Banking on Europe

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Why the EU Became a Sovereign-Style Borrower and How it Should be Held to Account

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Preface

Moody's, a credit rating agency, defines sovereign debt as the issuance of bonds, bills, notes, and loans to fund government operations. From the gold florins lent by the Bardi and Peruzzi families to England's Edward III during the Hundred Years' War (1337–60) to Alexander Hamilton's Report on the Public Credit (1790) and the loan portion of the Marshall Plan (1948), sovereign debt is intertwined with the rise, fall, and resilience of states. In good times, governments' ability to raise funds on financial markets 'relaxes the domestic constraint on savings, smooths consumption, and finances investment', Eichengreen et al. (2019: 1) observe, but in bad times this ability can trigger 'debt overhangs, banking collapses, exchange-rate crises and inflationary explosions'. Writing during the euro crisis, Graeber (2012: 4–5) described modern states as 'built on deficit spending' and debt as 'the central issue in international politics'.

Whether the European Union (EU) is more than an international organization is a matter of intense scholarly—as well as political—debate; yet even those who view the Union as having 'state-like' features tend to overlook its borrowing powers (Richardson 2015: 7). By focusing on the EU's currency, court, and directly elected parliament, scholars often fail to appreciate that the Union is among a select band of 'supranationals' bestowed with a credit rating by Moody's and other rating agencies (Moody's 2024). Most non-European supranationals are development banks but the EU's borrowing powers are exercised by a more diverse range of public financial institutions which are authorized to raise funds on financial markets for the purpose of providing grants and loans to the public or private sectors. These European-level borrowers include the European Investment Bank (EIB), a multilateral lender which contributes to the EU's domestic and external development objectives, and the European Bank for Reconstruction and Development (EBRD), which counts the EU, its member states and the EIB as majority shareholders.

The European Stability Mechanism (ESM) and the European Commission are other powerful European-level borrowers. The ESM is technically an international financial institution rather than an EU body, but this fund, and its temporary predecessor, the European Financial Stability Facility, played a pivotal role in resolving the euro crisis. The European Commission is currently in charge of three financial assistance instruments which are designed to support EU member states or third countries facing serious economic difficulties: the Balance of Payments Assistance Facility, the European Financial Stabilisation Mechanism, and Macro-Financial Assistance. This is in addition to the Recovery and Resilience Facility, which was established to provide up to €672.5 billion in grants and loans to help EU member states' economic recovery from the COVID-19 pandemic. When it unveiled a new funding strategy in December 2022 to facilitate large-scale bond issuance, the Commission alluded to itself as a 'sovereign-style' borrower (European Commission 2023b). Given the size and range of borrowing instruments at its disposal, it is the EU which has become a sovereign-style borrower in our assessment.

For Moody's, the absence of a higher authority is one of the defining characteristics of sovereign debt. States, in other words, retain a high degree of discretion over how much debt to issue so long as they retain the confidence of financial markets. The EU's powers as a borrower are not quite this extensive. Although the Recovery and Resilience Facility has increased Commission borrowing to unprecedented levels, it is subject to a strict upper limit on borrowing and a sunset clause, which means that new financing can no longer be provided after 2026. The EIB, ESM, and EBRD all have upper limits on their borrowing capacities, which can only be increased with the express support of member state shareholders. These limits notwithstanding, member states' openness to sovereign-style borrowing means that the EU's budgetary constraint is much looser than is generally acknowledged. Such borrowing cannot rely on procedural legitimacy or appeals to efficiency, we contend, because it entails policy choices and liabilities which necessitate high standards of accountability. Sovereign-style borrowing, in other words, takes the EU firmly beyond the regulatory state and the remit of non-majoritarian institutions.

This book asks why the EU became a sovereign-style borrower and how such borrowing should be held to account. Through archival analysis and elite interviews, we explore the origin and evolution of European-level borrowers from 1954 to 2024 using historical institutionalism, liberal intergovernmentalism, and new intergovernmentalism as theoretical lenses. The EU became a sovereign-style borrower, we find, through a gradual process of institutional change rather than the catalytic effects of crises. Faced with cross-border externalities, member states with high borrowing costs looked to the EU to on-lend at favourable interest rates. Member states with low borrowing costs accepted a limited amount of European-level borrowing over the alternatives of bilateral support or greater contributions to the Union's budget. As the permissive consensus over European integration waned in the 1990s, the design of borrowing instruments was increasingly influenced by concerns over the EU's legitimacy crisis. The creation and empowerment of borrowers operating at one remove from the Union's institutional and legal architecture and the strict limits placed on Commission borrowing were symptomatic of this institutional trend, we find.

Our findings also show that the EU suffers from significant accountability gaps as a sovereign-style borrower. Although the borrowing powers of the Commission, EBRD, EIB, and ESM are tightly constrained by national governments, the European Parliament and European Court of Auditors have been kept at arm's length from this policy domain. National parliaments and auditors' engagement with European-level borrowers has been patchy and citizens and civil society groups have been given few opportunities for meaningful engagement with policy-makers over the economic, societal, and environmental consequences of projects funded through borrowing. To address these gaps, we call for a parliamentary charter, robust auditing rights, and the establishment of independent accountability mechanisms for all European-level borrowers.

The research presented in this book was conducted as part of Banking on Europe, a research project funded by the UK Economic and Social Research Council and the Luxembourg National Research Fund (References: ES/W000733/2; INTER/UKRI/21/15560511/Bank-EU). The three members of our project's steering committee, Jasmina Haynes, Baron Bernard Snoy et d'Oppuers, and President Alexander Stubb, provided valuable guidance and shaped our thinking about European-level borrowers. Our research was also greatly enriched by the guidance and professionalism of archivists at the Archivio Centrale dello Stato (Rome), the Belgian Rijksarchief (Brussels), the German Federal Archives (Koblenz), the Historical Archives of the European Commission (Brussels), the Historical Archives of the European Union (Fiesole), the Nationaal Archief (The Hague), the Service des Archives Economiques et Financiers (Savigny-le-Temple), the UK National Archives (London), and the US National Archives at College Park (Maryland); and the assistance of staff at the Library of Congress (Washington, DC). Lukas Spielberger's visit to the Historical Archives of the EU in Florence was funded by a European Court of Auditors Postgraduate Research Grant, which we gratefully acknowledge. Our understanding of the EU as a borrower was immeasurably enhanced through over forty interviews with officials working in a range of European and national bodies, some of whom gave us several hours of their time. Mikael Mäkipää and Casper Peterse at the University of Luxembourg provided valuable assistance with these interviews and with locating additional documentation.

Draft chapters from this book were presented at meetings of the Annual Political Science Workshops of the Low Countries, the Council of European Studies, the Dutch Political Science Association, the European Consortium for Political Research's Standing Group on the EU, the European Union Studies Association, the European University Institute Political Economy Working Group Seminar, and the International Studies Association. We also tested our ideas at project events organized with Counter Balance, the EBRD, and the European Court of Auditors. We are grateful to the scholars, officials, and activists who participated in these conferences and events and shared their valuable expertise. While any errors which remain are ours alone, Adina Akbik, Gijs Jan Brandsma, Ben Clift, Judith Clifton, Richard Crowe, Donato Di Carlo, Helen Kavvadia, Erik Jones, William D. O'Connell, Laura Pierret, Moritz Rehm, Xavier Sol, Frank Vanaerschot, and Amy Verdun deserve particular thanks for engaging with our research. This book is dedicated to our families, to whom we are forever indebted.

London, Luxembourg, Brussels, and Aberdeen
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List of Acronyms

AASM	Associated African States and Madagascar
ACP	African, Caribbean, and Pacific
AfD	Alternative for Germany
BoP	Balance of Payments
CJEU	Court of Justice of the European Union
CMFB	Committee on Monetary, Financial, and Balance of Payments Statistics
COREPER	Committee of Permanent Representatives of the Governments of the Member States to the European Union
COSAC	Committees for Union Affairs of the Parliaments of the European Union
CSO	civil society organization
DG BUDG	Directorate-General for Budget
DG ECFIN	Directorate-General for Economic and Financial Affairs
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECB	European Central Bank
ECSC	European Coal and Steel Community
ECOFIN	Economic and Financial Affairs Council
ECON	Economic and Monetary Affairs Committee
ECU	European Currency Unit
EDF	European Development Fund
EEC	European Economic Community
EFSF	European Financial Stability Facility
EFSI	European Fund for Strategic Investments
EFSM	European Financial Stabilisation Mechanism
EIB	European Investment Bank
EIB-CM	European Investment Bank Complaints Mechanism
EIF	European Investment Fund
EMU	Economic and Monetary Union
EP	European Parliament
EPPO	European Public Prosecutor's Office
ESM	European Stability Mechanism
EU	European Union
Euratom	European Atomic Energy Community
Eurostat	European Statistical Office
EXIM Bank	Export-Import Bank of Washington
Frontex	European Border and Coast Guard Agency
G24	Group of Twenty-Four
G7	Group of Seven
GDP	gross domestic product

IAM	independent accountability mechanism
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IPAM	Independent Project Accountability Mechanism
IPC	Interparliamentary Conference
JASPERS	Joint Assistance to Support Projects in European Regions
JEREMIE	Joint European Resources for Micro to Medium Enterprises
JESSICA	sustainable development for urban areas
JOPP	Joint Ventures Phare Programme
MEP	member of the European Parliament
NATO	North Atlantic Treaty Organization
NCI	New Community Instrument
NDICI	Neighbourhood, Development, and International Cooperation Instrument
NGO	non-governmental organization
OAPEC	Organization of Arab Petroleum Exporting Countries
OCT	overseas countries and territories
OEEC	Organisation for European Economic Cooperation
PACE	Parliamentary Assembly of the Council of Europe
PPP	public-private partnership
RRF	Recovery and Resilience Facility
SECG	Stability, Economic Coordination, and Governance in the European Union
SMEs	small and medium-sized enterprises
SRB	Single Resolution Board
SURE	Support to mitigate Unemployment Risks in an Emergency
TFEU	Treaty on the Functioning of the European Union

1
Introduction

How the EU Came to Issue Debt on the Scale of a Large State

The European Union (EU) is commonly understood as having a small balanced budget which is of second-order importance for European integration (Majone 1998). In fact, the EU, and the three European Communities on which it was built, have always borrowed, and the Union is now borrowing on the scale of a large state. Under Jean Monnet's leadership, the High Authority of the European Coal and Steel Community raised its first loan in 1954 to finance investment in the European coal sector (Friedmann 1955). The Commission of the European Atomic Energy Community (Euratom) secured a credit line with the Export-Import Bank of Washington in 1959 to help build nuclear power stations, two years before the European Investment Bank (EIB) issued its first bond in the name of the European Economic Community (Exim Bank 1959; EIB 1962: 25–6). The EIB's early lending activities focused on projects in the Community's less developed regions and the Bank was soon enlisted to provide funding for neighbouring countries and former colonies. Borrowing was part of the European Commission's response to the international economic crisis of the 1970s, the reuniting of Europe in the 1990s, and the euro crisis in the 2010s. Faced with the COVID-19 pandemic, the Commission was authorized to borrow up to €672.5 billion to finance grants and loans to EU member states.[1] Although this Recovery and Resilience Facility can make no more payments after 2026, the EU has already scaled up borrowing to provide economic assistance to war-torn Ukraine (Fabbrini 2023).

A snapshot of European-level borrowing in 2023 illustrates its significance. Gross debt issuance by the European Commission in the name of the EU was close to €160 billion, which was higher than all member states except France, Germany, Italy, and Spain.[2] The Commission's net issuance—that is the total amount of new debt issued in domestic currency after redemptions and buy backs—was second only to France.[3] The bulk of funds borrowed by the European Commission in 2023 went towards the Recovery and Resilience Facility,

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which provided €92 billion in grants and loans to member states aimed at boosting their recovery from the pandemic while accelerating the digital and green transition.[4] In 2023, the Council of the EU also decided that member states could use untapped Recovery and Resilience loans, which totalled around €225 billion at this point, to help end their dependence on Russian energy (D'Alfonso 2023). Meanwhile, the Commission borrowed €18 billion to help meet Ukraine's short-term financing needs.[5]

Traditionally, the Commission borrowed back to back, issuing bespoke bonds to finance specific loans and passing on the terms of these securities to the beneficiary. Under a new unified funding approach unveiled in December 2022, the Commission now issues single-brand EU bonds and bills according to a semi-annual calendar (European Commission 2022a). The proceeds from bond issuance go to a central funding pool which is then used to finance grants and loans under a variety of borrowing instruments. EU bonds are placed through auctions, syndications, and private placements by means of a primary dealer network. The Commission has consequently become a European 'Treasury', which performs many of the same functions as national debt agencies (Spielberger, Hodson, Howarth, and Mugnai 2024).[6]

It was not only the Commission which reached new heights as a borrower in 2023. The EIB's total outstanding loans stood at €435 billion at the beginning of the year, cementing the Bank's reputation as the world's largest multilateral lender (EIB 2024b: 6). The EIB provided €44 billion in new financing for projects dedicated to climate action and environmental sustainability, putting it on course to provide €1 trillion in green investments by the end of the decade (EIB 2024b: 4). The EIB also stepped up cooperation with the European Bank for Reconstruction and Development (EBRD) under the Team Europe approach to development finance. Although the EBRD is not an EU institution, it counts the Union, its member states, and the EIB as majority shareholders and plays an important part in the Union's foreign economic policy. Alongside the Commission and EIB, the EBRD is an important actor in the Global Gateway, an EU plan to mobilize €300 billion in investment in infrastructure projects in third countries (European Commission 2021a). The European Stability Mechanism (ESM), which was established during the euro crisis to provide loans to member states facing fiscal and financial difficulties, was not called upon in 2023. However, this institution's outstanding borrowings, and that of its temporary predecessor, the European Financial Stability Facility (EFSF), exceeded €290 billion (EFSF 2024: 10; ESM 2024: 105).

This book asks why the EU came to borrow on this scale and how such borrowing can be held to account. Drawing on extensive archival analysis and elite interviews, we explore the role of crises, gradual institutional change, and intergovernmental choice in the history of European-level borrowing between 1954 and 2024. We also present evidence on the accountability of European-level borrowers to governments, parliaments, auditors, citizens, and civil society groups and ask how these accountability practices can be strengthened. While there have been studies of individual European-level borrowers before (see, for example, Weber 1994; Robinson 2009; Clifton, Díaz-Fuentes and Gómez 2018; Mertens and Thiemann 2019), this study is the first to compare all major European-level borrowing institutions and instruments over a seventy-year period. This introductory chapter sets the scene for our analysis. In the first section, we define sovereign-style borrowing and identify the institutions and instruments analysed in our study. In the second, we introduce our theoretical approaches and methods. In the third, we summarize our central argument and in the fourth, we present a plan of the book.

1.1 Defining Our Subject Matter

The European Commission, credit ratings agencies, and sovereign debt indices equate sovereign-style issuance with an approach to debt management which employs the same funding instruments and techniques as states (Levick and Yang 2017; European Commission 2023b; Gong 2024). While we examine debt management in this book and elsewhere (Spielberger et al. 2024), we define sovereign-style borrowing more broadly as the ability to raise funds on capital markets to finance state-like functions such as promoting stability, growth, and investment. The European Commission is, moreover, one of several European-level borrowers which issue bonds for such purposes.

We define European-level borrowers as public financial institutions founded in law for the benefit of all or several EU member states with a mandate to raise funds on financial markets to provide grants, loans, or guarantees to public or private actors (Wurm 2010: 193). Based on our analysis of EU and international treaties, secondary legislation, and official documentation, seven bodies meet this definition, which is broadly consistent with the European-level official lending institutions identified by Horn, Reinhart, and Trebesch (2020): the High Authority of the European Coal and Steel Community, the European Commission, Euratom, the EIB, the EBRD, the EFSF, and the ESM (see Table 1.1 in the Annex).[7] Institutions that do not meet our definition include the European Central Bank, even though some economists have suggested that the euro area monetary authority could become a large-scale borrower by issuing its own securities (see Boonstra 2019). We also exclude European Community or EU programmes that facilitate bilateral financial support funded by national governments, such as the Medium-Term Financial Assistance created in 1971, and the Greek Loan Facility created in 2010.

The borrowers analysed in this book come in different shapes, sizes, and vintages (see Table 1.1. in the Annex to this chapter). Established in 1952, the High Authority was authorized to borrow for the purpose of financing loans to boost investment and production in the coal and steel sectors. Between 1955 and 2002, €21 billion in loans were provided for these purposes, at which point the European Coal and Steel Community expired, as envisaged by the Treaty of Paris (1951).[8] Although Euratom's early loan agreement with the Export-Import Bank of Washington allowed modest financing for nuclear power stations in Belgium and West Germany, it was not until 1977 that member states established a permanent Euratom Loans Facility.[9] This facility has financed €3.7 billion in loans for nuclear investment and safety to date, with such funding opened to third countries since 1994.

The EIB was established under the 1957 Treaty of Rome to support 'the balanced and steady development of the internal market in the interests of the Community' (Coppolaro and Kavvadia 2022). The Bank's initial focus was on investment projects in the fields of energy and transport, but it would broaden its focus over time to sectors such as telecommunications, water and sewerage, and urban infrastructure (Clifton, Díaz-Fuentes, and Gómez 2018). Beginning in 1963, the EIB also provided development finance to third countries (Licari 1969: 212–13). As of 2023, the Bank had disbursed nearly €1.4 trillion in loans, making it the EU's most prolific borrower.

Beginning with the 1967 Merger Treaty, member states gave the European Commission responsibility for a series of borrowing instruments, which we will study in detail in this book.[10] Some instruments have now been wound down, such as the New Community Instrument, which allowed the Commission to finance investment projects in infrastructure, energy, and industry between 1978 and 1993.[11] Others have mutated, as in the Community Loan Mechanism's absorption into the Balance of Payments Assistance Facility and, arguably, the Commission's provision of similar support to third countries under the so-called Macro-Financial Assistance.[12] Created in 2010 to provide financial support to euro area member states, the European Financial Stabilisation Mechanism (EFSM) closed a deliberate gap in Economic and Monetary Union's architecture.[13] Support to mitigate Unemployment Risks in an Emergency (SURE), which provided loans to member states during the coronavirus pandemic to help finance short-term work schemes, built on these earlier instruments. SURE was soon accompanied by the much larger Recovery and Resilience Facility, which brought the total amount of borrowed funds disbursed by the Commission as of 2023 to €358 billion.

Initially, it looked like either the Commission or the EIB would oversee financial support for Central and Eastern European countries after the fall of communism. Instead, the twelve members of the European Community joined forces with twenty-four other countries, including Canada, Japan, and the United States, to create the EBRD.[14] The Bank has since expanded its regions of operation to the Middle East, North Africa, and Sub-Saharan Africa and disbursed €202 billion in loans as of 2023. The Commission's limited borrowing capacity under the EFSM led member states to create the EFSF and ESM, which provided close to €300 billion in financial assistance during the euro crisis.[15] Although the ESM remained unused during the COVID-19 pandemic, it offered €240 billion in loans to member states to cover the direct or indirect costs of health care (Eurogroup 2020).

The European-level borrowers investigated in this book are diverse in design and operation, yet they all share a crucial trait: their borrowing and lending operations are backed by member states which determine these bodies credibility as borrowers and protect them from contingent liabilities. This backing is direct in some cases, as in the €81 billion that euro area members have paid into the ESM and the €626 billion in committed callable capital which this borrower can draw on if needed.[16] In other cases, this backing is indirect, as in the EU budget guarantee provided for the Recovery and Resilience Facility. If a member state were to default on a loan provided through this facility, the Commission could, as a last resort, call on other member states to cover these losses up to the maximum revenue that the Union can request of member states. Whether member states' backing for European-level borrowers is direct or indirect appears to be of limited consequence for financial markets. The EIB and the EU both have AAA long-term credit ratings, signalling rating agencies' belief that large member states with sound public finances stand behind bonds issued in the name of the Union. The fact that Moody's downgraded the ESM in February 2012 in view of France's mounting fiscal problems shows that such credibility cannot be taken for granted (*DW* 2012). While, to date, this remains an isolated incident, the deteriorating fiscal situation in a number of member states—notably France—means that future EFSF and ESM downgrades are entirely possible (Khadbai 2024). Yet, when the Commission carried out a syndicated transaction in January 2024, its issuance of a seven-year bond was oversubscribed twenty-seven times (European Commission 2024a). Seventy years after Jean Monnet convinced American investors of the European Coal and Steel Community's creditworthiness, the EU is an established presence in financial markets.

One response to the comparative approach employed in this book is that the distinctive objectives of European-level borrowers render comparison difficult. The European Commission, for example, distinguishes between borrowing for microeconomic aims and macroeconomic crisis management. Our rejoinder is that such differences are often blurred in practice. The EIB's Pan-European Guarantee Fund, for example, was presented as a countercyclical response to the COVID-19 pandemic, just as REPowerEU reorientated the Recovery and Resilience Facility towards the microeconomic goal of energy independence after Russia invaded Ukraine in 2022. A difference which raises more fundamental questions for our comparative analysis is why member states have alternated between delegating borrowing powers to intergovernmental borrowers, such as the EIB, and supranational ones such as the Commission. The answer to this puzzle, as we show in the following pages, is rooted in the fractious politics of the post-Maastricht period, which has pushed EU member states to borrow but has made them reluctant to cede permanent borrowing powers to the European Commission.

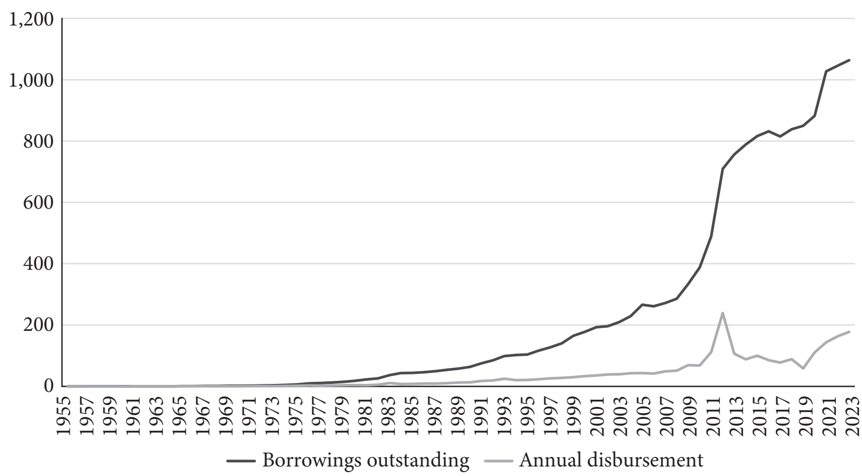

Fig. 1.1 European-level borrowing (1955–2023, billion euro)

Notes: Data from 2021–3 include grants and loans. Figures for 2023 include funds borrowed under the Unified Funding Approach.
Source: Authors' own calculations based on annual accounts of pan-European borrowers and annual budgets of the EU and European Communities.

Comparing our seven European-level borrowers also gives a more complete picture of the EU's evolution as a borrower (Figure 1.1). The early borrowing activities of the High Authority and the EIB, though historic, were modest, with the annual disbursement of borrowed funds remaining below €1 billion until 1973. By the eve of the global financial crisis in 2007, European-level borrowers were disbursing around €50 billion per year due, in no small measure, to the EU's commitments in Central and Eastern Europe after the collapse of communism. Five years later, annual disbursement had increased five-fold, as the EU raced to save the single currency from a devastating sovereign debt crisis. While the financial assistance provided during the euro crisis was temporary, disbursement increased once again in response to the pandemic. A similar picture emerges with respect to total borrowings outstanding, which experienced a ten-fold increase between 1982 and 2007, as the Commission and EIB scaled up lending activities. Borrowings outstanding doubled over the course of the euro crisis due to the funds raised by the Commission, EFSF, and ESM and exceeded €1 trillion for the first time in 2021 due to the funds raised by SURE and the Recovery and Resilience Facility.

1.2 Theory and Methods

Borrowing might appear to be a technocratic issue, but it is of the utmost importance for understanding what sort of polity the EU is and could become. Our point of departure for this study is that sovereign-style borrowing takes the EU further away from its roots as a regulatory state and into the sensitive domains of distribution, allocation, and stabilization (Majone 1998, 2014). From mobilizing funds for large-scale investment projects to managing fiscal and financial crises, borrowing allows the EU to circumvent tight expenditure constraints and limited revenue-raising powers to provide public goods that are more commonly associated with governments. Due to its potential to create winners and losers and the liabilities that joint bond issuance entails, EU borrowing warrants a high degree of accountability, we contend.

Three theoretical approaches guide our study of European-level borrowing. Historical institutionalism emphasizes the importance of time, path dependency, and incremental change, as well as shocks and permissive conditions in the EU's evolution as a borrower (Gocaj and Meunier 2013; Rehm 2022). This approach focuses notably on the ability of economic crises to drive out of the ordinary choices over EU borrowing which are subsequently difficult to rescind. Outside moments of crisis, incremental change—and notably layering—will lead to more subtle shifts in EU borrowing, historical institutionalism contends.

Liberal intergovernmentalism, the second of our theoretical approaches, understands the development of EU borrowing as a choice made by national governments (Moravcsik 2012). Schimmelfennig's (2015, 2018) distinction between creditor and debtor states lacks explanatory power, we maintain. Member states do not lend to each other but rather guarantee borrowing through paid-in or subscribed capital or via the EU budget. The more relevant cleavage is between member states with relatively high and low borrowing costs. Confronted with cross-border externalities, such as a balance of payments crisis, member states with high borrowing costs will embrace EU borrowing as a means to lower risk premia and reassert control over national economic policies, our variant of liberal intergovernmentalism conjectures. Member states with low borrowing costs must choose between paying in full through increased contributions to the EU budget or guaranteeing EU debt issuance and incurring liabilities.

New intergovernmentalism, our third theoretical approach, sees the design of borrowing instruments since the 1990s as suffused with concerns over the EU's legitimacy (Bickerton, Hodson, and Puetter 2015). The politicization of European integration in the post-Maastricht period, it argues, has made member states reluctant to empower the Commission as a supranational borrower for fear of triggering a backlash from Eurosceptics. The empowerment of *de novo* bodies—specialist borrowers operating at one remove from the EU's legal and institutional architecture—is one attempt to work through these problems. The delegation of temporary authority to the Commission is another.

The same theoretical approaches give rise to strikingly different expectations about the accountability of European-level borrowers to parliaments, auditors, and non-governmental organizations (NGOs). Following Laffan (1999), historical institutionalism would expect national auditors and the European Court of Auditors to hold borrowers to account to protect professional norms or at the request of parliaments. Liberal intergovernmentalism is sanguine about the essential accountability of EU institutions (Moravcsik 2002). It follows that intergovernmental borrowers will be closely watched by national parliaments and that the European Parliament (EP) will do likewise for the Commission's borrowing activities. New intergovernmentalism foresees significant problems of accountability as a result of the wider crisis of representation facing parliaments in the post-Maastricht period.

The EP will seek a seat at the table when it comes to EU borrowing, but the EU legislature will likely have to accept an informal role, new intergovernmentalism contends. EU policy-makers meanwhile will seek legitimacy for sovereign-style borrowing by involving citizens and civil society while avoiding any significant empowerment of such constituents.

This book presents a substantial new body of evidence to put these theoretical accounts of borrowing to the test. In so doing, we combine a top-down perspective on how institutions such as the Commission, Council of Ministers, and the EP have engaged in debates over EU borrowing alongside bottom-up case studies of Belgium, France, Germany, Italy, Luxembourg, and the Netherlands, which as the founding members of the European Coal and Steel Community have the longest experience of European-level borrowing. Our book incorporates other countries in its analysis, including the UK, which shaped key decisions over European-level borrowing during its four decades as an EU member state and left open the possibility of a future relationship with the EIB after Brexit.[17] European-level borrowers are often studied in isolation. We will show how current institutions relate to earlier ones and how accountability practices vary between borrowers and among member states. We are influenced by comparative studies of international economic organizations. These include Pauly (1997), who compares the surveillance activities of the International Monetary Fund (IMF) with the Economic and Financial Organization of the League of Nations, and Clift (2018), who compares IMF and Commission fiscal surveillance after the global financial crisis.

1.3 Central Argument

Our central argument is that the EU's evolution as a borrower between 1954 and 2024 was driven by a combination of gradual institutional change and intergovernmental choice. Although the EU frequently borrowed during crises, we find no systematic evidence that moments of great turmoil, such as the 1973 oil shock, the euro crisis, and the COVID-19 pandemic, pushed the Union into novel forms of borrowing and lending which then proved difficult to undo. The EU was already engaged in similar forms of borrowing before such crises began and it was not locked into institutional choices made during turbulent times. Instead, member states built new borrowing instruments on top of existing ones, converted existing instruments to new objectives, and occasionally replaced old instruments with new ones. Thus, layering, conversion, and displacement offer a more plausible explanation of European-level borrowing than punctuated equilibria. The Recovery and Resilience Facility, for example, might be heralded by EU watchers as new, but it is merely the most recent in a series of supranational borrowing instruments dating back to the European Coal and Steel Community loans, and one which will stop financing projects in 2026.

Behind this story of institutional change, lies a combination of hard bargaining and growing concern for the EU's legitimacy problems. Consistent with liberal intergovernmentalism, member states with high borrowing costs have pushed the EU to borrow to access cheaper credit and restore control over national economic policy, our findings indicate. High borrowing cost member states such as Italy have consistently championed European-level borrowing from the establishment of the EIB to the Recovery and Resilience Facility to access cheaper credit. Low borrowing cost countries such as Germany have reluctantly agreed to such borrowing over the alternatives of bilateral support or bigger contributions to the EU budget. There is thus remarkable continuity in the intergovernmental bargain which gave rise to European-level borrowing instruments and institutions between 1954 and 2024. In all cases, member states showed a concern for protecting the EU's credibility as a borrower.

In keeping with new intergovernmentalism, a recurring feature of EU borrowing since the 1990s is member states' reluctance to put the Commission in charge of a permanent borrowing instrument. This reluctance can be seen in the unwinding of the New Community Instrument, the prohibition on Balance of Payments Assistance for euro area member states and the establishment of the EBRD. In such cases, the political economy rationale for Commission borrowing was overridden by concerns about inflaming the EU's legitimacy problems. New intergovernmental logic explains member states' decision to channel the vast majority of financial assistance during the euro crisis through the EFSF and the ESM, two *de novo* bodies over which national governments exercised a high degree of control. *De novo* bodies are not, however, immune from contestation, as evidenced by a Eurosceptic backlash against the ESM in Italy in the late 2010s. The fact that this borrower found itself in the firing line was one reason why member states turned to the Commission as a borrower during the COVID-19 pandemic. However, member states took this step on the strict understanding that new Commission borrowing instruments would be wound down after the economic shock from the coronavirus had passed.

Our analysis of accountability practices views claims of a 'democratic default' in EU borrowing as overblown (Majone 2014). However, we do find significant accountability gaps despite member states' central role in driving EU borrowing. The EP and the European Court of Auditors have found it difficult to hold the Commission to account for its actions in this domain since borrowing and lending operations are only partially recorded in the EU budget. National parliaments and auditors have shown limited interest in intergovernmental borrowers, we find, with the partial exception of the ESM. Apart from the EBRD, European-level borrowers' engagement with citizens and civil society groups has been limited. Accountability practices thus fall short of the expectations set by historical institutionalism and liberal intergovernmentalism but speak to new intergovernmentalism's concerns. As the EU continues its transformation into a sovereign-style borrower, it will require more robust mechanisms of political, administrative, and social accountability, we argue.

1.4 Plan of the Book

The remainder of this book is divided into nine chapters and two parts. Chapter 2 situates the EU's emergence as a sovereign-style borrower within scholarly debates over the EU's democratic deficit and sets out the three theoretical approaches at the heart of this book. Whereas historical institutionalism emphasizes the importance of punctuated and gradual change, liberal intergovernmentalism and new intergovernmentalism see the creation and deployment of European-level borrowing instruments as a choice by governments. These strands of intergovernmentalism differ as to whether this choice is driven by political economy or legitimacy considerations. The three theories also establish different expectations about European-level borrowers' accountability.

The first part of the book consists of five chapters dedicated to the evolution of the EU as a borrower from the 1950s to the 2020s. Chapter 3 traces the origins of the European Community's early borrowing activities, beginning with Jean Monnet's efforts to establish the European Coal and Steel Community's credibility on capital markets. It also recalls how deliberations within the Organisation for European Economic Cooperation over the creation of a European Investment Fund spilt over into the Messina Conference and discusses the first Euratom loan which brought funding for the development of nuclear power and secured access to US technology. This foundational period for European-level borrowing reveals the importance of institutional memory as well as member states' refusal to be bound by earlier institutional choices.

Chapter 4 discusses the European Commission's emergence as a borrower from the first oil shock in 1973 to the signature of the Maastricht Treaty in 1992. During this period, the Council entrusted the Commission with several borrowing instruments before having second thoughts about this decision. While the Community Loan Mechanism was eventually reworked into the Balance of Payments Assistance Facility, the Euratom Loan Facility fell into disuse as an instrument for developing nuclear production after the Chernobyl disaster in 1986. The New Community Instrument allowed the Commission to raise loans for infrastructure projects and small and medium-sized enterprises, but member states ultimately decided that the EIB should lead in this domain. This chapter finds evidence of layering, displacement, and drift as well as a growing reluctance to delegate powers to the Commission as the permissive consensus over European integration faded.

Chapter 5 recounts the history of EU borrowing from the signature of the Maastricht Treaty to the sovereign debt crisis that struck the euro area in 2010. It shows how member states' decision to prohibit Balance of Payments Assistance for countries that had adopted the single currency rebounded when the global financial crisis struck, leaving several euro area member states with acute financing problems. Divided over how to respond to this crisis, member states relied on bilateral assistance before quickly creating new European-level borrowing instruments. The bulk of this support was channelled through *de novo* bodies to minimize the potential for a political backlash.

Chapter 6 considers how the EIB developed from a relatively small regional development bank to the world's largest multilateral lender. It explains this shift as the product not of a critical juncture but a more gradual process of conversion, layering, and displacement. Member states with high borrowing costs actively championed this shift, as did lower borrowing cost countries, which preferred to give the EIB a greater role to the alternative of higher net contributions to the EU budget. At the same time, initiatives such as the European Investment Fund, which was established in 1994 to help small and medium-sized enterprises access finance, and the Juncker Plan, a 2015 initiative to fill Europe's investment gap after the global financial crisis, reflected member states' wider reluctance to delegate new borrowing powers to the Commission.

Chapter 7 explores EU borrowing to support grants, loans, and guarantees for third countries. When communist rule collapsed in Central and Eastern Europe in 1989, two European-level borrowers stood ready to help with the painful transition to market capitalism. The first was the EIB, which had played an active role in providing external development finance to both the Mediterranean region and African, Caribbean, and Pacific countries under successive rounds of the Lomé Convention. The second was the Commission, which was asked by the Group of Seven to lead talks over financial assistance for Europe's newest democracies. Historical institutionalism and liberal intergovernmentalism struggle to explain why member states agreed at this time to create a powerful new European-level borrower in the form of the EBRD. Member states' reluctance to centralize control over external development finance explains this institutional choice despite ongoing concerns over duplication and overlap between the Commission, the EIB, and the EBRD.

Chapter 8 shows how tensions between member states with high and low borrowing costs, which were present at the foundation of the European Communities, resurfaced when COVID-19 struck. Backed by other members of the Frugal Four, the Netherlands argued for ESM loans to be subject to strict conditionality as the most appropriate way to manage the crisis. Italy headed a coalition of nine member states which argued for a bespoke borrowing instrument involving large-scale debt issuance. The resulting compromise saw the ESM equipped with a new Pandemic Support Mechanism, which went unused, and the creation of two new supranational instruments managed by the Commission: SURE and the Recovery and Resilience Facility. Strict time limits confirmed that these instruments were temporary despite calls by France for a further round of large-scale borrowing to support EU members from the economic instability unleashed by Russia's invasion of Ukraine in February 2022.

The second part of the book includes two chapters focused on accountability. Chapter 9 shows that the European Court of Auditors and EP have been kept at arm's length from Commission borrowing until relatively recently and that citizens and civil society groups have been given few opportunities to make their views heard in this domain. Chapter 10 documents the accountability gap facing intergovernmental borrowers. Our findings show that national parliaments and auditors have paid limited attention to these borrowers, with the partial exception of the ESM. Of the three borrowers discussed in this chapter, only the EBRD has a robust independent complaints mechanism and a structured approach to engaging with civil society groups. Taken together, these findings point towards significant gaps in the administrative, political, and social accountability of European-level borrowers.

Chapter 11 summarizes the key findings of our study and looks to the future of the EU as a borrower. Although the Draghi Report's call for a common safe asset to fund joint investment projects is unlikely to be realized, sovereign-style borrowing will play a crucial role in the EU's future, we conclude. This chapter puts forward a number of reform ideas to strengthen checks and balances over European-level borrowers, including an Accountability Charter, better complaints mechanisms, and clearer auditing rights for national auditors and the European Court of Auditors.

Annex

Table 1.1 An overview of European institutions and instruments involved in borrowing

Borrower/ Instrument	Established/ Discontinued	Treaty Basis	Secondary Law (Selected)	Summary of aims	Total subscribed capital	Borrowing ceiling	Total disbursement (as of 2023)
High Authority (European Coal and Steel Community Loan Facility)	1952–2002	Articles 49–54, European Coal and Steel Community Treaty		To finance investment in the coal and steel sectors. To finance works and installations.			€21.3 billion
EIB	1958–ongoing	Articles 308–9, TFEU Protocol (No. 5) on the Statute of the EIB, TFEU		To contribute to the balanced and steady development of the internal market in the interest of the Union.	€249 billion		€1,433.6 billion
Euroatom	1977–ongoing	Article 172, Euratom Treaty	Council Decision 77/270/Euratom Council Decision 90/212/Euratom Council Decision 94/179/Euratom: Council Decision	To finance investment in nuclear power generation and the nuclear fuel cycle in EU member states. To finance safety, efficiency or decommissioning of nuclear power stations in third countries.		€4 billion	€3.7 billion

EBRD	1990	Agreement Establishing the EBRD		To foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative.	€30 billion		€202 billion
EFSF	2010–13	EFSF Framework Agreement		To support euro area members in difficulties caused by exceptional circumstances beyond their control.	€780 billion		€185.6 billion
ESM	2012–ongoing	Article 136 TFEU Treaty Establishing the ESM		To support euro area members facing severe financing problems.	€702 billion		€109.5 billion
European Commission	1958–ongoing						
Community Loan Mechanism	1975–88	Article 235, TEC	Council Regulation (EEC) 397/75 Council Regulation (EEC) 682/81 Council Regulation (EEC) No 1131/85	To support member states facing balance of payments difficulties caused by the increase in petroleum prices.		€6.8 billion	€6.8 billion

continued

Table 1.1 *continued*

Borrower/ Instrument	Established/ Discontinued	Treaty Basis	Secondary Law (Selected)	Summary of aims	Total subscribed capital	Borrowing ceiling	Total disbursement (as of 2023)
New Community Instrument	1978–94	Article 235, TEC	Council Decision 78/870/EEC: Council Decision 81/19/EEC Council Decision 81/1013/EEC Council Decision 82/169/EEC Council Decision 83/200/EEC Council Decision 87/182/EEC	To finance investment projects which contribute to convergence, integration and competitiveness.		EUA 1 billion (1978) ECU 1 billion (1981a) ECU 80 million (1981b) ECU 1 billion (1982) ECU 3 billion (1983) ECU 750m (1987)	€6.6 billion
Balance of Payments Assistance Facility	1988–	Article 143, TFEU Article 308, TFEU	Council Regulation (EEC) No 1969/88 of 24 June 1988 Council Regulation (EC) No 332/2002 Council Regulation (EC) No 1360/2008 Council Regulation (EC) No 431/2009	To support (later, non-euro area) member states facing difficulties in their balance of current payments or capital movements.		ECU 16 billion (1992) Reduced to €12 billion in 2002 Increased to €25bn in 2008 and €50 billion in 2009	€23 billion

Macro-Financial Assistance	1990–	Article 212, TFEU Article 21, TFEU	E.g. Decision (EU) 2020/701 of the EP and of the Council	To support third countries facing balance of payments difficulties.	Specified case by case	€39.6 billion
EFSM	2010–	Article 122, TFEU	Council Regulation (EU) No 407/2010 Council Regulation (EU) 2015/1360	To support euro area member states which are experiencing a severe economic or financial disturbance caused by exceptional occurrences beyond its control.	EU Own Resources ceiling (*c.*€60bn in 2010)	€56 billion
European instrument for temporary support to mitigate unemployment risks in an emergency (SURE)	2020–2	Article 122, TFEU	Council Regulation (EU) 2020/672	To support member state short-term work schemes or similar measures and some health-related measures.	€100 billion	€98.4 billion

continued

Table 1.1 *continued*

Borrower/ Instrument	Established/ Discontinued	Treaty Basis	Secondary Law (Selected)	Summary of aims	Total subscribed capital	Borrowing ceiling	Total disbursement (as of 2023)
Recovery and Resilience Facility	2020–6	Article 122, TFEU Article 174, TFEU Article 311, TFEU	Council Regulation (EU) 2020/2094 Regulation (EU) 2021/241 Council Decision (EU, Euratom) 2020/2053 Regulation (EU) 2023/435	To promote the resilience, crisis preparedness, adjustment capacity, and growth potential of the member states, by mitigating the social and economic impact of COVID-19		€723.8 billion	€196.4 billion

2
Theorizing the EU as a Sovereign-Style Borrower

> The Community has no general taxing and spending powers similar to those held by national governments; and with a budget of less than 1.3 per cent of Union GDP which, moreover, must always be balanced, it can only undertake a limited range of policies. These limitations on the powers of the EC are important … because questions of legitimacy are basically questions about the use of power. (Majone 1998: 10)

This assessment underpins Majone's widely debated claim that 'Europe's "democratic deficit" is democratically justified' (Majone 1998: 5). The European Union (EU) is not becoming a superstate, he contends, but a regulatory one in which governments have delegated responsibility for specific functional tasks to the European Commission to reinforce the credibility of decision making.

Majone's argument, though foundational for the study of European integration and governance, is difficult to reconcile with the EU's growing reach as a sovereign-style borrower. The Union's budget might be small, balanced, and inconsequential compared to the resources available to national governments but European-level borrowers' authority to raise funds on capital markets equips the EU with a much larger fiscal capacity than is generally recognized. The Recovery and Resilience Facility is merely the latest borrowing instrument to illustrate the EU's unsung budgetary powers. By the middle of 2024, the Commission had borrowed more than €276 billion to provide grants and loans to member states during the COVID-19 pandemic. Unlike decisions about regulation, this funding was not primarily intended to be efficiency enhancing (Majone 1998: 28). Rather, it had distributive, allocative, and stabilization objectives. Nearly two-fifths of all Recovery and Resilience Funding by mid-2024 had gone to Italy, a member state that was disproportionately affected by the first wave of the coronavirus. One-third of grants and loans disbursed by the same point went to the green and digital transition, allowing the EU to support these policy priorities to a degree that would

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have been infeasible under the Union's budget. By borrowing at scale, the EU showed financial markets that it stood behind member states during a period of economic turmoil and so helped to avoid a repeat of the euro crisis.

The EU's fiscal capacity should not be overstated. Member states' aversion to joint and several liability and their preference for ad-hoc borrowing instruments means that the EU lacks the safe-asset and counter-cyclical fiscal instrument that some economists see as vital for the single currency's future (Bénassy-Quéré et al. 2018). However, these limitations do not mean that sovereign-style borrowing should be downplayed or dismissed. On the contrary, the EU's borrowing powers change what the Union is capable of and hence how its decision-making bodies should be held to account. This chapter provides the theoretical context for the empirical and normative analysis presented in this book. The first section shows how the EU's ability to borrow challenges classic ways of thinking about the Union as a polity. The ability to raise funds on capital markets, it shows, increases the EU's involvement in policy areas which require a high degree of accountability. The next section presents contrasting theoretical accounts on how the EU came to borrow drawn from three theoretical approaches. Historical institutionalism views such borrowing as the result of critical junctures or incremental change. Liberal intergovernmentalism sees the creation of borrowing instruments as the outcome of interstate bargaining between member states with high and low borrowing costs. New intergovernmentalism, finally, sees the design of borrowing instruments in the post-Maastricht period as shaped by the EU's legitimacy challenges. The final section shows how the same theoretical approaches establish different expectations about what role governments, parliaments, auditors, citizens, and civil society groups are likely to play in holding European-level borrowers to account.

2.1 The Democratic Deficit Revisited

Not all EU scholars see the Union's democratic deficit as democratically justified. Indeed, Majone himself soon came to view Europe as being in the grip of a democratic crisis due to the Commission's drift into policy functions which were ill suited to majoritarian politics (Majone 2005). During the euro crisis, he went even further by arguing that the EU's growing role in the oversight of national fiscal policies left the Union on the brink of a 'democratic default' (Majone 2014: 1221). Despite his evolving views on the subject, Majone continues to see the EU as bound by a small budget, which member states have no intention of expanding. Although his most prominent interlocutors diverge in their views about the EU as a polity, they share his assessment of the EU's negligible fiscal capacity.

Consistent with his liberal intergovernmental account of European integration, Moravcsik (2002) sees the Commission as subject to strict indirect control by national representatives via the Council of Ministers and growing direct control from the European Parliament (EP). Far from suffering from a democratic deficit, he argues, 'EU policy-making is, in nearly all cases, clean, transparent, effective and politically responsive to the demands of European citizens' (Moravcsik 2002). Like Majone, Moravcsik views the EU as constrained by a small budget by virtue of which the Union must confine itself to low-salience policy issues such as trade liberalization and technical standards rather than high-salience ones such as health care, education, and taxation. 'The EU is and will remain 'a "regulatory polity"—a polity with legal instruments but little fiscal capacity', he argues (Moravcsik 2002: 608).

Föllesdal and Hix (2006), by contrast, view the EU's democratic deficit as a real and pressing problem. The significant increase in the scope of European integration since the Single European Act has benefitted executives at the expense of legislatures, they argue, leaving national representatives to exercise powers in Brussels which go largely unchecked at home. The solution, for Föllesdal and Hix (2006), is to give the EP a much greater say over the contestation of policy choices and the general direction of the EU's policy agenda. Although the authors view parliamentarization as preferable to a depoliticized regulatory state, they tacitly agree with Majone and Moravcsik about the EU's limited fiscal capacity. Massive redistribution is infeasible, Föllesdal and Hix (2006) accept. The contestation they have in mind is over the quality and intensity of regulation.

Informative though this great debate over the democratic deficit is, it overlooks the EU's ability to borrow and so understates the Union's true fiscal capacity. The Union evidently cannot match the tax-raising powers of its member states, which had an average tax-to-GDP (gross domestic product) ratio of 41.2 per cent in 2022 compared to a 1.4 per cent gross national income ceiling for the Union's own resources (Eurostat 2023).[1] However, borrowing allows the EU to loosen this fiscal constraint by using the Union's budget or member state guarantees to mobilize significant resources on capital markets. By pushing the EU beyond its roots as a regulatory state into the realms of distribution, allocation, and stabilization, borrowing not only changes what the EU can do but also what it is.

2.1.1 The EU's Fiscal Capacity

Our claim that the EU has a fiscal capacity comes with three major caveats. First, the EU has become an established issuer on capital markets, but it still lacks a common safe asset, which could meet member states' financing needs and reassure investors in times of turmoil (Leandro and Zettelmeyer 2018). That Germany, among other member states, insists on proportional guarantees for European-level debt rather than joint and several liability is one reason why the EU has not experienced a Hamiltonian moment yet. The fact that the Treaty on the Functioning of the European Union (TFEU) expressly prohibits the Union from being liable for or assuming the commitments of member state governments is another.[2] The second caveat is that the EU's fiscal capacity is fragmented. The Commission is, as noted in Chapter 1, one of several European-level borrowers with the authority to issue funds on behalf of member states. The relationship between these bodies sometimes lacks coherence, as we will see in this book, but calls to create a single borrower in the form of a European Monetary Fund or a European Bank for Climate Change and Sustainable Development have thus far fallen flat. Third, the fact that the EU has *a* fiscal capacity does not mean that it has *the* fiscal capacity it needs. Member states' reluctance to give the Commission permanent borrowing powers means that the EU has entered several major crises without the requisite policy tools. Despite longstanding calls by economists to equip the euro area with a counter-cyclical fiscal instrument, European-level borrowing has thus far failed to fill this gap (Wyplosz 2016).

These caveats, though important, do not take away from the fact that borrowing allows the EU to take on policy functions which many scholars think of as being beyond the Union's reach. The distributive dimension of sovereign-style borrowing can be seen not only in the geographic concentration of EU pandemic grants and loans but also in the disbursement of borrowed funds more generally. EU member states seek to minimize their net contributions to the Union's budget, as can be seen from the rebates secured by different member states since UK Prime Minister Margaret Thatcher won 'her' money back at the Fontainebleau Summit in 1984.[3] This principle of 'juste retour' is not absent from borrowing but it is much less pronounced (Le Cacheux 2005). Borrowing instruments such as the Balance of Payments Assistance Facility, the European Financial Stabilisation Mechanism, and Macro-Financial Assistance are reserved for one or more countries facing acute fiscal and financial crises. The European Investment Bank (EIB) has an explicitly distributive role in as much as the treaty tasks it with contributing to the balanced and steady development of the internal market. Although the Bank's loans have become more evenly distributed among member states over time (Clifton, Díaz-Fuentes, and Gómez 2018: 741), EIB directors do not insist on parity year on year. In 2022, for instance, Germany accounted for 9 per cent of new projects signed compared to 13 per cent for France and 14 per cent for Italy and Spain (EIB 2022).

Borrowing also allows the EU to engage in allocation on a scale that is not feasible under its balanced budget. Italy, for example, pledged to spend €42 billion of Recovery and Resilience funding on projects related to education, the labour market, and health care, policy areas which both Majone (1998) and Moravcsik (2002) see as beyond the EU's reach. The EIB, meanwhile, allocates nearly €16 billion per annum in loans to non-EU members. This compares with the EU's annual commitment of around €2.5 billion under the budget heading of 'Europe and the World'. Nor is the EIB's allocative role set in stone. The Bank did not lend to Central and Eastern Europe until the fall of communism and the Luxembourg lender's domestic priorities have shifted over time from regional development to transport, energy, and the environment (Clifton, Díaz-Fuentes, and Gómez 2018).

EU borrowing may not have equipped the EU with a genuinely countercyclical fiscal instrument, but it encroaches on the sensitive domain of stabilization. By the time the first pre-financing under the Recovery and Resilience Facility was disbursed in December 2021, the EU's recovery from recession was already underway. And yet, the agreement to create this borrowing instrument struck by the European Council eighteen months earlier had helped to reduce the spread on member states' sovereign debt, allaying concerns that the pandemic would trigger a sovereign debt crisis (Freier et al. 2022). Evidently, this does not mean that the effect of EU borrowing on stabilization is always favourable. The budget cuts and tax increases required by the Commission and other European-level borrowers during the euro crisis arguably made difficult economic conditions in Greece, Ireland, and Portugal far worse.

2.1.2 Holding Borrowing to Account

Majone (1998) originally saw the EU's democratic deficit as being justified on both procedural and substantive grounds. Procedural legitimacy refers here to standards such as transparency, openness, and effectiveness against which these bodies can be judged in the absence of day-to-day control by elected representatives. Substantive legitimacy captures the belief that non-majoritarian bodies should be carrying out the tasks entrusted to them.

While accepting that the EU's procedural legitimacy could be improved, Majone (1998) sees the Union's traditional focus on economic, social, and environmental regulation as conferring a large measure of substantive legitimacy. Since well-designed regulation is efficiency enhancing for society at large, this argument goes, member states are justified in giving the Commission significant regulatory powers, while leaving policies which create winners and losers to elected representatives.

For Majone (2014), the harsh policies imposed on member states during the euro crisis threatened to destroy the EU's substantive legitimacy. This assessment goes too far in our view. What a genuine democratic default would look like was suggested by German Finance Minister Wolfgang Schäuble's call in October 2012 for the creation of a 'super commissioner' with the power to approve national budgets with limited involvement from the EP. However, this challenge to the fiscal prerogatives of national governments and parliaments enjoyed little support from other member states (Karagiannis and Guidi 2013). Where we agree with Majone (2014) is that decisions taken by European-level borrowers during the euro crisis were substantively different than the sort of rule making associated with the European regulatory state and that the former cannot, consequently, rely on the same forms of procedural legitimacy as the latter.

Robust accountability mechanisms are required, above all, because EU borrowing involves policy decisions over distribution, allocation, and stabilization that create winners and losers. Whether the EU provides loans to a member state facing a fiscal crisis or invests in a project with economic, social, and environmental consequences at home and abroad, the disbursement of funds requires control and scrutiny. Robust accountability mechanisms are also warranted because of the liabilities incurred when the EU borrows. Member states have paid in around €35 billion into the European Bank for Reconstruction and Development (EBRD), EIB, ESM, and set aside multiples of this amount in callable capital. All three borrowers have strong credit ratings, but that does not mean that their lending decisions bear no risk. Lending outside the EU is generally riskier, with the provisioning rate for exceptional Macro Financial Assistance to Ukraine raised from 9 per cent to 70 per cent in 2022 (European Commission 2023a: 7). Nor is the profitability of such investments assured. The EBRD incurred a record loss of €1.1 billion in 2022 primarily due to impairment losses in Russia and Ukraine, two shareholders which found themselves at war. Funds raised under the Recovery and Resilience Facility—and interest thereon—need to be repaid by 2058. The Commission has proposed new own resources for this purpose, but they remain nowhere near enough at the time of writing.

2.2 Explaining the Evolution of European-Level Borrowers

Engaging with the democratic deficit can help us understand the significance of EU borrowing and the importance of holding the Commission and other European-level borrowers to account. However, it does not explain why member states have chosen to borrow or identify the mechanisms through which such borrowers should be held to account. Rather than presenting a single theoretical perspective on this topic, this book draws on three approaches which illuminate our object of study to varying degrees: historical institutionalism, liberal intergovernmentalism, and new intergovernmentalism. These theories do not have the last word, of course, but they combine testable claims about the evolution of EU borrowing with clear expectations about how intergovernmental and supranational borrowers will be held to account. Historical institutionalism and liberal intergovernmentalism are baseline theories of European integration, while new intergovernmentalism is a more recent attempt to understand the shifting dynamics of integration after Maastricht.

2.2.1 Historical Institutionalism

The EU's longevity as a borrower makes historical institutionalism a natural point of departure for our study. An influential and widely applied variant of new institutionalism, historical institutionalism, emphasizes the importance of 'temporal phenomena' in explaining the origin and evolution of rules, norms, and practices that shape our society (Fioretos, Falleti, and Sheingate 2016). Early work in this theoretical tradition focused on the explanatory power of 'epochal times' (Collier and Collier 2002: xi). A critical juncture occurs, it posited, when a crisis triggers a long-lasting departure from so-called antecedent conditions in ways that rival explanations which rely on constant causes cannot explain (Collier and Collier 2002: 30). Crises drive discontinuous change in this account either by empowering new actors or groups or by raising compelling issues that require a fundamental reorganization of political relationships (Collier and Collier 2002: 34). The temporary relaxation of 'structural influences' facing decision makers triggers critical junctures, Capoccia and Kelemen (2007) contend, because it allows consideration of a much wider array of policy alternatives than in normal times. Once these choices have been made, they are difficult to take back.

Historical institutionalism is interested in gradual as well as punctuated change. Mahoney and Thelen's (2010: 15–18) concepts of displacement, layering, drift, and conversion have shaped scholarly understanding of gradualism. Displacement occurs when new rules replace existing ones. Layering describes a situation where new rules are built on top of old ones in ways that add to or alter the latter. Drift happens when changing external conditions modify the impact of rules that are otherwise unchanged. Conversion takes place when rules remain constant but their interpretation or enforcement changes. Mahoney and Thelen (2010) see these modes of incremental change as driven by dynamic interactions between actors that defend the status quo and those that lose from existing rules. Layering, for example, occurs when defenders of the status quo are powerful enough to defend existing rules but not to prevent losers from creating new rules to run alongside these additional ones.

Several scholars have employed historical institutionalism to understand the origins and evolution of specific EU borrowing instruments. Gocaj and Meunier (2013) led the way with their analysis of the euro crisis. The intensification of Greece's fiscal problems in the first half of 2010, they contend, served as a critical juncture which forced EU members to create bespoke borrowing instruments to protect the single currency. A range of hitherto taboo options was hastily considered in this period, Gocaj and Meunier (2013) find, before member states settled on the creation of a special purpose vehicle in the form of the temporary European Financial Stability Facility (EFSF). Rather than reconsidering the case for a European Monetary Fund, a European Debt Agency, or a more sizeable Commission-backed facility when the euro crisis worsened, member states largely replicated the EFSF's institutional design when they created the permanent ESM. That they did so, despite the EFSF's limited lending capacity and vulnerability to downgrades, exemplifies historical institutionalism's concept of path dependence, Gocaj and Meunier (2013) conclude. Verdun (2015) places greater emphasis on gradual change in her historical institutionalist analysis of the euro crisis. The creation of the ESM, she argues, shows signs of displacement, layering, and copying in relation to the EFSF, if not quite in the way that Mahoney and Thelen (2010) expect. The newer borrowing instrument was not intended to erode support for the older one, Verdun contends, but to run alongside it.

While these and other studies use historical institutionalism to study specific moments in the EU's evolution as a borrower, few take the long view of this policy domain. A notable exception is Rehm (2022) who examines the evolution of, what he calls, the EU financial assistance regime from the 1973 oil shock to the COVID-19 pandemic. Legal adjustments to this regime typically occurred during periods of rapid economic decline, he finds, lending weight to the explanatory power of critical junctures. Rehm also finds extensive evidence of layering in the way borrowing instruments from the Community Loan Mechanism to the Recovery and Resilience Facility were built on top of each other, alongside more infrequent instances of displacement, including member states' decision in the Maastricht Treaty to prohibit Balance of Payments Assistance for member states once they adopted the single currency. Our analysis of EU borrowing builds on this earlier work while differing from it in other respects. First, we include Macro Financial Assistance, a borrowing instrument designed to support third countries which took on added importance after Russia invaded Ukraine in 2022. Second, we include borrowing instruments that go beyond the financial assistance regime, including the European Coal and Steel Community Loan Facility and the borrowing and lending activities of the EIB.

To summarize, we would expect to find evidence from a historical institutionalist perspective of punctuated and gradual change in our analysis of European Community (EC) / EU borrowing between 1954 and 2024. In the case of the former, we will interrogate the claim that sudden economic crises privilege drastic policy choices over EU borrowing which persist once these crises subside. As regards the latter, we will consider whether new borrowing instruments or institutions build on or supplement earlier ones through an incremental process of displacement, layering, drift, or conversion.

2.2.2 Liberal Intergovernmentalism

Historical institutionalism wrestles with the role of agency. In its original—and arguably most persuasive form—this approach describes the tendency of institutions to lock in political choices even, perhaps especially, when they run contrary to powerful interests (Pierson 1996). The difficulty of reforming the Common Agricultural Policy despite its self-evident inefficiencies provides a paradigmatic example of path dependence in the European context (Kay 2003). Its structuralist underpinnings notwithstanding, historical institutionalism has always been interested in how power relations unfold over time and the extent to which institutions reflect the interest of political coalitions (Pierson 2016: 125–6). Actor-centred historical institutionalism is a relatively recent attempt to make explicit the role of rational calculus alongside the constraining effect of institutions (de la Porte and Natali 2018; Rehm, 2022). Although this approach generates valuable insights into EU borrowing, it comes at the expense of theoretical eclecticism. Rather than modifying historical institutionalism yet further, we compare the approach outlined above with liberal intergovernmentalism (Moravcsik 1993, 1998).

One of the most influential attempts to theorize why member states empower EU institutions, liberal intergovernmentalism explains European integration through the triptych of preference formation, rational bargaining, and credible commitments (Moravcsik 1993, 1998). Preference formation sees political economy concerns as trumping geopolitics. Where influential pressure groups have clearly defined preferences, national governments will face added pressure to manage externalities among EU member states through closer economic policy cooperation. Rational bargaining assumes that governments will leave no benefits on the negotiating table and that governments with weak preferences for cooperation are in a strong position to extract concessions over a final deal. Once an agreement has been struck, institutions are designed to lock in the benefits of cooperation, *inter alia*, by making it difficult for governments to defect.

Moravcsik (1993: 493–4) sees macroeconomic policy as subject to weak mobilization by pressure groups compared to the regulatory domain. In contrast to regulation, he argues, business and worker representatives will have ambiguous views regarding macroeconomic variables such as inflation, unemployment, and exchange rates. Where governments embrace macroeconomic policy coordination, liberal intergovernmentalism assumes, they do so to reinforce national control over policy goals in the face of externalities. Moravcsik's scepticism about the EU's ability to develop a fiscal capacity notwithstanding, liberal intergovernmentalism would see EU borrowing as a choice by national governments rather than a response to peak organizations. Even if trade associations or trade unions express a view on whether the Union should borrow, such groups will not wield the same influence in this policy domain as they do in trade or agriculture.

Schimmelfennig (2015, 2018) offers the most in-depth account to date of EU borrowing from a liberal intergovernmental perspective. Member states had a shared interest in avoiding the breakup of the euro area, he argues, since the contagion effects from losing one or more countries would have generated costly externalities for all others. Where they differed was over how to manage this crisis. Debtor countries wanted to mutualize the costs of managing the euro crisis, Schimmelfennig (2018: 1583) argues, while creditor countries wanted to push this burden of adjustment onto debtor countries. Creditors had the upper hand in negotiations, Schimmelfennig argues, and succeeded in blocking calls for Eurobonds and attracting stringent conditions to financial assistance. Germany was indispensable to this bargain, he concludes, and ensured that '[d]ebt would remain national and financial assistance would come in the form of credits' (Schimmelfennig 2018: 187).

Valuable though this analysis is, it leaves questions unanswered from a liberal intergovernmental perspective. Why would member states choose to borrow rather than provide financial assistance through the EU budget? Why does the EU borrow during normal times as well as in times of crisis? Why does the EU borrow to finance support to third countries? Schimmelfennig's account of the euro crisis also treats financial assistance as a transfer between debtor and creditor countries, whereas all member states serve as guarantors of EU borrowing either through the authorized capital they contribute to borrowers such as the EIB, EBRD, and ESM or via the EU budget. By a similar logic, Italy was one of the biggest recipients of funding under the Recovery and Resilience Facility, but also one of its biggest guarantors. The debtor-creditor dichotomy is better suited to understanding the Medium-Term Financial Assistance, an early Community instrument under which member states agreed to provide credits to countries facing balance of payments crises. However, member states' reluctance to scale up these credits was one reason why the Community resorted to borrowing through the Community Loan Mechanism (Rehm 2022).

In this book, we offer an alternative liberal intergovernmental perspective on EU borrowing. EU debt might not be backed by joint and several liability, which would require losses from loans or guarantees to be shared equally among member states, but EU bonds have a single yield which reflects investors' risk determination about European-level borrowing instruments or institutions. Member states which face individual borrowing costs which are significantly above the expected yield on EU bonds will push hardest for borrowing in response to cross-border externalities, liberal intergovernmentalism implies. Member states which face individual borrowing costs which are significantly below the expected yield on EU bonds will find it more cost effective to borrow alone. However, we conjecture that these member states may prefer EU borrowing to managing cross-border externalities through bilateral contributions or via increased contributions to the EU budget.

To finance borrowing institutions such as the EIB, member states commit paid-in capital and callable capital. For borrowing instruments such as the Recovery and Resilience Facility, member states will be liable for the repayment of debt and any losses incurred via their contributions to the EU budget. EU borrowing will be justified from a liberal intergovernmental perspective where such costs are less than those associated with bilateral support or increased contributions to the EU budget. This argument offers a variation on the logic of tax smoothing, whereby a government faced with large and 'lumpy' expenditure on, for example, a war or infrastructure project, has an incentive to raise public debt to minimize the distortionary costs of taxes (Fatas et al. 2019).

Borrowing to provide grants, loans, or guarantees to third countries relies on a variation of this liberal intergovernmental explanation. Third countries will request EU financing where the terms of these loans are preferable to borrowing alone. EU member states will borrow to finance such loans, where doing so is deemed preferable to supporting third countries via bilateral contributions or the EU budget. Since lending to third countries is risky—and any losses incurred could impact not only the EU's credit rating but also that of its guarantors—borrowing in support of third countries will be kept to a minimum. A similar logic explains why member states with low borrowing costs will not agree to unlimited borrowing for domestic or international purposes since to do so could increase the risk premium on EU bonds and damage the creditworthiness of both the Union and its member states.

In short, we would expect to find evidence from a liberal intergovernmental perspective of political economy preferences, rational bargaining, and credible commitments when it comes to the origin and evolution of EU borrowing instruments between 1954 and 2024. Our cases will fit this theoretical explanation if borrowing instruments are created when member states with high individual borrowing costs push for EU borrowing and member states with low borrowing costs find EU bond issuance preferable to bilateral assistance or higher EU budget contributions.

2.2.3 New Intergovernmentalism

New intergovernmentalism concurs with liberal intergovernmentalism about the overriding importance of national governments in determining the pace and direction of European integration (Bickerton, Hodson, and Puetter 2015). However, the former sees the dynamics of integration as undergoing a profound shift in the 1990s in ways that the latter cannot easily account for. New intergovernmentalism does not purport to explain EU borrowing before this period, but it sees the creation and expansion of borrowing instruments thereafter as exemplifying a trend towards 'integration without supranationalisation' (Fabbrini and Puetter 2016).

Member states' stance on EU cooperation cannot be reduced to political-economy considerations in the face of cross-border externalities, new intergovernmentalism contends. Preference formation in the post-Maastricht period is also suffused with concerns over the EU's legitimacy, which in turn are linked to declining popular support for European integration in the 1990s and the associated rise of Eurosceptic movements and parties. Post-functionalism was among the first theories to posit the emergence of a structural break in European integration in the 1990s. The transition from a permissive consensus to a constraining dissensus, Hooghe and Marks 2009) argue, caused politicians to 'look over their shoulders when negotiating European issues'. Pathbreaking though post-functionalism is, it is agnostic as to whether new political cleavages will lead to 'the status quo', 'punctuated reform', or 'disintegration' (Hooghe and Marks 2019: 1117). New intergovernmentalism, although it shares some similarities with post-functionalism, sees national governments as driven by a strong commitment to closer cooperation and so determined to work around the problems of legitimacy facing the EU (Hodson and Puetter 2019).

EU member states have grown more reluctant to delegate new powers to the European Commission in the post-Maastricht period, new intergovernmentalism contends. This reluctance is linked to the fact that the Commission has become a lightning rod for Eurosceptic politicians, who portray the European project as being in thrall to faceless technocrats rather than answerable to national governments. That such portrayals are inaccurate does not matter; they serve populist discourses about taking back control, as seen most strikingly in the UK's 2016 referendum vote to leave the EU. Delegating new powers to the Commission also raises the prospect of hard-to-win referendums. In the pre-Maastricht period, it largely fell to national parliaments to approve treaty revisions. Thereafter, referendums became more commonplace, with 'no' votes against Maastricht in Denmark, the Nice and Lisbon Treaties in Ireland, and the European Constitution in France and the Netherlands providing powerful platforms to Eurosceptics (Hodson and Maher 2018). Once the Lisbon Treaty entered into force in 2009, member states grew reticent about major treaty revisions.

In earlier periods, the treaty's so-called flexibility clause allowed member states to entrust the Commission with borrowing instruments such as the Community Loan Mechanism without changing the treaty. However, this clause, which can be activated when the EU lacks the 'necessary powers' to achieve a treaty objective, has been used more sparingly since the 2000s because of the Union's contested constitutional system (Engström 2010: 456). This leaves member states reliant on creative interpretations of the treaty if they wish the Commission to borrow and vulnerable to legal challenges if they proceed. A desire to avoid such legal challenges, new intergovernmentalism posits, will add to member states' reluctance to delegate in this domain.

One response to the turbulent politics of the post-Maastricht period is to impose strict time limits on Commission borrowing instruments in an effort to counter claims of competence creep and reduce the scope for legal challenges and political backlash. An alternative is to delegate borrowing powers to *de novo* bodies, which operate at one remove from the EU's legal and institutional architecture. *De novo* bodies typically involve a prominent role for national representatives in governing bodies, as in the inclusion of national border officials on the Board of Directors of the European Agency for the Management of Operational Cooperation at the External Borders (Frontex). *De novo* bodies' legal basis generally derives from secondary law or international law treaties and their membership may be limited to a subset of EU members. For instance, the Single Resolution Board, a body which plays a key role in dealing with distressed banks in the EU, is based on an Intergovernmental Agreement between the twenty members of the euro area and Bulgaria. All other things being equal, these intergovernmental characteristics make it easier for EU member states to delegate borrowing powers to *de novo* bodies than to the Commission.

In short, we would expect to find evidence from a new intergovernmental perspective of EU member states' reluctance to delegate additional borrowing powers to the Commission in the post-Maastricht period even where there are compelling political economy reasons for doing so. Our cases will fit this theoretical explanation if concerns over the EU's legitimacy favour the empowerment of *de novo* bodies or produce strict limitations on the temporary borrowing powers of the Commission.

2.3 Accountability Expectations

Following Lastra and Shams (2001: 167), we define public accountability as the obligation placed on institutions ('the accountable') by another body ('the accountee') to justify their actions and accept responsibility for any shortcomings. Drawing on Bovens' (2007) distinction between political, administrative, and social accountability, we focus on the role played by governments, parliaments, auditors, civil society, and citizens in holding European-level borrowers to account.[4] Political accountability captures the chain of delegation linking voters and policymakers. As wielders and guardians of the public purse, governments and national parliaments have a central role to play in holding European-level borrowers to account. So too has the EP given its powers of adoption, control, and oversight in relation to the EU budget. Administrative accountability refers to the role played by quasi-legal external forums in exercising supervision and control. National auditors and the European Court of Auditors, or Supreme Auditing Institutions as they are collectively known, will take a keen interest in how European-level borrowers raise and disburse funds backed by national and European guarantees. Social accountability captures the desire of citizens and civil society groups to hold policymaking directly to account. These accountees have a particular stake in borrowing given the potential for EU grants and loans to have undesirable or unintended economic, social, and environmental consequences for specific groups or individuals.

The three theories employed in our study are relevant not only for explaining how the EU came to borrow but also for formulating expectations about what sort of political, administrative, and social accountability we would expect to see in this policy domain. By comparing accountability practices to accountability expectations, we show where the control and supervision of EU borrowers works as anticipated and where it falls short. While historical institutionalism expects auditors to provide a high degree of administrative accountability, liberal intergovernmentalism expects governments, national parliaments, and the EP to impose rigorous political accountability on European-level borrowers. New intergovernmentalism expects the EP to encounter difficulties in exercising political accountability due to the informal nature of decision making and for executives' weak engagement with citizens and civil society to blunt social accountability.

In the literature on EU borrowing, scholars who employ historical institutionalism are primarily interested in explaining institutional change; whether and how borrowing instruments are held to account are not addressed in such studies (Gocaj and Meunier 2013; Verdun 2015; Rehm 2022). This theoretical focus is consistent with the wider literature on historical institutionalism and European integration (Bulmer 2009), as well as canonical contributions to this strand of new institutionalism, which make only passing reference, if at all, to questions of democratic accountability (Pierson 1996; Mahoney and Thelen 2010). Despite this theoretical lacuna, we agree with Fioretos (2011: 393) that historical institutionalism has underexploited potential to understand the accountability of international organizations.

Historical institutionalism is especially relevant, we argue, for understanding the expected administrative accountability of European-level borrowers to auditing bodies. In her influential historical institutionalist account of the EU budget, Laffan (1999) offers two reasons why the European Court of Auditors came to play an active role in this policy domain despite initial resistance from the Commission. The first is that the EP championed the court's role because of the importance of auditing reports for parliamentary accountability. The second is that professional norms drove the European Court of Auditors to subject the Commission's activities to high auditing standards. Extended to the case of EU borrowing, we would expect the EP and European Court of Auditors to seek a prominent role for the court over the Commission's borrowing activities. By the same logic, national parliaments and auditors will keep a watchful eye over the EIB, ESM, and EBRD.

In its original form, liberal intergovernmentalism largely steered clear of normative questions, but this changed with its leading proponent's prominent contribution to the debate over the EU's democratic deficit (Moravcsik's 2002, 2008). Moravcsik's scepticism about this deficit is rooted in the belief that EU institutions are either directly or indirectly accountable to voters. Intergovernmental bodies, liberal intergovernmentalism contends, answer to national representatives who act under 'constant instruction' from national governments and under the gaze of national parliaments (Moravcsik 2002: 612). The Commission, although it is politically independent, is constrained by a separation of powers which affords the directly elected EP significant agenda-setting powers and the intergovernmental Council of Ministers a gatekeeping role over EU legislation (Moravcsik 2002: 612). Applied to the case of EU borrowing, liberal intergovernmentalism would expect a high degree of political accountability, with national parliaments keeping a watchful eye on the intergovernmental EIB, EBRD, and ESM and the Commission's borrowing powers subject to strict oversight and control by the EP.

New intergovernmentalism expects the EP, citizens, and civil society to encounter difficulties in holding European-level borrowers to account. This theoretical approach sees the EU's democratic deficit as symptomatic of a wider crisis of representation in European politics which cannot easily be treated. This crisis is marked not only by elevated levels of public scepticism about the benefits of European integration but also doubt over the ability of governments and parliaments to play their traditional legitimating roles. The Eurobarometer shows that trust in the EU among the Union's citizens has remained below 50 per cent since the global financial crisis (European Commission 2024b: 9). This picture is considerably worse for national governments and parliaments, which were trusted by only a third of respondents as of 2024 (European Commission 2024b: 9). Although polls find that the EP is the most trusted EU institution on average, public opinion towards the EU legislature has become more polarized across different socio-economic groups, Bauer and Moris (2023) find.

The EU has responded to this crisis of representation, new intergovernmentalism argues, by developing a system of 'executive federalism' in which member state governments dominate decision making while avoiding modes of delegation with the potential to trigger a public backlash (Bickerton, Hodson, and Puetter 2015: 710). Although it has gained sweeping legislative powers in the post-Maastricht period, the EP poses little threat to this institutional balance of power, new intergovernmentalism posits. One reason is that negotiations between the Commission, Council, and EP tend to take place behind closed doors, reducing the scope for public deliberation over policy choices. A related reason is that the EP has tended to settle for informal oversight of *de novo* bodies in the form of information exchange and reporting requirements rather than pushing in vain for parliamentary control. In both cases, informality appears to be the price of access for the EP.

A recurring response to the problems of legitimacy facing the EU in the post-Maastricht period is to involve citizens and civil society in policymaking (Christiansen 2015). This participatory turn can be seen in endeavours ranging from the European Citizens Initiative, under which a million citizens in at least seven member states can request the Commission to consider legislative proposals in a particular issue area, to the Conference on the Future of Europe, which invited 800 members of the public to engage in a year-long reflection exercise on the EU's priorities. New intergovernmentalism is sceptical that such approaches will bear fruit. As with the EP, the EU's system of executive federalism makes it unlikely that decision makers will cede control. That only a fraction of European Citizens Initiatives has led to legislative changes comes as little surprise from this theoretical viewpoint, as does the European Council's reticence about taking forward the Conference on the Future of Europe's recommendations.

Whereas liberal intergovernmentalism and historical institutionalism are thus broadly optimistic about the accountability of the EU as a borrower, new intergovernmentalism is altogether more downbeat. The EP might seek control over borrowing instruments, but it is unlikely to achieve more than informal oversight from a new intergovernmental perspective. By a similar logic, European-level borrowers might embrace participation to boost their legitimacy, but the influence of citizens and civil society groups in such cases will remain limited.

2.4 Conclusion

For Majone (1998: 10), the 'standards of accountability historically developed to control an omnicompetent state with virtually unlimited powers to tax and spend, cannot be applied without substantial modifications to a system of limited competences and resources such as the EC'. The EU is not an omnicompetent state but its ability to borrow means that it has far greater resources at its disposal than Majone, among other scholars, allows for when discussing whether the Union's democratic deficit is democratically justified. Borrowing gives the EU a fiscal capacity which, despite its limitations, enables distribution, allocation, and stabilization to a degree that is unfathomable under the Union's small, balanced budget. Because distribution, allocation, and stabilization create conspicuous winners and losers, borrowing requires higher standards of accountability than would be the case under a regulatory polity. Sovereign-style borrowing is not just a technical issue which revolves around auctions, syndications, and maturity dates. It poses fundamental questions about the exercise of power beyond the nation state.

This chapter has explored three theoretical perspectives on how the EU came to borrow and how such borrowing can be held to account. Historical institutionalism offers a useful way of thinking about continuity and change in this domain, as well as the catalytic effect of crises. The EU's evolution as a borrower, it conjectures, is the product of either critical junctures which privilege previously unthinkable policy choices or a more gradual process of displacement, layering, drift, and conversion in borrowing instruments. Liberal intergovernmentalism, in contrast, sees European-level borrowing as a choice by governments to reassert control over national economic policy in the face of externalities. For member states with high domestic borrowing costs, it contends, EU borrowing offers access to cheaper credit. For the rest, a limited amount of borrowing may be preferable to managing externalities bilaterally or by means of higher contributions to the EU budget. New intergovernmentalism emphasizes member states' reluctance to delegate borrowing powers to the Commission for fear of fuelling concerns over the EU's legitimacy. Even where the political economy case for borrowing is strong, member states will impose strict time limits on borrowing by the Commission or favour the establishment and empowerment of *de novo* borrowers, new intergovernmentalism conjectures.

The three theories surveyed in this chapter also establish different expectations about the EU's accountability as a borrower. Historical institutionalism expects the Commission to be subject to a high degree of administrative accountability by the European Court of Auditors and for national auditors to play a similar role in relation to the EIB, ESM, and EBRD. In keeping with its critique of the democratic deficit, liberal intergovernmentalism would expect European-level borrowers to have clear lines of political accountability to governments, national parliaments, and the EP. In contrast, new intergovernmentalism expects the political and social accountability of borrowers to be encumbered by the problems of representation facing European politics. Executives will favour a high degree of control over borrowing, it posits, to the detriment of the EP, citizens, and civil society. In the chapters that follow we put these claims to the test.

3

The European Community's First Borrowing Instruments (1954–69)

On 23 April 1954, the High Authority of the European Coal and Steel Community (ECSC) agreed a $100 million loan with the Export-Import Bank of Washington (EXIM Bank). A joint press release by the two parties declared:

> This is the first time a loan has been extended to the European Community, as distinct from separate nations. It is a concrete expression of support by the United States Government to the European Community in accordance with the policy of encouraging European unity as declared by President Eisenhower and the Congress.[1]

By the end of the year, the High Authority had used most of the so-called 'American loan' to help finance projects ranging from the modernization of coal mines and coke plans to the building of pit-head power stations (ECSC Information Service 1955).

Two other Communities established later that decade also engaged in borrowing from the outset. In August 1959, the European Atomic Energy Community (Euratom) announced a $135 million loan from the EXIM Bank to co-finance the construction of nuclear power plants (EXIM Bank 1959). Nineteen months later, the European Investment Bank (EIB), an organ of the new European Economic Community (EEC), took out a loan of 20 million guilders from a group of Dutch banks (EIB 1962: 25). At this point, the Bank had already signed its first loan agreement with the Cassa per il Mezzogiorno, an Italian government agency, to co-finance the development of a thermo-electric power station south of Naples and two petrochemical plants in Sicily (EIB 1960: 17). By 1969, the three European-level borrowers had disbursed a combined $2.6 billion in loans, cementing the European Community's standing on international capital markets.

When the European Union (EU) issued debt to contain the costs of the euro crisis in the 2010s and COVID-19 in the 2020s, its actions were heralded

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on both occasions as unprecedented. This chapter shows that borrowing has been a feature of European integration since the 1950s and asks how and why the six founding member states of the European Communities came to empower the High Authority, Euratom, and the EIB as borrowers. Historical institutionalism and liberal intergovernmentalism both shed light on this foundational period for our study. The first of these approaches shows how the architects of the European Communities drew on the institutional memory of the League of Nations and the Organisation for European Economic Cooperation (OEEC) when it came to the design of borrowing instruments. The second underlines the importance of intergovernmental choice in such design decisions. European Community borrowing has a backstory, we show, but it was not bound by it.

3.1 Borrowing in the Shadow of the League of Nations and the OEEC

Historical institutionalism is more adept at explaining the consequences of institutional arrangements than their origins. This does not mean, however, that the European Communities' first forays into borrowing can be explained by liberal intergovernmentalism alone. Member states' decision to empower the High Authority, Euratom, and the EIB as borrowers was not taken in isolation; it drew on previous attempts at, and discussions over, borrowing by other international organizations.

3.1.1 The Other Monnet Method

One individual who carried the memory of earlier experiments in supranational borrowing was Jean Monnet, the French financier and official who chaired the Schuman Plan Conference, which drafted the 1951 Treaty of Paris, before serving as the first president of the ECSC's High Authority. Monnet is remembered today for his vision of entrusting supranational institutions with independent policymaking powers—the Monnet method (Featherstone 1994)—but he also pioneered the idea of sovereign-style borrowing at the European level, drawing on his experience and contacts as a banker in Europe and the United States and his work for the League of Nations and the French Commissariat Général du Plan.

As deputy secretary general of the League of Nations, Monnet had played a central role in the League's pioneering efforts to raise a $130 million loan for Austria in 1923 (Salter 1961: 177). Guaranteed by Belgium, France, Italy, and the United Kingdom and subject to economic and political conditions monitored by the League's Economic and Financial Organization, the loan helped Austria to contain its hyperinflation and reduce its spiralling budget deficit and was considered a short-term economic success (Myers 1945). Monnet had left Geneva by the time the League offered similar loans to Poland in 1927 and Romania in 1929. However, the fact that he led the consortium which represented both countries in loan negotiations indicated his expertise and standing in this embryonic area of international finance (Duchêne 1980). John Foster Dulles, an American lawyer who Monnet had first met at the Versailles Peace Conference, also worked on the Polish loan and would play an important role in the European Communities' early borrowing activities.

The League of Nation's Economic and Financial Organization served as inspiration for the International Bank for Reconstruction and Development (IBRD), which issued its first bond in 1947 (Pauly 1996). Fittingly, the Bank's first loan went to France to help finance a reconstruction plan drawn up by Monnet, in his capacity as head of the Commissariat Général du Plan. In this role, Monnet worked closely with Averell Harriman, America's representative in Paris for the European Recovery Programme, who proposed as early as June 1950 that the United States could lend to the proposed ECSC once the Marshall Plan funds expired.[2] During the Schuman Plan Conference, Monnet assured delegates that the United States would provide investment funds for the Community and pushed for the High Authority to be given borrowing powers to secure such financing.[3] Representatives of the Original Six member states—Belgium, France, Germany, Italy, Luxembourg, and the Netherlands—duly agreed that the High Authority could finance the tasks entrusted to it by means of a levy on coal and steel production, gifts, or loans.[4] The Treaty of Paris also stipulated that the High Authority could use borrowed funds for the sole purpose of providing loans.[5] These loans could be used to finance investment programmes, works, and installations aimed at increasing production, lowering production costs, or facilitating the marketing of products.[6]

The ECSC, though it set in motion the creation of the EEC and Euratom, is commonly viewed as having struggled to achieve its aims (Alter and Steinberg 2007). Such accounts overlook Monnet's success at establishing the Community's creditworthiness. In December 1952, just four months after he became president of the High Authority, Monnet announced his intention to issue 'the first European loan', which he expected to raise on international capital markets.[7] Five months later, Monnet travelled to New York—in a private capacity, accompanied by two other members of the High Authority—for exploratory talks with Wall Street contacts.[8] From there he went to Washington, DC, where he had an impromptu visit with President Dwight D. Eisenhower which John Foster Dulles, who was by now United States secretary of state, helped to arrange.[9]

Although he avoided making specific requests at the White House meeting, Monnet impressed upon Eisenhower that the new Community sought loans at commercial rates rather than aid.[10] A supporter of European integration who had worked closely with Monnet during the Second World War and within NATO's decision-making structures, Eisenhower needed little convincing. A few weeks after meeting Monnet, the US president wrote to Alexander Wiley, chair of the Senate Foreign Relations Committee, and Robert Chiperfield, chair of the House Foreign Affairs Committee, arguing that 'the United States Government or one of its agencies' should make loans available as a way to 'foster European integration in a tangible and useful way' (*New York Times* 1953). Wiley and Chiperfield responded positively, providing a boost, as the *New York Times* put it, to the ECSC's 'credit rating' (*New York Times* 1953).

Monnet returned to Washington, DC, in late 1953 for inconclusive talks with Dulles and US Treasury Secretary George N. Humphrey. Under gentle pressure from Eisenhower, who expressed hope that 'ways might be found to enable the United States to assist, on a loan basis, in modernising and developing the natural resources within the jurisdiction of this community', talks between American and European officials continued for several months.[11] In April 1954, the two sides shook hands on a $100 million loan from the EXIM Bank repayable over twenty-five years at an interest rate of 3.875 per cent (EXIM Bank 1959).

Monnet's aim had always been to establish the Community's creditworthiness so that it could issue securities on capital markets. This plan came to fruition on 16 July 1956, a little over a year after the Frenchman's resignation, when the High Authority issued the first ever ECSC bonds, raising 11,655,012 units of account at an interest rate of 4.25 per cent for eighteen years (High Authority 1957: 12–13). European officials had initially hoped to conduct this syndication on the Amsterdam Stock Exchange, but legal concerns over the transfer of funds outside the Netherlands prompted a switch to Switzerland, which was home to Europe's strongest performing and most liberal financial centre at the time (High Authority 1957: 12). In April 1957, the High Authority issued $25 million in bonds and $5 million in notes on the New York Stock Exchange. The ECSC had, as one commentator put it, 'come of age' (*Economist* 1957).

It is entirely possible that the Six would have chosen to borrow in support of investment and production and found a receptive audience in the

United States for such requests whoever had led negotiations on the Treaty of Paris and subsequently headed the High Authority. Consistent with historical institutionalism, however, it seems unlikely that this treaty would have conferred such explicit borrowing powers on the High Authority without Monnet's prior experience of League loans. Nor would the High Authority have found it quite so straightforward to raise funds in the United States without the Frenchman, who used his good offices on Wall Street and in Washington, DC, to establish the Community's creditworthiness. When Monnet stepped down as president of the High Authority in June 1955, a US government memo acknowledged not only the 'political benefits' of providing loans to the ECSC but the 'well-known reliability and sincerity of Mr. Monnet' as enabling factors behind American support for such financing.[12]

3.1.2 From the European Investment Fund to the European Investment Bank

Had the European Community's evolution as a borrower given rise to conversion or layering, as historical institutionalism predicts, then the Treaty of Rome would surely have conferred similar borrowing powers on the European Commission to those granted to the High Authority by the Treaty of Paris. Member states, however, never seriously considered this scenario. Although the aims and governance of the EIB were the subject of intense negotiations, there was tacit agreement among the Six that it should be a specialist body which would be answerable to member states. And yet, this does not mean that historical institutionalist dynamics were entirely absent from the establishment of the EIB. Even more so than the Treaty of Paris, earlier discussions shaped member states' institutional choices over borrowing during negotiations leading to the Treaty of Rome.

Founded in 1948 to administer the Marshall Plan, the OEEC served as a site for debate about the future of European integration, as the United States had hoped, if not quite in the way that it had envisaged. In October 1949, Maurice Petsche, French minister for finance and economic affairs presented a plan at the OEEC for an economic union designed to reduce trade barriers between France, Italy, and the Benelux countries (Coppolaro 2023: 4). There had been proposals of this sort from French policymakers since 1947, but Petsche broke new ground by calling for the creation of a European Investment Bank to boost the competitiveness of European industry. The Petsche Plan received a lukewarm response from OEEC members, but Italy and the Benelux countries soon responded with proposals of their own (Coppolaro and Kavvadia 2022).

Named after the Italian Minister for Treasury Giuseppe Pella, the Pella Plan called for a European Investment Fund which would channel investment funds to less developed regions such as Italy's Mezzogiorno (Coppolaro and Kavvadia 2022: 18). Whereas the Petsche Plan envisaged a coordinated approach to European investment in the style of the Monnet Plan, Pella aimed to establish a system of fiscal transfers to cushion the impact of trade diversion on Europe's less competitive industries and regions. Also presented in June 1950, the Stikker Plan sought to steer a middle course between the French government's desire to create an investment bank and the Italian government's wish for a regional adjustment fund (Coppolaro and Kavvadia 2022: 18). As a liberal foreign minister of the Netherlands, Dirk Stikker would likely have preferred to see an investment bank which could lend at commercial rates, but as chair of the OEEC, he understood that a common market would not win political support without measures to help less developed regions. The Stikker plan sought a compromise by calling for the removal of quantitative import restrictions and tariffs on goods sector by sector accompanied by a 'European integration fund' to support the rationalization of industries in poorer regions. The European Investment Fund would not coordinate investment activities, as the Petsche plan had sought, but mobilize European and American private capital for this purpose (Stikker 1951: 442).

When representatives of the Six gathered in Messina in June 1955 they agreed to examine the case for a European Investment Fund. In arriving at this decision, national delegates did not start from scratch but returned to debates and positions aired in the OEEC five years earlier. The importance of institutional memory can be seen, for example, in the remarks made by Walter Hallstein, the head of the West German delegation and a future president of the European Commission, at Messina. The Federal Republic was interested in the idea of a European Investment Fund, Hallstein told his fellow delegates, relating his ideas to those that had emerged from the OEEC.[13] Gaetano Martino, who headed the Italian delegation, made no mention of these earlier discussions, but he reiterated the Pella Plan's concern for underdeveloped regions in the proposed common market and echoed its calls for policies to increase investment in countries which suffered from a 'deficit of capital'.[14]

As discussed in the next section, the Six were divided at Messina, and the negotiations which followed it, over the institutional design and objectives of the proposed European Investment Fund. In spite of their differences, the delegates did not actively consider assigning responsibility for the fund to the High Authority or the European Commission. Nor was the High Authority a strong voice for supranational policymaking at Messina. In November 1954, Monnet had announced his intention not to seek a new term as president of the High Authority. Although Monnet later sought to rescind this decision, the Six decided at Messina to appoint René Mayer as the next president of the High Authority. Even if Monnet had been present at this summit, it seems doubtful that he would have convinced delegates of the merits of a supranational investment fund. The Six accepted that the common market needed common institutions, but this did not mean replicating the High Authority's strong supranational powers.[15]

3.1.3 The Other American Loan

Historical institutionalism would expect to see evidence of conversion or layering when it comes to Euratom's early borrowing activities. Monnet undoubtedly sought such continuity. As head of the Action Committee for the United States of Europe, the former president of the High Authority advocated the creation of a second Community dedicated to cooperation in the field of atomic energy and made the case for this new body to have borrowing powers (Yondorf 1965). Monnet also leveraged his connections once more to advance Community borrowing. In January 1956, John Foster Dulles wrote to the head of the Atomic Energy Commission, Admiral Lewis Strauss, arguing that European control over nuclear weapons had the 'incalculable political and psychological advantage of tying Germany into the Western European Community'.[16] Discussions over a US-German nuclear deal were already underway at this point, but Monnet and Dulles worked in tandem to convince Strauss that channelling American support for the Six via Euratom was preferable. When President Eisenhower announced in February 1956 that the United States would provide 20 tons of uranium to Euratom, the door to bilateral deals appeared to be closed, prompting the Federal Republic to lend its support to Euratom (O' Driscoll 2001: 15).

Despite Monnet's diplomatic efforts, and that of the High Authority under René Mayer, the Six were not prepared to replicate the ECSC's supranational approach to borrowing. Whereas the High Authority could raise funds on capital markets, the Euratom Treaty invested such authority in the Council of Ministers acting on the basis of a qualified majority vote.[17] Nor were member states willing to reproduce the guarantee structures underpinning the ECSC's borrowing and lending activities. Although the Euratom Commission was authorized to raise a levy with the unanimous approval of member states, it never did so.[18] Euratom borrowing was consequently guaranteed through the Community's budget, which was financed by member state contributions. Such guarantees would become the norm for future European-level borrowing instruments, but the Americans worried about Euratom's creditworthiness compared to the ECSC.[19]

The High Authority's borrowing activities gained momentum after the American loan, but Euratom's ground to a halt. Only two projects, in Grundremmingen (FRG) and Chooz (France), had received funding from the EXIM Bank loan by 1970 and the latter was suspended over the plant's operational problems (European Commission 1970a). Though the Euratom loan was institutionally significant, its economic impact remained rather limited. Frustrated with the inflexibility of the loan and the Council's control over the EXIM Bank funds, the Commission in 1971 proposed the creation of a Euratom loans facility that would give it more autonomy. As discussed in the next chapter, it would be another six years before Euratom borrowed again.

3.2 Intergovernmental Negotiations over Community Borrowing

Liberal intergovernmentalism views institutional design as the product of member states' contemporaneous concerns rather than past choices. Member states were not bound to borrow, this section shows. They chose to do so to manage cross-border externalities ranging from Western Europe's investment problem in the post-war period to tackling regional imbalances and the development of nuclear energy capabilities. Member states facing high borrowing costs were pivotal to this intergovernmental bargain, as were those which sought to minimize the upfront costs of cooperation.

3.2.1 ECSC Loans

Consistent with liberal intergovernmentalism, the High Authority's empowerment as a borrower under the Treaty of Paris can be seen as one of several ways in which member states sought to address Western Europe's investment gap. By 1950, the Six had achieved pre-war levels of production thanks in part to a prolonged investment boom. Such investment was principally self-financed by businesses, reflecting their profitability, but also the cost and difficulties of raising long-term capital (Williams 1965). These problems were pronounced in the coal and steel sectors, which saw almost $1 billion in gross investment in 1952, for example, over two-thirds of which was financed through businesses or government assistance, including external aid

(High Authority 1953: 133). In 1950, long-term interest rates in the Six ranged from 3.3 per cent in the Netherlands to 7.8 per cent in France compared to 2.2 per cent in the United States (see Figure 3.1). That the High Authority had the potential to raise funds at comparatively low interest rates thus made European-level borrowing a highly attractive prospect for some member states.

The fact that Marshall Plan funds were scheduled to expire in 1952 helped focus minds during the Schuman Plan Conference. Whether, and by how much, the European Recovery Programme ultimately spurred investment is a matter of longstanding debate among economic historians (Milward 1984: 251). What is clear, is that the Six received more than half of all funds made available by the United States to Western Europe between 1948 and 1951. Moreover, as Milward (1984: 251–2) accepts, Marshall aid was of particular benefit to the coal and steel sectors given their difficulties in attracting long-term investment from the private sector. Empowering the High Authority as a borrower, Monnet told German delegates, would ensure that American funds for investment would continue to flow after 1952.[20] This argument carried weight with the German official who reported Monnet's concerns to Bonn about the German coal industry's investment gap.[21] As the single biggest beneficiary of Marshall Plan funding, France had even more to gain by allowing

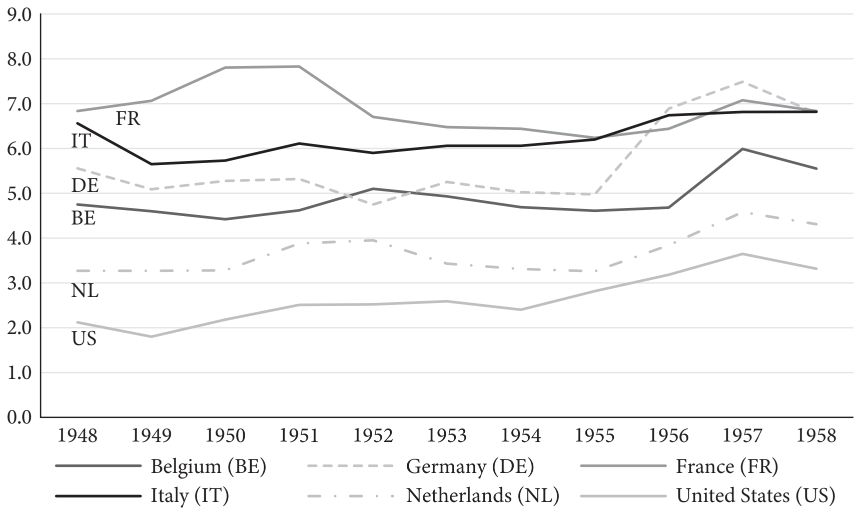

Fig. 3.1 Long-term interest rates in Belgium, France, Germany, Italy, the Netherlands, and the United States (%; 1948–58)

Source: Macrohistory Database (Jordà, Schularick, and Taylor 2017).

the High Authority to borrow, as the head of Commissariat Général du Plan understood all too well.

Side payments and issue linkage are part and parcel of intergovernmental bargaining, according to liberal intergovernmentalism. At the time of the Schuman Plan Conference, the steel industry in the Ruhr area was still organized as one large conglomerate, called the Vereinigte Stahlwerke (United Steel Works). The Americans, who sent an observer to the conference, pushed both for the breakup of this conglomerate and for the institution of a strong competition policy at the level of the High Authority.[22] By November 1950, two points were apparent to the German delegation.[23] First, the United States would likely provide substantial credit to the proposed ECSC. Second, maintaining the Americans' goodwill required avoiding any semblance of a cartel in the Ruhr. In the end, Germany conceded, and its steel conglomerates were broken up into twenty-seven companies that would be of a similar size to those in the other six countries (Gillingham 1991: 280–1). According to French negotiator Étienne Hirsch, 'it was the Americans who made the Germans relent in the end.'[24]

Liberal intergovernmentalism emphasizes the importance of hard bargaining between member states with high and low borrowing costs over how to address cross-border externalities. A snapshot of sovereign borrowing costs in June 1956, the date of the first ECSC bond issuance, shows that France, Germany, and Italy all stood to gain by borrowing from the Community rather than raising funds alone on financial markets, while Belgium and the Netherlands did not (Figure 3.2). These differences help to explain why France and Germany pushed for the High Authority to borrow while the Netherlands was more cautious. The Treaty of Paris worked through these differences by allowing the High Authority to approach governments about guarantees for specific loans while placing no obligation on member states to honour this request.[25] Borrowing would be backed instead by a reserve fund, financed through any revenue generated from loan operations, and an industrial levy.

This levy, which could be up to 1 per cent of the value of production or more if the Special Council of Ministers agreed, could be used to finance a reserve fund for financing arrangements in relation to ECSC borrowing and lending operations.[26] Under Monnet's direction, the High Authority allocated the bulk of resources raised through the levy to a so-called guarantee fund, which was quickly scaled up from $35 million in 1954 to $100 million two years later in order to establish the Community's credibility as a borrower (High Authority 1954, 1956). Although member states did not contribute directly to the Guarantee Fund, they remained sensitive to burden sharing in

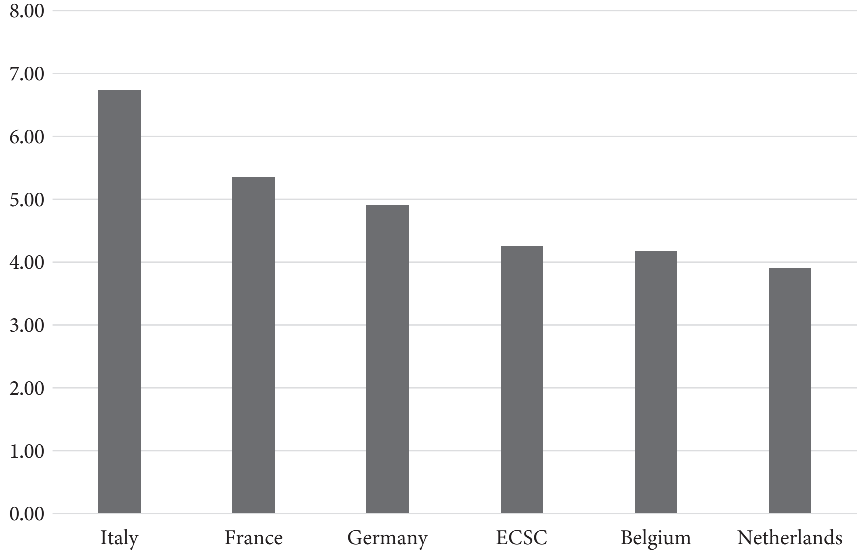

Fig. 3.2 Coupon on the ECSC's first bond and government bond yields, June 1956
Sources: IMF (1957) and ECSC (1957).

ways that are familiar to liberal intergovernmentalism. As the countries with the lowest production costs for coal and steel, the Netherlands and West Germany were most concerned about their financial contribution to the ECSC. While these member states did not object to borrowing, they did secure a rebate from the levy, beginning in 1953 (De Feo 2015: 33).

3.2.2 The European Investment Bank

The EIB was built on a delicate intergovernmental bargain. Italy's post-war governments were strongly in favour of trade liberalization, in keeping with the preferences of the country's large industrialists, who saw benefits to doing business with near neighbours providing there was sufficient protection against cheap exports from the rest of the world (A.C. 1958). However, such enthusiasm was tempered by fears over the impact of European economic integration on Southern Italy's Mezzogiorno region, which had trailed behind the rest of the country economically since unification in 1860. A concern for poorer regions had underpinned the Pella Plan and it now became a red line for Italy in negotiations over the EEC.

By 1956, the yield on Italian government bonds was above 6 per cent, as compared with long-term interest rates of below 5 per cent in the Federal

Republic of Germany (IMF 1957: 81). In keeping with liberal intergovernmentalism, Italy thus pushed for the Community to borrow as a means to access cheaper credit to finance investment in poor regions.[27] As a country with lower borrowing costs, West Germany had less need to borrow from the Community, but it understood the importance of addressing Italian concerns about regional disparities and viewed borrowing as preferable to paying in even more to the proposed Community's budget. At the start of the Messina Conference, German Foreign Affairs Minister Walter Hallstein emphasized the interest of his government in 'the creation of an investment fund' to provide 'long-term credits' to support 'productive investments' in less developed regions.[28] The idea of creating a bank rather than a fund aligned with the views of German Finance Minister Ludwig Erhard, who was much more sceptical than Hallstein about a common market, but keen to champion German business interests in Southern Italy. Indeed, Erhard visited the Mezzogiorno in 1955, where he held constructive conversations with officials from the Cassa per il Mezzogiorno about private sector investment in the region (Dandolo 2017).

Differences were aired rather than settled at the Messina Conference, where it was agreed to consider the case for a European Investment Fund 'for the common development of Europe's inherent economic potentialities and, in particular for the development of the less favoured regions of the participating countries'.[29] The uneasy compromise which emerged from the deliberations of the Spaak Committee, and its working group on investment, had three key dimensions (High Authority 1955). First, the proposed European Investment Fund would provide financing not only for less favoured regions, but projects of a European character unsuited to financing from a single member state and the conversion of enterprises. Second, the Fund would derive its resources not from the EEC budget but from capital contributions in the form of a $1 billion endowment, a quarter of which would be paid in by member states over five years. Third, the fund would obtain its resources on financial markets before seeking additional contributions from member states.

Three further matters preoccupied the intergovernmental conference which took place in Brussels between June 1956 and March 1957: the name of the new body, its governing structures, and the precise formulation of its objectives. Germany and the Netherlands made common cause on the first two issues, arguing for 'European Investment Bank' over 'European Investment Fund' to bolster the body's credibility with financial markets, and proposing a three-fold governance structure in which a board of governors would determine the bank's operating principles, a board of directors would decide on the provision of funds and a management committee would manage the institution day to day.[30] Both proposals drew on the design of the IBRD, which had almost been called a fund before American bankers questioned this designation, and which styled itself as non-political even if the reality was more complicated (Baldwin 1965). Delegates settled on the name European Investment Bank—since no deal was possible without German capital—but Dutch-German proposals were at odds with Italy's call for the new body to be accountable to the Council of Ministers. Having initially sided with Italy, France proposed that the Governing Board would be made up of national representatives but preside over a legal entity distinct from the Council.[31] Germany agreed to this compromise, although it rejected France's proposal that a member of the European Commission serve on the Governing Board.[32] Instead, it was agreed that a commissioner would attend this body as an observer while having a full seat on the Board of Directors.[33]

The Bank's objectives were also keenly debated. Italy still insisted on a focus on reducing regional imbalances, while France sought a broader European investment policy.[34] The Dutch and Germans wanted the Bank to fund commercially viable investments.[35] The final text of the Treaty Establishing the European Economic Community stuck closely to the goals set out in the Spaak Committee. The overarching aim of the EIB would be to contribute 'to the balanced and steady development of the common market in the interest of the Community'.[36] This would encompass projects 'for developing and less developed regions', 'projects for modernizing or converting undertakings or for developing fresh activities called for by the progressive establishment of the common market', and 'projects of common interest to several Member States which are of such a size or nature that they cannot be entirely financed by the various means available in the individual Member States'.[37] Nine years after Maurice Petsche proposed a European Investment Fund, the European Investment Bank was born.

Unlike the High Authority, the EIB was in no rush to raise funds on capital markets. The latter's first loans to the Cassa per il Mezzogiorno were financed via paid-in capital, as were all loan agreements during the EIB's first eighteen months in operation. There were two principal reasons for this caution, according to Licari (1969), an early scholar of the EIB. First, the Six did not restore currency convertibility until December 1958, complicating the task of raising capital in the Bank's early months. Second, rising long-term interest rates and concerns over the current account deficit made the United States less attractive as a source of finance even before President John F. Kennedy's Interest Equalization Tax imposed a levy on foreign securities. Nor was there a pressing need to raise funds in this period. By 1961, the EIB had approved loans worth $66 million, which was comfortably within the Bank's paid-in capital of $250 million, the final instalment of which had been paid by member states by this point (EIB 1962: 22).

In July 1961, the EIB raised 50 million guilders in a bond issuance in the Netherlands (EIB 1962: 25–6). That such borrowing activities attracted so little attention, even in the financial press, showed how accepted the idea of European-level borrowing had become by this point. Like the High Authority before it, the EIB showed itself capable of borrowing at much lower interest rates than public authorities or private actors could in most member states. At 4.5 per cent, the interest rate on the EIB's first bond issuance in July 1962 was well below long-term interest rates in Belgium (5.75 per cent), France (5.7 per cent), Germany (6 per cent), and Italy (5.7 per cent) (EIB 1962: 26). Although the cost of capital steadily rose over the course of the decade amid ongoing tensions in the international monetary system, the EIB scaled up its borrowing operations. By 1972, it was borrowing nearly 500 million units of account per annum (EIB 1973: 44).

The EIB Governing Board agreed in December 1958 'to devote a large part of the Bank's resources to the financing of projects likely to contribute to the furtherance of less developed regions' (EIB 1959). To Bussière et al. (2008: 54), authors of an official history of the Bank, this decision was 'intended to reverse the order of the priorities set out in the EEC Treaty'. We would question this interpretation since the treaty in question did not specify a hierarchy of aims for the EIB. However, there is no denying the focus of the Governing Board's decision on early lending. Between 1958 and 1972, 74.4 per cent of loans and guarantees offered by the EIB went towards less developed regions as compared with 2.4 per cent for the modernization and development of enterprises and 22.4 per cent on projects of common interest (EIB 1973: 68). Italy received 58 per cent of all EIB investment for regional development, a sum amounting to just over 1.2 billion units of account (EIB 1973: 68).

The 2003 Sapir Report described the Mezzogiorno as a failed macroregion which had neither made the most of EU funding nor found other drivers of economic convergence (Sapir et al. 2004). Such accounts overlook the fact that this region recorded average growth rates of 5.3 per cent between 1951 and 1973 (Papagni et al. 2021) before reforms to the Cassa per il Mezzogiorno politicized the agency and undermined its effectiveness (Felice and Lepore 2017). The EIB played a major part in this relative success story by channelling funds for industry and infrastructure that would not otherwise have been available (Bussière et al. 2008: 54). The IBRD, having played a crucial role in the creation of the Cassa per il Mezzogiorno and worked closely with the EIB in this region, provided its last loan to Italy in 1965.

The EIB thus became the most important source of development finance for the Mezzogiorno in a period of profound change for the region (Bonatesta 2019: 15).

3.2.3 Euratom Loans

There is a strong liberal intergovernmental rationale to Euratom's early borrowing activities. Nuclear power plants were seen by the 1950s as far more efficient than conventional thermal power plants, and likely to last considerably longer, but the former brought much higher up-front costs than the latter. One study for the World Bank published in 1956 estimated the cost per kilowatt (kWh) of capacity for a nuclear power station at between $230 and $320 compared to $120–$160 for traditional thermal plants (Allardice 1956: 14). Although the Dresden Nuclear Generating Station in Illinois was built in 1960 with private finance, capital shortages in Western Europe meant public finance was unavoidable to meet the full costs of this experimental energy source. There was little prospect that the Euratom budget, which was separate from the Community budget until 1969, could cover even a fraction of such funding, leaving net contributors with a choice between putting additional money on the table or engaging in collective borrowing. France, as the member state with the greatest ambition to develop a civilian nuclear programme as well as being a sizeable contributor to the Community's budget and a country with relatively high borrowing costs, was the most vocal proponent of Euratom (see Nieburg 1963).

The Euratom Commission could have sought to raise funds in Europe, as the High Authority was doing and the Euratom Treaty required, but it is doubtful that they could have done so on the scale required to create an additional capacity of 15 million kWh over the following ten years, a target proposed in 1957 by a wise person group convened by the Six (Armand, Etzel, and Giordani 1957). An analyst of the RAND Corporation estimated that to achieve this goal, Europeans would require financing of about $100 million from the United States, in addition to European public and private capital.[38] Seen in liberal intergovernmentalist terms, the positive externalities of cross-border cooperation between the Six in this domain were too slight without access to US technology and American-controlled uranium deposits. The American loan not only made it easier for Euratom to achieve its aims but also came with an interest rate of 4.5 per cent, which was lower than the EXIM Bank usually charged for development projects. This concession was offered with the approval of the Eisenhower Administration, which moved quickly to sign a cooperation agreement with the new European Community (EXIM Bank 1959).

At a Committee of Permanent Representatives (COREPER) meeting in April 1958, several delegations agreed to ask the United States for a larger loan and a month later the US offer was increased to $135 million.[39] Yet different capital market conditions across member states soon opened up divisions. Thus, the West German nuclear ministry argued that Euratom should not contribute to the programme from its investment budget, because that would mean the Federal Republic would pay more than it received back.[40] Euratom should, it argued, pass on the loan to member states or enterprises rather than set up Community efforts that the Federal Republic would have to finance around 30 per cent of. The Netherlands also had little need for the loan given that capital markets had improved to a point where companies no longer require public support.[41] Italy could also do without the loan, given that its nuclear projects were being financed, at this point, by the IBRD.[42]

On the issue of guarantees, the member state governments presented a united front.[43] The Commission proposed to state explicitly that member states would be liable in proportion to their budget shares, in addition to the guarantees provided by enterprises—a formula which the United States had accepted. However, France, West Germany, and the Netherlands all insisted on national guarantees whereby each member state would only guarantee investments in its territory. These discussions were serious enough to lead to the temporary suspension of negotiations between the Commission and EXIM Bank in May 1959. The final deal on guarantees inside the Community foresaw that companies would have to provide securities as a first layer and member states, where they invested, would guarantee these obligations. Only if such guarantees proved insufficient would the Commission have recourse to cash advances from other member states.

3.3 Conclusion

When euro area members agreed in May 2010 to borrow up to €500 billion via the new European Financial Stabilisation Mechanism and European Financial Stability Facility, the *Wall Street Journal* declared that the EU had crossed the Rubicon (Forelle et al. 2010). When EU heads of state or government decided a decade later to raise up to €672.5 billion through the Recovery and Resilience Facility, commentators were equally confident that the die had been cast (Sandbu 2020). The EU's willingness to raise funds on financial markets may appear bold and new but borrowing has been a feature of

European integration since the earliest days of the European Communities, this chapter has shown. From the American loans of 1954 and 1959 to the EIB's first bond issuance in 1961, the European project was underpinned by debt.

This chapter has sought to understand how and why the European Communities came to borrow. The evidence presented chimes with historical institutionalism in as much as the empowerment of the High Authority and EIB as borrowers was shaped to a significant degree by the experience of other international organizations. Jean Monnet brought not only deep expertise of supranational bond issuance to the ECSC from his dealings with the League of Nations but also high-level contacts which eased the way for the American loans. Negotiations over the creation of the EIB, meanwhile, were layered on earlier discussions in the OEEC. Important though such institutional memories were, they did not overly constrain the Six, which employed bespoke designs for the High Authority, Euratom, and EIB rather than replicating a particular approach to borrowing.

Liberal intergovernmentalism also sheds light on this foundational period. Member states ultimately chose to borrow in order to manage externalities associated with economic interdependence, be it the investment gap facing Western Europe, the problem of regional imbalances in the common market, or the costs and resources required to develop nuclear energy. Member states with high borrowing costs had the most to gain from European-level borrowing and so pushed hardest for the ECSC, EEC, and Euratom to have access to capital markets. Other countries were more willing to borrow than to countenance large Community budgets to support coal and steel businesses, less developed regions, and the nuclear energy industry.

4

The Rise and Fall of Commission Borrowing

From the First Oil Shock to the Maastricht Treaty

In June 1988, the European Commission undertook a European Currency Unit (ECU) 500 million debt issuance, its largest to date. The operation was intended to serve 'as a reference, or "benchmark", for all the other borrowers in ECU' and to 'establish the credibility of the ECU on the international markets' (European Commission 1988a: 40). Named in honour of the person who had done more than any other to advance the European Community's standing on international capital markets, the Jean Monnet Issue also reflected the self-confidence and assertiveness that the Commission had developed as a borrower by the late 1980s. By then, the Commission had raised debt in more than ten currencies. It had funded financial assistance programmes to four member states, including Italy and France, and financed investments in nuclear power plants and numerous other projects. Despite such ambition, the Jean Monnet Issue turned out to be a high-water mark for Commission borrowing. Beginning in 1989, the Council of Ministers refused to reauthorize similar operations and either scaled down or discontinued the Commission's borrowing instruments.

This chapter documents the European Commission's rise and fall as a borrower from the first oil shock to the Maastricht Treaty, focusing on three borrowing instruments. Created in 1975, the Community Loan Mechanism allowed the Commission to raise funds to help member states facing balance of payments (BoP) crises due to high petroleum prices. The European Atomic Energy Community (Euratom) Loan Facility, which was established two years later, offered finance for investment projects relating to the industrial production of nuclear power. The New Community Instrument (NCI) was launched in 1978 and allowed the Commission to borrow in support of investment projects dedicated to economic convergence and integration, with a specific focus on infrastructure, and combatting unemployment.[1] Together, these instruments significantly strengthened the Commission's role

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in European Economic Community (EEC) economic policymaking, bolstered the Community's role on capital markets, and had a lasting effect on the legal structure of the European Union (EU)'s finances. And yet, they also reaffirmed member states' tight grip on borrowing and lending and their willingness to undo earlier decisions.

Historical institutionalism, liberal intergovernmentalism, and new intergovernmentalism help us to understand the Commission's early experience as a borrower. Historical institutionalism highlights how the Commission's borrowing facilities built on previous policy initiatives. Layering and displacement are also relevant for understanding the fate of the Commission's three borrowing instruments. Liberal intergovernmentalism stresses the importance of member state preferences, and the cleavage between member states with high and low borrowing costs in directing Commission borrowing. New intergovernmentalism, finally, helps to make sense of member states' growing reticence about Commission borrowing at the time of the Maastricht Treaty's signature.

4.1 Critical Junctures and Continuity

Historical institutionalism offers two lines of explanation for the Commission's empowerment as a borrower. The first considers the economic shocks which struck Western Europe in the 1970s as critical junctures which led member states to break previous policy taboos. The second views the evolution of borrowing as a piecemeal affair in which new borrowing instruments either supplement or supplant existing ones. The evidence presented in this section is consistent with the second perspective. Although the first and second oil shocks weighed heavily on Western Europe, the European Community's response built on earlier approaches to borrowing and financial assistance. Abundant layering is discernible in the creation and reform of Commission borrowing instruments from 1971 to 1992, as is a degree of displacement. Historical institutionalism cannot easily explain, however, why the Maastricht Treaty prohibited BoP Assistance for member states participating in Economic and Monetary Union (EMU)'s third and final stage.

4.1.1 The Origins of the Community Loan Mechanism

The first oil shock began in October 1973 when the Organization of Arab Petroleum Exporting Countries (OAPEC) hiked oil prices and cut production in response to Western countries' support for Israel during the Yom

Kippur War. The Netherlands was the only member of the Nine—as the Six had become after the accession of Denmark, Ireland, and the United Kingdom in 1973—which faced a total embargo on OAPEC oil imports. However, the Community as a whole faced rising prices, slowing growth, and widening macroeconomic imbalances (Schramm 2024). As this crisis raged, the EEC's Monetary Committee decided that the Commission should be allowed to borrow funds to provide emergency support to member states and that such borrowing should be secured against the EEC budget.[2] In February 1975, the Economic and Financial Affairs Council (ECOFIN) duly agreed to establish the Community Loan Mechanism, which allowed the Community to raise up to $3 billion on financial markets to provide loans to one or more member states facing BoP difficulties because of higher oil prices.[3] A little over a year later, Ireland and Italy received a combined $1.3 billion in loans under this instrument in return for commitments covering fiscal, monetary, and wage policy (Stieber 2015).

On the surface, the creation of the Community Loan Mechanism looks like a textbook example of a critical juncture. Unlike the European Coal and Steel Community (ECSC) and Euratom, the EEC had no explicit treaty basis for the Commission to borrow. The Treaty of Rome provided for mutual assistance to member states facing BoP difficulties, but it did not allow the Community to issue bonds or raise loans for this purpose.[4] ECOFIN decided instead to anchor the Community Loan Mechanism in the treaty's so-called flexibility clause, citing the necessity of taking action in an area where the treaty did not confer power, to preserve the proper functioning of the common market in this tumultuous period.[5] Despite this legal framing, the Community Loan Mechanism was not as exceptional as it looked. The Commission was technically already borrowing by this point and discussions about the creation of new borrowing instruments had begun in earnest before the first oil shock.

When it entered into force in 1969, the Merger Treaty established a single European Commission, which assumed responsibility for tasks previously entrusted to the High Authority, including the ECSC loans. The Commission made active use of this borrowing instrument until the early 1990s, when the process of terminating the ECSC began (see Figure 4.1). The Merger Treaty also transferred Euratom's borrowing powers to the Commission, which proposed a Euratom Loan Facility in 1971 to provide finance to energy producers (see European Parliament 1975). The Community Loan Mechanism built on these earlier initiatives, as well as Medium-Term Financial Assistance, an instrument created in 1971 to help member states facing BoP difficulties (Rehm 2022, 2023).

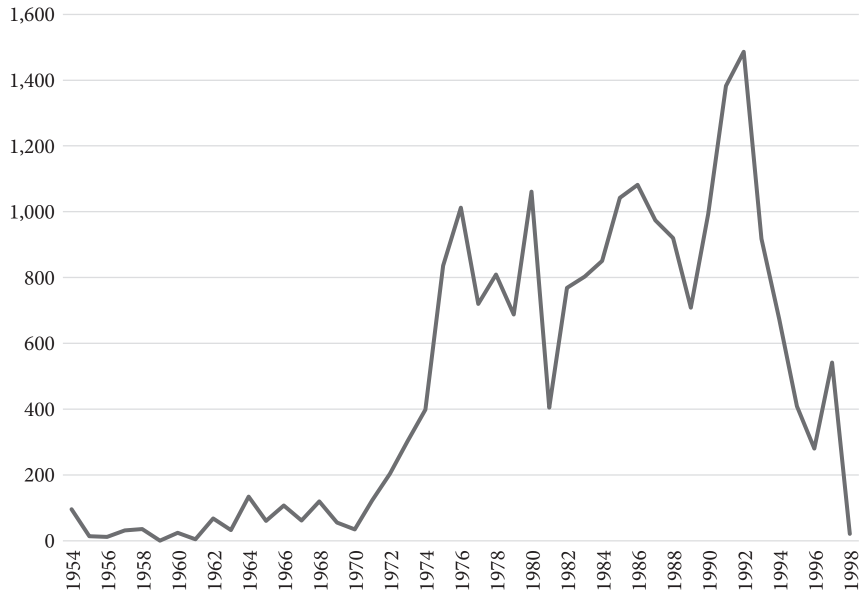

Fig. 4.1 Disbursement of ECSC loans (million euro)

Source: Authors' own calculations based on ECSC Annual Accounts and Reports.

4.1.2 The Euratom Loan Facility and the New Community Instrument

The Commission's 1971 proposal for a Euratom Loan Facility was mired in lengthy negotiations, but the idea of borrowing in support of nuclear energy production continued to resonate.[6] A second Commission proposal in 1974 gained more traction as the perceived urgency of investment in nuclear energy grew.[7] The Commission continued to face objections from West Germany, in response to which the Euratom instrument came to rest on an awkward compromise.[8] Although the Commission would borrow the funds and decide to grant a loan, the European Investment Bank (EIB) was put in charge of evaluating each project proposal according to its bankability criteria (European Court of Auditors 1982: para 1.5). The Bank would also act as the Commission's fiscal agent, as it had done for the EXIM Bank loan. Furthermore, the Commission's discretion over borrowing operations was constrained by a set of guidelines adopted by the Council, which required, *inter alia*, that the Commission could only lend back to back and finance no more than 20 per cent of a project's costs. At the time of its launch in 1977, the Euratom Loan Facility had a volume of just 500 million units of account.[9] Yet it created a Commission investment instrument in what had previously been the EIB's exclusive domain, and the Commission seized on this precedent to push for greater borrowing powers.

Soon after the Euratom Loan Facility was operational, the Commission floated a more wide-ranging proposal for a 'global instrument for restructuring [member state] economies through which all loans in the energy, industrial and transport sectors would be channelled' (Directorate General for Energy 1977). The proposed NCI—referred to as the 'Ortoli facility' after Commission President François-Xavier Ortoli—was intended to 'set the Commission well on its way towards a long-cherished ambition of having a financial instrument comparable to [sic] EIB, over which it can exercise greater control' (Directorate General for Energy 1977). Little remained, however, of the Commission's demands by the time the European Council gave its approval to the initiative in December 1977 (European Council 1977). The NCI became even less of a discretionary instrument than the Euratom loans facility. Although the Commission could borrow up to 1 billion units of account under the instrument and determine whether a project would be eligible for a loan, the evaluation of projects fell to the EIB.[10] Highlighting the Commission's constrained role, the European Court of Auditors commented sardonically that 'loans granted under the NCI mechanism appear equivalent to EIB loans except that the former are financed by Commission borrowings' (European Court of Auditors 1982: para. 1.7). The NCI nevertheless widened the scope of Commission lending to infrastructure and investment projects.

A combination of layering, displacement, and drift characterize the evolution of the NCI and Euratom Loan Facility. Both instruments had a maximum lending capacity, meaning that the Council needed to approve new legislation once a sufficient number of loans had been granted. In the case of the Euratom Loan Facility, reauthorization was relatively uncontroversial at first. The size of the instrument was raised four times from its initial ECU 500 million to ECU 3 billion in 1985.[11] Between 1977 and 1987, the Commission provided €2.876 billion in loans to co-finance projects in Belgium, France, Germany, Italy, and the United Kingdom (Wilkinson, Mathis, and Lewis 2011: iv). The issuance of new loans came to a halt after an accident at Reactor No. 4 of the Chernobyl nuclear power station in April 1986 killed at least thirty people and deposited radioactive waste across the Northern hemisphere (Anspaugh, Catlin, and Goldman 1988). Viewed in historical institutionalist terms, this nuclear disaster served not as a catalyst for cooperation among Euratom members but a sudden impediment to it, as several member states had second thoughts about nuclear energy. This shift was most discernible in Italy, where the government decided to close existing nuclear plants after nationwide referendums on the future of nuclear energy production in November 1987. In a rare example of drift in relation to EU borrowing, the Euratom Loan Facility has provided no new loans to member states since 1987 because of this political backlash against nuclear energy.

When the NCI was launched, its lending priorities strongly resembled those of the EIB, as the instrument funded energy and infrastructure projects, mostly in disadvantaged regions (European Commission 1983: 47). A first instance of layering occurred in 1981, when in response to earthquakes in Italy and Greece, the Council turned the NCI into an exceptional relief instrument that could finance 'the means of production' and 'economic and social infrastructure' in affected regions.[12] At ECU 1 billion, the reconstruction loan offered to Italy was as big as the entire NCI. The objectives of the regular NCI were also broadened in 1982 to include loans to businesses, especially small and medium-sized enterprises (SMEs). As a result, the Commission focused more and more on global loans to banks, which provided support in turn for smaller projects. Changes to the NCI in 1983 placed greater focus on innovation and technology lending, broadening the range of financial operations yet further.[13]

In 1983, the Council decided that the Commission would no longer lend to regions in which the EIB was active, but this demarcation did not last. Four years later, the Council approved a fourth round of funding under the NCI but decided that half of this sum should be raised by the Commission and half by the EIB. The writing was on the wall for the Commission, which sought greater autonomy through its approach to borrowing and lending operations under the NCI. The Jean Monnet Issuance was one strand of this strategy. A Commission proposal to turn the NCI into a 'revolving fund' was another. Traditionally, the Commission had borrowed back to back, meaning that it issued a bond only when it needed to finance a loan for a specific project. The Jean Monnet Issue, in contrast, went towards the refinancing of earlier, more costly loans. The revolving fund, meanwhile, would have allowed the Commission to borrow and relend up to a maximum agreed amount.[14] Member states did not authorize the refinancing of NCI and Euratom loans in 1990, bringing borrowing for these instruments to a 'virtual standstill' (European Commission 1991: 2).

Although the Commission made various proposals in the late 1980s to extend the NCI for a fifth time, such proposals failed to win the Council's support, leaving the instrument to expire in the early 1990s (Strasser 1992: 106). Thereafter, as we shall see in Chapter 6, the EIB took the lead in supporting SMEs, as well as the infrastructure and energy projects that the NCI had been originally created to finance. Although EU member states increased the ceiling for Euratom loans to ECU 4 billion in 1990, the instrument remained in a state of drift after the Chernobyl nuclear accident. As discussed in Chapter 7, the Euratom Loan Facility would soon be revised to support nuclear safety and efficiency projects in third countries.

4.1.3 Incremental Change in Financial Assistance

A similar pattern of layering and displacement can be seen in relation to the NCI, although historical institutionalism cannot easily explain where this process ultimately led. The Community Loan Mechanism's loan ceiling was raised to ECU 8 billion in 1985, with drawings by individual countries limited to 50 per cent of the envelope.[15] This move replenished the borrowing instrument after an ECU 3 billion loan to France, which had faced serial currency devaluations under French President François Mitterrand, and ensured that large member states would not crowd out lending to smaller ones.[16] The Community Loan Mechanism's focus on BoP problems due to high petroleum prices, already tenuous in the French context, was also abandoned entirely. This move led to the displacement of the Medium-Term Financial Assistance, a process which was completed in 1988 with the creation of the BoP Assistance Facility.

Member states presented the BoP Assistance Facility as merging the Medium-Term Financial Assistance and Community Loan Mechanism.[17] However, the new facility was firmly modelled on the latter and, as such, constituted a vote of confidence in the Commission as a borrower. Whereas the Medium-Term Financial Assistance financed loans through member state credits, the Council agreed that the Community Loan Mechanism had 'demonstrated its effectiveness' and that the Community 'needs to be able to use its credit-worthiness to borrow resources that will be placed at the disposal of the Member States concerned in the form of loans'.[18] To these ends, member states authorized the Commission to borrow up to ECU 16 billion under the BoP Assistance Facility to support member states 'experiencing, or … seriously threatened with, difficulties in their balance of current payments or capital movements'.[19]

The Commission's willingness to make use of its borrowing powers in such cases is not difficult to understand from a historical institutionalist perspective. Like the High Authority before it, the Commission was eager to borrow. More difficult to understand from this theoretical vantage point is why the Commission had agreed by this point that BoP Assistance should be prohibited for member states once they had transitioned to the third stage of EMU and adopted the euro. This prohibition, which was codified in the

Maastricht Treaty, cannot be understood as displacement since, as would become painfully apparent, this treaty failed to equip the euro area with its own financial assistance instrument.

4.2 The Choice for Commission Borrowing

The first and second oil shocks not only impacted individual member states but also generated powerful negative externalities for the EEC. Since the Community's establishment, member states had experienced generally buoyant growth and a comparatively stable macroeconomic outlook, which aided efforts to get the customs union, common market, and other common policies up and running. Surging oil prices, energy shortages, declining economic growth, and BoP problems in several member states greatly complicated the Community's functioning. Governments' struggles to minimize exchange rate fluctuations within the European Snake were a case in point. So too were the restrictions on oil exports imposed by some member states in open defiance of the free movement of goods in the common market (Schramm 2024). In keeping with liberal intergovernmentalism, the EEC sought to manage these cross-border externalities through coordinated action covering, *inter alia*, financial assistance and investment projects. In so doing, member states chose a modest amount of European-level borrowing over more costly bilateral and budgetary commitments. National governments drove the empowerment of the Commission as a borrower, leaving limited room for supranational entrepreneurship. Why governments chose to limit the scope of the BoP Assistance Facility is more difficult to understand from the point of view of liberal intergovernmentalism.

4.2.1 Financial Assistance

The 1973 oil shock impacted EEC member states differently because of their energy mix and underlying macroeconomic fundamentals. Italy was among the countries hardest hit by these developments due to its very high degree of dependence on imported energy and because it had already experienced inflationary pressures and BoP problems in the years immediately preceding the oil shock (Lubitz 1978). In 1972, Italy had posted a current account surplus of 1.4 per cent of gross domestic product (GDP) and within two years it was posting a current account deficit of 4.1 per cent.[20] Italian authorities sought to restore external balance by encouraging 'compensatory borrowing' by public companies in international capital markets, but such efforts fell short and the Italian government was constrained by sharp rises in the cost of borrowing (de Vries 1985: 442).

In February 1974, Italy agreed a credit line with the International Monetary Fund (IMF) but, as the crisis worsened, the EEC came under intense pressure to act. Italian authorities had already withdrawn the lira from the European Snake at this point, dealing a blow to the EEC's efforts at exchange rate cooperation and its plans to establish EMU by 1980 under the Werner Plan. Italy was also among those EEC member states to have imposed unilateral restrictions on the export of petroleum products against the protests of the European Commission. West Germany initially gave bilateral support to Italy by means of a $2 billion loan from the Bundesbank secured against Italian gold reserves. However, the Federal Republic soon looked to the Community as Italy's financing needs and those of other member states increased (Deutsche Bundesbank 1975: 55).

In December 1974, three months after the Bundesbank loan was arranged, ECOFIN granted Italy a loan worth $1.4 billion under the Medium Term Financial Assistance. Problems with this instrument soon emerged.[21] The UK, which was also hard hit by the first oil shock, recused itself from providing the national credits required for the Italian loan. Given the prospect that France and other member states might require loans, West Germany feared becoming the backstop for the Medium Term Financial Assistance and looked instead to the EEC as a borrower, as liberal intergovernmentalism would predict.

West Germany approached negotiations over the Community Loan Mechanism with three overarching objectives in mind: (1) ensuring that deficit countries did not end up in an economic or political crisis that threatened the existence of the Community or further integration; (2) preventing EEC member states from resorting to trade restrictions when they could no longer finance the oil price-related deficits; and (3) preventing further bilateral loan requests of the kind that Italy had made to the Bundesbank (Lemaitre 1974; Schwarz 2005).[22] At the same time, the Federal Government sought financial security and control over any new borrowing facility. It insisted that Community loans come with strong conditionality and sought a quota-based guarantee structure that would be sufficient for the Community to obtain a AAA rating yet limit West Germany's potential liability.[23] Keen to keep borrowing to a minimum, German negotiators also insisted that loan decisions be taken by unanimity and opposed the possibility of refinancing loans. On all these points, West Germany's demands were met.

The establishment of the Community Loan Mechanism in February 1975 offered numerous advantages to the Nine compared to other ways of managing the economic fallout from the first oil shock. Unlike bilateral loans, Community borrowings would not have a direct impact upon national budgets and would not even require national ratification, which made them politically more palatable and financially realistic.[24] Furthermore, there was a hope, at first, that the Commission would be able to recycle surpluses from oil-producing countries.[25] Even though negotiations between the Commission and Kuwait, Saudi Arabia, and Venezuela failed—owing to delays on the side of the Council—the Commission could still secure outstanding financial conditions for its first Community loans.[26] EEC bonds, issued in March 1976, involving over 300 banks, came at interest rates of 8.225 per cent for the dollar tranche, and 7.25 per cent for its Deutschmark tranche—borrowing conditions that were 'second to none' and better than those obtained by all member states, including the Federal Republic.[27] Financial assistance through joint borrowing seemed to be greater than the sum of its parts.

With the Community Loan Mechanism in place, the EEC had, from 1976 onwards, two financial assistance instruments. The question of which instrument to use opened up predictable divides between member states when it first came up in late 1976. France, Denmark, and the Benelux countries preferred to grant a Community loan given concerns over their own BoP, and Ireland was unable to underwrite Medium-Term Financial Assistance. The Federal Republic initially favoured Medium-Term Financial Assistance—'out of its traditional hostility in principle towards a Community loan', as a French memo put it—before yielding to the majority.[28] A similar pattern emerged in subsequent revisions to the Community Loan Mechanism, but German negotiators were, in all likelihood, seeking to limit the size of, and their exposure to, this borrowing instrument, rather than returning to a system of bilateral assistance. In 1981, France and Italy sought to raise the loan ceiling to ECU 15 billion but the Federal Republic, backed by the Netherlands, insisted on no more than ECU 6 billion.[29] In line with West German, French, and British preferences, the bilateral double guarantees for Community loans were abolished and the mechanism came to be secured against the EEC budget.[30] The option of extending financial assistance to third countries—which was discussed in the Monetary Committee in 1980—was discarded.[31]

The West German government supported the ECU 4 billion Community loan to France in 1983 not just for higher order political reasons, but because financial assistance reduced the risk of France instituting capital controls.[32] However, the Federal Republic continued to drive a hard bargain, joining forces with the Dutch and British in 1984 to propose that unused funds under the Medium-Term Financial Assistance should be tapped in future crises.[33] Once again, West Germany accepted a limited increase in the Community Loan Mechanism to ECU 8 billion alongside a corresponding decrease of the lending limit of the Medium-Term Financial Assistance by ECU 2 billion.[34]

After the 1983 French loan, which had little to do with higher oil prices, the scope of Community loans was broadened to include general BoP problems (Stieber 2015). At West Germany's insistence, however, financial assistance could be offered when such problems were beyond member state's control.[35] Despite these concessions, the Community Loan Mechanism remained an attractive, and indeed essential, instrument to member states facing higher borrowing costs, especially those which were prone to BoP crises. Greece, for example, unsuccessfully demanded that the loan ceiling be increased to ECU 18 billion in 1984, one year before it received a Community loan. Community loans also came with less stringent conditionality and were easier to mobilize than Medium-Term Financial Assistance by avoiding the distinction between creditor and debtor states.[36]

Similar political cleavages underpin the creation of the BoP Assistance Facility in 1988, with high borrowing cost member states such as Ireland and the Mediterranean countries pushing for a generous loan ceiling, while West Germany, the Netherlands, and the UK proposed to limit borrowing and threatened to return to a system of bilateral support.[37] The two sides agreed upon a limit of ECU 14 billion funded through loans. German negotiators were content to expunge the Medium-Term Financial Assistance, which had not been used for twelve years and had served its purpose as a bargaining chip. Henceforth, financial assistance to EEC members would be provided via borrowing.

The question of why Maastricht prohibited access to the BoP Assistance Facility for countries adopting the single currency makes less sense from a liberal intergovernmental perspective. The treaty's signatories can have laboured under no illusions about the risks of BoP crises in member states. In March 1991, nine months before the treaty was concluded, Greece received an ECU 2.2 billion loan from the new instrument to cope with a widening current account deficit and double-digit budget deficits and inflation.[38]

During the intergovernmental conference on EMU, the Commission and the Italian government pushed for a financial assistance mechanism to be included in the Maastricht Treaty that would allow for debt-funded support to be extended to individual member states based on a qualified majority vote (Secretary General of the Council of Ministers 1991a). The Commission's conception of the instrument was that it should be used for stabilization purposes given the potential for asymmetric shocks under EMU (Dyson and

Featherstone 1999: 732). Denmark, Greece, Ireland, and Portugal all rallied behind the Italian proposal (Secretary General of the Council of Ministers 1991b). The Spanish government even advocated its use as an automatic stabilizer (Dyson and Featherstone 1999: 732). The German government was strongly against this idea, citing fears of moral hazard and deficit financing, and received support from France, the UK, and the Netherlands (Dyson and Featherstone 1999: 240, 425, 670, 732). For Moravcsik (1998), Germany's position in the Maastricht negotiations embodied the so-called 'economist position' whereby monetary union would be launched only after economic convergence had been achieved, thus limiting the scope for asymmetric shocks. It is possible, therefore, that German negotiators discounted the possibility that member states such as Greece would ever join the euro area. Whatever the reason, it proved to be a very costly decision.

4.2.2 Investment

The Commission's first proposal for a Euratom loan facility in 1971 failed to convince member states, which had seen little reason for Euratom to borrow since the American loan a decade earlier. West German and Belgian representatives argued that financial market conditions in the early 1970s were sufficient to meet the nuclear industry's capital needs. France and Italy insisted that financing instruments for nuclear energy already existed, most importantly via the EIB.[39] Moreover, as the Dutch and West German representatives argued, the proposed volume of 100 million units of account would be too small to meet the Commission's objectives, even if granted.[40] This interaction set the tone for the next twenty years, which saw the Commission struggle to empower itself as a borrower in the field of investment. While member states were willing to consider the benefits of European-level borrowing, especially as economic conditions deteriorated, there was little scope for supranational entrepreneurship, as liberal intergovernmentalism expects.

The Commission's second proposal for a Euratom Loan Facility, made in late 1974, gained more traction against the backdrop of the oil crisis. With a loan ceiling of 500 million units of account, the facility was designed to fund a wider range of nuclear projects, helping to reduce the Community's 'excessive dependence on external sources of energy'.[41] West Germany now agreed that there was a need for further investments in nuclear energy, but it was wary of putting the Commission in charge of such loans.[42] It argued that the

EIB, and not the Commission, should grant the loans, officially because of the EIB's greater expertise, but internally as a way of pre-empting further Commission demands for debt-financed expenditure.[43] Belgium, France, and Italy supported the Commission's proposal, but West Germany continued to argue for a 'pure EIB alternative'.[44]

When member states finally agreed in 1977 to establish the Euratom Loan Facility, they did so on the understanding that the Commission would work closely with the EIB not only on the 'general policy' to be followed in this domain, but also borrowing and lending operations (Delegation of the Commission of the European Communities 1977). West Germany's desire to meet a growing share of its energy needs through nuclear power also helped to seal this deal. Not by chance, West Germany received the biggest share of Euratom loans in the early years of the facility (Wilkinson, Mathis, and Lewis 2011: 18). Conversely, growing opposition in West Germany and Italy to nuclear energy after the Chernobyl disaster played a part in the Euratom Loan Facility's obsolescence as an instrument for financing investment within the Community (Wilkinson, Mathis, and Lewis 2011: iv).

The Commission's efforts to create the NCI proved even more divisive. The economically most distressed member states—Ireland, Italy, and the UK—supported the Commission's 1978 proposal for loans to unlock additional investments.[45] However, the French and Dutch governments expressed reservations on the grounds that the Community already had financial mechanisms, and that the EIB would be the most appropriate actor to fund additional investments.[46] German authorities also feared that the Commission was seeking to increase its budgetary powers through the back door. A state secretary meeting in June 1977 warned that 'if bond financing of the Community budget was allowed, the financial scope of the Community could hardly be controlled anymore ... This would also entail a financial risk for the Federal Republic'.[47] Again, the West German government held out the longest. An agreement on the NCI had to be reached in a package deal by the European Council, which decided that the EIB would be responsible for granting and managing New Community Loans. In addition, the West German and Dutch demand to double the EIB's capital earlier than scheduled was met.

Divergences between member states with high and low borrowing costs also shaped negotiations over the NCI. Greece, Ireland, and Italy all championed this Commission borrowing instrument and benefitted liberally from the financing it offered (see Table 4.1). France's enthusiasm for the NCI increased as it accessed a greater share of funding. Such support can be seen, for example, in a coordinated attempt by France, Greece, Italy, and Ireland in 1982 to raise the instrument's borrowing ceiling ECU 3 billion.[48] West Germany and the Benelux received little or no funding from the NCI, but these countries preferred borrowing once again over higher contributions to the EU budget.

As the EEC recovered from the economic turmoil of the 1970s, support from member states for the NCI waned. When an earthquake struck the Greek village of Kalamata in September 1986, the Commission proposed a special loan tranche for reconstruction, as had been agreed in the wake of earthquakes in Italy and Greece in 1981 and 1982. However, Denmark, Luxembourg, the Netherlands, West Germany, and the UK insisted that the EIB alone provide support (European Commission 1988b: 1). When the Council consequently failed to reach an agreement on the Commission's proposed loan of ECU 100 million in late 1988, the Council presidency noted with regret the 'rigidity of positions' and that 'a stricken region was being taken hostage for a discussion of principle' (European Commission 1988b: 3). The loan was eventually provided with EIB resources.[49]

The Commission's attempt to regain the ability to borrow and fund infrastructure projects in 1987 failed due to opposition from France, the Netherlands, the UK, and West Germany.[50] Two years later, the Commission proposed a fifth instalment of the NCI, which would have funded SME projects related to technology, innovation, and renewable energy. By this point, France, West Germany, the Netherlands, and the UK had all become hostile towards further Commission borrowing for investment purposes. A consensus had developed to entrust the EIB with SME lending and infrastructure projects in the future.

4.3 Borrowing in Turbulent Times

New intergovernmentalism sees member states as willing to work together in the post-Maastricht period but reluctant to delegate new powers to the Commission along traditional lines (Bickerton, Hodson, and Puetter 2015). Where delegation occurs, it favours *de novo* bodies which operate at one remove from the EU's institutional and legal architecture. This institutional logic is woven into EMU's design, which assigned responsibility for monetary policy to the European Central Bank and kept the Commission's involvement in fiscal policy to a minimum. The Maastricht Treaty's restrictions on BoP Assistance reflected this reluctance to delegate, as did the Commission's waning powers as a borrower thereafter.

Table 4.1 Distribution of loans under the NCI (million ECUs)

	NCI I 1978–82	NCI II 1982–3	NCI III 1983–7	NCI IV 1987–94	Reconstruction 1981–94	Total	%
Belgium				23.6		23.6	0.4
Denmark	66.8	100.6	303.0	63.2		533.5	8.6
Greece		114.9	111.2		80.0	306.1	4.9
Spain			69.2	132.0		201.1	3.2
France	70.0	125.0	938.7	72.3		1,206.0	19.4
Ireland	239.0	116.6	68.4			424.0	6.8
Italy	479.9	473.4	1,228.5	285.7	598.7	3,066.3	49.4
Luxembourg						0.0	0.0
Netherlands			3.2			3.2	0.1
Portugal			29.9	9.9		39.8	0.6
UK	134.9	67.1	109.3	95.8		407.1	6.6
West Germany						0.0	0.0
Total	*990.5*	*997.5*	*2,861.6*	*682.6*	*678.7*	*6,210.9*	*100.0*

Notes: Numbers may not sum due to rounding. Reconstruction refers to loans for projects granted to Greece and Italy following earthquakes in these countries.
Source: European Commission (1994a).

Pre-Maastricht debates over EMU took it for granted that the Commission would play a role in facilitating financial assistance to member states. This can be seen, for instance, in the Barre Memorandum, a high-level study submitted to the Council in February 1969 by the European Commissioner for Economic and Monetary Affairs, Raymond Barre. Efforts to minimize exchange rate fluctuations between member states should go hand in hand with a new 'mutual assistance machinery', this report argued (European Commission 1969). To this end, Barre argued that the Commission should be authorized to recommend medium-term financial assistance for 'deficit countries' financed through the mobilization of 'more extensive sources than the EEC' (European Commission 1969: 9). The Werner Report, which was presented to the Council of Ministers by Luxembourg Prime Minister Pierre Werner in October 1970, echoed this call for medium-term financial assistance, as did a Council resolution on EMU in March 1971 (European Commission 1970b). Medium-term financial assistance was essential not only for the 'the harmonious execution of the plan for economic and monetary union', finance ministers argued in this resolution, but 'to provide the required parallelism between economic measures and monetary measures' (ECOFIN 1971).

The contrast between these earlier debates and those that lead to the Maastricht Treaty was striking. At the European Council in Hannover in 1988, the heads of state or government invited European Commission President Jacques Delors to chair a high-level committee to reconsider plans for EMU (European Council 1988). The Delors Report acknowledged concerns over BoP problems under EMU, while insisting that member states would need 'a substitute for the present medium-term financial assistance facility' (Committee on the Study of EMU 1989: 17). Shifts in economic ideas partly explain these different visions of EMU. In the 1970s, Keynesian thinking informed European policymakers' view that fiscal policy should play an active role in smoothing business cycles and adjusting to BoP difficulties. By the late 1980s, New Keynesian thinking favoured tight constraints on budgetary policies as the surest way to preserve macroeconomic stability. Where economic imbalances occurred under the monetary union, the Delors Report counselled, adjustment should occur via 'policies affecting the structure of their economies and costs of production' (Committee on the Study of EMU 1989).

The Maastricht negotiations also displayed far greater caution about the delegation of new powers to the EU than had been the case in earlier discussions of EMU. Few issues appeared to be off limits to the Werner Report, which talked openly about the transfer of economic, social, and taxation policy to the Community level and argued that EMU was a 'leaven for the development of political union which in the long run it will be unable to do without' (European Commission 1970b: 26). The Delors Report treaded much more carefully, making no mention of taxation or political union and insisted that the Community budget would remain 'small' (Committee on the Study of EMU 1989). The Delors Report's reticence was not only driven by economic ideas. It also reflected growing political sensitivities about the pursuit of ever closer union.

That the permissive consensus over European integration had come to an end became starkly apparent after the Maastricht Treaty was signed. In Denmark, voters narrowly rejected the treaty in a referendum and reversed this decision only after securing an opt-out from EMU's third stage. In France, President François Mitterrand only just survived a 'no' vote in a referendum on Maastricht that he had comfortably expected to win. In the United Kingdom, Prime Minister John Major faced a backbench rebellion over the Maastricht Treaty that almost toppled his government. In Germany, ratification was put on hold until the Federal Constitutional Court heard a challenge from a group of Eurosceptics that the Maastricht Treaty had violated their democratic and constitutional rights. These developments, although they threw the Community into a political crisis, were not entirely unexpected. Pre-Maastricht warning signs included the Single European Act's failure to win a majority in the Danish parliament and a legal challenge by Eurosceptic campaigners which forced the Irish government to hold a referendum on this treaty. Also significant was British Prime Minister Margaret Thatcher's speech at the College of Europe in Bruges in 1988 in which she warned against forces pushing for the creation of a European superstate (Thatcher 1988).

As new intergovernmentalism predicts, the Maastricht Treaty's signatories sought to forestall the EU's legitimacy problems not only by offering opt-outs to the UK but also by avoiding conspicuous transfers of authority to the Commission. When the Luxembourg presidency circulated a draft treaty in June 1991 which described the EU as a new stage on the road to a federal Europe, it produced a backlash from other member states, which demanded that all references to federalism be removed (Hodson 2023: 25–6). Significantly for our study, the Luxembourg draft also included a bracketed reference to the provision of special loans to member states facing difficulties due to events beyond their control.[51] References to such assistance were removed from the final version of the treaty, which merely authorized the Council to provide financial assistance in such cases.[52] This treaty provision was largely overlooked in EMU's first decade but it came to play a central role in the euro crisis.

4.4 Conclusion

In 1992, Daniel Strasser, a member of the European Court of Auditors and former director general for budgets in the European Commission, described the Community's borrowing and lending operations as 'among the most striking events in Community finances in recent years', and a form of Community action on which 'emphasis must increasingly be placed' (Strasser 1992: 300). As this chapter has shown, the borrowing instruments entrusted to the Commission between 1975 and 1992 played a pivotal part in the Community's response to the first and second oil shocks and extended the Commission's involvement in economic policy. And yet, member states lacked Strasser's enthusiasm for further borrowing at this time. Beginning in the late 1980s, they wound down the NCI, left the Euratom Loan Facility in abeyance, and prohibited BoP Assistance for member states once they had adopted the single currency.

Historical institutionalism helps to explain Commission borrowing as the product not of critical junctures, the findings presented in this chapter demonstrate, but layering on earlier instances of borrowing and financial assistance. This theoretical approach also explains the eventual displacement of the NCI, as member states had second thoughts about the Commission's role in raising funds for investment and looked instead to the EIB. Our findings also chime with liberal intergovernmentalism, which sees the decision of member states to empower the Commission as a borrower as an attempt to protect the Community from powerful negative externalities. This move suited member states which faced high borrowing costs and those who preferred Community borrowing to bilateral support or higher budget contributions. New intergovernmentalism, finally, sheds light on member states' reasons for restricting BoP Assistance. Member states not only sought to keep the burden of adjustment under EMU at the national level but also to minimize the Commission's powers as a borrower amid growing concerns over the EU's legitimacy.

5
The Euro Crisis and New Borrowing Instruments

On 26 June 2012, German Chancellor Angela Merkel told members of the Bundestag that there would be no euro bonds 'for as long as I live' (Isenson 2012). Merkel's statement was curious as the European Commission had already issued nearly €40 billion in bonds by this point to fund financial assistance to Portugal and Ireland under the newly created European Financial Stabilisation Mechanism (EFSM). However, the chancellor's vehement opposition to debt mutualization and Germany's participation in fiscal burden sharing remained defining features of the European Union (EU)'s handling of the euro crisis (Howarth and Schild 2021). To convince Germany and like-minded member states to underwrite additional assistance for countries in the grip of a sovereign debt crisis, euro area national governments created two new European-level borrowers, the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM), with a combined lending capacity of €700 billion (ESM 2013: 7). Indeed, thanks to German government preferences, the financial assistance programmes funded by European borrowing came with tough policy conditions for the recipient countries designed to discourage their use. Ultimately, the euro crisis led to a proliferation of borrowing instruments and institutions at the European level.

This chapter explores how the EU responded to a destructive debt crisis by creating new borrowing instruments for the euro area. Drawing on historical institutionalism, our analysis shows how these instruments were partly layered on earlier forms of borrowing while completing a delayed act of displacement initiated by the Maastricht Treaty. As anticipated by liberal intergovernmentalism, member states with high borrowing costs looked to the EU to help manage cross-border externalities while countries with low borrowing costs reluctantly accepted borrowing over higher net contributions to the EU budget or bilateral support. Drawing insights from new intergovernmentalism, we show how member states' reluctance to delegate significant powers to the Commission once again favoured the creation of *de novo* bodies.

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5.1 Economic Shocks and Institutional Change

Historical institutionalism offers two ways of thinking about the euro crisis. The first sees the worst economic crisis to befall the EU in its six-decade history as a critical juncture that led policymakers to make choices which were previously off limits but thereafter difficult to take back. The second views the EU's response to this turmoil as layered on early borrowing instruments and operations. The evidence presented in this section chimes with the second line of explanation. Although member states had never before borrowed on this scale, their decision to borrow was squarely built on earlier forms of EU borrowing.

5.1.1 Layering and Deferred Displacement

The euro crisis was, undoubtedly, a profound economic shock. Whether it led the EU in a new and irreversible direction, as we would expect of a critical juncture, is a different matter. In 2007, three years before the euro crisis began, problems in the American subprime mortgage market spilled over into the international financial system, triggering bank runs and severe liquidity shortages in Europe. Although EU member states ultimately stabilized their financial systems, the costs of bank rescues, coupled with the steep recession that followed, led to balance of payments (BoP) problems and a surge in government borrowing across the EU. Three non-euro members, Hungary, Latvia, and Romania, were hardest hit at first, but the global financial crisis soon caused macroeconomic imbalances that had built up during the first decade of the single currency to unwind in several euro area members. In Ireland and Spain, an abrupt correction in house prices after years of increases created a 'diabolical loop' between distressed financial institutions and indebted sovereigns (Brunnermeier et al. 2016). In Portugal, the global financial crisis threw the country's slow recovery from an earlier BoP crisis off course, alarming investors (Lourtie 2011). In Cyprus, the country's outsized banking sector had already put a strain on public finances before rolling power cuts disrupted economic activity for months (Zenios 2013). Greece found itself in serious difficulty earlier than these countries after a new government revealed serious inaccuracies in the reporting of public finance statistics (Pagoulatos 2021). After the true scale of government borrowing in 2009 came to light, investors quickly lost confidence in Greek policymakers.

Despite the scale and severity of this economic chain reaction, the EU fell back on earlier forms of borrowing. As discussed in Chapter 4, the European Community responded to the first oil shock in 1973 by allowing the Commission to borrow for the purpose of providing financial assistance to member states. The Community Loan Mechanism was absorbed into the BoP Assistance Facility, which had lain dormant since providing a European Currency Unit (ECU) 8 billion loan to Italy in 1993 before being downsized from €16 billion to €12 billion in 2002.[1] Despite the instrument's hiatus, the Economic and Financial Affairs Council (ECOFIN) rapidly agreed to provide a €6.5 billion loan to Hungary in November 2008, while simultaneously raising the instrument's loan ceiling to €25 billion.[2] In negotiating the memorandum of understanding underpinning this loan agreement, the Commission also worked closely with the European Central Bank (ECB), which had provided limited liquidity assistance to the Magyar Nemzeti Bank a few weeks earlier and the International Monetary Fund (IMF), which offered Hungary €12.5 billion in loans under a stand-by arrangement.[3]

ECOFIN provided similar support for Latvia in December 2008 and Romania in May 2009, agreeing on the second occasion to raise the BoP Assistance Facility's lending ceiling to €50 billion.[4] Unfamiliar though this borrowing instrument may have appeared, EU finance ministers layered their response to the global financial crisis on three decades of Commission borrowing in times of economic turmoil. Financial assistance for Hungary, Latvia, and Romania broadly achieved its aims, helping to restore investor confidence in these three member states, as well as Central and Eastern Europe more generally. The EU's handling of the euro crisis turned out to be much more problematic, beginning with the fact that the Maastricht Treaty had prohibited euro area members from requesting or receiving BoP Assistance.

As Greece's budget deficit ballooned in early 2010, and the risk of contagion to Ireland, Portugal, and other countries increased, the heads of state or government of the member states that share the euro agreed to take 'determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole' (Council of the EU 2010a). As a euro area member, Greece was excluded from BoP Assistance, leaving euro area leaders to find alternative forms of finance. On 2 May 2010, after months of protracted negotiations, Greece was offered up to €80 billion in bilateral loans from euro area members and €30 billion from the IMF under a stand-by arrangement (Eurogroup 2010). Although the Commission participated in the Greek Loan Facility, its role was to pool and manage member state loans rather than participate in bond issuance. This arrangement was quickly overtaken as the euro area's fiscal problems intensified. Seven days after announcing support for Greece, ECOFIN agreed to create the EFSM, which allowed the Commission to borrow up to €60 billion to provide financial assistance to member states experiencing or seriously threatened with a 'severe economic or financial disturbance'.[5] Ireland became the first country to receive a loan from the EFSM in January 2011, followed by Portugal four months later.

The EFSM, although it broke new ground for the euro area, was layered on the BoP Assistance Facility. Both instruments authorize the Commission to raise funds on capital markets or from financial markets to provide a loan subject to strict policy conditions.[6] The decision to grant such loans and the determination of policy conditions also rests in both cases with the Council, which decides by a qualified majority vote.[7] Loans disbursed under each instrument are guaranteed by the EU budget, in particular, the headroom available under the budget (i.e. the difference between their own resources ceiling and the funds needed to cover EU expenditure).

The EFSM can also be understood in historical institutional terms as an instance of deferred displacement. As discussed in Chapter 4, member states' reasons for not equipping EMU with a financial assistance instrument were difficult to understand from this theoretical vantage point. Had member states agreed to Luxembourg's draft treaty in 1991, the BoP Assistance Facility would have been displaced by a new borrowing instrument designed to support euro area members facing 'exceptional occurrences' beyond their control.[8] In the end, the Maastricht Treaty stated only that the Council should be authorized to act in such cases while leaving the nature of this action undefined.[9] When ECOFIN finally decided in May 2010 to invoke the same treaty provision to establish the EFSM, an act of displacement that had been initiated eighteen years earlier was finally completed.[10]

5.1.2 From the EFSF to the ESM

With the headroom available under the EU's long-term budget amounting to around €60 billion in May 2010, it was clear from the outset that the EFSM was not nearly large enough to reassure financial markets that the EU stood behind the euro. ECOFIN therefore agreed on 7 May 2010 to create the EFSF, which offered €17.7 billion in loans to Ireland in December 2010, €26 billion to Portugal in May 2011, and €144.7 billion to Greece in February 2012 as part of a second EU-IMF package (European Commission 2012). For Gocaj and Meunier (2013), the EFSF exemplifies the idea of a critical juncture.

Having played for time in providing financial assistance to Greece, euro area members were overtaken by the risk of contagion and created a much bigger financial assistance instrument than they would otherwise have done. Viewed against five decades of European-level borrowing, however, the EFSF can be better understood as an instance of layering.

Uniquely among the borrowers discussed in this book, the EFSF was established as a *société anonyme* under Luxembourg private law. In other respects, however, the facility was built on earlier forms of European-level borrowing. As Verdun (2015: 226) notes, the EFSF has more than a passing resemblance to the European Investment Bank (EIB), with members serving as both borrowers and shareholders and occupying a key role in governing structures (Verdun 2015). The EFSF's annual general meeting was modelled on the EIB's Board of Governors, minus representatives of non-euro members, as was the EFSF Board of Directors. The EIB even provided 'technical assistance' to its new Luxembourg neighbour, giving legal advice on the facility's design and supporting treasury management services by means of a service-level agreement (EIB 2010).

'A combination of misunderstandings about the long-term nature of the sovereign debt crisis, continuing contagion, heightened threat of Greek default in the autumn of 2010, and an institution conceived in haste resulted in calls for transforming the slim, temporary EFSF into something more permanent', argue Gocaj and Meunier (2013: 247) in their influential historical institutionalist account of member states' decision to create the ESM. Illuminating though this analysis is, it downplays the fact that euro area heads of state or government had agreed, in the same meeting in May 2010 after which they announced the EFSF's creation, to move ahead with plans for 'a permanent crisis resolution framework' (Council of the EU 2010b). Before the EFSF had issued its first bond, member states had agreed to replace the EFSF with the ESM and agreed on the new body's institutional design.

Far from being locked into a specific set of institutional choices, the new ESM differs from the EFSF in several respects. Whereas the EFSF was a temporary special-purpose vehicle underpinned by private law, the ESM would be an international financial institution established for an indefinite amount of time by an international law treaty approved by euro area members. The ESM was also backed by a targeted revision to Article 136 of the Treaty on the Functioning of the European Union (TFEU), which allowed the member states that share the euro to establish 'a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole'.[11] Crucially, the bodies relied on different guarantee structures. The EFSF borrowed against national guarantees with a system of overguarantees in place so that the then six AAA-rated national governments of the euro area could cover 100 per cent of the lending (ESM 2019: 83–90; Interview 34, 2023). The ESM, in contrast, was funded by €80 billion in paid-in capital and another €620 billion in callable capital (ESM 2011).

The EFSF Framework Agreement stipulated that the facility could no longer participate in new financing operations or loan agreements after 1 July 2013.[12] Had the ESM been established at this point, as had originally been intended, then a straightforward example of displacement would have occurred (ESM 2019: 136). Instead, as the euro area's fiscal crisis mounted in late 2011, the heads of state or government agreed that the ESM would be established earlier than anticipated and run in parallel with a replenished EFSF until the temporary body expired.[13] This brief act of layering showed, once again, that member states were not locked into specific institutional choices but rather improvising as they battled to save the single currency (Van Middelaar 2019). The same can be said of member states' earlier decision to allow the EFSF and the ESM to engage in primary- and secondary-market bond purchases, precautionary aid programmes, and even indirect bank recapitalization (Council of the EU 2011).

In July 2012, Spain requested a €100 billion loan from the ESM, with a €9 billion loan request from Cyprus following ten months later. By this stage, it appeared that the worst of the euro crisis had passed not only because of the ECB's belated decision to engage in large-scale bond purchases but because European-level borrowing had given member states room to get their public finances under control. The worst of the euro crisis could have been avoided if the ECB had acted earlier, but even in this scenario, it is likely that financial assistance for one or more euro area members would have been required. What euro area leaders could have done differently is to reconsider the policy conditions and economic assumptions underpinning such assistance. Greece, in particular, paid a heavy price for euro area leaders' overly optimistic assumptions about the sustainability of the country's debt and the speed with which its economy was likely to recover.

Ireland and Spain exited their loan programmes in December 2013 followed by Portugal in May 2014 and Cyprus in March 2016. One more major twist in the Greek fiscal crises occurred in June 2015, however, after a new government led by the left-wing populist party SYRIZA broke off negotiations with the EU and IMF and declared a referendum which resulted in a resounding 'no' to further austerity. Momentarily, it looked like Greece might leave or be forced out of the euro area, but national leaders agreed on a third round of loans from the ESM worth €86 billion subject to even stricter conditionality. By layering ESM loans on top of the earlier commitments from the EFSF and Greek Loan Facility, the EU finally found a way out of the euro crisis. By the time Greece exited its third and final programme in September 2018, the Commission, EFSF, and ESM had borrowed nearly €360 billion to save the single currency.

5.2 National Interests and the Euro Crisis

Liberal intergovernmentalism explains EU borrowing as the outcome of bargaining between member states with high and low borrowing costs. Countries in the first camp looked to the EU during the euro crisis to help restore national control over public finances in the face of destabilizing cross-border externalities. Those in the second camp initially sought to manage this crisis through bilateral support before settling on borrowing as a way to mobilize greater funding. National treasuries' exposure to EFSF borrowing is one reason why euro area members expedited the establishment of the ESM.

5.2.1 From Bilateralism to Borrowing

BoP Assistance to Hungary, Latvia, and Romania in 2008 and 2009 was provided in short order not only because the EU had a borrowing instrument in place but also because it was in member states' interests to raise funds on capital markets rather than placing additional burdens on the Union's budget. The three countries which turned to the EU and IMF had been buffeted by global events in autumn 2008, as evidenced by Hungary's failed government bond auction, Latvia's struggles to contain a run on the country's second-largest bank, and surging credit default swap spreads in Romania in the months following Lehman Brothers' collapse (Anderson 2008; *Reuters* 2008a; IMF 2009). Seeking financial assistance was the surest way for all three countries to restore credibility to national economic policies. Other EU member states rapidly agreed with this assessment, fearing a regional banking crisis which could weigh heavily on Western and Northern Europe. Providing BoP Assistance was deemed preferable to putting further resources into the EU budget, which had already advanced billions of structural funds to Central and Eastern Europe by this point, or pursuing bilateral solutions at a time of immense strain for national treasuries.[14]

Although EU member states ultimately agreed to help Greece for similarly self-interested reasons, intergovernmental negotiations over this issue played out much more slowly. One reason is that Prime Minister George

Papandreou, having revealed widespread inaccuracies in Greek public finance statistics, initially sought to cut his way out of the crisis rather than seeking external financial assistance. An update to Greece's stability programme in January 2010 pledged to reduce the country's budget deficit from 12.5 per cent of gross domestic product (GDP) to below 3 per cent within three years in line with the EU's Stability and Growth Pact (Ministry of Finance 2010). 'We all have a debt and duty towards our homeland to work together at this difficult time to protect our economy', Papandreou told Greek citizens in a televised address the following month (Smith 2010). Financial markets were unconvinced. By March 2010, yields on ten-year Greek government bonds had risen from 4.5 per cent before the crisis began to 6.24 per cent, making it increasingly difficult to service the country's already sizeable government debt.[15]

Euro area heads of state or government had already agreed by this point to support Greece if and when a request for financial support came. However, member states were divided over what form such support should take. Germany, the Netherlands, Finland, and Austria, four low-interest member states which had weathered the global financial crisis reasonably well, had a strong preference at first for offering bilateral assistance to Greece so as to limit their liability (Bolzen et al. 2010; Interview 41, 2024). France and Italy, two longstanding champions of European-level borrowing, were wary of bilateral solutions, which they feared would prove insufficient if a large member state was drawn into the euro crisis. Both favoured rapid support channelled through the EU, with the logic being that the Union was best placed to prevent worsening economic difficulties (Hall et al. 2010). France's position also reflected the significant exposure of French banks to the Greek economy and French bank holdings of Greek sovereign and corporate debt (Massoc 2021). With public debt at 119 per cent of GDP in 2010 and rising, Italy had one eye on its own future financing needs as it pushed for European-level support for Greece.[16] Germany had the upper hand in these negotiations by virtue of its economic size and fierce domestic opposition to the idea of paying for mistakes made by Greek policymakers. Thus, intergovernmental negotiations produced agreement on bilateral loans pooled via the Greek Loan Facility, coupled with a stand-by arrangement from the IMF. By May 2010, yields on Greek ten-year bonds had reached 7.97 per cent, leaving Prime Minister George Papandreou with little choice but to accept this funding arrangement and the stringent policy conditions that came with it.[17]

While these intergovernmental negotiations played out, Portuguese bond yields had steadily increased, raising the probability that it too would require external support. The same euro area members which had insisted on a bespoke solution for Greece now baulked at the potential cost of further bilateral loans, especially if larger member states such as Italy and Spain could be drawn into the euro crisis (Alloway 2010). Seeing an opportunity to advance its powers as a borrower, the European Commission floated a plan which would have allowed borrowing of up to €60 billion backed by the EU budget plus amounts 'above and beyond' this ceiling backed by joint and several liability from EU member states (ESM 2019: 51). Joint and several liability was completely out of the question for Germany, which feared higher interest rates if it could be held liable for all, rather than a portion of, EU borrowing (Interview 40, 2024). Accepting the need for concerted action, German negotiators reluctantly supported the creation of a small Commission borrowing instrument backed by the EU budget and a larger special-purpose vehicle backed by proportional, but ultimately limited, national guarantees. Establishing the EFSF allowed member states to mobilize far greater resources than they could have done bilaterally while minimizing upfront demands on national treasuries. As it turned out, these demands were greater than anticipated, which was one reason why euro area members expedited the creation of the ESM (Interview 29, 2024).

In January 2011, the European Statistical Office (Eurostat), published a decision on the attribution of EFSF debt (Eurostat 2011). The new facility was neither an institutional unit, as defined under the European System of Accounts, an international financial institution, nor a body that could be consolidated with any of the institutions established by the EU treaties. In consequence, Eurostat decided that EFSF debt must be included in national accounts. The member states which had guaranteed loans to Ireland and Portugal, in other words, would have to record these obligations as part of their own national debt. Although it cannot have come as a surprise—the Committee on Monetary, Financial, and Balance of Payments Statistics (CMFB), an advisory body to the European Commission, had already issued a similar opinion by this point—Eurostat's ruling struck at one of the most compelling reasons for creating this special-purpose vehicle from a liberal intergovernmental perspective. This move added to the urgency at this juncture of establishing the ESM, which by virtue of its status as an international financial institution and guarantee structure could grant loans without this debt being 're-routed to Euro Area Member States' (Eurostat 2013).

5.2.2 Financing Costs

In March 2010, as intergovernmental negotiations over support for Greece slowly progressed, euro area heads of state or government agreed on a set of principles for financial assistance. Included at Germany's insistence was the stipulation that any loans offered to the Hellenic Republic would be priced not at the euro area average but in such a way as to set incentives to return to market financing (Council of the EU 2010c; Euractiv 2010a). As an example of asymmetric bargaining, in which member states with strong reservations over a deal can extract significant concessions, this agreement chimed with liberal intergovernmentalism. However, the idea that Greece would be forced to accept punitive interest rates rested uneasily with this theoretical approach, which posits that countries with high borrowing costs will support European-level borrowing to access cheaper credit. In practice, euro area members took several steps during the euro crisis to ease the financial burden on Greece and other programme countries.

The first significant adjustment to Greece's loan programme occurred in July 2011 when euro area heads of state or government reduced the interest rate on funds provided by the Greek Loan Facility by 100 basis points and extended the maturity on all loans by between five and ten years (Council of the EU 2011). Eight months later, the Euro Summit extended maturities on all Greek loans to an average of fifteen years and reduced interest by a further 150 basis points (Eurogroup 2012). Ireland and Portugal, having been asked to show flexibility towards Greece, had every right to demand leniency. Euro area leaders therefore agreed in July 2011 that the EFSF lending rates and maturities offered to Greece would be extended to other programme countries (Council of the EU 2011). The resulting savings for Ireland amounted to €900 million in 2012 alone.[18] In July 2013, EU finance ministers increased the maturity of EFSF and EFSM loans to Ireland from an average of 12.5 years to 19.5 years, further reducing these countries' debt burdens (Council of the EU 2011). To manage these longer dated debts and pool market risks, in November 2011, the EFSF changed its funding strategy from a back-to-back approach to a diversified funding strategy under which it issued different debt instruments across maturities and delinked borrowing from disbursements (ESM 2019). This new funding strategy enabled the EFSF to extend debt maturities to 2070, with the ESM assuming responsibility for this issuance from 2013. Estimates suggest that countries which borrowed from the EFSF and ESM all ultimately benefitted from lower financing costs, even if there was significant cross-country variation (ESM 2016: 32).

Greece's second financial assistance programme, which was provided via the EFSF, came with a raft of additional measures designed to lower the country's financing costs. This included extending the average maturity of existing loans from 17.5 to 32.5 years and a retroactive lowering of interest rates (ESM 2016: 32). The new programme also contributed to the largest private sector debt restructuring in history, which saw investors accept a 53.5 per cent cut in the face value of 97 per cent of privately held Greek bonds (European Commission 2012). Despite the scale of this intervention, which helped to reduce Greece's debt stock by €107 billion, the country's debt-to-GDP ratio reached 181 per cent by the end of 2014, as compared with 109 per cent in 2008.[19] Although the Greek economy had finally resumed growth by this point, unemployment had reached 26 per cent of the civilian labour force. It was against this backdrop that Syriza won power and proposed a European Debt Conference to write off the greater part of Greece's public debt.

By 2015, the EFSF was Greece's single biggest creditor, accounting for around 40 per cent of the country's outstanding debt. Unlike the IMF, which held around 10 per cent of Greek debt at this time, the EFSF also lacked preferred creditor status, meaning that the European-level borrower would bear the brunt of any official sector debt restructuring. Such losses would be borne in turn by euro area member states, as EFSF shareholders and guarantors. While the media portrayed French President François Hollande and German Chancellor Angela Merkel as divided at this time over the merits of debt restructuring, neither leader advocated a write-down on EFSF loans to Greece. Although the Eurogroup held out the possibility of debt restructuring for Greece in a communique adopted in July 2015, this offer was conditional on Greek exit from the euro. This bargaining chip was, in any case, quickly taken off the table by the heads of state or government.

In July 2015, euro area leaders agreed, in principle, to a third round of financial assistance for Greece involving up to €86 billion in loans from the ESM. In exchange, Greek Prime Minister Alexis Tsipras reluctantly agreed to even more stringent policy conditions, including the creation of a Greek privatization fund supervised by EU institutions with the authority to sell €50 billion in state assets to repay loans to European creditors. The deal made no mention of debt restructuring but it did accept the need for further measures to keep Greece's gross financing needs 'at a sustainable level' (Euro Summit 2015). Consistent with liberal intergovermentalism, euro area members held the upper hand in negotiations, but Tsipras had limited reason to accept a politically unpalatable loan package unless it meant lower borrowing costs for Greece.

In January 2017, the EFSF General Meeting and ESM Board of Governors agreed to a set of short-term debt relief measures for Greece, including a smoothing of the country's repayment profile and various steps to reduce its interest-rate risk. This decision brought nothing like the debt restructuring Syriza had promised when it came to power two years earlier, but the resulting cumulative reduction in Greece's debt-to-GDP ratio until 2060 was estimated at around twenty-five percentage points (ESM 2017b). A set of medium-term debt relief measures agreed by the ESM in 2018 added a further thirty percentage points to this saving (ESM 2018b). The euro crisis may have exacted a heavy toll on Greece, but intergovernmental negotiations ensured European-level borrowers delivered lower financing costs to the last.

Between the first quarter of 2016 and the third quarter of 2018, the spread between ten-year Greek and ESM bonds fell from 912 points to 321 (see Figure 5.1). Although the yield on ESM bonds was still considerably lower, the Tsipras administration had regained the confidence of investors and tentatively returned to capital markets. In line with liberal intergovernmentalism, Greece had sought financial assistance from EU partners in 2010 not because it had renounced its fiscal sovereignty but to restore national control over its public finances in the face of an exogenous shock. In August 2018, Greece took receipt of its last loan tranche from the ESM, effectively bringing the euro crisis to an end.

5.3 The Contested Politics of the Euro Crisis

New intergovernmentalism emphasizes member states' reluctance to delegate new powers to old supranational institutions along traditional lines for fear of aggravating the EU's legitimacy problems. During the euro crisis, member states entrusted the European Commission with responsibility

Fig. 5.1 Ten-year Greek government-bond spread over ESM bonds (basis points)

Source: Authors' own calculations based on Bloomberg.

for a small and time-limited borrowing instrument, the EFSM, while channelling the bulk of financial assistance through two *de novo* bodies: the EFSF and ESM. In this sense, the euro crisis reinforced the EU's tendency towards integration without supranationalization in the post-Maastricht era.

5.3.1 A Reluctance to Empower the Commission as a Borrower

The EU may have fallen back on earlier forms of borrowing when the euro crisis hit, as already discussed, but member states were much less willing to empower the Commission as a borrower in the 2010s than they had been during the 1970s. Then, member states had driven a hard bargain over the design of the Community Loan Mechanism but entrusting the Commission with responsibility for borrowing at scale on behalf of the Community had been a relatively straightforward exercise. In line with new intergovernmentalism, member states went to great lengths to limit the Commission's involvement in the euro crisis.

This reluctance to delegate along traditional lines can be seen most clearly in the establishment of the Greek Loan Facility, which bypassed EU borrowing altogether and confined the Commission to a coordinating role. It is evident too in the design of the EFSM, which reflected member states' unease about empowering the Commission in this sensitive domain. This borrowing instrument was barely large enough to cover the financing needs of a small member state and, although it did not have a sunset clause, the Commission was instructed to report every six months to the Council and its preparatory body, the Economic and Financial Committee, on whether the 'exceptional occurrences' which justified the borrowing instrument's creation remained valid.[20] When member states agreed in December 2010 on a draft treaty establishing the ESM, they did so on the understanding that this instrument would replace not only the EFSF but also the EFSM.

Among EU member states, Germany and the UK were most uneasy about the Commission's empowerment as a borrower during the euro crisis. The German government not only had doubts about the supranational body's credibility as a crisis monitor (Hodson 2015; Brunnermeier et al. 2016), in line with new intergovernmentalism, it also feared strong opposition at home to any perceived attempt to use the euro crisis as a pretext for strengthening the EU's fiscal capacity. Writing in the *Financial Times* in March 2010, German Finance Minister Wolfgang Schäuble appeared to go against the grain by insisting that euro area members must 'be prepared to integrate further' but this did not mean upgrading the Commission's fiscal powers at the expense of member states. Instead, Schäuble proposed a European Monetary Fund which would take direction from the Eurogroup in consultation with the ECB (Schäuble 2010).

Merkel offered faint praise for Schäuble's idea of a European Monetary Fund while insisting that it was unworkable 'without changing the treaty' (Euractiv 2010b). Since neither the chancellor nor any other euro area leaders wanted to embark on a large-scale treaty revision at this point, German negotiators reluctantly accepted that the Commission should be put in charge of a temporary borrowing instrument to support other euro area members. A red line for the federal government in these negotiations was that the Commission must not be allowed to borrow in excess of funds available under the Union's own resources ceiling (ESM 2019: 48–52). It was clear from the outset, therefore, that the EFSM would be just one strand of the EU's response to the euro crisis.

Had the UK's new coalition government been in power on 9 May 2010, then it is likely that the incoming Conservative Chancellor George Osborne would have objected to the use of an EU borrowing instrument which was reserved for euro area members. Instead, Osborne's predecessor, Alastair Darling, used his final days in office to approve the establishment of the EFSM. Thereafter, the Commission's new borrowing instrument became a neuralgic point for Conservative backbenchers, who had opposed the UK's participation in the single currency at Maastricht and now wanted no British involvement in any attempt to save the euro.[21] When EU finance ministers offered Portugal financial assistance in April 2011, the UK government narrowly escaped a parliamentary rebellion over the EFSM's use for this purpose.

Few issues captured the fraught politics of the post-Maastricht period more fully than the backlash against the EFSM in the UK. Although the chances that either Ireland or Portugal would default on their debts to the EU and thus trigger financial demands on the UK were slim, British Eurosceptics continued to politicize this issue. 'We took Britain out of Eurozone bailouts, including for Greece—the first ever return of powers from Brussels' declared the Conservatives' 2015 general election manifesto, which returned the party to power two months before ECOFIN agreed to reactivate the EFSM to finance a €7 billion bridging loan for Greece, while talks over a third loan package were ongoing. Furious at being outvoted on this issue, George Osborne secured a change to the regulation underpinning the EFSM, which promised that non-euro members would be 'immediately and fully compensated for any liability' incurred by a euro area member's failure to repay an EFSM loan.[22]

Not content with this concession, which was less about protecting UK interests than being seen to take a stand over sovereignty, UK Prime Minister David Cameron cited people's apparent frustration with 'their taxes [being] used to bail out governments on the other side of the continent' as one of the reasons for calling a referendum on UK membership after seeking a new settlement with EU partners (Cameron 2013). Concluded in February 2016, four months before British voters rejected Cameron's calls to remain in the EU, the new settlement included a guarantee that 'crisis measures designed to safeguard the financial stability of the euro area will not entail budgetary responsibility for Member States whose currency is not the euro' (European Council 2016). Had the vote gone differently, the EFSM would have been dissolved once and for all, but instead it remained an unused part of the Commission's borrowing toolkit.

5.3.2 *De Novo* Borrowers

Member states tend to favour the empowerment of *de novo* bodies in the post-Maastricht period, new intergovernmentalism posits, because it is easier to win approval for bodies which operate under the direction of member states at one remove from EU institutions and law. Securing parliamentary approval for the EFSF Framework Agreement was not entirely straightforward. In Slovakia, the government faced significant opposition from Eurosceptic politicians for backing financial assistance to wealthier euro area members and won support for the EFSF only after recusing the country from the Greek Loan Facility. Such tensions merely underline how much more difficult it would have been to win approval for EU treaty revisions to extend the Commission's borrowing powers. In this scenario, parliamentary pushback over the EFSF would likely have been accompanied by hard-to-win referendums in one or more member states (Hodson and Maher 2018).

In keeping with new intergovernmentalism, Germany's preference for establishing the EFSF and ESM was not simply a product of functional concerns; it reflected a desire, as the government admitted, to 'minimise possible constitutional risks' (Miller 2012). Channelling the bulk of financial assistance through *de novo* bodies rather than the Commission can be seen as an attempt to sidestep heated constitutional debates since the Maastricht Treaty was signed over whether European integration was compatible with Germany's Basic Law. Predictably, Eurosceptic politicians and economists challenged the EFSF and ESM, but the Federal Constitutional

Court accepted that the German government had not tried to 'transfer budget competences to bodies of the European Union' (Federal Constitutional Court 2012). Had the Commission alone been granted responsibility for providing financial assistance to euro area members, it would have been much more difficult to win this argument.

Having underlined the need for a 'permanent crisis resolution framework' when they established the EFSF in May 2010, member states quickly came to the view that ESM required a treaty revision (Council of the EU 2010b). Even then, EU leaders took steps to insulate themselves from growing political contestation over their handling of the euro crisis by pursuing a 'limited treaty change' under the Lisbon Treaty's new Simplified Revision Procedure and embedding the ESM's statutes in an international law treaty (European Council 2011). If member states had instead sought approval for the ESM via the Ordinary Revision Procedure, this would almost certainly have triggered a referendum in the UK, where Eurosceptics were spoiling for a fight over the single currency and Britain's place in the EU.

That the Court of Justice of the EU was drawn into Ireland's ratification of the ESM Treaty confirmed not only how contested the creation of European-level borrowers was, but also the degree of political freedom that *de novo* bodies afforded national governments. In April 2012, Thomas Pringle, a Eurosceptic member of the Irish parliament, launched a legal challenge in the Irish High Court in which he sought an injunction over the proposed changes to the EU treaty unless the government agreed to hold a referendum. The Simplified Revision Procedure could not be used in this instance, Pringle argued, because the ESM conferred new competences on the Union.[23] Although the politician lost the case before the Irish Court, he appealed to the Supreme Court, which sought a preliminary ruling from the Court of Justice of the European Union (CJEU) on the ESM's compatibility with EU law. In its judgment, which was delivered in December 2012, the Court took a pragmatic view of intergovernmental decision making (Borger 2013). Member states were free to establish the ESM outside the scope of EU law, it ruled, on the understanding that the commitments undertaken by member states are compatible with EU law.[24]

Two other *de novo* bodies played a lower profile role during the euro crisis. In 2012, the EIB set up a trust fund backed by unabsorbed structural funds to channel additional loans to Greek small and medium-sized enterprises (EIB 2013). Developed in conjunction with the Greek government and the European Commission, this arrangement served as a forerunner to the Juncker Plan, an ambitious scheme to address the EU's persistent investment gap after nearly a decade of economic and financial turmoil (see Chapter 6). In 2014, the EBRD recognized Cyprus as a recipient country before purchasing a €107.5 million stake in the Bank of Cyprus (EBRD 2015). One year later, the EBRD declared Greece to be a 'temporary recipient' and purchased an equity stake worth €250 million in the country's four most important banks (EBRD 2016a). The EBRD ceased funding new projects in Cyprus in 2020, but the Bank continues to invest in Greece, which invited the Bank to play an advisory role in the implementation of its Recovery and Resilience Plan during the COVID-19 pandemic (Aristeidou 2021).

Member states may have found a way to navigate the political controversy over the EFSF and ESM, but that does not mean that such controversy disappeared. In fact, these bodies soon became a focal point for Eurosceptic politicians in a way that had been previously reserved for the European Commission as well as, occasionally, the ECB. In Germany, Angela Merkel's speech on the ESM in the Bundestag in September 2011—in which the chancellor argued that there was no alternative to defending the euro—inadvertently inspired a group of economists, journalists, and politicians to form a new protest group against euro crisis measures (Grimm 2015: 266–7). Within four years, Alternative for Germany (AfD) had become the main opposition party in Germany. From Finland to France, Eurosceptic groups rode a similar wave of protest against the scale of financial assistance provided during the euro crisis.

In Italy, the Northern League's Matteo Salvini opposed the creation of the ESM in 2011 and continued to rail against the European-level borrower even as he softened his criticisms of the single currency. When euro area finance ministers agreed in June 2019 to revise the ESM treaty, Salvini seized his chance. The proposed reform drew lessons from the euro crisis by envisaging a greater role for the ESM in providing precautionary credit lines, supporting the resolution of distressed financial institutions, and serving as a facilitator in negotiations between euro area members and bondholders. Salvini showed little interest in the fine details of crisis management and instead portrayed the reform as an outright attack on Italian sovereignty. Approving the treaty, he warned, 'would mean ruin for millions of Italians and the end of our national sovereignty' (Strupczewski and Jones 2019). Although he criticized Salvini for 'putting at risk the savings of Italians', Italian Prime Minister Guiseppe Conte decided in late 2019 to postpone a parliamentary vote on the proposed treaty revision, a decision that would reverberate during the COVID-19 pandemic, as discussed in Chapter 8 (Fonte and Jones 2019a).

5.4 Conclusion

When the euro crisis began in early 2010, the member states that shared the single currency had no European-level borrowing instruments at their disposal, as the Maastricht Treaty prohibited any access to BoP Assistance once countries adopted the euro. By late 2012, the combined lending capacity of new euro area borrowing instruments had reached €700 billion. Although this commitment should surely have come sooner and arguably with less stringent conditions attached, member states' willingness to borrow helped the EU to navigate a crisis which many commentators expected to lead to the dissolution of the single currency.

This chapter has sought to explain the role played by European-level borrowers during this turbulent period for the EU. Viewed from a historical institutionalist perspective, the evidence shows that the euro crisis served not as a critical juncture but as a catalyst for layering new borrowing instruments on existing ones. Member states were not locked into novel policy choices by the euro crisis. Rather, they layered new instruments on earlier approaches to borrowing, while completing a deferred act of displacement initiated by the Maastricht Treaty. The EFSM was closely modelled on the BoP Assistance Facility and the EFSF had more than a passing resemblance to the EIB. Member states were not bound by these institutional choices, however, as evidenced by the exceptional character of the ESFM and crucial differences between the design of the EFSF and the ESFM.

Liberal intergovernmentalism helps us to understand how and why member states drove these institutional choices. Faced with a sudden spike in borrowing costs, countries at the centre of the euro crisis favoured sovereign-style borrowing at the European level to restore control of their economies. Member states with lower borrowing costs belatedly accepted the creation of new euro area financial instruments as preferable to managing this crisis through bilateral solutions or higher net contributions to the EU budget. Germany and the Netherlands attached conditions to the EFSM, EFSF, and ESM which were designed to deter their use. However, euro area members drew down more than €350 billion in borrowed funds during the euro crisis and repeatedly secured lower interest rates and longer loan maturities to deliver on the promise of sovereign-style borrowing at the European level.

New intergovernmentalism, finally, shows how institutional choices were shaped by the EU's legitimacy crisis in the post-Maastricht period. Reluctant to empower the Commission, member states imposed a low borrowing ceiling and time limits on the EFSM, which nevertheless found itself in the cross-hairs of British politics in the run-up to Brexit. Faced with the fraught politics of the euro crisis, member states found it easier, if by no means easy, to entrust borrowing powers to two *de novo* bodies. By insisting on intergovernmental control over the EFSF and ESM and embedding the statutes of these bodies in international agreements, member states drew political flak but avoided the hard-to-win referendums that would almost certainly have accompanied major EU treaty revisions. Eurosceptics nevertheless took heart from the euro crisis, as evidenced by the emergence of AfD as a powerful electoral force in Germany and the Northern League's successful efforts to stop ESM reform in its tracks.

'I see no change in our position', Angela Merkel told reporters in February 2017 when asked about her views on euro bonds (*Reuters* 2017a). Although the German chancellor had consistently blocked proposals for European debt mutualization backed by joint and several liability, she had accepted large-scale bond issuance backed either by the EU budget or national guarantees to contain the euro crisis. Euro bonds were already part of Merkel's legacy, and they would assume an even more important role during the COVID-19 pandemic.

6

The EIB

How the EU Created the World's Largest Multilateral Lender

Few developments illustrate the European Investment Bank's (EIB) evolution better than its real estate. In 1972, the Bank and its 230 staff still had no permanent home, having relocated from Brussels to Luxembourg City, where it occupied a dilapidated building in the Place de Metz. 'The corridors were narrow and high, pipes ran along the walls, the floor covering was ceramic blocks, and the lighting was insufficient' commented one Bank official in a note to the EIB Management Committee, which soon after bought a plot of land in the Plateau du Kirchberg in the north-east of Luxembourg City (Bussière et al. 2008: 275). Designed to accommodate 500 staff, the EIB's first purpose-built headquarters opened its doors in September 1980, but space was quickly at a premium. A second building with room for up to 800 additional staff was added on the Plateau du Kirchberg in 2008, the brutalist style of the older West Building and the elegant glass and steel of the newer East Building reflecting the EIB's changing role and growing reach as a borrower.

This chapter explores the transformation of the EIB from a relatively small regional development bank in the early 1970s to a large multilateral lender involved in myriad policy areas by the end of the 2010s. In so doing, we focus on the Bank's financial operations within the European Union (EU), its contribution to external finance being covered in Chapter 7. Throughout the 1970s and 1980s, the EIB fought to demonstrate its relevance to European leaders at a time when the European Commission was scaling up its activities as a borrower. Yet in the early 1990s, the EIB got a new lease of life, as it shifted its domestic lending priorities towards the environment and support for small and medium-sized enterprises (SMEs). The global financial crisis further transformed the role of the EIB which became a key element of the Juncker Plan, which sought to unlock over €300 billion in new investment in the EU, even as the Bank faced the loss of a major shareholder through Brexit (Kassim and Laffan 2019).

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We apply historical institutionalism to understand the EIB's expansion as the result of incremental changes to the Bank's business model. In the analysis which follows, we find no radical shifts in the Bank's lending patterns, but rather the layering of new instruments on top of older ones, the conversion of investment activities to new goals, and the displacement of Commission borrowing under the New Community Instrument. Liberal intergovernmentalism shows how interstate bargaining shaped the EIB's evolution. Member states with high borrowing costs wanted the EIB to do more and take greater risks, we find, but all countries were protective of the EIB's AAA credit rating. Finally, new intergovernmentalism helps make sense of why member states, and ultimately the Commission, increasingly turned to the EIB as a vehicle for integration without supranationalization.

6.1 Same Bank, Shifting Priorities

To examine the EIB's evolution from a historical institutionalist perspective is to discover a process of incremental, multifaceted, and relentless change. This section shows how the EIB gradually embraced new objectives and instruments between the 1970s and 2010s, supplanting the New Community Instrument along the way. As the European Community of Six became a European Union of Twenty-Eight, the Bank devoted a significant, if considerably reduced, share of its resources to regional development, while doing more to support the EU's objectives on energy, the environment, and economic policy. Consistent with historical institutionalism, this expansion and redirection of EIB lending was made possible through a combination of conversion, layering, and displacement.

6.1.1 Regional Development

As discussed in Chapter 3, the EIB was established, in part, to address Italy's longstanding concerns about joining a common market without securing financial support for its less developed Mezzogiorno region. Between 1958 and 1972, the EIB upheld its part of this bargain by devoting 86 per cent of total financing within the Community to regional development and 59 per cent of all regional development funding to Italy (EIB 1978: 12). Inevitably the geographic distribution of lending changed once the European Community started to take in more and more members, many of them with levels of regional development below the European average. The United Kingdom was an early beneficiary in this regard, receiving 35.3 per cent of EIB regional development financing between 1973 and 1977 as compared with 41.1 per cent for Italy (EIB 1978: 12).

A similar institutional dynamic played out after the Southern and Big Bang enlargements. Between 1994 and 1998, Greece, Portugal, and Spain received 35 per cent of EIB loans for regional development, which was roughly the same share received by the eight Central and Eastern European countries that joined the EU in 2004 during their first four years as members (EIB 1998: 120). Croatia, which acceded to the Union in 2013, was allocated €600 million in co-financing between 2014 and 2018 from the EIB under the European Structural and Investment Funds for projects focused on transport, water and waste management, the environment, and public sector reform (EIB 2014b).

Historical institutionalism would expect member states to fight for continued access to EIB funding. Such path dependence can certainly be seen in relation to Italy, which was remarkably adept at ensuring that regional development funds continued to flow from Luxembourg. In 2019, Italy received 12 per cent of all loans from the Bank under the heading of economic and social cohesion, which was second only to Poland, a country with a gross domestic product (GDP) per capita well below Italy's (EIB 2020a: 60). Not all countries were as sharp elbowed as Italy, but questions remain over the effectiveness and value-added of EIB lending as a tool for regional development. Jakubowski (2022) finds that EIB financing had a bigger impact between 2000 and 2006 on growth in more developed regions which, by definition, have less access to the EU Structural and Cohesion Funds. This finding chimes with Clifton et al. (2018), who show that the Bank's loans became 'more evenly distributed among members' over time (Clifton et al. 2018).

6.1.2 Energy and the Environment

The Treaty of Rome assigned the EIB broad objectives, which covered not only the balanced and steady development of the Community, but also the internal market and projects of common interest.[1] Viewed in historical institutionalist terms, this mandate created considerable scope for conversion, as evidenced in the Bank's growing preoccupation with other objectives from the 1970s, beginning with energy. Between 1973 and 1982, energy accounted for 35.8 per cent of all EIB investments from the Bank's own resources within the Community, as compared with 17.8 per cent between 1959 to 1972 (Table 6.1). This shift was driven by the EIB's responsiveness to the acute energy crisis and member states' willingness to add new priorities on top of existing ones.

Table 6.1 EIB funding by sector (1959–2023; percentage of total)

	1959–72	1973–82	1983–92	1993–2002	2003–12	2013–23
Agriculture, fisheries, forestry	0.0	0.5	0.5	0.2	0.4	0.9
Composite infrastructure		3.0	1.6	1.8	2.1	0.7
Global loans	3.3	12.4	25.6	28.9	24.0	32.1
Education		0.2	0.1	1.2	3.7	3.9
Energy	17.8	35.8	20.8	12.0	13.6	14.1
Health			0.0	1.2	3.1	3.2
Industry	38.2	13.3	12.0	8.2	10.8	9.6
Services	0.4	0.2	0.7	1.4	4.5	5.0
Solid waste			0.7	0.8	0.5	0.4
Telecom	9.4	12.1	11.2	7.8	3.5	3.3
Transport	24.5	10.7	19.1	28.4	24.9	17.4
Urban development	0.6	0.2	0.8	2.8	3.7	4.9
Water, sewage	5.9	11.5	7.0	5.2	5.0	4.4
Total	*100*	*100*	*100*	*100*	*100*	*100*

Source: Percentages may not sum due to rounding. Authors' own calculations based on EIB financed projects. https://www.eib.org/en/projects/loans

When the first oil shock hit in 1973, the EIB quickly declared its intention 'to make an increasing contribution to the quest for improved Community energy supplies' (EIB 1974: 13). Four-fifths of total funding for projects of common interest that year went to energy, most in the form of financing for nuclear power stations (EIB 1974: 20). This included loans worth 43.3 million units of account to French energy companies to co-finance the Trans-Austria Gasline, a project to supply natural gas from Russia. The Bank also continued to invest in nuclear energy, helping to fund no fewer than three nuclear power stations in Germany in 1973 (EIB 1974: 27).

Member states drove this process of conversion by pushing the EIB to do more on energy during this period while layering new instruments on top of older ones. In March 1977, the Council invited the Bank to act as agent for the European Commission's new European Atomic Energy Community (Euratom) Loan Facility (EIB 1977: 16). No minor task, this gave the EIB responsibility for evaluating, contracting, administering, and monitoring an entirely new loan instrument, beginning with nearly 100 million units of accounts in funding for nuclear power stations in Mülheim-Kärlich in Germany and Creys-Malville in France. The assets and liabilities associated with such borrowing and lending were recorded off-budget, as per its support for African, Caribbean, and Pacific Countries and Overseas Countries and Territories under the Yaoundé Conventions (see Chapter 7).

In June 1980, the Council of Ministers called on the Community to redouble its efforts to address its dependence on imported energy. To this end, energy ministers set themselves a target of covering 70–75 per cent of their primary energy requirements by means of nuclear energy and solid fuels such as coal.[2] Thanks in part to the EIB's financing activities from its own resources and via Euratom loans, the share of these two energy sources in the Community's overall energy consumption went from 27 per cent in 1980 to 45 per cent in 1985, due mainly to a massive increase in nuclear power capacity (EIB 1987: 15). This situation abruptly changed after the Chernobyl nuclear accident, which led several member states to reconsider their energy mix. In 1987, a year after this catastrophe, the EIB and Commission signed four contracts worth European Currency Unit (ECU) 210.2 million with four nuclear power stations in Italy, France, and Germany (EIB 1988: 25). Thereafter, the EIB ceased lending for this purpose either through its own resources or the special section.

While the Euratom Loan Facility was revised in 1994 to support nuclear safety in third countries (Chapter 7), the EIB continued to invest in non-nuclear energy sources, including oil and gas fields and coal-fired power stations. Such investments sat uneasily with the Bank's growing concern for environmental protection since the 1980s, setting in motion a gradual process of conversion towards more sustainable investment practices. By 1995, 19 per cent of all EIB financing within the EU went to projects concerning the environment and quality of life as compared with 11 per cent for energy (EIB 1996: 23). Within a decade, 26 per cent of EIB individual lending went to this objective (EIB 2006: 8). In 2019, the EIB pledged to dedicate half of all financing to climate action and environmental sustainability, while phasing out investment for fossil fuels (EIB 2020b: 32). Although it failed to convince some environmental groups, the EIB's promise to become the EU's 'climate bank' confirmed the power of historical institutionalist dynamics in this domain (EIB 2020c: 6). The EIB's gradual conversion from a sponsor of carbon-intensive energy sources to an environmental champion also had an impact on the Bank's lending policy. From 2007, the EIB was at the forefront of green finance, as illustrated by its early efforts to create the market segment of green bonds starting in 2007 (Mertens and Thiemann 2023; Spielberger 2024). By 2020, the Bank had become the world's leading issuer of green bonds.

6.1.3 Supporting SMEs

Whereas individual loans go to specific projects, the EIB provides global loans to financial intermediaries, which in turn provide funds for smaller projects once they have been approved by the Bank. Between 1958 and 1972, 3.3 per cent of all EIB financing went to such global loans. Between 1983 and 1992, this figure rose to 25.6 per cent (Table 6.1). Initially, global loans had a strong regional development focus but from the 1980s they were gradually converted into an instrument to support SMEs. This process of conversion was driven not only by the needs of EIB clients but also by competition with the European Commission.

In November 1982, the Economic and Financial Affairs Council (ECOFIN) agreed that the European Commission could raise funds on financial markets to support SMEs.[3] On paper, this decision called into question the value-added of EIB global loans. As with the Euratom Loan Facility, however, member states' decision to empower the EIB as the Commission's agent for New Community loans allowed the Bank to exercise a large measure of control over European-level borrowing. Member states' decision to retire the New Community Instrument in the early 1990s put the onus on the EIB to step up support for SMEs, which it did not only by seeking further capital increases but also via the creation of several off-balance sheet instruments that were layered on its conventional banking activities. The most important of these was the European Investment Fund (EIF).

Established by the EIB Board of Governors in June 1994 at the request of the European Council, the EIF was an innovative instance of institutional layering, which allowed the Bank to engage in more risky forms of investment without compromising its prized AAA rating (EIB 1995: 18). The Fund was set up as a separately capitalized subsidiary of the EIB with tripartite ownership consisting of the EIB, the Commission, several commercial banks, and a dedicated governance structure. The EIB contributed ECU 800 million of the EIF's initial authorized capital of ECU 2 billion, with the Commission providing ECU 600 million on behalf of the EU, and the rest sought from commercial banks across the Union (EIB 1995: 14). Initially, the EIF helped SMEs via financial intermediaries, but it soon acquired an equity stake in these enterprises via its funding for venture capital operations. By 2001, the EIF had provided €3.3 billion in guarantees for SMEs and invested €2 billion in 153 venture capital funds (EIB Group 2002: 15). The EIB became the EIF's majority shareholder in 2000, turning the Bank and Fund into two strands of the new European Investment Group.

This intricate process of layering was not only fruitful but also necessitated by the limits imposed by the EIB's rules of procedure. For most projects, the Bank could only finance 50 per cent of aggregate project costs. This requirement, combined with the need to pursue low-risk investments, meant that from the late 1980s the Bank had become increasingly dependent on public-private partnerships (PPPs) to fund projects and actively promoted this financing option in EU member states (Liebe and Howarth 2020). The EIF's establishment can be seen, in this context, as part of a wider trend towards 'crowding-in' in the EIB Group's operational approach (Kavvadia 2020).

6.1.4 'Funny Money'

EIB lending to third countries was guaranteed from the Bank's earliest days by member states or from the Community, as will be discussed in Chapter 7. In the early 1990s, the Bank agreed to three initiatives backed entirely by the EU budget to support SMEs within the EU: Venture Consort and Eurotech Capital provided risk capital to small enterprises, while JOPP (Joint Ventures Phare Programme) was created to finance joint ventures between East and West European companies. The success of these initiatives, which was due in part to a small group of 'creative' Commission officials who had handled the European Coal and Steel Community (ECSC) and Euratom loans and Balance of Payments Assistance (Dupont 1992), encouraged similar efforts to circumvent the EIB's low-risk, large-scale approach to borrowing.

The EIB and Commission strengthened cooperation in the 2000s through various joint initiatives involving funds from the EU budget in support of SMEs and microenterprises (JEREMIE), urban–social development (JESSICA), and technical assistance (JASPERS). These initiatives significantly enlarged the EIB's customer base, off-balance sheet operations and income. Set up in 2007, JEREMIE allowed the EIB to use EU structural funds to promote SMEs access to finance through holding companies, while JESSICA also used EU structural funds to fund EIB investments in smaller sustainable development projects in urban areas. In 2010, EIB-Commission cooperation was formally institutionalized and extended—another example of layering. As a result, the EIB's involvement was increased by the provision of reduced funding costs and by blending EIB resources at market rates with Commission grants at zero cost for project promoters.

The use of such budgetary guarantees reached a new order of magnitude in July 2015, when the Council and EP reached an agreement on the creation of the European Fund for Strategic Investments (EFSI). Better known as the Juncker Plan—after its chief advocate, European Commission President Jean Claude Juncker—the EFSI sought to provide 'risk-bearing capacity to the EIB', which could be used to raise the level of investment in the EU and increase access to finance for SMEs and small mid-cap companies (European Commission 2014). Initial guarantees of €16 billion from the EU budget and €5 billion from the EIB itself were combined in the hope of unlocking €315 billion in public and private investment.

An innovative response to the EU's sluggish growth and investment rates after the euro crisis, and yet another example of layering, the EFSI was described by Jean-Claude Junker as a 'watering can' for the EU economy (Juncker 2014b). To Juncker's critics, however, the Commission appeared to be relying on the same sort of financial engineering which had lit the fuse on the global financial crisis. To many economists, the Junker Plan relied on heroic assumptions about the EU's ability to leverage guarantees by a factor of fifteen. As one sceptical analyst put it, 'it's all funny money' (Pop 2014).

A study by the European Commission and EIB published in 2019 demonstrated that the EFSI proved its detractors wrong. The Juncker Plan had helped to provide financing for one million start-ups and SMEs, the study found, boosting EU GDP by 0.9 per cent and adding over a million jobs (EIB 2019). As discussed in Chapter, 8, the Commission subsequently expanded this model in response to the COVID-19 pandemic through the creation of InvestEU, an investment platform that provided budget guarantees and blending for various EU policies.

6.2 The Politics of EIB Capital

The EIB's transformation from a regional development bank to a large multilateral lender was made possible not only by a process of gradual institutional change but also by member states' willingness to devote greater resources to this borrower. The Bank's Board of Governors agreed to no less than fourteen capital increases between 1971 and 2019, taking the EIB's total subscribed capital from 1 billion units of account to €243 billion. In keeping with liberal intergovernmentalism, member states with high borrowing costs pushed the Bank to do more during this period, while those with lower borrowing costs tried to minimize short-term demands on national treasuries. The two sides found common ground by encouraging member states to pay their fair share, reducing paid-in capital, where possible, and using the EU budget to guarantee riskier borrowing.

6.2.1 Paying Up and Paying In

In April 1971, the EIB Board of Governors agreed to increase the Bank's total subscribed capital from 1 to 1.5 billion units of account. This change was partly driven by capital contributions from the three new member states, Denmark, Ireland, and the UK, but other countries took the opportunity to reduce the Bank's paid-in capital from 25 to 20 per cent and rebalance existing shareholder contributions (EIB 1972: 17). At the time of the EEC's launch, Dutch GDP per capita had been slightly below that of Belgium, but it was by now marginally above. Governors agreed, therefore, to equalize the share of capital provided by the two member states.

These reforms set the tone for subsequent intergovernmental negotiations over the EIB's resources. In 1986, for example, member states agreed to double the subscribed capital from ECU 14.4 billion to ECU 28.8 billion due to the accession of Portugal and Spain, two countries with GDP per capita well below the Community average and thus in need of significant funds for regional development (EIB 1987: 97). German representatives endorsed this change on the understanding that Italy, which had partly closed its income gap with other large member states over the preceding three decades, would now contribute the same subscribed capital as West Germany, France, and the UK. A disparity in voting power and financial obligations 'created for political reasons when the Bank was founded' had been eliminated, the EIB's governors declared.[4] Member states' decision to pay in just 7.5 per cent of the additional capital provided also helped to ease the financial burden on all concerned (EIB 1987: 97).

As the EIB's lending capacity grew, negotiations over resources were increasingly guided by a liberal intergovernmental logic of 'juste retour' whereby member states sought to get out what they paid in. The fact that EIB lending to Germany, for example, increased seven-fold in the 1990s, with around half of this funding going to the new Länder, helped to win German support for further capital increases (EIB 1999). So too did further reductions to member states' paid-in capital as the Bank's resources kept growing (see Figure 6.1). At the Board of Governors meeting in June 1990, Belgian State Secretary Bernard Snoy argued that 'member states' contributions could have been slightly reduced without jeopardizing the Bank's excellent financial reputation'.[5] 'In the future', he proposed, 'there should be no need to ask for direct contributions from Member States'.[6] Snoy's Dutch and French colleagues were open to this proposal to convert the Bank's reserves into paid-in capital, thereby reducing the resources required from member states. EIB President Bröder stressed that 'the capitalisation of part of the reserves [is] intended as

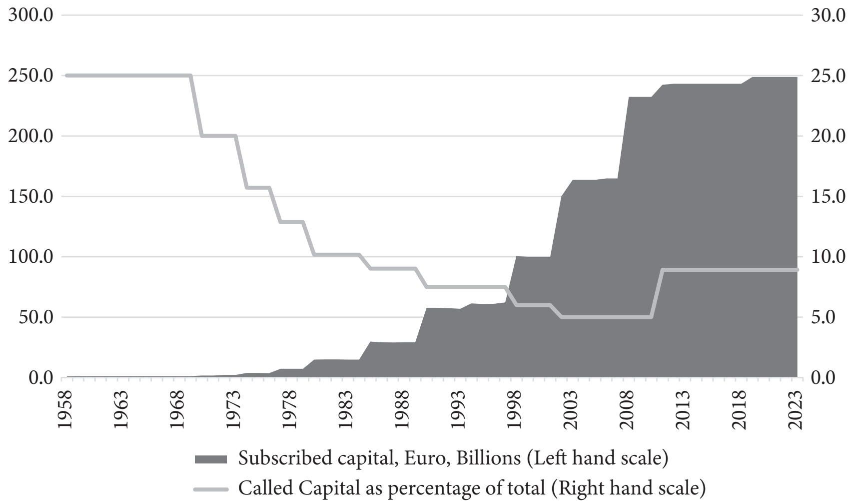

Fig. 6.1 EIB subscribed and called capital (1958–2023)

Source: Authors' own calculations based on EIB annual reports.

a cautious step in the direction of greater financial self-sufficiency'.[7] While subscribed capital was doubled to ECU 57.6 billion, the increase in paid-in capital consisted of ECU 500 million in fresh taxpayer money and an ECU 1,225 million transfer of EIB reserves (EIB 1992:16). When the EIB's capital was increased to €100 billion in 1998, €150 billion in 2002, and €232 billion in 2009, the corresponding increases each time came from the Bank's retained earnings, obviating the need to seek fresh funds from member states.

That member states were keen to minimize the burden of capital increases on national treasuries does not mean that they were willing to leave the EIB undercapitalized. To have done so would have violated a key rationale for EU borrowing from a liberal intergovernmentalist perspective: to manage cross-border externalities by leveraging the Union's creditworthiness. When in 2012 the EIB was put on a negative watch by the three major rating agencies due to concerns that the Bank's loan portfolio could take a hit from the euro crisis, member states quickly put additional resources on the table. EIB governors agreed in January 2013 not only to increase total subscribed capital from €232 billion to €242 billion but also to increase the proportion of paid-in capital from 5.0 per cent to 8.9 per cent (EIB 2014a: 48). By early 2014, rating agencies had returned the Bank to its pre-euro crisis credit ratings, supporting the claim that the governors' vigorous defence of the EIB's credibility had worked (UniCredit 2014).

6.2.2 Protecting the AAA

As noted in Chapter 4, France championed the New Community Instrument after experiencing rising borrowing costs in the early 1980s. Although the French government cooled on this borrowing instrument, it remained supportive of Community financing for SMEs via the EIB.[8] Fearful for the Bank's credit rating if it moved too far beyond its traditional business model of large-scale infrastructures, Germany and the Netherlands had opposed the use of the New Community Instrument for risk capital.[9] They also baulked at the scale of capital increases which would have been required to insulate the EIB from large-scale lending to SMEs (Interview 12, 2023 and Interview 25, 2024).[10] Nor was there much political support among member states for increasing net contributions to the EU budget to finance direct support for businesses. Consistent with liberal intergovernmentalism, member states used the EU budget to guarantee EIF lending, partially diversifying risk away from the EIB.

Had the EIB taken on responsibility for the tasks entrusted to the EIF then the Bank would have to request significant additional capital on a regular basis. Instead, the Bank allowed others to take the lead in replenishing the Fund's coffers. When the EIF Board of Governors decided to make available an additional 1,000 shares, each valued at €1 million in nominal terms in 2007, the EU and private financial institutions provided the bulk of these resources (EIB 2008:1). Thanks to further capital increases, the EIF had €4.5 billion in authorized capital by the end of 2019, by which point it was providing around €60 billion in finance per year for SMEs (EIF 2020: 97). That this had been achieved while reducing the EIB's shareholding from 65.8 per cent of all issued shares to 58.8 per cent in 2019 was a vindication for the fund's founders, who had sought to involve the Bank in a riskier area of lending without bearing all the risk.

Despite the success of the EIF, the EIB faced criticism for not doing enough to address the EU's stubbornly low rates of investment after the global financial crisis. When Jean-Claude Juncker proposed in 2014 that the EU mobilize more than €300 billion in additional funding to address this problem, he was urged to go even further by French President François Hollande, who had made boosting investment a key domestic priority (European Commission 2014). Falling yields on EIB bonds relative to French bonds at this time, made such financing an attractive option for Hollande, but German policymakers had less to gain from the plan (see Figure 6.2). Despite a critical response from the Bundesbank, which warned that the euro area 'needed structural reforms, not a short-term fiscal boost' (Wagstyl 2014), German Chancellor

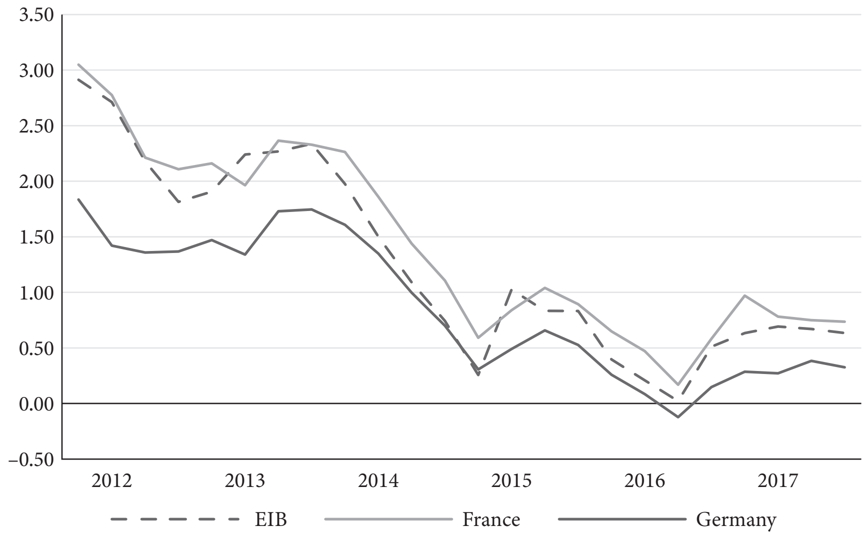

Fig. 6.2 Ten-year EIB, French, and German (government) bond yields (%; 2012–17)
Source: Bloomberg.

Angela Merkel lent her support to the plan, which she argued was consistent with structural reforms. Viewed from a liberal intergovernmentalist perspective, the German Chancellor had few reasons to oppose the plan. Juncker was asking neither for more capital for the EIB nor higher contributions to the EU budget. The EU's contribution would be financed instead through existing resources under the EU's Multiannual Financial Framework and the EIB's own funds. That Germany gained more than €30 billion in investment due to the plan was a welcome bonus too (EIB 2019).

6.2.3 The EIB and Brexit

On 13 December 2019, the EIB signed off on a €103 million loan for Genesis Social Housing, an organization dedicated to the development and management of affordable homes in London's Notting Hill.[11] Coming seven weeks before the UK left the EU, this would be the last loan of this sort in the country's forty-seven years as a shareholder of EIB. And yet, the UK did not entirely sever its relationship with the Bank. For one thing, the EU-UK Withdrawal Agreement provided for a return of the UK's €3.5 billion paid-in capital to the Bank in twelve annual instalments, beginning in December 2019. During this period, the UK would remain liable for financial obligations undertaken by the Bank before Brexit, proportionate to its share of the

Bank's uncalled subscribed capital at this moment in time. Some obligations were subject to amortization, meaning that the UK's liabilities declined over time, but others were not. Based on its track record, the EIB would be more likely to make a return on investment over this period rather than a loss, but the UK would not be entitled to a share of retained earnings, which were forecast to be in the region of €7.6 billion (House of Lords European Union Committee 2019: 17).

Although EIB funding for the UK tailed off after the 2016 referendum due to uncertainty created by this vote and an associated increase in due diligence, the Bank was a significant source of investment funding over the lifetime of EU membership. Between 1975 and 2019, the Bank supported nearly €119 billion in the UK in more than 1,000 projects, with the largest share of this funding going towards the energy, transport, and water sectors. High-profile investments included London's Crossrail and Manchester's Metrolink. For this reason, the political declaration that accompanied the EU-UK withdrawal agreement noted the British government's 'intention to explore options for a future relationship with the European Investment Bank (EIB) Group'.[12] At the same time, the withdrawal agreement made clear that, while funding for projects already agreed before 31 January 2020 would continue, the UK would no longer be eligible for funding from the EIB group on the same terms as EU member states. The UK and entities within it would henceforth be treated as 'entities located outside the Union'.[13] The first of five annual instalments of the UK's paid-in capital to the EIF was returned in June 2021 (Keep 2024). Once it left the EU, the UK was no longer represented on the EIF, but two British financial institutions, Barclays Funds Investment Limited and Scottish Enterprise, remained private shareholders of this body. This means that British businesses can, in principle, continue to apply for funding via these financial intermediaries.

The more immediate challenge for the EIB posed by Brexit was how to deal with the loss of one of its four largest shareholders and its potential implications for the Bank's lending capacity and credit rating (Interview 1, 2022). As liberal intergovernmentalism would expect, EU member states moved quickly to protect the Bank's credibility, while minimizing the short-term burden on national treasuries. Whereas the UK's callable capital was distributed on a pro-rata basis among EU member states, British paid-in capital was replaced by the EIB's own reserves, thus avoiding the need for a capital increase. Seeing an opportunity to increase their influence within the Bank's decision-making structures, Poland and Romania also decided at this time to increase their subscribed capital by €5.4 billion and €0.1 billion respectively (EIB 2020c: 9) The UK may have experienced a significant investment gap since leaving the EU, but the EIB and its shareholders took Brexit in their stride (Jurkovic and Hunsaker 2023).

6.3 Borrowing at Arm's Length

New intergovernmentalism highlights the EU's turn towards integration without supranationalization in the post-Maastricht period (Bickerton, Hodson, and Puetter 2015). Member states' growing reluctance in the 1990s to empower the Commission as a borrower was consistent with this trend, as argued in Chapter 4. So too was member states' increasing willingness at this time to empower the EIB, an intergovernmental body which answered directly to member states and operated largely outside the public eye. While the Commission became a lightning rod for Eurosceptic sentiment, the fact that the EIB was doing more and more seemed to go largely under the radar, which partly explains the Bank's growing appeal to member states.

6.3.1 The EIB as a *De Novo* Body

In May 1993, the Commission published its long-awaited White Paper on Growth, Competitiveness, and Employment. A centrepiece of Jacques Delors' third term as Commission president, the White Paper called for ECU 524 billion in additional investment in transport, telecommunications, energy, and the environment by the end of the decade to address the problems of declining growth, rising unemployment, and worsening competitiveness facing the European economy. The 'major portion' of this investment should come through member states, the report concluded, while recommending that the Commission play its part by issuing Union bonds 'on tap' for long maturities to finance major infrastructure projects (European Commission 1994b: 34). Bold and clearsighted though this proposal was, member states' appetite for empowering the Commission had waned since Delors' predecessor, François-Xavier Ortoli, had won support for the New Community Instrument in 1978.

As discussed in Chapter 4, member states had second thoughts in the late 1980s about the Commission as a borrower. A proposal from the Delors Commission to fund large-scale infrastructure projects of European interest via Community loans was rejected at this time, as were similar proposals to finance a European investment society and high-tech projects. Having renewed the New Community Instrument four times since 1978, member states repeatedly refused to back a fifth extension and left this borrowing instrument to languish. Member states' response to the White Paper on Growth, Competitiveness, and Employment was no more enthusiastic. Although the European Council welcomed the White Paper, the heads of state or government had no intention of reactivating the Commission's borrowing powers.

In line with new intergovernmentalism, member states' reluctance to delegate powers to the Commission at this time went beyond functional considerations. For UK Prime Minister John Major, who continued to fight running battles with his backbenchers over Europe, giving further powers to the Commission at this time would have been unconscionable. 'This is not the time for the Community to engage in fresh and substantial expenditure plans', Major claimed in advance of the White Paper's publication (Marshall 1993). French President François Mitterrand, though he had encouraged Community borrowing in support of investment, was wary about entrusting such authority to the Commission. A decision to 'confer to the Commission an autonomous intervention capacity', warned a French government memo at this time, 'would set a dangerous precedent'.[14]

Member states had no such compunctions about empowering the EIB. At the European Council in Edinburgh in December 1992, which was chaired by UK Prime Minister John Major, national leaders had entrusted the Bank with responsibility for a new ECU 5 billion lending facility backed by the EU budget to support infrastructure projects (Council of the EU 1993). This was also the summit at which the European Council endorsed the creation of the EIF. In its discussion of the White Paper in December 1993, the European Council poured cold water on the idea of creating new funding instruments at a time when member states were engaged in efforts to reduce national debt; the heads of state or government were happy, however, to allocate ECU 7 billion per annum in funding from the EIB and EIF for energy, transport, and environment projects. The Edinburgh Facility also extended EIB—and thus member state government—control over several Commission-run programmes. Through the Facility, numerous new tasks were entrusted to the EIB including the management of the European Economic Area financial mechanism. The Facility also funded higher risk large-scale transportation projects and programmes in eleven countries to the value of ECU 4.6 billion by the end of 1994 (EIB 1993).

A key tenet of new intergovernmentalism is that delegation, where it occurs in the post-Maastricht period, tends to favour *de novo* bodies which operate at one remove from other EU institutional architecture and typically assign a key role for national representatives in their governing structures. The EIB, though it pre-dates the Maastricht Treaty by three decades, came into its own as a *de novo* body after this agreement entered into force. Faced with growing political and public contestation over European integration, EU member states found it easier in the 1990s to turn to an intergovernmental body which answered to finance ministers and national officials and operated largely in the shadows.

6.3.2 Strategic Entrepreneurship

Traditional theories of European integration see the Commission as driven by a desire to expand its own competences in the name of 'more Europe'. New intergovernmentalism thinks of supranational preferences in the post-Maastricht period as reflecting a wider range of concerns, including partisan considerations and a reluctance to support integrationist initiatives unless they stand a chance of success (Hodson 2013). Such concerns explain why the Commission has, more often than not, supported the creation of *de novo* bodies even though these intergovernmental bodies perform tasks which could, in principle, have been entrusted to supranational officials in Brussels. This strategic entrepreneurship can be seen in the Commission's shift in the 1990s from being a competitor of the EIB to a collaborator.

The White Paper's call for 'Union bonds' was a transparent attempt by the Commission to regain the borrowing powers it had ceded to the EIB when the New Community Instrument expired (European Commission 1994b). Once member states had demonstrated their preference for expanding the EIB's role instead, the Commission adopted a more pragmatic approach towards the Bank. This can be seen, for example, in the European Initiative for Growth presented to the European Council by Commission President Romano Prodi in November 2003 (European Commission 2003). This report reiterated many of the White Paper's concerns over the state of the European economy but dropped calls for a supranational borrowing instrument in favour of closer cooperation between the Commission and EIB to leverage private investment. One outcome of the European Initiative for Growth was the Loan Guarantee Instrument for Trans-European Transport Network Projects, which combined €1 billion in funding from the Commission and EIB to mobilize private sector involvement in transport infrastructure projects. Blending finance in this way both allowed the EIB to engage in riskier investments without damaging its credit rating and gave the Commission a role in investment projects from which it would have been otherwise sidelined.

A similar form of strategic entrepreneurship underpinned the EFSI. As a former finance minister who had represented Luxembourg in negotiations over the Maastricht Treaty, Jean-Claude Juncker knew better than to seek sweeping borrowing powers for the Commission. Instead, he used a speech as Commission president designate to call for the 'targeted use of existing structural funds' and EIB instruments to 'mobilize EUR 300 billion in public and above all private investments over the next three years' (Juncker 2014a). Returning to the European Parliament as Commission president in November 2014, Juncker made clear that his plan was 'not an ATM' and that the Fund 'will not be a bank' (Juncker 2014b).

6.4 Conclusion

In 1972, the EIB's balance sheet amounted to 3.483 billion units of account (EIB 1973: 56). By the end of 2019, it had grown to €553.6 billion, which was larger than the balance sheets of the International Bank for Reconstruction and Development, the Asian Development Bank, and the Asian Infrastructure and Investment Bank (EIB 2020c: 4). In the early 1970s, the EIB was increasingly concerned about rising energy prices and the worsening outlook for the international economy but still largely preoccupied with regional development. By the late 2010s, the Bank remained committed to economic and social cohesion, but its resources were increasingly devoted to infrastructure and innovation, support for SMEs, and its stated goal of becoming the EU's 'climate bank' (EIB 2020c: 11).

This chapter has sought to explain the Bank's shifting domestic priorities over this period. Consistent with historical institutionalism, the EIB's expanding remit can be understood as the product of conversion, layering, and displacement. Having predominately focused on regional development in its early years, the Bank reimagined itself as an investor in energy, SMEs, and climate action among other objectives. Member states encouraged the Bank to keep pace with the adoption of new EU objectives by layering new instruments on top of old ones, the most significant of which was the EIF, which allowed the Bank to do more for SMEs by partnering with the private sector. With the creation of the New Community Instrument in 1978, the EIB faced competition from Brussels, but the Luxembourg lender gradually displaced the Commission's borrowing efforts.

The EIB's evolution in this period also displayed dynamics that are familiar to liberal intergovernmentalism. Member states with higher borrowing costs, such as France and Italy, encouraged the EIB to expand its lending activities into new and riskier areas, while ensuring that they still had access to funds for regional development. Germany and other member states with low borrowing costs agreed to these changes on the understanding that they gained access to a bigger share of EIB investment but without necessarily contributing a larger percentage of the Bank's capital. Negotiations over capital increases accommodated these divergent positions while protecting the Bank's AAA rating. Brexit, though it led to the loss of a large shareholder, made no difference in this regard.

New intergovernmentalism, finally, explains how the shifting dynamics of European politics in the 1990s benefitted the EIB. As the permissive consensus over European integration waned, member states had second thoughts about empowering the European Commission as a borrower, especially at a time when the EU was asking national governments to respect limits on budget deficits and public debt. The UK was particularly sensitive to this issue as its domestic debate on Europe grew more febrile, but this country and other member states had few qualms about empowering the EIB, given the Bank's relatively low public profile. Although the EIB had its origins in the Treaty of Rome, it came into its own as a *de novo* body after the Maastricht Treaty.

In September 2023, EIB President Werner Hoyer and other dignitaries unveiled the foundation stone for a new sixteen-storey tower adjacent to the Bank's East and West Building on the Plateau du Kirchberg. With 1,500 workspaces, the nearly-zero-energy building would be built by Dutch and Italian builders based on a Spanish design (EIB 2023b). The Bank had come a long way since its cramped offices in the Place de Metz in the 1970s, when this small regional development bank started its transformation into the world's largest multilateral lender.

7

Borrowing and Third Countries

In November 2023, Ukraine's Deputy Prime Minister Olha Stefanishyna urged the European Union (EU) to provide further Macro-Financial Assistance to her country, which was still fighting for its survival two years after being invaded by Russia for the second time in a decade. 'We need money in January to keep running', insisted Stefanishyna despite reassurances from European officials that the EU would borrow up to €33 billion to finance concessional loans to the war-torn country, which was by now a candidate to join the Union (Foy 2023). Sixty years earlier, the European Investment Bank (EIB) signed its first loan agreement with Greece, a country which soon saw its plan to join the European Community put on hold after a right-wing military coup (EIB 1964: 58). Between these events lies the story of how the EU came to borrow to finance grants, loans, and guarantees to third countries.

As discussed in Chapter 6, the EIB was established to 'contribute to the balanced and steady development of the internal market in the interest of the Community'.[1] Although the Bank's activities remained largely focused on EU member states, it provided loans to a growing number of third countries in the Mediterranean region during the 1970s and 1980s. The Luxembourg lender also played a central role in providing external development finance to African, Caribbean, and Pacific (ACP) countries and Overseas Countries and Territories (OCT) under various iterations of the Lomé Convention. With the end of the Cold War and the collapse of communist regimes in Central and Eastern Europe, the EIB was well placed to shoulder the burden of financial assistance to the region, but member states decided instead to create a new European-level borrower in the form of the European Bank for Reconstruction and Development (EBRD). The Council of Ministers also allowed the European Commission at this time to raise funds on financial markets to provide Macro-Financial Assistance and European Atomic Energy Community (Euratom) loans to countries in Central and Eastern Europe and beyond.

This chapter traces the evolution of European-level borrowing in support of third countries from the 1960s to the 2020s. Consistent with historical institutionalism, we find evidence of layering in the expansion of EIB

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lending to 160 countries spanning four continents and in the Council's willingness to develop new forms of Macro-Financial Assistance for Ukraine. We observe layering in the Euratom Loan Facility's revision to provide financing to third countries and conversion in the EBRD's willingness to reinterpret its understanding of transition to extend borrowing and lending operations to countries such as Egypt, Jordan, Lebanon, Morocco, and Tunisia. Liberal intergovernmentalism emphasizes the importance of interstate bargaining in this domain, with EU member states choosing borrowing over bilateral support and further contributions to the Union's budget. In so doing, member states took steps to defend the EU's credibility from the added risks of lending outside the Union. New intergovernmentalism, finally, helps us to understand member states' reluctance to delegate new powers to the European Commission in the post-Maastricht period. This reticence benefitted the EIB and the EBRD, although member states remained wary of delegating too much power to either Bank. The fragmented nature of European-level borrowing in support of third countries was thus a political choice.

7.1 The EIB, the EBRD, and Macro-Financial Assistance: Layering and Conversion

Historical institutionalism sees the development of European-level borrowing as the product of critical junctures or incremental changes. Epochal moments—notably the fall of the Iron Curtain and Russia's invasion of Ukraine in 2022—drove the EU to borrow at scale. However, they did not yield radical choices which thereafter proved difficult to take back. Instead, member states layered new borrowing instruments on top of old ones while converting some existing instruments to new ends. The EBRD showed stronger path dependence than might have been expected in the early 1990s, but member states continuously renewed their commitment to this European-level borrower rather than being locked into lending to former Eastern Bloc countries.

7.1.1 The EIB and the EBRD

The EIB's 1963 loan to help construct a 146 kilometre stretch of motorway from Lamia to Larissa was one of fifteen investment projects financed over four years under the Association Agreement signed by the European Commission and Greece two years earlier. The first such arrangement between the European Economic Community (EEC) and a third country, it established a customs union and invited the EIB to furnish Greece with up to $125 million in loans for investment projects over five years.[2] An Association Agreement with Turkey followed in September 1963, authorizing the EIB to provide up to 175 million units of account in financial assistance to Turkey over five years. EIB loans to Greece were quickly restored after the military dictatorship lost power, as the EEC sought to foster democracy and economic growth in its near neighbour, with which it soon opened accession negotiations.

Under the statutes establishing the EIB, which were annexed to the 1957 Treaty of Rome, member states agreed that the Bank could grant loans for investment projects located 'wholly or partially outside the European territories of member states'.[3] Given the open-ended nature of this mandate, we interpret the widening geographic scope of EIB external lending over time as the product of layering rather than conversion. Rather than reinterpreting its mission, in other words, the Bank responded to the addition of new economic and political agreements between the Community and third countries. In October 1975, the Economic and Financial Affairs (ECOFIN) Council instructed the Bank to provide 180 million units of account in emergency loans to Portugal to help deal with the acute economic crisis experienced by this country after the end of the Estado Novo (EIB 1976: 16). Both Portugal and Spain were later offered EIB loans to support their integration with the European Community before their accession in 1985. During this period, the EIB extended its operations to Algeria (1978), Yugoslavia (1978), Syria (1979), Cyprus (1981), Egypt (1981), Israel (1981), Jordan (1979), Malta (1979), and Tunisia (1984). By 1989, the Bank was investing European Currency Unit (ECU) 342.8 million each year in the Mediterranean, a significant sum, even though it was around ten times less than investment by the International Bank for Reconstruction and Development in the same region and accounted for less than 3 per cent of total EIB financing.

Given its track record of providing external development finance to third countries, the EIB appeared to be well placed to lead efforts to support Central and Eastern Europe after the collapse of the Iron Curtain. Instead, French President François Mitterrand responded to the collapse of communist rule in Hungary and Poland by calling for the establishment of a new European-level borrower. The 'Bank for Europe', as the French President referred to it, would finance large-scale projects in Central and Eastern Europe in areas such as agriculture, transport, and telecommunications along the same lines as the EIB (Mitterrand 1989). Under this proposal, the twelve members of the European Community would sit on the new bank's board of directors alongside representatives of Poland, Hungary, and perhaps even the Soviet Union. Thirty-nine countries, along with the European Community and the EIB, signed the EBRD's Articles of Agreement in April 1991. Nine months later, the London-based lender approved its first project—a US$50 million credit line for the Poland-headquartered Bank of Poznan to help finance direct heating loans and raised ECU 500 through its first bond issuance (EBRD 1992: 18). Although it would operate outside the EU's institutional architecture, this European-level borrower came to play an important role in the Union's development policy.

While the events of 1989 may have served as a critical juncture for economic and political reform in Central and Eastern Europe, the same cannot be said of the Community as a borrower. As noted above, the EIB was already lending to countries in the region before the collapse of communist rule; the Bank's decision in 1990 to make investment funds available to Poland and Hungary in 1990 was thus an example of gradual rather than punctuated change. By agreeing to establish the EBRD, member states did not so much break new ground as plough the same furrow as the EIB was already doing in third countries and would continue to do in the decades that followed. The resulting overlap between the EIB and EBRD, though it is not easy to understand from a historical institutionalist perspective, became the subject of intense debate among EU member states.

7.1.2 The EBRD's Persistence

The EBRD was established to 'foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics'.[4] By the late 1990s, nine out of the EBRD's ten original countries of operation were at an advanced stage of transition according to the Bank's own indicators, calling into question these states' continued need for loans (EBRD 1999: 24). Led by Vaclav Klaus, a free-market economist who was sceptical about the Bank's role, the Czech Republic became the first EBRD country of operation to 'graduate' in 2007. It was also the last. Other countries might have followed suit if investors had looked favourably on the Czech Republic's decision, but discussions over graduation receded after the global financial crisis, which convinced other countries to preserve the status quo. When the COVID-19 pandemic hit, the Czech Republic asked once again to be considered a country of operation.

The fact that advanced industrialized economies such as Poland sought continued access to EBRD funds is a textbook example of path dependence. A gradual process of conversion is also discernible in EBRD governors' willingness to expand the Bank's countries of operation over the years. This change began in 1992 when it extended its activities to fourteen countries, trebling its investment for that year. However, a more significant shift occurred in 2006 when Mongolia was accepted as a shareholder and country of operation. The Bank's decision to extend its operations beyond Central and Eastern Europe for the first time, as Andrew Kilpatrick (2020) observed, marked the beginning of a major geographic shift (Kilpatrick and Wilson 2021: 320). In 2009, the EBRD began investing in Turkey. Three years later, the Bank extended its regions of activity to the Southern and Eastern Mediterranean, allowing Egypt, Jordan, Morocco, and Tunisia to become recipient countries. This geographic shift provided the EBRD with a steady stream of profitable projects (Kilpatrick and Wilson 2021: 16). By the 2020s, Turkey and Southern and Eastern Mediterranean accounted for nearly one-third of the Bank's annual commitments (see Table 7.1).

This process of conversion led to criticisms of the EBRD—as well as tensions within the London-based lender over lending to countries with questionable commitments to democracy and the rule of law (Interview 5, 2022)—but it helped the Bank to demonstrate its own relevance. Among several existential threats to the Bank was a proposal by a high-level

Table 7.1 EBRD commitments by regions of operation (1991–2023; percentage of total)

	1991–2000	2001–10	2011–20	2021–3
Central Europe and the Baltic states	41.9	20.5	13.8	16.3
Russia	23.6	29.8	8.8	0.0
Southeastern Europe	13.0	23.0	16.5	17.9
Eastern Europe and the Caucasus	11.8	16.5	19.4	16.9
Central Asia	9.5	9.0	10.9	10.9
Euro Area			2.2	5.5
Southern and Eastern Mediterranean			13.9	15.9
Turkey		1.3	14.6	16.6
Total	*100.0*	*100.0*	*100.0*	*100.0*

Note: Percentages may not sum due to rounding. Commitments refers to projects approved by EBRD Board of Directors in a given year.
Source: Authors' own calculations based on EBRD annual reports and financial reports.

group convened by French President Nicolas Sarkozy to create a Euro-Mediterranean Financial Institution (Milhaud 2010). With a lending capacity of €10 billion, this fund would integrate the EIB's Facility for Euro-Mediterranean Investment and Partnership, suggesting that the scheme was designed to increase the EU's reach as a development actor compared to that of the EBRD. The proposal struggled to win support from Germany and was ultimately overtaken by events, as political uprisings and revolutions unfolded across North Africa and the Middle East in 2011 (Kilpatrick and Williams 2021: 90). The EBRD showed its agility here by rapidly revising its legal statutes to allow investment in Egypt, Jordan, Morocco, and Tunisia. Given the time it would have taken to establish a new Euro-Mediterranean bank, it was more cost effective to give the EBRD a greater role.

In May 2022, EBRD governors agreed in principle to extend the Bank's operations to Iraq and Sub-Saharan Africa. The Bank had carefully weighed this decision, which was informed by a series of evaluation reports and reviews by its Independent Evaluation Department, which sought to learn from multilateral development banks' experience in Sub-Saharan Africa and the EBRD's own experience of widening its geographic remit (EBRD Evaluation Department 2022). Rather than focusing on economic transition or democratization, the Bank emphasized the importance of engaging with Sub-Saharan Africa to achieve the UN's sustainable development goals and the value-added that the Bank could bring to the region given its private sector focus. Although it remained committed under its statutes to fostering transition, the EBRD had been converted by this point into a multilateral development bank, thus guaranteeing its own relevance and, for the time being, survival.

7.1.3 The Commission as a Borrower

By 1994, Reactor No. 4 at the Chernobyl nuclear power station, which had suffered a meltdown eight years earlier, had been sealed in a steel and concrete sarcophagus. However, this structure was temporary, and the Ukrainian parliament reversed its decision to close the plant's remaining reactors despite ongoing safety concerns. At the European Council in Corfu in June 1994, EU heads of state or government expressed their 'preoccupation' with this issue and pledged ECU 400 million in Euratom loans as part of wider international efforts in the field of nuclear safety (European Council 1994). As discussed in Chapter 6, the Euratom Loan Facility, which had been established in 1977 to help finance nuclear power stations within the European Community, had lain dormant since the Chernobyl 1986 nuclear accident. In March 1994, the Council of Ministers revised the regulation underpinning the Euratom Loan Facility to enable support for selected countries in Central and Eastern Europe aimed at improving the efficiency and safety of nuclear power stations.[5] This was not an act of displacement since EU member states could still apply for Euratom loans to help develop nuclear production in their own countries. Nor did it reverse the process of drift, whereby member states tacitly agreed not to seek such loans after the Chernobyl disaster (see Chapter 4). Instead, the 1994 reform can be seen as an instance of layering, which added a new external dimension to the Euratom Loan Facility that the Council of Ministers was more willing to deploy to promote nuclear safety and efficiency in near neighbours.

Despite this shift, the revised Euratom Loan Facility was used sparingly. Bulgaria and Romania—which were not on the initial list of eligible recipients—were the first non-EU member state beneficiaries, receiving a combined €434 million in loans to improve safety at three plants. Ukraine received a more modest loan of $83 million in 2004 to address safety concerns at the Khmelnitsky 2 and Rovno 4 power stations. Energoatom, Ukraine's state-owned nuclear operator, received a further €300 million in funding between 2017 and 2021 for four nuclear power stations.

A more consequential instance of Commission borrowing in support of third countries occurred in February 1990 when ECOFIN authorized the Commission to borrow the first tranche of an ECU 870 million loan facility extended to Hungary 'to overcome the difficulties of structural adjustment of its economy'.[6] This decision represents another instance of layering, in that the European Community responded to the acute challenges facing Central and Eastern Europe after the collapse of communist regimes by extending forms of financial assistance which had hitherto been restricted to member states under the Community Loan Mechanism and, later, the Balance of Payments Assistance Facility (see Chapter 4).

The number and range of countries receiving Macro-Financial Assistance fluctuated markedly over the following three decades, to eleven in 1994—including Algeria and Israel—and to twenty-three in 2011 with €7.4 billion provided (European Commission 2011). By 2024, there were eleven recipients of outstanding Macro-Financial Assistance.[7] In most cases, funding was offered on condition that the recipient country in question also sought financial assistance from the International Monetary Fund, prefiguring by two decades arrangements deployed during the euro crisis (European Commission 1992). An ECOFIN decision in July 1991 on financial aid for Israel and the Palestinian population of the Occupied Territories was the first time that Macro-Financial Assistance entailed grants as well as loans.[8]

In 1993, at an informal meeting of the ECOFIN Council in Genval, EU finance ministers agreed on a set of principles regarding Macro-Financial Assistance. The Genval Criteria, which had been revised on several occasions since, underline the exceptional character of such support and its focus on countries with which the EU has close economic and political ties (European Commission 2011). The criteria also stipulated that any grants provided under Macro-Financial Assistance should be funded through the EU budget rather than borrowing. This limitation is one reason why the share of grants disbursed through this instrument between 1990 and 2017 was less than 10 per cent (Alfieri 2017: 2).

Between 2014 and 2021, Ukraine received five rounds of Macro-Financial Assistance, totalling around €5 billion in loans. When Russia invaded Ukraine in February 2022 for the second time in a decade, a rapid contraction in gross domestic product (GDP) coupled with soaring food prices and the economic effects of missile strikes triggered an economic emergency in Ukraine, necessitating immediate financial support from the International Monetary Fund, the Black Sea Trade and Development Bank, and the EIB among others. On 24 February 2022, the day of the invasion, the EU offered Ukraine an additional €1.2 billion in Macro-Financial Assistance followed by a further €1 billion five months later.[9] By this point, Ukraine's short-term financing needs were around €2.7 billion per month, leaving the country increasingly dependent on bilateral and multilateral donors. In December 2022, three months after the EU pledged an additional €5 billion in Exceptional Macro-Financial Assistance, the Commission promised a further €18 billion in loans under the so-called Macro-Financial Assistance Plus.[10] Like its immediate predecessor, Macro-Financial Assistance Plus offered loans at highly concessional interest rates but with even longer maturities up to a maximum of thirty-five years. With no end in sight to the war in Ukraine, the Council of Ministers and the European Parliament (EP) reached a political agreement in February 2024 on the establishment of the Ukraine Facility, which authorizes the Commission to borrow an additional €33 billion up until 2027 (European Commission 2024c).[11] It seemed only a matter of time until this ceiling was raised once again.

7.2 Mobilizing Funds, Managing Risk

From the earliest days of the EEC, member states exhibited a strong preference for funding external development finance via direct contributions rather than through the Community budget. Consistent with liberal intergovernmentalism, member states embraced European-level borrowing where existing funds proved insufficient to manage cross-border externalities and where ways could be found to protect the credibility of European-level borrowers from the heightened risk of lending to third countries. The establishment of the EBRD is more difficult to understand from a liberal intergovernmentalist perspective given the high transaction costs of creating new international financial institutions in an already crowded field.

7.2.1 Protecting the EIB's Credit Rating

Moravcsik (1998: 148) treats the creation of an external development policy in the Treaty of Rome as a side payment in which Germany agreed that the EEC would provide aid to France's colonial dependencies—and those of Belgium, Italy, and the Netherlands—in return for extending the customs union and single market to these countries. Member states also displayed a strong preference for keeping European development finance outside the Community's budget, which was already burdened by the common agricultural policy. The European Development Fund, the EEC's first international development finance instrument, was underpinned by the so-called Internal Agreement, which determined a 'contribution key' for each member state. This arrangement meant that the European Development Fund was kept distinct from the Community budget and its governance procedures, leaving member states to decide on the aims and overall amount of funding provided to associated states via multiannual development programmes, beginning with the first Yaoundé Convention of 1963.

It would take six decades before the European Development Fund was finally incorporated into the EU budget under the so-called Neighbourhood, Development, and International Cooperation Instrument (NDICI) but member states had no such hesitation about involving the EIB in external development finance. During the 1956 Val Duchesse negotiations, the French and Belgian governments presented a joint paper which estimated the total investment needs of French and Belgian overseas territories at more than 1 billion units of account.[12] A special fund could be created for this purpose, the paper concluded, or it could be established as part of the proposed European Investment Fund (see Chapter 3). Other member states were either hesitant or opposed to giving the EEC a role in fostering public investment.[13] Italy, in particular, feared that the Mezzogiorno might miss out on the investment funds which it saw as vital for Italian participation in the common market.[14] The final text of the Treaty Establishing the European Economic Community made no mention of an investment fund for overseas territories, but the protocol of the EIB did allow governors to decide by unanimity to lend to third countries, a provision that was used for the first time in 1963 to provide loans to Greece.

Although the EEC was keen to foster economic and political stability in Greece, which was still suffering the after-effects of a civil war, there was limited appetite among member states for bilateral solutions and even less for channelling support through the Community budget. Consistent with liberal intergovernmentalism, the EIB governors' decision to lend to Greece allowed the Community to mobilize resources while minimizing demands on national treasuries subject to one major caveat: the added risks of lending to a third country must not be allowed to jeopardize the EIB's credit rating and hence member states' access to low interest rate loans. Such risks were acute in relation to Greece, which remained in dispute with international creditors and effectively cut off from capital markets, so member states agreed to guarantee all EIB loans to this country, effectively removing them from the Bank's balance sheet (Bussiere et al. 2008: 103). A similar arrangement was employed for the EIB's loans to Turkey in 1963, after which the Bank's lending to third countries was routinely recorded in the so-called Special Section. Between 1977 and 2021, these guarantees were backed by the Community budget by means of the External Lending Mandate, which thereafter was replaced by the External Action Guarantee.

The EIB's involvement in providing loans to ACP states overseas countries and territories (OCTs) came with similar safeguards. Under the Yaoundé Convention, the EIB was invited to manage loans to the value of 669 million units of account for the so-called Associated African States and Madagascar (AASM). These loans would be financed by the European Development Fund, but the EIB was also instructed to provide loans worth 64 million units of account through its own resources backed by member state guarantee. A 1 million units of account loan for Sonoco, a packaging company in the Ivory Coast, signed in May 1965, was the first of sixteen projects in six countries over the five years of the Convention, which together helped to leverage an estimated 270 million units of account in investment.

The EIB continued to manage member state funds and contribute resources of its own backed by member state guarantees under the second Yaoundé Convention (1969) and its successors, Lomé I (1976), Lomé II (1981), Lomé III (1985), and Lomé IV (1989), which broadened European development finance to a group of forty-six ACP states. Under the Cotonou Agreement (2000), which expanded this grouping to seventy-six ACP states, the EIB committed €1.7 billion in long-term loans from its own resources in addition to managing a €2.2 billion Investment Facility financed through member state contributions.

7.2.2 Macro-Financial Assistance

When leaders of the Group of Seven (G7) met in Paris in July 1989 to pledge economic assistance to Hungary and Poland, they invited the European Commission to convene talks with interested parties (Group of Seven 1989). The Group of Twenty-Four (G24), as this collective came to be known, pledged $1 billion to Poland via a stabilization fund financed by bilateral contributions from the United States and other countries. A similar arrangement could, in principle, have been offered to Hungary but Belgium's Minister of Finance Philippe Maystadt made the case for an EEC loan.[15] Although Maystadt cast himself as an advocate of Hungary—which was part of a Belgian-led constituency in the International Monetary Fund's Executive Board—the situation suited Belgium, which could ill afford further bilateral contributions given its own high levels of public debt. In line with liberal intergovernmentalism, collective borrowing via the EU budget was preferable to costly bilateral solutions.

Several loans to post-Soviet states were not repaid on schedule, putting the Community budget at risk. In 1994, the Council, based on a French idea, established a Guarantee Fund for External Actions to address financial risks created by Commission and EIB lending to Central and Eastern Europe.[16] This fund, which was managed by the EIB on behalf of the Commission,[17] set aside contributions from the EU budget to repay the EU's creditors in the event that a third country beneficiary of EIB, Macro-Financial Assistance, and Euratom loans defaulted. Such guarantees, which mimicked the Edinburgh Facility's use of EU guarantees to support EIB lending for infrastructure projects and small and medium-sized enterprises (SMEs) (see Chapter 6), helped win member states' backing. Without the Guarantee Fund for External Actions, member states would have been more cautious about EU borrowing for fear of jeopardizing their own access to low interest rate loans.

Liberal intergovernmentalism also provides insights into the design of the so-called Macro-Financial Assistance Plus for Ukraine, adopted in November 2022. For Fabbrini (2023: 53), the fact that loans provided to Ukraine through this instrument were guaranteed through the headroom available under the EU budget rather than the Guarantee Fund for External Action was carried over from the Recovery and Resilience Facility and Support to mitigate Unemployment Risks in an Emergency (SURE), created in 2020. However, the interviews we conducted support the claim that this decision is not the product of path dependence, but a consequence of the sums involved and concerns that Ukraine will be unable to pay its loans in full (Interviews 31 and 44, 2024). The usual provisioning rate for loans backed by the Guarantee

Fund was 9 per cent, but the Commission raised this figure for Ukraine to 70 per cent to insure against the risks of lending to a country facing regular missile strikes by Russian forces (European Commission 2023a). Since the Guarantee Fund was too small to underwrite such risks, EU member states effectively agreed to provide callable bilateral national guarantees to exceptional Macro-Financial Assistance provided during the COVID-19 pandemic in May 2020. By using the headroom as a guarantee, Macro-Financial Assistance Plus allowed member states to scale up borrowing to support Ukraine without the need to put national guarantees on the table. This development is consistent with liberal intergovernmentalism, which sees EU borrowing as a choice to pay later rather than a commitment that national governments find themselves locked into.

7.2.3 A Liberal Intergovernmental Puzzle

François Mitterrand might have sparked the debate over the creation of the EBRD, but France had to give significant ground in negotiations with other states. The European Council backed the French president's proposal on the understanding that the European Community (represented by the Commission), its member states, and the EIB would be majority shareholders (European Council 1989). Germany, the Netherlands, and the UK also pushed hard for the inclusion of the United States, which joined Australia, Canada, Japan, and South Korea as founding members of the EBRD. The United States insisted, in turn, that the Bank have a strong private sector focus owing to concerns among Washington lawmakers about subsidizing inefficient public sector firms.[18] France, Germany, Italy, and, to a lesser extent, the UK, argued that loans to the public sector could help to expedite the transition process.[19] The Agreement Establishing the EBRD squared this circle by stipulating that no more than 40 per cent of the Bank's total committed loans, guarantees, and equity investments could go to the public sector.[20]

The most contentious issue in these negotiations was whether the EBRD would be allowed to lend to the Soviet Union. France was strongly in favour, with Mitterrand presenting the Bank as one element in the construction of a European Confederation from the Atlantic to the Urals (Bozo 2008: 399). The United States was wary, fearing that Soviet participation in the EBRD would create a precedent for this country's membership of the International Monetary Fund and the World Bank (Kilpatrick 2020: 37). A compromise was reached, whereby the Soviet Union was admitted as a founding shareholder to the new bank but allowed to borrow only to the value of its subscribed capital. EBRD directors had approved two loan projects before the Soviet Union collapsed in 1991 and the Bank quickly scaled up its support for the Russian Federation, which received €24.2 billion in investment for nearly 800 projects between 1992 and 2014.[21]

Although there was no shortage of hard bargaining in these negotiations, liberal intergovernmentalism struggles to explain the EBRD's creation, as Haggard and Moravcsik (1993) acknowledge. Western states could have relied, they argue, on existing international financial institutions to support Central and Eastern Europe after the Cold War. After all, there was broad agreement among states on the need for such assistance, even if some were more willing than others to provide bilateral aid, and the International Monetary Fund moved quickly to provide stand-by arrangements and other forms of financial support to Central and Eastern European countries in line with the wishes of the G24. In this respect, these authors reject claims by the EBRD's founding president, Jacques Attali, that the Bank was a uniquely political institution which operated in areas that other international financial institutions did not.

For Haggard and Moravcsik (1993: 248), the EBRD can ultimately be seen as a 'redundant' institution borne of France's desire for an act of 'political symbolism' at a time of epochal change for Europe. Liberal intergovernmentalism cannot easily explain, however, why other states would support such grandstanding or why the EBRD is more active than ever as a European-level borrower thirty years later. The Bank ultimately survived because the precarious intergovernmental bargain underpinning its creation proved more durable and symmetric than expected. France's grand vision of the EBRD as a stepping stone towards a new European Confederation soon gave way to pragmatism. Mitterrand, although he offered warm words at the EBRD's inauguration, made few public demands on the Bank. His successors as French president pursued a more transactional approach, with their overriding concern being to retain France's grip on the EBRD presidency. When vacancies arose, Spain, Poland, and other European shareholders championed their candidates, but France could typically count on the support of Germany, subject to periodic package deals over the leadership of other bodies. Three out of the first five EBRD presidents were French and the other two were German.

The United States' support for the EBRD, though it was not always enthusiastic, was also crucial to the Bank's survival. This was true even under the presidency of Donald Trump, a staunch critic of the World Bank, who considered nominating his eldest daughter as World Bank Group president, before proposing David Malpass, a noted critic of multilateral institutions, to the role in 2019 (Pengelly 2021). There was no such drama in relation to the EBRD, which announced in October 2017 that the Trump administration had confirmed its support for the Bank (*Reuters* 2017a). Judy Shelton, Trump's pick as United States director at the EBRD, kept a low profile and, indeed, was accused of missing nearly half of EBRD Board meetings during her tenure.[22] The only EBRD shareholder to seriously consider withdrawing was Australia, which let it be known in February 2008 that it planned to pull out of the Bank to focus its external development finance efforts on the Asia-Pacific region (*Reuters* 2008b). However, the Australian government never followed through on this plan.

The most important illustration of EBRD's shareholders' continued support for the Bank is their willingness to replenish its borrowing power. Under the Agreement Establishing the EBRD, the Board of Governors is required to review the Bank's capital stock at least every five years. Initially, the EBRD's authorized capital stock was set at €10 billion. This ceiling was doubled in 1996 before being increased to €30 billion in 2010 and €34 billion in 2023. EBRD shareholders could have used the Strategic and Capital Framework to cut the Bank's resources but chose not to.[23] Despite this vote of confidence, it is still not entirely clear from a liberal intergovernmental perspective why the EU would commit such resources to this European-level borrower rather than others.

7.3 The Battle of the Banks

New intergovernmentalism sees the problems of legitimacy facing the EU in the post-Maastricht period as exerting a significant sway over institutional choices. Member states' reticence about putting the European Commission in charge of a permanent facility for Macro-Financial Assistance speaks to this trend, as does their aversion to creating a more centralized approach to European external development finance. The Wieser Group's call in 2019 to replace the EIB and EBRD with a new European Bank for Climate and Sustainable Development was a bold and innovative idea which enjoyed limited political support.

7.3.1 Restricting Commission Powers in External Lending

A distinctive feature of Macro-Financial Assistance compared with other Commission borrowing instruments is the absence of a single facility or mechanism which could be deployed to help third countries facing balance of payments crises. Instead, each borrowing decision is approved by the

Council—and, since the Lisbon Treaty entered into force in 2009, the EP—authorizing the Commission to borrow the necessary funds to on-lend to the country in question.[24] For Emerson (2012: 6), the fragmented nature of Macro-Financial Assistance 'cannot be justified or explained by any simple macroeconomic logic'. Consistent with new intergovernmentalism, member states were keen to show solidarity with third countries but determined 'to minimize any distinct international macroeconomic role of the Commission and in any case to control it or subordinate it to the IMF to the maximum extent' (Emerson 2012: 6).

In July 2011, the Commission proposed a framework directive which would have created a single legal instrument for Macro-Financial Assistance.[25] This change was justified, the Commission argued, by the need for a 'crisis response instrument that can be deployed quickly and efficiently' as well as to dovetail with financial assistance from international financial institutions. The proposal would also have conferred a large measure of discretion on the Commission over when and whether to grant Macro-Financial Assistance. Specifically, the Commission would have been authorized to grant assistance after consulting a committee of member state representatives under a mode of comitology known as the examination procedure. The Council objected to the conferral of such implementing powers and proposed instead that such decisions continue to be based on the Ordinary Legislative Procedure and on this point was supported by the EP. When trilogue negotiations between the Commission, Council, and the EP broke down, the Commission withdrew its proposal, leading the Council to seek an action for annulment before the Court of Justice (Ritleng 2016). Although the Commission won this case, it saw little point in reactivating its proposal given member states' determination to keep a tight grip on borrowing in support of third countries. By early 2022, the EU had conducted seventy-seven Macro-Financial Assistance operations, each requiring separate legislation (Lloyd 2022).

7.3.2 A Reluctance to Delegate

When leaders of the G7 met in Paris in July 1989 to pledge economic assistance to Hungary and Poland, they invited the Commission to convene talks with interested parties. The United States was a strong supporter of the Commission in this role—which the Bush administration saw as a way of encouraging European burden sharing in Central and Eastern Europe (Weber 1994: 12). However, in line with new intergovernmentalism, the

French government saw the establishment of the EBRD as a way to avoid such delegation. Indeed, under a proposal put forward by Mitterrand's advisor, Jacques Attali, the new bank would have assumed responsibility for all G24 funds for Central and Eastern Europe (Weber 1994: 14).

The EIB could have taken on this role, which mirrored its economic support for Greece and Portugal in the 1970s, but the Bank appeared reluctant to take the lead. A strong motivation behind the French initiative to set up a new institution, rather than just expand the EIB's remit, was to prevent the EIB from becoming a 'second World Bank'. French policymakers worried that EIB lending to Eastern Europe might compromise the quality of its portfolio—or weigh on the Community budget—and reduce its lending within the Community.[26]

Initially, the EIB appeared unthreatened by the creation of the EBRD. In addition to paying in ECU 300 million as a founding shareholder of the new bank, the EIB provided an ECU 10 million loan to the EBRD to help cover staff and other start-up expenses. Although this spirit of cooperation between London and Luxembourg would persist over time, the banks' relationship would also be marked by competition and poor coordination, fuelling concerns over the coherence of European external development finance (Hodson and Howarth 2023a). Whilst they were alive to such concerns, member states resisted calls for a centralization of borrowing powers in this sensitive domain.

In June 2018, French President Emmanuel Macron and German Chancellor Angela Merkel signed the Meseberg Declaration which, alongside a range of EU reform proposals, called for a high-level group on the European financial architecture for development (see Fitzgeorge-Parker 2019; Antonowicz et al. 2020).[27] Ten months later, the EU's General Affairs Council invited Thomas Wieser—a former director-general in the Austrian Ministry of Finance and former president of the Eurogroup Working Group—to chair this body. The Wieser Report, which was published in October 2019, praised the EU's contribution to global development challenges, such as the fight against extreme poverty and infant mortality, but offered a damning assessment of the 'overlaps, gaps and inefficiencies' in the European architecture for external development finance (Wieser et al. 2019: 3).

The Wieser Report's headline message was that the EU needed 'a strong policy centre' to improve the EU's effectiveness and reach as a development actor (Wieser et al. 2019: 26). To this end, it called for the creation of a single well-capitalized new European-level borrower, the European Bank for Climate and Sustainable Development, which would have the authority to provide grants and highly concessional loans to regions including Sub-Saharan

Africa. The Wieser Group understood how rebuilding the European financial architecture for development would be difficult, if not impossible, so it proposed three intermediate scenarios for realizing the new bank. Under the first, the EBRD would assume responsibility for the external financing activities of the EIB. Under the second, the EIB, EBRD, the European Commission, member states, and national development finance institutions would become shareholders in a new mixed ownership bank. Under the final scenario, the EIB would create a new subsidiary focused on development finance. The Commission and member states would participate in this new entity, leaving the EBRD to reduce its involvement in certain countries of operation.

EU member states have differing degrees of attachment to the EIB and EBRD depending on their track record of dealing with, and receiving, loans from these banks (Interview 4, 2022). Viewed from a liberal intergovernmental perspective, however, there was a strong rationalist argument for enacting one or other of these reforms. The EU's claim to be the world's largest development donor—when European-level and member state contributions are taken into account—is central to the Union's reach as a 'quiet superpower' (Moravcsik 2009: 412). There is, from this point of view, little to be gained from duplication, overlap, and inefficiencies in the delivery of European external development finance and strong reason to embrace a more centralized system of decision making. As new intergovernmentalism would expect, France and Germany had a strong aversion to centralizing external development finance (Interview 6, 2022). Had the EU decided to dissolve either the EIB or the EBRD, winning domestic approval for the European Bank for Climate and Sustainable Development would have been by no means straightforward. The Council thus played for time by ruling out the idea of a mixed ownership bank and commissioning an independent feasibility study on the Wieser Report's other two scenarios. When they met in June 2021 to consider the results of this study, the Council side stepped the Wieser Report's call to choose between the EIB and EBRD and invited these borrowers to work together more closely 'in a Team Europe approach' (Council of the European Union 2021).

Unveiled by the High Representative of the Union for Foreign Affairs and Security Policy in April 2020, the Team Europe approach initially pledged €20 billion to tackle the health, humanitarian, environmental, and socioeconomic consequences of the COVID-19 pandemic in developing countries (Hodson and Howarth 2023a). By February 2022, the total pledged to this COVID-19 recovery package had reached €38.5 billion. For critics, Team Europe was little more than a branding exercise (Interview 7, 2022). However, the approach was assigned a central role in the Global Gateway, a new EU strategy unveiled in December 2021 to mobilize up to €300 billion in investment in the digital sector, climate and energy, transport, health, education, and research across the world (European Commission 2021a). As was so often the case in the post-Maastricht period, cooperation came more easily than centralization even if questions over policy coherence remained (Interview 28 and 38, 2024).

7.4 Conclusion

European-level borrowing has always had an external face, although it has never been entirely straightforward, as this chapter has shown. Member states turned to the EIB in the early years of the EEC to provide loans to Greece and other associated countries, as well as former colonies and overseas territories. Although the EIB embraced this new role and eventually came to present itself as a development bank, member states were less certain about this designation. While the European Council looked to the EIB to provide emergency loans to Central and Eastern European countries after the collapse of communist regimes in the region, the heads of state or government also supported French President François Mitterrand's ambitions to create a new European-level borrower in the form of the EBRD. The relationship between the two banks was, by turns, cooperative and competitive, fuelling concerns over the coherence of European development finance. However, member states preferred this fragmented arrangement to the creation of a single pan-European development bank. A similarly hesitant dynamic describes the European Commission's belated empowerment as a borrower for the purpose of supporting third countries. Member states had second thoughts about using the Euratom Loan Facility to finance projects for nuclear safety in Central and Eastern Europe, while resisting the Commission's calls to create a single instrument to support third countries facing balance of payments crises. Despite such caution, Macro-Financial Assistance has played a crucial, if contested, role in the EU's efforts to support Ukraine's wartime economy.

In keeping with historical institutionalism, our analysis finds clear signs of layering and conversion. Layering can be seen in member states' willingness to extend EIB operations to a growing list of third countries and in the Council's decision to build Macro-Financial Assistance on top of the Balance of Payments Assistance Facility, thus extending financial assistance to partner countries. The EBRD's approach to borrowing and lending was also layered on the earlier efforts of the EIB, which became a shareholder and supporter of the London-based lender. Layering is visible too in the revision of the Euratom Loan Facility to support projects to promote nuclear safety and efficiency in third countries. Conversion, meanwhile, is observable in the EBRD's gradual reinterpretation of its mandate to become a conventional multilateral development bank.

Liberal intergovernmentalism helps us to understand member states' willingness to borrow when faced with externalities such as the collapse of right-wing dictatorships or the painful transition from centrally planned systems to market economies and the benefits to third countries of relatively low-cost loans. It also sheds light on member states' determination to protect the credibility of European-level borrowers. Liberal intergovernmentalism finds it more difficult to explain why EU member states backed the creation of the EBRD and how the Bank outlived its time-limited mission to foster transition in Central and Eastern Europe.

This puzzle is easier to understand from a new intergovernmental perspective. The decision of member states to create the EBRD in 1990 can be seen as an attempt to limit the Commission's powers as a borrower, as can the Council's refusal to support the creation of a permanent facility for Macro-Financial Assistance. Member states remained reluctant to create a strong policy centre for external development finance despite perennial concerns about overlap and duplication between the EIB and EBRD. Closer cooperation through the Team Europe approach proved more politically palatable in this regard.

8

Borrowing Before and After the COVID-19 Pandemic

On 21 July 2020, Ursula von der Leyen and Charles Michel—the presidents of the European Commission and European Council respectively—held a press conference at the Europa building in Brussels. European Union (EU) heads of state or government, they announced, had agreed after ninety hours of negotiations—the second longest European Council meeting in history—that the Commission could borrow up to €750 billion on behalf of the EU to address the economic consequences of COVID-19. The bulk of this borrowing—€672.5 billion—would go towards the Recovery and Resilience Facility, a temporary instrument to finance grants and loans to support member states' economic recovery from the pandemic while investing in the green and digital transitions. 'Exhausted though we all may be, we are also conscious that this is an historic moment in Europe', declared von der Leyen (European Commission 2020a). 'We did it: Europe is strong, Europe is robust, and above all, Europe is united', added Michel (European Council 2020a).

The EU had been rightly criticized for its slow response to the euro crisis, the costs of which had been amplified by the Maastricht Treaty's prohibition on Balance of Payments Assistance for Greece and other euro area members and the stringent conditions attached to loans under the European Financial Stability Facility and the European Stability Mechanism (ESM). Now the Union found itself praised for marshalling 'a fiscal response to the Covid crisis equal to or better than America's' (*Economist* 2020). Recalling the compromise of 1790—when the fledgling United States Treasury assumed responsibility for states' war debts in return for the capital being moved to the District of Columbia—Europe had realized its 'Hamiltonian moment', argued German Finance Minister Olaf Scholz (Georgiou 2022).

This chapter seeks to explain how the EU came to borrow on an unprecedented scale during the coronavirus pandemic. It sees few signs that a critical juncture took place but ample evidence of layering in the design of the Recovery and Resilience Facility, among other borrowing instruments, and

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the Commission's new Diversified Funding Strategy. Conversion too can be observed in the ESM's Pandemic Crisis Support. Consistent with liberal intergovernmentalism, member states with high borrowing costs pushed the EU to borrow when faced with acute cross-border externalities, while those with low borrowing costs viewed instruments such as the Recovery and Resilience Facility as preferable to bilateral solutions or bigger contributions to the EU budget. New intergovernmentalism, finally, shows that member states' institutional choices were shaped by the EU's legitimacy crisis. The fact that the ESM found itself at the centre of a Eurosceptic storm, explains the decision of member states to delegate temporary borrowing powers to the Commission. The Recovery and Resilience Facility's strict time limits made a political agreement on the EU's pandemic fund possible and prevented the pandemic from becoming a genuinely Hamiltonian moment.

8.1 The Road to the Recovery and Resilience Facility

On 25 March 2020, the leaders of Belgium, France, Greece, Ireland, Italy, Luxembourg, Portugal, Slovenia, and Spain wrote an open letter to European Council President Charles Michel calling for the creation of a 'common debt instrument' to help member states cope with the economic shock of COVID-19 (Dombey, Chazan, and Brunsden 2020). The most conspicuous signatory was Irish Taoiseach Leo Varadkar, who had hitherto aligned himself with the Hanseatic League 2.0, a coalition of Northern European countries which sought to limit demands on the EU budget and expressed scepticism about plans to complete European Banking Union (Verdun 2022). That Varadkar now joined a chorus of support for sovereign-style borrowing at the European level suggested that the EU could be on the verge of a critical juncture. Although the EU had issued bonds before, member states had always agreed on proportional guarantees rather than joint and several liability. Now a public health emergency appeared to be pushing member states to think the unthinkable.

Although the conditions for a critical juncture were present in this period, member states ultimately chose a more incremental response. Coronabonds—as the proposal put forward by the nine heads of state or government came to be known—were quickly dismissed by German Chancellor Angela Merkel, in line with her earlier opposition to euro bonds (see Chapter 5). 'You know that I don't believe we should have common debt because of the situation of our political union', Merkel told reporters in April 2020, 'and that's why we reject this' (Euractiv 2020). The leaders of Austria, Finland, and the Netherlands lent their support to the German government, with Dutch Prime Minister Mark Rutte telling an informal meeting of the European Council that there were no circumstances under which his country could accept coronabonds (Euractiv 2020).

Northern European member states may have baulked at the idea of joint and several liability but they were open from the earliest months of the pandemic to EU borrowing (Interview 19, 2023). On 9 April 2020, as the number of new COVID-19 cases in Europe approached 400,000, the Eurogroup endorsed a plan by the European Investment Bank (EIB) to create a 'pan European shield' to protect European businesses from the economic effects of the coronavirus (Eurogroup 2020). The EIB Group had taken a number of steps over the previous month, including using €1 billion from the European Fund for Strategic Investments to guarantee loans to small and medium-sized enterprises (SMEs) from banks and other lenders. The rapidly created European Guarantee Fund layered a new and more ambitious borrowing instrument on top of such efforts by allowing the Bank to provide €25 billion in loans and guarantees to businesses in the form of equity and debt fund products, capped and uncapped guarantees, and synthetic securitization. Most of this support went to public and commercial banks, which in turn provided finance to SMEs and mid-caps.

On the same day that the Eurogroup endorsed the EIB's pandemic shield, euro area finance ministers agreed to establish the Pandemic Crisis Support, which would allow the ESM to borrow up to €240 billion to help euro area members weather the economic shock from COVID-19. Under its founding treaty, the ESM can only provide financial assistance subject to strict conditionality, but the idea of imposing conditions on member states during a health emergency proved contentious (Fleming and Chazan 2020). The Eurogroup found a way around this impasse by making funds lent to national governments under the Pandemic Crisis Support subject to just one condition: that they were used to finance health care costs either directly or indirectly. This was an extraordinary act of conversion. The Eurogroup not only involved the ESM in a public health emergency far removed from this borrower's original focus on fiscal and financial crises, it also reinterpreted the borrower's policy of strict conditionality in real time.

As the death toll from COVID-19 rose, and the outlook for the EU economy worsened, EU member states looked to the Commission to play its part alongside other European-level borrowers. In May 2020, the Economic and Financial Affairs Council (ECOFIN) authorized the Commission to raise up to €100 billion on financial markets to support short-term work schemes and similar efforts to protect workers from the economic consequences of the pandemic. As with the European Financial Stabilisation Mechanism, the new instrument was based on Article 122 of the Treaty on the Functioning of the European Union, which allows the EU to grant financial assistance to a member state facing 'severe difficulties caused by natural disasters or exceptional occurrences beyond its control'.[1] The decision of member states to activate this little-known legal provision in May 2010 had been controversial given the all too human policy errors which had contributed to the euro crisis (see Chapter 5). The EU's recourse to Article 122 ten years later proved much less controversial because COVID-19 was evidently beyond the control of member states and because there was greater acceptance that the European Commission could and should borrow in such circumstances.

Viewed against this backdrop, the Recovery and Resilience Facility was the product not of a critical juncture but another instance of layering. Like Support to mitigate Unemployment Risks in an Emergency (SURE) and the European Financial Stabilisation Mechanism, the Commission was authorized to borrow under Article 122, even though the modalities for approving Recovery and Resilience Plans and disbursing grants and loans were covered by a more general treaty provision on economic policy coordination.[2] As with all Commission borrowing instruments dating back to the establishment of the Community Loan Mechanism in 1975, the EU's pandemic fund was not backed by joint and several liability but by proportional guarantees, leaving each member state liable to a share of any unpaid loans. As with the European Financial Stabilisation Mechanism, this guarantee was provided by means of the headroom available under the EU budget, which was exceptionally increased for this purpose. The most discernible difference with earlier borrowing instruments is that the Commission could allocate just under half of borrowed funds under the Recovery and Resilience Facility in the form of non-repayable grants. However, even this provision was not quite as new as it looked. As discussed in Chapter 7, ECOFIN had agreed in 1993 that Macro-Financial Assistance could be used to finance grants, albeit through the EU budget rather than borrowing.

8.1.1 Borrowing and Lending Operations

The Recovery and Resilience Facility was also accompanied by the layering of a new funding strategy on top of the Commission's traditional approach to borrowing and lending. As discussed in Chapter 4, the Commission had traditionally borrowed back to back and found its wings clipped in 1988 after member states objected to the so-called Jean Monnet Issue, which raised European Currency Unit (ECU) 500 million to advance the Community's standing as a borrower. In the Own Resources Decisions adopted in 2020, the Council accepted that the exceptional amount of funds to be borrowed necessitated a borrowing strategy which would give the Commission greater discretion over the timing of bond issuance and allow it to engage in maturity transformation. In consequence, the Commission was entrusted with functions more commonly associated with national treasuries.

Under the Diversified Funding Strategy, which was unveiled in April 2021, the Commission announced its intention to issue EU bonds with maturities of between three and thirty years alongside EU bills with a maturity of less than one year. The Commission had traditionally relied on syndicated bond issuance, but it now planned to hold bond auctions of the kind employed by large states to meet the EU's funding needs (European Commission 2022a). Multiple instances of layering were required to realize the new funding strategy, including the establishment of a Pan-European Primary Dealer Network and the selection of the Banque de France's TELSAT system as the Commission's new auction platform.

The Commission's expanded borrowing powers also involved significant institutional reforms. At the start of 2020, the responsibility for borrowing and lending operations had been transferred to the Directorate-General for Budget (DG BUDG) and to a new Directorate for 'Asset and Financial Risk Management'. While this shift represents another case of organizational displacement, it took place prior to the establishment of SURE and the Recovery and Resilience Facility (Directorate General for Budget 2021: 6). In November 2020, DG BUDG underwent a second reorganization, which came in response to the increased borrowing activities after the pandemic. DG BUDG also devised a communication strategy directed at potential investors (Directorate General for Budget 2021: 2021: 18). Further, the Commission recruited a number of financial markets specialists to set up the infrastructure for Recovery and Resilience Facility borrowing (European Commission 2021b: 18). In 2021, DG BUDG underwent another major internal reorganization to cope with the increased scale of borrowing and the increased sophistication of its borrowing operations. It appointed a chief risk officer and a chief compliance officer for RRF (Recovery and Resilience Facility) debt management and instituted a High-Level Risk and Compliance Policy[3]. The chief risk officer was to oversee the Borrowing and Lending Unit. DG BUDG also developed frameworks to fund SURE through social bonds and raise up to €250 billion in NextGenerationEU green bonds (Spielberger 2024).

In December 2023, the Commission extended its Diversified Funding Strategy to debt management operations in relation to Macro-Financial Assistance for Ukraine, which required the Commission to issue bonds on a scale never seen for this borrowing instrument. Previously, the Commission had issued named bonds for specific borrowing instruments, such as the European Atomic Energy Community (Euratom) Bonds and European Financial Stabilisation Mechanism Bond, but this was no longer considered practical (Interviews 16 and 20, 2023). Under its new Unified Funding Approach, the Commission would issue single-branded EU bonds and bills, the proceeds for which would go into a central funding pool which would then be used to finance specific programmes. The new approach would conduct borrowing and lending operations in an 'agile and coherent way', the Commission argued (European Commission 2022a). The Unified Funding Approach would, it also accepted, advance its 'transformation towards a sovereign-style issuer' (European Commission 2023b).

8.1.2 Post-Pandemic Borrowing

Historical institutionalism would look not only for evidence of gradual change in the EU's pandemic response, but also for the possibility that the sudden economic crisis triggered by COVID-19 privileged radical policy choices that EU member states then found difficult to unwind. Schelkle (2021) considered this scenario when she conceptualized COVID-19 as a critical juncture which could 'amount to a decisive permanent step to further fiscal integration'. Russia's invasion of Ukraine on 24 February 2022 provided the first major test of this conjecture. The war not only confronted the EU with the most serious breach of the European security order since the Second World War. It also triggered an acute energy crisis, as European gas prices more than quadrupled between January and August 2022. Despite the scale of these challenges, EU member states resisted calls to engage in a new round of borrowing, with the exception of Macro-Financial Assistance for Ukraine (see Chapter 7).

At the Versailles Summit of March 2022, EU leaders agreed to phase out their dependence on Russian oil and gas imports as soon as possible and invited the Commission to prepare a plan to achieve this ambitious goal (European Council 2022). The Commission estimated that REPowerEU would require an additional €210 billion in investment over five years and invited member states to add an additional chapter to their Recovery and Resilience Plans dedicated to energy (European Commission 2022b).

France and Italy were open to the idea of new EU borrowing to support these chapters, but the Netherlands and Germany pushed back once again (Euractiv 2022). Fortunately, member states had drawn down just over a third of the total loans available under the Recovery and Resilience Facility by this point. The remaining €225 billion, member states agreed, could be dedicated to REPowerEU. Faced with the biggest energy crisis since the 1970s, member states wasted little time in updating their Recovery and Resilience Plans and seeking additional financing. Even the Netherlands, which had delayed submitting a plan in the first place, now submitted a request for €5.4 billion in grants to advance the green transition. Nevertheless, doubts remained over whether such funding would be sufficient to break the EU's dependence on Russian energy. Spain received roughly two-thirds of all additional loans requested under the revised Recovery and Resilience Facility, but it remained heavily reliant on Russian imports of liquified natural gas as of late 2023 (Reuters 2023).

In October 2022, Commissioners Thierry Breton and Paolo Gentiloni (2022) published an op-ed in several European newspapers in which they asked how member states which lacked Germany's fiscal capacity were supposed to cope with the energy shock. The solution, they proposed, lay in 'mutualised tools at the European level' which could take inspiration from SURE to support businesses and households with higher energy prices. Had member states agreed, it would have provided a powerful example of path dependence after a period of momentous change, but there was little prospect of such support. Although French Minister Bruno Le Maire spoke in favour of European-backed borrowing, his German counterpart Christian Lindner responded that 'far-reaching proposals based on the SURE program cannot be justified at this point in time' (Tamma and von der Burchard 2022). In other words, the fact that the pandemic had enabled the Commission to raise funds on financial markets on the scale of a large state in the manner of a national treasury did not lock member states into future borrowing decisions.

8.2 Coronabonds

The speed with which the coronavirus moved between continents and countries in early 2020 embodied the idea of a negative externality which necessitated a high degree of cross-border cooperation (Lago-Peñas, Martinez-Vazquez, and Sacchi 2022). The Italian regions of Lombardy and Veneto were quarantined on 24 February 2020 after a spike in cases and within two weeks the entire country was in lockdown, leaving schools, universities, and factories closed and all non-essential production halted. One by one, most EU member states followed suit, restricting travel by members of the public to varying degrees. The EU had faced health emergencies but never one with such immediate and widespread economic consequences. In November 2019, the Commission forecast that the EU economy would grow by 1.4 per cent in 2020 (European Commission 2019a). By May 2020, EU officials were projecting 'a recession of historic proportions' with EU gross domestic product (GDP) expected to contract by 7.75 per cent (European Commission 2020b).

Under such circumstances, liberal intergovernmentalism would expect member states with higher borrowing costs to push for EU debt issuance in the face of such an externality to restore control over their national economic policies. So it proved when Italy responded to a sudden increase in bond spreads and related fears over a sovereign debt crisis to call for the creation of a new borrowing instrument. By the last quarter of 2019, the spread between ten-year Italian and ESM bonds had narrowed to 66 basis points (Figure 8.1) in what was widely seen as a vote of confidence in Prime Minister Giuseppe Conte's yellow-red government, which was seen as pro-European and more fiscally conservative than its populist predecessor. However, this trend was abruptly reversed in the first quarter of 2020, as the costs of managing the pandemic escalated. On 1 March, Conte unveiled a €3.6 billion

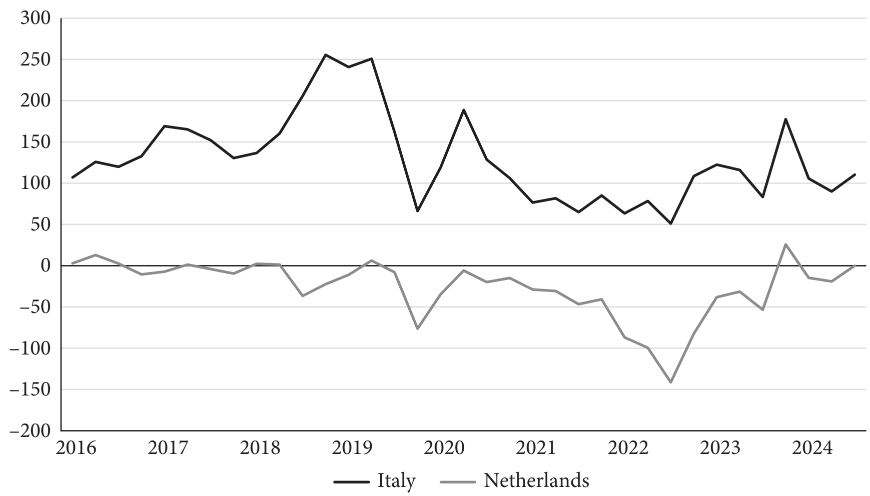

Fig. 8.1 Ten-year Italian and Dutch government-bond spread over ESM bonds (basis points; 2016–24)
Source: Bloomberg.

support package for families and businesses. Within a week the size of this package had doubled and within a month it had reached €25 billion, adding to fears that the euro area's second most indebted member state could be heading for a major fiscal crisis. As the spread between Italian and ESM bonds reached 120 basis points, a roughly 80 per cent increase in the space of three months (Figure 8.1), Italian Finance Minister Roberto Gualtieri used a Eurogroup videocall to push for the creation of a new ESM precautionary line to be immediately made available to all member states (Khan, Fleming, and Chazan 2020a).

Our application of liberal intergovernmentalism posits that member states with lower borrowing costs will choose EU debt issuance when the alternatives of bilateral aid or higher net contributions to the Union's budget are less palatable. The yield on ten-year government debt in the Netherlands was 34 basis points below comparable ESM bonds in the first quarter of 2020, meaning that this country had little to gain directly from European-level borrowing (Figure 8.1). However, Dutch Finance Minister Wopke Hoekstra accepted from the outset of the pandemic that ESM borrowing and lending should be part of the euro area's coronavirus 'arsenal', even if he raised hackles by asking whether Italy and others could have done more to reduce national debt loads before this crisis struck (Khan, Fleming, and Chazan 2020b). Hoekstra's concern was not over whether the ESM should make funds available but when, and he was more adamant still that financial assistance would not place an immediate burden on Dutch taxpayers (Brunsden, Fleming, and Khan 2020). Two years earlier, Hoekstra had joined forces with his counterparts from Austria, Denmark, and Sweden to call for a cut in the EU's multiannual budget for 2021–7 and the Frugal Four's position remained unchanged despite the pandemic. With an unused lending capacity of €410 billion, the ESM was ready and able to support the likes of Italy without asking more of other member states. When euro area finance ministers held a second video call on 24 March, Eurogroup President Mario Centeno (2020) reported broad agreement about the need to use the ESM 'in a manner consistent with the external, symmetric nature of the COVID-19 shock'.

By 2020, the ESM already had two precautionary credit lines at its disposal. With a debt-to-GDP ratio of 135 per cent at the outset of the pandemic, Italy would only have been eligible for the Enhanced Conditions Credit Line, which would have come with strict policy conditions attached and quarterly compliance reports. Fearful of the market stigma associated with using this credit line, the Italian finance minister argued from the earliest weeks of the pandemic that a bespoke borrowing instrument should be made open to all member states at the same time. Conte reiterated this point in an interview with the *Financial Times* on 19 March in which he argued that the 'ESM was crafted with a different type of crisis in mind [and] so must be adapted to the new circumstances so that we can make use of its full firepower' (Johnson, Ghiglione, and Fleming 2020).

8.2.1 From Coronabonds to SURE

Together, the ESM's Pandemic Crisis Support, SURE, and the European Guarantee Fund formed a €540 billion safety net for 'workers, sovereigns and businesses', the Eurogroup declared on 9 April 2020, while acknowledging that euro area finance ministers had agreed to start work on a recovery fund 'designed to kick-start the economy in line with European priorities and ensuring EU solidarity with the most affected member states' (Eurogroup 2020). The speed with which this safety net was sewn and the determination of member states to strengthen it showed how important borrowing had become to EU crisis management. A little over a week before the Commission was due to present its proposal on this recovery fund, the French and German governments issued a joint statement in which they called for the creation of a temporary €500 billion recovery fund to finance 'EU budgetary expenditure for the most affected sectors and regions on the basis of EU budget programmes and in line with European priorities'.[4] The Commission would be authorized to raise this funding on financial markets on behalf of EU member states in line with the EU's legal and budgetary frameworks. Published on 27 May 2020, the European Commission's recovery plan stuck to the broad contours of this Franco-German proposal by specifying that the EU should borrow an additional €560 billion to support national recovery and resilience plans (European Commission 2020c).

As with SURE and the Pandemic Crisis Support, liberal intergovernmentalism would see the Recovery and Resilience Facility as a choice by member states to borrow in the face of a significant negative externality. French and German policymakers rapidly arrived at a similar view of the COVID-19 pandemic as a symmetric economic shock with asymmetric effects which had the potential to reignite the euro area's sovereign debt difficulties.[5] They also had a shared incentive to borrow rather than increase national contributions to the EU budget at a time when national treasuries were already under strain. Germany, which would have shouldered the greater burden, had already announced a €750 billion package to support German businesses and workers during the lockdown (Nienaber 2020). While there was a broad consensus within Germany that the country would need to scale up its contributions to the EU's long-term budget, it was more attractive to do this by incurring liabilities rather than paying in more to the Union's coffers.

Bargaining asymmetries, of the kind associated with liberal intergovernmentalism, can be seen in the strong reservations expressed by the so-called Frugal Four of Austria, Finland, the Netherlands, and Sweden over the Franco-German proposal and the significant concessions this coalition extracted as a result. As net contributors to the EU budget, the Frugal Four did not object to the idea of borrowing *per se*, but they argued that such funding should go towards loans rather than grants and be subject to strict conditionality (Heikkilä and Von Der Burchard 2020; Howarth and Schild 2021; Interview 24, 2024). They did not insist on this point, however, not least as they stood to gain from this component of the pandemic funding. As member states with low sovereign borrowing costs, they had little incentive to seek loans for the EU, but few reasons to refuse grants at a time of significant pressure on national coffers. The European Commission's May 2020 plan tried to bridge these differences by proposing that the EU finance up to €310 billion in grants and €250 billion in loans (European Commission 2020c). The Dutch prime minister threatened to veto any grants before agreeing to a final package of €312.5 billion in grants and €360 billion in loans (Khan 2020).

Faced with strong opposition from Greek Prime Minister Kyriakos Mitsotakis, among other leaders, against the idea of strict conditionality on Recovery and Resilience funding, the Frugal Four accepted soft conditionality in the form of compliance with milestones and targets (Khalaf and Hall 2020). But Rutte did secure an emergency brake, allowing one or more member states to refer a member state to the European Council if the country in question seriously deviated 'from the satisfactory fulfilment of the relevant milestones and targets' (European Council 2020b). The Dutch prime minister had also sought to link funding to respect for democracy and the rule of law, but under pressure from Hungary and Poland, discussion of the issue was postponed in July 2020 (Hegedüs 2020). Although an agreement was eventually reached in December 2020, political conditionality was diluted.

By September 2024, €171 billion in grants had been disbursed under the Recovery and Resilience Facility alongside €95 billion in loans, with almost half of this going towards Italy and the lion's share spent on projects related to smart, sustainable, and inclusive growth.[6] It was too soon at the time of writing to say whether this funding was used effectively, although our interviews are consistent with reports that some member states were slow to prepare and implement Recovery and Resilience Plans (*Brussels Times* 2022; Interview 24, 2024). However, the EU's decision to borrow when it did helped to avoid a second sovereign debt crisis. Bond spreads for Italy and high borrowing cost member states fell from the moment that Macron and Merkel lent their support to the idea of a recovery fund in May 2020 (see Figure 8.1).

8.3 Pandemic Politics

New intergovernmentalism provides a number of important insights into the adoption and use of the borrowing and lending instruments created during and after the pandemic. From early 2020, it was clear that several member states were deeply reluctant to access the ESM Pandemic Crisis Support and that, for this reason, further measures would be required to prevent an economic catastrophe that could be highly destabilizing for the European project. Italy, although it had helped to drive the creation of the Pandemic Crisis Support, was especially reticent in this regard. This was because the ESM had become a lightning rod for Italian Eurosceptics in the months leading up to the pandemic in ways that chime with new intergovernmentalism. The Commission was called on to plug this gap on a short-term basis.

8.3.1 *De Novo* Bodies Under Duress

The establishment of the ESM in 2012 is seen from a new intergovernmental perspective as an attempt to work around the problems of legitimacy facing the European Commission as a borrower (Chapter 5). However, this does not mean that the ESM was immune to problems of legitimacy. In 2012, Thomas Pringle, an anti-austerity member of the Irish parliament, challenged his country's ratification of the ESM Treaty, *inter alia*, on the grounds that it encroached on the EU's exclusive competence over monetary policy and circumvented the EU treaties' provisions on economic and monetary policy. In Germany, Gregor Gysi, parliamentary leader of the left-wing populist party *Die Linke*, argued that the ESM Treaty contravened the Basic Law's provisions on democracy and parliamentary accountability in a case before the Federal Constitutional Court.[7] In Estonia, the chancellor of justice petitioned the Supreme Court over the constitutionality of ESM's emergency voting procedures. None of these cases prevented the establishment of the ESM in October 2012, but they raised questions about democracy, sovereignty, and control that continued to haunt its operation.[8]

Italy's domestic difficulties with the ESM began in July 2018 when euro area leaders established an ESM credit line for the Single Resolution Fund.

A key strand of European Banking Union, the Single Resolution Fund had been established four years earlier to help the EU deal with failed banks, but it was initially funded through a modest levy on financial institutions which left doubts over its ability to cope with the failure of a large bank (De Groen and Gros 2015). The ESM credit line went some way towards addressing those doubts, but it provided further opportunities for dissenting voices to make their influence felt. Predictably, the ESM Treaty revision—agreed in principle by Eurogroup finance ministers in December 2019 and finalized by governments in early 2021—led to heated exchanges in the German parliament and a challenge before the Bundesverfassungsgericht.[9] But it was in Italy that such contestation proved more consequential. Matteo Salvini, the Eurosceptic Northern League leader who had flirted with the idea of Italexit during his time as Italy's deputy prime minister, led the charge. 'ESM changes would mean ruin for millions of Italians and the end of our national sovereignty', warned Salvini in November 2019 (Fonte and Jones 2019b). This intervention seemed designed to shore up Salvini's position within his own party after the collapse of the populist coalition, but it soon triggered a wider debate on the ESM, with the Brothers of Italy and the Five Star Movement levelling criticisms of their own against the EU's crisis fund (Fortuna 2019). Fearing a parliamentary backlash, Italian Prime Minister Giuseppe Conte delayed ratification of the ESM Treaty revision.

In 2020, Matteo Salvini predictably criticized against the ESM Pandemic Crisis Support, denouncing the Italian Finance Minister Roberto Gualtieri as a 'traitor' and calling for a no-confidence vote in the government. Not to be outdone, the Five Star Movement's Vito Crimi dismissed the ESM as 'very dangerous' and ruled out its use 'now' and in the 'future' (Fleming and Ghiglione 2020). Writing about the euro crisis, Andrew Moravcsik (2012: 55) had urged Europeans to 'trust in the essentially democratic nature of the EU' which would distribute the costs of crisis management 'fairly within and among countries'. In Italy, however, the ESM was viewed with a profound sense of distrust by the time COVID-19 struck. The urgency shown by member states in seeking alternatives to the Pandemic Crisis Support reflected growing fears that the EU could 'lose Italy', if it failed to show solidarity during, what Conte described as, the country's 'darkest hour' (Johnson, Fleming, and Chazan 2020). Three years before the Maastricht Treaty was signed, an advisory referendum held in Italy found that 88.7 per cent favoured a European Constitution (Kreis 2020). By 2019, 62 per cent of Italians distrusted the EU (European Commission 2019b). 'I hope that everyone fully understands, before it is too late, the seriousness of the threat to Europe' warned Italian

President Sergio Mattarella in a television address in May 2020 (Johnson, Fleming, and Chazan 2020).

8.3.2 The Commission as a Pandemic Borrower

The ability of new intergovernmentalism to explain the EU's response to COVID-19 is the subject of debate. For Schramm and Krotz (2024), the importance of Franco-German diplomacy in establishing the Recovery and Resilience Facility runs contrary to new intergovernmentalism's focus on deliberation and consensus seeking among all member states. Schmidt (2020), in contrast, sees the speed with which the European Council worked through national differences over the recovery fund as a testament to precisely these post-Maastricht operating norms. The more serious challenge for new intergovernmentalism is to explain why member states agreed to empower the Commission in this sensitive domain despite their preference for creating *de novo* bodies during the euro crisis.

For Tesche (2022), the politicization of the ESM allowed the European Commission to reassert its traditional role as an engine of European integration by proposing the Recovery and Resilience Facility. This claim is at odds with new intergovernmentalism, which sees the Commission as putting bureaucratic and partisan interests above the pursuit of ever closer union, but it also rests uneasily with a close reading of how this institution actually responded to the unfolding pandemic. Ursula von der Leyen undoubtedly showed leadership during this challenging period for the Union, but she took her cue from France and Germany on the all-important question of whether to provide additional financial assistance to member states. Such caution, which stemmed from a desire to stay as close as possible to any Franco-German consensus, can be seen in the Commission president's dismissive response to calls for coronabonds and in her efforts to realize SURE and NextGenerationEU rather than set the agenda for these borrowing instruments (Herszenhorn and Von Der Burchard 2020).

With regard to the creation of the SURE mechanism, member states were reluctant to delegate authority to the Commission in this sensitive domain, as new intergovernmentalism would predict. Had the UK still been a member state, its sensitivities over the use of Article 122 may well have led a coalition of willing countries to create a special-purpose vehicle. Instead, the EU-27 turned to the Commission as a borrower, albeit on a temporary basis. That any borrowing instrument should be temporary was a red line for Dutch Prime Minister Mark Rutte (Tesche 2022), who proposed the creation of a time-limited 'solidarity fund' on the same day that the Commission presented its SURE proposal (Deutsch and Sterling 2020). Rutte's counter-proposal appears to have been a public relations exercise designed to repair the damage done by Dutch Finance Minister Wopke Hoekstra's remarks over Italian debt, but they also made clear the conditions under which the Netherlands was prepared to accept more modest borrowing instruments. The SURE Regulation respected this red line by making 31 December 2022 the cut-off point for providing financial assistance through this instrument.[10]

Also consistent with new intergovernmentalism was France's strong preference to establish the Recovery and Resilience Facility outside the EU budget. Under the Le Maire Plan, the French government had initially considered a bespoke borrowing instrument (Mallet 2020). However, France was forced to give ground on this point to Germany, which saw the embedding of this instrument in the Multiannual Financial Framework as more conducive to securing domestic approval for this proposal (Bulmer 2022). Angela Merkel's first preference, it should be recalled, was to rely on the ESM but the politicization of this institution left her with a choice between creating another *de novo* body or empowering the Commission as a borrower. Had the Multiannual Financial Framework for 2021–7 already been decided, Merkel would likely have gone with the first of these options. This is precisely what occurred during the euro crisis, when the limited headroom available under the EU budget led EU leaders to create off-budget instruments. That negotiations over the Multiannual Financial Framework were ongoing in the early months of the pandemic thus created an opportunity to increase the headroom in ways that were not as easily achievable during the euro crisis.

Germany's willingness to empower the Commission as a borrower was also buoyed by domestic factors. During the euro crisis, fears over a right-wing populist backlash had made the chancellor wary about providing financial assistance to Greece and other member states (see Chapter 7). During the first year of the pandemic, the Alternative for Germany (AfD) experienced a sharp decline in support as voters rallied around the government's handling of the coronavirus (Schütz 2020). This shift, coupled with a broad consensus among mainstream parties that Germany would need to make a bigger contribution to the EU budget, made it easier for Merkel to turn to the European Commission as a borrower. And yet, this was no Damascene conversion to integration via supranationalization. From the moment that it prepared its joint proposal with France, the German government made clear that any additional European financial support should be temporary and targeted, as otherwise there was little chance of it winning domestic approval.[11]

This proviso was vital too in securing support from the Netherlands and other members of the Frugal Four (Interviews 37 and 39, 2024).

New intergovernmentalism also offers a plausible explanation for member states' reticence about post-pandemic borrowing. Having borrowed at scale during the pandemic, historical institutionalists would have expected the Commission to acquire further borrowing powers to help manage the acute energy crisis triggered by Russia's invasion of Ukraine. Viewed from a liberal intergovernmental perspective, there were also strong rationalist reasons for borrowing in the face of a serious negative externality. However, consistent with new intergovernmentalism, member states stuck to their agreement that the role entrusted to the Commission during the pandemic was temporary. To have extended the Commission's borrowing powers at the first available opportunity would have caused this delicate intergovernmental bargain to unravel and exposed the EU to accusations of a power grab.

8.4 Conclusion

The EU's pandemic response was unquestionably significant for the Union's evolution as a sovereign-style borrower. During the euro crisis, the Commission disbursed €46.8 billion in loans to two countries. By mid-2024, the Commission had disbursed almost eight times this amount under SURE and the Recovery and Resilience Facility. NextGenerationEU added an estimated 1.5 per cent to euro area GDP as of 2026, according to the European Central Bank (Bańkowski et al. 2022). This is on par with the combined impact of national fiscal stimulus measures under the European Economic Recovery Plan, which was adopted by the European Council in November 2008 in response to the global financial crisis (European Commission 2008).

Significant though SURE and the Recovery and Resilience Facility were, they did not constitute the Hamiltonian moment that many, including then German Finance Minister Olaf Scholz, proclaimed. As Georgiou (2022) shows, when EU commentators employ the term Hamiltonian, they rely on a simplified and ahistorical understanding of how Alexander Hamilton transformed the fiscal fortunes of the United States as its first treasury secretary. Such accounts overlook the importance of sovereign debt restructuring and mutualization during Hamilton's tenure and instead focus on his efforts to engineer 'a decisive forward movement toward the centralization of political power in a federal union' (Georgiou 2022: 154). Even if this narrower definition is used, the lasting impact of pandemic borrowing instruments remains to be seen.

This chapter has challenged claims drawn from historical institutionalism that COVID-19 produced a radical shift in EU borrowing which proved difficult to dislodge. Had member states replicated these borrowing instruments when Russia invaded Ukraine in February 2022, exposing the EU to a geopolitical shock and energy crisis, this would have provided compelling evidence of a critical juncture. Instead, member states resisted calls to fund weapons supplies to Ukraine and support households and businesses through a successor to SURE. A revision to the Recovery and Resilience Facility in 2022 allowed member states to seek loans to reduce dependence on Russian fossil fuels under the REPowerEU Plan, but this involved no new borrowing by the EU.

The evidence presented in this chapter underlines the importance of member state preferences and intergovernmental bargaining on EU borrowing during and immediately after the COVID-19 pandemic. In keeping with liberal intergovernmentalism, the Pandemic Crisis Support, SURE, and the Recovery and Resilience Facility were driven by member states with high borrowing costs which looked to the EU to help restore control over national economic policies in the face of a sudden and severe negative externality. Member states with low borrowing costs saw such measures as preferable to doing nothing or increasing national contributions to the EU budget. As explained in the previous chapter, a similar logic underpinned the so-called Macro-Financial Assistance Plus Instrument, which allowed EU member states to increase support for Ukraine. Liberal intergovernmentalism is less adept at explaining the reluctance of member states to engage in new borrowing for REPowerEU given the long tradition of European bond issuance to finance investment in energy production.

New intergovernmentalism shows how the design of borrowing instruments was driven not only by political economy interests but also by concerns over the EU's legitimacy. Fearing a backlash against the EU if they failed to show solidarity during the pandemic, member states initially looked to the ESM to provide financial support, but this *de novo* body found itself the target of Italian Eurosceptics. Such controversy led member states to empower the European Commission as a borrower, but on the understanding that new borrowing instruments would be temporary. This reluctance to delegate is reflected not only in the strict time limits on SURE and the Recovery and Resilience Facility, but also in member states' refusal to extend or renew these borrowing instruments despite the externalities triggered by Russia's invasion of Ukraine. The EU's response to COVID-19 and the war in Ukraine showed how important borrowing had become to European crisis management, but also how controversial it remained.

9
The Commission's Accountability as a Borrower

In June 2024, the Egyptian Human Rights Forum signed a letter with other non-governmental organizations (NGOs) urging closer attention to the impact of Macro-Financial Assistance on human rights reforms in Egypt (Amnesty International 2024). Two months earlier, the Council of Ministers had authorized the Commission to disburse the first tranche of a €5 billion loan to the North African country on the understanding that it would 'make concrete and credible steps' towards guaranteeing respect for human rights.[1] Without measurable progress towards this objective, the NGOs warned, the EU was in danger of writing a 'blank check for further abuses and repression in Egypt' (Amnesty International 2024). This exchange illustrated the impact of Commission borrowing and lending instruments on individuals and communities, but also the problems of accountability in this domain. Lacking access to a complaints mechanism, the NGOs resorted to an open letter.

The three theoretical approaches employed in this book offer alternative explanations for the evolution of European Union (EU) borrowing. As discussed in Chapter 3, the same theories establish different expectations about the political, administrative, and social accountability of the Commission as a body authorized to raise funds on capital markets for the purpose of providing grants, loans, and guarantees. Liberal intergovernmentalism expects the Commission's authority as a borrower to be tightly circumscribed by national governments and the European Parliament (EP), thus ensuring a high degree of political accountability. An application of historical institutionalism involves examining the Commission's administrative accountability to the European Court of Auditors. New intergovernmentalism, finally, anticipates that the EP, citizens, and civil society organizations will struggle in their efforts to ensure the Commission's political and social accountability in this domain.

This chapter shows that the Commission suffers from significant accountability gaps as a borrower. The Commission's authority in this domain is

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heavily constrained by the Council of Ministers, we find, but the EP and the European Court of Auditors have been kept at arm's length from borrowing instruments, as have citizens and civil society groups. These findings challenge liberal intergovernmentalism's attempt to downplay the democratic deficit in relation to sovereign-style borrowing at the European level and expectations drawn from historical institutionalism about high standards of administrative accountability to auditors. They speak instead to new intergovernmentalism's concerns about holding the EU's experiment in 'sovereign-style' borrowing to account (European Commission 2023b).

The remainder of this chapter is divided into four sections. The first explores intergovernmental constraints on supranational borrowing, covering both the governance of Commission borrowing instruments and its approach to debt issuance and management. The second discusses the EP's involvement in this domain from the mid-1970s until the early 2020s. The third section documents the European Court of Auditors' piecemeal efforts to ensure financial accountability and the fourth looks at the Commission's limited engagement as a borrower with citizens and civil society.

9.1 Intergovernmental Control of a Supranational Borrower

The indirect control of EU institutions by the national representatives who sit in the Council of Ministers is a crucial instrument of accountability according to liberal intergovernmentalism (Moravcsik 2002: 176). From the creation of the Community Loan Mechanism in 1975 to the establishment of the Recovery and Resilience Facility in 2021, the Commission's borrowing powers have been subject to strict political accountability to national representatives, as liberal intergovernmentalism predicts. Such controls encompass both borrowing and lending decisions and funding strategies. Whereas the former covers issues such as the amount to be borrowed and the disbursement of loans, the latter concerns the modalities of bond issuance and debt repayment. In both cases, member states have shown a willingness to empower the Commission as a borrower, as well as a determination to keep such powers in check.

9.1.1 Borrowing Instruments

The European Community's first borrowing instrument afforded significant leeway to supranational authorities. In keeping with liberal intergovernmentalism, however, member states quickly rectified this situation. Under the

Treaty of Paris, the High Authority faced no explicit limit on borrowing and could disburse loans for investment programmes in the coal and steel sector without the approval of the Special Council of Ministers.[2] The European Atomic Energy Community (Euratom) Treaty, in contrast, left it to the Council of Ministers alone to decide by a qualified majority vote whether to raise loans to finance research and investment.[3]

When the Commission was finally entrusted with borrowing instruments in the mid-1970s, the Council retained control over key decisions. Under the original Community Loan Mechanism, which offered financial assistance to member states facing serious balance of payments (BoP) problems due to the first oil shock, the Council decided whether to open loan negotiations and determined the terms and principals of loans. Crucially, this borrowing instrument also came with a strict loan ceiling. Member states initially allowed the Commission to lend up to $3 billion, the bulk of which was to Ireland and Italy within two years.[4] When the Commission sought to increase the loan ceiling in 1981 and again in 1985, Council approval on a new regulation was required.[5]

Subsequent Commission borrowing instruments came with broadly similar mechanisms of intergovernmental control. Under the New Community Instrument (NCI), which was introduced in 1978 to finance investment in the field of energy, the Commission alone was responsible for disbursing Community loans, but initially each tranche required approval by the Council on the basis of a unanimous vote.[6] This piecemeal approach frustrated the Commission, which had to deny incoming loan requests while awaiting the Council's authorization (European Commission 1986: 6). The unanimity requirement for disbursing New Community loan tranches was replaced in 1983 before being dropped altogether in 1987. However, as noted in Chapter 6, the European Investment Bank (EIB) decided in practice on the financing and approval of individual projects, thus ensuring political accountability to national representatives. A similar arrangement applied to the granting of Euratom loans.[7]

The BoP Assistance Facility and the European Financial Stabilisation Mechanism (EFSM) rely on much the same modes of intergovernmental control as the Community Loan Mechanism.[8] In both cases, the Commission is authorized to raise funds on capital markets only after the Council has agreed to grant financial assistance and decided upon the policy conditions attached to loans. A key difference is that such decisions are based on a qualified majority vote rather than unanimity, as in other policy areas, however, the Council seeks consensus rather than putting such matters to a vote. Despite the Commission's efforts to establish framework legislation for Macro-Financial Assistance (see Chapter 5), the Council still considers requests from third countries on a case-by-case basis under the Ordinary Legislative Procedure. While such authorization has generally been prompt, Hungarian Prime Minister Viktor Orbán's refusal to support loans to Ukraine in December 2023 provided a powerful, if regrettable, illustration of member states' power over supranational borrowing (O'Carroll 2023).

The Recovery and Resilience Facility, although it allowed the Commission to borrow on an unprecedented scale, came with familiar intergovernmental guardrails. A Council regulation establishing the Recovery Instrument capped total financing for the facility at €672.5 billion in 2018 prices and stipulated, moreover, that all payments made under this instrument must be completed by 31 December 2026.[9] The Council also retained the final say over the assessment of Recovery and Resilience Plans and the award of grants and loans.[10] That such authorization was granted by means of a Council implementing decision rather than a Council decision—a procedure that also applied under the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)—made little difference to member states' involvement.[11] Given the scale of EU borrowing in response to the pandemic and the perceived urgency of issuing grants and loans, it wasn't practical for the Council to engage in detailed discussions of all member states' Recovery and Resilience Plans, but all plans and updates thereof required member state approval (Interview 32, 2024).[12]

Unlike the BoP Assistance Facility and the EFSM, the support provided under the Recovery and Resilience Facility was not subject to strict conditionality. Instead, it fell to the Commission to release funds once it decided that the milestones and targets set out in member states' Recovery and Resilience Plans had been met. Before taking this decision, the Commission was required to seek the opinion of the Economic and Financial Affairs Committee, a preparatory body of the Economic and Financial Affairs Council made up of senior officials from national finance ministries. Although this opinion was non-binding, member states were allowed, in exceptional circumstances, to refer concerns about serious deviations from a plan's milestones and targets to the president of the European Council for discussion by EU heads of state or government, with the Commission prohibited from disbursing funds until this discussion had taken place.[13] Although this provision was not activated, it provided an added layer of intergovernmental oversight to the Recovery and Resilience Facility.

9.1.2 Debt Issuance and Management

An early concern that European level borrowing might unduly empower supranational authorities was evident in the Treaty of Paris, which stipulated that the High Authority could not 'perform operations of a banking nature which may be required to carry out its financial missions'.[14] The Council attached a similar codicil to the Community Loan Mechanism by requiring the Commission to lend to member states on the same terms that it had borrowed.[15] This back-to-back approach prevented the Commission from engaging in maturity transformation and taking on interest-rate risk, stipulations which were made explicit in the Council regulation underpinning the BoP Assistance Facility.

Occasionally, the Commission did depart from this back-to-back funding approach, but only with the express approval of national governments. In 1977, for example, the Council modified the terms of Community loans to Ireland and Italy from a variable to a fixed interest rate.[16] Four years later, the Council also allowed for the early redemption of Community loans.[17] The NCI represented a more decisive break from this back-to-back funding approach, albeit a short-lived one. By instructing the Commission to negotiate loan terms 'in the best interests of the Community', the Council gave the Commission greater leeway over the timing of bond issuance and accepted that funds raised could be invested on a temporary basis rather than immediately on-lent to member states.[18] Any funds raised in this way would be deposited with the EIB, the Council decided, thus ensuring an added layer of control by national representatives.

Liberal intergovernmentalism expects the Council to counter attempts by the Commission to 'upgrade' supranational authority at the expense of member states (Moravcsik 1999). So it proved when the Commission issued a European Currency Unit (ECU) 500 million bond in 1988 under the so-called Jean Monnet Issue (European Commission 1989: 47). This unprecedented borrowing operation was not intended to finance new loans but to refinance existing ones and to establish the Community's 'presence' in financial markets (see Chapter 4). The Council soon reasserted control over Commission borrowing by refusing to reauthorize the refinancing NCI and Euratom loans in 1990, bringing borrowing via these instruments to a 'virtual standstill'(European Commission 1991: 2). The Commission also failed in its attempt to turn the NCI into a revolving fund, which would have permitted borrowing and lending up to maximum agreed amount.[19]

The euro crisis marked another turning point in the Commission's approach to borrowing and lending operations, with the approval once more of the Council. Mindful of the scale of borrowing that might be required to address member states' sovereign debt difficulties, the Council instructed the Commission to time bond issuance under the European Financial Stability Mechanism 'to optimise the cost of funding and preserve its reputation as the Union's issuer in the markets'.[20] The Council also showed some flexibility when it came to borrowing terms, *inter alia*, by extending the maturity on loans to Ireland and Portugal in 2011 and again in 2013. Despite this leeway, the Council and EP reaffirmed in 2018 that the Commission must not involve 'the Union in any transformation of maturities that would expose it to an interest risk or to any other commercial risk'.[21]

With the launch of the Diversified Funding Strategy and Unified Funding Approach, the Commission gained discretion over borrowing operations which would have been difficult to imagine at the time of the Community Loan Mechanism's creation five decades earlier (see Chapter 8). And yet, the modalities of EU borrowing remain subject to intergovernmental oversight. Since 2020, the Commission has been required to 'regularly and comprehensively inform' the Council and EP 'about all aspects of its debt management'.[22] A structured dialogue between the Commission and national debt management offices over issuance and repayment schedules was also mandated under the Own Resources Decision.[23] Crucially, the Commission's annual borrowing decision remains largely determined by the disbursement schedule under existing borrowing instruments, which in turn rests on decisions by the Council about whether and how much to borrow. Investors have become accustomed to the EU as a sovereign-style borrower, and they may wish to see further borrowing (Interview 15, 2023). However, market expectations alone will not drive developments in this domain. Macro-Financial Assistance for Ukraine notwithstanding, the issuance of EU bonds and bills will decline dramatically once the Recovery and Resilience Facility stops disbursing grants and loans until such time as member states agree to activate dormant borrowing instruments, such as the BoP Assistance or establish new ones.

9.2 Keeping the EP at Arm's Length

A common criticism of liberal intergovernmentalism is that it overlooks the growing powers of the EP (Schmidt 2018: 1552). In fact, this theoretical approach sees the direct accountability of EU decision making to the EP as one of two 'robust mechanisms of democratic oversight' in the EU alongside indirect control by national representatives in the Council (Moravcsik 2002).

As discussed in Chapter 2, liberal intergovernmentalism expects rigorous EP control of Commission borrowing because of member states' tendency to empower the EU legislature at the expense of supranational institutions rather than national governments. New intergovernmentalism is less convinced about the Commission's political accountability as a borrower. The EU's system of executive federalism, it argues, will work to keep the EP's involvement in this domain on an informal footing. Accountability practices chime with the second of these perspectives, our findings suggest. The EP has been kept at arm's length from Commission borrowing instruments until relatively recently and since then largely confined to informal dialogues.

9.2.1 Budgetization

The High Authority of the European Coal and Steel Community covered borrowing and lending operations in its annual report to the Common Assembly, but the EP's antecedent was given no say over the approval or disbursement of funding (High Authority 1955: 1). This arrangement set the tone for subsequent supranational borrowing instruments. Although the EP was consulted on the establishment of the Community Loan Mechanism, and later revisions to this instrument, the Council alone decided on the disbursement of Community loans and the attachment of loan conditions. Under the NCI, the Commission was required to inform the EP about the authorization and utilization of loan tranches and the functioning of this borrowing instrument more generally, but the Council of Ministers retained control of key decisions once again. Contrary to liberal intergovernmentalism, the Commission's growing reach as a borrower did not come with greater political accountability to the EP.

Under strong pressure from members of the EP (MEPs), the Commission sought to address this accountability gap by including a new part in the draft Community budget for 1979 which would have required EP authorization for borrowing amounts and decisions regarding payment and repayment (European Commission 1978). MEPs had a strong claim to assume this role. The Treaty of Rome clearly stated that details of all items of revenue and expenditure must be shown in the Community budget, which the EP was empowered to reject in its entirety under the 1975 Budget Treaty.[24] Determined to maintain its grip on borrowing, however, the Council blocked this proposal twice for the 1979 budget, starting a fierce 'struggle for budgetary power' (Strasser 1992: 320).[25]

The EP's continued advocacy for 'total budgetization', as Strasser (1992: 317) recalls, was in vain. The first intake of directly elected MEPs rejected the Community budget for 1980, in part because their demand for a say over borrowing was ignored. The Council was unwilling to budge on this point or in response to the Commission's repeated attempts to include a part on borrowing in the draft Community budget. In its 1996 submission to the Intergovernmental Conference on the Amsterdam Treaty, the EP reiterated its demands for an equal say over the Commission's borrowing and lending operations but to no avail.[26] The Council also challenged the EP's attempts to scrutinize borrowing through the discharge procedure for the Community budget, which in 1977 became the sole responsibility of MEPs. To this day, borrowing and lending operations remain recorded in the budget by a symbolic 'pro memoria' entry, which recognizes that the EU is liable in the event of a default while keeping the EP at arm's length from decisions over borrowing (Begg et al. 2019: 23).

In line with this trend, the EP was, at most, consulted over Commission borrowing under the BoP Assistance Facility, the EFSM, and SURE. An outlier in this respect is Macro-Financial Assistance, which has been decided by the Council and EP under the Ordinary Legislative Procedure since the Lisbon Treaty entered into force in 2009. Even here, member states retained the right to provide urgent financial assistance to third countries by means of a Council decision.[27]

9.2.2 Informal Accountability

One consequence of the EP's role in co-deciding Macro-Financial Assistance is that the Commission is now routinely required to submit *ex-post* evaluations to the EP regarding the results and efficiency and Macro-Financial Assistance.[28] Such evaluations are conspicuous by their absence when the BoP Assistance Facility and Financial Stabilisation Mechanism are deployed, underlining the significance of giving the EP a greater say over the approval of Commission borrowing and the disbursement of borrowed funds.[29] Welcome though *ex-post* evaluations of Macro-Financial Assistance are, they lack independence and place no formal obligations on the Commission to explain its policy choices or make amends for its shortcomings. In consequence, longstanding concerns about the 'marginal economic and political impact' of Macro-Financial Assistance remain unanswered (Emerson 2012: 1).

The EP's willingness to trade off access for formal accountability mechanisms can also be seen in relation to the Recovery and Resilience Facility.

Although the EP used its seat at the table to shape the priorities of the Recovery and Resilience Facility, it failed to secure a significant role in the implementation of the facility despite strong normative claims to budgetary power (Gianna 2023: 2). The Council, as noted above, retained the final say over the assessment of Recovery and Resilience Plans and member states alone could refer concerns over missed milestones and targets to the European Council, even if the EP might have been better placed to undertake such scrutiny (Interview 43, 2024). Crucially, the pandemic fund's €672.5 loan ceiling was enshrined in a separate Council decision established under Article 122, the same treaty provision which had been used to establish the EFSM and SURE.

As per new intergovernmentalism, the EP's seat at the table in negotiations over the establishment of the Recovery and Resilience Facility resulted in the establishment of an informal dialogue which imposed no binding obligations on the Commission as a borrower. Beginning in May 2021, MEP's Committees on Budgets and Economic and Monetary Affairs held bi-monthly with two senior members of the European Commission on topics ranging from access to information about the assessment of Recovery and Resilience Plans to payment requests and suspensions. Although it generally responded in a timely manner to EP resolutions adopted in the light of these dialogues, the Commission was under no obligation to do so. This can be seen, for example, in the Commission's decision to endorse Hungary's Recovery and Resilience Plan despite earlier pleas from the EP to refrain from doing so until this member state addressed concerns over the rule of law, judicial independence, and the fight against corruption and fraud.[30] A systematic review of ten Recovery and Resilience dialogues held between 2021 and 2023 posits that they facilitated information exchange and debate but resulted in weak political accountability (Bressanelli, Chelotti, and Nebbiai 2023).

The EP enjoys similar information rights as the Council when it comes to the Commission's Diversified Funding Strategy and unified funding approach. While member states appear to have been broadly satisfied with this arrangement, some MEPs have called for more robust mechanisms to ensure the accountability of the Commission's borrowing and lending operations (Committee on Budgets and Committee on Budgetary Control 2021). The Commission's decision to forward annual borrowing decisions and semi-annual funding plans to the EP sought to counter such criticism, although these reporting exercises merely underline how weak the EU legislature's legal authority over EU borrowing is compared to national parliamentary control over sovereign debt management in many EU member states. As Trampusch and Gros (2021) show, national parliaments in Belgium, Finland, France, Germany, Italy, the Netherlands, Portugal, and

Spain set limits on overall debt and annual borrowing. The EP has taken steps to increase its in-house expertise over Commission borrowing and lending operations, but the legislature still lacks the resources to undertake detailed technical analysis of debt management (Interview 35, 2024), leaving it reliant on outside experts (Interview 44, 2024).

9.3 Auditing a 'Patchwork Construction'

Laffan (1999: 252) memorably described the European Court of Auditors as a 'living institution' which had to forge a role for itself in the EU's 'institutional landscape'. Viewed from this historical institutionalist vantage point, we would expect the Court to establish robust mechanisms to ensure the administrative accountability of the Commission's borrowing activities either to defend professional norms or to satisfy the EP's demand for information on borrowing and lending activities. Despite the Court's best efforts, and occasional prompting by MEPs, our analysis finds that the Commission's administrative accountability as a borrower is constrained by the 'off-budget' character of borrowing instruments.

The Treaty of Paris required the Special Council of Ministers to appoint an independent auditor to report annually on the financial management of the European Coal and Steel Community.[31] Consistent with historical institutionalism, the auditor wasted no time in tracking the Community's borrowing and lending activities (Vaes 1956). The High Authority's fledgling Finance Division willingly cooperated with requests for information, helping to ensure high standards of financial control (Vaes 1956: 97). Despite this close working relationship, the auditor did not shy away from criticism, as when he complained in 1972 of inconsistencies in how the European Commission, which was by now in charge of the European Coal and Steel Community loans, accounted for loan-issuance costs (Gaudy 1973: 88).

The European Court of Auditors, which was founded in 1977, was cautious at first in its approach to Commission borrowing. Although it paid close attention to the EIB's loan policy in its early annual reports, the Court made no reference to the Community Loan Mechanism, Euratom loans, or the NCI (European Court of Auditors 1977). It was only after a request from the EP in 1980 that the European Court of Auditors dedicated an entire chapter of these reports to borrowing and lending activities, a practice which continued until 1997.[32] Coming at a time when the EP was battling for the 'budgetization' of borrowing, this request spoke to Laffan's (1999) thesis that political accountability drives administrative accountability.

In 1982, the Court of Auditors published its first special report on Community borrowing and lending operations (European Court of Auditors 1982). Examining the Community Loan Mechanism, the NCI, and Euratom loans, the Court raised concerns over a range of issues, including the Commission's lack of explicit attention to the Council's policy guidelines. Although the Commission engaged constructively with the points raised and agreed to introduce internal procedures for borrowing and lending operations analogous to those set out in the Financial Protocol, the Court made clear its wish to see borrowing incorporated into a dedicated part of the Community budget (European Court of Auditors 1982: 31).

To date, the European Court of Auditors has published eleven special reports on various aspects of EU borrowing and lending. These reports have raised concerns over issues ranging from outright accounting errors to the lack of a single risk policy for Commission borrowing operations (see Table 9.1). The Court was also highly critical of the Jean Monnet Issue, accusing the Commission of violating the 'basic principle' that 'borrowings cannot be made without a demand for loans' (European Court of Auditors 1990: 3.1). Beginning with the Commission's 1990 loan to Hungary, the European Court of Auditors also paid close attention to Macro-Financial Assistance. In 1991, it even conducted on the spot audits in recipient third countries, warning of the credit risk implied by the loans and proposing separate budgetary guarantees for loans to third countries (European Court of Auditors 1992: 225).

Welcome though such special reports are, they do not entirely substitute for routine auditing of the kind that applies to EU expenditure and lending. The Court's report on the Commission's management of economic programmes for Greece during the euro crisis was published seven years after the crisis began (European Court of Auditors 2017). Two years before this report was published, the Commission had responded testily to a special report on financial assistance for 'countries in difficulties' (European Court of Auditors 2015). Although the Commission accepted most of the report's recommendations, it openly disagreed with the Court on several points, including the sufficiency of information provided in financial assistance programmes (European Court of Auditors 2015: 88).

The EP has called on the European Court of Auditors to make full use of its powers in relation to the Recovery and Resilience Facility, but the main impetus for these reports has come from the Court itself, which has been vocal in its warnings about the 'EU-level accountability gap' in the European Commission's pandemic response (European Court of Auditors

Table 9.1 European Court of Auditors Special Reports on Commission borrowing and lending Operations

Year	Title	Includes discussion of borrowing operations
1982	Special Report of the Court of Auditors on loans and borrowings	Yes
1990	Special Report 3/90 on ECSC, Euratom, and NCI loans and borrowings of the Communities together with the replies of the Commission	Yes
1994	Special Report in support of the Statement of Assurance concerning activities financed from the general budget for the financial year 1994	Yes
2002	Special Report 1/2002 concerning macro-financial assistance (MFA) to third countries and structural adjustment facilities (SAF) in the Mediterranean countries	No
2009	Special Report 5/2009 on the Commission's Treasury Management	No
2015	Special Report 18/2015 on financial assistance provided to countries in difficulties	Yes
2016	Special Report 32/2016 on EU assistance to Ukraine	No
2017	Special Report 17/2017 on the Commission's intervention in the Greek financial crisis	No
2022	Special Report 28/2022 on SURE	No
2023	Special Report 02/2023 on adapting cohesion policy rules to respond to COVID-19 Funds	No
2023	Special Report 07/2023 on the design of the Commission's control system for the RRF Assurance	No
2023	Special Report 16/2023 on NextGenerationEU debt management at the Commission	Yes

2023c: 4).[33] To date, it has published four special reports on the EU's pandemic response, including one calling for clearer reporting requirements in relation to the Commission's Diversified Funding Strategy (European Court of Auditors 2023b).

In 2021, the European Court of Auditors also introduced a chapter on the Recovery and Resilience Facility into its annual report—the first dedicated chapter on EU borrowing since 1997 (European Court of Auditors 2021). After a positive assessment in 2021, the European Court of Auditors issued a qualified opinion in 2022, citing weaknesses in the monitoring of milestone targets and shortcomings in member state reporting and control systems (European Court of Auditors 2022: 4, 2023a: 15). At the time of writing, the

Court had produced four special reports on various aspects of NextGenerationEU (NGEU), including a study of the Recovery and Resilience Facility's performance monitoring framework (European Court of Auditors 2023b). Such efforts have increased oversight of Commission borrowing, and added to its administrative burden (Interviews 9 and 10, 2023), although it remains to be seen whether they will survive when the EU's pandemic response is wound down.[34]

Administrative accountability has not been as straightforward to achieve as historical institutionalists expect. The European Court of Auditors has been generally assiduous about defending its professional norms in relation to Commission borrowing. Despite such efforts, however, the Court continues to describe the EU's 'financial landscape' as a 'patchwork construction that is overly complex and not fully publicly accountable' (European Court of Auditors 2023a). Criticizing EU policymakers for creating borrowing instruments with common objectives but different governance structures, it called on the Commission to present new legislative proposals for 'consolidating existing financial assistance instruments' as a matter of urgency (European Court of Auditors 2023a: 44).

In April 2024, the European Public Prosecutor's Office (EPPO) announced that twenty-two people had been arrested as part of Resilient Crime, a cross-border investigation spanning Austria, Italy, Romania, and Slovakia. The suspects, it was alleged, had conspired to create fictitious businesses which defrauded €600 million in grants from the Recovery and Resilience Facility (EPPO 2024a). Although the EPPO later clarified that the suspects had only targeted EU funds as part of a 'highly complex fraudulent scheme', the incident crystallized concerns over the administrative accountability of European-level borrowing instruments (EPPO 2024b). '[T]he risk of such incidents occurring is high' because control over the Recovery and Resilience Facility is 'limited', warned the president of the European Court of Auditors, Tony Murphy (Moller-Nielsen 2024a).

9.4 Citizens and Civil Society

EU policymakers are acutely aware of the Union's contested legitimacy in the post-Maastricht period. Embracing participatory modes of policymaking is a familiar response to this challenge, new intergovernmentalism argues, but also one that is unlikely to give citizens and society a prominent role in social accountability. The Commission has encouraged stakeholder involvement over its most recent borrowing activities, while affording NGOs and members of the public limited opportunities to challenge funding for projects that they might be negatively affected by.

9.4.1 Stakeholders Engagement and the Recovery and Resilience Facility

In preparing Recovery and Resilience Plans, member states were obliged to engage with 'local and regional authorities, social partners, civil society organizations, youth organizations and other relevant stakeholders'.[35] In Belgium, for example, the federal government established an advisory committee which included representatives of consumer, environmental, and youth organizations, and sought additional advice from the Institute for the Equality of Women and Men. The Flemish, Walloon, and Brussels-Capital Region held consultations of their own on the Recovery and Resilience Plan, as did the Flemish-, French-, and German-speaking communities (European Commission 2021c). Consultation on this scale broke new ground for EU economic governance even if the 'quality and intensity' of such engagement was undermined by tight time frames and a lack of follow-up, according to one study (Eurofound 2022).

In line with new intergovernmentalism, the Commission took a positive view of such consultations, praising Belgium (European Commission 2021c: 27), for instance, for engaging with 'a wide range of stakeholders', while urging Hungary to involve social partners in the design and implementation of envisaged reforms (European Commission 2021d: 29). Valid though such criticisms were, they were not without a hint of irony given the Commission's own lack of explicit engagement with citizens and civil society groups when it came to borrowing and lending operations. From the Community Loan Mechanism to the Recovery and Resilience Facility, no Commission borrowing instrument has provided individuals and communities with a dedicated channel to make their views heard. Such inconsistencies speak to new intergovernmentalism, which sees a tension between participatory policymaking as a response to the EU's legitimacy challenges in the post-Maastricht period and executives' desire to keep a tight grip on policymaking.

The Commission's mid-term review of the Recovery and Resilience Facility shows what a more proactive approach to civil society engagement might look like in this domain. In preparation for this review, the Commission worked with member states to hold twenty-five annual events in twenty-two member states to which stakeholders, civil society groups, and members of both the European Economic and Social Committee and the Committee of

Regions were invited. The message from these stakeholders was clear, as the European Commission (2024d: 56) acknowledged in its mid-term review: opportunities for involvement in the preparation and implementation of the Recovery and Resilience Facility had been 'insufficient'.

9.4.2 The European Ombudsman

Established by the Maastricht Treaty, the European Ombudsman is authorized to receive complaints from EU citizens and or natural or legal persons registered in the EU about maladministration by EU institutions, bodies, offices, or agencies. While this means that actors such as the Egyptian Human Rights Forum cannot petition the European Ombudsman over Macro-Financial Assistance, citizens and civil society groups based in the EU can lodge complaints over the Commission's borrowing instruments. No such petitions were lodged against the Commission over its handling of the euro crisis, but several citizens considered doing so, European Ombudsman Emily O'Reilly noted in a public lecture in February 2021 (O'Reilly 2021). Petitions were lodged over the Commission's refusal to give public access to documents concerning Recovery and Resilience Plans. The Commission's willingness to grant such access confirms the European Ombudsman's powers of persuasion in such cases, as well as the narrowness of its remit.[36] The issue at stake here was not the economic, societal, or environmental consequences of EU pandemic funding but the disclosure of information.

The European Ombudsman can also conduct its own-initiative inquiries, as in its highly critical report in February 2024 on the respect for EU fundamental values in search and rescue operations by the European Border and Coast Guard Agency (Frontex).[37] No such inquiry has been conducted on Commission borrowing and lending operations despite calls by the EP's Committee on Petitions for an investigation into whether EU- International Monetary Fund (IMF) financial assistance programmes during the euro crisis violated the Commission's role as guardian of the treaties (Committee on Petitions 2018).

9.5 Conclusion

Majone's (2014) argument during the euro crisis that the EU was in danger of 'democratic default' should not be taken lightly. Coming from a scholar who had tried to justify the EU's 'democratic deficit' two decades earlier, this intervention sounded a powerful alarm over how far the European Commission had strayed from its traditional role as a supranational regulator into the realms of distribution, allocation, and stabilization. Majone's warning was understandable but also overstated in our view. The Commission's reach as a borrower may have grown dramatically since the mid-1970s but it remains subject to strict intergovernmental controls, as this chapter has shown. And yet, as we have seen, Commission borrowing still suffers from significant accountability gaps.

From the first oil shock to the war in Ukraine, member states have empowered the Commission to raise funds on capital markets to help manage crises and cross-border externalities. In so doing, the Council of Ministers has retained control over the establishment and renewal of borrowing instruments and key operational decisions such as the disbursement of funding. The Commission's approach to borrowing and lending operations has also evolved in this period from back-to-back lending to the Diversified Funding Strategy, but these changes have also been expressly approved by member states and closely monitored.

The EP, the European Court of Auditors, citizens, and civil society groups have, by contrast, found it difficult to hold the Commission to account as a borrower. The fact that borrowing is not fully accounted for in the EU budget has been a major obstacle in this regard. Although it has acquired a say over some borrowing instruments, the EP has struggled to establish formal mechanisms of accountability with regard to Commission borrowing. The European Court of Auditors has found it difficult to audit borrowing in the same way that it does EU expenditure and spending, to the Court's evident frustration. Citizens and civil society groups, finally, have been given limited opportunity to make their voices heard despite the effects of Commission borrowing on individuals and communities.

While the Commission's political accountability to member states chimes with liberal intergovernmentalism, member states' reluctance to empower the EP in this domain is more difficult to reconcile with this theoretical approach. The European Court of Auditors' struggle to establish administrative accountability through auditing rights is equally difficult to square with historical institutionalism. Accountability practices are broadly in line with new intergovernmentalism, which expects the EP's involvement in political accountability to be limited and emphasizes EU policymakers' ambivalence about seeking social accountability through participatory forms of policymaking.

10
The Accountability of the EIB, EBRD, and ESM

In 2023, the European Ombudsman concluded three investigations into the European Investment Bank (EIB). The first arose after a former EIB vice-p European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) joined an Italian promotional bank which he dealt with during his time in Luxembourg.[1] The second case examined the EIB's initial failure to publish a summary of an investment project to modernize a Polish electricity distribution network.[2] The third concerned the Bank's refusal to disclose information on the economic and social impact of a transport project in Kenya.[3] That the European Ombudsman discovered maladministration in two of these cases serves as a reminder that intergovernmental European-level borrowers, although they operate in the shadow of member states, require a high degree of public accountability.

As outlined in Chapter 2, the three theoretical approaches employed in this book give rise to different expectations about the political, administrative, and social accountability of intergovernmental borrowers. Liberal intergovernmentalism expects national governments and national parliaments to exercise robust political control over the EIB, European Bank for Reconstruction and Development (EBRD), and European Stability Mechanism (ESM). Historical institutionalism assumes that national auditors and the European Court of Auditors will ensure a comparable degree of administrative accountability to protect auditing norms and at the request of parliamentarians. New intergovernmentalism, in contrast, expects executives to dilute both the European Parliament (EP)'s ability to impose parliamentary accountability on intergovernmental borrowers and citizens and civil society efforts to establish social accountability.

National parliaments have shown patchy interest in intergovernmental borrowers, which also differ in their day-to-day political accountability to governments, we find, contrary to liberal intergovernmentalism's expectations. The European Court of Auditors has actively sought 'audit rights' over the EIB and ESM, albeit with mixed results, but national auditors' limited

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interest in intergovernmental borrowers is at odds with what historical expects about administrative accountability. That the EP has been kept at arm's length from the EIB, EBRD, and ESM chimes with new intergovernmentalism's views on political accountability. The EIB's and ESM's patchy engagement with citizens and civil society speaks to new intergovernmentalism's expectations on social accountability. Taken together, these findings point towards significant accountability gaps in relation to European-level borrowers.

The remainder of the chapter is organized as follows. The first section examines the role of national representatives in the internal governance of the EIB, EBRD, and ESM. The second explores how national parliaments and the EP interact with these borrowers. The third presents evidence on the administrative accountability of the EIB, EBRD, and ESM to the European Court of Auditors, and the final section considers how these bodies engage with citizens and civil society groups.

10.1 Day-to-Day Control of Intergovernmental Borrowers

One reason for liberal intergovernmentalism's essential optimism about the accountability of intergovernmental borrowers is that the EIB, EBRD, and ESM, unlike the European Commission and the High Authority before it, report to ministers and national officials. While all three intergovernmental borrowers answer to national governments, as a matter of definition, they do so in different ways. Such differences, we argue, matter for the day-to-day governance of these institutions and hence for their political accountability.

10.1.1 Governing Structures

The EIB, EBRD, and ESM all have governing boards composed of one minister per shareholder—plus a representative of the EIB and European Union (EU) in the case of the EBRD—which meet annually to set the overall direction for these borrowing institutions. EU member states are represented on all three bodies by their finance ministers, who command authority given their senior positions in national administrations and membership of the Economic and Financial Affairs Council (ECOFIN).[4] These meetings often rubberstamp decisions taken elsewhere, as at the EIB's annual Board of Governors in June 2023, which announced 'record funding for Europe's security infrastructure' when this funding decision had actually been taken by EIB directors the day before (EIB 2023a). Ministers nevertheless take substantive decisions on issues of major importance, as in the EBRD Governing Board's decision in May 2023 to increase the Bank's paid-in capital by €3.5 billion to finance ongoing support for Ukraine (Bennett 2023). Consensus is more difficult to reach in the EBRD's top body—which has nearly three times as many governors—but this makes the involvement of high-level national representatives all the more important for the London-based bank.

A key difference between the EIB, EBRD, and ESM concerns the composition of their Board of Directors. The EIB Board of Directors, which comprises a senior official from each member state finance ministry plus a representative of the European Commission, meets at least six times per year to approve loan decisions.[5] The ESM Board of Directors includes one senior finance ministry official from each euro area member; the Commission and ECB are entitled to send observers to these meetings, which take place 'whenever the affairs of the ESM so require'.[6] The EBRD Board of Directors has twenty-three members, some of whom represent a single shareholder, as in France's director, while others represent a constituency of countries, as in Spain's director, who speaks for her own country, Mexico, the United Arab Emirates, and Iraq in Board meetings.[7] At the insistence of the United States, which argued in 1990 for governance structures modelled on the World Bank, EBRD directors are full time and based in London (Kilpatrick 2020: 36).

The ESM is not active enough as a lender to warrant full-time, resident directors, but it is difficult to reach the same conclusion for the EIB. Although the EIB disburses five times more loans than the EBRD most years, EBRD directors meet twice as often as their EIB counterparts. While some national officials we spoke to warned that replicating this approach for the EIB would come with a heavy administrative burden (Interview 33, 2024), such demands are preferable to deficiencies in intergovernmental oversight. One former EIB director who spoke anonymously to the *Financial Times* described their experience as akin to 'mushrooms' who 'are kept in the dark and fed with manure' (Toplensky and Barker 2019). The current and former EIB officials we interviewed were more positive about directors' involvement in key decisions (Interview 29, 2024) but some found the practice of having non-resident directors outdated (Interview 28, 2024).[8]

10.1.2 Internal Evaluation

The intergovernmental control of European-level borrowers requires robust systems of internal evaluation so that governors and directors have a clear understanding of what these bodies do and how they can do it better.

All other things being equal, a situation in which internal evaluators report directly to governors and directors rather than management committees strengthen the political accountability of such bodies to their shareholders (Korfker 2012: 86–7).[9] The EBRD's Evaluation Department performs strongest in this regard in as much as it operates independently from the Bank's Executive Committee and reports directly to the Board of Directors. In 2023, for example, the department conducted nine evaluation reports on topics ranging from EBRD operations in Uzbekistan to the Bank's approach to agribusiness and issued eighteen new recommendations on a variety of operational issues. Although an independent study conducted in 2019 criticized the EBRD's management for failing to 'own' the evaluation process, it described directors placing 'high value' on the Evaluation Department and feeding its work into the Bank's strategic decisions (Kirk 2019).

The Evaluation Division of the EIB's Inspectorate General is responsible for conducting 'independent, accurate, transparent, and credible evidence-based assessments' of the Bank's 'performance and results'.[10] In 2023, it conducted evaluations on the EIB's advisory activities, the FEMIP (Facility for Euro-Mediterranean Investment and Partnership) Trust Fund, water sector investment in third countries, advisory support projects in Bulgaria and Romania, and equity and quasi-equity support for small and medium-sized enterprises and mid-caps (EIB Evaluation Division 2023a, 2023b, 2023c, 2023d, 2023e). The Evaluation Division first submits its reports to the Bank's Management Committee which is allowed to add a response before the unchanged report goes to EIB directors. The Bank presents its 'evaluation function' as independent and the Inspectorate General and Audit Committee have a reputation for 'frank, sometimes challenging, discussions' (EIB 2021: 7). At the same time, the Inspectorate General lacks full institutional autonomy—notably, it reports directly to the president (EIB Evaluation Division 2023a; Interview 25, 2024)—which, we argue, would help to strengthen the EIB's accountability to member state shareholders.

The ESM has no permanent internal evaluation function, weakening the chain of political accountability between the Executive Committee, directors, and governors. To date, the ESM has commissioned two external evaluations, the first overseen by former ECB Executive Board member Gertrude Tumpel-Gugerell in 2016 and the second by former European Commission Vice-President Joaquín Almunia two years later.[11] The purpose of both evaluations was to 'enhance the relevance and effectiveness of the ESM's programme-related activities' (ESM 2018a: 57), to 'draw lessons for the ESM's future work' (ESM 2017a: 53), and to 'further increase the transparency and accountability of the ESM's programme activities' (ESM 2020: 3). Neither evaluation was entirely independent, however, Although

Trumpel-Gugerell and Almunia did not answer to the ESM, the ad hoc evaluation teams were led by a senior ESM staff member and sponsored by the ESM chief economist. The ESM Board of Directors was also consulted on a draft of each evaluation report before the final versions were presented to the ESM Board of Governors. Hinting at concerns over this process, the first report recommended the ESM to ‘enhance programme transparency’ and ‘ensure the evaluability of EFSF/ESM activities’ (ESM 2017b: 81).

10.2 Parliamentary Accountability

10.2.1 National Parliaments

Liberal intergovernmentalism, as already noted, expects national parliaments to keep a watchful eye on intergovernmental bodies (Moravcsik 2002: 612). This can be done in one of two ways. The first is by exerting parliamentary control over lending decisions. The second is through parliamentary oversight. In this section, we compare national parliaments’ engagement with the EIB, EBRD, and ESM, focusing in particular on accountability practices in Belgium, France, Germany, Italy, Luxembourg, and the Netherlands, the six countries with the longest experience of EU borrowing. Overall, political accountability practices fall short of what liberal intergovernmentalism would expect.

The Treaty of Rome, which found the EIB, the Agreement Establishing the EBRD, and the ESM Treaty required the approval of member state parliaments before they could enter into force. Thereafter, national parliaments’ engagement with these bodies varied. The ESM is the only intergovernmental borrower over which national parliaments can veto individual lending decisions. Four of the five member states which employ this stringent accountability mechanism, Austria, Estonia, Finland, and the Netherlands, are members of the Hanseatic League 2.0, a caucus of member states which opposed new forms of fiscal solidarity after the euro crisis. Although it was open to the possibility that the ESM might be transformed into a European Monetary Fund, the Hanseatic League 2.0 was adamant that control of this intergovernmental borrower should ‘remain firmly in the hands of Member States’ (Verdun 2022: 311). In keeping with this vision, parliamentarians in Austria, Estonia, Finland, and the Netherlands—alongside their German counterparts—hold formal votes on each ESM financial assistance package (Höing 2015: 50–8).[12] Other national parliaments are merely informed about the ESM's activities. In France, for example, the Assemblée Nationale, receives three reports per year of the financial situation of the ESM and whenever the ESM Governing Council takes far-reaching decisions (Höing 2015: 255).

Although they are far more active than the ESM, which has not granted financial assistance since 2018, the EIB and EBRD have attracted much less attention from national parliaments. A striking example of this inconsistency occurs in the Netherlands, where the Tweede Kamer (the House of Representatives) has the right to discuss ESM actions with the Dutch finance minister before the ESM Board of Directors has approved such actions (Interview 13, 2023). In contrast, the Tweede Kamer only receives a written update from the Ministry of Finance after key meetings of the EBRD and EIB (Tweede Kamer 2022a, 2022b).

Although it acknowledges that the powers of national parliaments to shape policy will vary from one member state to another, liberal intergovernmentalism expects all legislatures to keep a close eye on EU policies (Moravcsik 2002: 612). A review of parliamentary questions about the EIB, EBRD, or ESM in the European Community's six founding member states between 1990 and 2022 demonstrates that some parliaments are more watchful than others, adding to concerns about the accountability of intergovernmental borrowers (Table 10.1). The EIB attracted the most interest, although the Assemblée Nationale, German Bundestag, and Belgian De Kamer accounted for the bulk of the questions on these intergovernmental borrowers. In the Netherlands, the fact that parliamentarians can ask questions of the EIB is viewed as a form of parliamentary oversight (Interview 4, 2022). In practice, the Bank has rarely attracted parliamentary interest, perhaps because it is seen as a settled institution (Interview 1, 2022).

Members of the Italian Camera dei Deputati posed no questions about the ESM, even though Italy accounts for almost 17 per cent of this borrower's subscribed capital. A closer look at the questions asked by national parliamentarians reveals particular concern for governments' voting intentions on nuclear energy, agricultural, and environmental projects. Media coverage of these contentious policy areas appears to be a motivating factor (Interview 11, 2023), rather than general interest in the government's actions and responsibilities as a shareholder (Interviews 1 and 2, 2022). In Luxembourg, ESM treaty revisions tend to attract most interest from parliamentarians, who otherwise take only occasional interest in European-level borrowers (Interview 26, 2024).

Table 10.1 Parliamentary questions by chamber/parliament and borrower (1990–2022)

	EBRD	EIB	ESM	Several	Total
Assemblée Nationale (FR)		28	7	12	47
Bundestag (DE)	9	20	18	6	54
Camera dei Deputati (IT)	6	8			21
Chambre des Députés (LU)		11			14
De Kamer (BE)	13	18	2	7	42
Tweede Kamer (NL)	9	9	3	6	39
Total	37	94	30	31	217

Source: Authors' own calculations based on data gathered from national parliaments' websites.

Table 10.2 Parliamentary hearings by chamber/parliament and borrower (2006–22)

	EBRD	ESM	EIB	Total
Assemblée Nationale (FR)			2	2
Bundestag (DE)	1	5	5	11
Camera dei Deputati (IT)			2	2
Chambre des Députés (LU)		1	1	2
De Kamer (BE)				0
Tweede Kamer (NL)			1	1
Total	1	6	11	18

Source: Authors' own calculations based on data gathered from national parliaments' websites.

Parliamentary committees are arguably best placed to scrutinize the technical aspects of borrowing, but our findings show uneven intergovernmental oversight once again (Table 10.2). Nearly two-thirds of all parliamentary hearings were held by the Bundestag, although Germany's lower house showed far greater interest in the EIB and ESM than the EBRD. In addition to these public meetings, a specially created Bundestag committee held behind-closed-doors meetings with the ESM (Interview 22, 2023). The French parliament's limited engagement with intergovernmental borrowers rests uneasily with liberal intergovernmentalism. The Assemblée Nationale held just two hearings on the EIB between 2006 and 2022 and none on the EBRD and ESM.

10.2.2 The European Parliament

Parliamentary oversight at the European level does not make up for shortcomings at the member state level. The EP has no authority over the EIB, which derives its powers from a statute annexed to the treaty and amendable by means of a unanimous vote in the Council according to a special legislative procedure.[13] The EP has consistently sought to hold the EIB to account; however, in line with new intergovernmentalism, such efforts have produced no more than informal reporting requirements. A similar picture of the EBRD and ESM emerges, underlining concerns about the political accountability of intergovernmental borrowers.

In 1983, the EP adopted a resolution which demanded a right to supervise 'budgetary operations' involving the EIB.[14] The Bank had sought to keep members of the EP (MEPs) informed, the EP acknowledged, but further checks and balances were warranted given the Bank's contribution to 'Community guidelines and policy' and—alluding to the New Community Instrument—its use of 'certain funds entered into the Community budget'. What the Community ultimately needed, the resolution concluded, was 'a budgetary and financial policy, determined within the framework of the legislative provisions relating to the budget, and subject to the democratic supervision of Parliament'. The EP repeated its call for regular meetings with the EIB over the next decade before the Bank finally agreed in 1996 to institute an annual meeting with the EP's Economic and Monetary Affairs Committee (ECON) on the Bank's 'lending policies and planned developments' (EIB 1996; Laffan 1997: 222–3).

Despite this dialogue, the EP continued to call for greater EIB accountability, which faced growing criticisms from NGOs for the social and environmental impact of its investment decisions. Keen to answer its critics, but fearful that MEPs, especially those from green parties, might politicize its investment projects, the Bank agreed to further voluntary dialogue (Interview 2, 2022). The resulting dialogue was superficial according to one former EIB official (Interview 2, 2022). From 1999, EIB President Philippe Maystadt attended the EP plenary each year to hear MEPs discuss the Bank's annual report. 'I think that it is natural, in a democracy, for all public institutions, including the financial institutions, to have to respond to questions and to take into account the priorities expressed by the representatives elected by the citizens', Maystadt told MEPs in February 2002, while insisting that the Bank was under 'no formal obligation to report to the European Parliament'.[15]

The EP's ECON Committee currently adopts an annual report on the EIB's Financial Activities, while the European Parliament's Committee on Budgets (BUDG) adopts a report on the Control of the EIB's Financial Activities (Ban and Seabrooke 2017). Both reports are debated in a plenary session where MEPs can address questions to the EIB's president. Senior EIB officials have also attended ad hoc hearings with the EP (Ban and Seabrooke 2017). Important though such practices are, the EIB remains subject to significant accountability gaps due to the EP's continuing frustration. A resolution adopted by MEPs in February 2024 urged greater access to documents and data and a structured dialogue on the Bank's 'decisions, progress achieved, and the impact of its lending activities'.[16]

To date, MEPs have discussed EBRD activities occasionally and with little consistency, even though the EU is a shareholder of the London-based bank. In October 2002, EBRD President Jacques Lemierre appeared before the ECON Committee, in response to which MEP Helmuth Markov prepared a report on the Bank's activities. The report's calls on the EBRD to 'step up its dialogue with democratically elected representatives, both in the European Parliament and at national and regional level', produced no discernible follow-up (European Parliament 2002). In March 2009, Gay Mitchell, an Irish MEP, prepared a joint report on the annual reports of the EIB and EBRD on behalf of the ECON Committee.[17] EBRD President Thomas Mirow and EIB President Philippe Maystadt attended a plenary session of the EP to discuss the reports, which focused, *inter alia*, on the bank's response to the global financial crisis. This innovative format was not repeated, however, despite Mirow's description of this meeting as 'timely and welcome'.[18] When the EP and Council agreed to an increase in the EBRD's capital in 2011, they requested that the EU's EBRD governor report annually to the EP on how the Bank was contributing to the Union's objective. European Commission Vice-President Olli Rehn duly submitted a report in December 2013, but this reporting exercise was not repeated.[19]

The EBRD's engagement with the Parliamentary Assembly of the Council of Europe (PACE) was more systematic at first. In 1992, EBRD President Jacques Attali and PACE President Miguel Angel Martinez signed a memorandum of understanding, which provided for a regular exchange of views between the two sides. A year later, a critical PACE resolution on the EBRD's spending priorities in 1993 contributed to Attali's resignation (Kilpatrick 2020: 106–7).[20] PACE continued to pass detailed resolutions on issues such as the Bank's lending policy and its role in nuclear decommissioning (Parliamentary Assembly of the Council of Europe 1999, 2006) but plenary discussions of the EBRD's activities fizzled out in 2015. A telephone call between EBRD President Odile Renaud-Basso and PACE President Rik Daems in January 2022 is the most recent attempt to renew cooperation between the two bodies but it has produced few discernible results.[21]

As an international financial institution rather than an EU institution, the ESM is not formally accountable to the EP (Dias and Zoppè 2019). ESM Managing Director Klaus Regling made a concerted effort to attend the EP to take questions from MEPs (Interview 27, 2024) a practice which was continued by his successor Pierre Gramegna. In May 2024, the EP and ESM signed a memorandum of cooperation, under which the ESM managing directors agreed to attend meetings of the ECON Committee at least once a year.[22] It was also agreed that the chair of ECON could send written questions to the ESM managing director to be answered in writing or in person. Although it took several years to reach this agreement, it did nothing to change the voluntary character of the dialogue, which imposes no formal obligations on the ESM. Access came once again at the cost of informality, leaving the ESM, like the EIB and EBRD, subject to a lack of political accountability at the European level.

10.3 Auditing Intergovernmental Borrowers

10.3.1 National Auditors

Consistent with historical institutionalism, national auditors have taken an active interest in the work of the ESM, but they have been slower to engage with the EIB and EBRD.[23] A concern for professional norms matters it would seem, but not consistently so. Although the ESM has been much less active than other intergovernmental borrowers, political controversy over financial assistance to euro area members appears to have spurred national auditors to subject the ESM to administrative accountability (Interview 21, 2023).

In October 2011, the Contact Committee, which represents the supreme auditing institutions of all EU member states and the European Court of Auditors, adopted a resolution calling for the creation of a bespoke body to oversee the work of the ESM's Internal Auditing and external auditor (Contact Committee 2011). The national officials tasked with negotiating the ESM Treaty responded by establishing a five-person board of auditors made up of two nominees of the ESM Board of Governors, two nominees of national auditors, and one nominee of the European Court of Auditors.[24]

The ESM's Board of Auditors, which reports directly to the ESM Board of Governors, prepares an annual report on the ESM's financial statements, its internal and external audits, and its exchanges with ESM management.[25] These reports are received by and routinely published on national parliaments' websites, a practice which speaks to historical institutionalists' emphasis on the link between financial and parliamentary accountability. While some national auditors are content to leave the scrutiny of the ESM to the Independent Board of Auditors, the Algemene Rekenkamer (Dutch Court of Audit) took a more hands-on approach (Interview 8, 2023). In 2015, the Dutch national auditor published a report on emergency support during the crisis (Algemene Rekenkamer 2015). This report criticized the lack of external audit of the European Financial Stability Facility (EFSF)'s role in the euro crisis and called for the ESM's Independent Board of Auditors to remedy this accountability gap. Concerning future financial assistance programmes, the Algemene Rekenkamer (2015) asked for more transparent reporting, the establishment of independent evaluations, and a strengthening of national and European parliamentary controls and the accountability of the Eurogroup.

Where national auditing bodies have taken an interest, the ESM has generally been responsive to any concerns raised.[26] A case in point is the Luxembourg borrower's willingness to amend its by-laws to meet the request by the Dutch auditor on, *inter alia*, more extensive reporting requirements on the mechanism's activities (Howarth and Spendzharova 2019: 906). That Dutch Finance Minister Jeroen Dijsselbloem was head of the ESM's Council of Governors between 2013 and 2018 may have helped expedite this response (Interview 8, 2023).

If national auditors were keen to protect professional norms, then we would expect them to be as diligent about holding the EIB to account as they were in relation to the ESM. In practice, national auditors have rarely scrutinized the Bank or been actively encouraged to do so by national parliaments. A partial exception is the Italian Corte dei Conti (2022), which publishes regular updates on Italy's use of European funds, including those provided by the EIB. However, these reports only state the amount of funds received from the Bank without specifying where such financing goes. In June 2024, the German and Austrian auditors took the unusual step of publishing a joint special report on the performance of government tasks concerning the EIB (Bundesrechnungshof 2024). The report not only criticized the EIB's internal review and evaluation process for lacking 'independence, sufficient autonomous powers, consistency and assertiveness', but cast doubt on the ability of national auditors to fill this gap. As a credit institution, the EIB should be supervised by the European Central Bank like any other large bank, the report concluded.

Supreme audit institutions have also paid scant attention to the EBRD. The Dutch national auditor works closely with its counterparts from the Central and Eastern European countries which the Dutch director represents on the EBRD Board of Directors as part of a project to strengthen auditing capacity. However, the Dutch auditor has only made occasional references to the EBRD in its own work (Algemene Rekenkamer 2013). To date, the Belgian, French, German, and Italian auditors have issued no reports or press releases on the EBRD's lending and borrowing activities.

10.3.2 The European Court of Auditors

The European Court of Auditors has been much more proactive than national auditors about seeking audit rights over the EIB and ESM, both on its own initiative and at the urging of the EP. However, historical institutionalists underestimate how difficult the Court found it to impose administrative accountability on the ESM and EIB. The European Court of Auditors' lack of interest in the EBRD is also difficult to understand from this theoretical vantage point given the Bank's prominent role in the EU's Team Europe approach to external development finance.

Although the EIB considers itself 'part of the EU family', its relations with the European Court of Auditors have not always been harmonious.[27] From the moment of its creation in 1977, the Court paid close attention to the EIB's role in external development finance but, unlike other EU institutions, the EIB chose not to submit a formal reply (see European Court of Auditors 1977). One reason for this lack of engagement is that EIB governors insisted on the Bank's 'legal status, its composition and its institutional structure' rendered it autonomous from the Community and its budget.[28] Facing criticism for this stance, the EIB finally signed an agreement with the European Commission and European Court of Auditors in June 1989 to establish principles for the control of EIB operations in these countries carried out under a mandate by a Community (EIB 1990: 55). This arrangement lives on in the so-called Tripartite Agreement between the EIB, European Commission, and European Court of Auditors, which establishes the Court's right to access information and documentation and conduct documentary reviews and on-the-spot visits for such operations.[29]

The European Court of Auditors produces regular audits of EIB programmes which are either mandated by the EU or backed by the EU budget, but the Court still cannot access information on the bulk of the Bank's investment activities. From time to time, the Court has looked into the EIB's

EU-facing activities, as in its special reports on the Bank's role in public-private partnerships (European Court of Auditors 2018) and the European Fund for Strategic Investment (European Court of Auditors 2019). However, such efforts remain sporadic, leaving the EIB subject to a significant accountability gap compared to other EU institutions at a time when its borrowing and lending activities have reached record levels.

Members of the ESM's Board of Auditors, including the European Court of Auditors' nominee meet monthly with ESM staff, but there are few other points of contact between the ESM and the Court (Interview 12, 2023). The resulting accountability gap is exemplified by the European Court of Auditors' 2017 special report on the Commission's intervention in Greece. Although this report made multiple references to the ESM's role in the euro crisis and the problems of coordination between European-level borrowers, it did not evaluate the ESM's actions (European Court of Auditors 2017).

When the European Financial Stability Facility was established, its Managing Director Klaus Regling was reportedly told by the Court's legal advisors that EU bodies alone could be audited (Interview 23, 2023). However, this has not stopped the European Court of Auditors from consistently seeking audit rights over the ESM. In 2018, the EU's supreme audit body asked the ESM for a mandate covering some aspects of the mechanism's external audit, including performance and compliance audit work. However, the ESM refused to extend this invitation, arguing that its auditing procedures are 'in line with best practice for international financial institutions' (European Court of Auditors 2023e: 31). While the Court has no official audit authority over the ESM, the ESM's Board of Auditors includes one Court member, and ECA staff have led the annual audit of the ESM in the past (Interview 34, 2024).

Under Article 29 of the ESM Treaty, the Board of Governors is required to appoint independent external auditors. PwC assumed this role from 2002 to 2016, after which EY took over, but there is nothing to prevent the Board of Governors from granting this role to the ECA. This would be a preferable way, in our view, to ensure a consistent approach to the financial accountability of European-level borrowers.

The EBRD's Board of Directors appoint external auditors in a broadly similar manner to the ESM.[30] To date, the ECA has refrained from discussing the EBRD's work even though the EIB and EU are the London bank's tenth largest shareholders in terms of capital contributions. A 2023 Special Report on the EU's Neighbourhood, Development, and International Cooperation Instrument (NDICI) acknowledged the EBRD's role in the EU's Team Europe approach to development finance (European Court of Auditors 2023d).

As Team Europe grows in importance, it will become more difficult for the ECA to ignore the EBRD's place in the EU's financial galaxy.

10.4 Independent Accountability Mechanisms

Forging new links with civil society is one response to the problems of legitimacy facing the Union in the post-Maastricht period, new intergovernmentalism posits, while pointing towards tensions between participatory policymaking and executives' tight grip on decision making. Such tensions are discernible in relation to EU borrowers. Whereas the EBRD has been relatively open in its engagement with citizens and civil society, the EIB and ESM have been much more cautious, adding to concerns over the social accountability of intergovernmental borrowers.

The EBRD is the only European-level borrower that is subject to a genuinely independent accountability mechanism (Park 2022). The EBRD instituted its first such mechanism in 2003 following pressure from both shareholders, notably the United States, and the PACE (Park 2021). However, because the institutional design of the EBRD's first independent accountability mechanism was comparatively weak and insufficiently independent, it was subsequently strengthened through several rounds of reform (Park 2022: 146–54). Pressure from civil society groups was a key driver of change for these reforms, as was dissatisfaction within the Bank over the predictability of the existing procedures (Interview 17, 2024). The Independent Project Accountability Mechanism (IPAM), established by the EBRD in 2020, is independent of the Bank's management. In line with international best practice, it provides online complaint forms in various languages, as well as a virtual case registry. The IPAM offers both problem-solving and compliance services, but—despite its name—focuses its recommendations on the EBRD's policies, rather than changes at the project level (Park 2022: 199). The EBRD's IPAM is responsible for ensuring cooperation between the Bank and civil society. Each quarter, it produces a dedicated civil society newsletter and holds meetings with civil society organizations (CSOs). Although this approach is resource intensive, it has been broadly welcomed by stakeholders (Interview 17, 2023). A recent survey with 107 responses on the EBRD's engagement with CSOs found that the Bank's sincere consideration of feedback and shared value creation with CSOs are perceived strengths of its outreach (EBRD 2022).

Under pressure from the EP (Harden 2008) and civil society (van der Zwet et al. 2016: 90) the EIB established a dedicated complaints mechanism—the

EIB Complaints Mechanism (EIB-CM)—in 2008. The EIB-CM allows anyone who feels affected by the EIB Group's activities to raise concerns about maladministration. EIB-CM staff are authorized to investigate complaints and to make recommendations aimed at resolving the issues raised by the complainants. They also play a dispute resolution role, including working with mediators to develop a shared understanding of the problem, as well as advisory and monitoring rules. In performing these functions, the EIB-CM engages with civil society groups (Interview 14, 2023). Between 2008 and 2012, the EIB-CM received 263 complaints, of which 211 were deemed admissible.

A recurring criticism of the EIB-CM is that it lacks independence (Vervynckt 2015). As of 2020, the EBRD's IPAM is led by a chief accountability officer, who is appointed by the Bank's directors but thereafter independent of them. The EIB-CM, in contrast, is overseen by the inspector-general, who, as noted above, reports in the first instance to the Bank's Management Board. In 2017, the Bank was roundly criticized for seeking to narrow the EIB-CM's admissibility criteria (Comte 2017; European Ombudsman 2017, 2018). Although it backtracked on this reform, the EIB faces ongoing calls from the EP 'to strengthen the autonomy and efficiency of its Complaints Mechanism Office'.[31]

The EIB defends its complaints mechanism as a two-tier system in which the EIB-CM acts as an 'internal' tier while the European Ombudsman serves as the 'external' tier (EIB Group 2018: 7). While the European Ombudsman cannot receive complaints from parties outside the EU, it has agreed to file claims to the EIB-CM on their behalf (Hachez and Wouters 2012). Since 2011, the European Ombudsman has opened fifty-two cases against the EIB, resulting in nine recommendations issued by the former against the latter.

In December 2023, the European Ombudsman withdrew from its memorandum of understanding with the EIB. While it would continue its 'role as a second, independent form of review of the EIB Group's activities', the European Ombudsman insisted, it also invited the EIB to 'improve further the means of internal redress and to increase the information made available to external stakeholders' (European Ombudsman 2023). The European Ombudsman's engagement with the EIB is welcome, but it is no substitute, in our opinion, for a genuinely independent complaints mechanism.

The ESM does not have an independent accountability mechanism, nor does it fall under the jurisdiction of the European Ombudsman. Although it claims to engage with civil society organizations, the ESM cites interviews given by its ESM managing director with representatives of Transparency International as the sole example of such engagement. The International

Monetary Fund, by contrast, holds a week-long policy forum with civil society groups as part of its Spring Meetings as well as regular workshops with civil society representatives from specific regions.

The EIB has a civil society division which leads on the Bank's engagement with shareholders. Each year the division organizes an annual briefing at which an EIB vice-president gives a presentation on the Bank's activities and takes questions from an invited audience of civil society representatives. Our interviews question the value of this forum.

Participants who we have interviewed have complained that the event is too rushed and that it affords limited opportunity for free and open discussion (Interview 3, 2022, Interview 42, 2024). The EBRD's decision in January 2024 to appoint thirteen representatives from NGOs and civil society organizations to a new CSO Steering Committee is illustrative of the Bank's deeper commitment to participatory policymaking (Powell 2024). The committee will advise the EBRD on public consultations and provide input in a series of civil society-focused events at the Bank's annual meeting.

10.5 Conclusion

The EIB, EBRD, and ESM have different legal bases and mandates, but they all make significant contributions to EU objectives. Styling itself as the 'Bank of the European Union', the EIB is centrally involved in EU policies ranging from cohesion to clean energy and support for climate action (EIB 2024b: 44). The EBRD is, along with the EIB, a key member of the Team Europe approach to external development finance. The ESM is a crucial part of the euro area's floodwall against fiscal and financial crises. The scale and significance of such activities underline the need for robust accountability mechanisms to review the distributional costs of, and liabilities incurred by, borrowing and lending operations. However, as this chapter has shown, all three intergovernmental borrowers suffer from serious accountability gaps.

The EIB answers to national governments, but its reliance on part-time, non-resident directors limits day-to-day political accountability. National parliaments and national auditors have paid limited attention to the Luxembourg lender, which lacks a genuinely independent complaints mechanism. The EBRD has full-time resident directors and a robust complaints mechanism and has shown a greater willingness to engage with civil society groups, but it has also been overlooked by national parliaments and auditors. Although it is the least active of the three lenders, the ESM has attracted the most attention from national parliaments and national auditors. However, its engagement with civil society groups has been sporadic. The EP and the European Court of Auditors, meanwhile, have been kept at arm's length from all three borrowers.

These findings are at odds with liberal intergovernmentalism, which expects clear lines of political accountability between intergovernmental borrowers, national governments, and national parliaments. They are also difficult to reconcile with historical institutionalism, which expects auditors to be more assiduous about, and effective in, their efforts to ensure administrative accountability. Our analysis of accountability practices speaks instead to new intergovernmentalism, which warns that the EP's involvement in this domain will be limited to informal dialogues and questions how committed European policymakers are to involving citizens and civil society groups in decision making.

11
Conclusion
The Future of the EU as a Sovereign-Style Borrower

This book has traced the history of the European Union (EU) as a sovereign-style borrower from the High Authority's pioneering loan from the Export-Import Bank of Washington in 1954 to Macro-Financial Assistance for Ukraine seven decades later. This story encompassed the establishment of the European Investment Bank (EIB), which has become the world's biggest multilateral lender, and the European Bank for Reconstruction and Development (EBRD), which helped to foster economic transition in Central and Eastern Europe after the Cold War and is now a key player in the EU's Team Europe approach to external development finance. Our analysis also covered the European Atomic Energy Community (Euratom)'s on-off loans for nuclear production and safety and the European Commission's borrowing instruments for member states facing economic difficulties from the oil shocks of the 1970s to the euro crisis in the 2010s. In 2021, the total stock of European-level borrowings outstanding exceeded €1 trillion for the first time. Raising debt on this scale does not mean that the EU has become a superstate, but it does allow the Union to undertake state-like functions such as promoting macroeconomic stability, growth, and investment, and calls for a reappraisal of the EU as a political system.

The EU has traditionally been viewed as a regulatory state, which compensates for its lack of fiscal firepower by engaging in rule making to maintain its single market and achieve its economic, social, and environmental objectives (Majone 1998). Although the EU remains a prolific regulator, both at home and internationally, borrowing has given the Union a much greater role in allocation, distribution, and stabilization than is generally appreciated. In 2023, the EIB, European Commission, and EBRD provided nearly €179 billion in financing for projects ranging from green finance and energy security to support for the world's poorest countries.[1] This funding exceeded the €169 billion in payments made through the EU budget, nearly 70 per cent of which went to just two policy headings: cohesion and agriculture (Council of the EU 2022). The EU might not have a genuine countercyclical budgetary

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instrument which could deploy automatic stabilizers or fiscal stimulus packages as a matter of course during economic slowdowns, but it is no longer accurate to say that the Union lacks a fiscal capacity (Beetsma, Cimadomo, and van Spronsen 2022). The Commission has become a bigger issuer on capital markets than the national debt agencies of all EU member states except France, Germany, Italy, and Spain and acquired many of the functions of a European 'Treasury' despite the EU treaty's stipulation that the Union's expenditure and revenue remain in balance (Spielberger, Hodson, Howarth, and Mugnai 2024).[2]

Whether the Commission should enjoy sweeping regulatory powers is a matter of longstanding debate among EU scholars, who variously point towards the role played by independent regulatory agencies in national settings (Majone 1998), the low salience of EU decision making (Moravcsik 2002), and the need for democratic contestation over the focus and intensity of EU regulation (Føllesdal and Hix 2006). There has been little or no debate, however, on whether the EU should use borrowed funds to engage in allocation, distribution, and stabilization, three policy functions which are rarely left to non-majoritarian bodies alone in democratic systems. For this reason, such borrowing warrants a high level of accountability to governments, parliaments, and auditors. Where grants and loans financed through such borrowing have concentrated effects on specific groups or communities, citizens and civil society groups also have a right to question borrowers and seek redress for any harm done. This book has sought to explain how the EU came to be a sovereign-style borrower and how such borrowing can be held to account.

In this concluding chapter, we summarize our main empirical findings about the evolution and accountability of the EU as a borrower between 1954 and 2024. We also put forward several reform ideas for holding the Commission, EIB, ESM, and EBRD to account, and consider future challenges for European-level borrowers. The EU will continue to borrow at scale, we predict, underlining the need for rigorous checks and balances regarding the Union's role on capital markets.

11.1 Seven Decades of Borrowing

The preceding chapters in this volume employed three theoretical approaches to explain how the EU came to borrow. Historical institutionalism understands the design of borrowing instruments as the result of path dependency and incremental change, notably through layering, displacement, conversion, and drift. Liberal intergovernmentalism emphasizes the importance of interstate bargaining between countries with low and high borrowing costs. New intergovernmentalism, finally, posits the existence of a link between the EU's legitimacy crisis in the post-Maastricht period and the choice between intergovernmental and supranational modes of borrowing. Employing extensive archival analysis and elite interviews, this book has found evidence in support of all three approaches, which capture different dimensions of European-level borrowing over the last seven decades.

11.1.1 Historical Institutionalism

As European-level borrowing is unfamiliar to many EU commentators, the creation of new borrowing instruments in times of crisis is often treated as a critical juncture. However, we have found little evidence in this book that crises forced member states to break taboos over borrowing that then proved difficult to take back. The Commission's evolution as a borrower has unfolded gradually, beginning with the Merger Treaty of 1967, which transferred responsibility for the European Coal and Steel Community loans from the High Authority to the new unified Commission (Chapter 4). Thus, the Commission was already borrowing before it was entrusted in 1975 with the Community Loan Mechanism, which in turn served as a forerunner for the Balance of Payments Assistance Facility. Nor were member states locked into decisions taken in times of crisis. Having put the Commission in charge of the New Community Instrument in 1978, member states did not hesitate to wind down this borrowing mechanism a decade later (Chapter 4). The Recovery and Resilience Facility, likewise, was prohibited from funding new projects after 2026 (Chapter 8).

Historical institutionalism is more adept at explaining gradual rather than punctuated change in this area. There are abundant examples of layering in the history of EU borrowing, beginning with the imprint made on the European Community's early borrowing instruments by the League of Nations' experiment in supranational bond issuance and pre-existing debates in the Organisation for European Economic Cooperation over the establishment of a European Investment Fund (Chapter 3). Layering was also visible in member states' willingness to involve the EIB in the administration of Euratom loans and the New Community Instrument and in the establishment of the European Fund for Strategic Investment, which enabled the Bank to lend to higher risk projects backed by EU budget guarantees (Chapter 6).

Temporary layering can also be seen in EU member states' decision to run the European Stability Mechanism (ESM) alongside the European Financial Stability Facility (EFSF) for a brief period at the height of the euro crisis (Chapter 5).

The EU's evolution as a borrower is also marked by instances of conversion. The refocusing of existing borrowing instruments on new objectives can be seen in the EIB's gradual transformation from a regional development bank into one focused on energy, the environment, and small and medium-sized enterprises (SMEs) (Chapter 6). Conversion is discernible too in how the EBRD reworked its understanding of economic transition to finance operations in the Middle East and North Africa and most recently Sub-Saharan Africa (Chapter 7). It can be found too in the Pandemic Crisis Support, which allowed the ESM to finance the direct and indirect costs of health care during the coronavirus emergency with minimal conditionality (Chapter 8).

There are occasional instances of displacement in this domain. This form of gradual change can be seen in member states' decision to wind down the New Community Instrument while asking the EIB to play a greater role in supporting SMEs (Chapter 4). The establishment of the European Financial Stabilisation Mechanism also constitutes a slow-moving act of displacement, which began with the Maastricht Treaty's prohibition on Balance of Payments Assistance for countries that had adopted the single currency and culminated in the creation of a new instrument for broadly similar purposes during the euro crisis (Chapter 5). The fact that no EU member state sought financing from the Euratom Loan Facility after 1987, the year after the Chernobyl nuclear accident, provides the sole example of drift in our study.

11.1.2 Liberal Intergovernmentalism

Liberal intergovernmentalism views European-level borrowing as a choice by member states to manage cross-border externalities. When bodies such as the Commission, EIB, EBRD, and ESM raise funds on capital markets they do so with the backing of member states through subscribed capital, national guarantees, or the EU budget. As a result, these borrowers typically enjoy a AAA credit rating, which allows them to raise funds at relatively low interest rates. Member states with high borrowing costs will support EU borrowing to secure access to cheaper financing, our application of liberal intergovernmentalism contends. Member states with low borrowing costs will favour European-level borrowing where the management of cross-border externalities through bilateral support or bigger budget contributions is either more costly or impracticable. Both high and low borrowing cost member states will guard the creditworthiness of European-level borrowers, our application of liberal intergovernmentalism argues, since to do otherwise could jeopardize the benefits of collective borrowing and risk imposing losses on member states.

From the earliest days of the European Communities, member states have agreed to borrow in support of large-scale investment projects, which national governments would have struggled to finance alone yet were reluctant to pay for upfront via contributions to a common budget. Our findings show that member states with high borrowing costs pushed hardest for such arrangements. In negotiations over the Treaty of Rome, for example, Italy made clear that financial support for the Mezzogiorno was a *sine qua non* for supporting the single market (Chapter 3). A similar logic describes France's initial support for the New Community Instrument, which enabled investment in infrastructure and SMEs in ways that would not have been feasible through the Community budget (Chapter 4). Member states with low borrowing costs were rarely enthusiastic about such proposals but they accepted Community borrowing over alternative courses of action. The Federal Republic of Germany, for example, had reservations about establishing the EIB in 1958 but German negotiators viewed borrowing as preferable to paying in even more to the European Economic Community budget (Chapter 3). The German government supported the establishment of the Euratom Loan Facility in 1977, and the New Community Instrument a year later for similar reasons (Chapter 4).

The Community's recourse to borrowing to fund financial assistance to member states facing economic crises reflects a strong intergovernmental logic. Fearing cross-border contagion from balance of payments crises, member states agreed in 1971 to provide loans funded through bilateral contributions, but the Medium-Term Financial Assistance lacked the necessary power to help member states weather the first oil shock (Chapter 4). Member states were not prepared to scale up bilateral contributions or to find ways of financing loans through the Community budget, so they empowered the Commission as a borrower. The same thing happened during the euro crisis, which saw member states provide bilateral loans to Greece before establishing the European Financial Stabilisation Mechanism and the EFSF (Chapter 5). When the coronavirus pandemic hit, Germany and other low borrowing cost member states once again chose EU borrowing over bilateral support and a bigger EU budget, leading to the creation of Support to mitigate Unemployment Risks in an Emergency (SURE) and the Recovery and Resilience Facility (Chapter 8).

As liberal intergovernmentalism expects, member states were protective of European-level borrowers' standing on capital markets. Countries with high borrowing costs may have pushed for financing for riskier projects, as in support for SMEs or start-ups, but never at the expense of higher risk premia on European bonds. Member states with low borrowing costs were protective of their own credit ratings and so insisted that borrowing be backed by adequate capital or guarantees. This concern for credibility can be seen in relation to the EIB governors' willingness to extend the Bank's operation to third countries in the 1960s only after securing additional guarantees from member states (Chapter 7). A similar logic explains the combination of EU budget and member state guarantees underpinning Macro-Financial Assistance for third countries. The speed with which member states replaced the EFSF with the ESM during the euro crisis also reflected concerns that the former's guarantee structure hindered this borrower's credibility in a way that could be costly to member states (Chapter 8).

11.1.3 New Intergovernmentalism

New intergovernmentalism sees EU member states as committed to cooperation in the post-Maastricht period but reluctant to delegate new powers to the Commission for fear of aggravating the Union's legitimacy problems. When member states decide to borrow, they will tend to empower *de novo* bodies, that is, institutions which operate at arm's length from the EU's institutional and legal architecture and are subject to a high degree of intergovernmental control. The Commission, where it is called upon to raise funds on financial markets, is likely to face strict time limits on its use of borrowing instruments, new intergovernmentalism posits.

An early indicator of these new intergovernmental dynamics, we find, was the Maastricht Treaty's prohibition on Balance of Payments Assistance for member states once they had adopted the single currency (Chapter 4). This decision is difficult to square with historical institutionalism, which would expect continuity rather than rupture in the EU's approach to borrowing, and liberal intergovernmentalism, which would expect member states to guard against the risk of balance of payments problems under Economic and Monetary Union (EMU). Instead, member states responded to growing contestation over European integration in the early 1990s by minimizing the Commission's borrowing powers at Maastricht despite warnings in the Delors Report that balance of payments problems under EMU could trigger 'regional disequilibria' (Committee on the Study of EMU 1989: 17).

Whereas the 1970s Werner Plan had envisaged a significant transfer of fiscal powers to the European level, such a move was out of the question twenty years later.

Member states had no such difficulty with empowering the EIB, which came into its own as a *de novo* body in the 1990s. The UK, which was home to an increasingly polarized debate over European integration at this time, even led efforts to scale up the Bank's lending for Trans-European Networks and SMEs in the so-called Edinburgh Initiative (Chapters 4 and 6). In keeping with new intergovernmentalism, it proved easier to delegate borrowing powers to a European-level borrower which operated independently of the Union's decision-making structures than to the Commission, which drew Eurosceptic ire. Having failed to counter this new intergovernmental dynamic, the Commission sought ways of leveraging the EIB's borrowing powers and the Bank's lower political profile. The 2015 Juncker Plan, though it was dismissed by critics as a form of 'funny money', mobilized more than €300 billion in additional financing for investment at a time when member states were looking to reduce the Union's already small budget.

A preference for empowering *de novo* bodies was also observed in the establishment of the EBRD, which reined in the Commission's ambition to lead on providing financial assistance to Central and Eastern Europe after the collapse of communist rule. It was visible too in member states' reluctance to entrust responsibility for external development finance to a single entity (Chapter 7). The 2019 Wieser Report made a powerful case for replacing the EIB and EBRD with a European Bank for Climate Change and Sustainable Development, but member states would have found it difficult to win political support for such a body and instructed the two European-level borrowers to work more closely together in the so-called Team Europe approach.

The euro crisis illustrated new intergovernmental dynamics and so too, in more subtle ways, did the EU's response to the COVID-19 pandemic. Faced with a sovereign debt crisis that threatened to tear the single currency apart, member states agreed to put the Commission in charge of an exceptional borrowing instrument, the European Financial Stabilisation Mechanism (Chapter 5). However, they found it easier to navigate the fraught politics of crisis support, by channelling the bulk of financial assistance during the euro crisis through two *de novo* bodies: the EFSF and the ESM. When the Covid-19 pandemic struck, euro area finance ministers turned once again to the ESM, which was put in charge of a new borrowing instrument, the Pandemic Crisis Support (Chapter 8). Italy's reluctance to activate this instrument was driven less by functional concerns than by the fact that the ESM had been subject to a sustained attack by right-wing populist politicians over the preceding twelve months. The legitimacy concerns that led to the creation of this *de novo* body during the euro crisis had now come back to haunt it.

Member states' decision to empower the Commission as a borrower through the creation of SURE and the Recovery and Resilience Facility did not herald a bold new era of supranational borrowing. Consistent with new intergovernmentalism, these instruments were subject to strict time limits to minimize the potential for a political backlash against the EU's involvement in such a sensitive policy domain (Chapter 8). The Commission disbursed the final tranche of SURE loans in December 2022 and wound down the Recovery and Resilience Facility four years later. In May 2022, the European Council agreed to extend Recovery and Resilience Facility funding to projects aimed at reducing the EU's dependence on Russian energy, but this measure made no difference to the instrument's size or its strict sunset clause. Thus far, member states have resisted entreaties to extend or replicate these borrowing instruments.

11.2 Accountability Gaps

The three theoretical approaches employed in this book give rise to different expectations about the accountability of European-level borrowers. Following Bovens (2007), we distinguish between the political accountability of borrowers to governments and national parliaments, their administrative accountability to auditing bodies as quasi-legal external fora, and their social accountability to citizens and civil society groups. Historical institutionalism expects European-level borrowers to be subject to a high degree of administrative accountability (Laffan 1999). National auditors and the European Court of Auditors will establish robust auditing rights either to protect professional norms or satisfy parliaments' demand for information on borrowing and lending operations, our application of this approach contends. Liberal intergovernmentalism (Moravcsik 2002) expects clear lines of political accountability between intergovernmental borrowers, national governments, and national parliaments. It also predicts that the empowerment of the Commission as a borrower will go hand in hand with a bigger role for the European Parliament (EP) in this domain. New intergovernmentalism, finally, expects the EP's informal involvement in EU borrowing to blunt political accountability (Bickerton, Hodson, and Puetter 2015). Social accountability will be limited too by the Commission and Council's reluctance to give citizens and civil society a meaningful say in decision making. Our findings indicate that accountability practices fall short of the expectations we derive from historical institutionalism and liberal intergovernmentalism while chiming with new intergovernmentalism's concerns.

The European Court of Auditors has taken a keen interest in the borrowing and lending activities of the Commission, EIB, and ESM, but struggled to establish robust auditing rights, our analysis shows. The fact that borrowing is either partially recorded in the EU budget or not at all leaves the EU's supreme auditing body dependent on special reports rather than the routine auditing procedures seen in relation to EU expenditure under the Union's budget (Chapter 9). National auditors have sought oversight of the ESM but have shown patchy interest in the EIB and EBRD even though these borrowers are far more active than the euro area's crisis resolution fund (Chapter 10). The administrative accountability of European-level borrowing falls below the expectations we draw from historical institutionalism.

National governments exercise a high degree of control over EU borrowing, although our findings indicate variations in the practice of political accountability. The Commission's borrowing powers are heavily curtailed by member states, with the Council of Ministers deciding in most cases whether and when to deploy borrowing instruments. Although the Commission has acquired greater discretion over borrowing and lending operations and debt management techniques since the pandemic, member states approved this new funding strategy and retain the right to amend it (Chapter 9). Unlike the EBRD, the EIB lacks both full-time resident directors and an evaluation division which answers directly to governors (Chapter 10). These institutional differences raise concerns over the Luxembourg borrower's day-to-day accountability to national governments despite the prominence of national representatives in the Bank's decision-making structures.

The political accountability of European-level borrowing is also weakened by limited parliamentary involvement in this domain. National parliaments have shown greater interest in the ESM, which has not provided financial assistance since 2018, than the EIB, the world's largest multilateral lender (Chapter 10). The EBRD has also been overlooked by most member state parliaments despite the London lender's growing contribution to the Team Europe approach to external development finance. The EP has been kept at arm's length from borrowing until relatively recently and even then, its involvement is patchy. While Macro-Financial Assistance has been jointly decided by the Council and EP since the Lisbon Treaty entered into force in 2009, the EU legislature has no say over the Balance of Payments Assistance

Facility and was not involved in decisions over the European Financial Stabilisation Mechanism and SURE (Chapter 9).

The Council and the EP agreed on the regulation underpinning the Recovery and Resilience Facility using the Ordinary Legislative Procedure (Chapter 9). While this gave the EP a crucial role in negotiations over the EU's pandemic fund, the Council retained control over the amount to be borrowed and the approval of Recovery and Resilience Plans. Bi-monthly Recovery and Resilience Dialogues have allowed members of the EP (MEPs) to address questions to European commissioners over this borrowing instrument. However, this forum remains strictly informal despite the scale of borrowing involved. This shortcoming speaks to new intergovernmentalism's claim that the EP tends to accept an informal role in EU policymaking as the price of involvement.

As new intergovernmentalism anticipates, the EU's engagement with citizens and civil society groups over European-level borrowers has been superficial. Since its establishment in 2018, the EIB Complaints Mechanism has been active in its efforts to address complaints from individuals and organizations about maladministration in the Bank's activities. Unlike the EBRD's Independent Project Accountability Mechanism, the EIB Complaints Mechanism is not independent of the Bank's Management Board (Chapter 10). The fact that the European Ombudsman can also hear complaints about EIB maladministration is welcome, but it is no substitute for giving the EIB Complaints Mechanism genuine independence.

Neither the European Commission nor the ESM have a dedicated forum to hear concerns about the economic, social, and environmental consequences of their borrowing and lending decisions. Citizens and civil society groups based in the EU can lodge complaints with the European Ombudsman about the Commission as a borrower but only on the question of maladministration (Chapter 9). As expected by new intergovernmentalism, the Commission, EIB, and ESM have all sought legitimacy by engaging with stakeholders, but such engagement has been wafer thin (Chapters 9 and 10).

11.3 Reforming European-Level Borrowers

The gap between accountability expectations and practices identified in this book calls for more robust mechanisms of accountability and control. To this end, we present three reform ideas for making European-level borrowing more accountable. The first is a Parliamentary Accountability Charter to strengthen the role of the EP and national parliaments in the control and oversight of borrowing. The second is an enhanced role for auditors and the third seeks stronger engagement from citizens and civil society groups.

11.3.1 A Parliamentary Accountability Charter

Elected representatives should, as a matter of principle, be closely involved in decisions over sovereign-style borrowing at the European level. To this end, we propose that members of the Interparliamentary Conference (IPC) on Stability, Economic Coordination, and Governance in the EU (SECG) and the heads of the EIB, EBRD, European Commission, and the ESM sign a Parliamentary Accountability Charter to establish key principles for the political accountability of European-level borrowers. The IPC on SECG, which was established under the Fiscal Compact, brings together representatives of the EP and delegations from the national parliaments of EU member states every six months to promote democratic accountability in relation to EU economic governance and budgetary policy. Under this charter, the heads of the EBRD, EIB, ESM, and Commission would be required to appear annually before the IPC on SECG to answer questions on borrowing and lending activities. Ban and Seabrooke (2017: 39) have called for greater parliamentary oversight of the ESM, but ours is the first call for the EP and national parliaments to oversee the full range of European-level borrowers and borrowing instruments.

The Recovery and Resilience Dialogues, though welcome, illustrate the limitations of informal dialogue. The Parliamentary Accountability Charter would seek more robust mechanisms of accountability by establishing an interinstitutional working group to explore the case for including a dedicated chapter on EU borrowing in the Union's budget. It is only through such a chapter that the EP will be able to extend its budgetary powers to the sphere of EU borrowing, ensuring that decisions to establish or extend borrowing instruments backed by the Union's budget receive full democratic scrutiny.

As per Bovens, Schillemans, and Hart's (2008) concept of accountability as learning, IPC on SECG has the potential to exchange best practices across national parliaments and the EP about how to hold EU borrowers to account. Our proposal also aligns with Fromage and Markakis (2022), who urge closer cooperation between the EP and national parliaments in EU budgetary decision making, and with Dias Pinheiro and Dias (2022), who argue that national parliaments need to cooperate with each other and with other

European watchdog institutions to secure appropriate democratic oversight of the use of European funds.

11.3.2 Building Better Complaints Mechanisms

The EIB has recently started to refer to itself as a development bank, but it falls short of the standards of accountability adopted by most multilateral development banks. Independent accountability mechanisms (IAMs) have become the norm for multilateral development banks since the 1990s (Bissell and Nanwani 2009; Park 2021). These mechanisms give individuals and groups a right of reply regarding the economic, social, and environmental consequences of lending programmes (Bissell 2020). By establishing the facts of such cases and seeking resolution, IAMs treat accountability as a form of 'justice' (Park 2022). Although they are not a substitute for legal redress before courts, they allow citizens to seek redress for human rights abuses and other serious wrongdoings.

The EIB Complaints Mechanism currently sits in the Bank's Inspectorate General, which reports to the president. Greater statutory independence could be achieved by placing the Inspectorate General outside the Bank's usual decision-making structures and equipping it with its own budget. The EIB Complaints Mechanism should, in our view, be headed by a chief accountability officer, who reports solely and directly to the EIB Board of Directors. To strengthen the visibility of the EIB Complaints Mechanism—and ensure it for the ESM's Independent Accountability Mechanism—management and project departments should be obliged to respond to any recommendations arising out of this process.

It is also paramount that European-level borrowers establish a deeper dialogue with civil society. The EIB's Annual Briefing for Civil Society Organisations is an important venue for such exchanges, but our research finds that it is of limited value. Participants who we have interviewed have complained that the event is too scripted and that it affords limited opportunity for free and open discussion (Interview 42, 2024). Both the EIB and ESM, which have no standing forum for engaging with civil society, could learn from the EBRD, which established a Civil Society Steering Committee in 2022 to support the London-based lender's country and sector strategies. Civil society groups are largely absent from the oversight of Commission borrowing instruments. We recommend that the EP involve civil society groups and experts in the planning of future dialogues with the EIB, EBRD, ESM, and European Commission and that such groups be afforded a meaningful role in the annual general meetings of the EIB, EBRD, and ESM.

11.3.3 Strengthening the Role of National and European Auditors

Our third and final reform proposal is to reinforce the role of national auditors and the European Court of Auditors in scrutinizing EU borrowing institutions and instruments. As observed by Laffan (1999: 261), auditing bodies provide the 'raw material' for parliamentary scrutiny, but such materials have been too often lacking when it comes to EU borrowing. Greater accountability requires national auditors to pay closer attention to the significant sums of taxpayers' money which stand behind all intergovernmental borrowers. While public interest in the ESM is understandable, given the scale of financial assistance to Greece and other programme countries during the euro crisis, national auditors should keep a watchful eye on the EIB and EBRD too. The European Court of Auditors has been more proactive in its scrutiny of EU borrowers, and it has the right to propose one member of the ESM Board of Auditors. However, we argue that the Court should have full auditing rights over the EIB and the ESM, and all borrowing instruments managed by the European Commission.

The Contact Committee, which brings together the supreme audit institutions of EU member states and the European Court of Auditors, is well placed to lead on this work. Indeed, it was the Contact Committee—under the leadership of the Dutch and German auditors—which advocated for the creation of an independent ESM Board of Auditors in 2011 (Contact Committee 2011). Revising the memorandum of understanding between the European Court of Auditors, the EIB, and the Commission to cover all EIB lending should be a priority for the Contact Committee, which should also establish a working group to propose revisions to the financial regulation to cover all borrowing instruments managed by the European Commission.[3]

11.4 Why the EU Will Continue to Issue Debt

On 9 September 2024, former ECB President Mario Draghi presented his long-awaited report on the future of European competitiveness (Draghi 2024). The EU needed up to €800 billion in additional investment per year to cope with challenges ranging from digitalization and decarbonization to defence, the report concluded. Draghi's logic was clear. The private sector could not shoulder the burden of this investment. Nor should national governments pursue policies that might lead to unsustainable levels of national debt. Since the EU budget was too small and too fragmented in its policy focus, this left just one option to raise the substantial sums required to close the EU's investment gap: further sovereign-style borrowing.

Readers can be forgiven for experiencing a strong sense of *déjà vu* about Draghi's call for the issuance of a common safe asset to fund joint investment projects. Thirty years earlier, the European Commission's White Paper on Growth, Competitiveness, and Employment had called for Union bonds to be 'issued on tap' to help reverse the EU's declining investment ratio and catch up with international partners (European Commission 1994b: 34). In 1994, Delors' proposal had gone too far for some member states, which baulked at EU borrowing while being asked to keep national debt below 60 per cent of gross domestic product (GDP) under the Maastricht Treaty's new fiscal rules. In 2024, German Finance Minister Christian Lindner insisted that EU borrowing would not solve the 'structural problems' facing European companies (Moller-Nielsen 2024b).

Viewed against seven decades of sovereign-style borrowing, there are reasons for pessimism and optimism about the likely fate of Draghi's proposal. The major cause for pessimism lies in Draghi's implicit support for joint and several liability. By promoting the common safe asset as 'a type of safe collateral' which could be used on a 'cross-border basis', the report alludes to calls by high-profile economists during the euro crisis to replace a portion of national debt with EU bonds (Delpla and Von Weizsäcker 2011; Draghi 2024: 60). That Draghi was drawn to such ideas was not altogether surprising. Shortly after becoming ECB president, he argued that 'Euro bonds make sense when you have a fiscal union' (O'Donnell and Emmott 2012).

A European safe asset backed by joint and several liability would provide an anchor of stability, especially for euro area member states, preventing destabilizing flight to safety during fiscal and financial crises (De Grauwe 2012). It would also break the so-called bank-sovereign 'doom loop' by reducing banks' holdings of their national sovereign debt (Epstein and Rhodes 2018) and avoid a situation whereby public sector borrowing costs soar in bad times, triggering speculative attacks on the securities of most fragile countries (Jones 2017). Despite these and other economic benefits, the idea of a common safe asset remains politically contentious.

During the euro crisis, German Chancellor Angela Merkel declared that Eurobonds involving 'total debt liability' would not happen in her lifetime (Euractiv 2012). In our judgment, they are unlikely to do so in the lifetime of her immediate political successors. German Chancellor Olaf Scholz, though he celebrated the Recovery and Resilience Facility's establishment as a Hamiltonian moment for the EU, was thereafter reluctant to champion further borrowing instruments (Bloomberg 2024). Friedrich Merz, who succeeded

Scholz as Chancellor in May 2025, responded to the Draghi Report by promising to do ‘everything to prevent Europe from going down the path of such debt’ (Euractiv 2024). Seen from a liberal intergovernmentalist perspective, Germany and other low borrowing cost member states will continue to protect their creditworthiness by insisting on proportional guarantees for EU debt issuance. Viewed from a new intergovernmentalist perspective, fears over a Eurosceptic backlash and legal challenges centred on the EU treaty’s no bail-out clause will discourage any serious consideration of a common safe asset. Historical institutionalism would expect Draghi’s idea to take hold only in the event of a critical juncture. Given that neither the euro crisis nor the COVID-19 pandemic broke the taboo over joint and several liability, it would take little short of a catastrophe to trigger this change.

Even if a common safe asset remains beyond the EU’s reach, new political priorities and crises are likely to create an impetus for further borrowing backed by the usual guarantees rather than joint and several liability. In this respect, Draghi’s thesis that member states will opt for borrowing given the difficulties of financing common policies through other means chimes with the findings of this book. Moreover, as the preceding chapters show, almost every major instance of EU borrowing began with a German ‘nein’.

11.4.1 The Future of the EIB

The EIB has consistently adapted to the EU’s shifting policy priorities and is likely to do so in the years ahead. Indeed, the Bank is already stepping up its support for nuclear energy, as member states wean themselves off fossil fuel imports from Russia. Encouraged by the French government, which announced funding for fourteen nuclear power plants as part of efforts to achieve ‘sovereignty’ in electricity production, Spanish Economy Minister Nadia Calviño made investing in nuclear energy a key part of her successful bid to become EIB president in January 2024 (Tamma 2024). Days before Calviño took office, the EIB signed a loan agreement with Spain’s Societatea Nationala Nuclearelectrica SA to help finance a Tritium Removal Facility at the Cernavoda Nuclear Power Plant. When Calviño called in February 2024 for EIB investment in cutting edge modular reactors, the French finance ministry welcomed the new president’s proposal (Tamma 2024).

The war in Ukraine has also increased pressure on the EIB from some member states to support investment in the European defence industry (Interview 36, 2024). In March 2024, the European Council invited the Bank to adapt its policy for lending to the defence industry, which limited investments in the field of security and defence to dual use projects which derive more than 50 per cent of expected revenue from civilian use (Council of the EU 2024). EIB governors complied with this request two months later, and agreed ‘to accelerate the deployment of funds to strengthen Europe’s security and defence capabilities’ while maintaining the Bank's prohibition on financing weapons and ammunition (EIB 2024a). In 2025, the EIB pledged €100 billion for defence and security projects, including the construction of a military base in Lithuania (EIB 2025).

An important question about the future of EU borrowing—albeit one that has largely disappeared from view—is whether the UK might renew its relations with the EIB. The political declaration over the future of EU-UK relations, which was adopted in 2019 alongside the Brexit Withdrawal Agreement, held out hope for this possibility by noting the British government’s ‘intention to explore options for a future relationship with the European Investment Bank (EIB) Group’.[4] The launch of the UK Infrastructure Bank in July 2021 suggested that the British government had moved on from this idea. And yet, the Office for Budget Responsibility estimated that annual loans from the Leeds-based institution will amount to around a third of the annual financing received from the EIB prior to the UK’s referendum vote to leave the EU (Office for Budget Responsibility 2021). For this reason, it is conceivable that a future British government will seek a third country agreement with the EIB or even a deeper form of relationship. The Luxembourg lender has also gone quiet on this issue, but it would surely welcome a reinjection of capital from a country that was not only one of its largest shareholders but also a major influence on its organizational culture and investment policies (Liebe and Howarth 2020).

11.4.2 Ukraine and Security and Defence

On 4 March 2025, European Commission President Ursula von der Leyen unveiled plans for Security Action for Europe (SAFE), a new borrowing instrument to provide up to €150 billion for joint defence procurement (European Commission 2025). In the preceding weeks, Donald Trump had started his second term as US president by blaming Vlodymyr Zelenskyy for Ukraine’s war with Russia, seeking a reset with the Kremlin, and casting doubt on the United States’ commitment to the North Atlantic Treaty Organization (NATO). Fearing the collapse of the transatlantic alliance, EU leaders agreed that the Union ‘must strengthen its defence capabilities and strategic autonomy’ and called for further work on ‘common options for financing' related to this goal (European Council 2025). SAFE, which was adopted by the Council of the EU in May 2025, is too small to meet this ambition, but member states' early interest in securing funds suggests strong demand for European-level borrowing in this increasingly important domain (Olech 2025).

Not long after the Commission president tabled her plan for SAFE, the British government floated the idea of establishing a new European-level borrower which would be authorized to raise 'hundreds of billions of euros' for the joint purchase of military equipment (Tamma 2025). The European Rearmament Bank, as the project became known, attracted attention from a number of European governments, while raising fears about further fragmentation in European-level borrowing (Howarth and Spielberger, 2025). With limited appetite in the short-term for creating yet another multilateral financial institution, the EU and UK signed a new security and defence partnership in May 2025, which held out the possibility that the UK might participate in SAFE.

While this debate played out, European-level borrowing provided an increasingly important economic lifeline for Ukraine. In January 2025, the Commission disbursed a further €3 billion loan to Ukraine as part of EU's contribution to a Group of Seven (G7) financing initiative. The EU stood ready to provide additional Macro-Financial Assistance to Ukraine, but how the international community would support the country's long-term recovery remained unclear. A February 2025 update to Ukraine's Recovery and Reconstruction Needs Assessment puts the costs of reconstruction and recovery at €506 billion (World Bank 2025). The EU and its member states will not be solely responsible for raising this funding. However, they will come under pressure to deliver a very high share of it, not least because the United States has been by far the biggest donor of military aid to date.[5]

Given current geopolitical uncertainties, it remains to be seen when, or even whether, Ukraine's Recovery and Development Plan will ever be enacted. But under the assumption that it will be, the EBRD can be expected to play a major role in providing and mobilizing finance for reconstruction. Despite its name, the Bank was not created with the task of post-conflict reconstruction in mind. And yet, five years after it opened its doors in 1991, the EBRD took on a role in rebuilding transport links in Bosnia and Herzegovina (EBRD 2016b). Over the next two decades, the Bank invested nearly €2 billion in the Western Balkans. The EBRD also provided nearly $1 billion in support for Georgia after it was invaded by Russia in 2008.

In spite of its experience in post-conflict settings, the EBRD's current lending capacity of around €16 billion means that it will, in the absence of a substantial capital increase, need to work with other European-level borrowers to support Ukraine's recovery and reconstruction. In February 2022, the European Commission, EIB, and EBRD were among the signatories of the Lugano Declaration, which pledged support to Ukraine 'throughout its path from early to long-term recovery'.[6] Given the scale of funding required, this path is likely to entail a coordinated approach involving multiple bodies which borrow in the name of the EU.

11.4.3 The Commission as a Borrower

Although the Draghi Report was right to sound the alarm over Europe's investment gap, it remains unlikely that member states will put the Commission in charge of an all-purpose borrowing instrument to address this challenge. Inviting the Commission to borrow up to €800 billion per year would require an unprecedented increase in the headroom available under the EU budget and it would also overlap with the EIB's ongoing efforts to boost investment in the EU. The lesson of the New Community Instrument is that most member states prefer the EIB to lead on mobilizing investment funds for the EU. The lesson of the Juncker Plan and the European Fund for Strategic Investments is that the Commission understands this institutional dynamic.

Whether the Commission will be asked to lead on the provision of financial assistance to euro area member states if and when the next major economic crisis hits is more difficult to predict. Member states' willingness to empower the Commission during COVID-19 was linked to the legitimacy problems facing the ESM at this time. As of 2024, Italy had still not ratified the most recent revision to the ESM Treaty, suggesting that Eurosceptic animus towards this borrower remains strong. This does not mean that the ESM is redundant; its formidable lending capacity, which stood at €422 billion in 2024, signals to financial markets that member states stand behind the single currency during times of turmoil.

Whatever its future role may be as a borrower, the Commission is still tasked with repaying funds raised by the Recovery and Resilience Facility in full between 2028 and 2058. When the European Council agreed in July 2020 to create this facility, it also agreed to work towards new own resources, including a cross-border carbon adjustment mechanism and a digital levy. The former was duly launched in October 2023, but it is expected to raise only €9 billion per year by the end of the decade (European Commission 2021e). Plans for a digital levy have proved unpopular, raising concerns that the EU will have to make deep cuts to expenditure to cover the cost of repayments. The Draghi Report's proposed solution to this problem was to defer the repayment of pandemic borrowing, thus increasing the resources available to the Commission (Draghi 2024: 295). The day after this high-level study was published, reports emerged that the Commission was exploring ways to roll over Recovery and Resilience Facility debt (Tamma and Foy 2024). Whether member states will agree to this move is an open question.

If history is a guide, it is only a matter of time before the EU embraces further borrowing. From Jean Monnet's pathbreaking American loan to the Recovery and Resilience Facility's efforts to 'build back better' after the pandemic, EU member states have been banking on Europe for seven decades. By borrowing together at low interest rates, member states have contributed to countless policy priorities and helped manage crises in ways that would have not been possible via the Union's small, balanced budget. That these borrowing and lending operations have taken place away from the public eye is part of their appeal to politicians. However, the growing scale of European-level borrowing has given the Union a fiscal capacity which can mimic, if not match, the fiscal powers of sovereign states. The time has come to discuss how the EU borrows and how such borrowing should be held to account. Off-budget should not mean out of mind.

Notes

Chapter 1

1. Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis, *Official Journal of the European Union*, L 433I, 22 December 2020 (OJ L 433I 22.12.2020, pp. 23–7).
2. 'Total outstanding government debt and issuances', Economic and Financial Committee Sub-Committee on EU sovereign debt markets, 5 February 2024. https://economic-financial-committee.europa.eu/efc-sub-committee-eu-sovereign-debt-markets/market-characteristics_en.
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4. Recovery and Resilience Scoreboard. https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/disbursements.html.
5. Regulation (EU) 2022/2463 of the EP and of the Council of 14 December 2022 establishing an instrument for providing support to Ukraine for 2023 (Macro-Financial Assistance +) PE/71/2022/INIT. *Official Journal of the European Union*, L 322, 16 December 2022 (OJ L 322 16.12.2022, pp. 1–14).
6. We use the term 'Treasury' here as a shorthand while noting that some EU member states have treasuries which are not responsible for debt issuance.
7. The Single Resolution Board (SRB)—the body responsible for managing the resolution of the euro area's largest banks that are subject to the direct supervision of the European Central Bank—has the power to issue debt to replenish the Single Resolution Fund. The Single Resolution Mechanism Regulation (Regulation (EU) No 806/2014; Article 73.1) states: 'The Board may contract for the Fund borrowings or other forms of support from those institutions, financial institutions or other third parties, which offer better financial terms at the most appropriate time so as to optimise the cost of funding and preserve its reputation in the event that the amounts raised in accordance with Articles 70 and 71 are not immediately accessible or do not cover the expenses incurred by the use of the Fund in relation to resolution actions'. At the time of writing, the SRB has yet to use these borrowing powers.
8. Authors' own calculations based on the European Coal and Steel Community's annual accounts.
9. 77/270/Euratom: Council Decision of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations. *Official Journal of the European Union*, L 88, 06 April 1977 (OJ L 88 06.04.1977, pp. 9–10).

10. Merger Treaty. *Official Journal of the European Union*, L 152, 13 July 1967 (OJ L 152 13.07.1967, pp. 2–17).
11. 87/182/EEC: Council decision of 9 March 1987 empowering the Commission to borrow under the New Community Instrument for the purpose of promoting investment within the Community. *Official Journal of the European Union*, L 71, 14 March 1987 (OJ L 71 14.03.1987, pp. 34–5).
12. Council Regulation (EEC) No 1969/88 of 24 June 1988 establishing a single facility providing medium-term financial assistance for member states' balances of payments. *Official Journal of the European Union*, L 178, 8 July 1988 (OJ L 178 08.07.1988, pp. 1–4). Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilisation mechanism. *Official Journal of the European Union*, L 118, 12 May 2010 (OJ L 118 12.05.2010, pp. 1–4). On Macro-Financial Assistance, see, for example, Decision (EU) 2017/1565 of the EP and of the Council of 13 September 2017 on providing Macro-Financial Assistance to the Republic of Moldova. *Official Journal of the European Union*, L 242, 20 September 2017 (OJ L 242 20.09.2017, pp. 14–20).
13. The EFSM was based on a different treaty provision from the Community Loan Mechanism and involved the first use of Art 122.2 TFEU since it had been created in the Maastricht Treaty (European Parliament 2023).
14. Agreement Establishing the European Bank for Reconstruction and Development (1990).
15. EFSF Framework agreement (2010). Treaty establishing the European Stability Mechanism (2010).
16. European Stability Mechanism. https://www.esm.europa.eu/content/how-much-paid-capital-have-esm-members-contributed.
17. Political declaration setting out the framework for the future relationship between the European Union and the United Kingdom. *Official Journal of the European Union*, C 384 I/02, 12 November 2019 (OJ C 384 I/02 12.11.2019, pp. 178–93).

Chapter 2

1. Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the EU and repealing Decision 2014/335/EU, Euratom. *Official Journal of the European Union*, L 424, 15 December 2020 (OJ L 424 15.12.2020, p. 1–10).
2. Article 125 TFEU.
3. Austria, Denmark, Germany, the Netherlands, and Sweden in negotiations over the Multiannual Financial Framework for 2021–7.
4. We do not include Boven's concepts of legal and professional accountability into our analysis. Professional accountability is less relevant to our study, while the occasional role of courts in passing judgment on European-level borrowers is discussed in Chapters 4, 5, and 6.

Chapter 3

1. 'Communique published on April 23rd 1954 by the High Authority of the European Coal and Steel Community and the Government of the United States'. *Official Journal of the European Union*, A 8, 7 May 1954 (OJ A 8 07.05.1954, p. 339).

2. Bundesarchiv (hereafter B) 146.283 'Kurzprotokoll über die Besprechung zwischen Herrn MONNET und Staatssekretär Prof. Dr. HALLSTEIN im Planungsamt', 29 August 1950.
3. B 146.283 'Kurzprotokoll über die Besprechung zwischen Herrn MONNET und Staatssekretär Prof. Dr. HALLSTEIN im Planungsamt', 29 August 1950.
4. Article 49, Treaty Establishing the European Coal and Steel Community (1951).
5. Article 51, Treaty Establishing the European Coal and Steel Community (1951).
6. Article 54, Treaty Establishing the European Coal and Steel Community (1951).
7. Archives of the Centre virtuel de la connaissance sur l'Europe (hereafter CVCE) 'M. Jean Monnet envisage de lancer un "emprunt européen"', *Le Monde*, 4 December 1952. https://www.cvce.eu/obj/m_jean_monnet_envisage_de_lancer_un_emprunt_europeen_dans_le_monde_4_decembre_1952-fr-39dd83d4-80ef-4d78-b8f5-3e6223a4dac0.html.
8. CVCE 'Interview with Edmund Wellenstein: The negotiations for the first loan to the ECSC High Authority', 27 August 2009. https://www.cvce.eu/en/obj/interview_with_edmund_wellenstein_the_negotiations_for_the_first_loan_to_the_ecsc_high_authority_the_hague_27_august_2009-en-593dd872-6639-4afc-8aa3-1d1a66433876.html.
9. CVCE 'Interview with Edmund Wellenstein: The negotiations for the first loan to the ECSC High Authority', 27 August 2009. https://www.cvce.eu/en/obj/interview_with_edmund_wellenstein_the_negotiations_for_the_first_loan_to_the_ecsc_high_authority_the_hague_27_august_2009-en-593dd872-6639-4afc-8aa3-1d1a66433876.html; Historical Archives of the European Union (thereafter HAEU) JMAS-87 'Letter from Jean Monnet to John Foster Dulles', 6 June 1953.
10. HAEU, JMAS-80 'Draft letter from President Eisenhower to Senator Wiley, chairman of the US Senate Foreign Relations Committee', 17 June 1953.
11. The American Presidency Project's archives, 'The president's news conference (Dwight D. Eisenhower)', 16 December 1953. https://www.presidency.ucsb.edu/documents/the-presidents-news-conference-482.
12. HAEU, JMDS-33, 'Memo from David Richardson to Charles Urschel Jr., US gov.', 12 November 1954.
13. HAEU, CM3/NEGO6 'Projet de procès-verbal de la reunion des Ministres des Affaires Etrangères des Etas members de la C.E.C.A. réunis à Messine', 1–2 June 1955.
14. HAEU, CM3/NEGO6 'Mémorandum du gouvernement italien sur la poursuite de l'intégration', 1 June 1955.
15. HAEU, CM3/NEGO6 'Résolution adoptée par les Ministres des Affaires étrangères des Etats membres de la C.E.C.A. réunis à Messine', 1–2 June 1955.
16. HAEU, JMAS-33 'Memorandum from John Foster Dulles Secretary of State to President Eisenhower stating support for cooperation in field of atomic energy as a step towards a united Europe', 9 January 1956.
17. Articles 172 and 174, Treaty Establishing the European Atomic Energy Community (1958).
18. Article 173, Treaty Establishing the European Atomic Energy Community (1958).
19. HAEU, BAC-118/1886/1823, Note on the credit standing of Euratom, 25 July 1958.
20. B 146.283 'Kurzprotokoll über eine Aussprache zwischen Herrn Monnet und der Deutschen Delegation', 22 June 1950.

21. B 146.283 'Kurzprotokoll über die Besprechung zwischen Herrn MONNET und Staatssekretär Prof. Dr. Hallstein im Planungsamt', 29 August 1950.
22. HAEU JMDS-72 'Status of Schuman Plan Conference', Declassified 22 March 1990.
23. B 146.256 'Vermerk Betr. Stand der Schuman-Plan Verhandlungen', 28 November 1950.
24. HAEU, JMDS-71 'Interview with Etienne Hirsch', 22 September 1987.
25. Article 52, Treaty Establishing the European Coal and Steel Community (1951).
26. Article 50, Article 52, Treaty Establishing the European Coal and Steel Community (1951).
27. HAEU CM3/NEGO6 'Mémorandum du gouvernement italien sur la poursuite de l'intégration', 1 June 1955.
28. HAEU CM3/NEGO6 'Projet de procès-verbal de la reunion des Ministres des Affaires Etrangères des Etas members de la C.E.C.A. réunis à Messine', 1–2 June 1955.
29. HAEU CM3/NEGO6 'Résolution adoptée par les Ministres des Affaires étrangères des Etats membres de la C.E.C.A. réunis à Messine', 1–2 June 1955.
30. HAEU CM3/NEGO248 'Projet de statut du fonds européen d'investissements présenté par la delegation allemande', 24 September 1956; HAEU CM3/NEGO138 'Projet de procès-verbal des reunions du Groupe du marché commun tenues à Bruxelles', 24–6 September 1956; HAEU CM3/NEGO249 'Exposé du president du Groupe du marché commun aux chefs de delegation concernant le fonds d'investissement', 3 December 1956; HAEU, CM3/NEGO250 'Projet d'articles concernant la banque européenne d'investissement', 12 January 1957.
31. HAEU CM3/NEGO138 'Projet de procès-verbal des reunions du Groupe du marché commun tenues à Bruxelles', 24–6 September 1956.
32. HAEU CM3/NEGO138 'Projet de procès-verbal des reunions du Groupe du marché commun tenues à Bruxelles', 24–6 September 1956.
33. Article 11, Protocol on the Statute of the European Investment Bank (1957).
34. HAEU CM3/NEGO138 'Projet de procès-verbal des reunions du Groupe du marché commun tenues à Bruxelles', 24–6 September 1956.
35. HAEU CM3/NEGO138 'Projet de procès-verbal des reunions du Groupe du marché commun tenues à Bruxelles', 24–6 September 1956.
36. Article 130, Treaty Establishing the European Economic Community (1957).
37. Article 130, Treaty Establishing the European Economic Community (1957).
38. HAEU JMDS-119 'Letter from the RAND corporation to Robert Schaetzel', 18 November 1957.
39. HAEU JMDS-120 'Aide-mémoire sur la réunion du comite des représentants permanents—objet: Entretiens en matière nucléaire avec les Etats-Unis', 14 April 1958; HAEU JMDS-120 'Note concernant les travaux à accomplir pour la mise en route du programme joint Euratom-Etats-Unis', 30 May 1958.
40. B 126 815 Folder 2 'Diskussion im BMAtom', 11 April 1958.
41. 45 HAEU JMDS-120 'Note on the European sources of financing for the Euratom—AEC program', 3 July 1958.
42. 46 HAEU, BAC-118/1986_1824, Euratom loan from EXIMBANK 1959, 31 March 1959; HAEU, BAC-118/1986_1924, Note from Nacivet to the Commission, 31 March 1959.
43. HAEU BAC-118/1986_1823 'Note on the credit standing of Euratom', 25 July 1958; HAEU, BAC-118/1986_1823 'Letter from Commission legal service to Exim Bank', 7 November 1958.

Chapter 4

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2. Historical Archives of the European Union (hereafter HAEU), CEUE_ORTO-125, Advice from the Monetary Committee, 11 July 1974.
3. Regulation (EEC) No 397/75 of the Council of 17 February 1975 concerning Community loans. *Official Journal of the European Union*, L 46, 20 February 1975 (OJ L 46 20.02.1975, pp. 1–2).
4. Article 108, Treaty Establishing the European Economic Community (1958).
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6. Council Decision of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations, 77/270/Euratom. *Official Journal of the European Union*, L 88, 6 April 1977 (OJ L 88 06.04.1977, pp. 9–10).
7. Bundesarchiv (hereafter B) 102.316889 'Zur Tagung der Finanz- und Wirtschaftsminister am 22.2.1975 Betr. Entwurf für einen Beschluß, mit dem die Kommission im Hinblick auf einen Beitrag der Gemeinschaft zur Finanzierung von Kernkraftwerken zur Aufnahme von Euratomanleihen ermächtigt wird', 19 September 1975; 19/9/755; B136.30941 'Fernschreiben Betr. Euratomanleihen zur Finanzierung von Kernanlagen', 30 October 1975.
8. B 102.316889 'BMF Zur Tagung der Finanz- und Wirtschaftsminister am 22.2.1975 Betr. Entwurf für einen Beschluß, mit dem die Kommission im Hinblick auf einen Beitrag der Gemeinschaft zur Finanzierung von Kernkraftwerken zur Aufnahme von Euratomanleihen ermächtigt wird', 19 September 1975; B136.30941 'Fernschreiben BMWI Betr. Euratomanleihen zur Finanzierung von Kernanlagen', 30 October 1975.
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13. 83/200/EEC: Council Decision of 19 April 1983 empowering the Commission to contract loans under the new Community instrument for the purpose of promoting investment within the Community. *Official Journal of the European Union*, L 112, 28 April 1983 (OJ L 112 28.04.1983, pp. 26–7).
14. Proposal for a Council decision empowering the commission to borrow under the New Community Instrument to stabilize the level of debt outstanding for the purpose of promoting investment within the Community, Com (88) 661 final.
15. Council Regulation (EEC) No 1131/85 of 30 April 1985 amending Regulation (EEC) No 682/81 adjusting the Community Loan Mechanism designed to support the balances of payments of member states. *Official Journal of the European Union*, L 118, 1 May 1985 (OJ L 118 01.05.1985, p. 59).
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29. B 136.30941 'Europäischer Rat am 1–2 Dezember 1980 TOP 4 b. Gemeinschaftsanleihe', 1 December 1980; B 126.76079 'Einzelheiten zum Bericht über die Sitzung des Währungsuasschusses am 10. Oktober 1980 in Brüssel', 14 October 1980.
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36. HAEU BAC 228/2012 365 ‘Monetary Committee 1986 Modification of the Community instruments designed to provide medium-term support for the BoP of MS: Proposal to establish a single mechanism’, 30 January 1986.
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41. Draft Council Decision empowering the Commission to issue Euratom loans with a view to a Community contribution towards the financing of nuclear power stations. *Official Journal of the European Union*, C 35, 14 February 1975 (OJ C 35 14.02.1975, p. 6).
42. B 136.30941 ‘BMWI Fernschreiben Betr. Euratomanleihen zur Finanzierung von Kernanlagen’, 31 October 1975.
43. Bundesarchiv B 102.316889 ‘Aufzeichnung für die Sitzung des Staatssekretärsausschusses für Europafragen am 19. September 1975’, 18 September 1975.
44. Bundesarchiv, B 136.30941 ‘BMWI Fernschreiben Betr. Euratomanleihen zur Finanzierung von Kernanlagen’, 31 October 1975.
45. SAEF B-0083236/2 ‘Note pour le ministre—Objet. Mécanisme de crédit communautaire. “Facilite Ortoli” et crédits a court terme et à moyen terme’, n.d.
46. Hyugens Instituut, Archief Nederland en Europese Integratie, Z000391 ‘Notulen van de vergedering gehouden op vrijdag 24 juni 1977 in het Catshuis, ‘s morgens van half negen tot half tien’, 24 June 1977; SAEF B-0083236/2 ‘Note pour le ministre—Objet. Mécanisme de crédit communautaire: “facilite Ortoli” et crédits a court terme et à moyen terme’, n.d.
47. B 136.30941 ‘Tagung des EG-Rates Betr. Invesititonen und Anleihe in der Gemeinschaft. Authors’, 21 June 1977.

48. SAEF B-0083216/1 'Note objet. Conseil ECO/FIN du 7 février 1982—Projet de règlement présenté par la Commission sure le NIC III', 4 February 1983.
49. Council Decision of 7 November 1988 relating to exceptional Community aid for the reconstruction of the areas stricken by earthquakes which took place in Greece in September 1986 (88/561/EEC). *Official Journal of the European Union*, L 309, 15 November 1988 (OJ L 309 15.11.1988, pp. 32–2).
50. B 102/433770 'Fernschreiben BMWI Betr. ECOFIN-Rat vom 7.11.88 hier top 7 Finanzierung von grossen Infrastrukturvorhaben europäaischen Interesses', 8 November 1988; SAEF PH 234/11-0005: 'Conseil ECO/FIN à Bruxelles, lundi 11 mai 1987 A 14h30. Éléments d'interventions pour le ministre d'état', 11 May 1987.
51. Archives of the Centre virtuel de la connaissance sur l'Europe (hereafter CVCE) 'Draft treaty on Union proposed by the Luxembourg presidency (Luxembourg, 18 June 1991)'. https://www.cvce.eu/en/obj/the_draft_treaty_on_union_proposed_by_the_luxembourg_presidency_luxembourg_18_june_1991-en-dbebd2a6-a860-4915-8edf-0a228ecde976.html.
52. Article 103a, Treaty Establishing the European Community (1992). This provision was eventually renumbered Article 122, Treaty on the Functioning of the European Union.

Chapter 5

1. Council Regulation (EC) No 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for member states' balances of payments. *Official Journal of the European Union*, L 53, 23 February 2002 (OJ L 53 23.02.2002, pp. 1–3).
2. Council Decision (EC) 102/2009 of 4 November 2008 providing Community medium-term financial assistance for Hungary. *Official Journal of the European Union* L 37, 6 February 2009 (OJ L 37, 6.2.2009, pp. 5–6). Council Regulation (EC) No 1360/2008 of 2 December 2008 amending Regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance for member states' balances of payments. *Official Journal of the European Union*, L. 352, 31 December 2008 (OJ L 352, 31.12.2008, p. 11).
3. The World Bank offered €1 billion in loans to Hungary at this time, although this funding was not drawn down.
4. Council Decision of 20 January 2009 providing Community medium-term financial assistance for Latvia (2009/290/EC) *Official Journal of the European Union*, L 79, 25 March 2009 (OJ L 79 25.03.2009, pp. 39–41). Council Decision of 6 May 2009 providing Community medium-term financial assistance for Romania (2009/459/EC) *Official Journal of the European Union*, L 150, 13 June 2009 (OJ L 150 13.06.2009, pp. 8–9). Council Regulation (EC) No 431/2009 of 18 May 2009 amending Regulation (EC) No 332/2002 establishing a facility providing medium-term financial assistance for member states' balances of payments. *Official Journal of the European Union*, L 128, 27 May 2009 (OJ L 128 27.05.2009, pp. 1–2).
5. Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilization mechanism. *Official Journal of the European Union*, L 118, 12 May 2010 (OJ L 118 12.05.2010, pp. 1–4).

6. Article 2, Council Regulation (EC) No 332/2002 and Article 6 Council Regulation (EC) No 332/2002.
7. Article 8, Council Regulation (EC) No 332/2002 and Article 3, Council Regulation (EC) No 332/2002.
8. Archives of the Centre virtuel de la connaissance sur l'Europe (hereafter CVCE) 'Draft treaty on Union proposed by the Luxembourg presidency (Luxembourg, 18 June 1991)'. https://www.cvce.eu/en/obj/the_draft_treaty_on_union_proposed_by_the_luxembourg_presidency_luxembourg_18_june_1991-en-dbebd2a6-a860-4915-8edf-0a228ecde976.html.
9. Article 103, Treaty Establishing the European Community (1992).
10. The treaty provision in question had been changed to Article 122 of the Treaty on the Functioning of the European Union by this point.
11. Article 136, TFEU.
12. Article 2(5b), EFSF Framework Agreement (2010).
13. To achieve the agreed amount of assistance (€440 billion in lending), while maintaining a triple-A credit rating, in 2011, euro area national governments agreed to increase the EFSF guarantees to €780 billion, an adjusted guarantee of 165 per cent (Council of the EU 2011; ESM 2019: 88–9).
14. Fearing that cross-border banking groups could withdraw funding from the EU's new member states, the European Commission and the EIB also joined forces with the European Bank for Reconstruction and Development, the IMF, and the World Bank European Bank to create the Vienna Initiative (Spielberger 2023).
15. Organisation for Economic Co-operation and Development, 'Interest rates: Long-term government bond yields. 10-year: Main (including benchmark) for Greece' [IRLTLT01GRM156N], retrieved from FRED, Federal Reserve Bank of St Louis, 14 August 2024 https://fred.stlouisfed.org/series/IRLTLT01GRM156N.
16. IMF, 'General government gross debt for Italy' [GGGDTAITA188N], retrieved from FRED, Federal Reserve Bank of St Louis, 14 August 2024. https://fred.stlouisfed.org/series/GGGDTAITA188N.
17. Organisation for Economic Co-operation and Development, 'Interest rates. Long-term government bond yields: 10-year. Main (including benchmark) for Greece' [IRLTLT01GRM156N], retrieved from FRED, Federal Reserve Bank of St Louis, 14 August 2024. https://fred.stlouisfed.org/series/IRLTLT01GRM156N.
18. 'European Financial Stability Facility and Euro Area Loan Facility (Amendment) Bill 2011: Second Stage', Dáil Éireann debate, Tuesday, 20 September 2011, Vol. 740 No. 3.
19. IMF, 'General government gross debt for Greece' [GGGDTAGRC188N], retrieved from FRED, Federal Reserve Bank of St Louis, 14 August 2024. https://fred.stlouisfed.org/series/GGGDTAGRC188N.
20. Article 9, Council Regulation (EU) No 407/2010 of 11 May 2010 establishing a European financial stabilization mechanism.
21. See, for example, 'Bill cash asked the chancellor of the exchequer', European Foundation, 24 May 2011. https://europeanfoundation.org/bill-cash-asked-the-chancellor-of-the-exchequer-4/.
22. Council Regulation (EU) 2015/1360 of 4 August 2015 amending Regulation (EU) No 407/2010 establishing a European financial stabilization mechanism. *Official Journal of the European Union*, L 210, 7 August 2015 (OJ L 210 07.08.2015, pp. 1–2).
23. *Pringle v Government of Ireland & Others*, [2014] IEHC 174.
24. *Pringle v Government of Ireland* (2012) C-370/12, para. 109.

Chapter 6

1. Article 130, Treaty Establishing the European Economic Community (1957).
2. Council resolution of 9 June 1980 concerning Community energy policy objectives for 1990 and convergence of the policies of the member states. *Official Journal of the European Union*, C 149, 18 June 1980 (OJ C 149 18.06.1980, p. 1).
3. Council Decision of 19 April 1983 empowering the Commission to contract loans under the new Community instrument for the purpose of promoting investment within the Community (83/200/EEC). *Official Journal of the European Union*, L 112, 28 April 1983 (OJ L 112 28.04.1983, pp. 26–7).
4. Historical Archives of the European Union (hereafter HAEU), BEI-956, 'Procès-verbal du Conseil des gouverneurs du 11 juin 1985 à Luxembourg', 11 June 1985.
5. HAEU, BEI-995, 'Procès-verbal du conseil des gouverneurs du 11 juin 1990 à Luxembourg', 11 June 1990.
6. HAEU, BEI-995, 'Procès-verbal du conseil des gouverneurs du 11 juin 1990 à Luxembourg', 11 June 1990.
7. HAEU, BEI-995, 'Procès-verbal du conseil des gouverneurs du 11 juin 1990 à Luxembourg', 11 June 1990.
8. Service des archives économiques et financières (hereafter SAEF), PH 234/11-0005, 'Note pour le ministre—Développement de l'ingénierie financière au niveau communautaire', 27 June 1986.
9. Algemeen Rijksarchief (hereafter ARA), Ministerie van Financiën. Dienst Internationale en Financiële Europese Aangelegenheden 2591.296, Nota voor de Heer minister—ECOFINraad van 6 februari 1984, 3 February 1984.
10. ARA, 'Ministerie van Financiën. Dienst Internationale en Financiële Europese Aangelegenheden 2591.257, Jaarvergadering van de Raad van Gouverneurs van de Europese Investeringsbank van 10 juni 1991—Verslag aan de Heer Minister', 19 June 1991.
11. Genesis Social Housing, EIB Project Reference: 20150743. https://www.eib.org/en/projects/pipelines/all/20150743.
12. Article 15, Political declaration setting out the framework for the future relationship between the European Union and the United Kingdom. *Official Journal of the European Union*, C 384 I/02, 12 November 2019 (OJ C 384 I/02 12.11.2019, pp. 178–93).
13. Article 151, Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community. *Official Journal of the European Union*, C 384 I/01, 12 November 2019 (OJ C 384 I/01 12.11.2019, pp. 1–177).
14. SAEF PH 233/11-0004, 'Conseil ECOFIN informel des 7 et 8 avril 1994—Livre Blanc / Réseaux transeuropéens / Observations préliminaires de la Commission sur le financement des projets dans les domaines des transports et de l'énergie', 7 April 1994.

Chapter 7

1. Article 309, Treaty on the Functioning of the European Union.
2. Fifteen investment projects were funded in the first four years, including €10.3 million to finance an irrigation system in Thessaloniki and €10 million for an aluminium production company in Boeotia. Agreement establishing an association between the European

Economic Community and Greece, signed at Athens on 9 July 1961. *Official Journal of the European Union*, P 26, 18 February 1963 (OJ P 26 18.02.1963, p. 294).
3. Article 18, Statute Establishing the European Investment Bank, Protocol to the Treaty of Rome (1957).
4. Article 1, Agreement Establishing the EBRD (1990).
5. 94/179/Euratom: Council Decision of 21 March 1994 amending Decision 77/270/Euratom, to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries. *Official Journal of the European Union* L (84), 29 March 1994 (OJ L 84, 29.3.1994, pp. 41–4). The nine countries that were initially eligible to receive Euratom loans were Armenia, the Czech Republic, Hungary, Lithuania, Russia, Romania, Slovakia, Slovenia, and Ukraine.
6. The instrument was initially referred to as Medium-Term Financial Assistance.
7. In mid-2024, the following countries (in alphabetical order) had outstanding Micro-Financial Assistance loans and/or grants: Albania, Bosnia-Herzogovina, Egypt, Georgia, Jordan, Kosovo, Macedonia, Moldova, Montenegro, Tunisia, and Ukraine.
8. 91/408/EEC: Council Decision of 22 July 1991 on financial aid for Israel and the Palestinian population of the Occupied Territories. *Official Journal of the European Union*, L 227, 15 August 1991 (OJ L 227 15.08.1991, pp. 33–5).
9. Decision (EU) 2022/313 of the European Parliament and of the Council of 24 February 2022 providing Macro-Financial Assistance to Ukraine, PE/5/2022/REV/1. *Official Journal of the European Union*, L 55, 28 February 2022 (OJ L 55 28.02.2022, pp. 4–11).
10. Regulation (EU) 2022/2463 of the European Parliament and of the Council of 14 December 2022 establishing an instrument for providing support to Ukraine for 2023 (Macro-Financial Assistance +) PE/71/2022/INIT. *Official Journal of the European Union*, L 322, 16 December 2022 (OJ L 322 16.12.2022, pp. 1–14).
11. European Council 'Commission welcomes political agreement on the up to €50 billion Ukraine Facility' Press Release IP/24/6586, 6 February 2024.
12. Archives of the Centre virtuel de la connaissance sur l'Europe (hereafter CVCE) 'Draft Franco-Belgian report on the association of the overseas countries and territories with the EEC (Brussels, 2 October 1956)'. https://www.cvce.eu/en/education/unit-content/-/unit/dd10d6bf-e14d-40b5-9ee6-37f978c87a01/804bc4e9-12bc-473b-a58c-ee32160cb075/Resources#6aebb743-f9dd-4c64-903c-db9dc9256b90_en&overlay.
13. CVCE 'Note from the French Delegation on the issue of the association of the overseas countries and territories', 15 February 1957, CVCE Archive, University of Luxembourg. https://www.cvce.eu/en/education/unit-content/-/unit/dd10d6bf-e14d-40b5-9ee6-37f978c87a01/804bc4e9-12bc-473b-a58c-ee32160cb075/Resources#9a71a0f8-c2bf-4b09-a7d3-005127e10d4c_en&overlay.
14. CVCE 'Ministère des Affaires étrangères de la République Française. Note de la Direction des Affaires économiques et financières, 5 février 1957'. https://www.cvce.eu/obj/note_de_la_direction_generale_des_affaires_economiques_et_financieres_paris_30_septembre_1957-fr-5410e52f-544e-446a-8e8f-8f7df45d986e.html.
15. Algemeen Rijksarchief (hereafter ARA), 'Ministerie van Financiën. Dienst Internationale en Financiële Europese Aangelegenheden, 2591.1605 (provisional), Intervention de Philippe Maystadt, ministre des finances de Belgique, a l'ECOFIN du 9 Octobre 1989', 9 October 1989.

16. Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions. *Official Journal of the European Union*, L 293, 12 November 1994 (OJ L 293 12.11.1994, p. 1). SAEF, PH 224/11 0004, 13/11/1991 Letter from Bérégovoy to Delors.
17. Council Regulation (EC, Euratom) No 2728/94, Art 6.
18. The National Archives, UK (hereafter TNA) FCO 98/4423, Telegram 168 'European Bank for Reconstruction and Development (EBRD): G-24 High Level Group on the EBRD: 9 February', 10 February 1990.
19. TNA, FCO 98/4423, Telegram 160 'European Bank for Reconstruction and Development (EBRD): EC 12 High Level Group: 8 February', 9 February 1990.
20. TNA, FCO 98/4423, Telegram 160 'European Bank for Reconstruction and Development (EBRD): EC 12 High Level Group: 8 February', 9 February 1990.
21. The EBRD in Russia. https://www.ebrd.com/russia.html.
22. US House. Committee on Banking, Housing, and Urban Affairs. 2020. Nominations of Judy Shelton and Christopher Waller. Hearing, 13 February. Washington: Government Printing Office.
23. This process was originally called Capital Resources Review. For EIB figures, see: https://www.eib.org/en/about/key-figures/data.htm.
24. Article 212, Treaty on the Functioning of the European Union.
25. Proposal for a Regulation of the European Parliament and the Council laying down general provisions for Macro-Financial Assistance to third countries, COM/2011/0396 final (Brussels: European Commission).
26. Service des archives économiques et financières (hereafter SAEF) PH 234/11-0009, Sommet Franco-Espagnol; Objet. Intervention de la BEI en Pologne et en Hongrie, 9 October 1989; SAEF, PH 234/11-0009, 27/11/89 Compte rendu de la 359ieme session du Comité monetaire, 15 November 1989.
27. 'Déclaration de Meseberg—Renouveler les promesses de l'Europe en matière de sécurité et de prospérité', Élyseé, 19 June 2018. https://www.elysee.fr/front/pdf/elysee-module-1980-fr.pdf.

Chapter 8

1. Article 122, Treaty on the Functioning of the European Union.
2. Article 175, Treaty on the Functioning of the European Union.
3. European Commission Implementing Decision (EU) of 12.12.2023 establishing the arrangements for the administration and implementation of the Union borrowing and debt management operations under the diversified funding strategy and related lending operations. Brussels, 12.12.2023C(2023) 8010 final.
4. 'European Union—French-German initiative for the European recovery from the coronavirus crisis', Ministre de l'Europe et des affaires étrangères, 18 May.
5. 'The French-German COVID-19 Recovery Plan', YouTube video uploaded by Florence School of Banking and Finance, 18 June 2020. Cited in Donnelly (2021). https://www.youtube.com/watch?v=Lv72viMhwOk.
6. Recovery and Resilience Facility Scoreboard. https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/disbursements.html.

7. BVerfG, Judgement of the Second Senate of 12 September 2012—2 BvR 1390/12. https://www.bundesverfassungsgericht.de/e/rs20120912_2bvr139012en.html.
8. This contestation was most visible, at first, in Germany, where Alexander Gauland, a member of the Christian Democratic Union, Bernd Lucke, an economics professor, and Konrad Adam, a journalist, formed Electoral Alternative 2013 to oppose the ESM. Within a year, Alternative für Deutschland, as the group was renamed, had won seven seats in the European Parliament. Within four years, it became the main opposition party in the Bundestag.
9. 'German president withholds signature for ESM reform following constitutional court challenge', *Brussels Report*, 2 July 2021. https://www.brusselsreport.eu/2021/07/02/german-president-withholds-signature-for-esm-reform-following-constitutional-court-challenge/.
10. Article 12(3) Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak. *Official Journal of the European Union* L 159 20 May 2020 (OJ L 159, 20.5.2020, pp. 1–7).
11. 'European Union—French-German initiative for the European recovery from the coronavirus crisis', Paris, Ministre de l'Europe et des affaires étrangères, 18 May 2020.

Chapter 9

1. Council Decision (EU) 2024/1144 of 12 April 2024 providing short-term macro-financial assistance to the Arab Republic of Egypt, ST/8309/2024/INIT, *Official Journal of the European Union*, L 2024/1144, 15 April 2024 (OJ L 2024/1144 15.04.2024, pp. 1–7). €1 billion in short-term assistance was disbursed under this decision. A further €4 billion in medium-term assistance was also envisaged.
2. Article 54, Treaty Establishing the European Coal and Steel Community (1951).
3. Article 175, Treaty Establishing the European Atomic Energy Community (1957).
4. Regulation (EEC) 397/75 of the Council of 17 February 1975 concerning Community loans. *Official Journal of the European Union* L 46, 20 February 1975 (OJ L 46, 20.2.1975, pp. 1–2).
5. Council Regulation (EEC) 682/81 of 16 March 1981 adjusting the Community loan mechanism designed to support the balance of payments of member states. *Official Journal of the European Union* L 73, 19 March 1981 (OJ L 73, 19.3.1981, pp. 1–2). Council Regulation (EEC) 1131/85 of 30 April 1985 amending Regulation (EEC) 682/81 adjusting the Community loan mechanism designed to support the balance of payments of member states. *Official Journal of the European Union* L 118, 1 May 1985 (OJ L 118, 01/05/1985, p. 59).
6. Article 2, Council Decision 78/870/EEC of 16 October 1978 empowering the Commission to contract loans for the purpose of promoting investment within the Community. *Official Journal of the European Union* OJ L, 25 October 1978 (OJ L 298, 25.10.1978, pp. 9–10).
7. Article 1, Council Decision (Euratom) 77/270/ of 29 March 1977 empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations. *Official Journal of the European Union* L 88, 6 April 1977 (OJ L 88, 6.4.1977, pp. 9–10).

8. Council Regulation (EC) 332/2002 of 18 February 2002 establishing a facility providing medium-term financial assistance for member states' balances of payments. *Official Journal of the European Union* L 54, 23 February 2002 (OJ L 53, 23.2.2002, pp. 1–3). Council Regulation (EU) 407/2010 of 11 May 2010 establishing a European financial stabilization mechanism. *Official Journal of the European Union* L 118, 12 May 2010 (OJ L 118, 12.5.2010, pp. 1–4).
9. Articles 2 and 3, Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis. *Official Journal of the European Union*L 433 I, 22 December 2020 (OJ L 433I, 22.12.2020, pp. 23–7).
10. Article 20, Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. *Official Journal of the European Union* OK L 56, 18 February 2021 (OJ L 57, 18.2.2021, pp. 17–75).
11. Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak. *Official Journal of the European Union* OJ L 159, 20 May 2020 (OJ L 159, 20.5.2020, pp. 1–7).
12. A notable exception was the Council's intense interest in rule-of-law-related milestones in Poland and Hungary's Recovery and Resilience Plans. As a result of these concerns, Hungary had received only €920 million in pre-financing aid under the Recovery and Resilience Facility by mid-2004. Poland received its first loans in April 2024 only after Donald Tusk's Civic Platform won power and promised to reverse its predecessor's controversial reforms to the Polish judiciary.
13. Recital 52, Regulation (EU) 2021/241.
14. Article 51, Treaty Establishing the European Coal and Steel Community (1951).
15. Article 4, Regulation (EEC) 397/75.
16. Council Decision (EEC) 77/41 4/EEC.
17. Council Regulation (EEC) 682/81.
18. Article 4, Council Decision 78/870/EEC.
19. Proposal (European Commission) for a Council Decision empowering the commission to borrow under the New Community Instrument to stabilize the level of debt outstanding for the purpose of promoting investment within the Community, Com(88) 661 final.
20. Article 6, Council Regulation (EU) 407/2010. *Official Journal of the European Union* L 118, 12 May 2010 (OJ L 118, 12.5.2010, pp. 1–4).
21. Recital 158, Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) 1296/2013, (EU) 1301/2013, (EU) 1303/2013, (EU) 1304/2013, (EU) 1309/2013, (EU) 1316/2013, (EU) 223/2014, (EU) 283/2014, and Decision 541/2014/EU and repealing Regulation (EU, Euratom) 966/2012. *Official Journal of the European Union* l 193, 30 July 2018 (OJ L 193, 30.7.2018, pp. 1–222).
22. Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters, and on sound financial management, as well as on new own resources, including a roadmap towards the introduction of new own resources. *Official Journal of the European Union*, L 433, 22 December 2020 (OJ L 433 22.12.2020, pp. 28–36).

23. Article 9 (5), Council Decision 2020/2053.
24. Article 199, Treaty Establishing the European Economic Community (1957). Article 78, Treaty amending Certain Financial Provisions (1975).
25. The Council made several technical arguments to make the political point of keeping borrowing off budget—and therewith outside the EP's control (Strasser 1992: 319). Its main contentions were (1) that borrowing could not be part of the budget because the budget had to be in balance, (2) that borrowings were already authorized in the legislation that had created borrowing instruments, and (3) that a separate budget entry would have produced a double authorization.
26. Point 34, 'Resolution on the functioning of the Treaty on European Union with a view to the 1996 Intergovernmental Conference—Implementation and development of the Union'. *Official Journal of the European Union*, C 151, 19 June 1995 (OJ C 151 19.06.1995, p. 56).
27. Article 213, Treaty on the Functioning of the European Union.
28. See, for example, Article 8, Decision (EU) 2020/701 of the EP and of the Council of 25 May 2020 on providing macro-financial assistance to enlargement and neighbourhood partners in the context of the COVID-19 pandemic. *Official Journal of the European Union* l/165, 25 May 2020 (OJ L 165, 27.5.2020, pp. 31–7).
29. The European Commission is required under Article 9, Council Regulation (EU) 407/2010 to submit a report on the implementation of the EFSM, but this goes to the Economic and Financial Committee and the Council rather than the EP.
30. European Parliament resolution of 23 June 2022 on the implementation of the Recovery and Resilience Facility (2021/2251(INI)) (Brussels: European Parliament).
31. Article 78, Treaty Establishing the European Coal and Steel Community (1951).
32. Resolution containing the comments accompanying the decision granting a discharge on the implementation of the budget of the European Communities for the 1978 financial year. *Official Journal of the European Union*, L 180, 14 July 1980 (OJ L 180 14.07.1980, p. 13).
33. 'Opinion of the Committee on Budget Control on the implementation report on the Recovery and Resilience Facility', European Parliament, 2021/2251(INI) (Brussels: European Parliament).
34. National auditors have shown occasional interest in Commission borrowing instruments. The Dutch Algemene Rekenkamer, for instance, conducted an examination of EU economic governance during the euro crisis (Interview 8, 2023) and the German Bundesrechnungshof warned in 2021 that the Recovery and Resilience Facility could open the door to debt mutualization (Bundesrechnungshof 2021). The Italian Corte dei Conti also took an interest in the Recovery and Resilience Facility, focusing, *inter alia*, on the needs for sound financial management of EU funds and the consequences for Italian public finances of guaranteeing EU borrowing instrument (Corte dei Conti 2021, 2022).
35. Article 18, Regulation (EU) 2021/241. *Official Journal of the European Union*, L/57, 18 February 2021 57 (OJ L 57, 18.2.2021, pp. 17–75).
36. Decision (European Ombudsman) on the European Commission's refusal to give full public access to documents related to the German national plan under the Recovery and Resilience Facility', Case 137 2023/SF, 26 October.

37. Decision (European Ombudsman) on how the Frontex complies with its fundamental rights obligations with regard to search and rescue in the context of its maritime surveillance activities, in particular the Adriana shipwreck (OI/3/S/MHZ).

Chapter 10

1. Decision (European Ombudsman) on how the European Investment Bank (EIB) Group handled the move of a former vice-president to become the CEO of a 'national promotional bank' (case 611/2022/KR), 30 October 2023.
2. Decision (European Ombudsman) on how the European Investment Bank (EIB) handled a request for public access to the summary of a project it is financing on the modernization of an electricity distribution network in Poland (case 3/2023/OAM), 16 July 2023.
3. Decision (European Ombudsman) on how the European Investment Bank discloses environmental and social information on projects prior to decisions on funding (case 2252/2022/OAM), 19 November 2023.
4. Non-EU shareholders of the EBRD are not always represented by finance ministers at meetings of the Annual Governors Meeting. The United States, for example, typically sends a senior treasury official rather than the secretary of the treasury.
5. Article 11, Rules of Procedure of the European Investment Bank, as approved on 4 December 1958 and amended on 31 January 2023 by the Board of Governors. The Board of Directors usually meets ten times per year.
6. Article 6, European Stability Mechanism By-Laws, 8 December 2014.
7. Article 26, Agreement Establishing the European Bank for Reconstruction and Development (1990).
8. Given differences in the sizes of finance ministries, some EIB directors have more staff resources available to them than others.
9. A management committee comprised of the Bank's president and eight vice-presidents is responsible for the EIB's current business, including preparing and implementing loan decisions by the Board of Directors. A management board and executive committee perform similar functions for the ESM and EBRD respectively.
10. In 2021 the EIB Evaluation Policy was established, replacing the Operations Evaluation Terms of Reference that had so far been in place (EIB 2021).
11. The first evaluation covered the following euro area programme countries: Cyprus, Ireland, Portugal, Spain, and the second Greek programme up to December 2014 (ESM 2017b). The second evaluation assessed the European Financial Stability Facility (EFSF) and ESM financial assistance to Greece, focusing on the ESM programme in particular (ESM 2020).
12. Dutch participation rights are based on an information protocol between government and parliament that weakens the legal obligation to hold a debate and grant formal assent to ESM loans (Poppelaars 2018). Under the emergency procedure, ESM programmes can be approved by 85 per cent of all votes, which leaves only France, Germany, and Italy with a veto power over ESM lending. As a result, only the Bundestag would be able to block an ESM programme under all circumstances (Poppelaars 2018).

13. Statute of the European Investment Bank (2020).
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16. 'European Parliament resolution of 28 February 2024 on the financial activities of the European Investment Bank—Annual report 2023', 2023/2229(INI).
17. 'Verbatim report of proceedings', European Parliament, 24 March 2009. https://www.europarl.europa.eu/doceo/document/CRE-6-2009-03-24_EN.html.
18. 'Verbatim report of proceedings', European Parliament, 24 March 2009. https://www.europarl.europa.eu/doceo/document/CRE-6-2009-03-24_EN.html.
19. 'Communication from Vice-President Rehn in agreement with the President', COM/2013/0927 final.
20. 'The Assembly questions the need for the Bank to have such an expensive and prestigious headquarters. In order to ensure proper use of taxpayers' money and to avoid the creation of a negative public image prejudicial to the Bank's work and the very cause for which it was established, the Assembly urges the Bank to observe strict standards of cost-effectiveness in its internal administration, to abstain from conspicuous forms of representation, and to establish tighter budget controls and auditing of all its operations' (Parliamentary Assembly of the Council of Europe 1993).
21. 'PACE and EBRD presidents agree new priority areas for working together', *Parliamentary Assembly of the Council of Europe News*, 18 January 2022.
22. Memorandum of cooperation between the European Parliament and the European Stability Mechanism (ESM), 7 May 2024.
23. Projects funded by European-level borrowers can also fall under the responsibility of regional auditing bodies (Interview 30, 2024). However, the focus of our study is on national auditors.
24. Article 30, Treaty Establishing the European Stability Mechanism (2011).
25. The Bundesrechnungshof (German Federal Court of Auditors) also provided signficant hands-on support for the ESM Board of Auditors' early activities (Interview 35, 2024).
26. Not all national auditing bodies have shown interest in the ESM. Our interviews suggest that the Finnish auditing body, for instance, is largely focused on Commission borrowing instrument (Interview 18, 2023).
27. See EIB (n.d.) 'Part of the EU family'. https://www.eib.org/en/about/eu-family/index.
28. Judgment of the Court of Justice, Commission v EIB, Case 85/86 (3 March 1988).
29. Since the Amsterdam Treaty entered into force in 1999, this agreement is now required under the treaty. See Article 287, Treaty on the Functioning of the European Union.
30. Section 13, Agreement establishing the European Bank for Reconstruction and Development (1990).
31. European Parliament resolution of 7 July 2022 on the financial activities of the European Investment Bank—Annual report 2021 (2021/2203(INI)) (Brussels: European Parliament).

Chapter 11

1. This is based on the authors' own calculations based on the EIB annual report (EIB 2024b) and the Recovery and Resilience Scoreboard. https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/disbursements.html.
2. Article 310, Treaty on the Functioning of the European Union.
3. Regulation 2018/1046.
4. Political declaration setting out the framework for the future relationship between the European Union and the United Kingdom. *Official Journal of the European Union*, C 384 I/2, 12 November 2019 (OJ C 384 I/2 12.11.2019, pp. 178–93).
5. Ukraine Support Tracker. https://www.ifw-kiel.de/topics/war-against-ukraine/ukraine-support-tracker/.
6. Lugano Declaration, 'Outcome Document of the Ukraine Recovery Conference URC2022', Lugano, 4–5 July 2022. https://cdn.prod.website-files.com/621f88db25fbf24758792dd8/62c68e41bd53305e8d214994_URC2022%20Lugano%20Declaration.pdf.

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