New crisis management package in the EU

In the shadow of the crisis in Greece the EU finance ministers have decided to set up a European stabilisation mechanism in the form of a crisis package totalling EUR 720 billion. The EU's contribution to the crisis package totals EUR 500 billion. Apart from this, the International Monetary Fund (IMF), is expected to contribute about EUR 220 billion.

Reasons for adopting the package:

The purpose of the crisis management package is to secure financial stability in the EU. Even if the financial markets have recovered after the crisis, developments in Greece indicate that individual countries may have major problems with their public finances that can spread and cause turmoil on financial markets. The purpose of the stabilisation fund is partly to manage the situation that has arisen, and partly to create a more general instrument for dealing with countries that get into financial difficulties.

About the package:

The package is in two parts.
In the first place the existing EU emergency fund for managing balance of payments problems in EU countries outside the euro area will be opened now for euro countries. In practice, all 27 EU Member States can use this emergency fund, in which EUR 60 billion remains.

In the second place it will be possible to set up a separate company for special purposes (SPV – "Special Purpose Vehicle"), which can buy assets such as various countries' government bonds. The 16 euro countries will back this SPV with up to EUR 440 billion. This is based on each EU country either paying in or guaranteeing its contribution pro rata in accordance with its share in the paid-up capital of the European Central Bank, ECB. The SPV set up with guarantees of up to EUR 440 billion will expire after three years. Furthermore, the IMF is expected to contribute half of what the euro countries contribute, i.e. about EUR 220 billion. The IMF has reported that they welcome the EU decision to build up confidence and financial stability in the EU.

Before the SPV can be established each euro country must give its approval at national level. In several cases parliament must approve the guarantees. IMF participation also requires approval by the Board of the IMF. Decisions to grant loans to countries will be on a case-by-case basis.

Financial assistance to a country is to be in the form of a loan or credit line/credit offer. The Commission is to borrow on the capital market or via financial institutions and establish necessary arrangements for administering the loans via the ECB. The process itself means that a member state seeking financial assistance is to conduct a discussion with the European Commission in consultation with the ECB on its financial requirements. The decision to provide financial assistance will be made by the Council of the European Union. If financing is via the IMF the Member State must first consult with the Commission. The Commission must also evaluate and verify on a regular basis whether the Member State's economic and financial policy is in line with the requirements imposed by the Council. Financial support will be linked to strict conditions similar to those that the IMF usually imposes.

Sweden's contribution:

As far as Sweden is concerned the crisis package means that Sweden will contribute to the existing emergency fund that is funded by all of the EU's Member States. In cases where money is lent to euro countries from the EUR 440 billion in the SPV, Sweden's participation will be voluntary. First and foremost it is euro countries that contribute. With regard to the IMF's share of the crisis package, Sweden will contribute via the Riksbank in accordance with its quota share in the IMF.