

## EU unity is tested as crisis response brings north-south tensions into relief

RYO YAMADA  
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.  
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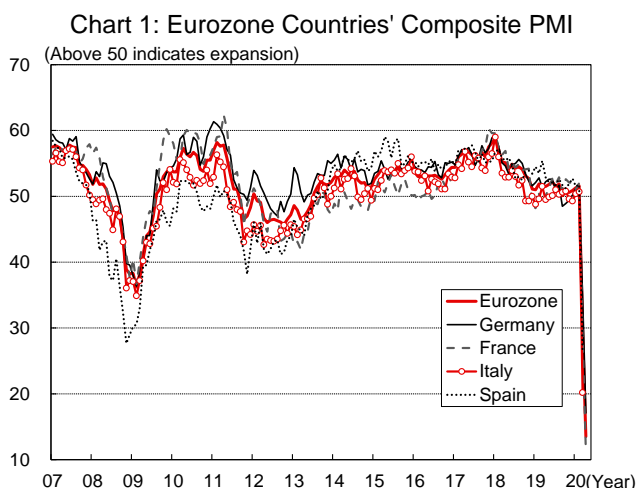
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Coronavirus spread rapidly in Europe since March, and PMI figures show that measures to contain the virus have resulted in a marked contraction in economic activity in major European countries (Chart 1). The spread of the virus is now slowing in some countries and the number of new cases is falling in others, leading some governments to take steps towards easing containment measures. On 15 April, the European Commission released a roadmap to lifting coronavirus containment measures (Table 1). The roadmap includes guidelines on how to ease different measures, but the fact that it seeks cooperation between member states on information sharing and re-opening of borders is a point of interest. Whilst containing the risk of spread of infections is the key consideration when gradually easing restrictions, the roadmap also alludes to a reprisal of cooperation on curtailed EU fundamental principles such as freedom of movement. However, given existing vulnerabilities in the fundamentals of their economies, southern European countries may be particularly keen to call for an end to restrictions and resume economic activity.

The current situation is also testing EU cooperation on the contentious issue of fiscal support. At a Eurogroup video conference on 9 April, EU finance ministers agreed to employ the European stability mechanism (which allows each country to unconditionally borrow up to 2% of GDP), and implement a 540 billion euro rescue package. However, the highly publicised idea of issuing collective Eurozone debt (eurobonds) was shelved after German and Dutch ministers voiced objections. The idea of eurobonds has been explored previously during the European Debt Crisis, but never introduced due to concerns in Germany and elsewhere over the shared debt burden and spiralling funding costs. Though we can by no means exclude the possibility that Germany could compromise this time round, there is a clear history of tension on this issue between southern European countries with less than rosy finances and their comparatively healthy northern counterparts.

Any reignition of North-south tensions over coronavirus is likely to have a considerable impact on future discussions of deeper integration of the EU and the euro. The ongoing coronavirus crisis has the potential to test the integrity of ties that bind the EU.



**Table 1: European Commission's Roadmap to Lifting Coronavirus Containment Measures**

Common principles	<ul style="list-style-type: none"> <li>• Approach based on science and have public health at its centre</li> <li>• Coordinated approach between the Member States</li> <li>• Emphasise respect and solidarity between Member States</li> </ul>
Criteria to ease restrictions	<ul style="list-style-type: none"> <li>• A sustained reduction in the number of new cases</li> <li>• Availability of hospital beds, pharmaceuticals and equipment</li> <li>• Appropriate monitoring, including testing, tracking, and tracing</li> </ul>
Steps to phase out containment measures	<ul style="list-style-type: none"> <li>• Gather data, develop reporting system, and share national data</li> <li>• Contact tracing/warning using apps which respect data privacy</li> <li>• Expand and harmonise testing capacity</li> <li>• Increase capacity and resilience of health care systems</li> <li>• Increase availability of medical and personal protective equipment</li> <li>• Fast-track development and introduction of vaccines, treatments and medicines</li> </ul>
Advice for phasing out containment measures	<ul style="list-style-type: none"> <li>• Gradually ease restrictions, with sufficient time between steps to check efficacy</li> <li>• High risk groups should be protected for a longer time</li> <li>• Ease restrictions gradually by region, taking into account national characteristics</li> <li>• Coordinate reopening of borders between EU countries, followed by non EU countries</li> <li>• Ease lockdowns/shop-closures gradually, reflecting different types of activity</li> <li>• Efforts to prevent the spread of the virus should be sustained</li> <li>• Be prepared for strict containment measures to be reintroduced</li> </ul>

Source: European Commission, MUFG Bank Economic Research Office

(Translated by Imogen Wright)

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Ryo Yamada <riyou\_yamada@mufg.jp>

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