

European Stability Mechanism (ESM)

On 17 December 2010 the European Council agreed on the need for a Eurozone area and on the establishment of a permanent stability mechanism which will intervene by providing financial assistance to the Eurozone Member States after June 2013. According to article 136 of the TFEU, the Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the Eurozone as a whole. The granting of any required financial assistance will be subject to strict conditions. All Eurozone Member States will become ESM members.

The ESM will cooperate very closely with the IMF in providing financial assistance and a Eurozone Member State requiring financial assistance from the ESM is expected to address a similar request to the IMF.

The purpose of the ESM (article 3 of the Treaty Establishing the European Stability Mechanism (TEESM)) shall be to mobilise funding and provide financial assistance under strict economic policy conditions to the benefit of ESM members which experience or are threatened by severe financial problems. For this reason the ESM shall be entitled to raise funds by creating financial instruments or by entering into financial agreements with other EU Member States, institutions or third parties.

The Board of Governors shall take, by mutual agreement, decisions on issuing new shares, making capital codes, changing authorised capital stock and adapting the maximum lending volume of the ESM, granting financial assistance and establishing the financial terms and conditions, as well as the instruments to be implemented in the economic policy of the specific ESM members.

The procedure for granting financial assistance (article 13, TEESM) contains the address of a request for financial assistance by an ESM member to the Chairperson of the Board of Governors. On receipt of such a request, the Chairperson of the Board shall entrust the European Commission to assess the existence of a risk to the financial stability of the Euro area as a whole, to undertake an analysis of the debt sustainability of the ESM member concerned and finally, to assess the actual financing needs of the ESM member, as well as the nature of the private sector involvement required.

The Board of Governors may also decide (article 14, TEESM) to grant a short or medium term stability support in the form of a loan to the ESM member as financial assistance. Exceptionally, it may also arrange (article 15, TEESM) for the purchase of bonds of an ESM member on the primary market with the objective of maximising the cost efficiency of the financial assistance.

Of the total 7 million shares, the Republic of Cyprus holds 13,734, whereas its capital subscription amounts to 1.3734 billion of the total 700 billion euro.

Christos Floridis
Advocate – Head of European Affairs Department
Andreas Neocleous & Co LLC
<http://www.neocleous.com>