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Pooling budgetary risk in the crisis

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The coronavirus crisis has become a serious threat to people's health. Its economic impact is already visible and the indicators available point to a severe contraction in economic activity worldwide.

The experience of some countries, where the virus emerged earlier, suggests that, if the appropriate containment measures are adopted, the health crisis will be temporary. It is another matter whether the adverse impact of this crisis on the economy will also be limited in time or will have a more lasting effect. This will depend on the response of economic policy in all its facets. Swift, resounding and coordinated action by the economic authorities – in the fiscal, monetary and supervisory spheres at national and European level alike – will make it more likely that the effects of the crisis are temporary, and that they do not ultimately leave a trail of job losses and company closures.

In recent days, most European governments – Spain's among them – have adopted substantial and supportive budgetary measures for households, the self-employed and firms that should considerably soften the impact of this crisis. Sizeable public guarantees have also been made available to help funding continue flowing to the real economy. These measures are the necessary and right ones at this juncture, and the first natural course of action to head off the destruction of numerous economic and financial relationships - between firms and employees, customers and suppliers, lenders and borrowers - whose survival is essential if the remission of the health crisis is to make way for a rapid recovery.

But the response to the coronavirus crisis is also a matter for the remaining economic policies. This includes monetary policy. On 12 March, the ECB Governing Council approved several measures. These ranged from new targeted long-term refinancing operations (LTRO and TLTRO-III), extended under very favourable conditions, to an increase in the scale of the asset purchase programme (APP), for a total amount of €120 billion over the rest of 2020.

At the same time, the Single Supervisory Mechanism (SSM) has adopted several important banking supervision decisions to ensure that credit institutions can continue providing financing to households and firms. In this connection, and among other measures, the SSM has established that credit institutions may use their capital and liquidity buffers. And, more recently, it has provided for supervisory flexibility regarding the treatment of loans related to COVID-19, the ultimate aim being to allow households and firms to benefit fully from the guarantees and moratoriums approved by the public authorities.

Faced with the rapid onset of the health crisis and the subsequent deterioration of the euro area economic and financial situation in the days following its meeting on 12 March, the ECB Governing Council last Wednesday, on 18 March, approved a further package of measures. Chief among these was the launch of a new asset purchase programme involving public and private bonds. Under this programme, the ECB will purchase assets worth at least €750 billion this year and, if necessary, beyond the end of 2020. Exceptionally, moreover, the ECB can purchase Greek government bonds.

One of the most significant aspects of this new programme is that it will allow the monetary authority to undertake asset purchases flexibly, regarding both timing and the actual assets – public and private – acquired and the nationality of their issuer. What's more, the ECB Council has emphasised that the current limits of its asset purchase programmes will be reviewed, if deemed necessary. This will be to preserve their effectiveness and ensure the smooth transmission of monetary policy in all euro area countries, preventing the financial rupture of the Eurozone. Certain pre-existing limits (voluntarily self-imposed by the central bank) could be eliminated, meaning that the internal distribution of the stimulus package will essentially meet the most pressing needs: where, how and when they are most appropriate and, therefore, most useful for each agent and the area as a whole.

With this raft of measures, the Governing Council is sending out a clear and categorical message that it will do everything within its power to ensure easy financing conditions for all economic sectors. This applies equally to families, firms, banks and governments. It will also use all means within its grasp to help euro area citizens to overcome these extraordinarily difficult times, as is its duty towards them. Helping the economy emerge from this slump is to help ensure people experience the least negative impact possible in their income and to restore normality in the shortest time possible, so that lives are not affected more than they inevitably will be.

The measures approved by the national authorities and the ECB will provide significant economic and financial relief for our economies. But the response to this crisis must go further. The pandemic and its economic impact are affecting all euro area countries and, by extension, the European Union. The common challenge facing us is on a momentous scale. To address it will require resolute and ambitious action by the Community authorities and institutions using the financial and budgetary instruments currently available. And possible new tools may be needed, among which priority should be given to those strengthening the capacity to share, or pool, the budgetary risk of the Member States. It is at this difficult juncture that the principle of solidarity underpinning the European project must come to the fore. This will result, moreover, in the greater efficiency of the measures deployed. Greater ambition and coordination of the response at the European level is not an option; it is a vital necessity.