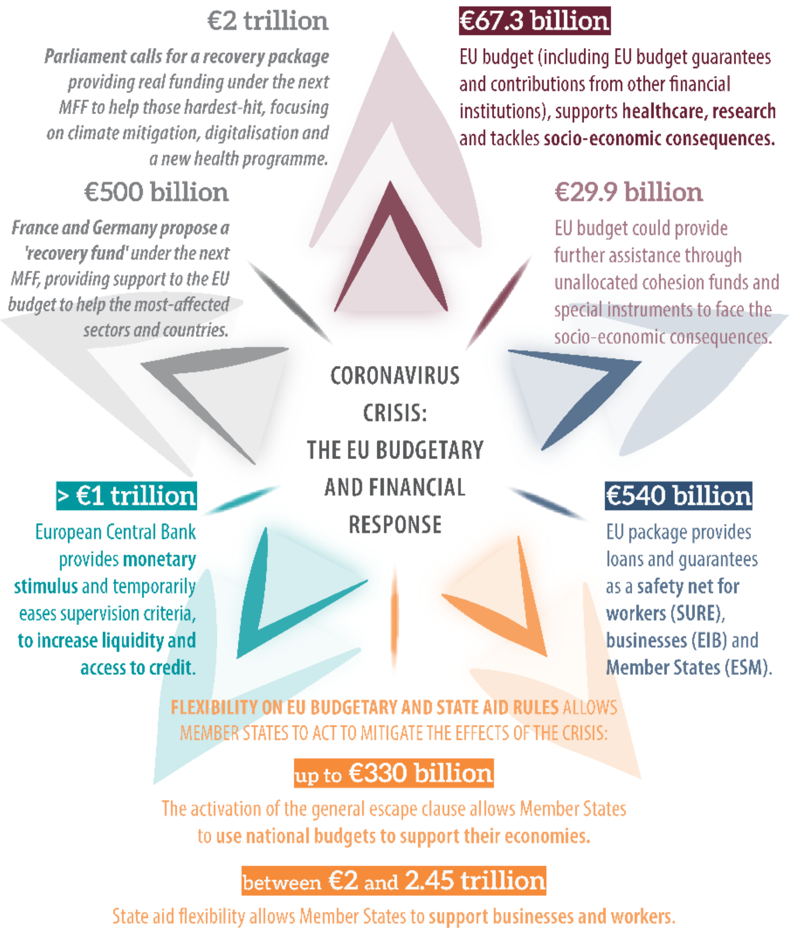
BRIEFING

European Parliament

EU budgetary and financial response to the coronavirus crisis

SUMMARY

Within the limits of its powers, the EU has acted quickly to tackle the coronavirus pandemic and its consequences. Showing considerable flexibility, EU institutions have organised a package of measures (some already decided, others proposed or requested), to counter the crisis, drawing both on the EU budget and a wider economic package. Parliament is calling on the European Commission to propose a €2 trillion recovery package, distributed mostly through grants (over which Parliament will maintain scrutiny) rather than loans, and warns against the presentation of misleading figures. The recovery package should provide real funding to help those hardest-hit, and focus on climate mitigation, digitalisation and a new health programme. The Commission has committed to propose a comprehensive recovery plan, along with revised 2021-2027 MFF proposals, on 27 May 2020. In the meantime, France and Germany have suggested a €500 billion 'recovery fund'.



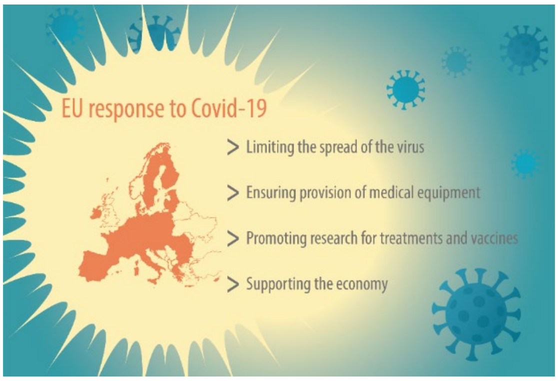
EPRS | European Parliamentary Research Service

Authors: Clare Ferguson, Marianna Pari, Stefano Spinaci;
Graphics: Nadejda Kresnichka-Nikolchova, Giulio Sabbati
Members' Research Service

PE 651.925 – May 2020

EN

EU priorities



Heads of State or Government of the 27 EU Member States underlined the need for solidarity in the EU approach to the coronavirus pandemic during their video-conference meeting on 10 March and established four priorities for action, reaffirmed on 17 March. Despite widespread contagion and very serious economic consequences, there was no agreement on appropriate financing instruments to help alleviate the effects of the virus at their subsequent 26 March video-conference. However, they were readier to consider a coordinated approach on 23 April when, looking to the future, they discussed lifting containment measures, safety nets for workers and business as well as a recovery plan, and their appropriate financing.

Budgetary response

Organising and providing healthcare in the European Union (EU) is a Member State prerogative and responsibility. Nevertheless, the EU acted swiftly to identify and reallocate funding from the current EU budget,[1] redirecting programme funds and additional budgetary support to fight the pandemic and mitigate its impact. The overall EU budget coronavirus package, including the resources provided either as grants directly from the EU budget or as an EU guarantee to financial institutions, stands at €67.3 billion, while an additional amount of €29.9 billion could possibly further help mitigate the consequences of the coronavirus outbreak if fully reoriented towards this objective.

Figure 1 – Total EU budgetary package to fight coronavirus crisis

Source: EPRS.

To tackle priorities in containing the virus and ensuring the supply of medical assistance, the EU allocated **direct support for the healthcare sector** through two amendments to the 2020 EU budget. The first reinforces RescEU with a total of €478.6 million for the EU Civil Protection Mechanism, to mitigate the consequences of the pandemic and assist recovery wherever needed in Europe, including purchase of medical supplies such as protective equipment and ventilators. This includes €350 million for financial assistance for Greece to ensure, among other actions, the proper accommodation of third-country nationals while their asylum applications are examined, thereby slowing the potential spread of Covid-19 in migrant camps. The second change to the current budget allocates €3 billion in new funding to healthcare – €2.7 billion under the Emergency Support Instrument for stockpiling and distribution of essential medical and testing supplies, as well as transport of medical equipment and patients; and the remaining €300 million in 100 % direct funding for RescEU (i.e. no national co-financing is required) to reinforce its reserve of medical equipment to be provided in addition to national stocks.

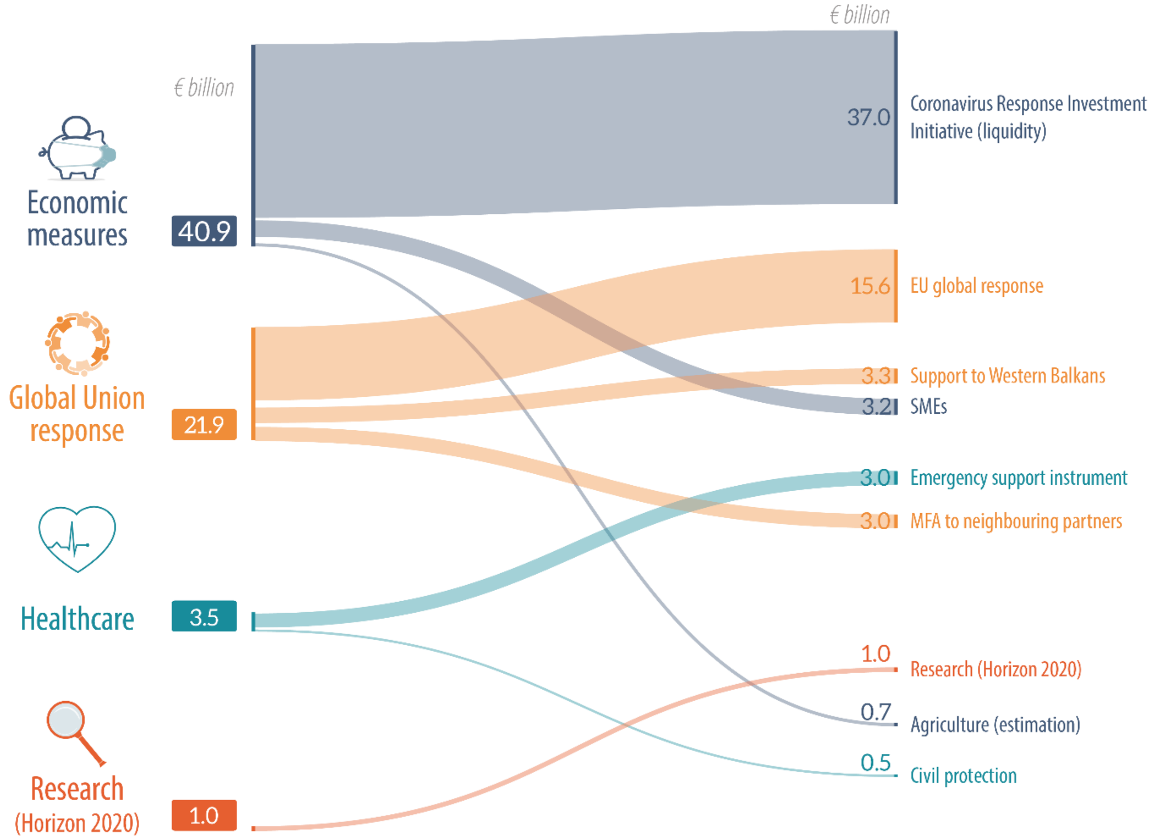
To boost **research into treatment and a vaccine**, the EU pledged €1 billion in funding under the Horizon 2020 programme. Some €325 million has already been allocated to research projects since January 2020, including the €50 million that the EU had already planned (in 2019) to contribute to the Coalition for Epidemic Preparedness.

To **protect jobs and support businesses**, the EU will redirect current EU budget funding to help the economy withstand the downturn caused by the coronavirus and subsequent lockdown measures. This includes liquidity measures to help hard-hit small and medium-sized businesses

(SMEs). The EU will provide around €2.5 billion in guarantees from the EU budget so that the EIB Group (European Investment Bank and European Investment Fund) can invest an additional €20 billion in SMEs. A further €1 billion, from parts of the EU budget guarantee planned for longer-term projects under the European Fund for Strategic Investment (EFSI), is redeployed to the European Investment Fund via the existing COSME and Innovfin programmes. This mobilises a total €8 billion to help at least 100 000 affected companies.

The EU has also established an initiative to provide liquidity to support SMEs, labour markets and the healthcare sector. In normal times, the EU claims back unspent pre-financing from the European structural and investment (ESI) funds held by Member States. In view of the serious consequences of the pandemic, this year these amounts will furnish a €37 billion Coronavirus Response Investment Initiative. With the Coronavirus Response Investment Initiative Plus (CRII+), the EU introduced further flexibility to the rules governing the funds, allowing Member States to transfer unspent resources between funds and between different categories of region (See also 'Potential additional resources' below).[2] Exceptional measures to assist agricultural and small agri-food businesses, as well as the fishing industry, are at this stage estimated by the Commission at €721 million.

Figure 2 – EU budgetary response to the coronavirus epidemic



Source: EPRS. NB: Includes loans, guarantees and contributions from other financial institutions.

External aspect of the coronavirus pandemic

As halting the pandemic demands a global response, the EU is supporting partner, neighbourhood and developing countries to respond to the threat. The Commission proposed a 'Team Europe' package, combining €15.6 billion in EU budget contribution, loans from the EU, Member States and financial institutions, including the European Investment Bank (EIB) and the European Bank for Reconstruction and Development. The funding envisages: €502 million for the short-term emergency response; €2.8 billion to support partner countries' research, health and water systems and €12.28 billion to address socio-economic impacts. In addition, Parliament has agreed to a proposed €3 billion in macro-financial assistance (loans) for 10 partner countries facing recession as a result of the crisis. The Emergency Aid Reserve has also been used to strengthen epidemic preparedness and response in third countries, through the World Health Organization (WHO) Strategic Preparedness and Response Plan, and has €284.1 million available.

Potential additional resources

When presenting the CRII proposals, the Commission noted that unallocated 2014-2020 cohesion funds remain available in several Member States – totalling €28 billion (including national co-financing), with more than half of that total concerning Spain and Italy – and could be used to fight the coronavirus crisis. In addition, resources from special flexibility instruments outside the multiannual financial framework (MFF) can be used to support Member States' efforts to mitigate the public health crisis. Some €800 million is available under the EU Solidarity Fund, where a change in the rules now allows public health emergencies to be covered. The rules for the Fund for European Aid to the Most Deprived (FEAD) have also been adapted to allow 100 % financing for food aid, assistance and protective equipment. The €179.3 million currently available under the European Globalisation Adjustment Fund (EGF) to support those who lose their jobs as a result of structural change due to globalisation could also be used to assist self-employed workers. To aid non-EU countries, the Emergency Aid Reserve will be used to provide humanitarian assistance, civilian crisis management and protection operations, to strengthen epidemic preparedness and response through the WHO's Strategic Preparedness and Response Plan (SPRP). The first aid package proposed to mobilise €30 million under this instrument. In order to allow for swift deployment of the aid, Amending Budget No 1/2020 channels a further €45 million through the advance use of the emergency aid reserve.

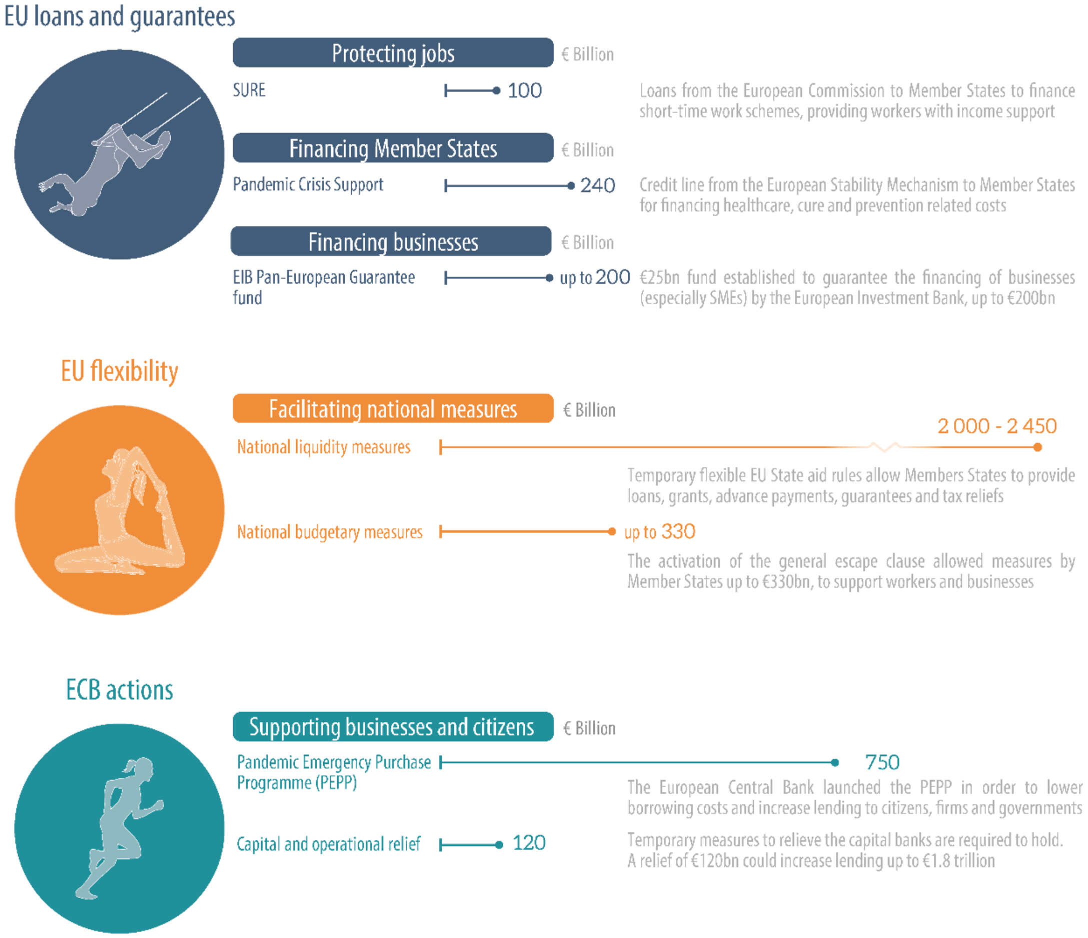
Figure 3 – Potential extra EU resources

Source: EPRS.

Economic response

The EU has adopted a range of measures to contain the economic shock caused by the Covid-19 outbreak, some managed by the EU institutions and bodies, others at national level. The driver has been to act immediately through the resources and instruments available, and to build new avenues where possible. Loans and guarantees are granted by EU institutions directly or indirectly to finance Member States and businesses, and more flexible budgetary rules are being applied to facilitate measures taken by Member States. The ECB is providing monetary stimulus and mitigated banking supervision criteria, in support of lending to businesses and citizens.

Figure 4 – EU economic response to coronavirus crisis



Source: EPRS.

Loans and guarantees

European leaders agreed a €540 billion economic package, at their 23 April meeting, providing safety nets for workers, businesses and EU Member States.

The instrument for temporary support to mitigate unemployment risks in an emergency (SURE) allows Member States to receive up to a total €100 billion in loans from the EU, granted on favourable terms. These loans can cover costs related to national short-time work schemes that allow firms to cut working hours while employees receive income support. The loan can also be used to finance similar measures, including for the self-employed. Member States have voluntarily committed to back the loans with €25 billion in guarantees. Member States thus benefit from the EU's strong credit rating and low borrowing costs on the financial markets.

The European Stability Mechanism (ESM) will finance direct and indirect health-related costs through Pandemic Crisis Support. This credit line will be available to all euro-area Member States to a level of 2 % of their respective GDP (at December 2019). Should all 19 euro-area countries draw from the credit line, this would amount to a combined volume of around €240 billion in loans. The terms are favourable: near-zero interest and long maturities of 10 years; with the only condition that the funds should cover direct and indirect Covid-19 healthcare, cure and prevention-related costs.

The EIB established a €25 billion Pan-European Guarantee Fund to support businesses, especially SMEs, gathering contributions from Member States and EU institutions pro rata to their EIB shareholding. The fund provides guarantees to the EIB Group, which finances businesses through local banks and other financial intermediaries. On the basis of this guarantee fund, the EIB Group estimates it could deliver up to €200 billion of financial products (bank guarantees, venture loans, SME support). Pooling credit risk across the entire EU reduces the average cost of the fund significantly, compared to national schemes.

Flexibility

On top of the economic package, the EU immediately introduced flexibility in budgetary rules to enable Member States to adopt discretionary fiscal measures to support families and workers. For the first time since its inception in 2011, the general escape clause of the Stability and Growth Pact was activated, pausing the requirement for Member States to reach their fiscal targets under EU budgetary rules. Member States can now adopt 'timely, temporary and targeted' initiatives to address the socio-economic consequences of the crisis. Financed by national resources or sovereign debt, it is difficult to gauge the impact of this flexibility on Member State budgets; however the European Commission estimates that it could amount to up to €330 billion.

The EU also granted flexibility on State aid rules, allowing Member States to implement liquidity measures to support distressed sectors and businesses. The temporary framework allows Member States to use the full flexibility allowed under EU State aid rules to support businesses. Member State measures could possibly amount to between €2 and 2.45 trillion in support for EU businesses.[3]

To help banks to support the economy through loans, the Commission adopted a banking package to facilitate loans to businesses and citizens, consisting of targeted amendments to EU banking prudential rules (the Capital Requirements Regulation), as well as exceptional temporary measures maximising bank lending and loss-absorbing capacity.

European Central Bank

The European Central Bank (ECB) responded to the emergency through its monetary policy and through changes to the application of banking supervisory rules. The new €750 billion Pandemic Emergency Purchase Programme (PEPP) complements a parallel expansion of the recently reactivated asset purchase programmes (APP). The PEPP aims to lower borrowing costs and increase lending in the euro area, by buying assets such as sovereign and corporate bonds. An expansion of the range of assets eligible under the corporate sector purchase programme, to non-financial commercial paper accompanies the PEPP, making all commercial paper of sufficient credit quality eligible for purchase. To increase ECB loans to banks, a package of temporary collateral easing measures introduces a general reduction in collateral valuation haircuts and allows banks to use credit claims as collateral. In addition, the interest rate on all targeted longer-term refinancing operations was reduced. The ECB also took several banking supervision measures to increase banks' lending capacity. Temporary, more flexible application of prudential requirements reduces the amount of capital that banks are required to hold to face risks they take on. Capital relief amounts to €120 billion that could be used to absorb losses, or potentially finance up to €1.8 trillion in loans.

European Parliament

Parliament debated the coronavirus outbreak at its January II, February and March II plenary sessions. At the latter, Parliament swiftly adopted its position (also agreed in Council) on three urgent legislative proposals responding to the pandemic: temporary suspension of EU rules on airport slots, creation of a Coronavirus Response Investment Initiative (CRII) and extension of the EU Solidarity Fund. Members met remotely for a second time in April, adopting a resolution setting out Parliament's position on the response to the pandemic and its consequences, calling for a massive economic recovery package, greater coordination on cross-border health threats, and condemning national emergency measures that restrict civil liberties. Members agreed to amend the EU's 2020 budget, approved specific flexibility measures for European structural and investment funds, and the CRII package (CRII+), including changing the rules of the EU Solidarity Fund. Parliament also agreed additional assistance for the hard-hit fisheries and aquaculture sector.

In May, as coronavirus infection rates began to fall in Europe, Parliament's focused on addressing the longer-term impact of the pandemic on communities and the economy. As negotiations on the 2021-2027 MFF are stalled, there is an opportunity to reflect the new situation, and Parliament called for a €2 trillion recovery package, distributed through grants and devoid of misleading figures, as well as for a Commission proposal on an MFF contingency plan for 2021, to protect beneficiaries of EU funds and ensure that the EU budget contributes to the fight against the pandemic and its consequences. In her 13 May 2020 speech to Parliament, Ursula von der Leyen, the European Commission President, set out a two-part recovery plan: the next MFF, and a short-term recovery instrument including grants, funded through headroom – money the Commission will borrow on capital markets, guaranteed by the Member States, and spent through existing EU programmes over which Parliament has scrutiny. The plan will include a recovery and resilience tool, investment in strategic autonomy, extra support through existing programmes and a new health programme.

On 18 May, Germany's Chancellor, Angela Merkel, and France's President, Emmanuel Macron, agreed on a European recovery initiative. One element of this would be a €500 billion EU-level 'recovery fund' for solidarity and growth. This fund would 'provide EU budgetary expenditure for the most affected sectors and regions on the basis of EU budget programmes and in line with EU budget priorities'. It would be financed by allowing the European Commission to borrow on markets on behalf of the EU, in the first years of the new MFF. David Sassoli, Parliament's President called the proposal a 'positive starting point', but commentators noted the obstacles still to be overcome to reach agreement, first among the remaining 25 Member States and then with Parliament.

EP SUPPORTING ANALYSIS

D'Alfonso A. and Sapala M., Establishing an MFF contingency plan, EPRS, European Parliament, May 2020.

Delivorias A., Stamegna C., Developing a pandemic emergency purchase programme: Unconventional monetary policy to tackle the coronavirus crisis, EPRS, European Parliament, April 2020.

Delivorias A., The 'general escape clause' within the Stability and Growth Pact, EPRS, European Parliament, March 2020.

Müller K., EU-27 support for national short-time work schemes, EPRS, European Parliament, April 2020.

Pari M., The EU's 2020 budget: Response to the coronavirus pandemic, EPRS, European Parliament, April 2020.

Remeur C., State aid and the pandemic: How State aid can back coronavirus economic support measures, EPRS, European Parliament, April 2020.

EPRS, Publications on coronavirus, European Parliament, 2020.

ENDNOTES

1 Estimation of the support from the EU budget includes the redirected or reprioritised existing resources and new resources provided either as grants directly from the EU budget or as an EU guarantee to financial institutions, based on information provided by the European Commission as of 15 May 2020. This information is constantly evolving.

2 The Commission considers that ESI funds for 2020 amounting to €54 billion in total can be redirected to respond to the effects of Covid-19. However, this is theoretical and has therefore not been integrated in the EU response. Instead, the unallocated cohesion funds, together with national-co-financing, totalling €28 billion are counted only as potential additional sources that a number of EU Member States could also mobilise.

3 Estimate based on available sources of information: European Commission, list of Member State Measures approved, national dataset of fiscal responses, The fiscal response to the economic fallout from the coronavirus, Bruegel, May 2020.

DISCLAIMER AND COPYRIGHT

eprs@ep.europa.eu (contact)

www.eprs.ep.parl.union.eu (intranet)

www.europarl.europa.eu/thinktank (internet)

http://epthinktank.eu (blog)