EUROPEAN UNION
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Review No 06/2020: Risks, challenges and opportunities in the EU's economic policy response to the COVID-19 crisis

Review

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FULL REPORT (OFFICIAL EU LANGUAGES)

What we assessed and why

The COVID-19 pandemic has forced EU Member States to shut down a substantial part of their economies. In May 2020, it was estimated that EU real GDP would contract by 7.4 % in 2020. In order to flatten the curve of the pandemic and to limit and counter the economic damage, the EU and its Member States implemented a variety of measures. Although the EU has a leading coordinating role in enabling measures targeted at economic damage control and recovery, such measures are decided and mainly implemented at national level.

As a basis for informed decisions on implementing new and adjusting existing measures, it is essential to understand how the EU as a whole reacted to the ongoing pandemic. To this end, the review provides an independent overview of the relevant economic actions taken nationally (until July 2020) and at EU level (until October 2020). We first collected and systematically analysed all publicly available information and data, and then assessed the various measures launched at EU level and in the Member States, identifying possible risks, challenges and opportunities for future EU economic policy coordination.

What we found

Governments adopted a wide range of discretionary fiscal measures accounting for about €3.5 trillion, generally in line with the EU's crisis policy guidelines, i.e. job retention schemes and state aid to provide liquidity support to businesses. The composition and the relative size of national packages varied significantly between Member States. While they have effectively mitigated unemployment risks during lockdowns, they will considerably raise public debt levels.

The EU's response consisted of measures in support of national efforts to manage the crisis:

- rapid monetary intervention by the European Central Bank, accompanied by:
  - use of the flexibility available in EU fiscal and state aid rules;
  - ad-hoc economic policy guidelines;
  - redirection of the EU budget towards crisis response measures;

- the creation of safety nets to provide targeted lending support:
  - to governments through the Commission (SURE and the European Stability Mechanism);
  - to businesses through the European Investment Bank;
- the development of larger support instruments, of which the NGEU[1] (worth €750 billion) is the largest and most important. Its centrepiece is the Recovery and Resilience Facility, aimed at addressing economic divergence risks and anchoring the recovery to the EU's green and digital strategies.

What we concluded

The set of measures at Member State and EU levels creates risks and challenges for the coordination and implementation of EU economic policy, and for the sound financial management of EU funds:

- Member States' fiscal packages trigger new challenges for the EU authorities responsible for surveillance of fiscal positions, the internal market, labour markets and the financial sector.
- There is a risk of a further widening of the economic gap between Member States, as their crisis-response capacity has differed widely, depending on their pre-existing economic conditions.
- The effectiveness of the newly proposed recovery facility risks being impaired if:
  - its financial structure and the monitoring and accountability framework are not adequate;
  - recovery plans are not properly coordinated and do not focus on growth enhancing reforms and investments;
  - implementation is not timely and/or absorption levels are low.
- The Commission will face the challenge of managing the financial risk of large- scale EU transactions on capital markets.
- The EU's economic response to the COVID-19 crisis also presents opportunities:
  - The implementation of the financial response to the economic crisis is ongoing but may mean a strengthened role for the EU institutions in managing the EU's economic recovery.
  - The creation of new temporary funds such as SURE and the NGEU presents an opportunity to reflect on permanent improvements to the EU's budgetary capacity to react to major economic shocks and mitigate the ensuing economic divergence among Member States.
  - Additional funding also provides a significant opportunity to promote EU priorities such as sustainable development and digitalisation, provided actions are carefully designed and thoroughly monitored under the European Semester.

[1] Not yet operational at the time the review was completed.

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