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HOW EUROPE MANAGES CRISES: A COMPARISON BETWEEN THE EUROPEAN STABILITY MECHANISM AND THE NEXT GENERATION EU.

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ACADEMIC YEAR 2020/2021

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Chapter III:

The European Response to the Pandemic Crisis: the Next Generation EU

Introduction

Let us be very honest: We are only at the beginning of a new, long journey.

President Junker, State of the Union 2015

My research project focuses on the capacity of the European Institutions to manage crises. In particular, I have chosen to make a comparison between the European Stability Mechanism and the Next Generation EU in order to analyze the different solutions adopted by the EU political community respect to different crises.

I personally believe that the capacity to manage crisis is an essential requirement in order to improve the legitimacy of political order and to overcome the democratic deficit of the European Institutions. The crisis is defined as an event perceived by members of communities as a threat for values and structures of the community itself. Every crisis constitutes a threat because call into question the status quo, which most of the time is inadequate. This is what happened with the Eurozone crisis, which has forced Europe to reflect about the entire architecture of the Union. The sovereign debt crisis has pointed out all the weakness of a system which needs to be renewed for providing adequate answer to the next challenges. However, every crisis could also assume the form of a critical opportunity to realize the failures of the status quo ex ante, and hence an opportunity for changing and progressing with the right reforms. The debt crisis has brought to light the unsuitability of the Maastricht compromise, which was fundamentally asymmetrical. The EU management of the situation was completely inadequate because was built on wrong premise. It was the system itself that need different path. And the result? The hegemony of the more powerful Member States on the others and the defeat of democratic legitimacy. At the same time the crisis has accelerated policy and institutional integration and evolution in key areas, in ways thought unthinkable only a few years ago. The Covid-19 crisis has achieved the same result. It has to be interpreted as a “critical opportunity” to enhance the state of the Union, and the Europe response has to be interpreted as new way to consider the Union itself. In my research I am going to analyze these two crises and the European measures adopted in response to them, in the light of the dichotomy of crisis as constraint and opportunities and in a view of changing and rethinking the traditional path. The steps forward taken to manage those two different crises have initiated a necessary process of revision mechanism of the initial economic governance in the EU. For that reason, the first chapter is dedicated to the history of the Union since the Maastricht compromise, specifically to the analysis of the Economic and Monetary Union, to retrace the route which has given to Europe its current face.

With this regard, I want to point out the different ratio at stake developed by the European Institution in order to tackle these two huge crises. Indeed, the approach used are completely different and we could assist to great evolution of the crisis management capacity of the EU. From the intergovernmental way adopted in 2011 to the largest and most ambitious recovery plan in the entire history of Europe. No more only the need to repair the damages caused by crises, but the need to improve the future of the next generations and to make the Europe greener, digital, and resilient. The old generation has social responsibility to leave sustainable, fair and better word to future generation.

Let it read that we forged a Union stronger than ever before. Let it read that together we made European history. A story our grandchildren will tell with pride.

President Junker, State of the Union 2015

CHAPTER I:

The Crises- A transformed EU?

1.1 European Economic Governance

The expression “Economic Governance” refers to the institutional path established to accomplish Union purposes in the economic sphere, particularly the harmonization of economic policies in order to encourage economic and social progress, and to guarantee wellbeing for European citizens. The sign of the Treaty of Rome in 1957 inaugurated the European Economic Community (EEC). It is the Treaty of common market and common policies to develop and sustain economy, expansion and higher standard of living. Furthermore, common policies were developed also in fields such as trade, transport and agriculture. Hence, the Treaty of Rome resulted to be the best way to start economic integration process.

A step further was ensured with the decision to institute the Economic and Monetary Union taken by the European Council in December 1991. A year later this decision was formally settled with the Maastricht Treaty (TEU), which aimed “to continue the process of creating an ever-closer union”.[1] This Treaty has brough integration process into a new level, institutionalizing three different pillars. The article of 3 of the TEU lays the ground for the foundation of real economic integration through the decision to establish common

[1] *Ibidem*

economic and monetary policy and the European Single Market, with the purpose of working for sustained economic growth and ensuring price stability[2].

The European Economic Governance identifies its legal bases in different articles, treaties and annex protocols such as the article 3 of the TEU, and from article 2 to article 5 of the TFEU, or the Lisbon Treaty. The TFEU defines the characteristics and the functioning of economic and monetary policy of the EU in the "Title VIII Economic and Monetary Policy", which goes from article 119 to article 144, and describes the financial provision of the Union in the "Section 6" which is dedicated to the European Central Bank (ECB), in the articles 282-284.

With the advent of Economic and Monetary Union[3] (EMU) a fundamental step was enhanced: the monetary policy, the core point of the national sovereignty, was regulated under the exclusive jurisdiction of the EU. Nevertheless, the economic and fiscal policies remained a prerogative of the member states. The institution of the European currency and of the ECB have been one of the most important projects of institution-building and policy development in the post war Europe. In practical terms, EMU establish: the coordination of economic policy-making and fiscal policies between Member States, the single currency in the euro area, an independent monetary policy carried by the ECB, Single rules and surveillance of financial institutions.

The basic premise of the economic governance under EMU is that there is no single actor accountable for economic policies. In fact, the responsibility for the functioning of the EMU is distinguish between the Member States and the European institutions. In general, the European economic governance framework aims to coordinate the policies of the Member States in order to avoid, prevent and correct problematic economic trends

[2] Art. 3, para. 3, TEU

[3] To go deeply, the Monetary policy of the EU could be analyzed in different phases. The first one (from 1990 to 1993) concerns the principle of free movement between the Member States regulated under article 67 of the TEU, the second phase (from 1994 to 1998) establishes the harmonization of Member States' economic policies and national banks. To ensure monetary cooperation, the European Monetary Institute (EMI) was established. Operational from 1994 to1997, it was the precursor of the ECB. The EMU laid the foundation for the euro. The third and last phase started in 1999 with the fulfillment of common monetary policy, hence the gradual introduction of euro.

that could negatively affect European countries. Essentially, economic coordination requires the Member States to recognize economic and financial policies as a matter of common interest, beyond sovereignty of national boundaries, and to coordinate them closely for the achievements of common objectives.[4]In order to ensure harmonic coordination and to sustain economic confluence of Member States' conduct, they shall act in compliance with the Broad Economic Policy Guidelines defined in article 120-121 of the TFEU. These guiding principles should be sum up as follow: stable prices, robust national finance and suitable balance of payments. Even in the framework of strictly economic policies coordination, the choices of real economy have always been a prerogative of the Member States. Hence, the approach used within the Union is defines as Open Method of Coordination means an intergovernmental path established on the voluntary cooperation and coordination of its member states.

The European economic governance is regulated by two other principles: the principle of subsidiarity and the bailed-out clauses. The first one is regulated under article 3b of the Maastricht Treaty, and is the principle by which the decisions are retained to the Member States, if the intervention of the EU is not necessary. In fields not covered by the exclusive jurisdiction of the Union, the Member States could act according to this principle, but only if are able to achieve the objectives proposed by the Union in autonomy[5].

This kind of governance, mainly intergovernmental, have led to considerable issues and obstacles for the accomplishment of a real Union, which are pointed out in the next paragraphs.

1.1.2 The constitutional architecture

Since the sign of the Maastricht Treaty, the EU has tried to merge two different dialectics of the decision-making process: intergovernmentalism and supranationalism.

[4] Art. 119, *Ivi*.
[5] Article 3b, TEU

According to Sergio Fabbrini, in the Maastricht compromise the Member States have achieved a deal, by which the Member State accepted to transfer core policies to the Union, but only at the price of securing that the national government would conduct the decision-making process[6]. This compromise consisted in one hand, in integrating national sovereignty powers as monetary policy and in the other hand in explaining this devolution of power to the Union as an independent and spontaneous coordination between the governments of the Member States. In fact, the economic and financial policies were controlled by intergovernmental actors such as the Council and the Council of Ministers, instead the Single Market and Monetary Policies were managed by the Commission, the European Parliament and the European Central Bank, hence supranational actors. These two different logics behind have led to the constitution of two separate pillars, which will be replace later on in the Lisbon Treaty. We could frame in the institutional framework the economic and financial matters which are managed by the Council and European Council, instead within the constitutional framework fall their development, which has been entrusted to the Member States' coordination.

The intergovernmental approach was adopted by EU since it was the only reasonable way for endorsing integration. In fact, as briefly mentioned above, with the progressive transfer of Member States' sovereignty on sensitive policies such as the monetary one, the governance adopted by the EU was the open method of coordination, or better intergovernmental coordination. The latter has enabled to the decentralization, and consequently to the "fragmentation" of budgetary, financial and fiscal policies which continued to be prerogative of the Member States, while the centralized monetary policy remained matter of the ECB.

[6] S. Fabbrini, *Intergovernmentalism and Its Limits: Assessing the European Union's Answer to the Euro Crisis*, Comparative Political Studies published online 17 June 2013, pp. 2

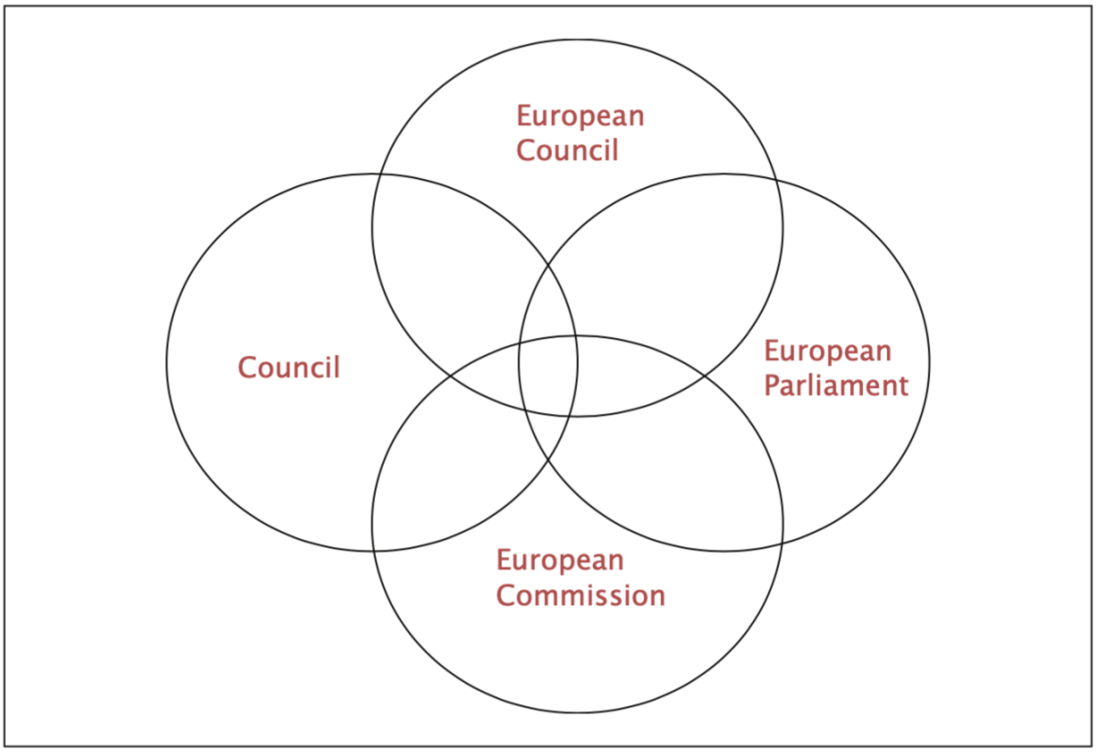

Figure 1. The supranational institutional system of the EU.

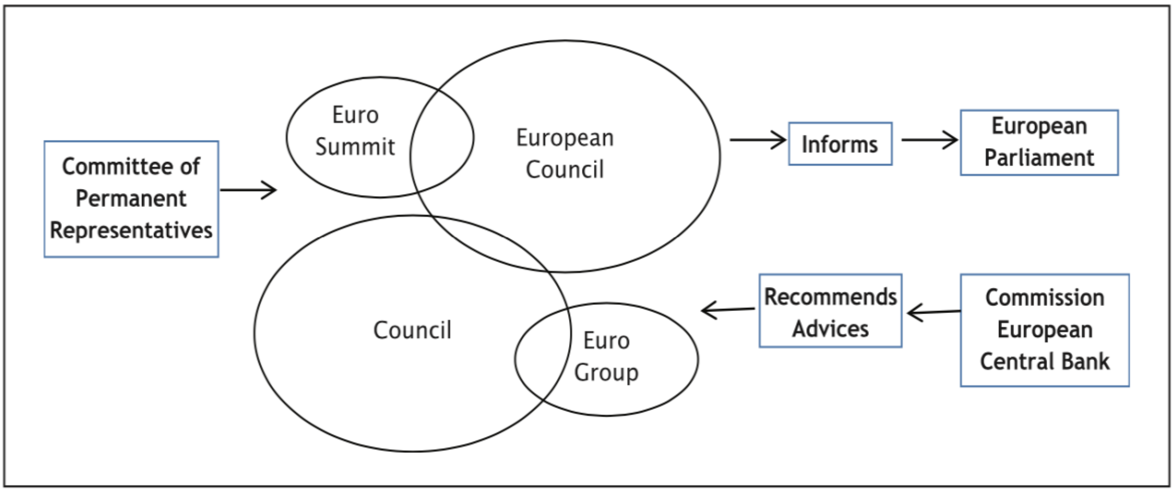

Figure 2. The intergovernmental institutional system of the EU.

1.1.3 The main actors

For what concerns the main actors of the Union in terms of economic governance, we could affirm that the power is shared with many bodies, but in general is the Council that plays the fundamental role of coordination, sign of the intergovernmental approach.

According to article 120 of the TFEU, the European Council is presented as the body accountable for addressing the general ground rules of the EU. In fact, it has the task of enhancing the broad economic policy guidelines (BEPGs), non-binding recommendation which have to be considered by the Member States. The Commission has the duty of drafting recommendations and decisions, and of monitoring its correct implementations. The Council adopts these proposals developed by the Commission, ensuring the effective coordination of Member States in the development and implementation of those policies. The Council is also in charge of informing the European Parliament. As a matter of fact, we could affirm that this path has converted the Council into a political administrator, while supported the Commission in its role of mechanical administrator.

The Member States are responsible of national reporting, exchanges of information and the application of the recommendations and decisions approved by the Council. The national governments of the Member States control the fiscal policy that concerns government budget, the tax policies that regulate how income is raised and the structural approach that settles pension system, labor and capital market regulation.

The Eurogroup is an informal body locus of dialogue and consultation between the euro area member states' ministers regarding matters relating to the euro. The Eurogroup is responsible for coordinating economic policies for the euro area member states and for encourage stronger economic growth. Specifically, the Eurogroup discusses matters concerning EMU, usually before the Ecofin Council meeting. The Eurogroup's role was regulated under article 137 of TFEU and in Protocol No 14 to the Lisbon Treaty.

The European System of Central Bank (ESCB) is composed by the ECB and the national central banks, with the primary objective of conducting the Union' monetary policy and ensuring the stability of prices. Basically, the ECB is the fundamental supervisor of financial institutions in the euro area. The ECB plays also a fundamental role of participation in the Eurogroup's considerations regarding monetary or exchange rate policy. An important aspect in term of governance consist in the role of the governing council of the ECB. First of all, it is better to remind that this council it is composed by the governors of the national central banks and members of the ECB's executive board. It is the only actor in charge of taking decisions concerning monetary policy in the euro area, in a way in which these decisions are made free from outside influence and from any constraint.

The Economic and Financial Committee (EFC)[7] is aimed at promoting coordination between member states' policies functional to the internal market. The EFC is regulated under Article 134 of the TFEU and presents the locus for confrontation between the Council and the ECB. In detail, the EFC has the task to monitor the economic and financial situation of the Member States and to report it to the Council and to the Commission[8]. Furthermore, it contributes to the preparation of the Council's work, providing inputs and insights on economic and financial matters.

The Economic Policy Committee (EPC) is established by Council decision of February 1974. The EPC is aim at promoting convergence of Member States' economic policies. More in detail, The Committee shall provide economic analyses and opinions on methodologies, drafts suggestions on policies aims at improving of growth capacity and employment. The EPC is also in charge of assisting the Council in the design of the broad economic policy guidelines and contributes to the multilateral surveillance procedure.

The Eurogroup Working Group (EWG) is a preparatory body with the basic task of assisting and preparing ministers' discussions. It is constituted by representatives of the Commission, ECB, and euro zone Member States of the EFC.

[7] Is important to remark that the EFC could assume two different configurations: with or without national central banks.
[8] Article 134, Paragraph 2, TFEU.

1.2 Which role for the European Parliament?

Since the ratification of the Lisbon Treaty, the EU Parliament (EP) have seen the most significant reinforcement of its powers ever. The trend to the institutionalization of the Parliament's empowerment seemed irreversible. However, the economic crisis has underlined the weaknesses of the EP and has forced to reconsider its role in the European Economic Governance. As mentioned above, is the Council that plays the most crucial role in the economic governance and consequently the shadows of democratic deficit seem to be not so far. In fact, the presence of the EP in the economic governance is fundamental to acquire legitimacy since is the only elected organ.

During the EU integration phase, we could affirm that the Parliament had not direct influence in the decision-making process since the sign of the Maastricht Treaty. From then on, the EP became "powerful legislator, coequal with the Council under the reformed codecision procedure".[9] Since the ratification of the Lisbon Treaty, the EU has participated as colegislator to the definition of the laws which define the economic governance framework. Thus, the European parliament shares the task of formulating legislation with the Council. The ordinary legislative procedure, according to article 289 of the TFEU, shall subsist in the adoption of the various directive, regulation or decision, developed by the Commission, by both the EP and the Council.[10] Proclaiming this procedure as the ordinary one, the Lisbon Treaty has institutionalized two chambers: the lower one representing the EU electorate within the Parliament, and the upper one representing the government of the Member States within the Council. Basically, this decision-making system tries to satisfy two different criteria. First the effectiveness' criteria, because of the cooperation between the European Council and the Commission, and the legitimacy's criteria, thanks to the legislative role of the EP [11].

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[9] G. Tsebelis, G. Garret, *The Institutional Foundations of Intergovernmentalism and Supranationalism in the European Union*, Cambridge University Press International Organization Foundation, Vol. 55, No. 2 (Spring, 2001), pp. 357-390
[10] Article 289, TFEU.
[11] S. Fabbrini, *Intergovernmentalism and Its Limits: Assessing the European Union's Answer to the Euro Crisis*, Comparative Political Studies published online 17 June 2013, pp. 5

Regarding specifically the economic governance, according to article 121 paragraph 6 of the TFEU the EP could also participate in the multilateral surveillance procedure with the Council.[12] According to certain matters the Treaties provide only an advising role for the EP, including macroeconomic surveillance and the preventive part of the SGP.

The most important role attributed to the European Parliament is the duty to submit economic governance to democratic audit, through the new Economic Dialogue aims at ensuring legitimacy. The role of the Parliament has been sized in the "new" economic governance after the crisis and will be analyze later on.

1.2.1 The issue of legitimacy

In principle, the idea of democracy is one of the pivotal assumptions of the Union. Moreover, the principle of democracy acts as a flag for the European integration process since is deeply rooted is the constitutional path. The treaties contain several mentions to this central principle. For instance, article 2 of the TEU defines the principle of democracy and of the rule of law as funding values. Moreover, in the preamble these two principles are perceived as "the universal values".[13] Despite these admirable promises, it seems that democratic principles have only had a background role in the governance of the EU. Contrarily the EU governance is seen as the government of technical and bureaucrats, and it is characterized by democratic deficit, which involves both national and supranational levels. In fact, this issue is widely perceived within the Member States. For what concerned the EU level, the issue of democratic deficit covers at least two points. The first criticality refers to the "illegitimate" nature of the European institutions, since the EP is the only democratic elected organ. The second one concerns "the lack of popular

[12] Article 121, Paragraph 6, TFEU.
[13] Preamble, *Ivi*.
[18] N.Scicluna, *Politicization without democratization: How the Eurozone crisis is transforming the EU law and politics*, The Author 2014. Oxford University Press and New York University School of Law.
[19] A. Follesdak, S. Hix, Why There is a Democratic Deficit in EU: a Response to Majone and Moravcsik, JCMS 2006 Volume 44. Number 3. p. 534-35

contestation over policies and political leadership". [14] This notion involving different claims. First of all, European integration has decreased national parliamentary control, favoring the increase of the executive power of the EU institution. Furthermore, the design of the European governance allows that the policy-making process is dominated by diverse executive actors such as government and national bureaucrats appointed in the Commission and national ministers in the Council.[15] Secondly, the weakness of the European Parliament. In general, since the introduction of the direct election of the 1979, reforms of the Treaties have tried to increase the power of the EU Parliament. However, if compared to the Council of Ministers is too weak. In fact, even if in theory the EU Parliament and the Council have equal legislative power with the co-decision procedure, the Parliament has limited power in the consultation procedure. Thirdly, even if the power of the EU Parliament has been expanded, what is still remained is the lack of real European elections. This is mostly related to the fact that these elections are perceived as second order elections and often is just the continuum of national ones, given also the low participate rate. The fourth claim consists in the distance from voters. The European citizens feel this distance as unbridgeable, because the democratic control over the Council and the Commission is indirect. As a result, the policy process is perceived as technical rather than political. The last claim consists in "policy drift" from voter ideal policy preferences developed by the European integration. The assumption of this claim is that the EU develops policies that basically are not sustained or criticized by the majority of citizens. This is due to fact that governments at the European level are free from the constraints of the institutional structures, and therefore are able to adopt policies that cannot be adopted at the domestic level.

Prior to the crisis there was not such perception of democratic deficit, and most of this problematic was emerged from the crisis and its handling. In fact, the crisis has not only aggravated the consciousness of this issue, but it has also altered the nature of the democratic legitimacy problems facing the EU. Despite these technical claims, basically the most salient democratic legitimacy challenge is institutional-constitutional and consists in the role of the experts. Since the beginning, the integration process had been driven by executives and experts.[16]The results of this kind of technical governance, nowadays is one the most critical issue facing the EU. This challenge seems to be inherent to the integration process itself, in fact, since the beginning the Union has had to deal with the issue of how to legitimize its institutions. This is also due to the prominent role attributed to the Council in Treaty of Maastricht, and to the Commission's "experts' role" which have a privileged status. Popularly elected bodies have tried to render the system of governance the more democratic and legitimate possible, transparent and in line with the democratic principles, with some success previous to the crisis. However, the EU crisis' management, has brought to light all the fragility of an imperfect system. Nowadays, the most difficult challenge is to find a way to explain and justify this lack of democratic governance, and more in general the EU system, to the citizens.

1.3 The legal basis of anti-crisis management

It is not surprising that the anti-crises measures do not rely on *ad hoc* legal prevision and basis for their implementation. However, what is more surprising is the lack of any mechanism against crisis in the treaties. In fact, the Maastricht Treaty completely overlooked the needs of anti-crisis measures. As described above, one of the critical points of the EMU is the single currency, that it fell under the exclusive jurisdiction of EU institution, without involving in this process the integration of economic and fiscal policies, which remained a prerogative of the Member States in a view of strictly coordination. Basically, this means that a single currency was created without endowing the ECB with all powers needed for correct implementation. An "economic Union" without, however, putting in place an efficient system of governance of economic policies, nor envisage of fiscal integration. This choice, result of the Maastricht political compromise, it was based on the presumption that the introduction of the Euro value

[16] J.E. Fossum, *Democracy and Legitimacy in the EU: Challenges and Options*, Centro Studi sul Federalismo 2016, p. 50

would gradually drive to a greater economic, financial and moreover political integration. Thus, when Europe was hit by economic and financial crisis in 2008, it was really difficult for the EU institutions to find a proper legal basis to take actions aimed at safeguarding the euro system. Hence, in this paragraph I want to focus only on the anti-crisis mechanism provided in the Treaties, designed at the beginning and not when crises have already occurred. The idea at stake is that the stability would be maintain through the system of reinforced macroeconomic surveillance, aimed at operating ex ante with a preventive function, and ex post with a corrective structure. Furthermore, the Maastricht Treaty established the "no bail-out" clauses under article 125 of the TFEU. Essentially, those clauses ensure that the responsibility for repairing public debt remains within the national boundaries of the Member State concerned and prevents risks caused by insane fiscal policies from spilling over the others Member States. In fact, according to the article mentioned above the Union and the Member States could "not be liable for or assume the commitments of central governments, […]."[17]

1.3.1 The design of fiscal rules

The "anti-crisis" tool aims at safeguarding the stability of the EMU is the Stability and Growth Pact (SGP). The latter was regulated under two Council Regulation in July 1997 and under one resolution "on the Stability and Growth Pact" of 17 June 1997 [18]. The SGP was perceived as an instrument "which provides both for prevention and deterrence", of crucial importance in order to protect the budgetary discipline within the Member States. In fact, we can distinguish two so-called arms: the preventive arm and

[17] Article 125 TFEU. Furthermore, the article admits one exception which consist in the mutual financial guarantees for the implementation of certain program.

[23]Specifically, those Regulations are: Council Regulation (EC) No 1466/97 and Council Regulation (EC) No 1467/97. The first one is aimed at enforcing the control on the budgetary situation of the Member States and on the convergence of their economic policies. The second one is direct to define and simplify the Excessive Deficit Procedure.

the dissuasive one. The legal grounds of the SGP reside in articles 121 and 126 of the TFEU, plus article 136 of TFEU which provides specific provision for the euro area. The Protocol (No 12) on the Excessive Deficit Procedure fixed the reference value which the member states are not allowed to exceed.

The preventive arm of the SGP was designed to encourage governments to avoid excessive deficit as mean to strength the condition to a solid sustainable growth and to control the coordination of economic policies. The fiscal discipline is ensured by forcing each Member States to adopt fiscal policies that enable them to meet their obligation under the limit of:

- "3% for the ratio of the […] government deficit;
- 60 % for the ratio of government debt."[19]

As clarify in article 126 of the TFEU the Member States shall escape the threat of excessive government deficit, in order to keep budgets under the agreed financial provision. Instead, Article 121 enacts the principle of multilateral surveillance, meaning fiscal monitoring on the Member States by both European Commission and Council. This principle also provides that the Member State to the Commission must notify the main measures adopted in the economic field. In Council Regulation (EC) No 1466/97 of 7 July 1997 are clarified which are the duties that the Member States have to comply. According to Article 3, both Euro Area Member States and not shall submit to the Council and the Commission reports in the form of stability program (for the euro area MS) and convergence program (for the non-euro area Member States). However, the content is the same and every stability/ convergence program shall present:

1. the medium-term objective for the budgetary position; [20]
2. the main expectation about economic variables and developments consistent with the realization of the stability programme;[21]

[19] Article 1, Protocol (No 12) on the excessive deficit procedure-TFEU. It is quite important to underline there that these obligations were conceived as a convergence criteria, which the Eurozone Member States are required to meet to get in the third stage of the EMU.
[20]Regarding the Medium-Term objective (MTO) for the non-euro area Member States, the information required by the Council and the Commission are integrated with the medium-term monetary policy objectives and their relation to price and exchange rate stability;
[21] Article 3, Council Regulation (EC) No 1466/97 of 7 July 1999.

3. a report of the main economic policy measures taken and an assessment of their effects on the budget;
4. an analysis of the main variations in the economic find and how they could influence or alter the budgetary and debt position.

Regarding the MTO is appropriate clarify some points. In simple words, the MTO is the level of structural balance that each Member State has to converge to. The basic assumption is that the euro zone Member States are required to conform their budget positions at rate of 0,5% of GDP per year as a benchmark, unless they have a low debt ratio, and 1% for the non-euro zone Member States. It is crucial to underline that the budget deficit is defined in structural term meaning that it is influenced by business cycle swings, and moreover the level for each Member States is defined on country specific fiscal risks.

Graph 1.1: **The expenditure benchmark as an instrument to reach or stay at the MTO**

Member State at MTO	Member State not at MTO
Net expenditure growth in line with the reference potential growth rate	Net expenditure growth in line with a rate below the reference potential growth rate
% government expenditure in potential GDP constant in the absence of revenue measures	% government expenditure in potential GDP decreases in the absence of revenue measures
Structural balance constant over time	Structural balance strengthens
Remains at MTO	Gap with the MTO closes over time

The EU Commission is in charge of monitoring and identifying the noncompliance of a Member States in budgetary discipline, in particular are two the criteria examined: the ratio between government deficit and gross domestic product and the ratio between government debt and gross domestic product. If those ratios exceed a reference value, the Commission could opt for a Significant Deviation Procedure (SDP). The objective is to assure that all Member States involved return to an appropriate path and to prevent an Excessive Deficit Procedure. The legal basis that regulates the SDP are: Article 121(4) TFEU and Articles 6(2) and 10(2) of Regulation (EC) 1466/97. In the first step the Commission shall launch an alarm to the Member State in question, informing also the Council. Then, is the Council who assess the existence of the warning and shall draft a recommendation. The Member State involved has a deadline of five month to comply with Commission and Council's decision. According to the urgency of the situation, the deadline could be reduced to three months. If the Member States do not adopt an appropriate action, the SDP is launched.

The dissuasive or corrective arm aims to ensure economic stability providing the adoption of appropriate and efficient policy responses by Member States to correct excessive deficit. The implementation of the Excessive Deficit Procedure (EDP) is regulated under the Council Regulation (EC) No 1467/97 which attempts at clarifying the *iter* of this procedure. If a Member State exceeds the criteria mentioned above, crossing the line of maximum limit for government debt and deficit, the Commission is in charge of drafting a report[22], informing the Council and the EU Parliament. Then is the Council that has the task to decide if an excessive deficit exists. If the Council concludes that a non-compliance really occurred, it shall adopt recommendations to the Member State concerned, through the declaration of an Excessive Deficit Procedure (EDP). The involved Member State has six months to correct the deficit, this deadline may be reduced to three months because of the seriousness of the situation. In its recommendation, the Council could request to the Member State concerned "a minimum annual improvement of at least 0,5 % of GDP as a benchmark."[28] From now on it is up to the Member State to fulfill the Council recommendation' obligations. It has the duty of designing a report which all the notification on the measures adopted to correct the deficit. After multiple warnings, if the Member State fails to comply with Council's recommendations could incurred in economic and other kind of sanctions. As specified in paragraph 11 of article 126 of TFEU, the Council could require to the Member State: specific additional

[22] According to Article 126 of TFEU, the Commission shall draft a report also if the requirements are satisfied, but there is a risk of excessive deficit.

information, a non-interest-bearing deposit until the correction of the excessive deficit, and moreover it could encourage the European Investment Bank to review its lending policy. [23]

This first Chapter is focused only on the SGP before the introduction of the so-called "Six pact" and "Two pact" reform taken in response to the Debt Crisis started in 2008, which will be analyzed later on. However, it is crucial to stress that the SGP was reformed in 2005 through amendments of the Multilateral Surveillance Regulation and the Excessive Deficit Regulation. This decision was taken because the initial configuration of the SGP proved unworkable, and the need for more flexible and simple response was too urgent. The reformed of SGP was ratified by two Council Regulation of June 27, 2005, numbers 1055/2005 and 1056/2005. For what concerned the Preventive arm the main variations are:

- The establishment of differentiated "medium-term objectives": under the Member State are allowed to present its own country specific MTO. This is a crucial point that I want to stress because from now on the MTO should be based on the economic characteristic of each country, principally the budgetary capacity and potential growth.
- The introduction of new arrangements regarding the adjustment attempt to attain the MTO. The benchmark remained fixed at 0.5% of GDP per year, but the Member States are required to take more effort in good times, with the option of less in bad times.[24]
- This reform intends to stress the focus of the structural budgetary position, as a matter of fact, both the MTOs and the adjustment path are measured in cyclically adjusted terms, net of one-off and temporary measures. [25]

For what concern the corrective arm, basically there are two main changes:

[23] Paragraph 11, Article 126 of the TFEU
[24] BCE, the reform of the Stability and Growth Pact: an assessment, 13 October 2005
[25] *Ibidem*

- The introduction of the “exceptional circumstances” clause which consist in the approval of the deficit of the Member State concerned in case of exceptional and temporary circumstances.
- The introduction of an explicit list containing “other relevant factors” which have to be considered in the evaluation of deficit developments.

		Required annual fiscal adjustment (pp of GDP)	
	Condition	Debt ≤ 60% and low/medium sustainability risks*	Debt > 60% or high sustainability risks
Exceptionally bad times**	Real growth <0 or output gap < -4	No adjustment needed	
Very bad times**	-4 ≤ output gap <-3	0	0.25
Bad times	-3 ≤ output gap <-1.5	0 if growth below potential, 0.25 if growth above potential	0.25 if growth below potential, 0.5 if growth above potential
Normal times	-1.5≤output gap <1.5	0.5	> 0.5
Good times	Output gap ≥1.5	>0.5 if growth below potential, ≥0.75 if growth above potential	≥0.75 if growth below potential, ≥1 if growth above potential

1.4 Crisis as constraint and opportunity

The crisis is defined as an event perceived by members of communities as a threat for values and structures of the community. Every crisis constitutes a threat because call into question the status quo, which most of the time is inadequate. This is what happened with the Eurozone crisis, which has forced Europe to reflect about the entire architecture of the Union. The sovereign debt crisis has pointed out all the weakness of a system which needs to be renewed for providing adequate answer to the next challenges. However, every crisis could also assume the form of a critical opportunity to realize the failures of the status quo ex ante, and hence an opportunity for changing and progressing with the right reforms. The debt crisis has brought to light the unsuitability of the Maastricht compromise, which was fundamentally asymmetrical. The EU management of the situation was completely inadequate because was built on wrong premise. It was the system itself that need different path. And the result? The hegemony of the more powerful Member States on the others and the defeat of democratic legitimacy. At the same time the crisis has accelerated policy and institutional integration and evolution in key areas, in ways thought unthinkable only a few years ago. The Covid-19 crisis has achieved the same result. It has to be interpreted as a “critical opportunity” to enhance the state of the Union, and the Europe response has to be interpreted as new way to consider the Union itself. In the next chapters I am going to analyze these two crises and the Europe measures adopted in response to them, in the light of the dichotomy of crisis as constraint and opportunities and in a view of changing and rethinking the traditional path. The steps forward taken to manage those two different crises have initiated a necessary process of revision mechanism of the initial economic governance in the EU. Specifically, I want to point out the different ratio at stake developed by the European Institution in order to tackle these two huge crises. Indeed, the approach used are completely different and we could assist to great evolution of the crisis management capacity of the EU.

CHAPTER II

The response to the European Sovereign Debt Crisis:

The European Stability Mechanism

2.1 The European sovereign debt crisis

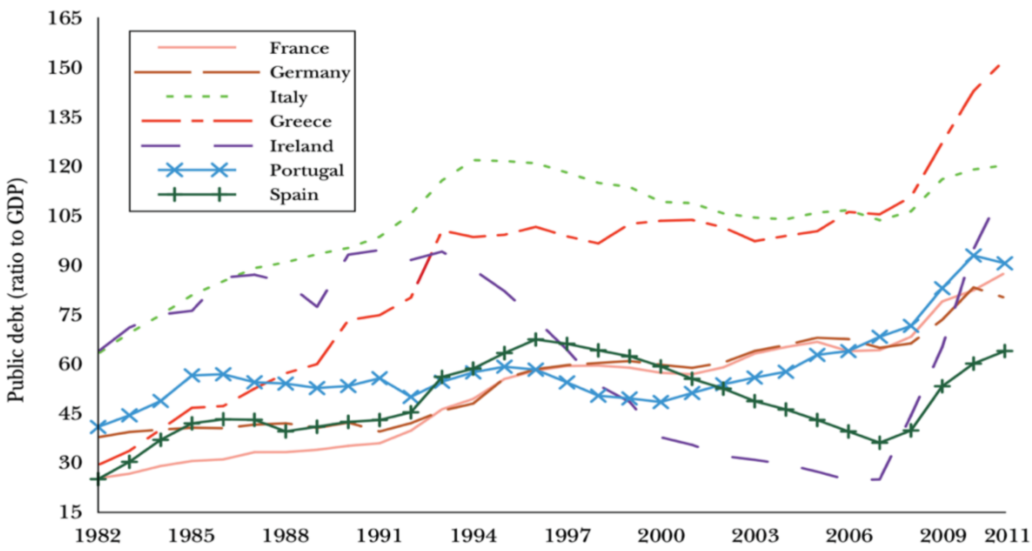
For European sovereign debt crisis, we refer to period in which several eurozone countries have experienced crash and collapse of financial institution, high debt level and bond yield spreads in government securities. The debt crisis was defined by the expert as one of the most dangerous crises of the century after the Wall Street Crash of 1929. Until then, there was no perception of the wrong premises at the bases of the EMU, which have led the Union to the collapse and to the rethinking of all the architecture as a whole.

In order to delineate the nature of this crisis, we could distinguish three different phases. Until 2009 there was limited concerns regarding the financial crisis coming from the US. Indeed, all the lights were on the role of the ECB, considered as the legitimate institution to tackle the global financial shock. Therefore, in this first phase the focus was not country specific, but the main concern was about maintaining the stability of the general banking system of the Union. This initial lack of concern, together with all the fragilities of a wrong governance, will soon led to the weakening of already fragile system and to the crash of the feeblest Member States. In 2008-2009 the tension started to grow when several countries showed a larger increase in the debt/GDP ratio. As we could notice from the graph below during the biennium 2009-2010 several Member States such as Greece, Italy exceeded the threshold of 100%, followed by countries such as Portugal, Ireland, France and Spain. In 2010 the situation has not improved, nevertheless has deteriorated significantly. As a matter of fact, by the end of the same year, those eurozone Member States were unable to finance their public debt or to rescue their banking system from the collapse without the help of external institutions such as the European Central Bank and the International Monetary Fund.

Pays	Public debt in 2009	Public debt in 2010	Public Deficit in 2009	Public Deficit in 2010
Greece	127.1%	142.8%	15.4%	10.5%
Ireland	65.6%	96.2%	14.3%	32.4%
Portugal	83%	93%	10.1%	9.1%
Spain	53.3%	60.1%	11.1%	9.2%
Italy	116.1%	119%	5.4%	4.6%
France	78.3%	81.7%	7.5%	7%
Germany	73.5%	83.2%	3%	3.3%
Eurozone	79.3%	85.1%	6.3%	6%

Source: Eurostat 2011-11-26

The Evolution of Public Debt, 1982–2011



Source: Data from IMF Public Debt Database.

The turning point of the sovereign debt crisis was achieved in late 2009 when Greece disclosed a breaking news.[26] After the general Greek government election of October 2009, the neo-prime minister George Papandreou publicly reveal the falsification of financial statements and balance sheet by the previous governments to make possible the convergence with the Maastricht criteria and therefore allowing Greece to adopt euro. Revealing in that way the risk for the bankruptcy of the state and the risk for the collapse of the entire eurozone. This announcement not only present the of Union's framework as a fiction but revealed all the distortion and inefficiency of the macroeconomic surveillance system. An extreme violation of the Union' fiscal rules in the public eye. The method of open coordination of economic and fiscal policy implicit in the Treaty and in the SGP has not worked. The Greek crisis represents an impressive and fascinating case by which the financial collapse of one piece could drive to the collapse of the puzzle as a whole. From the failure to a single Member State to the failure of the entire Union. In fact, the most serious threat consists in the risk that the "Greek's fraud" would be replaced in other Member States. In that way, the domestic fiscal deficit problem of Greece has been transformed into a broader European challenge, which has questioned the functioning and moreover the future of the EU project. Another serious event, which had affected the Union, was the collapse of the Anglo-Irish Bank in February 2010. At the end of the same year the EU appeared as an entity defeat, with increment of 32% for the Irish deficit and a ratio deficit/GDP equal to 12,5% rather than the declared 3,7%. From now on, all the bias of "non-political Union" came into light. The lack of political convergence has played a crucial role also in the management of the crisis. In fact, one of the major obstacles appeared to be political which concretely refers to the lack of consensus among the different Member States' government about how to proceed and to deal with this new path. Some skeptics have found their legal excuse in the no-bail-out clause[27] regulated under Article 103 of the TFEU. According to them the European Union and the Member States are not able to provide financial assistance to other Member States. However, the more pro-European current have answered to the more skeptics with

[26] Some economists argue that the Greek breaking news has to be considered the starting point of the eurozone sovereign debt crisis.
[27] Those clauses are described in chapter 1, paragraph 3.1 The legal basis on anti-crises management.

Article 100 of the TFEU which explicitly states that: “Where a Member State is in difficulties […] caused by natural disasters or exceptional occurrences beyond its control, the Council, […], may grant, under certain conditions, Community financial assistance to the Member State concerned.”[28]

Broadly we could affirm that this debt crisis of the eurozone is the result of a wrong economic governance model, but it could also assume the feature of an opportunity to be sized in to improve the future progress of the Union. In fact, paradoxically the tragedy of this crisis has reinforced the debate on the sustainability and on the improvement of the European project. It is time to completely rethink the regulation and the structure of an economic governance, devoid of any political involvement. The European Union could and have to take advantages to adjust and repair the constitutional defect, which have showed to be unsuitable for the challenges faced. The reforms needed should be aim at investing the Union of fiscal capacity, complete the banking union and give legitimacy to an “illegitimate” system. The reforms needed a completely rethinking of the governance of the Union as a whole.

2.2 **The EU response: the Rescue Package**

Before moving to the description of the European Stability Mechanism, the EU Institutions have implemented other measures to tackle the sovereign debt crises which cover large range of reforms. The principal reforms correspond to two different ratio reflections of the two different needs of the EU. The first category of reforms was based on the need for the institution to intensify macroeconomic surveillance, in order to guarantee the respect of the convergence criteria to the Member States. Indeed, with this purpose the reforms implemented were the reform of the Stability and Growth Pact with the introduction of the so-called Two Pack and Six Pack, the introduction of the European Semester, the Europlus pact and the Fiscal Compact. More in detail, the last two reflect the urgent need to reinforce and enhance the economic governance, which was negatively

[28]Article 100 of the Consolidated Version of the Treaty on the Functioning of the European Union.

affected by the course of events. The second category of reforms was focus on the need for the EU to provide financial assistance to state in difficulties which at that time was Greece, Ireland and Portugal, with the introduction of the European Financial Stability Facility (EFSF), European Financial Stabilization Mechanism (EFSM) and the European Systemic Risk Board (ESRB).

The awareness of deficiencies of the status quo ex ante, is what needed to improve the situation with the right reform. A Harmonic framework for governance is the prerequisite for a sustainable Economic and Monetary Union. Indeed, it appears fundamental to deeply analyze those reforms for understanding the ratio at stake of the EU response. Which was the European response? Let us retrace the stages of the European response to the crises, that have led to the implementation of the European Stability Mechanism, the first permanent anti-crisis mechanism.

2.2.1 The need to establish new economic governance reinforcing macroeconomic surveillance

After the violation of the Treaty by the Greek government, the need to reinforce macroeconomic surveillance appears vital. The first step was achieved with the establishment of the European Systemic Risk Board followed by the European System of financial supervision with the aim to enhance financial control within the Union in order to prevent and mitigate all the systemic risks considered as a threat.

In September 2010 the Commission proposed the establishment of the European Semester and of the so-called Six Pack, reforms which entered in to force in the beginning of the year after. Rather, still need another year for the introduction of the Two Pact. The EU semester was of the major reform taken in response to the weakness of the economic governance within the Union. In the first chapter I have analyze the initial configuration of the Stability and Growth Pact which it was revealed completely inadequate and easily “breakable”. As mentioned above, the initial configuration has been reform in 2005 but it was not secure enough. After the crisis, given the high level of public debt and the current fiscal deficit, a change and a new perspective for the long period was inevitable.

Entered into force on the 1 January 2011, the European Semester is aimed at improving economic and fiscal coordination among the Member States. Better explained, the EU semester consist in the discussion of the economic and budgetary intention in the first part of the year, in order to ensure close coordination in the second part. The novelty consists in the overcoming of national logic of economic coordination, in favor of an analysis of the economic national policies at the EU level. Let us analyze the functioning of this new instrument. The European Semester course started in Autumn, specifically in November, with the Commission’s publication of the general guidelines that the Member States have to consider. Those publications consist of:

- Annual Growth Survey (AGS): sets up the general economic guidelines and priorities for the following year, in line with the Europe 2020.[29]
- Alert Mechanism Report (AMR): a preventive tool which is focused on the identification and analysis of the country that may be touched by negative economic situation.
- Joint Employment Report (JER): which consist in an overview of the main developments in term of employment, it is also provide an analysis of the major reforms in this field implemented by the Member States.
- Specific recommendation for the Eurozone’s Member States: sharing single currency, the eurozone Member States share also more responsibilities and require more attention. For that reason, the Commission developed a special recommendation suggesting the implementation of specific measures.

In February those broad guidelines described above became country specific. The Commission is in charge of develop Country Report for each Member State with an overview of the economic and budgetary situation. In order to avoid the risk of potential imbalances, for those countries labeled as critic by the Alert Mechanism Report, the

[29] Europe 2020 is a ten-year growth strategy implemented in 2010 for the entire decades, with the aim of promoting a sustainable growth.

Commission has to advance an “in dept review”. The next core step is enhanced during April, key month in which the ball passes into the hands of the Member States. Their tasks consist in the submission of their National Reform Programmes and Stability or Convergence Programmes[30] to scrutiny of the Commission, which has to approve it. During this step the purpose is to evaluate if the reforms of the Member States comply with the EU fiscal rules and with the country specific recommendations developed by the Commission in the previous months. The final approvement of national government is scheduled in June, and for the Council in July. For the euro area Member States, the surveillance is more intense, in fact they have to present draft budgetary plans in October, respecting the requirement of the Stability and Growth Pact and obviously the country specific recommendations. The Commission has to provide an assessment that will be discussed in the Eurogroup in the next moths, in order to approve definitively those budgetary plans for the end of the year.

Further effort aimed at improving the complex system of governance it was the adoption of the so-called “Six-pack”, composed by five Regulation and one Directive which modified the Stability and Growth Pact. The economic governance reinforcement seeks to stress the duty for the Member States to comply with the famous convergence criteria, in line with the new concept of “prudent fiscal policy”. The entire set of new rules has to be integrated with the EU Semester, which guarantee clearer norms for a better monitoring and implementation of the Member States policies. More in detail, for the Member States which its public debt exceeds the threshold of 60%, it provides a reduction of at least 1/20 of the excess per year over three years. It is also aimed at reinforcing the executive measure in case of non-compliance by one Member States with the introduction of new macroeconomic surveillance tool: the Macroeconomic Imbalances Procedure. The latter is a semi-automatic procedure for the sanctions' imposition on the country violator of the rules, with the primary objective to prevent macroeconomic imbalance, identifying potential risk in advance and correcting those already in course. Thanks to a scoreboard which consist of “a combination of stock and

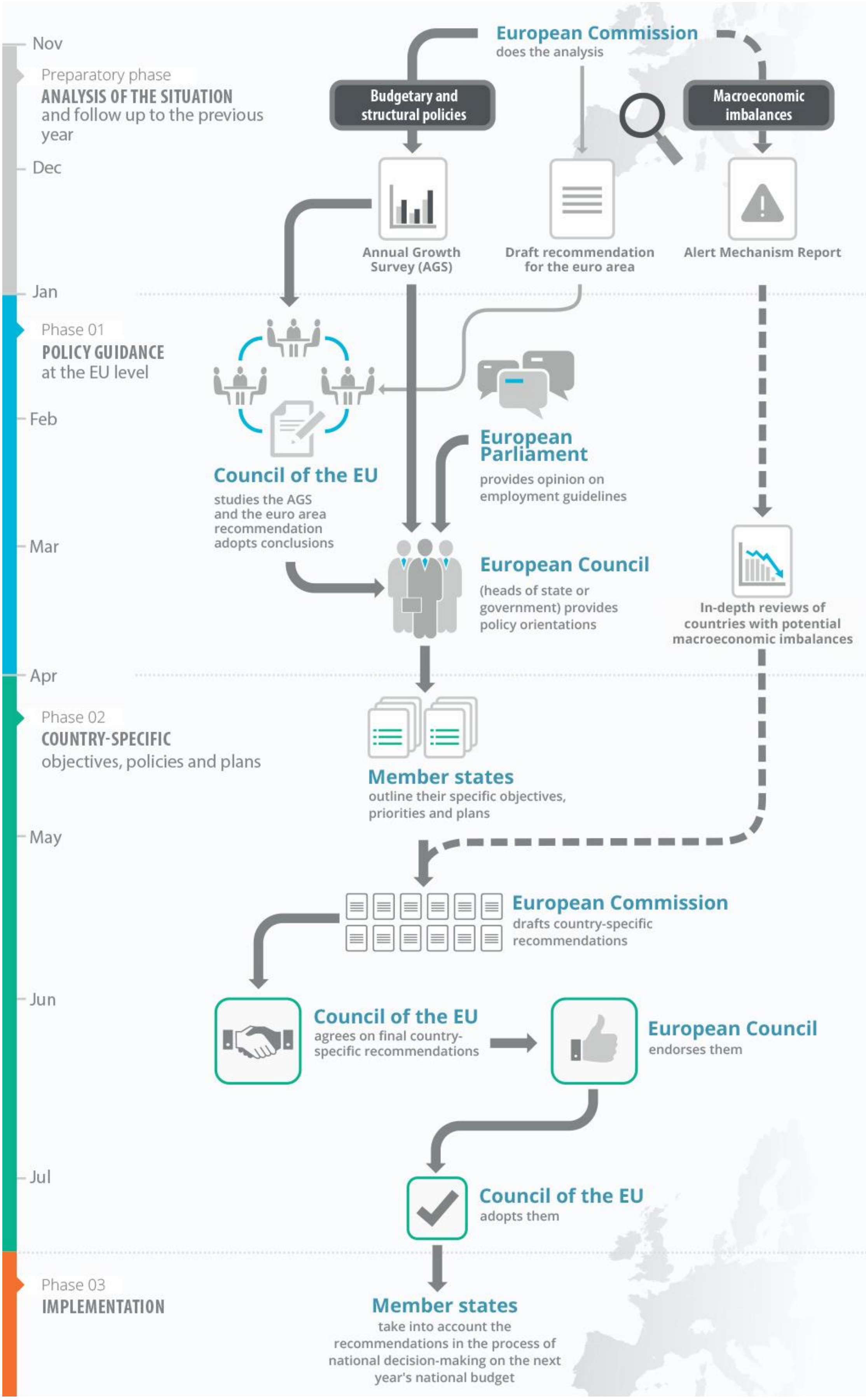
[30] It is important to remark the distinction between the National Reforms Programmes and the Stability or Convergence Programmes. The first one is focused on the economic policies, instead the second one is focused on the budgetary policies.

flow indicators which can capture both short-term rapid deteriorations as well as the long-term gradual accumulation of imbalances."[31]

It must be said that the new rules and procedures contained in the Six Pack reform involve a new important principle in terms of governance: the system of "reverse voting". It means that a proposal developed by the Commission is considered approved by the Council whether the latter does not reject it with qualified majority. Hence, given the express difficulties to achieve this kind of majority, the role of the Commission became more forceful and secure. In this way, the Commission results to be powerful actor in adopting decision concerning macroeconomic imbalances and the way to solve them. The adoption of this principle states a step forward toward the communitarian or supranational path to solve crisis or better to manage the governance path of the Union, at the expense of the intergovernmental method.

During the following year, further proposal has been enhanced: the so-called "Two-Pack" with the primary objective to strengthen the stability of the Union. Basically, this instrument is an enhanced mechanism for completing the Six Pack's reform and the EU Semester. The Two-pack is aimed at supervising and controlling national budget in order to check the compliance with the parameters of the SGP. Moreover, another objective is to enhance the surveillance procedure for the Member States in economic-financial difficulties which receive financial assistance by the different international funds such as the European Financial Stability Facility or the IMF, in order to avoid the "contagion-effect" within the Eurozone. To this purpose, the member states concerned had to implement the right reforms considering the Commission's guidelines and to provide all the information required. This further step forward consists in the mandatory publication by the Eurozone Member States of their stability program by 30 of April, their draft budget for the following year by 15 October and the final version of the latter by 31 December.

[31] European Commission, *Vade Mecum on the Stability and Growth Pact*, 2019 Edition, Institutional Paper 10, April 2019


Nov
Preparatory phase
ANALYSIS OF THE SITUATION
and follow up to the previous year
Dec
Jan
Phase 01
POLICY GUIDANCE
at the EU level
Feb
Mar
Apr
Phase 02
COUNTRY-SPECIFIC
objectives, policies and plans
May
Jun
Jul
Phase 03
IMPLEMENTATION
European Commission
does the analysis
Budgetary and structural policies
Macroeconomic imbalances
Annual Growth Survey (AGS)
Draft recommendation for the euro area
Alert Mechanism Report
Council of the EU
studies the AGS and the euro area recommendation adopts conclusions
European Parliament
provides opinion on employment guidelines
European Council
(heads of state or government) provides policy orientations
In-depth reviews of countries with potential macroeconomic imbalances
Member states
outline their specific objectives, priorities and plans
European Commission
drafts country-specific recommendations
Council of the EU
agrees on final country-specific recommendations
European Council
endorses them
Council of the EU
adopts them
Member states
take into account the recommendations in the process of national decision-making on the next year's national budget

To complete the framework of the new economic governance referring to the reform of the old SGP, it is useful to consider also the Europlus Pact. Adopted by Council Regulation in 2011, it is aimed at enhancing the economic governance of the Union in a view of close coordination and evolution of the EMU. In fact, it encloses four main objectives which are: foster competitiveness, foster employment, contribute further to the sustainability of public finances and reinforce financial stability. Basically, it is developed on the basis of the all the previous measures, but it contains one crucial novelty. In order to implement those four goals, the Member States must approve at their domestic level "legal vehicle" in order to ensure the correct achievement. Under the paragraph "National Fiscal Rules" is enshrined for the first time the principle of balanced budget at constitutional level. "Participating Member States commit to translating EU fiscal rules as set out in the Stability and Growth Pact into national legislation. Member States will retain the choice of the specific national legal vehicle to be used". [32] This law could assume the form of "debt brake" to ensure fiscal discipline within the Member States. For instance, in Italy this principle was introduced with constitutional law 1/2012, modifying different constitutional articles. Firstly, in article 81 which states that "The State shall balance revenue and expenditure in its budget, taking account of any adverse and favorable phases of economic cycles." [33], and in article 97 "Government agencies shall ensure that their budgets are balanced, and that public debt be sustainable."[34]

The last step to delineate this new path of governance is the Fiscal Compact, adopted by Council decision on 2 March 2012, formally known as "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union". The latter is an intergovernmental treaty with the primary aim of implement more closer version of the SGP. As clarify in Article 1 the Member States in the adoption of this Treaty, agree to "strengthen the economic pillar of EMU by adopting a set of rules intended to foster budgetary discipline through a fiscal compact, to strengthen the coordination of economic policies and to improve the governance of the euro area."[35] This Treaty does not provide further rules in terms of governance, however it stands as confirmation of the Six Pack'

[32] European Commission, *The Euro Plus Pact, How Integration into the EU Framework can Give New Momentum for Structural Reforms in the Euro Area*, EPSC Strategic Notes, Issue 3/2015, 8 May.
[33] Article 81 of Italian Constitution
[34] Article 97, *Ivi*
[35]Article 1, Treaty on Stability, Coordination and Governance in the Economic and Monetary Union.

norms and procedures. Thus, the question is why the EU Institutions have resorted to further treaty one year later. At this stage, it is appropriate to clarify some points. Firstly, the need to adopt this Treaty is due to the opposition of UK and Czech Republic. In fact, in order to modify and restore completely the governance of the EMU, the easier way could be the revision of the Treaty already in force such as the TEU and TFEU. However, this way became impossible to cross because the modification of Treaty requires sign and ratification of all the Member States. Moreover, the inclusion of rules already defined in the Fiscal Compact Treaty results in their strengthening. Indeed, those norms could only be modified with the consensus of all the states which have signed the treaty, hence each state has the veto power. In order to overtake the intergovernmental logic, the Union had to find different way to stress the coordination of the Member States economic policies, in a view of an ever-closer Union.

2.2.2 The need to financially assist the Member States:

The management of economic and financial crisis imposes the need for providing financial assistance to the more exposed part in order to avoid the collapse of the entire architecture. This need was strongly perceived as a necessary step to take in order to financially support the most vulnerable state such as Greece, Portugal, Italy, Spain and Ireland. Prior to the implementation of the European Stability Mechanism, the EU Institution had provided several instruments with the purpose of assisting the Member States in difficulties. Let us retrace those instruments, which we could define as ancestor of the ESM and which nowadays are no longer operational.

The need of reforming the TFEU in order to implement a permanent stability mechanism first arose in 2010. This idea was based on the realization of the strictly economic interdependence between the Eurozone’s Member States. Consequently, the EU institutions became aware of the need to enhance the economic governance within the Members sharing the same currency. The first step was achieved with the introduction of the European Financial Stability Facility (EFSF) in June 2010. The EFSF is a temporary mechanism for crisis resolution. Precursor of the European Stability Mechanism, it was implemented in order to provide financial assistance to the worst affected states which especially were Greece, Portugal and Ireland. This assistance was insured through the emission of bonds and other debt instrument on capital market. This assistance instrument was established to provide an institutional framework to financial support operation. Moreover, due to the seriousness of the situation, this crisis-management mechanism was assisted with the introduction of the European Financial Stabilization Mechanism (EFSM) with the same aim of providing financial assistance to the Member States faced financial difficulties. Implemented by Council Regulation No 407/2010 of 11 May 2010, the novelty of this temporary instrument consists in the subordination of financial assistance to the reform implemented by the state concerned. Those emergency instruments were replaced and substituted by the European Stability Mechanism which was firstly accepted on 11 July 2011 after the meeting of 9 December of the same year in which the ministers of the Eurozone have laid the foundation for the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), with the aim of strengthening the Eurozone.[36] It was finally approved and ratified on 2 February 2012, and officially entered into force in 2013. After the analysis of the crisis management by the EU Institution and of the main changes and reforms in terms of governance, in the next paragraph I am going to explain in detail the function and the function of the ESM. Instrument of historic important because has provided the first permanent instrument for managing crisis in the EU, bridging the initial gap developed in Maastricht.

2.3 The European Stability Mechanism

In order to acquire a complete framework, firstly we have to define what is the European Stability Mechanism. But immediately we faced an obstacle of definition. With

[36] The TSCG has the primary objective to develop a closer coordination within the Eurozone in order to ensure better management of the public finance. This Treaty is strictly connected to the ESM indeed the financial assistance of the ESM would be subordinated to the ratification of the TSCG by the Member State.

approximately 705 billion euros of capital, the ESM is one of the biggest financial institution in the world. Indeed, according to Article 1 of the Treaty Establishing the European Stability Mechanism, the latter is defined as "an international financial institution"[37] based in Luxemburg. The ESM is also regulated by specific modification of Article 136 with the introduction of paragraph 3 of the TFEU which it would be approved by European Council of 24-25 March 2011. "The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole"[38]. In the end, the ESM is an ambiguous figure because is an international institution, hence regulated by international law, but at the same time is included under article 136 of TFEU, thus is regulated under the EU law as well. The robe of international agreement hides the real nature of intergovernmental agreement between the Eurozone Member States, which need this escamotage to avoid the system of non-bail-out clauses. Moreover, according to Article 32 paragraph 2: "The ESM shall have full legal personality" and "legal capacity."[39] It stands as a real entity *superiorem non recognosens* out from the jurisdiction of the funding member states, owner of an exclusive special jurisdiction. The ESM it could be configured to some extent as a sovran bank which substituted the ECB in financially assist the Member States in difficulties, with a maximum lending capacity of €500 billion euros. In other word, the ESM is act as a bank with the purpose of providing loans to its members, like the IMF[40]. Basically, it seems that the ESM is implemented in order to fill the gap of the task which have not be conferred to the ECB at the beginning with the mechanism of non-bail-out clauses. In order to overcome the ban for the ECB to financially assist Member States in question, it was decided to modify the Treaty introducing specific derogation. The new article 122 paragraph 2 of the TFEU allows financial assistance to certain Member State "in difficulties or is seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control", with previous authorization by the Council and the Commission. In practical

[37] Article 1, Treaty Establishing the European Stability Mechanism.
[38] Article 136 paragraph 3, TFEU
[39] Article 32, *Ivi*.
[40] With regard to the International Monetary Fund, the Treaty expressly provide that the ESM must act in accordance with the IMF. In fact, the Member which need financial assistance may ask the same request also to the IMF. Thus, as a rule when it possible we may have the intervention of both. According to Article 13 of the Treaty Establishing the ESM dedicated to the "Procedure for granting stability support" when possible and appropriate the IMF could be involved.

terms, this Article provides the inclusion of provisions in derogation from the Treaty if limited in time and subjected to certain conditions described above. The hidden question that we could ask at this stage is whether it could be possible to achieve with intra UE agreements what the Union has intended to pursue with extra UE agreements.

2.3.1 The governance

For what concerned the governance architecture of the ESM we could distinguish three main organs: the Board of Governors, the Board of Directors and the Managing Director, regulated respectively under Article 5,6 and 7 of the Treaty Establishing the European Stability Mechanism. Before describing the structure, competencies and tasks of the first two organs it is appropriate to clarify the voting rules common to both. The Board of Governors and the Board of Directors share the same *quorum*. Firstly, the basic premise consists in the fact that the principle of functioning follows the capitalistic and capital company 'rules, by which the right to vote for every single ESM' members is proportional to the participation quotas of a certain countries. Basically, the voting rules within the ESM pursues the majority 'rules. According to Article 4, the decision shall be adopted by simple, qualified majority and mutual agreement. For adoption by simple majority is needed only the majority of the vote cast, instead for adoption by qualified majority is needed a majority equal to the 80% of the vote cast. Moreover, the article clarifies that every decision in order to be effective shall be achieved by "a *quorum* of 2/3 of the members with voting rights representing at least 2/3 of the voting rights". [41] Regarding this last point we could delineate further principle which governs the ESM which consists in the fact that it is not needed the presence of all the Member States to adopt decision and moreover no one has the power to block the mechanism. Indeed, the only presence needed is that of the members who share at least the majority thus the 2/3 of the ESM' capital. For what concerns the mutual agreement, it needed the consensus of all the members, however there is an exception which consists in an emergency voting procedure. The latter is used whether the Commission or the ECB conclude that certain

[41] Article 4, Treaty Establishing the European Stability Mechanism.

decision could constitute a threat for the sustainability of the Eurozone, hence in that case the majority required is the qualified equal to the 85% of the vote cast.

After this premise we could make a step further by defining the composition and the tasks of those three organs delineated above. The ESM Managing Director is regulated under Article 7 which defines this figure as a legal representative of the ESM, holder of executive function with the primary aim of conducting the ESM current business and implementing the decisions taken by the other two organs. Its mandate lasts 5 years and could be re-appointed only once, however it could be revocable at any time. For what concerned its election, it is the Board of Governors which shall be adopted the decision with qualified majority "from among candidates having the nationality of an ESM Member, relevant international experience and a high level of competence in economic and financial matters."[42] In the performance of its duties, the Managing Director has the possibility to nominate the Management Board, which assist him in its operation and in the correct implementation of the ESM functions.

The Board of Governors is composed by a representant for each Member State, which must be member of the national government responsible for finance.[43] It is appointed by each member states' government and could be revoked every time. Article 5 refers also to the appointment of altern Governor whit the task of substituting the Governor when it is not present. We could affirm that this composition represents the individual interest of Member States within the ESM, but they could not be considered as representatives of the State because, as mentioned in the Treaty, their mission consists in the pursuing of public interest of the ESM. In other word, we could imagine the Board of Governors as an organ with the primary objective of the eurozone stabilization, and non the interest of the single Member State which they represent. The Board of Governors is headed by the Eurogroup's President, unless they decided to appoint its own president. For what concern the tasks, according to Article 5 paragraph 6, the Board of Governors have to decide by mutual agreement on matters as:

[42] *Ibidem*, Article 7.
[43] De facto we are referring to the Minister of Finance or Treasury.

- all the operations concerning capital such as the capital calls, the cancellation of emergency reserve fund and the modification of the capital stock;
- the approvement of new members and the modification of the financial instruments, the pricing policy and pricing guidelines for financial assistance;
- to provide stability of the Eurozone, which also include the possibility to negotiate "the economic policy conditionality" with the ECB and the Commission;[44]

The Board of Governors is particularly important in terms of governance, indeed is in charge of setting out by-laws and internal rules and procedure applicable to both Board of Governors and Directors, and moreover has the task of appointing the General Director by qualified majority.

The Board of Directors are regulated under article 6 which defines the composition and the tasks that this organ should be performed. The Directors (plus alternate Directors)[45] are appointed by each Governor from "among people of high competence in economic and financial matters"[46]. The Board of Directors is in charge of ensuring "that the ESM is run in accordance with this Treaty and the by-laws of the ESM adopted by the Board of Governors"[47]. The main tasks consist in a sort of control over the Director's work, competencies in operational activities and high administrative power. In practical terms, we should imagine the Board of Directors as an administrative technical organ, which operates as a central actor in the management of the ESM. Despite to this, it is really surprising that their mandate hasn't any stability guarantees, in fact they shall be revocable at any time as well as the Governors. Furthermore, the term of office is not related to the that of the Governor which appointed them. It could happen that they could change whether change the Governor or not. This is really surprising because maintaining stability and continuity for technical organ could be vital and this revolving door is not functional.

[44] Article 5, *Ivi*. This article provides also the possibility for the Board of Governors to delegate its task to the Board of Directors.
[45] The Directors.
[46] Article 6 paragraph 1, *Ivi.*
[47] *Ibidem*, paragraph 6

In terms of governance, many criticalities could be noted. In general, we could affirm that the main critique consists in the issue of transparency, due to governance architecture of the ESM. Firstly, the entire staff are subjected to the professional secrecy. According to article 34 of the ESM Establishing Treaty, Governors and Directors are bound to the professional secrecy also to their national state, and moreover they have the duty to not disclosing information even after the end of their mandate. This leads to transparency issue if we consider the entire framework. Indeed, in order to consider the path as a whole, we have to mention Article 27, which provide that the only information which the member states are entitled to receive are: "an annual report containing an audited statement of its accounts and […] a quarterly summary statement of its financial position and a profit and loss statement showing the results of its operations".[48]

Furthermore, in regard to the Board of Governors and Directors, the Treaty provide the free of charge and this is not in line with the high profile in terms of competencies and skills required by the Treaty. Furthermore, the free of charge seems to undermine the independency of the organs. Another aspect which is important to remark that the immunities given to the entire staff. Indeed, according to Article 35 the entire staff, meaning the Managing Director, the Board of Governors and Directors shall enjoy immunity in the exercise of their activities and moreover shall enjoy the inviolability which covers the documents as a whole. As a matter of fact, those privileges are considered as issues if consider the accountability. In terms of governance, the clarity of function and responsibility in the exercise of those functions are the core point for a transparent and correct administration. The "irresponsibly" of the ESM staff given by the Treaty inevitably lead to accountability' issue. There is only one limit to this vast privilege, characteristic of the diplomats, which consists in the power conferred to the General Director to dismiss the immunity.

2.3.2 The funding mechanism

As mentioned before the ESM's capital is equal to 704 billion euros with a lending capacity of 500 billion euros: 80,5 billion correspond to the paid-in capital by the Member

[48] Article 27, *Ibidem*.

states and the remaining 620 billion correspond to subscribed capital hence, only if needed, will be granted by the issuance of some special bonds on the capital and financial markets. The following tables which are the Annex I and II of the Treaty Establishing the ESM represent the contribution key in percentage and the number of shares of each member states. In particular, The Annex I of the Treaty in practical terms specifies the contribution key for the subscription of the ESM authorized capital stock. The third column of Annex II shows the subscribed capital paid-up until now. The most important contributor is Germany with 27% of contribution key, followed by France with 20,3% and Italy with 17,9%.

ANNEX I

Contribution Key of the ESM

ESM Member	***ESM key (%)***
Kingdom of Belgium	*3.4534*
Federal Republic of Germany	*26.9616*
Republic of Estonia	*0.1847*
Ireland	*1.5814*
Hellenic Republic	*2.7975*
Kingdom of Spain	*11.8227*
French Republic	*20.2471*
Italian Republic	*17.7917*
Republic of Cyprus	*0.1949*
Republic of Latvia	*0.2746*
Republic of Lithuania	*0.4063*
Grand Duchy of Luxembourg	*0.2487*
Malta	*0.0726*
Kingdom of the Netherlands	*5.6781*
Republic of Austria	*2.7644*
Portuguese Republic	*2.4921*
Republic of Slovenia	*0.4247*
Slovak Republic	*0.8184*
Republic of Finland	*1.7852*
Total	***100.0***

The above figures are rounded to four decimals.

ANNEX II

Subscriptions to the authorised capital stock

ESM Member	*Number of shares*	*Capital subscription (EUR)*
Kingdom of Belgium	*243 397*	*24 339 700 000*
Federal Republic of Germany	*1 900 248*	*190 024 800 000*
Republic of Estonia	*13 020*	*1 302 000 000*
Ireland	*111 454*	*11 145 400 000*
Hellenic Republic	*197 169*	*19 716 900 000*
Kingdom of Spain	*833 259*	*83 325 900 000*
French Republic	*1 427 013*	*142 701 300 000*
Italian Republic	*1 253 959*	*125 395 900 000*
Republic of Cyprus	*13 734*	*1 373 400 000*
Republic of Latvia	*19 353*	*1 935 300 000*
Republic of Lithuania	*28 634*	*2 863 400 000*
Grand Duchy of Luxembourg	*17 528*	*1 752 800 000*
Malta	*5 117*	*511 700 000*
Kingdom of the Netherlands	*400 190*	*40 019 000 000*
Republic of Austria	*194 838*	*19 483 800 000*
Portuguese Republic	*175 644*	*17 564 400 000*
Republic of Slovenia	*29 932*	*2 993 200 000*
Slovak Republic	*57 680*	*5 768 000 000*
Republic of Finland	*125 818*	*12 581 800 000*
Total	***7 047 987***	***704 798 700 000***

SOURCES: ANNEX I AND II OF THE TREATY ESTABLIHING THE ESM

The capital which the member states have to be paid up is regulated under Article 11 of the Treaty Establishing the European stability Mechanism. The participation logic is similar to that of the BCE, thus based on the weight of each state in terms of total population and the GDP. Obviously, the percentage of participation cannot be identical because to the BCE's subscribed capital participate also the states which haven't adopt the European currency.

The use of the paid-up capital which amount to about 80 billion is regulated under Article 22. The latter named "Investment policy" clarifies that the capital is not used directly to provide loans, but on the contrary, it is invested in reliable asset and low risk investment with the aim to guarantee the loans raised on the market. The same article gives to the Managing Director wide operating margins, on the condition that it is provided the maximum credit rating. [49]

As mentioned above, the remaining 620 billion can be raised on the financial market through the issuance of obligations, thus by selling bills and bonds.[50] The Treaty cannot regulate the instrument for the funding mechanism, but generally the ESM issues on the market three types of debt securities:

- ESM Bills: short-term debt securities,
- ESM Bonds: medium- and long-term bonds up to 45 years
- the more recent N-bonds[51] unlisted long-terms bonds, generally acquired by institutional investor.

2.3.3 The instrument of intervention

Article 3 of Treaty Establishing the ESM clarifies the aim of this institution which is "to mobilise funding and […] to safeguard financial stability of the euro area as a whole and of its Member States"[52]. We could affirm that within the ESM there is a final constraint means that every action of the ESM is subordinated to the aim of preserving financial stability of the eurozone. Thus, the ESM is configured as an institution completely functional to this objective, in a way in which it could act only if strictly needed for that purpose. The ESM will provide financial assistance to the Member States concerned only under the canon of strict conditionality. In other word, the ESM is an extrema ratio, an instrument which could be use only if subsist real concern regarding the eurozone safety. This ratio at stake is something that we could define as an activity of private law aimed at the achievement of public objective, or better a private law activity which is strictly subordinated to the definition of the social purpose established by the

[49] Indeed, according to paragraph 2: "The operations of the ESM shall comply with the principles of sound financial and risk management", Article 22, Paragraph 2, *Ivi*
[50] Basically, it acts as a government by selling bonds for the borrowing needs.
[51] The entire name is *Namensschuldver-schreibungen* from Deitch law
[52] Article 3, *Ivi*.

Treaty. [53] Let us analyze in detail which are the available instruments of the ESM for maintaining the stability within the Euro zone. According to Article 12 of the Treaty Establishing the ESM, the latter "may provide stability support to an ESM Member subject to strict conditionality, appropriate to the financial assistance instrument chosen."[54]

Going in detail about the functioning of the ESM, let's analyze which are the intervention instruments and the access modality for the Member States. For what concern the instrument of intervention we could affirm that principles, procedures and financial aid instruments are regulated under articles 12-19 of the Treaty Establishing the European Stability Mechanism. Specifically, Articles 14-18 regulate the financial intervention instruments granted to the Member States in difficulties. Generally, with the primary aim of maintaining the stability of the Eurozone the ESM could adopt protective and preventive measures and could assist the Member states with loans or with the purchase of public debt on the primary market. More in detail, the Treaty provides five instrument of interventions which are:

1. Stability support loan within a macro-economic adjustment programme: According to Article 1 of the Guideline on Loan: "The objective of loans is to assist ESM Members that have significant financing needs but have to a large extent lost access to market financing."[55] In this case the intervention is requested by the state in question, thus accompanied by macroeconomic adjustment program. Article 13 of the Treaty Establishing the ESM and Article 2 of the Guideline on Loan clarifies the procedure by which a member state could receive loans. The first stage is the investigation or preliminary phase with regard to the admissibility criteria aim at verifying the existence of risks and threats for the public debt's sustainability of the Member in question and thus for the entire Eurozone. The procedure starts with an aid request and the analysis for the eligible criteria is given to the BCE and to the Commission, with possible involvement of the IMF. If their decision is successful, the ball

[53] A. Mangia, *L'Europa e il Trattato Impossibile*, con scritti di Marco Dani, Gregorio Gitti, Alessandro Mangia, Agustin Josè Menendez, Ilaria Tani, Amedeo Valzer, Scholé Brescia 2020
[54] Article 12, *Ivi*.
[55] Article 1 of the Guideline on Loan, ESM.

is in the Board of Governors' court with the aim to decide if subsist all the condition for giving financial assistance. Whether this phase will also be successful, the investigation phase will be considered as concluded. The second phase regards the choice of the assistance instrument formally given to the Board of Governors, BCE and Commission. As a matter of fact, is the Board of governors and the Managing Director who are responsible for defining the condition. In fact, the Commission is only in charge to sign an understanding protocol, prior authorization of the Board of Governors, and then all the procedure is entrusted to the Board of Directors. Thus, it is vital to remark that the negotiation could assume political nature. After the approval, the funds' provision could be launched. As general rule, the financial assistance is subordinated to strict conditionality, meaning to adjustment macroeconomic programs and reforms needed to overcome the crisis. Indeed, Article 5 of the Guideline on Loan establishes a warning system in order to ensure that the Members give any repairment back to the ESM in appropriate time according to the programme.

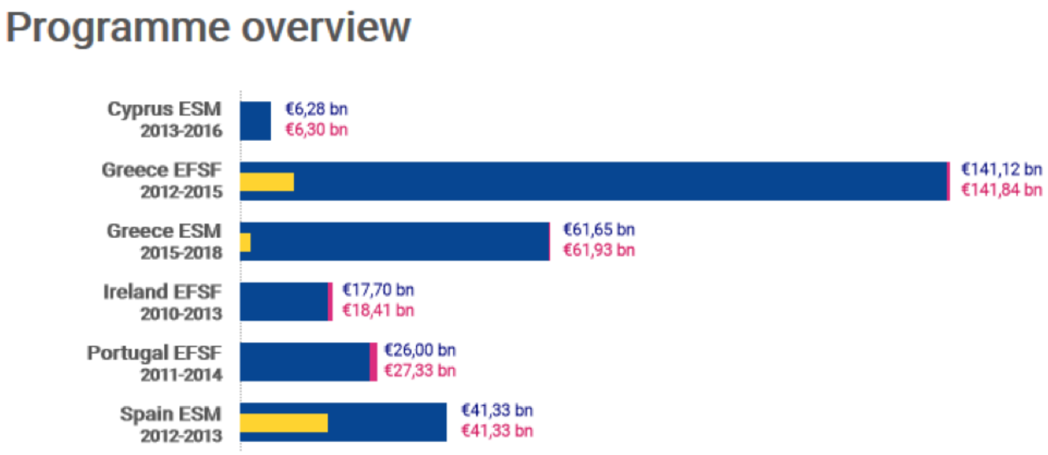
2. Bank recapitalization programme: the Treaty provided financial assistance for the re-capitalization of financial institutions. referring to the funding aimed at safeguarding the banking system, the instruments of intervention are different and could be the provision of funds to a member state in order to recapitalize one or more credit institutions in crisis, or the direct intervention in the estate of the financial institution in question. In the first case, the ESM intervention is based on the assumption that the state cannot find the resources needed for the re-capitalization without negatively impacts its financial stability. Hence, in that case the ESM could require the refund for the credit to the state in question, and moreover could ask for adjustment program. Instead, the second case which provide the direct intervention in the bank capital, the assumption is that the state in question is unable to perform its duties. This means that the context is the primary variable: the general rules are common, but the specific operational ones not. In fact, most of the times the State are not able to support the costs of the ESM intervention.

3. Precautionary financial assistance: provided by Article 14. This possibility gives to the ESM a role of prevention of any eventual crisis. In fact, the Treaty provide that the ESM could act in order to prevent and safeguard the Members from the risks of contagion caused by economic imbalances within the Euro Area. The opening of precautionary credit line lasts one year, and it is regulated under different conditions based on the reference parameters. This means that those conditions couldn't require any adjustment program or otherwise the Board of Governors could decide that the Member states must adopt corrective measures in order to avoid eventual future criticalities. However, the opening of precautionary credit line has never been used.
4. Primary Market Support Facility: the ESM could made bond purchase operation or other debt securities in order to facilitate a country's return to draw on the market and to reduce the risk of a failed bond action. In fact, generally those measures are used at the end of a macroeconomic adjustment programme. According to Article 1 of the Guideline on the Primary Market support Facilities the ESM may engage in those kind of measures "as a complement to (a) regular loans under a macroeconomic adjustment programme or to draw-downs of funds under precautionary financial assistance". [56]
5. Secondary Market Support Facility: covered by Article 18 of the Treaty Establishing the ESM, the latter may act in the secondary market only if subsist exceptional and specific circumstances. The aim is to support the right functioning of the government debt markets of ESM' Members, ensuring liquidity and incentivize investors to further participate in the financing activities.

[56] Article 1 of the Guideline on the Primary Market Support Facilities

2.3.4 In practice

During the years the ESM has implemented several assistance's programmes in different countries for a total amount of 295 billion euros. Nowadays there are not any ongoing program, indeed the last intervention was concluded in 2018 in Greece.



SOURCE: ESM WEBSITE

The graph above describes also the intervention of the EFSF (the ancestor of the ESM). The latter operated in Ireland in 2010, Portugal in 2011 and Greece in 2012, substituted then by the ESM. Let's retrace the interventions carried out by both:

- Cyprus: the assistance was 3-year programme from April 2013 to March 2016 for a total disbursement of 6.3 billion euros. The loan repayments that Cyprus has to give back to the ESM goes from 2025 to 2031 with an average maturity of 15 years.
- Greece: the high-risk crisis affected Greece forced the EU financial institutions to a double intervention. The first one was 3-year programme carried out by the EFSM from March 2012 to June 2015 for a total amount of 141,8 billion of euro. The loan repayments will be given back from 2023 to 2070 with an average maturity of 42 years. Considering the seriousness of the situation, it was implemented a second 3-year programme carried

out by the ESM from August 2015 to August 2018 for a total disbursement of 61,9 billion of euros. The loan repayment is scheduled for the period from 2034 to 2060 with an average maturity of 32.35 years.

- Ireland: was helped with EFSF 3-year programme form December 2010 to December 2013 for a total disbursement of 17,7 billion euros. The loan repayments are fixed from 2029 to 2042 for an average maturity of 20.8 years.
- Portugal: was affected by EFSF 3-years programme from May 2011 to May 2014 for 26 billion euros. The loan repayment is scheduled for a period which goes from 2025 to 2040 with an average maturity of 20.8 years.
- Spain: the ESM programme implemented in Spain was aimed at recapitalizing the banking sector and lasted 1 year from December 2012 to December 2013 for a total amount of 41,3 billion euros. The loan repayments are expected for a period which goes from 2022 to 2027 with an average maturity of 12,5 years.

2.3.5 Reforms and critics

In order to include the ESM into European juridical framework a reform is needed. Thus, in 2017 the Commission developed reform's proposal for the ESM in order to constitute a European Monetary Fund (EMF). The principal aim of the proposal is to expand the competencies and the intervention modalities of the ESM in order to establish common guarantee arrangement. With regard to that point the EFM could receive more competencies and financial instruments to enhance the stabilization function and solve the asymmetric shock. In the medium and long run the EFM could be entitled to place securities also in the primary market and to give financial assistance for the direct recapitalization of credit institutions.

The introduction of EMF would be led back the ESM under the umbrella of communitarian institution, even though the new EMF would continue to have different balance sheet. More in general, the broader plan of the Commission consists in the inclusion of the Fiscal Compact rules under the European law and in the introduction of European Finance Minister. Analyzing this proposal under a democratic point of view, the intention of the Commission represents an attempt aimed at solving the democratic deficit which affect the ESM. In fact, the EMF would be more directly involved in the management of the crisis and of the assistance program with the Commission and more in detail in the negotiation and adoption of the memorandum of understanding. One of the core points to solve the democratic deficit issue concerns the involvement of the European Parliament in different ways. Firstly, a consultive role for the EP is provided in the process of appointing the Managing Director. For what concern the EMF, it is entitled to submit an annual relation to the scrutiny of the EP. The latter would have been the possibility of controlling the work of the EMF by addressing questions and organizing auditions. Moreover, the national parliament would be entitled to have the possibility to be inform about the activity of the EMF and interact with the general manager. This Commission's proposal to transform the ESM to the EFM has not fund the consensus needed. Thus, the Commission have to rethink differently the project in order to achieve a change. The solution adopted was the revision of the Treaty Establishing the ESM, hence leaving the intergovernmental nature unchanged. This agreement was approved by the finance ministers of the members in the Eurogroup on 30 November 2020. The reform proposed introduces new points and procedures which I am going to delineate in a brief summary:

1. Simplified procedure for the adoption of the Precautionary Conditional Credit Facility: for the members which satisfies specific eligibility criteria regulated under Annex III of the modified Treaty, such as not be subjected to excessive deficit procedures, absence of unsustainable financial situation and sustainable budgetary position complying with the Stability and Growth Pact. As matter of principle, we could affirm that the members shall "comply with the […] conditions relating the EU surveillance".[57] For what concerned the

[57] Annex III of the ESM Treaty Amending Agreement

Enhanced Conditions Credit Line, it could be accessible for all members which did not satisfy the criteria for the PCCF and have sustainable financial and budgetary situation. In that way the access condition to the ESM credit line for the members in difficulties would be more stringent.

2. Backstop to Single Resolution Fund (SRF): this reform invests the ESM of new task by integrated it into the Single Resolution Mechanism with new article 18 about the Secondary Market Support Facility. As well as enhancing the stability within the eurozone, the ESM has the new role of guarantor of the SRF in a form of revolving credit line. In practical terms, it means that if one or more banks were in difficulties, the ESM would be the guarantor[58] of the Joint Resolution Fund. The latter is fund designed to collect the resources needed in order to save the European banks in case of need.
3. New division of competences: this point is aimed at redefining the cooperation modalities between the ESM and the Commission. In theory, in the preparation of the financial assistance the ESM is in charge to evaluate the access possibility to the primary market of the Member in question and all the related risks. Instead, the Commission has the duty to ensure coherence and consistency between the EU economic policy framework and the measures adopted.
4. Stronger role for the assessment and monitor of possible future programmes: with the reform of Article 3 of the Treaty which is about the aim of the ESM in order to enhance the control over the member states. Indeed, it is introduced a further assessment and evaluation of the financial and economic Members 'situation carried out by the ESM Managing Director, the Commission and the BCE with the aim to analyze deeply data and information collected by national governments.
5. Introduction of single limb collective action clauses (CACs)[59]: since January 2022. Reforming paragraph 3 of Article 12, this new point allows the simplification for the debt restructuring procedure by introducing the single

[58] It is important to remind that the ESM is the "last resort guarantee".
[59] As a general rule, the CACs allow a qualified majority of creditors to impose debt reduction to all creditors.

limb CACs which required qualified majority, instead of the “ancestor” dual limb CACs which required double majority.

This reformed scheduled since last November has prompted much criticism and doubts, by both Northern and Southern countries. For the Northern and richest members, the more critical point is the new role of the ESM as a backstop tool for Single Resolution Fund, not easy to accept for the fear of faced the excessive risks assumed by the weakest banks. For what concern the Southern and more indebted countries, the critical point consists in the access to financial assistance. For that reason, Italy was one of the most skeptical countries. In fact, with the reform the conditions for receiving assistance became more stringent especially those for the activation on PCCL. Consequently, the access would be granted to a lower number of ESM’ Members. First of all, one of the core points of the reform consists in the closeness of the ESM and the Commission, thus intergovernmental institution with supranational one. This would lead to many incongruities because what the Commission takes into account when decide to conceive assistance is the interest of the entire union, the interest of the EU as a whole, instead the ESM would consider only the capacity of the state in question to repay the loan. It would be very difficult to find a compromise considering this different ratio at stake, and moreover if the interest of the ESM will prevail the member would be obliged to restructure its debt “alone” without using the ESM funds. The last point regards the enhanced assessment and control procedures over the financial situation of the state in difficulties and its capacity to receive assistance. Basically, this analysis carried out by the ESM Managing Director and the Commission is aimed at evaluating the capacity to repay the loans granted. This logic would constitute a problem for the high indebted countries such Italy because the Northern countries would limit as far as possible the intervention of the ESM. [60]

[60] About this point is interesting to briefly mentioned the proposal developed by Jens Weidmann (Bundesbank’s President). He proposed an automatic restructuring procedure according to certain predefined rules. Obviously, for high indebted countries would be fatal. However, during the negotiation phase this option was abandoned.

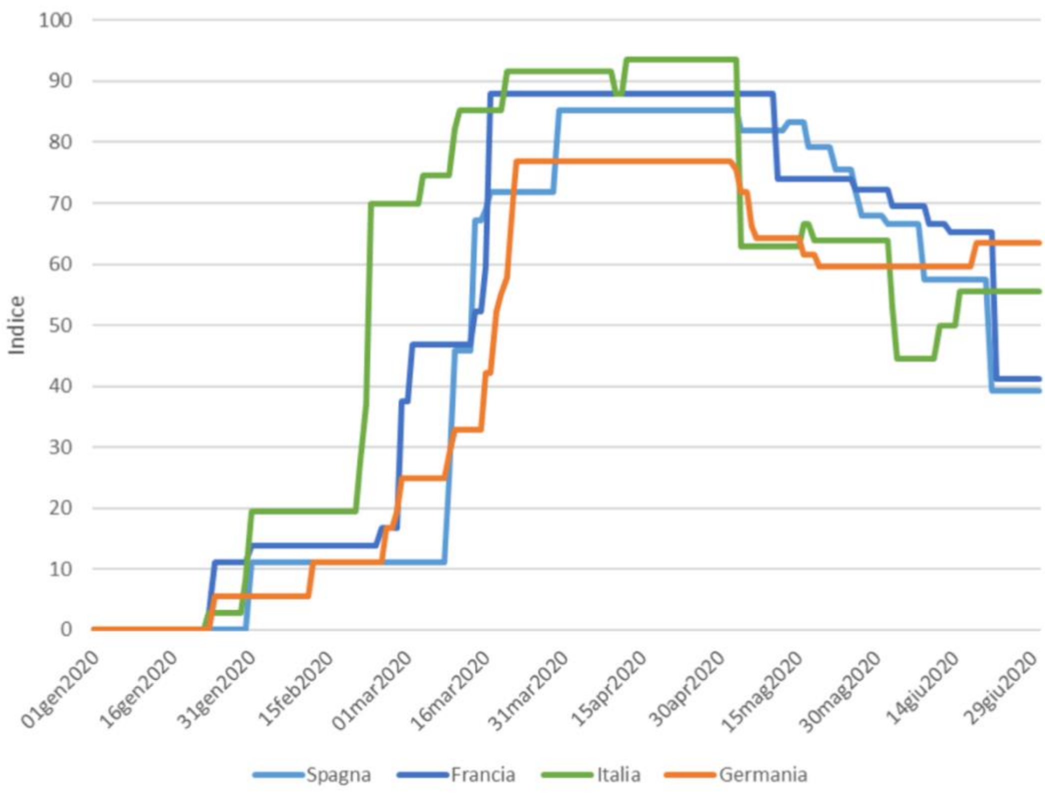
CHAPTER III

The European Response to the Pandemic Crisis: The Next Generation EU

3.1 The pandemic crisis

There are no doubts that the Covid-19 crisis is one of the most controversial and unexpected events of our time, and as well as the other crises represent an opportunity to evolve and to make a step forward in the EU integration process. With more than 1 billion of death in Europe, this emergency without precedents constitutes the most difficult challenge for the EU, but if addressed in the right way, could be the fair chance to develop the European project in a view of political integration, overcoming definitely the inadequacy of the Maastricht compromise.

Since February 2020, when the Covid-19 arrived in EU, the day-to-day life of the society has been completely upset and disconcerted. The Member states were forced to act faster, applying appropriate and stricter containment measures in order to avoid the spread of the virus. In this state of chaos, the EU response has been more rapid and comprehensive compared to that of the previous crisis. Since the beginning, the pandemic situation caused huge and ample economic impact in all the EU Member states, such as considerable GDP losses of varying degree. Obviously, the consequences have impacted the members in different ways due to different conditions of economic structure and the various domestic strategies adopted to tackle the crisis. Generally, preliminary estimates foresee that each month of lockdown could lead to two percentage points of reduction in annual GDP growth.[61] Estimates for the GDP losses show us the huge differences between one state to another. Obviously, the main explaining reason consist in the stringency index of the containment measures adopted by domestic government. Another interesting variable, represented in the graph below, consists in the importance and impact of the tourism sector on the country's economy.

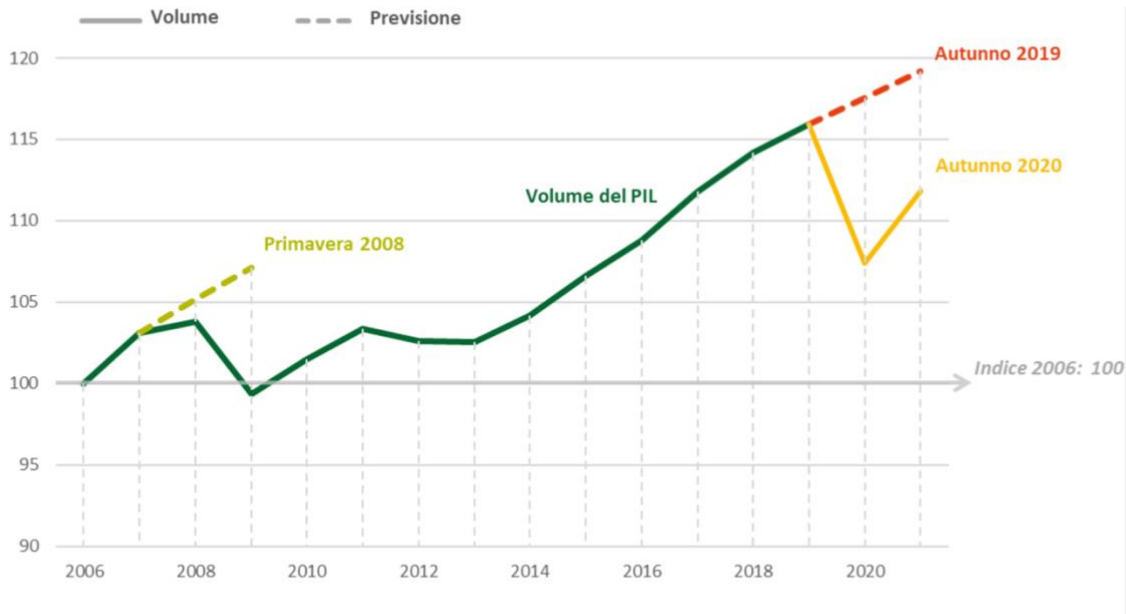


SOURCE: OXFORD UNIVERSITY, STRINGENCY INDEX

[61] European Court of Auditours, *Rischi, sfide e opportunità nella risposta di politica economica dell'UE alla crisi provocata dal Covid-19*, Analisi n. 06, 2020

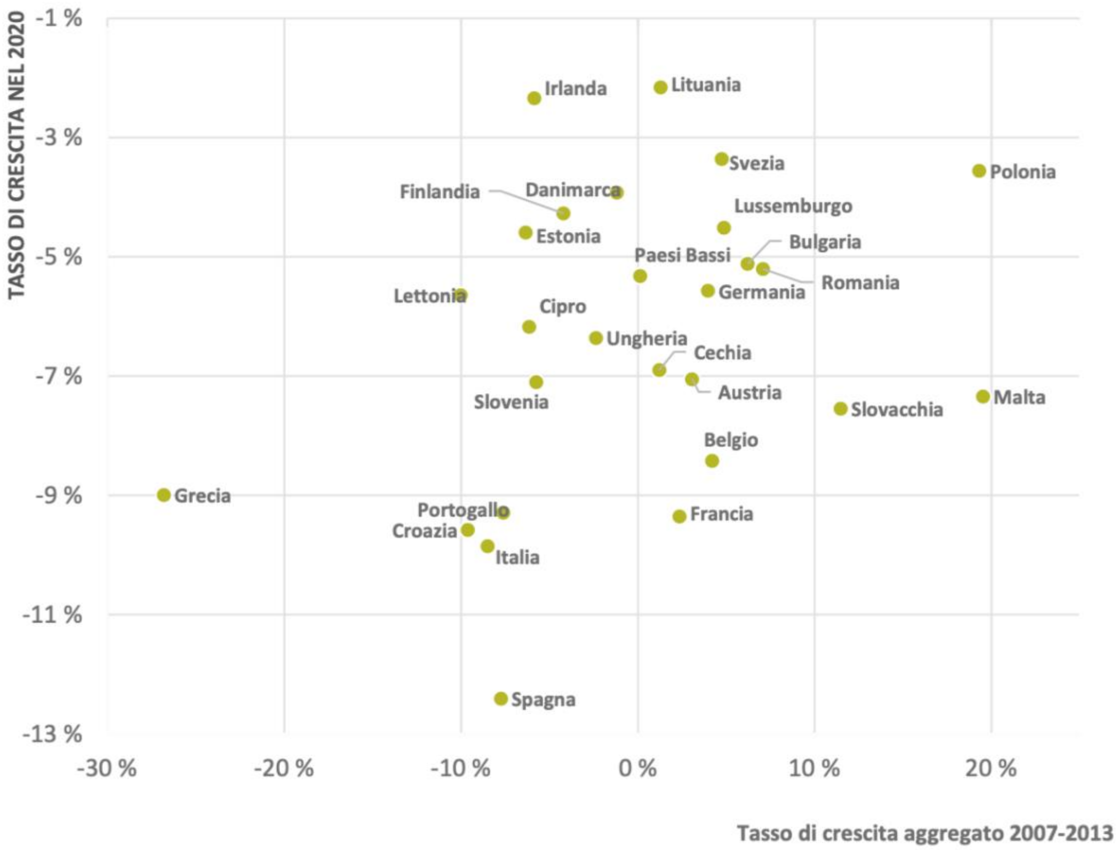
Differently to the financial crisis of 2008, the current pandemic situation affects the entire economy, from the household expenditure to the business operation. Unprecedented, the Covid 19 has influenced the global supply chain, as well the life habits of global population. According to the Commission the economic situation of the entire Union is in a worse condition compared to the previous crisis, and the projections for the future could hardly be less auspicious.

The graph below shows the Commission's previsions regarding the volume index of GDP of EU in percentage for the period of 2006-2021. According to that, as we could notice, the deviation of the economic growth pact is greater than that recorded during the previous crisis and the GDP growth will be reduce of 7,4 % in 2020, moreover it may not return to pre-crisis levels in the next years.



SOURCE: COMMISSION DATA AND FORECAST OF AMECO DATABASE

Despite the differences between these two crises, we could underline some similarities between the most affected states and the level of GDP losses. Indeed, as well as the sovereign debt crisis, the pandemic one has affected the weaker EU member states more such as Greece, Italy and Spain. As a matter of fact, this correlation not only highlight the common situation of these countries but also open the door for new integration scenario. As confirmed by the graph below, considering the growth rate of 2020 and the aggregate growth rate for the period 2007-2013, the economic situation of the Members mentioned above is approximately the same.



SOURCE: COMMISSION DATA AND FORECAST OF AMECO DATABASE

As analyzed in the previous chapter, in order to mitigate the negative impact of the crisis and to strength the Union, the latter has to adopt new measures and financial assistance mechanism at EU level. In response to the Covid crisis, the EU is implementing new policies to reduce the economic shock in a view of unprecedented integration for more resilient and cohesive Union. In general, we could divide the European response in two "part": the immediate measure to guide and sustain the member states and the long-term plan for the restart of the Union which is the Next Generation EU. In the next paragraphs, I am going to analyze which are the EU interventions in the short term and new ambitious plan for fortifying the Union in the long term.

3.2 The European Response: the immediate measures

Since the beginning of the pandemic situation, the EU had two main duties: the first one is to limit the spread of the virus and the health emergency, the second one consists in the adoption of actions to safeguard the economy of the Member States. During the crisis, the EU competencies in areas not related to economic and monetary coordination were limited. In fact, the EU was not able to act in certain sectors determinant for tackling the crisis, and moreover there was a lack of consensus about how to act. As a matter of fact, different national responses were applied, mostly to safeguard the enterprises and the employment. The main constraints of the EU intervention concern different intervention areas such as:

- Competencies in health policies: this domain is regulated under the domestic law. In fact, are the member states in charge to delineate their own health policy and the European competence is limited to a role of control over the member states action. As a matter of fact, before the pandemic crisis the European budget investment for the health domain amounts to 0,5 billion euros, meaning the 0,5 % of the total amount of the previous multiannual financial framework of 2014-2020.
- Competencies in containment measures: the member states have exclusive competence in the public order sector. It means that the European role is limited to non-binding guidelines and coordination role.
- Lack of preparation to crisis: as described in detail above, in the European Semester framework the role of the Commission and the Council is to coordinate the domestic economic policies and verifying the conformity of them to the EU law.

- Norms concerning the EU budget: basically, the main claim consist in the fact that the EU budget is too limited to mitigate economic shock in the short-term period.[62]

In order to overcome this gap of competencies in the hand of the Union, flexible economic coordination has been put in place quicky. The member states need a clear path and guidelines for acting in the best possible way and provide appropriate answers to this specific situation. In fact, the Commission had adopted specific guideline to mitigate the impact of the national measures on the functioning of the single market and more flexible application of the coordination rules and procedure.

Before the decision to implement the huge reform of the Next Generation EU adopted the 23 of April, the Union had implemented immediate actions aimed at coping the crisis. For what concern those immediate measures, we could summarize them as different actions such as: the EU budget support, the ECB monetary intervention, the SURE Programme, the loans plan adopted by the ESM and the European Investment Bank. Let us retrace together which were the main actions implemented by the Union institutions.

3.2.1 The need to protect economic and financial stability and the ECB' intervention

"Extraordinary times require extraordinary action. There are no limits to our commitment to the euro." [63]

With this famous sentence by the President of the ECB Christine Lagarde, the ECB has confirmed its extraordinary commitment to the euro, putting in place different measures. The general goals of the ECB for this crisis could be summarize as follow: help the economy to absorb the shock of the crisis, support access to credit for firms and households keeping the borrowing affordable, at a low interest rate, by increasing bank's

[62] For that reason, a reform of the multiannual financial framework is needed to create a more cohesive union able to react to the economic shock.
[63] Christine Lagarde, ECB President

lending capacity and provide more loans with less guarantee.[64] In order to achieve those objectives the ECB has put in place the Pandemic Emergency Purchase Program (PEPP) in March 2020. The latter is a "temporary asset purchase program of private and public sector securities"[65] by quantitative easing, hence issuing currency. In other word, the PEPP is a non-standard monetary policy, aimed at enhancing the liquidity, reducing financial costs and more in general supporting the financial condition of eurozone economy. Basically, this programme provides the purchase of a set of financial instruments such as government bonds, supranational securities, corporate and covered bonds.[66]

This instrument is designed to reduce the threat of exponential debt growth for the high indebted counties (like Italy), to reduce liquidity's issue and to reduce the threat connected to an excessively long period of inflation. At the beginning the budget of this programme is €750 billion, during the next moths it was enlarged and nowadays the total amount of this programme is 1.850 billion euros. It means a real quantitative easing. This instrument should be last until the end of the pandemic crisis, which at the beginning was identified with the end of 2020, but successively the "deadline" was rescheduled for the entire 2021 year.

One of the first and important measures adopted by the Commission the 13 of March is the so-called CRII Programme, which stands for Corona Response Investment Initiative. With the aim of an urgent action to react, this programme allows a prompt mobilization of structural funds to provide liquidity and give flexibility to the modification of the programs if needed. The first CRII package is based on three e main pillars which are: flexibility for the application and implementation of the EU rules, 8 billion euros of immediate liquidity to cover the expenses for tackling the crisis and increase the EU Solidarity Fund's[67] scope. The Member States could have access to the resources through a simplified and accelerated procedure, moreover in some cases they

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[64] European Central Bank, Eurosystem website.
[65] *Ibidem*
[66] Luciano Monti, *I Fondi Europei, Guida al NextGenerationEU e al QFP-Quadro Finanziario Pluriennale 2021-2027,* Luiss University Press 2021
[67] The EU Solidarity Fund is a fund established in 2002 to response to the natural disaster. Until today the fund had provided up to 5 billion euros to 24 member states for different types of natural disaster such as earthquake and fire. In 2020 the scope was extended to face the health emergency.

enjoy a degree of flexibility to directly reallocate funds. To advance the CRII Programme, the Commission introduced new package so-called CRII+. The core points could be summarized as follow:

- the possibility to mobilize all the non-used funds of the EU Structural and Investment Funds;
- enhancing the flexibility across the three cohesion policy funds;[68]
- simplification of program implementation's procedural steps;
- European co-financing rate of 100% for 2020-2021 cohesion policy programmes.[69]

Another important answer was proposed by the European Investment Bank (EIB) the 16 of March which proposed wide range of measures for firms. Those measures consist in loans granted by the provision of 28 billion euros. Going in detail, the EIB had launched:

- more safeguards for small and medium-size enterprises (SMEs) through the COSME programme[70]. Those measures consist in more guarantees aimed at facilitating financial access for a total amount of 8 billion euros in funding for at least 100 000 SMEs;
- Exceptional liquidity facilities meaning additional financial support for working capital for an amount of 10 billion euros;
- Special asset-backed securities purchase programme for mobilizing a maximum of 10 billion euros.

The 20 of March due to the seriousness and deterioration of the situation, the Commission decided to suspend the safeguarding clause of the Stability and Growth Pact

[68] The cohesion policy funds are the European Regional Development Fund, the Cohesion Fund, and the European Social Fund.
[69] R. Baldwin, B. Weder di Mauro, Mitigating the COVID Economic Crisis: Act Fast and Do Whatever it Takes
[70] The COSME is European Programme which stands for Competitiveness of Enterprises and Small and Medium-sized Enterprises. Started in 2014, it aims at promoting and improving the business and competitiveness of SMEs, helping them at enhancing their potential trough the creation of new sustainable business model.

meaning that from now on the member states could broke the benchmark of the pact for domestic expenses, impacting in that way the national public debt.

3.3 The Covid Response Package of 540 billion euros

The largest package of measures for the struggle against the virus was proposed after the Eurogroup's call of 9 April 2020, and then approved the 23 of April. This step was decisive because the European leaders had proposed an all-encompassing plan for the emergency. This European aid package up to 540 billion euros is based on three pillars or better safety net which covers workers with the SURE programme, businesses with the Pan European Guarantee Fund and the states with the ESM' Pandemic Crisis Support.

3.3.1 The need to protect workers: the SURE Programme

To mitigate the huge negative impact on the European jobs market, the Commission has proposed the SURE Programme[71] which is a temporary program (until the end of 2022) which correspond to Temporary Support to mitigate Unemployment Risks in an Emergency. Focused on the support of the job market and on safeguarding employees and workers, this instrument provides financial assistance in the form of loans to the Member States in difficulties for maximum amount of 100 billion euros. The loans requested by the members are granted on favorable terms for sustain the costs of maintaining employment, and the measures to fight the unemployment's risks such as short-time work scheme. More in detail, the latter provide a subsidy for the temporary reduction of the worked hours, in that manner the firms could "save" their employees

[71] It is important to underline that the SURE is based on article 122 TFEU, and so considered as an European instrument.

reducing their worked hours which are paid by the government with a subsidy proportional to the reduction.

For what concern the loans funding mechanism, they are covered and sustained by the Community budget, by a system of voluntary guarantees put in place by the members for a total amount of 25 billion euros and by the EU SURE social bond issued by the Commission. How the Commission provide these loans? As mentioned before the Commission gives loans to the Member States in favorable terms, meaning that the Commission borrows on the financial market to finance them. For that reason, the beneficiary members could take advantage of the low funding costs due to the high EU credit rating. Nowadays, the SURE program has provided approximately 90 billion of loans to 19 Member States, including Italy which was one of the first beneficiary with 27,4 billion euros followed by Spain with 21,3 billion euros. The graph below shows the amount of proposed loan and the real disbursement of funds in favor of the Member States concern.

	Proposed loan amount	**Disbursed**
Belgium	8.197 billion	8.197 billion
Bulgaria	511 million	511 million
Cyprus	603 million	603 million
Estonia	230 million	230 million
Greece	5.265 billion	5.265 billion
Spain	21.324 billion	21.324 billion
Croatia	1.02 billion	1.02 billion

Hungary	504 million	504 million
Ireland	2.473 billion	2.473 billion
Italy	27.438 billion	27.438 billion
Lithuania	957 million	957 million
Latvia	305 million	305 million
Malta	420 million	420 million
Poland	11.236 billion	8.236 billion
Portugal	5.934 billion	5.41 billion
Romania	4.099 billion	3 billion
Slovenia	1.113 billion	1.113 billion
Slovakia	630 million	630 million
Czechia	2 billion	2 billion
Total	**94.3 billion**	**89.6 billion**

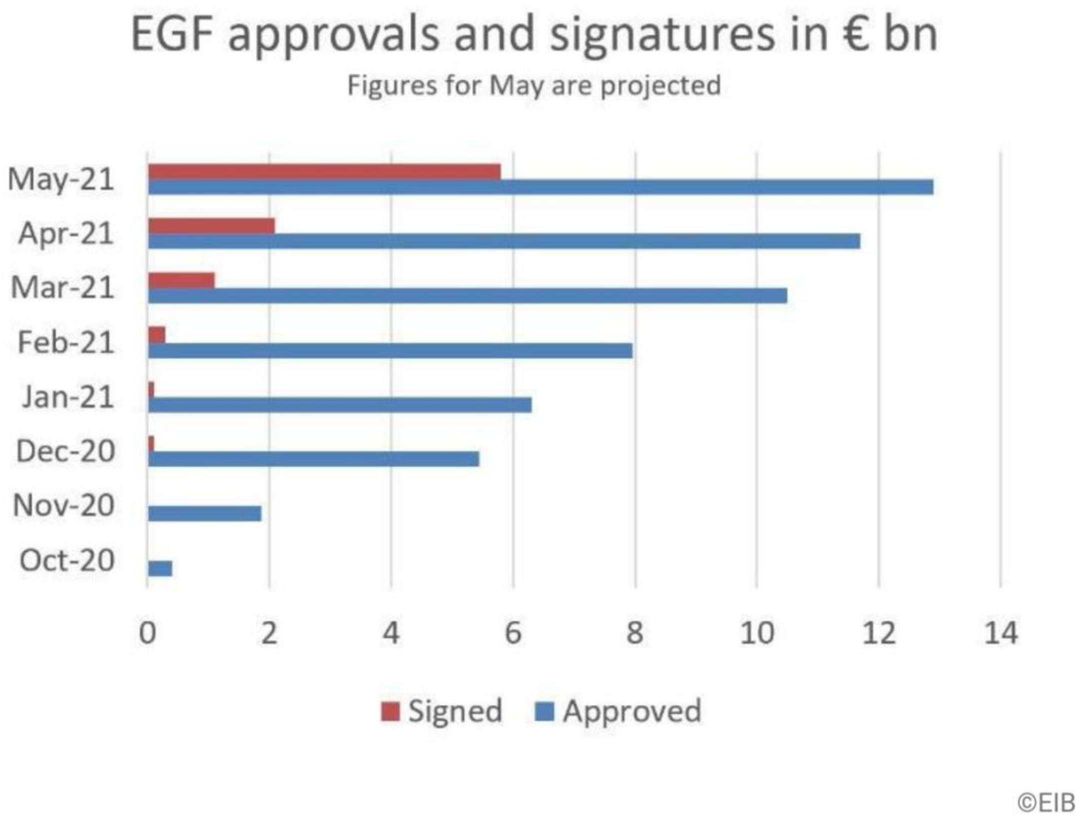
SOURCES: EUROPEAN COMMISSION WEBSITE

An important communication which deserved to be quoted is the Commission communication in which states the possible further introduction of permanent instrument in the EU law framework. The need of protecting workers in this pandemic situation has brought to light the need of having a permanent system like SURE for the upcoming crises.

3.3.2 The need to protect firms: the Pan-European Guarantee Fund

Most of the European firms have suffered much damage because of Covid-19 situation, and they are destined to suffer more. In order to mitigate those damages, the European Council had launched the Pan-European Guarantee Fund (EGF) managed by the European Investment Bank. Operational until 31 December 2021 with possibility of extension, the Fund is intended for SMEs, which are the most affected entities as well as with less availability and guarantees. The main objective is to make possible and facilitate the EIB to provide loans, securities and more in general guarantees to the SMEs. In that manner, those firms could obtain the liquidity needed to react and tackle this adverse situation. Moreover, the interesting thing consists in the adoption of sustainable business plans by the enterprises in question in order to obtain financial help. The Fund it is not only target for the firms in difficulties but has adopted as objective financial support that they need in order to growth for the healthy and sustainable business. Let us analyze in detail the functioning of this emergency instrument. The Fund size corresponds to 25 billion euros for an impact target up to 200 billion euros of additional financing, which are guaranteed under member states' contribution proportional to their contribution capital of the EIB for at least 60% of the EIB's capital. Regarding the beneficiaries, as mentioned above 65% of the financing is entitled to SMEs, the 23% to the firms 250 or more employees, 5% to the public companies and companies which provide health services for the Covid crisis, and 7% to venture capital and debt. For what concern the decision-making mechanism the contributors, hence the member states, have to agree to the initial contribution agreement in matters such as the price, admissibility criteria and risk levels. The governance is entrusted to the Contributors Committee which is in charge to decide the procedures and the parameters for the operations, moreover it is entitled to receive reports regarding all the operation with the related risks.

Until May 2021 the Fund has achieved the half of its objective in terms of financial aid, for a total amount of approximately 11,7 billion euros in order to mobilize 93,9 billion euros. The graph below shows the approved and operations since the activation of the Funds until May 2021.



SOURCE: EIB WEBSITE

3.3.3 The need to protect states: the ESM Pandemic Crisis Support

In order to protect states against the Covid 19 crisis, the ESM has introduced the Pandemic Crisis Support (PCS). The latter is an instrument operating since the decision of the Board of Governors of 15 May and available until the end of 2022 with possibility of extension. The PCS has a capital of 240 billion euros if all the member decided to request the financial aid, which for each member it is equal to 2%[72] of the GDP at the end of 2019. Established on the basis of the Enhanced Condition Credit Line,[73] it can provide financial aid for maximum period of one year, which could be extended twice for six months. The member which receives the loans has 10 years to return them, however the interest rate is lower than the traditional one for the classic credit line. The table below offers a comparison of the Enhanced Condition Credit Line and the Pandemic Crisis Support.

	Precautionary Credit Line	Pandemic Crisis Support	Comment/Explanation
Upfront Service Fee	50 bps	25 bps	A first Upfront Service Fee on 15% Member States allocated amount will be invoiced at the inception. This fee will be deducted from subsequent fees, when actual money is drawn.
Annual Service Fee	0.5 bps	0.5 bps	
Margin	35 bps	10 bps	
Commitment Fee	TBD	TBD	Depending on ESM's financial losses
Penalty fee	200 bps over Euribor (or interest payable)	Not specified	
Primary market purchases	Additional margin of 35 bps	Not specified*	

SOURCE: THE ESM MANAGING DIRECTOR'S PROPOSAL (2020)

There is only one conditionality which is that the financial aid must be used by the member to address health expenses direct and indirect related to the Covid-19 crisis. It is important to underline that the Commission, the BCE and the Board of Governors have established that all the members are entitled to access to the aid, without any exclusion. Indeed, in order to access to the capital, the member interested has to send a request with a list of expenditure items to the Board of Governors which is in charge,

[72] It means for Italy 36 billion euros.
[73] The ECCL is widely described in the previous chapter dedicated to the ESM.

together with the Commission and the BCE, to choose at unanimity if a member is eligible or not. However, as mentioned above the decision is already taken, hence the entire procedure is only a formality. When the aid is confirmed the ESM together with the Commission and the member in question have the task to determine a country specific Pandemic Response Plan. Instead, the Managing Director is in charge to develop a Financial Assistance Facility Agreement, which the interest member must sign. Approximately, the entire procedure needs a two-week time, then the member would have access to the credit line. It is interesting to remark that the country in question could decide if used in the classic sense this credit line, thus draws on the loan, or use it as an insurance for the investors. If the country chooses for the first option could draw the 15% of the total amount per months. At this point, the problem consists in the control over the expenditure of the country, because of the conditionality to use the loans only for expenses related to the pandemic situation. The Commission is in charge to perform this task according to the European law in the European Semester's framework. In fact, every three months the Commission must report to the Bord of Directors the way in which the country had spent the funds.

It is useful and interesting to consider what happened after the introduction of the ESM Pandemic Crisis Support. In fact, the public opinion of several member states[74] was dominated by huge debate about the use of this "old" instrument. In fact, any states have launched procedure to have access to the loans because of several reasons. The main explanation consists in the fact that the Commission has launched the Next Generation EU, an unprecedented and ambitious recovery instrument of 750 billion euros for a new resilient Europe. Hence, member states could rely on other funds to address the crisis, which are more convenient because of non-repayable large part. The second reason rely on the interest rate, indeed as mentioned above, the ESM Pandemic Crisis Support has low interest rates. However, due to the pandemic situation the general interest rates are relatively low, thus for the state which decide to take advantage by the Pandemic Crisis Support, it is not too much convenient especially with compared to the Next Generation

[74] Italy was one the most debating and controversial countries regarding the use of the ESM to address the pandemic crisis. The problem related to the debate in Italy consists in the politicization of the latter. Unfortunately, in Italy every European issue ends in a domestic debate between the different political parties. In regard to the ESM it happens the same.

EU. Thus, in the next paragraph I am going to analyze this new and ambitious instrument, one of the most important efforts of the entire European history. Ambitious and resourceful, is the right way to make the crisis an opportunity for a stronger and resilient Europe.

3.4 The EU long-term measures

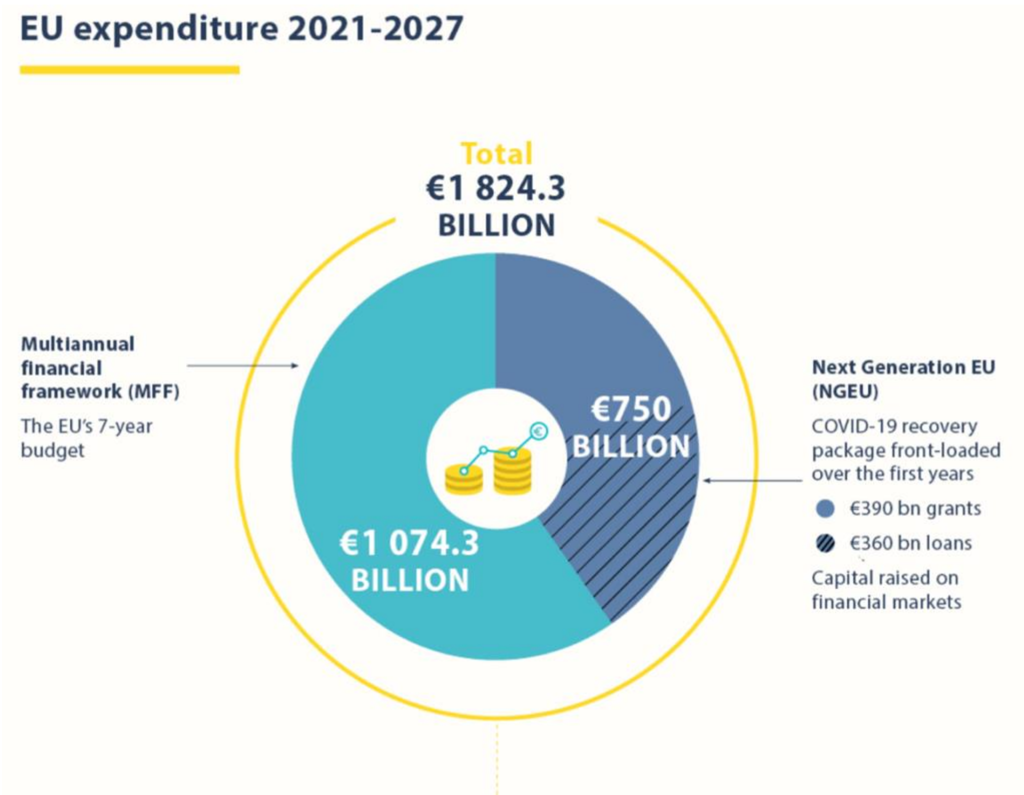
With the Common Declaration of 36 March 2020, the member states committed themselves to act together against the crisis, doing whatever it takes. This willingness to start again together begins to take shape in April 2020, at the height of the health emergency. In fact, it was decided to establish common plan which was subsequently approved by the European Council on 23 April. At the request of the heads of state and government, the Commission then presents a wide-ranging package "ambitious and articulated", capable of dealing with the extensive damage caused by the pandemic. To make this happen, it is necessary to integrate this fund with the European budget for the period 2021-2027, capable of supporting investments.

On 10 November 2020, the European Institutions have reached the €1.8 trillion largest package ever financed through the EU budget. The terms of the agreement are defined: 1074 billion euros are allocated to the multiannual financial framework, better known as the long-term budget. The novelty lies in the increase of the budget on a temporary basis through new financing for a Recovery Plan amounting to 750 billion euros divided as follows: 312.5 billion in grants and 360 billion in loans. Large parts of the funds approximately 80% will be used for sustaining investment and reforms in the member states.

Approximately the half of the total amount of the agreement (€1.8 trillion) is dedicated to the general goal of modernization and more specific ones reachable using specific programs, which could be summarize as follow:

- Innovation and research trough the Horizon Europe fund,

- Digital Transition trough Digital Europe Programme,
- Fair climate trough Just Transition Fund,
- recovery and resilience trough Recovery and Resilience Facility, rescEU and EU4Health.



SOURCE: EUROPEAN COUNCIL OF THE EUROPEAN UNION WEBSITE

To have a complete framework of this innovative and extensive programme is better to highlight the difficult negotiations which have led to largest package of measures ever adopted. Since the beginning it is possible to identify three different groups of member states:

1. the first groups is composed by South Europe Member States, which generally are the main beneficiaries, consider necessary a large set of resources to

finance ambitious and resilient measures and reforms. Thus, they conceive this crisis as an opportunity to change Europe realizing unprecedent programs and investment.

2. The second group was composed by the so called “Frugal Countries” thus: Denmark, Sweden, Austria, and Holland. They would like to opt for limited and small-scale set of measures to tackle the crisis.
3. The third group is composed by the East Europe Member States which have welcome favorably the package. [75]

The negotiation of the Multiannual Financial Framework was particularly difficult because it requires special legislative procedure. In order to became effective, the MFF must be approved by the Council unanimously previous approval of the EU Parliament. One exception consists in the role of the European Council which could unanimously adopt the decision to allow Council to act by qualified majority.

3.4.1 The Multiannual Financial Framework 2021-2027

The new Multiannual Financial Framework (MFF) corresponds to the new long-term budget of EU. Adopted the 14 December 2020 and regulated under European Regulation 2020/2093, covers 7 years period[76] of 2021-2027. It represents the European path for investing available resources and financing the contained reforms. According to Article 312 of TFEU, in which it finds its legal basis, the MFF “shall ensure that Union expenditure develops in an orderly manner and within the limits of its own resources.”[77]

Before analyzing the in detail how are distributed the resources and in which are the areas of intervention are assigned, let us underline which are the goals or general guidelines of the MFF. According to Union’s strategy, for the new MFF are provided two

[75] It is quite interesting to remark that Poland was the most beneficiary for the previous MFF of 2014-2020 with more of 60 billion euros.
[76] The MFF covers 5 years period.
[77] Article 312 of TFEU

main goals and two secondary goals. For what concerns the first category, these two broad guidelines are:

1. Digital Transformation: which must be insert as priority for all the programmed finance by this the MFF, and moreover at least 20% of the total resources must be assign to this scope.
2. Green Transformation: at least 30% of the total resources must be assign to this scope and all the programs financed by the MFF must be in line with the European Green Deal and the Paris Agreement.

The two specific goals are:

1. Gender Equality: the Commission has define this goas as horizontal priority, meaning that it shall be considered in the program assessment and evaluation.
2. Biodiversity protection: at least 7% since 2024 and 10% since 2026 of the expenses must be assigned to this scope. [78]

The size of the new MFF 2021-2027 it much more important and significant if compared to the previous MFF 2021-2020, which amounts of 1083,03 billion euros, as we can see from the graph below.

SOURCE: EUROPEAN COMMISSION

The next table shows resource programming of the new MFF, which is divided in seven areas designed as follow:

[78] Luciano Monti, *I Fondi Europei, Guida al NextGenerationEU e al QFP-Quadro Finanziario Pluriennale 2021-2027*, Luiss University Press 2021

	MFF	NEXT GENERATION EU	TOTAL
1. Single Market, Innovation and Digital	132.8	10.6	143.4
2. Cohesion, Resilience and Values	377.8	721.9	1 099.7
3. Natural Resources and Environment	356.4	17.5	373.9
4. Migration and Border Management	22.7	-	22.7
5. Security and Defence	13.2	-	13.2
6. Neighbourhood and the World	98.4	-	98.4
7. European Public Administration	73.1	-	73.1
TOTAL MFF	**1 074.3**	**750.0**	**1 824.3**

All amounts in EUR billion.
Source: European Commission.

SOURCE: EUROPEAN COMMISSION

Let us analyze how resources are distributed within each area:

- For what concern Single Market, Innovation and Digital the funds correspond to 143,4 billion euros of which approximately € 88 billion assigned to research and innovation, €35 billion to strategic investment and approximately €6 billion to the Single Marked.
- For Cohesion, Resilience and Values are planned €1.099,7 billion divided in three areas of intervention: recovery and resilience approximately €693 billion, regional development and cohesion with approximately €290 billion and Investing in People, Social Cohesion and Value with approximately €115 billion.
- The budget provision for Natural Resources and Environment is about €373,9 of which €350,4 to Agriculture and Maritime Policy and €22,8 to Environmental and Climate Action.
- The section Migration and Border Management has a budget of €22,7 billion of which approximately €10 assigned to migration and €12,7 assigned to border management.
- Security and Defence has a total budget of 13.2 billion euros divided in €8.5 billion for security and €4.1 for defence.

- For the Neighborhood and the Word’s section are provided 98,4 billion euros, divided in €85 billion for external action and €12 billion for pre-accession assistance.
- For the European Public Administration are assigned €73 billion, which cover pensions, school and the administrative expenditure as a whole.

3.4.2 The next generation EU

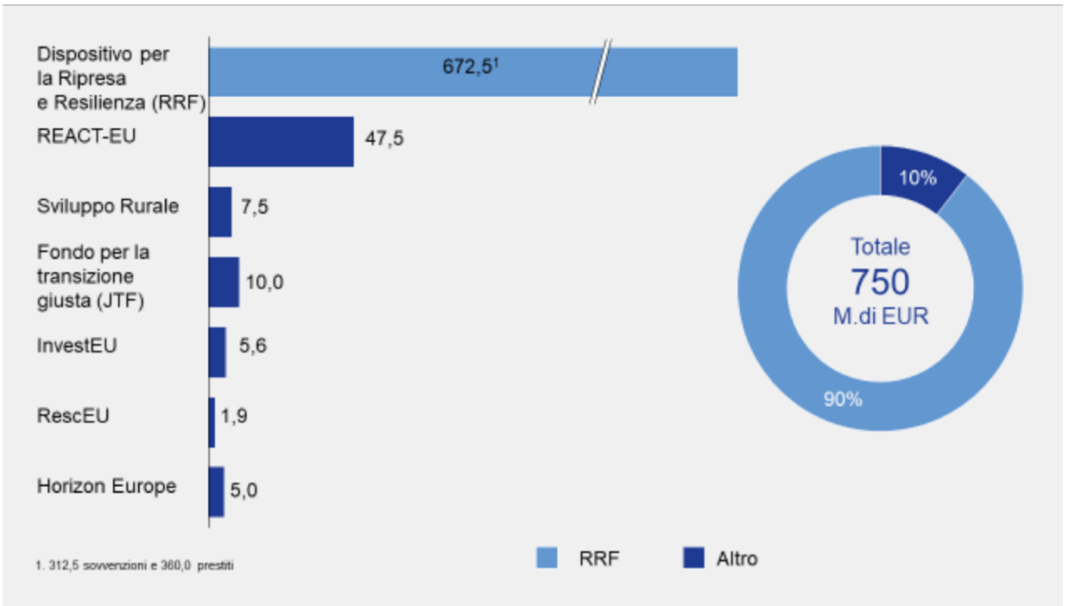
The Next Generation EU (NGEU) is the largest and most ambitious recovery plan in the entire history of Europe. Also called Recovery Plan for Europe, it is a 750-billion-euro temporary recovery tool with the aim of restarting with a greener, digital and sustainable Europe. In fact, the Next Generation EU does not only aim to stem the damage caused by the pandemic but envisages real change for member states. The novelty relies in the communitarian method to solve the crisis, different to the debt crisis in which the intergovernmental method had prevailed. Indeed, it is a huge step forward for the integration process, as it is not only a way to contain the crisis, but a common development plan, regulated under European Regulation 2020/2096. It is an unprecedented effort and an innovative approach, promoting convergence, resilience and transformation in the European Union. The ratio at stake covers two different needs of the EU: in one hand, the need to repair the damages of the pandemic situation, in the other hand to improve the future of the next generations and to make the Europe greener, digital, and resilient.

Together with the planned amounts of MFF 2021-2027, the funds of NGEU could support and stimulate the general aim of modernization of the old continent through: the promotion of digital technology also in terms of cyber security protection, using them to achieve the aim of digital and green transition. In order to implement this path, the Union has introduced the “EU toolbox” to accelerate the deployment of digital infrastructure such as 5G. More in general the Commission has based its 2020 plan for sustainable growth on seven lines or goals in line with the Sustainable Development Goals of Agenda 2030:

1. Power-up: thus, the promotion of clean technology to accelerate renewable energies usage.
2. Renovate: improve energetical efficiency of public and private building, generating jobs at local level.
3. Recharge and refuel: related to sustainable mobility, the objective is the promotion of clean technology such as charging station.
4. Connect: meaning the promotion of digital technology in the entire territory.
5. Modernize: meant in term of public services. The aim is to digitalize public administration and all the national system including legal and health.
6. Scale up: implement the database industrial growth and development of technological processors.
7. Reskill and upskill: the education system could be oriented to the promotion of digital competencies since the primary education.

3.4.2.1 The instruments of intervention

The Next Generation EU plan is based on three different pillars which are: sustain reforms and investments in the member states; regenerate and strength the economy and learn lessons from the crisis. The latter is interesting under the point of view of my research, which run around the evolution of the crisis in terms of concept, the Covid 19 crisis it was percept by the Union as an opportunity as well as a challenge. As a matter of fact, to “learn a lesson from the crisis” the UE will invest in the prevention of crises and education to crises through the RescEU Programme and Horizon Europe, and improvement health care performance in the long run through the EU4Health Programme. Let us spend some word about those new instruments. RescEU is the programme for reinforcing and fortifying the disaster and emergency risk management of the EU with new investments and resources. Horizon Europe is the new advanced framework programme for research and innovation and technological development in line with Sustainable Development Goals. With 96 billion euros, the main aim consists in fostering and strengthening research, scientific collaboration and mobility across member state. EU4Health 2021-2027 is the new framework programme to improve health care systems and services in the member states. Regulated under Regulation 2021/522 ha a budget of 5.3 billion euros to foster the health in the Union, strengthening health system and funding country specific policies. The next paragraphs are dedicated to the two more comprehensive and considerable programme of the recovery plan for Europe which are: the Recovery and Resilient Facility (RRF), the React EU and the Invest EU.



SOURCE: EUROPEAN COMMISSION

3.4.2.2 Recovery and Resilient Facility

During European Council's meeting on April 23, the heads of government decided for the implementation of a particular recovery and resiliency funds. Indeed, after the proposal to implement a recovery fund, the Union has opted for the introduction of a facility with the general aim to lay the foundation for better future for the next generation. Ambitious aim achievable not only toward recovery but toward resiliency. Finally, for the first time in the union 'history, Europe has adopted an instrument able to tackle the next crises. Europe has changed perspective: to be effective, not only needs immediate and urgent actions, but also foresight and vision.

Before analyzing this instrument in terms of numbers, I want to dedicate some words to the perspective and goals adopted by the Union. The RRF has two main goals: recovery in the short term and resiliency in the medium-long one. To lay the ground for the Europe of the future, all the investments must be implemented according to Agenda 2030 and sustainable developments goals, in line with three broad objectives which consist in the promotion of economic, social and territorial cohesion, mitigation of crisis's damages and promotion of green and digital transition.

Regulated under Regulation 2021/241, the Recovery and Resilient Facility amounted to 672,5 billion euros: 360 billion euros of loans and 312,5 billion euros in subsidies. The capital will be disbursed as follow: 70% in 2021-22 and the remaining 30% by the end of 2023. For the two-year period the contribution key considers population, inoccupation rate and GDP per capita, instead for 2023 the percentage drop in 2020 GDP and the aggregate percentage change in 2020-2021 GDP will substitute inoccupation rate's criteria. According to that path, Italy will be the main beneficiary with 65 billion euros, receiving approximately 44 billion euros for the two-years period and 20 billion euros for 2023.[79] The funds receive respect the conditionality criteria of good investment. In fact, the resources must be allocated toward well-targeted investments, which could be direct such as the direct public funding of project, or indirect such as public path to incentive private investments. It is important to remark that investments could assume the form of financial instruments such as loans or guarantees.

[79] At second place Spain with 59 billion euros.

3.4.2.3 React EU

The new fund React EU (acronym for Recovery Assistance for Cohesion and the Territories of Europe) is one of the most significant programme under the comprehensive NextGenerationEU. Aimed at strength cohesion and resiliency within the Union, it amounts up to 50 billion euros and is regulated under Regulation 2020/2221 of 23 December 2020.

A mentioned above, extending the crisis response, the initiative constitutes a bridge between the immediate measures taken to address at the height of the health emergency and the long-term Recovery Plan for Europe. In particular, is designed to offset disparity growth tendency within the Union. The vulnerable territorial economies are the most damaged, as a matter of fact, the gap between the "richest" and the "poorest" regions is growing considerably. The React EU aims at eliminating the root causes of this gap "fostering crisis repair in the context of Covid-19 pandemic and its social consequences and for repairing a green, digital and resilient recovery of the economy".[80] To pursue that objective the Commission has introduced certain parameters which the Programme has to respect which are strength, flexibility and speed. Strength meaning an appropriate financial allocation in line with the broader objective, flexibility intended in terms of implementation rules and speed is guaranteed by the usage of the existing programme such as the European Regional Development Fund (ERDF)[81] and European Social Fund (ESF)[82] until the end of 2023. Moreover, the Commission has increased the Fund for European Aid for the Most Deprived (FEAD) since the beginning with the CRII+ package. The fund aims at tackle and reducing poverty through national programme without financial help. The contribution of the member states is voluntary but the main expenses such as: costs of food products, transportation costs and administrative costs could be repaid by the Union.

[80] Regulation EU No 1303/2013 of the European Parliament and of the Council
[81] The ERDF is a fund aims at supporting balanced development within the EU
[82] The ESF is a fund aims at investing in the human capital, promoting working projects

Regarding the resources, a mentioned above, the fund disposes of approximately 50 billion euros, 45 billion euros from the NextGenerationEU and 5 billion euros from the MFF 2021-2027. Moreover, if needed additional funding coming from NGEU shall be allocated according to the damages' magnitude such as unemployment and prosperity of each member state. Indeed, more support for the most damaged countries. For what concern the allocation of funds, the distribution is for each member state and not for regions like the previous cohesion intervention. The allocation criteria are based on the percentage of GDP, relative wealth a well as unemployment rate and youth unemployment rate. The table below shows the allocations of funds per member state for 2021.

Allocations under REACT-EU for 2021 per Member State

	2018 prices	Current prices
Belgium	245	260
Bulgaria	413	438
Czechia	790	838
Denmark	168	178
Germany	1,785	1,894
Estonia	168	178
Ireland	84	89
Greece	1,616	1,715
Spain	10,269	10,898
France	2,926	3,105
Croatia	541	574
Italy	10,693	11,348
Cyprus	105	112
Latvia	199	211
Lithuania	259	275
Luxemburg	132	140
Hungary	834	885
Malta	105	112
Netherlands	417	443
Austria	207	219
Poland	1,556	1,651
Portugal	1,508	1,600
Romania	1,252	1,329
Slovenia	248	263
Slovakia	583	618
Finland	127	135
Sweden	272	288
Total	**37,500**	**39,795**

Gross allocations before deduction of administrative expenditure and technical assistance. *(In million EUR)*

SOURCE: EUROPEAN COMMISSION WEBSITE

3.4.2.4 Invest EU

The last initiative that I want to analyze is the InvestEU Programme which benefits of 8,4 billion euros, 5,6 from the NextGenerationEU and 2,8 from MFF 2021-2027. The already mentioned resources should be able to mobilize 372 billion euros. Let us study what is this programme and for what those investments are indented to.

In regard with the objectives, we could affirm that the general aim is to guarantee investment operations contributing to four macro areas of intervention:

1. Sustainable infrastructure: included sustainable transport investments with renewable energy in line with Agenda 2030, and circular economy investing in its environmental dimension.
2. Research, innovation and digitalization: enhancing competitiveness in term of technological and scientific progress.
3. Small-medium enterprises: with financial aid and investments in new sustainable business.
4. Social investments and competencies: in order to promote social, territorial and economic cohesion in terms of resiliency, social inclusiveness and innovation capacity. The investments include measures such as microfinance and microcredit and social infrastructure as well as formation and education.

3.4.2.5 The national recovery and resilience plan

In order to benefit of the NextGenerationEU support, the member states shall present a national recovery and resilience plan, setting out a coherent package of projects and reforms for a greener, more digital and resilient Europe for the 2021-2023 period. Let us bring to light which are the steps to be taken. Firstly, Member States shall submit their National Recovery and Resilience Plan until April 31, 2021, which must be approved by the Commission. Once the NRRP is submitted, Brussels will have up to eight weeks to review and propose approval of the plan to the Ecofin Council. One of the most interesting points is the assessment and programme evaluation carried out by the Commission. In fact, the ratio at stake is a double assessment *ex ante* and *ex post*. In regard with the first category, the Commission shall evaluate cost estimation under three different patterns: reasonableness meaning adequate and reasonable estimation, plausibility which means the logic acceptableness and workableness of the plan, and proportionality meaning that the investments package shall be in line with the expected impact. For what concern the *ex-post* assessment of the NRRP shall be based on two criteria: the immediate economic response to mitigate the negative effects of the Covid-19 crisis, hence the short-term response and the medium-long one, thus the promotion of new stronger sustainable Europe. More deeply, the specific criteria for each country shall be the strengthening of the growth potential, job creation and the reinforce of social and economic resiliency.

At this point, the Ecofin will have up to four weeks to approve the plan by qualified majority. If the plan meets the defined target, the Commission shall authorize the payments, instead if one or more member states consider the plan as inadequate, they could refer the matter to the European Council. This procedure is quite interesting because it is the condition required by the so-called “frugal countries”. It is an emergency brake, a sort of safeguarding clause by which the other member states could require an insight on the NRRP of other member state. As mentioned before, this is not meaning deviation from the communitarian method implemented to solve the crisis, but it is the trade-off result with more tricky countries.

3.4.2.6 The commission guidelines

The Commission has put in plan different guidelines and criteria for the member states to shape their NRRP. We could divide them in two broad categories: the six pillars or missions and the flagship initiative. Regarding the first category investments must be allocated to six main areas of intervention:

1. Green transition: the European Green Deal is the main guideline to be in line with, for which the commission has proposed that at least every NRRP should include no less than 37% of spending on green. Each Member State shall design its Plan respecting the ambitious goals of zero emission until 2050. It means that each Plan shall justify how the reforms contained contribute to this main goal fostering renewable energy and reducing emissions.
2. Digital transformation: at least 20% of investments shall go to finance the digital transition. Each Member State shall explain how its Plan will contribute to the improvement of digital system and skills according to Shaping Europe Digital Future,[83] which are measured by the Digital Economy and Society Index. One of the main reforms attended concerns the Public Administration, which shall be redefined in modern and digital key.
3. Employment and smart, sustainable and inclusive growth: this pillar refers to economic cohesion, inclusive job market, development and innovation and sustainable firms. A special focus is on employment policy which has to be redefine according to the green and digital transformation.
4. Social and territorial cohesion: the NRRP must be consider local, regional and national disparities in terms of infrastructure and demography.
5. Health and resilience: as mentioned above, resilience means the capacity to address and to be prepared for the future crises. Health is related to the Covid-19 crisis, in which we had faced all the vulnerability of our system in a pandemic framework.
6. Policies for the next generation, including education and skills: this last pillar is in my view the most interesting due to its long-term vision. In fact, it considers youth and the next generation, as a matter of fact it is designed

[83] The Shaping Europe Digital Future is the strategy adopted by the Union in order to guide for fair digital transformation based on three pillars or goals: a fair and competitive economy, an open democratic and sustainable society and technology that works for people.

to avoid that next generation will pay the pandemic damage accelerating generation gap's growth. This pillar is intended to invest in training, education and formation of human capital for intra-generation equity. Thus, each Member State shall communicate how its Plan could attenuate this current issue, respecting the European Pillar for Social Rights,[84] Digital Education Action Plan 2021-2027,[85] Child Guarantee and Youth Guarantee[86].

In addition to those guidelines the Commision has launched seven flagship initiatives aim at fostering and enhancing progress under each theme. Indeed, each initiative determines a set of measures needed to achieve the objective described above. In detail those flagship initiatives are Innovation Union, Youth on the move, A digital Agenda for Europe, Resource efficient Europe, Industrial policy for globalization era, Agenda for new skills and jobs and European platform against poverty.

3.4.2.7 The Italian "Piano nazionale di ripresa e resilienza"

Let us analyze in detail how many funds are allocated to Italy and how the Council of Ministers has decided to spend them. Overall, the set of European funds included in the MFF and in the Next Generation EU allocated to Italy, amounts to about 309 billion euros in the period 2021-2029.

According to the European Recovery and Resilience Facility (RRF), which finances the national Recovery and Resilience Plan, Italy in the period 2021-2026 will have access to about 209 billion euros, 196 billion directly from the Recovery Fund and

[84] The European Pillar of Social Rights is the initiative adopted by the Commission in 2017 with the aim of promoting the European social dimension, it is based on 20 principles such as inclusion of people with disabilities, gende equality, minimum wage, access to essential services.
[85] The Digital Education Action Plan 2021-2027 is the new European initiative aims at adapting the member states' system to the digital age with two main priorities: fostering the development of high-performing digital education ecosystem and enhancing digital skills and competences for the digital transformation.
[86] The Youth Guarantee is designed to offer good quality of life for under 30 in matters such as traineeship, education and employment.

13 billion from React EU. These 196 billion euros are divided as follows: around 65 billion in grants and 127 billion in loans to be repaid over ten years. The RRF funds have also been supplemented by 80 billion in programmed resources for the period 2021-2026 from the national budget and a further 7 billion in structural funds. The first 70% of RRF grants would be deployed by the end of 2022 and spent by the end of 2023. The remaining 30% would be spent between 2023-2025. In addition, in the first three years, investments will be supported by grants, and in the second period by loans.

In short, the most ambitious aid plan in the history of our country, which not only gives Italy the possibility of restarting but also of transforming itself and progressing towards common European development objectives. Italy, however, will have to demonstrate that it is up to the task in the management of funds and especially in the planning of new reforms and investment areas. Will the country that manages European funds worst be able to benefit from this huge program?

According to the Commission guidelines, the Italian National Recovery and Resilience Plan is based on four strategic lines: modernization of the country, ecological transition, social and territorial inclusion and gender equality. In Italy, in order to use the funds in a proper manner and implement the right investment a reform of the public administration is necessary. For a modern country it must become efficient, well organized and digital. The key point is digitalization, which is indispensable to promote new technologies and make the Italian administration efficient. The ecological transition must become the basis for a new model of economic and social development in line with the European Green Deal. The strategy to achieve social and territorial inclusion aims at reducing inequality, poverty and territorial gaps in access to public goods and employment capacity. Thus, eliminating the historical gap between North and South Italy becomes a fundamental point to create a fair country, which provides the same conditions for all Italian citizens. On the other hand, the realization of gender equality requires interventions aimed at supporting women at political, economic and social level, for example by guaranteeing same salary for the same work. In short, the main challenges on which Italy intends to act can be defined as follows: reduce the social and economic impact of the crisis, improve resilience and capacity for recovery, support the green and digital transition, economic growth, and job creation. The biggest challenge for Italy is proper governance for this unprecedented restart, it is necessary to implement the right reforms using the funds in the right way.

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

Six main missions are also defined in the PNRR, representing the structural thematic areas of intervention to meet the challenges described above. Each mission is subdivided into functional components for the realization of the objectives to which the necessary reforms are associated.

1. Digitalization, innovation, competitiveness and culture: the mission provides a total budget of 40 billion euros divided into public administration, productive system, culture and tourism. A reform of justice is foreseen, to make it more efficient and simpler, and a Transition 4.0 plan for the adoption of fast networks such as 5G. Regarding culture and tourism, the focus is on programs such as the redevelopment of villages, parks and suburbs.

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

2. Green revolution and ecological transition: the largest and most ambitious mission, with a budget of 59 billion euros, envisages a green reconversion of the economic system. The basic idea is to leave future generations a world that is sustainable and respectful to the environment. Concretely it consists in the reduction of emissions, implementation of circular economy and renewable energies, the construction of bicycle paths, waste recycling and decarbonization.

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

3. Infrastructure for sustainable mobility: with 25 billion euros, the objective is the creation of a modern, digital and sustainable infrastructure network. It is intended to strengthen the country's lines of communication with a focus on Southern Italy.

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

4. Education and Research: the amount allocated to this mission is 30 billion to expand access to education and strengthen research.

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

5. Inclusion and cohesion: approximately 20 billion euros are spent with a special focus on women, youth and low-income families. The main objectives consist in increasing youth employment and support women's empowerment.

COMPONENTI E RISORSE (MILIARDI DI EURO):

19,81 Totale	M5C1 - POLITICHE PER IL LAVORO	6,66
	M5C2 - INFRASTRUTTURE SOCIALI, FAMIGLIE, COMUNITÀ E TERZO SETTORE	11,17
	M5C3 - INTERVENTI SPECIALI PER LA COESIONE TERRITORIALE	1,98

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

6. Health: The main guidelines are the digitalization of services and an increase in so-called telemedicine. The creation of 730 mini-hospitals by 2026 and "community houses" is also planned.

COMPONENTI E RISORSE (MILIARDI DI EURO):

15,63 Totale	M6C1 - RETI DI PROSSIMITÀ, STRUTTURE E TELEMEDICINA PER L'ASSISTENZA SANITARIA TERRITORIALE	7,00
	M6C2 - INNOVAZIONE, RICERCA E DIGITALIZZAZIONE DEL SERVIZIO SANITARIO NAZIONALE	8,63

SOURCE: PIANO NAZIONALE DI RIPRESA E RESILIENZA

CHAPTER IV:

A comparison insight

4.1 The database – 4.2 The analysis

This conclusive chapter is dedicated to some considerations regarding the relation between the European Stability Mechanism and the Next Generation EU. The general aim of my research is to analyze the capacity of EU institutions to manage crises, comparing the measures taken in response to the two main crises faced by the Union: the sovereign debt crisis and the Covid-19 one.

The general research question which had led my entire final dissertation is: Is the EU capacity to manage crisis effective and are the measures adopted by EU Institution effective? In which extent the European Institutions can manage crisis and to adopt measures capable of reducing the negative impact of the crises? After having deeply answer to those questions in theoretical terms in the previous chapters, this one is aimed at developing more practical and numerical point of view. Along these lines I have decided to study the relation between the measures adopted to solve the crises under study and the percentage variation of GDP for each European countries.

Before going to the core of the analysis, it is necessary to point out some preliminary considerations such as the methodology applied and the level of analysis.
For what concern the level of analysis, the dimension considered is the European one, therefore the data gathering is focus on the Member States. Based on that, I could conclude that the level of analysis is macro. In regard with the methodology applied, it is quantitative comparison method based on data taken from Eurostat database.
The hypothesis that I want to test could be summarized as follow: the European Institutions have managed the Covid-19 crisis in a "better way" compared to the sovereign debt one.

4.1 The database

To develop and shape my hypothesis, I have evaluated if subsist relation between the GDP variation for the two crises and the aid package received by single country, by considering GDP level as a benchmark. In order to do that, the first step is the creation of database based on data gathering by the Eurostat website.

	A	B	C	D	E	F	G	H	I
1		2009	2011	Delta_GDP-	2019	2021	Delta_GDP-	ESFM-ESM	NGEU
2	Belgium	346472,8	93181	-253291,8	476343,6	119025	-357318,6	0	15254,5
3	Bulgaria	37417,7	10448,2	-26969,5	61239,5	16277,2	-44962,3	0	34726,1
4	Czechia	149586,5	41165,5	-108421	225568,7	56469,7	-169099	0	57753,4
5	Denmark	231278	61899,4	-169378,6	310475,6	79076,9	-231398,7	0	9294,2
6	Germany (until 1990 form	2445730	665181	-1780549	3473350	856738	-2616612	0	82869,2
7	Estonia	14131,9	4045,5	-10086,4	27732,3	7313,1	-20419,2	0	9650,7
8	Ireland	169519,7	42714,8	-126804,9	356526,3	101855,9	-254670,4	18410	14076,5
9	Greece	237534,2	52875,8	-184658,4	183413,5	42593,7	-140819,8	203770	63281,2
10	Spain	1069323	267991	-801332	1244772	288284	-956488	41330	160543,9
11	France	1936422	511133	-1425289	2437635	603235	-1834400	0	138329,9
12	Croatia	45064,8	11166,5	-33898,3	54237,3	13485,8	-40751,5	0	28539,1
13	Italy	1577255,9	411842,5	-1165413,4	1790941,5	425292,8	-1365648,7	0	187866,9
14	Cyprus	18675,5	4936,3	-13739,2	22287,1	5401,7	-16885,4	6300	3451,2
15	Latvia	18855	4813,7	-14041,3	30420,9	7609,7	-22811,2	0	14213,1
16	Lithuania	26897	7574,6	-19322,4	48808,6	12931	-35877,6	0	20394,2
17	Luxembourg	36976,5	10725,8	-26250,7	63516,3	17216,3	-46300	0	455,1
18	Hungary	94382,6	25646,1	-68736,5	146092,7	35987,8	-110104,9	0	621148,6
19	Malta	6259,6	1717,9	-4541,7	14047,6	3457	-10590,6	0	2087,4
20	Netherlands	624842	162185,8	-462656,2	813055	203858,9	-609196,1	0	14612,22
21	Austria	288044	76800,3	-211243,7	397575,3	94642,6	-302932,7	0	112237,6
22	Poland	317040,6	96573,5	-220467,1	533599,9	134673,6	-398926,3	0	191482,1
23	Portugal	175416,4	44693,2	-130723,2	213949,3	50831,4	-163117,9	27330	199053,1
24	Romania	125213,9	33141,9	-92072	222997,6	58655,7	-164341,9	0	94845,3
25	Slovenia	36254,9	9295,7	-26959,2	48396,7	12136,9	-36259,8	0	10051,1
26	Slovakia	64095,5	17511,2	-46584,3	93900,5	23226,5	-70674	0	35798,6
27	Finland	181747	48988	-132759	240097	60073	-180024	0	12049,4
28	Sweden	314637,5	103989	-210648,5	476869,5	128517,6	-348351,9	0	13553,7

Specifically, the column A contains the EU countries under study. The column B and D represent the GDP value per each country for the time-period respectively 2009 and 2011 – the year before and during the crisis. In a way in which I can calculate the variation of GDP for the years 2009-2011 (column D). I have applied the same path for the Covid 19 crisis: specifically, I have gathered data regarding GDP values for 2019 and 2021, before and immediately after the outbreak of the current crisis, in this way I can obtain, from mathematical subtraction, the GDP variation terms between the time-period considered. Columns H and I contain the values of the support given by the EU, respectively ESFM-ESM[87] for the debt crisis and NGEU for the covid crisis, calculated for each country.

4.2 The analysis

Based on these data, I would like to study if subsist any statistical relation between the obtained values, specifically between the independent variables which are the ESM' funds and the NGEU ones, and the dependent variables which are the GDP variation in percentage terms respectively for the time-period 2008/2011 and 2019/2020. Before moving to my analysis, it is appropriate to define what a regression means. In my analysis, I have developed a simple linear regression, which indicates how the variables considered are mathematically related.

Thus, I have examined the relation between GDP variation and the aid provided. Specifically, in the first case the independent variable X corresponds ESM funds and the dependent one corresponds to the GDP variation in percentage for the time-period 2009/2011, represented in the table and the graph below.

[87] It is important to underline that some countries had not received financial aid by the ESFM and ESM. For that reason, some rows are characterized by number 0.

OUTPUT RIEPILOGO

Statistica della regressione	
R multiplo	0,190139927
R al quadrato	**0,035141532**
R al quadrato corretto	-0,002400681
Errore standard	0,060334815
Osservazioni	27

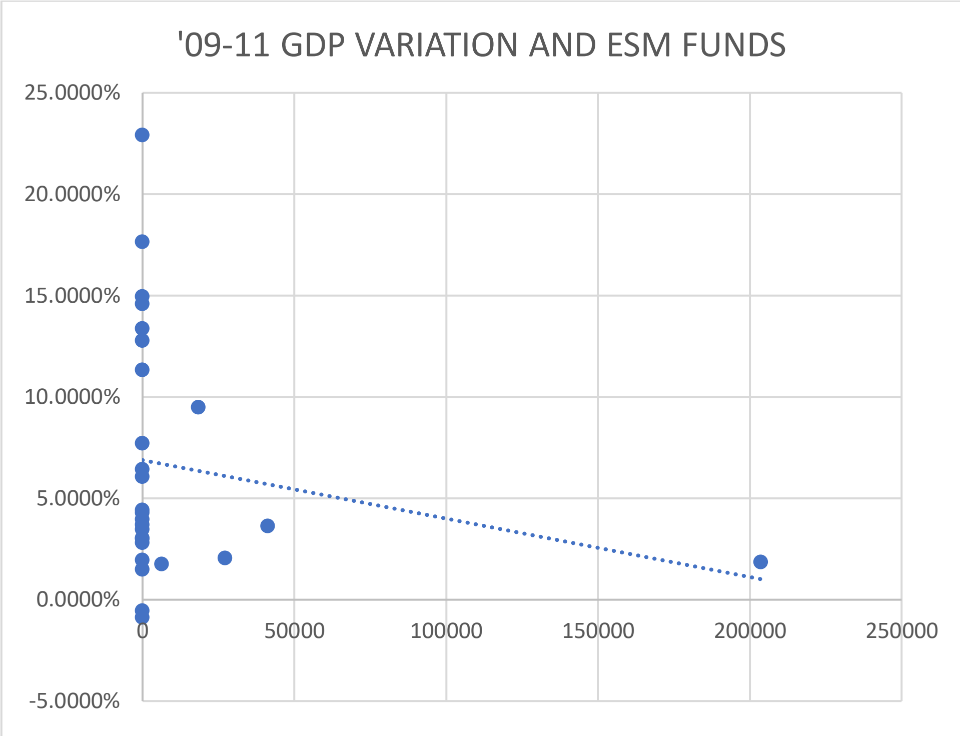
ANALISI VARIANZA

	gdl	*SQ*	*MQ*	*F*	***Significatività F***
Regressione	1	0,00341362	0,00341362	0,93773179	**0,354137544**
Residuo	25	0,09100725	0,00364029		
Totale	26	0,09442086			

	Coefficienti	*rrore standar*	*Stat t*	*re di significat*	*Inferiore 95%*	*iuperiore 95%*	*Inferiore 95,0%*	*uperiore 95,0%*
Intercetta	0,068840376	0,01206468	5,70594293	6,0768E-06	0,043992702	0,09368805	0,043992702	0,09368805
Variabile X 1	-2,88245E-07	2,9766E-07	-0,9683655	**0,35413754**	-9,01289E-07	3,248E-07	-9,01289E-07	3,248E-07

In order to draw my conclusion, we have to observe the value R^2 in the table which represents the degree of variability of the dependent variable explained by the independent variable. In other word, it corresponds to the variation of Y values which could be justify by the variation of X. R^2 value is between 0 and 1, the closer the value is to 1, the more is statistically significant for the model under study and in this case, as we can note, R^2 is equal to 0,0351415532 hence is not significant.

Moreover, the significant index is equal to 0, 35413754 which is not significant because for being such, it could be inferior to 0,05. In other word the GDP variation is explained by the ESM fund only at 3%. Thus, to conclude there is not significant statistical relation between the GDP variation, the dependent variable Y, and the ESM funds, the independent variable X. To interpret this result, we could observe that, firstly not all the EU countries have benefited from those funds, thus the analysis should be focused on the beneficiary countries. Secondly, lot of variables not considered in this study have impacted the GDP variation.



[88]

Repeating the same operation for the Covid-19 crisis and the variation of GDP in percentage for the time-period 2019-2021, we could observe that the R^2 is equal to 0,136416, thus is greater if compared to same value obtained by the previous regression for which R^2 is equal to 0,035. As mentioned before, the closer R^2 value is to 1, the more is statistically significant. Hence, we could state that the relation between the dependent value Y, GDP variation for time-period of 2019-2021, and the independent variable X, NGEU funds, is more significant. The rule is the same for the significancy index – the closer is to 1, the more is significant - which is equal to 0,07874861, thus the relation between the two variables is statistically significant for confidence interval under the threshold of 10%. Moreover, this statement assumes more value, if compared to the significancy index of the ESM fund which corresponds to 0,35, which is particularly lower meaning the insignificant relation explained above.

[88] In regards with the dotted line in the graph, it is decreasing because the coefficient t is equal to -0,96, thus is negative.

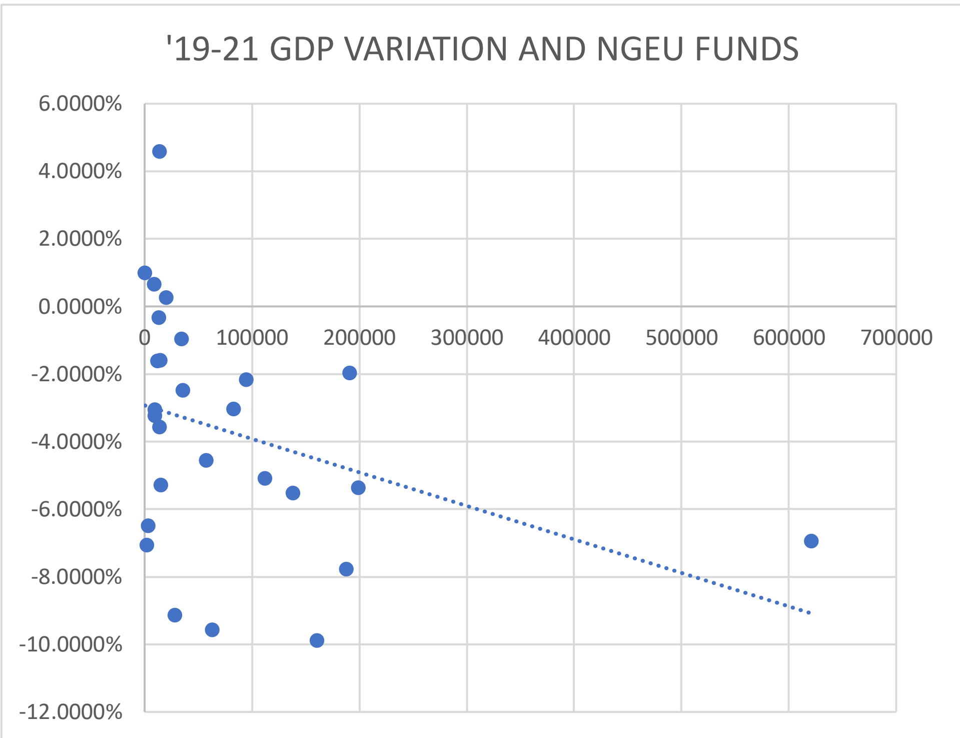
OUTPUT RIEPILOGO

Statistica della regressione	
R multiplo	0,35555028
R al quadrat	**0,134616**
R al quadratc	0,09147264
Errore standa	0,03347844
Osservazioni	27

ANALISI VARIANZA

	gdl	*SQ*	*MQ*	*F*	*ignificatività F*
Regressione	1	0,00405478	0,00405478	3,6177404	**0,07874861**
Residuo	25	0,02802015	0,00112081		
Totale	26	0,03207493			

	Coefficienti	*rrore standar*	*Stat t*	*re di significat*	*Inferiore 95%*	*uperiore 95%*	*nferiore 90,0%*	*uperiore 90,0%*
Intercetta	-0,0292896	0,00766177	-3,8228198	0,00077983	-0,0450693	-0,0135099	-0,042377	-0,0162022
Variabile X 1	-9,915E-08	5,2127E-08	-1,9020359	**0,07874861**	-2,065E-07	8,2101E-09	-1,882E-07	-1,011E-08



[89]

In light of these results, I could conclude that subsists statistically significant

[89] In regards with the dotted line in the graph, it is decreasing because the coefficient t is equal to -1,90, thus is negative.

relation between the GDP variation and the NGEU fund, the variables under study, and furthermore this relation is inverse meaning that as funds increase, the GDP variation for time period 2019-2021 decreases.

This trend could be explained by the volume of the measures adopted, as a matter of fact, the Next Generation EU package is the most ambitious recovery tool or better common development plan, by which every single European country have received or will receive financial aid in the next years. Instead, as mentioned before, not every country had benefited from the ESFM and the ESM. In more abstract and theoretical terms, we could conclude that in the Covid-19 crisis there was, better aid package developed by the European institutions which could be interpreted as superior management capacity. In fact, the Commission's economic forecast for next years has improved considerably. After the dramatic drop of 8.9% in 2020, real GDP is expected to grow by 4.2% this year thanks to the first phase of investments financed by the NGEU plan. According to the Commission in 2022, its completed implementation will help to push growth to 4.4%. Expected recovery should allow the economy to return to the previous pandemic level by the end of the forecasting period. However, it is important to remark that only small part of the aid package provided by the EU has been disbursed to the Member States, so to have more complete framework and study the real impact of the Next Generation EU on the GDP variation, we could implement the same path in the following years with the available data.

Conclusion

There is no doubt that the reaction capacity of the Union has taken a huge step forward. What in the sovereign debt crisis was decided to solve with an intergovernmental approach, today is the comprehensive one to prevail. A common or better an "Union" way of thinking, no more a single way path. If 10 years ago, austerity has seen as the best way, today is the common development plan to be implemented. It seems that the crises have forced Europe to reflect about the entire architecture of the Union, bringing down even the most powerful country, but at the same time, those crises appear as opportunities to rebirth stronger than ever. The sovereign debt crisis has pointed out all the weakness of a system which needs to be renewed for providing adequate answer to the next challenges, and this time Europe seems have bet to the right horse.

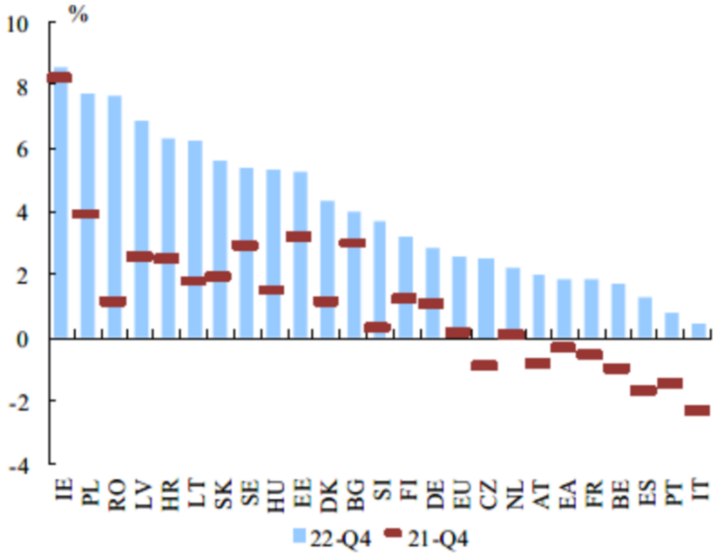
If we look at the starting point, it is impossible to overlook the progress made. At the beginning there wasn't any mechanism against crises in the treaties and even a common vision to adopt if negative event occurs. Only an "economic Union" without, however, putting in place an efficient system of governance of economic policies, nor envisage of political integration. Thus, when Europe was hit by economic and financial crisis in 2008, it was difficult for the EU institutions to find a solution aimed at safeguarding the euro system. The method of open coordination of economic and fiscal policy implicit in the Treaty and in the Stability and Growth Pact has not worked. The Greek crisis represents an impressive and fascinating case by which the financial collapse of one piece could drive to the collapse of the puzzle as a whole. From the failure to a single Member State to the failure of the entire Union.

To solve this crisis, it was opted for as an international financial institution based in Luxemburg: the European Stability Mechanism. The latter could be configured to some extent as a sovran bank which substituted the ECB in financially assist the Member States in difficulties, with a maximum lending capacity of €500 billion euros. The robe of international agreement hides the real nature of intergovernmental agreement between the

Eurozone Member States, which need this escamotage to avoid the system of non-bail-out clauses.

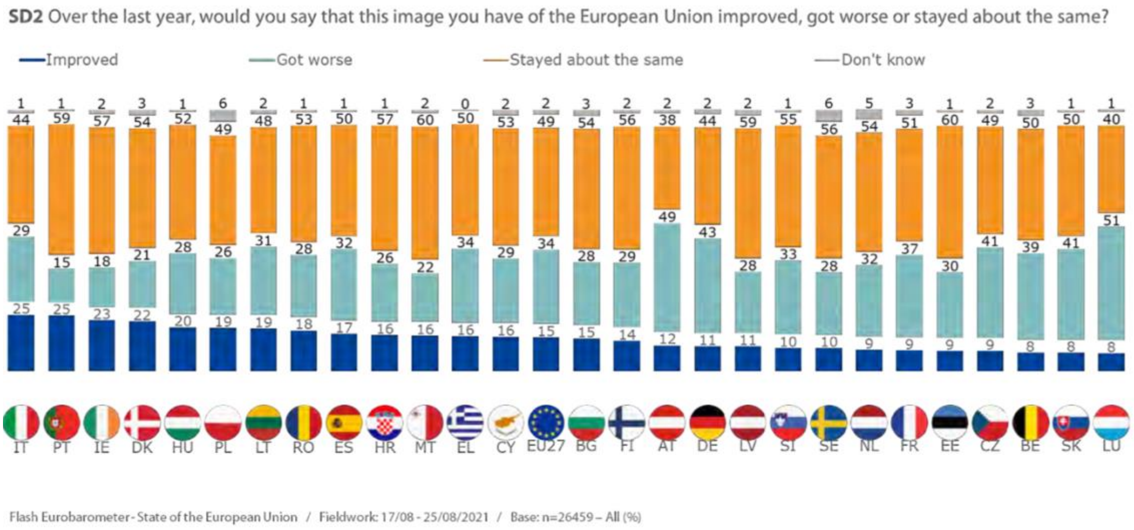
The EU management of this crisis was completely inadequate because was built on wrong premise. It was the system itself that need different path. And the result? The hegemony of the more powerful Member States on the others and the defeat of democratic legitimacy. At the same time the crisis has accelerated policy and institutional integration and evolution in key areas, in ways thought unthinkable only a few years ago. An opportunity to improve the future of the Union. In fact, paradoxically the tragedy of this crisis has reinforced the debate on the sustainability and on the improvement of the European project. Debate for which nowadays we could see a completely different Europe: a common Europe with a common development plan. As a matter of fact, with the Common Declaration of 26 March 2020, the member states committed themselves to act together against the crisis, doing whatever it takes. It was opted for the Next Generation EU: an unprecedented effort to leave sustainable, fair and better word to future generations with the largest and most ambitious recovery plan in the entire history of Europe. The Next Generation EU does not only aim to stem the damage caused by the pandemic but envisages real change for member states. The novelty relies in the communitarian method to solve the crisis, different to the debt crisis in which, as we have seen, the intergovernmental method had prevailed. Indeed, it is a huge step forward for the integration process, as it is not only a way to contain the crisis, but an unprecedented effort and an innovative approach, promoting convergence, resilience and transformation in the European Union. The ratio at stake covers two different needs of the EU: in one hand, the need to repair the damages of the pandemic situation, in the other hand to improve the future of the next generations and to make the Europe greener, digital, and resilient. In fact, the old generation has social responsibility to leave sustainable, fair and better word to future generation. Restart and not save. The last chapter of my thesis has shown the same results: the European response this time is more proportionate in relation with GDP variation, consequently, better aid package developed by the European institutions which could be interpreted as superior management capacity. In fact, as mentioned before, not every country had benefited from the ESFM and the ESM. As a matter of fact, the Commission's economic forecast has improved considerably. After the dramatic drop of 8.9% in 2020, real GDP is expected to grow by 4.2% this year thanks to the first phase of investments financed by the NGEU plan. According to the Commission in 2022, its completed implementation will help to push growth to 4.4%. Expected recovery should allow the economy to return to the previous pandemic level by the end of the forecasting period.

Figura 2 – I livelli di PIL confrontati con il IV trimestre del 2019



Fonte: Commissione europea, Previsioni economiche di primavera 2021

Setting aside the economic aspect, deeply analyzed in the previous chapters, I want to focus my attention on the citizens' perception of the Union's image. According to the 2021 Eurobarometer on the State of the European Union: the positive image of the EU continues to increase, in fact 53% of Europeans now have a positive image. Indeed, most respondents say their image of the EU has remained stable over the past year, while 15% say it improved. It is quite interesting to note that the highest proportion of those whose image of the EU has improved is observed in Italy, which is the major beneficiary of the NGEU funds, as we can see from the graph below.



Broadly, we could affirm that most European citizens have recognized positively the role of the EU during the pandemic. These results confirm the trend already visible in other Eurobarometer surveys since 2020 that the image of the EU had not suffered during the Covid-19 pandemic. Moreover, 60% of Europeans expect that the Next Generation EU could really help their country overcome the economic and social damage due to the pandemic, even though 41% express concerns that their national government would use the funds properly.

In general, the EU has demonstrated to be adequate to solve this unpredictable and dramatic crisis. The only downside regards the concerns about the proper use of the NGEU funds. In fact, the real challenge consists in the implementation phase. It is true that the National Recover and Resilience Plans have been assessed positively but now will have to be tested at the execution stage. All the aids decided in Bruxelles, now will have to be implemented at the domestic level. And this is especially true for Italy. In fact, appears necessary and vital the implementation of those reforms requested by the Union: primarily the public administration and justice. Only with the simplification of administrative procedures, Italy could be able to implement in a proper manner all the possibilities of the most ambitious plan in the Union's history since the Marshal Plan. Giving concrete answers to see this crisis as an opportunity to rebirth and restart with new face, in fact as explained thorough the text, 37% of the Recovery Plan funds will be used for energy transition and the fight against climate change, and 20% for digitization. An opportunity which if sized in the best possible way could be the turning point to reduce the gap between EU countries and to recall for a leadership role. Not disappoint our investors is the priority and at the same time the most arduous challenge. Indeed, is not a mystery that the Recovery Plan has certainly aroused enthusiasm, but also not a few reservations in the so-called frugal countries. And is not a mystery that, measure the success or failure of the NGEU depends on Italy's ability to implement the right reforms, needed to use the funds in a proper way.

"Together, let's build a stronger, more resilient, more democratic and more united Europe. That's the message that we need to send out from here in Strasbourg today, the capital of the European Union. And I think this is the message that can push our citizens to give us the responses we need."

David Sassoli, European Parliament President, 9/05/2021

Summary

My research project focuses on the capacity of the European Institutions to manage crisis. In particular, I have chosen to make a comparison between the European Stability Mechanism and the Next Generation EU in order to analyze the different solutions adopted by the EU political community respect to different crises. I personally believe that the capacity to manage crisis is an essential requirement in order to improve the legitimacy of political order and to overcome the democratic deficit of the European Institutions. I decided to use the comparative research method because I believe that is the most useful tool to analyze the evolution of a phenomenon from different angles.

The first chapter is dedicated to the historical analysis of the European Monetary Union which has shape the Europe of today, the second and the third ones to the analysis of respectively the debt crisis and the Covid-19 crisis and the measures taken in response by the European Institutions.

With the advent of Economic and Monetary Union (EMU) a fundamental step was enhanced: the monetary policy, the core point of the national sovereignty, was regulated under the exclusive jurisdiction of the EU. Nevertheless, the economic and fiscal policies remained a prerogative of the member states. In fact, the responsibility for the functioning of the EMU is distinguish between the Member States and the European institutions. In general, the European economic governance framework aims to coordinate the policies of the Member States in order to avoid, prevent and correct problematic economic trends that could negatively affect European countries. Essentially, economic coordination requires the Member States to recognize economic and financial policies as a matter of common interest, beyond sovereignty of national boundaries, and to coordinate them closely for the achievements of common objectives. In order to ensure harmonic coordination and to sustain economic confluence of Member States' conduct, they shall act in compliance with the Broad Economic Policy Guidelines defined in article 120-121 of the TFEU. These guiding principles should be sum up as follow: stable prices, robust

national finance and suitable balance of payments. Even in the framework of strictly economic policies coordination, the choices of real economy have always been a prerogative of the Member States. Hence, the approach used within the Union is defines as Open Method of Coordination means an intergovernmental path established on the voluntary cooperation and coordination of its member states. The method has enabled to the decentralization, and consequently to the "fragmentation" of budgetary, financial and fiscal policies which continued to be prerogative of the Member States, while the centralized monetary policy remained matter of the ECB. This kind of governance, mainly intergovernmental, have led to considerable issues and obstacles for the accomplishment of a real Union. In fact, since the sign of the Maastricht Treaty, the EU has tried to merge two different dialectics of the decision-making process: intergovernmentalism and supranationalism. Along these lines, It is not surprising that the anti-crises measures do not rely on *ad hoc* legal prevision and basis for their implementation. However, what is more surprising is the lack of any mechanism against crisis in the treaties. In fact, the Maastricht Treaty completely overlooked the needs of anti-crisis measures. As described above, one of the critical points of the EMU is the single currency, that it fell under the exclusive jurisdiction of EU institution, without involving in this process the integration of economic and fiscal policies, which remained a prerogative of the Member States in a view of strictly coordination. Basically, this means that a single currency was created without endowing the ECB with all powers needed for correct implementation. An "economic Union" without, however, putting in place an efficient system of governance of economic policies, nor envisage of fiscal integration. This choice, result of the Maastricht political compromise, it was based on the presumption that the introduction of the Euro value would gradually drive to a greater economic, financial and moreover political integration. Thus, when Europe was hit by economic and financial crisis in 2008, it was difficult for the EU institutions to find a proper legal basis to take actions aimed at safeguarding the euro system. The idea at stake is that the stability would be maintain through the system of reinforced macroeconomic surveillance, aimed at operating ex ante with a preventive function, and ex post with a corrective structure. Furthermore, the Maastricht Treaty established the "no bail-out" clauses under article 125 of the TFEU. Essentially, those clauses ensure that the responsibility for repairing public debt remains within the national boundaries of the

Member State concerned and prevents risks caused by insane fiscal policies from spilling over the others Member States. In fact, according to the article mentioned above the Union and the Member States could not be liable for or assume the commitments of central governments. The "anti-crisis" tool aims at safeguarding the stability of the EMU is the Stability and Growth Pact (SGP). The latter was regulated under two Council Regulation in July 1997 and under one resolution "on the Stability and Growth Pact" of 17 June 1997 [90]. The SGP was perceived as an instrument "which provides both for prevention and deterrence", of crucial importance in order to protect the budgetary discipline within the Member States. In fact, we can distinguish two so-called arms: the preventive arm and the dissuasive one. The legal grounds of the SGP reside in articles 121 and 126 of the TFEU, plus article 136 of TFEU which provides specific provision for the euro area. The Protocol (No 12) on the Excessive Deficit Procedure fixed the reference value which the member states are not allowed to exceed. The fiscal discipline is ensured by forcing each Member States to adopt fiscal policies that enable them to meet their obligation under the limit of: "3% for the ratio of the […] government deficit and 60 % for the ratio of government debt."

The next chapter II and III are completely dedicated to the analysis of the two crises and the management capacity of the Union.

The debt crisis has brought to light the unsuitability of the Maastricht compromise, which was fundamentally asymmetrical. During this period several eurozone countries have experienced crash and collapse of financial institution, high debt level and bond yield spreads in government securities. Until then, there was no perception of the wrong premises at the bases of the EMU, which have led the Union to the collapse and to the rethinking of all the architecture as a whole. After the violation of the Treaty by the Greek government, the need to reinforce macroeconomic surveillance appears vital. The first step was achieved with the establishment of the European Systemic Risk Board followed by the European System of financial supervision with the aim to enhance financial control within the Union in order to prevent and mitigate all the systemic risks considered as a threat.

In September 2010 the Commission proposed the establishment of the European Semester and of the so-called Six Pack. The EU semester was of the major reform taken in response to the weakness of the economic governance within the Union. Entered into force on the 1 January 2011, the European Semester is aimed at improving economic and fiscal coordination among the Member States. Better explained, the EU semester consist in the discussion of the economic and budgetary intention in the first part of the year, in order to ensure close coordination in the second part. The novelty consists in the overcoming of national logic of economic coordination, in favor of an analysis of the economic national policies at the EU level.

Further effort aimed at improving the complex system of governance it was the adoption of the so-called “Six-pack”, composed by five Regulation and one Directive which modified the Stability and Growth Pact. The economic governance reinforcement seeks to stress the duty for the Member States to comply with the famous convergence criteria, in line with the new concept of “prudent fiscal policy”. The entire set of new rules has to be integrated with the EU Semester, which guarantee clearer norms for a better monitoring and implementation of the Member States policies. It is also aimed at reinforcing the executive measure in case of non-compliance by one Member States with the introduction of new macroeconomic surveillance tool: the Macroeconomic Imbalances Procedure. The latter is a semi-automatic procedure for the sanctions’ imposition on the country violator of the rules, with the primary objective to prevent macroeconomic imbalance, identifying potential risk in advance and correcting those already in course.

During the following year, further proposal has been enhanced: the so-called “Two-Pack” with the primary objective to strengthen the stability of the Union. Basically, this instrument is an enhanced mechanism for completing the Six Pack’s reform and the EU Semester. The Two-pack is aimed at supervising and controlling national budget in order to check the compliance with the parameters of the SGP. Moreover, another objective is to enhance the surveillance procedure for the Member States in economic-financial difficulties which receive financial assistance by the different international funds such as the European Financial Stability Facility or the IMF, in order to avoid the "contagion-effect" within the Eurozone.

To complete the framework of the new economic governance referring to the reform of the old SGP, it is useful to consider also the Europlus Pact. Adopted by Council Regulation in 2011, it encloses four main objectives which are: foster competitiveness, foster employment, contribute further to the sustainability of public finances and reinforce financial stability. Basically, it is developed on the basis of the all the previous measures, but it contains one crucial novelty. In order to implement those four goals, the Member States must approve at their domestic level "legal vehicle" in order to ensure the correct achievement. Under the paragraph "National Fiscal Rules" is enshrined for the first time the principle of balanced budget at constitutional level. This law could assume the form of "debt brake" to ensure fiscal discipline within the Member States. For instance, in Italy this principle was introduced with constitutional law 1/2012, modifying different constitutional articles. Firstly, in article 81 which states that "The State shall balance revenue and expenditure in its budget, taking account of any adverse and favorable phases of economic cycles." [91], and in article 97 "Government agencies shall ensure that their budgets are balanced, and that public debt be sustainable."[92]

The management of economic and financial crisis imposes the need for providing financial assistance to the more exposed part in order to avoid the collapse of the entire architecture. This need was strongly perceived as a necessary step to take in order to financially support the most vulnerable state such as Greece, Portugal, Italy, Spain and Ireland. Prior to the implementation of the European Stability Mechanism, the EU Institution had provided several instruments with the purpose of assisting the Member States in difficulties. The first step was achieved with the introduction of the European Financial Stability Facility (EFSF) in June 2010. The EFSF is a temporary mechanism for crisis resolution. Precursor of the European Stability Mechanism, it was implemented in order to provide financial assistance to the worst affected states which especially were Greece, Portugal and Ireland. Those emergency instruments were replaced and

[91] Article 81 of Italian Constitution
[92] Article 97, *Ivi*

substituted by the European Stability Mechanism, instrument of historic important because has provided the first permanent instrument for managing crisis in the EU, bridging the initial gap developed in Maastricht.

Indeed, according to Article 1 of the Treaty Establishing the European Stability Mechanism, the latter is defined as "an international financial institution"[93] based in Luxemburg. In fact, the ESM is an ambiguous figure because is an international institution, hence regulated by international law, but at the same time is included under article 136 of TFEU, thus is regulated under the EU law as well. The robe of international agreement hides the real nature of intergovernmental agreement between the Eurozone Member States, which need this escamotage to avoid the system of non-bail-out clauses. The ESM it could be configured to some extent as a sovran bank which substituted the ECB in financially assist the Member States in difficulties, with a maximum lending capacity of €500 billion euros. In other word, the ESM is act as a bank with the purpose of providing loans to its members, like the IMF. Basically, it seems that the ESM is implemented in order to fill the gap of the task which have not be conferred to the ECB at the beginning with the mechanism of non-bail-out clauses. During the years the ESM has implemented several assistance's programmes in different countries for a total amount of 295 billion euros. Nowadays there are not any ongoing program, indeed the last intervention was concluded in 2018 in Greece.

The third Chapter is dedicated to the study of the Covid-19 crisis and the comprehensive way implemented by the Union to solve the crisis and restart with new Europe.

There are no doubts that the Covid-19 crisis is one of the most controversial and unexpected events of our time, and as well as the other crises represent an opportunity to evolve and to make a step forward in the EU integration process. With more than 1 billion of death in Europe, this emergency without precedents constitutes the most difficult challenge for the EU, but if addressed in the right way, could be the fair chance to develop the European project in a view of political integration, overcoming definitely the inadequacy of the Maastricht compromise. Since February 2020, the Member states were

[93] Article 1, Treaty Establishing the European Stability Mechanism.

forced to act faster, applying appropriate and stricter containment measures in order to avoid the spread of the virus. In this state of chaos, the EU response has been more rapid and comprehensive compared to that of the previous crisis.

The largest package of measures for the struggle against the virus was proposed after the Eurogroup's call of 9 April 2020, and then approved the 23 of April. This step was decisive because the European leaders had proposed an all-encompassing plan for the emergency. This European aid package up to 540 billion euros is based on three pillars or better safety net which covers workers with the SURE programme, businesses with the Pan European Guarantee Fund and the states with the ESM' Pandemic Crisis Support.

To mitigate the huge negative impact on the European jobs market, the Commission has proposed the SURE Programme which is a temporary program (until the end of 2022) which correspond to Temporary Support to mitigate Unemployment Risks in an Emergency. Focused on the support of the job market and on safeguarding employees and workers, this instrument provides financial assistance in the form of loans to the Member States in difficulties for maximum amount of 100 billion euros. The loans requested by the members are granted on favorable terms for sustain the costs of maintaining employment, and the measures to fight the unemployment's risks such as short-time work scheme.

To protect European firms, the European Council had launched the Pan-European Guarantee Fund (EGF) managed by the European Investment Bank. Operational until 31 December 2021 with possibility of extension, the Fund is intended for SMEs, which are the most affected entities as well as with less availability and guarantees. The main objective is to make possible and facilitate the EIB to provide loans, securities and more in general guarantees to the SMEs. In that manner, those firms could obtain the liquidity needed to react and tackle this adverse situation. Moreover, the interesting thing consists in the adoption of sustainable business plans by the enterprises in question in order to obtain financial help. The Fund it is not only target for the firms in difficulties but has adopted as objective financial support that they need in order to growth for the healthy and sustainable business.

In order to protect states against the Covid 19 crisis, the ESM has introduced the Pandemic Crisis Support (PCS). The latter is an instrument operating since the decision of the Board of Governors of 15 May and available until the end of 2022 with possibility of extension. The PCS has a capital of 240 billion euros if all the member decided to request the financial aid, which for each member it is equal to 2%[94] of the GDP at the end of 2019. Established on the basis of the Enhanced Condition Credit Line,[95] it can provide financial aid for maximum period of one year, which could be extended twice for six months. The member which receives the loans has 10 years to return them, however the interest rate is lower than the traditional one for the classic credit line.

With the Common Declaration of 36 March 2020, the member states committed themselves to act together against the crisis, doing whatever it takes. This willingness to start again together begins to take shape in April 2020, at the height of the health emergency. In fact, it was decided to establish common plan which was subsequently approved by the European Council on 23 April. At the request of the heads of state and government, the Commission then presents a wide-ranging package "ambitious and articulated", capable of dealing with the extensive damage caused by the pandemic. The Next Generation EU (NGEU) is the largest and most ambitious recovery plan in the entire history of Europe. Also called Recovery Plan for Europe, it is a 750-billion-euro temporary recovery tool with the aim of restarting with a greener, digital and sustainable Europe. In fact, the Next Generation EU does not only aim to stem the damage caused by the pandemic but envisages real change for member states. The novelty relies in the communitarian method to solve the crisis, indeed it is not only a way to contain the crisis, but a common development plan, regulated under European Regulation 2020/2096. It is an unprecedented effort and an innovative approach, promoting convergence, resilience and transformation in the European Union. The ratio at stake covers two different needs of the EU: in one hand, the need to repair the damages of the pandemic situation, in the other hand to improve the future of the next generations and to make the Europe greener, digital, and resilient.

[94] It means for Italy 36 billion euros.
[95] The ECCL is widely described in the previous chapter dedicated to the ESM.

Together with the planned amounts of MFF 2021-2027, the funds of NGEU could support and stimulate the general aim of modernization of the old continent through: the promotion of digital technology also in terms of cyber security protection, using them to achieve the aim of digital and green transition in line with the Sustainable Development Goals of Agenda 2030. The Next Generation EU plan is based on three different pillars which are: sustain reforms and investments in the member states; regenerate and strength the economy and learn lessons from the crisis investing in the prevention of crises through the RescEU Programme and Horizon Europe, and improvement health care performance in the long run through the EU4Health Programme.

In order to benefit of the NextGenerationEU support, the member states shall present a national recovery and resilience plan, setting out a coherent package of projects and reforms for a greener, more digital and resilient Europe for the 2021-2023 period. Let us bring to light which are the steps to be taken. Firstly, Member States shall submit their National Recovery and Resilience Plan until April 31, 2021, which must be approved by the Commission. One of the most interesting points is the assessment and programme evaluation carried out by the Commission which has to take in consideration three different patterns: reasonableness, plausibility and proportionality; and two criteria: the immediate economic response to mitigate the negative effects of the Covid-19 crisis and the promotion of new stronger sustainable Europe. More deeply, the specific criteria for each country shall be the strengthening of the growth potential, job creation and the reinforce of social and economic resiliency. Moreover, The Commission has put in plan different guidelines and criteria for the member states to shape their NRRP. We could divide them in two broad categories: the six pillars or missions and the flagship initiative. Regarding the first category investments must be allocated to six main areas of intervention:

1. Green transition: the European Green Deal is the main guideline to be in line with, for which the commission has proposed that at least every NRRP should include no less than 37% of spending on green
2. Digital transformation: at least 20% of investments shall go to finance the digital transition.

3. Employment and smart, sustainable and inclusive growth: this pillar refers to economic cohesion, inclusive job market, development and innovation and sustainable firms.
4. Social and territorial cohesion: the NRRP must be consider local, regional and national disparities in terms of infrastructure and demography.
5. Health and resilience.
6. Policies for the next generation, including education and skills: this last pillar is in my view the most interesting due to its long-term vision. In fact, it considers youth and the next generation, as a matter of fact it is designed to avoid that next generation will pay the pandemic damage accelerating generation gap's growth.

Focusing on Italy the set of European funds included in the MFF and in the Next Generation EU amounts to about 309 billion euros in the period 2021-2029. In fact, according to the European Recovery and Resilience Facility (RRF), which finances the national Recovery and Resilience Plan, Italy in the period 2021-2026 will have access to about 209 billion euros, 196 billion directly from the Recovery Fund and 13 billion from React EU. These 196 billion euros are divided as follows: around 65 billion in grants and 127 billion in loans to be repaid over ten years.

In short, the most ambitious aid plan in the history of our country, which not only gives Italy the possibility of restarting but also of transforming itself and progressing towards common European development objectives. According to the Commission guidelines, the Italian National Recovery and Resilience Plan is based on four strategic lines: modernization of the country, ecological transition, social and territorial inclusion and gender equality.

After having deeply and detailed analyzed the crises and the EU measures taken in response in theoretical terms, the conclusive chapter is dedicated to some considerations based on correlation between the European Stability Mechanism and the Next Generation EU. In fact**,** this chapter is aimed at developing more practical and numerical point of view. Along these lines I have decided to study the correlation between the measures adopted to solve the crises under study and the percentage variation of GDP for each

European countries.

The conclusive chapter is dedicated to some considerations regarding the relation between the European Stability Mechanism and the Next Generation EU. For what concern the level of analysis, the dimension considered is the European one, therefore the data gathering is focus on the Member States. Based on that, I could conclude that the level of analysis is macro. In regard with the methodology applied, it is quantitative comparison method based on data taken from Eurostat database. The hypothesis that I want to test could be summarized as follow: the European Institutions have managed the Covid-19 crisis in a “better way” compared to the sovereign debt one. To develop and shape my hypothesis, I have evaluated if subsist relation between the GDP variation for the two crises and the aid package received by single country, by considering GDP level as a benchmark. based on the gathered data, I would like to study if subsist any statistical relation between the obtained values, specifically between the independent variables which are the ESM’ funds and the NGEU ones, and the dependent variables which are the GDP variation in percentage terms respectively for the time-period 2008/2011 and 2019/2020. I could conclude that subsists statistically significant relation between the GDP variation and the NGEU fund, the variables under study, and furthermore this relation is inverse meaning that as funds increase, the GDP variation for time-period 2019-2021 decreases. This trend could be explained by the volume of the measures adopted, as a matter of fact, the Next Generation EU package is the most ambitious recovery tool or better common development plan, by which every single European country have received or will receive financial aid in the next years. Instead, as mentioned before, not every country had benefited from the ESFM and the ESM. In more abstract and theoretical terms, we could conclude that in the Covid-19 crisis there was, better aid package developed by the European institutions which could be interpreted as superior management capacity. In fact, the Commission’s economic forecast for next years has improved considerably. After the dramatic drop of 8.9% in 2020, real GDP is expected to grow by 4.2% this year thanks to the first phase of investments financed by the NGEU plan. According to the Commission in 2022, its completed implementation will help to push growth to 4.4%. Expected recovery should allow the economy to return to the previous pandemic level by the end of the forecasting period. However, it is important to remark that only small part of the aid package provided by the EU has been disbursed to the Member States, so to have more complete framework and study the real impact of the Next Generation EU on the GDP variation, we could implement the same path in the following years with the available data.

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