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Towards a deepening of economic integration through the European Union's response to the COVID-19 pandemic

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To what extent is the issuing of common debt a targeted answer to the COVID-19 pandemic or a further step towards European economic and monetary integration?

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Abstract:

The COVID-19 pandemic – beyond the dramatic medical and human crisis – provided a unique opportunity to deepen the European economic integration while providing support to the struggling economies of the European Union. In order to finance these recovery packages the European Commission was empowered to borrow money on the capital markets in the form of bond sales to raise the capital which would constitute the loans and grants of the recovery packages. This revolutionary approach to funding saw some reticence from certain member states, namely the 'frugal four' who did not see the common issuing of debt as a viable funding option. Nonetheless, the programmes were approved and a plethora of measures were put in place mainly through the form of loans and grants to support member states as the economies and certain businesses were struggling to stay afloat, not being able to keep up with their expenses. The liquidity offered to EU countries does come with certain limitations since the decision to implement the green transition plan to the recovery. This is incarnated by both main programmes namely the EU SURE initiative as well as the Next Generation EU which are targeted towards the 'green recovery' approach that the European Union is taking.

Based on an analysis of economic integration and deepening from the past 70 years and an examination of the crises that the EU has faced this paper helps to build a case around the longevity of the issuing of common debt in a post-pandemic context while highlighting certain limitations of the programmes and their impact.

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List of Abbreviations:

ABS: Asset Backed Securities
CAP: Common Agricultural Policy
CDO: Collateralised Debt Obligations
CDS: Credit Default Swaps
CFSP: Common Foreign and Security Policy
DG: Directorate General
DSGE: Dynamic Stochastic General Equilibrium
ECB: European Central Bank
ECSC: European Coal and Steel Community
ECU: European Currency Unit
EEC European Economic Community
EERP: European Economic Recovery Plan
EFSF: European Financial Stability Facility
EIB: European Investment Bank
EMCF: European Monetary Collaboration Fund
EMF: European Monetary Fund
EMI: European Monetary Institute
EMS: European Monetary System
EMU: European Monetary Union
EMUA: European Monetary Unit of Account
ERM/ERM II: European Exchange Rate Mechanism
ESG: Environmental, Social, and Governance
ESM: European Stability Mechanism
ESRB: European Systemic Risk Board
EU: European Union
EURATOM: European Atomic Energy Community
FRG: Federal Republic of Germany
GDP: Gross Domestic Product
GNI: Gross National Income
ICMA: International Capital Markets Association
JTF: Just Transition Fund
MBS: Mortgage Backed Securities
MCA: Monetary Compensatory Amount
MFF: Multi-annual Financial Framework
NATO: North Atlantic Treaty Organisation
NGEU: Next Generation European Union
PEPP: Pandemic Emergency Purchase Programme
SBP: Social Bond Principles
SEA: Single European Act
SGP: Stability and Growth Pact
SME: Small and Medium Enterprise
SMP: Securities Market Programme
SURE: Support to mitigate Unemployment Risks in an Emergency

Introduction

The ongoing COVID-19 pandemic has affected all member states of the European Union with more or less intensity depending on the capacity of the country to fight this virus but also that of each economy to be able to finance this battle. After being on the back foot at the start of the crisis, the European Union, at Franco-German initiative, implemented a wide range of stimulus programmes with a varied spectrum of measures to support countries financially in the form of loans or grants. Its roots can be found in the history of European economic integration which will be analysed and will culminate in the 2020 agreement to commonly issue debt within the EU as a funding mechanism for the recovery programmes. One of the main instruments is the temporary support for the mitigation of unemployment risks in emergency situations, EU SURE, which is financed by bonds issued by the European Commission. This is the first funding of this type for a European instrument, as in this case it is the European Union with the European Central Bank and the European Commission which issues the debt and not the individual member countries. This SURE instrument is also flanked with the wider reaching Next Generation European Union programme, which is aimed at the 'green recovery' of member states and has been expanded to bring more recovery funding post pandemic.

This represents a turning point in the monetary and fiscal policy of the European Union as it is the first time that the Union has issued collective debt. This common issuing of debt is a step forward that certain countries such as Germany were not ready to take less than ten years ago during the Euro crisis in 2012. The history, the factors and the implications of this decision will be analysed during this thesis. The importance of the combination of both crisis in the implementation of this new funding mechanism is not to be minimised as it is likely that this approach to funding would not have been accepted by the most frugal countries if not for the addition of crises.

A common issuing of debt represents a major step forward for a more in-depth collaboration in terms of economic policy. There is a major debate between a more federal approach which would wish to keep this advancement on a more long-term basis and advocate for more common monetary and fiscal policies while others see this advancement merely as a temporary tool for recovery. This essay aims to provide some answers and a direction with regards to this dilemma.

By some, the common issuing of debt through EU SURE has been described as a "Hamiltonian moment" for the European Union in reference to Alexander Hamilton, the first Secretary of the US Treasury, who implemented a treaty in 1790 with the various factions to allow the new government of United States to assume individual debts and convert them into joint federal union obligations[1]. The real impact of these bonds will only be known with hindsight, but this program will remain in the pages of the history of the European Union, also due to the fact that it represents a significant economic weight with 4.7 % of EU GDP[2].
Based on this approach the question to what extent is the issuing of common debt a targeted answer to the COVID-19 pandemic or a further step towards European economic and monetary integration? can be raised.

Methodology

Regarding the methodology, this master's thesis uses analytical research to build a case regarding the future of the of the Euro, the economic impact of the ongoing COVID-19 pandemic and the effectiveness of the different recovery programmes set out by the EU to mitigate the impact of the pandemic.
Three main parts will form this thesis, firstly the early forms of economic collaboration will be looked at, dating back to the end of World War II. This historical part will provide the overarching historical context explaining the modern-day developments and challenges. It will reach the early 2000s and the creation of the Euro. This will lead to a second part focused on the Euro, its implementation and the two core challenges it has faced over the past two decades namely the Euro debt crisis and the current COVID-19 pandemic. These will be analysed and their combined role will help to explain the recovery packages put in place by the European Union. Their macroeconomic impact will then be analysed before a short prospective part on the future of the Eurozone and the EU's general economic integration.
This thesis will be supported and underlined by both primary and secondary sources, which include analyses, historical texts, research papers, press releases and newspaper articles. These will provide facts and a broad spectrum of opinions in order to build a strong case, pulling from

[1] Calhoun G., 2020, "Europe's Hamiltonian Moment – What Is It Really?", Forbes Online.
[2] The Economist, 2020, "The EU's leaders have agreed on a €750bn COVID-19 recovery package", Edition Jul 25th 2020, The Economist.

as many sources as possible to reduce bias on a cleaving topic. The use of both primary and secondary sources helps to build a complete portfolio of information to build this thesis. Primary sources, for example European Union press releases or data publications will help to build a strong factual base for the analysis while secondary sources such as newspaper articles will provide the context and highlight certain issues within different programmes. Due to the recent nature of the common issuance of debt, only limited research papers are available from third parties which explains the widespread use of EU material and research. The combination of primary and secondary sources seeks to create an analytical text, which looks at the developments of the EMU over years before looking at the creation of the Euro and the challenges it has faced over the years before focusing on the COVID-19 economic recovery in the European Union and the common issuing of debt.

Theoretical Considerations

Some brief theoretical considerations need to be brought forward in order to build a framework around this upcoming analysis. The expansion and developments of the European Union's economic integration which are discussed throughout this piece leading up to the EU's economic response to the COVID-19 pandemic are in line with typical and traditional theories which have characterised European integration and deepening since its creation. In fact, neo-liberalism and liberal institutionalism are the two most prominent approaches which can be applied to these developments. The former was introduced in the early 1970s during a wave of deepening for the EU and is heavily focused on applying economic aspects to international relations while promoting a liberal economic approach with free trade at the centre. Furthermore, it is heavily engrained in western democratic and capitalist values, which places a high importance on cooperation and the idea of mutual gains between cooperating entities.
The latter offers a similar approach with liberal institutionalism being anchored by factors close to neo-liberalism but it focuses more the role of institutions and the supra-national level. It aims for collective security while promoting global organisation and worldwide cooperation. This theory was elaborated mainly around the European Union and has served as its theoretical link when comparing it to other supranational organisations or trade agreements. Both these theories form a theoretical base for the upcoming analysis.

Even if the recent developments of the NGEU, the EU SURE programme and their funding mechanisms are new approaches and have therefore not been analysed to their full extent yet, the history of the Economic and Monetary Union of the EU and its deepening have been widely discussed throughout the years. Many writers and thinkers have focused heavily on this topic and perhaps most famously Tommaso Padoa – Schioppa, a former Italian Minister of the Economy, renowned economist and central banker who was at the forefront of the introduction of the common currency. His work on the EMU and the common currency has been at pivotal for European federalist thought on economic and monetary questions. Perhaps most notably he wrote *Financial and Monetary Integration in Europe: 1990, 1992 and beyond* (1990) and *The road to monetary union in Europe* (1994).

Schioppa is an important actor to mention as his work embodies European federalism and the current driving and pushing for more integration and for a deepening of the economic status quo. His sadly passed away in 2010 but the idea of common issuing of debt by the European Union to be used to fund the recovery of such an unprecedented crisis would have surely found support with Tommaso Padoa – Schioppa.

Chapter I: History of the European Economic collaboration

1.1 Early forms of economic collaboration

"Europe will not be made all at once, or according to a single plan. It will be built through concrete achievements which first create a de facto solidarity."
Robert Schuman[3]

After World War II, the desire for integration was clearly visible in Europe in order to avoid a repetition of two World Wars, which had decimated Europe in the first half of the 20th Century. Robert Schuman, the French foreign minister proposed the first step in European integration, namely the European Coal and Steel Community (ECSC) in 1950.

Economic collaboration is usually at the heart of an integration project but in the case of European integration, political decisions were prioritised and the economic actions undertaken may have suffered in consequence. Indeed, economic policies are at the service of political decisions leading the path for concrete measures with an economic focus. Due to this order of decision making the best economic option might not be chosen as it does not fit the political agenda, a pattern present in the European integration. The political desire for integration needs to be kept in mind in order to fully grasp the reasons for the implementation of certain policies. The Schuman proposition led to the creation of the ECSC in July 1952 laid the groundwork for not only European cooperation and later integration but also marked the key role that economics would play in this ongoing project. By combining coal and steel resources from France, West Germany (FRG), Italy and the Benelux countries [4] – raw materials which play a pivotal role in armament and war – these nations attempted to reduce the risk of a potential conflict once again engulfing the continent. This treaty sealed a relatively widespread desire to never repeat the horrors of the two wars experienced by Europe in 30 years. The former archenemies France and Germany began normalising their relations as "the countries of Europe collaborated and formed themselves into a network that is bound together by democratically set laws and

[3] Robert Schuman, French Foreign Minister, 1950.

[4] European Parliament, 2018, "The historical development of European integration", Unit for Coordination of Editorial and Communication Activities, European Union. (p. 4)

regulations"[5]. The ECSC also demonstrated how a targeted economic integration process could maintain political cooperation and help to build a union.

As a first concrete treaty the ECSC "laid the foundations of the Community by setting up an executive known as the 'High Authority'" [6]. Indeed, European federalism played a pivotal role in enabling the future economic developments brought in 1957 by the Treaty of Rome with the European Economic Community (EEC). Its main purpose was to "establish a common market based on the four freedoms of movement (goods, persons, capital and services)"[7]. Such a development provided a revolutionary take on economic collaboration between nations as free movement remains a core EU principle to this day. Even if these four freedoms where not directly instated by the treaty they provide an outlook into the goals and targets the members as well as the High Authority were setting themselves.

Concretely, the EEC brought forward five development objectives: "bring about continuous and balanced expansion; rapidly increase the standard of living; foster a high level of employment; stabilize prices; maintain a favourable balance of payments"[8]. These core objectives provided the direction for future economic integration. Nearly 65 years later, the goals have largely been achieved and objectives have taken a more modern turn, highlighting the success of European economic integration.

For the first time, with the introduction of the EEC, economic development becomes a matter of "common interest"[9]. The tight-knit collaboration between the national governments and the Community's institutions formalises this link and helps to promote economic growth and development for all member states. The Monetary Committee and the Economic Policy Committee were created in order to oversee economic questions. More specifically, the first committee focuses on helping member states to coordinate their monetary policy and provide information sharing between the states to optimise their policies in place. The second one provides advise to the commission regarding ongoing economic situation. The collaborative nature of economic relations proved to be useful namely for "the re-establishment of external

[5] Ette J. U., 2014, "The Impact of Economic Integration within the European Union as a Factor in Conflict Transformation and Peace-Building", Portland State University, Dissertations and Theses (1893), PDXScholar. (p.4)
[6] European Parliament, 2018, "The historical development of European integration", Unit for Coordination of Editorial and Communication Activities, European Union. (p. 3)
[7] *Ibid*. (p. 3)
[8] Weil G. L., 1965, "A Handbook on the European Economic Community", Praeger Special Studies in International Economics, Frederick A. Praeger. (p. 159)
[9] *Ibid*. (p. 41)

convertibility for the European currencies"[10]. The liberalisation measures, which were part of this programme "reinforced the interdependence of the economies of the various countries in Europe" [11].

Beyond these institutions, other core elements of the EEC to be highlighted are the creation of a customs union and a push towards more common commercial and agricultural policy was highlighted. Three further countries would join the EEC in 1973 namely the United Kingdom, Ireland and Denmark.

Such a formalised economic link between countries had not been seen previously to this level and enabled nations to take advantage of the post-war economic boom witnessed across Europe. This unprecedented period of growth was mainly due to core developments in technology, the rebuilding efforts post war and high level of foreign especially US investment. Sociological factors such as a vast improvement in living conditions and the baby boom also played key roles in this new-found growth. Having an institution that promotes common economic interest proved to be useful to take advantage of the economic boom to bring Europe back to its former glory after World War II devastation. The Treaty of Rome of was highly ambitious but did to some extent fall short in terms of the expectations laid out for it, as for example the four freedoms and goals laid out by the EEC were not achieved for at least another 40 years. Even if the targets were not met with immediacy, the creation of the EEC set an important framework regarding what lawmakers wanted the future of Europe to look like.

The ECSC along with the EEC and EURATOM which also originated from the Treaty of Rome created the three European Communities [12], the first steps of Europe as we know it nowadays.

Based on the goals of the EEC, the Common Agricultural Policy (CAP) was put in place in 1962. It was the first economic policy which covered all member states and was implemented to support the rural world and maintain a constant and secure source of food for Europeans. This was characterised by a wide range of subsidies that focused on increasing productivity in farms mainly through technology and providing farming communities with reasonable standards of living[13]. Beyond this the CAP also concentrated on agricultural market stability,

[10] Weil G. L., 1965, "A Handbook on the European Economic Community", Praeger Special Studies in International Economics, Frederick A. Praeger. (p. 164)

[11] *Ibid*. (p. 164)

[12] European Parliament, 2018, "The historical development of European integration", Unit for Coordination of Editorial and Communication Activities, European Union. (p. 4)

[13] Davies E., 2013, "Information Guide: Common Agricultural Policy", European Sources Online, Cardiff University Press. (p. 3)

which then enabled fairer prices to be provided to the agricultural sector. The price support was the key policy instrument of this programme [14] and benefited both producers and consumers. Its implementation also laid out the free movement of agricultural goods between member states in preparation for the common market[15].

As a core programme, the Common Agricultural Policy always represented a large part of the EU budget since its creation and still does to this day with around 30% of the total EU budget. This peaked in 1984 with 72% of total budget but it has been steadily declining ever since[16]. Some criticism emerged in recent years mainly due to “its impact on the environment human and animal health, its influence on global trade in agriculture, especially on exporters in developing countries to the pressure it puts on the EU’s budget”[17]. The necessities required from agriculture have greatly evolved over the decades since the looming post WWII hunger crisis. This underlines the necessity of a CAP overhaul while its budget could be cut further as EU resources could be shifted to more pressing fields. Still, in the 1960s and 1970s the CAP embodied perfectly the desire for economic integration and derived from the EEC the first concrete common policy to promote economic development and growth. Indeed, “the CAP was a result of general economic integration in Europe rather than the reason for it”[18]. To this day agriculture remains one of the few sectors mainly funded by the EU rather than the individual governments who finance their own education or healthcare for example.

The liberalisation and opening of the member state’s economy through the EEC and mainly the CAP provided a new set of challenges for countries. Indeed, the fluctuation of the individual member state’s currencies provided a real challenge for policy makers who wanted to minimise as much as possible the impact of this fluctuation in the European agricultural commodity market. The Monetary Compensatory Amounts (MCA) introduced in 1969 were the answer and tried to provide a certain level of stability and independence from the highly speculative

[14] Zobbe H., 2001, “The Economic and Historical Foundation of the Common Agricultural Policy in Europe.”, Unit of Economics Working Papers 2001/12, KVL University Press. (p. 3)
[15] Davies E., 2013, “Information Guide: Common Agricultural Policy”, European Sources Online, Cardiff University Press. (p. 7)
[16] Commission européenne, 2012, “La politique agricole commune — Une histoire à suivre”, Office des publications de l’Union européenne, Union européenne. (p. 9)
[17] Davies E., 2013, “Information Guide: Common Agricultural Policy”, European Sources Online, Cardiff University Press. (p. 2)
[18] Zobbe H., 2001, “The Economic and Historical Foundation of the Common Agricultural Policy in Europe.”, Unit of Economics Working Papers 2001/12, KVL University Press. (p. 16)

and volatile currency market, especially in France post May 1968[19]. A volatile currency market was problematic as the CAP prices were set in units of account set in a context of monetary stability[20]. Concretely, "currency revaluations lower agricultural prices while devaluation has the opposite effect"[21], justifying the need for MCAs. This complex system is split in either positive or negative compensations that respectively tax the agricultural exportation of a country with a devalued currency or subsidise for farmers in countries with revaluated currencies. In practice, this system would be negative for farmers in countries with weak currencies, while the subsidies offered would be beneficial to countries with a stronger currency market[22]. MCAs became a core pillar of the CAP, which allowed the free movement of agricultural goods up until the creation of the Euro. This mechanism also played a role in favouring hedging as owning agricultural commodities can provide protection against inflation as it fluctuates less than some European currencies did in the 1960s and 1970s. Finally, the deeper economic integration provided also laid the path for further deepening and advancements such as the introduction of the European Currency Unit (ECU).

On the international scene, the early 1970s were synonymous with the end of the Bretton Woods agreement in 1971, which saw the United States halt the convertibility of gold to US dollars. It was mainly due to the inflexibility of the system and US's war orientated monetary policy during the Vietnam War[23]. It was the end of fixed exchange rates and instead currencies would either be free-floating, linked to a currency basket or in a monetary union[24].
There was a certain amount of fear that the flexible rates "would bring the period of rapid growth to an end" [25] but instead played a key role in overcoming the 1970s oil shocks as it was "easier for economies to adjust to more expensive oil"[26]. This flexibility has also proven efficient in overcoming exogenous shocks ever since.

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[19] Allemand, F., 2013 "Les montants compensatoires monétaires" dans "L'Union économique et monétaire: origine, fonctionnement et future", CVCE.EU par UNI.LU. (p. 2)
[20] *Ibid.* (p. 2)
[21] *Ibid.* (p. 2)
[22] Allemand, F., 2013 "Les montants compensatoires monétaires" dans "L'Union économique et monétaire: origine, fonctionnement et future", CVCE.EU par UNI.LU. (p. 2)
[23] Harold J., 1996, "The End of Bretton Woods" in "International Monetary Cooperation since Bretton Woods", IMF e-Library, Oxford University Press. (p. 208)
[24] Harold J., 1996, "The End of Bretton Woods" in "International Monetary Cooperation since Bretton Woods", IMF e-Library, Oxford University Press. (p. 213)
[25] International Monetary Fund, 2021, "The end of the Bretton Woods System (1972–81)", IMF.
[26] Ibid.

The Jamaica Agreement of 1976 formalised the end of the Bretton Woods era while also liberalising and globalising international commerce and finance. Yet, it is capital to underline that these changes required "parallel efforts to set up a monetary system which shields the world economy from the shocks and imbalances that have previously occurred"[27]. In fact, a new monetary order had to be created, which needed "a context of international monetary order that liberalises and encourages portfolio investment and extends the system of international finance mediation"[28]. This was extremely valuable for the European project as it left a much freer and flexible world from a monetary point of view, less dependent on the United States. It can be seen as a catalyst for economic integration and was valuable for the development of the 'Snake in a Tunnel' and the currency fluctuation bands, following the goal set out by the EEC of reaching a monetary union[29].

The idea of aligning all the currencies of EEC member states had already emerged during the Treaty of Rome but was heightened due to the devaluation of the Franc, the revaluation of the Mark and the stronger desire for a common market[30]. In 1971, the margin of exchange rate fluctuation for the US dollar was reduced by the Council of Ministers for the EEC central banks from 0.75% to 0.60%, making the maximal possible spread 1.2%[31].
A currency tunnel was then introduced later that year for all EEC currencies with a fluctuation rate of 2.25% as the exchange markets of 1971 made it impossible to implement the US dollar exchange rate fluctuation[32]. The actual 'Snake in the Tunnel' was introduced in 1972 after a meeting in Basel of all EEC countries central bank governors which reduced the currency fluctuation even more and "allowed central banks to buy and sell European currencies provided that the exchange rate fluctuation margin of 2.25%, corresponding to the authorised margins between the dollar and the currencies of the Six, was not overstepped"[33]. It culminated with the creation of European Monetary Collaboration Fund (EMCF) which focused on helping

[27] Meier, G. M., 1976, "The "Jamaica Agreement," International Monetary Reform, and the Developing Countries", Paper 306, Graduate School of Business, Stanford University.
[28] Ibid.
[29] Wittich G. and Masaki S., 1973, "The Snake in the Tunnel: Eventual monetary union in the EEC may involve reducing exchange rate fluctuations among the currencies of the nine member countries.", Finance and Development, IMF e-Library, International Monetary Fund. External Relations Dept. (p. 9)
[30] Deschamps E., 2016, "The European currency snake", CVCE.EU by UNI.LU. (p. 2)
[31] Wittich G. and Masaki S., 1973, "The Snake in the Tunnel: Eventual monetary union in the EEC may involve reducing exchange rate fluctuations among the currencies of the nine member countries.", Finance and Development, IMF e-Library, International Monetary Fund. External Relations Dept. (p. 9)
[32] *Ibid*. (p. 10)
[33] Deschamps E., 2016, "The European currency snake", CVCE.EU by UNI.LU. (p. 2)

central banks to reduce fluctuation between their currencies and provide some financing for short term support to reduce the currency margins.

This fund also played a role in promoting the European Monetary Unit of Account (EMUA) for use as a currency for international financial transactions and transfers between the EEC countries with its value being based on the EEC currency baskets. In 1979, the EMUA was replaced by the ECU, the European Currency Unit which played a largely similar role before being replaced by the Euro in 2002. This monetary cooperation helped to ease exchanges between member states and provided a certain level of stability while promoting commerce, which stimulated growth in EEC countries.

Both the 'Snake in the Tunnel' and the EMUA/ECU was a concrete trial at a monetary union in countries with diverging economic issues, monetary policy and varying levels of growth and development[34]. The complexity of this task clearly demonstrated to the EEC the necessity of a certain economic harmonisation between countries – which remains a core issue to this day – and underlined the importance of monetary collaboration between EEC members. The issue of the cost for central banks of such a project also arose as a limitation due to the cost of purchasing large sums of US dollars in order to maintain the system afloat. The regulation of exchange rate fluctuations laid the groundwork for the implementation of the European Monetary System (EMS), introduced in 1979 for EEC members. This system was later widened as part of the 1992 Maastricht treaty to the Economic and Monetary Union of the European Union (EMU).

The direction for the EMS was laid out by Helmut Schmidt who proposed "a radical new plan of his own for creation of a 'zone of monetary stability' in Europe" [35] after strong lobbying from Roy Jenkins. It was approved and the EMS was built on three core pre-existing elements: the linking of exchange rates, the creation of a European Monetary Fund (EMF) and system of mutual payment support[36].

Due to a wide range of both internal and external issues a large part of EEC members had pulled out of the 'Snake in a Tunnel' and the EMS provided a rebirth of the currency tunnels while

[34] Wittich G. and Masaki S., 1973, "The Snake in the Tunnel: Eventual monetary union in the EEC may involve reducing exchange rate fluctuations among the currencies of the nine member countries.", Finance and Development, IMF e-Library, International Monetary Fund. External Relations Dept. (p. 9)

[35] Cohen B. J., 1981, "The European Monetary System: An Outsider's View", Department of Economics, Princeton University. (p. 7)

[36] *Ibid*. (p. 9)

maintaining the linking of "each currency to each other currency in a matrix of bilateral cross-rates"[37]. The rebirth focused on the ECU which would be used as a 'divergence indicator' and to define the main rates of the currency band [38].

The creation of the EMF can be described as an early form of the European Central Bank as it would focus on exchange rate financing, would centralise a certain amount of gold and US dollar reserve from member states and would help to settle intra-community debts through ECUs[39].

Relatively early on the EMS provided a certain disappointment due to a minimal reduction in inflation differentials[40] and the lack of convergence regarding economic and specifically monetary policy between member states.

The EMS was also extremely vulnerable to speculative attacks and was therefore amended to require restrictions in capital flow to limit the number of attacks. Furthermore, the limitations went beyond as limiting speculation could be done by either raising the taxes on forex transactions or forcing interest free currency deposits in central banks[41].

The EMS crisis of 1992-1993 was mainly due to speculators and the "weak competitive positions of countries such as Italy and Britain"[42]. As the differing monetary policy from members became ever more apparent and currencies such as the Franc were suffering more attacks, the lack of defences of the EMS became obvious. The lack of currency realignment in order to maintain the credibility of the EMS also eventually led to its demise, as "it was the exchange rate between the Deutsche Mark and French franc that had to be defended in order to preserve French credibility"[43].

This culminated in 'Black Wednesday' in the UK which marked the highpoint of the speculative crisis and drove the UK out of the European Exchange Rate Mechanism (ERM), a EMS mechanism. George Soros, a powerful London based investor was credited with a large

[37] Cohen B. J., 1981, "The European Monetary System: An Outsider's View", Department of Economics, Princeton University. (p. 9)
[38] *Ibid*. (p. 10)
[39] *Ibid*. (p. 10)
[40] Kleinheyer, N. and Simmert D. B., 1984, "The European Monetary System five years on: Achievements and prospects", Intereconomics, Vol. 19, Iss. 3, pp. 117-123, ECONSTOR, Verlag Weltarchiv. (p. 117)
[41] Kenen P., 1995, "Capital Controls, the EMS and EMU." The Economic Journal, 105(428), Royal Economic Society, Oxford University Press. (p. 450)
[42] Kenen P. B., 1995, "What have we learned from the EMS crises?", Journal of Policy Modeling, Volume 17, Issue 5, p 449-461, Elsevier. (p. 451)
[43] Kenen P. B., 1995, "What have we learned from the EMS crises?", Journal of Policy Modeling, Volume 17, Issue 5, p 449-461, Elsevier. (p. 450)

part of the crisis [44] after having used his investment fund to largely short the Pound Sterling which had kept its "interest rates artificially high, in line with German rates, in order to maintain the currency regime"[45]. Soros betted on the fact that these artificially high interest rates could not be sustained in the long term, as the UK was already haemorrhaging money. He therefore shorted the pound and cashed out as the United Kingdom gave up and left the ERM.

Beyond this, the EMS's downfall was also accentuated by the German unification, which provided a large exogenous shock to the most powerful currency in the system as Germany struggled to afford the modernisation of the east. Interestingly, France's François Mitterrand showed some concerns with the German reunification as he feared an overly powerful Deutsch Mark in the unified country[46]. These fears only drove the single currency project further as it was seen as a means to control the German economy and reduce growth and development discrepancies between member states.

Moreover, the Balladur government in France was also synonymous with another EMS crisis in 1993, only highlighting the importance for a change in approach regarding the currency bands system. Indeed, the recently introduced government wanted to reduce interest rates in France and did so from 9.1% to 6.75% in less than three months in order to stimulate growth[47]. With the Franc, France was hoping to become, along with the Deutsch Mark one of the anchor currencies of the EMS and as the French inflation rates were lower than the German ones it introduced measures to lower interest rates in order to achieve this goal, hoping for little to no impact on the value of the Franc[48]. This approach failed as "international markets interpreted 'these moves as a signal that with unemployment above 12% and a presidential election less than two years away, France was ready to make a dash for growth and willing to abandon its franc fort policy to achieve it if necessary"[49]. This mounting pressure from speculators led to a widening of the currency fluctuation bands "from ñ2.25% to ñ15%"[50].

This crisis added to strain on an already weakened European Monetary System coming under continuous fire from speculators taking advantages of the currency fluctuation bands loopholes.

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[44] Drobny S., 2006, "Inside the House of Money: Top Hedge Fund Traders on Profiting in the Global Markets", John Wiley & Sons. (p. 13)
[45] Drobny S., 2006, "Inside the House of Money: Top Hedge Fund Traders on Profiting in the Global Markets", John Wiley & Sons. (p. 14)
[46] Schmidt H., 2008, "Außer Dienst: Eine Bilanz", Siedler Verlag (p. 59)
[47] Dillingham, A. J., 1995, "The Evolution of France's European Monetary Diplomacy", Villanova University. (p. 11)
[48] *Ibid*. (p.11)
[49] *Ibid*. (p. 11)
[50] *Ibid*. (p.12)

The introduction of the common currency would help to mitigate these events, which helped to build the European Union to its modern economic strength.
Even if the speculative attacks played a capital role in the relative failure of the EMS they also pushed the idea of a single currency forward[51], which came to reality a short while later. It is also crucial to take into consideration the "intensification of monetary cooperation and on further development of the EMS in order to consolidate achievements so far, to promote economic convergence and also to give an urgently needed additional impetus to European integration"[52].

Going back to 1986, with an ongoing mixed experience with the European Monetary System, the Single European Act (SEA) provided newfound energy after the recent European crises to relaunch and strengthen the integration process especially economically due to the – yet to be achieved – goal of common market laid out by the Treaty of Rome. The 1986 Single European Act focused on liberalising trade and business regulations to reach the common market by 1992[53]. In order to reach this objective, it introduced the 'four freedoms', which aimed to reduce barriers at all levels between member states to facilitate with the transition. The SEA promoted an inclusive vision for Europe, which heavily focused on integration on different levels with deeper economic ties and a strengthening of existing institutions such as the Parliament or the Council of Ministers. All the changes clearly had in mind the creation of a single currency and had a direct impact on the use of currencies. Indeed, these changes were necessary to maintain EEC member's competitiveness in an ever-globalising world.
The SEA represented a turning point for the European Communities, preparing them for not only the Maastricht treaty, the single market and currency but also for the wave of changes and widening and deepening which the 1990s and the early 2000s would bring about.

[51] Leblang D. and Bernhard W., 2000 "The Politics of Speculative Attacks in Industrial Democracies.", International Organization, 54(2), 291-324, MIT Press.
[52] Kleinheyer, N. and Simmert D. B., 1984, "The European Monetary System five years on: Achievements and prospects", Intereconomics, Vol. 19, Iss. 3, pp. 117-123, ECONSTOR, Verlag Weltarchiv. (p. 117)
[53] Wil J., 2005, "Single European Act", CIVITAS Institute for the Study of Civil Society. (p. 1)

1.2 The EMU, Maastricht and its impact

"The European Union Treaty… within a few years will lead to the creation of what the founding fathers of modern Europe dreamed of after the war, the United States of Europe."
Helmut Kohl[54]

The 1990s provided the largest change to the European landscape since the creation of the communities. Maastricht was chosen as the location for the signing of the next treaty in 1992. The therefore named Treaty of Maastricht or The European Union Treaty provided three main advancements. Firstly, the creation of the European Union as we know it to this day with the reshuffle of the pre-existing institutions role – especially the European Council's [55] – around the newly created supra-national organisation. Secondly, there was an explicit mention of a more centralised and cooperative foreign policy with the creation of the Common Foreign and Security Policy (CFSP). Member states were divided between wanting a more independent European foreign policy approach while at the same time not undermining the North Atlantic Treaty Organisation (NATO). Therefore, Europeans settled for the creation of the CFSP which focused on "safeguarding common values, fundamental interests, unity and independence of the EU, strengthening security of the Union in all ways, preserving peace and strengthening international security, as well as development of democracy and the rule of law, respect for human rights and fundamental freedoms"[56]. This is another step towards a deeper European integration while expanding into fields where previously cooperation was limited between the member states.

Finally, the last prominent change was the redefining of the European Economic Community (EEC) and the creation of the Economic and Monetary Union of the European Union (EMU). These two economic changes were capital in pushing economic integration further and laying the groundwork for the Eurozone.

The EMU brought some of the most pivotal change to the economy of the European Union Pre-Euro with a number of reforms being introduced in order to deepen integration. These include

[54] German Chancellor Helmut Kohl in 1992.
[55] Christiansen, T. & Duke, S. & Kirchner, E., 2012, "Understanding and Assessing the Maastricht Treaty", Journal of European Integration, 34 – 10, Routledge. (p. 691)
[56] Galstyan, N., 2010, "Common foreign and security policy of the EU", In book: Eu's Foreign And Security Policy In The South Caucasus (pp.12-18) Publisher: Centre of European Law and Integration. (p. 12)

an increased cooperation on core economic and fiscal policy making as well as common rules for the regulation of the Union's banking system and financial institutions[57]. These introductions were necessary in order to set up both the economic and political landscape for the introduction of the Euro as well as offering a wide range of benefits including one "of greater size, internal efficiency and robustness to the EU economy as a whole and to the economies of the individual Member States"[58]. The idea of a European Central Bank (ECB) germinated there but it would need to wait until the treaty of Amsterdam for its creation in preparation for the Euro introduction.

The concrete implementations and changes provided by the EMU demonstrates beyond the desire for more economic integration from both the member states as well as the EU institutions a change from the previous approach and the desire for combining economic liberalism with a deepening of the union. The historical context of both France and Germany are important to highlight in order to understand this push, as both were in a pro-European phase and pushing for the privatisation and liberalisation of their economy. On Germany's side, the wall had fallen only three years earlier and Germany was struggling to bring the east up economically and in terms of competitiveness for the international markets. The Treuhandanstalt was working hard in order to privatise former East German businesses in order to bring investments and dynamism to the economy of the former GDR as German officials feared a mass exodus towards the west in search of a better life and employment opportunities During the reconstruction years, large sums of money were put into the economy in Germany in order to stabilise and unify both countries and famously setting an equal exchange rate between the Ost-Mark and the Deutsche Mark which was economically difficult to sustain as this rate was far from the Ost-Mark's actual value but was necessary for political reasons. Helmut Kohl who was the chancellor at the time was also very pro-European and Germany was one of the largest receivers of European funding in the 1990s.

On France's side, the Mitterrand Government also went through a wave of privatisation namely with Elf-Aquitaine and Dominique Strauss Kahn as Minister of Industry pushed Mitterrand to privatise even if he had stated he would not during his campaign. This continued further under the cohabitation with the Balladur government with the privatisation of BNP, Coface, Total and

[57] European Commission, 2021, "Economic Governance under the EMU", Directorate-General for Communication, European Commission.
[58] *Ibid*.

other companies. As a firm believer in the European project, Mitterrand, through the wave of economic liberalisation set the scene which led to the key step taken with the Maastricht treaty and the creation of the EMU. This combination of a desire for deepening as well as an economic liberalisation process enabled such policy advancements, which would less than a decade later help to implement a common currency.

The 1997 Stability and Growth Pact (SGP), was implemented in order to increase economic cohesion between member states which would long term hopefully stabilise the union. It was mainly built around "a set of fiscal rules designed to prevent countries in the European Union from spending beyond their means"[59]. These included limitations on spending as member states where not allowed to have their sovereign debt exceed 60% of GDP and the budget deficit could not be superior to 3%. This initiative came as part of the preparatory measures before the introduction of the Euro and was also introduced to increase the economic homogeneity in the Union before the arrival of the common currency.
This initiative faced some backlash as it was seen as a violation of sovereignty by certain countries as the European Union having an input on national budgets was seen as a forced transfer of power to the supranational level. Furthermore, it has been criticised for its differentiated approach between member states and lack of rigidity when it comes to enforcing the rules. In fact, both "France and Germany escaped punishment for breaching the rules" [60] in 2003 and later "fines for Portugal and Spain were cancelled in 2016 – despite non-compliance with the rules"[61]. This highlights the clear weakness of the Stability and Growth Pact which came across as a targeted austerity instrument with little diligence regarding the strong nations in the European Council. It was also criticised for being much tougher to follow for smaller, less economically strong member states and the Vice President of the European Parliament, Dimitri Papadimoulis described as "rendering a growth-oriented policy almost impossible for a growing number of member states"[62].
The pact did not fulfil its ultimate goal as less than six years later, multiple countries had already breached the fiscal rules imposed by the pact. This failure was nonetheless important as it

[59] Liberto D., 2019, "Stability And Growth Pact (SGP)", Investopedia.
[60] De Jong, J. & Gilbert N., 2019, "The mixed success of the Stability and Growth Pact", Centre for Economic Policy Research.
[61] De Jong, J. & Gilbert N., 2019, "The mixed success of the Stability and Growth Pact", Centre for Economic Policy Research.
[62] *Ibid.*

underlined the occasional lack of diligence and strength that the EU holds in regard to its member states when it comes to enforcing certain policies. This issue will once again play a large role in the managing of the financial crisis and its impact on countries such as Greece as well as the more recent issues with the mitigation of the economic impacts of the COVID-19 pandemic.
Beyond the failure of the overarching control mechanisms the stability programme was partnered with a convergence programme, which was more focused on the non-Eurozone countries once the currency was introduced. It was put in place to help reduce the impact of having a 'multi-speed Europe' with certain countries quickly falling behind as the implementation of the Euro accentuated the differences between member states. This desire to promote integration has been present ever since and is an aspect that will be picked up later once again.

One of the last steps in laying the foundation of the common currency was the creation of the European Central Bank (ECB). Alongside it the European System of Central Banks (ESCB) was built which comprises of all the central banks of the Eurozone countries in order to facilitate collaboration and cooperation between the countries on monetary questions.
With a clear goal of creating a common currency, the ECB was created in 1998 as a large part of the monetary policy had to be transferred to the supranational level. The Treaty of the European Union laid the legal framework for this creation and its tasks namely "introduce and manage the single European currency (the euro) by conducting foreign exchange operations and ensuring the smooth operation of payment systems"[63]. Monetary policy also a key operating area for the ECB as it aims to provide the optimal interest rates and money supply to the European economy in order to optimise its dynamism, competitiveness, inflation rates and growth.
In October 1998 shortly after its creation, it laid out "the strategy and the operational framework for the single monetary policy it will conduct from 1 January 1999"[64], concretising the move to a supranational approach regarding monetary policy. This alignment was necessary in preparation for the common currency after 11 countries including: France, Germany, Ireland,

[63] Davies, E., 2013, "Information Guide: European Central Bank", European Sources Online, Cardiff University Press. (p. 2)
[64] Scheller, H. K., 2004, "European Central Bank: History, Role and Function", European Central Bank, Publications Office of the European Union. (p. 17)

Spain, Portugal, Italy, Austria, Finland and the Benelux countries where chosen in early 1998 as they were considered to fulfil the criteria necessary for a Euro adhesion[65].

The European Central Bank would become key in the introduction of the Euro but would also play a pivotal role in the upcoming years in managing the multiple crisis which would come upon the European Union and the Euro specifically. It remains to this day a powerful and important institution whose role and task have only been expanded since the different programmes for the mitigation of the ongoing COVID-19 pandemic have been put in place.

1.3 The Euro revolution

"The euro is our common fate, and Europe is our common future."
Angela Merkel [66]

The introduction of the Euro was revolutionary. Never before had countries come together and formed an economic union as integrated as the European Union which culminated in the creation of a common currency. There are diverse reasons for this implementation including a desire for a deepening of economic relations between member states but other more political ones namely a certain pressure from France after the German reunification. In fact, France was worried about the economic strength Germany could potentially find after the reunification and especially the strength the Deutsche Mark could obtain from this paradigm shift. France was therefore an advocate of the common currency as it saw it as a means to kerb Germany's ascend and it was always a big talking point between German Chancellor Helmut Kohl and French President Francois Mitterrand[67].

The introduction of the Euro did not happen overnight, around a decade of preparations were necessary in order to achieve this milestone. Previously mentioned implementations including the EMU, the Stability and Growth Pact as well as the Maastricht and Amsterdam Treaties played key roles in laying the economic, political and legal framework for the introduction of the common currency. The Delors Reports helped to lay out a road map, which outlined the

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[65] Scheller, H. K., 2004, "European Central Bank: History, Role and Function", European Central Bank, Publications Office of the European Union. (p. 17)
[66] CVCE, 2012, "Presentation of the book 'Common Fate, Common Future'", CVCE.eu.
[67] Gubert, R., 2011, "L'incroyable roman de l'Euro", Le Point.

changes, necessary to adopt the new currency. These were laid out in three main stages which include: full freedom of capital transactions and the free use of the European Currency Unit in a first stage starting in 1990 while the second stage starting in 1994 focused on economic convergence, monetary policy convergence between member states and the establishment of the European Monetary Institute (EMI)[68]. In the final stage which would begin in 1999, the Euro would be introduced as well as fixed conversion rates and of the intra-EU exchange rate mechanism (ERM II)[69]. These steps have helped to facilitate the introduction of the Euro and were clearly focused on economic and monetary policy convergence. This was key for a smooth transition as the member states which would be adopting the Euro had different fiscal rules, different approaches to monetary policy and government expenditure but also a different willingness to take on risk and accept high interest rates or inflation. Case in point, Germany for example, mainly due to its history – and particularly as it faced hyperinflation under the Republic of Weimar – is much more reticent regarding inflation and indebtedness, an issue which will be picked up again later while other countries such as Greece, Spain or Portugal may not have the same diligence regarding their sovereign finances.
At the beginning, from 1999 to 2002 the Euro was in place only for electronic payments and accounting uses[70]. It was only in 2002 that the coins and banknotes were introduced and that the previous national currencies such as the Franc, Deutsch Mark or the Peseta were phased out for around 2 months during which a double circulation of the currencies was in place[71].

The newly created Eurozone would grow over the years and nowadays encompasses 19 countries. The 2004 eastern expansion of the European Union led to a widening of the European Union and a commitment from these states to join the Euro when they had achieved the convergence criteria. These were mainly focused on economic stability as they include: price stability, long term interest rates, public finance stability and exchange rate stability[72]. These convergence criteria highlight the aspects that were important for the European Union: in order to be able to join the Eurozone, countries had to be sound economically with a stable outlook to the future. It speaks to the desire of the European Union to create a strong currency with a

[68] European Central Bank, 2021, "Stages of Economic and Monetary Union (EMU)", European Central Bank.
[69] *Ibid*.
[70] European Commision, 2019, "History and Purpose of the Euro", Communication department of the European Commission.
[71] National Bank of Belgium, 2021, "History of the Euro", NBB.
[72] European Commission, 2021, "The four convergence criteria", Directorate-General for Communication, European Commission.

big role to play in international exchanges. This desire nonetheless also reinforced the multi speed Europe concept as some countries were left behind unable to reach the convergence criterion and would play a role in the softening of the Stability and Growth Pact in 2005. Still, Romania and Bulgaria joined in 2007, followed by Cyprus and Malta in 2008 before Slovakia, Estonia Latvia, Lithuania would join to form the current 19 countries. In parallel with this expansion, the Euro faced numerous crisis and the COVID-19 pandemic effects could be a real threat to the existence of the currency in itself, therefore highlighting the importance of the support mechanisms which will be brought forward later in this essay.

Nonetheless, even with all the difficulties and hurdles the Euro faced during and since its implementation it remains the strongest advocate for an integrated Europe with money as the final vector for integration. It brought with it a large number of benefits for both large and small member states, with Germany's modern economic strength being greatly supported by the Euro as it provides the perfect payment methods for the international and European import and export market, which Germany heavily depends on. For smaller member states, as with Slovakia for example, it provides the ideal tool for growth and integration while overall fighting against multispeed Europe[73].

Overall, the creation of the common currency was a revolutionary moment in an ever-globalised world. It represents the pinnacle of economic integration and even more than 20 years later no other trade bloc or economic union has successfully recreated or even attempted to introduce a similar project. It marked the end of SME and the constantly revaluated currency bands as this issue prone approach was left behind in order to facilitate trade and exchanges between countries and businesses. The system was less prone to speculative attacks and overall, the supranational level exercised a heightened level of control on the individual member state's monetary policy which in theory should have increased their diligence. This joint approach to monetary policy would help strengthen the individual economies while building a certain European resilience to exogenous economic shocks. The only reason projects such as the common issuing of debt through the EU SURE programme or more generally the Next Generation European Union (NGEU) programme are possible is because a common currency being introduced previously. The Euro and the social nature of the European Union were also able to save countries such as Greece or Spain from complete bankruptcy through extremely

[73] Giansily J.-A., 2010, "Chroniques Slovaques", Colonna Edition. (p. 6)

large-scale bail outs. These measures also highlighted the importance for member states to support other member states and European firms especially when faced with defence contracts, supporting the European economy would become an ever-growing issue and highlight the commitment and sometimes lack of certain member states. Such measures could not have been implemented without the common currency and stand as a testament to the importance of this currency and to the necessity to preserve it. The Euro remains unique in its kind and would need to find strength and resilience as it would be rocked by some of the toughest economic crises since the start of globalisation.

Chapter II. Crises and resilience

2.1 The 2008 Financial Crisis

"Too Big to Fail" – Andrew Ross Sorkin[74]

In parallel to the European construction and the deepening of the Eurozone on the other side of the Atlantic, one of the largest financial crisis was beginning to take shape under the radar based around the United States housing market and the mortgages revolving around it.

In short, in the early and mid 2000s – pushed by government goals to promote home buying though lowered interest rates – ever more Americans bought houses [75] leading to an increase in the number of mortgages issued.

The graph bellow highlights sales of existing homes in the United States over the past 25 years, there is a clear and stark increase up to 2006 before a continuous fall as the housing market bubble started to pop.

Sales of existing homes in the United States since 1996 in thousands [76]

[74] Sorkin A. R., 2009, "Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System from Crisis?", Penguin Books.
[75] Bartmann R., 2017, "Causes and effects of 2008 financial crisis", Internationale Betriebswirtschaft Academic Research, HFU Business School. (p. 3)
[76] Trading Economics, 2021, "United States Existing Home Sales", Trading Economics.

Furthermore, at this time investors seeking low risk and high return investments were pumping money into the US real estate market which was seen as more profitable than sovereign bonds[77] as they could potentially get better return from the interest rates US homeowners were paying on mortgages. These investors bought up large number of mortgages from banks known as mortgage backed securities (MBS), which are bundles of mortgages from financial institutions which once securitised can be bought be investors[78]. These MBSs gave a false sense of security to investors as they were rated safe by the different rating agencies [79] and the real estate market kept going up, meaning investors were reassured that even if certain clients defaulted on some mortgages, the house itself could be sold at a profit. The rating agencies gave overall AAA rating to these securities [80] even if banks and financial institutions were filling them with ever riskier mortgages ranked B or lower, meaning the individual homeowners were much more likely to default on repayments. The reason these MBSs started being filled with ever riskier mortgages was that investors demand was high meaning banks offered ever more mortgages to households with ever lower credit scores called subprime mortgages[81]. Even if the components of the MBSs were getting riskier they were not revalued by the rating agencies and the financial institutions kept offering them to investors with the same strategy of low risk high returns. To shift the ever-growing number of loans, banks created Collateralised Debt Obligations (CDO) [82] which were riskier than MBSs but CDOs still received very high rating from the agencies and were widely bought up by investors quickly. It is important to note that not only US investors were buying up these securities but also international financial institutions and especially European ones which played a key role in the spread of the crisis[83].

The graph bellow highlights the number of mortgage backed securities being issued in the US over the past 17 years, demonstrating the size of the market for these securities at the time.

[77] Bartmann R., 2017, "Causes and effects of 2008 financial crisis", Internationale Betriebswirtschaft Academic Research, HFU Business School. (p. 6)

[78] Verick S. & Islam I., 2010, "The Great Recession of 2008-2009: Causes, Consequences and Policy Responses", Discussion Paper No. 4934, Institute for the Study of Labour (IZA). (p. 19)

[79] Bartmann R., 2017, "Causes and effects of 2008 financial crisis", Internationale Betriebswirtschaft Academic Research, HFU Business School. (p. 6)

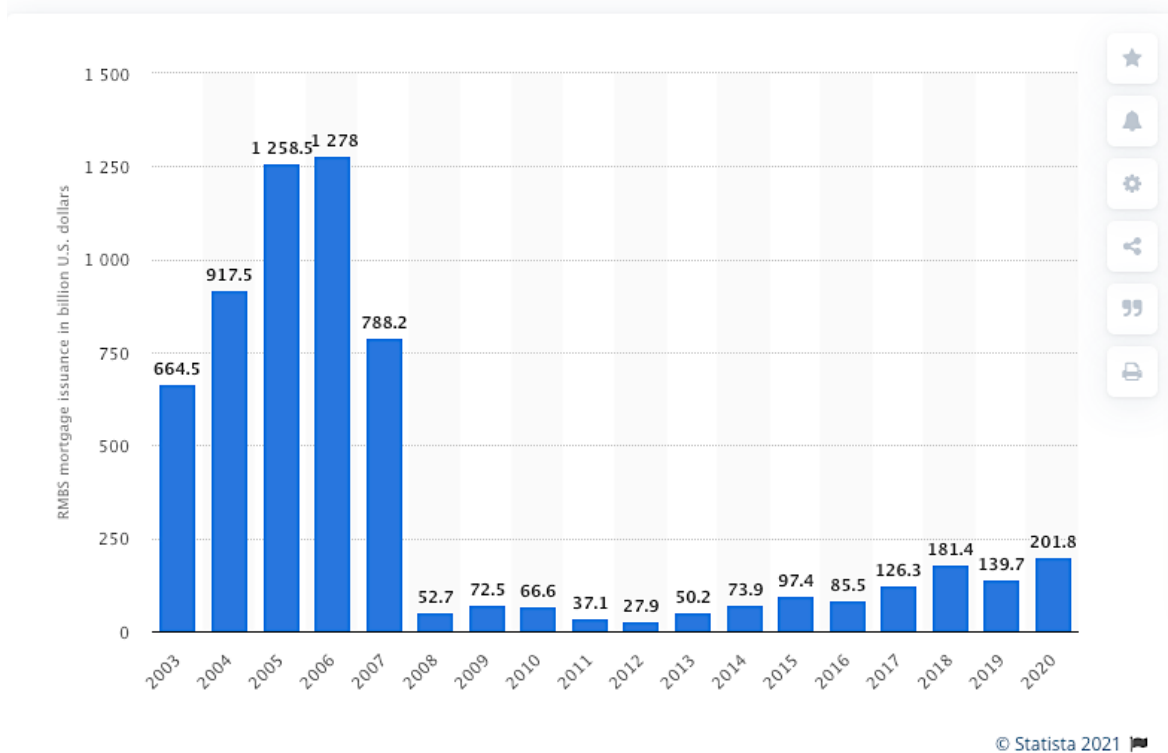
[80] Verick S. & Islam I., 2010, "The Great Recession of 2008-2009: Causes, Consequences and Policy Responses", Discussion Paper No. 4934, Institute for the Study of Labour (IZA). (p. 18)

[81] Bartmann R., 2017, "Causes and effects of 2008 financial crisis", Internationale Betriebswirtschaft Academic Research, HFU Business School. (p. 6)

[82] Verick S. & Islam I., 2010, "The Great Recession of 2008-2009: Causes, Consequences and Policy Responses", Discussion Paper No. 4934, Institute for the Study of Labour (IZA). (p. 19)

[83] *Ibid.* (p. 19)

Residential mortgage backed security issuance in the United States from 2003 to 2020 in billion US$ [84]



Most of the loans being made were adjustable or flexible rate mortgages meaning that the client quickly started to struggle to fulfil the repayments due to high interest rates. The good housing prices at the time drove the interest rates down creating an endless loop for CDOs and MBSs to be created. This led to an overvaluation of house prices and the creation of a housing market bubble as people could not keep up with their mortgage payments and nor sell their property[85]. This led to a stark increase in supply paired with a drop in demand which made the housing bubble explode and housing prices fell meaning people were paying for mortgages worth much more than the actual value of their property meaning it was cheaper to sell than to repay. In fact, the median value of house in the United States dropped $75.000 between 2007 and 2011[86]. At this point, the issue around Credit Default Swaps (CDS) also arose which in short work as insurance contracts in the case of default of a certain security which would allow investors to

[84] Statista, 2021, "Residential mortgage backed security issuance in the United States from 2003 to 2020", Statista.
[85] Bartmann R., 2017, "Causes and effects of 2008 financial crisis", Internationale Betriebswirtschaft Academic Research, HFU Business School. (p. 5)
[86] DQYDJ, 2021,"Historical Home Prices: Monthly Median Value in the US from 1953-2020", DQYDJ.

offload the risk of owning defaulting securities[87]. These also put insurance companies in jeopardy as these were integrated as part of the financial system only explaining further how this issue spread to all aspects of the economy across the world.

Financial institutions and investors finally stopped buying subprime mortgages but it was too late as firms holding large quantities of MBSs and CBOs tried to offload them at very low prices in order to remove risk from their firm as the loans in these securities were defaulting ever more without the possibility to sell the houses to retrieve the funds as they had lost a substantial part of their value and could not find a buyer. These firms were trading valueless assets in order to remove them from their balance sheets in order to try to regain some capital and avoid bankruptcy. Some managed to do so while others, such as famously Lehman Brothers failed and quickly went bankrupt due to lack of liquidity. This led to government intervention across the world in order to bail out the banks to keep them afloat to avoid a full collapse of the economy. Billions were pumped into firms dangerously close to bankruptcy as governments could not afford to lose such valuable institutions which are the pillars of the modern-day economy. These banks where called the 'too big to fail' [88] which gave them a sense of domination and security as even the governments could not let these institutions go under.
Overall, this crisis showed the importance of risk management and a diligent approach to investing while also highlighting the need for some regulation to be put in place in order to limit the dangerous drifting the firms took in trying to make a profit[89].
It also showed the interconnectedness of the world's financial system due to how quickly the issue spread and the worldwide impact that the subprime mortgages had on the US economy.
Many factors played a role in the debacle and overall it underlined further the need for governments to step in and tighten regulations in order to limit abusive practices. Beyond the impact on countries and large banks and businesses "the collapse in the real economy has had devastating consequences for households as a result of rising unemployment and surging poverty"[90].

[87] Bartmann R., 2017, "Causes and effects of 2008 financial crisis", Internationale Betriebswirtschaft Academic Research, HFU Business School. (p. 7)
[88] Sorkin A. R., 2009, "Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System from Crisis?", Penguin Books.
[89] Wallison, P. J., 2008, "Credit-default swaps and the crisis", American Enterprise Institute for Public Policy Research. (p. 1)
[90] Verick S. & Islam I., 2010, "The Great Recession of 2008-2009: Causes, Consequences and Policy Responses", Discussion Paper No. 4934, Institute for the Study of Labour (IZA). (p. 12)

Europe was after the United States the most affected region by the 2008 financial crisis. The recently introduced Euro was struggling under the strain it was put under. Even if at the beginning some felt like the European Union would be relatively safe due to its distance from the US the positive and encouraging economic statistics were only due to high levels of export [91] and soon very similar events took place in Europe as it did across the pond. It also experienced bankruptcies of various banks and huge losses for other, with "the write-downs of those banks are estimated at $300 billion in the United Kingdom and €500-800 billion in the euro area"[92]. There were large slumps in GDP and growth across the EU member states and a rise in unemployment rates.

2.2 Saving the Euro Part 1: Recovery Mechanism post Financial Crisis

"Whatever it takes" – Mario Draghi [93]

Once the impact of the financial crisis hit Europe, the Union entered a recession. A total of five member states were faced with almost unmanageable levels of sovereign debt which led to the introduction of deep rooted austerity measures as well as a bailout programme[94]. Beyond the interconnectedness of modern financial markets there are other reasons for the transformation from the subprime crisis to the Euro crisis. In fact, European banks had bought large quantities of Asset Backed Securities (ABS) from the United States as they had good ratings and high yields [95] at the time but were filled with risky subprime mortgages. This linked European Banks to the subprime crisis but they were also tied to the US as their "trade deficits were financed by selling ABS to countries with current account surpluses, to Germany and the Netherlands in particular"[96]. These ABS lost a large part of their value when the housing bubble popped which made large dents in the banks finances and started the downward slope. This particularly

[91] Welch J., 2011, "The Financial Crisis in the European Union: An Impact Assessment and Response Critique", European Journal of Risk Regulation, Vol. 2, No. 4 (2011), pp. 481-490, Cambridge University Press. (p. 483)
[92] *Ibid*. (p. 483)
[93] KFW, 2021, "'Whatever it takes' – a speech and its implications for the euro area", KFW Research, KFW.
[94] Esposito M., 2014, "The European Financial Crisis - Analysis and a Novel Intervention", Harvard University Press. (p. 1)
[95] Weber C. S., 2015, "The Euro crisis. Causes and symptoms", Estudios Fronterizos, vol.16 n.32, Autonomous University of Baja California. (p. 257)
[96] Weber C. S., 2015, "The Euro crisis. Causes and symptoms", Estudios Fronterizos, vol.16 n.32, Autonomous University of Baja California. (p. 257)

affected Europe as in comparison to the Anglo-Saxon system which is market orientated, the European system is much more bank orientated [97] meaning that the heavily reliance on banks exacerbated the issue with large losses on their balance sheets due to the ABS's loss of value. The tight working link between European banks led to the rapid spread of the issue and hit banks which had not bought any or very few ABSs. This link is also applied to European member states sovereign bonds which are more often than not interconnected to one another which plays a role in explaining the spreading of the crisis to the Eurozone. Furthermore, pre-existing underlying issues namely the weakness of certain economies or the non-respect of the Maastricht criteria caught up to the member states which worsen their difficult situations as they set out to rescuing their banks. Indeed, "before the outbreak of the financial crisis, the Euro zone managed to cope with problems which went back to the founding of the currency area"[98]. During this time, unemployment reached new heights especially among youths as for "Europeans aged 15-24 unemployed at a rate of over 22%"[99]. Furthermore, the introduction of the Euro had not helped all member states equally with certain southern states losing economic competitiveness as the ECB's approach was focused on low inflation policies which was traditionally a German approach which suited richer countries as other member states struggled as they had previously relied on inflation to boost their productivity and in turn their demand. This new approach to monetary policy helped some EU countries "while removing the historical release valve in the southern nations used for massive debt bubbles which were financed by the north — created a new cycle of indebtedness in the south"[100]. This combined with the reduction in growth, soaring unemployment and market panic only aggravated the impact of the crisis and explains the never seen before levels of sovereign debt.

This tense economic situation trickled down into the individual spirit regarding the relation to the member states, between the member states and to the supranational level as well, something that will be highlighted in part 2.3 on the Greek bailout and in fact, in 2013 "only 41% support for the European Union among Europeans, with particularly low approval ratings in countries where unemployment is highest"[101].

[97] Weber C. S., 2015, "The Euro crisis. Causes and symptoms", Estudios Fronterizos, vol.16 n.32, Autonomous University of Baja California. (p. 257)

[98] *Ibid*. (p. 259)

[99] Esposito M., 2014, "The European Financial Crisis - Analysis and a Novel Intervention", Harvard University Press. (p. 1)

[100] Esposito M., 2014, "The European Financial Crisis - Analysis and a Novel Intervention", Harvard University Press. (p. 2)

[101] *Ibid*. (p. 3)

Due to this extraordinary situation EU legislators realised that fundamental policy change was necessary but that it could not be done without the help of international institutions and the individual member states. The Commission outlined five core problems that needed to be changed, which included maintain financial system order to avoid a meltdown, maintain aggregate demand to avoid deflation, promote trade to avoid member states resorting to protectionism, maintain international finance together in order to avoid capital account restrictions and maintain internationalism[102].

Based on these issues to resolve, two organisations were created the European Systemic Risk Board (ESRB) and the European System of Financial Supervisors. The ESRB has the task of overseeing the EU's financial system by "containing systemic risks and preventing financial crises by means of its macro prudential supervision"[103]. Along with the European Supervisory Authorities (ESA) and the member states individual supervisors these entities compose the European System of Financial Supervisors which is tasked to "ensure consistent and appropriate financial supervision throughout the EU"[104]. The introduction of these measures and entities demonstrate the clear desire for regulators to set tighter limits and to have the supra and national government levels play much more of a watchdog role after the abuse and lack of diligence from financial institutions which led to the 2008 financial crisis. The role of the Euro is not to be underestimated as it greatly helped regarding supervision as it is much easier for regulators as it greatly simplifies the process due to the centralised nature of the currency and the single central bank, therefore not requiring a central bank coordination. The EU was unsure on how to approach this new dilemma, which the modern globalised world had not yet faced to this extent. A large part of the modern-day rules and regulations but also the financial landscape in general have been shaped by the lessons learnt from the financial crisis and the approach to finance and investing in general have been affected and adjusted equally. These lessons will also play a key role in the management of the economic effects of the ongoing COVID-19 pandemic and the mistakes made during this first recovery phase in the 2010s especially regarding the Greek Bailout would be avoided at all costs during the ongoing economic recovery.

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[102] Welch J., 2011, "The Financial Crisis in the European Union: An Impact Assessment and Response Critique", European Journal of Risk Regulation, Vol. 2, No. 4 (2011), pp. 481-490, Cambridge University Press. (p. 484)
[103] AFS, 2021, "European Systemic Risk Board", The Financial Stability Committee of Germany (AFS).
[104] ECB, 2021, "European System of Financial Supervision", European Central Bank.

Beyond the creation of these organisations and the introduction of new regulation the Commission also introduced the European Economic Recovery Plan (EERP). It was meant as a rapid recovery instrument to stabilise the economy and promote growth in the EU. This plan was also centred around the European Union's long-term goals [105] laid out in the Lisbon Treaty and in the Europe 2020 strategy which was focused on inclusive and sustainable growth. The EERP had two main targets: firstly, stabilise the banking sectors with injections of cash at both the national and supranational level, this was meant to happen on a member state level first as the local issues had to be resolved and mitigated before the more global ones. It was mainly set in motion in order for banks to go back to normal lending practices which would be a major step in stabilising the economy [106]. The second core aspect of this plan was built around the more global solutions and namely through trade [107]. Supporting the export market in Europe would not only help to increase revenue, growth and employment within the EU it would also help neighbouring countries and key trading partners turn the page on this difficult time. Playing such a major role in the crisis mitigation also helped to cement the place and role of the EU as a global economic actor and laid the framework for the economic developments of the next decade.

Beyond the EERP, the de Larosiere Reports which highlighted the need for increased risk regulation of the financial sector [108] as well as other recommendations were written with the ambition to bring legislative change about. This was the case as in 2010 the Basel III Framework was introduced and was heavily based on the recommendations from the de Larosiere Reports which included stronger capital requirements, more resilient banking, a change in accounting standards, new liquidity standard, and a harmonisation of the rules and the regulatory framework around it[109]. These changes would also pave the way for a more risk focused approach to banking, with controls by risk and compliance departments playing an ever-larger role in those institutions. Based on these developments the Basel IV framework would be agreed upon in 2017.

[105] Welch J., 2011, "The Financial Crisis in the European Union: An Impact Assessment and Response Critique", European Journal of Risk Regulation, Vol. 2, No. 4 (2011), pp. 481-490, Cambridge University Press. (p. 485)
[106] *Ibid.* (p. 486)
[107] *Ibid.* (p. 486)
[108] *Ibid.* (p. 487)
[109] Welch J., 2011, "The Financial Crisis in the European Union: An Impact Assessment and Response Critique", European Journal of Risk Regulation, Vol. 2, No. 4 (2011), pp. 481-490, Cambridge University Press. (p. 487)

Furthermore, in 2010 the European Financial Stability Facility (EFSF) was introduced to financially support through the emission of "bonds and other debt instruments on capital markets" [110]certain European countries such as Portugal, Greece or Ireland. It played a big role in the Greek Bailout and will be described in more depth in the next part of this essay. It is now a part of the European Stability Mechanism (ESM) which still nowadays focuses on bond issuance in order to finance support programmes for certain member states once they have fulfilled certain austerity criteria.

These aforementioned austerity measures were the biting point between member states and highlighted the north-south divide in approach to monetary policy. In fact, "the north blames the south for overspending, and the south balks at crippling austerity measures and never-ending debt" [111]. In order to receive the financial support some of the countries needed they had to implement drastic austerity measures to fulfil the recommendations laid out by the EU to receive funds. These measures were put in place to reduce these countries government expenditures and save funds wherever possible to use the received funds as effectively as possible. These were tough for both the population and the governments but important and even necessary for the survival of both these countries and the Euro as a whole as the impact of a completely defaulting and bankrupt country within the Eurozone was unknown and could have led to the end of the common currency. Measures such as these as well as the introduction of more control over financial institutions, stability mechanisms as well as the revision of some of the convergence and stability criteria highlight the pivotal role this crisis had in shaping the EU's economic landscape today.

The role of Mario Draghi's 2012 speech is not to be underestimated as it gave a certain amount of confidence back to the markets that the Euro would be saved at all costs by the ECB and the European Union. In fact, "Italy alone has so far avoided more than EUR 100 billion in additional funding costs thanks to Draghi's announcement and the subsequent monetary policy"[112]. The confidence in a currency is pivotal as it is the base of financial exchanges and being a currency which encompasses multiples states, this is even more critical. If there is trust consumers and investors have a higher confidence in the value and stability of their currency

[110] European Stability Mechanism, 2021, "Before the ESM: EFSF - the temporary fiscal backstop", ESM.
[111] Esposito M., 2014, "The European Financial Crisis - Analysis and a Novel Intervention", Harvard University Press. (p. 2)
[112] KFW, 2021, "'Whatever it takes' – a speech and its implications for the euro area", KFW Research, KFW.

facilitating exchanges and enabling investment into the economy. This speech demonstrated for the first time that the Euro had become invaluable to the European project and an integral part of its future which solidified the Euro as the second most important currency in the world after the US dollar and in the long term helped to solidify its position as an important currency for reserves. Based on this regained confidence the EU along with the ECB were able to implement a plethora of measures which helped member states turn the curve mainly including asset purchase programmes and loans. Concretely, through quantitative easing controversially the ECB "initiated its securities market programme (SMP), through which it purchased Greek government bonds on the secondary market"[113] as a mean to support the struggling economy with its ever-rising debt burden. This programme, which was later extended to multiple other countries including Italy, Ireland, Portugal and Spain but was at first opposed by the Germans who felt that central banks should not be financing member state's debt[114] as Wolfgang Schäuble the German Finance Minister said at the time "if the central bank finances government debt, it's a modern form of the old bad habit of printing money"[115]. He also felt it could limit important budget reforms which had to be made in certain member states. This approach was slightly altered with the arrival of Mario Draghi as he focused on interest rates and inflation reduction, which explains the currently very low interest rates especially in a pre-pandemic context[116].

Overall, this strategy paid off as "the ECB's monetary policy reduced the risk premiums on European government bonds" [117] and up until the COVID-19 pandemic hit, the EU and especially the Eurozone had recovered well from the impact of the crisis with very high levels of employment in Germany and steady growth rates. Even if some mistakes were committed the overarching goals were reached namely providing economic stability to the Union while promoting exports, growth and employment. As costly as these programmes were for the EU and for each individual member states they tell of a relative success story but are also a testament to the solidarity and the cooperation between the supranational level and the individual member states. It also highlights the importance of the interconnectedness and the

[113] Alessi C. and McBride J., 2019, "The Role of the European Central Bank: The Bank's Response to the Debt Crisis", Council on Foreign Relations (CFR).
[114] Alessi C. and McBride J., 2019, "The Role of the European Central Bank: The Bank's Response to the Debt Crisis", Council on Foreign Relations (CFR).
[115] Ibid.
[116] Ibid.
[117] KFW, 2021, "'Whatever it takes' – a speech and its implications for the euro area", KFW Research, KFW.

interdependence of the member states to each other, from exporting nations such as Germany who require a strong market to sell their products to weaker southern European countries who sometimes need to financial support of the EU to stabiles their economy. It is an important balance which dictates the economic approach of many countries regarding the EU and will be looked at later again in this piece.

2.3 Euro Crisis Case Study: The Greek Bailout

"There really is a sense of fear and apprehension here, even bordering on panic" – Bloomberg Reporter in Athens in 2010[118]

The financial crisis quickly spread across Europe as some countries especially the southern ones struggled the mitigate the impact of the recession. This downfall was the framework of the Euro crisis which affected Spain, Portugal but most prominently Greece. This brief case study will highlight the devastating impact of the Euro Crisis on Greece and how it could have been mitigated. A brief overview of Greece's history within the EU is necessary in order to understand the situation it was in in the early 2010s and how this has impacted the plans to mitigate the economic effects of the ongoing COVID-19 pandemic.

At the start, Greece was not part of the group of countries invited to join the Euro as it failed to reach the criteria necessary. Still, only two years later in 2001 it joined the Euro after banks "helped the Greek government to mask the true extent of its deficit with the help of a derivatives deal that legally circumvented the EU Maastricht deficit rules"[119] . In fact, through the use of 'creative accounting' over the years the Greeks had masked a large part of their government deficit but also with the help of investment banks had spread out their liabilities into the future to mask the real extent of their debt level through the use of currency swap with fictional exchange rates[120]. This allowed the entry of Greece into the Eurozone in 2001 even if it fundamentally filled none of the criteria necessary at the time.

This did not pose an issue until the recession hit Europe and especially hit southern European countries hard. Similar to the COVID crisis some countries due to pre-existing economic

[118] Waerdon G., 2010, "Europe's financial crisis: as it happened", The Guardian.
[119] Balzli, B., 2010, "How Goldman Sachs Helped Greece to Mask its True Debt", Spiegel International.
[120] *Ibid*.

difficulties were affected more than others, namely Greece who already had a vulnerable economy, high debt levels and relatively high levels of unemployment[121]. The cost of borrowing went up as the recession grew and as Greece was downgraded by rating agencies. It became harder for Greece to serve its outstanding debts and carry on funding its expensive government expenditure. This was aggravated as due to the Euro; monetary policy is centralised and it is hard to accommodate the interests and needs of the different member states when setting out monetary policy[122]. This profits to northern and richer countries as the low inflation and low interest rates approach suits their needs much more than states struggling more who would require higher inflation in order to maintain a certain level of competitiveness in their economy. This difficulty for sovereign regulation delayed the crisis response and increased the impact on countries such as Greece of this recession.
In 2009, it also came out that Greece had falsified budget deficit data which "prompted swift downgrades of Greek debt as well as an increase in the premium demanded by financial markets to buy Greek bonds"[123]. This highlighted the lack of reliability of Greece statistics and led to a further loss on trust from both the other Eurozone countries and the markets.

Greece's high debt burden, weak economy, high unemployment and high budget deficit was rapidly leading to a real risk of default on debt repayments. This led to the first bailout program, a joint effort between the European Commission, the ECB and the IMF, commonly referred to as the Troika [124] with also the use of the EFSF instrument. The first programme totalled a bailout of €110 billion loan but was attached to the first austerity measures in the country[125]. The government had to increase taxes, cut wages, limit cash withdrawals and reduce expenditure in order to stabilise the economic balance of the country, with the money received from the Troika loan to be put towards credit repayments[126]. This effort was not enough and the ECB set out on a wide scale sovereign bond buying programme in order to support the struggling economies. It would purchase sovereign bonds in order to provide more liquidity to the economy in an attempt to save it from bankruptcy. Shortly after led to one of the largest sovereign debt

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[121] Nelson R. M. & Belkin P., 2017, "The Greek Debt Crisis: Overview and Implications for the United States", CRS Report, Congressional Research Service, US Congress. (p. 2)
[122] *Ibid.* (p. 2)
[123] Barber, T, 2010, "Greece condemned for falsifying data", Financial Times.
[124] Nelson R. M. & Belkin P., 2017, "The Greek Debt Crisis: Overview and Implications for the United States", CRS Report, Congressional Research Service, US Congress. (p.16)
[125] CFR, 2021, "Greece's Debt 1974 – 2018", Council of Foreign Relations.
[126] Amadeo K. & Boyle M. J., 2020, "Greek Debt Crisis Explained", The Balance, Dotdash Publishing.

restructuring in history where over 50% of debt was cut after negotiations between the EU and banks and another €130 billion package of loans was granted[127]. Once again, the second programme was associated with more need for austerity as the measures in place where pushed further. This exasperated the Greek population which were faced with further measures of austerity and a large part of the population was at real risk of falling into poverty. Stuck in a difficult situation, civil unrest set the country ablaze with anti-austerity protests [128] the Greeks decide to elect Tsipras in 2015 at a snap election. He was elected on an anti-austerity programme and once elected completely overturned the progress and agreements that had been made by Greece and the Troika after a promised referendum on the bailout programmes[129]. This led to further deterioration of the economic state of Greece and almost to a point of no return when for the first time ever, Greece a developed country defaulted on a €1.6 billion repayment to the IMF in 2015[130].

Greece was at a dead-end with a departure from the Eurozone and even the European Union as a real possibility, the parties sat down again and finally found a lasting agreement which brought austerity again for Greece as well as a cash injection in the economy[131]. It was difficult for all parties as Greece's new government did not always want to follow the Troika's lead due to its anti-austerity approach but in the face of the aggravating situation the Greek government had to sign.

Nowadays, Greece is still recovering from this dramatic period with anti-German feeling still strong in this country as Germany was at the forefront of the bailout programme and the ensuing austerity measures. The seriousness of the situation should be not minimised, Greece's debt to GDP ratio is still over 213% in 2020 and even before the COVID crisis it was at 190% in 2018[132]. The unemployment rate of Greece at the height of the crisis in 2013 was almost 28%[133], an extremely high number which plays a role in explaining the anger of the Greek population when faced with such difficult times.

[127] CFR, 2021, "Greece's Debt 1974 – 2018", Council of Foreign Relations.
[128] Amadeo K. & Boyle M. J., 2020, "Greek Debt Crisis Explained", The Balance, Dotdash Publishing.
[129] Amadeo K. & Boyle M. J., 2020, "Greek Debt Crisis Explained", The Balance, Dotdash Publishing.
[130] Maltezou R. & Bartunek, R. J., 2015, "Greece defaults on IMF payment despite last-minute overtures to creditors", Reuters, Thomson Reuters.
[131] Nelson R. M. & Belkin P., 2017, "The Greek Debt Crisis: Overview and Implications for the United States", CRS Report, Congressional Research Service, US Congress. (p. 5)
[132] Statista, 2021, "Greece: National debt in relation to gross domestic product (GDP) from 2016 to 2026", Statista
[133] Statista, 2021, "Greece: Unemployment rate from 1999 to 2020", Statista.

In 2018, once the bailout ended, Greece still owed around €300 billion to European mechanisms, the IMF and banks as a result of the bailout which was largely funded by Germany who has since then "made €2.9 billion in interest payments on Greek bonds since 2010"[134].

A lot can be learned from this Greek experience; first and foremost, the difficulty in creating monetary policy for this many countries with different interests and needs. Overall the ECB's monetary policy approach takes inspiration and provides more support for countries such as Germany compared to southern European ones such as Greece as its low inflation and low interest rates is better suited for stronger export economies. For example, for countries like Greece, higher inflation enables them to marginally reduce their debt to GDP ratio. This is one of the fundamental issues for the Euro and will be highlighted later in the essay again and if Greece had had the opportunity to influence its monetary policy some effects could have been limited. For such a system to work it would require large transfer of funds between richer Eurozone states to poorer ones. Sadly, the EU lacks the integration and the member states do not have the desire to implement such a programme so far as it would lack popular support. Such a program could look like the 'Länderfinanzausgleich' (equalisation of payments) in Germany which focuses on shifting and redistributing resources between the different federal states in the country[135].
Furthermore, there was a clear lack of diligence from the EU's side regarding the entry and the financial records of Greece. Greece's falsified accounts and the currency swap programme it ran in order to join the Euro in 2001 should have been spotted by EU auditors and alarm bells should have rung that in two years Greece was able to simply meet the criteria it was not able to fill merely two years prior. There needs to be more strength, resilience and control on the EU's side to combat such practices but also more repression. This is hopefully the case with the EU SURE and NGEU programmes which will be introduced later and the EU seems to have learnt from previous mistakes in management.
Finally, this previously mentioned issue also is symbolic of an overall EU approach which prioritised political symbols and actions without always fully considering the economic impact and implications of such projects. The Euro is the perfect representation of this issue as it can be seen as the culmination of European integration but issues with monetary policy were

[134] Stam C., 2018, "Germany earned €2.9 billion from Greece's debt crisis", Euractiv.
[135] Scherf W., 2020, "Länderfinanzausgleich 2020: Neue Form – alte Probleme", Leibniz - Informationszentrum Wirtschaft, ZBW (p. 601).

potentially not fully implemented when the common currency was introduced as it was primarily a political project [136]. If the European Union wants more economic integration it needs to be more vigilant of the economic impact of its policies and consider its implication from a more economic angle.

2.4 The COVID-19 Pandemic and its economic impact

"We are facing a human crisis unlike any we have experienced" (UN deputy SG) [137]

With the world nicely recovering from the financial crisis, the dangers of the COVID-19 virus slowly came to light at the start of 2020 after a large-scale outbreak in Wuhan, China. Within a few weeks the virus had spread to the entire world, killing thousands every day, with Europe and the United States being particularly affected. This led to countries having to take drastic measures in order to limit the spread of the virus by enforcing lockdowns, quarantines and travel restrictions. These impacted all sectors of the economy as businesses across the world had to reduce operations or even shut down as only key workers were allowed to operate. Industries in which working remotely from home is not possible were affected the most by the different waves of lockdowns as no operations could be made which included a large part of industries or the travel sector. In general, all industries where affected to a certain extent and this contrasts with the 2008 financial crisis where it was much more specific sectors, namely banking and finance which was in crisis and even if the recession spread to the whole economy it did not have the wide-reaching impact that the COVID-19 pandemic has had on the economy. This is where both crises differ as the crisis, which ensued from the pandemic, is clearly an exogenous shock while the financial crisis can be seen as either endogenous or exogenous. In fact, on the one hand the shock could be seen as endogenous as the subprime mortgage crisis came from within the financial sector but on the other hand – at least for the EU – the shock came from abroad and the EU was only affected by the interconnectedness of markets. This distinction is important as it has an impact on the mitigation mechanisms put in place in order to promote the economic recovery.

[136] Ruth L., 2002, "The euro: a political project with profound economic implications", Institute of Directors (Accessed through the British Library).
[137] Alessi C., 2020, "'All hands should be on deck' - key quotes from leaders on the fight against COVID-19", World Economic Forum.

Both these shocks have tested the resilience and strength of the world economies due to the combination of both crises in a decade. In order to understand the scale of the impact of this crisis, a few numbers should be highlighted.
Indeed, "the Autumn 2020 Economic Forecast projects that the euro area economy will contract by 7.8% in 2020" [138] while the EU economy as a whole is expected to shrink by a similar 7.4% in 2020 [139]. These figures are mirrored by the unemployment rates which are set the climb as well to 9.4% in 2021 for the Eurozone and 8.6% for the EU as a whole[140]. Beyond these developments, "the aggregate government deficit of the euro area to increase from 0.6% of GDP in 2019 to around 8.8% in 2020" [141] while the Eurozone's aggregate debt to GDP ratio will increase from 85.9% in 2019 to 101.7% in 2020[142]. Nonetheless, the trend is towards recovery for the end of 2021 and onwards.

Beyond these worrying numbers and an ever-rising death toll, with strong vaccinations programmes in place across Europe and measures slowly being lifted, the economies are able to regain a certain amount of normality with a smaller economic shrinking forecasted for 2021. Over the past 18 months, countries across the world set out on large programmes to support their economies through furlough, credits, debt buybacks and a plethora of other measures in order to maintain individuals and businesses afloat in these times of need. The European Union set out on one of the world's largest programmes of temporary support for its member states largely based around the newly accepted idea of commonly issued debt in the name of the European Union. This ground-breaking and necessary step can be seen as the next leap in European economic integration.

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[138] European Commission, 2020, "Autumn 2020 Economic Forecast: Rebound interrupted as resurgence of pandemic deepens uncertainty", European Commission.
[139] *Ibid.*
[140] *Ibid.*
[141] European Commission, 2020, "Autumn 2020 Economic Forecast: Rebound interrupted as resurgence of pandemic deepens uncertainty", European Commission.
[142] *Ibid.*

2.5 Saving the Euro Part 2: Common issuing of debt and the SURE programme

2.5.1 Mitigation of the economic impact of the COVID-19 pandemic

"Given the nature of the crisis, all hands should be on deck, all available tools should be used" – Lagarde [143]

As previously described, the COVID-19 pandemic has extraordinary measures to the table in order to limit the spread of the virus. These necessary measures have nonetheless had an impact on the economy with business not being able to function at all or to their full potential. This paragraph will give an overview of the general measures taken to mitigate the economic impact before going deeper into the Next Generation European Union (NGEU) and the EU SURE programme as these are the core of the support mechanism and the future of the EU. Finally, the revolutionary approach to funding will be looked at and analysed as the European Union could be embarking on its next integration chapter.

The European Union settled for a huge funding package in order to combat these effects totalling up to €2364.3 billion[144]. This includes a wide range of programmes and mechanisms in order to allocate the funds. It was agreed in April and May 2020 and its components include, the NGEU programme, EU SURE, the pan European Guarantee Fund, the ESM's Pandemic Crisis Support mechanism, the Pandemic Emergency Purchase Programme (PEPP) as well as the upcoming yearly budgets being shifted and adjusted in order to incorporate the changes in context and the creation of the 2021-2027 EU budget[145]. The NGEU and the EU SURE instrument will be looked at in the upcoming parts 2.4.2 and 2.4.3 respectively.

The pan-European guarantee fund is a European Investment Bank (EIB) initiative which focuses on providing loans to Small and Medium Enterprises (SME) and businesses across the EU by offering up to €200 billion in loans to EU firms[146]. These loans are mainly for smaller businesses and for projects in line with the overall goals of the EIB mainly orientated towards

[143] Alessi C., 2020, "'All hands should be on deck' - key quotes from leaders on the fight against COVID-19", World Economic Forum.

[144] European Council, 2021, "COVID-19: the EU's response to the economic fallout", General Secretariat, European Council.

[145] I*bid.*

[146] *Ibid.*

a green transition. This is not the only loan programme by the EIB as other mechanisms have also been put in place to support the economy in these difficult times.

The European Stability Mechanism also plays a pivotal role in these times of crisis with its Pandemic Crisis Support which is aimed at the national level. In fact, "it can provide loans available to all euro area member states up to 2% of their GDP, up to a total value of €240 billion"[147]. This funding would come from pre-existing lines of credit already offered by the ESM through various programmes. It is funded through mainly through the issuance of bonds and by a member state contribution which is invested and not used directly when the ESM provides loans.

Furthermore, through the ECB the Pandemic Emergency Purchase Programme was introduced. Indeed, it is a "temporary asset purchase programme of private and public-sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area"[148]. This programme will total €750 billion and has expanded to include non-financial commercial paper as well as the introduction of "a waiver of the eligibility requirements for securities issued by the Greek government"[149]. This scheme is meant to relive some of the pressure of firms during this difficult time by removing some of the financial burden while providing them with short term liquidity in order to pass through these difficult times. It is built on the foundations and as an expansion from previous ECB asset purchase programmes present the Greek Bailout and the Euro debt crisis.

Beyond these measures the EU's budgets for 2020 and 2021 were amended in order to suit the context of the pandemic better in fact, in 2020 over €3 billion were added on top of the budget to fulfil primary medical needs while in 2021 over €121 billion were added through the Solidarity and Emergency Aid Reserve help with the ongoing mitigation of the pandemic[150].

Finally, other programmes were created or re-funded by the EU in bid to support member states, individuals and firms in this difficult time namely the Coronavirus Response Investment Initiative, the addition of structural funds and the EU Solidarity Fund.

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[147] European Council, 2021, "COVID-19: the EU's response to the economic fallout", General Secretariat, European Council.

[148] ECB, 2020, "Press Release: ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)", Directorate General Communications, European Central Bank

[149] Ibid.

[150] European Council, 2021, "COVID-19: the EU's response to the economic fallout", General Secretariat, European Council.

This plethora of measures have provided a certain relief to Europeans and the financial assistance some desperately needed. It was key for the EU to rapidly implement such measures and it led the way in terms of both its member states and worldwide stimulus and recovery packages. Nonetheless it remains an imperfect plan with fundamental issues at its core, from the use of the plan for the green transition, the Eurozone/EU discrepancy, the difficulty in funding, the discrepancy in who will be receiving those funds. All these issues will be assessed and analysed in the upcoming parts as this piece goes into more depth on the two most important aspects of this recovery plan, the NGEU and the EU SURE instrument.

2.5.2 Next Generation European Union (NGEU)

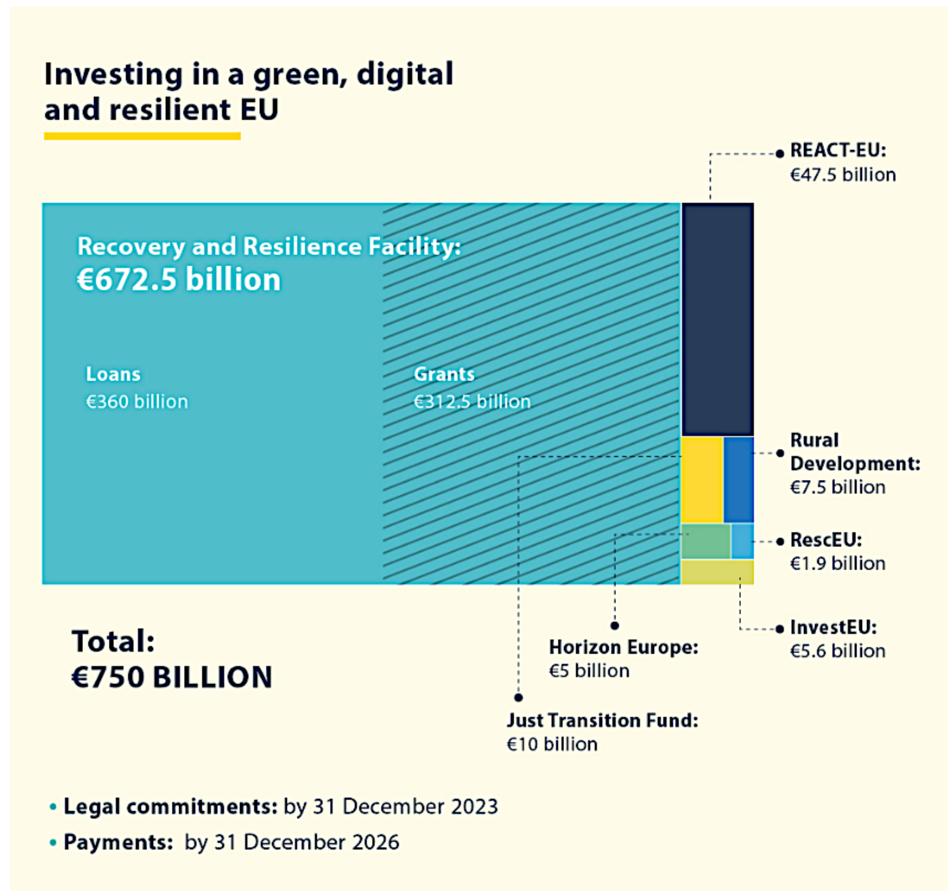
Europe's Hamiltonian Moment [151]

One of the most prominent parts of this recovery plan is the Next Generation EU plan which is €750 billion strong and was agreed in July 2020. These funds will be split with €390 billion going as grants and €360 being offered through a loan program[152]. At first a Franco-German initiative[153], this recovery programme idea was taken over by the European Commission and expanded to entail the previously mentioned specifics. The initiative was well received by a majority of the member states apart from Austria, Sweden, Denmark and the Netherlands which are known as the frugal four[154]. These countries were opposed to the idea of a common recovery programme fearing that they would lose out as they would be paying larger sums of money into the programme than they would receive, a reoccurring issue when it comes to joint recovery programmes as was the case during the Greek bailout. Nonetheless, these countries came around and the programme was agreed upon by the European Council in July 2020.
It was also agreed that certain regulations would have to be put in place in regard to how the funds would be spent. In fact, the main part of the proposal would go through the Recovery and

[151] Calhoun G., 2020, "Europe's Hamiltonian Moment – What Is It Really?", Forbes Online.
[152] European Council, 2021, "Infographic - Next Generation EU – COVID-19 recovery package", General Secretariat, European Council.
[153] France Diplomacy, 2020, "European Union – French-German initiative for the European recovery from the coronavirus crisis", Ministère de l'Europe et des Affaires Etrangères .
[154] Deutsche Welle, 2020, "'Frugal four' nations counter Franco-German EU initiative", Deutsche Welle.

Resilience Facility and the money would have to be spent for investment in a "green, digital and resilient EU"[155].

Infographic - Next Generation EU – COVID-19 recovery package [156]



These limitations that come with the implementation of NGEU are also in line with the introduction of the European Green Deal, which is set to put the EU on a path to sustainability over the coming years. Such a large-scale project requires unprecedented funding in order for the EU to achieve carbon neutrality by 2050. EU legislators were at a cross road regarding both the recovery and the green transition of the Union and therefore decided to aim for a "green recovery" which explains the limitations on the spending of the funds offered by Next

[155] European Council, 2021, "Infographic - Next Generation EU – COVID-19 recovery package", General Secretariat, European Council.
[156] *Ibid*.

Generation EU[157]. The Recovery and Resilience Facility of this programme provided the ideal opportunity to provide the first parts of funding and rebuild the EU's economic strength in this pandemic context in the right direction, following the overarching EU goals for the decades to come[158]. This temporary recovery instrument will bridge the gap and bring dynamism to the European Union until the effects of the pandemic are mitigated and more long-term funds can be introduced to finance the green transition.

Beyond the Recovery and Resilience Facility – as shown in the graph above – other mechanisms are at play within the NGEU. Indeed, React EU and the Just Transition Fund are the two other large components while a plethora of smaller instruments are also included.

React EU is a comprehensive policy focused on recovery and resilience by allocating funding "for existing cross-border cooperation programmes under the European territorial cooperation goal"[159]. Concretely these resources will be used to "support investment in products and services for health services and to provide support in the form of working capital or investment support to SMEs" [160] all in the same direction as the EU goals for the upcoming decades namely digitalisation and green transition. Employment plays a key role in this funding and should provide help for furloughed workers and self-employed individuals as well as providing funding for short and long-term employment possibilities.

Furthermore, the Just Transition Fund (JTF) which is co-financed between the NGEU and the Multiannual Financial Framework (MFF) (the long-term EU budget) is aimed at providing financing for the European Green Deal [161] as well as other aspects of the overall recovery and transition, only highlighting further the 'green recovery' approach that the EU is taking in order to mitigate the economic effects of the ongoing COVID-19 pandemic.

This shows the wide reaching and overarching approach that the European Union is taking regarding the recovery plans. Even if its green recovery approach has been both criticised and praised, the importance of seizing such an opportunity in order to bring about change should not be minimized if it can enable to fund the European Green Deal. The graph below shows how the funds will be split between the different instruments and between loans and grants.

[157] Umweltbundesamt, 2020, "European Green Recovery – Building back better based on the Green Deal", Umweltbundesamt, EPA Network. (p. 3)
[158] European Commission, 2021, "The Recovery and Resilience Facility", Directorate-General for Communication, European Commission.
[159] European Commission, 2021, "The React EU Package", European Commission.
[160] *Ibid.*
[161] European Commission, 2020, "Press Release: Commission welcomes the political agreement on the Just Transition Fund", European Commission.

NGEU: total allocation by instrument in billions of Euros [162]

	2018 prices	Current prices
Recovery and Resilience Facility	**672.5**	**725.4**
of which grants	312.5	337.1
of which loans	360.0	388.3
InvestEU	5.6	6.0
Horizon Europe	5.0	5.4
REACT-EU	47.5	51.2
Rural development program	7.5	8.1
Just Transition Fund	10.0	10.8
RescEU	1.9	2.0
Total NGEU	**750.0**	**809.0**
of which grants	390.0	420.7
of which loans	360.0	388.3

Sources: European Council conclusions of 21 July 2020 and own estimates.

The NGEU fund allocation will be done on a case by case basis, with the member states submitting proposals in early 2021 to be assessed during the European Semester and will offer their response and allocate the funding based on the country's funding plans[163]. These plans have now been submitted in late April. An example can be brought forward to illustrate this process. For example, Italy's plan was presented by Prime Minister Mario Draghi it is "centred on modernizing the country by fighting climate change and creating a more equal society"[164]. The total package will reach up to €222.1 billion with €191.5 billion coming from the NGEU programme and the remaining funds being raised by Italy themselves on the capital markets as a complement [165] which does not fall within the Commission's purview. It is the second time a proposal was draft after the first one fell through in early 2021 and led to a downfall of the previous government. The previous disagreements came from a lack of focus on the green

[162] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank.
[163] European Commission, 2021, "The Recovery and Resilience Facility", Directorate-General for Communication, European Commission.
[164] Roberts H., 2021, "Italy promises greener, fairer society in Europe's biggest coronavirus recovery plan", Politico Online.
[165] *Ibid*.

transition with an expansion of the motorway network being part of the plan for example but the new plan includes "bringing fast internet to the entire country, extending high-speed rail, earthquake proofing millions of homes and public buildings, along with far-reaching plans for digitalization and improved energy efficiency"[166].

Finally, the limitations of this entire framework will be looked at in part 3.1 especially focusing on the funding, two key points still need to be highlighted namely the changes in approach towards recovery post Euro crisis and the democracy and ratification issues.
Firstly, the split between subsidies and credit comes from lessons from the Greek bailout which was solely credits. This split offer receiving states less dependence from the donor states, an issue which was a clear issue during the Greek bailout with Germany playing a key role as an issuer of loans, from which it has since then profited and it has helped to fund the German budget[167]. This was a factor in the anti-German and anti-European feelings running high during the bailout period. The EU wants to avoid this happening again by running it as an EU wide project and not directly implicating member states especially regarding the funding which will be done through the common issuing of debt through bonds. Beyond this, it also reduces the debt burden on receiving countries if they may be offered a certain percentage of subsidies alleviating some of the struggles for the long-term recovery for countries with already very high debt to GDP ratios. A core issue which was problematic during the Euro crisis was that due to the top down approach taken by the Troika the national governments and parliaments had little influence on the monetary policy and the spending. This somewhat undemocratic approach was heavily criticised and alienated both member states and citizens and created tensions. This was resolved through the budget proposal submissions for the European Semester – "framework for the coordination of economic policies […] which allows EU countries to discuss their economic and budget plans and monitor progress" [168] – as the EU still has a certain level of control over the funds but much more deciding power and flexibility for the member states. It is important to see the union grow and evolve from previous crises and demonstrates a certain understanding of its own limitations, which is necessary in order to provide a more effective and up to date recovery mechanism.

[166] Roberts H., 2021, "Italy promises greener, fairer society in Europe's biggest coronavirus recovery plan", Politico Online.
[167] Stam C., 2018, "Germany earned €2.9 billion from Greece's debt crisis", Euractiv.
[168] European Commission, 2021, "The European Semester", Directorate-General for Communication, European Commission.

Secondly, the Next Generation European Union falls in the realm of the Lisbon treaty which provides its legal basis. There have been issues regarding the democracy of the project especially regarding the bonds funding it, as it went to the German Constitutional Court which ended up allowing the proposition[169]. The case was made in the first place that debt was a national competence and that the supranational level should indebt itself and that it could therefore be seen as loss of sovereignty with varying benefits across the member states. This thesis will not focus on the democracy issues related to this proposal as it is more focused on its economic impacts. It nonetheless remains an important issue to mention.

2.5.3 The EU SURE programme

NGEU is not the only recovery instrument that the European Union has put in place through the Commission, the EU SURE initiative was also implemented and is targeted at temporary Support to mitigate Unemployment Risks in an Emergency (SURE). This purely economic instrument was introduced in the light of the ongoing COVID-19 pandemic with a specific focus on minimising unemployment and the risk associated to it by supporting governments with their increased spending programmes. Concretely, "it can provide financial assistance up to €100 billion in the form of loans from the EU to affected Member States to address sudden increases in public expenditure for the preservation of employment"[170]. They are more specifically in place in order to reduce the unemployment rate by promoting support for workers as well as funding short term work schemes which should avoid the degradation of the social situation of citizen across the receiving countries. It has been one of the EU's most prominent and most discussed mitigation programme and has brought along a certain amount of controversy including regarding its funding and the distribution of this liquidity.

These loans are mainly funded through the common issuance of debt of the European Union and the sovereign bonds associated to it. They are nonetheless guaranteed on a member state level with "each Member State's contribution to the overall amount of the guarantee corresponding to its relative share in the total gross national income (GNI) of the European Union, based on the 2020 EU budget"[171].

[169] Schwarzer, D., 2020, "DGAP Policy Brief: Pushing the EU to a Hamiltonian moment", Policy Brief 2020-10, German Council on Foreign Relations (DGAP). (p. 2)
[170] European Commission, 2021, "The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)", Directorate-General for Communication, European Commission.
[171] *Ibid*.

This instrument is planned to support 19 of the 27 member states of the European Union with so far just over €94 billion being approved for loans based on proposals submitted to the Commission [172] and split between these different member states with Italy and Spain being by far the largest receivers. They will receive respectively, €27.438 billion and €21.324 billion with these amounts being fully distributed so far[173]. Countries such as Poland, Belgium, Portugal and Romania are in the second category also receiving large loans through the EU SURE instrument. Of the approved €94.3 billion in loans almost all of it has been distributed with €89.6 billion having been given out to member states so far. The lack of reactivity was always a big criticism against the EU as its large bureaucratic apparatus was too slow to react in crisis situations but this programme also demonstrates some of the lessons learnt from previous mistakes especially regarding the Greek bailout during which the EU was slow to act which aggravated an already difficult situation. In the context of the COVID-19 pandemic the European Union was much more reactive and provided the adequate solution in a relatively short timeframe and not only regarding the decision making but also the concrete distribution of funding.

The loans provided are also on very good terms for the member states as most of the 19 countries do not have the ability to borrow at very low interest rates due to their difficult financial situation in comparison to Germany for example. This reduces the long-term debt burden for these economies, enabling a swifter recovery while providing these economies with the liquidity they need. In fact, the European Union through the ECB is taking over the extra risk of these countries borrowing money so that these can obtain better rates.

2.5.4 Funding and the common issuing of debt

The funding of both the EU SURE programme and the previously mentioned NGEU has been at the heart of discussions since its implementation and offers a potential outlook into the future of European economic integration.

[172] European Commission, 2021, "The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)", Directorate-General for Communication, European Commission.
[173] *Ibid.*

In fact, the EU set out on a large scale common issuing of debt, a first in European history. The common debt will be issued via bonds sold on the capital markets, within the Social Bond Framework which will provide the financing for these projects and recovery plans. The initial bonds were issued in six rounds and firstly focused on the EU SURE initiative. The so-called EU SURE Social Bond came in three different maturities with 5, 10 and 15 years and "there was very strong investor interest in these highly rated instruments, and the oversubscription resulted in favourable pricing terms for the bonds"[174]. These securities are sold on the Luxemburg Stock Exchange with the first issuance on the 20th of October 2020 and are overseen by Directorate General for the Budget (Luxembourg) under the responsibility of Budget Commissioner, Johannes Hahn[175].

The bonds are AAA rated by the most prominent rating agencies Moody's, Fitch, S&P… [176]. This is one of the most crucial advantages as they allow countries that do not have AAA ratings to borrow money from the EU at AAA rates mainly benefiting southern and eastern European nations.

The first round of issuance which took place on the 20th of October 2020 with the terms and conditions highlighted in the table below.

Summary of the terms and conditions of the EU SURE Social Bond (First round) [177]

Issuer	:	**European Union (EU)**	
Issue ratings	:	**AAA/AAA/Aaa/AA/AAA (DBRS/Fitch/Moody's/S&P/SCOPE) (benefitting from the unconditional support of all EU Member States)**	
Pricing date	:	**20th October2020**	
Settlement date	:	**27th October 2020 (T+5)**	
Tranche		**10 year**	**20 year**
Maturity date	:	**4th October 2030**	**4th October 2030**
Size of bond	:	**EUR 10,000,000,000**	**EUR 7,000,000,000**
Coupon	:	**0.000%; annual ACT/ACT**	**0.100%; annual ACT/ACT**
Re-offer spread	:	**MS+3 bps (Germany +36.7 bps)**	**MS+14 bps (Germany +52.1 bps)**
Re-offer price	:	**102.396%**	**99.390%**
Re-offer yield	:	**-0.238%**	**0.131%**
ISIN	:	**EU000A283859**	**EU000A283867**
Listing	:	**Luxembourg Stock exchange**	
Denominations	:	**EUR 1,000.00**	
Bookrunners	:	**Barclays, BNP Paribas, Deutsche Bank, Nomura and UniCredit**	

[174] European Commission, 2021, "The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)", Directorate-General for Communication, European Commission.

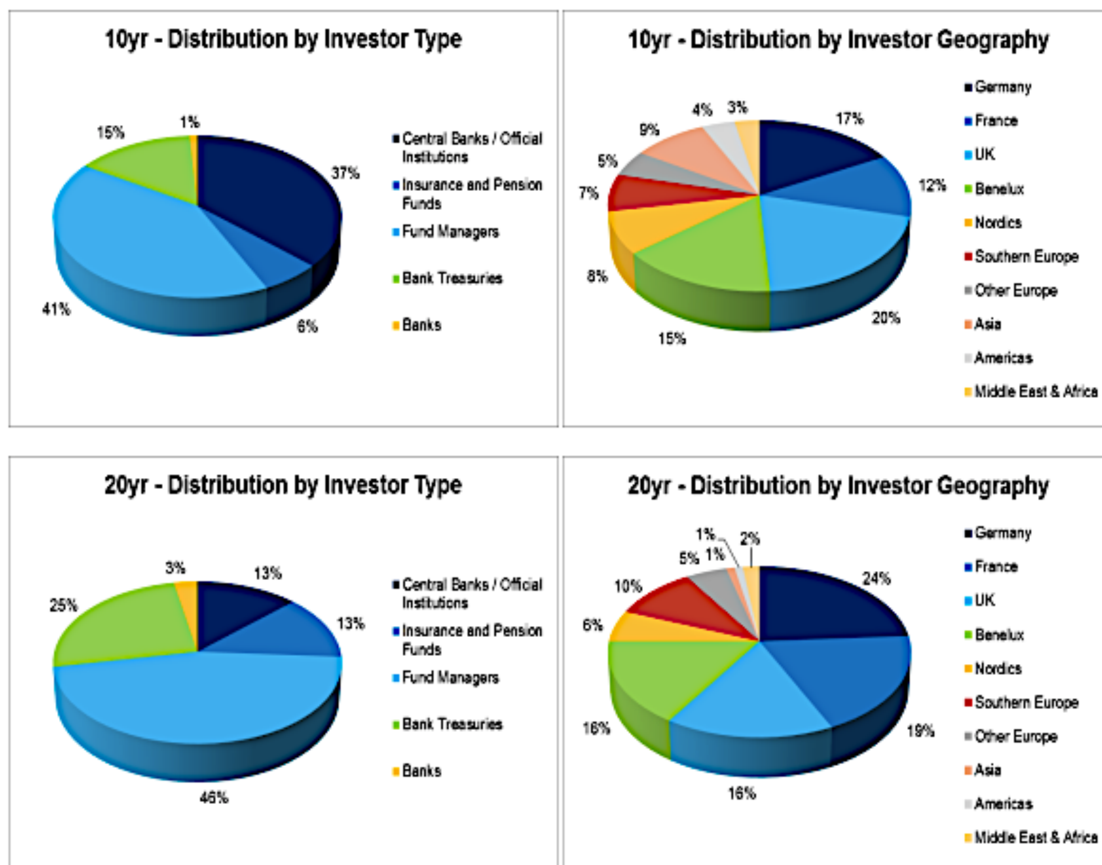
[175] European Commission, 2020, "Press Release: European Union EUR 17 billion dual tranche bond issue due October 4th, 2030 and 2040", European Commission Press. (p.1)

[176] *Ibid*. (p. 1)

[177] European Commission, 2020, "Press Release: European Union EUR 17 billion dual tranche bond issue due October 4th, 2030 and 2040", European Commission Press. (p.3)

The graphs below highlighted the widespread interest from different institutional investors from across Europe and abroad on the first emission of these bonds. In fact, "the European Union attracted the highest demand ever for a bond sale on Tuesday (20 October) at over €233 billion"[178]. This represents a large oversubscription with €17 billion offered compared to the €233 billion demand.

Summary of the distribution of the EU SURE Social Bond (First round) [179]



Focusing on the second round of issuance as a more detailed example, which was brought out on the 10th of November 2020 by the European Commission with a total value of €14 billion and split between "€8 billion due for repayment in November 2025 and €6 billion due for repayment in November 2050" [180]. These securities fetched high demand from investors similar

[178] Euractiv, 2020, "EU makes bond market history with record €233 bln demand for SURE issue", Euractiv with Reuters
[179] European Commission, 2020, "Press Release: European Union EUR 17 billion dual tranche bond issue due October 4th, 2030 and 2040", European Commission Press. (p.2)
[180] European Commission Press, 2020, "European Commission issues second emission of EU SURE social bonds", European Commission Press, through pubaffairsbruxelles.eu.

to the previous issuance as they were "13 and 11.5 times oversubscribed, respectively for the 5- and 30-year tranche, resulting in favourable pricing terms for both bonds"[181]. Overall, orders were "in excess of €175 billion, consisting of €105 billion on the 5-year tranche and over €70 billion on the 30-year tranche"[182]. Furthermore, regarding pricing, these bonds yield - 0.509% for the 5-year tranche while the 30-year tranche yields + 0.317%[183]. Even if buying negative yielding bonds might seem counter-intuitive there are several reasons investors are interested in purchasing these securities, namely as they are a safe asset, a good option for currency hedging or can even be profitable if resold before their maturity. Around 500 investors took part for each tranche and mostly Environmental, Social, and Governance (ESG) investors[184].
In order to contextualise these number, one could compare them to 10Y German and Italian sovereign bonds which currently (June 2021) yield respectively -0.34% and 0.88% [185]. Both of these sovereign bonds have been on a downward trend since the early 2010s with German 10Y bonds yielding 1.28% in the summer of 2013 and Italy's 10Y bond yielding 4.76% in the same timeframe [186]. This is partly due to the low interest rates observed in the last years which drive the prices of bonds up which in short brings smaller yields. Such a trend could potentially be observed in the long run on these EU debt issuance bonds.

These social bonds are made in line with the Union's overarching goals of digitalisation and green transition meaning that they "therefore structured around and meant to be compliant with the four core components of the ICMA SBP" (International Capital Market Association – Social Bond Principles)[187], which regulates the emission of such securities. These can therefore be qualified as ESG bonds, giving a significant boost to the social bond market. The current issuance "will be further extended in the future to include potential green, social and sustainability EU bonds as issued under the Recovery Plan"[188].

[181] European Commission Press, 2020, "European Commission issues second emission of EU SURE social bonds", European Commission Press, through pubaffairsbruxelles.eu.
[182] *Ibid*.
[183] European Commission Press, 2020, "European Commission issues second emission of EU SURE social bonds", European Commission Press, through pubaffairsbruxelles.eu.
[184] European Commission, 2020, "Press Release: European Union EUR 17 billion dual tranche bond issue due October 4th, 2030 and 2040", European Commission Press. (p.2)
[185] Trading Economics, 2021, "European Sovereign Bond Yields", Trading Economics.
[186] Trading Economics, 2021, "European Sovereign Bond Yields", Trading Economics.
[187] European Commission, 2020, "EU SURE Social Bond Framework", Directorate-General for Communication, European Commission. (p. 5)
[188] *Ibid*. (p. 5)

As previously mentioned these bonds were put in place to fund the EU SURE programme. The loans then offered at AAA rates for individual member states have to fulfil certain criteria: firstly, help with the increased government expenditure due to the COVID-19 pandemic, secondly help to fund short term work initiatives or more generally measures to support employment and finally it will also help with the funding of healthcare measures[189]. These three points created the Eligible Social Expenditure which built up the requirements for countries to receive these loans. They form a set of rules which make the member states eligible to receive this funding and outlines regulation which countries need to follow once funding has been granted.

The EU SURE Social Bond remains currently "the largest supranational transaction ever launched" [190]highlighting its importance and could realistically only be surpassed the European Union agrees to maintain the use of bonds in order to fund other parts of the budget on a more long-term basis namely regarding the green transition.

In short, "the European Commission has made a first step towards entering the major league in global debt capital markets. […] The successful launch is a vote of confidence in the European Union as issuer and borrower"[191].

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[189] European Commission, 2020, "EU SURE Social Bond Framework", Directorate-General for Communication, European Commission. (p. 6)

[190] European Commission, 2020, "Press Release: European Union EUR 17 billion dual tranche bond issue due October 4th, 2030 and 2040", European Commission Press. (p.1)

[191] *Ibid*. (p.1)

Chapter III. An opportunity for the Euro?

3.1 Limitations of EU SURE and its Social Bond

This approach to funding was necessary in order to provide countries with the means to overcome the economic impacts of the on-going COVID-19 pandemic. It has been pivotal to the recovery effort but also necessary for the European Union in order for it to maintain its status and importance on the world stage. The European Union has also shown that it can learn from previous mistakes as was seen with the approach taken by NGEU and the EU SURE programme, which have tried not to recreate the problems associated with the Greek bailout. Nonetheless, there are certain issues both regarding the recovery plans in themselves as well as in the funding mechanism, which need to be addressed.

Firstly, the recovery plans have certain underlying issues. Namely that the EU SURE programme is potentially too small [192] and therefore will only have a limited impact on the national economies. In fact, if "Italy were to borrow from SURE €20 billion at 0% for 10 years, instead of the 1.8% it would pay the markets, at the time of writing. Italy would then save around €360 million per year. Considering its forecast deficit of 11.1% of GDP in 2020, i.e. around €200 billion, SURE would cover 10% of the new debt incurred this year, and thus reduce borrowing costs on this new debt by 10%. Given the relatively low level of the spread between the two, this would only represent savings equivalent to 0.02% of Italy's GDP"[193]. Furthermore, the issue of reputation could play a role as financial institutions and rating agencies are aware that these countries have received help from the SURE programme and it could therefore impact them on future loans or bond sales[194]. Taking help from such programmes could be seen as a sign of weakness and could lead to less favourable terms for these countries in the future.

Beyond this issue, the EU SURE programme is a short-term emergency recovery initiative and potentially does not provide the long-term support that certain countries will require over the coming years [195]. This role has been delegated to the Next Generation EU plan, which has also been previously described, which in turn is set to merge the recovery and the green transition

[192] Claeys G., 2020, "The European Union's SURE plan to safeguard employment: a small step forward", Bruegel Publishing.
[193] *Ibid.*
[194] *Ibid.*
[195] Claeys G., 2020, "The European Union's SURE plan to safeguard employment: a small step forward", Bruegel Publishing.

that the European Union has embarked on together. This choice to combine these two important goals seems obvious and important even if it could potentially have damaging effects. In fact, focusing on both at the same time can be seen as a more efficient allocation of resources but could distract from the main objectives and remove some of the programme's strength.

Moreover, both the EU SURE and NGEU have limits on how the liquidity provided can be spent namely requiring a large percentage of it to be spent on the green transition and on digitalisation. The pandemic has affected all parts of society but not equally, inequalities vastly increased in this time [196] with large wealth increases for the richest individuals[197]. The difference in living conditions were also highlighted during the lockdowns as a family living in an overcrowded apartment struggling to support their children's online school had a much tougher time than others for example. The issues lie in the fact that due to the focus on the green recovery and digitalisation it does not necessarily support the most affected part of society, which are already left behind in the modern-day context. A green transition and digitalisation is heavily reliant on innovation and modernisation, which usually requires a level of higher-education. The share of the population which has been affected the most during the pandemic works in low-income and low-qualification jobs which are set to disappear because of these innovations and the digitalisation of our lives. To some extent these plans fail to include these parts of society to the full extent in this transition which further cements a divided society between those able to benefit from these changes and those struggling on low paid jobs.

Secondly, the newest and most ground-breaking aspect of these recovery plans is the new approach to funding. Even if it has proven to be an affective mechanism to generate funds some issues are still present and it highlights the scepticism of some countries.
Firstly, the debate of 'by who and for who' was major as these programmes are Commission initiatives with the backing of the ECB but are heavily reliant on the Euro but some of the countries receiving these funds are not in the Eurozone and profit from its strength. Some of them were not allowed to join as they did not fit the criteria but others have opted out. One could say that a ECB programme which is heavily financed by the Eurozone with some

[196] Ferreira, F. H. G., 2021, "Inequality in the time of COVID-19", Finance and Development, June 2021 Issue, International Monetary Fund. (p. 21)
[197] Peterson-Withorn C., 2021, "How Much Money America's Billionaires Have Made During the Covid-19 Pandemic", Forbes Online.

countries from the Eurozone receiving no funds such as France or Germany [198] that there is a certain lack of fairness in the project. It arcs back to the long-standing debate with net-givers and net-takers in the European Union and the discrepancies there. Still, even if there is a certain unfairness, there is also a key advantage for the net-givers which explains their willingness to be part of such programmes. In fact, countries like Germany which are net-givers have economies which are export base and therefore need a strong Euro and its strength can only be reinforced if all countries have strong and stable economies. Furthermore, a large part of its exports is targeted towards the EU and Germany needs to have these nations be strong economically in order for them to be able to purchase its goods. The gains that these countries get are not direct but indirect through the overall economic repercussions. Even if such programmes are often criticised especially by the frugal four for giving unfair advantages to certain countries, they can still provide advantages for net-givers.

Another major issue is the lack of diligence and control on the funds from the EU institution, a lesson that potentially has not been fully learned from the financial crisis and the Greek bailout. As previously mentioned, Greece had falsified a fair amount of data in order to join the Eurozone and to mask a large extent of its financial difficulties. The EU has worked to restrict such practices regarding this round of recovery packages but nonetheless certain issues have arisen namely with Spain getting loans backed by funding its was to receive from the European Union even before the budgets were approved [199]. Concretely, Spain is borrowing from the capital markets against the security of the funds to be received from the EU in order to have quicker access to funding. This loan was put in place in order for the current government to increase its public spending and have a higher change of being re-elected. Spain sees loans as an advance on the upcoming funds [200] but this situation makes it very complex for the EU to apply the Eligible Social Expenditures criteria to the borrowed money. The Commission did warn Spain publically but no action was taken against the country[201], which now has total freedom over how the newly borrowed funds are spent. The Union needs to be wary and diligent regarding the spending of these loans in order to limit the risk of countries which are already in difficult situations to default on loans.

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[198] European Commission, 2021, “The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)”, Directorate-General for Communication, European Commission.
[199] Dombley, D. and Khan M., 2020, “Spain plans to use €750bn EU recovery fund to boost economy”, Financial Times.
[200] *Ibid.*
[201] *Ibid.*

The issue of the legality of this funding mechanism was also questioned, especially in Germany where it went to the Constitutional Court to be in the end accepted [202] but the issue remains nonetheless present as this allocates more powers to the supranational distancing further some of the decision making from the citizens.

Finally, some smaller issues have also arisen namely the question of inflation, with this much money being injected in the economy how would inflation react. Some economists have argued it could be helpful as it would reduce the proportional level of debt of countries [203] but countries such as Germany are strongly opposed to a rising inflation as it does not fit in their long term macro-economic strategy. It nevertheless remains a risk the EU could face in the coming years due to the large-scale cash injections in the economy. Building from this, the capital markets will at some point have a limit on the borrowing for the EU and its member states but this should not be reached soon and there will be indicators before reaching it which would include a potential raise in interest rates. This risk can also be compiled with the one of the EU states defaulting on its repayments to the Commission and the ECB. This would be an unknown and the Union should be prepared and have an action plan in this eventuality. Indeed, offering loans at AAA rates to countries which are Ba3 [204] in the case of Greece for example can be a risky practice and the EU has to be ready in case of a default.

Beyond these limitations, the necessity of this programme is not to be minimised and such help also highlights the importance of the European Union and the key aspect of solidarity that runs in its core between member states. The recovery packages and funds are pivotal for many European states and these limitations are not and should not be a restriction for the implementation of such a programme. It also portrays the Union as solid and jointly together and supporting each other at a time when it is getting challenged like never before.

3.2 The economic impact of NGEU and other recovery programmes

Assessing the impact of these recovery plans and the funding mechanism around it is complex yet pivotal. With less than a year since the start of the issuance of these bonds and the spending

[202] Schwarzer, D., 2020, "DGAP Policy Brief: Pushing the EU to a Hamiltonian moment", Policy Brief 2020-10, German Council on Foreign Relations (DGAP). (p. 2)
[203] Smith N., 2020, "Inflation is the way to pay Coronavirus debt", Bloomberg Online.
[204] Moody's, 2020, "Moody's upgrades Greece's rating to Ba3, outlook remains stable", Moody's Investor Service.

budgets still under approval and not all the fund having been delivered it is difficult to fully comprehend and grasp what the medium to long term impact will be. In the short run these programmes have been very beneficial and have helped member states to mitigate the short term budgetary issues that the COVID-19 pandemic brought beyond the medical crisis. Nonetheless there has been some research in the field so far which can provide some guidance regarding the impact of these mechanisms mainly produced by EU institutions.

The European Central Bank has developed its own macroeconomic analysis model *The EAGLE* model which helps to provide a macroeconomic understanding of policies, it is "a micro-founded multi-country DSGE model"[205] (Dynamic Stochastic General Equilibrium) meaning it is focused on macroeconomic analysis for national and supra-national organisation based on historical data sets in order to provide future predictions. This model bases itself on multiple factors which include "nominal price and wage rigidities, capital accumulation and international trade in goods and bonds, which makes it particularly suited to account for cross-border spill-overs" [206] as well as "a rich fiscal block, which includes public investment that contributes to a productive public capital stock"[207]. The ECB is using this model in order to try to understand and predict the future impact of the NGEU programme. Two assumptions need to be accepted before applying the EAGLE model. Firstly that "the model is calibrated with the euro area split into five blocks – Germany, Spain, France, Italy and the rest of the euro area 6 – while the sixth block covers the rest of the world" [208] which allows for the consideration of the spill-over effect as well as specific allocation of funds. Secondly, it "has been adapted to include an entity that pays out grants to Member States and runs up a debt to finance them, which represents the part of the NGEU budget that applies to the euro area"[209].

Based on these metrics the ECB was able to derive three models, which shine a light on the impact of the NGEU programme based on the use of funds.

Firstly, the funds could be used for productive government investment. Such an approach would bring a large increase in output and "in the short term, public investment boosts demand for final goods and, in turn, demand for labour and capital"[210]. This in turn affects and increases

[205] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p.8)
[206] *Ibid. (p. 8)*
[207] *Ibid. (p. 8)*
[208] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p.8)
[209] *Ibid (p. 8)*
[210] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 10)

domestic investment and consumption and lifts income and private capital. In the long run, these funds would lead to a build-up in government capital stock, which boosts the productivity of the economy. This could in fact lead to a "domestic output features a persistent increase, which for the euro area for grants and loans combined peaks at around 1.5% of GDP in 2025"[211]. This would also play a role in reducing inflation due to the increase in public capital, which in short reduces the marginal cost of a company.

The NGEU programme is also build around a set of grants that have a different impact. Indeed, grants boost output further but "grants have a larger impact on output per euro in the four largest countries and in the euro area as a whole, and in the euro area as a whole"[212]. This can be explained by the fact that grants are not included in a country's national debt leading therefore to a reduction in the debt to GDP ratio. The loans previously described have the opposite impact as "the increase in the government debt ratio leads to a crowding-out of private investment and creates a need for fiscal consolidation after the NGEU disbursement horizon"[213]. Due to the larger nature of the grants "the fiscal stimulus financed by grants has larger spill over effects than the stimulus financed by loans"[214].

Secondly, NGEU funds could be used for fiscal transfers. As the graphs bellow demonstrate, the "fiscal transfers are not specifically targeted at cash-constrained consumers, which implies a low stimulating effect"[215]. Indeed, these fiscal transfers are linked to smaller economic boost then the scenario described previously. The increase of the Eurozone GDP for loans and grants combined would only reach 0.25%, a small amount compared to the previous 1.5%[216]. As these fiscal transfers "have no impact on the productive capacity of the economy, besides relatively small short-lived demand effects, the impact on output is not only much more muted but also less persistent" [217] than in the previously described impact model. This impact of both the loans and grants are highlighted in the graphs bellow.

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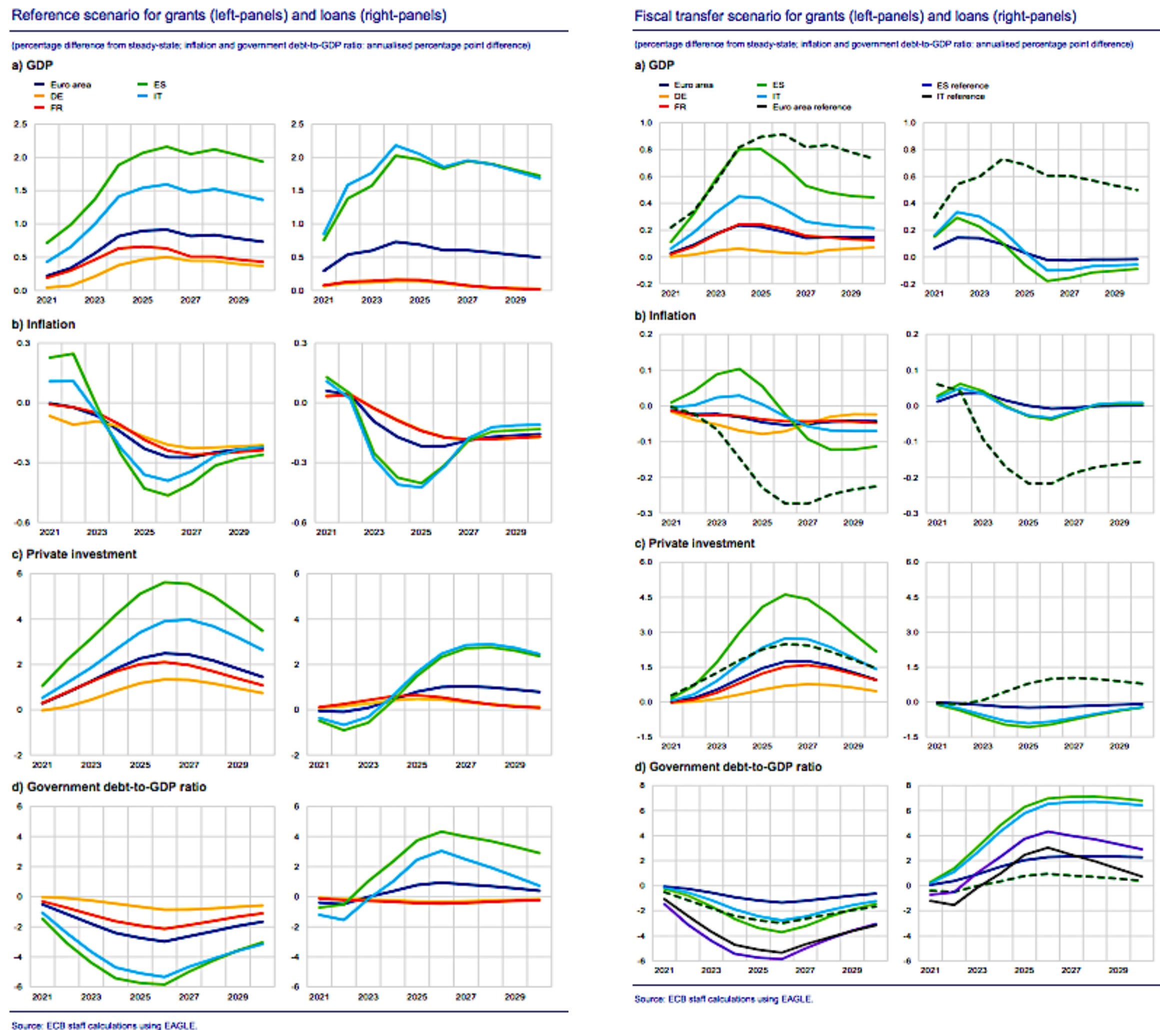
[211] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 10)
[212] *Ibid (p. 11)*
[213] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p.11)
[214] *Ibid (p. 11)*
[215] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 11)
[216] *Ibid (p. 11)*
[217] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p.11)

NGEU Impact on GDP, inflation, private investment and debt to GDP ratio based on EAGLE model predictions for productive government investment (left) and fiscal transfer (right) for grants and loans[218]



Thirdly, these funds could be used for debt servicing and replacement. In fact, "through a reduction in the financing costs for the private sector, swapping outstanding government debt with NGEU loans has a positive effect on output that would be sustained for the duration of the loans"[219]. Nonetheless, these loans and grants realistically only represents a small proportion of the total debt levels of the Eurozone countries, marginalising the impact of such an approach.

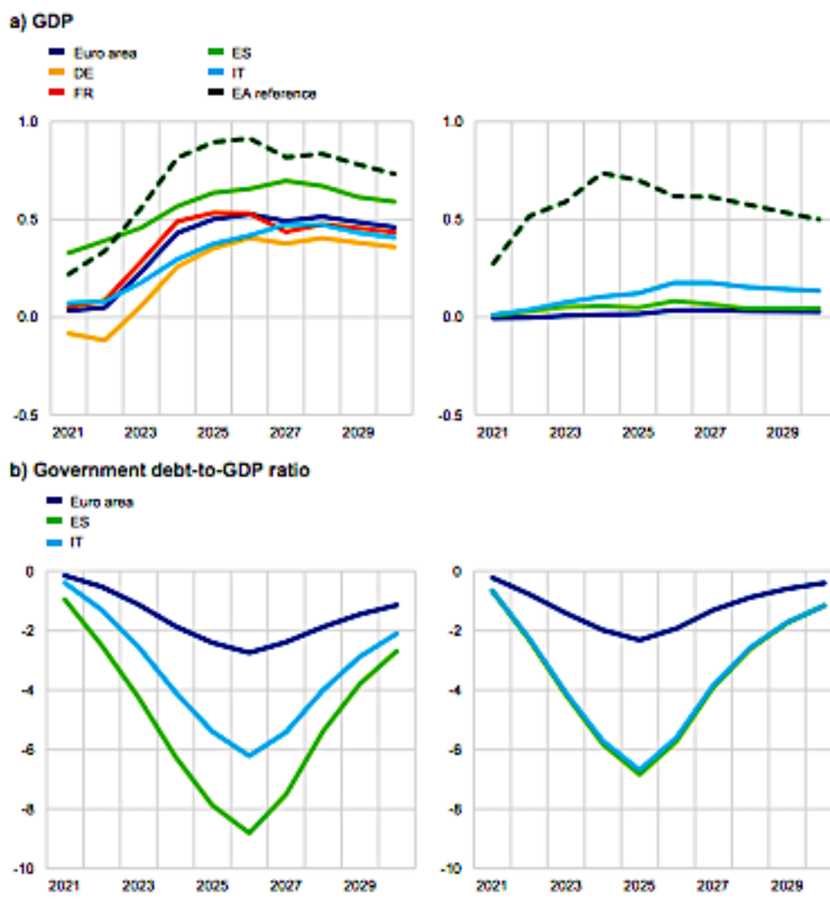
[218] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 12-13)
[219] *Ibid.* (p. 14)

Overall the impact this funding approach has is small compared to the first model while it remains similar to the fiscal transfer approach previously discussed. Furthermore, the use of grants is more potent than loans when looking at the servicing of debt as loans only reduce the premium for non-AAA rated countries and marginally gain from the spill over effect from other Eurozone countries [220] as highlighted in the graphs below. In fact, "The combined output effect of using NGEU funds for debt repayment and replacement in high-debt countries and for public investment in low-debt counties peaks at around 0.5% of GDP for the euro area as a whole"[221].

NGEU Impact on GDP and debt to GDP ratio based on EAGLE model predictions for debt repayment scenario for grants and loans[222]

Debt repayment /replacement scenario for grants (left-panels) and loans (right-panels)

(percentage difference from steady-state; government debt-to-GDP ratio: annualised percentage point difference)



Source: ECB staff calculations using EAGLE.

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[220] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 14)
[221] *Ibid.* (p. 14)
[222] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 15)

Overall, these predictions using the EAGLE model seem to show a positive outlook for the NGEU programme with a clear edge for the productive government investment use of these funds. In fact, establishing "the NGEU instrument as a European response to the economic fallout from the COVID-19 pandemic offers the possibility for a sizeable increase in output growth and economic resilience"[223].
Beyond the EAGLE model, other models can be used to try to gain an understanding of the impact of such programmes. Indeed, other models such as ECB-BASE and BME which are focused respectively on empirical data, structural specification and government investment for the first, while the second model focused more on macroeconomic variables and assumptions derived from them[224]. Both these model in addition to the EAGLE one mentioned in depth previously offer a similar picture of a positive impact of the NGEU programme.

Other impact analyses offer a similar picture, a study expects "a 1-1.5% annual average demand boost" [225] over the 2020-2024 period as "investment means spending in physical and human capital, which itself immediately feeds into aggregate demand" [226]. But beyond the economic impact, the political message associated to this programme is pivotal as it shows that "by issuing a sizeable amount of joint debt, the EU is sending out a strong signal to the world and financial markets that they are 'here to stay'"[227]. This is important also in a post Euro crisis and post Brexit context throughout which the EU has to maintain credibility and show investors that the Union is willing to invest for growth while being turned towards the future. The political message is not to be minimized and will provide support long term for the EU and its member states.

There also seems to a be a consensus on the fact that "public investment should play an important role in fiscal packages allocated for the recovery, to promote job creation and private investment in the near term and to increase productivity, make progress toward the SDGs, and

[223] Bańkowski K., et al., 2021, "Occasional Paper Series: The macroeconomic impact of the Next Generation EU instrument on the euro area", No 255 / January 2021, European Central Bank. (p. 18)
[224] *Ibid*. (p. 18)
[225] Boonstra W. et al., 2020, "EU recovery fund: What will be the impact?", Rabo Economic Research, Rabobank. (p.6)
[226] *Ibid*. (p. 6)
[227] *Ibid*. (p. 7)

strengthen resilience to crises in the longer term"[228]. Due to its nature, it helps to resolve economic issues on different levels from the increased investment leading to an increase in employment which in short leads to an increase in the purchasing power of the country's population. Still, the pandemic's uncertainty and lack of clear timeline makes it difficult to estimate the necessary size of these packages, especially when faced with such an unprecedented crisis. Nonetheless, there is a clear need for prioritisation when looking at the public investment which firstly should focus on upgrading existing projects, then identify the short and long-term projects which can realistically be implemented in this timeframe before finally increasing and tightening the selection procedure for projects in order to guarantee effectiveness[229]. These key steps will play a role in the long-term impact of the recovery programmes as the effective allocation of resources needs to be prioritised, something which can be complex on such large-scale programmes.

3.3 A bright future ahead for the Euro?

This revolutionary approach to a recovery programme and to funding comes from lessons learned through previous crises during the two decades life of the Euro. As mentioned previously, the recovery programmes are not only designed to learn from the past but also to take advantage of the current difficult situation in order to facilitate the green transition and the digitalisation process the EU is undertaking. This is the case for both the previously described Next Generation EU and the SURE programme which have set out spending targets and limits in specific fields in line with the union's overarching goals.

Looking at the future of the Euro, it is fair to say that through the COVID-19 economic recovery, the Euro has helped to seal its status as the world's second strongest currency while making a step towards more integration with the common issuing of debt. Even if criticised and if limitations are clearly present within the programmes and with the funding mechanism, there is no question that the step had to be taken, otherwise risking an implosion of the Eurozone with dramatic impacts on the European Union. The EU and ECB have learned from previous mistakes and will hopefully keep learning in order to continuously improve the Eurozone and

[228] IMF, 2020, "FISCAL MONITOR: Public Investment for the Recovery, Chapter 2", IMF. (p. 47)
[229] IMF, 2020, "FISCAL MONITOR: Public Investment for the Recovery, Chapter 2", IMF. (p. 36)

its effectiveness. The Greek crisis could have led to a country splitting away from the Eurozone and the pandemic offered a new challenge towards which the EU had to be fast to react to.
The combination of both crises led to the introduction of the recovery plans on a scale never seen before with a ground-breaking approach of gathering funds on a supranational level, sealing the short to medium term future of the EU. Issues mentioned in the limitations of the programmes could arise, namely problems of a multi-speed Europe with not all countries adopting the common currency, big differences and gaps in economic strength between member states, the long-term risk of offering AAA rates on loans to none AAA rated countries... These issues could pose a problem to the Euro in the long run but the Union's resilience and adaptability should provide the EU with the chance to mitigate these issues.
Going back to the long-term goals the recovery programmes are in line with aims set before the start of the pandemic as the 2017 White Paper on the future of Europe, laid out five different scenarios for different policy areas. The section on the EMU, under the 'carrying on' and 'doing much more together' scenarios respectively states that member states should focus on "incremental progress on improving the functioning of the euro area"[230] for the first and "economic, financial and fiscal Union is achieved" [231] for the second scenario. The recovery programmes and their funding sit perfectly in between these scenarios and once again shows the importance of taking advantage of crises situations to bring change about. For the EU budget section, the picture is similar with the 'carrying on' scenario calling to "partly modernised to reflect the reform agenda agreed at 27" [232] and the 'doing much more together' scenario aiming to "significantly modernised and increased, backed up by own resources; a euro area fiscal stabilisation function is operational"[233].
This shows that the COVID-19 pandemic offered an opportunity for the European Union to get closer to some of its goals laid out in 2017 for its 2025 horizon. The Euro is pivotal for the union and the EU will protect it at all costs as was seen during the last two crises, meaning the future of the Euro is safe, it is here to stay and depending on likelihood of the common issuing of debt mechanism being used to fund the green transition further it is likely to play an ever-greater role in the coming years. Nonetheless, the EU needs to be careful regarding using

[230] European Commission, 2017, "White Paper on The Future of Europe: Reflections and scenarios for the EU27 by 2025", European Commission. (p. 29)
[231] Ibid. (p. 29)
[232] Ibid. (p. 29)
[233] European Commission, 2017, "White Paper on The Future of Europe: Reflections and scenarios for the EU27 by 2025", European Commission. (p. 29)

economic tools in order to achieve political goals without fully taking into consideration the potential impact and fallout of such measures. The EU throughout the years has seen its economic policy usually as a mere tool to satisfy political desires, such an approach is risky but can prove fruitful if approach with the correct considerations.

Conclusion

Going back to the research question to what extent is the issuing of common debt a targeted answer to the COVID-19 pandemic or a further step towards European economic and monetary integration? a few core points can be outlined based on the previous argumentation. This argumentation starts with a historical take on the economic integration within Europe and the European Union before understanding its culmination with the introduction of the common currency, the Euro. The two crises that the EU has faced over the past decade are then analysed in order to understand which events led to the learnings which have helped to build up the COVID-19 recovery programmes and the common issuing of debt. These have then been looked at in terms of their content, funding, limitations and their impact, which has led to the possibility of this assessment of whether this funding mechanism is sustainable in a post pandemic context.

On the one side, the common issuing of debt can be seen as a targeted answer to the COVID-19 pandemic. In fact, the European Union is not faced with a Euro crisis unlike in 2012 and so far, the economies of member states have been on steady paths to recovery. The decision to implement these programmes and this funding approach comes mainly from a political stance, which explains the inclusion of non-Eurozone members as recipients of the EU SURE programme for example. It could be argued that there is no necessity to implement such drastic long-term changes without fully knowing the impact it will have on the EU and on individual member states. All European countries are able to get loans and financing on the capital markets at rates based on their sovereign risk rating which is not taken into consideration for the pandemic recovery programmes. The impact of these lending practices is yet to be determined for the long-run even if so far based on the EAGLE model and other predictions the programmes will reach their desired impact if implemented properly. Furthermore, the other limitations highlighted previously in this essay including the unequal benefits or the issue of multi speed Europe could play a role in limiting the long-term sustainability of the common issuing of debt in the near future, as a means to finance the European Green Deal for example.

Finally, Germany as one of the driving forces of Europe, needs to be fully committed to such an approach. France alone would not be able to hold the candle for this programme and needs its neighbour and partner's help to make this project a viable long-term commitment. Sadly, in a recent interview with the Financial Times Armin Laschet, the CDU candidate and favourite

so far for the upcoming 2021 Chancellery elections in Germany, has described the use of common issuing of debt as a “one off” [234] mechanism in the fight against the pandemic. He stated that “the basic idea is to avoid a situation where one country is liable for the debts of another . . . and this principle still applies”[235]. This stance, from the candidate most likely to replace current Chancellor Angela Merkel does not offer a positive outlook for a more economically integrated Europe, as Germany would turn back towards its more conventional approach to debt and government expenditure.

On the other side, on a more positive and optimistic note the common issuing of debt and the recovery packages it is funding have had overall a very positive economic and political impact on member states which have received the funds. Based on the previously described EAGLE model these should help to boost member states economies while offering a much smaller burden for member states due to preferential rates and the use of grants. If this practice is normalised it could also help to remove some of the further burden on member states who overall suffer from large debt to GDP ratios while funding new EU projects including the green transition in order to meet the 2050 carbon neutrality target. Taking a federalist approach to European integration, this advancement seems like a next logical step to take, especially now that a large part of the specifics has been outlined and that the programme has been tested. It would be a means to offer more economic convergence within the union and help it to maintain its strength and influence on the international stage.

To conclude, the possibility is there to take advantage of the situation to advance and deepen economic and monetary integration in the European Union. It is such difficult times that changes can be made as such projects require a deeper founding moment. Certain limitations and the long term economic sustainability of the programmes need to be ironed out before a wider scale implementation potentially on the European Green Deal for example. The common issuing of debt nonetheless offers the European Union a unique opportunity to deepen the economic integration and set the union on track for the upcoming years.

[234] Chazan G. and Khalaf R., 2021, “FT interview: Armin Laschet on Merkel, the Greens and fiscal rules”, Financial Times.

[235] Chazan G. and Khalaf R., 2021, “FT interview: Armin Laschet on Merkel, the Greens and fiscal rules”, Financial Times.

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