks (as in the case of Spain, whose programme ended on 31 December 2013);
- precautionary financial assistance in the form of a credit line;
- the purchase of bonds issued by an ESM Member in the primary or secondary debt markets.

All forms of financial assistance are linked to strict conditionality, appropriate to the financial assistance instrument chosen. This means that in order to receive financial assistance from the ESM, beneficiary countries are required to implement relevant policy reforms.

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