Briefing
CCCEU acts as a responsible bridge-builder in Europe

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Assessments and Recommendations

The EU's first 50-day economic policy portfolio against COVID-19

Since January, the China Chamber of Commerce to the EU (CCCEU) has been closely following how the COVID-19 pandemic affects the business environment, not only in China and Europe but also across the globe. At the same time, we offered a helping hand to mobilise resources to respond to the crisis which has claimed thousands of lives worldwide.

In its February Policy Briefing, the Brussels-based Chamber, which represents up to 1,000 Chinese businesses in Europe, reviewed China's response to the outbreak and proposed a set of suggestions to strengthen bilateral cooperation by further deepening the bonds forged between China and Europe in responding to the crisis.

In this issue of the monthly Policy Briefing, the CCCEU aims to take stock of EU institutions' economic response package in dealing with the pandemic and make a preliminary assessment on how it will bring further changes to businesses in Europe. Even with the pandemic in Europe still unfolding and taking a heavy toll, the EU has already announced dual road maps for gradually lifting containment measures and starting the economic recovery. The CCCEU research team will keep track of how global supply chains have been disrupted and are gradually reconnecting, and keep its members and stakeholders well-informed of risks, challenges and opportunities.

When reviewing the measures and actions taken by European institutions, it is essential to refer to the principle of subsidiarity, a milestone in European Union law. It is also a reminder that this Policy Briefing has not covered the dominant role of the member states of the bloc in the unprecedented battle against COVID-19 where numerous heroes are sacrificing their lives, many are still suffering in lockdown and the response measures put in place.

Policy portfolio review

Over the past two months, the EU institutions and national governments in Member states adopted diverse measures to limit the disruptions brought by the lockdown and the suspension of economic activities, and to keep the European economy running, nonetheless. Altogether, the measures are meant to create an Economic Response Package which should work as a safety net of liquidity to protect countries, companies and workers from the impact of COVID-19.

Among all the European institutions, the European Council, which defines the EU's overall political direction and priorities, is worthy of being closely observed, together with the European Commission, the bloc's executive arm.

When China was in its worst time in fighting against COVID-19 in February, the European Council convened on 20-21 February and the leaders met in persons in Brussels. At that time, the EU's agenda was topped by the long-term budget for 2021-2027 - an overall proposal of €1087 billion, representing 1.07% of the gross national income (GNI) of the EU27 - and the worsening situation in Syria. By the end of February, Italy had reported about 1,000 cases of COVID-19 infections while many EU countries had more or less seen the outbreak of the virus, quickly contagious despite not being very deadly.

From the European institutions' public agenda, the leaders of European Council only had a chance to hold a meeting together to discuss emergency response package on 10 March. But they could not fly to Brussels and had to discuss through video conferences. By now, they have already met four times this way, in addition to another two meetings in March and 23 April.

Considering the first video conference on March 10 as starting point of EU-level response, it is meaningful to investigate how the European Union coordinates the responses, from an economic policy point of view, to inject confidence, liquidity, aid and stimulus during the lockdown and in the initial stage of recovery, for the past fifty days. Carefully examining the EU countermeasures to the COVID-19-provoked shock, we found that it has evolved alongside the unfolding of the pandemic. In a first moment, the EU institutions focused on the relaxation of budgetary requirements for member states and of state-aid rules.

On 13 March, the Commission proposed a €37 billion fund under a cohesion policy. Under this new initiative, on 1 April, the Commission set up a €37 billion *Coronavirus Response Investment Initiative* to provide liquidity to small businesses and the healthcare sector. The Commission proposed to relinquish its obligation to ask member states to refund unspent pre-financing for structural funds in 2020. This amounts to about €8 billion from the EU budget to supplement €29 billion of structural funding across the EU. This adds to the unallocated €28 billion of cohesion policy funding for the period 2014-2020, for a total of €65 billion.

In parallel, on 19 March, the Commission adopted a *Temporary Framework for State Aid* to expedite public support to companies and relaxed EU competition rules. As a result, member states can support specific companies affected by the pandemic or invest in strategic sectors, such as the production of medical equipment. Actions taken under these relaxed competition rules will help ensure that businesses can keep operating or temporarily freeze their activity without implications for their long-term growth.

On 23 March, finance ministers agreed to activate the general escape clause in the Stability and Growth Pact as a response to the severe economic downturn in the euro area and the EU as a whole. The temporary suspension of strict EU budgetary requirements allows national governments to use budgets to support the economy by easing debt and deficit levels. Thus, it grants the flexibility to invest beyond the tight public expenditure ceiling in the Stability and Growth Pact.

On 2 April, the Commission proposed the *Coronavirus Response Investment Initiative Plus (CRII+),* which introduces extraordinary flexibility to allow all non-utilised support from the European Structural and Investment Funds to be mobilised to the fullest. The Commission also suggested enlarging the scope of the *European Union Solidarity Fund (EUSF)*, which was set up to respond to major natural

As a result, the Solidarity Fund may be mobilised at the request of a EU country, or a country involved in accession negotiations with the EU, if the country has spent more than 0.3% of its Gross National Income for emergency response measures to support the population and limit the spread of the disease during the first 4 months from the date of the first public action against the crisis.

The Core of the Package

Since the previous measures are not enough to prevent an economic recession, or even a depression, EU institutions adopted a €540 billion Economic Response Package, which include:

- ***Credit lines from the European Stability Mechanism***

Established in 2012 as a permanent rescue fund for the eurozone, the European Stability Mechanism (ESM) provides instant access to financial assistance programmes for member states in financial difficulty, with a maximum lending capacity of €500 billion.

As a result of the crisis, member states can apply for soft loans via temporary credit lines under Pandemic Crisis Support up to a total of €240 billion. After a tense debate in the eurogroup, the ministers agreed that these ESM loans will not have stricter conditionality rules, but will be provided under standard rules but the money should be used only for costs related to the COVID-19 crisis.

- ***EIB Corona Fund***

The European Investment Bank (EIB) also took action by creating a Corona Fund of €25 billion in the form of guarantees. The EIB Group, alongside the European Investment Fund which specialises in support for SMEs, proposed the financing package to alleviate liquidity and working capital constraints for SMEs and mid-caps. This pan-European guarantee fund can support up to €200 billion in loans for companies, with a focus on SMEs.

In addition, on 23 April, the EIB approved a €75 million equity investment in the Germany-based biotech company CureVac to develop and produce an experimental coronavirus vaccine.

- ***The SURE initiative***

The survival of SMEs and the well-being of citizens economically hit by COVID-19 are essential for the European economy. In order to safeguard both, the EU Commission adopted specific measures. On 2 April, the Commission launched the temporary *Support mitigating Unemployment Risks in Emergency (SURE)* initiative, which will provide financial assistance to member states for a total of €100 billion in loans granted on favourable terms. These loans will help cover the costs of national short-time work schemes allowing firms to reduce working hours while providing income support. The SURE initiative will help sustain household incomes while preserving productive capacity and human capital.

On 6 April, the Commission decided to make €8 billion available to provide immediate financial relief to SMEs across the EU. The Commission also unlocked €1 billion from the European Fund for Strategic Investments as guarantee to the European Investment Fund in incentivising local banks to provide liquidity to at least 100,000 European SMEs.

- ***Monetary Policy by the ECB***

The European Central Bank (ECB) took resolute action to support liquidity and financing to households, businesses and banks to preserve the smooth provision of credit to the economy. On 12 March, the ECB Supervisory Board decided to provide temporary capital and operational relief to ensure that banks directly supervised by the ECB can continue to fulfill their role in funding the real economy. The same day, the ECB Governing Council adopted a comprehensive package of monetary policy measures, including additional longer-term refinancing operations to provide immediate liquidity support to the eurozone financial system, and a temporary envelope of additional net asset purchases amounting to €120 billion until the end of 2020.

On 18 March, the ECB launched the *Pandemic Emergency Purchase Programme (PEPP)* with to expand the range of eligible assets under the corporate sector purchase programme (CSPP) and to ease collateral standards. The new temporary asset purchase programme aims at ensuring that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb the COVID-19 shock. The PEPP provides an envelope of €750 billion until the end of 2020 in addition to the €120 billion decided on 12 March: together, this amounts to 7.3% of the eurozone's GDP.

The Recovery Plan

Due to the 2008-09 financial crisis, the EU economy fell by 4.3% in 2009. As the damage wrought by the COVID-19 crisis will be greater, EU institutions and member states are discussing steps for a full recovery of the European economy after the pandemic.

The European Commission has tried to bring together the different stances by releasing the Joint European Roadmap towards lifting of COVID-19 containment measures on 15 April 2020, and the Joint Roadmap for Recovery on 22 April. Although it provides common principles and recommendations, the former has been criticized because it fails to set concrete coordination among the different measures which will be undertaken to lift the lockdown. The latter was the object of the European Council meeting on 23 April.

Both documents were presented to the European Council, which welcomed them and stressed the importance of the principle highlighted by the Commission, such as solidarity, cohesion and convergence. The Joint Roadmap for Recovery also defines four key areas for action: a fully functioning Single Market, an unprecedented investment effort, acting globally, and a functioning system of governance. Overall, the document lays the foundations for the actions to be implemented in the upcoming months, but it does not contain any specifics about the implementation of these principles and key areas.

Although the leadership at both EU and national level agree on the necessity of the Recovery Plan, the concrete form it will take and the financing measures to be adopted are still to be decided. Over the past weeks, a group of nine countries led by Italy, France and Spain demanded the creation of corona-bonds, but the proposal faces strong opposition from the so-called Frugal Four (Germany, the Netherlands, Finland and Austria), which aims at excluding any form of debt mutualisation or shared liability.

Assessment and initial recommendations

In Europe, the COVID-19 pandemic came as an unprecedented challenge with very severe socioeconomic consequences, which, as the IMF forecasts, would be the biggest setback since the 1929-33 Great Depression.

With the OECD modelling that a one-month standstill containment would lead to a 2% drop in GDP, the CCCEU estimates that the EU economy will plunge by more than 2% in the first quarter of 2020 and shrink by around 8-10% for the whole year, if all lockdown restrictions are lifted by the end of August. In 2009, during the global financial crisis, the EU economy shrank by 4.3%.

Fiscal tools are urgently needed to stimulate growth and recovery. As a result of the European Council meeting, the Commission was asked to present an updated version of the MFF at the next meeting on 6 May, alongside a plan to finance the Roadmap for Recovery. In less than 15 days, the Commission will need to elaborate both proposals, which are expected to include financing for a recovery initiative totaling as much as €2 trillion, half of which goes to the MFF. The MFF for 2014-2020 enables the European Union to spend up to €959.51 billion in commitments and €908.40 billion in payments over the course of its duration. It has been a prolonged process to define the seven-year budget and it is fully understandable in the aftermath of the UK leaving EU.

Recent figures from Europe show that before Covid-19, the EU's unemployment rates differed from region to region, ranging from 1.6% to 60% while, on average, the bloc's economy was expected grow at less than 2% in the next two years. In the CCCEU Policy Briefing in January, we proposed a golden decade of green and inclusive growth could be achieved with an increased target of 1-2% points.

The CCCEU has found that many European regions with high unemployment rates in 2019 have suffered most during the COVID-19 catastrophe. When the EU considers its recovery plan, swift help for livelihoods and creation of jobs in the regions should top the agenda.

The EU, with 27 members and 440 million citizens, is a single market without borders. Many countries have announced plans to gradually lift containment measures, which were imposed on 18 March at the European level, but many have said they may not allow their borders to reopen until October or November. This is detrimental to the return to normality of the single market, which hinders free flows of people and disrupts production on the supply side and consumption from the demand side, which will dent hopes of recovery. Not to mention how border closures affect tourism on which several countries, such as Italy, Spain and France, are heavily dependent.

The CCCEU assesses that, from May to August, EU economic activities can gradually increase by up to 60% from the current standstill only if the daily increase in new cases and severely contagious cases are under reasonable control. A recent survey of Belgian parents found that seven out of 10 are not willing to send their children to school now due to the severity of COVID-19. If the children are at home, it leads to difficulty in parents returning to work and resuming economic activity. But if the children are at school, there is a risk of new waves of infection. A nudging approach is needed in phasing out lockdown to deal with such policy dilemmas.

The CCCEU is well aware that when the EU works on its economic recovery roadmap, it aims to realize green and digital transformation to modernize its economy with the first-mover advantage. The EU is cognizant of its role as a global actor willing to shoulder particular responsibility to help frame a global response through multilateralism and a rules-based international order, with its partners in the UN, the WTO, the G20 and the G7. It considers re-establishing trade flows and supply routes as being of the utmost importance.

But we also notice that the EU has put emphasis on the importance of strategic autonomy, stricter enforcement of foreign investment screening and a level playing field. Rising to fight the pandemic, we are delighted to see the humanitarian side of people around the world helping each other. It is a pity that much time and energy have been wasted in containing a political virus instead of saving lives. We are concerned that EU measures in realizing strategic autonomy may be at risk of being politicized and delay its goal of forging public-private partnerships and channeling "unprecedented massive investment" in its economic recovery road map.

Since early indications are that the severity of economic pain in the EU in 2020 will be twice as much as in 2009, it is critical for European politicians to double their determination and readiness to be open and be champions of global cooperation.

In earlier G20 summits, leaders agreed to refrain from imposing any protection measures on trade and investment flows. This is much-needed advice for the EU to advocate globally.

About CCCEU and Briefing

This document was produced by the research team of the China Chamber of Commerce to the EU (CCCEU), with valuable contributions from external experts and our members, which we warmly thank. The CCCEU is a platform between China and the European Union, which serves the best interests of Chinese enterprises investing in the EU. Established in August 2018, the CCCEU speaks on behalf of its 60 members and represents more than a thousand Chinese enterprises in the EU.

All previous CCCEU briefings are available in the Publications section on the CCCEU website (en.ccceu.eu).

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