



April 6th, 2020

Joint letter to the Eurogroup and ESM Board of Governors for a common response that combines solidarity and ecological imperatives

We are facing an unprecedented public health crisis that is placing significant stress on our financial and economic system. Urgent action is required to support health systems and prevent a lasting economic crisis. In this crisis not all States are equal and some benefit from more financial support than others.

The Eurogroup and ESM Board of Governors took these discrepancies into account and are now contemplating the activation of the European Stability Mechanism (ESM). **Activating the ESM should be decided in a way that will increase solidarity between EU Member States, helping States with lower credit ratings.** For the first time, the ESM will likely decide to activate its precautionary credit lines. This tool provides support to financially sound States with difficulties to access the financial market and seems suitable to the Covid-19 crisis.

However, enhanced conditions credit line (ECCL) are accessible only to EU members which adopt corrective measures set by the ESM.

As the Eurogroup President Mario Centeno rightly stated, the nature of the Covid-19 crisis is different from the ones of 2008 and 2012. The President underlined that the use of the ESM would aim at supporting States during the time of crisis but not at ensuring their long-term financial stability.

In order to reach this objective, **we believe that the ESM and Eurogroup should not impose restrictive macroeconomic or fiscal conditions on Member States benefitting ESM support.** Indeed, the European Commission suspended EU fiscal rules by activating the general escape clause: by consistency, this needs to apply for the ESM as well.

Instead, **the ESM and Eurogroup should allow for flexible help to support healthcare, workers and small businesses, and ensure that precautionary credit lines are spent consistently with the European Green Deal**, without imposing conditions that would result in austerity measures in the future, incompatible with achieving the objectives of the European Green Deal on climate, nature and health. Investment, resilience and recovery responses to COVID-19 must, where possible, be integrated with climate objectives, to strengthen our collective resilience to the other global crisis that is on the horizon.

Such a coherent EU approach will contribute to 'recover better', as the UN Secretary General recommended, by rebuilding an economy and society that is more resilient, socially just and

environmentally sustainable. This would apply for recovery measures, beyond the very short-term liquidity support to SMEs.

Several building blocks of the European Green Deal will facilitate the setting up of stimulus plans: the new Circular Economy Action Plan and the Industrial Strategy identify some concrete actions; the Just Transition Mechanism defines a critical approach to maximize social benefits. In addition the EU sustainable taxonomy is becoming available to highlight specific relevant economic activities. For example, building insulation and energy efficiency, deployment of renewable energy sources or agroecological food systems can be rapidly scaled up to create local jobs and positive economic and environmental outcomes.

Such an approach would adequately implement the joint statement of the European Council from last 26 March: *"The urgency is presently on fighting the Coronavirus pandemic and its immediate consequences. We should however start to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation".*

In this context, we urge the Eurogroup and ESM boards to activate the ESM and link it to a “green stimulus” approach, ensuring a consistent EU approach with the European Green Deal.

In parallel, the Eurogroup and its members are exploring other innovative financing options, including the ‘SURE’ proposal from the Commission to finance short-term working schemes, the European Investment Bank (EIB)’s Guarantee Fund and the French proposal of a time-bound common debt fund.

We support exploring these additional measures: more efforts will be necessary and financial solidarity should be at the center of the EU and Eurozone response to the crisis. Importantly, the EIB proposal would back primarily “sustainable” private sector firms: this sets a precedent linking stimulus plans to the European Green Deal, which should be mainstreamed.

Sincerely,

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