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EU MONETARY AND FISCAL POLICY RESPONSES TO THE COVID-19 CRISIS

Odgovori monetarne i fiskalne politike u EU na krizu izazvanu kovidom 19

Abstract

The COVID-19, or, the coronavirus crisis represents an unprecedented global threat in recent history that, as symmetric external shock, affects social and economic dynamics of different countries and regions on both macro and micro levels. The aim of the paper is to provide a critical overview of economic policy responses to the ongoing crisis in the EU and, in particular, the eurozone. The paper tends to answer the question whether proposed monetary and fiscal actions provide feasible risk mitigating tools for the ongoing crisis or are there some viable policy actions that are omitted?

Keywords: *COVID-19, monetary and fiscal responses, eurozone.*

Sažetak

Kriza izazvana kovidom 19 ili koronavirusom predstavlja globalnu pretnju bez presedana u skorijoj istoriji koja, kao simetričan eksterni šok, utiče na društvenu i ekonomsku dinamiku različitih zemalja i regiona kako na makro, tako i na mikro nivou. Cilj ovoga rada jeste da pruži kritički osvrt na odgovore ekonomske politike na tekuću krizu u EU i, posebno, u evrozoni. U radu se teži odgovoriti na pitanje da li predložene monetarne i fiskalne aktivnosti pružaju adekvatan instrumentarijum za smanjenje rizika tokom tekuće krize ili su neki održivi potezi politika izostavljeni?

Ključne reči: *kovid 19, odgovori monetarne i fiskalne politike, evrozona.*

Introduction

The ongoing social and economic crisis, frequently called the coronavirus crisis, triggered by the COVID-19 pandemic, represents an unprecedented threat in recent history for Europe and the world. It affects social dynamics and economic activity on both, micro and macro levels. The economic systems are slowing down, and the potential emergence of the consequent recessionary stage is often being compared to the prolonged 2010-2012 sovereign debt crisis outcomes. The COVID-19 crisis once again tests the boundaries of the currency union. Still, the coronavirus crisis has its own unique characteristics. Its catastrophic potential is high although, for months now, it is expected to be temporary. The shock is said to be symmetric, since it affects different economies and EU countries in a similar manner. This paper tries to answer whether proposed and implemented monetary and fiscal actions in the EU represent viable risk mitigating tools for the ongoing crisis. It is devoted to the analysis of already taken and potential anti-crisis monetary and fiscal measures oriented to mitigate the economic impact of the coronavirus crisis on the eurozone countries. The special attention is paid to the Corona bonds and their potential as a risk mitigating instrument.

The paper is organised as follows – analysis begins with the eurozone initial responses and recent monetary decisions of the European Central Bank (ECB). It further focuses on the fiscal and economic strategies employed: the coordination of fiscal policy responses among different states, the role of the European Stability Mechanism (ESM) and, finally, joint debt instruments initiative.

Emerging challenges in the eurozone and initial responses

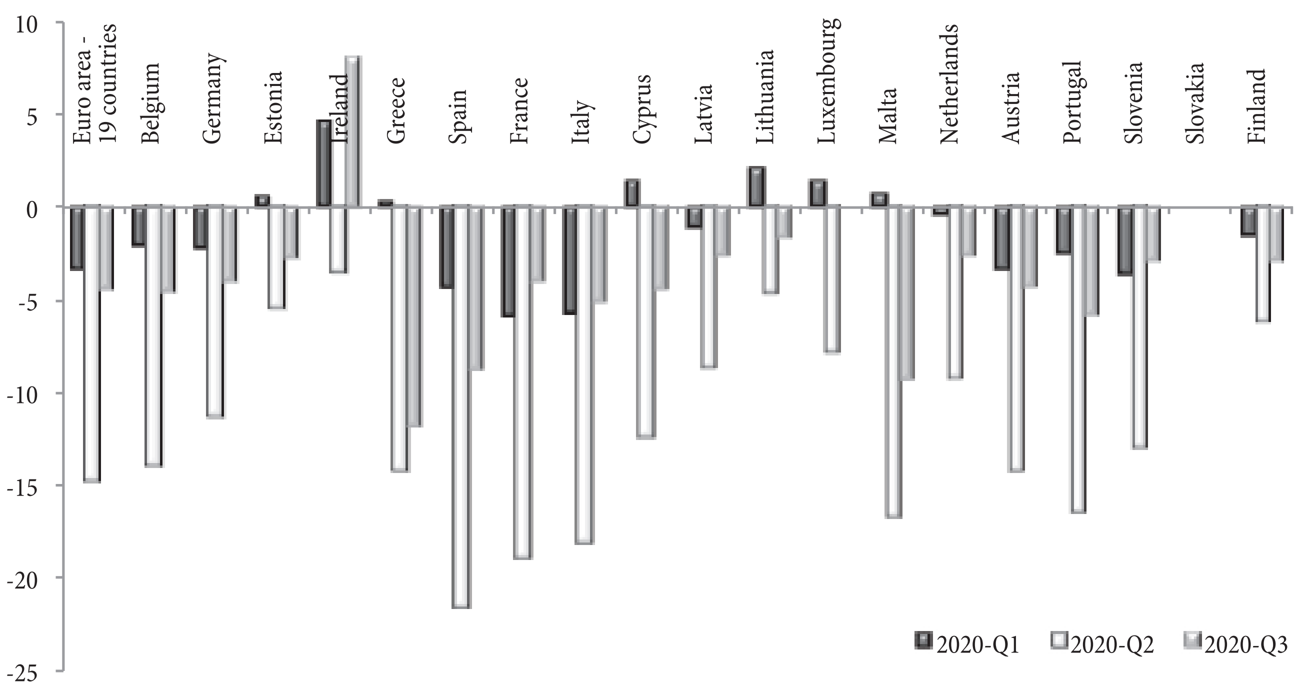
The challenges European economies are currently facing are specific and severe. They are caused by a symmetrical external shock. Unlike the previous debt crisis in the eurozone, it seems that the current crisis does not include high asymmetric information and moral hazard issues.

This type of crisis could potentially reduce the gap between the core and periphery countries of the eurozone. During the 2008 crisis, many analysts confidently predicted the subsequent collapse of the eurozone. But what global financial crisis and debt crisis in the 2010-2012 eurozone brought to light were significant imbalances that Member States had been facing for a long period. The Economic and Monetary Union was not structurally and functionally prepared for financial crisis, and it appears that the ongoing coronavirus crisis represents even a bigger challenge for the whole Union. The economic shock in the present crisis is severe and it is a fiscal rather than monetary challenge. As such, it strikes the central weakness of the eurozone – the absence of the fiscal union.

During the global financial crisis, the banking sector was in the epicentre, and the ECB provided liquidity support to banks and financial markets. The monetary policy instruments represented the first line of defence. During the ongoing COVID-19 crisis, the potential ECB role is to some extent limited since it may not build hospitals, produce medical equipment or organise income support for companies and employees. This remains within the scope of fiscal policy.

The coronavirus crisis affects not only all Member States of the Economic and Monetary Union, but also the entire Europe. The policy reactions to this pandemic have so far been predominantly national. Thus, even in the presence of the symmetric shock, the eurozone responds asymmetrically. The substantial variety in policy responses is amplified by differences in initial conditions. The longer the crisis lasts, the more visible these differences may become.

Figure 1: GDP volume changes for euro area countries during 2020, in %



* Growth rates with respect to the same quarter of the previous year are calculated from calendar and seasonally adjusted figures.
Source: Authors' presentation based on the [25] data.

Figure 1 illustrates GDP volume percentage changes during 2020 for the eurozone Member States, indicating significant fall of economic activity during the year, in particular the second quarter.

There is a risk that the eurozone may repeat the same mistakes from a decade ago. Often delayed responses of the national governments during previous crisis have imposed significant economic costs to their countries.

Similar scenario happened at the beginning of the present crisis. Then, once the ECB announced a new programme of asset purchases to stabilise European markets, the markets started to calm and bond spreads narrowed [19]. The spot rate yield curve of the euro area shifted downwards.

The perceived need for joint fiscal reaction faded, and each Member State turned its attention back to available national rescue packages.

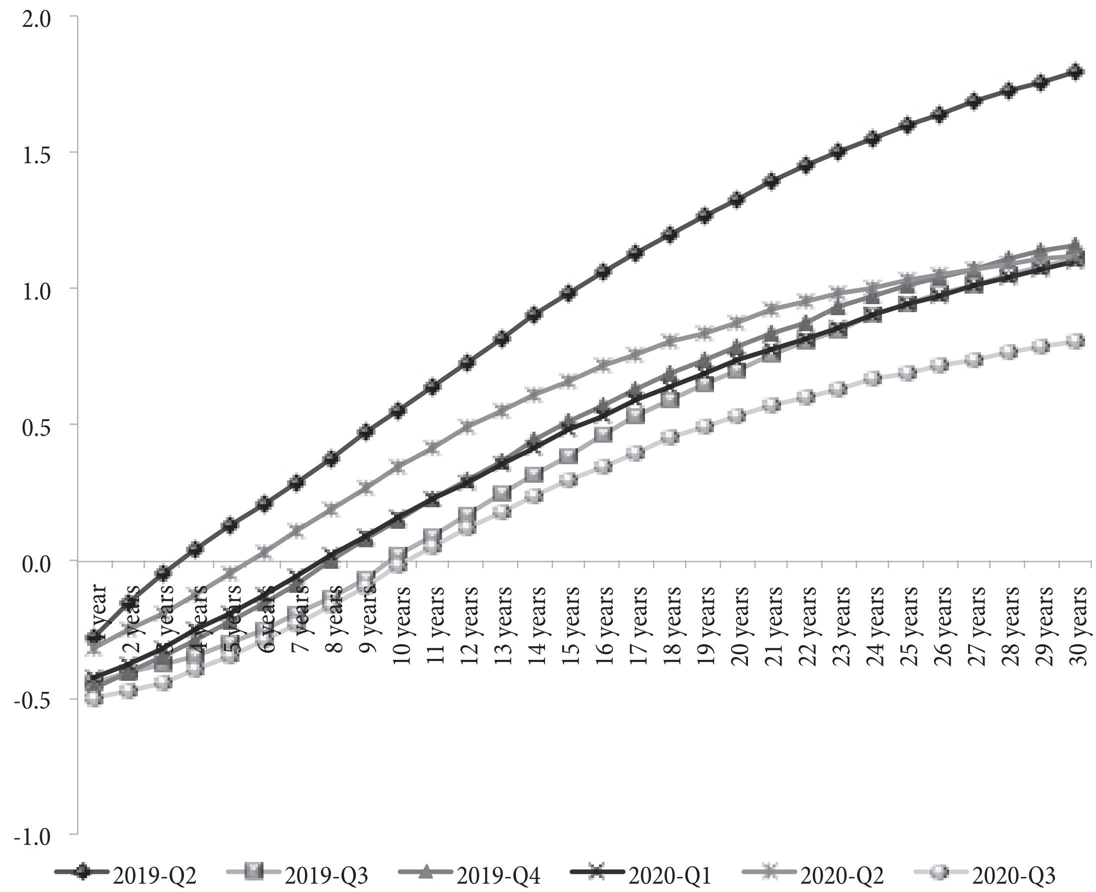
What becomes obvious from the previous crises and the present one is that the eurozone needs a joint fiscal response to the coronavirus crisis in addition to monetary policy measures. A detailed analysis is presented further in this paper.

The European Central Bank monetary policy anti-crisis measures

The provision of the ECB liquidity comes in the form of targeted and non-targeted programmes.

In accordance with the monetary authority decision of 12 March 2020, additional longer-term refinancing operations were announced to be conducted as prompt liquidity support to the eurozone financial system. Considering targeted longer-term refinancing operations, more favourable terms were planned for the period June 2020-June 2021. In addition, net asset purchases of €120 billion would be added until the end of the ongoing year, and reinvestments of the principal payments for maturing instruments under the asset purchase programmes would continue.

Figure 2: Spot rate yield curve – euro area*, in %



* Euro area - All euro area central government bonds.
Source: Authors' presentation based on the [25] data.

The changes in the terms of targeted longer-term refinancing operations - TLTRO III (more favourable interest rate during the period from June 2020 to June 2021 and the increase in the maximum amount that counterparties are entitled to borrow) were followed by a large expansion in the central bank funding of banks. In June 2020, banks bid for a total of €1,308 billion in TLTRO funds, which is the largest amount to date under any single lending operation. In relation to non-targeted programmes, the ECB announced, in April 2020, a series of non-targeted pandemic emergency longer-term refinancing operations (PELTROs). The PELTROs are helping to ensure sufficient liquidity and smooth money market conditions as a response to the crisis [17].

On 18 March 2020, the ECB announced a new temporary asset purchase programme of private and public sector securities in order to preserve monetary policy transmission mechanism. This pandemic emergency purchase programme (PEPP), initially based on the amount of €750 billion, was planned to be conducted until the end of 2020 and to include all the asset categories eligible under the existing asset purchase programmes. PEPP "will be conducted in a flexible manner which allows for fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions" [3]. The ECB noted that the Governing Council will consider revisions if it becomes necessary to adjust its action to the level of risk faced.

The limits per issue and issuer under the public sector asset purchase programme (PSPP) will not be applied to PEPP (Article 4 of Decision (EU) 2020/440). The PEPP objective and means fall within the ECB's monetary policy mandate. Regarding prohibition of monetary financing defined in Article 123 of the Treaty on the Functioning of the European Union (TFEU) [22], the European System of Central Banks (ESCB) does not have authority to purchase government bonds on secondary markets under conditions which would practically mean that its action has an effect equivalent to that of a direct purchase of government bonds from the public authorities and bodies of the Member States.

The ECB should not purchase government bonds in primary markets either, as that would mean that it would effectively issue money to finance Member States' budget deficits during the crisis. The grant of financial assistance to the Member States does not fall within monetary policy. Member States are still obliged to conduct sound budgetary policies.

The Governing Council of the ECB decided on 4 June 2020 to increase the size of the PEPP from €600 billion to €1,350 billion and to extend the purchase horizon until at least the end of June 2021. In addition, it decided to set up a new Eurosystem repo facility for non-euro area central banks (EUREP) providing precautionary euro repo lines to non-euro area central banks. EUREP complements the ECB's bilateral swap and repo lines which provide euro liquidity to non-euro area central banks. New bilateral repo lines with Romania, Serbia and Albania were announced during the review period [14].

Coordination of fiscal policy responses within the framework of the Stability and Growth Pact (SGP)

The eurozone represents currency union where fiscal policy is still decentralised and conducted at the national level. Within this framework, fiscal reaction to the COVID-19 crisis was firstly conducted in a decentralised manner. Each Member State was using direct and indirect measures for their declining economies. However, the Eurogroup has offered a platform for coordinated action and fiscal stimulus as reaction to the crisis. In their public statements during March 2020, the EU finance ministers stressed the need for coordinated policy actions.

On 16 March 2020, the Eurogroup held a discussion with non-euro area members on a necessary response to the human and economic crisis caused by the coronavirus. The Eurogroup is committed to effectively addressing challenges, restoring confidence and supporting economic recovery. Exceptional circumstances require employment of all instruments necessary to limit the socio-economic consequences of the COVID-19 outbreak. Thus, the Eurogroup has agreed a first set of national and European measures and set a framework for further actions to support economic recovery. Primary estimates of the European Commission have shown that the total necessary fiscal support will be very high. Fiscal measures decided to support the economy reach 1% of GDP, on average, for 2020, in addition to the impact of automatic stabilisers. Planned liquidity facilities consisting of public guarantee schemes and deferred tax payments are estimated at the level of at least 10% of GDP. These figures could, however, be much higher till the end of the pandemic period.

The following set of measures was announced to protect economies [10]:

1. National measures
2. Coordinated efforts at the European level
3. Measures to support the economic recovery.

Table 1 below summarises the main economic measures referred to above.

Shared rules discussed include the application of the Stability and Growth Pact, state aid rules and prudential rules:

- The economic shock of the coronavirus, an economic contraction expected this year, together with the cost of agreed measures, will have a substantial budgetary impact. The SGP has the flexibility needed to cope with this situation and will make full use of this flexibility in all Member States.
- Automatic revenue shortfalls and unemployment benefit increases resulting from the fall in economic activity will not affect compliance with the applicable fiscal rules, targets and requirements. The budgetary effects of temporary fiscal measures taken in response to the COVID-19 will be excluded when assessing compliance with the EU fiscal rules, targets and requirements. This includes the budgetary impact of temporary and targeted measures. The European Commission is ready to activate the general escape clause, allowing for further discretionary stimulus, while preserving medium-term sustainability.
- The European Commission provided guidance on the scope for supporting firms that is available within state aid rules in the current situation, and announced that it has accelerated its state aid approval processes. It has also announced that it will approve additional measures needed, which is already the case for Italy and increasingly across the EU. Taking urgent action and making use of the flexibility in the state aid rules is necessary to cushion the effect of the crisis for affected companies and sectors, while ensuring a consistent framework in the single market.

Table 1: National measures, coordinated efforts and measures to help economic recovery at the European level**

1. National measures*	2. Coordinated efforts at the European level
• Fiscal spending focused on controlling and treatment of the disease. Resources are provided to health sectors and civil protection systems;	• The European Commission proposal for a €37 billion “Corona Response Investment Initiative” directed at health care systems, SMEs, labour markets and other vulnerable parts of the economies, supplemented by €28 billion of structural funds eligible for meeting these expenditures;
• Liquidity support for firms facing disruption and liquidity shortages, especially SMEs and firms in severely affected sectors and regions – tax measures, public guarantees to help companies to borrow, export guarantees and waiving of delay penalties in public procurement contracts;	• The European Commission and the EIB Group initiative to mobilise up to €8 billion of working capital lending for 100,000 European firms, backed by the EU budget, by enhancing programmes for guaranteeing bank credits to SMEs. The Commission and the EIB Group even opted to increase this amount to up to €20 billion, which would reach additional 150,000 firms. The Eurogroup tries to make further funds available as fast as possible and to enhance the flexibility of the financial instruments leveraged;
• Support for workers to avoid employment and income losses, including short-term work support, extension of sick pay and unemployment benefits and deferral of income tax payments.	• The ECB package of monetary policy measures aimed at supporting liquidity and funding conditions for households, businesses and banks, to help the provision of credit to the real economy and avoid fragmentation of the eurozone financial markets in order to preserve the transmission of monetary policy;
	• The Eurogroup invited the EIB to further enhance and accelerate the impact of the available resources, also through enhanced collaboration with the National Development Banks;
	• The EIB Group to catalyse €10 billion in additional investments in SMEs and midcaps and to accelerate the deployment of another €10 billion backed by the EU budget.

* All national authorities will allow automatic stabilisers, and in addition implement necessary temporary measures to fight the economic consequences of the coronavirus crisis.
** Measures focused on the resilience of the European strategic value chains to better protect Europe from product and capital market disruptions in the future. Crisis management framework has been significantly strengthened, including the establishment of the ESM. The Eurogroup continues work to further strengthen the resilience to shocks of the Economic and Monetary Union.
Source: European Council, Eurogroup.

- In order to prevent this health crisis from turning into a broad social and economic crisis, the European Banking Authority stated that competent authorities should make full use of the flexibility embedded in existing regulation to support the banking sector in the current circumstances.
- The ECB Banking Supervision is providing temporary capital and operational relief to the eurozone banks, to ensure that supervised banks are able to continue to fund the real economy as the economic effects of the coronavirus crisis become apparent. Such flexibility is needed to mitigate pro-cyclical consequences for the financial sector.

The European Commission has set up several temporary frameworks and significantly relaxed EU rules on state aid or competition law to support measures undertaken at the national level.

On 23 March 2020, the EU finance ministers issued a statement on the Stability and Growth Pact in light of the COVID-19 crisis. They stressed that the coronavirus pandemic led to a major economic shock that already has a significant negative impact in the EU. The size of the consequences will depend on the duration of the pandemic and measures taken at both – national and EU level. They see the importance of the coordinated policy response to limit the duration and the scope of the shock, protect economy and keep sustainability of public finances in the medium term. Ministers of Finance of the Member States agreed with the previously stated assessment of the European Commission that the conditions for the use of the general escape clause of the EU fiscal framework – a severe economic downturn in the euro area or the Union as a whole – are fulfilled. The general escape clause of the Stability and Growth Pact was introduced as part of the "Six-Pack" reform of the Stability and Growth Pact, and seeks to offer Member States the fiscal leeway to deal with periods of "severe economic downturn" (Articles 5(1) and 9(1) of Regulation No. 1466/975 and Articles 3(5) and 5(2) of Regulation No. 1467/975). In contrast to what was disseminated in the press, this clause does not cause a generalised suspension of the SGP. Member States remain obliged by the EU's fiscal rulebook, but they may depart from their 'normal' fiscal trajectory for the purposes of crisis management. The clause, however, represents the most far-reaching form of flexibility under the SGP, and its activation is as significant as it is unprecedented [4, p. 3].

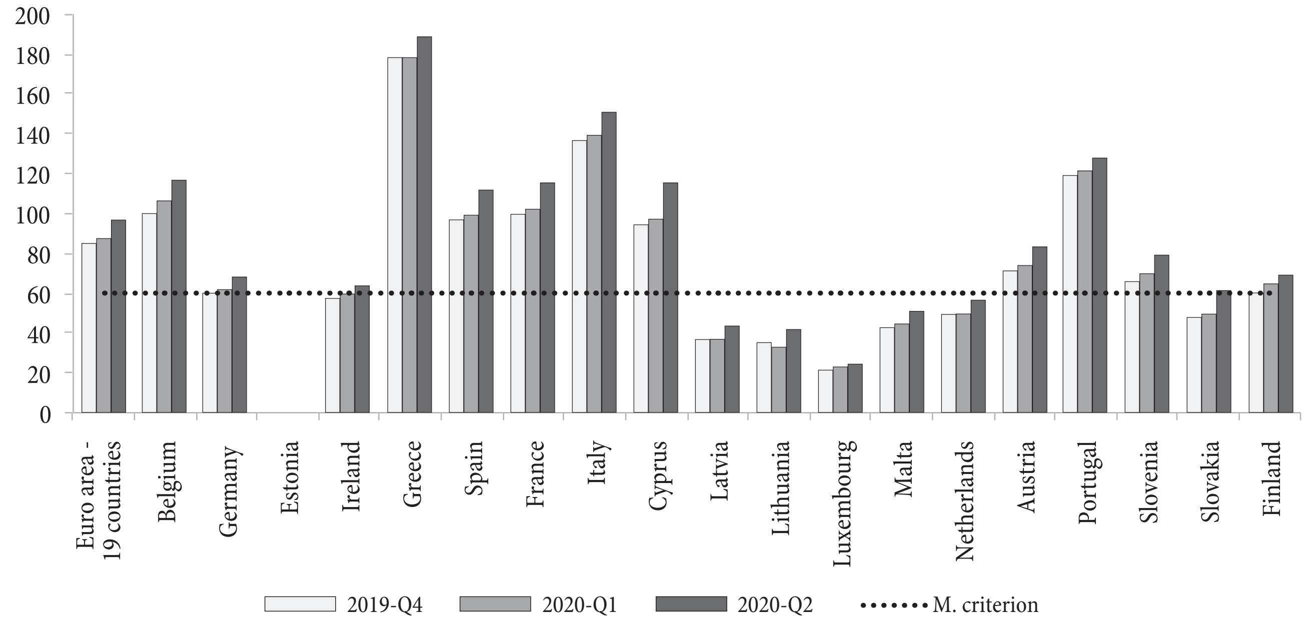
The use of this so-called escape clause is ensuring flexibility to undertake all necessary measures to support health systems, civil protection systems and economies, including further discretionary stimulus and coordinated action that should be timely, temporary and targeted by Member States. Still, EU ministers assure that they remain fully committed to the Stability and Growth Pact. The general escape clause should allow the Commission and the Council to undertake necessary policy coordination measures within the framework of the Stability and Growth Pact, while departing from the budgetary requirements that would normally apply, in order to fight the economic consequences of the crisis. The goal is to address challenges, restore confidence and support fast recovery [11].

The signal sent to the Member States and the public suggests that the former may spend as much as it takes to smooth the effects of the coronavirus crisis. It seems that the debt crisis has taught the EU to appreciate the importance of the timely counter-cyclical and coordinated fiscal stimuli in times of distress.

However, although the EU seems to be very flexible in the ongoing situation, the long-lasting problem of economic and public finance divergence among Member States is still present. Notable is the difference in the capacity to support their economies. For example, when Germany announced a €750 billion rescue package, Italy had a limited response of €28 billion. The significant disparity in the policy response is supported by differences in initial conditions. In 2019, Italian output was 4% lower than in 2007, while German GDP was 16% higher. Due to the ongoing GDP fall, the Italian public debt ratio will soon approach 150% of GDP. The spread, yield differential between Italian and German government bonds, widened substantially in the wake of the crisis [19].

Since the crisis is affecting all EU Member States, a significant increase in public debt levels in all EU countries seems inevitable. However, there is considerable divergence in manoeuvring space that each country has in deficit spending [16, p. 2].

Figure 3: General government gross debt – euro area, as % of GDP



Source: Authors' presentation based on [25] data.

The past and present divergence is the reason why Europe requires a collective fiscal response at the eurozone level. Two options are proposed: relying on the European Stability Mechanism, and/or issuing joint debt instruments.

The European Stability Mechanism

The European Stability Mechanism represents a permanent crisis fund in the EU. Its funding capacity is €410 billion, i.e., 3.4% of the eurozone's GDP.

After the Eurogroup video meeting on 24 March 2020, it was announced that the eurozone finance ministers prefer to use the existing ESM instrument - enhanced conditions credit line, whose features would be consistent with the external and symmetric nature of the coronavirus shock.[1] The mentioned size of the instrument was in the range of 2% of a Member's GDP [12]. On the other hand, Bénassy-Quéré et al. (2020) proposed a new, dedicated COVID credit line with a long duration, access conditions and ex-post conditionality to be added to the list of ESM financial instruments [1].

The present ESM Treaty [20] and the ESM Guideline on Precautionary Financial Assistance [13] define the eligibility criteria and the procedures to be followed by states for granting precautionary financial assistance. Member States however hesitate to oblige themselves to a macroeconomic adjustment programme in order to be able to get precautionary financial assistance, since they are aware that the coronavirus crisis is not their fault and, hence, conditionality in these programmes is highly disputable. In that sense, draft revised ESM Treaty brings important changes to precautionary financial assistance instruments [5]. The access to a precautionary conditioned credit line (PCCL) would no longer require a memorandum of understanding stressing the conditionality to be attached to the programme. It would require the continuous respect of the eligibility criteria listed in draft Annex III, as documented by a letter of intent (Article 14).

Although the technical detail appears to be well defined, unfortunately, the ESM reform has not yet been finalised. At present, none of the Member States would meet the eligibility criteria for PCCL, and it is unclear whether a precautionary credit line would qualify them for access to the outright monetary transactions (OMT). The ECB should clarify its original OMT press release

1 The ESM programme would carry the added advantage that the ECB could implement its outright monetary transactions (OMT) programme, which would involve outright transactions in secondary sovereign bond markets. However, what is required from OMT is "strict and effective conditionality that can take a form of a full EFSF/ESM macroeconomic adjustment programme or a precautionary programme (enhanced conditions credit line, ECCL), provided that they include the possibility of EFSF/ESM primary market purchases" [6].

and state that a PCCL should be considered sufficient as a pre-condition to activate an OMT programme [2]. This would be preferred by Member States. Conditionality should be tailored to the financial instrument chosen and the economic situation in a particular Member State. It can take the form of continuous regard for pre-established conditions, provided the recipient Member State would conduct a sound budgetary policy. This should not be an issue in the present situation as long as government expenditures are linked to the resolution of the coronavirus crisis.

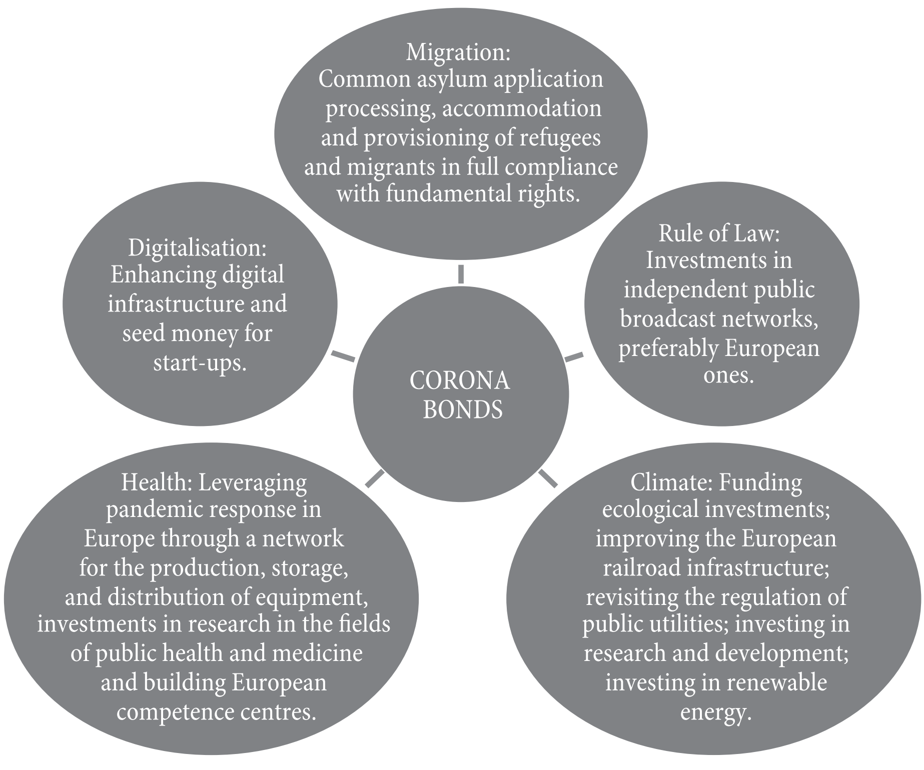
Joint debt instruments – Corona bonds

The most controversial initiative aimed at diminishing the effects of the COVID-19 crisis is the issuance of the joint debt instruments. The idea of the so-called Corona bonds was initially proposed by the Prime Minister of Italy Giuseppe Conte during the European Council meeting of 17 March 2020, and it has received prompt support from France and Spain. Germany and the Netherlands did not reject the idea at the beginning, but they stressed that all other policy options should be considered first. Despite the initiative from nine Member States (Belgium, France, Greece, Ireland, Italy, Luxembourg, Portugal, Slovenia and Spain) for a common debt instrument, the European Council on 26 March 2020 did not reach consensus, and gave the Eurogroup two more weeks to present concrete proposals.

The Corona bonds essentially represent joint debt instruments that are issued at the eurozone level, backed up with collective guarantee from all Member States. The goal is to facilitate access to funding across the eurozone, especially for the states in a weaker financial position. The name of this instrument is new and tailored to the present crisis, but the original idea itself is older and was explored by policymakers during the sovereign debt crisis. Those proposals for the so-called Eurobonds or stability bonds were at the time rejected by the eurozone core countries. The present situation is, however, different. The coronavirus crisis specificities may result in a different response by the eurozone policymakers.

Corona bonds should be beneficial for all Member States. The purpose of these instruments should not be the charity for the weaker states but the protection of the common EU project. The aim is to ensure that Europe

Figure 4: Common EU project financing through joint debt initiative



Source: Authors' presentation.

comes out of this crisis more resistant and ready to meet other challenges which are unsolved but have been temporarily put on hold.

The financing should cover both aspects – partly serve common EU project involving all Member States providing relief to the present crisis, while other part should be made available to individual Member States based on the common programme framework.

Common EU project may include the following elements presented in Figure 4.

Financing lines for individual Member States could include:

1. Healthcare: Investments in hospital infrastructure and the training of doctors and nurses.
2. Labour and Industry: investments in reindustrialisation strategies with a view to re-Europeanise crucial parts of value chains; European wage guarantee funds; survival fund for small businesses (e.g., in the tourism sector); qualification measures, survival fund for crucial infrastructure (e.g., airports and airlines) [15].

Economists have proposed a Corona bonds volume of €1 trillion with longer maturities matching the long-term character of most of the financed projects.

Corona bonds mechanism and their potential advantages compared to the ESM

Each Member State would be responsible for a share of the principal and interest payments of the issued bonds in accordance with the GDP-based contributions to the EU budget. They would fund these payments from their tax revenues. What could also be raised is the special tax revenue for Corona bonds debt servicing. It could be collected on an EU-wide basis through common taxes. Member States' contribution to the debt service of the Corona bonds would mean that each Member State would have to allocate the proportion from its tax revenues that would be transferred to the entity that issues Corona bonds, before meeting other budgetary obligations. This mechanism would result in the debt service made on several bases and it would minimise fear of cross-subsidies between the states. From investors' perspective - it would represent creation of additional safe asset for different institutional and retail investors, since the obligations of the entity issuing the Corona bonds should be joint and several to ensure the highest possible credit rating.

The part of the issued bonds could be GDP-linked or indexed. That would mean that interest and/or principal payments depend on economic development. It would help to avoid pro-cyclical effects and provide fiscal space for the Member States' budgets.

The institutional framework for the issuance of the joint debt instruments remains an open question. The entity that would issue the Corona bonds should be of a long lifespan due to the predominantly long-term nature of the financed projects. The current EU legislation would, however, need to be seriously addressed. The present competencies of the EU under Article 122 of the Treaty on the Functioning of the European Union would likely be overstretched [21, p. 98]. The issue could be resolved by using Article 352(1) TFEU [24, p. 196], but the implementation of measures would require unanimity and might allow certain Member States to block measures introduced to defend the values of the EU stipulated in the Treaty on European Union (TEU). The EU would have to have own rights of taxation, and it would be disputable whether domestic constitutional courts would accept handing significant fiscal power to the Union without a significant change of its institutional framework.

Although the ESM is at the moment an attractive option to many policymakers, since it bears low legal risk from the standpoint of EU treaties, the proposed Corona bonds alternative actually shows the shortcomings of using the ESM in the current form with respect to the ongoing crisis. It has been created for individual Member States in distress, that is, for asymmetric shocks, and it demands strict conditionality.[2] Another major challenge of the ESM funding lines for individual Member States lies in the fact that they increase their level of indebtedness, which may worsen their position. Finally, not all Member States are members of the ESM. The present crisis and recession is the problem that affects the entire EU. The ESM should not become a coronavirus crisis vehicle, since it is planned to be the protector of the eurozone countries.

2 Article 3 ESM Treaty and Article 136(3) TFEU.

Essentially, for the coronavirus crisis, a new vehicle is needed based on, for example, Corona Bond Treaty (CBT) opened to all EU Member States. Since European funding schemes require the consent of Member States' parliaments, it should be suitable to allow for the simultaneous adoption and ratification of a treaty. Administration of the CBT does not require forming of a new institution, since it could be delegated to existing institutions that have the knowledge, experience and capacity to guide the process of issuing and managing bonds. Those could be the European Commission and the ESM. The Commission could be in charge of disbursement and monitoring of funds. The European Parliament and the Court of Justice could ensure strong political and legal accountability. The Member States would have to extend financial guarantees for the CBT. They could be restricted to their share in the fund in accordance with the key for GNI-based contributions or other distribution scheme [22].

The essential prerequisite for CBT to become successful is the assurance that it promotes the fundamental values of the EU. Member States willing to become CBT members should be able to comply with the provisions setting these standards.

The legal issues opened by the issuance of any joint debt instruments remain mostly the same. Primarily, there is the question of competence of the EU to establish a debt mutualisation regime. Further, Corona bonds initiative must not in any essential way contradict the no-bailout clause stipulated by Article 125 TFEU. The clause stresses the necessity of national fiscal responsibility and avoidance of moral hazard in the currency union. The interpretation of this clause was relaxed during the sovereign debt crisis. The advocates of the Corona bonds point out that this Article does not apply to the Corona bonds, since its purpose is to prevent a bailout – the mutualisation of the debt of one or more Member States. As Corona bonds are mutual debt from the very beginning, their mutual character is not a formality and they should fund common European project with some of the revenues. In that respect, they differ from Eurobonds proposal from the previous crisis, which were meant to contribute directly to each Member State's budget. As Article 125(1) TFEU states, its provisions are "without prejudice to mutual financial guarantees for the joint execution of a specific project" [23, p. 99]. It would be the purpose of a CBT to bring Member States back on the path of economic and financial stability. Given the programme character of the CBT, its nature and purpose should not raise a risk of moral hazard.

The CBT, however, raised constitutional issues in some Member States and, in particular, in Germany. Given that the entire or most of the EU-27 would likely participate in a CBT, Germany's share of the burden would not be much larger than its share in the ESM, if measured in absolute numbers. The CBT would not be financed through specific taxes and the members would have to pay contributions in accordance with their share of the GNI contributions to the EU budget. The usage of funds would not be asymmetric as in the case of the ESM.

The CBT would, however, have significant fiscal power. The European Parliament could have a much stronger role than in the case of the ESM, including the right to approve the annual CBT budget. Nevertheless, essential financial decisions, including the adoption or modification of project lines, might still require the consent of the Bundestag. For this reason, a possible CBT would require unanimity for key financial decisions, both on the asset and on the liability side of the balance sheet.

The latest policy actions

European Union leaders agreed in July 2020 on a €1.8 trillion spending package oriented at unprecedented economic downturn in the EU. They ultimately agreed on a €750 billion recovery plan. Of that, €390 billion is to be offered in grants and the rest in the form of loans. Additionally, the agreement was made on a seven-year EU budget of over €1 trillion in the period 2021-2027 [18].

Despite long-standing opposition to joint debt issuance from the core eurozone members, on 20 October 2020, the EU raised €17 billion from the sale of 10- and 20-year social bonds for its SURE unemployment scheme. The demand, predominantly by international investors, was 14 times higher than the offer. It presented the first stage of the EU's plan to fund two support programmes for Member States that will channel funding to the countries hardest hit by the pandemic and consequent economic losses. The plan is to issue €100 billion of bonds under the SURE programme. So far, three transactions in the period from late-October to end-November were completed, through which 15 EU Member States received €40 billion [7]. These issuances bring EU closer than ever to debt mutualisation.

Conclusion

The COVID-19 crisis represents an unprecedented global event in recent history that severely affects different countries and regions worldwide. The aim of this paper was to provide a critical overview of economic policy responses to the ongoing crisis in the EU and, in particular, the eurozone. The analysis began with the eurozone initial responses and recent monetary decisions of the European Central Bank. In further sections it focused on fiscal and economic strategies: the coordination of fiscal policy responses among different states, the special role of the European Stability Mechanism and the important joint debt proposal.

Corona bonds initiative seems viable and necessary to protect the common European project. While being aware of the fact that this idea deeply encroaches on the essential constitutional questions of the EU, it provides opportunity for consolidated and timely action that may help resolution of the ongoing economic and social crisis. It remains to be seen how Corona bonds might be structured and to what extent constitutional constraints will limit the realisation of this EU protection-oriented project. The alternative to debt mutualisation would be a permanent conditionality through more centralised fiscal policy.

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