

## **Non-paper on possible EU and EA instruments to ensure financial stability and economic recovery**

**The spread of the coronavirus is a human tragedy and a health crisis. It is strongly affecting the global economy and European economies and is the most challenging crisis Europe has faced since the Second World War.** It could have dire social and economic consequences. The aftermaths for the global economy could prove long lasting with a durable impact for international trade. We need to send EU citizens strong signals of solidarity, otherwise the very future of the European Union might be at stake.

**The situation is evolving rapidly.** We were merely questioning whether a fiscal response was needed at the beginning of March. All member states have since then launched huge fiscal and guarantees plans to safeguard their economies. It is impossible to know what will be needed in three-week time. We therefore need to explore all possible options, even the most contentious ones, which could be needed should the crisis worsen.

**We should work in parallel on four options that are complementary and which would be mutually reinforcing:** (i) the pandemic response through the ECCL instrument, (ii) new EIB instruments, (iii) a European unemployment insurance scheme, and (iv) an economic recovery fund to support the recovery once the sanitary part of the crisis will have receded, based on the joint issuance of debt instruments to mutualize the cost of the crisis, which is no one responsibility.

### **1. First, we should rapidly finalize the adapted ECCL for pandemic crisis support with the following characteristics:**

- The instrument should be open to all euro-area member states with a standardized MoU not to stigmatize anyone.
- The conditionalities attached should be focused on financing Covid economic policy expenses.
- DSA analysis should be made at the eligibility stage and based on analysis.
- The size of the instrument should be large enough, and at least 2 % of euro area GDP overall.
- Maturities should be up to 10 years.

We also recall that the Balance of Payment instrument in the EU budget is also available for non-euro-area member states.

### **2. Second, the EIB proposed Paneuropean Guarantee Scheme should be adopted without delay and / or we should strengthen EIB firepower by increasing its capital.**

The **Paneuropean Guarantee Scheme** would mobilize the EIB through a EUR 25bn guarantee fund. Such mobilization of the EIB would leverage support to about EUR 200+ bn for SMEs, Midcaps and corporates. Build on already existing guarantee programs and pan-European deployment channel, the fund can be deployed within a very short period of time.

A **recapitalization of the EIB** would be extremely useful to increase its firepower, with the same goal to leverage the intervention of Member States most affected by the crisis, in order to preserve their SMEs, midcaps and corporates, therefore safeguarding their competitive basis.

The EIB tools can be extremely useful in the short run for those who are facing a sudden stop and who do not have national tools to safeguard their competitive basis.

**3. Third, a new emergency instrument should be introduced on the basis of art. 122 of the TFEU to help Member States stabilise their economy as a result of the crisis.** This temporary instrument could support national unemployment insurance systems which will be under pressure due to (i) partial unemployment schemes and active labour market policies put in place, and (ii) surging pay-outs of unemployment benefits. Beneficiary Member states would receive for a determined period loans to relieve national unemployment insurance systems, together with an interest rate subsidy covering the interest rate costs. Given the constraints of the EU budget, the instrument should be supplemented by additional Member States' contributions to ensure credible and continuous support. It is important to recall that such financial assistance mechanism should be seen as a first step in the development of a permanent stabilisation instrument, that could take the form a European unemployment reinsurance mechanism (with a cohesion policy basis under art 175(3) TFEU) providing temporary support to national unemployment schemes in case of severe economic downturns.

**4. Fourth, the Covid crisis is an exceptional crisis which calls for exceptional decisions and exceptional solidarity to help and coordinate the necessary economic stimulus that will be needed to restart the European economy once the health crisis is over.**

**A Covid-response dedicated fund should be created. The fund would issue bonds with the joint and several guarantee of EU Member States. The fund would be operated by the European Commission and would finance programmes designed to kick-start the economy** in a way that would be coherent with the Green Deal and the industrial strategy put forward by the Commission on March 10<sup>th</sup> (especially to contribute to a relocation in Europe of strategic value-chains). Such "fitness" programmes for the European economy could also finance health expenditures so long as they increase the capacity of our healthcare systems to face exogenous shocks such as Covid-19. Eligibility criteria for such programmes should reflect the economic damage undergone as a result of the Covid-19 outbreak. The goal would first and foremost be to ensure solidarity among the EU27. Such debt could be reimbursed through a new and exceptional resource such as a solidarity tax to finance the Covid response or usual own resources of the budget.