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Frequently Asked Questions on the ESM Early Warning System

➢ 1 – What is the Early Warning System?

To date the EFSF and ESM have disbursed loans totalling €222 billion in the context of the macro-economic adjustment programmes for Ireland, Portugal, Greece and Cyprus and the financial sector programme for Spain. These loans have to be repaid. The ESM Treaty says: "The ESM shall establish an appropriate warning system to ensure that it receives any repayments due by the ESM Member under the stability support in a timely manner". The Early Warning System is a procedure to detect repayment risks and allow for corrective actions. The euro area Member States decided in December 2013 that this system should not only apply to ESM programme countries (Spain, Cyprus), as foreseen in the Treaty, but also to EFSF programme countries (Greece, Ireland, Portugal).

➢ 2 – What are the objectives of the Early Warning System?

The objective of the Early Warning System is to determine the ability of the programme country to repay its loans. This requires an assessment of the short-term liquidity position of the government, the country's market access and the medium- to long-term sustainability of public debt. This work takes into account and complements the fiscal and debt sustainability analysis that is provided by the European Commission and the European Central Bank (ECB) during the programme and post-programme period.

➢ 3 – What exactly is monitored in the context of the Early Warning System?

On a regular basis the ESM establishes a payment overview (interest, fees, and principal repayments) per beneficiary ESM Member, covering at least the next 6 months. Ahead of repayment dates the beneficiary Member States provides the ESM with a cash flow overview for the period up to the repayment date. This cash flow overview will contain sufficient information so that the ESM can form a view as to whether or not the beneficiary Member State will be able to meet its financial obligations that are the result of the loan.

➢ 4 – What are the consequences of the finding in the context of the Early Warning System?

In the most likely scenario the ESM concludes that there is no repayment risk and that no further action is required. In the unlikely scenario of doubts about a timely repayment the ESM will consult with the European Commission and the ECB. Together with its relevant bodies the ESM will form a view on the repayment probability and potential consequences. In case there is a repayment risk, the Managing Director will inform the ESM or the EFSF Board of Directors and certain other euro area bodies.

➢ 5 – Is the Early Warning System procedure aligned with the Post-Programme Surveillance of the European Commission? Is there any overlap?

This FAQ has not been updated since April 2014; up-to-date information on the ESM Early Warning System is available at https://www.esm.europa.eu/explainers

The institutions are committed not to create duplication and unnecessary reporting burdens on governments in programme countries. Therefore it was agreed among the euro area Member States that the ESM joins the bi-annual Post-Programme Surveillance missions that the Commission, in liaison with the ECB, carries out in programme countries. The joint missions with the Commission also support the data exchange and further analysis of budgetary developments. The ESM assessment will take into account the economic and fiscal analysis done by the European Commission.

- 6 – Will the ESM Early Warning System lead to additional conditionality?

No, the ESM Early Warning System will not lead to additional conditionality.

- 7 – When will the Early Warning System end?

The Early Warning System will end when the programme country has repaid the full amount of the loan.