

# **GTIPA PERSPECTIVES:**

## **COVID-19 IMPACTS ON PUBLIC HEALTH AND THE ECONOMY OF GTIPA MEMBER NATIONS**

**OCTOBER 2020**



## European Union

*By: Eleonora Mazzoni, Director, Innovation Department, I-Com with Pietro Paganini, Co-Founder and Curiosity Officer; Giacomo Bandini, Director General; and Stefano Sartorio, Research Analyst and Project Manager, Competere*

### The EU Response to the Coronavirus Pandemic

#### Introduction

The COVID-19 pandemic has posed a challenge to the European Union in different fields, from health to economics to security to sustainable development. The rising case numbers today aren't quite comparable to the peak in April because countries are now testing far more people on a daily basis. As before, however, each country has its own strategy for controlling the pandemic. Meanwhile, different economic instruments have been deployed to support member states in facing the economic crisis generated by the pandemic. In the following paragraphs, the EU health and economic response to the COVID-19 pandemic is synthesized, closing with future perspectives.

#### 1. COVID-19 in Europe: Situation Update

The COVID-19 pandemic continues to pose a major public health threat to European Union/European Economic Area (EEA) countries and the United Kingdom (UK).<sup>137</sup> As cases increased, peaking in early April 2020 in the EU/EEA, many countries implemented a range of response measures which led to a reduction in incidence. As cases increased, peaking in early April 2020 in the EU/EEA, many countries implemented a range of response measures which led to a reduction in incidences. As countries regained control of the virus transmission and the burden on health care was alleviated, many measures were relaxed or removed to allow for a more viable way of life. However, subsequently, a recent increase in COVID-19 cases has been reported in many countries. (See Figure 16.) The “good news” is that, overall, COVID-19-related death incidences are still following a stable/decreasing path, though with differences amongst countries. While many countries are now actually testing mild and asymptomatic cases, which has resulted in increased case reports, a true resurgence in cases has emerged in several countries as a result of physical distancing measures being relaxed. According to the latest updated data as of September 14, 2020, 2,675,637 cases have been reported in the EU/EEA and the United Kingdom, and the three main stricken countries are Spain, France, and the United Kingdom with more than 300,000 cases since the beginning of the pandemic.

**Figure 16: 14-day Cases and Deaths Notification Rate in the EU/EEA Area and the United Kingdom<sup>138</sup>**

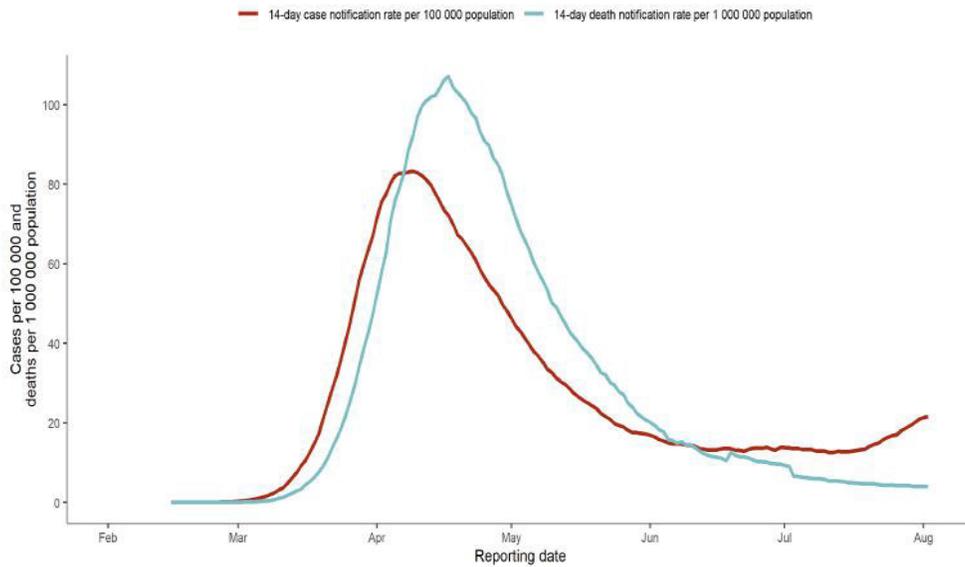
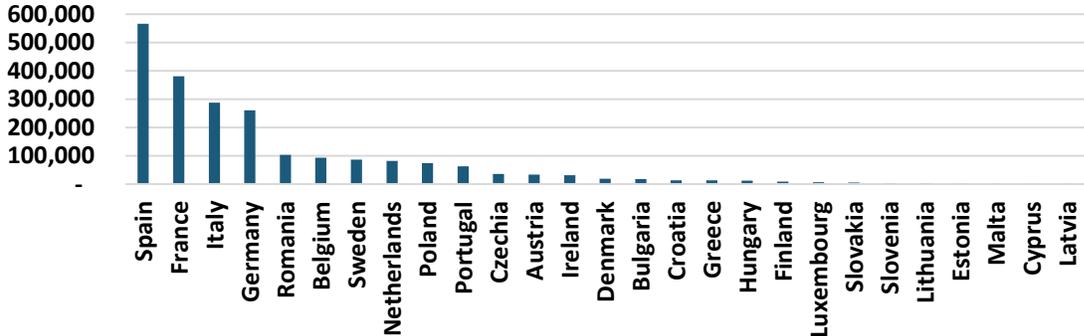
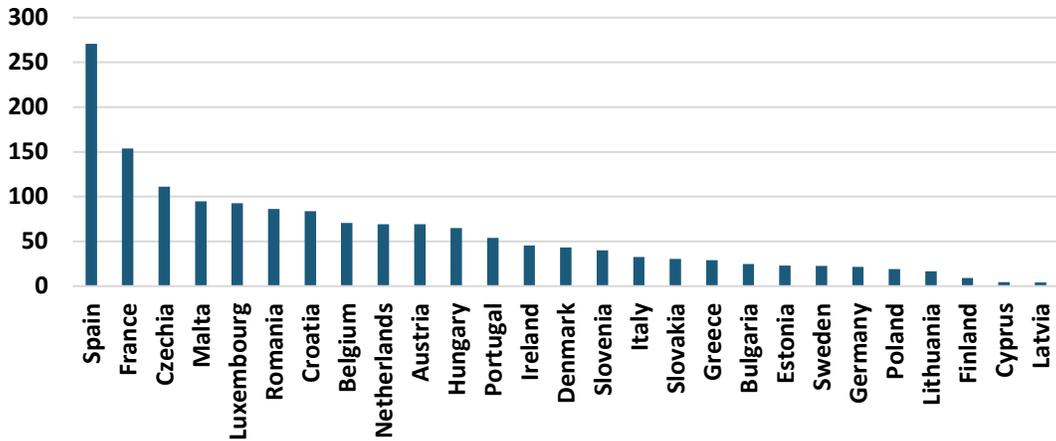


Figure 17 shows current differences in COVID-19 cumulative case numbers for the EU 27 countries (United Kingdom not included) while Figure 18 shows the 14-day cumulative number of COVID-19 cases per 100,000 inhabitants. It is clear that in the last two weeks the growing trend in COVID-19 case incidences observed during summer has been confirmed in a number of EU countries, mainly in Spain (270 cases per 100,000 inhabitants) and in France (153 cases per 100,000 inhabitants). The latest risk assessment of COVID-19 published by the European Center for Disease Prevention (ECDC), on August 10, 2020, compares weeks 29/30 with weeks 30/31 2020, and reveals an increasing trend in the 14-day incidence of reported COVID-19 cases/100,000 population across and within countries.<sup>139</sup> All countries reporting an increased 14-day case notification rate also had increased testing rates per 100,000 of population. Generally speaking, the age distribution was different when comparing the periods of January through May and June through July. Between January and May 2020, 40 percent of cases were aged 60 years or above and the largest proportion of cases were reported among 50–59 year-olds. In contrast, in June and July, persons aged 60 years or above accounted for 17.3 percent of cases, and the largest proportion of cases were reported among 20–29 year-olds.

**Figure 17: Sum of COVID-19 Cases in EU 27 Countries Since the Pandemic Beginning (as of September 14, 2020)**



**Figure 18: Last 14-day Cumulative Number of COVID-19 Cases Per 100,000 (as of September 14, 2020)**



Most European countries have introduced multiple response measures, ranging from advice regarding hand and respiratory hygiene to limiting the size of non-essential groups to <50 people, stay-at-home recommendations for risk groups, closures of public spaces, and the mandatory and voluntary use of masks in the community, as well as border closures and controls. Between June 1 and July 1, less than half of European countries (15 out of 31 EU/EEA and UK countries) reduced the number of measures in place, while 2 out of 31 countries introduced additional measures to help control the spread of COVID-19. Contact tracing continues to be a key public health activity for the containment of COVID-19 clusters and outbreaks and it is ongoing across Europe, although implementation has varied over time, and between regions within countries.

**2. The EU Role in the Response to the Coronavirus Crisis**

When the initial spread of the novel coronavirus rapidly intensified, with the World Health Organization designating the virus as a pandemic just a few months after the initial outbreak, the

EU struggled to play a coordinating role. It complemented national policies to help countries in facing common challenges, such as a lack of sufficient health care organization and provision, so that each member state was better prepared for the health care challenges posed by the virus. Indeed, while most federal states have an authority or an agency with such a remit, and responsibilities on global health and epidemic intelligence, the equivalent does not exist for the EU. In the latter case, responsibilities are decentralized to member states, which only began sharing information after the European Centre for Disease Prevention and Control was established in 2005. It is an EU agency aimed at strengthening Europe's defenses against infectious diseases, and it was mainly created in response to the SARS outbreak in order to coordinate a European response to future outbreaks.<sup>140</sup> However, it plays a limited role and does not engage in public health decision-making. The European health policy relies on three EU pillars: the first is Article 168 of the Treaty (TFUE) giving the EU a role in health security, including two agencies—the ECDC and the he European Monitoring Centre for Drugs (“OEDT”)—which are involved in publishing reliable data and avoiding medicine starvation; the second is the European Single Market which includes rules to commercialize drugs and medical devices and allow for health professional mobility; the third regards fiscal governance. Article 168 states that the Union shall complement national policies, for instance, supporting the “cooperation between the member states” or adopting recommendations, while the Union shall respect member states' health policy and organization.<sup>141</sup>

## 2.1 The EU Public Health Institutional Response

The EU’s institutional response has been mainly (though not exclusively) led by the European Commission, and meetings of European Council members. The European Parliament and European Central Bank have also played important roles.

The EU public health response mainly involves:

- Direct financial support for procurement programs to support health care systems;
- Support for research into treatments and vaccines;
- Medical guidance for member states;
- Coordinating the supply and manufacturing of Personal Protective Equipment (PPE).

The European Commission is coordinating a common European response to the coronavirus outbreak and taking action to reinforce the EU public health sectors and mitigate the socio-economic impact across the European Union. (See Table 2.) The aim is to help member states coordinate their national responses and to provide objective information about the spread of the virus and effective efforts to contain it.

**Table 2: Chronology and Trends of the Initial EU Response to the Crisis**

January 9	Directorate-General for Health and Safety (DG SANTE) opened an alert notification on the Early Warning and Response System (EWRS)
January 17	First novel coronavirus meeting for the Health Security Committee
January 28	Activation of the EU civil protection mechanism for the repatriation of EU citizens
January 31	First funds for research on the new coronavirus
February 1	EU member states mobilized and delivered a total of 12 tonnes of protective equipment to China
February 1-2	447 European citizens brought home from China, co-financed by the EU Civil Protection Mechanism
February 23	The Commission co-financed the delivery of more than 25 tonnes of personal protective equipment to China in addition to over 30 tonnes of protective equipment mobilized by EU member states and already delivered in February 2020
February 28	First procurement for medical equipment jointly with member states

The crisis has been coordinated at several levels, through videoconferences of the European Council, through regular discussions with national health ministers, to frequent meetings of the Health Security Committee. Notifications regarding serious cross-border health threats are made through the Early Warning and Response System for communicable diseases in the European Union. This system allows EU member states to send alerts about events with potential impacts on the EU, to share information, and to coordinate their responses. It was created by the European Commission to “ensure a rapid and effective response by the EU to events (including emergencies) related to communicable diseases.” The first alert notification for COVID-19 was opened on the system on January 9. Meanwhile, the European Centre for Disease Prevention and Control has played a key role in assessing the threat from a scientific viewpoint. The ECDC produces rapid risk assessments, provides frequent epidemiological updates, and offers technical support by issuing guidance on how to best face the outbreak. This guidance includes, but is not limited to, outbreak surveillance, preparedness and response planning, and laboratory support.

The principal health policy action taken by the Commission was on March 17, after Italy had already proceeded with the introduction of its national lockdown in response to the rapid increase in COVID-19 cases. On that day, the European Commission set up an advisory panel on the coronavirus made up of seven expert epidemiologists and virologists from several member states to formulate science-based EU response guidelines and to coordinate risk-management measures. The panel, which was created following a mandate by the EU member states, is chaired by the Commission President, Ursula von der Leyen, and the Commissioner for Health and Food Safety, Stella Kyriakides. Based on the scientific advice of the European Centre for Disease Prevention and Control, and the COVID-19 advisory panel, the European Commission published its first recommendations for community measures and testing strategies on March 18, and on Health Systems Resilience on 30 March.<sup>142</sup> Meanwhile, the Commission also decided to set up a strategic RescEU stockpile of medical equipment to help EU countries in the context of the COVID-19 pandemic. The RescEU is part of the European Civil Protection Mechanism which strengthens cooperation between participating States in the field of civil protection in order to improve prevention, preparedness, and response to disasters. The stockpile includes intensive-care medical equipment such as ventilators; personal protective equipment such as reusable masks; vaccines; therapeutics; and laboratory supplies. The Commission financed 90 percent of the stockpile, while the Emergency Response Coordination Centre managed the distribution of the equipment to ensure

it goes where it is needed most. The initial EU budget of the stockpile was €50 million (\$58.6 billion). Moreover, the European Committee for Standardization and the European Committee for Electrotechnical Standardization have established a number of European standards for certain medical devices and personal protective equipment. This is to help both EU and third-country companies to swiftly start production and place products on the internal market more easily while ensuring a high degree of safety.

At the end of March, the pandemic was putting health care systems across Europe under unprecedented and increasing pressure, so the Commission issued (on April 3, 2020) practical guidance to member states in order to facilitate cross-border cooperation in transferring coronavirus patients for treatment in member states where hospital beds were available, as well as medical expert teams. The Commission has also extended the Solidarity Fund to cover public health emergencies concerning cross-border cooperation.<sup>143</sup> Thereafter, on April 14, the Council quickly approved the European Commission's proposal to activate the EU's Emergency Support Instrument to directly support the member states' health care systems in their fight against the pandemic. The European Commission immediately provided €2.7 billion (\$3.16 billion), allocated firstly to the nations which needed it most urgently and had limited health infrastructure at the ready to handle the crisis. In implementing the instrument, the Commission works in close dialogue with member states' national authorities and the European Parliament, as well as other stakeholders. During April some EU countries were already studying a strategy to exit from national lockdowns, defining tracing and testing strategies. Consequently, the Commission published guidance on developing new apps that support the fight against the coronavirus regarding data protection. It plans to offer the framework guaranteeing citizens appropriate personal data protection and limiting intrusiveness while using such apps. This guidance is to be accompanied by an EU toolbox on contact tracing apps.

Concerning COVID-19 treatment and vaccines, the European Federation of Pharmaceutical Industries and Associations (EFPIA), in partnership with the European Commission, is strongly committed to the Innovative Medicines Initiative (IMI).<sup>144</sup> Currently, €117 million (\$130 million) have been raised (€72 million (\$84 million) from the HORIZON 2020 Programme and €45 million (\$53 million) from partner pharmaceutical companies) to finance a large number of projects focused on the development of therapies and diagnostics for SARS-CoV-2. The selected projects are part of the common European response to the pandemic coordinated by the Commission since the beginning of the crisis. Following, on May 4, the European Union, together with various partners around the world, launched the fundraising initiative "Coronavirus Global Response" to support "Access to COVID-19 Tools Accelerator" (ACT-Accelerator), the World Health Organization program established to find the resources needed to reduce the time and cost of vaccines and testing. Since then, about €16 billion (\$18.75 billion) have been raised (€1.4 billion (\$1.64 billion) directly committed by the EC) from donors around the world to develop vaccines, new therapies, and diagnostic tools to prevent the spread of the virus.<sup>145</sup> At the same time, the Commission has mobilized €546.5 million (\$640 million) since January 2020 to develop the relevant vaccines, new treatments, diagnostic tests and medical systems. These include:

- €48.2 million (\$56.5 million) for 18 new research projects involving 151 teams of researchers from all over European and other nations;
- €100 million (\$117 million) as a contribution to CEPI (Coalition for Epidemic Preparedness Innovations);
- €25.25 million (\$29.6 million) for the Europe-Developing Countries Clinical Trials Partnership;
- €72 million (\$85 million) (compared to the €45 million (\$53 million) initially planned) from the HORIZON 2020 program for the Innovative Medicines Initiative;

- €6 million (\$7 million) from the Health Knowledge and Innovation Community of the European Institute of Innovation and Technology;
- €156.6 million (\$183 million) for innovative solutions to face the coronavirus emergency, with a €150 million (\$176 million) additional contribution entirely dedicated to fighting the pandemic;
- €129.45 million (\$152 million) to strengthen production and deployment capacity and improve the understanding of the pandemic.

In addition, the Commission offered CureVac, a highly innovative European vaccine development company, financial support through a €75 million (\$88 million) loan guarantee from the European Investment Bank (EIB). The EIB also signed a €100 million (\$116 million) financing agreement with the immunotherapy company BioNTech SE for the development of a vaccine program. The EIB financing is supported by both the HORIZON 2020 program and the Investment Plan for Europe. On May 28, 2020, the Commission announced the next steps of the “Coronavirus Global Response” initiative in favor of universal access to affordable treatment and vaccines. Together with the international organization Global Citizen, the launch of the awareness-raising campaign “Global Goal: Unite for Our Future” was planned, in order to mobilize additional funding to develop and distribute vaccines, tests, and treatments against the virus, ending on June 27, 2020 at the World Donor Summit. EFPIA also supports the European Commission together with Vaccines Europe, to ensure that vaccines developed against COVID-19 will be accessible to citizens throughout Europe, as quickly as possible, as set out in the EU Vaccines Strategy COVID-19, published on June 17, 2020.<sup>146</sup>

The strategy—which is part of the set of initiatives developed by Europe to address the health emergency and provide concrete responses to the needs of the population—aims to achieve three main objectives:

1. Ensure the quality, safety, and efficacy of vaccines, supporting research at European level in compliance with the regulatory framework;
2. Ensure timely access to vaccines to all member states and their citizens, while continuing efforts at the level of international cooperation and solidarity;
3. Ensuring fair access within the single market, especially with regard to prices.

At the same time, the EU realized that old approaches to health and pharmaceutical policies have not been effective and, thus, launched a public consultation to evaluate a strategy to ensure affordability, sustainability, and security of supply for innovative drugs and beyond. The pandemic has shown that the EU needs a crisis-resilient system and the means to produce medicines within the EU to ensure timely access to essential medicines for citizens and hospitals under all circumstances. The initiative was launched on June 2, 2020 and stakeholders could until July 7 send feedback. Following this first phase, there will be the official publication of the various provisions, also on the basis of the information received from the public consultation opened from June 16 to September 15, 2020. The entire package should be adopted by the end of the year.

### 3. Health Scenarios

Since the beginning, European countries have adopted similar responses to the pandemic. The way each country has responded to the emergency not only reflects the objective needs of that country (i.e., number of fatalities, share of older people, or share of people infected, etc.), but also the differences in its national system and, almost without exception, the country’s self-interest. A key political lesson of this crisis is that further collaboration is needed in Europe to face health challenges such as the COVID-19 pandemic, and the European Union seems to have learnt those

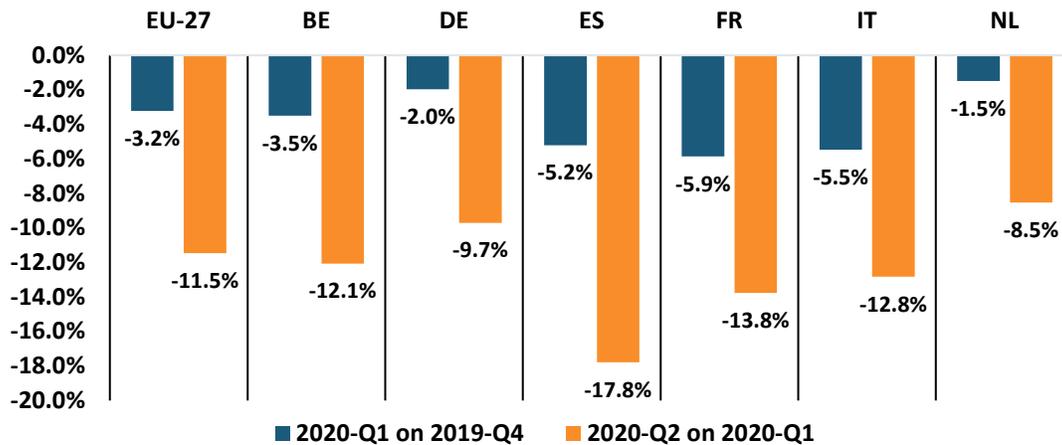
lesson. One way to overcome problems of collective action would be to create a European public health authority, with powers beyond the limited coordination activities carried out by the European Centre for Disease Prevention and Control. Indeed, the management of pandemics does not respect borders and requires collective actions to face the challenges.

The European Union, not being a “federal” entity, needs to consider setting up an institutional body to enforce cross-border cooperation to this end. The President of the European Commission, Ursula von der Leyen, in her first speech on the State of the Union, at the Eurocamera, in Brussels (September 16) stated that, with the Italian Presidency of the G20, the Commission will organize a Global Health Summit in Italy to show that Europe is there to protect its citizens. The aim is to build a Health Union, said von der Leyen, as the pandemic is not over and recovery is still in its early stages. For this reason, the EU must act with responsibility and unity. Von der Leyen announced that the Commission will create a new European Agency following on from an idea emerging from the Macron-Merkel summit held on May 18, 2020, where it was clearly stated that Europe should regain some sovereignty. It was then taken up in the conclusions of the European Council meetings held from July 17 to 21. The Agency would follow, with the appropriate differences, the U.S. Biomedical Advanced Research and Development Agency (BARDA) model. The European BARDA would be an agency able to support the preparation and response to transnational health emergencies, both of natural and artificial origins and should be part of the European health self-sufficiency program, especially in the field of pharmaceutical sector dependence on global supply chains. The establishment of a European biomedical advanced research agency would not only allow for overcoming the fragmentation of expertise currently scattered across the various European bodies and organizations, but would also play the role of coordinating the research of diagnostic and therapeutic solutions so as to be prepared for the management of epidemic and pandemic emergencies, unfortunately destined to reoccur over time. In synthesis, the creation of such an agency would also involve the strengthening of the role of the ECDC, whose current mandate is to work with national and EU-level health authorities to facilitate cooperation and provide the evidence base needed for effective action.

#### **4. The Economic Consequences of the Pandemic in the European Union**

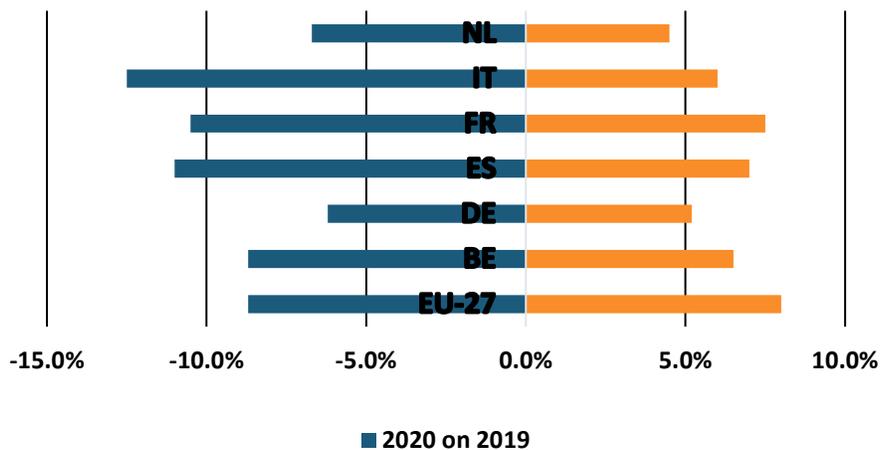
The COVID-19 pandemic and the confinement measures caused a sharp slump in the European Union area economy in the first two quarters of 2020. The progressive spread of the virus earlier this year prompted international and local authorities to implement restrictions on mobility, industry and businesses, and public health measures aiming at flattening the curve of infections and preventing the collapse of health care systems. In the first quarter of 2020, GDP decreased by 3.6 percent in the euro area and by 3.2 percent in the EU, whereas in the second quarter, still marked by COVID-19 containment measures in most member states, seasonally adjusted GDP decreased by 12.1 percent in the euro area and by 11.5 percent in the EU-27, compared with the previous quarter.<sup>147</sup> (See Figure 19.)

**Figure 19: GDP Growth Downturn in Q1 2020 and Q2 2020 (Selected Countries and EU-27)<sup>148</sup>**



Economic performances have been quite different among EU member states depending on multiple factors. As Figure 20 shows, among the most-affected countries in the second quarter of 2020 were Italy (-12.8 percent), Spain (-17.8 percent), France (-13.8 percent), and Belgium (-12.1 percent). The European Commission’s forecast indicates a wave-like pattern for growth and an incomplete recovery (even by the end of 2021). Growth is likely to turn from about minus 8.7 percent to plus 8 percent in 2021 compared with the previous year. However, subsequent quarters in 2022 could see a slowdown in growth.

**Figure 20: GDP Estimated Growth YoY (Selected Countries and EU-27)<sup>149</sup>**



The recovery is expected to be incomplete in a large majority of euro area countries, as the level of GDP at the end of the last quarter of 2021 is forecast to be inferior to what it was in the last quarter of 2019. The differences between member states in GDP growth estimations for the next years are mainly to be found in the different methods of containment of the pandemic and in the different recovery paths.

Among the largest euro area economies, only Germany’s output is likely to return to its pre-crisis level, whereas Italy, Spain, and France are expected to have lower performances.

In the first half of 2020, the euro area labor market underwent a massive deterioration induced by the COVID-19 pandemic and the measures taken to contain it. This has translated essentially into a sharp decline in the number of hours worked with a major fall in average men’s working hours, which has been considerably worse than in women’s ones. However, the increases in unemployment have also been small compared to the decline in economic activity. In April 2020, the unemployment rate increased only slightly in the EU (from 6.4 percent to 6.6 percent).

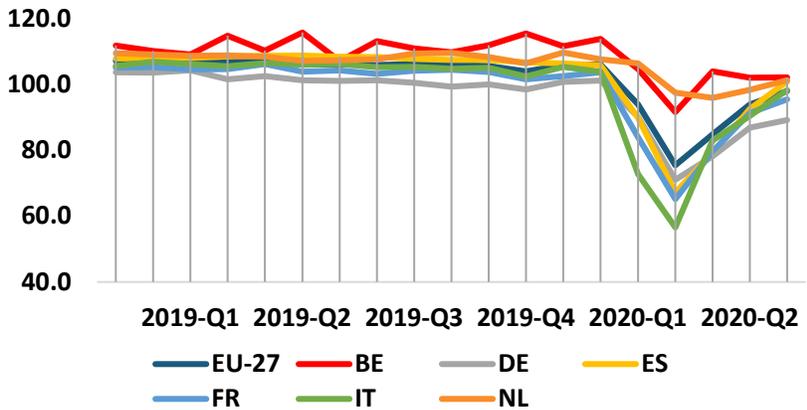
Three orders of factors could explain the phenomena:

- Extended short-time work schemes have played an important role in keeping employees attached to their jobs even in periods without any or with substantially reduced economic activity;
- To be considered statistically as unemployed, a person has to be available to the labor market, which was not possible everywhere during the strict lockdowns. Many persons were discouraged from actively seeking a job due to the lockdown measures implemented as the pandemic spread;
- In several member states, changes in the legal framework of the economy have made layoffs more difficult or almost impossible. This includes measures that exclude insolvencies for some time or that explicitly forbid companies to lay off staff because of the crisis or during a state of emergency.

The European labor market is unlikely to return to its pre-pandemic level. Many of the legislation schemes issued during the pandemic in order to preserve jobs and sustain workers’ salaries are limited in time. In addition, in the case of a prolonged period of weak economic fundamentals, regulation will not be able to stop an increasing number of firms from downsizing, with huge consequences for the labor market. In the second half of the year, a number of companies are also likely to see liquidity problems turn into solvency problems.

Industrial production collapsed by 17.1 percent in April, resulting in a cumulative contraction of about 27 percent since February. (See Figure 21.) Output fell in almost all industrial activities. Looking at the breakdown by sector, the most-affected industries were the manufacture of motor vehicles, trailers, and semi-trailers (about -70 percent), as well as that of leather and related products (around -60 percent), followed by clothing (around -40 percent). Most activities saw output contractions of between 15 percent and 25 percent.

**Figure 21: Manufacturing Output (Selected Countries and EU-27; 2015=100)<sup>150</sup>**



Euro area production in construction fell by 14.6 percent in April but was highly uneven across countries. While France and Spain both saw production fall by more than one-quarter of total output, the reduction in Germany and the Netherlands was only in the single digits.

Overall, these indicators suggest that the euro area economy was operating at between 25 to 30 percent below its capacity at the height of the crisis. Survey results point to a trough in April and a gradual recovery starting in May and gathering pace in June.

## 5. EU Institutions' Economic Response to the Pandemic

The EU economic response to the COVID-19 crisis is multifaceted and complex in its structure.<sup>151</sup> Under the flexibility of EU budgetary rules, €575 billion (\$675 billion) in measures has been forwarded by national governments. Moreover, through the SURE fund, €100 billion (\$116 billion) has been allocated for short-term work schemes. €70 billion (\$82 billion) of direct EU budget support have been released, sustained by three other major measures: €3.045 billion (\$3.56 billion) in national liquidity measures, €240 billion (\$280 billion) under the European Stability Mechanism Pandemic Crisis Support for member states, and lastly €200 billion (\$234 billion) in financing for businesses through the European Investment Bank (EIB).

The total value of the EU response to COVID-19 crisis amounts to approximately €4.2 trillion (just under \$5 trillion).

On July 21, 2020, EU leaders agreed on the Recovery Plan and the multiannual financial framework for 2021-2027, leading the way out of the crisis and mobilize investments.<sup>152</sup>

In order to mobilize the necessary investments in the economy, the European Commission is putting forward a two-fold response based on the Next Generation EU instrument (of €750 billion (\$878 billion) which will boost the EU budget with new financing raised on the financial markets for 2021-2024) and on a reinforcement of EU's long-term budget (2021-2027 of €1.1 trillion (\$1.3 trillion)). The Commission proposes to exploit the potential of the EU budget to mobilize investments and focus financial support in the first crucial years of recovery.

The Next Generation EU instrument will temporarily supplement the EU budget with new funding from the financial markets. The funds raised, through EU programs, will support the urgent measures needed to protect livelihoods, get the economy back on track, and promote sustainable and resilient growth. The overall framework in the fight against COVID-19 will be rolled out from two financial and economic different pillars:

- A. Direct support to member states to recover through the Recovery and Resilience Facility (RRF).<sup>153</sup> The RRF consists of large-scale financial support to both public investments and reforms, notably in green and digital, which make EU countries' economies more resilient and better prepared for the future. This will be made possible thanks to an investment up to €310 billion (\$363 billion) in grants and up to €250 billion (\$290 billion) in loans, through the REACT-EU measure (which represents a€55 billion (\$65 billion) addition to the cohesion funds and programs).
- B. Fostering private investments through the Solvency Support Instrument, which has been designed to help prevent enterprise insolvencies. In the framework of the European Fund for Strategic Investments (EFSI), it will use the EU budget to support equity investments in companies with solvency problems.<sup>154</sup> Also, the InvestEU measure is aimed at increasing direct investments in paramount sectors to ensure EU's strategic autonomy (i.e., investments in

critical infrastructures, supporting SME's and start-ups, and fostering research and innovation).<sup>155</sup>

Inside the recovery plan, the European Commission decided to take advantage of the need to modernize the EU's economy, fostering the European "Green Deal" strategy and the Single Digital Market strategy. The EU continues to provide immediate liquidity to businesses affected by the crisis through the Coronavirus Response Investment Initiative, which is under shared management with member states. In addition, the Commission has made available up to €8 billion (\$9.4 billion) in financing for 100,000 small businesses hit by the crisis, with the European Investment Fund.

The SURE program helps member states cover the costs of national short-term work schemes and similar measures allow companies to safeguard jobs. SURE is a crucial element of the EU's comprehensive strategy to protect citizens and mitigate the severely negative socio-economic consequences of the coronavirus pandemic.

The European Commission has activated the general escape clause of the Stability and Growth Pact as part of its strategy to respond quickly to the coronavirus outbreak in a timely and coordinated manner.

To access resources from the RRF, Members States need to prepare national recovery and resilience plans containing detailed schemes of reform and investment agendas. Each of them will be assessed by the European Commission following specific criteria, including "strengthening the growth potential, job creation and economic and social resilience" of the member state concerned.<sup>156</sup>

The Commission's assessments will be submitted to EU finance ministers for approval by a qualified majority. In addition, payments will be subject to the satisfactory fulfilment of relevant milestones and targets. In case one or several member states consider that there are "serious deviations from the satisfactory fulfilment of the relevant milestones and targets" by another member state, EU leaders may suspend payment until a positive decision that the milestones and targets have been reached. This strict mechanism was introduced at the insistence of the so-called frugal four countries—Austria, Denmark, the Netherlands, and Sweden—whose economies have all been relatively less negatively affected by the COVID-19 crisis and will therefore benefit relatively little from the RRF. In addition to wanting to minimize their net contributions to the RRF, the frugal countries feared that some of the main beneficiaries—such as Italy and other southern countries that were badly hit by the crisis—may not otherwise direct sufficiently the new EU funds to improving their economic resilience.

## **6. The Role of the European Central Bank (ECB)**

Since 2015, the ECB has been purchasing about €20 billion (\$23.4 billion) monthly in government, regional, and local bonds and also corporate bonds, asset-backed securities, and covered bonds under the existing APP. The aim was to push inflation up to its target. In response to the pandemic, on March 12, the ECB announced it would buy an additional €120 billion (\$140 billion) under the APP scheme.

The ECB launched the €750 billion (\$878 billion) Pandemic Emergency Purchase Program (PEPP), which will last until the coronavirus crisis period is over and, in any case, until the end of 2020. The assets to be bought under the PEPP are mostly the same: the biggest part goes to national and regional government bonds, including for the first time Greek sovereign debt, supra-national debt, and various types of private sector bonds.

On June 4, the ECB increased the maximum size of its purchases of government bonds under PEPP by €600 billion (\$700 billion) to €1.35 billion (\$1.6 billion) and extended the horizon for those purchases to at least the end of June 2021. The ECB also emphasized that it wants to maintain flexibility in the purchases across asset classes and among jurisdictions.

Given that access to credit has been deemed as paramount in the strategy to recover the economy after the harsh COVID-19 pandemic, the European Central Bank has encouraged banks to use their capital buffers, freeing up capital for €120 billion (\$140 billion). Banks can use these funds to absorb losses resulting from the crisis or earmark them to finance up to €1.8 trillion (\$2.1 trillion) in new loans to households and businesses.

More flexibility on non-performing loans is then guaranteed in order to not penalize credit institutes from giving loans. To encourage banks and their shareholders to do their share, the ECB has asked banks not to pay out dividends or buy back stocks during the pandemic. Instead, the ECB has asked them to use any funds freed up from the measures outlined to absorb losses or to grant loans to the euro area economy.

The ECB has also launched a package of monetary policy measures to ensure that banks and companies have enough funds available. For instance, buying several kinds of assets under the €1.35 billion-PEPP, making more funds available, and letting banks be able to lend to households or businesses. The ECB also buys companies' bonds, giving them an additional source of credit. Both kinds of purchases should boost spending and investment, with the aim of supporting economic growth. In addition, the ECB expanded its targeted long-term refinancing operations (TLTROs) in response to the COVID-19 crisis. In TLTROs, the ECB offers to banks cheap, long-term loans with incentives to use the funds to lend to euro area consumers and businesses. Banks can now borrow for three years at an interest rate of minus 0.5 percent. Moreover, banks that lend above a certain threshold to businesses and consumers will pay an interest rate as low as minus 1 percent.

## 7. Economic Scenarios

As illustrated above, it's unlikely that, despite the first signals of recovery, many sectors of the economy will remain weak for the next years, while others have already bounced back. Governments are likely to continue playing a fundamental role in domestic economies with the implementation of measures to sustain consumption and providing support to citizens affected by a persistent economic downturn (with special attention to labor-market trends). Moreover, some 'GDP gap' will persist since there remain important sectors that will operate below normal capacity for some time. The question for macroeconomic policy is thus whether government should go beyond providing replacement income and try to lift further aggregate demand. The first reaction to COVID-19 in Europe was not exemplary under an economic policy perspective, with many countries acting in an "egoistic" way and showing a lack of solidarity or willingness to cooperate with other member states. This initial "my country first" attitude has stopped an even faster response by EU institutions. Nevertheless, with the pandemic spreading unrestrained, Europe learned, and learned fast, its lesson. The agreement reached at EU Council level, propitiated by German Chancellor Angela Merkel and French President Emmanuel Macron, on July 21, 2020 which launched a new plan for recovery (the RRF) is a historic event for the EU. Why is it historic? Because it is the first time that the European Commission will issue more common debt on the capital markets (to be repaid until 2058), which could bring the European safe assets—together with EIB and ESM—toward €2 trillion (\$2.34 trillion). Furthermore, it could be a step toward a stronger European

common fiscal response in times of crisis, strengthening the position of Europe globally. Finally, it shows that a certain degree of European solidarity still exists. Funding schemes have been designed to transfer money from the wealthier countries toward the hardest-hit and lower-income ones. This unprecedented stimulus package comes on top of an increased seven-year budget of the EU which also include measures for innovation, and a green and sustainable transition.



**GLOBAL TRADE & INNOVATION  
POLICY ALLIANCE**

**700 K STREET NW, SUITE 600 | WASHINGTON, DC 20001  
UNITED STATES OF AMERICA  
SEZELL@ITIF.ORG**