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MACRO NEWS

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EURO FISCAL RESPONSE: STILL NO DEAL YET

Berenberg Macro Flash

Eurozone finance ministers have failed, once again, to agree on a common fiscal policy response after 16 hours of negotiations. The Eurogroup president Mario Centeno tweeted that the finance ministers had come “close to a deal but we are not there yet.” Discussions are set to continue tomorrow.

Critical differences persist between member states: The Dutch insist on some minimum conditionality for ESM credit lines. The Italians maintain their all-or-nothing approach to the talks and reportedly will agree on a deal only if it includes “corona bonds”. German finance minister Olaf Scholz urged Eurozone governments to not “refuse a compromise”.

Eventually, we expect a two part deal to emerge:

1. A deal on a new ESM credit line, more loans from the EIB and a European scheme to subsidise under-/unemployment on the job.
2. A commitment to reinforce these measures with a stimulus to speed-up the recovery, with expenditures tilted towards Southern Europe and funding possibly coming from joint – temporary and limited – debt issuance along a French proposal of a Corona fund.

Such a deal would make economic sense. For this deal to fly politically, finance ministers and/or their bosses need to sell it well to their home audience. The lengthy delays and intense jostling will tarnish whatever measures are eventually agreed. Italian leaders, for instance, may be less than enthusiastic to sell the compromise to an already somewhat frustrated home audience. Adding to this, in the long run, the way in which the EU and the Eurozone are perceived to react to the unprecedented emergency of the Covid-19 pandemic can shape attitudes to European integration for decades to come. While visible solidarity would strengthen the European project, the lack of solidarity could undermine the political foundations of the project instead.

See below our table for EU/Eurozone policy proposals and previous notes on the issue:

[Eurozone: dangerous fiscal stalemate](#)

[Eurogroup's half a trillion euro deal?](#)

[Solidarity in Europe: which ideas will fly?](#)

[EU/Eurozone policy response: three pillars of burden-sharing](#)



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Overview of proposals of EU/Eurozone policy response

Instrument	Current status	Likelihood	Managing institution	Type of transfers	Directed towards	Details	Size (€)	Eurozone/ EU?
Crisis management								
New (universal/ unconditional) credit line	Agreed on 9 April?	Very likely	ESM	Loans	Government	Eurozone MS pay in (more) capital to ESM, ESM issues (more) bonds, MS that request credit line pay ESM interest rate + small premium	240bn	Eurozone
"Pan-European Guarantee Fund"	Agreed on 9 April?	Very likely	EIB	Loans	Businesses	EU MS provide 25bn in additional guarantees to EIB which mobilises 200bn in EIB loans	200bn	EU
SURE un-/underemployment on-the-job scheme	Agreed on 9 April?	Very likely	EC	Loans	Workers	Loans granted from EC to MS to cover costs directly related to the creation or extension of national short-time work schemes	100bn	EU
"Corona Response Investment Initiative"	Already agreed on 30 March		EC	Grants	Healthcare system, SMEs, workers	Available unused EU budget cohesion funds re-channelled	37bn	EU
"Emergency Fund"	To be discussed	Likely	EC	Grants	Healthcare system	Bilateral contributions by MS to finance health care system temporary emergency aid in other MS	10-20bn	EU
Recovery support								
Marshall Plan-style fund	To be discussed	Likely	EC	Grants	Whole economy	Fund outside EU budget, bigger EU budget (via MFF) or extra EU budget for 2020-2021 (national funds and private sector also involved)	?	EU
Corona (recovery) bonds	To be discussed	Less likely	EC	Grants	Whole economy	Temporary joint debt issuance to finance investments to speed-up recovery. Eligibility according to Covid-19 economic damage.	?	EU
Eurobonds	Unlikely to be discussed	Very unlikely	EC	Grants	Whole economy (government?)	Mutualisation of new and existing debt	?	EU/Eurozone

Abbreviations: ESM = European Stability Mechanism, MS = member state, EIB = European Investment Bank, SURE = Support to mitigate unemployment risks in an emergency, EC = European Commission, SME = small- and medium-sized enterprises, MFF = multiannual financial framework. Source: Berenberg

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