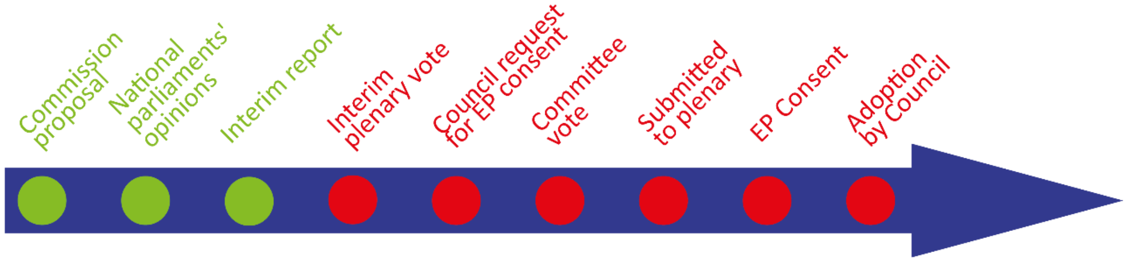
Establishment of a European monetary fund (EMF)

OVERVIEW

The European Commission's proposal for transforming the intergovernmental European Stability Mechanism (ESM) into a European monetary fund (EMF) under EU law would provide it with wide-ranging tasks. The ESM was created at the height of the European sovereign debt crisis in order to provide financial assistance for governments that had lost, or were about to lose, access to financial markets. It was established outside the Community framework by an intergovernmental treaty and is a permanent rescue mechanism aimed at safeguarding the financial stability of the euro area. The proposal met with considerable opposition at Council level, as the Council wishes to maintain the ESM's intergovernmental character, and would expand its remit only slightly. The European Parliament, whose legislative powers are limited within the consent procedure, will vote on an interim report in plenary.

Proposal for a regulation of the European Parliament and of the Council on the establishment of a European Monetary Fund

Committees responsible:	Economic and Monetary Affairs (ECON) and Budgets (BUDG) (jointly under Rule 55)	COM(2017) 827 6.12.2017 2017/0333(APP)
Rapporteur:	Vladimír Maňka (S&D, Slovakia) and Pedro Silva Pereira (S&D, Portugal)	Consent procedure (APP)
Shadow rapporteurs:	Siegfried Muresan (EPP, Romania), Tom Vandenkendelaere (EPP, Belgium), Jean Arthuis (ALDE, France), Wolf Klinz (ALDE, Germany), Bernd Kölmel (ECR, Germany), Sven Giegold (Greens/EFA, Germany), Dimitros Papadimoulis (GUE/NDL, Greece), Liadh Ní Riada (GUE/NDL, Ireland), Jörg Meuthen (EFDD, Germany), Marco Valli (EFDD, Italy), Barbara Kappel (ENF, Austria)	
Next steps expected:	Vote in plenary on an interim report.	



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Introduction

Following initiatives dating back to 2012 to enhance economic and monetary union, and building not least on the Five Presidents' Report on completing Europe's economic and monetary union (EMU)[1] and on President Juncker's 2017 state of the Union address, together with the accompanying letter of intent, the European Commission has put forward several proposals. In this context, two important proposals were made in December 2017, one to transform the European Stability Mechanism (ESM) into a European monetary fund (EMF), and another to incorporate the Treaty on Stability, Coordination and Governance (TSCG, also known as the Fiscal Compact), into Community law. In 2018 these proposals were followed by other draft legislation, including the proposal to establish a European investment stabilisation function (EISF), which is linked to the EMF proposal.

The Commission is of the view that a more integrated and better performing euro area would add to stability and prosperity and strengthen Europe's voice on the global stage.

The various proposals are also to be seen as part of the Commission's answer to a long-standing debate between those who think that all aspects of EMU architecture should be based on and governed by the Community method (where the Commission initiates legislation and decision-making power is shared between Parliament and Council) and those who believe that an intergovernmental approach (where Council or the Member States initiate and decide) would be more fitting.

The ESM, which was created in 2012, is the most important of the financial support mechanisms put in place at the height of the European sovereign debt crisis. Its main role consists in providing euro area Member States' governments with loans, should these Member States lose access to the financial markets. It is a mechanism primarily destined to avoid a sovereign debt crisis, but in certain circumstances it can also be used for the direct recapitalisation of banks. The mechanism was not created under the Community method, but took the form of an intergovernmental treaty. It was generally understood that it would be brought under EU law at an appropriate moment. However, the Commission's proposal does not envisage mere one-to-one transposition, but would extend the prerogatives of the ESM, transforming it into a European monetary fund (EMF) with new powers.

This and the other proposals are also forward-looking in a significant way, as they are meant by the Commission to serve as stepping stones towards an EMU that will at some point in the future be much more integrated, with extended economic powers conferred to EU level, coupled with decision-making prerogatives shifting from Council to Commission in a significant way.

Context

The Commission's EMF proposal was made in a complex and multi-faceted context.

First, the institutions are of the view that the primary aim of the ESM needs to be maintained. In 2007, the world economy, and with it the EU, were hit by the financial crisis that was sparked in the United States and that resulted in what is now referred to as the Great Recession. Although deep, that crisis was soon over. However, the EU's recovery was jeopardised by the advent of another type of crisis, the European sovereign debt crisis, which hit several EU Member States, both within and outside the euro area. Although the sovereign debt crisis was due in part to the financial crisis, at its core it was also a consequence of years, if not decades, of accumulated macroeconomic imbalances in several Member States, which resulted for some of them in high and unsustainable sovereign debt. To make matters worse, in the EU the banking sector and sovereign budgets exerted a mutual negative influence on each other, (what has been called the sovereign-bank nexus). Since then, and to a large extent thanks to the ESM, which supported five countries, the European sovereign debt crisis was overcome and both government budgets and the banking sector are now deemed to be substantially more resilient. Nevertheless, as considerable fragilities remain, and the sovereign-bank nexus has still not been severed, the existence of a strong ESM-like mechanism remains essential.

Second, the proposal has to be seen in relation to the general evolution of EMU architecture. In essence, discussion is under way on the general direction EMU should take. Policy proposals range from reducing EU involvement in national economies to maintaining the status quo while putting greater emphasis on enforcing existing rules, or adding new mechanisms, such as for example a function to reduce the impact of asymmetric shocks (as in the EISF proposal) or creating a framework for orderly state restructuring. Going even further, some proposals would completely revamp the EMU architecture. The political debate is accompanied by lively academic discussion.[2]

Third, the ESM and many of the relevant crisis prevention and resolution mechanisms were created outside the EU's legal framework by intergovernmental means. There is clear disagreement between the Commission (supported by Parliament) and Council regarding what should be brought under EU law and what should be kept outside the framework. This divergence of views also affects the EMF proposal directly, as in 2017 some in Council, most prominently French President Macron, advocated creating a euro area budget outside the Community's multiannual financial framework, a budget that would potentially also be given the task of acting against asymmetric shocks, something the Commission wants to do through its EISF and EMF proposals, which are both meant to be within EU law.

It is to be noted that for a number of years after the crises, despite many pushes such as the Five Presidents' Report and a string of promises in the form of roadmaps, timetables and decisions to be taken 'at the next European Council', very few major legislative proposals were presented and even fewer made significant progress. Clear opposition to a broad deepening of EMU materialised in March 2018, when a group of eight Member States, known as the 'Hanseatic League' (also referred to as 'New Hanseatic league'), led by the Dutch finance minister, signalled that 'further deepening of the EMU should stress real added-value, not far-reaching transfers of competence to the European level' and that 'the discussion on the deepening of EMU should find a consensus on the 'need to haves', instead of focusing on the 'nice to haves'. Their advice was to concentrate on banking union and the ESM. The League expected a revised EU budget to focus on supporting structural reform, and did not mention an EU instrument for investment stabilisation as something they would welcome within the MFF.

Fourth, many of the Commission's suggestions and proposals may give the impression of being part of a general attempt to increase its own prerogatives and power. This includes the suggestion that the Council elect a Commissioner as Eurogroup chair. The proposals to incorporate intergovernmental instruments and treaties into EU law would provide for an extension of Commission prerogatives, most notably with the ESM, where decision-making is presently in the exclusive hands of governments and national parliaments.

Existing situation

Fields covered by the proposal

While at first glance this legislative dossier might appear to be only about legal aspects linked to a change of status (integration into EU law) and on questions related to democratic accountability (shifting scrutiny from national parliaments to the European Parliament), on closer inspection the scope of the proposal is substantially wider. In this context, it is useful to take a glance at the EU apparatus available to counter economic shocks; EU mechanisms already exist in this field.

Countering economic shocks is a task that is dealt with mainly under the stability and growth pact (SGP), which is based on the Resolution of the Amsterdam European Council on the stability and growth pact of June 1997, and which specifies that 'Member States undertake to abide by the medium-term budgetary objective of positions close to balance or in surplus'. In essence, this means that each Member State has agreed to build up financial reserves in economically good times, in order to be able to increase expenditure during a crisis, supporting demand. The SGP, which is a crisis prevention mechanism, therefore includes a strong Keynesian-type anti-cyclical element.[3]

The ESM also plays an indirect albeit limited anticyclical role, although it is limited to programme countries, i.e. Member States that are receiving ESM funding in return for carrying out fiscal consolidation and structural reforms. During the height of the European sovereign debt crisis a number of ad-hoc mechanisms were created, such as the European financial stabilisation mechanism (EFSM), most of which were replaced by the ESM. The aim was to allow affected euro area countries to maintain a relatively higher level of public expenditure than a default on their debt would have entailed. In other words: the help provided by the EU, together with the International Monetary Fund (IMF), reduced the scale of the budgetary cuts and brutal austerity that would otherwise have followed an outright default on public debt. Thanks to these mechanisms pressure on public investment and other expenditures could be reduced in crisis countries. In addition, these mechanisms were designed to reduce considerably the negative economic spill-overs on other Member States.

Thus both the SGP – when correctly implemented – and the ESM can play a role in alleviating the effects of an economic crisis. Furthermore, the help provided by the European Central Bank (ECB) both in the form of historically low interest rates and through its purchase of government bonds on the secondary market have diminished the pressure on government budgets in crisis countries.[4]

Legal aspects of decision-making and democratic accountability

The ESM's operational framework is rather complicated, as the intergovernmental mechanism, which was created as a special purpose vehicle under Luxemburg private law, is by definition not part of EU law, but is to a certain extent linked to it. The ESM, especially at its conception when pressure was building and no time could be wasted, was not designed as a large organisation with plenty of staff and extended analytical powers, so it urgently needed support from EU institutions. To allow the latter to interact with the ESM, a small Treaty change was made in 2012, modifying Article 136 of the Treaty on the Functioning of the European Union (TFEU). This empowered EU institutions, such as the Commission with the help of the ECB, to negotiate programmes, i.e. a memorandum of understanding (MoU) with each Member State that was requesting financial help. When the IMF was also involved, this formation was known as the Troika.[5] A MoU basically defines in a prescriptive way how a country's government finances have to become sustainable again, and which structural reforms need to be carried out for the country's economy to regain its competitiveness. A number of these measures, which had to be rushed through under immense time constraints in order to prevent something worse from happening, proved to be very demanding on those directly affected.

The Treaty change did not confer any new rights on EU institutions, especially not the right to take any decision. Formally, all decisions are taken by the finance ministers of the countries that are signatories of the ESM Treaty. As it happens, these are the same ministers who meet as the Eurogroup, but when they take ESM-related decisions, such as on an MoU or on the disbursement of a financial tranche, they act strictly as signatories of the ESM Treaty, and not as the Eurogroup.[6] This also explains why the democratic accountability of that process exclusively rests on national parliaments, as it is within their remit to scrutinise the decisions of national ministers.

Aspects concerning the legal basis

When Article 136 TFEU was modified to stipulate that the 'Member States whose currency is the euro may establish a stability mechanism ... subject to strict conditionality', the legality of the ESM was challenged. In its *Pringle* judgment the European Court of Justice (ECJ) ruled that the Member States had the right to establish the mechanism between themselves, i.e. on an intergovernmental basis. The ECJ further stipulated that the simplified procedure for changing the Treaties could be used for amending Article 136 TFEU, as long as no additional powers were given to the institutions. It also stipulated that a Treaty change using the ordinary revision procedure (Article 48 Paragraphs 2 to 5 TEU, a heavy procedure which includes a convention) would be necessary to increase the competences conferred on the Union, implying that a substantial Treaty change would be necessary prior to integrating the ESM into the Community framework. The court also ruled that conditionality was a necessity, in order to guarantee that the loans would be paid back, thus preventing Member States from infringing Article 125 TFEU, known as the 'no bail-out clause'.

This contrasts with the Commission's view that no Treaty change is necessary and that Article 352 TFEU can be used to integrate the ESM into EU law. In addition to being exposed to the challenges of the legal basis, this will require unanimity in Council. Indeed, a glimpse into the discussions in Council was allowed by the French Assemblée Nationale in its resolution on the EMF. It points to doubts raised in a number of European capitals as to the legal feasibility of the ESM's integration into EU law and also to the unanimity requirements, and therefore recommends that the ESM remain intergovernmental.

Comparative elements

The IMF, which was created in 1944 alongside the Bretton Woods Agreement, now numbers 189 member countries and thus encompasses almost the whole world with notable exceptions such as Cuba and North Korea. It is the best known and most used mechanism to alleviate balance of payments problems and sovereign defaults. Assistance in the form of loans is given under strict conditionality, and is meant to provide countries with the funds necessary to implement adjustment policies in an orderly manner. It is aimed at creating the conditions for a stable economy and sustainable growth. The IMF also carries out surveillance and capacity development.

Less well known is an EU mechanism referred to as balance of payments (BoP) assistance, which provides help exclusively to non-euro area Member States. Together with the IMF, it was used during the crisis for three EU Member States, namely Hungary, Latvia and Romania. Its legal basis, Article 143 TFEU, was enshrined in the part of the Treaty that does not apply to the euro area. Denying this kind of help to countries using the euro was a deliberate choice that, together with other provisions, such as the 'no bail-out clause', was meant to increase economic and fiscal discipline. Before the introduction or the euro, BoP assistance was accessible to all Member States, but was never used.

As euro area Member States were excluded from BoP assistance, several ad hoc support mechanisms had to be created when the European sovereign debt crisis hit the first euro area Member States. Bilateral loans were given, such as the Greek Loan Facility (GLF). The EFSM was established in May 2010 (under EU law) and used bonds issued by the Commission to offer loans or credit lines to support stricken countries, but was limited in size. The much larger European Financial Stability Facility (EFSF), established in June 2010, worked in a similar way to the ESM now, and was eventually integrated into the ESM's structures. Although still in existence, the EFSF no longer issues loans.[7]

Parliament's starting position

Parliament's resolution of 16 February 2017 on a budgetary capacity for the euro area advises the area to make a qualitative leap in integration as soon as possible, as membership in a common currency area calls for common tools and solidarity. The transfer of sovereignty regarding monetary policy requires not least the capacity to absorb macro-economic shocks. Shock absorption would be achieved by a European monetary fund, which would emerge from a modified ESM to be brought under EU law. The ESM turned into an EMF would continue to perform its existing tasks while also be given adequate lending and borrowing capacities and a clearly defined mandate to absorb asymmetric and symmetric shocks. EMF macro-economic stabilisation would be complemented by automatic shock absorption mechanisms as part of a fiscal capacity. That capacity would first be part of the EU budget and later, once well established, financed through own resources. The report also warns against permanent transfers, moral hazard and unsustainable public risk sharing.

Preparation of the proposal

The proposal's explanatory memorandum argues strongly in favour of an EMF, but makes no reference to ex-post evaluations, stakeholder consultations or an impact assessment.

The changes the proposal would bring

The Commission proposal is based on Article 352 TFEU. Unanimity is needed in Council and consent by the European Parliament is a necessity.

Main elements of the proposal

The ESM would be integrated into EU law with few but substantial changes. Its name would be changed to European Monetary Fund (EMF), and it would become a Union body with legal personality, succeeding and replacing the ESM, including its legal position and assuming all its rights and obligations.

The EMF would maintain its present tasks, especially its role as a lender to governments which have lost – or are about to lose – access to the financial markets. It would also maintain the possibility to directly recapitalise banks. Lending would still be subject to strict conditionality, i.e. a memorandum of understanding would have to be signed and implemented. The EMF's capital would be subscribed by euro area Member States, and in practical terms the capital already paid into the ESM would be transferred to the EMF. The fund would not be part of, or linked to, the European Union budget.

A number of provisions are changed in the process. The EMF would become a backstop to the Single Resolution Fund, with a maximum amount set at €60 billion, although that ceiling may be increased. The fund would also be given a role in negotiating and signing MoUs. Concerning decision-making, although the ESM's categories of voting rules would remain the same, substantial changes would be made concerning decisions related to granting financial support or disbursements, where a reinforced qualified majority (85 %) would be applied, replacing unanimity. However, decisions taken by the Board of Governors regarding, for instance, financial assistance facility agreements could enter into force only if they were approved by Council, acting by qualified majority. In urgent cases, decisions on stability support could be taken under an emergency procedure that would restrict Council's powers.

With integration into EU law, the structure of democratic accountability would change. The role of national parliaments, some of which, such as the German Bundestag, have a de facto veto right in the ESM's decision-making framework, would be curtailed to information rights. The EMF would be accountable to both the European Parliament (which doesn't get a veto right) and Council, and to a lesser extent to the Commission, to which it would address an annual report. The European Parliament would gain a consultative role in the appointment of the managing director.

Further development of the EMF hinted at in the proposal

The proposal is forward-looking, and linked to other pieces of legislation under preparation, in particular the EISF. The Commission hints in the explanatory memorandum at the possible future development by the EMF of financial instruments that could supplement or support other EU financial instruments and programmes.[8] The EMF could for example rapidly activate countercyclical resources in an automatic way, to be offered to Member States without conditionality. In its EISF proposal the Commission hopes that the envisaged stabilisation support fund, which would subsidise 100 % of interest payments incurred by Member States receiving loans from the EISF, would be extended to subsidise EMF loans, provided they served an anti-cyclical purpose. Also, when combined with other ideas floated by the Commission, such as that of creating a European minister of economy and finance or it being called upon to chair the Eurogroup, the Commission could gain a foothold in the EMF's decision-making structure.

Expected impact and analysis of the proposal

The Commission expects to improve on the decision-making mechanisms of the present system by increasing their efficiency and simplifying the institutional framework. The result would also be to modify the balance of power. The proposal is aimed at generating better synergies and more transparency, as well as extending the ESM's scope of action.

On the other hand it opens up a very complicated debate about the legal basis (not least in view of the fact that the Treaties intentionally deny euro area Member States access to BoP assistance). It also relies on unanimity where it is difficult to achieve, and risks alienating Council and national parliaments with a de facto veto right. A further element to take into account is the judgment of the German constitutional court of 18 March 2014, which rules the ESM to be compatible with German law, provided certain safeguards are maintained. These include clear limits to deviating from unanimity.

Fundamental questions remain concerning the further development of the EMF. In essence it would be a system where countries experiencing an economic downturn would receive loans both automatically and without conditionality, and with interest payments being subsidised at 100 % by other Member States. Even assuming there was a common desire to move in that direction, the consequences of such arrangements for the EMF would be worth considering, when according to the *Pringle* judgment conditionality is a necessary condition for running the ESM. Similarly, if conditional and unconditional assistance, the latter with a 0 % interest rate, existed in parallel within the EMF, why would any Member State apply for conditional support?

Advisory committees

The legal basis used for the EMF proposal, Article 352 TFEU, does not provide for the mandatory consultation of either the Economic and Social Committee or the European Committee of the Regions.

National parliaments

National parliaments can raise objections to proposals. The deadline for the submission of reasoned opinions on the grounds of subsidiarity was 2 February 2018.[9] No national parliament objected to the proposal on the grounds of subsidiarity, but several chambers made comments. The Czech Senate opposes placing the majority at 85 %, preferring 100 %. The German Bundesrat insists that the (veto) rights of national parliaments should be maintained. The Italian Chamber of Deputies would like to see the EMF place bonds on the primary market (which is possible under current ESM rules) to increase its financing.

Stakeholders' views[10]

It has to be taken into account that, for this dossier, the stakeholders are primarily governments, which do not generally see this kind of topic in isolation, but rather in relation to the general discussion on the future of EMU, as outlined above in the Context chapter. The Member States' profound divisions on the broader aspects outlined in that chapter trickle down to their perception of dossiers such as the EMF.

The ECB has published an opinion, outlining its support in principle to the integration of the ESM into EU law while not commenting on the legal feasibility of such an operation. It envisages the ESM may stay intergovernmental. In both cases it considers it important to improve the ESM's governance arrangements in order to achieve swift decision-making, and to improve the precautionary financial assistance instruments, with adequate conditionality. The backstop function to the Single Resolution Fund (SRF) is welcomed, but should be financially neutral. The ECB is also firmly against changing the ESM's name to EMF, citing the ECB's exclusive right to use the term 'monetary' in an EU institution's name, and the fact that the ESM does not have any role to play in relation to monetary matters. Council has endorsed the request to never use the name 'EMF'.

Academic views

Academics' views on EMF vary very widely: ranging from those who wholeheartedly support the proposal to those in total opposition, some of the latter advocating that the ESM should not have been created in the first place. It has been voiced that replicating the IMF would not bring added value, as the ESM is already a quasi EMF, and can easily be amended, e.g. to respond to new tasks such as acting as a backstop.

Most of the discussion in the academic field concentrates on the general topic of a fiscal capacity, with a stabilisation function being a part of it. More on this field can be found in two EPRS publications: Deepening EMU and fiscal union: Risk sharing versus risk reduction and A fiscal capacity for the euro area?.

Legislative process

For this dossier the legislative process is highly atypical. Rather than dealing with a simple, linear process, the observer is faced with two interlinked, but profoundly incompatible procedures, of which one will eventually have to yield. At the core is the choice between working on the Commission's proposal to integrate the ESM into EU law, and the Council's preference for keeping the ESM within the intergovernmental realm. At the time of this writing, everything is pointing to the latter solution, something which is acknowledged in Parliament's Committees approach, which was formulated after a thorough analysis of the deliberations in Council.

Deliberations at Council level

Usually, once the Commission makes a proposal, a series of discussions are held in Council with the intention of reaching a common position. For the EMF dossier that has not been the case. Rather, negotiations inside Council took a different turn, as the dossier was not examined in isolation, but in relation with the general topic of EMU reform, including the creation of a fiscal capacity for the euro area and possible shock absorption mechanisms. Council is far from reaching a consensus on these matters, rather, it is highly divided.

In his 2017 Sorbonne speech, which predates the Commission's EMF proposal, French President Macron paved the way for a different approach to EMU, based on a separate parliament for the euro as well as a very large euro area budget, which would also perform a shock absorption function.

The 'Hanseatic League' already made clear in March 2018 that their own plans for increasing the ESM's prerogatives were rather restrained when compared with the Commission's ambitions, and they demanded it remain intergovernmental. Pre-empting an expected common Franco-German position paper, the League intervened a second time in June 2018, voicing its opposition to a separate euro area budget.[11]

Published soon after, the Franco-German Meseberg Declaration of 19 June 2018, was meant to give guidance in the process, as well as to create unity in Council. It advocated keeping the ESM intergovernmental, with the possibility to integrate it into EU law at a later stage. A common backstop instrument (to the SRF) would be added in the form of a credit line. ESM help would continue to be subject to strict conditionality, a debt sustainability analysis should be performed prior to giving support, and Euro collective action clauses with single-limb aggregation should be studied.[12] New tasks would be added, such as an enhanced role in designing and monitoring programmes in cooperation with the Commission and in liaison with the ECB. The existing precautionary instruments would also be used to ensure stabilisation. The declaration also advocated a euro area budget to promote competitiveness, convergence and stabilisation, but did not specify its size, nor whether or not it would be part of the EU budget. It included plans to examine the issue of a European unemployment stabilisation fund.

By that time, although Council was profoundly divided on matters concerning a possible euro area budget, there was a near consensus on keeping the ESM intergovernmental at least in the short term. The latter may explain why no visible effort is being made to achieve a common position on the Commission's proposal. However, at least one important point from the proposal has been gaining ground: the plan to provide the ESM with a backstop function for the SRF.

The Hanseatic League made an ESM-specific statement in November 2018, requesting again that the ESM remain intergovernmental and that strong safeguards be maintained or established. A series of Eurogroup meetings and Euro Summits were held; these culminated in the December 2018 Euro Summit, which decided that the intergovernmental ESM would become a backstop for the SRM and obtain additional powers in economic surveillance. In addition, the effectiveness of precautionary instruments would be increased. Concerning a possible fiscal capacity, the euro area budget would be embedded within the EU budget and concentrate on improving convergence and competitiveness, but would not include a shock absorption function.

Notoriously absent from the Eurogroup and Euro Summit discussions were the creation of a European finance minister post, the possibility for the Commission to chair the Eurogroup, the establishment of a dedicated euro area parliament, and the creation of a rainy-day fund. The establishment of a common European unemployment insurance (or re-insurance) scheme was discussed but no common ground could be found.

In November 2018, in line with the Meseberg declaration, the ESM and the Commission signed a joint position establishing cooperation in the field of ESM crisis management, and also covering the negotiation of conditionality. The Commission will concentrate on economic assessment, while the ESM will assess the market access of Member States.

European Parliament position

Parliament's Committees on Budgets and on Economic and Monetary Affairs are dealing with this file jointly, in accordance with Rule 55 of the Rules of Procedure. Vladimír Maňka (S&D, Slovakia) and Pedro Silva Pereira (S&D, Portugal) were appointed co-rapporteurs on 31 May 2018. It is to be noted that the legal basis used here envisages the assent procedure, i.e. that the European Parliament only intervenes at the very end of the legislative procedure, when it can either accept or reject Council's position, but not amend it. Parliament decided to prepare an interim report, to be adopted before an agreement is reached within Council, thus hoping to influence the outcome of Council's deliberations.

In their draft interim report, tabled on 22 November 2018, the rapporteurs recommended that the committees welcome the legislative proposal, and suggested renaming the ESM the European Stability Fund (ESF). They were in favour of a revision of the intergovernmental ESM Treaty in the short term, in order to strengthen the resilience of the euro area economies, with possible incorporation within EU law in the long term. They wanted to give the ESM a greater role in the management of financial assistance programmes, as well as have it serve as a backstop for the SRF. A memorandum of cooperation should further promote the institutional dialogue with the European Parliament. A total of 463 amendments to the Commission proposal were tabled for vote in committee. These covered a very wide range of options, from a substantially more restrictive system to much ampler funding activities, including the possibility for grants (rather than loans) and for support for unemployment benefit systems.[13]

The committees' interim report, which was adopted on 20 February 2019, welcomes the Commission's proposal, recommends that the ESM retain both its current name and its intergovernmental character, and calls for swift ESM reform that would redefine its role, functions and financial tools. A fiscal backstop function for the SRF should be added and made operational as soon as possible. The fiscal and democratic oversight prerogatives of national parliaments should be maintained, and the European Parliament's interaction with the ESM should be established in an interim memorandum of cooperation. In the longer term, the ESM should be integrated into EU law.

The committees' interim report needs to be voted in plenary, where it may still be amended. The vote is expected during the March I plenary session.

EP SUPPORTING ANALYSIS

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OTHER SOURCES

European Monetary Fund, Legislative Observatory (OEIL), European Parliament.

ENDNOTES

[1] The Five Presidents' Report reflects the personal deliberations and discussions of the presidents of the Commission, the European Council, the ECB, the Eurogroup and the European Parliament. Despite the personal nature of the document, which neither represents nor binds the institutions they preside over, the report carries real weight.

[2] The relevant chapters in two EPRS publications (Ten issues to watch in 2018 and The Juncker's Commission's 10 priorities) can provide a useful background here.

[3] The pact's objective of a budget that is at least balanced over the medium term has since been reiterated several times by the European Council, and is also an important element enshrined in the fiscal compact. There is also a general misunderstanding concerning what the SGP actually is about, as most discussions concentrate on issues such as the 3 % deficit limit, leading to neglect of the pact's main concern with achieving a balanced budget.

[4] The ECB's support action may no longer be an option in the medium term. When the inflation returns to pre-crisis levels the bank will see its margin for action shrink, as its primary objective of maintaining price stability will be put in jeopardy if it continues to keep interest rates low and if it maintains quantitative easing. More on this can be found in the EPRS briefing Servicing government debt – The impact of rising interest rates.

[5] Later, the Troika was simply referred to as 'the institutions', and sometimes as 'the institutions formerly known as Troika'.

[6] TFEU's Protocol 14 defines the Eurogroup's prerogatives. It stipulates that the ministers of the euro area *meet informally* and *discuss questions* relating to the specific responsibilities they share with regard to the single currency. The only right enshrined in this protocol is to elect their president.

[7] As three non-euro area Member States were concerned by the European sovereign debt crisis, this was more than just a crisis of the euro area.

[8] The Commission stopped short of using the term 'eurobond'.

[9] A reasoned opinion is issued by a national parliament or chamber when a legislative proposal is deemed not to comply with the principle of subsidiarity. If a certain number of reasoned opinions are issued, then the Commission is obliged to reconsider its proposal.

[10] This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.

[11] In June 2018 a letter opposing the French/German plans for creating a budget outside the MFF was sent to Eurogroup President Mário Centeno, drafted by the Dutch Finance Minister Wopke Hoekstra on behalf of his own country as well as Austria, Belgium, Denmark, Finland, Ireland, Luxembourg, Malta, Sweden and the Baltic States. Up to 12 countries have so far signed Hanseatic League letters.

[12] An EPRS briefing on single-limb CACs written by Angelos Delivorias is currently being prepared.

[13] These amendments comprise those of the draft report, as well as those tabled by individual Members, see Part 1 and Part 2.

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