



Scuola di Economia e Management
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Università degli Studi di Firenze

LECTIO MAGISTRALIS

La risposta europea alla crisi pandemica

29/01/2021

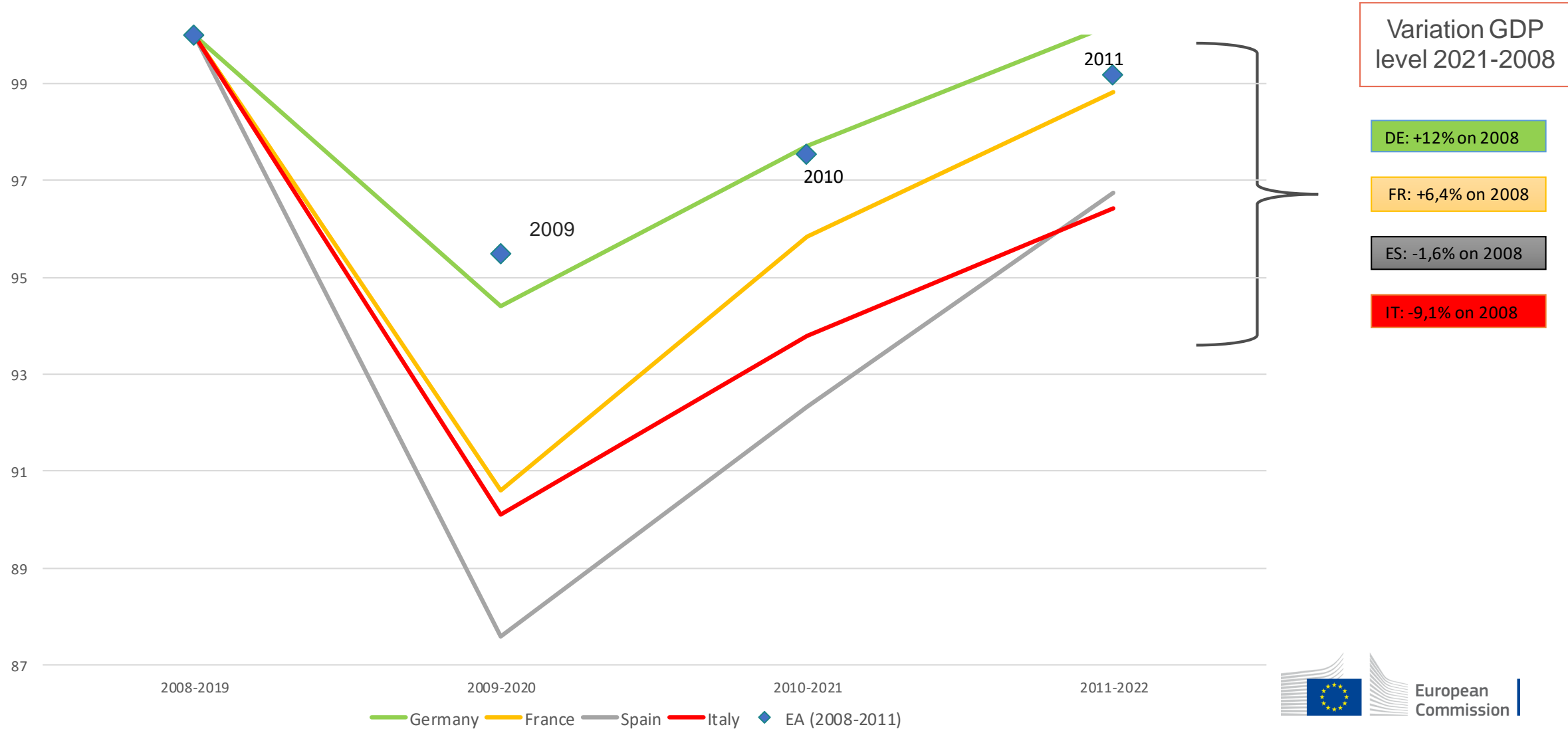
Marco Buti
Head of Cabinet of the Commissioner for the Economy Paolo Gentiloni
European Commission

Outline

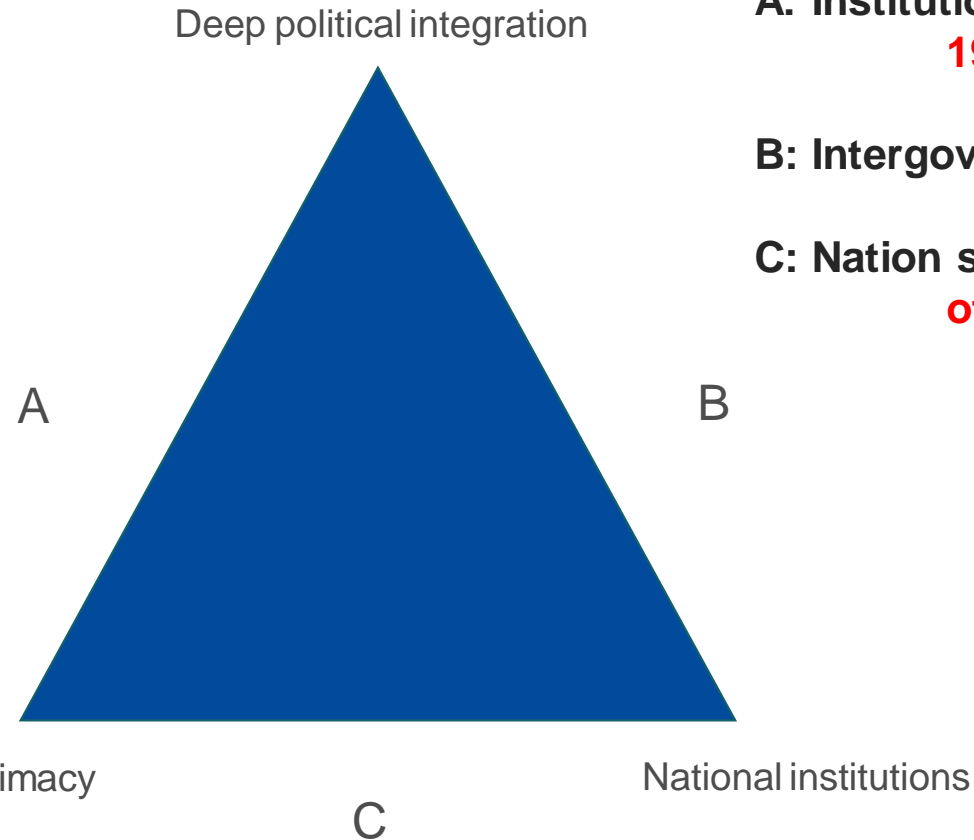
- Tackling the economic fallout of the Covid shock: what can we learn from the financial crisis
- Assessing the European policy response
- Towards the National Recovery and Resilience Plans
- In sum: policy and politics

More than double the size

GDP level EU Commission Autumn Forecasts 2019-2022 (2019=100) and Euro Area GDP level 2008-2011 (2008=100)



Inconsistent Trinity: How to solve it in the COVID-19 crisis?



- A: Institution-building at the supranational level → SM and EMU in 1980s – 1990s**
- B: Intergovernmental solutions → prevalent in the financial crisis**
- C: Nation state prevalence, no supranational integration → handling of the immigration crisis of mid-2010s**

Financial crisis versus Covid-19 crisis

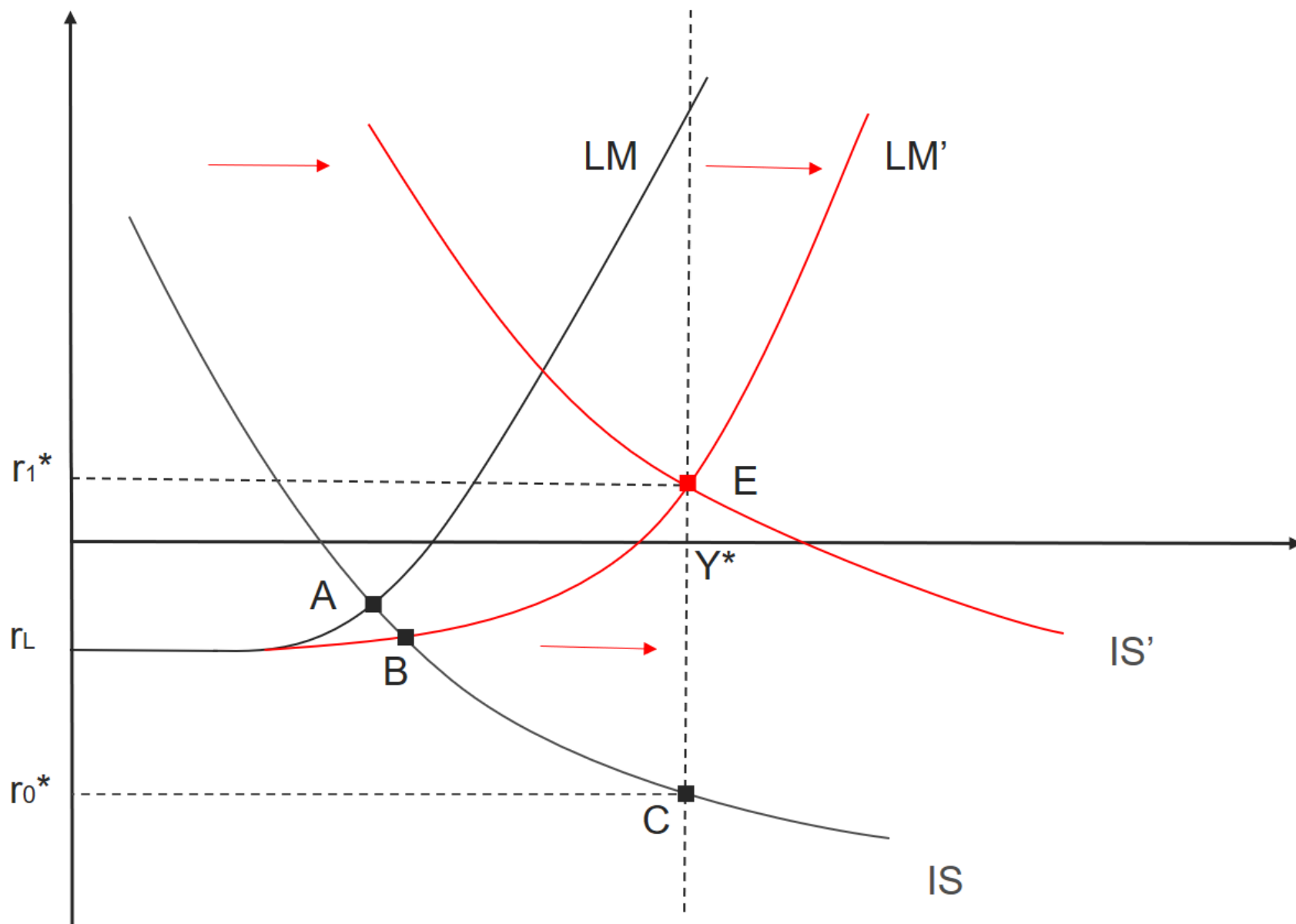
	Financial crisis	Covid-19
Nature and narrative	Policy-induced, asymmetric, no joint view	Exogenous, common in origin, asymmetric in outcome, consensual view
Solidarity/responsibility	Risk reduction first, risk sharing later	Common response warranted, no moral hazard concerns
Speed of policy reaction	Slow, under “ultima ratio”	Fast
Policy mix	ECB only game in town, harsh structural reforms	More balanced, fairness incorporated, focus on investment, green and digital transition
Fiscal coordination	Horizontal: rules-based surveillance of national policies	Vertical: key role of EU budget
Conditionality	Creditors’ rule and market-based	National ownership
Institutional set-up	Intergovernmental	Community method
Institutional innovations	EFSF/ESM, Fiscal Compact, BU	RRF, common borrowing, new Own Resources
International cooperation	G20, close US/EA interactions within G7	Limited

What we, painfully, learned from the financial crisis

Relevant for Covid-19

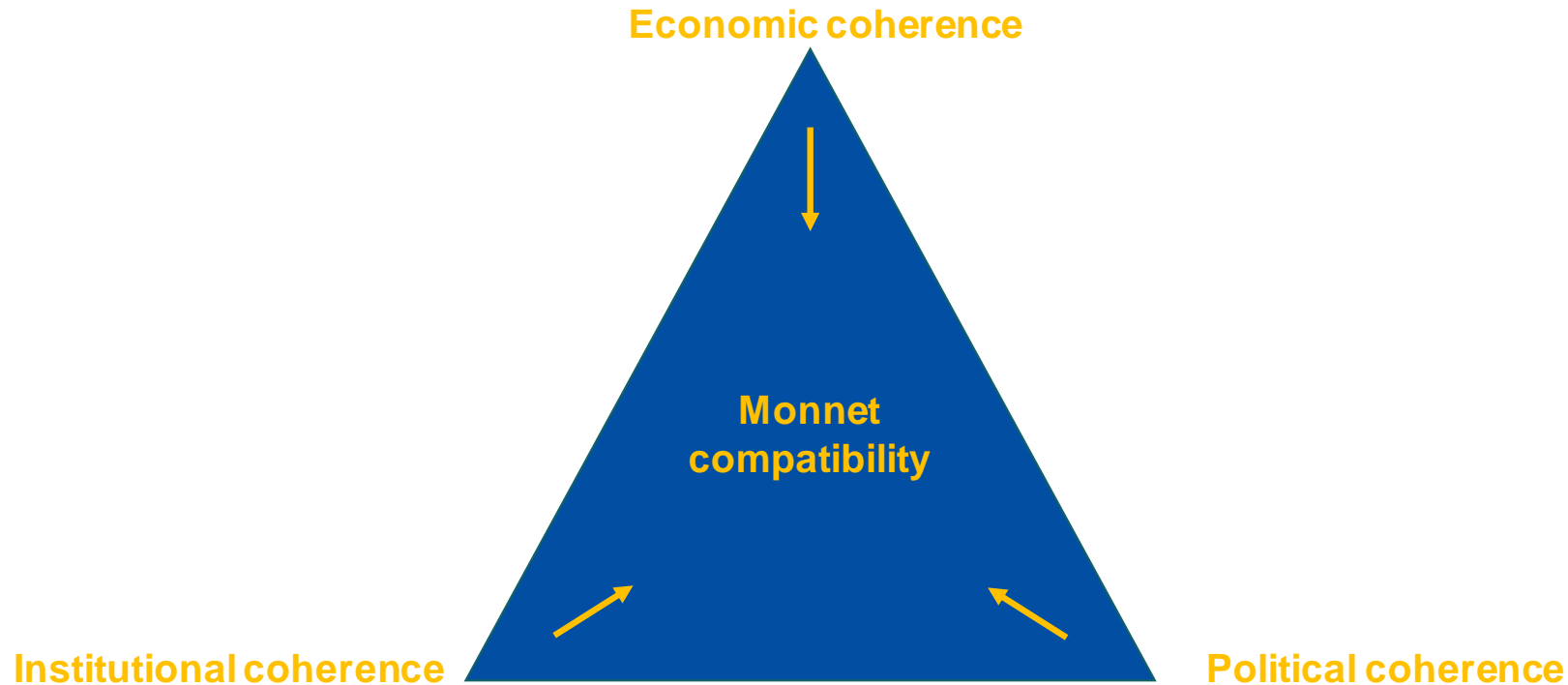
The way in which the crisis unfolded tainted the narrative on its nature	+++
Financial crises even in small countries can have pervasive effects and a high potential for contagion	+
Financial markets operate according to 'horizontal and vertical lines'	+
A certain amount of risk sharing is needed in EMU: either via national budgets or via the ECB balance sheet	+++
Monetary policy cannot be the only game in town, early withdrawal of fiscal stimulus very costly	+++
Achieving an appropriate euro area fiscal stance only via horizontal coordination of national policies is exceedingly difficult	+++
EU-level decisions should be insulated as much as possible from domestic political economy considerations	++
Not solving the EMU crisis weakened the geopolitical role of Europe	++

Policy mix at the ELB



Jean Monnet Compatibility test

“Europe will be forged in crises and it will be the sum of solutions adopted for those crises” J.Monnet



Economic coherence ➔ **effective response to the crisis**

Institutional coherence ➔ **subsidiarity respected**

Political coherence ➔ **citizens support**

EU and national responses to the COVID-19 crisis

		Fiscal	Liquidity
NATIONAL	2020 measures	500bn	2700bn
EU	SURE, ESM, EIB		540bn
	NG – EU	390+bn	360bn
ECB	PEPP		1850bn

Coordination processes in the EU: institution-building vs rules-based coordination

<i>Coordination mode</i>	<i>Financial crisis</i>	<i>Covid-19 crisis</i>
<i>Institution building</i>	<ul style="list-style-type: none"> ● European Financial Stability Facility (EFSF)/ European Stability Mechanism (ESM) ● Single Supervisory Mechanism (SSM) ● Single Resolution Board (SRB) ● European Fiscal Board (EFB)/National Fiscal Councils (NFCs) 	<ul style="list-style-type: none"> ● Recovery and Resilience Facility (RRF) ● Support to mitigate unemployment risks in an emergency (SURE) ● ESM Pandemic Crisis Support (PCS)
<i>Rules-based</i>	<ul style="list-style-type: none"> ● Fiscal Compact ● Strengthened SGP ● Macroeconomic Imbalances Procedure 	<ul style="list-style-type: none"> ● SGP General Escape Clause ● [Review of the Six-Pack and Two-Pack]

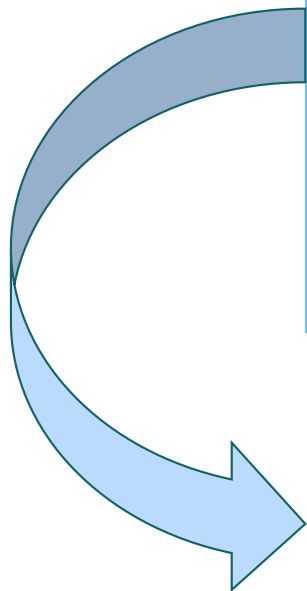
- : Intergovernmental
- : Supranational
- : Mixed

NG-EU: from the Commission proposal to the final agreement

PROGRAMME	COM PROPOSAL MAY 2020	EUCO CONCLUSION JULY 2020	FINAL AGREEMENT NOVEMBER 2020 (NGEU + MFF)
First Pillar: Supporting MS	655 bn	737.5 bn	737.5 bn (+ 86.2 bn)
Recovery and Resilience Facility (RRF)	560 bn • Grants: 310 • Loans: 250	672.5 bn • Grants: 312.5 • Loans: 360	673.3 bn • Grants 313.3 • Loans: 360
Rural Development	15	7.5 bn	85.4 bn
Just Transition Fund (JTF)	30	10 bn	17.5 bn
ReactEU	50	47.5 bn	47.5 bn
Second Pillar: Supporting the private sector	56.3 bn	5.6 bn	5.6 bn (+ 3.8 bn)
InvestEU	30.3 bn • 15.3 bn existing 4 windows • 15 bn new 5 th window	5.6 bn	9.4 bn
SSI	26	0	0
Third Pillar: Lessons from the crisis	38.7 bn	6.9 bn	6.9 bn (+168.1 bn)
Horizon Europe	13.5 bn	5 bn	84.9 bn
RescEU	2 bn	1.9 bn	3.0 bn
Health	7.7 bn	0	5.1 bn
NDICI	10.5	0	71.8 bn
Humanitarian Aid	5	0	10.2
TOTAL	750 bn	750 bn	750 bn (+ 258.1 bn)

I Piani Nazionali di Ripresa e Resilienza (PNRR): contenuti e processi

Narrazione	Coerenza interna dei PNRR		
<i>Obiettivi generali</i>	<i>Dagli obiettivi ai progetti</i>	<i>Stima dei costi</i>	<i>Monitoraggio</i>
<ul style="list-style-type: none"> • Affrontare sfide e priorità del Semestre Europeo • Rafforzare crescita, resilienza e creare lavoro • Contribuire alla coesione economico-sociale • Contribuire alla transizione verde/digitale 	<ul style="list-style-type: none"> • Obiettivi finali e traguardi intermedi • Singoli progetti e tempi d'investimento • Indicatori di implementazione e realizzazione 	<ul style="list-style-type: none"> • Costi totali • Corrispondenza fra costi e gli impatti su occupazione ed economia • Finanziamenti eventuali dell'UE 	<ul style="list-style-type: none"> • Misure di accompagnamento (riforme, investimenti) • Procedure di monitoraggio



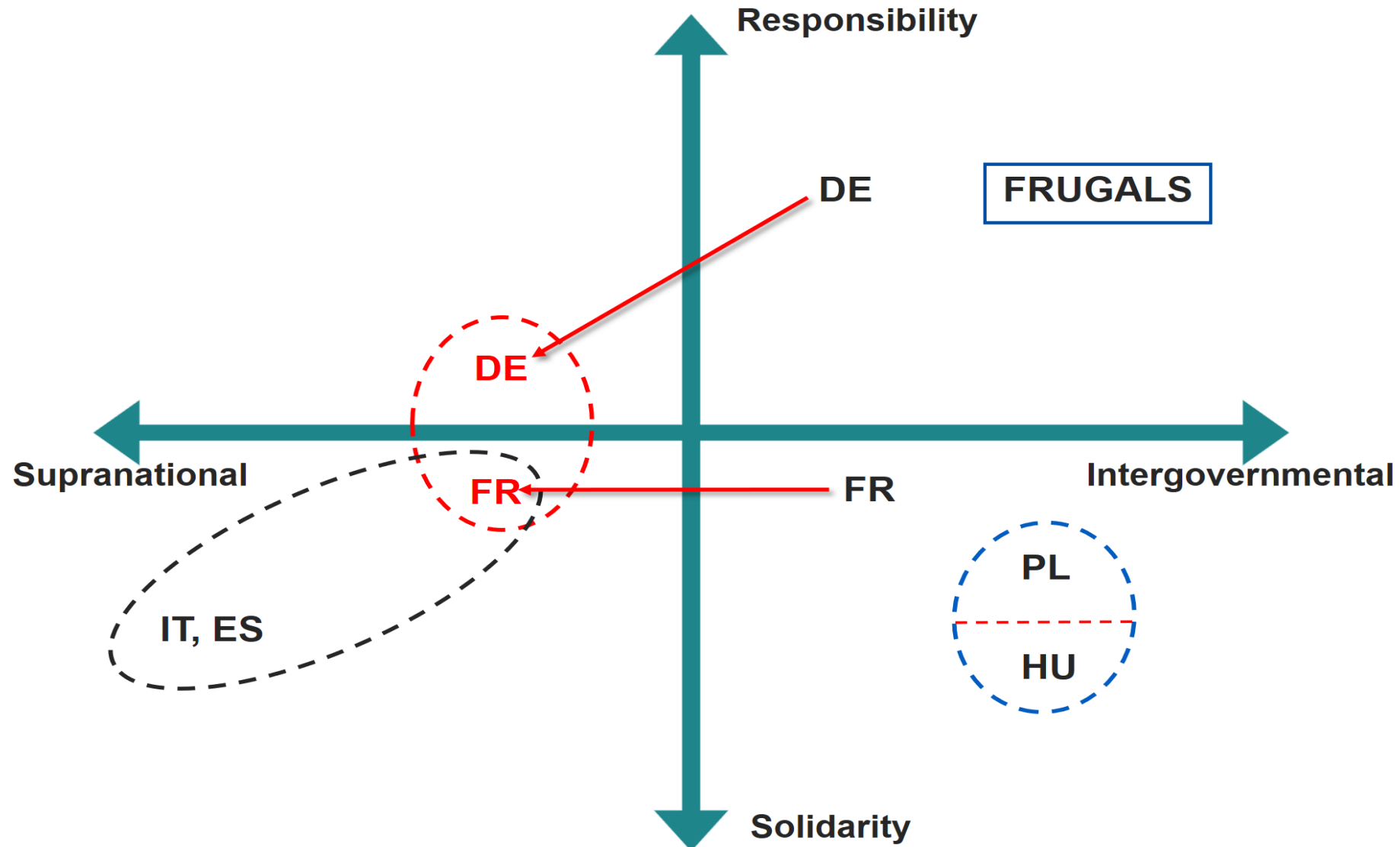
Conclusioni

- Stabilire chiare priorità
- Basare il piano su obiettivi prudenti di finanza pubblica
- Mostrare tutto il 'film', dai provvedimenti legislativi, ai decreti attuativi, ai meccanismi di implementazione
- Ragionare in termini di clusters di riforme e investimenti
- Coinvolgere gli attori economici e sociali durante tutte le fasi

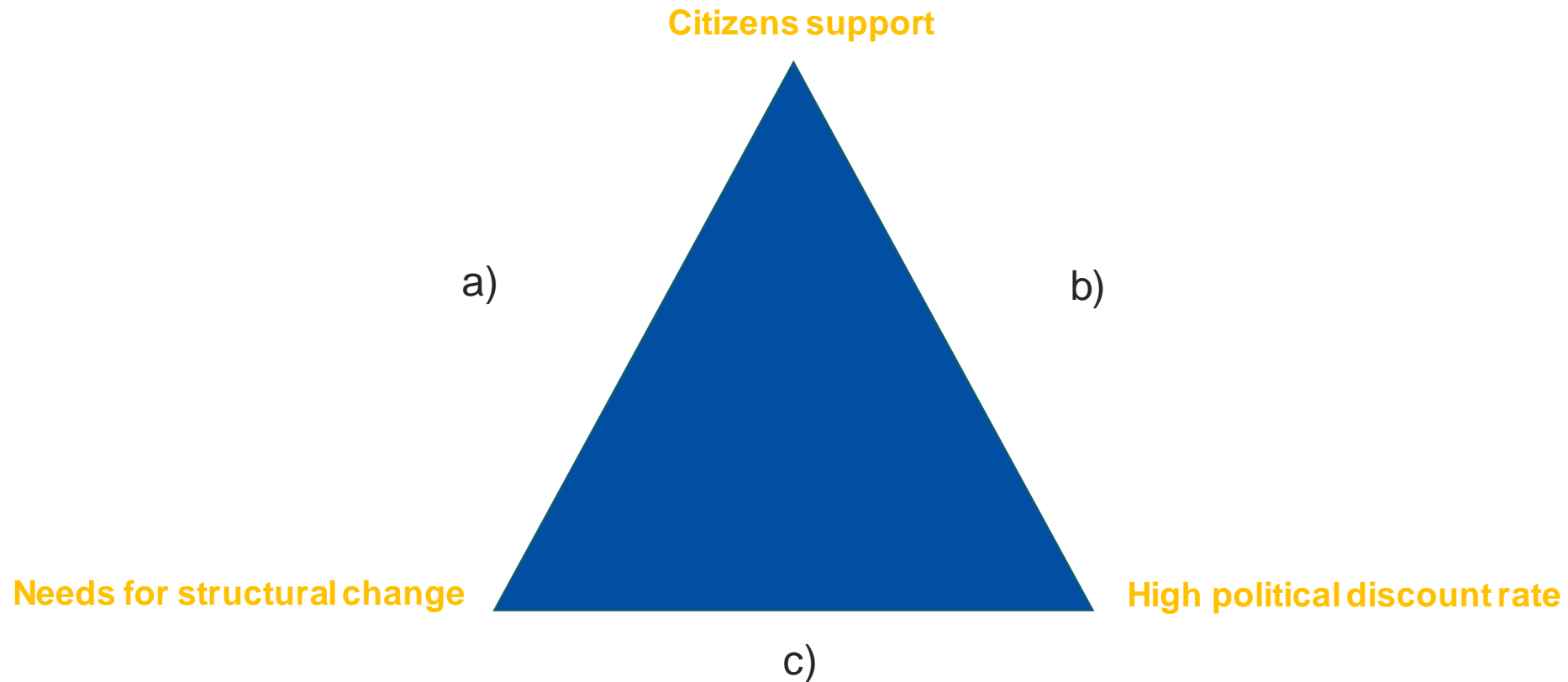
Assessment of current discussion of NRRPs

- **Insufficient reform elements compared to investments.** Absence of overarching growth strategy based on green/digital transitions.
- **Need to address all or a significant subset of country-specific recommendations** that are relevant for recovery and resilience. Gaps vary, but usually in politically sensitive areas.
- Some plans still fall short of the **digital** and **climate** targets or lack information with respect to the methodology used. The “**do-no-significant-harm**” principle not yet fully guaranteed.
- Scope to include more **measures that improve the quality of taxes and public expenditure** and thus support fiscal sustainability. Moreover, some plans include measures that correspond to recurrent expenditures and as such are not eligible.
- **Missing elements** and need for **granularity**: milestones, targets, audits and controls, economic impact assessment and cost estimates, and complementarity with other EU funds.
- Timing and quality of **involvement of national stakeholders** leaves wanting.

What political conditions for deeper integration?



RRF Impossible Trinity



- a) RRP focusing on the two Rs
- b) Preference for bonuses and many small projects
- c) Reforms under market pressure