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School of European Political Economy

Notes on the genesis of the European Stability Mechanism

Gian Luigi Tosato

Policy Brief 18/2020

LUISS

April 14, 2020

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A factual account of the genesis of the ESM would appear pertinent, considering the recent discussions on this subject in Italy.

1. The agreement setting up the ESM was signed by Euro area Member States (MS) in February 2012 and entered into force in October 2012. Italy ratified this agreement in September 2012, after it was approved by its Parliament. Italy has a 17% share in the ESM capital and has paid €14 billion so far. The ESM was instituted to provide financial assistance to Euro area MS in the event of financial difficulties.

2. Prior to the creation of the ESM, this responsibility had been assigned to two distinct entities: the European Financial Stability Facility (EFSF) and the European Financial Stabilisation Mechanism (EFSM). The EFSM was established by Council Regulation 407/2010 of May 2010, the EFSF by the Framework Agreement entered into by Euro area MS (including Italy) in June 2010. While all European Union MS could be beneficiaries of the EFSM, the financial assistance of the EFSF was only available to Euro area MS. To fund their operations, the EFSM and the EFSF were authorised to borrow up to €60 billion and €500 billion in the markets, respectively. The liabilities of the EFSM were guaranteed by the EU budget, whereas those of the EFSF were secured by several guarantees extended by the participating MS. Italy provided such guarantees for an amount covering 17% of EFSM liabilities.

3. The financial assistance of both the EFSM and the EFSF was subject to the undertaking by the beneficiary States with specific commitments regarding the conduct of their economic policies. This conditionality element was explicitly set out both in the Preamble and in Art. 3 of Regulation 407/2010, as well as in the Preamble and Art. 2 of the EFSF Framework Agreement.

4. The EFSM and the EFSF were originally intended to provide a temporary response (three years) to the economic and financial crisis that was unfolding at the time of their creation. However, Euro area MS soon realised that a permanent mechanism was needed. To this end, in its meeting of 24/25 March 2011, the European Council unanimously adopted a package of measures that, inter alia, amended Art. 136 TFEU and established the ESM (points 16 and 17 of the Conclusions).

5. The revision of Art.136 TFEU was enacted by the European Council Decision of 25 March 2011 under the simplified procedure of Art. 48.6 TEU. A new paragraph 3 was added to Art. 136 which expressly authorises Euro area MS to establish a new stability mechanism and specifies that any financial assistance granted by this entity "will be made subject to strict conditionality".

6. A term sheet setting out the main features of the ESM, including its conditionality policy, was approved by the European Council in its meeting of 24/25 March 2011 (Conclusions, Annex 3). Subsequently, a draft ESM Agreement was discussed by the Eurogroup on 11 June 2011 and the final text was signed by all participating States on 2 February 2012. Art. 3 of this agreement restates the conditionality policy.

7. Assistance funds have been provided by the EFSM to Ireland (€32.5 billion) and to Portugal (€24.3 billion). The EFSF has provided financial assistance to Greece (€130 billion), Portugal (€26 billion) and Ireland (€17.7 billion). The ESM has provided financial assistance to Spain (€41.3 billion), Greece (€31.7 billion) and Cyprus (€6.3 billion). Prior to the creation of the EFSM and EFSF, in 2010, Greece had already received €110 billion of financing extended by the Eurogroup through bilateral loans.