END OF TEMPORARY CORRECTION OF THE ESM CONTRIBUTION KEY FOR SLOVAKIA

EXECUTIVE SUMMARY

The temporary correction of the ESM contribution key for Slovakia will expire on 1 January 2021. This note presents, for consideration and endorsement by the ESM Board of Directors (BoD), the required adjustments in the ESM contribution key, subscribed capital and associated paid-in capital transfers due to the end of temporary correction period for Slovakia. The expected changes for the remaining founding ESM Member still benefitting from a temporary correction, Estonia, is also presented for information purposes.[1]

I. ADJUSTMENTS OF ESM CONTRIBUTION KEY, SHARES AND CAPITAL SUBSCRIPTIONS

The initial contribution key, which was enshrined in Annex I of the ESM Treaty in 2012, contained a temporary correction for four founding ESM Members (Article 42(1) of the ESM Treaty).[2] The twelve-year temporary correction of the ESM contribution key was also applied to Latvia and Lithuania at the time they joined the ESM. Following the end of the temporary correction period for Slovenia in 2019 and Malta in 2020, there are now four ESM Members still benefitting from a temporary correction of their contribution keys, with Slovakia being the next to conclude the correction period on 1 January 2021. The process will continue with Estonia in 2023, Latvia in 2026 and Lithuania in 2027.

As set out in the ESM Treaty, when an ESM Member's temporary correction period ends the contribution key for the subscription of the ESM authorised capital stock is adjusted, authorised capital stock is transferred among ESM Members to the extent necessary, and the ESM Board of Governors (BoG) amends the annexes of the ESM Treaty accordingly (Article 11(3) lit. b, (5) and (6) of the ESM Treaty).

Section II of the note presents the required adjustments due to the end of temporary correction period for Slovakia that expires on 1 January 2021, for consideration and endorsement by the BoD. In particular, it presents the changes in the ESM contribution key and associated transfers of subscribed paid-in capital. Section III of the note outlines the procedure for the decision-making and for practical implementation of these changes, once these are approved by the BoG. Section IV of the note also presents, for information purposes, estimated changes of the ESM contribution key, subscribed capital, and paid-in capital following the end of the temporary correction for Estonia.

[1] The end of the temporary corrections for Latvia and Lithuania will be addressed in a separate note at a later stage, as it does not involve transfers to the other ESM Members.

[2] Similarly, any new ESM Member will benefit from a temporary correction of its ESM capital contribution key under the conditions set out in Article 42(2) of the ESM Treaty. This temporary correction applies for a period of twelve years from the date of adoption of the euro by the relevant ESM Member.

The end of temporary corrections for Latvia and Lithuania, respectively, are not addressed at this stage, because the process of adjustments in the contribution key and subscribed capital for these ESM Members is different and will not involve transfers to the other ESM Members to update the amounts of paid-in capital.

II. ESTIMATED ADJUSTMENTS IN 2021 FOLLOWING THE END OF THE TEMPORARY CORRECTION APPLICABLE TO SLOVAKIA

Table 1 shows the estimations of the adjusted ESM contribution key for the subscription of the ESM authorised capital stock and of the relevant amounts to be exchanged among ESM Members following the end of the temporary correction period for Slovakia. To match the updated ESM contribution key, Slovakia will receive more shares of the authorised ESM capital. At the same time, it will need to transfer funds to increase its paid-in capital proportionally to the increase in its authorised capital. These funds will then be transferred to the ESM Members not benefitting from a temporary correction. The subscribed and paid-in capital for those ESM Members still benefitting from a correction would not change. In financial terms, this means that Slovakia's subscribed capital will increase by €1.17 billion, including €134.150 million of capital to be paid-in and redistributed to other ESM Members not benefitting from the correction. The changes for other ESM Members are set out in Table 1.[3]

The ESM contribution key – which derives from the 2009 ECB contribution key - is used as the basis for the adjustments due to the expiration of the temporary correction for Slovakia. The BoG could decide to take into account the updates of the ECB capital key at this occasion (Article 11(4) of the ESM Treaty). However, we propose to maintain the original ECB key as a reference. This is consistent with the approach taken at the end of the Malta's and Slovenia's correction periods. Furthermore, given that there might be further changes in relative GDP shares due to the Covid-19 crisis, it would be more appropriate to reflect any updates to the ECB capital key at a later stage.

Table 1 – Estimated values at the end of the temporary correction for Slovakia

	Previous ESM contribution key (%)	Updated ESM contribution key (%)	Updated Number of shares	Capital subscription - Updated authorised capital (EUR)	Capital subscription - Updated paid-in capital (EUR)	Updated reallocations - authorised capital (EUR)	Updated reallocations - paid-in capital (EUR)
Belgium	3.4513	3.4454	242,832	24,283,200,000	2,775,220,000	-41,200,000	-4,710,000
Germany	26.9449	26.8992	1,895,854	189,585,400,000	21,666,900,000	-321,700,000	-36,770,000
Estonia	0.1847	0.1847	13,020	1,302,000,000	148,800,000	0	0
Ireland	1.5804	1.5777	111,195	11,119,500,000	1,270,800,000	-18,800,000	-2160000
Greece	2.7957	2.7910	196,710	19,671,000,000	2,248,110,000	-33,400,000	-3,820,000
Spain	11.8153	11.7953	831,332	83,133,200,000	9,500,940,000	-141,100,000	-16,120,000
France	20.2346	20.2003	1,423,716	142,371,600,000	16,271,040,000	-241,500,000	-27,600,000
Italy	17.7807	17.7506	1,251,062	125,106,200,000	14,297,850,000	-212,200,000	-24,250,000
Cyprus	0.1948	0.1945	13,705	1,370,500,000	156,630,000	-2,400,000	-270,000
Latvia	0.2746	0.2746	19,353	1,935,300,000	221,200,000	0	0
Lithuania	0.4063	0.4063	28,634	2,863,400,000	327,200,000	0	0
Luxembourg	0.2486	0.2482	17,490	1,749,000,000	199,890,000	-2,900,000	-330000

[3] Paid-in capital amounts are rounded to €10,000.00 (i.e. 0.1 shares).

Malta	0.0899	0.0898	6,327	632,700,000	72,310,000	-1,100,000	-130,000
Netherlands	5.6746	5.6650	399,267	39,926,700,000	4,563,050,000	-67,800,000	-7750000
Austria	2.7627	2.7581	194,388	19,438,800,000	2,221,580,000	-33,000,000	-3,770,000
Portugal	2.4906	2.4863	175,236	17,523,600,000	2,002,700,000	-29,800,000	-3,400,000
Slovenia	0.4678	0.4670	32,917	3,291,700,000	376,190,000	-5,600,000	-640000
Slovakia	0.8184	0.9849	69,418	6,941,800,000	793,350,000	1,173,800,000	134,150,000
Finland	1.7841	1.7811	125,531	12,553,100,000	1,434,640,000	-21,300,000	-2,430,000

Source: ESM staff calculations.

III. STEPS FOR ADJUSTMENTS RELATED TO END OF TEMPORARY CORRECTION PERIOD FOR SLOVAKIA

Prior to the date when the temporary correction ends, the ESM will submit to the BoG a proposal to amend Annexes I and II of the ESM Treaty, reflecting the adjustment of the contribution key for the subscription of the ESM authorised capital stock.

To facilitate the BoG decision and in line with Article 3(10) of the ESM By-Laws, the BoD is asked to consider and endorse the proposed changes to the ESM contribution key due to the end of the temporary correction of Slovakia at its meeting of 29 September 2020. Upon this endorsement, the ESM would submit the proposal to the BoG for approval (including the amendments to be made to the Annexes of the ESM Treaty) in December 2020. The BoG resolution may be subject to national procedures in some ESM Members.

The practical implementation of the BoG decision would follow the same procedure as the one approved by the BoG for Malta: the ESM would receive from Slovakia the amount corresponding to its additional subscription of paid-in shares. The ESM would thereupon promptly transfer the respective amounts to the ESM Members whose shares are to be transferred to Slovakia, and would thereupon notify the Depositary of the entry into force of the amendments made to the Annexes I and II to the ESM Treaty. The amended Annexes would enter into force on 1 January 2021 or on the date of completion of the transfers (whichever is the latest).

IV. ESTIMATED ADJUSTMENTS IN 2023 FOLLOWING THE END OF THE TEMPORARY CORRECTION APPLICABLE TO ESTONIA

Table 2 in the Annex shows the estimations of the updated ESM contribution key for the subscription of the ESM authorised capital stock and associated transfers of subscribed and paid-in capital among ESM Members following the end of the temporary correction period for Estonia (1 January 2023). These calculations were carried out on the basis of the current contribution key, which is based on the 2009 ECB contribution key, and are presented for information purposes only.

The changes can be summarised as follows:

> At the end of its temporary correction period, Estonia’s subscribed capital would increase by €488.7 million, including a payment of €55.85 million of paid-in capital, which will be redistributed to the other ESM Members not benefitting from the correction.

In the months preceding the end of the temporary correction period of Estonia, the ESM will submit its calculations for the new keys and capital subscription to the BoD for endorsement, and subsequently to the BoG for approval of the corresponding amendments to the Annexes I and II to the ESM Treaty. At that decision point, the ESM governing bodies will be in a position to also consider whether to take into account updates to the ECB key (Article 11(4) of the ESM Treaty).

V. CONCLUSION

The BoD is asked to consider and endorse the proposed changes to the ESM contribution key to accommodate the end of the temporary correction period of Slovakia, upon which the ESM would submit the proposal to the BoG for approval. While the decision on the changes to the ESM contribution key due to the end of temporary correction for Estonia is to be taken at a later stage, the numbers presented in this note are expected to be final, unless new calculations would be needed (for instance if the ESM governing bodies decide to take into account updates to the ECB contribution key). The end of the temporary correction periods for Latvia and Lithuania, respectively, will be addressed in a separate note and at a later stage, due to the specific differences in the process of adjustment.

ANNEX

Table 2 – Estimated values at the end of the temporary correction for Estonia

	Previous ESM contribution key (%)	Updated ESM contribution key (%)	Updated Number of shares	Capital subscription - Updated authorised capital (EUR)	Capital subscription - Updated paid-in capital (EUR)	Updated reallocations - authorised capital (EUR)	Updated reallocations - paid-in capital (EUR)
Belgium	3.4454	3.4430	242,662	24,266,200,000	2,773,280,000	-17,000,000	-1,940,000
Germany	26.8992	26.8804	1,894,528	189,452,800,000	21,651,750,000	-132,600,000	-15,150,000
Estonia	0.1847	0.2541	17,907	1,790,700,000	204,650,000	488,700,000	55,850,000
Ireland	1.5777	1.5766	111,117	11,111,700,000	1,269,910,000	-7,800,000	-890000
Greece	2.7910	2.7891	196,573	19,657,300,000	2,246,550,000	-13,700,000	-1,560,000
Spain	11.7953	11.7871	830,750	83,075,000,000	9,494,290,000	-58,200,000	-6,650,000
France	20.2003	20.1862	1,422,720	142,272,000,000	16,259,660,000	-99,600,000	-11,380,000
Italy	17.7506	17.7382	1,250,187	125,018,700,000	14,287,850,000	-87,500,000	-10,000,000
Cyprus	0.1945	0.1943	13,696	1,369,600,000	156,530,000	-900,000	-100,000
Latvia	0.2746	0.2746	19,353	1,935,300,000	221,200,000	0	0
Lithuania	0.4063	0.4063	28,634	2,863,400,000	327,200,000	0	0
Luxembourg	0.2482	0.2480	17,477	1,747,700,000	199,740,000	-1,300,000	-150000
Malta	0.0898	0.0897	6,323	632,300,000	72,260,000	-400,000	-50,000
Netherlands	5.6650	5.6610	398,988	39,898,800,000	4,559,860,000	-27,900,000	-3190000
Austria	2.7581	2.7561	194,252	19,425,200,000	2,220,020,000	-13,600,000	-1,560,000
Portugal	2.4863	2.4846	175,114	17,511,400,000	2,001,300,000	-12,200,000	-1,400,000
Slovenia	0.4670	0.4667	32,894	3,289,400,000	375,930,000	-2,300,000	-260000
Slovakia	0.9849	0.9842	69,369	6,936,900,000	792,790,000	-4,900,000	-560,000
Finland	1.7811	1.7798	125,443	12,544,300,000	1,433,630,000	-8,800,000	-1,010,000

Source: ESM staff calculations.