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A

Annual report (ESM)

It contains a description of the policies and activities of the ESM in the preceding financial year and the financial statements. It also contains a report of the external auditors and a report of the Board of Auditors.

Authorised unpaid capital

The portion of the ESM's authorised capital stock consisting of callable shares. These shares may be called in accordance with the terms set in the ESM Treaty (see capital call). The total value of callable shares stands at €624 billion.

B

Back-to-back funding

A method of funding loans to programme countries whereby the cash flows of the funding exactly match the cash flows of the loans to the beneficiary country.
This strategy is used for specific purposes, such as bank recapitalisation, in addition to the EFSF's and ESM's predominant diversified funding strategy.

Bad bank

A bad bank is a private or state-owned entity, established to separate bad assets (e.g. non-performing loans or foreclosed properties) owned by a bank from good quality assets. The bad bank is usually set up with a pre-defined lifespan, during which the bad assets are sold off in order to recover as much of their value as possible. Meanwhile the good assets remain with the "good bank", which can continue to provide banking services, but is usually first temporarily nationalised or sold outright to another bank.

Bail-in

Bail-in – a legal procedure that may be used for bank resolution. If a bank is failing or likely to fail, carrying out a bail-in means that the shareholders and creditors of a bank are forced to accept losses incurred by the bank. This is a major shift away from the concept of bail-out, where national governments (and through them, taxpayers) support banks with funds to prevent their failure. In the case of bail-in, it is the bank's shareholders and creditors, rather than the taxpayers, who carry the costs of bank failure. The use of bail-in is an important element of the Bank Recovery and Resolution Directive.

Bank holiday

A period during which banks are temporarily closed by the national government or banking authority. This may occur during a systemic banking crisis, in order to prevent bank customers from withdrawing their deposits on a mass scale (which could potentially lead to the bank's or banking system's collapse).

Banking union

Banking union – The European framework for banking supervision, restructuring and resolution of banks. It consists of the Single Supervisory Mechanism (SSM), the Single Resolution Mechanism (SRM) and funding arrangements, which include the Single Resolution Fund and the ESM direct bank recapitalisation instrument. The BRRD directive, although applying to national resolution authorities, is also an important element of the new European framework for bank resolution.

Base rate (ESM loans)

The cost of funding by the ESM, derived from a daily computation of the actual interests accrued on all bonds, bills and other funding instruments issued by the ESM. This cost is passed on to ESM Members receiving financial assistance. The base rate is the main component of interest paid on ESM/EFSF loans by beneficiary countries.

Benchmark bond

(i) A bond that provides a standard against which the performance of other bonds can be measured. (ii) The latest issue within a given maturity and size. (iii) According to bond market convention, a bond which delivers a certain size, liquidity and reputation: benchmark size is generally meant to be at least €3 billion for maturities up to 10 years and at least €1 billion for maturities above 10 years.

Bid/cover ratio

The ratio of the value of all bids received for a newly issued bond/bill to the value of the bids accepted. It is used as a measure of the demand for securities offered by an issuer.

Bill

A short-term debt security with a maturity of less than one year. The ESM currently issues 3- and 6-month bills by auction.

Board of Auditors

An independent organ of the ESM that inspects the ESM accounts and verifies that ESM's operational accounts and balance sheet are in order. The Board of Auditors consists of five members appointed by the Board of Governors and includes two members from the supreme audit institutions of the euro area countries - with a rotation between the latter - and one from the European Court of Auditors. The Board of Auditors may inform the ESM Board of Directors at any time of its findings and draws up a report, on an annual basis, to the Board of Governors. This report also becomes accessible to the national parliaments and supreme audit institutions of the euro area countries and to the European Court of Auditors.

Board of Directors

The Board of Directors takes decisions as provided for in the ESM Treaty or delegated to it by the Board of Governors and ensures that the ESM is run in accordance with the ESM Treaty and its by-laws. As an example, the Board of Directors decides on disbursements to programme countries. Each Governor appoints one Director and one alternate Director from among people of high competence in economic and financial matters. The European Commission and ECB may each appoint a (non-voting) observer. The Board of Directors meets whenever called for by the affairs of the ESM.

Board of Governors

The Board of Governors forms the highest governing body of the ESM and comprises ministers of finance of the euro area countries as voting members. The European Commissioner for Economic and Monetary Affairs and the ECB President may participate in meetings of the Board of Governors as (non-voting) observers.

The most important decisions taken by the Board of Governors require mutual agreement (unanimity). These include decisions to provide stability support to countries, the choice of instruments, conditions and terms of such support, changing the authorised capital stock and adapting the maximum lending volume. The Board of Governors meets at least once every year and whenever needed.

Bond auction

A method of selling bonds and bills on the primary market, usually by national governments and sovereigns, where financial institutions place bids on the yield or price of the bond or bill being offered. The ESM and the EFSF are the only supranational issuers using this method.

Borrowing costs

The costs an issuer has to pay on debt securities it has issued, such as bills and bonds. It is determined by the combined yields on the securities.

BRRD (Bank Recovery and Resolution Directive)

A directive establishing a common framework of rules and powers for EU Member States to intervene in the case of failing banks. The directive gives broad powers to national authorities to prevent, intervene early and conduct the resolution of troubled banks. Such powers include selling the bank (in whole or in parts), setting up a temporary bridge bank, and bailing in shareholders and creditors of the bank.

C

Capital call

A legal right of the ESM to require euro area countries to pay authorised unpaid capital. The ESM Treaty specifies three types of capital calls: (i) general capital calls to accelerate or increase the payment of paid-in capital, which may be enacted at any time by the Board of Governors; (ii) capital calls to restore the level of paid-in capital, which may be made by the Board of Directors; and (iii) emergency capital calls to avoid a default of any payment obligation due to ESM creditors, which may be made by the Managing Director.

Capital contribution key (ESM)

A key specifying the percentage of total capital subscription and of total paid-in capital attributed to each ESM Member. The ESM capital contribution key is calculated to reflect the respective country’s share in the total population and GDP of the euro area.

Capital controls

Measures introduced by a government or central bank to limit the flow of capital in and out of the domestic economy. These measures may include strict limits on daily cash withdrawals by bank account holders and overseas transfers of cash. It can also impose other measures such as limiting foreign exchange transactions.

Clean exit (from financial assistance programme)

Clean exit (from financial assistance programme) – the conclusion of an EFSF or ESM financial assistance programme by a country without any type of follow-up assistance (e.g. precautionary credit line). A clean exit indicates that the former programme country is fully capable of financing its debt on financial markets.

Commitment fee (ESM loans)

A fee the ESM charges to a programme country, to cover any cost from investing funds in the liquidity buffer, should they be higher than its cost of funding. The commitment fee is applied ex-post when costs are actually incurred by the ESM.

Conditionality

Policy conditions that countries receiving financial assistance from the ESM are required to meet before receiving support. These conditions can, for instance, relate to policy measures to be implemented by the country aimed at lowering tax evasion. The policy conditions are concluded in a Memorandum of Understanding, which is approved by the Board of Governors of the ESM.

Country-specific recommendations

Documents prepared by the European Commission for each EU Member State, analysing their economic situation and providing recommendations on measures they should adopt over the coming 12 months.

Coupon

The annual interest rate paid on a bond, expressed as a percentage of the face value.

Credit line

Precautionary financial support made available by the ESM to a country, by establishing a balance that the country is allowed to draw (subject to certain conditions). The ESM offers two types of credit lines: the Precautionary Conditioned Credit Line (PCCL) and the Enhanced Conditions Credit Line (ECCL).

Current account (balance)

The sum of the balance of trade (goods and services exports less imports), net income from abroad and net current transfers. A positive current account balance shows that a country is a net lender to the rest of the world, while a negative current account balance indicates that it is a net borrower from the rest of the world.

D

Debt relief

The adoption of measures to provide a beneficiary country with relief, either fully or partially, from a debt burden. Debt relief can take a number of forms, including: reducing the outstanding principal amount (either partly or fully), lowering the interest rate on loans due, extending the term of the loan.

Direct Recapitalisation Instrument

A financial assistance instrument that allows the ESM to recapitalise a systemic euro area bank directly, by purchasing an equity stake in the bank. This is only possible under specific circumstances as a last resort measure, when the bail-in of private investors and the contribution of the Single Resolution Fund are not sufficient to restore the bank to viability. The instrument was adopted in December 2014.

Disbursement

The payment of a specified amount of money. When the ESM makes a loan disbursement, it pays out part of the total loan amount to a beneficiary country.

Diversified funding (strategy)

A strategy that uses a variety of financial instruments and maturities to ensure the efficiency of funding. One feature of this strategy is that funds raised through various instruments are not attributed to a particular beneficiary country. The funds are pooled and then disbursed to programme countries. The size and maturity of the bonds and bills issued therefore do not need to match exactly the size and maturity of the disbursements to a beneficiary country.

DMO (debt management office)

A government agency that is responsible for the issue of debt securities and the management of a country’s debt.

E

Early Warning System

Early Warning System – a procedure for monitoring countries that have current ESM financial assistance programmes or have exited form them. The aim is to ensure that these countries are capable of repaying their obligations towards the ESM.

Emergency voting procedure

A voting procedure to be used when the European Commission and the ECB both conclude that a failure to urgently adopt a decision to grant or implement financial assistance, as defined in Articles 13 to 18 of the ESM Treaty, would threaten the economic and financial sustainability of the euro area. The adoption of a decision by mutual agreement by the Board of Governors to grant stability support under that emergency procedure requires a qualified majority of 85% of the votes cast.

Enhanced Conditions Credit Line (ECCL)

A credit line open to all euro area countries whose general economic and financial situation remains sound but who do not comply with some of the eligibility criteria for accessing a Precautionary Conditioned Credit Line (PCCL). The country will be obliged to adopt corrective measures aimed at addressing such weaknesses and avoiding any future difficulties in respect of access to market financing.

ESM Administrative Tribunal (ESMAT)

An independent body that hears and passes judgment on ESM staff employment matters within its competence as defined by its ESMAT Statute (PDF, 258 KB) as adopted by the Board of Directors of the ESM on 29 October 2013. The Tribunal is composed of five members, including a President and a Vice-President.

ESM Treaty

An intergovernmental treaty signed in Brussels on 2 February 2012 by the 17 EU Member States who had at that stage adopted the euro, establishing the European Stability Mechanism. It entered into force on 27 September 2012, and was later signed by countries which subsequently adopted the euro: Latvia (in 2014) and Lithuania (in 2015).

ESM/EFSF Market Group

A group of 42 international banks from among which the lead managers for a ESM or EFSF bond issue are chosen.

Euro Summit

A meeting of the heads of state or government of the euro area countries, along with the Euro Summit President and the President of the European Commission. The Euro Summit provides policy guidance to ensure the smooth functioning of the Economic and Monetary Union, which helps to coordinate all the relevant policy areas between the euro area member states. According to the Treaty on Stability, Coordination and Governance (TSCG) in the Economic and Monetary Union, Euro Summit meetings should take place at least twice a year.

Eurogroup

The informal gathering of the finance ministers of the euro area countries. Meetings of the Eurogroup are aimed at enhancing economic policy coordination within the euro area. The Eurogroup is also attended by the EU Commissioner for economic and monetary affairs, the President of the European Central Bank, and the Chairman of the Eurogroup Working Group presenting the preparatory work done in that Group. The Managing Director of the ESM is regularly invited to Eurogroup meetings. The Eurogroup is chaired by a President, appointed for two and a half years (currently Jeroen Dijsselbloem from the Netherlands).

Eurogroup Working Group (EWG)

A preparatory body composed of representatives of the euro area Member States, the European Commission and the European Central Bank. It provides assistance to both the Eurogroup and its President in preparing Eurogroup discussions. The EWG usually meets once a month ahead of Eurogroup meetings.

European Financial Stabilisation Mechanism (EFSM)

A financial assistance mechanism in which the European Commission raises funds in financial markets (by issuing bonds) on behalf of the European Union under an implicit EU budget guarantee. The funds are then loaned to EU Member States in need of financial assistance. The EFSM participated in the financial assistance programmes for Ireland and Portugal, and also provided short-term assistance to Greece in 2015 (see EFSM page on European Commission website).

European Semester

A six-month period each year when EU Member States' budgetary, macro-economic and structural policies are coordinated so as to allow these countries to translate EU considerations into their national budgetary processes and into other aspects of their economic policymaking. For more information please refer to the website of the European Commission.

European Supervisory Authorities (ESAs)

Three EU authorities – the European Banking Authority (EBA), European Insurance and Occupational Pensions Authority (EIOPA) and European Securities and Markets Authority (ESMA) - responsible for developing guidelines and recommendations for national supervisory authorities, and drafting technical standards (formally adopted by the European Commission as EU law) contributing to the harmonisation of rules applicable to financial institutions.

Eurosystem

The Eurosystem is the central banking system of the euro area. It consists of the European Central Bank (ECB) and the euro area national central banks. The Eurosystem conducts the monetary policy of the euro area with the primary objective of maintaining price stability, i.e. to safeguard the value of the euro.

F

Financial Assistance Facility Agreement (FFA)

An agreement between the ESM and a beneficiary country, specifying the financial terms and conditions of the stability support instrument provided to the beneficiary country.

Fiscal Compact (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union)

The Fiscal Compact is an intergovernmental treaty signed by 25 EU Member States on 2 March 2012. It entered into force on 1 January 2013.
The Compact requires national budgets to be in balance or in surplus. This means the annual structural government deficit must not exceed 0.5% of GDP. This balanced budget rule must be incorporated into the Member States' national legal systems, through permanent, binding provisions (preferably of a constitutional character) within one year following the entry into force of the Treaty.

For more information please refer to the website of the Council of the European Union and the European Council.

Fiscal consolidation

A policy pursued by a country intended to reduce the government budget deficit and the accumulation of public debt by taking measures aimed at lowering its expenditures or increasing its revenue. An example of a measure aimed at increasing revenues can relate to measures limiting tax evasion in a country.

Floating rate note (FRN)

A debt instrument with a variable interest rate, mainly issued by financial institutions and governments. The interest rate is tied to a benchmark such as LIBOR or the US Treasury Bill rate.
The ESM has issued FRNs to finance loans provided to Spain, Cyprus and Greece for bank recapitalisation.

Forward Commitment Capacity

An amount that represents the ESM's remaining lending capacity. It is equivalent to the amount the ESM can commit over the next 12 months for financial assistance, other than direct bank recapitalisation. The Forward Commitment Capacity is updated monthly on the ESM website.

Funding

Raising the necessary funds in order to finance loans and other forms of financial assistance to ESM Members.

G

Greek Compartment

The Greek Compartment was created by the Board of Governors in the context of the ESM short-term debt relief measures for Greece. It is a portfolio which contains the proceeds of all operations required to implement the short-term measures. The establishment of the Greek Compartment was necessary for internal purposes in order to isolate the costs of these measures and pass them on to Greece, hereby avoiding that additional costs incur for the other beneficiary ESM Members.

H

Hellenic Financial Stability Fund (HFSF)

A fund established in July 2010 to maintain the stability of the Greek banking sector. It has recapitalised a number of systemic Greek banks, using loans provided to the Greek government by the EFSF and ESM. The HFSF is a state-owned fund operating as a private legal entity.

I

Institutions

A collective name referring to the four institutions (European Commission, ECB, IMF and ESM) responsible for monitoring a programme country's compliance with the policy conditionality specified in the MoU.

Intergovernmental organisation

An organisation, such as the European Stability Mechanism, which is established by and composed of sovereign countries. An intergovernmental organisation should be distinguished from a supranational organisation (e.g. the European Union) to whom countries cede some sovereign decision-making power in selected policy areas.

International financial institutions (IFIs)

Institutions that provide financial support for economic and social development activities, or financial assistance to governments. International financial institutions include multilateral development banks (such as the World Bank or European Bank for Reconstruction and Development) and regional financial arrangements, such as the ESM.

Issue and Repurchase Process (IRP)

The IRP is the process used by the ESM when it provides indirect bank recapitalisation loans. Unlike standard cash loans, loans to ESM countries for bank recapitalisation are disbursed in the form of ESM notes, and the IRP is the process that allows the ESM to issue them.
The process works as follows: the ESM issues notes to a counterparty (a bank belonging to the ESM Market Group which meets specific criteria), which subscribes for the notes and pays the issue price. The notes are then immediately repurchased by the ESM. Both transactions occur on the same day and at the same price. No gains or losses are linked to the process. The notes are then held by the ESM for later transfer. The notes are then transferred to the programme country, which uses them to inject capital in banks.

L

Lead manager

The bank(s) mandated by an issuer to arrange the raising of money via a bond, a loan or a share issue. The lead managers form a syndicate which negotiates with the issuer, assesses market conditions and works together with the issuer’s funding team on the transaction of raising money.

M

Macroeconomic adjustment programme

An extensive programme of policy reforms aimed at addressing problems in a programme country’s economic and fiscal situation. It is negotiated between the institutions and the country. The implementation of policy reforms set out in the macroeconomic adjustment programme is a precondition for receiving disbursements of ESM loans.

Macroeconomic Imbalances Procedure

A surveillance mechanism to detect and address economic trends that may adversely affect the proper functioning of a country, the euro area, or the EU. It aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place.

Managing Director

The supreme executive officer and legal representative of the ESM, who is responsible for conducting its current business. The Managing Director is appointed by the Board of Governors for five years and may be reappointed once. The current Managing Director is Klaus Regling.

Margin (ESM loans)

A fee charged on loans and other types of financial assistance to reflect varying risk profiles of each instrument.

Maximum lending capacity

The maximum amount of funds (€500 billion) that the ESM may lend to its Members, specified in the ESM Treaty.

Memorandum of Understanding (MoU)

A document negotiated and signed on behalf of the ESM by the European Commission, in liaison with the ECB, the IMF (where applicable) and programme countries, detailing the policy conditions to be implemented in exchange for financial assistance.

Money markets

A segment of financial markets where short-term financial instruments are traded. These include government bills, commercial paper (CPs), certificates of deposits (CDs), repurchase agreements (repos) and also derivatives (e.g. EONIA swaps) with maturities ranging from one day to one year.

N

N-bonds

A short name for Namenschuldverschreibung, which are privately placed registered bonds under German law. They may be used as funding instruments by the ESM or the EFSF to complement other bond issuance.

National procedures

Procedures required by the law of individual ESM Members that must be completed for the representative of those countries in the ESM Board of Governors of Board of Directors to take certain decisions. Depending on the country and on the type of decision, the procedures may involve e.g. approval from the government, national parliament, or parliamentary consultation.

O

Outright Monetary Transactions (OMT)

Outright Monetary Transactions (OMT) - the potentially unlimited purchase of euro area sovereign bonds on the secondary market by the European Central Bank. The announcement concerning OMT was made by ECB President Mario Draghi in September 2012. Its purpose was to “safeguard an appropriate monetary policy transmission and the singleness of the monetary policy” with the underlying aim of maintaining the integrity of the euro area.
OMT would only be carried out in conjunction with future cases of ESM financial assistance programmes or precautionary programmes, provided that they include ESM primary market purchases. OMT may also be considered for Member States currently under a macroeconomic adjustment programme when they will be regaining bond market access. Further information is available on the ECB website.

Outstanding loan

The amount of a loan that is currently owed by a beneficiary country to the ESM or EFSF. It is the difference between the disbursed amount and any loan repayments made.

P

Paid-in capital

The portion of the ESM’s authorised capital stock paid in by ESM Members. It is set at €80 billion and the founding ESM members have made their capital contribution, while new joiners, Latvia and Lithuania will continue to make their capital contributions in yearly instalments. The paid-in capital is invested in high quality liquid assets and serves as a guarantee for the bonds and bills issued by the ESM.

Post-programme surveillance

A procedure applying to countries which have exited a financial assistance programme. Post-programme surveillance is carried out by the European Commission, in liaison with the European Central Bank, and serves two main purposes: (i) conducting regular review missions in the programme country to assess its economic, fiscal and financial situation; and (ii) preparing semi-annual assessments of its economic, fiscal and financial situation and determine whether corrective measures are needed. ESM representatives participate in post-programme surveillance missions to fulfil the requirements of the ESM's Early Warning System.

Precautionary Conditioned Credit Line (PCCL)

A type of precautionary financial assistance credit line available to a euro area countries whose economic and financial situation is fundamentally sound. In order to receive such a credit line, countries must meet criteria regarding the sustainability of their public debt, and commit to the Stability and Growth Pact (SGP) and the excessive deficit procedure (EIP). They must have a track record of access to capital markets on reasonable terms, sustainable external position, and the absence of bank solvency problems that would pose systemic threats to the stability of the euro area banking system.

Precautionary financial assistance

A credit line granted to a country whose general economic and financial situation remains sound. Its aim is to prevent crisis situations by allowing such a country to access ESM assistance before it experiences difficulties raising funds in capital markets. There are two types of available credit lines: a Precautionary Conditioned Credit Line (PCCL) and an Enhanced Conditions Credit Line (ECCL). Both can be drawn via a loan or primary market purchase and have an initial availability period of one year. They are renewable twice, each time for six months. When precautionary financial assistance is granted, a Memorandum of Understanding (MoU) is concluded with the country.

Primary market support facility

The purchase of bonds or other debt instruments issued by euro area countries by the ESM via auctions or syndication. The main objective of primary market support is to allow countries to maintain or restore their access to financial markets.

Primary surplus (or primary deficit)

A national government's budget surplus (or deficit) excluding interest payments on its outstanding debt.

Principal (loan)

The amount borrowed from a lender, separate from interest.

R

Recapitalisation (of banks)

Strengthening the capital position of a bank through capital injections, for instance by acquiring common shares. Often accompanied by additional measures, such as restructuring, raising capital privately, the sale of assets, or segregating impaired assets into an asset management agency ('bad bank').

The ESM can provide financial assistance for the recapitalisation of banks in three ways: (i) via a general loan to an ESM Member in support of a macroeconomic adjustment programme; (ii) via a loan to an ESM Member for the dedicated purpose of bank recapitalisation (indirect bank recapitalisation); and (iii) via the ESM direct recapitalisation instrument.

The bank(s) concerned should have a systemic relevance or pose a serious threat to the financial stability of the euro area as a whole or of its members.

Repurchase agreement (repo)

A contractual arrangement between two parties, whereby one party agrees to sell a security at a specified price with a commitment to buy the security back at a later date for another specified price. In essence, this makes a repurchase agreement much like a short-term interest-bearing loan against specific collateral.
Various kinds and motivations for trading repos are common and well-established in financial markets. Central banks use repurchase agreements to increase or reduce the money supply - a basic function of monetary policy. For example, by offering to buy securities in exchange for cash, central banks can inject money into the economy. Commercial banks often use repurchase agreements to borrow cash for short periods.

Reserve fund

A fund established by the Board of Governors for placing net income generated by the ESM operations, as well as the proceeds of the financial sanctions received from the euro area countries under the multilateral surveillance procedure, the excessive deficit procedure and the macro-economic imbalances procedure. The resources of the reserve fund are invested in accordance with guidelines adopted by the Board of Directors.

Resolution (of banks)

Resolution (of banks) – is a legal process in which a failing bank is restructured or wound down (liquidated) in an orderly manner.

Rolling over (a bond)

Financing the repayment of a maturing bond by issuing a new bond. The ESM and EFSF roll over some of their bonds, as their maturity is usually shorter than the maturity of loans that either institution has granted.

S

Secondary market support facility

The purchase of bonds or other debt instruments by the ESM or EFSF issued by euro area countries on the secondary debt market. The aim of such intervention is to support the proper functioning of the government debt markets in exceptional circumstances. For instance, if a lack of market liquidity were to threaten financial stability, risking to push sovereign interest rates towards unsustainable levels and creating refinancing problems for the banking system of a country. ESM secondary market support is intended to ensure debt market liquidity and to incentivize investors to further participate in the financing of euro area countries.

Seniority

Seniority refers to the order of repayment of debt in the event of a sale or bankruptcy of a borrower/issuer. ESM loans to programme countries enjoy preferred creditor status in a similar fashion to those of the IMF, while accepting preferred creditor status of the IMF over the ESM. By contrast, EFSF loans are pari passu, i.e. each creditor has a right to be paid pro rata in accordance with the amount of its claim.

Service fee (ESM loans)

A fee to cover the ESM's operational costs. The service fee has two components: (i) up-front service fee (50 bps) deducted from the drawn amount, (ii) annual service fee (0.5 bp) paid on the interest payment date.

Single Resolution Mechanism (SRM)

Single Resolution Mechanism (SRM) – is one of the key elements of the Banking Union. It is a pan-European mechanism that is designed to coordinate the potential resolution of all banks participating in the SSM. The decision to establish the SRM was taken to avoid a situation in which bank resolution conducted at national level would have a disproportionate impact on public debt and the real economy.
The SRM has a central decision-making body - the Single Resolution Board – which includes representatives of resolution authorities of all participating Member States. The SRM is supported by the Single Resolution Fund (SRF).

Single Supervisory Mechanism (SSM)

Single Supervisory Mechanism (SSM) - a mechanism for the prudential supervision of banks in the euro area (open to other EU member states). The SSM became operational in November 2014.
Within the SSM framework, the ECB directly supervises the 129 significant banks of the participating countries. These banks hold almost 82% of banking assets in the euro area. Banks that are not considered significant continue to be supervised by their national supervisors, in close cooperation with the ECB. At any time the ECB can decide to directly supervise any one of these banks to ensure that high supervisory standards are applied consistently.

Six-Pack

A set of six legal acts adopted in 2011, enhancing procedures for the surveillance of the EU member states' fiscal policies (strengthening the Stability and Growth Pact) and macroeconomic policies (with a new Macroeconomic Imbalances Procedure).
EU Member States are bound under the EU treaties and the Stability and Growth Pact by reference values for government deficit and public debt set at 3% and 60% of GDP respectively, and report their budgetary plans annually. In the event of not respecting these reference values, an excessive deficit procedure is initiated, with deadlines for corrective measures. The new solutions introduced in the Six-Pack are aimed at strengthening the provisions set for ensuring the respect of those criteria. They affect both the preventive arm of the pact, namely the procedures that are followed to ensure that excessive deficits are avoided, and the corrective arm of the pact, i.e. the procedure followed for the correction of excessive deficits.
In addition, the Six-Pack creates a formal framework for monitoring macroeconomic imbalances, including an early warning system and mechanisms for correcting imbalances, and lays down minimum requirements for national budgetary frameworks.

Spread

The difference in yield between a bond and a benchmark bond or index . Spreads are commonly quoted in basis points (1 basis point is equal to 0.01%).

Stability and Growth Pact (SGP)

A set of EU budgetary rules agreed in 1997 underpinning the Economic and Monetary Union (EMU). The main aim of the Stability and Growth Pact is to prevent the occurrence of excessive budget deficits, defined as more than 3% of gross domestic product (GDP). Member states are also required to have a level of total public debt of no more than 60 % of GDP or be taking steps to reduce it to that level. The SGP requires EU Member States to promptly implement an excessive deficit procedure if it is found to be in serious breach of the rules. The procedure requires a Member State to correct the budget deficit below 3% of GDP within a certain timeframe.

In December 2011, the EU adopted the Six-Pack of legislation on economic governance. Four of these laws are aimed at reforming the SGP by enforcing a stricter application and surveillance of fiscal rules.

Stability support

The term used in the ESM Treaty to support granted by to member countries. The ESM offers five forms of stability support instruments to countries: precautionary financial assistance (the ECCL_and the PCCL), financial assistance for the recapitalisation of banks, primary market support facility, secondary market support facility, and loans. All forms or assistance are subject to appropriate policy conditionality reflecting the circumstances of the country. Financial assistance in the form of ESM loans is subject to a macroeconomic adjustment programme and is intended to assist countries that have significant financing needs but have to a large extent lost access to market financing and have severe problems in their general economic and fiscal situation. The decision to grant a loan is taken by the ESM Board of Governors, based on an assessment by the European, Commission, ECB and IMF. Loans are provided in one or more tranches, which may each consist of one or more disbursements. The disbursement of the first tranche is decided by the Board of Directors together with the approval of the Financial Assistance Facility Agreement (FFA).

Stress test

An analysis carried out internally by banks or by supervisory authorities, to determine whether a bank has enough capital to withstand the impact of adverse developments. Stress tests are designed to detect weak spots in individual banks or in the banking system at an early stage, so that preventive action can be taken by the banks and supervisors.

Structural reforms

Structural reforms – reforms aimed at making the allocation of resources in an economy more efficient. As a consequence, the structure of the economy becomes more flexible, so that it has greater capacity to absorb and adapt to shocks. Such reforms are usually undertaken with regard to a country's labour market, product markets, the framework of the social welfare system, and the fiscal framework.
Examples of structural reforms include the liberalisation of professional services, lifting restrictions to open and run a business, pension system reform, and changes in the tax system with the goal of promoting productivity and private investment.

Supranational organisation

An organisation to whom Member States cede some sovereign decision-making power in selected policy areas. The European Union is an example of a supranational organisation.

Supranational, Sub-sovereign and Agency (SSA)

A sector of the bond market which comprises sub-sovereign, supranational and agency issuers. The ESM and the EFSF both belong to this category.

Syndication

A method of issuing bonds where a syndicate of several banks underwrites the bonds issued (i.e. buy the whole issue) and resells the bonds in the market.

T

Tap (“tapping a bond”)

A procedure that allows issuers to increase the outstanding amount of an existing issuance.

Treaty on Stability, Coordination and Governance in EMU

See Fiscal Compact.

Two-Pack

The second package of proposals on economic governance that was presented by the European Commission in November 2011 and builds on the so-called Six-Pack of economic governance proposals. The two draft regulations introduce provisions for enhanced monitoring of euro area countries budgetary policies.
Under the European Commission's proposals, euro area Member States would be required to submit annually to the European Commission and the Eurogroup their draft budgetary plans for the next year by 15 October. Closer monitoring would apply to euro area countries in an excessive deficit procedure in order to enable the European Commission to better assess whether a risk of non-compliance with the deadline to correct the excessive deficit exists. Euro area countries experiencing severe difficulties with regard to their financial stability or receiving financial assistance would be subject to even more tringent monitoring.

W

Weighted average maturity (WAM)

The weighted average repayment period (in years) of all loan tranches provided by the ESM or EFSF to a particular beneficiary country.

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