Overview

- The ESM is an intergovernmental organisation created by euro area countries to avoid and overcome financial crises and to maintain long-term financial stability and prosperity.
- The ESM acts as a “lender of last resort” for its Members when they are unable to refinance their government debt in financial markets at sustainable rates.
- The ESM and its temporary predecessor, the European Financial Stability Facility (EFSF), disbursed a total of €295 billion in loans to Ireland, Portugal, Greece, Spain, and Cyprus.

<table>
<thead>
<tr>
<th>EFSF</th>
<th>ESM</th>
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<tbody>
<tr>
<td>Ireland (2010-2013)</td>
<td>Spain (2012-2013)</td>
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<tr>
<td>€17.7 bn</td>
<td>€41.3 bn</td>
</tr>
<tr>
<td>€28 bn</td>
<td>€6.3 bn</td>
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<tr>
<td>€141.8 bn</td>
<td>€61.9 bn</td>
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- As part of their ESM/EFSF programmes, these countries implemented reforms to address the weaknesses that led to economic and financial problems.
- The ESM participates in post-programme surveillance missions (carried out by the European Commission and the ECB) to assess the countries’ capacity to repay their outstanding loans.
- The EFSF can no longer provide loans, but continues to operate to receive loan repayments from beneficiary countries; make interest and principal payments to holders of EFSF bonds; refinance outstanding EFSF bonds.
- ESM loans are financed through the issuance of bonds and bills; taxpayers’ money is never used for lending to beneficiary countries.
- The ESM is able to offer beneficial loan conditions thanks to its strong credit rating, and €80 billion in paid-in capital from its Members.

ESM lending toolkit

- Loans within a macroeconomic adjustment programme
  - Used
- Primary market purchases
  - Unused
- Secondary market purchases
  - Unused
- Precautionary credit line
  - Unused
- Loans for indirect bank recapitalisation
  - Used
- Direct recapitalisation of institutions
  - Unused
**Institutional facts**

- The EFSF was founded in 2010, the ESM two years later. Both institutions are based in Luxembourg.
- ESM maximum lending capacity: €500 billion; current available lending capacity: €413.8 billion
- Its shareholders are the 19 euro area members
- Around 220 staff from 50 different countries
- The highest decision-making bodies are the ESM Board of Governors (euro area finance ministers) and the ESM Board of Directors (top finance ministry officials)
- The Eurogroup President, Paschal Donohoe, is the Chairman of the ESM Board of Governors
- The ESM Managing Director is Klaus Regling (term expires on 8 October 2022)

**The origin of the ESM/EFSF and the results achieved**

- The ESM and the EFSF were created as part of Europe’s comprehensive response to the euro crisis
- Their programmes helped euro area countries that needed financial assistance to achieve fiscal consolidation, structural reforms and improved competitiveness

**Europe’s coordinated response to the pandemic crisis**

- In April 2020, the Eurogroup decided that the ESM, European Commission and European Investment Bank would create three safety nets: for sovereigns, workers and businesses
- The total package is worth up to €540 billion

**ESM Pandemic Crisis Support: a credit line for sovereigns**

- Credit line to finance healthcare and related costs
- Available to euro area countries until end of 2022
- Amount: 2% of the respective member states’ 2019 GDP
- Low triple A lending rate
- Unlike other lending tools, no conditionality applies

**ESM reform: new tasks**

In January 2021 the revised ESM Treaty was signed, with an expanded scope of tasks for the ESM. It will enter into force following ratification by all 19 ESM Members.

- Backstop to the Single Resolution Fund (SRF): the ESM will be able to lend funds (up to €68 billion) to the SRF if its resources are depleted
- Stronger role in future country programmes: the ESM will be more involved in the design of policy conditionality, monitoring and debt sustainability analysis with the European Commission
- Crisis prevention: the ESM will follow macroeconomic and financial developments in all euro area countries
- More effective precautionary credit lines (PCCL and ECCL): the eligibility process for the ESM’s precautionary credit lines will be made more transparent and predictable