EUROPEAN PARLIAMENT

1999



2004

Session document

FINAL **A5-0269/2001**

12 July 2001

*

REPORT

on the proposal for a Council regulation establishing a facility providing medium-term financial assistance for Member States' balances of payments (COM(2001) 113 - C5-0121/2001 - 2001/0062(CNS))

Committee on Economic and Monetary Affairs

Rapporteur: Generoso Andria

RR\296012EN.doc PE 295.938

EN EN

Symbols for procedures

- * Consultation procedure majority of the votes cast
- **I Cooperation procedure (first reading)

 majority of the votes cast
- **II Cooperation procedure (second reading)
 majority of the votes cast, to approve the common position
 majority of Parliament's component Members, to reject or amend
 the common position
- *** Assent procedure

 majority of Parliament's component Members except in cases

 covered by Articles 105, 107, 161 and 300 of the EC Treaty and

 Article 7 of the EU Treaty
- ***I Codecision procedure (first reading)

 majority of the votes cast
- ***II Codecision procedure (second reading)

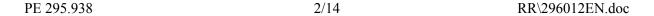
 majority of the votes cast, to approve the common position

 majority of Parliament's component Members, to reject or amend
 the common position
- ***III Codecision procedure (third reading)
 majority of the votes cast, to approve the joint text

(The type of procedure depends on the legal basis proposed by the Commission)

Amendments to a legislative text

In amendments by Parliament, amended text is highlighted in *bold italics*. Highlighting in *normal italics* is an indication for the relevant departments showing parts of the legislative text for which a correction is proposed, to assist preparation of the final text (for instance, obvious errors or omissions in a given language version). These suggested corrections are subject to the agreement of the departments concerned.



CONTENTS

	Page
PROCEDURAL PAGE	4
LEGISLATIVE PROPOSAL	5
DRAFT LEGISLATIVE RESOLUTION	8
EXPLANATORY STATEMENT	8
OPINION OF THE COMMITTEE ON BUDGETS	11

PROCEDURAL PAGE

By letter of 21 March 2001 the Council consulted Parliament, pursuant to Article 308 of the EC Treaty, on the proposal for a Council regulation establishing a facility providing medium-term financial assistance for Member States' balances of payments (COM(2001) 113 - 2001/0062 (CNS)).

At the sitting of 2 April 2001 the President of Parliament announced that she had referred this proposal to the Committee on Economic and Monetary Affairs as the committee responsible and the Committee on Budgets for its opinion on 3 May 2001 (C5-0121/2001).

The Committee on Economic and Monetary Affairs appointed Amalia Sartori rapporteur at its meeting of 10 April 2001. The Committee on Economic and Monetary Affairs appointed Generoso Andria rapporteur at its meeting of 19 June 2001, as Amalia Sartori is no longer a member of this Committee.

The committee considered the Commission proposal and draft report at its meetings of 20 June 2001 and 12 July 2001.

At the latter meeting it adopted the draft legislative resolution unanimously.

The following were present for the vote: Christa Randzio-Plath, chair; Philippe A.R. Herzog, vice-chairman; Generoso Andria, rapporteur; Richard A. Balfe, Hans Blokland, Hans Udo Bullmann, Harald Ettl (for Robert Goebbels), Ingo Friedrich (for José Manuel García-Margallo y Marfil), Carles-Alfred Gasòliba i Böhm, Lisbeth Grönfeldt Bergman, Christopher Huhne, Juan de Dios Izquierdo Collado (for Luis Berenguer Fuster), Pierre Jonckheer, Othmar Karas, Christoph Werner Konrad, Werner Langen (for Alejandro Agag Longo), Jules Maaten (for Olle Schmidt), Thomas Mann (for Astrid Lulling), Ioannis Marinos, Ioannis Patakis, Fernando Pérez Royo, Mikko Pesälä (for Karin Riis-Jørgensen), John Purvis (for Jonathan Evans), Alexander Radwan, Bernhard Rapkay, Peter William Skinner, Charles Tannock, Marianne L.P. Thyssen, Helena Torres Marques, Bruno Trentin, Ieke van den Burg (for Pervenche Berès), Theresa Villiers and Karl von Wogau.

The opinion of the Committee on Budgets is attached.

The report was tabled on 12 July 2001.

The deadline for tabling amendments will be indicated in the draft agenda for the relevant part-session.





LEGISLATIVE PROPOSAL

Proposal for a Council regulation establishing a facility providing medium-term financial assistance for Member States' balances of payments (COM(2001) 113 – C5-0121/2001 - 2001/0062(CNS)

The proposal is amended as follows:

Text proposed by the Commission¹

Amendments by Parliament

Amendment 1 Recital 6a (new)

> An appropriate budgetary mechanism shall be established in order to protect the community budget from any potential risks in connection with a default and corresponding call on the guarantee.

Justification

In view of the forthcoming enlargements of the European Union, the number of eligible Member States under this facility may increase again. It is a measure of sound financial management to protect the community budget from any potential risks.

Amendment 2 Recital 8

The introduction of the single currency has led to a substantial reduction in the number of Member States eligible for the instrument. A downwards revision of the present ceiling of €16 billion is therefore justified. The loan ceiling must, though, be kept at a sufficiently high level in order to satisfy properly the simultaneous needs of several Member States. A reduction in the loan ceiling from €16 billion to €12 billion

The introduction of the single currency has led to a substantial reduction in the number of Member States eligible for the instrument. A downwards revision of the present ceiling of €16 billion is therefore justified. The loan ceiling must, though, be kept at a sufficiently high level in order to satisfy properly the simultaneous needs of several Member States. A reduction in the loan ceiling from €16 billion to €12 billion

¹ OJ C 180, 26.6.2001 p. 199.

seems apt to meet this need.

seems apt to meet this need and also to take account of forthcoming enlargements of the European Union.

Justification

Having regard to forthcoming enlargements of the Union, other States will be able to benefit from the facility. It seems advisable to regard that fact as justifying a reduction in the ceiling to ϵ 12 billion.

Amendment 3 Article 9

The Council shall adopt the decisions referred to in Articles 3 and 5, acting by qualified majority on a proposal from the Commission made after consulting the Economic and Financial Committee.

The Council shall adopt the decisions referred to in Articles 3 and 5, acting by qualified majority on a proposal from the Commission made after consulting the Economic and Financial Committee *and the European Parliament*.

Justification

The aim of the amendment is to give the European Parliament the opportunity to deliver its own assessment of the operation of the facility in the light of any variation in the composition of the Member States participating in the second stage of EMU.

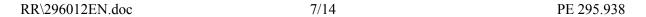
Amendment 4 Article 11

Every *three years* the Council shall examine, on the basis of a report from the Commission and after the Economic and Financial Committee *has* delivered *an opinion*, whether the facility established still meets, in its principle, arrangements and ceiling, the need which led to its creation.

Every *two years* the Council shall examine, on the basis of a report from the Commission and after the Economic and Financial Committee *and the European Parliament have* delivered *their opinions*, whether the facility established still meets, in its principle, arrangements and ceiling, the need which led to its creation.

Justification

We believe that it is necessary for the Council to scrutinise the facility every two years having regard to forthcoming stages of enlargement and, in addition, to enable the European Parliament to deliver its own opinion on the facility at least twice during a parliamentary term



DRAFT LEGISLATIVE RESOLUTION

European Parliament legislative resolution on the proposal for a Council regulation establishing a facility providing medium-term financial assistance for Member States' balances of payments (COM(2001) 113 – C5-0121/2001 – 2001/0062(CNS))

(Consultation procedure)

The European Parliament,

- having regard to the Commission proposal to the Council (COM(2001) 113¹),
- having been consulted by the Council pursuant to Article 308 of the EC Treaty (C5-0121/2001),
- having regard to Rule 67 of its Rules of Procedure,
- having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Budgets (A5-0269/2001),
- 1. Approves the Commission proposal as amended;
- 2. Calls on the Commission to alter its proposal accordingly, pursuant to Article 250(2) of the EC Treaty;
- 3. Calls on the Council to notify Parliament should it intend to depart from the text approved by Parliament;
- 4. Asks to be consulted again if the Council intends to amend the Commission proposal substantially;
- 5. Instructs its President to forward its position to the Council and Commission.

EN

RR\296012EN.doc

¹ OJ C 180, 26.6.2001 p. 199.

EXPLANATORY STATEMENT

The Commission proposal

The present facility providing medium-term financial assistance for Member States' balances of payments was established by Council Regulation No 1969/88, which merged the machinery for medium-term financial assistance and the Community loan mechanism designed to support the balance of payments of Member States into a single facility. Since its entry into force (25 June 1988), the facility has been activated twice: in 1991 for the grant of a €2.2 billion loan, of which only €1 billion was released, and in 1993 for the sum of €8 billion, of which only the first tranches were released.

As a result of the conclusions adopted by the Economic and Financial Committee on 13 October 1997 and pursuant to Article 12 of the regulation in force, the Commission examined the facility's operating procedures and submitted a report thereon to the Council and Parliament in November 1999. In that report, the Commission advocated retaining the facility but nevertheless recommended that its ceiling should be reduced from €16 billion to €12 billion by virtue of the fact that following the entry into force of the third stage of Economic and Monetary Union only the Member States with derogations can benefit from that facility. This report was examined by the Council and Parliament.

On the basis of the foregoing, the Commission submitted on 7 March 2001 a proposal for a regulation the aim of which is to amend the facility currently in force. The main changes proposed are as follows:

- a reduction in the loan ceiling as mentioned above;
- the possibility of empowering the Commission to contract debt and/or interest-rate swaps;
- recognition of the role of the Economic and Financial Committee which has replaced the Monetary Committee since the beginning of the third stage of Economic and Monetary Union:
- the need to make loans granted under this facility compatible with any very short-term financing facility which might be activated by the European Central Bank.

The European Parliament's position

As mentioned above, the European Parliament had an opportunity to define its position on the Commission's 1999 report within the context of the Sartori report, which was adopted in plenary on 24 October 2000 (A5-0277/2000). On that occasion it had agreed in essence with the Commission's analysis that the ceiling for the grant of loans should be reduced from €16 billion to €12 billion. Parliament also hoped that that amount could be reduced subsequently if there were further reductions in the number of countries with derogations.

More generally, Parliament had stressed that it was advisable to consider in addition whether assistance should be given to the balances of payments of the applicant countries either in the current pre-accession stage or once those new Member States were taking part in the second stage of Economic and Monetary Union. In the light of the important structural forms which need to be carried out to enable accession, it seems possible that disequilibria might in fact

arise in the balances of payments of the future Member States. Parliament therefore believes it advisable to create a specific instrument for these countries or else to incorporate the new Member States in the current medium-term financial assistance facility.

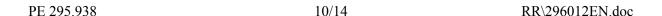
It should be pointed out that the European Central Bank has also drawn up an opinion on this subject pursuant to Article 105(4) of the EC Treaty. The Bank showed its support in essence for the proposal but also observed that under that proposal the management of loans was transferred to the Commission, which would be incompatible with the fact that previous facilities of the same type were managed by the Central Bank. Your rapporteur, though noting these comments, does not nevertheless see any objections to the Commission's bearing the main responsibility for the management of the loan facility.

Conclusions

The current Commission proposal can be approved in essence in that its aim is to speed up and modernise the single facility providing financial assistance. Both the reduction of the ceiling and use of the technique of debt and/or interest-rate swaps may help to make this facility more efficient if it is required. Your rapporteur intends however to table three amendments the aim of which is to take account of future enlargements of the EU and to guarantee a more reliable procedure for reviewing the operation of the facility by involving the European Parliament in the procedure.

The issue of whether a facility providing financial assistance for the balances of payments of the applicant countries should be created needs to be addressed. Your rapporteur believes that it is appropriate once more to stress the need to look into an appropriate facility to help resolve the specific problems which these countries might encounter, in view also of any crises which might arise in the international financial markets. Parliament hopes that the Commission will submit a specific proposal along those lines in the near future.

On the other hand, it is clear that the ceilings must be adapted whenever there is a change in the number of Member States taking part in the third stage of Economic and Monetary Union.





OPINION OF THE COMMITTEE ON BUDGETS

for the Committee on Economic and Monetary Affairs

on the proposal for a Council regulation establishing a facility providing medium-term financial assistance for member states' balances of payments (COM(2001) 113 – C5-0121/2001 – 2001/0062(CNS))

Draftsman: Esko Olavi Seppänen

PROCEDURE

The Committee on Budgets appointed Esko Olavi Seppänen draftsman at its meeting of 29 May 2001.

It considered the draft opinion at its meeting of 25 June 2001.

At this meeting it adopted the following amendments unanimously.

The following were present for the vote: Terence Wynn, chairman; Reimer Böge, vice-chairman; Bárbara Dührkop Dührkop, vice-chairman; Ioannis Averoff, Joan Colom i Naval, Carlos Costa Neves, Göran Färm, Catherine Guy-Quint, Jutta D. Haug, Juan Andrés Naranjo Escobar, Bartho Pronk (for Markus Ferber), Heide Rühle, Alejo Vidal-Quadras Roca, Kyösti Tapio Virrankoski, Ralf Walter.

SHORT JUSTIFICATION

I. Introduction

The present Commission proposal aims at amending Council Regulation No 1969/88, which establishes a facility providing medium-term financial assistance for Member States' balances of payments. Article 119 of the Treaty stipulates that the Council will grant mutual assistance where a Member State is in difficulties or seriously threatened with difficulties concerning its balance of payments and where such difficulties may potentially jeopardize the functioning of the common market. The facility may be activated by the Council, on the initiative of a Member State affected by such a situation or by the Commission. The instrument is designed to provide fast assistance and each loan must be linked to the adoption by the Member State in question of economic policy measures that will ensure a return to a sustainable balance of payments situation. This instrument has been used twice since 1988.¹ A ceiling of € 16 billion was foreseen for this instrument and these loans are guaranteed 100% by the community budget directly. The Guarantee Fund Mechanism does not apply, as its purpose is to shield the community budget from potential risks that derive from loans granted to third countries.

II. Why is a new Council Regulation needed and what is proposed?

The launch of the third stage of economic and monetary union makes Article 119 redundant for the 11 Member States that participate, as they no longer qualify for medium-term financial assistance. Only the Member States with a derogation from participation in the third stage are eligible. The Commission has therefore proposed to reduce the ceiling from € 16 billion to € 12 billion. Furthermore, the new proposal stipulates that the loans should be financed exclusively by recourse to capital markets instead of direct financing of loans granted by Member States. It is also proposed that the loans be administered by the Commission for the sake of simplification and efficiency, instead by the European Central Bank.

Parliament took the view in October 2000 that it was still in the interest of the Community to maintain this facility and agreed to a reduction of the ceiling from € 16 billion to € 12 billion. However, Parliament also requested that appropriate arrangements be made for the needs of the new Member States that will not adopt the single currency.²

III. Budgetary implications

The loans granted under this facility are and will remain to be guaranteed 100% directly by the community budget. This instrument will only be used in exceptional circumstances and a budgetary impact is given in case of a default and a call on the guarantee. Under this system, in case of a default and the corresponding call on the guarantee the Commission would have to take recourse directly to the budget for instance by means of a transfer to the corresponding budget structure, but if that were insufficient, new resources would have to be made available by a supplementary and amending budget. Admittedly, however, in times of increasing economic convergence and the reduced number of Member States now eligible, the likelihood of such a scenario remains limited. The situation, however, could change with more Member States joining the EU with the next enlargement, but not participating in the single currency,

12/14

PE 295.938

RR\296012EN.doc

¹ Once in 1991 a € 2.2 billion loan was granted (of which only one tranche of € 1 billion was released) and in 1993 a € 8 billion loan was granted (of which only two tranches of each € 2 billion were released).

² See minutes of the sitting of 24 October 2000 (A5-0277/2000)

thus increasing the number of eligible Member States to benefit from this instrument. What gives ground for concern is that the community budget is not protected from a default and the sums involved (up to a new ceiling of \in 12 billion) could be very considerable.

To the contrary, the community budget is protected from loans granted to countries outside the EU by the Guarantee Fund Mechanism, which is composed of a reserve provided for in the financial perspective (the ceiling for 2001 is \in 208 m), which feeds the Guarantee Fund in proportion to the amount of guarantee for each operation. The functioning of the mechanism has been explained by your rapporteur extensively in his working document of March 2000 (PE 232.992) and has proved to be an effective way of shielding the community budget from potential risks. The attention of Members in this context is only drawn to the fact that the pressure under the ceiling continues to be concerning. If all planned activities at the stand of June 2001 are to be financed, only a margin of \in 8 m is left under the 2001 ceiling, which corresponds to a residual lending capacity for macrofinancial assistance of \in 89 m (these loans being guaranteed 100%), or to \in 137 m for EIB loans (these being guaranteed up to 65% according to the new mandate). In other words, this situation does not leave any margin of maneuvre for unforeseen events that could require the assistance of the European Union, as far as this instrument is concerned.

IV. Conclusions

- 1) Loans granted to Member States in case of balance of payments difficulties under this facility are guaranteed 100% directly by the community budget.
- 2) The risk of default can never be totally excluded. Correspondingly, every loan granted under this facility poses a potential risk to the community budget, as no mechanism has been established to protect the budget from a call on the guarantee.
- 3) In view of the still considerable amounts involved, it is imperative that the community budget is protected also under this facility, as is already the case with loans granted to countries outside the European Union.

AMENDMENTS

The Committee on Budgets calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following amendments in its report:

Text proposed by the Commission¹

Amendments by Parliament

Amendment 1 Recital 6a (new)

> An appropriate budgetary mechanism shall be established in order to protect the community budget from any potential risks in connection with a default and corresponding call on the guarantee.

Justification

In view of the forthcoming enlargements of the European Union, the number of eligible Member States under this facility may increase again. It is a measure of sound financial management to protect the community budget from any potential risks.

EN

¹ Not yet published in OJ.