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Proposal for a

COUNCIL REGULATION

establishing a European financial stabilization mechanism

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 122 (2) thereof,

Having regard to the proposal from the Commission,

Whereas:

- (1) Article 122 (2) of the Treaty foresees the possibility of granting Union financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control.
- (2) Such difficulties may be caused by a serious deterioration in the international economic and financial environment.
- (3) The unprecedented global financial crisis and economic downturn that have hit the world over the last two years have seriously damaged economic growth and financial stability and provoked a strong deterioration in the deficit and debt positions of the Member States.
- (4) The deepening of the financial crisis has led to a severe deterioration of the borrowing conditions of several euro-area Member States beyond what can be explained by economic fundamentals. At this point, this situation, if not addressed as a matter of urgency, could present a serious threat to the stability, unity and integrity of the euro area as a whole.
- (5) In order to address this exceptional situation beyond the control of the Member States, it appears necessary to put in place immediately a Union stabilization mechanism to preserve financial stability in Europe. Such a mechanism should allow the Union to respond in a coordinated, rapid and effective manner to acute difficulties in a particular euro-area Member State.
- (6) Given their particular financial implications, the decisions to grant Union financial assistance pursuant to this Regulation are implementing powers which should be conferred on the Council.
- (7) Strong economic policy conditions should be imposed in case of activation of this mechanism with a view to preserving the sustainability of the public finances of the Member State concerned and restoring its capacity to finance itself on the financial markets.

- (8) The Commission should regularly review whether the exceptional circumstances threatening the financial stability of the European Union as a whole still exist.
- (9) The existing facility providing medium-term assistance for non-euro-area Member States as established by Council Regulation (EC) No 332/2002 should remain in place.

HAS ADOPTED THIS REGULATION:

Article 1
Aim and scope

With a view to preserving the stability, unity and integrity of the euro area as a whole, this Regulation establishes the conditions and procedures under which Union financial assistance may be granted to a euro-area Member State which is experiencing or is seriously threatened with a severe economic or financial disturbance caused by exceptional occurrences beyond its control.

Article 2
Form of the Union financial assistance

1. Union financial assistance for the purposes of this Regulation shall take the form of a loan or of a credit line granted to the Member State concerned.

To this end, in accordance with a Council decision pursuant to Article 4, the Commission shall be empowered on behalf of the European Union to contract borrowings on the capital markets or with financial institutions.

2. Subject to Article 3, the outstanding amount of loans or credit lines to be granted to Member States under the present stabilization mechanism shall be limited to the margin available under the own resources ceiling for payment appropriations.

Article 3
Guarantees

1. Loans and credit lines above the ceiling referred to in Article 2 (2) shall benefit from the joint and pro-rata guarantee of the euro-area Member States.
2. Each euro area Member State shall guarantee the amounts above the ceiling referred to in paragraph 1 according to its share in the paid-up capital of the European Central Bank.
3. In the cases covered by this Article, the Commission may rely on the services of the national debt offices of the euro area Member States, which offices shall be at the disposal of the Commission to this end.
4. A Member State receiving a financial support decided by the Council under the present Regulation shall not provide a guarantee. The guarantee to be provided by the other Member States shall be recalculated accordingly.

5. Member States shall take the measures necessary to ensure that the guarantee is provided within ten days following the Council decision taken in accordance with Article 4.

Article 4
Procedure

1. The Member State seeking Union financial assistance shall discuss with the Commission in liaison with the ECB an assessment of its financial needs and submit a draft economic and financial adjustment programme to the Commission and the Economic and Financial Committee.
2. Union financial assistance shall be granted by a decision adopted by the Council, acting by a qualified majority on a proposal from the Commission.
3. The decision to grant a loan shall contain:
 - (a) the amount, the average maturity, the pricing formula, the maximum number of instalments, the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance including for the implementation of the guarantee referred to in Article 3;
 - (b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the Member State concerned and to restoring its capacity to finance itself on the financial markets;
 - (c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.
4. The decision to grant a credit line shall contain:
 - (a) the amount, the fee for the availability of the credit line, the pricing formula applicable for the release of funds and the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance, including for the implementation of the guarantee referred to in Article 3;
 - (b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the Member State concerned;
 - (c) an approval of the adjustment programme prepared by the beneficiary Member State to meet the economic conditions attached to the Union financial assistance.
5. The Commission and the Member State concerned shall conclude a Memorandum of Understanding detailing the general economic policy conditions laid down by the Council, after having obtained the opinion of the economic and financial committee.

The Commission shall communicate the Memorandum of Understanding to the European Parliament and to the Council.

6. The Commission shall re-examine the general economic policy conditions referred to in paragraphs (3) (b) and (4) (b) at least every six months and discuss with the Member State concerned the changes that may be needed to its adjustment programme.
7. The Council, acting by a qualified majority on a proposal from the Commission, shall decide on any adjustments to be made to the initial general economic policy conditions and shall approve the revised adjustment programme as prepared by the beneficiary Member State.
8. If a financing outside the Union subject to economic policy conditions is envisaged, notably from the IMF, the Member State concerned shall first consult the Commission. The Commission shall examine the possibilities available under the Union financial assistance facility and the compatibility of the envisaged economic policy conditions with the commitments taken by the Member State concerned for the implementation of the Council recommendations and Council decisions adopted on the basis of Article 121, Article 126 and Article 136 of the Treaty. It shall inform the Economic and Financial Committee.

Article 5

Disbursement of the loan

1. The loan shall as a rule be disbursed in instalments.
2. The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article 4(3) (b). To this end, that Member State shall provide all the necessary information to the Commission and give the latter its full cooperation.
3. On the basis of the findings of such verification, the Commission, after having obtained the opinion of the Economic and Financial Committee, shall decide on the release of further instalments.

Article 6

Release of funds

1. The Member State concerned shall inform the Commission in advance of its intention to draw down funds from its credit line. Detailed rules shall be laid down in the decision referred to in Article 4(4).
2. The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article 4(4)(b). To this end, the Member State shall provide all the necessary information to the Commission and give the latter its full cooperation.

3. On the basis of the findings of such verification, the Commission, after having obtained the opinion of the Economic and Financial Committee, shall decide on the release of the funds.

Article 7

Borrowing and lending operations

1. The borrowing and lending operations referred to in Article 2 shall be carried out in euro.
2. The characteristics of the successive instalments released by the Union under the financial assistance facility shall be negotiated between the beneficiary Member State and the Commission.
3. Once the decision on a loan has been made by the Council, the Commission is authorised to borrow on the capital markets or from financial institutions at the most appropriate time in between planned disbursements so as to optimise cost of funding and preserve its reputation as the Union's issuer in the markets. Funds raised but not yet disbursed shall be kept at all times on dedicated cash or securities account which are handled in accordance with rules applying to off budget operations and cannot be used for any other goal than to provide financial support to Member States under the present mechanism.
4. Where a Member State receives a loan carrying an early repayment clause and decides to exercise this option, the Commission shall take the necessary steps.
5. At the request of the beneficiary Member State and where circumstances permit an improvement in the interest rate on the loan, the Commission may refinance all or part of its initial borrowing or restructure the corresponding financial conditions.
6. The Economic and Financial committee shall be kept informed of the developments in the operations referred to in paragraph 5.

Article 8

Costs

The costs incurred by the Union in concluding and carrying out each operation shall be borne by the beneficiary Member State.

Article 9

Administration of the loans

1. The Commission shall establish the necessary arrangements for the administration of the loans with the ECB
2. The beneficiary Member State shall open a special account with its National Central Bank for the management of the Union medium-term financial assistance received. It shall also transfer the principal and the interest due under the loan to an account with

the European Central Bank fourteen TARGET2 business days prior to the corresponding due date.

3. Without prejudice to Article 27 of the Statute of the European System of Central Banks and of the European Central Bank, the European Court of Auditors shall have the right to carry out in the beneficiary Member State any financial controls or audits that it considers necessary in relation to the management of that assistance. The Commission, including the European Anti-Fraud office, shall in particular have the right to send its officials or duly authorised representatives to carry out in the beneficiary Member State any technical or financial controls or audits that it considers necessary in relation to that assistance.

Article 10
Review and adaptation

1. The Commission shall forward to the Economic and Financial Committee and to the Council, within six months following the entry into force of this Regulation and where appropriate every six months thereafter, a report on the implementation of this Regulation and on the continuation of the exceptional occurrences that justify the adoption of this Regulation.
2. Where appropriate, the report shall be accompanied by a proposal for amendments to this Regulation with a view to adapting the possibility of granting financial assistance without affecting the validity of decisions already adopted.

Article 11
Entry into force

This Regulation shall enter into force on the day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Council,
The President