

Pandemic and the Future of European Monetary Union

Nicola Acocella

Memotef - Sapienza University of Rome

Summary

- The institutional design and policies of EU and EMU: content and inspiration
- Asymmetries and EMU current account imbalances
- The impact of the pandemic and the provisions to face it
- A change of attitude: provisional or durable?

The institutional design and policies of EU and EMU: Their content

- A common currency
- No fiscal union and limits set for each country's fiscal policy (SGP + fiscal compact).
- *Practically* no rule for limiting current account imbalances.
- A limited common budget established for facing current expenses and expenses for some microeconomic policies (until 2021 only 1% of the EU GDP)
- Inspiration: ordoliberalism

Asymmetries and the current account imbalances

- Imbalances (especially of current accounts) piling up before the financial crisis: on the one side 'peripheral' countries (prevailing, Southern ones); on the other 'core' countries
- These derived from the pre-existing untackled asymmetries, in particular by the different inflation rates of the two groups, which also caused speculation and bubbles in peripheral countries
- Current account imbalances matched by capital movements
- Consequences of imbalances at the time of the financial crisis: capital movement reversals that reinforced the crisis

The impact of the pandemic and the provisions to face it

- The impact of the pandemic
- Rise of the EU budget to 2% of EU GDP, financed by new contributions and eurobonds !!!
- The Next Generation EU Fund and other funds
- This Fund's provisions for Italy are around 6% of our GNP
- Stability and Growth Pact suspended for 2021 and 2022

A change of attitude: provisional or durable?

- Pandemic as a game-changer?
- EU interventions represent some kind of a novel line of conduct of the EU
- Will this novelty be followed by
 - A retreat to the course of rules preceding the pandemic or, worse, by disintegration of the Union;
 - or
 - Some kind of confirmation of the new course - even a relaunch of the EU?

Retreat

- EU members responded to the epidemic in disarray, each determining its own strategy
- The Recovery Fund is considerably diluted with respect to the original Franco-German proposal
- Limited attraction of the loan element due to the current low market interest rates
- In case of a failure of the Next Generation EU, the prospect could be one of disintegration

Relaunch of the EU

- The optimistic scenario from effective implementation of the reforms
- Abatement of the epidemic
- Results obtained by each country through implementation of the aid

Difficult answer

- Reasons for supporting both scenarios
- Many authors undecided
- A foundational Hamiltonian moment
or
- Just a transactional and time-limited Marshall plan?