Has Italy Won or Lose in the European Monetary Union

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Abstract: The transformation of the European Monetary System into the European Monetary Union is a significant event in the development of the world economy and a major issue of concern in international financial research. The establishment of the European Monetary Union is the basis and guarantee for the establishment of the European Economic Union and Political Union. In this study, by analyzing various economic indicators of Italy, the author can determine whether it is a winner or loser in terms of gains and losses in the European Monetary Union and then can also infer the changes in the economies of various countries under the union policies. In terms of economic development, it can be seen from the Gini coefficient and GDP growth rate that Italy has long been in a predicament of a large wealth gap and weak economic development. In terms of economic security, it can also be inferred that Italy is trapped in a quagmire of foreign debts and perennial fiscal deficits through the two data of the percentage of foreign debt to GDP and the ratio of fiscal revenue and expenditure, resulting in insufficient amplitude credibility and large economic loopholes. From this, it can be judged that Italy is in the position of a loser in the European Monetary Union.

Keywords: European Monetary Union, Italy, economy, Gini coefficient

1. Introduction

In recent years, there have been more and more discussions on the European Monetary Union (EMU), and the transformation of the European monetary system into the European monetary Union is a major event in the process of world economic development and a major concern in the field of international financial research. The establishment of the European Monetary Union is the basis and guarantee for the establishment of the European Economic Union and Political Union. It is generally believed that the development of European monetary cooperation is mainly the result of internal driving forces and pressures and external attractions and pressures. Its internal strength is due to the development of trade and financial integration that stabilizes the preferences of interest groups participating in international economic exchanges [1]. The exchange rate system and the preferences of these interest groups exert pressure on the government’s policy formulation through domestic institutions and political procedures. This pressure has been increasing due to the strengthening of the power of foreign interest groups at home. The goal of policymakers is to maximize political support. Policy makers try to stabilize exchange rates through certain mechanisms. Since the economic structures of European countries are similar, policymakers in each country face similar pressures. Therefore, policymakers in each country have domestic pressure and goals to stabilize
exchange rates. Due to the extensive institutional linkages in the EU, intergovernmental negotiations on monetary cooperation are more convenient [2]. Through intergovernmental institutional negotiations, the European Monetary Union was established and developed. In this alliance of 20 countries, there are naturally losers and winners, or more or less wins. However, there is serious problem in insufficient amplitude credibility and large economic loopholes in Italy [3]. The paper revolves around Italy’s role in the European Monetary Union and its ability to analyze all aspects of its economy to determine whether it is a loser or a winner. Therefore, the author can see the big from the small and observe changes in various countries’ monetary union policies.

2. Criteria for Winners and Losers in EMU

Through research, the author thinks there are no real winners or losers in EMU. However, relative winners and losers could be under a certain measurement standard. So here are two economic criteria to argue for relative losing and winning.

European Monetary Union was established on January 1, 1999; it realizes the provisions of the Treaty of Maastricht on the construction of the Union and the introduction of a single currency called the euro. The EMU belongs to the embodiment of the fifth stage of complete economic integration in Europe in Bela Balassa’s model. The implementation of the single currency policy in EMU mainly aims to promote economic integration and maintain stable prices. In 2002, the euro officially replaced the national currencies in the eurozone [4].

Considering the economic objectives of the European Monetary Union, the paper will discuss them under the criteria of economic development situation and economic security, respectively. Regarding economic development, the paper uses data on the GINI coefficient and annual GDP growth rate. The GINI coefficient reflects the gap between the rich and the poor and income distribution in a country. However, it cannot reflect the overall level and trend of economic development. Therefore, the paper introduces the annual GDP growth rate as supplementary data. By complementing these two data, it could be better to judge winners and losers. Regarding national economic security, the author considers the characteristics of EMU as a monetary union, judges its winners and losers from the ratio of net external debt to GDP, and studies its fiscal stability. The proportion of foreign debt reflects the country’s capital needs and investment capabilities to a certain extent and helps us see the country’s development prospects. Regarding financial stability, the fiscal revenue-expenditure ratio is presented to the judge.

3. Economic Development of Italy

The first is the Gini coefficient. The Gini coefficient is a comprehensive indicator that measures the income gap among residents of a country and reflects the degree of inequality in income distribution. It has internationally accepted calculation methods and measurement standards. Its value is between 0 and 1; the closer to 0, the more equal the income distribution; the closer to 1, the more unequal the income distribution. Income inequality is a factor affecting economic growth and development.

The paper uses the average of eight countries in the euro area and the Eurozone Gini coefficient between 2002 and 2018 as a sample from Eurostat. According to the Gini coefficient, the Gini coefficient of the 19 eurozone countries is stable between 0.302 and 0.31. Italy’s Gini coefficient is very stable. From 2002 to 2018, the data exceeded the average and was between 0.32 and 0.34 all year round. This data shows that compared to other countries in the European Monetary Union, Italy’s income distribution is more unequal, and the gap between rich and poor per capita is even more significant. It is at the bottom of the EMU regarding the Gini coefficient [5].

Although the Gini coefficient is a commonly used indicator to measure the degree of income distribution inequality, it can only reflect the income distribution within the country and can not
reflect the overall national economic development situation; the Gini coefficient alone cannot analyze the trend of economic development, therefore, when using the Gini coefficient, the GDP is used to analyze the Italian economic development trend more thoroughly.

GDP growth reflects a country’s economic growth and is generally considered one of the leading indicators of economic prosperity. From this indicator, the author can also see the growth of a country’s economic activities, domestic consumption, and international trade. Because the economic crisis of 2008 had a significant impact on the global economy, the study used 2008 as the dividing point for analysis from 2002 to 2018. By observing the data from “Our World in Data”, the author can find that from 2002 to 2018, Italy’s GDP growth rate was lower than the average level of other European countries. It bottomed out in 2008, followed by a climb before dropping to -3% in 2012 [6].

A low growth rate may have an adverse effect on the country’s fiscal position, as the government is likely to face difficulties due to reduced tax revenues, which may lead to reduced funding in areas such as public investment, education, and health care. A low GDP growth rate may indicate that the production and sales of enterprises have decreased, consumer spending has declined, and investment needs to be increased, indicating that the overall economic activity needs to be more active. Therefore, Italy’s low GDP growth rate means its economic growth rate is slow, and the economy has been in recession for many years.

4. Economic Security of Italy

After analyzing the Gini coefficient and GDP growth rate, Italy faces structural problems, including a rigid labor market, cumbersome administrative procedures, and wealth inequality. These problems may hinder the development and competitiveness of the economy. At the same time, due to multiple shocks, Italy’s economic growth has been relatively weak in the past few years. The author preliminarily believes that Italy is in a disadvantaged position in the European Monetary Union regarding economic development and is a loser. However, the same two data can only reflect the current economic situation and cannot analyze the prospects of the Italian country. So, the author introduced the country’s foreign debt as a percentage of GDP to analyze its national economic security.

External debt as a percentage of GDP is used to measure the proportional relationship between a country’s level of external debt and the size of its economy. This data can provide clues about the country’s economic health and debt sustainability. A lower external debt-to-GDP percentage not only means that the country has a lighter debt burden but also has higher debt sustainability, indicating that the country is more resilient in repaying debt and maintaining debt servicing capacity and has more fiscal space to support economic growth and development. It also shows that the country is more stable regarding financial risks and external shocks. A high external debt-to-GDP percentage may imply that the country has a relatively heavy debt burden and debt stress. This can have a negative impact on the country’s fiscal stability and economic development, as higher debt levels can require large amounts of funds to be used to service debt and pay interest. High debt levels can lead to debt crises and fiscal risks, affecting the country’s creditworthiness and economic stability. Higher external debt as a percentage of GDP may indicate a country’s greater reliance on external borrowing. This can make the country more vulnerable to volatility in international financial markets and changes in interest rates [7].

After analyzing multiple data from the World Bank on the countries of the European Monetary Union, we found that although Italy’s foreign debt ratio has increased year after year, it is still at the middle level of the European Monetary Union. Compared with Greece, which has grown rapidly year after year to exceed the total GDP of the year, Italy’s foreign debt accounts for about 50% of the year. However, in any case, it can be proved that Italy is considered a high-debt country, and the high level
of foreign debt means that Italy needs to pay a large amount of debt interest and principal repayment. That could pressure the country’s fiscal position and limit government spending and investment in other areas if a large amount of domestic resources are used to service debt, which reduces the amount of money available to stimulate economic growth. High levels of external debt could present Italy with debt sustainability challenges. A debt crisis may occur if a country fails to effectively manage debt, including repaying interest and principal, and control the growth rate of debt. A debt crisis could trigger turmoil in financial markets, increase borrowing costs, and hamper economic growth.

The high level of external debt may make Italy face the challenge of debt sustainability. A debt crisis may occur if a country fails to effectively manage debt, including repaying interest and principal, and control the growth rate of debt. A debt crisis could trigger turmoil in financial markets, increase borrowing costs, and hamper economic growth. Moreover, it affects economic security. However, the stability of fiscal revenues is also an essential aspect of national financial security. A country’s fiscal revenue should continuously meet the government’s expenditure needs, including public services, infrastructure construction, and social welfare. Fiscal deficits, debt problems, and other economic risks can result if fiscal revenues become too volatile or fail to meet government spending.

By analyzing data from the World Bank, it could be found that from 2002 to 2018, Italy’s fiscal revenue and expenditure ratio was negative, ranging from -2% to -3% throughout the year; that is, income did not cover expenditure, and it was severe after the 2008 financial crisis. This also proves that Italy has been in a positive deficit all year round. These fiscal deficit ratio data show that Italy faces fiscal challenges in these years and needs to fill the fiscal gap through borrowing and other means [8].

A persistent fiscal deficit would weaken Italy’s fiscal sustainability. If the fiscal deficit continues to be high, the government must continue to borrow to fill the fiscal gap, which may raise concerns about debt sustainability in the market. This could lead to higher bond rates, making government funding more expensive and exacerbating fiscal distress. A high fiscal deficit may affect the market’s confidence in Italy. Market participants are likely to express concerns about the government’s fiscal position and debt sustainability, which could lead to investors’ less willingness to invest in Italy. This could trigger capital outflows, currency depreciation, and financial market turmoil, further affecting economic growth and employment. Fiscal deficits can have a negative impact on economic growth. A high fiscal deficit may mean the government needs to tighten fiscal policy and take austerity measures to reduce the deficit. This could reduce government spending and investment, limiting the economy’s growth potential. In addition, the fiscal deficit may also increase macroeconomic instability and affect market confidence and the investment environment [9].

To sum up, Italy has been facing high public debt regarding fiscal security, which is one of the main risks to its financial security. High debt levels increase the country’s debt burden, requiring more interest and principal repayments, putting pressure on the fiscal position. Reducing debt levels and improving debt sustainability are essential in ensuring fiscal security. Moreover, Italy has long had a fiscal deficit problem, that is, fiscal expenditures exceed fiscal revenues. Persistent fiscal deficits increase debt levels, negatively affecting fiscal sustainability and market confidence. The government must reduce the fiscal deficit through fiscal reform and control expenditure to ensure fiscal sustainability and stability. So, from the perspective of financial and economic security, Italy is also in a loser position in EMU.

5. Conclusion

The research analyzes from two directions: economic development and economic security. In terms of economic development, by discussing Italy’s GDP growth rate and Gini coefficient, it is concluded that its wealth gap is large, income distribution is unequal, GDP growth rate is low, and economic vitality is insufficient. Regarding economic security, the paper analyzes the country’s foreign debt as
a percentage of GDP and the ratio of fiscal revenue and expenditure. It can be concluded that Italy has a high debt ratio and is in a fiscal deficit all year round. Finally, based on two arguments, it was concluded that Italy can be judged as a loser in EMU. So far, the author’s research on Italy’s role in the European Monetary Union has ended. Still, if there is a need for a deeper understanding of the European Monetary Union, it is not enough to analyze Italy alone [10]. The establishment of the European Monetary Union can bring obvious economic and political benefits to member countries. This is the fundamental reason why the members of the European Economic Community have long and unremittingly promoted monetary union. Therefore, if we want to have a deeper understanding of the European Monetary Union, the author needs to analyze it from the perspective of more countries, as well as from the European macro perspective. However, since this article only elaborates on the situation in Italy, no further exploration will be conducted.

References