

European Stability Mechanism Establishes Pandemic Support Credit Lines

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Original post [here](#).

On April 9, the European Council approved the establishment of a new series of pandemic credit lines that will make up to €240 billion in loans available to euro area countries through the European Stability Mechanism (ESM).

In 2012, the European Council established the ESM, which [provides help](#) to euro area countries in severe economic distress. The ESM was instrumental in providing aid to euro area countries troubled during the sovereign debt crisis, and is one of the largest issuers of euro denominated debt, which funds its operations. It provides support through credit lines constructed for country-specific needs.

The ESM structures credit lines as either Enhanced Conditioned Credit Lines ([ECCLs](#)) or Precautionary Conditioned Credit Lines ([PCCLs](#)). ECCLs differ from PCCLs in that they provide access to credit for countries that do not meet the stricter requirements of PCCLs. Each pandemic credit line will be an [ECCL](#). Typically, countries accessing an ECCL are required to adopt specific measures to prevent difficulties accessing PCCLs in the future; however, for the pandemic support ECCLs, few conditions to access exist.

Unlike previous lines of credit, the ESM will only allow countries to use the pandemic lines to support direct and indirect healthcare, cure, and prevention costs due to the COVID-19 crisis. Countries may request up to 2% of their 2019 GDP from their respective pandemic support credit lines.

All EU member countries can access the credit lines – an estimated [€240 billion in loans](#) – based on the maximum credit available to each through their respective lines; however, it is unlikely that countries utilize all €240 billion (the ESM currently has a lending capacity of [€500 billion](#), as set by its governing treaty). The credit lines will be available until the COVID-19 crisis is over.

The lines are established under Article 14 of the [ESM Treaty](#), which provides for the Board of Governors of the ESM to grant precautionary credit assistance if necessary to the stability of the Euro area. All precautionary credit lines through the ESM must follow an [established set of guidelines](#). The precautionary credit lines require each member to enter into a Memorandum of Understanding (MoU) with the ESM. The ESM Board of Governors and the Board of Directors will jointly determine standardized terms of the MoUs for pandemic credit lines.

This standardized approach differs from any of the individualized lines the ESM has extended during the nearly eight years of its existence. Previously, the ESM extended lines of credit to

[individual countries](#) to provide aid during the sovereign debt crisis or more generally for country-specific difficulties. This series of lines will be the first of its kind to provide aid to all countries simultaneously.

The ESM will finalize the terms of the credit lines [within the next ten days](#) as it prepares to make the pandemic credit support lines available by April 23.

For EU countries that do not use the euro, the EU's Balance of Payments Facility (BoP Facility) will extend pandemic lines. The [EU funds](#) the BoP Facility through EU-issued bonds in capital markets; in turn, the BoP Facility provides support to Euro area members facing trouble maintaining balance of payments through aid offered in conjunction with the World Bank and the International Monetary Fund. It has aided [Latvia](#), [Romania](#), and [Hungary](#) in 2010, 2008, and 2009, respectively.

It is not clear that the terms negotiated with for the Pandemic Crisis Support Lines will be extended to countries seeking aid from the BoP Facility. Presently, [the European Council writes](#), “[The BoP Facility] should be applied in a way which duly takes into account the special circumstances of the current crisis.” However, the statement does not note an explicit requirement that the terms match terms negotiated for member states requesting support directly from the ESM's Pandemic Crisis Support Lines.

The ESM Pandemic Support Credit Lines are part of a larger [package](#) to provide aid to countries' fights against the coronavirus pandemic in the Euro area. The package also includes the creation of [an unemployment insurance scheme](#) and increased lending capacity of the European Investment Bank.

The ESM's provision of credit lines joins the International Monetary Fund's utilization of credit facilities to aid countries combating the coronavirus epidemic. See this [YPFS blog post](#) on the IMF's policy responses to the COVID-19 pandemic for more information.