Forward look: 11 – 24 May 2020

Remarks by Mário Centeno following the Eurogroup videoconference of 8 May 2020

Good afternoon from Lisbon.

It was already a month ago that we last met for a very long but successful meeting. You may remember that. I certainly do. The hard-fought balance reached in that meeting has set the stage for swifter and more operational meetings, such as the one today. Long meetings paved the way for bold decisions.

We are implementing our agreement on three safety nets, for workers, for businesses, and for sovereigns. Leaders have endorsed our plan and set a target date of 1 June to make them operational. We are getting there on time.

The Eurogroup ministers and its deputies have been working hard to flesh out the ESM-based safety net for sovereigns, the Pandemic Crisis Support. In the meantime, work is progressing well on the two other safety nets in the Council and the EIB.

Today, we agreed on the features and standardized terms of the Pandemic Crisis Support to be provided by the ESM. We also confirmed that all ESM members meet the eligibility criteria to access this safety net.

Let me go into some more detail.

The size of the instrument would be 2% of individual member state GDP, as a benchmark.

Member states requesting support will commit to use this instrument to support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID 19. There are no other strings attached to the use of the facility. Let me stress that: there are no other requirements attached to the use of the facility.

This commitment will be detailed in a “Pandemic Response Plan” prepared on the basis of a common template that we have also agreed upon today.

After accelerated procedures to grant Pandemic Response Support, the facility will be available, on a precautionary basis, for the member state concerned for a period of 12 months, which can be extended twice, by six months. Disbursements would then be available on request.

Reflecting the exceptional nature of the crisis, we have agreed on favourable and adequate financial terms: these loans will have an average maturity of 10 years and will carry a low financing cost.

Monitoring and surveillance will remain proportionate with the particular challenge of the crisis, meaning that it will focus on the health-related expenditures. We are therefore far from the sovereign crisis style of monitoring. We are setting a termination date for this instrument at the end of December 2022 but this could be adjusted, either made shorter or extended, if the crisis is prolonged. It’s on us to make sure this is not the case.

The next step is the formal confirmation of our agreement in the ESM Board of Governors, which I would expect to happen well ahead of 1 June. Based on our current plans, the confirmation could be already on 15 May, subject to the completion of national procedures.

I stress the timing here, because we need these backstops to be made available as soon as possible. With the Commission’s economic forecast discussed in the Eurogroup today, we were reminded of the urgency we are in, and the urgency of these measures to be on the ground. The economic outlook is very telling of where we are, and it underpins everything that we have been doing as finance ministers and in the Eurogroup in this crisis. The dire forecast for this year confirms the scale of the challenge. For instance, a gap of €850 billion in investment which we must address. For that, we need a robust recovery plan for Europe. Our three backstops go a long way in levelling the playing field for the emergency phase, but we need to do the same for the recovery to protect the single market and the European project. We will come back to this in our meeting, end of next week.

I also reported on a couple of G7 calls in which I participated on behalf of the euro area – global economic coordination is obviously crucial in times of crisis. These calls are also an opportunity to explain to our economic partners how the euro area is responding to the crisis. When we compare with our partners, I should add that Europe comes out as particularly forthcoming both in size of its response and as in speed of decision-making.

We also touched upon some ongoing files unrelated to the crisis.

We discussed the updated draft budgetary plan of Austria – this was mostly a procedural point.

We also heard about the 11th post-programme surveillance mission for Portugal, which I am glad to report went very well. The efforts made by Portugal during the last few years to strengthen economic fundamentals will help to tackle the current crisis and support a swift recovery.

Let me conclude precisely on that hopeful note.

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MiFID II: ESMA issues latest Double Volume Cap data

Today's updates include DVC data and calculations for the period 1 April 2019 to 31 March 2020 as well as updates to already published DVC periods.

The number of new breaches is 53: 43 equities for the 8% cap, applicable to all trading venues, and 10 equities for the 4% cap, that applies to individual trading venues. Trading under the waivers for all new instruments in breach of the DVC thresholds should be suspended from 13 May 2020 to 12 November 2020. The instruments for which caps already existed from previous periods will continue to be suspended.

In addition, ESMA highlights that none of the previously identified breaches of the caps proved to be incorrect thus no previously identified suspensions of trading under the waivers had to be lifted.

As of 8 May 2020, there is a total of 343 instruments suspended.

Please be aware that ESMA does not update DVC files older than 6 months.

Background

MiFID II introduced the DVC to limit the amount of dark trading in equities allowed under the reference price waiver and the negotiated transaction waiver. The DVC is calculated per instrument (ISIN) based on the rolling average of trading in that instrument over the last 12 months.

Eurogroup Statement on the Pandemic Crisis Support

1. On 23 April 2020, Leaders endorsed the agreement by the Eurogroup in inclusive format of 9 April 2020 on the three important safety nets for workers, businesses and sovereigns, amounting to a package worth EUR 540 billion, and called for their operationalisation by the 1st June 2020. The Leaders also agreed to work towards establishing a Recovery Fund and tasked the Commission to analyse the exact needs and to urgently come up with a proposal that is commensurate with the challenge. The Eurogroup in an inclusive format will continue to closely monitor the economic situation and prepare the ground for a robust recovery.

2. The Eurogroup welcomes the efforts that are well underway in the Council on the SURE proposal, and in the EIB Governing Bodies on the establishment of the pan-European guarantee fund, to support European workers and businesses, and confirms the agreement to establish the ESM Pandemic Crisis Support for sovereigns.

3. We agreed today on the features and standardized terms of the Pandemic Crisis Support, available to all euro area Member States for amounts of 2% of the respective Member's GDP as of end-2019, as a benchmark, to support domestic financing of direct and indirect healthcare, cure and prevention-related costs due to the COVID-19 crisis. We also welcomed the institutions' preliminary assessments on debt sustainability, financing needs, financial stability risks, as well as on the eligibility criteria for accessing this instrument. We agree with the view of the institutions that all ESM Members meet the eligibility requirements to receive support under the Pandemic Crisis Support. Subject to the completion of national procedures, we expect the ESM Board of Governors to adopt a resolution confirming this well before the 1st of June 2020. The provisions of the ESM Treaty will be followed.

4. The Eurogroup recalls that 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. This commitment will be detailed in an individual Pandemic Response Plan to be prepared on the basis of a template, for any facility granted under the Pandemic Crisis Support.

5. We agree that monitoring and surveillance should be commensurate with the nature of the symmetric shock caused by COVID-19 and proportionate with the features and use of the Pandemic Crisis Support, in line with the EU framework[1] and the relevant ESM guideline. We welcome the Commission's intention to apply a streamlined reporting and monitoring framework, limited to the commitments detailed in the Pandemic Response Plan, as outlined in the

letter of 7 May of Executive Vice President Valdis Dombrovskis and Commissioner Paolo Gentiloni addressed to the President of the Eurogroup. The ESM will also implement its Early Warning System to ensure timely repayment of the Pandemic Crisis Support.

6. We agree with the ESM proposal on the common financial terms and conditions applicable to any facility granted under the Pandemic Crisis Support. This includes a maximum average maturity of 10 years for the loans and favourable pricing modalities adapted to the exceptional nature of this crisis[2].

7. The Eurogroup confirms that the Pandemic Crisis Support is unique given the widespread impact of the COVID-19 crisis on all ESM Members. Requests for Pandemic Crisis Support may be made until 31 December 2022. Upon a proposal by the ESM Managing Director, the ESM Board of Governors may decide by mutual agreement to adjust this deadline. The Managing Director proposal would be based on objective evidence on the course of the crisis. Afterwards, euro area Member States would remain committed to strengthen economic and financial fundamentals, consistent with the EU economic and fiscal coordination and surveillance frameworks, including any flexibility applied by the competent EU institutions.

8. The initial availability period for each facility granted under the Pandemic Crisis Support will be 12 months, which could be extended twice for 6 months, in accordance with the standard ESM framework for precautionary instruments.

9. Following a request under the Pandemic Crisis Support, institutions are expected to confirm the assessments at the shortest possible notice, and prepare, together with the authorities, the individual Pandemic Response Plan, based on the agreed template.

10. Subject to the completion of national procedures in respect of each request, the ESM governing bodies will approve the individual Pandemic Response Plans, individual decisions to grant financial assistance and the financial assistance facility agreements, in accordance with Article 13 of the ESM Treaty.

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[1] Notably recital 4 of Regulation (EU) No 472/2013: “*the intensity of economic and budgetary surveillance should be commensurate with, and proportionate to, the severity of the financial difficulties encountered and should take due account of the nature of the financial assistance received*.”

[2] As foreseen under all ESM instruments, the pricing structure under the Pandemic Crisis Support will comprise of a base rate and a commitment fee, reflecting the level of the ESM cost of funding, as well as the service fees to cover operating costs, and an appropriate margin. The margin charged for the loans disbursed under the instrument will be 10 basis points annually, the up-front service fee will be 25 basis points and the annual service fee will be 0.5 basis points.

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COVID-19: Council agrees its positions on transport relief measures

The EU is working on a set of urgent measures to **help companies and authorities in the aviation, rail, road and shipping sectors to weather the impact of the coronavirus crisis**. Today, member states' ambassadors approved a mandate for the presidency to negotiate with the European Parliament four legislative proposals designed to provide flexibility, ease the administrative burden and reduce financial costs for transport businesses.

> The transport sector is one of the hardest hit by this crisis, and any measures to bring relief are a priority for the Croatian presidency. The Council worked intensively, and has been able to finalise its position on all these proposals within ten days. We will now work with the European Parliament to reach a rapid conclusion of the measures, so as to provide legal certainty for both operators and administrations.
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> *Oleg Butković, Croatian Minister for the Sea, Transport and Infrastructure, President of the Council*

The proposal on **aviation** amends **air carrier licencing** rules in case of financial problems caused by the COVID-19 pandemic, in order to avoid unnecessary administrative burdens. It also introduces a derogation to the procedures used by member states to impose **traffic rights restrictions** to deal with emergencies resulting from unforeseeable and unavoidable circumstances. The derogation will clarify that a member state may temporarily keep a justified and proportionate emergency measure in place for a period longer than 14 days, but the measure may only remain in force for as long as there are public health risks clearly linked to the coronavirus pandemic. The Commission may suspend this action at the request of any member state involved or on its own initiative. In addition, new temporary rules on **ground-handling services** will help airports to continue operating in the event of a ground-handling company going bankrupt, by introducing a direct procedure for the selection of service providers. They will also help airports avoid complex tenders by allowing for the extension of contracts.

The proposal to extend the transposition deadline for the rail safety and interoperability directives of the **fourth railway package** will give the rail sector and the authorities the flexibility to better face the current circumstances caused by the coronavirus outbreak. Under the Council mandate, the transposition deadline has been extended to 31 December 2020.

Amending the **port services** regulation will help ship operators by relaxing the existing rule that requires member states to ensure that a port infrastructure charge is levied. The amendment will give ports the possibility to waive, suspend, reduce or defer these charges for port users. The Council mandate stipulates that this temporary legislation should be in force until 31 October 2020, which is slightly shorter than what the Commission proposed.

The proposal allowing the extension of the **validity of certain certificates and licences** will support those transport operators, individuals and national administrations that, owing to the coronavirus restrictions, are having difficulties fulfilling certain administrative formalities before the expiry of the relevant deadlines. This is the case for instance for driving licences, roadworthiness tests for motor vehicles and boat-masters' certificates. Certain periodic checks in road, rail, inland navigation and shipping will also be postponed temporarily, as these activities may not be feasible in the current exceptional circumstances. The Council text includes some changes to the Commission proposal to allow the differences between member states as regards the spread of the pandemic to be taken into account.

Both the Council and the European Parliament will need to agree on the final texts of these proposals.