

Luxembourg, 8 May 2020

Proposal from the Managing Director for financial assistance in the form of a Pandemic Crisis Support

1. Background

The Eurogroup Report on the comprehensive economic policy response to the COVID-19 pandemic issued on 9 April 2020, as endorsed during the meeting of the members of the European Council held on 23 April 2020, and the Eurogroup statement of 8 May 2020, (together, the “**Statement**”) set out a coordinated and joint response to the symmetric shock caused by the COVID-19 crisis, notably by utilising the ESM which is equipped with instruments that could be used, as needed, in a manner adapted to the nature of the symmetric shock and in parallel with initiatives deployed by European institutions and bodies such as the European Commission, the ECB and the EIB. The Statement includes:

- the collective, political endorsement by all ESM Members to enable the ESM to make available to all its Members the Pandemic Crisis Support, in accordance with the ESM Treaty, based on the existing Enhanced Conditions Credit Line (the “**Pandemic Crisis Support**”);
- the agreement that access granted to the Pandemic Crisis Support will be 2% of the respective Member’s GDP as of end-2019, as a benchmark.
- the necessary standardised terms, to be agreed in advance by the ESM governing bodies, including the process to grant the credit lines as well as operational features, reflecting the current challenges, on the basis of up-front assessments by the European institutions.

Furthermore, the European Commission, in liaison with the ECB, and in collaboration with the ESM, have prepared their preliminary assessments in respect of the ESM Members and provided the results thereof on 7 May 2020. These preliminary assessments, as well as the assessment of whether each ESM Member meets the conditions for accessing Pandemic Crisis Support as required under Article 3(3) of the Guideline on Precautionary Financial Assistance (the “**Guideline**”), confirm that each Member State is eligible for receiving Pandemic Crisis Support and on this basis the Board of Governors may decide to endorse the availability of Pandemic Crisis Support to all ESM Members based on the existing ECCL.

The Managing Director has, on the basis of the assessments referred to above, prepared this proposal. The proposal is consistent with the aforementioned assessments and takes into account the financial situation of the ESM.

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2. Summary of the template Pandemic Response Plan detailing the policy measures attached to the Pandemic Crisis Support

The template Pandemic Response Plan (corresponding to the memorandum of understanding as per Articles 13(3) and 14(2) of the ESM Treaty) prepared by the European Commission details the policy measures to be attached to the financial assistance facility during the initial one year availability period.

The Pandemic Crisis Support is a form of precautionary financial assistance that aims to help ESM Members whose economic conditions are still sound to support domestic financing of direct and indirect healthcare, cure and prevention-related costs due to the COVID-19 crisis.

The Pandemic Crisis Support will be used specifically to cover only COVID-19 crisis induced financing needs.

The template Pandemic Response Plan provides that financial assistance shall be used to support domestic financing of direct and indirect healthcare, cure and prevention-related costs due to the COVID-19 crisis, incurred since February 2020, to safeguard the financial stability of the euro area and its Member States.

Following the end of the COVID-19 crisis, euro area Member States would remain committed to strengthen economic and financial fundamentals, consistent with the EU economic and fiscal coordination and surveillance frameworks, including any flexibility applied by the competent EU institutions.

3. Financing needs

On the basis of their up-front assessments, the institutions estimate that significant resources – 2% of an ESM Member’s GDP as of end-2019, as a benchmark – should be allocated to the ESM Members as Pandemic Crisis Support.

4. Proposal for the financial assistance

In light of the foregoing, it is proposed¹ that the Pandemic Crisis Support be made available to ESM Members on the following terms:

1. The Pandemic Crisis Support is granted based on the existing Enhanced Conditions Credit Line and may include a Primary Market Purchase (“PMP”) facility, if requested.
2. The financial assistance envelope of each Pandemic Crisis Support will be 2% of the ESM Member’s GDP as of end-2019, as a benchmark and will be used to support domestic financing

¹ The terms in this proposal are intended to indicate the consensus view on the terms on which the Pandemic Crisis Support will be granted. These will take legal effect subject to a subsequent Board of Governors resolution pursuant to a specific request from a Member State.

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of direct and indirect healthcare, cure and prevention-related costs due to the COVID-19 crisis incurred since February 2020.

3. Requests for Pandemic Crisis Support may be made until 31 December 2022. Upon proposal by the Managing Director, the Board of Governors may decide by mutual agreement to adjust this deadline. The Managing Director proposal would be based on objective evidence on the course of the crisis.
4. The initial availability period for each Pandemic Crisis Support will be 12 months, which could be extended twice for 6 months, in accordance with the standard framework for precautionary instruments.
5. Disbursements will be in cash (via a loan or a primary market purchase, if a PMP facility has been included) or “in kind”. The framework for disbursements will be as follows:
 - a. Each member can draw the facility in full in kind or in cash.
 - b. As to cash disbursements, an ESM Member State may request one disbursement per month. In general, a Member State can draw up to 15% of the aggregate amount of the Pandemic Crisis Support approved for the respective ESM Member State in cash per month. The ESM may agree to provide additional liquidity where requested regarding a particular disbursement, on a pro-rata and best effort basis.
 - c. To facilitate planning, all ESM Member States should advise the ESM of each of their intended request for a given month at the end of the preceding month, and also provide on a non-binding basis 3-month rolling plans showing the amounts they intend to request.
 - d. Standard notice periods of 5 business days and 10 business days for disbursements up to €3bn and above €3bn respectively apply to the requests for funds to be disbursed in cash, as per the ESM Standard Facility Specific Terms. Notice periods of 5 business days apply for disbursements “in kind”.
6. Initially, all disbursements in cash will be sourced from a common funding silo, and the base rate charged to the Pandemic Crisis Support beneficiaries will reflect the cost-of-funding of that silo. The Managing Director considers this to be the best proposal that can be implemented in time to make the Pandemic Crisis Support available in the immediate future. If in future the Managing Director assesses that there is a more efficient way of ESM funding while reflecting, from a pricing perspective, the special nature of the Pandemic Crisis Support, a separate proposal would be prepared and submitted to the Board of Governors for decision.
7. The ESM will finance the loans through the issuance of financial instruments. To increase access to ESG-focused investors, some of these financial instruments might be “Social Bonds”,

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or similar, in line with the purpose of the use of funds as set out in the Pandemic Response Plan.

8. In line with current practice, ESM bonds provided under a disbursement “in kind” will be subject to selling restrictions to preserve the funding capacity of the ESM.
9. The loans will have a maximum average maturity of 10 years.
10. Without prejudice to Article 20 of the ESM Treaty, the Margin charged for the loans disbursed will be 10 basis points annually, accruing on the outstanding amount, paid in arrears and following the interest payment schedule. An Up-Front Service Fee of 25 basis points will be invoiced at the inception of the Pandemic Crisis Support based on the amount which is 15% of the aggregate amount of the Pandemic Crisis Support approved for the respective Member State. This up-front fee, already paid, will be deducted from any new up-front service fee obligations that become due as a result of an actual draw-down. An Up-front Service Fee of 25 basis points will be paid upfront for each disbursement following the receipt of an invoice sent by ESM in accordance with the ESM Pricing Policy, or directly deducted from a cash disbursement. An Annual Service Fee of 0.5 basis points will accrue day to day on outstanding loan amounts, to be paid in arrears with effect from the first interest payment date of each tranche, as part of the ESM Cost of Funding. It will follow the interest payment schedule. A Commitment Fee, allocated to BMS based on the silo funding and applied in line with the Pricing Policy, will be payable each year following the receipt of an invoice at the beginning of each following calendar year, as part of the ESM Cost of Funding.
11. The repayment profile for a disbursement will be bullet or amortising, as may be defined in the relevant Confirmation Notice.