Term sheet: ESM Pandemic Crisis Support

On 24 March, the Eurogroup broadly supported making available to ESM Members a Pandemic Crisis Support safeguard within the provisions of the ESM Treaty, building on the framework of the existing Enhanced Conditions Credit Line (ECCL). On 26 March, the members of the European Council took note of the progress made and invited the Eurogroup to present proposals within two weeks. The table below outlines the possible elements of the Pandemic Crisis Support to be provided by the ESM through its ECCL as well through the introduction of a new ESM instrument within the ESM Treaty framework: a Rapid Liquidity Instrument, which could be tailored to emergencies such as the one caused by the pandemic outbreak. These two instruments are not mutually exclusive and could be also combined. They are designed to safeguard the financial stability of the requesting Member and that of the euro area and would be used only where indispensable for achieving this purpose.

Instrument	**Pandemic Crisis Support Enhanced Conditions Credit Line (ECCL)** (possibly with a primary market purchases (PMP) Facility)	**Rapid Financing Instrument (RFI)**
Purpose	Credit line supporting ESM Members' financing of their immediate health services and economic responses to the coronavirus outbreak, including employment generation.	Financial Support to ESM Members' emergency expenditures for healthcare and economic costs of natural disasters including pandemic crises.
Volume	Access granted to ESM Members would be initially up to 2% of the respective Member's GDP as of end-2019 as benchmark. Access can be adjusted depending on the Members' respective needs in view of the severity of the pandemic and its economic impact.	Access could be proportionate to Members' contributions to ESM paid-in capital with an overall envelope of about EUR 80 billion or another benchmark (e.g. severity of the coronavirus outbreak or identified financing needs). This would reflect the IMF approach to their equivalent facility. Alternatively, access could be on the same terms as for the Pandemic Crisis Support ECCL.
Eligibility	ESM support would be made available to all ESM Members in view of the pandemic impact. Access to an ECCL is open to ESM Members that do not comply with some structural PCCL eligibility criteria but whose general economic and financial situation remains sound.	Emergency ESM support would be made available to all ESM Members affected by a natural disaster or equivalent extreme external event, significantly affecting their economic policies and financial stability.
Conditions	The Members would commit to use ESM credit line to support domestic financing of health-care and economic cost incurred to respond to the corona crisis. In addition, respect of EU fiscal rules and European Semester would need to be ensured, including any flexibility applied by the competent EU institutions. Such commitment would be	ESM support can only be used to finance health and economic cost of emergency response. In addition, respect of EU fiscal rules and European Semester would need to be ensured, including any flexibility applied by the competent EU institutions. These measures would be specified in an

	included in a Memorandum of Understanding (MoU), which would be based on common terms for all Members.	"Economic response plan", which would constitute the MoU for the purposes of the ESM Treaty.
Availability Period	As per existing instrument: an initial period of 12 months, which could be extended twice for 6 months.	12 months.
Disbursements	Once granted, the ESM Members could draw from the credit line according to the modalities set in the BoG decision for the approval of the FFA on the proposal of the ESM Managing Director. Each Member would inform the ESM of its intention to draw funds, as foreseen in the Standard Facility Specific terms. The ESM could disburse loans in cash or "in kind".[1] For cash disbursements, the line could be drawn via a loan or primary market purchase. Primary market purchases are subject to sufficient private investor participation and market rates.	Once granted, the ESM Members could draw from the credit line according to agreed modalities, which could be similar as for the PCCL/ECCL.
Support of development loans	ESM support could be leveraged at national and/or European level. Funds could be placed in an account at national level, which ESM Members would use to back their guarantees or could be used by Member States to support relevant EIB initiatives (e.g. proposal for a pan-European guarantee fund or EIB capital increase).	
Maturity of the loans	Disbursements would need to be repaid over the medium term [within an average maturity of 5-10 years]. This is a non-revolving credit line.	Average maturity of 3-5 years, giving sufficient time to absorb the economic shock. This would be a non-revolving credit line.
Funding	The ESM would fund the Pandemic Crisis Support ECCL as foreseen under the Diversified Funding Strategy (DFS) for cash disbursements. The ESM could finance the credit line through the issuance of "Social Stability Bonds".	The ESM would fund the RFI as foreseen under the Diversified Funding Strategy (DFS) for cash disbursements. The ESM could finance the credit line by issuing bonds according to Environmental, Social, Governance (ESG) principles.
Pricing	The ESM would apply the existing Pricing Policy to calculate and charge its cost of funding and commitment fee. The BoG would need to lower the margin and/or the up-front service fee included in the existing pricing to reflect the purpose of the pandemic crisis support ECCL. Currently they are set at 50 bps up-front and 35 bps annually under a fully drawn scenario.	The ESM would apply the existing Pricing Policy to calculate and charge its cost of funding and commitment fee. New pricing elements (e.g. margin, service fee) to be developed in accordance with the purpose of the instrument. For example, the existing pricing policy already foresees the possibility to apply a lower service fee to short term loans, which could be applied under RFI.

[1] In line with current practice, the ESM bonds provided as a disbursement "in kind" are subject to selling restrictions to preserve the funding capacity of the ESM.

Monitoring	The Member will be subject to enhanced surveillance focused on the specific conditions attached to the facility by the European Commission in liaison with the ECB, in accordance with the guideline.	Monitoring of the use of funds under the facility and the respect of the EU fiscal rules.
Legal Basis	The current standard ESM legal framework, notably the precautionary instruments (Article 14 ESM Treaty), the Precautionary Guideline[2] and the ESM lending documents (Section 3 of the Facility Specific Terms)[3].	A new instrument to be introduced in accordance with the ESM Treaty using Article 19. It would require a decision by mutual agreement of the Board of Governors (BoG) and preparation of new legal documents (e.g. BoG resolution, instrument guideline, and lending documentation would be required. These would be based on the documentation for existing credit lines, to accelerate the drafting process.

[2] https://www.esm.europa.eu/sites/default/files/esm_guideline_on_precautionary_financial_assistance.pdf
[3] https://www.esm.europa.eu/sites/default/files/facility_specific_terms_15122015_clean.pdf