

Covid-19, finance and the EU : Fear and mistrust as eurozone ministers debate reconstruction

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'Coronabond' proposal for debt sharing threatens to derail meeting of countries still haunted by fallout from 2008.

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Cranes at the port of Hamburg

Cranes at the port of Hamburg. Ministers from Germany and other 'frugal' eurozone nations are unwilling to adopt reconstruction plans that would make them liable for other countries' debts.

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Eurozone countries will on Tuesday battle over how to rescue their economies from the deepening recession the coronavirus pandemic is triggering across the continent.

The 19 finance ministers of countries that use the single currency will hold a teleconference, where the issue of common debt - so-called "coronabonds" or "eurobonds" - could overshadow the emerging consensus on other ideas, such as emergency credit lines from the eurozone's bailout fund and a €100bn job support programme.

The issue of mutualised debt haunted the eurozone after the 2008 financial crisis and is back on the agenda after nine euro countries, including France, Spain and Italy, called this month for coronabonds. Germany and the Netherlands, however, backed by other countries with a reputation for frugality, such as Austria, remain opposed to policies that leave them liable for the debts of others.

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The reopening of the argument comes amid warnings about the dire consequences of the global pandemic, which has resulted in much of the European economy being under lockdown, with factories and shops shut.

France is facing its deepest recession since the end of the second world war, the finance minister Bruno Le Maire told a senate panel on Monday. The French finance ministry said the drop in French output was likely to be worse than the 2.9% fall seen in 2009 after the global financial crisis.

Meanwhile the Sentix survey of investor morale in the eurozone hit an all-time low in April, with a warning that the economic outlook was much worse than in 2009.

In advance of the eurozone meeting, one of the EU's most senior officials urged ministers not to get bogged down in old arguments. "Please avoid in this moment a discussion that is exactly the same that we had in the previous 10 years," EU economy commissioner Paolo Gentiloni told a webinar on Monday.

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Gentiloni, a former Italian prime minister, said there needed to be "a coordinated fiscal response" to limit the harmful consequences of coronavirus on the European economy. "A level playing field in the reconstruction and relaunch" of the economy, he said, was "extraordinarily important for the future of the euro".

Eurozone ministers were tasked by EU heads of state and government with drafting proposals to rescue the European economy, after an EU leaders' summit broke up without agreement on a common economic response nearly two weeks ago [1].

Since then, Europe's leaders and top finance ministers have traded ideas across newspaper opinion pages. The latest, from German finance minister Olaf Scholz and his foreign minister colleague Heiko Maas [2], avoids the question of new forms of shared debt sought by southern Europe, but breaks with previous German positions.

Scholz and Maas, the two most senior Social Democrats in Angela Merkel's coalition government, spell out that Germany is ready to allow countries to borrow from the EU's bailout fund, the European Stability Mechanism (ESM), with no "unnecessary" strings attached.

Not imposing conditions is seen as crucial to bringing southern European countries on board, amid opposition to the stigma of being monitored for a crisis they did not create. "We don't need a troika, inspectors, and a reform programme for each country drawn up by the commission," write the German ministers, referring to some of the conditions that caused shame and anger in eurozone debtor countries, such as Greece. But light-touch conditions, such as promises to carry out future economic reforms, could prove a stumbling block.

The ESM has €410bn (£354bn) of unused lending capacity and could provide loans worth €39bn to Italy and €28bn to Spain, according to German estimates.

Germany also supports a job preservation scheme proposed by the European commission last week that would see the EU borrow €100bn on financial markets [3], backed by loan guarantees from member states. The money would be used to pay for member states' short-term work schemes, where employees work reduced hours and are partly paid by the government.

EU sources said member states were close to agreeing on these measures, as well as a plan for the EU's lending arm, the European Investment Bank, to provide loans worth €200bn, based on €25bn of loan guarantees.

But Spain and Italy, the two countries hardest hit by the pandemic, think these three weapons are not enough to tackle the pandemic that has been likened to a war. The Spanish prime minister Pedro Sánchez has called for "a new debt mutualisation mechanism" [4], as part of a Marshall plan for Europe, a homegrown equivalent to the post-war economic reconstruction plan that enabled the

continent to recover from the ashes of war.

An industrial estate of closed businesses Burgos, Spain, after lockdown was announced. Prime minister Pedro Sánchez has called for a new Marshall plan for Europe. Photograph : César Manso/AFP via Getty Images
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Some insiders think the internal debate is starting to move beyond the all-or-nothing coronabonds drama, a debate that has been hampered by fuzziness over terms. “No one has really defined what they mean by coronabonds,” one EU official said.

The European commission appears to be encouraging countries to “meet in the middle” by backing a French plan that proposes a temporary EU rescue fund, lasting five to 10 years, to kickstart the European recovery.

The fund would issue bonds underpinned by guarantees from all EU member states. Gentiloni said instead of mutualising debt, he was proposing “the mutualisation of commitments ... programmes ... and ambitions”.

But eurobond-sceptic countries are unconvinced. “If it looks like eurobonds, smells like, tastes like - it probably is eurobonds,” one EU diplomat said.

Dutch prime minister Mark Rutte told the Dutch parliament last week that “we will never come to an agreement” on eurobonds.

Separately the Dutch have proposed a gift fund worth €10-20bn, whereby member states chip in to help hardest-hit countries pay for healthcare. But the idea has not won support from either would-be payers or recipients. “It looks quite limited in its firepower compared to what we will all face to restart our economies,” said a second EU diplomat.

What’s on the table and how likely is it to be agreed ?

- Credit lines from eurozone bailout fund, the European Stability Mechanism, worth 2% of a country’s GDP. *Fairly likely to be agreed, but could become snarled up in arguments over terms and conditions*
- A €200bn loan offer from the European Investment Bank *Likely*
- A €100bn job-protection scheme funded by loans *Likely, but details to be ironed out*
- Coronabonds, eurobonds - a form of shared debt. *Not a chance, but the argument will continue*

Jennifer Rankin in Brussels

P.-S.

- The Guardian. Published on Mon 6 Apr 2020 18.53 BST :
<https://www.theguardian.com/business/2020/apr/06/fear-and-mistrust-as-eurozone-ministers-debate-reconstruction>

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Notes

[1] <https://www.theguardian.com/world/2020/mar/26/eu-leaders-clash-over-economic-response-to-coronavirus-crisis>

[2] https://www.auswaertiges-amt.de/en/newsroom/news/maas-scholz-corona/2330904?utm_source=POLITICO.EU&utm_campaign=a1f43744b0-EMAIL_CAMPAIGN_2020_04_06_05_10&utm_medium=email&utm_term=0_10959edeb5-a1f43744b0-189611069

[3] <https://www.theguardian.com/world/2020/apr/02/eu-plans-to-spend-100bn-on-saving-jobs-amid-coronavirus-crisis>

[4] https://www.theguardian.com/world/commentisfree/2020/apr/05/europes-future-is-at-stake-in-t-his-war-against-coronavirus?utm_source=POLITICO.EU&utm_campaign=a1f43744b0-EMAIL_CAMPAIGN_2020_04_06_05_10&utm_medium=email&utm_term=0_10959edeb5-a1f43744b0-189611069