

EU: Official green light for emergency government spending

Ministers of finance just agreed to activate the “general escape clause” of the EU fiscal framework for the first time ever. This means that the normal budgetary rules are now suspended



Source: istock

The EU ministers of finance formalized the proposal by the European Commission, which means that countries are now temporarily allowed to deviate from the regular fiscal rules of the Stability and Growth Pact. The fact that this is the first time ever that this has occurred signifies a rather united approach by European countries, which could have been expected given that the current economic shock is rather synchronized across member states. Together with the ECB's Pandemic Emergency Purchase Programme (PEPP) announcement, this paves the way for significant fiscal spending by national governments to battle the fallout from Covid-19.

Most eurozone countries have already announced sizable fiscal spending, liquidity support and guarantees, which had sparked concern in financial markets last week. Spreads between peripheral countries and Germany have fallen after the ECB announced PEPP and this formalization of the general escape clause means that worries about problems with Brussels in the fight against the virus and its economic fallout are a worry less. This will be seen as a big

relief for those countries that have put up the most restrictive containment measures, but have announced a relatively small spending package.

To some, the EU response has been a disappointment and no, we have not yet seen a Corona-bond introduced or a large Marshall Plan kicked off like Spanish PM Sanchez suggested. Still, the activation of the general escape clause, the ECBs introduction of dual interest rates and committing to no limits in using asset purchases are all unprecedented moves to battle this crisis by EU institutions. In a relatively short amount of time, the EU has paved the way for governments to do what's necessary.

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