BRIEFING

Macro-Financial Assistance to EU Member States State of Play – February 2018

This document provides regularly updated information on EU Member States receiving financial assistance from the ESM, EFSF, EFSM, the EU balance of payments assistance facility, other Member States and/or the IMF. It also covers the post-programme reviews undertaken by the European Commission (EC) in liaison with the ECB (Post-Programme Surveillance, PPS), the IMF (Post-Programme Monitoring, PPM) and the ESM (Early Warning System, EWS).

On-going programme implementation

Greece: On 22 January 2018, the Eurogroup welcomed the implementation of almost all of the agreed prior actions for the *third review* under the **third economic adjustment programme**, following the staff level agreement on the policy conditionality presented to the 4 December Eurogroup. Notably, the Greek authorities have adopted the 2018 State Budget which is compliant with the agreed primary surplus target of 3.5% of GDP. Moreover, the Eurogroup states that the Compliance Report (of 20 January 2018) on the third review shows that the Greece has over-achieved the fiscal targets set for 2015-2017. Furthermore, the Eurogroup mentioned progress regarding structural reforms in a number of areas (stronger tax collection through the Independent Authority of Public Revenue, enhanced fairness and effectiveness of the social welfare system, opening of regulated professions, product and energy markets and improving the investment licensing system). It also stated progress on NPL resolution through further actions related to the effective operationalization of the out-of-court workout scheme and the start-up of electronic auctions. The Eurogroup called on the Greek authorities to complete the outstanding prior actions as a matter of urgency. Following the full implementation of the prior actions and subject to the completion of national procedures, the ESM is expected to endorse the new supplemental MoU (of 18 January 2018) and approve the disbursement of the fourth tranche. It will amount to €6.7 bn and be disbursed in in two steps, starting with a first disbursement of €5.7 bn in February to cover debt servicing needs, to allow the further clearance of arrears and to support the build-up of the cash buffer of the Greek State, in order to support Greece's return to the market; the subsequent disbursement for arrears clearance may be approved in spring, subject to a positive reporting by the European Institutions on the clearance of net arrears using also own resources and a confirmation

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PE 497.721 - 14 February 2018

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from the European institutions that the unimpeded flow of e-auctions has continued. Finally, the January Eurogroup confirmed the start of the technical work by the Eurogroup Working Group on the growth-adjustment mechanism, as part of the medium-term debt relief measures to be implemented, if needed, following the successful conclusion of the programme, in line with the Eurogroup agreement of June 2017; in this context, it invites the European institutions and the IMF to take into account the holistic Greek growth strategy when updating the Debt Sustainability Analysis. Further recent programme documents are the technical MoU of 19 January 2018, the Asset Development Plan (privatisation programme) of December 2017, and the current government pending actions (dated 18 January 2018) under the privatisation programme. Note also that the annex of the COM Compliance Report on the third review includes an updated Debt Sustainability Analysis which presents four different scenarios on long-term growth and fiscal performance.

Background: The **second economic adjustment programme** expired on 30 June 2015. On 9 July 2015, Greece submitted to the ESM a request for financial assistance (a separate request was sent to the IMF). On 20 July 2015, Greek banks reopened after a three-week bank-holiday, following the adoption by the Greek Parliament of the required actions to initiate negotiations on a third programme. The reopening was accompanied by capital control measures (subsequently repeatedly relaxed). The EC eventually signed on 19 August 2015 (on behalf of the euro area members) a Memorandum of Understanding (MoU) with Greece for a **third economic adjustment programme** (for 2015-18) of up to €86 billion. In June 2016, the EC published a report on the compliance with the MoU upon conclusion of the *first review.* Short-term debt relief measures were endorsed by the Eurogroup in December 2016 and adopted by the ESM in January 2017. The December 2016 Eurogroup welcomed the agreement on a 2017 budget which confirms the primary balance target of 1.75% of GDP and allows for the national rollout of the Guaranteed Minimum Income. In May 2017, Greece agreed with the institutions on policy reforms (such as pensions, income tax, privatization, land use, labour market as well as the financial and energy sectors) updating the policy conditionality presented in the original MoU, including the prior actions for the second review. In June 2017, the Eurogroup finalised its discussion on the *second review*. It invited Greece and the institutions to develop and support a holistic, growth enhancing strategy. The Eurogroup welcomed Greece's commitment to maintain a primary surplus of 3.5% of GDP until 2022 and a fiscal path consistent with the European fiscal framework thereafter (according to EC of equal to or above but close to 2.0% of GDP over the period 2023-2060). During the Eurogroup meeting, the IMF informed of its intention to recommend to the IMF's Executive Board the approval in principle of Greece's request for a 14-month standby arrangement. Also in June 2017, the Compliance Report completing the second review was published. It assessed that the Greek authorities have completed the 140 prior actions set out in the supplemental MoU (sMoU) and required for the disbursement of the third tranche of the ESM programme. The sMoU was published only in July 2017, i.e. after its implementation has been assessed in the Compliance Report. In July 2017, on the basis of the above mentioned Eurogroup agreement and the Compliance Report, the ESM disbursed €7.7 billion (€6.9 billion for debt servicing needs and €0.8 billion for arrears clearance) and in October 2017 (following the clearance of net arrears by the Greek government) another €0.8 billion for further arrears clearance. The third tranche is therefore completed. Following the conclusion of the second review, the total sum of ESM funds disbursed to Greece under the third programme amounts to €40.2bn.

Post-programme surveillance

Ireland: End of 2013, Ireland exited the 3-year-programme (see ex-post evaluation of 2015) and is since then subject to PPS/EWS/PPM. The latest PPS/EWS and PPM were conducted in in November/December 2017. The EC and ECB staff concluded that growth of the domestic economy remains robustbut that risks remain tilted to the downside, notably due to uncertainty linked to the Brexit and due to the possibility that strong increases in property prices continue over the medium term. In addition, it was noted (like after previous PPS) that the resilience of public finances to economic fluctuations and adverse shocks could be strengthened by broadening the tax base. On banking and housing issues, the EC and ECB (mission staff) assessed that (1) non-performing loans (NPLs) continue to decline although the pace of decline has slowed and the high share of long-term mortgage arrears remains a concern.; (2) persistent supply shortages coupled with increased demand continue to drive strong increases in residential property prices and rents. The conclusions of the latest IMF mission have not yet been published (the previous ones, of December 2016, are here: staff statement, report and executive board conclusion). End of December 2017, Ireland repaid the remaining €4.5bn it owed the IMF just a day after it paid back €1bn it owed Sweden (€0.6bn) and Denmark (€0.4bn). On this basis, it can be expected that PPM is not required anymore (see IMF criteria for PPM).

Portugal: Portugal has been subject to PPS/EWS/PPM following the government's decision of June 2014 to exit the programme before its expiration. The seventh PPS/EWS/PPM mission took place in November/December 2017. The EC staff concluded that the short-term economic and financial situation in Portugal has improved and important progress has been made in addressing near-term risks. Overall, Portugal's economic rebalancing has made good progress, though elevated public and private sector debt, and prevailing rigidities in the economy continue to weigh on growth potential. Ambitious growth-enhancing reforms and sustained fiscal structural consolidation are essential to improve the economy's resilience to shocks and the medium-term growth prospects. In December 2017 the IMF staff reached similar conclusions after its sixth PPM, noting that the near-term outlook remains favourable, fiscal targets for 2017 and 2018 appear within reach, while stability and confidence in the banking system have improved as banks have raised more capital. Sustained strong growth is central to reducing the vulnerabilities from high public and private debt, and requires continued efforts to address structural rigidities. Current favourable conditions provide an opportunity for more ambitious structural fiscal consolidation and even faster reduction in public debt. Portugal reimbursed €0.8 billion to the IMF on24 January 2018. , bringing the total amount of loans repaid to €22.3 billion (approximately 83%of the IMF funds borrowed). On 15 December 2017, Fitch Ratings upgraded Portugal by two notches, from BB+ to BBB, lifting it to investment grade. This upgrade reflects, inter alia, the favourable public debt dynamics, the fifth consecutive current account surplus in 2017 as well as recapitalisation of Portugal's two largest banks.

Spain: The ESM programme for the recapitalisation of the Spanish banking sector expired on 31 December 2013. Spain is since then subject to PPS/EWS, with the eighth visit taking place in October 2017. The EC staff concluded that real GDP growth has further accelerated in the first half of 2017 and is expected to remain robust but ease over the next two years; the unemployment rate has further declined though it still remains at double-digit levels; general government deficit has continued to narrow but is projected to be the highest within the EU in 2017. Market reaction to recent events in Catalonia have remained contained so far, though there is a risk that future developments could have a negative impact on growth, the size of which cannot be anticipated at this stage. Banks have further adjusted their business models and cost structures, providing new loans to the economy and thereby supporting economic activity. However, a key challenge for the banking sector is to sustain sufficient profitability over the medium term. As to macroeconomic imbalances, their correction has been supported by strong and balanced growth, coupled with dynamic job creation. At the same time, several challenges remain, including high level of private and public debt, still very high unemployment (especially among young and low-skilled workers) and low productivity growth. Against this background, the EC staff noted that the reform agenda needs to be resumed. Spain made its sixth voluntary repayment of €2.0 billion to the ESM in November 2017, bringing the total amount of loans repaid to €9.6 billion (about 23% of the funds borrowed). On 8 February 2018, the Board of Directors of the ESM approved a request by Spain to make two voluntary early repayments of respectively €2.0 billion (planned for 23 February 2018) and €3.0 billion (scheduled for May 2018).

Cyprus: In March 2016, Cyprus successfully exited from the ESM and IMF financial assistance programme. Cyprus used about €7.3 billion out of €10.0 billion available under the programme. The third PPS/EWS mission took place in September 2017 and was coordinated with the IMF. The EC staff concluded that the economic recovery has further strengthened, but sustaining growth over the medium term will require renewed reform momentum, continued fiscal discipline and acceleration in the resolution of NPLs loans. Fiscal performance benefited from the favourable macroeconomic conditions and prudent expenditure execution, though important medium-term fiscal risks remain (such as the fiscal impact of the recent healthcare reform and the lack of a mechanism to contain increases in the public wages beyond 2018). In December 2017, the IMF Executive Board concluded following Art. IV consultation that the Cypriot economy has achieved an impressive turnaround since the 2012-2013 banking crisis, facilitated by prudent macro-economic policies and progress on structural reforms, together with strong foreign demand. At the same time, crisis legacies in the form of elevated private and public sector debt and high share of NPLs have yet to be eliminated. The IMF urged the authorities to address these legacies and to safeguard the significantly improved fiscal position, strengthen competition and productivity, restart privatisation programme and undertake governance reforms.

Romania: PPS started in October 2015, with the end of the third balance of payments programme (BoP). It is linked to the loans under the 2009-2011 BoP (when €5 billion were disbursed). PPS missions took place in May 2016, March 2017 and November 2017. The first two missions concluded that the risks related to the repayment of the debt to the EU are very low. The second mission further concluded that the medium term outlook presents vulnerabilities due to fiscal policies which turned pro-cyclical in 2016. The report of the third mission has not been published yet.

Table overleaf provides an updated overview of various elements of the financial assistance granted to EU Member States since 2009.

	ROMANIA	GREECE	IRELAND	PORTUGAL	SPAIN	CYPRUS
CURRENT STATUS	Post-Programme Surveillance (as of October 2015)	Third Economic Adjustment Programme (2015-2018) IMF (second Programme: March 2010-March 2016)	Post-Programme Surveillance (as of January 2014)	Post-Programme Surveillance (as of July 2014)	Post-Programme Surveillance (as of January 2014)	Post-Programme Surveillance (as of April 2016)
COMPLETED OR ENDED	*BoP Assistance (2009-2011)* *Pre-cautionary BoP Assistance (2011-2013)* *Pre-cautionary BoP Assistance (2013-2015)*	*First Economic Adjustment Programme (2010-2012)* *Second Economic Adjustment Programme (2012- 2015; IMF Extended Fund facility Arrangement ongoing until 2016)*	*Economic Adjustment Programme (2010-2013)*	*Economic Adjustment Programme (2011-2014)* Portugal decided to leave the programme without completing the final review and without re-ceiving the final tranche (€1.7bn by EFSM and €0.9bn by IMF)	*Financial Assistance for Recapitalisation of Financial Institutions (2012-2013)*	*Economic Adjustment Programme (2013-2016)* Cyprus cancelled its financial arrangement with the IMF, effective 7 March 2016
MOUS SIGNED	First: 23 June 2009 Second: 29 June 2011 Third: 7 November 2013	First: 3 May 2010 Second: 14 March 2012 Third: 19 August 2015	07 December 2010	17 May 2011	20 July 2012	26 April 2013
CONDITIONALITY & OBJECTIVES	While there is in accordance with two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	*Third programme:* ► Restoring fiscal sustainability ► Safeguarding financial stability ► Growth, competitiveness and investment ► A modern State and public administration	While there is in accordance with two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	While there is in accordance with Article 14 of the two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	While there is in accordance with Article 14 of the two-pack Regulation (EU) N°472/2013 no policy conditionality under PPS, the Council can issue recommendations for corrective actions if necessary and where appropriate. PPS is biannual in terms of reporting and missions.	► Restore the soundness of the banking sector and rebuild depositors' and market confidence ► Fiscal consolidation, supported by structural fiscal reforms ► Structural reforms to support competitiveness and sustainable and balanced growth ► Further strengthening of the anti-money laundering framework in line with best practice

MONITORING	▶ EC ECB (PPS) ▶ No PPM, since the outstanding credit with the IMF has already fallen well below the threshold for PPM by the IMF	▶ EC, ECB, ESM and IMF	▶ EC and ECB (PPS) ▶ ESM (EWS) ▶ MF (PPM)	▶ EC and ECB (PPS) ▶ ESM (EWS) ▶ IMF (PPM)	▶ EC and ECB (PPS) ▶ ESM (EWS) ▶ IMF (regular IMF surveillance)	▶ EC, ECB, ESM and IMF
TECHNICAL ASSISTANCE	-	On 17 June 2015, the EC decided to replace the Task Force for Greece by the structural reform service.	-	-	-	On 17 June 2015, the EC decided to replace the Support Group for Cyprus by the structural reform service.
TOTAL AMOUNT COMMITTED	2009-11 programme: €20bn 2011-13 programme: €6bn 2013-2015 programme: €5bn	€331.7bn ▶ commitments under 2nd and 3rd programmes & ▶ disbursed under 1st programme (see rows below)	€85bn	€78bn	up to €100bn	€10bn
BREAK-DOWN BY LENDER (ORIGINAL COMMITMENTS)	*2009-11 programme*: ▶ €5bn - EU (BoP) ▶ €13bn - IMF (SBA) ▶ €1bn – World Bank ▶ €1bn – EIB + EBRD *2011-13 precautionary programme (funds not used)*: ▶ €1.5bn - EU (BoP) ▶ €3.5bn - IMF ▶ €1.15bn – World Bank *2013-2015 precautionary programme (funds not used)*: ▶ €2bn - EU (BoP) ▶ €2bn - IMF ▶ €1bn – World Bank	*All three programmes together* ▶ EA-MSs+EFSF+ESM:€308bn ▶ IMF (SBA+EFF): €58bn *First Programme*: ▶ EA MSs: €80bn *(subsequently reduced by €2.7bn as SK did not participate and IE and PT required assistance themselves)* ▶ IMF (SBA): €30bn Second Programme: ▶ EFSF: €144.7bn ▶ IMF (EFF): €28bn *[Bridge financing: €7.2 bn EFSM – fully paid back]* Third Programme: ▶ ESM: Up to €86bn	▶ EFSM: €22.5bn ▶ EFSF: €17.7bn ▶ IMF: €22.5bn ▶ Bilateral (UK, DK, SE): €4.8bn ▶ Ireland (Treasury and National Pension Reserve Fund): €17.5bn	▶ EFSM: €26bn ▶ EFSF: €26bn ▶ IMF: €26bn	▶ ESM: up to €100bn	▶ ESM: €9bn ▶ IMF: €1bn

PREFERRED CREDITOR	IMF	IMF	IMF	IMF	ESM	IMF
ALREADY DISBURSED	***Total: € 19.9bn*** ***2009-2011 programme*** ► €5bn - EU (BoP) ► €12.9bn - IMF (SBA) ► €1bn - World IMF ► €1bn – EIB + EBRD *2011-13 and 2013-15 programmes* Pre-cautionary assistance; no request for disburse-ment of BoP funds was made	***Total: € 267.4bn2*** ***All three programmes together*** ►EA-MSs+ EFSF + ESM: €234.9bn ► IMF: €32.3bn *First Programme (closed)*: ►EA MSs: €52.9bn ►IMF: €20.7bn *Second Programme, including PSI participation (closed)*: ► EFSF: €141.8bn ► IMF: €11.6bn *Third Programme* ► ESM: €40.2bn	***Total: € 67.5bn*** ► EFSM: €22.5bn ► EFSF: €17.7bn ► IMF: €22.6bn ► Bilateral (UK, DK, SE): €4.8bn	***Total: € 76.0bn*** ► EFSM: €24.3bn ► EFSF: €26.0bn ► IMF: €25.7bn	***Total: € 41.3bn*** ► ESM: €41.3bn	***Total: €7.3bn*** ► ESM: €6.3bn ► IMF: €1bn
LOANS ALREADY REPAID	► €2.65bn – EU (BoP) ► €12.9bn - IMF (SBA)	► On 27/02/2015, the Hellenic Financial Stability Fund (HFSF) redelivered €10.9 bn in bonds issued by the EFSF for the recapitalisation of Greek banks. This com-prised: a full repayment of €7.2bn disbursed on 30/05/2013; and a partial repayment of €3.7bn of the loan tranche disbursed on 19/12/2012) ► €2 billion were paid back (contractual obligation) on 20 /2/2017 to the ESM following the sale of assets a bank that took part in the 2015 banking recapitalisation ► Altogether €22.6bn to the IMF (latest repayments: 18 and 31 January 2018).	► On 20 December 2017, Ireland repaid the remaining €4.5bn it owed the IMF just a day after it paid back €1bn it owed Sweden (€0.6bn) and Denmark (€0.4bn). In November 2017, the EFSF allowed these early repayments.► PPS report of January 2016: "The next principal repayment of EFSM/EFSF loans is due in 2018."	► January 2018: €0.8 bn (early repayment to the IMF) ►In total, €22.3bn to the IMF in a series of early voluntary repayments (as of 31 January 2018). ► Overview of the planned early repayments to the IMF over the period 2018-2021 (p. 35)	► November 2017: €2.0bn (early repayment to the ESM) ► In total, €9.6bn to the ESM (as of 31 January 2018). ► On 8 February 2018, the Board of Directors of the ESM approved a request by Spain to make two voluntary early repayments of respectively €2.0 billion (planned for 23 February 2018) and €3.0 billion (scheduled for May 2018).	► July 2017: €0.3bn (early repayment to the IMF)

TOTAL OUTSTANDING LOANS (AS OF 31 JANUARY 2018)	***Total (EU+IMF):€3.1bn*** ▶ €2.35bn EU (BoP) ▶ €0 – IMF (SBA)	***Total: €221.6bn*** ▶ EA MSs+EFSF +ESM: €210.7bn ▶ IMF: €10.7bn	***Total: €43.6bn*** ▶ EFSM: €22.5bn ▶ EFSF: €17.7bn ▶ IMF: € 0 ▶ Bilateral (UK): €3.6bn	***Total: €54.8bn*** ▶ EFSM: €24.3bn ▶ EFSF: €26.0bn ▶ IMF: €4.5bn	***Total: €31.7bn*** ▶ ESM: €31.7bn	***Total: €7.0bn*** ▶ ESM: €6.3bn ▶ IMF: €0.7bn
LATEST COUNTRY RATING (ACCORDING TO FITCH)	**Rating: BBB-** Grade: Investment Outlook: stable (status 12 January 2018)	**Rating: B-** Grade: Non-investment Outlook: positive (status 18 August 2017)	**Rating: A+** Grade: Investment Outlook: stable (status 15 December 2017)	**Rating: BBB** Grade: Investment Outlook: stable (status 15 December 2017)	**Rating: A-** Grade: Investment Outlook: stable (status 19 January 2018)	**Rating: BB** Grade: Non-investment Outlook: positive (status 20 October 2017)

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ABBREVIATIONS/EXPLANATIONS

BoP Assistance	Balance of Payments facility for non-euro area MS in BoP difficulties. It usually takes the form of medium-term financial assistance, in co-operation with the IMF.
BoP for Romania	From 2009 to 2011 Romania was under a BoP assistance programme (€5bn) as part of multilateral assistance of €20bn (IMF €13bn; World Bank €1bn; EIB + EBRD €1bn).
EFSF	European Financial Stability Facility: it provides financial assistance to euro area MS. As of 1 July 2013, the EFSF may no longer engage in new financing programmes or enter into new loan facility agreements. The ESM is now the sole and permanent mechanism for responding to new requests for financial assistance by euro area MS.
ESM	European Stability Mechanism; entered into force on 27 September 2012. It is now the main instrument for providing financial assistance for the euro area MS. It has capital base of €704.7987bn (including its recent member Lithuania). It enjoys preferred creditor status, junior only to the IMF.
EFSM	European Financial Stabilisation Mechanism: for any EU MS, it reproduces the basic mechanics of the existing Balance of Payments facility. The lending capacity is €60bn, raised by the EC in financial markets. The EC then on-lends to the beneficiary MS in form of loan or credit line. All interest and loan is repaid by the MS, without any cost for the EU. The EFSM funding has been completed after Portugal´s exit from the programme.
PSI	Private Sector Involvement: in March 2012 existing Greek bonds held by private institutions were exchanged on a voluntary basis. For each 100 of old Greek bonds, the bond holders received 31.5 of new Greek bonds and 15 of EFSF one-year and two-year notes (in equal proportions), which corresponded to a nominal reduction of 53.5% (and NPV loss of about 73%), thus reducing Greek debt by about €100bn. EFSF notes were accounted as a loan made to Greece by the EFSF and thus as part of the EU financial assistance.
DBB	On 11 December 2012 Greece concluded the tendering process for a debt buy-back operation (DBB) to capture a substantial discount on Greek government bonds (GGB), thereby reducing public debt substantially. Before the DBB, the total of new GGBs amounted to €62bn (ensuing from the PSI). The DBB invitation yielded a total participation of approximately €31.9bn at an average price of 33.8% of the nominal value. Following the settlement of the operation, Greek debt was reduced by €21.1bn in net terms.
Greek Loan Facility - EU MS Loans	The Greek Loan Facility was an instrument used for the 1st Greek Adjustment Programme agreed in May 2010: 15 euro area MS committed to provide bilateral loans of up to €80bn, of which €52.9bn were disbursed by the end of the 1st programme. The loans were pooled by the EC, which was entrusted with the coordination, the administration and the disbursement. The 1st programme ceased in March 2012, when the 2nd adjustment programme started with the involvement of the EFSF. The remaining undisbursed part of €80bn was thus transferred to the 2nd programme which was disbursed by the EFSF.
EFF and SBA	When a country faces serious medium-term balance of payments problems because of structural weaknesses that require time to address, the IMF can assist with the adjustment process under an Extended Fund Facility (EFF). Compared to assistance provided under the Stand-by Arrangement (SBA), assistance under an extended arrangement features longer program engagement—to help countries implement medium-term structural reforms—and a longer repayment period.
IMF Disbursements	IMF disbursements are made in Special Drawing Rights (SDRs) and therefore the € amounts change over time, applying the current exchange rate.
PPS	Post-Programme Surveillance: under the so-called "two pack" rules, countries exiting a bailout must be subject to a PPS until 75% of its rescue loans are paid back (see Article 14 of Regulation 472/2013).
EWS	Early Warning System: in accordance with Article 13(6) of the ESM Treaty, the ESM shall establish an appropriate warning system to ensure that it receives any repayments due by the ESM Member under the stability support in a timely manner. EWS thus detects repayment risks and allows for corrective actions. It applies not only to the ESM programme countries (Spain, Cyprus), as foreseen in the Treaty, but also to the EFSF programme countries (Greece, Ireland, Portugal).
PPM	Post-Programme Monitoring by the IMF.