The German Constitutional Court on September 12 deemed the European Stability Mechanism (ESM) legal, paving the way for Spain, and potentially Italy, to request official support in the bond markets.

The Constitutional Court’s ruling was not a carte blanche approval of the ESM’s original legislation. Rather, the court demanded a few key changes to the ESM legislation, which could prove extremely important down the line.

First, the German court demanded that Germany’s contribution to the ESM be clearly capped at 190 billion euros, or about $249.5 billion. In doing so, the court removed some potential loopholes for increasing the overall lending ceiling of the European Union’s bailout funds. In particular, it ruled out countries issuing ESM shares above par to increase the overall size of the bailout fund.

Secondly, the Constitutional Court made clear that if Germany wants to make any changes to the ESM, including its liabilities to the bailout fund, both houses of the German parliament must vote in favor of the change.

Furthermore, the Bundestag, the lower house of Germany’s parliament, must be kept apprised of how the ESM funds are being used. Given the German parliament’s oversight of changes to the ESM and increased transparency in how the fund is being used, the German court ruled that the ESM does not violate Germany’s constitution, as German politicians retain control over budget policy and autonomy has not been ceded.

These conditions set by the court may come back to haunt the eurozone. The European Financial Stability Authority and the ESM have a lending ceiling of 500 billion euros. Of this, 100 billion euros has already been earmarked for Spanish banks. The EFSF/ESM can purchase up to 50% of new debt issuance in the primary markets for those countries that have requested official support and submitted to the requisite conditions.

If Spain and Italy request primary market purchases from the EFSF/ESM to help them meet their financing needs and the EFSF/ESM purchases the maximum amount allowed, the bailout funds will run out in 2014.

Then what? The German Constitutional Court has just very clearly limited Germany’s contribution to the bailout funds, and the only way to raise Germany’s liabilities is if both houses of parliament vote in favor of it. This seems a long shot.

If the lending ceiling of the bailout funds is not raised, then Spain and Italy will be forced to opt for a bail-in rather than a bailout. The market response to the ruling on the ESM has been positive, but market participants may not be considering the market implications of this ruling a few years down the line.

Megan Greene is the Director of European Economics at Roubini Global Economics, specializing in the eurozone crisis. She provides political and macroeconomic analysis and forecasting for Greece, Ireland, Portugal, Spain, Italy and Germany. For more, go to her blog or follow @economistmeg on Twitter.