SUMMARY
The coronavirus crisis caused an asymmetric shock to both supply and demand in the EU, inflicting unprecedented economic harm: the deep recession in 2020 is likely to be followed by a fragile recovery in 2021. The downside risks are high and there is a strong possibility of further deterioration. European economies are highly integrated: about two-thirds of the EU’s total trade in goods takes place on the single market, through its tightly knit network of supply chains, financial connections and trade relationships. However, the pandemic has severely impacted the free movement of persons, goods and services in the EU, on which the market is based. While the depth of the economic downturn and the strength of recovery vary across EU Member States, many of those that were hardest hit by the pandemic happen to have the least policy space to respond to it. Left unaddressed, an uneven recovery across the EU risks creating divergences, fragmentation and permanent damage to the single market, which will have a negative impact on the EU’s recovery as a whole.

The EU has acted on many fronts since the onset of the crisis. Initially, it provided first-response measures – such as the suspension of State aid rules and a roadmap for lifting containment measures – designed to address multiple emergencies in the single market and the EU economy. It has also developed a comprehensive longer-term response to enable economic recovery and repair the damage inflicted by the crisis, while at the same time protecting and deepening the single market and rendering it more autonomous. The EU will offer large-scale asymmetric support and financial support, that will be distributed through existing and novel instruments. Some experts warn that the proposed recovery plan, while a step in the right direction, may be financially insufficient and too slow to disburse. The European Parliament has asked for a major recovery package worth €2 trillion.
The importance of the single market for the EU economy

The single market is generally considered to be the cornerstone of the EU economy and one of the greatest achievements of the European Union. Comprising nearly 450 million people and 20 million enterprises, it constitutes the largest integrated market in the world, worth €14 trillion in 2018. By removing barriers to trade, safeguarding fair competition, attracting investment and boosting efficiency and economies of scale, the single market has been fundamental in improving the competitiveness of EU companies. Even though the EU has less than 7 % of the world’s population, its trade with the rest of the world accounts for more than 15 % of global imports and exports.

Multiple studies have measured the effects of the single market on the EU economy. Quantifications of the benefits vary, but are overwhelmingly positive. A 2019 study suggested that EU citizens’ per capita welfare gains from the single market amount to €840 annually. Also in 2019, the European Commission estimated that, mainly due to the removal of tariff and non-tariff barriers to trade, EU GDP is 8-9 % higher than if the single market did not exist. Furthermore, in 2020 the ECB calculated that the single market has raised real GDP per capita by between 12 % and 22 % since its inception.

EU economies are highly integrated and the single market is an obvious case in point. Its importance is underlined by the fact that intra-EU trade (that between EU Member States) in goods has been consistently higher than extra-EU trade (that between EU Member States and third countries). A comparison of total trade (sum of imports and exports) reveals that the former was twice as large as the latter in 2002. By 2018, this ratio was moderately lower, as the value of intra-EU trade was 1.8 times as high as the value of extra-EU trade. Eurostat suggests that this gradual decrease indicates the EU’s progressive integration into the global economy. Between 2002 and 2020, the value of intra-EU exports more than doubled (overall by 116 %), while extra-EU exports rose overall by 121 %. In 2019, the single market was the most important trade destination for goods for all the Member States except Cyprus.

The situation on the services market is slightly different: while 19 Member States trade more in services within the EU than externally, in 2018 the total volume of trade was split equally between the EU and third countries. Notably, the EU is stronger in exporting its goods to third countries, with trade volumes reaching almost €2 trillion, nearly double that of services, in 2018. One of the reasons for this stronger global competitiveness of EU goods may be that the single market for goods is more deeply integrated than that for services.1 Deeper integration of the single market in goods means weaker barriers to trade, more widespread harmonisation and common standards, stronger competition, and higher productivity; all of these factors contribute to the competitiveness and efficiency of the firms operating in this market and make them more capable to compete globally than service providers.

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How coronavirus has damaged the economy

The pandemic, which rapidly engulfed the world in spring 2020, is considered very likely to cause the deepest economic contraction since the Great Depression of the 1930s, which makes it markedly worse than the global financial and economic crisis of 2008. Indeed, preliminary data indicate that the scale of economic damage this time around is much higher. In the depth of the 2008 crisis, EU GDP shrunk by 2.5 % in first quarter of 2009, compared to the previous quarter. Data from 2020 show that EU GDP plummeted by 3.5 % in the first quarter of 2020, compared to the last quarter of 2019. Statistics on industrial production is even more staggering – between February and April 2020, production decreased by 27.7 %. In the worst contraction period of the 2008 crisis, it took five months (from October 2008 to February 2009) for industrial output to decrease by 10.7 %. Other indicators point to a similar trend. Most economists predict that the headline Harmonised Index of Consumer Prices (HICP) inflation will plummet into negative territory, signalling dangerous deflationary pressures on the economy, caused by a massive shock to demand and an equally substantial drop in oil and non-food commodity prices.

The euro-area Purchasing Managers’ Index (PMI), which indicates the overall health of the economy, is closely watched as it signals expansion or contraction, depending on whether it is above or below the neutral 50 threshold. It was at 51.6 in February, and then tumbled to 29.7 in March, and then to an all-time low of 13.6 in April. The previous record-low of 36.2 was in February 2009, which indicates that the present downturn is much more severe than at the height of the global financial crisis.

The OECD has confirmed the above trend with an unprecedented drop in its composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to a trend six to nine months ahead. During March and April, its CLIs for the euro area crashed by 4.9 %, while during the 2008 crisis it took 11 months (from March 2008 to April 2009) for a drop of the same magnitude to occur. In April 2020, the OECD quantified the initial impact of Covid-19 containment measures on economic activity. It expects declines in the level of output of 20-25 % in many economies, with consumers’ expenditure potentially tumbling by around one-third, and each month of lockdown causing a loss of up to 2 percentage points of GDP. Production of capital goods, already acutely affected (see Figure 3), confirms this historical collapse in output and indicates an uncertain recovery. The June update forecast GDP in the euro area would contract by 9 % in 2020 in case of a single wave, and by as much as 11.5 % if there were to be a second hit.

Figure 2 – Selected economic indicators, 2008-2020

Data source: ECB, Eurostat.
Similarly, in its April 2020 economic outlook the IMF underlined that this is a crisis like no other: the shock to the economy is large, rapid and global, the output loss is the highest in living memory, there is acute uncertainty about the duration and intensity of the shock, and policy-makers have limited tools to mitigate it. The protective measures, such as lockdowns taken to protect citizens' health, are dramatically affecting economic activity. The IMF maintains that this profound initial shock amplifies through channels known from past severe downturns and crises. Financial markets are volatile, overshadowed by uncertainty and the rapid materialisation of major disruptions to economic activity, credit is becoming scarce, and borrowing costs rise because of flight to safe and liquid assets. Lenders are hesitant to extend credit, fearing that consumers and firms will not be able to repay. While many economic sectors, particularly those depending on human interaction, have been completely shut down for months, the survivors are starting to emerge from the abyss. Nonetheless, the layoffs in the EU economy keep mounting and real incomes are shrinking. This, coupled with fear of contagion, growing uncertainty and behavioural changes (such as avoiding shopping and restricting mobility) weighs on consumer spending, which sparks further business closures and job losses. The outlook remains uncertain and there are high risks of further deterioration.

The ECB's Financial stability review from May 2020 describes the coronavirus shock on the non-financial and financial sectors. Both supply and demand in the economy are disrupted due to distortions in supply chains, reduced trade flows and deteriorating market sentiment. This is accompanied by a weakening of firms' fundamentals, manifested by cash-flow problems, debt servicing difficulties and growing corporate defaults. At the same time, pressure on households keeps mounting, as evidenced by rising unemployment, reduced spending and precautionary saving behaviour. In addition, the property markets experience weakened demand, reduced construction activities and withdrawal of foreign investors. Many banks are under stress due to growing funding costs, limitations to lending capacity, and deteriorating quality of assets. Financial markets have become highly volatile, with significant and rapid repricing of risks and rising downgrades of firms. The ECB concludes that both the timing and the extent of recovery are uncertain, with strong downside risks.

In the most optimistic scenario, the IMF predicts a contraction by -7.1% in EU GDP in 2020, followed by a rebound by +4.8% in 2021, which would leave the economy way below its pre-virus levels. The rebound in 2021 depends on the pandemic subsiding in the second half of 2020, allowing containment policies to be gradually rolled back and bringing back consumer and investor confidence. A longer-lasting outbreak in 2020, a second wave in 2021, or a combination of the two, would trigger an even more far-reaching economic decline, by up to 8% of additional GDP loss in the advanced economies.

**Impact on the single market**

The free movement of persons, goods, services and capital is the pillar on which the single market is built. The cross-border movement of the first three has been severely affected by the pandemic. Soon after its outbreak, the majority of Member States reintroduced internal border controls on grounds of an immediate threat to public health. These have been accompanied by restrictions or bans on international passenger transport and bans on entry and exit. Naturally, these measures have also affected the free movement of services, unless they were delivered online, and goods, since air and road freight transport were slowed down across Europe. The restrictions on people's freedom of movement have had a knock-on effect on the transit of goods, since they are moved across the EU through services.
Border closures have severely disrupted labour mobility in the single market. This has particularly affected almost 2 million cross-border workers. Consequently, there has been a shortage of seasonal agriculture sector workers in many Member States, including Italy, Spain and Germany, whose economic model depends on such labour. On top of that, a need to take care of relatives and home-schooled children, absenteeism, infections and fear of the disease have reduced the usual labour supply. In the initial stage of the crisis, some countries also introduced export bans on protective materials, medical equipment and medicines useful in fighting Covid-19.

The press has also reported calls for economic nationalism by some politicians and retailers, which may negatively impact the supply chains (normally spread across the countries) and diminish the effectiveness of the single market. The EU manufacturing sector was initially hit hard by the coronavirus containment measures, with many factories closing or operating at a limited capacity, thereby lowering productivity and profitability. Just-in-time production came to a grinding halt at some point, due to the fact that Member States applied different approaches to lockdown, in terms of severity and timing.

The problems experienced by the single market have been compounded by disruptions in global trade due to a slump in demand and distortions in global value and supply chains. This has had a significant impact on EU companies, as many are integrated in these chains. In 2018, the Commission estimated that EU companies supplying goods and services to exporters sustain millions of jobs along respective supply chains within the single market: 'on average, almost one fifth of the jobs supported by extra-EU exports are facilitated by the single market'. The EU economy is open and global in character: some studies suggest that global value chain trade is roughly equally divided between the EU and third countries. The system is highly interlinked, as the production processes are fragmented and different phases take place in various locations, based on the international division of labour. Problems with regard to manufacturing in the EU were reported already in February due to the lockdown in Wuhan (China). Ensuing closures of factories and offices in Europe, increased prices of some goods and their components as well as disrupted transport corridors have upset the operation of most supply chains on the single market. The latest EU Economic Outlook (from April 2020) reported that since the onset of the pandemic, the supply chains have recorded the longest delays since May 2000. There have been further disruptive changes: while consumers have switched to e-commerce, (see Figure 4) logistics at companies such as Amazon and at delivery firms have also been put under increased pressure, a growing number of drivers have been reported absent, and many warehouse workers have questioned the safety of their workplace. After these short-term effects are over, the more permanent risk of decoupling some parts of the intra-EU supply chain, due to the disappearance (bankruptcy) of other parts, will become more pertinent.

These profound shocks to supply have been accompanied by equally acute shocks to demand. As evidenced by popular economic theory, recession causes delays of non-essential purchases and a drop in consumer confidence, both of which have been visible in EU societies during the crisis. Goods, such as food and medical supplies, where demand is rather inelastic, have suffered the least and in many cases have even registered a sales increase. However, the quarantines, lockdowns and social distancing have impaired mobility in society, with particularly severe effects on sectors that rely on social interactions and movement of people across the EU (such as travel, hospitality, tourism and entertainment). Since these are part of the services sector, it is not surprising that this part of the single market seems to be the most severely affected. Furthermore, the containment measures widely introduced by Member States have had a devastating impact on retail trade, the volume of which plummeted by 21.5 % month on month over March and April. During the 2008 financial crisis,
followed by the sovereign debt crisis, the decline was much more gradual and milder – from the peak of early 2008, a decreasing trend set in until mid-2013, causing a loss of roughly 7% in retail trade volume. Again, the strong export orientation of the EU economy means that the worldwide slump in demand is affecting domestic companies. The Commission expects coronavirus-related economic contraction to cause a loss of 9.2% (€285 billion) of the value of exports of EU goods and services in 2020. Most manufacturing sectors will see a contraction above 10%, and transport equipment and machinery, which are the most exported products and are often produced collectively by a number of Member States, will be even more affected.

There are further possible tensions that may disturb the single market. Some companies and supply chains may never reopen, and segments of the market may disappear completely. Crucially, the coronavirus crisis may further exacerbate the core-periphery divide, which became evident during the 2008 crisis, when euro-area countries started diverging significantly from each other in terms of GDP per capita levels. Today, they differ markedly in terms of key economic indicators such as budget deficit, costs, trade surplus and unemployment. A study from 2019 showed that countries and regions closer to the geographical core (i.e. Germany, France, Belgium, the Netherlands and Denmark) benefit from the single market more than regions in the southern and eastern periphery of the EU. This divide is widening now, as Member States have different coronavirus response capacities, because of their debt levels, some of which are the legacy of the previous crisis. While relaxation of State aid rules seems to be necessary to mitigate damage to the economy during the crisis, there are growing concerns that unprecedented injections of public funds in the private sector may have significant consequences on the level playing field in the single market. What makes matters worse is that many of the Member States hardest hit by the pandemic happen to be those with the least policy space to respond to the crisis. Most are also heavily reliant on those business sectors that have been the worst affected by the crisis.

The depth of the economic downturn and the strength of recovery vary across the EU, and depend on the success of easing confinement, on the importance of vulnerable services such as tourism in each economy, and on each country’s financial resources and demographic or economic structure. In an April meeting with the European Parliament’s Economic and Monetary Affairs (ECON) Committee, Mário Centeno, then-president of the Euro Group warned that: ‘when the location of a business in the Union is a key factor for its ability to recover from this crisis, the single market is at stake. This implies that, if left unattended, Covid-19 would leave the socio-economic and financial landscape highly fragmented. Fragmentation would undermine the single market and the currency union’. If there is no coordinated approach, the coronavirus crisis is likely to entrench these divergences and increase both internal imbalances and the fiscal gap between core and periphery.

Similarly, the Commission’s economic forecast underlines that insufficiently coordinated national policy responses, or a too limited EU-level response could: ‘limit the efficient use of the workforce (e.g. labour mobility), be inadequate to compensate for the lack of sufficient policy space, result in efficiency losses and dampen economic growth. Tight linkages through supply chains, financial connections and trade relationships would compound and spread negative effects throughout the EU economic forecast

In its latest economic forecast, the Commission predicts a drop of GDP by 7.5% in 2020 followed by a rebound of 6.1% in 2021. In 2021, it expects employment to drop by 1%, private consumption by 9% and the drastic shortfall in private investment to reach an equivalent of 6% of EU GDP. Although activity is expected to pick up again with the gradual easing of containment measures, recovery is set to be incomplete, as restrictions affecting travel and recreational services will persist longer than in other sectors, and as the fiscal measures taken to protect employment and workers’ incomes will only reduce, rather than prevent a decrease in household purchasing power in 2020. The rebound of exports will be weakened by permanent damage to global supply chains. The downside risks to this outlook are very strong and a possible second wave of infections later this year will markedly worsen the outcomes. During the May 2020 Youth Dialogue, ECB President, Christine Lagarde, warned that the virus fallout is likely to be more severe than anticipated, with the euro-area economy contracting by between 8% and 12%.
EU. The unravelling of the single market, or parts of it, is likely to have disastrous economic effects, estimated at 3.0-8.7% of EU GDP, or between €480 billion and 1.380 billion annually.

EU response

The EU has acted on many fronts since the crisis engulfed it. As the events started to unfold very quickly, it provided first-response measures designed to address multiple emergencies materialising in the single market and the EU economy. It also developed a comprehensive longer-term response to enable economic recovery and repair damage exerted by the crisis, while at the same time protecting, deepening and modernising the more autonomous EU single market. The plan seeks to repair the short-term damage of the crisis in a way that invests in the long term.

Removing bottlenecks, boosting manufacturing and strengthening the common approach

In the initial phase of the crisis, the Commission moved swiftly to address the bans and restrictions on the single market. On 16 March 2020, it published guidelines for border management measures to protect public health and ensure the circulation of goods, essential services and transport workers, followed a week later by the launch of the ‘green lanes’ to ensure that goods would move rapidly across the EU and the supply chains would be maintained. On 30 March, the Commission adopted guidelines ensuring the free movement of critical workers. It specified how to organise their smooth passage between the Member States and clarified that all frontier and posted workers should continue crossing borders if the sector in which they are active continues to operate in the host country. Member States were also asked to start working on ways to enable the smooth passage of seasonal workers. The new Single Market Enforcement Task Force started work on 8 April with the aim of removing restrictions to the flow of goods. On 20 March, the Commission and the European standardisation bodies agreed to make freely available standards for medical devices and personal protective equipment as a way to boost their production across the EU’s manufacturing sector. Furthermore, the Commission provided guidance on medical devices on 3 April, helping manufacturers and market surveillance authorities to ensure that these products are both effective and compliant with the necessary safety standards. On 8 April, the Commission, requested the Member States to lift all intra-EU bans on medicines. It also established a clearing house to address regulatory obstacles or bottlenecks in medical supply chains. Finally, in order to ensure the application of common principles and a coordinated easing of restrictions, on 15 April the Commission published a European roadmap to lifting coronavirus containment measures. This was followed on 13 May by a package of guidelines and recommendations to help Member States gradually restore freedom of movement, lift travel restrictions and allow tourism businesses to reopen. On 11 June, the Commission recommended lifting internal border controls by 15 June and presented a coordinated approach to gradual removal of the restrictions on travel to the EU, starting in July.

Supporting jobs and the economy

The EU has also focused on mitigating the severe blow the crisis has dealt on people’s livelihoods and the economy. Apart from the temporary State aid measure (discussed in the next section), the Commission authorised making full use of the flexibility of the EU fiscal rules on 20 March, which effectively meant allowing Member States to depart from the regular budgetary requirements in order to address the severe socio-economic consequences of the crisis. It also launched on 13 March the €37 billion Coronavirus Response Investment Initiative (CRII) to support the unemployed and provide liquidity to small businesses and the healthcare sector. On 20 April, this package of measures was complemented by a second one, the CRII+, which allowed for all non-utilised support from the European structural and investment funds to be fully mobilised in fighting the crisis. Furthermore, the Commission proposed on 2 April to set up a €100 billion European Instrument for temporary support to mitigate unemployment risks in an Emergency (SURE), which will provide up to €100 billion in loans to ensure that workers receive an income and businesses keep their employees. On 6 April, the Commission made €1 billion available to the European Investment Fund
(EIF) in the form of an EU budget guarantee; this will allow the EIF to mobilise €8 billion in working capital financing and thereby provide liquidity and guarantees to at least 100,000 small and medium-sized enterprises (SMEs) and small mid-cap firms. The European Investment Bank acted rapidly on 16 March, launching financing of up to €40 billion that will be deployed to bridge loans, delay repayments of credit and apply other measures to alleviate liquidity and working capital constraints for SMEs and mid-caps. The EIB Group is also setting-up a Pan-European Guarantee fund to mobilise up to €200 billion to support mostly SMEs that are viable in the long-term but are struggling currently.

Furthermore, to make it easier for banks to lend money to the economy and EU households, the Commission adopted a banking package on 28 April. Apart from these measures, steps have also been taken to address specific sectoral challenges in areas such as tourism, agriculture and fisheries. In order to protect the integrity of the single market and ensure respect for consumer protection rules, the EU is also screening online platforms and advertisements for scams and fake or overpriced items related to the coronavirus. On 20 May, the Commission also presented its European Semester Spring package aimed at setting the path to symmetric recovery and preserving the integrity of the single market. It recognised that the Member States will differ in their ability to finance the investment necessary to restart their economies and to finance the green and digital transitions, which could lead to a distortion of the level playing field. It also recommended diversifying and strengthening supply chains across the single market. Country-specific recommendations cover areas such as preserving employment through income support for affected workers, investing in people and skills, supporting EU enterprises and tackling aggressive tax planning and money-laundering. The package confirms a strategic transition to an economy that is both digital and green. The single market, which is a cornerstone of the EU economy, will shift in the same direction in the post-virus era (see section on recovery plan for Europe).

State aid

The crisis has also resulted in unprecedented levels of State aid dispensed by the Member States. On 19 March, the Commission adopted a temporary State aid framework, to enable flexible and broad public support of the economy by the Member States. It allowed five types of aid: i) direct grants, selective tax advantages and advance payments of up to €800,000 per enterprise; ii) state guarantees for loans taken by companies from banks; iii) subsidised public loans with low interest rates to companies; iv) safeguards for banks that dispense State aid to the real economy to boost their capacity; and v) short-term export credit insurance. The framework was amended on 3 April to enable stronger support for coronavirus-related research and development, testing capacity and products relevant in fighting the outbreak. It also allowed new approaches to be deployed, such as the postponement of tax payments and/or suspension of social security contributions, and the subsidising of wages. A second amendment to the framework, adopted on 8 May, permitted the Member States to provide recapitalisations and subordinated debt to non-financial companies. It also introduced a number of safeguards on state intervention in companies – such as conditions on its necessity, state entry and exit, prohibition to acquire competitors using public money – in order to minimise undue distortions of competition in the single market. The temporary framework will be in place until 31 December 2020. Further extension of the scope is now under the consultation.

As of late May, Margrethe Vestager, Commission Executive Vice-President, speaking at a hearing of Parliament’s Economic and Monetary Affairs Committee, confirmed that the Commission had approved 175 national measures notified by EU Member States and the UK, worth around €2.13 trillion. Germany accounted for 47% of the total amount, followed by Italy (18%), France (16%), Spain (4%), Belgium and Poland (2.5%), with the rest accounting for 1.5% or less.

Drawing up a recovery plan and reinstating the single market

On 27 May, the Commission proposed a recovery plan for Europe, based on Next Generation EU, a novel instrument that will reinforce the EU budget with additional financing raised by the Commission on financial markets (€750 billion), and a revamped multiannual financial framework 2021-2027 (worth €1.1 trillion).
Next Generation EU will be implemented across three pillars: i) supporting Member States to recover; ii) kick-starting the economy and helping private investment; and iii) learning the lessons from the crisis. It will include €440 billion in grants, €60 billion in guarantees and €250 billion in loans financed by long-term EU borrowing. The main measures that are most relevant to the single market, are outlined in this section.

About two-thirds (€310 billion) of the new €440 billion grants and all €250 billion loans would be channelled via the proposed new Recovery and Resilience Facility, established under the first pillar. Member States will be able to obtain grants or loans for investment and reforms, based on their plans, which need to address challenges identified in the spring as part of the annual European Semester process, strengthen growth and resilience, and contribute to the green and digital transitions of the economy. The maximum allocation to each Member State will be calculated taking into account their population, GDP, and average unemployment over the last five years.

The first pillar will also deploy funds through the ReactEU initiative (€55 billion), which uses additional funding for cohesion programmes over the 2020-2022 period, to be dispersed as grants. They would be used as employment subsidies and to finance short-time work schemes and youth employment measures as well as liquidity and solvency for SMEs. They will support cohesion in the EU and will be allocated to the most affected countries and regions. Finally, the Commission proposes to reinforce the Just Transition Fund (up to €40 billion), to help the Member States accelerate the transition towards climate neutrality.

The second pillar contains a number of instruments that are highly relevant for the recovery of the single market. Since most EU industrial ecosystems are based on supply chains spanning Member States, there is a risk of capital shortfalls (the Commission estimates that between 35% and 50% of enterprises with more than 20 employees could run into working capital shortfalls by the end of 2020). These shortfalls may cause more permanent damage to the single market through a prolonged period of lower investment and higher unemployment, with effects spread unevenly across sectors, industrial ecosystems and Member States, leading to divergences in the single market and to long-term damage to the EU’s productive potential. Member States’ varying fiscal capacity and more or less severe exposure to the effects of the pandemic lead to differences at national level that may permanently distort the level playing field. The Solvency Support Instrument (€31 billion) is designed specifically to counterbalance these distortions and support the sound functioning of the single market. To address the problem of insufficient equity faced by viable companies, the Commission proposes to provide the EIB Group with an EU budget guarantee. This will result in the mobilisation of private capital that will be used for providing equity support to viable companies from all economic sectors, allowing them to close solvency gaps and facilitate their green and digital transformation. Funding will be disbursed according to demand. While focused on the hardest-hit countries, which have less capacity to support enterprises through State aid, and on the most affected sectors, the funding will be available to all Member States.

To address plummeting investment levels, the plan proposes a revamped InvestEU programme (€15.3 billion). It will finance investment in sustainable infrastructure, research and innovation, digitalisation, SMEs and mid-caps, social investment and skills. Moreover, the new Strategic Investment Facility (€15 billion provisioning from Next Generation EU) will seek to develop strong and resilient independent value chains in areas such as critical infrastructure, green and digital technologies (smart health, the industrial internet of things, low-CO₂ emission industry and cybersecurity) and healthcare, in line with the strategic agenda of the EU and the New industrial strategy. It could also include important projects of common European interest. The Commission sees the Strategic Investment Facility as crucial in the recovery of the single market, as many important projects are cross-border, while the ability of Member States to support them varies. This facility could be of particular importance in the post-crisis situation, as some Member States might not have the financial means to support such projects with national State aid, and many projects are cross-border and require an EU approach. The new facility can help overcome these difficulties. The facility will be focused on the post-crisis rebuilding of the single market, by targeting projects
necessary for achieving strategic autonomy in key value chains. This will be achieved by scaling up EU-level projects via cross-border investments. Finance, mobilised on the basis of an EU budget guarantee for financing of investment projects via the EIB Group and national promotional banks, will be distributed according to demand and available to all Member States.8

The third pillar concerns the new EU4Health programme, which seeks to prepare the EU against future health threats, and for reinforcing rescEU, the EU’s civil protection mechanism, to respond to large-scale emergencies. Not directly related to the single market, it is not covered in detail here.

The revamped multiannual financial framework (MFF) 2021-2027 is also an important tool for the recovery of the single market, as it contains proposals for increased funding for programmes crucial to its further development and well-being, such as the Single market programme, the new Customs and Fiscalis programmes, the Connecting Europe Facility, and the Digital Europe programme. It is important to observe that the Commission sees the ‘increase’ in funding as compared to what was discussed by the European Council in February, not what was contained in the original proposals.9

In its communication accompanying the recovery plan, the Commission argues that the importance of digitalisation across all areas of the EU economy and society has been underlined by the crisis. It sees four areas as crucial to a post-virus single market recovery. According to the Commission, firstly, Europe needs to invest in wider and better connectivity, such as 5G networks, which will have positive spill-over effects across the digital society and boost the EU’s strategic autonomy.

Secondly, the EU will need to fortify its industrial and technological presence in strategic parts of the digital supply chain and strive for technological sovereignty. Investments in artificial intelligence (AI), cybersecurity, secured communication, data and cloud infrastructure, 5G and 6G networks, supercomputers, quantum and block-chain will be top priority.

Thirdly, it is imperative that the EU builds a real data economy based on common data spaces in key sectors and areas that will support EU industry, the implementation of the European Green Deal, as well as healthcare, mobility and public administration. The Commission will focus on enabling wider data-sharing, tackling barriers to digital trade and strengthening governance on issues such as data portability and access. Further priorities are improving access to and control of industrial data and making high-value public sector datasets available for the common good.

Fourthly, the EU must ensure a fairer and easier business environment. As the crisis boosted internet shopping and online business models, more companies will increase their digital dimension. At the same time, this environment is dominated by a small number of large firms. The Commission will clarify the rules for online platforms, increase consumer protection and prevent the abuse of market power by large digital firms, so that smaller ones have equal opportunities to theirs. It will also support reducing administrative burdens through digital solutions. All the above efforts will be accompanied by efforts to increase Europe’s cybersecurity capacity.

The Commission sees these elements as crucial to a digital recovery of the single market. It also expects that ‘in the medium to longer term, efforts to restore a fully functioning single market, as well as the investment made through Next Generation EU, will create new jobs across the economy, notably in the green and digital transitions’. 

Stakeholders' views

Business Europe sees a revitalised and open single market as an essential element of recovery. Firstly, it urgently calls for better coordinating the Member States’ border management strategies, while also respecting the free movement of workers and ensuring that special State aid rules are in place only as long as necessary. Secondly, it proposes longer-term measures to address persistent bottlenecks on the market. They include: further opening the single market for services; facilitating the harmonisation of standards; reinforcing market surveillance; and strengthening connectivity and supply chains. The association also advocates implementing the next phase of services digitalisation by deploying 5G, enhancing cybersecurity and boosting digital skills. The EU should
support innovation through ‘industrial ecosystems’ to restore investment in strategic value chains and sectors heavily affected by the coronavirus. This must be accompanied by innovation-friendly legislation, such as regulatory sandboxes and solid intellectual property and patent systems. Businesses also recommend: reforming EU competition rules on horizontal cooperation to encourage collaborative development of technology; and streamlining EU State aid rules for important projects of common European interest.

Eurochambres calls for the removal of border controls as soon as the sanitary situation permits, better coordination of national measures, and clearer communication to the public. All Member States should agree on a common, concise form for the border-crossing of workers, and ensure the free circulation of service providers in the single market at all times. Eurochambres also supports having a permanent rapid alert function to identify supply and value chain disruptions; cutting red tape through digitalisation; using the crisis to make the EU more digital; and extending pilot projects among border regions to help SMEs overcome barriers in the cross-border provision of services.

The trade unions call for supporting the short-time work and income compensation measures in all Member States to keep people in jobs and avoid massive unemployment and recession. They want the recovery strategy to focus on strengthening EU industries and economic sectors, on preserving jobs and on revising EU competition rules. Funding firms should be conditional on their conduct.

BEUC, the European Consumer Organisation, asks the Commission to urge and support the Member States to either preserve or boost the resources necessary for enforcement activities, since the economic crisis is likely to limit the financial means available. BEUC argues that well-functioning consumer- and market-surveillance authorities will be a key success factor for the economic recovery.

What's next? Parliament’s position and experts' assessments

In its resolution of 17 April 2020, the European Parliament (EP) stressed that the single market, as the source of European prosperity and well-being, is best positioned to deliver a response to the coronavirus outbreak. MEPs strongly favour fortifying EU industry, so that it becomes resilient to global shocks. It would entail reintegrating supply chains in the EU and stimulating EU production. In its resolution of 15 May 2020, Parliament stressed that the recovery package of a magnitude of €2 trillion must transform the EU economy and boost its resilience through the pooling of strategic investments with a focus on supporting SMEs, increasing job opportunities and skills to mitigate the impact of the crisis on workers, consumers and families. The MEPs support a focus of investment on the Green Deal, the digital agenda and the aim of achieving EU sovereignty in strategic sectors. Recovery must involve applying a consistent industrial strategy, as well as shortening and diversifying the supply chains. Parliament stresses that it will oppose any attempt to jeopardise the adequate funding of the next MFF in order to provide immediate financing for the recovery strategy.

Bruegel think-tank recommends revising state aid rules to preserve those economic sectors that are considered essential for the EU’s economic independence. It also finds it important to limit rescue through public intervention to productive firms only, and to focus on the development of strong capital markets in the EU, as they are best positioned to identify and support the enterprises that are worth saving. It also finds it essential to create a large European equity fund, supervised by the EIB, which together with private entities and national banks would invest in EU companies through a variety of instruments (including equity). Such a move would ensure a uniform approach to recapitalisation and protect the endangered integrity of the single market. Regarding the recovery plan, Bruegel warns that it may be too small and too slow to disburse.

University professors publishing on the VOX CEPR policy portal warn that uncoordinated and uneven State aid to the private sector will disrupt the single market with dramatic long-run consequences. They advocate creating an EU-funded public support programme taking EU-level decisions based on commonly agreed goals, and having the preservation of the level-playing field as its goal.
The European Policy Centre underlines that the single market will be more relevant than ever considering the rise in global protectionism. It recommends counterbalancing current large-scale asymmetric support measures with EU-level support distribution through the recovery fund. It also calls for the review of the action plan for the better enforcement of single market rules, the single market barriers report and the SME strategy for a sustainable and digital Europe to take into account measures taken during the crisis.

The Centre for European Policy Studies (CEPS) sees the recovery plan as a first move to fit a major missing piece into the puzzle of a functioning monetary union with a single market. It warns of the risks involved in ensuring that spending is in line with the priorities of the green and digital strategic shift. Disbursing EU funds is often slow and complex, while the crisis calls for rapid solutions. CEPS fears that the urgency of the crisis may be more conducive to saving the status quo rather than to inducing deep transformation.

MAIN REFERENCES


ENDNOTES

1 The integration of the single market for services has been progressing more slowly, mainly due to political obstacles and problems with the implementation of agreed laws at the national level.
2 The PMI is a survey-based indicator of business conditions. The respondents (executives) report changes in each variable compared to the previous month.
3 The impact was significant because road transport accounts for three-quarters of inland shipments within the EU. Air freight usually relies on cargo holds in passenger aircraft that had been grounded, while demand spiked during lockdown.
4 There were other measures to address the fallout and help stabilise the economy and address the crisis, which were available only to euro-area members and are not examined in this briefing: mainly, the ESM Pandemic Crisis Support (£240 billion) and the ECB’s Pandemic emergency purchase programme (£750 billion), to be expanded by €600 billion.
5 Subordinated debt is a category of debt that is repaid after senior debtors are repaid in full in case of borrowers’ default.
6 According to the press, these criteria are one of the sources of potential disagreements between the Member States.
7 Pillar one also contains revamped proposals for the common agricultural policy and the common fisheries policy.
8 The Commission expects that the €30.3 billion allocated for both programmes will enable a guarantee level of €72 billion, allowing for an overall investment level of up to €400 billion.
9 Comparing with 2018 proposals at 2018 prices gives a different picture. For example, the proposed budget for the Digital Europe programme was €9.194 billion, and is now at €8.194; the Single Market programme was shrunk from €4 billion to €3.7 billion.

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