The recent war in Ukraine is a stark reminder of the importance of maintaining the peace in Europe, which was the strongest motivation to for the integration process.

Q1. What was the main economic building block put in place at the initial stage of the european integration and what were the different perspectives for the evolution of the project?

The Treaty Establishing the European Coal and Steel Community (ECSC) was signed in Paris on 18 April 1951 by France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands, and entered into force on 24 July 1952. The underlying political objective of the ECSC was to strengthen Franco-German cooperation and banish the possibility of war.

On 25 March 1957, Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany, signed the Treaty of Rome, creating the European Economic Community (EEC) which came into force on 1 January 1958. The EEC was a customs union, allowing for free trade in goods and services through removal of tariffs and quotas, and harmonizing trade rules with the rest of the world. The Treaty of Rome also aimed at removing non-tariff barriers to trade and implementing free movement of labor and capital, but both failed and would only start to be really addressed with the Single European Act in 1986. Even so, it already preconized the 4 fundamental freedoms: Goods, Services, Labor, and Capital.

Besides these market measures, three supranational Institutions were formed: the European Parliament, the European Court of Justice and the European Commission. Two main perspectives existed on how proceed with the European project: federalism and intergovernmentalism. The federalist perspective implies the transfer of some sovereignity over to supranational institutions. The intergovernmental perspective values cooperation among countries, unanimity and institutions where all represented.

Q2. Does the current institutional architecture of the EU reflect these different perspectives? Please justify.

The current institutional architecture of the EU reflects the two perspectives referred above given that it has supranational and intergovernmental institutions. This conciliation is also visible in the decision making process.

The supranational institutions are:

- European Commission, the executive body. It has legislative initiative, makes proposals, implements policies, supervises the application of EU laws and treaties.
- European Parliament, the legislative body. It shares legislative powers with the Council of the EU / Council of Ministers (co-decision process), voting on proposals from the European Commission, and it supervises the EU institutions.
- European Court of Justice, the judicial body. It is in charge of applying legislation and resolving conflicts between member-states, EU institutions and citizens.

The intergovernmental institutions are:

- Council of the EU / Council of Ministers, the decision-making body. It includes representatives of member-states and its composition changes according to the subject matter. Alongside the European Parliament it votes on proposals from the European Commission, as well as having a say on the EU budget.
- European Council, the political body. It provides guidelines and orientations. It is comprised by representatives of member-states (usually the head of government), the President of the

European Commission, and a President elected for 2.5 years. Its presidency rotates every 6 months – not to be confused with the President itself; the presidency is headed by one of the countries (not a person) and is who establishes the policy orientation for 6 months.

Q3. What are the main channels through which the ongoing conflict is expected to affect the EU economy?

Inflation and price levels are expected to be the main indicators to be primarily impacted by the current conflict in Ukraine. Russia plays a central role in the production of oil and gas, and the cutting of economic ties with this country inevitable affects the international price of energy goods. This increase in energy prices is expected to impact the price of other goods and commodities, inflating the overall price level. Building on this, the war is expected to further disrupt the production and the transportation global network, which were already deeply affected by the pandemic.

On a more structural front, the present situation will trigger a revision of the energy policies with a view to increase energy security, and it may also have impacts on the fulfillment of the carbon emission objectives underlying the so-called "green transition".

This rise in inflation adds to that resulting from the pandemic crisis, centered in specific goods and services. For the first time in many years, developed economies are witnessing inflation rates above the target defined by the central banks. This change in inflation comes after a long period of monetary expansion under unconventional monetary policies, which started in the previous sovereign debt crisis and were deepened during the pandemic crisis. These policies are now expected to be reversed inducing an increase in the interest rates.

This increase interest rate may be particularly worrying given the high levels of both public and private debt, which increased due to the expansionary policies followed during the pandemic. Coupled with the needed rise in defense expenditures, this new reality will put pressure on fiscal balances.

Additionally, the war in Ukraine started another refugee crisis with large inflows of people entering Europe. This is expected to create extra pressure on labour markets and social welfare budgets with unknown final impacts on labour market equilibria.