THE EUROZONE DEAL: NO RELIEF FOR ITALY AND WHY THE LINE SHOULD BE DRAWN

By Paola Del Bigio
The European Foundation
April 2020

The outcome of Europe's recent economic recovery plan, so badly needed in such tragic and unprecedented times as these, has demonstrated the degree of the EU's political and economic defeatism. Specifically, the appeal of nine countries led by Italy for the issuance of joint debt, the so-called Coronabonds, has sofar failed. Despite EU Finance Ministers having agreed on a package of measures worth half a trillion euros to cushion the blow of the coronavirus pandemic, they left unresolved the most contentious issue of how to share the financial burden.
As Europe heads for the worst financial crisis since the last century's Great Depression, and the future debt sustainability of some member states will become only too obvious, this should have been an historic moment to put in place tangible aggregate investments at the level of the EU, by leveraging and pooling recources to reach a much needed macroeconomic scale. This opportunity however has been lost, raising questions about the EU's unity and purpose. The recent outcome of the discussions and economic purpose, have merely bridged the shortfalls in the Community system which itself is geared to protect a hard core of countries dominated by Germany, dictating policy to the periphery. What has emerged during the negotiations is a re-nationalisation of politics in full force, evident in the Eurogroup's final conclusions' obscure wording, which has allowed for single member states to interpret what is to come in future talks. It has also reopened old confrontations between Northern and Southern Europe that had emerged after the 2008 financial crisis.

Of all the plans undertaken during the negotiations that has a potential for a real macroeconomic impact and for shared economic integration is a Recovery Fund whereby " discussions on the legal and practical aspects of such a fund, including its relation to the EU budget, its sources and financing and on innovative financial instruments consistent with EU Treaties, will prepare the ground for a decision".
Even this seems however a remote hope at best, with limited concrete long term effects as shared liability has explicitly been ruled out by Germany and the Netherlands. The text did not mention any details of what the fund would need but merely points to unspecified innovative financial instruments. More importantly, the EU's budget is of the order of 1% of GDP, which is mostly earmarked for non- discretionary programmes. The next Multiannual Financial Framework (2021-2027) will therefore play a central role in the economic recovery with member states however most likely diverging over whether the crisis should ultimately see them put more or less money into the EU's coffers.

In terms of other economic measures agreed by the Eurogroup, these are not intended to bring about any structural change, something countries such as Italy and Spain in particular, urged would be necessary to demonstrate the relevance of the EU to their disenchanted citizens in times of severe crisis. What in actual fact has been agreed are emergency measures, yet again through loans and lending support, which effectively boil down to credits that imply dangerous conditionality. The measures agreed will include a 2,7 bl. emergency support facility, effectively the equivalent of a mere 0,03% of GDP, a EIB lending facility of 2,5 bl. to cash-stripped EU companies, and a temporary €100 bl. unemployment reinsurance plan (SURE). This last matter still needs to win the Council's support and could prove contentious as the Netherlands and Denmark are concerned the initiative could become a permanent EU feature.

But the biggest amount of the available 500 bl. will come from the European Stability Mechanism (ESM), or the EU's bailout fund. This, is also intended as a loan, despite an enhanced credit line of 2% of the Member States' GDP as a benchmark. The 2% significantly points to the size of the remaining funds in the ESM and the final text refers to standardized terms, which, almost certainly, will mean conditionality, empowering decisions to be made by the ESM governing bodies and EU institutions. The ECB's Pandemic Relaxed Emergency Purchasing Programme (PPEE) of up to 750 bl. will probably make a liquidity squeeze very unlikely this year, by relaxing the usual budget rules to give states free rein to spend more. But the toxic implications of the ESM, which was initially created to dig out states like Greece during the Eurozone debt crisis, will most likely signify a return to enforced harsh austerity measures, once the emergency is over.

EU leaders will meet again on April 23 rd to consider the €540 bl package of initiatives. Member States expect to see an adequate proposal enabling to lay the foundations for a better economic recovery and to strengthen critical sectors. But the Eurogroup deal has already undermined the momentum for spending more on the EU's budget, as instruments outside of it have already been mobilized under the Eurozone deal. Furthermore, the Eurogroup does not have the authority to make concrete recommendations on the bloc's 2021-2027 budget. What has been decided sofar instead, is the creation of additional EU mechanisms that have no real concrete effects on aggregate investments. This, will eventually impact the debt sustainability of some member states, as the consequences of the pandemic recession will hit harder. Furthermore, the amount of discretionary fiscal spending unleashed sofar is small by comparison to the US. The US fiscal stimulus amounts to $2,000 bn, with a programme of illimited quantitative easing, and a credit line of $300bn.

Italy's access to the ESM financial aid should not be contemplated as it has dangerous implications at the economic, political and constitutional level. For this reason, Italy should not sign its approval at the next Council of Ministers meeting on April 23rd. The fundamental EU Treaties are sofar unchanged and the ESM strict conditionality is referred to in Art. 136 (3) TFUE (2011) and in articles 3 and 12 of the ESM Treaty.

From a political and juridical point of view, this would also be a no - goer as its approval would also imply the need of a prior consent from the German Constitutional Court and the Bundestag.
As for its so - called enhanced conditions recently approved, these are only symbolic and still betray strict conditionality, even if deferred. In particular, as of 2013, Art. 7 (472/2013) relating to the Memorandum of Understanding (MoU) (Two tier Pack), allows member states to initial fundings prior to submitting to a programme of macroeconomic adjustment under the supervision of the Commission and by approval of the ECOFIN through QMV. These initial programmes are however susceptible to modification at a later stage in case of unforseen macroeconomic and financial shocks. In consideration of the highly volatile and unpredictable environment the European and world economy is going to face, this course of action would be highly hazardous and unecessary, as Italy has the capacity to finance its debt on the international markets. Furthermore, once conditions established by the MoU become EU law, their interpretation will become the remit of the European Court of Justice, which could, in an unprecedented way, undermine the power of the Italian Constitutional Court to intervene in programmes relating to national macroeconomic adjustments. It is therefore fundamental for the Italian Parliament to have a proper debate on this and for the role of the Italian Constitutional Court to be preserved. Failing this, the Italian Government would present itself as a champion of a sovereign transfer of powers to the EU.

This geopolitical development reinforcing a policy dictated by a hard core of self-interested countries led by Germany is not in Italy's interest and must be resisted. Given that Italy is bound in by membership of the €uro, it should take a long term view, but not on German terms. A balance of interest and power in Europe, both North and South, is not compatible with a tight core of countries. Otherwise it is not a European Union, and the case for Italy leaving and seeking to work with other countries, in line with its public opinion, becomes even greater,