

Snap | 9 April 2020

## Eurozone: Eurogroup binge viewing is over (for now)

What should have been done on Tuesday turned into a marathon session, but the Eurogroup emerges with a deal on a 540 bn euro rescue package



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In these days of lockdowns, some people might be tempted to spend entire nights binge viewing their favorite tv shows. For Eurozone economists, it is binge viewing Twitter to see whether and when the Eurogroup meeting will finally be brought to a draw. European finance ministers also have had their very special edition of binge viewing: night breaking video conferences on what some called nothing less than the future of the monetary union; for others it was the European fiscal answer to the economic crisis. Some minutes ago, European finance ministers finally reached an agreement on a pan-Eurozone fiscal reaction to the Covid-19 crisis.

### The details of tonight's deal

Up to now, national governments have announced their own national rescue packages, differing in size but almost all following similar patterns: guarantees, liquidity support, short-time work schemes and cash-out fiscal stimulus. A waiver for the fiscal rules had been agreed, state aid rules were relaxed and the ECB announced its PEPP programme. Today, European finance ministers

added the following to the list:

**ESM.** The biggest step taken has been the (almost) unconditional use of the ESM for 240 billion euros, which is about 2% of eurozone GDP. ESM loans are normally only to be withdrawn with the conditionality of a reform program, but to fight the direct and indirect health care, cure and prevention costs of the corona crisis this conditionality has been waived. To those who think that this is money will not be used: the definition of Corona-related costs is broad enough. This will go much beyond pure health care costs. If countries want to use the bailout fund for economic support, the ESM will be available with conditions, but the question is what exactly counts as costs related to health care. Eurogroup president Centeno mentioned during the press conference that he expects that all countries should be able to identify health care costs for 2% of their GDP, which sounds like this can be interpreted in a broad manner.

**Labour market support.** Also, which is smaller in terms of impact: the Eurogroup has endorsed the new European Commission initiative to support national short-time work schemes called SURE. The support comes through loans at favourable rates, for which 100 billion euro will be available EU-wide. As most countries have such schemes implemented or promised to do so already, the eligibility is broad-based among eurozone member states.

**EIB guarantees.** Finally, support will be provided through the European Investment Bank (EIB). This will be used to guarantee 200 billion for the loan guarantees that the individual countries have committed to.

Next to these three safety nets, a temporary fund has been proposed, a **Recovery Fund**, to stimulate the economy for the recovery phase. However, there are still clear and expected differing views on how to finance such a fund. Some countries would like to use 'innovative financial instruments' (read Eurobonds), while others would like to find other financing sources. It will now be up to European leaders to give further guidance. Don't expect this thing to fly any time soon.

## This was not the final season

This aid package presented by the Eurogroup leaves the question whether any of the countries will be satisfied. Concerns along the lines of not enough or too much burden sharing will remain after this compromise. As so often in eurozone decision making, small historic steps have been taken towards more integration, but many would argue this is not yet enough.

This evening's Eurogroup decisions add to the enormous amount of stimulus in place to fight the coronavirus and its economic consequences. To give credit, where credit is due, the fiscal answers in the Eurozone have been much swifter and stronger than in the past. Still, debt sustainability concerns are not yet off the table. Even though the fiscal escape clause has been activated, allowing countries to exceed a budget deficit of 3% of GDP, the ECB has increased its government bond purchases through the PEPP program with barely any limits and now 240 billion euros from the ESM will be used unconditionally, the long-term debt position of the countries will be negatively affected by the additional spending. In the end, the debt sustainability issue will only be solved by either debt mutualization, debt forgiveness or debt monetarization. While unconditional use of the ESM was unthinkable just a few months ago, more unthinkable steps would need to happen for individual country risk to disappear. In binge watching terms: tonight's package leaves enough undone to do a next season of the Eurogroup tv series sooner or later.

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