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EXPERT CONTRIBUTION

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If the ECB forgets the Juncker Plan

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The quantitative easing (QE) by the European Central Bank (ECB) led by Mario Draghi has just begun and it will take time to assess its effects. Some consider it a cornucopia (especially the European stock market) and others (the Bundesbank) deem it as a Pandora's box. The ability of the QE of transmitting its effect from the credit-financial system to the real economy will be crucial.

We would have preferred a direct public spending intervention aimed at infrastructures and investments; or at least an innovative coordination between the ECB and the European Investment Bank (EBI) to strengthen the weak Juncker plan. Instead, we are under the impression that, in

Europe, coordination does not count that muchð at times due to statute-related dogmas and other times to actual barriers. That is why it is urgent to reflect upon European rules and institutions on which recently (even though without reference to the QE) Finance Minister Pier Carlo Padoan discussed.

Currency, Finance and Credit.

Last October, Draghi said that the risk of doing too little was greater than that of doing too much. According to this criterion, as early as June 2014, there has been an accentuation of ECB measures. Interest rates were cut all the way to 0.05 percent bringing those on deposits down to negative 0.2, the LTROð in other words liquidity to investment banks at very low rates (now at 0.05 percent) and under the condition it would be used for financing businesses and families got started, and the purchase of private titles, such as ABSð continuing with covered bondsð also began. Finally, the QE for the purchase of sovereign bonds was decided in January.

According to the recent ECB report, it seems like the financial and credit-related effects of the QE are already demonstrating its success.

From a financial point of view, it observes that the generalized drop of national and corporate bond yields (which in many cases have reached historic lows even dropping to negative values), the spreadsô reduction, the widening of the gap in the yields on US national bonds, the depreciation of the euro, the increase of stock values.

From a credit supply point of view, it notices that the reduction of rates on banksôsavings is transmitting to rates, therefore burdening families and businesses, that the gap of these rates among euro zone countries, even though it remains high, is reducing and that the supply of credit is improving.

The report hints at the fact that this could be due to the TLTRO (but wasnôt it a failure?), that at the March auction it did much better than expected by placing into banks almost 100 billion euros in liquidity at 0.05 percent rate.

There are, instead, no worries about the backlashes from various bubbles, about which we already talked on March 17 and which emerged from banking circles for international regulations.

Growth, investments, employment.

The ECB notices a cautious confidence about the improvement of the situation starting from the second half of 2014 because of two factors teaming up with expansive monetary policyð namely, low oil prices (which increases purchasing power and consumption) and weakness of the euro vis-à-vis the dollar (which pushes exports). Hence, the forecast of a GDP growth for the euro zone at 1.5 percent in 2015, 1.9 in 2016, and 2.1 in 2017.

These predictions must be interpreted by taking various factors into account. First, the GDP in the euro zone is still 2 percent lower than pre-crisis levels; second, investments are 17 percent lower than pre-crisis

levels; third the construction sector struggles to restart; fourth the gaps in growth and employment between euro zone countries remain a hurdle; fifth, the public budgets and structural reforms situation of several countries requires further progress.

The conclusion is that unemployment remains at 11.2 percent and thatð despite the January 2015 drop vis-à-vis 2014ð was 0.6 percent, we still suffer from an unemployment rate 4 points higher than the pre-crisis level.

Thus, it is strange that the ECB report does not devote ample space to the Juncker plan for investments and its ties with the EIB, even related to the QE.

Structural reforms and institutional rules.

Instead, the ECB report analyzes structural reforms in various countries focusing on the compliance with the so-called fiscal compact, of structural bottom lines and the decrease of the debt to GDP ratio. Nothing new is added, apart from an evaluation on Italy that the Ministry of Finance protested about.

The issue of European institutional rules, on the other hand, is left untouched: they should reflect on the QE and on the limits of the ECB, which can only influence monetary stability and control of inflationð currently needing to be pushed towards 2 percent. Is all the restð good or badð only side effects that the ECB ñshould not worry about?ò

Here, a problem about rules arises: it has been sharply touched upon by Pier Carlo Padoan in his speech during the conferring of an honorary degree to Economy Nobel prize laureate Jean Tirole at Romeôs Luiss-Guido Carli university.

The ex-ante rules and compliance thereto create reputation and credibility but, ex-post must be evaluated for their capacity to accomplish development goals, as they otherwise risk jeopardizing institutions.

In this way, should the rules on the Fiscal Compact be aimed mechanically at the decrease of the GDP to debt ratio and structural bottom lines (with imprecise output gap calculations), they would produce counterproductive effects and damage both investments and growth.

In the crisis, Padoan concludes, we managed to use a flexible interpretation of the rules; yet, the European Union (EU) must innovate institutionally also with a better balance between Parliament Counsel and Commission in order to identify a long-term strategy that brings about growth, jobs and welfare.

Let us hope the Italian government commits itself to this European project that gives direction even to domestic reformsð currently facilitated, but not replaced, by low interest rates.