



# Between Rhetoric and Action

German Leadership in the EU's Economic Response to COVID-19

*By James Cotter*





## Abstract

The COVID-19 pandemic presents the European Union with the greatest economic and social challenge it has faced in its history. In recent weeks, Germany has succeeded in swiftly mobilising a domestic rescue package worth more than €1.1 trillion. However, its political leaders are acutely aware that Germany's economic recovery also depends heavily on that of its European partners. Against this backdrop, this briefing paper examines the evolution of the debate in Germany around the EU's economic response to coronavirus. It also reflects on the challenges facing Germany in brokering a compromise between other EU leaders and progressing an agenda during its Presidency of the Council of the EU in the latter half of 2020, which will be dominated by plans for the EU's recovery.

## Introduction

The COVID-19 pandemic presents the European Union with the greatest economic and social challenge it has faced since its creation. Germany has not been spared by the impact of this symmetric shock. The Federal Ministry for Economic Affairs and Energy confirmed on 15 April 2020 that Europe's largest economy fell into a recession in March 2020 that is likely to continue until the middle of the year.<sup>1</sup> While the German Federal Government has successfully agreed on mobilising a rescue package of more than €1.1 trillion, Chancellor Angela Merkel has since reiterated her guiding mantra from previous crises that Germany "will only do well in the long run if Europe is doing well", emphasising that the solution for effective recovery lies in "more Europe, a strong Europe and a smoothly functioning Europe – in all Member States".<sup>2</sup> The Federal President, Frank-Walter Steinmeier, echoed this message of interdependence in a televised Easter address on the coronavirus pandemic on 11 April 2020, saying that "the world that lies ahead will be different" and emphasising that "Germany cannot emerge from the crisis strong and healthy if our neighbours do not also become strong and healthy".

In her speech at the European Parliament plenary session on 16 April 2020, the President of the European Commission, Ursula von der Leyen, admitted that the initial response of the EU institutions to the COVID-19 crisis had been slow.<sup>3</sup> While the primary competence for health matters remains with the Member States, the EU has since developed a series of coordinated measures to respond to the crisis,<sup>4</sup> prompting the Commission President to call Europe "the world's beating heart of solidarity". With 'solidarity' becoming a keyword in the rhetoric of German and EU leaders, it remains to be seen how the former will be reflected in key decisions that have yet to be made in determining the EU's economic response to the crisis, not least in reaching agreement on the operation of the Recovery Fund. In this light, German leadership has been and will be pivotal in building consensus among EU leaders on the mechanics of the Union's economic response and in prioritising debate on actions that will progress Europe's recovery during its Presidency of the Council of the EU in the latter half of 2020.

## The Domestic Economic Picture in Germany

Just a matter of weeks ago, Angela Merkel's main concern appeared to be finding a successor to run for the top position in the Federal Chancellery in 2021 following the shock resignation of her protégé, Annegret Kramp-Karrenbauer, as CDU leader on 10 February 2020. Originally scheduled to take place during a special party conference on 25 April 2020, the election of a new leader has slipped dramatically down the list of priorities for the party. Instead, it is now likely to take place at the regular party conference in December 2020, towards the end of both the German Council Presidency and

1 Bundesministerium für Wirtschaft und Energie, 'Die wirtschaftliche Lage in Deutschland im April 2020', 15 April 2020. <https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/Wirtschaftliche-Lage/2020/20200415-die-wirtschaftliche-lage-in-deutschland-im-april-2020.html>

2 Bundeskanzleramt, 'Pressekonferenz von Bundeskanzlerin Merkel zu den Maßnahmen der Bundesregierung im Zusammenhang mit dem Coronavirus', 6 April 2020. <https://www.bundeskanzlerin.de/bkin-de/aktuelles/pressekonferenz-von-bundeskanzlerin-merkel-zu-den-massnahmen-der-bundesregierung-im-zusammenhang-mit-dem-coronavirus-1739654>

3 European Commission, 'Speech by President von der Leyen at the European Parliament Plenary on the EU coordinated action to combat the coronavirus pandemic and its consequences', 16 April 2020. [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_20\\_675](https://ec.europa.eu/commission/presscorner/detail/en/speech_20_675)

4 European Commission Representation in Ireland, 'Summary of the European Commission's response to coronavirus (COVID-19) crisis to date. [https://ec.europa.eu/ireland/news/summary-of-the-european-commission-s-response-to-corona-virus-covid-19-crisis-to-date\\_en](https://ec.europa.eu/ireland/news/summary-of-the-european-commission-s-response-to-corona-virus-covid-19-crisis-to-date_en)



a year which will be critical in determining Angela Merkel's legacy as a European and a German leader during a time of crisis. Within a short space of time, the main challenge facing Germany has turned from one of political leadership to that of an unprecedented economic downturn.

While accurately forecasting the scale of the recession remains challenging, the biannual *Joint Economic Forecast* of Germany's five leading economic research institutes, published on 8 April 2020, estimates that German gross domestic product contracted by 1.9% in the first quarter of 2020, and is likely to shrink by 9.8% in the second quarter.<sup>5</sup> Assuming a relatively swift economic recovery in the latter half of the year, the *Joint Economic Forecast* predicts that the German economy will contract by 4.2% over the full year. This aligns with comments made previously by the Federal Minister for Economic Affairs and Energy, Peter Altmaier, that the economic decline could be greater than that in 2009 following the Financial Crisis, when GDP dropped by 5.7% in one year.<sup>6</sup> Furthermore, a special report by the German Council of Economic Experts, published on 30 March 2020, predicts a fall in GDP of between 2.8% and 5.4% this year.<sup>7</sup>

In the face of such stark projections, the Federal Government has acted swiftly to agree on a rescue package worth more than €1.1 trillion – the largest such package in the history of the Federal Republic – to provide a so-called 'protective shield' for employees, the self-employed and businesses, and to maintain social cohesion.<sup>8</sup>

The scale of these measures aligns with the strong motivation of the Federal Government to ensure that the current recession is temporary. Such a package has been enabled by a decade of strong economic growth and a hitherto commitment to balanced budgets, or the so-called 'schwarze Null' ('Black Zero'). Furthermore, positive first signs of a slowdown in the rate of COVID-19 infection in Germany brought about by a proactive testing regime and social distancing restrictions have been referred to cautiously by Angela Merkel as "a fragile intermediate success",<sup>9</sup> leading to the announcement of the relaxation of restrictions for certain shops from 20 April 2020 and a staggered reopening of schools from 4 May 2020 onwards. However, since education policy is a competence delegated to Germany's Federal States, individual *Länder* have responded differently in this regard, with North Rhine Westphalia, Saxony, Berlin, Brandenburg, and Schleswig-Holstein opening schools for exam year pupils already on 20 April 2020.

## Differing Perspectives on Solidarity

The German domestic rescue package is based on the following four pillars: (1) A multibillion-euro assistance programme; (2) Tax-related assistance measures; (3) Measures to safeguard jobs; and (4) Joint European crisis management.<sup>10</sup> In particular, the fourth pillar acknowledges that Germany is aware of its responsibility in Europe and highlights that "the Federal Government, in close dialogue with its European partners, will interweave its coronavirus measures with those in Europe". While it references a "strengthening of European solidarity", the German Government's favoured approach to managing the economic fallout of COVID-19 does not involve the issuing of mutualised debt.

Meanwhile, the latter has consistently been identified by other European leaders, including the Italian Prime Minister,

5 Dienstleistungsauftrag des Bundesministeriums für Wirtschaft und Energie, Gemeinschaftsdiagnose #1-2020: Wirtschaft unter Schock – Finanzpolitik hält dagegen, 8 April 2020. [http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/04/GDF2020\\_V2\\_unkorrigierte\\_Langfassung.pdf](http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/04/GDF2020_V2_unkorrigierte_Langfassung.pdf)

6 Bundesministerium für Wirtschaft und Energie, 'Altmaier: Müssen mit tiefen Einschnitten beim Wirtschaftswachstum in diesem Jahr rechnen', 2 April 2020. <https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2020/20200402-altmaier-muessen-mit-tiefen-einschnitten-beim-wirtschaftswachstum-in-diesem-jahr-rechnen.html>

7 German Council of Economic Experts, Special Report 2020: The Economic Outlook in the Coronavirus Pandemic, 30 March 2020. <https://www.sachvers-taendigenrat-wirtschaft.de/en/special-report-2020.html>

8 Bundesministerium der Finanzen, 'Kampf gegen Corona: Größtes Hilfspaket in der Geschichte Deutschlands', 27 March 2020. <https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/Corona-Schutzschild/2020-03-13-Milliarden-Schutzschild-fuer-Deutschland.html>

9 Bundeskanzleramt, 'Pressekonferenz von Bundeskanzlerin Merkel, Bundesminister Scholz, Ministerpräsident Söder und dem Ersten Bürgermeister Tschentscher im Anschluss an das Gespräch mit den Regierungschefinnen und Regierungschefs der Länder', 15 April 2020. <https://www.bundeskanzlerin.de/bkin-de/aktuelles/pressekonferenz-von-bundeskanzlerin-merkel-bundesminister-scholz-ministerpraesident-soeder-und-dem-ersten-buergermeister-tschentscher-im-anschluss-an-das-gespraech-mit-den-regierungschefinnen-und-regierungschefs-der-laender-1744310>

10 Bundesministerium der Finanzen und Bundesministerium für Wirtschaft und Energie, 'Ein Schutzschild für Beschäftigte und Unternehmen', 27 March 2020. [https://www.bmwi.de/Redaktion/DE/Downloads/S-T/schutzschild-fuer-beschaeftigte-und-unternehmen.pdf?\\_\\_blob=publicationFile&v=14](https://www.bmwi.de/Redaktion/DE/Downloads/S-T/schutzschild-fuer-beschaeftigte-und-unternehmen.pdf?__blob=publicationFile&v=14)



Giuseppe Conte, and the French President, Emmanuel Macron, as the ultimate sign of solidarity, even following the agreement reached by Eurozone finance ministers on a rescue package worth €540 billion on 9 April 2020.

Indeed, the idea of corona bonds has faced strong domestic opposition in Germany. The Federal Minister for Economic Affairs and Energy, Peter Altmaier, referred to the idea in an interview on 24 March 2020 as a “phantom debate”. Markus Söder, the Bavarian Premier and leader of the sister party to Angela Merkel’s CDU, said in a video interview with the tabloid newspaper *Bild* on 8 April 2020 that Germany should give “a clear no to Eurobonds, but a clear yes to proportionate assistance through the ESM and other institutions”. In particular, Mr Söder argues that “Germany also has to take on new debt. Eurobonds would lead to a dramatic deterioration of our own debt situation and constrain our ability to act”. Chancellor Merkel has also consistently voiced her preference for the use of the ESM and other instruments over debt mutualisation.

Amongst the German population, polling conducted at the end of March indicated that nearly 65% of Germans are opposed to the idea of corona bonds, with opposition being strongest amongst voters of Angela Merkel’s Conservatives (CDU-CSU), the Liberal Democrats (FDP), the far-right Alternative für Deutschland (AfD), and those living in the former West Germany.<sup>11</sup> However, a more sophisticated survey conducted by the Max Planck Institute for the Study of Societies suggests that German citizens would be willing to agree to forms of debt mutualisation when given an opportunity to consider all aspects of the matter, including the impact on the German economy of a hypothetical exit of Italy from the Eurozone.<sup>12</sup>

Recent weeks have also seen an increasing number of German economists speak out in favour of corona bonds, including Michael Hüther, Head of the German Economic Institute in Cologne, who strongly opposed the idea of mutualised debt during the 2011 Eurozone Debt Crisis, but now views corona bonds as essential to ensure that Eurozone Member States spread the costs of the COVID-19 crisis as broadly as possible. In an interview with the *Tagesspiegel* on 31 March 2020, he stated that: “Without a common crisis bond, I see a grim future for the EU”. Meanwhile, the Head of the German Council of Economic Experts, Lars Feld, signalled on 30 March 2020 that the economic advisory body to Angela Merkel’s government had been unable to reach agreement on the issue.

While the stance of Germany’s political leadership on common European debt has differed from that of Italy, France and Spain, amongst others, there is a clear understanding in Berlin of the potential consequences of a severe economic downturn in those countries worst affected by the health impacts of COVID-19. Chancellor Merkel’s comments in a press conference on 6 April 2020 highlight that an effective European response is critical for the future of German producers: “It’s important to look at how intertwined our economies are and what happens when the free flow of trade isn’t guaranteed”.<sup>13</sup> Indeed, there is a great deal at stake, not least for Germany’s leading industry, the automobile sector, which is by far the largest importer of automotive parts and accessories made in Italy, while motor cars, in turn, represented 13.3% of Germany’s total exports in 2019, the largest share of any category of exported goods.

## Building Consensus at Home and in Europe

Against this backdrop, the days prior to the videoconference meeting of the Eurogroup on 7 April 2020 saw efforts in Berlin to change the perception of the willingness of those countries opposed to common debt issuance to show solidarity in response to the crisis. In particular, the vehemence of the Dutch response to calls for mutualised debt appeared to

11 Cicero, ‘Mehrheit gegen Corona-Bonds’, 31 March 2020. <https://www.cicero.de/wirtschaft/corona-bonds-eu-schuldentilgung-corona-krise>

12 Max Planck Institute for the Study of Societies, ‘German voters and Eurobonds’, 9 April 2020. [http://www.mpifg.de/forschung/forschung/themen/baccaro\\_coronabonds\\_en.asp](http://www.mpifg.de/forschung/forschung/themen/baccaro_coronabonds_en.asp)

13 Bundeskanzleramt, ‘Pressekonferenz von Bundeskanzlerin Merkel zu den Maßnahmen der Bundesregierung im Zusammenhang mit dem Coronavirus’, 6 April 2020. <https://www.bundeskanzlerin.de/bkin-de/aktuelles/pressekonferenz-von-bundeskanzlerin-merkel-zu-den-massnahmen-der-bundesregierung-im-zusammenhang-mit-dem-coronavirus-1739654>



prompt the German Finance Minister, Olaf Scholz, to write in an internal paper dated 31 March 2020 that “now is not the time for allegations and accusations with regard to the economic policy of individual Member States in the past. Now is the time for European solidarity”.<sup>14</sup> Building on this narrative, a joint op-ed by Minister Scholz and German Minister for Foreign Affairs, Heiko Maas, published on 6 April 2020 in different language versions in France, Italy, Spain, Portugal and Greece, states that “Member States have varying financial capabilities with which to respond to this economic crisis, for which nobody is to blame”, thereby attempting to rally support for the type of European response favoured by the Federal Government.<sup>15</sup>

Indeed, both of these contributions outline the policy measures favoured by the Federal Government to respond to the crisis on a European level, which, in turn, align strongly with those agreed by Eurozone finance ministers on 9 April 2020 following a lengthy Eurogroup meeting:<sup>16</sup>

- First, the German proposal favoured the use of credit lines from the European Stability Mechanism (ESM) to enable Member States to spend up to 2% of their GDP to tackle the health consequences of the pandemic without attaching strict macroeconomic conditions to the use of such a mechanism.
- Second, the proposed Pan-European Guarantee Fund to provide liquidity for small and medium-sized enterprises is of great importance to Germany given that such firms – referred to as the *Mittelstand* – represent the heart of the German economy, accounting for the largest share of the country's economic output.
- Third, the idea of a European Unemployment Reinsurance Scheme, which has now manifested in a temporary form as the SURE scheme (Support to mitigate Unemployment Risks in an Emergency), had already been proposed by Olaf Scholz in October 2018 as a way to protect the Eurozone from future crises.

It is noteworthy that the authors of the joint op-ed outlining Germany's favoured response were the two most senior Social Democrat (SPD) ministers in the German cabinet. Indeed, while Angela Merkel (CDU) confirmed in a press conference on 6 April 2020 that the position outlined by Ministers Scholz and Maas represented that of the Federal Government, Markus Söder (CSU) responded cautiously in a video interview on 8 April 2020 with tabloid newspaper *Bild* to a question on whether the article signalled a disagreement within Chancellor Merkel's grand coalition: “My belief is that the Federal Government is unified on this, including the Federal Finance Minister. I must admit, I was a little surprised by this article because in such a sensitive situation, the Government must speak with one voice, represented by the Chancellor.” However, his tone changed following the agreement reached by the Eurozone finance ministers on 9 April 2020, with Mr Söder voicing great praise for Minister Scholz and the “excellent once-off economic programme put forward in Europe”. Indeed, comments on the coronavirus crisis by the Bavarian Premier are attracting increasing attention, with his approval ratings soaring to new highs in recent weeks, surpassing even those of Angela Merkel. This, in turn, has ignited much speculation that he may even run to succeed her as Federal Chancellor in the autumn 2021 election, despite the fact that he has repeatedly denied that he will compete for the top position in the Federal Government.

During the meeting of Eurozone finance ministers between 7-9 April 2020, the German Finance Minister, Olaf Scholz, and his French counterpart, Bruno Le Maire, played a key role in brokering a compromise between the opposing Dutch and Italian positions on corona bonds. While there had been broad approval in Germany for the main pillars of the package agreed during this meeting, difficult questions remained surrounding the proposed Recovery Fund, particularly in relation to its size and how it would be financed. While no explicit reference was made to common debt issuance, the final text of the Eurogroup's conclusions referred to “innovative financial instruments” – a formulation that facilitated

14 Olaf Scholz, ‘Für eine starke gemeinsame europäische Antwort auf die wirtschaftlichen Herausforderungen der Corona-Krise’, 31 March 2020. [https://www.politico.eu/wp-content/uploads/2020/04/EU\\_Corona\\_Massnahmenpapier-31.3.2020.pdf](https://www.politico.eu/wp-content/uploads/2020/04/EU_Corona_Massnahmenpapier-31.3.2020.pdf)

15 Federal Foreign Office, ‘A response to the corona crisis in Europe based on solidarity’, 5 April 2020. <https://www.auswaertiges-amt.de/en/newsroom/news/maas-scholz-corona/2330904>

16 Eurogroup, ‘Report on the comprehensive economic policy response to the COVID-19 pandemic’, 9 April 2020. <https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/>





varying interpretations and arguably offered hope to Italy, amongst others, that corona bonds may still be a possibility.

However, in a press conference on 20 April 2020, Angela Merkel first stated her preference to use the solidarity clause provided for in Article 122, Paragraph 2 of the Treaty on the Functioning of the European Union, as a means to fund the additional forms of financial assistance for Member States envisaged under the Recovery Fund.<sup>17</sup> This proposal would see bonds issued by the Commission, based on financial guarantees provided by Member States through the European budget. While this new openness to additional EU debt instruments signalled a slight change in course from the Chancellor, it remains crucial for Germany that such an instrument would be temporary and would not imply the same level of shared risk between Member States implied by corona bonds. Furthermore, Angela Merkel emphasised that her favoured proposal would provide a much faster response to the pandemic as it could be mobilised within the framework of the existing European treaties.

In advance of a crucial video conference meeting of the European Council on 23 April 2020, Chancellor Merkel outlined the position she would represent in negotiating the EU's economic response to the COVID-19 crisis in an address to the Bundestag.<sup>18</sup> Ultimately, her position closely aligned with the conclusions reached following the European Council meeting, as communicated by the President of the European Council, Charles Michel:<sup>19</sup>

- First, Angela Merkel voiced a desire for the measures in the rescue package agreed by the Eurogroup on 9 April 2020 to be operational by 1 June 2020, a date which was later agreed upon by EU leaders during the video conference meeting of the European Council.
- Second, the Chancellor reiterated her view that the Recovery Fund should be linked to the multiannual financial framework (MFF). This link is set to be central to the proposal that the Commission has been tasked to urgently come up with by the European Council.
- Third, in order to finance the Recovery Fund, Chancellor Merkel emphasised that Germany should be willing to considerably increase its contribution to the European budget for a limited period of time to facilitate the operation of the Recovery Fund. In turn, this aligns with comments made by Ursula von der Leyen following the European Council meeting that the Recovery Fund she envisages will likely require the MFF to have an Own Resources ceiling of 2% of GNI for two to three years instead of the current 1.2%.

While Charles Michel commented that there was a strong political will amongst leaders to work together to reach a compromise during the European Council meeting on 23 April 2020, the proposed link between the MFF and the Recovery Fund has yet to be clarified. Furthermore, it appears that Member States differ over whether support should be provided through loans or grants, with Germany and others supporting the former, and France joining Italy in voicing strong support for the latter. The negotiations that will follow the Commission's proposal for the operation of the Recovery Fund are likely to be challenging, and it cannot yet be said that the debate around mutualised debt has been brought to a conclusion. As a result, the coming weeks will be a test of the Chancellor's ability to match calls for European solidarity in Germany with concrete actions that will both respond to the needs of EU Member States most affected by COVID-19 and ease tensions following a highly emotionalised debate which has not been positive for the reputation of the Eurozone.

## Challenges for the German Presidency of the Council of the EU

A further test of Germany's leadership in a time of crisis will come when it assumes the Presidency of the Council of the

<sup>17</sup> Bundeskanzleramt, 'Pressekonferenz von Bundeskanzlerin Merkel', 20 April 2020. <https://www.bundeskanzlerin.de/bkin-de/aktuelles/pressekonferenz-von-bundeskanzlerin-merkel-1745362>

<sup>18</sup> Bundeskanzleramt, 'Regierungserklärung von Bundeskanzlerin Merkel', 23 April 2020. <https://www.bundeskanzlerin.de/bkin-de/aktuelles/regierungserklaerung-von-bundeskanzlerin-merkel-1746554>

<sup>19</sup> European Council, 'Conclusions of the President of the European Council following the video conference of the members of the European Council', 23 April 2020. <https://www.consilium.europa.eu/en/press/press-releases/2020/04/23/conclusions-by-president-charles-michel-following-the-video-conference-with-members-of-the-european-council-on-23-april-2020/>



EU on 1 July 2020. Given the central role the European budget is set to play in the European Recovery Fund, reaching agreement on a new and larger MFF will be a central priority for the German Presidency. This point has been highlighted by Heiko Maas on 12 April 2020 in an opinion piece in *Welt am Sonntag*, in which he states that Germany's Presidency will be a "Corona Presidency". In particular, Minister Maas highlights that the new European budget should focus on investments in innovation, climate action, digital sovereignty and crisis-proof healthcare and social systems.

Indeed, the COVID-19 crisis is likely to precipitate an unavoidable shift in priorities for the German Presidency. While issues such as climate action and digitalisation are expected to maintain a significant level of importance due to the fact that they have been identified by the Commission and the Council as central drivers of Europe's recovery, previously planned priorities including the impact of Brexit and EU-China relations will inevitably be superseded by the need to reach consensus on a recovery plan. The health sector is likely to become an important theme for the German Presidency, with a recent draft programme highlighting plans to progress a new European pharmaceutical strategy.

Furthermore, reaching agreement on how to lift the restrictive measures introduced in all Member States and address developments such as those in Hungary, where Prime Minister Viktor Orbán won a vote in parliament on 30 March 2020 to rule by decree for an undefined period of time, will be of central importance. Reflecting the concerns of EU leaders on this issue, the German Minister of State for European Affairs, Michael Roth, noted in a press conference on 22 April 2020 that the strengthening and preservation of the Rule of Law in the EU will be a defining element of the German Presidency. In particular, he highlighted a plan to facilitate agreement on two key instruments. The first of these is a mechanism by which the receipt of EU funds could be restricted for Member States that are deemed to violate or undermine the EU's Rule of Law principle, while the second is a dialogue to arrive at a common understanding on the meaning of the Rule of Law and to examine the status of this founding value in each of the individual Member States.

In any case, travel restrictions and social distancing measures will present the German Presidency with significant logistical challenges in leading progress on a revised set of priorities. In a leaked letter dated 6 April 2020 to the Federal Chancellery and a variety of Federal Ministries, Germany's Ambassador to the EU, Michael Clauß, warned that the German Presidency will not be able to take place as originally planned, noting that: "From now on, the focus will be on the ability of the European institutions to act, crisis management, exit and reconstruction – possibly even maintaining EU integration itself." Without naming specific issues, the letter highlights that those "which were a high priority yesterday, will inevitably be overshadowed or completely pushed into the background".

## Conclusion

In the face of a challenge as great as COVID-19 and its impact on European economies and societies, Germany has a crucial role to play in ensuring that the EU emerges from its current crisis stronger and more united than before. While Germany's political leaders have emphasised the need to demonstrate solidarity with their European partners, this is more than just a display of empathy with those countries worst affected by the crisis. Ultimately, the ability of other Member States to withstand the economic impact of COVID-19 is in Germany's strategic interest as a matter of economic rationality. Germany's domestic rescue package currently dwarfs that on the table at the European level, highlighting its strong ability to weather the economic storm at a national level. However, these efforts will be wasted if the European export markets upon which German prosperity relies do not have the capacity to recover to the same extent.

The slow response of the EU institutions at the earliest stages of the pandemic and the occasionally virulent debate on corona bonds that has since ensued has arguably done significant damage to the reputation of the Union in Italy and other Member States. In recognising this, German Finance Minister, Olaf Scholz, and his French counterpart, Bruno Le Maire, have already played a key role in brokering a compromise between the opposing Dutch and Italian positions during the Eurogroup meeting between 7-9 April 2020. Angela Merkel can be expected to take recourse to the Franco-German



alliance and build on this intermediate success in advance of the negotiations that will follow the Commission's proposal for a European Recovery Fund. Germany's Council Presidency coincides with a time in which some of the boldest decisions in the recent history of the EU are required. The extent to which Germany can overcome the barriers standing in the way of reaching the necessary agreement on an ambitious European budget and concrete actions to progress the EU's climate and digital agendas will be the ultimate yardstick of its success.

*This briefing is part of the Future of the EU27 Project, supported by the Department of Foreign Affairs and Trade.*



The Institute of International and European Affairs (IIEA) is Ireland's leading international affairs think tank. Founded in 1991, its mission is to foster and shape political, policy and public discourse in order to broaden awareness of international and European issues in Ireland and contribute to more informed strategic decisions by political, business and civil society leaders.

The IIEA is independent of government and all political parties and is a not-for-profit organisation with charitable status. In January 2017, the Global Go To Think Tank Index ranked the IIEA as Ireland's top think tank.

© Institute of International and European Affairs, April 2020.

Creative Commons License

This is a human-readable summary of (and not a substitute for) the license.

[https://creativecommons.org/licenses/Attribution-NonCommercial-ShareAlike 4.0 International \(CC BY-NC-SA 4.0\)](https://creativecommons.org/licenses/Attribution-NonCommercial-ShareAlike 4.0 International (CC BY-NC-SA 4.0))

You are free to:

- Share - copy and redistribute the material in any medium or format
- Adapt - remix, transform, and build upon the material
- The licensor cannot revoke these freedoms as long as you follow the license terms.

Under the following terms:

Attribution — You must give appropriate credit, provide a link to the license, and indicate if changes were made. You may do so in any reasonable manner, but not in any way that suggests the licensor endorses you or your use.

NonCommercial — You may not use the material for commercial purposes.

ShareAlike — If you remix, transform, or build upon the material, you must distribute your contributions under the same license as the original.

No additional restrictions — You may not apply legal terms or technological measures that legally restrict others from doing anything the license permits.

As an independent forum, the Institute does not express opinions of its own. The views expressed in this publication are those of the author.



**The Institute of International and European Affairs,**

8 North Great Georges Street, Dublin 1, Ireland

T: +353-1-8746756 F: +353-1-8786880

E: [reception@iiea.com](mailto:reception@iiea.com) W: [www.iiea.com](http://www.iiea.com)