

Steps by the European Commission on the economic front

13 March 2020

EU officials are drafting recommendations for a menu of targeted options that Member States could use to support sectors hardest hit by the coronavirus. The ideas will be put forward to a Eurogroup meeting in Brussels on 16 March.

Loosening of State aid rules

According to Executive Vice-President Vestager, the Commission will consider easing restrictions in the State aid rules to help national governments cushion struggling companies from the coronavirus fallout. She said on Tuesday that the bloc's rules "provide ample scope to help companies to cope with liquidity shortages and the need for urgent rescue aid."

The State aid regime gives scope for Member States to support companies suffering from "exceptional occurrences" and to grant support to handle a "serious disturbance to the economy" (articles 107.2b and 107.3b of the TFEU).

Among schemes that could require State aid clearance from the commission – depending on the circumstances – would be discounted government loans, tax credits or deferral of tax payments.

Full use of the flexibility in the Stability and Growth Pact

The Commission is prepared to use exceptions embedded in the Eurozone's fiscal rules to make it easier for Member States to increase public spending to deal with the crisis.

The fiscal rules provide for flexibility to cater for "unusual events outside the control of the government", while being mindful to the preservation of fiscal stability. Moreover, any one-off budgetary spending, incurred in relation to the response to the outbreak, would be excluded by definition from the computation of the structural budget, and not taken into account when assessing compliance with the required fiscal effort under the existing rules.

1. The European Commission is now taking stock of the available protective equipment and respiratory devices as well as their production and distribution capacity.
2. On research and development, the European Commission has allocated €140 million of public and private funding for research on vaccines, diagnosis and treatment.

3. **Corona Response Investment Initiative** aiming to channel €25 billion worth of investment to directly support the national health care systems, SMEs, labour markets and other vulnerable parts of the European economy. It will use €7.5 billion of unspent structural funds and the release of some €17.5-€18 billion of further structural funding.

Corona Response Investment Initiative – how will it work?

Under this new initiative, the Commission proposes to direct EUR 37 billion under Cohesion policy to the fight against the Coronavirus crisis. To this effect, the Commission proposes to relinquish this year its obligation to request Member States to refund unspent pre-financing for the structural funds. This amounts to about EUR 8 billion from the EU budget, which Member States will be able to use to supplement EUR 29 billion of structural funding across the EU. This will effectively increase the amount of investment in 2020 and help to front-load the use of the as yet unallocated EUR 28 billion of cohesion policy funding within the 2014-2020 cohesion policy programmes. The Commission calls upon the European Parliament and the Council to swiftly approve this proposal, so that it can be adopted within the next two weeks.

In addition, the Commission is proposing to extend the scope of the EU Solidarity Fund by also including a public health crisis within its scope, in view of mobilising it if needed for the hardest hit Member States. Up to EUR 800 million is available in 2020. The European Globalisation Adjustment Fund has up to EUR175 million available in to mobilise support for dismissed workers and the self-employed.

[Proposal for a Regulation on COVID-19 Response Investment Initiative](#)

Joint Procurement Mechanism

The Cross-border Health Threat Decision provides for the possibility of joint procurement of medical countermeasures in order to secure more equitable access to specific medical countermeasures and an improved security of supply, together with more balanced prices for the participating EU countries.

In order to be adequately prepared for an outbreak of a serious cross-border threat to health, the institutions of the EU, together with countries that have joined the Joint Procurement Agreement, have engaged in a joint procurement procedure with a view to purchase

- vaccines
- antivirals
- medical countermeasures for serious cross-border threats to health

The Commission has launched an accelerated joint procurement procedure for personal protective equipment with 20 Member States, with invitations to tender sent to a number of selected companies identified through a market analysis. It will facilitate the necessary and equitable access to personal protective equipment for Member States to minimise potential shortages. The signing of contract should be finalised beginning of April, at the earliest.

European Central Bank

- On Thursday, the ECB's governing council will **decide how to respond to coronavirus** fears that have sent financial markets into a tailspin and threaten to cause a deep Eurozone recession. The ECB president must outline a response after the Federal Reserve enacted the first emergency rate cut since the height of the financial crisis in 2008;
- Many observers believe the ECB is already short of options: the ECB has not lifted rates from their post-2008 financial crisis lows. Eurozone interest rates are at record low of minus 0.5 per cent and debate about the **adverse impact of negative rates** has intensified across Europe in recent months. This significantly reduces the scope to cut rates further;
- Lagarde has hinted that her focus is on providing extra liquidity to the banking and corporate debt markets. She said in a recent statement that the ECB was "ready to take appropriate and targeted measures" to address the crisis;
- Here's a look at some of Lagarde's options:
 - a) **Expand the ECB's €2.6tn asset purchase programme**, which was relaunched last year. The ECB could temporarily increase the size, particularly by buying corporate bonds, which are more plentiful;
 - b) **Increase the cheap loans** provided to banks in return for them meeting certain lending targets under the targeted longer-term refinancing operation (TLTRO) programme. The ECB could offer loans to banks at negative interest rates on the condition that they keep lending to small businesses affected by the disruption of the virus, either by repurposing the existing TLTRO programme or launching a new one;