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Eurogroup President on the EU's response to COVID-19 – interview with five European papers

Interview recorded on 14 April 2020, and published on 15 April by five European papers: FAZ (Germany), Corriere della Sera (Italy), El Mundo (Spain) and NRC Handelsblad (the Netherlands).

Full transcript edited for clarity.

At the end of the Eurogroup meeting the Dutch finance minister claimed victory. What did you offer him and how did you manage that deal?

That is the magic of Europe. We work hard toward a solution and we settle for a compromise solution with which everyone is comfortable. In the end, we are all winners.

We have agreed a firewall for workers, companies and for sovereigns. This line of defence allows for an equal and proportional response in all countries. This is an insurance policy – you buy it and hope you may never have to use it. However, insurance provides confidence and security to the markets and citizens.

By definition, a commitment implies that everyone has to give in. Overall, I am quite optimistic going forward and I believe that next week's European Council will provide further clarity about the recovery phase.

The Italian prime-minister, Giuseppe Conte, said he didn't care about a European Stability Mechanism (ESM) instrument.

What we have on the table is a package, a combination of measures. I take the comments made everywhere in Europe as part of the negotiation that will follow in the European Council. I trust that the European Council will make the right decisions and give us the appropriate guidance.

The Eurogroup report mentions that the ESM pandemic support is based on the Enhanced Conditions Credit Line (ECCL). But if you go back to the Outright Monetary Transactions (OMT) regulation back in the crisis in 2012, it says that for the Governing Council of the European Central Bank (ECB) to act to consider activating an OMT, the country concerned should be under an ECCL.

Do you see the ECB in a position to activate the OMT based on this pandemic crisis support with a new conditionality that is described in the report?

The activation of the OMT is a decision for the ECB to take. I cannot prejudge any sort of action by the ECB and the assessment that the ECB will make if and when this question comes up. The pandemic crisis support was conceived as an additional safety net for sovereigns.

We all understand that monetary policy cannot be the only game in town, cannot be the only policy used to respond at the European level. We do a lot at national level. These risk-sharing tools, complement ECB decisions, and improve our response at the Union level.

The agreed package includes measures that work in combination.

There is no economy without a central bank, so the ECB will there contribute to the recovery stage in crisis mode. And we, finance ministers, have to do our own job. In that sense, I think we really delivered last week.

Do you think the heads of state/government on 23 April have to take a decision on the recovery fund? Is it an emergency?

We have a very important summit on the 23rd. I do expect the European Council to provide clear guidance on the recovery fund. The Eurogroup is ready to continue its work. What we agreed last week is not the end of the line. A recovery fund is instrumental - all ministers agree with this.

If member states don't succeed in agreeing on a recovery plan or something else, will the eurozone see a new crisis?

If the health crisis morphs into a new crisis in the euro area, this would mean we would have failed.

The economics of these crises is very simple to explain. This is an exogenous shock of unprecedented size. GDP growth will be negative in the second quarter, very close to 20% in all our countries.

This is a very specific crisis and very different from previous ones. We did not enter this crisis with high interest rates or rising unemployment – it is precisely the opposite. We had 25 quarters of growth and more than 13 million jobs created. Unemployment stood at the lowest levels for many years in most member states. And 14 out of the 19 member states of the euro area were in a balanced fiscal position, having reached so-called the medium-term objective.

We are in a lockdown and have to provide liquidity for firms' income support for workers, and backstops for sovereigns. That is what we agreed last week. This response will result in accumulation of debt. All countries will see a significant amount of debt after this crisis. We need to help ourselves, as a euro area, by splitting these costs over time, as much as possible. We need to do it together and that is why we need to be innovative. The question for the European Council is: is the European Union virus proof? This is a political question, not a question of economics.

Do we need to spread the economic cost across member states?

We agreed to set up a recovery fund that ensures solidarity with the most affected member states, as stated in our report. We cannot use old rulebooks; there is no moral hazard attached to this crisis; it is not the result of structural problems in our countries. We need to act together.

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Are we talking about eurobonds?

Not necessarily, but I am not excluding that either for the time being.

My role as president of the Eurogroup is to organise the debate, not to curtail it. Several countries have taken a position on this matter. Some are in favour of that solution and others prefer alternatives. There are many options: we can use the MFF [the pluriannual EU budget 2021-27], set up a fund, as proposed by France, or think of different solutions for common debt issuance. It is not up for me to judge these alternatives at this stage. The economic goal of any of them is spur the recovery and to spread the cost of the crisis over time through appropriate financing. Now, we must be innovative and get a right answer.

Given the divide between North and South on common debt, why are you somewhat optimistic on a solution, especially since the last European Council made no progress on this. What kind of guidance do we want to get?

We have got a very clear mandate from the European Council to provide proposals.

Differences in the national firepower are obvious if you compare Germany's policy portfolio in this crisis and Italy, for instance. The backstops we agreed are meant to ensure countries respond at the same level and establish a level playing field.

We are entering a different phase of the crisis and I am sure the European Council will focus on this next stage. If Leaders ask finance ministers to work on a solution, we are ready. Guidance is much needed now.

What do you want from this guidance?

The guidance will be to define the broad features of this fund, including of innovative solutions to spread the costs of the crisis over time. Our response to this huge and unprecedented crisis must not put a drag on the recovery - we must avoid that at all costs.

Of these instruments of risk sharing what are your preference?

I do not have specific preferences. We need something that allows us to spread the costs over time. As long as the measure provides an answer to this question, I can support it.

And when will the citizens have the precise definition of the tool, are we talking about weeks or months. Are we talking about another half trillion or more? What's the appropriate size?

A few institutions have done computations. We need to think in terms of trillions. It could be 0.7 trillion euros, 1 trillion euros or 1.5 trillion euros... I cannot tell at this stage. But it will have to be a very sizeable package given the economic damage.

You mean in the order of trillions?

Twelve zeros. We are not used to talk about that sort of numbers.

We don't need to close this figure in the coming weeks, because there is still a lot to learn from this crisis. We need first to define the way to wind down the lockdown measures in all our countries. The euro area is made up of a set of open economies. It does not make economic sense for one country to restart its economic without having other economies to trade with. This is especially true within Europe, but also globally.

We need coordination to set how we get out of the crisis. This will determine the final cost of the crisis. All these factors must be taken on board when deciding the size of the instrument, its scope as in the economic sectors to cover and dimensions it needs to tackle.

Spread the cost over time sounds very much like paying down debt. But you stressed a couple of times that there is a matter of timing. Essentially, you said we need to rebound very strongly next year because of the expected fall in GDP. You mentioned the EU budget. The MFF timing means that the money will be on the ground probably halfway through next year. It may be late for it to spur a rebound next year.

How do you see the sense of urgency here? Do you think we should find some way to raise resources by the coming summer, and put money on the ground before the end of the year to make sure we have a rebound next year?

A properly designed recovery plan must kick in when we unwind lockdown measures. This does not mean that we must have all the money available at the beginning of the summer, or late in the spring. This is going to be a slow process, but this is the initial stage of the recovery plan. Then, it must continue throughout 2020. All forecasts now tell us we will have a rebound in 2021. Of course, there are several unknowns here: will there be a vaccine to this virus? A more effective treatment to those that are sick?

Following what is a reasonable scenario, we will see a recovery in the new year. You are right in saying the MFF only kicks in at the beginning of 2021. We need instruments to bridge this period and the most significant amount of money to tackle this issue of spreading the cost over time can be built adequately in the course of 2020, to be available as soon as possible.

The recovery will last at least two years. I think we will need at least two full years to come back to the levels of 2019. However, debt takes longer to fall. And that's where the timing issue kicks in. It's feasible to expect that 2022 is the year in which we may, at the end of the year, go back to the levels of 2019. Nevertheless, the legacy of this crisis will stay with us for more time.

Eurobond is always very vague. It can mean joint and several but it can also mean joint and separate, meaning that the issuance is made by some EU institution together (or via an SPV), but the liability is spread on each member states separately.

Do you think the latter is also on the table, a joint and separate issuance to bridge the gap between different member states?

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We need to wait for the European Council. We have one proposal on that on the table, which is the one by France. The call for innovative financing solution echos precisely the sort of questions you mention.

How much time do you have to find the solution on the recovery front once you get some guidance next week?

We have to decide this in a matter of weeks. We may not decide on the size immediately, but we need to start defining the design and the purpose of this fund.

We have our policy agenda for the next cycle, including digitalisation and greening of our economies, which is a reference point. We must decide how to finance it appropriately and this ties in with the recovery.

The recovery period will begin as soon as we start reverting our lockdown measures. We have a matter of weeks. A couple of weeks to start at least clarifying the way in which we will get out of this crisis.

Just like when we were in the midst of Brexit: We need to provide clarity to economic agents, to families to those that finance our economies. There is too much uncertainty right now, it's not risk, it's pure uncertainty. And decision-makers need to reduce uncertainty in the weeks and months to come. The sooner we can decide on the recovery, the better it will be for everyone.

You mention out of the box thinking, innovative ideas. But the best tool is already in the box, namely Eurobonds, why try to find other tools?

When I refer to out-of-the-box, I mean simply that we need innovative ideas and not use the old playbook.

You did not say what your preference is. Are you going to make a specific proposal for the recovery tools in the debate?

It is not that I do not have preferences. I think they are very clear in our conversation. We need to deal with what can be a very serious problem of debt overhang in all countries in Europe, and we need to tackle that. So far, we have two possibilities on the table: the MFF and France's proposal. Any of those solutions will be innovative because we are dealing with a new situation. And we need to be open minded.

As president of the Eurogroup, I've been working with all proposals put forward by member states. We will continue doing so as long as those solutions provide suitable answers to this challenge. Take the ESM instrument. Much has been written about it; whether it suits the Dutch or the Italians or if it suits Germany and France. We discussed the scope of the instrument. But, I expect all member states to be able to draw 2% of their GDP from this credit line to support and to finance their economies. It is meaningful.

The economic and financial purpose of our action must remain meaningful in the recovery period..

You mentioned a couple of times the French proposal. Do I understand correctly that the French proposal is mutualising debt?

The French proposal is an attempt to find a middle ground. We have to make sure that we find a proposal that is consistent with the EU treaties. And I think no one needs to be to be worried about mutualisation, as such. The single market is also a very strong form of mutualisation. We buy from each other textiles, flowers or whatever we produce, pasta from Italy, for instance. It is very important to understand that we do not live on an island. We live in a very integrated common area. The single market does not work if there is no market.

About 75% of Portugal's exports are to the European Union. Others like Belgium, Luxembourg, and the Netherlands are even more dependent of the single market. If we fail to protect the single market, what will happen to these countries in a couple of years' time?

Can you elaborate on the French proposal, namely on scattered debt repayment idea that be new in terms of EU solidarity. Moreover, regarding the MFF, should the size be increased if we want to turn it into a solidarity instrument?

The EU is also about solidarity and integration. Again, we do not have a single market without a market – that was the biggest mistake of the austerity.

The French proposal is an attempt to find common ground. It is temporary. It would complement the MFF, strengthening the EU budget. This is a description; I am not promoting it. The MFF alone may work as well but it depends on size, and on the instruments.

European Commission Vice President Valdis Dombrovskis talked about a solution of a very sizable nature based on the MFF. We must understand how quickly we can make these funds available.

Is mutualising is the key buzzword of all this?

You are trying to collapse a huge debate into a single word. Mutualising or finding a common response is the key sentiment around the table.

That sentiment around this is so negative in the Netherlands. What would be your message to all the sceptics to mutualisation in the Netherlands?

Individually and collectively in Europe, we have all done a lot to reduce risks in the past decade. We must continue that path together. I think no one disputes this idea.

But if we fail to overcome this crisis together, everyone will lose. This must be clear to the Dutch citizens, as much as to the Italians or the Portuguese. A virus is no good reason to question our process of integration.

What about austerity? Right now, no one is talking about it, everybody agrees that this is different. But in five or 10 months the levels of debt or deficit of many countries, specifically in Spain and Italy, are going to be very high. Can you promise austerity will not be back?

If we implement a recovery plan as described in the Eurogroup report, we will certainly avoid going back to recipes of the past. Those recipes were meant to respond to asymmetric crises of structural nature and did not work all that well. They are not appropriate today.

We have learned a lot. If one compares the time it took us to respond compared to 2008, it is amazing. It took us 10 days to set up last week's package [of up to €540bn safety nets plus a recovery fund].

In 2008, it took us at least four years to get a proper response. Now we do not have that sort of time and I think everyone understands that.

We saw your Prime Minister Costa being very emotional. Tell us how do you keep your emotions under control in this stressful time.

When you are the driver's seat of the Eurogroup, you have to control your emotions and focus on getting a solution.

Temi:

Per maggiori informazioni

- Report on the comprehensive economic policy response to the COVID-19 pandemic, press release, 9 April 2020