

# Explainer on the accession of Croatia to the ESM

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ESM



## Questions and answers

### Why did Croatia become a member of the ESM?

After joining the euro area on 1 January 2023, Croatia became eligible for membership in the ESM. The ESM Treaty states that all euro area member states become ESM members. <sup>[1]</sup> This way, Croatia plays its part in the euro area safety net and is also eligible to benefit from that safety net in case it needs it.

### What was the official procedure for Croatia's membership?

On 12 July 2022, the Council of the European Union formally approved Croatia's accession to the euro area from 1 January 2023.

Afterwards, the Croatian authorities sent an application to join the ESM. The technical terms of the membership, including Croatia's capital share, were agreed. On 5 December 2022, the ESM Board of Governors approved Croatia's application.

In early 2023 Croatia ratified the ESM Treaty, as well as the Amending Agreement that confers new tasks to the ESM. After ratification was completed, the ESM Treaty entered into force for Croatia on 22 March 2023 and on that day, it officially became an ESM Member.

### **Will Croatia benefit from a temporary correction of its ESM capital contribution key?**

Like some other euro area countries, Croatia will benefit from the so-called "temporary correction" of the ESM capital contribution key.

New ESM members whose GDP per capita is less than 75% of the EU average<sup>[2]</sup> benefit from a temporary correction of the capital contribution key for a period of 12 years after the date of adoption of the euro.

This also means that during the indicated period, the initial capital subscription is lower, thus a country temporarily contributes a smaller amount of paid-in capital.<sup>[3]</sup>

### **How much will Croatia have to initially contribute to the ESM's capital stock?**

During the first twelve years of membership in the ESM, Croatia's capital subscription will amount to € 3.695 billion, including € 422.29 million in paid-in capital. The payment of paid-in capital will be made in five annual instalments. (See *table 1*)

### **How much is the contribution lowered due to the temporary correction?**

Without the temporary correction, Croatia's contribution to the ESM's authorised capital stock would have amounted to € 5.7339 billion, with paid-in capital of € 655.3 million.

With the correction mechanism, Croatia is required to contribute €422.29 million in paid-in capital, and thus an amount of €233.01 million is deferred.

Once the temporary correction comes to an end in 2035, Croatia will have to deposit this remaining amount.

### **Are there any other ESM Members which benefit from the temporary correction?**

Slovenia, Slovakia and Malta and Estonia benefitted from a temporary correction in the past. Currently, Latvia and Lithuania benefit from the correction.

### **Will the ESM's overall subscribed capital increase with Croatia accession?**

Croatia's accession will increase the total ESM subscribed capital from €704.7987 billion to €708.4937 billion in 2023 due to the addition of the corrected contribution of Croatia equal to €3.695 billion.

### **How was the capital contribution for Croatia calculated?**

The amount of capital subscription for Croatia was calculated on the basis of the latest ECB key for Croatia only. Croatia's capital contribution will come on top of the existing capital stock. This means the capital contributions of the current Members are left temporarily unchanged.

### **Has the capital contribution by other members changed?**

The capital contribution of other ESM members, based on the 2009 ECB key, has not changed.

However, on 5 December 2022, the Board of Governors also agreed that the ESM contribution key for all members will be adjusted:

- when another country becomes a member of the ESM;
- or at the latest by 1 January 2026, which is the end of Latvia's temporary correction.

Such update will be based on the latest key for the subscription of the ECB's capital in force at that time and the adjustment of the ESM contribution key will apply in the same proportion to the callable and paid-in shares.

**Table 1: ESM contribution key and capital subscription following Croatia's accession**

	<b>ESM key (%) following Croatia's accession</b>	<b>Capital subscription - authorised capital (€) following Croatia's accession</b>	<b>Capital subscription - paid-in capital (€) following Croatia's accession</b>
<b>Belgium</b>	3.4250	24,266,200,000	2,773,280,000
<b>Germany</b>	26.7402	189,452,800,000	21,651,750,000
<b>Estonia</b>	0.2527	1,790,700,000	204,650,000
<b>Ireland</b>	1.5684	11,111,700,000	1,269,910,000
<b>Greece</b>	2.7745	19,657,300,000	2,246,550,000
<b>Spain</b>	11.7256	83,075,000,000	9,494,290,000
<b>France</b>	20.0809	142,272,000,000	16,259,660,000
<b>Croatia</b>	0.5215	3,695,000,000	422,290,000
<b>Italy</b>	17.6457	125,018,700,000	14,287,850,000
<b>Cyprus</b>	0.1933	1,369,600,000	156,530,000

<b>Latvia</b>	0.2732	1,935,300,000	221,200,0
<b>Lithuania</b>	0.4042	2,863,400,000	327,200,0
<b>Luxembourg</b>	0.2467	1,747,700,000	199,740,0
<b>Malta</b>	0.0892	632,300,000	72,260,0
<b>Netherlands</b>	5.6315	39,898,800,000	4,559,860,0
<b>Austria</b>	2.7418	19,425,200,000	2,220,020,0
<b>Portugal</b>	2.4716	17,511,400,000	2,001,300,0
<b>Slovenia</b>	0.4643	3,289,400,000	375,930,0
<b>Slovakia</b>	0.9791	6,936,900,000	792,790,0
<b>Finland</b>	1.7706	12,544,300,000	1,433,630,0
<b>Total</b>	<b>100</b>	<b>708,493,700,000</b>	<b>80,970,690,0</b>

## Footnotes

**[1]** Treaty establishing the ESM, <https://www.esm.europa.eu/legal-documents/esm-treaty>

**[2]** In the year immediately preceding their ESM accession.

**[3]** The precise formula for calculating the correction is specified in Article 42(2) of the ESM Treaty.

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