The EU economic response to the COVID-19 crisis: an overview

#StrongerTogether #NextGenerationEU
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3. Next Generation EU: reprepare and prepare
A crisis without precedent

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A major recession, an incomplete recovery

Autumn Economic Forecast, November 2020

<table>
<thead>
<tr>
<th>GROSS DOMESTIC PRODUCT</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURO AREA</td>
<td>1.3%</td>
<td>-7.8%</td>
<td>4.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>EU</td>
<td>1.5%</td>
<td>-7.4%</td>
<td>4.1%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>
Divergences across countries (1)

Autumn Economic Forecast, November 2020

[Maps showing economic performance across countries for 2020 and 2021, with color codes for GDP growth rates.]
Divergences across countries (2)

GDP levels forecast for 2022 vs levels before the pandemic (2019)
Rise in unemployment despite strong measures

Autumn Economic Forecast, November 2020

<table>
<thead>
<tr>
<th>UNEMPLOYMENT RATE</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>EURO AREA</td>
<td>7.5%</td>
<td>8.3%</td>
<td>9.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>EU</td>
<td>6.7%</td>
<td>7.7%</td>
<td>8.6%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>
Since the autumn

Positive news

- Progress on vaccination
- Final deal on future EU budget
- Brexit deal

Negative news

- Impact and duration of the pandemic
- Emergence of new strains
- Necessity of severe lockdown measures
The EU economic response

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Three immediate steps

1. **Emergency response**
   - 13 March: COM: Corona Response Investment Initiative (EU Cohesion Funds)
   - 18 March: ECB: Pandemic Emergency Purchase Programme
   - 19 March: COM: adoption of temporary framework for State aid rules
   - 20 March: COM: General Escape Clause of Stability & Growth Pact

2. **New firewalls**
   - 2 April: COM: SURE proposal on short-time work
   - Early April: ESM & EIB: proposal of new crisis response tools
   - 9 April: Eurogroup: agreement in principle on 3 instruments (SURE, ESM, EIB)
   - 23 April: European Council: confirms deal & calls for implementation by 1 June

3. **Recovery Plan**
   - 6 May: COM: Spring Economic Forecast
   - 20 May: COM: European Semester recommendations
   - 27 May: COM: Recovery Plan “Next Generation EU” and revised MFF
   - 21 July: European Council: Agreement on MFF & Next Generation EU
Overview of the EU response

State aid & financial rules
- liquidity to economy
- support to SMEs & jobs
- insolvency frameworks, etc.

Additional safety nets
- SURE: €100 billion for workers
- EIB: €200 bn for companies
- ESM: €240 bn for sovereigns

ECB measures

Recovery Plan for Europe
- €750 bn Next Generation EU
- €1074 bn long-term EU budget

Budgetary flexibility
- escape clause of the Pact
- maximum flexibility

Coronavirus Response Investment Initiative
- unspent cohesion policy funds
- transfers between funds & regions
Overview of national responses

- circa 4% GDP of fiscal stimulus (discretionary budgetary support)
- circa 20% GDP in guarantees and liquidity measures
- circa 40 million workers filing for short-time work schemes
Next Generation EU: repair and prepare

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### MFF* 2021–2027 total allocations per heading

<table>
<thead>
<tr>
<th>Heading</th>
<th>MFF 2021–2027</th>
<th>Next Generation EU</th>
<th>TOTAL 2021–2027</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1. Single Market, Innovation and Digital</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Horizon Europe</td>
<td>75.9</td>
<td>5.0</td>
<td>80.9</td>
</tr>
<tr>
<td>InvestEU fund</td>
<td>2.8</td>
<td>5.6</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>2. Cohesion and Values</strong></td>
<td><strong>377.8</strong></td>
<td><strong>721.9</strong></td>
<td><strong>1099.7</strong></td>
</tr>
<tr>
<td>Cohesion Policy</td>
<td>330.2</td>
<td>47.5</td>
<td>377.7</td>
</tr>
<tr>
<td>Recovery and Resilience Facility (incl. Technical Support)</td>
<td>0.8</td>
<td>672.5</td>
<td>673.3</td>
</tr>
<tr>
<td>- Of which LOANS</td>
<td>-</td>
<td>360.0</td>
<td>360.0</td>
</tr>
<tr>
<td>- Of which GRANTS</td>
<td>-</td>
<td>312.5</td>
<td>312.5</td>
</tr>
<tr>
<td>Union Civil Protection Mechanism (rescEU)</td>
<td>1.1</td>
<td>1.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Health programme, EU4Health</td>
<td>1.7</td>
<td>-</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>3. Natural Resources and Environment</strong></td>
<td><strong>356.4</strong></td>
<td><strong>17.5</strong></td>
<td><strong>373.9</strong></td>
</tr>
<tr>
<td>Common Agricultural Policy</td>
<td>336.4</td>
<td>7.5</td>
<td>343.9</td>
</tr>
<tr>
<td>Of which Pillar II (Rural Development)</td>
<td>77.9</td>
<td>7.5</td>
<td>85.4</td>
</tr>
<tr>
<td>Just Transition Fund</td>
<td>7.5</td>
<td>10.0</td>
<td>17.5</td>
</tr>
<tr>
<td><strong>4. Migration and Border Management</strong></td>
<td><strong>22.7</strong></td>
<td>-</td>
<td><strong>22.7</strong></td>
</tr>
<tr>
<td><strong>5. Security and Defence</strong></td>
<td><strong>13.2</strong></td>
<td>-</td>
<td><strong>13.2</strong></td>
</tr>
<tr>
<td><strong>6. Neighbourhood and the World</strong></td>
<td><strong>98.4</strong></td>
<td>-</td>
<td><strong>98.4</strong></td>
</tr>
<tr>
<td>Neighbourhood, Development and International Cooperation</td>
<td>70.8</td>
<td>-</td>
<td>70.8</td>
</tr>
<tr>
<td>Humanitarian Aid</td>
<td>9.8</td>
<td>-</td>
<td>9.8</td>
</tr>
<tr>
<td><strong>7. European Public Administration</strong></td>
<td><strong>73.1</strong></td>
<td>-</td>
<td><strong>73.1</strong></td>
</tr>
<tr>
<td><strong>TOTAL MFF</strong></td>
<td><strong>1 074.3</strong></td>
<td><strong>750.0</strong></td>
<td><strong>1 824.3</strong></td>
</tr>
</tbody>
</table>

* MFF: Multiannual Financial Framework (the EU long-term budget)
Financing the needs

Exceptional and temporary increase of own resources ceiling of the EU budget

Larger « headroom »
(Own Resources Decision)

Commission
borrowing on
capital market

EU funds and programmes

Next
Generation EU
Estimated impact

Results of a macroeconomic simulation for Next Generation EU (see November 2020 estimates)

Up to 2% extra GDP in years of operation, positive impact for all Member States
Up to 2 million additional jobs
Strong positive effects on convergence
Debt-to-GDP ratio reduced on average, notably for higher-debt countries
Next steps

- Several instruments in place under the current framework, the new MFF and Next Generation EU
- New regulations entering into force, updating of guidance and focus on delivery
- Member States to ratify new Own Resources Decision to enable the European Commission to borrow
- Member States to prepare national recovery and resilience plans by end April 2020 (as a rule)
Keep in touch

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Thank you