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We need a European response to fight against the consequences of the COVID-19

Open letter to the Eurogroup

Dear members of the Eurogroup,

The Coronavirus pandemic has created a state of emergency in Europe, which needs a coordinated and ambitious response. According to the latest forecast by the European Commission, the European economy is expected to rapidly fall into recession that may be extremely severe if the policy response is not appropriate. There is no time to waste if we want avoid a repeating the mistakes made in the context global financial and subsequent euro area crises. The EU economy never fully recovered from the previous meltdown and was already in a weak position to meet the current challenges.

A certain number of required targeted measures have already been announced by the European Central Bank, the Commission and several Member States to mitigate the economic impact of the outbreak. The ECB decided to increment its substantial monetary policy stimulus already in place. The Commission will implement the flexibilities foreseen in the Stability and Growth Pact and reorient unspent EU funds. Most Member States are in the process of adopting policies providing financial support and tax deferrals to companies. Moreover,the Single Supervisory Mechanism with the support of the European Banking Authority will provide temporary capital and operational relief to the banks. It is also worrying that instead of integrating economic shocks such as an epidemic outbreak in banking stress, such tests are postponed *sine die.*

Having all these considerations in mind and recognising that the already announced measures represent steps in the good direction, the response cannot simply be based on policies adopted by Member States with supportive measures at the EU level, even if these are meaningful. There is indeed an urgent need to deliver a genuinely coordinated and common EU policy to respond to the new crisis. A common response would not only enhance the effects of the measures, but would ultimately ease the pressure that markets will start putting on individual Member States if they have to carry the financial burden by themselves. If those Member States with more fiscal space implement large-scale measures to support their respective

businesses, it would negatively impact on more constrained Member States and put at risk the cohesion of the EU. Furthermore, the risk of speculation for higher bond yields can only increase economic disparity between Eurozone countries.

The Euro area is not sufficiently crisis-proof. The fact that no meaningful real reform of the Eurozone has been undertaken is taking its toll. There is a lack of common debt instruments and common Eurozone decision-making. In the medium term, the Eurozone needs a common debt repayment fund combined with reforms geared towards the reorientation of the EU economy towards sustainability across Europe.

Ultimately, the economic challenge that represents the Coronavirus outbreak has also to be seen as an opportunity to undertake in the context of the EU Green deal an urgent reorientation of the EU economy as the current crisis reveals the fragility of a carbon-intensive system built on highly interconnected and specialised global supply chains.

For this reason, we, the Green Members of the European Parliament, call on the Ministers for Finance of the Eurozone to quickly adopt the following urgent initiatives:

1. To provide an explicit support to the Commission's intention to swiftly implement the flexibilities provided in the fiscal rules framework.

2. The immediate activation of the ESM's precautionary credit lines for countries which could potentially enter into financial distress, not subject to austerity conditionality. This programme should not be subject to macroeconomic conditionality, let alone to austerity measures. Its only focus should be the mobilisation of economic resources to counter the crisis. It should be coherent with the overall policies of the EU as well as primary challenges to our societies, notably supporting the fight against climate change. In addition, it is necessary to set-up an interest-free loan system for National Security Schemes to support reduced working-hours and workers affected by temporary dismissals.

3. The creation of a new EIB credit line to guarantee permanent liquidity to small and medium-sized companies following the example of the German program powered by the KfW. All companies in the common market should have access to effective stabilization also in more indebted member states. To achieve this, Member States should consider enlarging the capital of the EIB as was already foreseen for the European Green Deal.

4. Use the remaining capacity of the ESM to fund an EU-wide green stimulus Package and ultimately to increase the ESM capacities bringing the institution within the EU acquis. The fiscal stimulus of at least 3 points of GDP should aim in particular at financing public investments in

sustainable economic activities.

5. Announce a concrete roadmap for the completion of the Banking Union as well as a new roadmap for a Fiscal Union that would include the issuance of common debt instruments, the integration of the ESM in the community acquis and new common decision making mechanisms in order to foster the Economic and Monetary Union.

With kind regards,

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Greens/EFA members of the Economic and Monetary Affairs Committee in the European Parliament.

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