



EUROPEAN COMMISSION

European Fiscal Board  
The Chair

## **STATEMENT BY THE EUROPEAN FISCAL BOARD**

Brussels, 23 March 2020

The covid-19 crisis confronts Europe and most of the world with a double challenge: to stop the spreading of the virus and to do so in a way which minimises the damage to the economic prospects of our societies. The dominant challenge - to the health of citizens – is now being addressed with dramatic measures and primarily by national governments. They are taking up a substantial part of the massive costs of limiting as much as possible the shortfall in incomes to firms and individuals, wage earners and self-employed.

The European Fiscal Board (EFB) commends the efforts undertaken by individual Member States in recent days and weeks as well as the actions taken by the ECB to boost bank liquidity and undertake massive additional asset purchases. We also note the constructive role of the Commission in monitoring and coordinating national actions. But the current crisis represents a daunting test for the economic governance framework of the euro area and of the whole EU that goes well beyond any joint actions and intentions so far announced. The euro area has to manage crisis and post-crisis adjustments with hardly any joint elements, most importantly a central fiscal capacity. Such a capacity could also be used for the joint procurement of European public goods, notably in the area of the health sector.

A flexible interpretation of the commonly agreed fiscal rules can no doubt help, and the general escape clause, in place for shocks that threaten the entire euro area, should be used to the full extent. Headline and structural budget deficits had been reduced from more than 6 to about 1 per cent of collective GDP in the euro area since the financial crisis. The joint challenge lies rather in dealing more constructively with the subsequent fiscal consolidation without undermining debt sustainability throughout the euro area.

The initial response to the crisis with its dislocation of activity and social distancing has focused on a temporarily element of income maintenance and tax credit; a general demand stimulus is less relevant at the current moment of serious curtailment of supply. However, it is not too early to begin to outline the fiscal principles to be applied, once the health crisis is sufficiently contained for more normal activity to resume.

The aftermath of the financial crisis a decade ago was characterised by deep cuts in public investment expenditures. The EFB favours a pace of consolidation in line with the speed of the recovery, leaving room for measures to protect and boost national public growth-friendly expenditures more than in the past; and to link such protection to EU priorities, as expressed in the Green Deal, in EU plans for digitalization, and in the multiannual financial framework. In this regard, the opportunity offered by the current historically low interest rates should be seized.