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Coronacrisis and Coronabonds: Europe's Survival Game

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ABSTRACT

The entire planet lives in a global crisis. It started as a local health problem in a Chinese city and became rapidly a world pandemic. Yet, pandemics are far from new throughout history. Bubonic Plague (known as Black Death) also arrived from China and decimated half of Europe's population from 1346 to 1351. Cholera pandemics occurred seven times from 1817 to 1961. Spanish Flu of 1918 killed almost 40 mn people within three years, twice as much as the First World War. AID Syndrome started in 1982 and killed some 1 m people only in 2018, according to the WHO. More recently, in 2014 the Ebola virus disease terrified the world with a fatality rate of 50%. What is new about the actual health crisis is not its duration, neither the number of cases, nor the number of deaths. Coronavirus hits 213 countries (20 more than the UN member states) creating socio-economic problems to all of them, to a different extent. Overall, the negative impact of corona-crisis refer both to the supply side (due to the broken international chains of value) and the demand side (due to the income losses of all those who lost their jobs or incomes).

1. Introduction

What is new is mainly the economic and social consequences, which make this crisis even worse than the recent financial crisis of 2007-08. Why is this time worse? For two main reasons: firstly because this an exogenous crisis which is not due to the internal contradictions of the economic system itself, as it was with the sub-primes crisis of 2007. Therefore, economists have little to say about how to overcome the problem and can only suggest relief

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measures for those who lost their jobs, the weaker firms and vulnerable social groups. Well, in some cases also for huge multinationals who are facing tremendous problems like Airbus, Air France-KLM etc. because of the traveling prohibitions. Secondly, this crisis is really global. Coronavirus hits 213 countries (20 more than the UN member states) creating socio-economic problems to all of them, to a different extent. On the contrary, in the previous crisis poor developing countries faced lesser problems because they were not exposed to the so-called "toxic bonds". Briefly put, their financial immaturity has protected them. The main question of this research is that, what about the estimated total cost of corona-crisis for the European Union so far?
In the next section, the effects of the Coronavirus crisis in European Union are examined. In the third section, the actions for reducing the effects of the Coronavirus crisis in European Union are discussed. Finally, the conclusion was expressed.

2. The effect of the Coronavirus crisis in European Union

As long as the corona-crisis continues to spread and to kill, and there is no vaccine to prevent and no medicine to cure, any prediction of the economic and social consequences is grounded on hypothetical scenarios based on economic models that are trying to evaluate quantitatively the evolution of some fundamental macroeconomic magnitudes. According to *The Economist* (14/5/2020) "world goods trade may shrink by 10-30% this year. In the first ten days of May exports from South Korea, a trade powerhouse, fell by 46% year-on-year, probably the worst decline since records began in 1967". The WTO has also estimated a trade loss between 13 and 32%, while the UNCTAD has anticipated that FDI of multinational corporations are to decline between 30%-40% during 2020-2021 (*WTO Press Release*, 8/4/20).

What about the estimated total cost for the European Union so far? By the end of March, Christine Lagarde, head of the European Central Bank (ECB), announced that every month of economic lock-down is equivalent to 3% fall in the GDP. Fortunately, the GDP of the Eurozone shrunk "only" by 3.8% for the whole first quarter of 2020 (EUROSTAT, 15/5/20). This is because many sectors have stopped producing after the majority of European Governments decided to "freeze the economy". Therefore, sectors depending directly from international transactions like travel and tourism (restaurants, museums, recreation parks etc.), air-transportation, cruises and coastal navigation, together with industry and trade (after the collapse of trade linkages and global value chains) were put to a state of hibernation. The exporting agricultural sector is only partly concerned from the moment that its production was oriented to the local or national markets. On the contrary, in order to suppress the public health crisis, all internal sectors were ruined by the lock-down that is everyone except pharmacies, food-stores and courier companies, which celebrated a particularly profitable season. Overall, the negative impact refer both to the supply side (due to the broken international chains of value) and the demand side (due to the income losses of all those who lost their jobs or incomes). Consequently, public revenues will fall dramatically not only because of the lesser consumption taxes, but also because of the lower incomes and profits of the year 2020.

National Governments already intervene drastically to sustain financially private firms in danger and their workers. It is estimated that the US will spend 13% of its GDP in fiscal stimulus packages, while many European countries will follow with 10.7% (Germany), 9.3% (France) and 7.3% (Spain, *Statista Infographics*, 8/5/20). Moreover, Governments spend large amounts of money to face the immediate needs in nursing equipment, medicines, protective materials etc. In that sense, they lose money both ways: on the one side, they get less public revenues due to the lock-down they imposed and, on the other side they multiply public expenditure to overcome the health crisis and to help all those in need. The result of this extraordinary equation would definitely be negative and European countries –if not all the countries in the world- will have financial deficits this year, even if they recover fast in the second semester of 2020.

3. The actions for reducing the effects of the Coronavirus crisis in European Union

Europeans created more than six decade ago the European Union to overcome perpetual animosities and blood baths that were prevailing in the continent until 1945. They decided to abandon part of their sovereignty in favor of a supranational organization based in Bruxelles, in order obtain peace and collaboration, but also mutual gains from economic cooperation and assistance. The Eurozone is the most noticeable evidence of that cooperation and by far the ultimate sign of voluntary consent of independence. During the previous crisis of 2007, European Institutions reacted with great delay, forced by the imminent bailout of the Greek State in 2010, the fifth in its modern economic history. To avoid it, they created financial assistance mechanisms like the *European Financial Stability Facility* (EFSF) and the *European Financial Stabilization Mechanism* (EFSM) and finally the *European Stability Mechanism* (ESM) who replaced the first two in 2012. The main purpose of this mechanism is to lend money to EU states in debt troubles, in the same way that the IMF lends money to states in financial trouble.

A capital of €700 bn was created by the 17 Eurozone states, each one contributing to this European fund according to its GDP, with Germany, France and Italy offering the largest contributions (27, 20 and 18% respectively). So far, eight countries have borrowed money from the EFSF-ESM, with Greece having received more than half of the total financial aid (€284,4 bn). The difference with IMF loans is that the ESM has extensive powers to intervene in every country who participates in the bailout programme, imposing strict regulations and austerity measures, leaving no room for implementing national economic policies without its permission.

So, have the EU institutions done anything to help its member-states to face the socio-economic effects of this pandemic? Definitely yes, but not enough. Actually, there were four options on the table: the extension of quantitative easing by the ECB, lending money through the existing ESM, the creation of a corona-eurobond and the foundation of a European Marshall Plan.

ECB's head Mrs. Lagarde has announced that €870 bn in total are at the disposal of Central Banks of the Eurozone with negative interests of -0.75%. Meaning that Central Banks participating in the Eurosystem will return to the ECB less capital than the one they will borrow. The transmission mechanism of the quantitative easing has already worked effectively, for many years now since Mario Draghi's famous decision to do "whatever it takes" to sustain the Euro, back in 2012. In two words, the ECB lends money to the Central Banks, who in their turn lend it to Commercial Banks, and then to firms and consumers. It is very likely that this instrument will work again, since the danger of spending ECB's money to other purposes, than sustaining the bleeding economies who lost billions of euros from lower production and consumption, is low. Unless it travels abroad for imported goods and services, which seems very unlike to happen given the trade and travel restrictions.

The second option concerns the possibility of borrowing money from the existing mechanism of the ESM, which will be re-funded from member-states. Just few days ago, the Pandemic Crisis Support (PCS), was decided. Each country has the possibility to draw from the credit line up to 2% of its GDP with maximum average maturity of ten years. This would amount to a combined volume of around €240 billion if all 19 countries of the Eurozone use this credit line. The only requirement to access the credit line will be that euro area member states requesting support would commit to use this credit line to support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis exclusively. The usual ESM controls and enforcement will not apply this time (to satisfy Italy and France) except an "Enhanced Surveillance" (as Holland and Germany asked for). European Council agreed also to a temporary scheme up to €100 billion of loans to member states under favorable terms, to help workers keep their jobs during the crisis, since unemployment concerns greatly Europeans. Finally, an additional fund of €200 billion was decided as a guarantee for loans to companies facing problems, through the European Investment Bank. However, because the Eurozone states borrow in a common currency but must finance themselves, public debts could rise for some countries -like Italy, Portugal, Spain and Greece- to unsustainable levels.

A third option was very popular among indebted countries: special European bonds, called *coronabonds*. The logic behind the issue of these bonds is that they would be issued and guaranteed not by a sovereign state, but by the EU itself as a whole and the bonds would have the highest credit rating. Thus, the most indebted countries could borrow at lower rates, no longer corresponding to the level of financial risk they represent for their creditors. Actually, Germany, the Netherlands, Denmark and Sweden would have to raise the cost of their own bonds from negative interest rates, and Italy, Greece, Portugal and Spain will suddenly lower their cost of borrowing money from 0.8 to 1.8%, to nearly zero. As a result, European countries would have access to funds to increase spending without boosting their national debt. A coronabond would be a strong signal of financial stability and will forge the unity and solidarity between EU member states during these exceptional times, strengthening for the same reason the common currency itself. Alas, this option remains theoretical.

4. Conclusion

As to the so-called European Marshall Plan, that is the creation of a European fund from which countries in need would receive financial assistance without any obligation to return the money back, as it was with the original Marshall Plan between 1947 and 1951, is more than a theoretical option. It is only a dream. Nobody would spend euros without a strong political motive. Europeans after the WWII did received millions of US dollars but not without the obligation to remain part of the "free world" and to back-up US Foreign Policy against the Soviet Union and its allies. Europe is no more threaten by anyone, and no one is willing to save her. On the contrary, the EU needs to fortify itself against countries' separate views of what the Union should stand for. After six decades of cooperation the prosperous North still hates the idea of subsidizing the needy South—and it hates even more the prospect of mutualizing any of the poorer members' debt. European leaders seem to forget the initial reasons for the creation of a union of sovereign states, which were far from being financial or purely economic. For a union to survive and thrive, tolerance and solidarity are required to face the major challenges of our turbulent times.

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