An Roinn Airgeadais
Department of Finance

Twenty-second Report under Section 8 of the European Stability Mechanism Acts 2012 to 2021

Reporting period: 1 January 2023 to 30 June 2023

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Chapter 1 Introduction

In accordance with Section 8 of the European Stability Mechanism Acts 2012 to 2021, the Minister for Finance is laying the following information before Dáil Éireann:

1.1 Background

The Treaty establishing the European Stability Mechanism (ESM) was signed by Euro Area Member States on 02 February 2012, and entered into force on 27 September 2012, when instruments of ratification, approval, or acceptance were deposited by all the Signatories whose initial subscription represented no less than 90 percent of the total subscription, as per *Article 48* of the ESM Treaty.

The ESM is mandated to provide financial assistance to Euro Area Member States experiencing or threatened by severe financing problems, in order to safeguard the integrity of the Euro area as a whole. For this purpose, loans and other types of financial assistance may be provided following mutual agreement and under strict conditions. In its functions, the ESM replaced two earlier temporary financial assistance programmes; its predecessor, the European Financial Stability Facility (EFSF), and the European Financial Stabilisation Mechanism (EFSM).

The European Stability Mechanism Act 2012 (No. 20 of 2012) enabled Ireland to ratify the European Stability Mechanism (ESM) Treaty and was enacted on 3 July 2012.

This Act (No. 20 of 2012) was amended by the European Stability Mechanism Amendment Act 2014 (No. 34 of 2014), and by the Finance (European Stability Mechanism and Single Resolution Fund) Act 2021 (No. 38 of 2021).

The European Stability Mechanism Acts 2012 and 2014 and the Finance (European Stability Mechanism and Single Resolution Fund) Act 2021 may be cited together as the European Stability Mechanism Acts 2012 to 2021.

The ESM currently has available the following financial assistance instruments:

- Issue bonds or other debt instruments on the market to raise the funds needed to provide loans to Members in financial difficulties;
- Intervene in the primary and secondary debt markets;
- Provide precautionary financial assistance to Members;

- Direct recapitalisation of systemically important euro area financial institutions, which was provided for by the European Stability Mechanism Amendment Act 2014 (No. 34 of 2014.

On 27 January and 08 February 2021, euro area Member States signed amending agreements to the ESM Treaty and the Single Resolution Fund (SRF) Intergovernmental Agreement (IGA). The Heads of State or Government of euro area countries endorsed ESM reform, at the Euro Summit on 14 December 2018, as part of a package of measures which will broaden the mandate of the ESM. Political agreement on completing the Treaty reform process was reached by finance ministers in the Eurogroup on 30 November 2020. The ESM will be empowered to act as the Common Backstop to the SRF.

The Common Backstop will provide a financial safety net for bank resolutions within the Banking Union, enhancing the European framework for bank resolutions to ensure that a bank failure does not harm the broader economy or cause financial instability, with no costs to taxpayers. The Common Backstop will replace the existing ESM tool for dealing with bank failures – the Direct Recapitalisation Instrument. The reform of the ESM Treaty and improvement to its financial assistance instruments toolkit is intended to equip the ESM for future uncertainty and will mark a new phase for the ESM.

The amendments to the ESM Treaty and SRF IGA Amending Agreements were given approval by Dáil Éireann in The Finance (European Stability Mechanism and Single Resolution Fund) Act 2021 (No. 38 of 2021), which was enacted on 09 December 2021. Ireland’s instruments of ratification in relation to both amending agreements were deposited on 22 December 2021.

The reformed Treaty will come into force when ratified by the parliaments of all nineteen ESM Members.

Following ratification by all Member States, the ESM Board of Governors will activate the Common Backstop to the SRF, cancelling the ESM Direct Recapitalisation Instrument.

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1.2 Paid-in and Callable Capital

Article 8 of the ESM Treaty provides that the ESM shall have a capital stock of €704.798 billion split into paid-in capital and callable shares. This comprises of €80.548 billion in the form of paid-in capital already provided by ESM Members and approximately €622 billion in the form of committed callable capital. The amounts of paid or callable capital for ESM members is based on the shareholder contribution key. On 30 June 2023 Ireland holds 1.5766 percent of ESM shares.

Paid-in capital is not used for lending but instead confirms the ESM's creditworthiness. The value of Ireland’s paid in share currently stands at €1,269,910,000.

The original paid-in capital of €80 billion was increased with the accession of Latvia and Lithuania to the ESM in 2014 and 2015 respectively.

Article 41(1) of the ESM Treaty establishes that payment of paid-in shares of the amount initially subscribed by each Member shall be made in five annual installments, each 20 percent of the total amount initially subscribed. Each Member’s share is based on the ECB’s contribution key. In 2012, Ireland’s share was 1.5922 percent but this decreased to 1.5814 percent following the accession of Latvia and Lithuania. It decreased to 1.5806 percent following the end of the temporary correction period in respect of the Republic of Slovenia in 2019, and further decreased to 1.5804 percent on 15 January 2020 upon the expiry of the Maltese temporary correction period. On 1 January 2021, the temporary correction period for Slovakia ended, and Ireland’s share percentage was reduced to 1.5777 percent. The temporary correction period for Estonia end on 1 January 2023 further reducing Ireland’s percentage share to 1.5766 percent.

On 30 March 2012, the Eurogroup committed to accelerate the payment of paid-in capital. The acceleration did not affect the size of each installment, which remains at 20 percent of the total amount.

On 13 September 2012, the Eurogroup agreed to pay the first two instalments jointly in October 2012. A timeline of Ireland’s installments is as follows:

- On 11 October 2012, under Section 2 of the ESM Act 2012, Ireland paid the first two of five equal installments towards the paid-in shares of the ESM, totaling €509,504,000.
- On 19 April 2013, under Section 2 of the ESM Act 2012, Ireland paid the third of five equal installment towards the paid-in shares of the ESM, totaling €254,752,000.
- On 30 October 2013, under Section 2 of the ESM Act 2012, Ireland paid the fourth of five equal installments towards the paid-in shares of the ESM, totaling €254,752,000.
- On 28 April 2014, under Section 2 of the ESM Act 2012, Ireland paid the fifth and final installment towards the paid-in shares of the ESM totaling €254,752,000.

The total paid by Ireland under section 2 of the ESM Act 2012 towards the paid in shares of the ESM is therefore €1,273,760,000. However, Ireland has received four reimbursements of paid-in capital following the end of the temporary correction periods of the capital contribution key in respect for the Republic of Slovenia, Malta, Slovakia and Estonia, as follows:

- Following the end of the temporary correction period of the capital contribution key in respect of the Republic of Slovenia, Ireland received a refund of paid-in capital amounting to €571,428 on 19 February 2019. The refund reduced the value of Ireland's shareholding by that amount, from a total pay by Ireland under Section 2 of the ESM Act 2012 towards the paid-in shares of the ESM of €1,273,760,000, to the adjusted €1,273,188,572.

- Following the end of the temporary correction period for Malta in 2020, Ireland received a refund of paid-in capital amounting to €228,572 on 15 January 2020. The refund reduced the value of Ireland's ESM shareholding by the same amount – from a total pay towards the paid-in shares of the ESM by Ireland, as adjusted under Section 2 of the ESM Act 2012, of €1,273,188,572 to €1,272,960,000.
- Following the expiration of the correction period for Slovakia, on 1 January 2021, Ireland received a further refund from the ESM of €2,160,000, on 9 December 2020.
- As a result, the value of Ireland's paid in share was reduced from €1,272,960,000 to €1,270,800,000.
- Ireland's paid in share was reduced again on expiration of Estonia's correction period on 1 January 2023; a refund of paid in capital of €890,000 was made to Ireland on 05 December 2022 and, consequently, the paid in share decreased to €1,269,910,000.

The accession of further member states to the ESM could increase the authorised capital stock and paid-in capital of the ESM. The European Stability Mechanism Acts 2012 to 2021 limits the level of funds that Ireland can contribute in respect of ESM authorised capital at €11,119,500,000, and legislative amendment would be required to enable Ireland to commit any amounts beyond this.

Callable, or unpaid, capital of approximately €624 billion may be called in from ESM Members to restore the level of paid-in capital should the latter is reduced by the absorption of losses._Ireland's callable capital is €9.8 billion. While a capital call is not likely, it is part of the obligation in relation to costs to Ireland of membership.

1.3 Legislation

Section 8 of the ESM Act 2012 reads as follows:

"8.-(1) In respect of each reporting period the Minister shall, as soon as practicable after the end of the period, cause a report to be laid before Dáil Éireann that includes the following information:

a) the aggregate value of contributions made by the State to the authorised capital stock of the ESM under Section 2 during the reporting period,

b) the aggregate amount of monies (including dividends) received by the State to which Section 4 relates, during the reporting period,

c) the aggregate value of contributions made by the State to the authorised capital stock *of the ESM under Section 2 up to the end of the reporting period, and*

d) the aggregate amount of all monies (including dividends) received by the State, to which Section 4 relates, up to the end of the reporting period.

(2) In subsection (1) "reporting period" means –

a) each of the following periods –

i. the period from the passing of this Act to 31 December 2012,

ii. the period in any year after 2012 from 1 January to 30 June,

iii. the period in any year after 2012 from 1 July to 31 December,

or

b) within each period to which paragraph a) relates, such shorter periods as the Minister may from time to time consider appropriate in the circumstances."

Chapter 2

2.1 Report covering the period 1 January 2023 to 30 June 2023

This chapter provides the report as required in accordance with Section 8 of the European Stability Mechanism Act 2012 (as amended by the ESM Act 2014 and the Finance (European Stability Mechanism and Single Resolution Fund) Act 2021).

This report is the twentieth-second regular report as required by the legislation and covers the reporting period 1 January 2023 to 30 June 2023. Each previous report has been laid before Dáil Éireann.

Reporting Period: 1 January 2023 to 30 June 2023

a.	**the aggregate value of contributions made by the State to the authorised capital stock of the ESM under Section 2 during the reporting period:**	Zero
b.	**the aggregate amount of monies (including dividends) received by the State to which Section 4 relates during the reporting period:**	€890,000
c.	**the aggregate amount of contributions made by the State to the authorised capital stock of the ESM under Section 2 up to the end of the reporting period:**	€1,269,910,000[1]
d.	**the aggregate amount of all monies (including dividends) received by the State to which Section 4 relates up to the end of this reporting period:**	€3,850,000[2]

[1] Representing the sum of the five equal instalments by Ireland towards the paid-in shares of the ESM, amounting to €1,273,760,000., from which the refund of paid-in capital in respect of the Republic of Slovenia (€571,428.), Malta (€228,572.), Slovakia (€2,160,000.), and Estonia (€890,000.) has been subtracted.

[2] As of 30 June 2023, Ireland has received four refunds of paid-in capital to the amount of €3,850,000. Following the end of the temporary correction period of the capital contribution key in respect of the Republic of Slovenia, Ireland received a refund of paid-in capital amounting to €571,428 on 19 February 2019. At the end of the temporary correction period for Malta, Ireland received a refund of paid-in capital amounting to €228,572 on 15 January 2020. Ahead of the 1 January 2021 temporary correction period in respect of Slovakia, on 09 December 2020 Ireland received a refund amounting to €2,160,000. Ahead of the conclusion of the temporary adjustment period of Estonia on 1 January 2023, Ireland received a refunding amounting to €890,000 on 05 December 2022.

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