

Presidency Issues Note for the Informal ECOFIN Working Session I

Berlin, 31 August 2020

Implementing Europe's Recovery: Taking stock and way forward

The Covid-19 pandemic has a substantial social and economic impact on the lives of citizens of the European Union. The unprecedented shock challenged the political and administrative ability of Member States and the European level to react.

Economic situation improves, substantial risks remain

In the first six months of the year, economic activity of all Member States experienced a historic slump. The economic impact varies considerably between Member States, depending inter alia on the extent and duration of the lock down measures and the economic weight of certain sectors. While several indicators raise hope that a recovery will materialize in the coming period, the gap to pre-crisis activity is still unprecedented, in particular in sectors strongly affected by the pandemic (tourism, hospitality industry). The overall economic environment will remain fragile, especially against the background of the uncertain development of the pandemic. The structural uncertainty will not only shape the economic development in Europe over the period ahead, it may also contribute to potentially different recovery trajectories between Member States.

Action at national and European level

Member States have taken extensive measures to contain the spread of the virus and limit its health impact. National lockdown measures showed effect, bringing down the spread of the virus. More recently, COVID case numbers have again been on the rise in many Member States.

To cushion the immediate impact on their economies and to limit permanent damages Member States responded swiftly. Governments have provided liquidity to support companies and used short-time working arrangements to sustain employment and preserve productive matches between companies

and employees. From early on, efforts by individual Member States have been strongly supported and enabled by measures on the European level. Against the immediate impact of the crisis, in April finance ministers put together three elements of a powerful European Covid-19 protection shield which already comprise a total volume of more than half a trillion euros. For employees, the European Commission's SURE programme supports national short-time working arrangements to help secure jobs. Companies can access credit programs of the European Investment Bank (EIB). The European Stability Mechanism (ESM) gives Member States the possibility to draw on credit lines tailored to the impact of the pandemic on health expenditure. At the same time, the Commission adopted a Temporary Framework for State Aid Measures. The national and European measures provided the immediate relief and liquidity necessary to avert permanent structural damage to the economy and thus paved the way for a subsequent recovery.

As the economic challenge shifts from emergency measures to sustaining the recovery over the next quarters, it will be important to decide on how long and to which extent to keep the extraordinary policy measures to support firms and employees in place. It seems necessary to keep some measures in place to maintain confidence, sustain healthy business models and productive relations between workers and firms. In some sectors, incentives might be needed for structural change that is bound to happen or accelerate in the wake of the crisis.

Next Generation EU: Chance to improve resilience and growth potential

In July, the European Council achieved a ground-breaking agreement on the recovery programme Next Generation EU with a scope of 750 billion euro and its main spending vehicle, the Recovery and Resilience Facility (RRF). The RRF goes beyond sole emergency measures, by balancing the need for immediate economic support with the objective to provide sustainable and inclusive growth in the future, it also addresses strategic questions like climate change and digital transformation.

The crisis has highlighted vulnerabilities in the European economies. It has also accelerated many transformation processes that will probably not be entirely reversed or even continue after the immediate crisis period is over. Importantly, many structural challenges existent before the crisis remain relevant. For example, Europe has been lagging behind other regions regarding productivity growth and innovation. Addressing such gaps by fostering competition and innovation within the Single Market, facilitating investment opportunities for firms by bringing forward the capital markets union and improving educational outcomes still needs to be a priority very high on the agenda. Moreover, demographic change will continue to affect social and economic life in Europe. It will also pose further challenges to public finances, which have been put under significant strain by the Corona crisis. Increasing our growth potential is key to facilitate the reduction of the debt levels that have risen in the wake of the crisis and reduce sustainability risks.

Careful analysis will foster focused Recovery and Resilience Plans

A sharp and thorough analysis is needed to allow focused and challenge-orientated strategies of Member States. In that spirit, Member States will draw up national Recovery and Resilience Plans in the upcoming months addressing country specific challenges especially those identified within the European Semester. Coherent plans will set out reforms and complementary investment projects to strengthen sustainable and inclusive growth, promote employment and facilitate a green and digital transformation inter alia with complementary investments in a sustainable, climate-friendly and modern digital economy. Within the RRF framework, it is crucial that Member States implement ambitious reforms and investment projects to make their economies and the EU at large more resilient.

We have to accept the crisis as an opportunity to create incentives for reforming and improving our economies. Laying the foundation for sustainable and inclusive growth and a resilient Europe will shape our economic future in a decisive way. By accentuating priorities in an open exchange and discussion process between Member States and with the Commission, the ECOFIN can contribute to this and give support to Member States in drawing up the plans. It is therefore crucial that the ECOFIN is closely involved in the process, not least by deciding on the plans by spring of 2021.

Questions for discussion:

- How do you assess the current economic situation in your country? In a framework of continued uncertainty on the depth and length of the ongoing crisis, what are the country-specific and European challenges during the recovery? What are main upside and downside risks?
- How do you evaluate the measures taken to cushion the economic impact of the pandemic so far? What has worked effectively and what has not?
- For the recovery phase, what should be the central policy priorities? How can we use the opportunity of the Recovery and Resilience Facility and create a momentum to strengthen resilience, foster transformations and deliver sustainable and inclusive growth?