Eurozone: Finance ministers show solidarity but prefer separate accounts

Tonight's meeting of eurozone finance ministers showed that fiscal measures to tackle the crisis will remain coordinated. However, it remains a bottom-up rather than a top-down approach

The fight against the economic fallout of Covid-19 continues. European leaders will have another video conference on Thursday and on Tuesday night, eurozone finance ministers investigated options for more coordinated fiscal action. At the current juncture, corona bonds seem to be a bridge too far. The eurozone stands together to fight this unprecedented crisis but still prefers separate estates.

Up to now, eurozone (or all European) countries have engaged in unprecedented and swift fiscal measures to tackle the economic crisis, caused by Covid-19 and the preventive measures to “flatten the curve”. All national measures follow similar patterns, they are a combination of short-time work schemes, guarantees and liquidity support for companies with financing problems and direct fiscal stimulus, be it for the health care sector or cash-out for smaller companies as adopted by the German government earlier this week. According to Eurogroup President Mario Centeno, eurozone member states have, on average, adopted fiscal stimulus measures of some 2% of GDP and guarantee schemes of some 13% of GDP. Previously, European finance ministers had agreed to activate the so-called escape clause, a waiver for the fiscal rules, allowing countries to exceed the 3% deficit limit without triggering an excessive deficit procedure.

> *A real eurozone-level counterpart to the ECB's 750bn euro asset buying programme is still missing*

While all the national fiscal measures are impressive and significant and are a kind of implicit coordinated action, a real eurozone-level counterpart to the ECB's €750 billion asset buying programme is still missing. This is why the Eurogroup had started discussing possible options like corona bonds and support from the European Stabilty Mechanism. President Centeno's comments like 'more work needs to be done' and 'the discussion has just started' are normally the European equivalent for 'we agree to disagree'. This at least seems to hold for the idea of a corona bond.

The more viable option seems to be a precautionary credit line from the ESM. It is part of the existing toolbox of the ESM and allows member states to ask for temporary help. In particular, the so-called ECCL (Enhanced Conditions Credit Line) looks like the right option as it does not require a debt sustainability analysis beforehand. According to ESM managing director Klaus Regling during the press conference after the Eurogroup meeting, an ECCL would be most suitable option in the current situation. It would give countries access to a credit line of up to 2% of GDP, and possibly even more, which could be used to finance the costs of the immediate policy response to the crisis. It is a nice coincidence that the fiscal measures announced so far are on average 2% of GDP per eurozone country.

The escape clause, EIB financing and a possible ESM credit line together with an ECB, which is keeping financing costs low are in our view clearly sufficient to finance the fiscal measures to tackle the economic crisis. Even in countries with less sustainable public finances. However, the reluctance to agree on corona bonds or other forms of clear burden sharing, at least for now, means that a euro debt crisis could return in the aftermath of the current crisis, no matter when this is. On Thursday, we will know whether European government leaders will follow the advice of their finance ministers.

Authors

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.