The importance of 'Welfare Intestate Organizations':

The case of the European Union and its response to the COVID-19 crisis

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Abstract: In contemporary capitalism, interstate organizations must assume a more decisive role in meeting the fundamental needs of people because the state, the market and the family and other traditional forms of provision are not capable of ensuring this alone. In this system, the state must mobilize national policies to stimulate spending decisions. But the stimulus needed to ensure that everyone who needs to sell their labor force on the market in exchange for money can find a buyer may be beyond their capacity. In this case, interstate organizations must mobilize international policies to complement and reinforce states and national policies. The European Union is one of the most complex interstate organizations ever created, but it has always been reluctant to take on a more decisive role in meeting the fundamental needs of people. Contrary to what one might expect, it has always contributed to the weakening of national policies without compensating this process by the strengthening of international policies. The outbreak of the COVID-19 crisis in a region that had not yet recovered from other crises created favorable conditions for the European Union to finally assume a more decisive role in meeting the fundamental needs of people. In a change from what had been done until then, it contributed to strengthening national policies at the same time it strengthened international policies. This is particularly evident in the case of monetary policy and fiscal policy. In the case of monetary policy, it adopted measures that secured resources when these resources became more necessary with longer terms and lower prices. In the case of fiscal policy, it adopted measures that ensured member states had more flexibility to manipulate their revenues and expenses at the same time they had the support of the revenues and expenses of the organization. All of this certainly contributed to the effects of the crisis being less profound and lasting in the European Union than they could have been. The response of the European Union to the COVID-19 crisis proves the importance of strengthening ties of solidarity and commitments to mutual protection, not only at the national level, but also at the international level. It also proves the resilience of this regional integration project that arose from the perception that countries have much more to gain if they work together for common interests than if they work alone for particular interests.

Key-words: Welfare State; Regional Integration; European Union; COVID-19.

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1 Introduction

Contemporary capitalism demands new and bolder forms of solidarity to ensure that everyone, everywhere, is able to meet their fundamental needs and live a dignified life, in the sense that they have the possibility to do and to be what they are capable and desire.

The time has come for Welfare Interstate Organizations. More than ever, interstate organizations must take on a more decisive role in meeting the fundamental needs of people because the state, the market and the family and other traditional forms of provision are not capable of ensuring this alone.

The European Union is one of the most complex interstate organizations ever created. From its first steps, it resisted taking on a more decisive role in meeting the fundamental needs of people in relation to the state, the market and the family and other traditional forms of provision. To some extent, this changed after the outbreak of the COVID-19 crisis.

The objective of this paper is to analyze the importance of interstate organizations in meeting the fundamental needs of people in contemporary capitalism considering the case of the European Union and its response to the COVID-19 crisis.

In this sense, the paper is divided into five more sections in addition to this introduction. In the second section, the concept of Welfare Interstate Organizations is presented. In the third section, the importance of Welfare Interstate Organizations in contemporary capitalism is discussed. In the fourth section, the characteristics of the European Union are examined. In the fifth section, the response of the European Union to the COVID-19 crisis is analyzed. And, in the sixth section, the conclusions are presented.

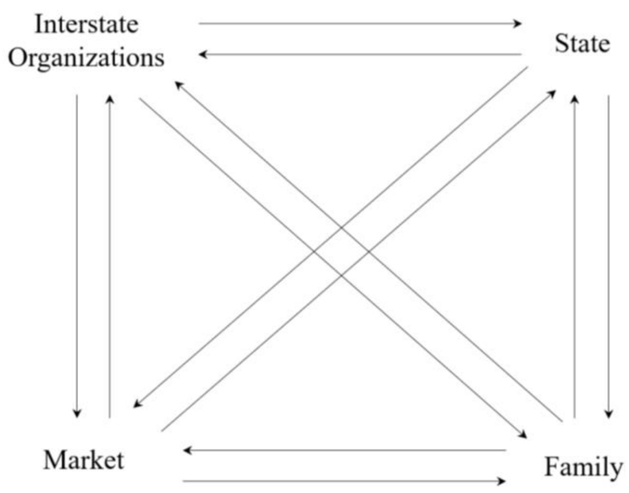
2 Welfare Interstate Organizations

Social protection mechanisms are mechanisms that meet the fundamental needs of people, that is, interstate organizations, the state, the market and the family and other traditional forms of provision, such as friends, professional associations or philanthropic institutions.

Meeting the fundamental needs of people means protecting people against situations that may prevent them from living a dignified life in the sense that they have the possibility to do and to be what they are capable and desire and, therefore, to fulfill their potential and to self-realize, such as hunger, cold, illness, homelessness, squalor, abandonment, ignorance, violence or unemployment. It means ensuring that people have access to adequate food, clothing, healthcare, housing, sanitation, transport, security, education, culture, leisure, care and work.

The set of social protection mechanisms defines the social protection system and the division of responsibilities in meeting the fundamental needs of people between social protection mechanisms defines the form of the social protection system, as shown in Figure 1. This division of responsibilities between interstate organizations, the state, the market and the family and other traditional forms of provision is constantly changing through the transfer of these responsibilities between them[2].

Figure 1: Social protection system and social protection mechanisms



Source: Own elaboration.

In this context, Welfare States are states that take on a more decisive role in meeting the fundamental needs of people in each country. This means that meeting the fundamental needs of people is considered a right derived from their participation in the national community. It is a responsibility of this entire national community.

States can assume a more decisive role in meeting the fundamental needs of people through the mobilization of national public policies, which bring together the instruments through which they can intervene in the reality of each country.

The profile of national public policies, or the form of state intervention, is the result of political processes that occur at the national level, involving individuals and legal entities, interests, ideas, preferences and power and the factors that affect these variables, such as ongoing economic, social and political events or the more or less formal norms that guide social life.

Equivalently, Welfare Interstate Organizations are interstate organizations that take on a more decisive role in meeting the fundamental needs of people in different countries. This means that meeting

[2] Cf. Di Giovanni (1998) and Wolf (2019).

the fundamental needs of people is considered a right derived from their participation in the international community. It is a responsibility of this entire international community.

Interstate organizations can assume a more decisive role in meeting the fundamental needs of people through the mobilization of international public policies, which bring together the instruments through which they can intervene in the reality of different countries.

The profile of international public policies, or the form of interstate organization intervention, is the result of political processes that occur at the international level, involving individuals and legal entities, interests, ideas, preferences and power and the factors that affect these variables, such as ongoing economic, social and political events or the more or less formal norms that guide social life.

3 Contemporary capitalism and Welfare Interstate Organizations

In capitalism, people who do not have money to buy what they need on the market are forced to sell their labor force on the market in exchange for money or to resort to the support of the family and other traditional forms of provision that also depend on those who have money or sell their labor force on the market in exchange for money.

There are different views on the ability of people who need to sell their labor force on the market in exchange for money to find a buyer. Among these views, the mainstream macroeconomic view and the Post-Keynesian view stand out.

According to the mainstream macroeconomic view, everyone who is willing to sell their labor force at the current real wage will find a buyer, unless there are 'market failures'[3].

For this view, the level of product and income is determined in the goods and services market by the supply and demand for goods and services. The level of supply of goods and services is determined by the level of employment determined in the labor market for each price level. The level of employment is determined in the labor market by the supply and demand for labor at each real wage level. The supply of labor is negatively determined by the marginal disutility of labor. The marginal disutility of labor is the dissatisfaction generated by the supply of an additional unit of labor. The demand for labor is positively determined by the marginal productivity of labor. The marginal productivity of labor is the product generated by the demand for an additional unit of labor. The level of demand for goods and services is determined by the level of consumption and investment determined in the loanable funds market for each price level. The level of consumption and investment is determined in the loanable funds market by the supply and demand for loanable funds for each real interest rate level.

[3] Cf. Snowdon and Vane (2005), Arestis (2011) and Froyen (2013),

The supply of loanable funds is negatively determined by the marginal disutility of present consumption in relation to the utility of future consumption. The marginal disutility of present consumption in relation to the utility of present consumption is the dissatisfaction caused by giving up a unit of consumption in the present in favor of consumption in the future. The demand for loanable funds is positively determined by the marginal productivity of capital. The marginal productivity of capital is the product generated by the demand for an additional unit of capital.

The movement of prices, nominal wages and nominal interest rates is what ensures that supply is always equal to demand in all markets. If supply is greater than demand for goods and services, labor and loanable funds, prices, nominal wages and nominal interest rates increase, leading to a reduction in supply and an increase in demand. But if the supply is lower than the demand for goods and services, labor and loanable funds, prices, nominal wages and nominal interest rates decrease, leading to an increase in supply and a reduction in demand.

Supply may remain greater than demand for goods and services, labor and loanable funds if there are factors that make adjustment difficult. In this case, states can mobilize national policies to accelerate this process, reducing interest rates, lowering taxes and increasing public expenditures. Maintaining these stimuli after the adjustment has been completed will only result in increases in prices, nominal wages and interest rates. To avoid these excesses, national policies must follow rules establishing limits on how far they can go, such as targets for the inflation rate, fiscal results or public debt.

According to the post-Keynesian view, not everyone who is willing to sell their labor force at the current price will find a buyer as a consequence of the system's own operating logic[4].

According to this view, the level of employment is determined by the supply and demand for labor. The demand for labor is determined by production decisions, which are determined by the expected expenditure at the time when deciding how much to produce and to hire, since one does not hire or produce if one does not expect to sell what was produced by hiring. Spending decisions are determined by consumption and investment decisions. Consumption decisions depend positively on the marginal propensity to consume of those who have money. The marginal propensity to consume is the increase in consumption resulting from an additional unit of income. Investment decisions depend on the decisions of those who have money to give up the security it provides in relation to an unknown future in favor of other assets and depend negatively on interest rates and positively on the expected rate of return on capital. The interest rate is determined by the price of bonds and the future income

[4] Cf. Keynes (1936, 1937), Dillard (1986), Davidson (1994) and Carvalho (1992).

promised by these bonds. The expected rate of return on capital is determined by the price of capital and the expected future income from the use of this capital.

Changes in expectations and uncertainty about the future affect the preference for money over other assets and lead to changes in bond prices, capital prices and expected future returns on capital, leading to variations in investments. Variations in investments lead to variations in production, employment and income, which lead to variations in consumption, which lead to new variations in production, employment and income, in a multiplier effect.

It is the nature of this system that investment and consumption are not capable of ensuring sufficient production to hire everyone who wants to work at the prevailing nominal wage level. In this case, the state can mobilize national policies to stimulate spending, reducing interest rates, lowering taxes and increasing public expenditures. It can adjust these measures according to the needs of each reality.

But states and national policies alone may not be able to provide the stimulus needed to ensure that everyone who wants to work at the prevailing nominal wage level is hired. In this case, interstate organizations must mobilize international policies to complement and reinforce the stimulus of states and national policies. It can also adjust these measures according to the needs of each reality.

This is even more important given the challenges posed by the structural transformations underway in contemporary capitalism, which include the transformation of the international structure, the financial structure, the productive structure, the corporate structure, the occupational structure, the family structure, the demographic structure and of the environmental structure[5].

The transformation of the international structure includes the increase in flows of goods and services; the increase in flows of income; the increase in flows of portfolio investment; the increase in flows of direct investment; the increase in flows of migrants and asylum-seekers; and the increase in conflicts between countries.

The transformation of the financial structure includes the increase in the use of derivatives in hedge and speculative operations; the advancement of the securitization process and the transformation of non-tradable assets into tradable assets; the transformation of banks into financial supermarkets; the strengthening of investment funds, insurance companies, pension funds and other institutional investors; the increased influence of risk rating agencies; and the growth in the participation of households and non-financial companies in financial operations.

[5] Cf. Esping-Andersen (2000), Scharpf (2000), Pierson (2001), Taylor-Gooby (2004) and Bonoli (2007).

The transformation of the productive structure includes the increase in the importance of the services sector; and the increase in the importance of technology-intensive activities.

The transformation of the corporate structure includes the expansion of mergers and acquisitions operations; the reduction in the number of companies and the increase in the size of existing companies; the expansion of operations of companies in different activities, sectors and countries; the advancement of fragmentation of value chains and the distribution of their stages between different countries by companies; the expansion of the creation of new products; the intensification of the search for new suppliers and consumers; the advancement of concentration of companies on core competencies and of the outsourcing of peripheral competencies; the expansion of just in time production and the reduction of inventories; the advancement of the separation between company ownership and administration and the increased emphasis on generating and distributing high results for shareholders.

The transformation of the occupational structure includes the reduced need for live labor; increased pressure for workers to have more complex knowledge and skills; increased pressure for workers to increase productivity; increased pressure for workers to accept greater flexibility concerning activities, sectors and countries in which they work; increased pressure for workers to accept temporary, part-time and ‘zero-hours’ contracts; increased pressures for workers to accept negotiating working conditions directly with employers; and increased participation of women in the labor market.

The transformation of family structure includes the increase in people remaining single; the increase in people who cohabitate instead of marrying; the increase in people who marry or cohabitate later; the increase in same-sex couples; the increase in couples separating or divorcing; the increase in people who do not have children or who have few children; the increase in people who have children later; the increase in children who live with just one of their parents; and the increase in people living longer; the increase in elderly people and people with special needs living alone.

The transformation of the demographic structure includes the increase in the importance of the elderly in the population.

And the transformation of the environmental structure includes the more frequent and intense occurrence of extreme phenomena and natural disasters; the advancement of the melting of glaciers and polar ice caps and the rise in sea levels; the reduction of biodiversity; the increased degradation of the soil, water and air; the increased difficulties in producing food and raw materials; the advancement of endemics, epidemics and pandemics; and the spread of infestations.

These structural transformations further reduce the ability of people to meet their fundamental needs through the market and the family and other traditional forms of provision, which makes the intervention of states through national policies complemented and reinforced by the intervention of interstate organizations through international policies even more necessary.

4 The European Union

The European Union is an interstate organization resulting from the advancement of the integration process between European countries that began in the years following the end of the Second World War. In that adverse context of destruction and deprivation, these countries were convinced that they would have much more to gain if they sought to solve their problems together based on their common interests rather than separately based on their particular interests[6].

Thus, in 1951, the Treaty of Paris created the European Coal and Steel Community. In 1957, the Treaty of Rome created the European Economic Community and the European Atomic Energy Community. In 1992, the Maastricht Treaty transformed the European Economic Community into the European Community. In 2002, the Treaty of Paris expired and the European Coal and Steel Community was abolished and its functions were incorporated by the European Community. In 2007, the Lisbon Treaty transformed the European Community into the European Union.

Throughout this process, the organization has defined the values that guide its actions. Currently, the European Union has as the values that guide its actions the respect for human dignity, freedom, democracy, equality, rule of law and human rights.

The organization has also encompassed more objectives. Currently, the objectives of the European Union are to promote peace, its values and the well-being of its peoples; to offer its citizens an area of freedom, security and justice without internal borders, in which the free movement of people is ensured together with appropriate measures regarding external border control, asylum, immigration and the prevention and combat of crime; to establish an internal market; to work for the sustainable development of the region based on balanced economic growth and price stability, a highly competitive social market economy aiming at full employment and social progress, and a high level of protection and improvement of environmental quality; to promote scientific and technological advancement; to combat social exclusion and discrimination, to promote social justice and social protection, equality between men and women, solidarity between generations and the protection of the rights of the child; to promote economic, social and territorial cohesion and solidarity among member states; to respect its rich cultural and linguistic diversity, and ensure the protection and promotion of its cultural heritage; to establish an economic and monetary union whose currency is the euro; to uphold

[6] Cf. Fontaine (2012), CVCE (2022) and the following European legislation: the Treaty on the European Union and the Treaty on the Functioning of the European Union.

and promote its values and interests and to contribute to the protection of its citizens and to peace, security, sustainable development of the planet, solidarity and mutual respect between peoples, free and fair trade, eradication of poverty, protection of human rights, especially the rights of the child, and strict observance and development of international law in its relations with the rest of the world.

The organization has also taken on more competences, meaning that it is able to act in more areas. Currently, the European Union has three types of competences: the exclusive competences of the organization, the competences shared between the organization and member states and the competences of support provided by the organization to member states.

In the case of the exclusive competences of the European Union, only the organization can legislate and adopt legally binding acts, but member states can do so if they are empowered by the organization or to implement the acts of the organization. It includes the customs union; the establishment of competition rules necessary for the functioning of the internal market; the definition and implementation of monetary and exchange rate policy, the management of foreign exchange reserves, the operation of the payment system, and the guarantee of financial stability of member states whose currency is the euro; the conservation of marine biological resources within the scope of the common fisheries policy; the common commercial policy; and the establishment of international agreements that require an act of the European Union, that are necessary for the European Union to exercise its competences, or that may affect the common rules.

In the case of shared competences between the European Union and member states, the organization and member states can legislate and adopt legally binding acts, but member states can do so only to the extent that the organization does not. It includes the internal market; the social policy, in specific areas defined by the treaties; the economic, social and territorial cohesion; the agriculture and fishing, excluding the conservation of marine biological resources; the environment; the consumer protection; the transport; the trans-European networks; the energy; the area of freedom, security and justice; the public health, in specific areas defined by the treaties; the research, technological development and space; and the cooperation for development and humanitarian aid.

And in the case of competences of support provided by the organization to member states, the organization may take actions to support, coordinate or complement the actions of member states, but the legally binding acts that the organization adopts to do so cannot imply the harmonization of legislation and regulations in member states. It includes the protection and improvement of human health; the industry; the culture; the tourism; the education, training, youth and sport; the civil protection; and the administrative cooperation.

In addition to the exclusive competences of the European Union, the competences shared between the European Union and member states and the competences of support provided by the European Union to member states, the European Union has also the competence to promote arrangements within which member states can coordinate their actions in the area of economic policy, social policy and employment, and to define and implement a common foreign and security policy, including the progressive definition of a common defense policy.

To exercise these competences, the organization has created common institutions. Currently, the common institutions of the European Union are the European Council, the European Commission, the Council of the European Union, the European Parliament, the Court of Justice of the European Union, the Court of Auditors of the European Union and the European Central Bank.

The European Council consists of its president, the president of the Commission and the heads of state or government of the member states. It is responsible for defining the general political directions and priorities of the European Union;

The European Commission or, simply, the Commission, consists of its president, the High Representative of the European Union for Common Foreign and Security Policy and the commissioners corresponding to two thirds of the number of member states. It is responsible for promoting the general interest of the European Union and adopting initiatives to that end, for ensuring the application of the European legislation, for supervising the application of European legislation, for executing the budget and managing programmes, for exercising coordinating, executive and management functions, for ensuring the external representation of the European Union when this is not the responsibility of the Common Foreign and Security Policy, for initiating the annual and multiannual programming, and for proposing legislative acts to the Council and the European Parliament.

The Council of the European Union or, simply, the Council, consists of the ministers of each member states according to the subject that is being addressed by it at a specific moment. It is responsible for exercising legislative and budgetary functions together with the European Parliament, and for carrying-out policy-making and coordination functions.

The European Parliament consists of its president plus 750 members elected by European citizens, with a maximum of 96 members and a minimum of 6 members per member state. It is responsible for exercising legislative and budgetary functions together with the Council, for exercising functions of political control and consultation, and for electing the president of the Commission.

The Court of Justice of the European Union, which is made up of the Court of Justice, which consists of a judge from each member state, the General Court, which consists of a judge from each member state, and the specialized courts, which may be set up by the Council and the European Parliament. It is responsible for ensuring that the law is observed in the interpretation and application of European legislation, for deciding on actions brought by a member state, by an institution or by an individual or legal entity, and for providing preliminary decisions on the interpretation of European legislation or on the validity of adopted acts by institutions at the request of the courts of member states;

The Court of Auditors of the European Union consists of a representative from each member state. It is responsible for auditing all revenue and expenditure of the European Union, examining whether all revenue has been received and all expenditure has been incurred in a lawful and regular manner and whether financial management has been sound.

And the European Central Bank consists of its president, its vice-president, the presidents of the central banks of member states that have adopted the euro and four other members. It is responsible for ensuring the definition and implementation the monetary and exchange rate policy, the management of foreign exchange reserves, the operation of the payment system, and the guarantee of financial stability of member states that have adopted the euro.

In carrying out their functions, the common institutions must adopt regulations, which must have general application, be fully binding and be directly applicable in all member states; directives, which must be binding regarding the objective to be achieved, with member states deciding how to achieve these objectives; decisions, which must be fully binding and directed to a specific entity; and recommendations and opinions, which are not binding.

The common institutions are also accompanied by other entities, namely agencies, bodies, interinstitutional services and joint undertakings.

In carrying out its functions, the European Union has its own resources. In specific cases, it is also allowed to borrow from the market.

Lastly, the organization has encompassed more member states. Currently, the member states of the European Union are Austria, Belgium, Bulgaria, Cyprus, Croatia, Czechia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovakia, Slovenia, Spain, Romania and Sweden.

There are member states that have obtained the right not to participate in specific areas of cooperation. Denmark has the right not to adopt the euro and not to participate in cooperation in the area of freedom, security and justice, even though it has negotiated participation in the Schengen Area of free movement of people; Ireland has the right not to participate in cooperation in the area of freedom, security and justice; and Poland has the right to make its legislation prevail over European legislation in the areas covered by the Charter of Fundamental Rights of the European Union.

There are countries that are obliged to participate in specific areas of cooperation, but that have not yet met the criteria to do so. Bulgaria, Czechia, Poland, Romania and Sweden are obliged to adopt the euro, but have not yet met the criteria. Bulgaria, Cyprus and Romania are required to participate in the Schengen Area of free movement of people, but have not yet met the criteria.

It is therefore evident that the European Union became one of the most complex interstate organizations ever created in history. However, its role in meeting the fundamental needs of people has always been quite controversial as it has contributed to the weakening of national policies without compensating this process through the strengthening of international policies.

The fact that the European Union reflects, to a large extent, the preferences of the richest member states has certainly contributed to this. There is a great confidence among these member states in the ability of the market and the family and other traditional forms of provision to meet the fundamental needs of people, with little space left to states and interstate organizations in this process.

This is particularly evident in the case of monetary policy and fiscal policy.

In the case of monetary policy, member states that have adopted the euro transferred the control over monetary policy to the Eurosystem, which is made up of the European Central Bank and national central banks. The European Central Bank defines the monetary policy and executes this policy together with national central banks. In this process, the European Central Bank and national central banks must be independent, in the sense that they must not receive instructions from the institutions of the European Union, the governments of member states or any other entity[7].

The main objective of the Eurosystem is price stability, so that it must chase an inflation rate measured by the Harmonized Consumer Price Index of 2% over a period of approximately two years.

The Eurosystem seeks to affect different interest rates with the expectation that these rates will affect demand and that demand will affect prices.

The Eurosystem has four instruments to affect different interest rates: open market operations, standing facilities, minimum reserve requirements and forward guidance.

[7] Cf. ECB (2012) and the following European legislation: the Treaty on the Functioning of the European Union.

Open market operations are operations of exchange of money and eligible assets between the Eurosystem and eligible counterparties. There are five types of open market operations: main refinancing operations, longer-term refinancing operations, targeted longer-term refinancing operations, fine-tuning operations and structural operations.

Main refinancing operations aim to provide the bulk of refinancing to counterparties and occur via reverse transactions to provide liquidity with a maturity of 1 week carried out through weekly tenders.

Longer-term refinancing operations aim to provide complementary refinancing with a longer term for counterparties and occur via reverse transactions to provide liquidity with a maturity of 3 months carried out through monthly tenders.

Targeted longer-term refinancing operations aim to provide complementary refinancing with a longer term for counterparties and occur via reverse transactions to provide liquidity with variable maturity carried out through tenders with variable frequency.

Fine-tuning operations aim to manage the liquidity situation of counterparties in the face of unexpected changes in this liquidity situation and may occur via reverse transactions to provide liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency; reverse transactions to absorb liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency; foreign exchange swaps to provide liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency; foreign exchange swaps to absorb liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency; and fixed-term deposits to absorb liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency.

And structural operations aim to change the structural liquidity position of the Eurosystem in relation to counterparties and may occur via reverse transactions to provide liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency; issuance of debt certificates to absorb liquidity with variable maturity carried out through tenders or bilateral procedures with variable frequency; outright purchases to provide liquidity carried out through tenders or bilateral procedures with variable frequency; and outright sales to absorb liquidity carried out through tenders or bilateral procedures with variable frequency.

Standing facilities are instruments through which the Eurosystem provides or absorbs liquidity from counterparties in the overnight. There are two types of standing facilities: marginal lending facility and deposit facility.

The marginal lending facility aims to provide liquidity for counterparties with occasional liquidity shortages and occur via reverse transactions to provide liquidity with overnight maturity and daily frequency to be used at the discretion of counterparties.

The deposit facility aims to absorb liquidity from counterparties with occasional liquidity excesses and occur via interest-bearing deposits to absorb liquidity with overnight maturity and daily frequency to be used at the discretion of the counterparties.

Minimum reserves requirements are instruments through which the Eurosystem absorbs liquidity from counterparties. Counterparties are obliged to maintain in the Eurosystem an amount given by applying a rate on eligible components of their liabilities. They do not need to comply with the minimum reserve requirements every day, but over a maintenance period of 6 months.

And forward guidance is the signaling of the future orientation of monetary policy by the Eurosystem based on its assessments of the future behavior of the inflation rate.

The member states that have not adopted the euro were able to maintain control over monetary policy, but it is not very different from that adopted by the Eurosystem.

This is because the central banks of countries that have not adopted the euro make up the European System of Central Banks together with the Eurosystem. And the European System of Central Banks seeks to coordinate the monetary policies of the Eurosystem and the central banks of countries that do not adopt the euro with the main objective of ensuring price stability.

Member states were able to maintain control over fiscal policy, but the European Union have established a set of constraints on the fiscal policy of member states with the main objective of ensuring the sustainability of public debt[8].

The main constraints established by the European Union on the fiscal policy of member states are the Stability and Growth Pact, the Convergence Criteria, the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, the Macroeconomic Imbalance Procedure, the minimum requirements for the budgetary frameworks of member states, the requirement to member states to ensure the reliability of their fiscal data, the requirement to member states to report debt issuance plans, the European Semester, the ban on financing of the deficits of member states by the European

[8] Cf. European Commission (2019) and the following European legislation: the Treaty on the Functioning of the European Union, Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, Treaty establishing the European Stability Mechanism, Council Regulation (EC) 1466/97, Council Regulation (EC) 1467/97, Council Regulation (EC) 332/2002, Council Regulation (EC) 479/2009, Council Regulation (EU) 1173/2011, Council Regulation (EU) 1174/2011, Council Regulation (EU) 1176/2011, Council Directive 2011/85/EU, Council Regulation (EU) 473/2013, Council Regulation (EU) 472/2013 and Council document 9344/17.

Central Bank and national central banks, the ban on mutualization of debts of member states, the control over the public finances of countries receiving financial assistance, the Enhanced Supervision, and the ban on state aid to specific entities.

In this context, member states of the European Union must comply with the Stability and Growth Pact, which is composed of a preventive arm and a corrective arm.

Within the scope of the preventive arm of the Stability and Growth Pact, member states that have adopted the euro must elaborate stability programmes and member states that have not adopt the euro must elaborate convergence programmes each year.

Stability and convergence programmes are budget programmes for a period of three years. They must specify the medium-term budgetary objective, which is a target for the structural fiscal balance over a three-year period with the aim of ensuring that the deficit is never less than the limit of 3% of GDP and that public debt converges to the limit of 60% of GDP; the trajectory of adjustment of the structural fiscal balance towards the medium-term budgetary objective; the expected trajectory of public debt; the planned growth trajectory of public expenditure; the growth trajectory of planned public revenues and a calculation of planned discretionary revenue measures; information on implicit liabilities related to the aging of the population and on contingent liabilities with a potential impact on public finances; information on the consistency of the programme with broad guidelines for economic policy and the national reform programme; the main assumptions about the economic variables that affect the implementation of the programme; an assessment of the measures that are being adopted or will be adopted to achieve the objectives of the programme, including a cost-benefit analysis of major structural reforms that have a positive and long-term impact on fiscal balances; an analysis of how changes in assumptions about economic variables can affect fiscal balances and public debt; and, if applicable, the reasons for deviations in the adjustment path of the structural fiscal balance towards the medium-term budgetary objective. Stability programmes must also specify medium-term budgetary objectives above the limit of -1% of GDP. Convergence programmes must also specify the medium-term objectives of monetary policy and the relationship of these objectives with price stability, exchange rate stability and the achievement of sustained convergence.

The Commission and the Council must evaluate the stability and convergence programmes of member states within three months after their submission.

In particular, the Commission and the Council must assess whether the medium-term budgetary objectives specified by member states are at an appropriate level.

The Commission and the Council must also assess whether the member state is meeting its medium-term budgetary objective or whether it is not meeting its medium-term budgetary objective but is on an appropriate trajectory of adjustment towards it, so that member states that have adopted the euro must be seeking an improvement in their structural fiscal balance of 0.5 p.p. per year and all member states with public debt greater than 60% of GDP must be seeking an improvement in their structural fiscal balance of more than 0.5 p.p. per year.

The Commission and Council may calibrate the necessary adjustment according to the moment. Member states that have already achieved their medium-term budgetary objective may let automatic stabilizers operate throughout the cycle. Member states that have not achieved their medium-term budgetary objective must make a greater adjustment in good times that in bad times.

The Commission and the Council may allow the structural fiscal balance to deviate from the medium-term budgetary objective or from the appropriate adjustment path towards it by up to 0.5 p.p. if member states carry out major structural reforms with a direct and long-term positive effect on fiscal balances; and up to 0.5 p.p. if countries carry out public investments necessary to carry out major structural reforms or that have an effect equivalent to structural reforms. However, the sum of the deviation allowed due to reforms or investments must not be greater than 0.75 p.p.

The Commission and the Council may also allow the structural fiscal balances to deviate from the medium-term budgetary objective or from the appropriate adjustment path towards it if member states face exceptional and temporary situations beyond their control.

The Commission and the Council must also assess the growth rate of public expenditure in relation to the medium-term potential GDP growth rate. For member states that have achieved their medium-term budgetary objectives, the growth rate of public expenditure should not be greater than the potential medium-term GDP growth rate, unless the excess is matched by discretionary revenue measures; for member states that have not achieved their medium-term budgetary objectives, the growth rate of public expenditure should not be greater than a growth rate lower than the medium-term potential GDP growth rate and sufficient to ensure the appropriate adjustment of the structural fiscal balance towards the medium-term budgetary objective, unless the excess is matched by discretionary revenue measures, and discretionary revenue reductions must be matched by either expenditure reductions or discretionary increases in other revenues or both.

The public expenditure considered by the Commission and the Council must not include interest expenditure, expenditure on European Union programmes fully matched by European Union funds revenues, and non-discretionary changes in the expenditure on unemployment benefits. The public expenditure considered by them must also be net of discretionary revenue measures.

The Council, based on a recommendation from the Commission, must issue an opinion on the stability and convergence programmes. If it understands that programmes need to be improved, it must use this opinion to invite the member state to make the necessary adjustments in its programme.

The Commission and the Council must monitor the implementation of stability and convergence programmes with the aim of avoiding excessive deviations.

In the case of a member state that has not achieved its medium-term budgetary objective, the deviation will be considered excessive if the deviation of the structural fiscal balance from the appropriate adjustment path in relation to the medium-term budgetary objective is at least 0.5 p.p. in a single year or at least 0.25 p.p. on average per year in two consecutive years; and if an excess of the public expenditure growth rate in relation to the medium-term potential GDP growth rate had a negative impact on the structural fiscal balance of at least 0.5 p.p. in a single year or cumulatively in two years.

The deviation will also be considered excessive if one of these two conditions is met and there is an assessment of limited compliance with the other condition.

In the case of a member state that has achieved its medium-term budgetary objective, the occurrence of the condition on the growth rate of expenditure is not considered in the verification of excessive deviation, except in the case of unexpected and considerable variations in revenues.

A deviation must not be considered significant in the case of temporary and exceptional events beyond the control of member states.

In case of a significant deviation, the Commission must send a warning to the member state. Within one month after the warning, the Council, based on recommendation from the Commission, must examine the situation and adopt a recommendation on the measures that need to be adopted by the member state within a period of up to five months, if the situation is not serious, or three months, if the situation is serious. During this period, the country must report to the Commission on the measures adopted in response to the recommendation.

If the country does not adopt measures by the end of the deadline set out in the recommendation, the Commission must make a recommendation to the Council to adopt a decision establishing that no measures have been taken and to adopt a recommendation on the necessary measures. If the Council does not adopt the decision and the member state continues to fail to adopt measures, the Commission must make a new recommendation to the Council to adopt a decision establishing that no measures have been adopted and to adopt a recommendation on the necessary measures within one month after the first recommendation to the Council. The Council must decide on this new recommendation of the Commission.

In the case of member states that have adopted the euro, within 20 days after the decision of the Council establishing that no measures have been adopted, the Commission must make a recommendation for the Council to adopt a decision for the member state to make an interest-bearing deposit of up to 0.2% of GDP. Within ten days of the recommendation of the Commission, the Council must decide on that recommendation.

The Council, based on recommendation from the Commission, must return the deposit to the member state when it believes that the excessive deviation has been corrected.

Within the scope of the corrective arm of the Stability and Growth Pact, member states must report to the Commission all the necessary information for analyzing its fiscal situation.

Based on these information, the Commission must prepare a report on a member state whenever the public deficit exceeds the limit of 3% of GDP; or that public debt exceeds the limit of 60% of GDP, that the difference between public debt and the limit of 60% of GDP does not decrease at an average rate of 1/20 per year over a three-year period, that forecasts of the Commission for the fiscal balances indicate that the necessary reduction in the difference between public debt and the limit of 60% of GDP will not be achieved within three years, and that the excess of public debt in relation to the 60% of GDP limit is not due to the influence of the cycle.

When the public deficit exceeds the limit of 3% of GDP, the Commission must consider in its report whether the deficit has decreased substantially and continuously and approached the limit of 3% of GDP, whether the excess is due to temporary and exceptional factors beyond control of the member state, whether the deficit exceeds public investment expenditure and other relevant factors.

The Commission may also prepare a report on a member state that complies with these conditions if it has reasons to believe that there is a risk that it will eventually fail to comply.

If, based on its report, the Commission considers that an excessive deficit exists or may exist in a member state, it must send an opinion to the member state. The Council, based on a proposal from the Commission and considering the observations that the member state has made after receiving the opinion, must decide on the existence of an excessive deficit within four months after the country reports to the Commission the necessary information for analyzing its fiscal situation.

If the Council decides that an excessive deficit exists, it must adopt, based on a recommendation from the Commission, recommendations to the member state to adopt measures within six months, if the situation is less serious, or within three months, if the situation is more serious, with the objective of improving the structural fiscal balance by at least 0.5 p.p. per year and correcting the excessive deficit within one year of its identification, unless there are reasons to allow a longer period.

The member state must submit reports on the measures adopted every 6 months.

Member states that have adopted the euro must also submit to the Commission economic partnership programmes together with the reports on the measures adopted. The programmes must specify the measures that will be implemented for an effective and lasting correction of the excessive deficit.

The Commission may carry out missions to the member state to verify the situation and report its conclusions to the Council.

When the Commission understands that the member state will not be able to correct the excessive deficit within the deadline established by the Council, it must make a recommendation to the member state. Within the deadline set by the Commission, the country must report to the Commission the measures being taken to correct the excessive deficit within the deadline.

In the case of member states that adopt the euro, the Council, based on a recommendation from the Commission, may decide to impose a non-interest-bearing deposit of up to 0.2% if there is already an interest-bearing deposit within the scope of the preventive arm or if the non-compliance is serious within 20 days after the Council decides that the excessive deficit exists.

If the member state does not adopt measures within the established deadline, the Council, based on a recommendation from the Commission, may decide that the measures have not been adopted.

In the case of member states that have not adopted the euro, the Council, based on a recommendation from the Commission, must make a new recommendation.

In the case of member states that have adopted the euro, the Council, based on a recommendation from the Commission, may decide to impose a fine of up to 0.2% of GDP within 20 days after the Council has decided that the measures were not adopted. The amount paid by the member state must be transferred to the European Stability Mechanism.

Furthermore, in the case of member states that have adopted the euro, the Council, based on a recommendation from the Commission, may decide to give notice to the member state to adopt measures within four months with the aim of improving the structural fiscal balance by at least minus 0.5 p.p. per year and to correct the excessive deficit within one year after its identification, unless there are reasons to allow a longer period.

The member state must submit reports on the measures adopted every 3 months.

The Commission may carry out missions to the member state to verify the situation and report its conclusions to the Council.

When the Commission understands that the country will not be able to correct the excessive deficit within the deadline established by the Council, it must make a recommendation to the member state. Within the deadline established by the Commission, the country reports to the Commission the measures being adopted to correct the excessive deficit within the deadline.

If the member state does not adopt measures within the established deadline, the Council, based on a recommendation from the Commission, may decide to impose a fine. The value of the fine must be made up of a fixed component equal to 0.2% of GDP and a variable component equal to 1/10 of the absolute value of the difference between the fiscal balance as a percentage of GDP and the limit of 3% of GDP, if it has exceeded only the deficit condition, or the limit established by the Council in its decisions and recommendations, if it has exceeded the debt condition. The fine cannot be greater than 0.5% of GDP. The amount paid by the member state must be transferred to the European Stability Mechanism.

The fine can be complemented by the requirement that member states provide additional information before issuing debt and by inviting the European Investment Bank to review its lending policy to the member state.

In each year following the imposition of the fine until the decision that the excessive deficit has been corrected, the Commission assesses whether the member state has adopted measures based on the notice they were given by the Council.

The Council, based on recommendation from the Commission, may decide that no action has been taken. In this case, the Council, based on recommendation from the Commission, may decide to give new notice to the member state and may decide to impose a new fine on the member state.

If the member state adopts the recommendations of the Council, the Commission must inform the Council and the procedure must be put on hold while the recommendations are being adopted.

The Council, based on recommendation from the Commission, must revoke its decisions and recommendations if it understands that the excessive deficit has been corrected. An excessive deficit procedure should be terminated only if the forecasts of the Commission demonstrate that the deficit will not be greater than the limit of 3% of GDP over the forecast horizon and if the debt is on a downward trajectory towards the limit of 60% of GDP at a rate of 1/20 per year.

To qualify for adoption of the euro, member states of the European Union must meet the Convergence Criteria, which include rules for fiscal policy.

The Convergence Criteria establish that member states must have a public deficit of up to 3% of GDP in the previous year and in the three years following the verification, unless this ratio has substantially and continuously decreased and reached a level close to the reference value or that the excess in relation to the reference value is exceptional and temporary and remains at a level close to the reference value; they must have a public debt of up to 60% of GDP in the year prior to verification unless this ratio has decreased at a satisfactory rate and approached the reference value; they must have an inflation rate measured by the consumer price index of up to 1.5 p.p. above the average inflation rates of the three member states with the best performance in terms of price stability in the year prior to verification; they must have long-term interest rates of up to 2 p.p. above the average long-term interest rates of the three member states with the best performance in terms of price stability in the year prior to verification; and they must have participated in the exchange rate mechanism of the European Monetary System for at least two years prior to verification, respecting the limits established for the fluctuation of exchange rates without major difficulties, in particular without having devalued their currency against the currency of other member states on its own initiative. Furthermore, the level of market integration, the current account situation and the evolution of unit labor costs and other price indices are also considered in the verification.

Member states of the European Union signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, which includes rules for fiscal policies.

The treaty creates the Fiscal Compact, which is mandatory for member states that have adopted the euro and is optional for the other member states. Among these countries, Bulgaria, Denmark and Romania chose to adhere.

The Fiscal Compact establishes that member states must have a medium-term budgetary objective greater than -0.5% of GDP, if they have public debt greater than 60% of GDP, or greater than -1.0% of GDP, if they have public debt less than 60% of GDP; member states that are not at their medium-term budgetary objectives should be on a rapid adjustment trajectory towards it; compliance with the medium-term budgetary objective or the adjustment path towards it must be assessed considering the structural fiscal balance and the growth rate of public expenditure; member states may deviate from their medium-term budgetary objectives or the adjustment path towards it only in temporary and exceptional circumstances; member states with significant deviations from the medium-term budgetary objective or the adjustment path in relation to them should be called based on to adopt measures to correct these deviations automatically.

Member states must incorporate these rules into national legislation of a binding and permanent nature within one year after the entry into force of the treaty, preferably in national constitutions. The

Commission must present a report with the measures adopted by member states in this regard. If the Commission concludes in its report that a member state has not incorporated these rules into national legislation, other member states must take the matter to the Court of Justice of the European Union. If, regardless of the report of the Commission, a member state considers that another member state has not incorporated these rules into national law, it can also take the matter to the Court. If the Court decides that the country has not incorporated the rules into national legislation, the member state must make the necessary adjustments. If a member state considers that another member state has not made the necessary adjustments, it can take the matter to Court and ask for a fine to be imposed. If the Court decides that the country has not made the necessary adjustments, it can impose a fine of up to 0.1% of GDP. The amount paid by member states that have adopted the euro must be transferred to the European Stability Mechanism and the amount paid by member states that have not adopted the euro must be transferred to the budget of the European Union.

The Fiscal Compact also establishes that member states with public debt greater than 60% of GDP must reduce this debt by at least 1/20 per year; member states with excessive deficits must elaborate economic partnership programmes specifying the measures they will adopt to correct the problem; member states must report their debt issuance plans to the Commission and the Council in advance; member states that have adopted the euro must support the proposals and recommendations submitted by the Commission where it considers that a member state that have adopted the euro has an excessive deficit unless a qualified majority of them are against it.

The treaty also provides for an effort to coordinate economic policies, which is mandatory for member states that have adopted the euro and optional for the other member states. Among these countries, Denmark and Romania chose to adhere.

Member states agree to work together towards an economic policy that encourages the proper functioning of the economic and monetary union by pursuing the objectives of increasing competitiveness, promoting employment, increasing the sustainability of public finances and reinforcing financial stability. Member states also agree to discuss with other member states the economic policy reforms they intend to adopt.

And the treaty creates the Euro Summit, which is mandatory for all member states.

Member states that have adopted the euro must meet at the Euro Summit to discuss issues related to the responsibilities of the member states that have adopted the euro with regard to the single currency, other issues related to the euro area and the rules that apply to it, and strategic guidelines for the conduct of economic policy to increase convergence in the euro area. Member states that have not adopted the euro must participate in Euro Summit meetings regarding competitiveness, the modification of the global architecture of the euro area and the fundamental rules that will apply to it in the future and specific issues on the implementation of the treaty.

The member states of the European Union must comply with the Macroeconomic Imbalance Procedure, which increases the control of the organization over fiscal policies.

The Commission must prepare a report on the macroeconomic situation of member states considering a set of indicators and select those member states that may have macroeconomic imbalances. These indicators are the average of the current account balance in percentage of GDP over three years, with a limit of -4% and 6%; the net international investment position in percentage of GDP, with a limit of -35%; the percentage change in the real effective exchange rate over three years, with a limit of ±5% for member states that have adopted the euro and ±11% for member states that have not adopted the euro; the percentage change in the market share of exports over five years, with a limit of -6%; the percentage change in the nominal unit labor cost over three years, with a limit of 9% for member states that have adopted the euro and 12% for member states that have not adopted the euro; the percentage change in the housing price index in one year, with a limit of 6%; the flow of private credit as a percentage of GDP, with a limit of 14%; private sector debt as a percentage of GDP, with a limit of 133%; public sector debt as a percentage of GDP, with a limit of 60%; the average unemployment rate over three years, with a limit of 10%; the percentage change in total liabilities of the financial sector in one year, with a limit of 16.5%; the percentage point change in the participation rate over three years, with a limit of -0.2 p.p.; the change in percentage point of the long-term unemployment rate over three years, with a limit of 0.5 p.p.; and the percentage point change of the youth unemployment rate over three years, with a limit of 2.0 p.p. The Commission may consider other indicators on the macroeconomic situation of member states that it considers relevant.

The Commission must carry out a deeper analysis of the member states it selected considering the indicators, the information provided by member states and the missions to member states in order to identify member states that actually have macroeconomic imbalances, the nature of these imbalances and the severity of these imbalances. It must then communicate its results.

The actions that may be adopted based on the report depend on whether the member states have only macroeconomic imbalances, that is, a situation that negatively affects or could negatively affect the functioning of the economy of a member state, the eurozone or the entire European Union; or excessive macroeconomic imbalances, that is, a situation that compromises or could compromise the functioning of the economy of a member state, the eurozone or the entire European Union.

The Council, based on a recommendation from the Commission, must issue a recommendation to member states with macroeconomic imbalances with measures that must be adopted.

The Council, based on a recommendation from the Commission, must issue a recommendation to member states with excessive imbalances with measures that must be adopted and a deadline for the preparation of a corrective action plan with the measures that will be adopted.

The Council, based on a report from the Commission, must evaluate the corrective action plans within two months after their submission. If the plan is considered sufficient, the Council, based on recommendation from the Commission, must make a recommendation endorsing the plan and listing the measures that must be adopted and the deadlines for the adoption and evaluation of the measures. If the plan is considered insufficient, the Council, based on recommendation from the Commission, must issue a recommendation requesting the submission of a new action plan within two months.

In the case of member states that have adopted the euro, if two successive proposals for the corrective action plan are considered insufficient, the Council, based on a recommendation from the Commission issued within 20 days, may decide to impose a fine of up to 0.1% of the GDP. The amount paid by the member state must be transferred to the European Stability Mechanism.

Once the corrective action plans are approved, member states must implement the measures and prepare reports according to the schedule established by the Council. The Commission monitors this process, including through missions to member states.

The Council, based on a report of the Commission, must assess whether countries have adopted sufficient measures. If it is considered that countries have adopted sufficient measures, the Council, based on a recommendation from the Commission, must put the process on hold. If it is considered that member states have not adopted sufficient measures, the Council, based on a recommendation from the Commission, must adopt a decision that the measures have not been adopted and a recommendation with new deadlines.

In the case of member states that have adopted the euro, after a decision that the measures have not been adopted, the Council, based on a recommendation from the Commission issued within 20 days, may decide to impose an interest-bearing deposit of up to 0.1% of GDP and, after two successive decisions that the measures were not adopted, the Council, based on a recommendation from the Commission issued within 20 days, may decide to convert the interest-bearing deposit into a fine of up to 0.1% of GDP. The amount paid by the member state must be transferred to the European Stability Mechanism.

The Council, based on recommendation from the Commission, must revoke the adopted recommendations when the excessive imbalance is corrected.

Member states of the European Union must comply with the minimum requirements established by the organization for their budgetary frameworks.

In particular, member states must ensure that public accounting systems cover all levels of government, are subject to internal control and independent audits, and ensure the timely and regular availability of fiscal data; they must ensure that budget planning is based on realistic and prudent forecasts, compared with the forecasts of the Commission and other independent bodies, and subject to regular broad assessments based on objective criteria; they must develop national numerical fiscal rules compatible with European fiscal rules; they must prepare medium-term budgetary frameworks, specifying the targets for fiscal indicators, projections for expenditures and revenues, and measures that contribute to achieving the targets for a period of three years; and they must ensure the consistency and coordination of budgetary rules and procedures across all levels of government and their entities.

Member states of the European Union must ensure that the fiscal data they provide is reliable.

The Commission may carry out an investigation if it finds that, intentionally or through serious negligence, a member state has not provided reliable data on public deficit and public debt. After completing the investigation, the Commission must give the member state the opportunity to comment on the facts investigated. The Council, based on a recommendation from the Commission, may decide to impose a fine of up to 0.2% of GDP on the member state. The amount paid by the member state must be transferred to the European Stability Mechanism.

Member states of the European Union must report their debt issuance plans to the Commission.

Member states of the European Union must create independent entities to monitor compliance with European fiscal rules.

Member states of the European Union must comply with the surveillance and coordination procedure of national policies within the scope of the European Semester, which increase the control of the organization over fiscal policies. This procedure follows an annual schedule.

In October, member states that have adopted the euro must submit their draft budget plans for the following year.

In November, the Commission must publish the Annual Sustainable Growth Survey, which presents its assessment of the economic situation in the European Union and sets out the economic priorities for the European Union for the following year and the policies that should be adopted; the Alert Mechanism Report, which presents the macroeconomic situation of member states in accordance with the Macroeconomic Imbalances Procedure; the Joint Employment Report, which analyzes the social and employment situation in the European Union, the challenges that need to be faced and the policies that must be adopted; a recommendation on the eurozone regarding areas that affect its functioning; and an opinion on the draft budget plans submitted by member states in October.

In December, member states must adopt their budgets.

In February, the Commission must publish country-reports for each member state, in which it analyzes the economic and social situation of each member state and their progress in implementing reforms. These reports include in-depth analyzes of the countries selected in the Alert Mechanism Report under the Macroeconomic Imbalances Procedure.

In March, the European Council issue the economic priorities of the European Union based on the Annual Growth Survey from the Commission.

In April, member states must submit their stability and convergence programmes in accordance with the Stability and Growth Pact and their national reform programmes.

Member states that have adopted the euro must also publish their medium-term budgetary plans in accordance with their medium-term budgetary frameworks. These plans must contain at least the same information as their stability programmes.

In May, the Commission must propose country-specific recommendations based on the assessment of their stability and convergence programmes and national reform programmes.

In July, the Council must adopt the country-specific recommendations of the Commission.

In August, member states must start the implementation of these recommendations.

The European Central Bank and national central banks cannot create any type of credit facility or purchase debt instruments on the primary market whose beneficiaries are the European Union entities, national governments, national entities governed by public law and national public undertakings.

The European Union and its member states cannot assume the commitments of national governments, national entities governed by public law or national public undertakings.

However, member states that experience or may experience financing difficulties may request support from financial assistance mechanisms created by the European Union if they are willing to accept the conditionalities associated with these mechanisms.

There are two financial assistance mechanisms for member states: the Balance of Payments Assistance Facility and the European Stability Mechanism.

The Balance of Payments Assistance Facility is available to member states that have not adopted the euro. The Commission must borrow from the market on behalf of the European Union through the issuance of financial instruments or agreements with financial institutions and provide assistance in the form of loans to member states.

Member states experiencing financing difficulties must submit a request for assistance and a proposal for measures to be taken to correct the problem. The Council, based on a proposal from the Commission, must decide whether assistance will be granted and, if so, its amount, duration and release rules. Member states and the Commission must sign a memorandum of understanding specifying the measures that will be adopted to correct the problems. The Commission should monitor the implementation of this memorandum.

The European Stability Mechanism is available to member states that have adopted the euro. It is an entity with own capital authorized by the member states that have adopted the euro according to the importance of their population and their GDP in the total of the eurozone. The European Stability Mechanism must borrow from the market through the issuance of financial instruments or agreements with member states, financial institutions or other entities and provide assistance in the form of loans to governments that need financing and have lost market access because they cannot find lenders or because the conditions are very unfavorable and would worsen their situation; primary market purchases of bonds or other debt instruments issued by member states to help countries maintain or regain access to investors; secondary market purchases of bonds or other debt instruments issued by member states to ensure bond liquidity and help countries maintain or regain access to investors; precautionary credit line to prevent countries from getting into difficulties and losing market access; loans for indirect recapitalization of banks to avoid liquidity and solvency crises; and direct recapitalization of banks to avoid liquidity and solvency crises.

Member states experiencing financing difficulties must submit a request for assistance to the European Stability Mechanism, which must ask the Commission to assess the existence of a risk to the financial stability of the euro and the member states; assess whether public debt is sustainable; and assess the current and potential financing needs of the member state. Based on the request of the member state and on the assessment of the Commission, the European Stability Mechanism must decide whether assistance will be granted and, if so, on the form, amount, duration and release rules. Member states and the Commission must sign a memorandum of understanding specifying the measures that will be taken to correct the problems. The Commission must monitor the implementation of this memorandum.

Member states of the European Union that have adopted the euro and intend to request financial assistance must inform the Commission, the European Central Bank and the other member states that have adopted the euro about this. Based on an assessment by the Commission, member states that have adopted the euro must discuss the request with the aim of examining the possibilities available among European Union assistance mechanisms before the member state turns to other sources, such as other member states, third countries, financial institutions, etc.

Member states that receive financial assistance in forms other than precautionary financial assistance and loans for the recapitalization of financial institutions must prepare, with the support of the Commission, a draft macroeconomic adjustment programme with the measures that must be adopted to address the causes which led these countries to ask for financial assistance. The Council, based on a proposal from the Commission, must approve the macroeconomic adjustment programme. The Commission must monitor the implementation of the macroeconomic adjustment programme. Every three months, the Commission must communicate its findings. If the Commission concludes that there are significant deviations from the macroeconomic adjustment programme and that these deviations are not due to factors beyond the control of the member states, the Council, based on a proposal from the Commission, must decide that the member state did not comply with the macroeconomic adjustment programme. In this case, member states must adopt, with the support of the Commission, measures to stabilize markets and preserve the proper functioning of their financial systems.

A member state must be under post-programme surveillance until at least 75% of the financial assistance received is reimbursed. A member state under a post-programme surveillance, at the request of the Commission, must communicate to the European Central Bank information on the situation of its financial system, carry out stress tests and sensitivity analyzes of its financial systems under the supervision of the European Central Bank, submit its supervisory capacity to regular assessments by the European Central Bank, and communicate to the Commission any information necessary to monitor its macroeconomic imbalances. The Commission must carry out regular missions to member states under post-programme surveillance to verify its economic, fiscal and financial situation and the need for corrective measures. It must communicate its findings every 6 months. If the Commission concludes that corrective measures are necessary, the Council, based on a proposal from the Commission, may recommend that the member state adopt corrective measures.

Member states of the European Union that have adopted the euro may have to comply with the Enhanced Supervision procedure, which increases the control of the organization over fiscal policies.

The Commission may decide to subject to Enhanced Supervision a member state that experiences or is at risk of experiencing serious difficulties in relation to its financial stability or the sustainability of its public financed and that may negatively affect other member states that adopt the euro. To do this, it must consider the parameters of the Macroeconomic Imbalance Procedure and the borrowing conditions of the member state, the repayment profile of its debt obligations, the robustness of its budgetary framework, the sustainability of its public accounts in the long term, the importance of its debt burden and the risk of contagion from severe tensions in its financial sector on its budgetary situation or on the financial sector of other member states.

The Commission must also subject to Enhanced Supervision a member state that is receiving financial assistance on a precautionary basis.

A member state that is subject to Enhanced Supervision by the Commission must take measures to address the sources of its difficulties; it must prepare the same reports as countries with excessive deficits even if they do not have these excessive deficits every 3 months; and, at the request of the Commission, it must communicate to the European Central Bank information on the situation of its financial system, carry out stress tests and sensitivity analyzes of its financial systems under the supervision of the European Central Bank, submit its supervisory capacity to regular assessments by the European Central Bank, and communicate to the Commission any information necessary to monitor its macroeconomic imbalances

The Commission must conduct regular missions to the member state under Enhanced Surveillance to verify its progress and the need for further corrective measures. It must communicate its findings every 3 months.

If the Commission concludes that further measures are necessary, the Council, based on a proposal from the Commission, may recommend to the member state the adoption of precautionary corrective measures or the preparation of a proposal for a macroeconomic adjustment programme.

Every six months, the Commission must decide whether to end the Enhanced Supervision over the member state.

Member states of the European Union cannot adopt measures related to public expenditure and revenue that harm or could harm the functioning of the internal market.

In particular, member states cannot grant aid to certain entities, with the exception of aid of a social nature for individual consumers and which does not differentiate in relation to the origin of the goods; aid to deal with damage caused by natural disasters or other exceptional occurrences; aid for regions of Germany affected by the division of the country; aid to promote the economic development of areas where the standard of living are excessively low or where there is serious underemployment; aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a member state; aid to facilitate the development of certain economic activities or certain economic areas provided that such aid does not adversely affect trade and competition conditions; aid to promote culture and heritage conservation provided that such aid does not adversely affect trade and competition conditions; and other categories of aid that may be specified by a decision of the Council based on a proposal from the Commission.

A member state must notify the Commission every time it introduces or modifies aid measures. If the Commission finds that these measures are not compatible with the internal market, it must decide that the member state should abolish or amend them. If the country does not comply with this decision, the Commission or any other member state can take the matter to the Court of Justice of the European Union, whose decision must be accepted by the member state.

The European Union has its own fiscal capacity[9].

The European Union depends on its own resources to finance the expenditure foreseen in its budget because it cannot borrow resources from third parties on the market to do this.

The own resources of the European Union may be made up of traditional resources derived from levies, premiums, additional or compensatory amounts, additional amounts or factors, Common Customs Tariff duties and other duties established or to be established by the organization on trade with third countries, customs duties on products covered by the extinct European Coal and Steel Community, and contributions and other duties provided for within the scope of the common organization of the markets in sugar; contributions from member states based on value-added tax, which is calculated by applying a rate to the taxable base of value-added tax of each member state; and contributions from member states based on GNI, which is calculated by apportioning the difference between total expenditure and total revenues derived from other sources among member states according to the importance of the GNI of these member states in the GNI of the European Union.

The Council, based on a proposal from the Commission, must adopt a decision establishing the maximum amounts the European Union may demand from member states in a specific period. More specifically, it establishes the maximum amount of own resources available to cover total commitment appropriations and the maximum amount of own resources available to cover total payment appropriations.

[9] Cf. the following European legislation: Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council.

The expenditures of the European Union are limited to the areas in which it has competence to act. Expenditures usually occur through programmes that bring together actions with the same objectives.

The Council, based on a proposal from the Commission, must adopt a multiannual financial framework regulation establishing the maximum amounts the European Union may spend in a specific period. More specifically, it establishes total commitment appropriations; commitment appropriations by area of activity of the European Union; and total payment appropriations. The multiannual financial framework also establishes special instruments, which are the maximum amounts the European Union may spend in emergency or unexpected situations in a specific period. More specifically, special instruments are above the commitment and payment appropriations but are under the maximum amounts of own resources available to cover the commitment and payment appropriations.

Commitment appropriations are amounts authorized to be committed in a specific period whereas payment appropriations are amounts authorized to be paid in that specific period.

Every year, the Council and the European Parliament, based on a proposal from the Commission, must adopt the budget of the European Union for the following year taking into account the maximum amounts the European Union may demand from member states in a specific period and the maximum amounts the European Union may spend in a specific period.

The budget of the European Union must respect the principles of unity, so that the budget must be presented in a single document and only the revenues and expenditures specified in that document are authorized; universality, so that the budget must contain all revenues and expenditures and total revenues must be used to finance total expenditures; annuality, so that all revenues and expenditures refer to a financial year equal to a calendar year and they must not be affected by previous budgets nor affect subsequent budgets; balance, so that total own resources must be sufficient to cover total expenditures; specification, so that all revenues and expenditures must be associated to a budget item and no expenditure can be greater than the amounts authorized for that item; sound financial management, so that resources must be used economically, efficiently and effectively; transparency, so that all actions related to the budget must be published, including in the Official Journal of the European Union; and unit of account, so that all revenues and expenditures must be expressed in euros.

There are three methods of management of the resources of the budget of the European Union by the Commission, namely direct management, when the Commission manages the resources alone; shared management, when the Commission manages the resources together with member states; and indirect management, when the Commission transfers the management of resources to partners, such as third countries and the entities they have designated, international organizations and their agencies, the European Investment Bank and the European Investment Fund, European Union entities, entities governed by public law, entities governed by private law but with a public purpose with access to adequate financial guarantees, entities governed by private law with the prerogative to implement a public-private partnerships with access to adequate financial guarantees; and entities and people who have the prerogative to implement specific actions of the Common Foreign and Security Policy.

There are also twelve methods of disbursement of the resources of the budget of the European Union, namely procurement, that is, the acquisition of supplies, services and works, and the acquisition or rental of land, buildings or any other real estate property by authorities from providers chosen by these authorities; concessions, that is, contracting authorities entrust the execution of works or the provision of services to providers who are remunerated only by the exploitation of the work or service or also by payments from the authorities; grants, that is, financial contribution in the form of a donation; prizes, that is, financial contribution in the form of a reward for performance in a competition; financial instruments, that is, loans, guarantees and equity or quasi-equity investments; budgetary guarantees, that is, the legal commitment of the European Union to support a programme by placing the budget as a guarantee that can be activated if a specific event occurs during the implementation of the programme; financial assistance, that is, the support for countries with financing difficulties; trust funds for external actions, that is, funds for external actions that must receive resources from the budget but also from other donors; payment of remunerated external experts; reimbursement of travel and subsistence expenses and payment of any other compensation to non-remunerated experts; contributions to entities of which the European Union is a member or an observer; payment of members and employees of the entities of the European Union; and budget support, that is, direct transfers to third countries that are implementing important reforms.

For each year that the budget has been implemented, the Commission must publish the Integrated Financial and Accountability Reporting. The Court of Auditors of the European Union must publish a report on the implemented budget and other special reports. And the European Parliament, based on a recommendation from the Council, must decide to accept, refuse or postpone the approval of the implemented budget.

5 The European Union and the COVID-19 crisis

The COVID-19 crisis reached the European Union when it had not yet overcome the effects of a succession of deep crises, notably the crisis of the euro, which began in 2008 as a development of the crisis in the real estate credit market of the United States; the crisis in the relations with Russia, which began in 2014 due to the intensification of tensions between the country and Ukraine; the migration crisis, which began in 2015 as a result of conflicts in the Middle East and North Africa; the Brexit crisis, which began in 2016 with the decision of the United Kingdom to leave the European Union after a referendum; and the crisis in the relations with the United States, which began in 2017 with the formation of a nationalist government in the country.

The COVID-19 is a potentially serious respiratory disease caused by the SARS-CoV-2 coronavirus transmitted through contact with infected people. After the first cases were recorded in China in December 2019, the disease quickly spread to other countries until it was declared a pandemic by the World Health Organization on March 11, 2020. As the disease has no treatment, the best way to deal with it is to stop its transmission and avoid its complications through vaccines, social distancing, personal hygiene measures, use of personal protective equipment, mass testing, registration of infected people, tracking and quarantining people possibly infected, isolation of infected people, etc.

France registered the first case of COVID-19 in the European Union on January 24, 2020. From then on, the number of cases of the disease began to grow quickly and sharply in all member states of the organization. And with the increase in the number of cases of the disease, there was also an increase in the number of hospitalizations and deaths caused by its complications in all of them.

It was during the extremely adverse context of the COVID-19 crisis that the European Union took on a more decisive role in meeting fundamental needs of people for the first time in its history. In a change in the way things had been done until then, it contributed to the strengthening of national policies at the same time as it strengthened international policies.

The change in preferences of the richest member states of the European Union driven by the fact that all member states have been affected in some way by a crisis caused by factors that were far beyond their control has certainly contributed to this. At that time, there was less confidence among these member states in the capacity of the market and the family and other traditional forms of provision to meet the fundamental needs of people, leaving a larger space to be fulfilled by states and, even more so, by interstate organizations, in this process.

This is particularly evident in the case of monetary policy and fiscal policy.

With regard to monetary policy, the Eurosystem has not abandoned the objective of price stability, but the fact that the inflation rate was well below the 2% target in the medium term has allowed it to use monetary policy instruments in a creative way to try to stimulate demand[10].

[10] Cf. Arestis and Sawyer (2013a) and the following press releases of the ECB: ECB announces easing of conditions for targeted longer-term refinancing operations (March 12, 2020); ECB banking supervision provides temporary capital and operational relief in reaction to coronavirus (March 12, 2020); ECB announces measures to support bank liquidity conditions and money market activity (March 12, 2020); ECB announces EUR 750 billion PEPP (March 18, 2020); Coordinated central bank action to enhance the provision of global us dollar liquidity (March 18, 2020); Coordinated central bank action to further enhance the provision pf us dollar liquidity (March 19, 2020); ECB banking supervision provides

In this context, the Eurosystem kept the reference interest rates of the eurozone unchanged.

The interest rate for the main refinancing operations that applies to the most frequent open market operations with counterparties remained at 0%; the interest rate on the permanent deposit facility that applies to overnight deposits from counterparties with liquidity excesses in the Eurosystem and that functions as a floor for overnight interest rates remained at -0.5%; and the interest rate on the marginal lending facility that applies to overnight loans to counterparties with liquidity shortages in the Eurosystem and that functions as a ceiling for overnight interest rates remained at 0.25%.

This way, counterparties were able to obtain liquidity at lower costs.

The Eurosystem made use of forward guidance, announcing to the market that the reference interest rates of the eurozone would remain at current levels or even at lower levels until the inflation rate in the eurozone converged robustly to the 2% target.

This way, the Eurosystem sought to reduce the uncertainty of counterparties about the future behavior of interest rates, ensuring that they would have access to liquidity at low costs when they needed it.

The Eurosystem conducted more open market operations through fixed-rate tenders with full allotment.

The Eurosystem can conduct open market operations through variable-rate tenders, fixed rate tenders and fixed-rate tenders with full allotment.

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further flexibility to banks in reaction to coronavirus (March 20, 2020); ECB and Danmarks Nationalbank reactivate swap line to provide euro liquidity (March 20, 2020); ECB asks banks not to pay dividends until at last October 2020 (March 27, 2020); ECB announces package of temporary easing measures (April 7, 2020); ECB and Hrvatska Narodna Banka set up swap line to provide euro liquidity (April 17, 2020); ECB and Bulgarian national bank set up swap line to provide euro liquidity (April 22, 2020); ECB takes steps to mitigate impact of possible rating downgrades on collateral availability (April 22, 2022); ECB announces new pandemic emergency longer-term refinancing operations (April 30, 2020); ECB recalibrates targeted lending operations to further support real economy (April 30, 2020); Monetary policy decisions (June, 4 2020); ECB and national bank of Romania set up repo line to provide euro liquidity (June 5, 2020); New Eurosystem repo facility to provide euro liquidity to non-euro area central banks (June 25, 2020); Monetary policy decisions (July 16, 2020); ECB and Bank of Albania set up repo line to provide euro liquidity (July 17, 2020); ECB and national bank of Serbia set up repo line to provide euro liquidity (July 17, 2020); ECB and Magyar Nemzeti Bank set up repo line to provide euro liquidity (July 23, 2020); ECB and national bank of the republic of North Macedonia set up repo line to provide euro liquidity (August 18, 2020); ECB and central bank of the republic of San Marino set up repo line to provide euro liquidity (August 18, 2020); ECB extends euro liquidity line with two central banks (August 28, 2020); Monetary policy decisions (September 10, 2020); Monetary policy decisions (October 29, 2020); Monetary policy decisions (December 10, 2020); ECB prolongs support via targeted lending operations for banks that lend to the real economy (December 10, 2020); ECB extends pandemic emergency longer-term refinancing operations (December 10, 2020); ECB extends bilateral euro liquidity lines with non-euro area central banks (December 15, 2020); ECB announces timeline to gradually phase out temporary pandemic collateral easing measures (March 24, 2022); and ECB agrees euro liquidity lines with non-euro area central banks until 15 January 2023 (March 28, 2022).

In the variable-rate tenders, the Eurosystem announces the amount it will make available to counterparties. Counterparties announce their demand and the interest rate they are willing to pay. The proposals are ordered according to the interest rate they are willing to pay, from highest to lowest. The counterparty that is willing to pay the highest interest rate has its demand met first. The process continues until the amount made available by the Eurosystem ends.

In the fixed-rate tenders, the Eurosystem announces the amount it will make available to counterparties and the interest rate it will charge. Counterparties announce their demand. If the demand of counterparties is greater than the amount made available by the Eurosystem, each counterparty receives an amount proportional to its demand.

And, in the fixed-rate tenders with full allotment, the Eurosystem announces the interest rate it will charge. Counterparties announce their demand. The Eurosystem meets all the demand of counterparties, provided they have adequate collateral.

This way, the Eurosystem ensures that counterparties have access to all the liquidity they desire at the interest rate established for the operations.

The Eurosystem conducted additional longer-term refinancing operations with an interest rate equal to the average of the interest rate of the deposit facility during the period of the operations.

These operations functioned as a bridge-loan, ensuring that counterparties had access to liquidity at low interest rates until additional targeted longer-term refinancing operations were conducted.

The Eurosystem conducted additional targeted longer-term refinancing operations.

The amount that counterparties can borrow in these operations is given by applying a rate to the stock of eligible loans they have granted to the economy. Given this rate, the greater the stock of eligible loans they have granted to the economy, the greater the amount they can borrow in these operations.

The Eurosystem increased the limit that counterparties can borrow in all operations from 30% to 55% of the stock of eligible loans and eliminated the limit of 10% of the stock of eligible loans that counterparties can borrow in each operation.

The interest rates that counterparties must pay in these operations depend on whether the counterparties have exceeded the threshold set by the Eurosystem for the loans they have granted to the economy. Interest rates are lower if they have exceeded this threshold.

The Eurosystem reduced the threshold that counterparties need to exceed to access lower interest rates from 2.5% to 0% of the lending volume growth; it reduced the interest rate charged to counterparties that did not exceed the threshold from the average of the interest rate of the main refinancing operations during the period of the operations to 50 b.p. below the average of the interest rate of the main refinancing operations during the period of the operations; and it reduced the interest rate charged to counterparties that exceeded the threshold from the average of the interest rate of the deposit facility during the period of the operations to 50 b.p, below the average of the interest rate of the deposit facility during the period of the operations.

With this, the Eurosystem expected that counterparties would have access to more liquidity for a longer period and at a lower cost and that this liquidity would be converted into new loan operations for the economy.

The Eurosystem created a new open market operation, the pandemic emergency longer-term refinancing operations. They should occur via reverse transactions to provide liquidity with a maturity between 8 and 16 months carried out through tenders according to a specific calendar. They would have an interest rate equal to 25 b.p. below the average of the interest rate of the main refinancing operations during the period of the operations.

This way, the Eurosystem sought to ensure liquidity for counterparties that needed resources for a longer term than the main refinancing operations and that had not been sufficiently served by the additional longer-term refinancing operations and targeted longer-term refinancing operations.

The Eurosystem has relaxed the requirements on the collateral that counterparties must provide when borrowing money from it.

Every time the Eurosystem lends to a counterparty, it must receive assets as collateral that can be sold if the counterparty does not pay what it owes. The Eurosystem establishes the assets that can serve as collateral and the reduction that is applied to the value of these assets.

The Eurosystem expanded the assets that can serve as collateral through the inclusion of higher risk loans; it guaranteed that asset backed securities with a credit rating greater than A- that were eligible as collateral would continue to be accepted as collateral in the event of a credit rating reduction by risk rating agencies as long as the credit rating continues to be equal to or greater than BB+; it guaranteed that other assets with a credit rating greater than BBB- that were eligible as collateral would continue to be accepted as collateral in the event of a credit rating reduction by risk rating agencies as long as the credit rating continues to be equal to or greater than BB; and reduced the reduction that is applied to the value of assets that serve as collateral by 20%.

This allowed more counterparties to be able to obtain more liquidity from the Eurosystem.

The Eurosystem expanded existing outright purchase programmes, notably the Public Sector Purchase Programme, for the purchase of bonds issued by governments; the Corporate Sector Purchase Program, for the purchase of bonds issued by companies; the Asset-Backed Purchase Program, for the purchase of bonds issued by securitization companies; and the Third Covered Bond Purchase Program, for the purchase of bonds issued with the coverage of other assets. An additional envelope of EUR 120 billion was made available for these purchases.

The Eurosystem also created a new outright purchase programme, the Pandemic Emergency Purchase Programme. An envelope of EUR 1.85 trillion was made available for these purchases.

Like existing outright purchase programmes, the Pandemic Emergency Purchase Programme allows the purchase of bonds issued by governments, of bonds issued by companies, of bonds issued by securitization companies and of bonds issued with the coverage of other assets. Unlike existing outright purchase programmes, it has more flexible rules on the bonds that can be purchased. This allows purchases to be concentrated on issuers that face more difficulties because they cannot find resources or because they find resources under very unfavorable conditions.

Particularly relevant is the fact that the Public Sector Purchase Program requires that the purchases of public bonds respect the proportion of each member state in the capital of the European Central Bank and are never greater than 1/3 of the debt issued or 25% of any of debt issuance by member states, but the Pandemic Emergency Purchase Program does not make these requirements, allowing purchases to concentrate on the bonds issued by states that face more difficulties.

The existing outright purchase programmes and the Pandemic Emergency Purchase Program are nothing more than quantitative easing programmes, because they occur in large volumes and because their effect on the monetary base is not sterilized. These operations contributed to increasing market liquidity and reducing interest rates for longer terms.

Particularly relevant is the fact that the reduction in interest rates on public bonds contributed to reducing the pressure on states and facilitating the expansion of national fiscal policies.

The purchase of public bonds under the Public Sector Purchase Program and the Pandemic Emergency Purchase Program faced strong resistance from some member states that adopt the euro, starting with Germany. These countries argue that these purchases are excessive and that they violate the prohibition on monetary financing of public deficits. In turn, the Eurosystem argues that these purchases are of the size necessary to protect the euro and that they do not involve monetary financing of public deficits because they are restricted to the secondary market.

The Eurosystem expanded existing and active liquidity lines with central banks outside the eurozone, reactivated existing and inactive liquidity lines with central banks outside the eurozone, and created new liquidity lines with central banks outside the eurozone.

These liquidity lines are used by the Eurosystem to obtain foreign currency to supply counterparties with difficulties in obtaining these currencies and by the national central banks outside the eurozone to obtain euros to supply counterparties with difficulties in obtaining this currency.

These liquidity lines may be currency swap agreements or repurchase agreements. In currency swap agreements, a central bank borrows currency from another central bank and offers its own currency as collateral. The central bank must repay the borrowed currency plus interest at a future date. In repurchase agreements, a central bank borrows currency from another central bank and offers assets denominated in the currency it borrowed as collateral. The central bank must repay the borrowed currency plus interest at a future date. Typically, the terms of currency swap agreements are more attractive to borrowers than the terms of repurchase agreements.

The Eurosystem expanded the existing and active currency swap agreements to provide euros and obtain foreign currency with the central banks of Canada, the United States, England, Japan and Switzerland; it reactivated the existing and inactive currency swap agreement to provide euros with the central bank of Denmark; it created currency swap agreements to provide euros with the central banks of Bulgaria, Croatia and Poland; and it created repurchase agreements to provide euros with the central banks of Albania, Hungary, North Macedonia, Romania, Serbia and San Marino.

The Eurosystem also created the Eurosystem Repo Facility, which is a repurchase agreement line for the provision of euros available to other central banks outside the eurozone and complementary to existing bilateral liquidity lines. It charges higher prices and accepts a narrower set of assets as collateral than existing bilateral repurchase agreements. Central banks that borrow euros through it must offer as collateral only euro-denominated debt bonds that have been issued by eurozone central governments or supranational institutions.

Through these liquidity lines, the Eurosystem sought to avoid the lack of liquidity in foreign currency in the countries of the eurozone and the lack of euros in countries outside the eurozone at a time when central currencies tend to be in greater demand in the international market.

The Eurosystem kept the minimum reserves that counterparties must maintain at national central banks throughout the maintenance period unchanged.

The minimum reserve requirements remained at 0% for deposits with an agreed maturity or period of notice over two years, repurchase agreements and debt securities issued with maturity over two years, and at 1% for overnight deposits, deposits with agreed maturity or period of notice up to two years, debt securities issued with maturity up to two years and money market papers.

This way, counterparties would have more liquidity available.

And the Eurosystem has relaxed the prudential rules that must be respected by banks.

Banks must have sufficient equity capital to absorb any losses. In the eurozone, capital requirements are made up of four parts, namely Pillar 1 capital requirements, which are mandatory minimum capital requirements, which is equal to 8% of the risk-weighted assets, with at least 4.5% of risk-weighted assets being met by Common Equity Tier 1 and at least 6.0% of risk-weighted assets being met by Tier 1 capital; Pillar 2 capital requirements, which are mandatory additional capital requirements defined by national central banks after evaluating the situation of each bank; Pillar 2 Guidance, which are recommended additional capital requirements defined by national central banks after assessing the situation of each bank; combined buffer requirement which are mandatory buffers to face systemic cyclical or structural risks and which are made up of the capital conservation buffer, which is equal to 2.5% of the risk-weighted assets, countercyclical capital buffer, which is defined by the Eurosystem, global/other systemically important institution buffer, which is defined by the Eurosystem, countercyclical capital buffer, which is defined by the Eurosystem, and systemic risk buffer, which is defined by national central banks.

The Eurosystem has authorized banks to operate below the capital level defined by the Pillar 2 Guidance and the capital conservation buffer and to partially use capital instruments that do not qualify as Common Equity Tier 1 capital to meet the Pillar 2 capital requirement.

Banks must have high-quality liquid assets that can be sold to meet the net outflow of resources in a context of great stress. In the eurozone, banks must have a liquidity coverage ratio defined as the ratio between the value of high-quality liquid assets and the net outflows of resources expected over a period of 30 days greater than 100%.

The Eurosystem authorized banks to operate with liquidity coverage ratios lower than 100%.

Banks must reserve capital to cover possible losses from non-performing loans. In the eurozone, banks must follow the criteria set by the Eurosystem to classify loans as non-performing and comply with the minimum capital reserves for these loans.

The Eurosystem gave banks more flexibility regarding the classification of loans as non-performing when they could count on some type of guarantee from states and the minimum capital reserves that they need to meet for these loans.

The Eurosystem also adjusted supervisory timetables, processes and deadlines according to the situation of each bank and asked banks not to pay dividends to shareholders, not to buy-back shares and to be cautious with variable remuneration.

This way, banks would have more liquidity available.

The national central banks of the countries that have not adopted the euro adopted monetary policies that were similar to that of the Eurosystem, even though they were less aggressive. Just like in the case of the Eurosystem, these national central banks have not abandoned the objective of price stability, but the fact that the inflation rate was well below the 2% target in the medium term has allowed them to use monetary policy instruments in a creative way to try to stimulate demand.

The measures adopted by the European Union within the scope of monetary policy were truly remarkable. These measures secured resources when these resources became more necessary with longer terms and lower prices. As a result, these measures avoided liquidity and solvency crises with potentially serious systemic effects and contributed to avoiding an even greater drop in demand.

However, important limitations remain: the Eurosystem maintains as the main objective of monetary policy the achievement of an inflation rate of 2% in the medium term; the Eurosystem assumes that monetary policy is only capable of affecting prices in the long term and ignores the large and permanent effects that monetary policy can have on production, income and employment; the Eurosystem assumes that the inflation rate is affected only by demand and ignores that other factors can have a large and permanent effect on prices; to offset the effect of other factors on prices, the Eurosystem needs to cause large variations in demand so that the inflation rate converges to the 2% target; the Eurosystem considers that the interest rate is always capable of affecting demand and ignores that demand may be insensitive to this instrument; the Eurosystem must be independent of governments and other public institutions, but is clearly influenced by market preferences; the independence of the Eurosystem makes coordination between the actions defined by it and the actions defined by other entities more difficult; the monetary policy defined by the Eurosystem applies without distinction to all member states that have adopted the euro and is incapable of considering their realities and meeting their specific needs; the monetary policy measures adopted during the crisis that were sufficient for some members countries were insufficient for others because they were affected in different ways by the crisis; the main monetary policy measures adopted during the crisis are temporary and will be revoked when the crisis passes and the inflation rate is converging robustly towards the 2% target; and the Eurosystem cannot maintain an expansionist policy indefinitely because this could threaten the survival of important sectors, such as banks and institutional investors.

With regard to fiscal policy, the European Union relaxed the constraints on the fiscal policy of member states to allow them to use this policy to stimulate demand even if this implied an increase in public debt[11].

In this sense, the Council, based on a communication from the Commission, activated the escape clause of the Stability and Growth Pact for the first time since its creation and allowed member states to temporarily deviate from medium-term budgetary objectives or the trajectory of adjustment towards these medium-term budgetary objectives by considering the crisis an exceptional and temporary situation beyond the control of member states and with serious consequences.

All assessments, recommendations and decisions of the institutions of European Union regarding the fiscal situation of member states must consider this new reality.

In doing so, the Council and Commission sought to ensure that member states had more space to use fiscal policy to promote recovery. They could reduce taxes and increase the necessary expenditures without running the risk of suffering the sanctions provided for in the Pact.

The Council, based on a proposal from the Commission, temporarily included new forms of state aid among those permitted by the European legislation.

In particular, the Council has allowed the support to companies facing a sudden shortage or even unavailability of liquidity; state guarantees for loans; subsidized interest rates for loans; short term export credit insurance when these instruments are not available in the market; support for coronavirus and other relevant antiviral research and development projects; support for investments enabling the construction or upscaling of infrastructures needed to develop and test products useful to tackle the coronavirus outbreak; support for investments enabling the rapid production of coronavirus relevant products; deferrals of payment of taxes and social security contributions by those companies that were hardest hit by the outbreak; contribution to the wage costs of those companies hardest hit by the outbreak to avoid lay-offs; recapitalization and subordinated debt measures to non-financial

[11] Cf. Arestis and Sawyer (2013b), Alcidi and Gros (2020), Celi, Guarascio and Simonazzi (2020), Di Lucca (2020), Issing (2020), Jones (2020, 2021), Landesmann (2020), Vitrey and Lumet (2020), Bisciari et al. (2021), Caetano, Ferreira and Dionisio (2021), Ceron and Palermo (2021), Commission (2021a, 2021b), Greer, Ruijter and Brooks (2021), Fuest (2021); Heine and Herr (2021), Hierro et al (2021), Howarth and Schild (2021), La Porte and Jensen (2021), Leão (2021), Mendonça and Vale (2021), Rayo (2021), Reininger (2021), Saraceno (2021, 2022), Fabbrini (2022), Tesche (2022) and Papageorgiou and Immonen (2023) and the following European legislation: Council Regulation (EU) 2020/2094, Council Decision (EU) 2020/491, Council Regulation (EU) 2020/672, Council Regulation (EU, Euratom) 1311/2013, Council Decision (EU, Euratom) 2014/335, Council Regulation (EU, Euratom) 2020/2093, Council Decision (EU, Euratom) 2020/2053, COM (2020) 123, COM (2020) 1863, Eurogroup statement on the pandemic crisis support, and interinstitutional agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management, as well as on new own sources, including a roadmap towards the introduction of new own sources.

companies in need; contribution to the fixed costs of companies that are not covered by their own revenues; support to private investment as a stimulus to overcome an investment gap accumulated in the economy due to the crises and to facilitate the development of certain economic activities or economic areas; and support for private investments into equity, subordinated debt or quasi-equity to strength the solvency of the companies that were hardest hit by the outbreak.

Member states must notify the adopted measures to the Commission demonstrating that they are necessary, appropriate and proportionate. The Commission must approve these measures.

With this, the Commission and the Council sought to ensure that member states could support companies that are important to the recovery effort and that, even being financially viable, found it difficult to obtain resources in the market under favorable conditions.

The Council, based on a proposal from the Commission, allowed member states to temporarily review the collection of taxes on essential products, such as health equipment and supplies.

In particular, countries were able to temporarily reduce or eliminate the collection of import duties and value-added taxes on these products.

With this, the Commission and the Council sought to ensure that member states would have access to essential products to deal with the crisis in the necessary quantity and at more affordable prices, such as vaccines, pharmaceuticals, medicines, personal protective equipment, respirators, etc.

The Council, based on a proposal from the Commission, created a temporary financial assistance mechanism for countries with financing difficulties, the European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency. The Commission must borrow from the market on behalf of the European Union through the issuance of financial instruments or agreements with financial institutions and provide assistance in the form of loans of up to EUR 100 billion to all member states. These loans should be used to finance measures designed to prevent people from losing their job, to support people who have lost their job, and to help people who have lost their job to find a new one. There are no other conditions other than this.

Member states experiencing financing difficulties must request assistance from the Commission, which must assess their situation and needs. The Council, based on a proposal from the Commission, must adopt a decision on the granting of financial assistance to member states that request such assistance, specifying the amounts, deadlines, prices, payment schedule and other rules necessary for granting the financial assistance; assessing the situation and needs of the member state; and describing the measures that will be financed by the financial assistance granted. The Commission must monitor the implementation of measures by member states.

With this, the Commission and the Council sought to help member states with financing difficulties to maintain support for people who depend on employment for a living through unemployment pensions, employment intermediation services, vocational training services, subsidies for employers, microcredit for entrepreneurs, etc.

The European Stability Mechanism created a temporary precautionary credit line for member states that have adopted the euro, the Pandemic Crisis Support Instrument. The European Stability Mechanism must borrow from the market through the issuance of financial instruments and provide assistance in the form of loans of up to 2% of the GDP of each member state that have adopted the euro. These loans must be used to finance measures designed to improve the prevention, diagnosis, treatment and rehabilitation of COVID-19. There are no other conditions other than this.

Member states with financing difficulties must request financial assistance from the European Stability Mechanism, which must ask the Commission to assess the situation and needs of the member state. Based on the request of the member state and the assessment of the Commission, the European Stability Mechanism must decide on the amounts, deadlines, prices, payment schedule and other rules necessary for granting financial assistance. Countries must develop a Pandemic Response Plan with the Commission, specifying the measures that will be adopted. The Commission must monitor the implementation of measures by member states.

With this, the European Stability Mechanism sought to help member states with financing difficulties to face the crisis through the purchase of health equipment and supplies, the construction, renovation and maintenance of hospitals and other health establishments, the hiring of doctors, nurses and other health professionals, etc.

At the same time as it increased the fiscal capacity of member states, the European Union increased its own fiscal capacity.

The Council, based on a proposal from the Commission, adopted a decision on the own resources of the European Union for the period from 2021 to 2027.

In relation to the period from 2014 to 2020, the maximum amount of own resources available to cover total commitment appropriations increased from EUR 1.38 trillion, or 1.29% of the GNI of the European Union, to EUR 1.42 trillion, or 1.46% of the GNI of the organization, whereas the maximum amount of own resources available to cover total payment appropriations increased from EUR 1.32 trillion, or 1.23% of the GNI of the European Union, to EUR 1.36 trillion, or 1.40% of the GNI of the organization.

The own resources for the period must be made up of 75% of the revenue from taxes on imports from third countries of each member state; 0.3% on the value-added tax base of each member state limited to 50% of the GNI of each member state; and the difference between total expenditure and total own resources from other sources, apportioned by member states according to the GNI of each member state in relation to the total GNI of the European Union.

Own resources must also be made up of a new source of own resources derived from discarded and non-recycled plastic packaging. The new source of revenue is made up of 0.80 euros per kilogram of discarded and non-recycled plastic packaging in each member state.

GNI-based contributions from member states have become the main source of own resources of the budget of the European Union. This is because the increase in total expenses was accompanied by a reduction in total own resources from other sources, with the elimination of sources that existed and a reduction in the rates of sources that remained. The increase in the difference between total expenditure and total own resources from other sources had to be compensated by increasing GNI-based contributions from member states so that the budget was kept in balance.

Table 1 presents the sources of own resources of the budget of the European Union for 2021, the first year of the new multiannual financial framework, and confirms that the bulk of these own resources are made up of contributions from member states based on GNI.

Table 1: Sources of own resources of the budget of the European Union for 2021 – EUR billion

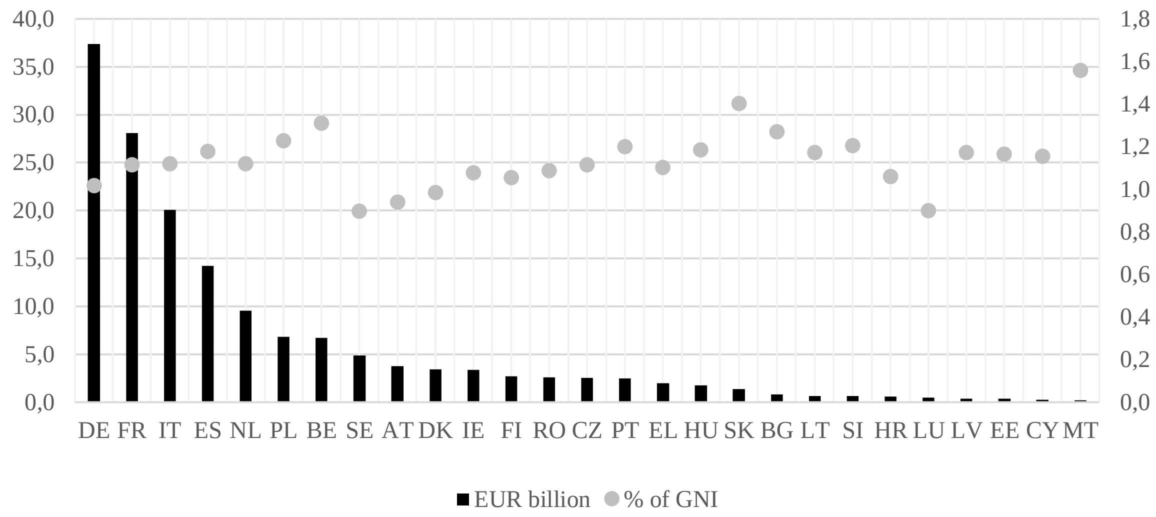
Own resources	Amount
Customs duties	19,0
Own resources based on VAT	17,9
Own resources based on plastic packaging waste not recycled	5,8
Own resources based on GNI	115,8

Source: European Commission. Own elaboration.

The richest member states are those that contribute the most to the budget of the European Union because they have greater imports from third countries; greater tax base for value-added tax; greater production and consumption of plastic packaging; and greater GNI.

Graph 1 presents the contribution of each member state to the budget of the European Union for 2021. It confirms that member states from Northern Europe are those that contribute the most to it, as a consequence of the fact that they are usually richer.

Graph 1: Contributions to the budget of the European Union for 2021 – EUR billion and % of GNI



Source: European Commission. Own elaboration.

The Council, based on a proposal from the Commission, adopted a regulation on the multiannual financial framework of the European Union for the period from 2021 to 2027.

In relation to the period from 2014 to 2020, the total commitment appropriations increased from EUR 1.07 trillion, or 1.00% of the GNI of European Union, to EUR 1.07 trillion, or 1.10% of the GNI of the organization, whereas the total payment appropriations increased from EUR 1.01 trillion, or 0.95% of the GNI of the European Union, to EUR 1.06 trillion, or 1.09% of GNI of the organization.

These appropriations are divided between the areas 'single market, innovation and digital', made up of the instruments Framework Programme for Research and Innovation (Horizon Europe), Euratom Research and Training Programme, International Thermonuclear Experimental Reactor, InvestEU Fund, Connecting Europe Facility, Digital Europe Programme, Programme for Internal Market, Competitiveness of Enterprises, including Small and Medium Enterprises, the area of Plants, Animals, Food and Feed, and European Statistics (Single Market Programme), Union Anti-Fraud Programme, Programme for Cooperation in the Field of Taxation (Fiscalis), Programme for Cooperation in the Field of Customs (Customs) and European Space Programme; 'cohesion, resilience and values', made up of the instruments European Regional Development Fund, Cohesion Fund, Instrument of Financial Support for Encouraging the Development of the Turkish Cypriot Community, Exchange, Assistance and Training Programme for the Protection of the Euro Against Counterfeiting, Union Civil Protection Mechanism (RescEU), Programme for the Union's Action in the Field of Health (EU4Health), European Social Fund Plus, Union Programme for Education and Training, Youth and Sport (Erasmus+), European Solidarity Corps Programme, Creative Europe Programme, Justice Programme, and Citizens, Equality, Rights and Values Programme; 'natural resources and environment', made up of the instruments European Agricultural Guarantee Fund, European Agricultural Fund for Rural Development, European Maritime, Fisheries and Aquaculture Fund, Programme for Environment and Climate Action (LIFE) and Just Transition Fund; 'migration and border management', made up of the instruments Asylum, Immigration and Integration Fund and Integrated Border Management Fund; 'security and defence' made up of the instruments Internal Security Fund, Nuclear Decommissioning Assistance Programme of the Ignalina Nuclear Power Plant in Lithuania, Dedicated Financial Programme for the Decommissioning of Nuclear Facilities and the Management of Radioactive Waste, European Defence Fund and Military Mobility Programme; 'neighbourhood and the world' made up of the instruments Neighbourhood, Development and International Cooperation Instrument (Global Europe), Humanitarian Aid, Common Foreign and Security Policy, Overseas Countries and Territories Programme and Instrument for Pre-accession Assistance; and 'European public administration'.

At the same time, appropriations for special instruments increased from EUR 10.7 billion, or 0.01% of the GNI of the European Union, to EUR 21.1 billion, or 0.02% of the GNI of the organization.

These appropriations are divided between the instruments European Globalization Adjustment Fund, Solidarity and Emergency Fund, Brexit Adjustment Reserve and Flexibility Instrument.

There is also the Single Margin Instrument, whose appropriation is given by the sum of the differences between the maximum expenditure that can be made in each area and the planned expenditure.

The bulk of expenditure of the budget of the European Union is traditionally made up of the Cohesion Policy, aimed at reducing territorial, economic and social inequalities between member states and within each member state, and the Common Agricultural Policy, aimed at ensuring an income for rural producers and promoting rural development in member states. But the challenges that have been faced by the European Union have led to an increase in the importance of other expenditures, such as protecting the environment, promoting technological advancement, controlling borders with third countries and strengthening internal security and the defense capacity of the organization.

Table 2 presents the distribution of the expenditure from the budget of the European Union for 2021, the first year of the new multiannual financial framework, and confirms that an important share of the expenditure is directed to the Cohesion Policy and the Common Agricultural Policy, but that they no longer respond for the largest share of the expenditure of the budget.

Table 1: Expenditures of the budget of the European Union for 2021 – EUR billion

Areas and instruments	Actions	Forms of management	Forms of funding	Amount
Single market, innovation and digital				18,5
Horizon Europe	Research and innovation	Direct, indirect	Grants, prizes, procurements, financial instruments	9,9
Euratom Research and Training Programme	Research and innovation	Direct, indirect	Grants, prizes, procurements, financial instruments	0,3
International Thermonuclear Experimental Reactor	Research and innovation	Indirect	Grants, procurements	0,6
InvestEU Fund	Strategic investments	Direct, indirect	Grants, financial instruments	1,5
Connecting Europe Facility (transport, energy and digital)	Strategic investments	Direct, indirect	Grants, procurements, financial instruments	2,2
Digital Europe Programme	Strategic investments	Direct, indirect	Grants, ´prizes, procurements, financial instruments	0,1
Single Market Programme	Single market	Direct, indirect	Grants, prizes, procurements, financial instruments	0,4
EU Anti-Fraud Programme	Single market	Direct, indirect	Grants, procurements, reimbursement of travel and subsistence expenses	0,0
Fiscalis	Single market	Direct	Grants, prizes, procurements, reimbursement of travel and subsistence expenses of external experts	0,0
Customs	Single market	Direct	Grants, prizes, procurements, reimbursement of travel and subsistence expenses of external experts	0,1
European Space Programme	Space	Direct, indirect	Grants, prizes, procurements, financial instruments	2,6
Other expenditures				0,9
Cohesion, resilience and values				126,5
European Regional Development Fund	Regional development and cohesion	Shared	Grants, prizes, procurements, financial instruments	45,4
Cohesion Fund	Regional development and cohesion	Shared	Grants, prizes, procurements, financial instruments	10,7
Support for the Turkish Cypriot Community	Regional development and cohesion	Direct, indirect	Grants, procurements, financial instruments	0,0
Protection of the Euro Against Counterfeiting	Recovery and resilience	Direct	Grants, procurements	0,0
RescEU	Recovery and resilience	Direct, indirect	Grants, procurement, contributions to trust funds	0,2
EU4Health	Recovery and resilience	Direct, indirect	Grants, prizes, procurements, financial instruments	0,1
European Social Fund+	Investing in people, social cohesion and values	Direct, shared	Grants, prizes, procurements, voluntary payments to international organisations, financial instruments	19,4
Erasmus+	Investing in people, social cohesion and values	Direct, indirect	Grants, prizes, procurements	2,4
European Solidarity Corps Programme	Investing in people, social cohesion and values	Direct, indirect	Grants, prizes, procurements	0,1
Creative Europe Programme	Investing in people, social cohesion and values	Direct, indirect	Grants, prizes, procurements, financial instruments	0,1
Justice Programme	Investing in people, social cohesion and values	Direct, indirect	Grants, prizes, procurements, financial instruments	0,0
Citzens, Equality, Rights and Values Programme	Investing in people, social cohesion and values	Direct, indirect	Grants, prizes, procurements, financial instruments	0,1
Other expenditures (incl. reimbursements of NGEU)				47,9
Natural, resources and environment				56,8
European Agricultural Guarantee Fund	Agriculture and maritime policy	Direct, shared	Grants	40,8
European Agricultural Fund for Rural Development	Agriculture and maritime policy	Shared	Grants, financial instruments	14,7
European Maritime, Fisheries and Aquaculture Fund	Agriculture and maritime policy	Direct, shared	Grants, procurement, financial instruments	0,7
LIFE	Environment and climate action	Direct, indirect	Grants, prizes, procurement, financial instruments	0,4
Just Transition Fund	Environment and climate action	Shared	Grants, prizes, procurement, financial instruments	0,0
Other expenditures				0,2
Migration and border management				2,5
Asylum, Migration and Integration Fund	Migration	Shared, direct, indirect	Grants, prizes, procurement, financial instruments	1,2
Integrated Border Management Fund	Border management	Shared, direct, indirect	Grants, prizes, procurement	0,4
Other expenditures				0,9

(Continue)

(Continuation)

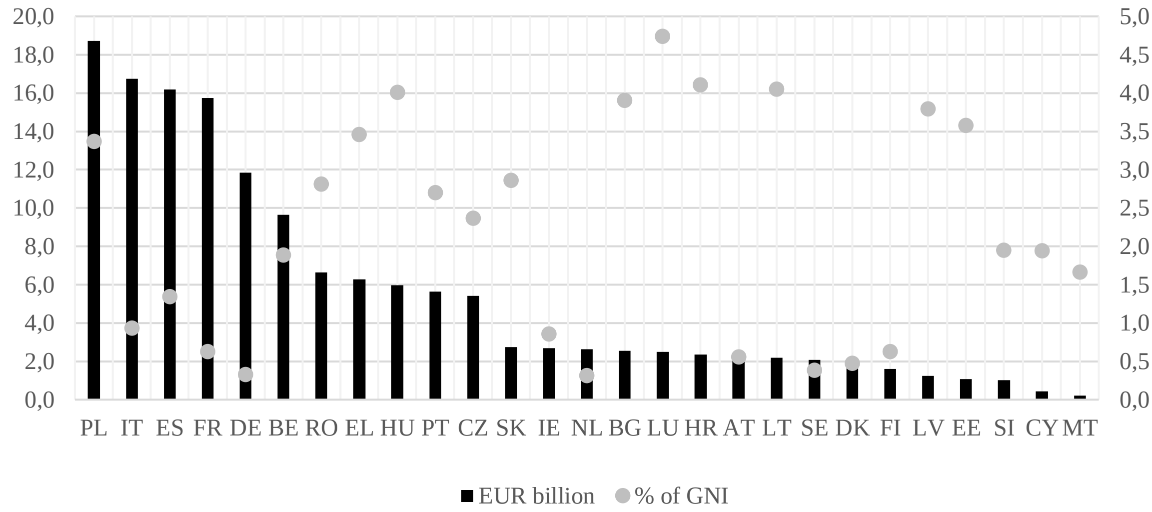
Areas and instruments	Actions	Forms of management	Forms of funding	Amount
Security and defence				0,7
Internal Security Fund	Security	Shared, direct, indirect	Grants, prizes, procurement, financial instruments	0,2
Nuclear Decommissioning	Security	Direct, indirect	Grants, prizes, procurement, financial instruments	0,1
European Defence Fund	Defence	Direct, indirect	Grants, prizes, procurement, financial instruments	0,2
Military Mobility Programme	Defence	Direct, indirect	Grants, procurements, financial instruments	0,0
Other expenditures				0,2
Neighbourhood and the world				10,9
Global Europe	External action	Direct, indirect	Grants, procurement, budget support, contributions to trust funds, financial instruments, budgetary guarantees, remunerated external experts	5,8
Humanitarian Aid	External action	Direct, indirect	Grants	2,5
Common Foreign and Security Policy	External action	Direct, indirect	Grants, procurement	0,4
Overseas Countries and Territories	External action	Direct	Budget support	0,0
Instrument for Pre-Accession Assistance	Pre-acession assistance	Direct, indirect	Grants, procurement, budget support, contributions to trust funds, financial instruments, budgetary guarantees, remunerated external experts	2,2
Other expenditures				0,1
European Public Administration				10,7
Special instruments				
European Globalisation Adjustement Fund				0,0
Solidarity and Emergency Fund				0,0
Brexit Adjustment Reserve				0,0
Flexibility Instrument				0,0
Single Margin Instrument				0,0

Source: European Commission. Own elaboration.

The poorest member states are those that receive the most from the budget of the European Union because most of the programmes of the organization are aimed at supporting countries with backward economies, lower participation in the labor market, lower employment, higher underemployment, higher unemployment, longer-term unemployment, higher poverty, higher inequality, etc.

Graph 2 presents the resources received by each member state from the budget of the European Union for 2021. It confirms that member states from Southern and Eastern Europe are those that receive the most from it, as a consequence of the fact that they are usually poorer.

Graph 2: Resources received from the budget of the European Union for 2021 – EUR billion and % of GNI



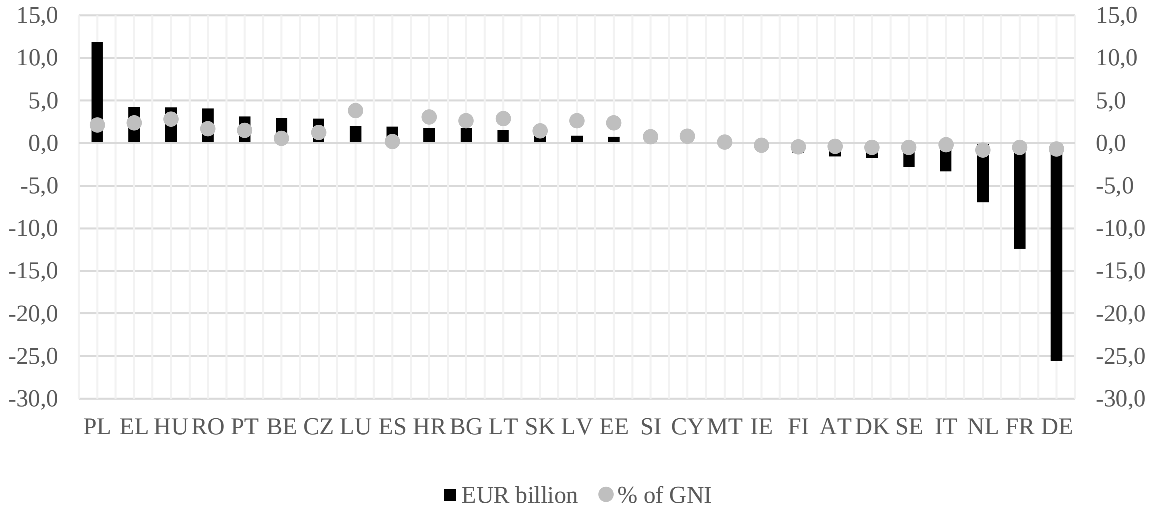
Source: European Commission. Own elaboration.

Ultimately, the richest member states contribute more to the budget of the European Union than they receive from it. To avoid the discontent of these countries, the organization grants a discount on the annual contributions based on the GNI of some of them.

For the period from 2021 to 2027, the Council, based on a proposal from the Commission, granted a discount on the annual contributions based on the GNI of EUR 3.67 billion for Germany, EUR 1.92 billion for the Netherlands, EUR 1.06 billion for Sweden, EUR 0.56 billion for Austria and EUR 0.37 billion for Denmark.

Graph 3 presents the resources received by each member state from the budget of the European Union for 2021 minus the contributions they have made to it. It confirms that member states from Northern Europe contribute much more to the budget than they receive from it, as a consequence of the fact that they are usually richer.

Graph 3: Resources received from the budget of the European Union for 2021 minus the contributions they have made to it – EUR billion and % of GNI



Source: European Commission. Own elaboration.

But the main reinforcement of the fiscal capacity of the European Union was the possibility for the Commission to borrow from the market to finance an package complementary to the budget, namely the European Union Recovery Instrument, also known as NextGenerationEU.

These loans do not contradict the principle of balance of the budget of the European Union because the NextGenerationEU is formally independent from the budget of the organization, whose revenues continue to be greater than expenses.

The Council, based on a proposal from the Commission, allowed the Commission to borrow from the market on behalf of the European Union EUR 750 billion or 0.77% of the GNI of the organization through the issuance of EU-Bonds with a maturity of 3.5, 7, 10, 15, 20, 25 and 30 years and EU-Bills with a maturity of 3 and 6 months. At least 30% of the resources will be borrowed through the issuance of 'green bonds', so they must necessarily be allocated to environmentally sustainable actions.

The Commission has been borrowing from the market to finance the financial assistance mechanisms for many years. In this case, it has adopted the back-to-back approach, in which it issued particular bonds to finance specific actions. But now it will borrow from the market to finance investments. And, in this case, it will adopt the unified funding approach, in which it will issue general bonds to finance non-specific actions. As a result, bond issues by the European Union will be much more similar to issues carried out by national treasuries.

Furthermore, of the EUR 750 billion that the Commission will borrow from the market, EUR 390 billion must be disbursed in the form of grants and EUR 360 billion must be disbursed in the form of loans. The fact that the majority of resources are disbursed in the form of grants means that the Commission will not receive back from member states part of the resources it transferred to them and, therefore, it must use its own resources to reimburse its creditors.

Repayment of the amount borrowed by the Commission from the market must begin before 31 December 2027 and end before 31 December 2058.

To ensure that the Commission will have the necessary resources to carry out the full reimbursement of the borrowed amount by the established deadline, the Council, based on a proposal from the Commission, increased the maximum amount of own resources available to cover total commitment appropriations and the maximum amount of own resources available to cover total payment appropriations by 0.6 p.p. until the full reimbursement of the borrowed amounts.

Furthermore, the Commission proposed the creation of four new sources of own resources, which still need to be approved by the Council: the own resources derived from the emissions trading system, the own resources derived from the carbon border adjustment mechanism, the own resources derived from the reallocation of rights to tax the profits of multinational companies and the own resources derived from the statistical profits of companies.

Companies in specific sectors in the European Union must purchase greenhouse gas emission licenses from member states. The own resources derived from the emissions trading system would be made up of 30% of the revenues from the sales of these emissions licenses.

Importers of products from certain sectors from third countries that emit greenhouse gases to the European Union must purchase emission certificates from member states. The own resources derived from the carbon border adjustment mechanism would be made up of 75% of the revenues from the sales of these emission certificates.

Under the OECD/G20 agreement on reallocation of taxing rights, member states will be given new rights to tax the profits of multinational companies. The own resources derived from reallocation of rights to tax the profits of multinational companies would be made up of 15% of revenues from the taxation of profits of multinational companies.

And the European system of national accounts includes the calculation of the gross operating surplus of each member state, which is the value of gross production minus the cost of intermediate goods and services, employee payments, and taxes and subsidies on production and imports. The own resources derived from the statistical profits of companies would be made up of 0.5% of the gross operating surplus of each member state.

The resources that the Commission will borrow from the market will be divided between the instruments Recovery and Resilience Facility, Framework Program for Research and Innovation (Horizon Europe), Just Transition Fund, European Agricultural Fund for Rural Development, InvestEU Fund, Union Civil Protection Mechanism (RescEU) and Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU), which is made up of the European Regional Development Fund and the European Social Fund Plus.

Most of the resources will be allocated to measures aimed at recovering from the COVID-19 crisis and increasing the capacity of member states to deal with other unfavorable events. The remainder of the resources will be allocated to other objectives, such as reducing territorial, economic and social inequalities between member states and within each member state, rural development, environmental protection and technological advancement.

Table 3 presents the expenditure on the NextGenerationEU package in 2021, the first year of operation of this new initiative financed by resources borrowed by Commission from the market. It confirms that most of the resources will be aimed at recovery and resilience, followed by other actions.

Table 3: Expenditures of the NextGenerationEU in 2021 – EUR billion

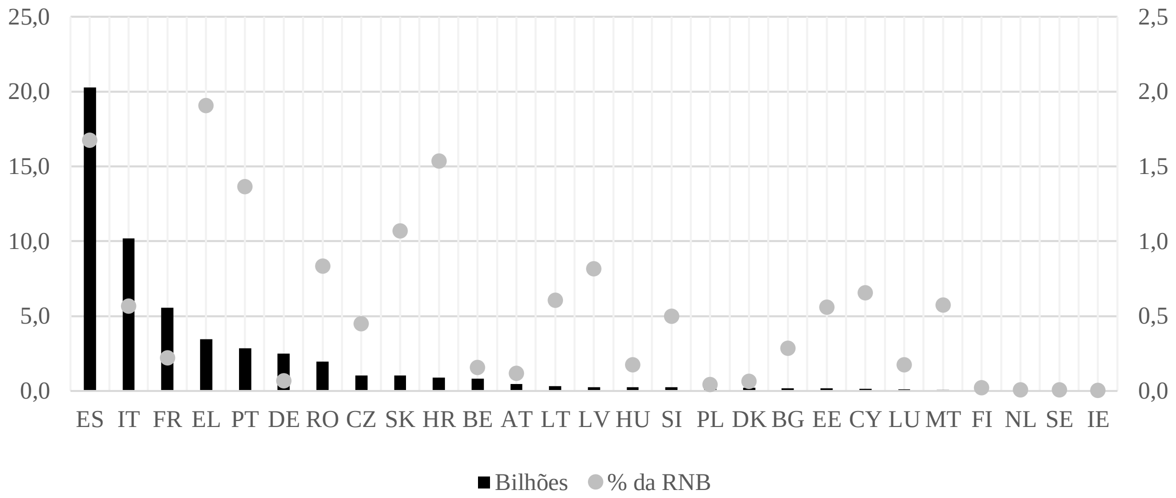
Areas and instruments	Actions	Forms of management	Forms of funding	Amount
Horizon Europe	Research and innovation	Direct, indirect	Grants, prizes, procurements, financial instruments	0,0
InvestEU Fund	Strategic investments	Direct, indirect	Grants, financial instruments	0,2
European Regional Development Fund	Regional development and cohesion	Shared	Grants, prizes, procurements, financial instruments	4,9
European Social Fund+	Investing in people, social cohesion and values	Direct, shared	Grants, prizes, procurements, voluntary payments to international organisations, financial instruments	2,1
Recovery and Resilience Facility	Recovery and resilience	Direct, indirect	Grants, financial instruments	46,4
RescEU	Recovery and resilience	Direct, indirect	Grants, procurement, contributions to trust funds	0,0
European Agricultural Fund for Rural Development	Agriculture and maritime policy	Shared	Grants, financial instruments	0,1
Just Transition Fund	Environment and climate action	Shared	Grants, prizes, procurement, financial instruments	0,0

Source: European Commission. Own elaboration.

Most of the resources will be allocated to the poorest member states and to the member states most affected by the COVID-19 crisis, as they have the greatest needs.

Graph 4 presents the resources received by each member state from the NextGenerationEU in 2021. It confirms that member states from Southern and Eastern Europe are those that receive the most from it, as they are poorer and were most affected by the COVID-19 crisis.

Graph 4: Resources received from the NextGenerationEU in 2021 – EUR billion and % of GNI



Source: European Commission. Own elaboration.

The actions of the European Union financed within the scope of the budget and the NexGenerationEU package have contributed to facing the consequences of the COVID crisis by including the support for the purchase, storage and distribution of health equipment and supplies among member states according to their need; the signing of advanced purchase agreements with potential producers of vaccines on behalf of member states; the signing of purchase agreements with producers of health equipment and supplies on behalf of member states; the support for the transport of patients, professionals and health equipment and supplies; the support for the repatriation of European citizens located in third countries most affected by the crisis; the creation of groups of experts to guide the actions of the organization and member states; the coordination of travel restrictions between member states and between them and third countries with a view to ensuring the maintenance of essential flows of goods, services and people; the evaluation and approval of vaccines, medicines and treatments against the disease; the creation of a European system to ensure the interoperability of tracking and alert apps created by member states; the creation of a European digital certificate that proves that a person has been vaccinated, has had a negative test result or has recovered from the disease to facilitate the resumption of flows of goods, services and people between member states; the development of guidelines for prevention, diagnosis, treatment and rehabilitation of the disease; the creation of mechanisms to increase surveillance of new threats to public health and facilitate responses to these threats; the timely provision of risk assessments and epidemiological updates on the disease; the support for increasing the production of health equipment and supplies in member states; the provision of information about the disease and support for measures to combat fake news; the support for research about the disease and the development of new forms of prevention, diagnosis, treatment and rehabilitation; the creation of a platform for the exchange of information between researchers; the support for measures capable of preventing the deterioration and stimulating the recovery of production, income and employment in different sectors, such as investments, subsidies, etc.; and the support for material assistance to people in situations of deprivation, such as food, clothing, personal hygiene items, etc.

The actions of the European Union financed within the scope of the budget and the NextGenerationEU package have also contributed to facing the consequences of the structural transformations underway all over the world, notably the transformation of international, financial, productive, corporate, occupational, family, demographic and environmental structures[12].

[12] Cf. the following press releases of the Commission: EU Civil Protection Mechanism activated for the repatriation of EU citizens (January 28, 2020); EU mobilizes EUR 10 million for research (January 31, 2020); Commission will use all the tools at its disposal to make sure the European economy weathers the storm (March 10, 2020); Commission sets out European coordinated response to counter the economic impact of the coronavirus (March 13, 2020); Commission presents guidelines for border measures to protect health and keep goods and essential services available (March 16, 2020); Commission launches European team of scientific experts to strengthen EU coordination and medical response (March 17, 2020); Commission adopts temporary framework to enable member states to further support the economy in the COVID-19 outbreak (March 19, 2020); Commission creates first ever RescEU stockpile of medical equipment (March 19, 2020); European standards for medical supplies made freely available to facilitate increase of production (March 20, 2020); Commission proposes to activate fiscal framework's general escape clause to respond to pandemic (March 20, 2020); Commission bid to ensure supply of personal protective equipment for the EU proves successful (March 24, 2020); Harmonized standards for medical devices to respond to urgent needs (March 25, 2020); Commission presents practical guidance on implementing the temporary restriction on non-essential travel to the EU (March 30, 2020); Commission mobilizes all of its resources to protect lives and livelihoods (April 2, 2020); Commission encourages and facilitates cross-border treatment of patients and deployment of medical staff (April 3, 2020); Commission waives customs duties and VAT on the import of medical equipment from non EU countries (April 3, 2020); Commission presents practical guidance to ensure continuous flows of goods across EU via green lanes (April 7, 2020); Commission calls on member states to optimize supply and availability of medicines (April 8, 2020); European roadmap shows path towards common lifting of containment measures (April 15, 2020); Commission issues guidelines on testing (April 15, 2020); Commission launches data sharing platform for researchers (April 20, 2020); Europe's moment: repair and prepare for next generation (May 27, 2020); EU strengths action to tackle disinformation (June 10, 2020); Member states agree on an interoperability solution for mobile tracing and warning apps (June 16, 2020); Commission unveils EU vaccines strategy (June 17, 2020); EU funding for the transport of medical goods, medical teams and patients (June 18, 2020); Commission strengths preparedness for future outbreaks (July 15, 2020); Commission joins the COVID-19 Vaccine Global Access Facility (COVAX) (August 31, 2020); Commission steps up action to reinforce preparedness and response measures across the EU (October 28, 2020); Building a European Health Union: stronger crisis preparedness and response for Europe (November 11, 2020); Affordable, accessible and safe medicines for all: the Commission presents a pharmaceutical strategy for Europe (November 25, 2020); Commission authorizes first safe and effective vaccine against COVID-19 (December 21, 2020); Preparing Europe for increased threat of variants (February 17, 2021); Commission proposes a Digital Green Certificate (March 17, 2021); Commission proposes EU strategy for the development and availability of therapeutics (May 6, 2021);

Defining the own resources and the multiannual financial framework of the European Union for the period from 2021 to 2027 was not an easy process. The final result is less ambitious than that originally proposed by the Commission. The departure of the United Kingdom and the end of its contributions and the resistance of the richest member states to increase their contributions based on GNI led to a limited increase in the fire power of the budget, considering the needs of the moment.

Creating the NextGenerationEU package was not an easy process either. At the beginning of the crisis, there was a consensus that the European Union should resort to a mechanism complementary to the budget to support member states most affected by it. But member states differed on the form this mechanism should assume. The poorest member states most affected by the crisis defended the creation of a new mechanism that would borrow resources from the market to be distributed in the form of subsidies without conditionalities. These countries argued that all member states were affected by an event far beyond their control. The richest member states that were least affected by the crisis defended the use of existing financial assistance mechanisms to borrow resources from the market to be distributed in the form of loans with conditionalities. These countries argued that some member states were more affected than others because they did not implement the structural reforms they should have implemented to increase their capacity to respond to crises.

The balance between the two groups of member states tipped definitively when Germany changed its position, leaving the proposal of the richest member states that were least affected by the crisis in favor of the proposal of the poorest member states that were most affected by the crisis. The change in the position of Germany was mainly due to the perception that the crisis was exceptional and that the collapse of its neighbors would imply the collapse of its main suppliers and consumers; that the absence of a more robust fiscal response would have placed an excessive burden on the Eurosystem, whose creative measures it itself put into question; and that the growth of Euroscepticism and criticism of the inability of the European Union to act threatened the advancement of the regional integration project, which is one of the priorities of its internal policy and foreign policy.

The final result was a package that was less bold than the poorest member states most affected by the crisis would have preferred, but that was also bolder than the richest member states least affected by the crisis would have preferred.

The measures adopted by the European Union within the scope of fiscal policy were truly remarkable. Member states had more flexibility to manipulate their revenues and expenses at the same time they

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Emerging stronger from the pandemic: acting on early lessons learnt (June 15, 2021); European Health Emergency preparedness and Response Authority (HERA): getting ready for future health emergencies (September 16, 2021); and Commission proposes the next generation of EU own resources (December 22, 2021).

had the support of the revenues and expenses of the organization in an expression of true and unprecedented solidarity. This increased their ability to face the challenges posed by the new reality and managed to prevent more people from being unable to meet their fundamental needs.

However, important limitations remain: the European Union still believes that fiscal policy is not capable of permanently affecting production, income and employment and that rules are necessary to prevent abuse by states and ensure the sustainability of public debt; the European Union ignores that monetary policy has limits and that fiscal policy is the only policy capable of making a difference when this happens; European fiscal rules are strict and based on meeting arbitrary and unrealistic targets; European fiscal rules do not distinguish between types of public revenue and expenditure; European fiscal rules are not sufficiently flexible regarding the business cycle; European fiscal rules apply without distinction to all member states and disregard their specific realities and needs; the relaxation of European fiscal rules is temporary and will be revoked as soon as the crisis has passed; the budget of the organization is small and corresponds to a very small portion of its GNI, especially when compared to the size of national budgets; the own resources of the organization are not sufficiently diversified and very dependent on the willingness of the richest member states to increase their contributions based on the GNI; the discounts granted on the contributions based on the GNI of the richest countries do not benefit all countries that contribute more to the budget than they receive from it and reduce the resources available for the budget; new sources of own resources are not sufficiently ambitious in terms of progressivity; the organization is prohibited from borrowing from the market to finance the expenditure foreseen in its budget; the possibility of the organization borrowing to finance expenditures that are additional to those foreseen in its the budget is temporary and will be revoked when the crisis has passed; the areas of competence of the organization are restricted and exclude fundamental areas, such as social policy; an important part of the resources of the organization is disbursed in the form of loans, which increase the debt of member states and involve compliance with strict conditionalities; the Eurosystem remains prohibited from financing the deficits of member states; the organization remains prohibited from assuming the debts of member states; and the measures adopted by the organization in the area of fiscal policy suffer from a democratic deficit, as the role of the European Parliament in this area is very limited.

6 Conclusions

In contemporary capitalism, interstate organizations must assume a more decisive role in meeting the fundamental needs of people because the state, the market and the family and other traditional forms of provision are not capable of ensuring this alone.

In fact, those who do not have money to buy what they need in the market are forced to sell their labor force in the market in exchange for money or to resort to the support of the family and other traditional forms of provision that depend on those who have money or those who sell their labor force on the market in exchange for money. The purchase of labor force depends on production decisions, which depend on the spending decisions of those who have money and which are taken based on expectations formed in a context of uncertainty. This causes production decisions to move forward at some times and backward at others, but never being able to ensure that everyone who needs to sell their labor force on the market in exchange for money can find a buyer.

The state must mobilize national policies to stimulate spending decisions. But the stimulus needed to ensure that everyone who needs to sell their labor force on the market in exchange for money can find a buyer may be beyond their capacity. In this case, interstate organizations must mobilize international policies to complement and reinforce states and national policies.

The European Union is one of the most complex interstate organizations ever created, but it has always been reluctant to take on a more decisive role in meeting the fundamental needs of people. Contrary to what one might expect, it has always contributed to the weakening of national policies without compensating this process by the strengthening of international policies.

The outbreak of the COVID-19 crisis in a region that had not yet recovered from other crises created favorable conditions for the European Union to finally assume a more decisive role in meeting the fundamental needs of people. In a change from what had been done until then, it contributed to strengthening national policies at the same time it strengthened international policies.

This is particularly evident in the case of monetary policy and fiscal policy. In the case of monetary policy, it adopted measures that secured resources when these resources became more necessary with longer terms and lower prices. In the case of fiscal policy, it adopted measures that ensured member states had more flexibility to manipulate their revenues and expenses at the same time they had the support of the revenues and expenses of the organization. All of this certainly contributed to the effects of the crisis being less profound and lasting in the European Union than they could have been.

The response of the European Union to the COVID-19 crisis proves the importance of strengthening ties of solidarity and commitments to mutual protection, not only at the national level, but also at the international level. It also proves the resilience of this regional integration project that arose from the perception that countries have much more to gain if they work together for common interests than if they work alone for particular interests.

Much remains to be done for the European Union to become a true Welfare Interstate Organization, but its capacity for reinvention should not be underestimated. In fact, Jean Monnet, one of the founding fathers of the European regional integration project, was right to conclude that '*l'Europe se fera dans les crises et elle sera la somme des solutions apportées à ces crises*'.

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