

*THE EUROPEAN STABILITY MECHANISM IN FRONT OF THE EPIDEMIOLOGICAL EMERGENCY**

di Maria Teresa Stile**

The significant increase in the national deficit, caused by the current serious epidemiological emergency, has raised a government reflection on the possibility of continuing the reform work of the European Stability Mechanism for Italy, insisting, the President of the Council of Ministers, in the press conference following the publication of the D.L. Cura Italia¹ on the 17th of March 2020 No. 18, on the need for the adoption of European bonds in line with the policy of the package, given the need for appropriate measures other than those envisaged in the reform work of the ESM Treaty², which are currently suspended.

The European Council of the 26st of March 2020 concluded without agreement on the measures to be taken to deal of the economic crisis caused by the global health emergency.

In the debate on the solutions to be adopted, the original dividing line emerged between the Mediterranean countries, which prefer flexible rules and mutualisation of risks, and the Northern Front, which strongly opposes it.

Specifically, in favour of the issuance of eurobonds (coronabond, or sanibond), nine out of twenty-seven countries are in favour of the issuance of eurobonds, such as Italy, France, Spain, Greece, Portugal, Ireland, Luxembourg, Belgium and Slovenia, which are opposed by the Netherlands, Austria and Germany, which are more in favour of the ESM as a tool designed to deal with crises. In particular, the position of the German Finance Minister, Olaf Scholz, who rejects a generalisation of debts, is in sharp closing, while a position of greater balance is supported by Chancellor Angela Merkel, which gives hope

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¹ D.L. 17 March 2020, No. 18, bearing measures to strengthen the National Health Service and Economic Support for Families, Workers and Businesses Related to the Epidemiological Emergency from Covid-19, in G.U., 70, 17 March 2020.

² For an analysis of the reform work of ESM, please refer to M.T. Stile, *The ESM in solving European financial crises. A paradigm of limiting state sovereignty*, AIC, No. 2/2020.

to an opening and modulation of the *conditionalities* provided for the procedure of access to the European Stability Mechanism.

It should be noted, however, that the titles at the heart of the Italian Government's proposals are not real Eurobonds. These Bonds, better-defined European recovery bonds, would consist of European bonds linked to the financial crisis caused by the pandemic. The issuance of *common* bonds would therefore allow Member States to finance the extraordinary expenditure needed for health, to deal with the business crisis and to support families in serious difficulty.

However, on the basis of these premises, it should be noted that the Eurogroup reunited on the night of the 9-10th of April to discuss the adoption of possible resolutions to the impending financial crisis caused by the COVID-19 epidemiological emergency.

Therefore, a specific “package of proposals”³ was agreed following the lengthy negotiation at the Eurogroup, based on a strong European financial plan to support workers and businesses, that includes the provision of aids in accordance with a sustainable economic-financial, health and social recovery.

In particular, the Minister of Economy and Finance, in the press release of the 10th of April 2020⁴, stated that: «[...]Thanks to the strong alliance between Italy and the other countries that signed the letter promoted by the President of the Council, Giuseppe Conte, the European agenda has changed and we have moved from a single-proposal document, the ESM with light conditionality, to a package of four proposals that includes 200 billion from EIB for business, 100 billion that through the new SURE programme will help to finance the integration fund and the Italian-French proposal of a large Recovery Fund fuelled by the issuance of European common debt. In addition, for countries wishing to use it, they will be able to access a new line of credit dedicated only to the health emergency, which will be totally devoid of any present and future conditionality».

In addition, the Minister of Economy and Finance, Roberto Gualtieri, at the end of the Eurogroup meeting made it clear that our Government insisted on the proposal for European bonds by making it clear that the ESM's forecasts, even with light conditionality, are inadequate, remarking that an ambitious package of proposals will be

³ Report on the *Comprehensive economic policy response to the COVID-19 pandemic*, European Council, Council of the European Union, 9 April 2020, www.consilium.europa.eu.

⁴ The Minister of Economy and Finance Gualtieri stated in the press release: “On the table also the eurobonds, from the Eurogroup an ambitious package of proposals”, <http://www.mef.gov.it/>.

discussed at the next summit of European leaders, for which "Italy will fight with determination for the decisions of the European Council are in line with the challenge that Europe is facing".

The European response of the *package* therefore includes, in addition to a financial support measure consisting of the EIB's pan-European Guarantee Fund, with the intention of using it to support a programme of disbursements to European companies, two specific measures: the SURE programme, to partially refinance employment support measures, and the Pandemic Crisis Support of the ESM, to finance health care and prevention costs. The SURE, a temporary solidarity instrument of financial assistance based on art. 122 TFUE, will provide loans to Member States «on favourable terms» to support worker protection and employment programmes.

The ESM will establish Pandemic Crisis Support (PCS), based on the existing ECCL (Enhanced Conditions Credit Line) mechanism: a line of credit accessible to all eurozone countries with a generally sound economic and financial situation, but without respect some of the eligibility criteria for access to the PCCL, which is the main line of credit for the ESM, in favour of virtuous countries that they have a rapport debt-to-PIL of less than 60%.

The document therefore provides for flexible use of the ESM, in the version referred to in the 2012 Treaty⁵, to "support the financing of direct and indirect health care as well as the costs of treatment and prevention due to the crisis caused by COVID 19"⁶.

In particular, there is a loan available to all Member States, the amount of which will be able to reach 2% of the debtor country's PIL, which, after overcoming the epidemiological emergency, must strengthen its economic fundamentals and respect the budgetary framework, to return gradually to the principle of the balanced budget related to the Fiscal Compact⁷.

The document also provides, as a temporary, targeted and proportionate instrument to the extraordinary costs caused by the pandemic, a fund linked to the European budget, financed with "innovative financial instruments", in line with the Treaties amounting to

⁵ Treaty establishing the European Stability Mechanism (ESM), with Annex, signed in Brussels on 2 February 2012, ratified with L. 23 July 2012, No. 116, G.U. No. 175, 28.7.2012.

⁶ Eurogroup President Mario Centeno declarations of the on 9 April 2020, www.consilium.europa.eu.

⁷ The *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, i.e. *Fiscal Compact*, was signed by the Italian Republic on 2.3.2012, together with 24 other EU member states, at the European Council on 1-2 March 2012 and came into force on 1 January 2013. The Italian Republic ratified it with law No. 114 of 23.7.2012, in G.U. No. 175, 28.7.2012 - Suppl. Ordinary No. 160.

EUR 500 billion.

The SURE raises doubts because it is voluntary membership and is only activated after the all EU states have joined. It is a loan, therefore additional public debt, to be repaid. In order for it to be operational, each EU state must provide irrevocable, liquid and immediately necessary guarantees so that the Commission can issue on the market the securities necessary to collect the resources to be given to the states in difficulty.

Equally perplexity arises from the use of the ESM Enhanced Conditions Credit Line to offer the *Pandemic crisis support* loan. The unconditional ESM does not exist. It is an international treaty and, as such, it would need to be reformed in order to be used differently, eliminating, first of all, the reference, contained to Article 136 TFUE, to the “strict conditionality” for stability mechanisms, and by repealing a large part of the European Regulation 472/2013, implementing the *Two Pack* legislation.

It is important to note, with regard to the different allocation of the PCS funds, linked to health, care and prevention due to Covid-19, that at the end of the state of epidemiological emergency, the Member State, which has obtained the funding, remains committed to strengthening its economic and financial fundamentals, in line with the EU's framework of coordination and economic surveillance and public finance, which will be followed by some pressure from the Troika as soon as the pandemic crisis has ended.

It seems realistic, therefore, to hope, in view of the next summit, that the European Council will asset the appropriateness of the adoption of European bonds as required by our Government and of the conditionalities of the ESM, which must not adversely affect national sovereignty.

In these terms, European Council President's statement: “It is time to lay the ground for a robust economic recovery. This plan has to relaunch our economies whilst promoting economic convergence in the EU. The EU budget will have to play a meaningful role here. Together with the President of the Commission, I am working on a Roadmap and Action Plan to ensure the well-being of all Europeans and to bring the EU back to strong, sustainable and inclusive growth based on a green and digital strategy”.

And on the reassuring words of President Charles Michel, we look forward to the significant breakthrough of the Eurogroup agreement ahead of the Summit on the 23rd of April 2020.

Abstract:

La recente relazione sulla risposta globale della politica economica alla pandemia del COVID-19 ha aperto un dibattito sulle soluzioni da adottare per affrontare la crisi economica causata dall'emergenza sanitaria globale. Pertanto, un "pacchetto di proposte" specifico è stato concordato in seguito alla lunga negoziazione presso l'Eurogruppo, del 9-10 aprile, basata su un forte piano finanziario europeo a sostegno dei lavoratori e delle imprese, che comprende la fornitura di aiuti in conformità con una ripresa economica-finanziaria, sanitaria e sociale sostenibile. La risposta europea del "pacchetto" prevede un uso flessibile del MES per "sostenere il finanziamento dell'assistenza sanitaria diretta e indiretta, nonché i costi delle cure e della prevenzione dovuti alla crisi causata dal COVID 19". In uno spirito di solidarietà, sembra realistico sperare, in vista del prossimo vertice, che il Consiglio europeo valuti l'adeguatezza dei bond europei e delle condizionalità del MES, che non devono pregiudicare la sovranità nazionale.

Abstract:

The recent Report on the comprehensive economic policy response to the COVID-19 pandemic, opened a debate on the solutions to be taken to deal of the economic crisis caused by the global health emergency.

Therefore, a specific "package of proposals" was agreed following the lengthy negotiation at the Eurogroup, of the 9-10th of April, based on a strong European financial plan to support workers and businesses, that includes the provision of aids in accordance with a sustainable economic-financial, health and social recovery. The European response of the "package" provides for flexible use of the ESM to "support the financing of direct and indirect health care as well as the costs of treatment and prevention due to the crisis caused by COVID 19". In a spirit of solidarity, it seems realistic to hope, in view of the next summit, that the European Council will assess the adequacy of the European bonds and of the conditionalities of the ESM, which must not undermine national sovereignty.

Parole chiave: COVID-19 pandemica - risposta politica economica - pacchetto di proposte - MES - uso flessibile.

Key words: COVID-19 pandemic - economic policy response - package of proposals - ESM - flexible use.