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ECB and EU have acted swiftly and with determination

The global Covid-19 crisis has prompted governments to roll out unprecedented initiatives to protect economies and societies. EU member states took fiscal measures of nearly five percent of the EU GDP, partially as guarantees, but mostly through direct fiscal outlays, supporting, inter alia, labor markets and health care.

Unfortunately, the crisis hits at a time when several Eurozone countries are still facing a significant public debt burden and so markets questioned the debt sustainability of those economies. The European Central Bank acted swiftly by establishing the Pandemic Emergency Purchase Program with an envelope of €750 billion to backstop debt markets. In doing so, the ECB has acted swiftly and with great determination.

Of course, the recently agreed EU rescue package is clearly welcome – the question is whether it will be sustainable. Is it truly “Hamiltonian”?

First and foremost, the package is supposed to be a one-off, extraordinary initiative aimed at kickstarting economies, as well as funds to compensate for the economic contraction, for example via short-term worker benefits and health spending. But the issues that weaker Eurozone economies are facing are not just Covid-19 related, they are deeply structural.

Many member states have embarked on a painful path of fiscal consolidation over recent years, most of them with respectable success. Selected economic indicators such as productivity trends do not look promising. For example, Italy is burdened by youth employment of 27.6 percent which means that a substantial share of the Italian workforce is not only underemployed but may not be able to catch up anytime soon, therefore dragging down growth in Italy for years to come.

As always, it is questionable whether the package will need to be expanded in volume and time to be truly “Hamiltonian”. But the conflicts that erupted at the Council summit show that several net contributors to the Eurozone budget are not open to a transfer or a debt union. Others regard the recent decisions as long overdue toward further European integration. While this would require extensive political debate and even a change of the EU Treaty, much will depend on the effectiveness of the package that has just been agreed.

Should it become evident that the committed €750 billion is not being spent wisely and does not support tangible convergence of Eurozone economies, preparedness to support such transfers in the future or to provide the EU with additional fiscal and debt capacity, will

decline further. The concerns of the “frugals” should therefore be taken seriously, also keeping in mind that similar disagreements have just prompted the second largest European economy to leave the Union.

Conditionality and governance are key now. The EU must ensure that the economic stimulus is spent wisely and supports both targets: Immediate economic turnaround and sustainable investment into the economic and political future of the EU. The challenge will be ensuring efficient outreach of national measures to those in the respective member states having suffered from the Covid-19 crisis. And the challenge will come with national interpretation of what the EU Commission has given out as strategic targets: digitization, in other words, fundamental technological renewal and management of climate and environmental risks, for example, by Co2 emission reduction and avoidance of plastics. All of this should not, however, divert attention from the crucial need to increase productivity in all Eurozone countries, and from efforts to fully utilize and train the workforce in an increasingly complex world.

All of this said, one also needs to keep in mind that political leaders are not the only decision makers. The concerns that have prominently been voiced by the “frugals” are widely shared among EU citizens. Any further integration must come at a speed that allows countries and citizens to follow, in other words, the integration needs to be step by step. Being transparent about consequences, drawbacks and risks is important for any future buy-in, as an integration through the back door could eventually undermine the entire European project.

The greatest danger therefore lies in the disappointment of EU citizens who are meant to benefit from all the above. Grants will need to be implemented against clear and verifiable criteria mapped back to the EU strategic targets. But successfully executed, the EU will prosper. ●