

# What can the EU do to alleviate the impact of the coronavirus crisis?

## SUMMARY

The novel coronavirus (COVID-19) outbreak has now been declared a pandemic by the World Health Organization. Alleviating the human effects of the crisis is paramount, but repercussions are being felt across many sectors. European Union institutions are unanimous in calling for solidarity among Member States, and for Europe to offer support, within its remit, to its Member States in their response to the common challenge.

On 10 March 2020, Heads of State or Government of the EU countries held a videoconference on COVID-19, to discuss how to coordinate the EU-level response. EU leaders stressed the need for a joint European approach and close coordination with the European Commission. Priorities were identified, to be followed up on 'at all levels immediately'. The measures that are – or could be – envisaged range across different policy areas. As an immediate response, European Commission President Ursula von der Leyen formed a coronavirus response team. Further measures were announced in a European coronavirus response on 13 March 2020.

Planned – and potential – health and preparedness measures include reinforcing the EU's role in joint procurement, bolstering cooperation in disease management and control, and potentially widening the remit of the European reference networks. Greater controls on people crossing external EU borders are also proposed. Monetary, budgetary and macroeconomic measures include, for instance, those taken to ease the impact of the coronavirus emergency on the aviation industry. Moreover, the EU and the Member States, the European Central Bank, and the International Monetary Fund can also take steps to help people and firms. The EU budget has been mobilised to provide funds to reinforce preparedness and containment measures, as well as research into the virus. Furthermore, cross-border health threats, such as that posed by COVID-19, could be taken into account when shaping the multiannual financial framework for 2021-2027.



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## State of play

On 10 March 2020, Heads of State or Government of the EU countries held a [videoconference on COVID-19](#), to discuss how to coordinate the EU-level response to the novel coronavirus outbreak, now [declared a pandemic](#) by the World Health Organization. President of the European Commission, Ursula von der Leyen, President of the European Central Bank, Christine Lagarde, President of the Eurogroup, Mario Centeno, and High Representative Josep Borrell also took part in the discussion. EU leaders stressed the need for a joint European approach and close coordination with the European Commission. Four priorities were identified:

- 1 Limiting the spread of the virus,
- 2 Provision of medical equipment,
- 3 Promoting research,
- 4 Tackling socio-economic consequences.

According to the [President of the European Council](#), 'Member States and EU institutions will follow up on these matters at all levels immediately'. What measures are envisaged at EU-level in these areas, and which instruments may be leveraged?

## Health and preparedness measures

As an immediate response, European Commission President Ursula von der Leyen formed a [coronavirus response team](#), set up within the College of Commissioners. The team consists of Commissioners Janez Lenarčič (crisis management), Stella Kyriakides (health issues), Ylva Johansson (border-related issues), Adina Vălean (mobility) and Paolo Gentiloni (macroeconomic issues).

## Joint procurement

European Parliament President David Sassoli has proposed to launch a discussion on the creation of a new European purchasing agency that would allow all Member States to buy medicines and personal protective equipment, such as facemasks, 'at the same price'. A similar instrument, to some extent, already exists in the form of a [joint procurement mechanism for medical countermeasures](#), which (as of 6 March 2020) has been signed by [26 EU countries](#). The mechanism, provided for in the [Cross-Border Health Threats Decision](#), was recently activated by [20 Member States](#) for personal protective equipment; signing of contracts is expected to be finalised as of April. In her [opening speech](#) at the European Parliament plenary session on 10 March 2020, Health and Food Safety Commissioner Stella Kyriakides insisted on the need for 'sharing of resources, sharing of information and expertise, sharing of equipment, sharing of information on testing and treatment equipment protocols.' According to the Commissioner, the European Commission has launched joint procurement for personal protective equipment, and is looking at more joint procurement for medical equipment. Members of the European Parliament also [stressed](#) that necessary medical supplies, such as testing kits, facemasks and respirators should be produced inside the EU and be made available to all Member States. Following the EU leaders' videoconference on the response to the COVID-19 outbreak on 10 March 2020, European Commission President Ursula von der Leyen [stated](#) that the Commission was now assessing availability of protective equipment and respiratory devices, as well as production and distribution capacity. To ensure adequate supply of protective equipment, the Commission launched, as part of its [European coordinated response on coronavirus](#) announced on 16 March 2020, an [accelerated joint procurement procedure](#) with 26 Member States. Moreover, it is adopting an extension to the existing implementing act under the EU Civil Protection Mechanism (rescEU) for the Union to buy such equipment. This could lead to the first purchases being made by the beginning of April, if approved by Member States.

## European Centre for Disease Prevention and Control

The European Centre for Disease Prevention and Control (ECDC) supports the EU Member States in their COVID-19 preparedness and response efforts. According to the ECDC, [sharing and aligning activities](#) at European and international level adds value to the efforts of single countries. In addition to its [daily risk assessments](#) and other [updates on COVID-19](#) for EU surveillance, the ECDC has published technical reports and guidelines. According to the [Guidelines for the use of non-pharmaceutical measures to delay and mitigate the impact of 2019-nCoV](#) (February 2020), there are complicated logistical issues associated with voluntary isolation of symptomatic COVID-19 cases that do not require hospitalisation during the mitigation phase (such as food provision, medical supplies, and medical care), and that training and supplies will therefore be essential to ensure support and infection control for household members caring for the person who is ill. The report on [Public health management of persons having had contact with COVID-19 cases in the EU](#) (February 2020) provides guidance for public health authorities. The ECDC's [Resource estimation for contact tracing, quarantine and monitoring activities for COVID-19 cases in the EU/EEA](#) (March 2020), aims to provide information on the resources needed for quarantine and monitoring measures. It is suggested that, in a scenario of widespread transmission, countries could consider focusing contact tracing efforts on contacts that are healthcare workers or work with vulnerable populations.

### Strengthening existing mechanisms

During the EU leaders' videoconference on 10 March, Commission President von der Leyen [stated](#) that the Commission would assemble a team of epidemiologists and virologists from different Member States to provide guidelines at European level. Strengthened cooperation could be envisioned in the future, to bolster cooperation in disease management and control.

A mechanism that could be strengthened is the [European reference networks](#) (ERN) – virtual platforms for voluntary cross-border collaboration between specialists in rare and complex diseases. The Expert Panel on effective ways of investing in health, in its September 2018 [opinion](#), suggested that there was potential to adapt the scope of the ERNs to additional roles, such as research and guideline development. In the future, the possibility to widen their scope to other diseases – including communicable pandemic diseases, such as COVID-19 – might even be considered. In this context, a 2019 [feasibility study](#) endorses, in principle, creating a new ERN for rare communicable diseases and other rare pathologies in the context of mobility and globalisation. As the study notes, health professionals often lack the skills to correctly diagnose and treat rare and unknown communicable diseases, mostly because they do not have (much) experience in dealing with them, or because diseases are newly emerging. According to the study, sharing medical knowledge and expertise is an important strategy for developing health professionals' competencies and skills, both in combating these challenges and in appropriately addressing patient needs, diagnosis, treatment and healthcare service delivery. It concludes that a potential new ERN could be beneficial to improving quality of care in rare communicable diseases. However, it should complement, rather than replace or duplicate, existing networks.

## Monetary, budgetary and macroeconomic measures

### EU and Member States

To help ease the impact of the coronavirus outbreak on the international and European aviation industry, on 10 March 2020, the European Commission agreed to [temporarily suspend](#) rules that oblige airlines to fly almost empty aircraft ('ghost flights') to keep their slots at EU airports. According to [Commissioner for Transport Adina Vălean](#), the temporary measure will allow airlines to adjust their capacity in view of the falling demand caused by the outbreak, thus avoiding negative impacts – both economic and environmental. On 13 March 2020, within its European coordinated

response, the Commission made a [proposal](#) to introduce a temporary suspension of these slot usage rules, covering the period 1 March to 30 June 2020, which can be extended if necessary.

A review of the possible broader macroeconomic initiatives that national authorities could adopt to smooth the impact of the pandemic on national economies are listed by both the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF). The OECD, in its March 2020 [Interim Economic Assessment](#), and the IMF, in a recent [blog post](#) on the outbreak, note that, depending on their administrative capacity, national governments can help people and companies by providing:

- fiscal support to their health services to prevent, detect, control, treat, and contain the virus;<sup>1</sup>
- targeted and temporary cash flow relief (subsidies) to the people and firms that are most affected, until the emergency abates;<sup>2</sup>
- tax relief for people and businesses;<sup>3</sup>
- liquidity in the financial system, so that banks can provide help to companies with cash-flow problems – particularly small and medium-sized enterprises (SMEs) – and ensuring that otherwise solvent firms do not go bankrupt during the containment period. This last measure can be further coordinated with monetary policy measures (see below).

National governments can further:

- expand and extend transfers, such as unemployment insurance benefits, especially for vulnerable groups;
- create business continuity plans, so as to be able to provide services to citizens, taxpayers, and importers in case of widespread contagion;
- engage in targeted and temporary fiscal measures to support businesses in specific sectors, such as travel or tourism, which are expected to be especially impacted by the pandemic.

The IMF notes that, while some of these measures can occur through administrative means, others require an emergency budget. In this context, the OECD notes that a potential measure could be to allow affected economies more leeway within the EU fiscal rules, in recognition of the exceptional circumstances. It appears that the EU may integrate this measure, as on 13 March 2020, the Commission [considered](#) that the pandemic qualifies as an 'unusual event outside the control of government'. Furthermore, in case of negative growth or a considerable fall in activity, the Commission will recommend adjusting the fiscal efforts required from Member States. Finally, it is ready to propose to the Council that the general escape clause is activated, to accommodate more general fiscal policy support.

Other potential options at EU level proposed by the OECD include temporarily adapting the State aid framework, as at the height of the financial crisis in 2008-2009. In this vein, the Commission [underlined](#) that [Article 107\(2\)\(b\) TFEU](#) enables Member States to compensate companies for damage directly caused by exceptional occurrences. Moreover, the current situation in Italy allows the Commission to approve additional national support measures to remedy serious disturbance to the Member State's economy under Article 107(3)b, an article the Commission stands ready to use for other Member States, should the need arise.

In a recent [paper](#), Bénassy-Quéré et al. propose two further sets of measures to alleviate the economic impact of the pandemic in the EU: as a first step, as soon as possible, the Economic and Financial Affairs Council should formally rule that all temporary additional public expenditure caused by the outbreak of the health crisis will be deducted from 2020 public expenditure and the corresponding public deficit for the assessment of the Member States' compliance with the Stability and Growth Pact. In addition to that, however, the authors are of the view that a more comprehensive 'European catastrophe relief plan' is needed, to support the combined efforts of the Member States in combating the pandemic. According to the authors, the most pressing priority is to help finance the additional cost of improving hospital infrastructure and medical staffing

(additional staff and overtime). Another important priority will be to create the possibility for Member States to finance indirect expenditures related to public health measures, such as containment and school closures.<sup>4</sup> To increase confidence around the scheme, the Commission could extend the funds on a weekly basis and carry out relevant audits once the crisis is over. The authors note that possible sources of funding could include (i) existing EU funds,<sup>5</sup> (ii) reallocations within the EU budget (see below), and finally (iii) cooperation among Member States **outside** the framework of the EU budget. In this context, [Article 122\(2\) TFEU](#) could provide a basis for organising such voluntary cooperation in the same way as was the case for the creation of the European Financial Stability Facility (EFSF).

In a recent contribution, Demertzis et al. [consider](#) that, at national level, fiscal authorities could provide targeted support:

- public budgets can support health insurance in covering the costs of quarantine measures;
- support funds could be established to assist those sectors that are most affected;<sup>6</sup>
- monthly lump-sum transfers should be provided to the self-employed that are immediately vulnerable to a collapse in demand, to safeguard this vulnerable group of workers until the end of the emergency period.

The authors crucially note that **there is no need** to modify the current fiscal rules to engage in the above measures, as (i) any one-off budgetary spending incurred in relation to the response to the outbreak is excluded from the computation of the structural balance in the Stability and Growth Pact, and adequate margins of flexibility are already provided under the current framework to cater for 'unusual events outside the control of government', provided that 'the temporary deviation does not endanger fiscal sustainability in the medium-term'.

However, the authors note that there is a need for the fiscal response agreed to be coordinated at EU level, because (i) if only some countries react, especially those with relatively high debt levels, sovereign spreads could increase, (ii) fiscal measures have cross-border effects whose effectiveness would increase through coordination; (iii) given the impact of the virus will be felt everywhere, a joint response to such a symmetric shock makes sense.

Lastly, they note that a broad enough measure could be to halve all social security contributions for a period of time (e.g. three months) to provide a safety net for the economy.

Social security related measures are also proposed in a recent paper by Guttenberg and Hemker, who [advocate](#) for the EU to create a scheme based on Article 122 TFEU to borrow against the remaining margins in the EU budget and extend interest-free loans to national social security schemes. Guttenberg and Hemker further note that, because there is still no viable instrument to deliver a coordinated fiscal response for the euro area or the whole continent, it will need to come from Member States. For national governments to be able to deliver a massive response, however, they need a safety net to provide the certainty, underpinned by concrete measures, that responding appropriately will not subject them to speculative pressures and attacks on bond markets. Such a safety net for EU Member States' fiscal response to the pandemic should consist of three layers: (i) a clear commitment by governments to use all European Stability Mechanism instruments necessary to ensure market access for all Member States; (ii) a clear commitment by the European Central Bank to use all its instruments to prevent fragmentation of bond markets marked by rising differences (spreads) in interest rates between countries;<sup>7</sup> and (iii) a clear commitment by Member States to a package of flanking measures consisting of swift implementation of the backstop to the Single Resolution Fund for banks, insurance for social security schemes, and a co-financing instrument at the European Investment Bank (EIB) to safeguard private sector liquidity.

## European Central Bank

In its 12 March meeting, the European Central Bank (ECB) decided to undertake additional longer-term refinancing operations, to provide immediate liquidity support to the euro-area financial



system and bridge the period until the [targeted longer-term refinancing operations \(TLTRO\) III](#) in June 2020. Regarding TLTRO III, the ECB intends to apply more favourable terms during the period from June 2020 to June 2021 to all TLTRO III operations outstanding during that period, to support bank lending to those most affected by the spread of COVID-19, in particular SMEs. In addition, the ECB intends to maintain the interest rate on the [main refinancing operations](#), and the interest rates on the [marginal lending facility and the deposit facility](#), unchanged at 0.00 %, 0.25 % and -0.50 % respectively. Also, a temporary envelope of additional net asset purchases of €120 billion will be added until the end of the year and reinvestment of the principal payments from maturing securities under the [asset purchase programme](#) will continue for an extended period of time.

On top of these measures, to make it easier for banks to fund the real economy, the ECB will allow them to operate temporarily below the level of capital defined by the [Pillar 2 Guidance](#), the [capital conservation buffer](#) and the [liquidity coverage ratio](#). The ECB considers that these temporary measures will be enhanced by the appropriate relaxation of the [countercyclical capital buffer](#) by national macroprudential authorities. Moreover, banks will also be allowed to partially use capital instruments that do not qualify as [Common Equity Tier 1 capital](#) to meet the [Pillar 2 Requirements](#).<sup>8</sup>

The OECD notes that, should widespread disruption to trade (or a 'flight to safety' on the part of portfolio investors) enhance the demand for US dollars, swap lines between major central banks could be utilised, as was the case during the global financial crisis. Such measures were [announced](#) by the ECB on 15 March 2020, in a coordinated move with several other central banks.

## International Monetary Fund

A recent IMF [fact sheet](#) outlines the ways the Fund can contribute in assisting its member countries deal more efficiently with the coronavirus outbreak. According to the fact sheet, the following facilities and instruments are available:

- the [Rapid Financing Instrument](#) (for all member countries) and the [Rapid Credit Facility](#) especially for low-income countries, can provide emergency financial assistance to Fund members with balance of payment needs, without the need to have a complete programme in place;
- existing lending programmes could be augmented, to accommodate urgent new needs arising from COVID-19;
- grants could be provided to the poorest and most vulnerable countries with outstanding obligations through the [Catastrophe Containment and Relief Trust](#), for debt relief purposes;
- another means to obtain assistance, albeit slower than the above, would be to conclude a new financing arrangement with a member country, under the Fund's existing facilities (such as [Stand-By Arrangements](#)).

## EU's immediate budget response

The EU budget will provide funds to reinforce preparedness and containment measures. The Commission has mobilised an aid package of €232 million to:

- support the World Health Organization to enhance health emergency preparedness and response with €114 million;
- support the Institut Pasteur de Dakar in Senegal to support rapid diagnosis and epidemiological surveillance with €15 million;
- reinforce urgent research in diagnosis, therapeutics and prevention with €100 million. Some €90 million will be disbursed through a partnership with the pharmaceutical industry, with the remaining €10 million intended to reinforce [research](#) into coronavirus through Horizon 2020, the EU's research and innovation programme. This research aims to improve the public health response and the clinical care of patients infected with the

virus, beyond recent projects such as [PREPARE](#) and the European Virus Archive GLOBAL (EVAg);

- spend a further €3 million through the [EU civil protection mechanism](#) to co-finance [repatriation flights](#) for EU citizens from the Chinese city of Wuhan, where the coronavirus outbreak originated.

Following the EU leaders' videoconference on 10 March, Commission President von der Leyen, as [announced](#), presented a coronavirus response [investment initiative](#) of €37 billion to support healthcare systems, SMEs, the labour market and other vulnerable parts of European economies. It consists of €8 billion in cash from the structural funds, corresponding to unused pre-financing, which together with the EU co-financing of €29 billion amounts to EU budget support totalling €37 billion. The Commission proposes that coronavirus-related expenditure is made eligible and to channel the funding towards healthcare expenditure, support for SMEs and short-term work measures. It asks the European Parliament and Council to treat this proposal with urgency, within two weeks. Even though this proposal requires a modification of the [Common Provisions Regulation](#) for the structural funds, the Commission proposes maximal flexibility for their implementation. [National operational programmes](#) would be adapted, where necessary, at a later stage. The Commission also recalls that some other EU funds could be mobilised, such as the European Globalisation Adjustment Fund to support dismissed workers, where €179 million remains available, and the European Union Solidarity Fund, for which it proposes to enlarge the scope to include public health emergencies, which could provide up to €800 million.

## Multiannual financial framework

In the next multiannual financial framework (MFF) – the future EU budget for 2021-2027 – [health policies](#) will be funded through a dedicated funding strand (€413 million) within the European Social Fund Plus (ESF+), as well as [across other financial instruments](#). These include, for instance, the [European Regional Development Fund](#), [Horizon Europe](#), [Digital Europe](#), [InvestEU Fund](#) and the [Connecting Europe Facility](#). The health strands will aim to support national efforts in several areas, including (i) crisis-preparedness and response in the EU, to protect citizens against cross-border health threats, such as the novel COVID-19 outbreak; and (ii) supporting integrated work, to support structural innovation in public health, such as European reference networks (see above). However, Member States have not yet been able to reach a position on the next MFF. During the March plenary session debate on the conclusions of the special European Council meeting of 20 February 2020 on the multiannual financial framework, Members of the European Parliament [stressed](#) that 'it is not possible to do more with less', and that the EU needed to be given the necessary resources to deal with the Union's challenges, including the coronavirus emergency. Members criticised the Council proposal, which included reducing funding for research programmes, among other cuts, stressing that an appropriate research budget is essential, including to counter the COVID-19 crisis.

## Immediate prospects

In her opening remarks at the European Parliament plenary debate on COVID-19, Health and Safety Commissioner Stella Kyriakides [said](#): 'We need to show a Europe that cares. A Europe of solidarity. A Europe that protects. A Europe that offers added value to its Member States in their response to the challenge'. Members of the European Parliament also [called for](#) solidarity among Member States. A 2019 [study](#) by the European Parliamentary Research Service found that, within the limits set by the EU Treaties in health matters, European action is relevant and important, and European added value is clearly achieved by facilitating synchronised responses to pandemics/epidemics and simplifying the response to safety issues, as well as reducing cross-border threats. On 16 March, the Commission set guidelines on border checks, to facilitate the flow of goods and avoid build-up of people, and also proposed a temporary restriction on non-essential travel to the EU for 30 days. Heads of State or Government of the EU countries are set to hold a second videoconference on COVID-19 on 17 March. The forthcoming discussions on the next long-term budget should take into account the

recent economic, migration and coronavirus crises the EU has had to face. For the first two, the flexibilities embedded in the EU budget have helped weather these challenges. This should not be overlooked when deciding on the new multiannual financial framework. Finally, a major challenge will also be combating the misinformation around COVID-19, referred to in February 2020 by WHO Director-General Tedros Adhanom Ghebreyesus as fighting an '[infodemic](#)'.

## MAIN REFERENCES

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## ENDNOTES

<sup>1</sup> Here, the IMF notes that national governments can allocate money for local governments to spend in quarantine areas or to mobilise clinics and medical personnel to affected places, as China and [Korea](#) have done. Another example is Singapore, which according to the recent [Vox CEPR Policy Portal EU ebook](#), has adjusted its pay bonus for healthcare workers.

<sup>2</sup> An example used by the Fund in this context is France. The country is currently providing subsidies to firms and individuals for leave taken to stay at home to care for children during school closures. France is also offering to consider as on sick leave those directly affected by the virus who have to self-quarantine. According to the VoxEU CEPR Policy Portal ebook (see above), Italy has suspended payments for electricity in affected areas.

<sup>3</sup> For example, tax extensions, as is the case in Italy, or the suspension of social security contributions, as is the case in China.

<sup>4</sup> Eligible expenditure could include security, partial unemployment schemes and support targeted at specific sectors such as hospitality, airlines and entertainment.

<sup>5</sup> Such funds include the European Solidarity Fund and the European Globalisation Adjustment Fund, which would need to be leveraged, as they are currently small.

<sup>6</sup> The authors point to the German [Kurzarbeitergeld](#) and the Italian *Cassa Integrazione Guadagni* as examples of ways to support companies and workers that have to reduce their output.

<sup>7</sup> The authors note that 'this is particularly important now as ECB President Lagarde has called into question whether she would be ready to use OMTs, saying that "we are not here to close spreads"'.

<sup>8</sup> The ECB notes that this brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V).

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