

# THE EU RESPONSE TO COVID-19 ECONOMIC CRISIS AND CHALLENGES AHEAD

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INTERNATIONAL AND EUROPEAN RELATIONS

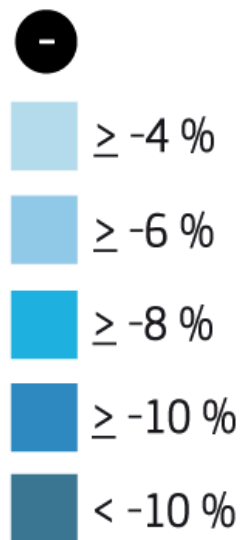


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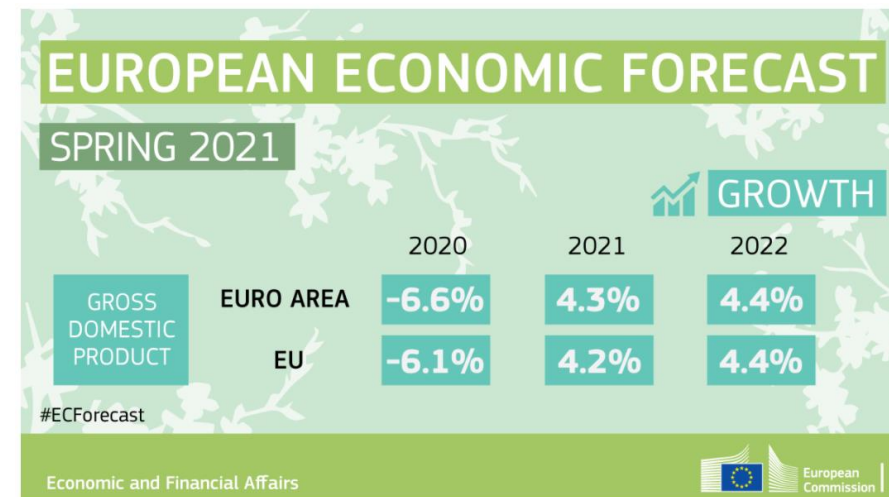


# European growth map 2020



**Sudden common negative shock with an heterogeneous impact on MS**

**Not caused by economic imbalances**



	Real GDP			Inflation			Unemployment rate			Current account			Budget balance		
	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022
Belgium	-6.3	4.5	3.7	0.4	1.8	1.5	5.6	6.7	6.5	0.1	-0.1	-0.5	-9.4	-7.6	-4.9
Germany	-4.9	3.4	4.1	0.4	2.4	1.4	3.8	4.1	3.4	7.2	7.8	6.9	-4.2	-7.5	-2.5
Estonia	-2.9	2.8	5.0	-0.6	1.6	2.2	6.8	7.9	6.3	-1.0	1.9	1.7	-4.9	-5.6	-3.3
Ireland	3.4	4.6	5.0	-0.5	0.9	1.3	5.7	10.7	8.1	4.6	4.5	4.2	-5.0	-5.0	-2.9
Greece	-8.2	4.1	6.0	-1.3	-0.2	0.6	16.3	16.3	16.1	-7.8	-7.6	-5.3	-9.7	-10.0	-3.2
Spain	-10.8	5.9	6.8	-0.3	1.4	1.1	15.5	15.7	14.4	0.7	-0.1	0.3	-11.0	-7.6	-5.2
France	-8.1	5.7	4.2	0.5	1.4	1.1	8.0	9.1	8.7	-2.0	-1.7	-1.2	-9.2	-8.5	-4.7
Italy	-8.9	4.2	4.4	-0.1	1.3	1.1	9.2	10.2	9.9	3.5	2.9	3.1	-9.5	-11.7	-5.8
Cyprus	-5.1	3.1	3.8	-1.1	1.7	1.1	7.6	7.5	7.2	-11.8	-11.0	-8.9	-5.7	-5.1	-2.0
Latvia	-3.6	3.5	6.0	0.1	1.7	2.0	8.1	8.2	6.9	3.0	-0.4	-0.4	-4.5	-7.3	-2.0
Lithuania	-0.9	2.9	3.9	1.1	1.9	1.9	8.5	8.3	7.1	7.6	6.0	5.8	-7.4	-8.2	-6.0
Luxembourg	-1.3	4.5	3.3	0.0	2.1	1.6	6.8	7.4	7.3	6.5	7.9	8.6	-4.1	-0.3	-0.1
Malta	-7.0	4.6	6.1	0.8	1.2	1.5	4.3	4.3	3.8	-1.3	-1.9	0.1	-10.1	-11.8	-5.5
Netherlands	-3.7	2.3	3.6	1.1	1.6	1.4	3.8	4.3	4.4	7.8	8.1	8.6	-4.3	-5.0	-1.8
Austria	-6.6	3.4	4.3	1.4	1.8	1.6	5.4	5.0	4.8	2.7	2.2	2.7	-8.9	-7.6	-3.0
Portugal	-7.6	3.9	5.1	-0.1	0.9	1.1	6.9	6.8	6.5	-1.1	-0.8	-0.4	-5.7	-4.7	-3.4
Slovenia	-5.5	4.9	5.1	-0.3	0.8	1.7	5.0	5.0	4.8	5.4	4.3	3.3	-8.4	-8.5	-4.7
Slovakia	-4.8	4.8	5.2	2.0	1.5	1.9	6.7	7.4	6.6	-1.5	-0.3	-0.4	-6.2	-6.5	-4.1
Finland	-2.8	2.7	2.8	0.4	1.2	1.2	7.8	7.6	7.2	0.3	0.0	0.5	-5.4	-4.6	-2.1
<b>Euro area</b>	<b>-6.6</b>	<b>4.3</b>	<b>4.4</b>	<b>0.3</b>	<b>1.7</b>	<b>1.3</b>	<b>7.8</b>	<b>8.4</b>	<b>7.8</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>-7.2</b>	<b>-8.0</b>	<b>-3.8</b>
Bulgaria	-4.2	3.5	4.7	1.2	1.6	2.0	5.1	4.8	3.9	4.1	6.0	7.5	-3.4	-3.2	-1.9
Czechia	-5.6	3.4	4.4	3.3	2.4	2.2	2.6	3.8	3.5	0.1	-0.3	-0.8	-6.2	-8.5	-5.4
Denmark	-2.7	2.9	3.5	0.3	1.3	1.3	5.6	5.5	5.2	7.8	8.0	8.4	-1.1	-2.1	-1.4
Croatia	-8.0	5.0	6.1	0.0	1.3	1.3	7.5	7.2	6.6	-1.1	-2.0	-0.7	-7.4	-4.6	-3.2
Hungary	-5.0	5.0	5.5	3.4	4.0	3.2	4.3	4.3	3.8	-0.3	-0.6	-0.5	-8.1	-6.8	-4.5
Poland	-2.7	4.0	5.4	3.7	3.5	2.9	3.2	3.5	3.3	3.1	2.8	2.1	-7.0	-4.3	-2.3
Romania	-3.9	5.1	4.9	2.3	2.9	2.7	5.0	5.2	4.8	-5.0	-4.9	-4.6	-9.2	-8.0	-7.1
Sweden	-2.8	4.4	3.3	0.7	1.8	1.1	8.3	8.2	7.5	5.4	6.0	6.7	-3.1	-3.3	-0.5
<b>EU</b>	<b>-6.1</b>	<b>4.2</b>	<b>4.4</b>	<b>0.7</b>	<b>1.9</b>	<b>1.5</b>	<b>7.1</b>	<b>7.6</b>	<b>7.0</b>	<b>3.0</b>	<b>3.1</b>	<b>3.1</b>	<b>-6.9</b>	<b>-7.5</b>	<b>-3.7</b>

## RAPID OR SHORT-TERM MEASURES

### Temporary added flexibility to common regulatory frameworks

Easing of fiscal rules via the activation of SGP escape clause (March 2020)

Temporary framework of State aid (March 2020 y updates)

Anti-crisis banking package (April 2020) and Quick-fix (*Amendment to CRR*, June 2020)

### Triple safety net: support to employment and workers, firms and EU Governments - €540 bn

SURE - €100 bn

EIB - €200 bn

ESM - €240 bn

### EU Budget Amendenments for 2020

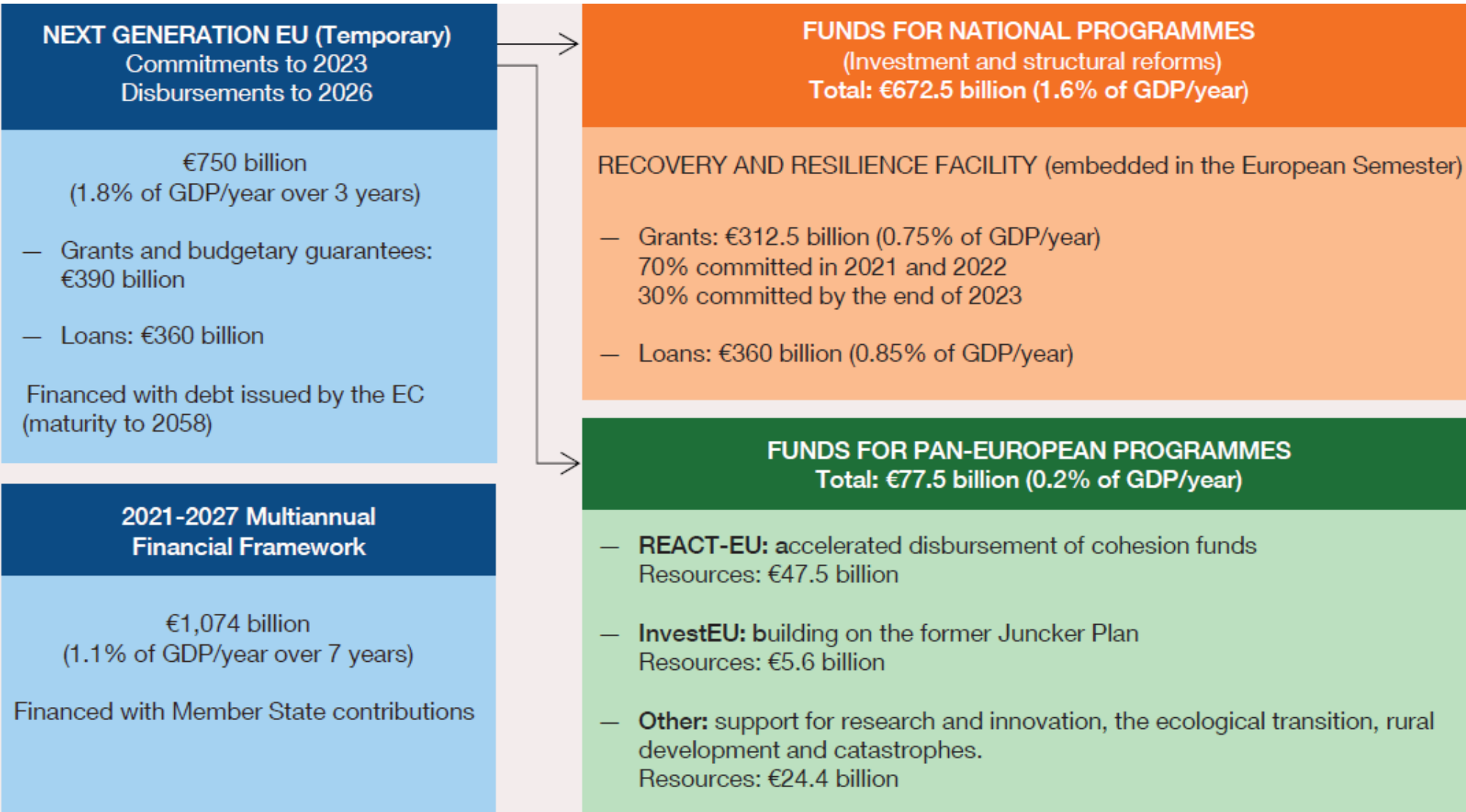
## MEDIUM-TERM MEASURES

### NEXT Generation EU (NGEU) - €750 bn

### Multiannual Financial Framework (MFF) for 2021-2027

The ECB launched the €1.350 billion Pandemic Emergency Purchase Programme

- EU level response: **Rapid, flexible**, with a **solidarity** component.
- A **forward looking, common effort** , aiming at:
  - (i) **Limiting damage** in the short term.
  - (ii) **Enabling** the response at national level (€3600 bn).
  - (iii) **Fostering the recovery** from the shock.
  - (iv) **Avoiding an increase in heterogeneity** and inequality among MS due to Covid.
  - (v) **Making the EU economy more resilient** and able to successfully address climate and digital transitions (**NGEU**).



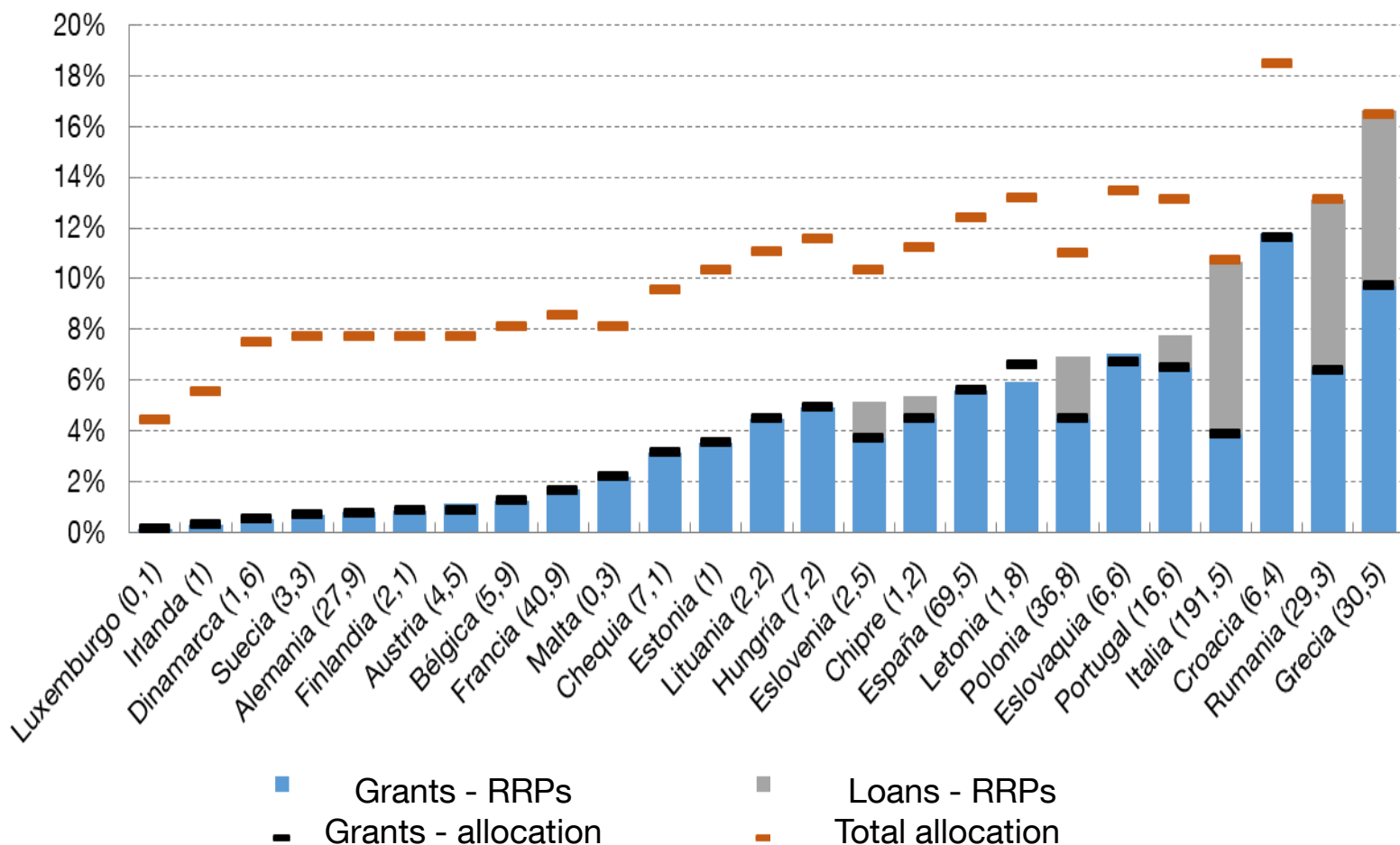
**NGEU €750 bn  
(2018 prices)**

**5% of EU GDP**

An EU instrument:

- Linked to EU **MFF**.
- **Temporary** (2021-26).
- Financed through **debt issuance**.
- Innovative: a **combination of grants & loans** to fund national programmes: the Recovery & Resilience Facility (RRF)

## GRANTS AND LOANS PER COUNTRY/RRP (% GDP)



## RECOVERY & RESILIENCE FACILITY

Total €672.5 bn (1.6%GDP/year)

Grants €312.5 bn (0.75%GDP/year)

Loans €369 bn (0.85%GDP/year)

RRF provides **grants & loans** to MS to fund recovery programmes (RRPs):

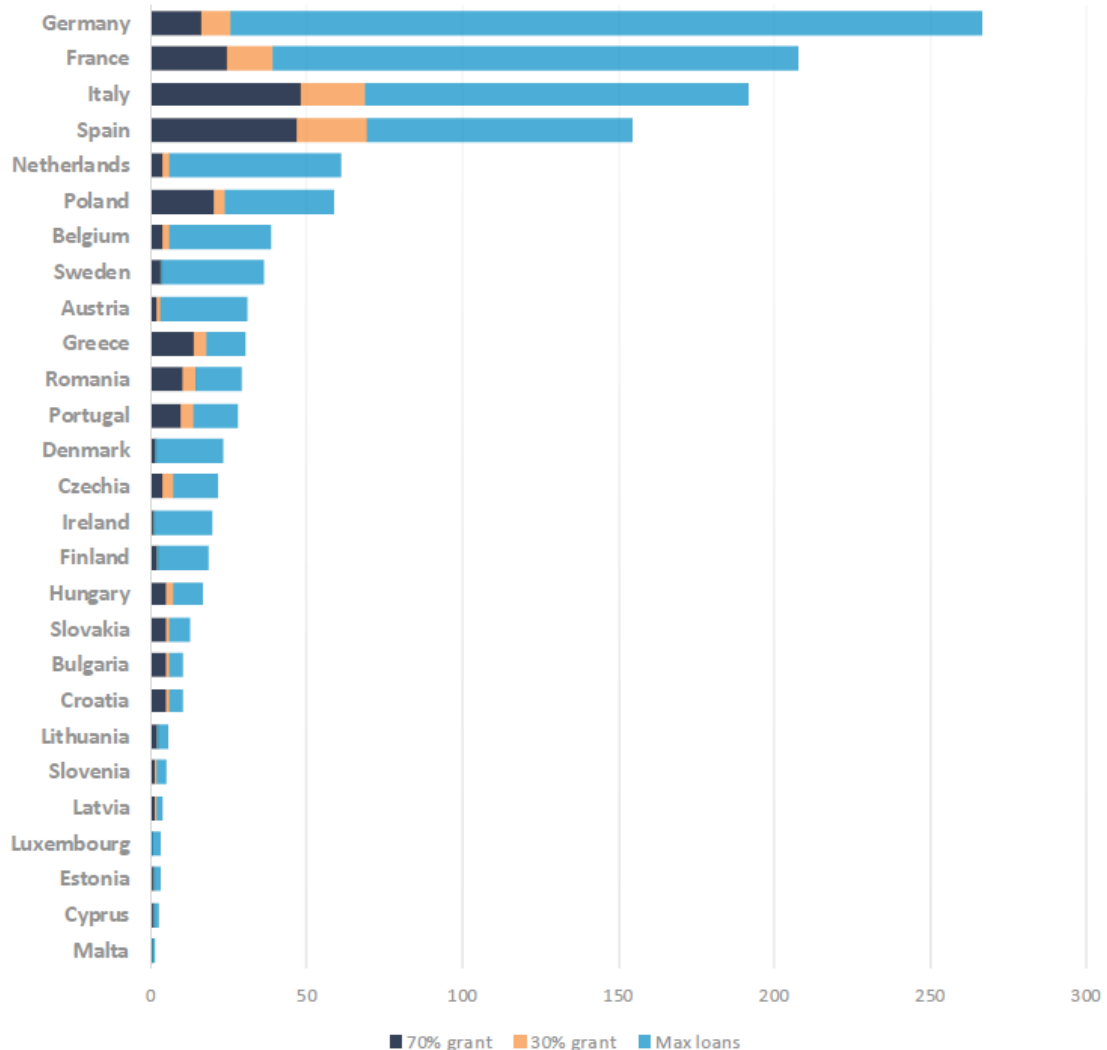
- **RRPs consist of structural reforms & investments.**
- Disbursements are linked to **milestones & targets.**

### Criteria for allocation of grants to MS:

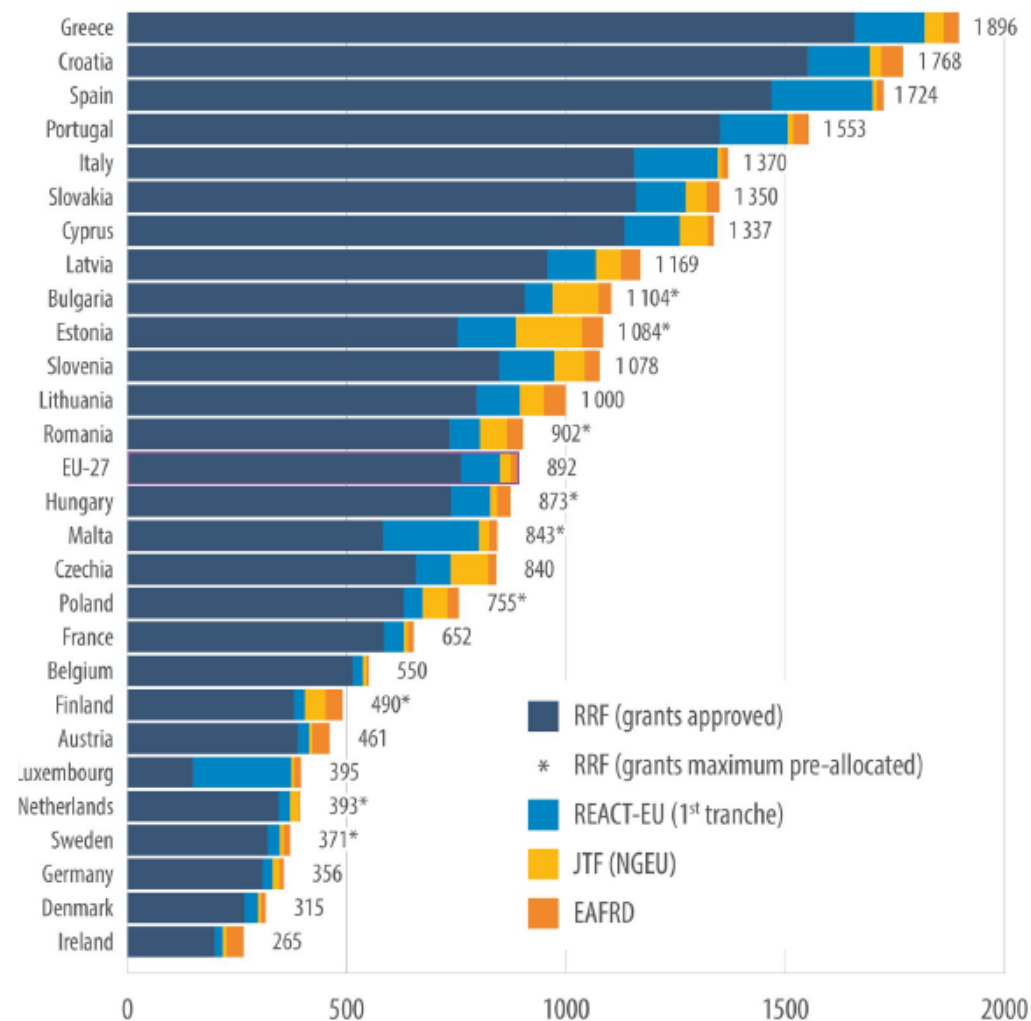
- 70%: **population, inverse GDP *per cap.*: average unempl. 2015-19.**
- 30%: Unemployment is replaced by **real GDP loss 2020 & accumulated GDP loss 20-21 (data June 2022).**

**Loans: up to 6.8% of GDP**

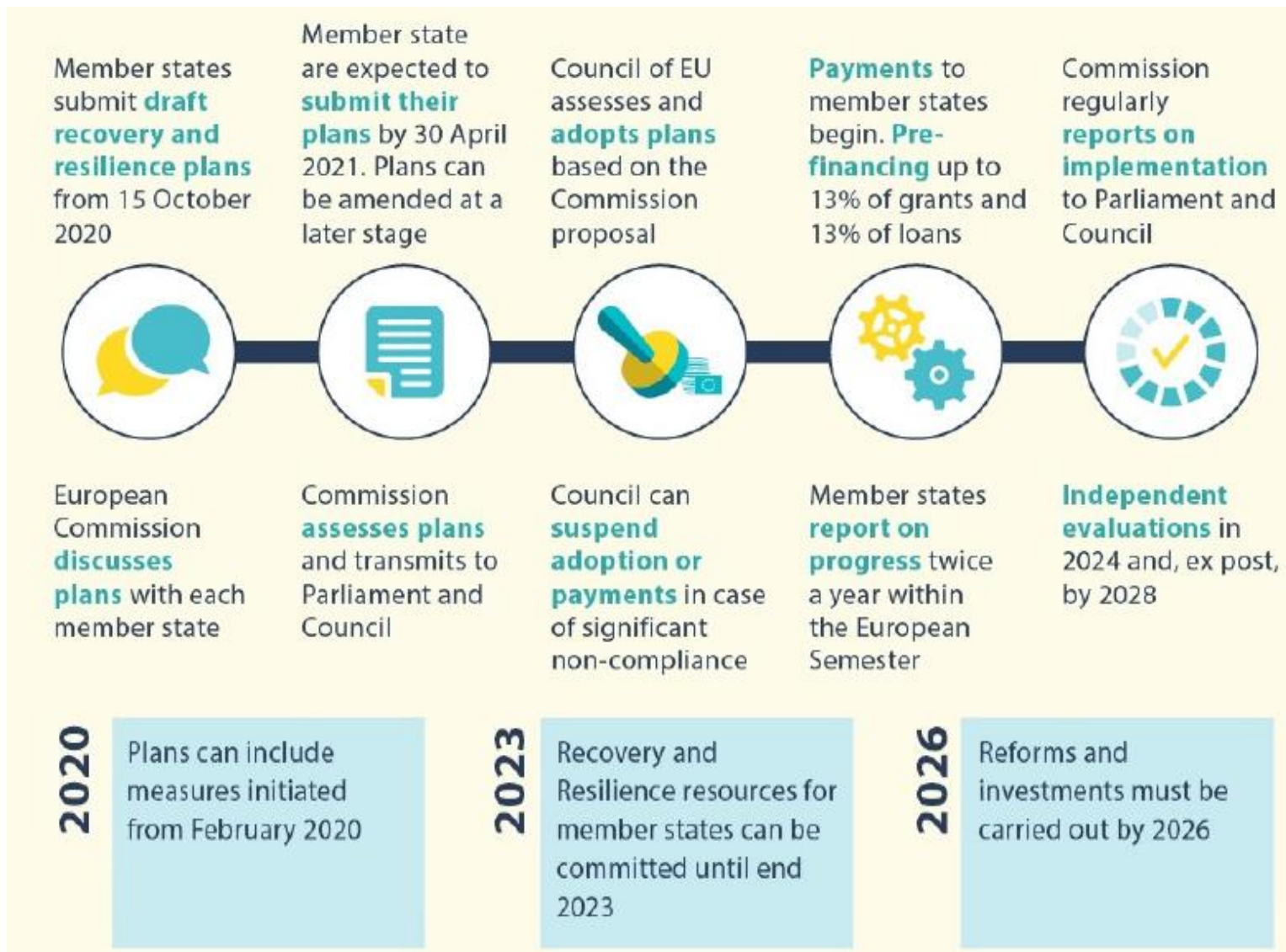
## RRF allocation (grants and loans) per country (€ bn)



## NGEU contributions per country (per cápita)





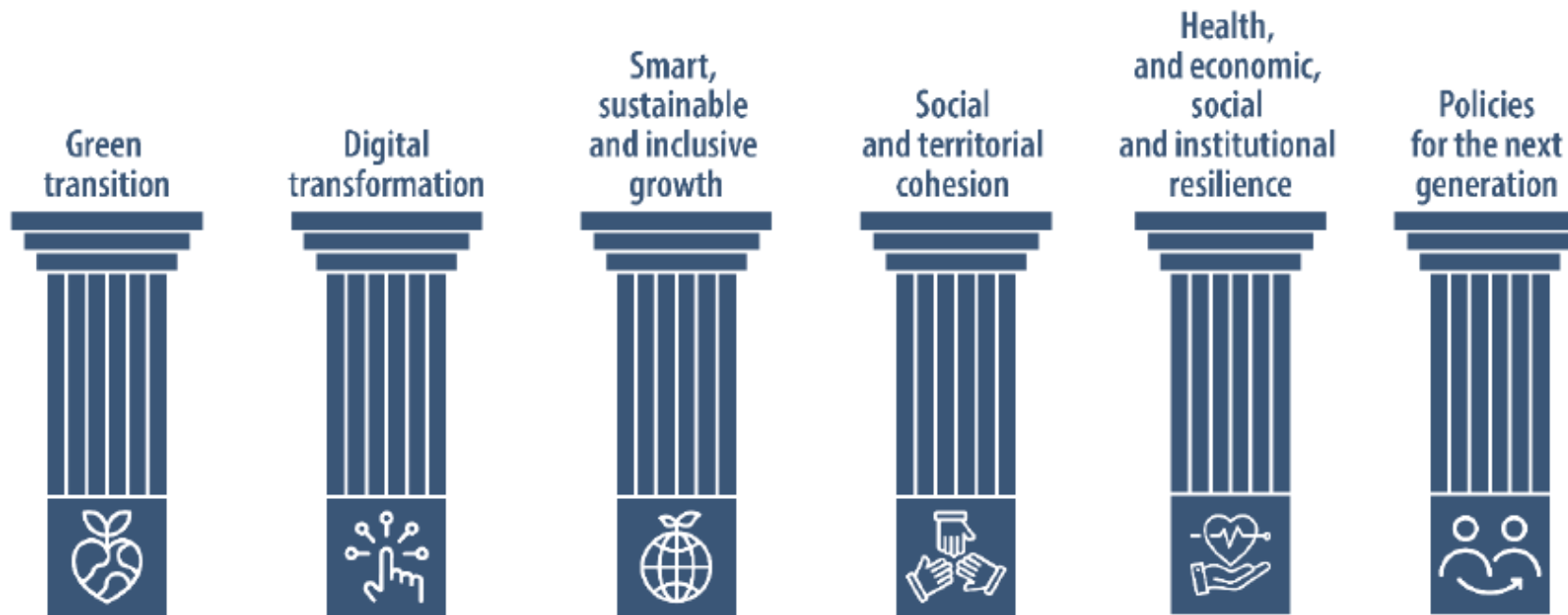


## RRF process: adoption and implementation of RRFs

- **Adoption:** drafts discussed with COM; assessment by the COM (criteria); proposal from COM to Council of the EU (CID); adopted by the Council (Ecofin)
- New measures in RRFs: 2021-23.
- 13% prefinancing after adoption.
- **Implementation:** COM assesses M&T to open the disbursements every 6 months.
- Last disbursements by end 2026
- **Financing:** the COM issues in financial markets.
- Bonds to be totally repaid by 2058
- Grants to be funded by EU (new) own resources

At least 37 % expenditure on climate  
At least 20 % expenditure on digital transition

## The six pillars of the RRF

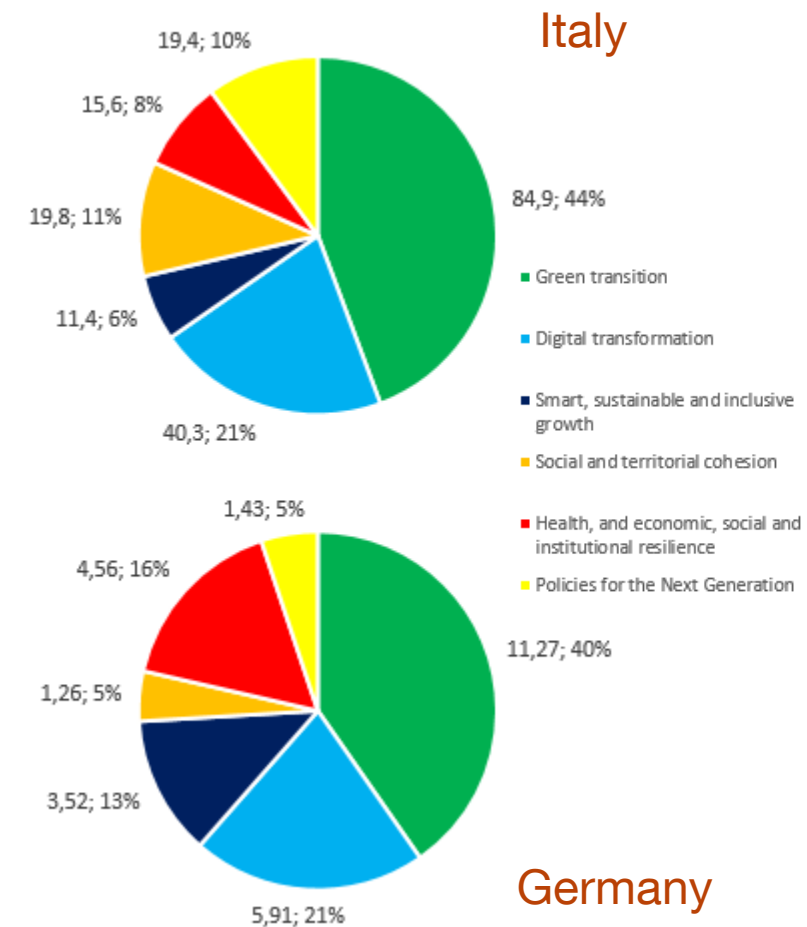
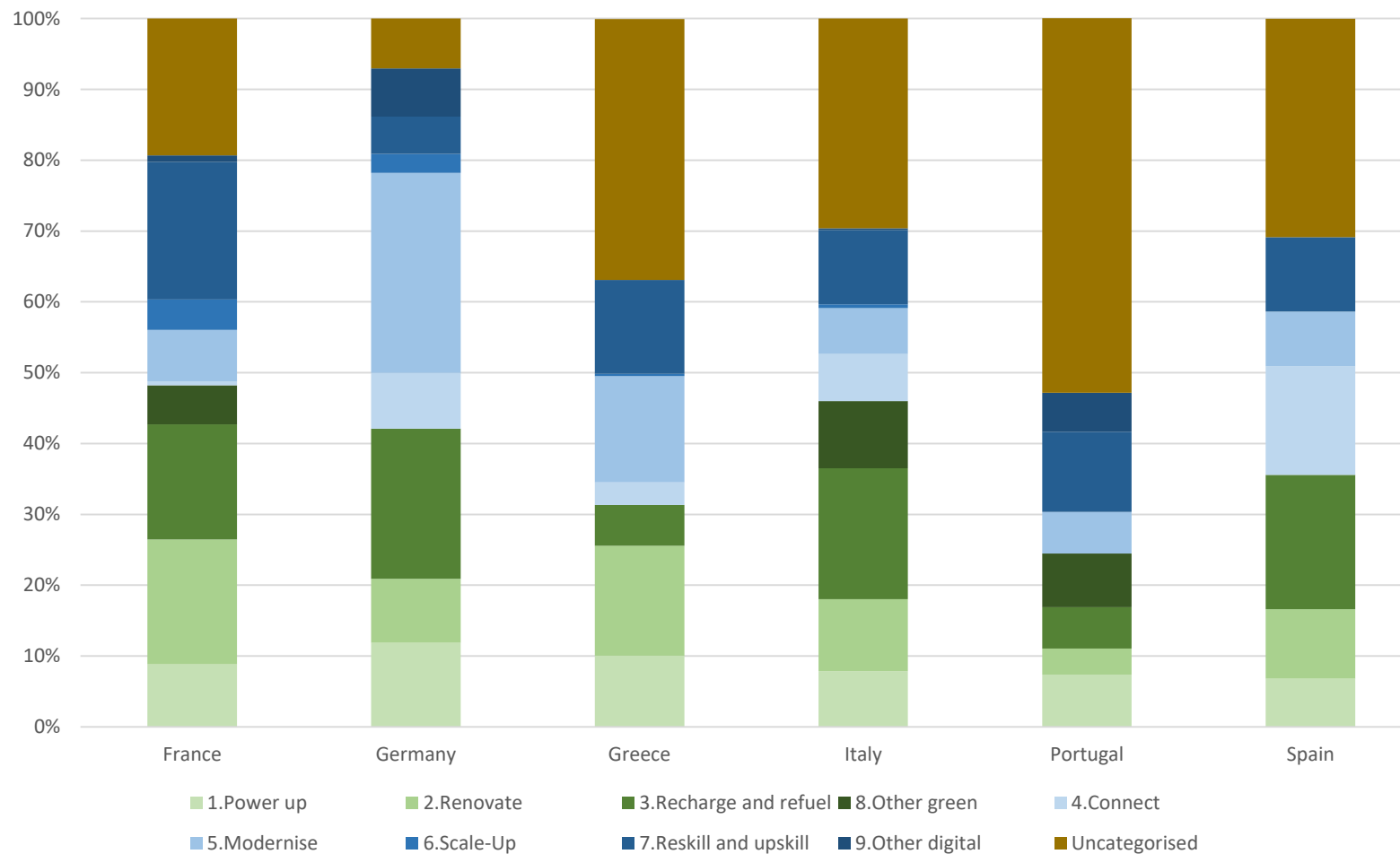


## Assessment process of RRFs:

- **Scope** of the plan: 6 policy áreas (pillars).
- **Horizontal principles:** Additionality; “Do not significant harm”; Foster synergies with other EU programmes.
- **Eligibility:** Consistency with CSR of the European Semester and NRP.
- **Rating of RRFs:** across 11 criteria, rated into 3 categories.

	(1) Comprehensive and balanced response	(2) Country-specific recommendations	(3) Growth, jobs, economic, social and institutional resilience	(4) Do no significant harm to environment	(5) Green transition	(6) Digital transition	(7) Lasting impact	(8) Monitoring and implementation	(9) Cost justification	(10) Preventing corruption, fraud and conflicts of interests	(11) Coherence
Austria	A	A	A	A	A	A	A	A	B	A	A
Belgium	A	A	A	A	A	A	A	A	B	A	B
Croatia	A	A	A	A	A	A	A	A	B	A	A
Cyprus	A	A	A	A	A	A	A	A	B	A	A
Czechia	A	A	A	A	A	A	A	B	B	A	B
Denmark	A	A	A	A	A	A	A	A	B	A	A
France	A	A	A	A	A	A	A	A	B	A	A
Germany	A	A	A	A	A	A	A	A	B	A	A
Greece	A	A	A	A	A	A	A	A	B	A	A
Italy	A	A	A	A	A	A	A	A	B	A	A
Ireland	A	A	A	A	A	A	A	A	B	A	A
Latvia	A	A	A	A	A	A	A	A	B	A	A
Lithuania	A	A	A	A	A	A	A	A	B	A	A
Luxembourg	A	A	A	A	A	A	A	A	B	A	A
Malta	A	A	A	A	A	A	A	A	B	A	A
Portugal	A	A	A	A	A	A	A	A	B	A	A
Romania	A	A	A	A	A	A	A	A	B	A	A
Slovakia	A	A	A	A	A	A	A	A	B	A	A
Slovenia	A	A	A	A	A	A	A	A	B	A	A
Spain	A	A	A	A	A	A	A	A	B	A	A

## RRPs composition (%)



## 4 Main objectives ›

- **Green transition** (37% of investment)
- **Digital transformation** (33% of investment)
- **Social and territorial cohesion**
- **Gender equality**

**€69.5 bn**

## 10 Policy levers ›

	% of total (*)
1. <b>Urban and rural agenda</b> , territorial cohesion and modernization of agriculture	19.2%
2. Resilient <b>infrastructures and ecosystems</b>	14.6%
3. A just and inclusive <b>energy transition</b>	10.7%
4. An <b>administration for the 21st century</b>	6.0%
5. Modernization and digitisation of <b>industry and SMEs, entrepreneurship and business climate</b> , recovery and transformation of <b>tourism and other strategic sectors</b>	20.5%
6. Promotion of <b>science and innovation</b> and strengthening the <b>capabilities of the national health system</b>	8.1%
7. <b>Education and knowledge</b> , lifelong learning and capacity building	12.7%
8. The <b>new care economy and employment policies</b>	6.8%
9. Promotion of <b>culture and sports</b> industries	1.4%
10. Modernization of the <b>tax and pension system</b> for inclusive and sustainable growth	-

## 30 Components ›

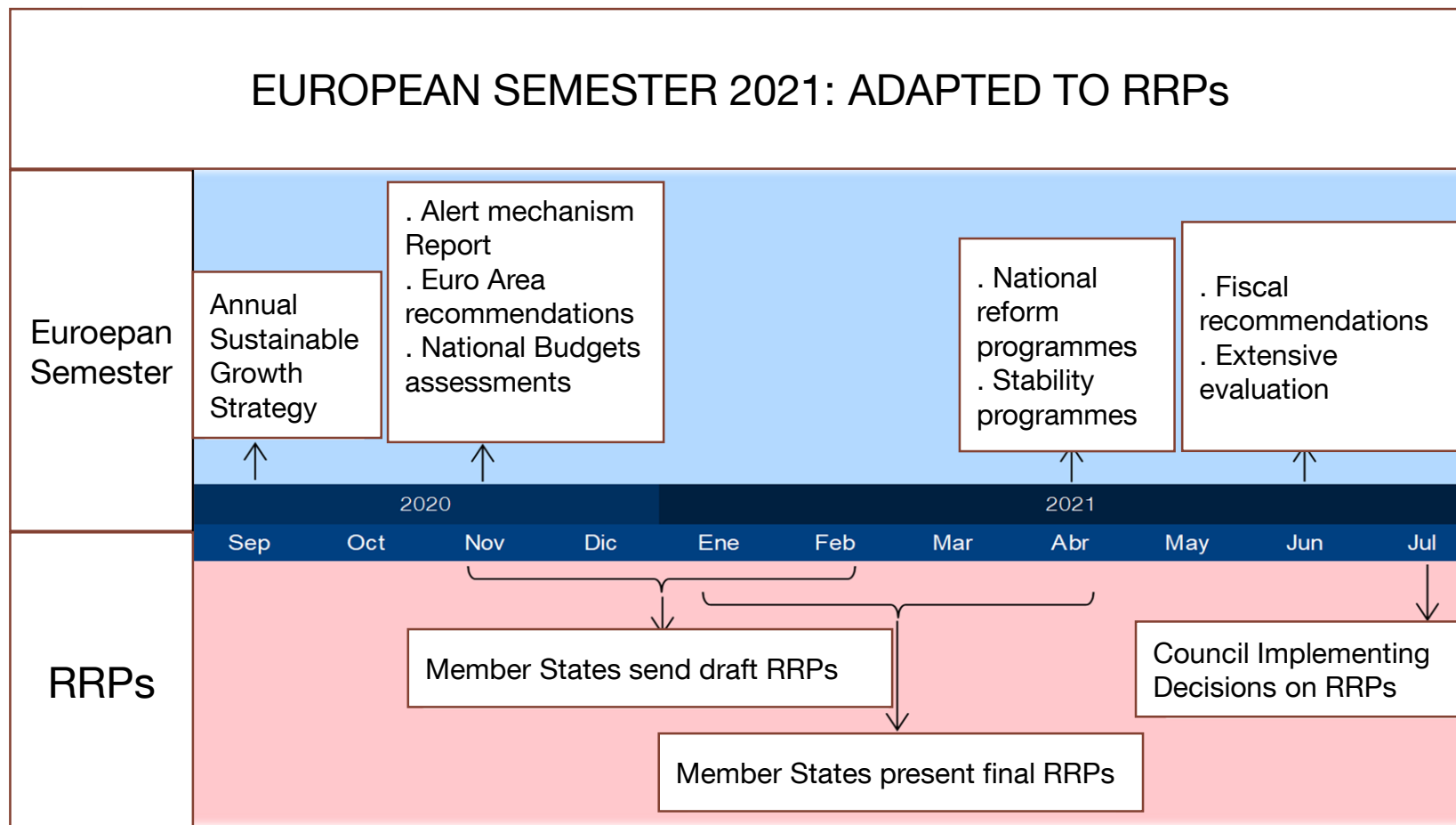
- Coherent packages of investments and reforms

100%

1. Sustainable, safe and connected mobility	12.4
2. Building renovation wave and urban renewal	5.3
3. 5G & 100% Connectivity	4
4. Digital skills	3.5
5. Modernization and competitiveness of tourism sector	3.4
6. National system of Science Technology and innovation	3.3
7. Renewable energy	3.1
8. New Industrial Policy Spain 2030	2.8
9. Modernization of Public Administration	2.6
10. New labour market active policies	2.4
11. New care economy	1.9
12. Strategic Plan for Vocational Training	1.9
13. Modernization and digitalization of the education system	1.6
14. Roadmap for renewable hydrogen	1.5
15. SME Digitalization	1.5
16. Energy infrastructures, Smart networks, storage	1.3
17. Renewal and modernization of the national health system	1
18. National Strategy for Artificial Intelligence	0.5

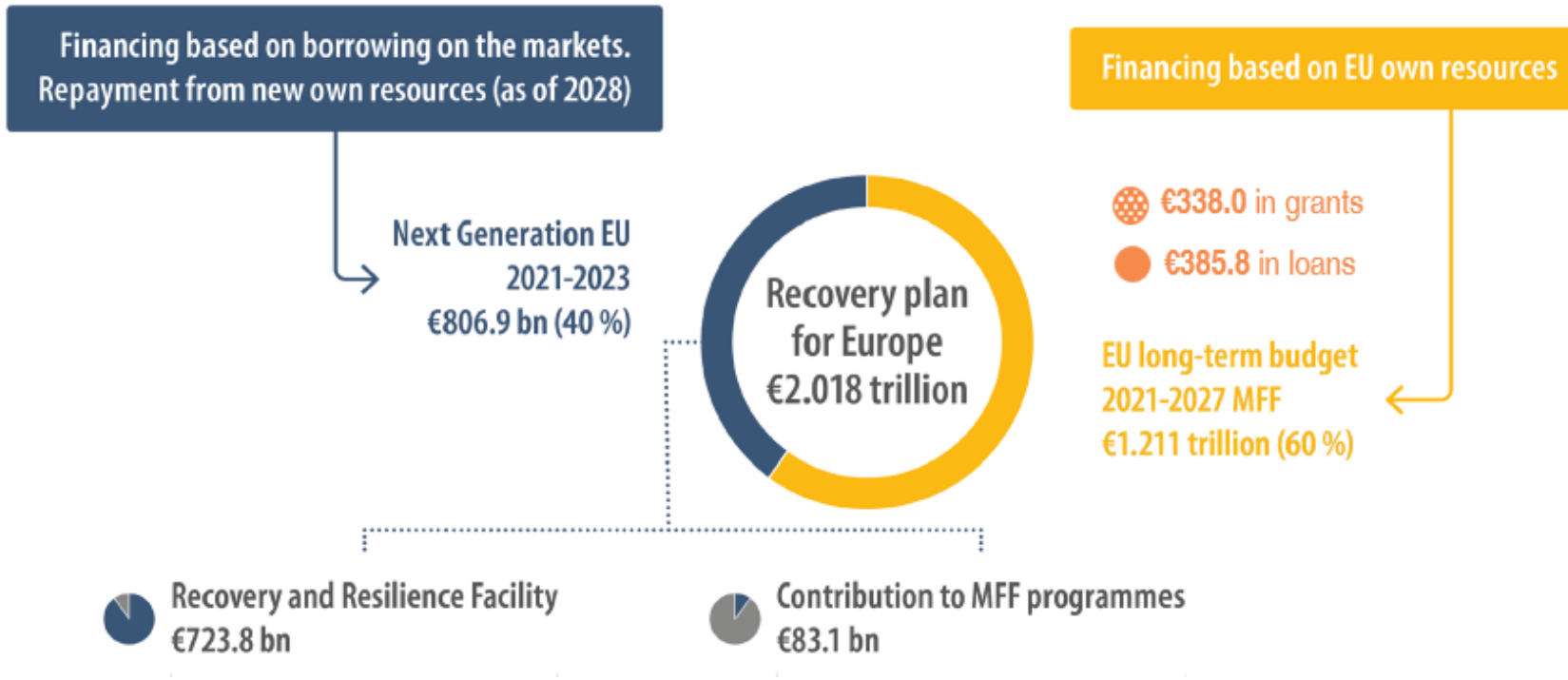
(Main investment plans in Spanish PRTR for 2021-23, bn €)

1. Law on climate change
2. Energy reform
3. Modernization of the agricultural and fisheries policies - soil protection and efficient use of water
4. Green strategy
5. Policy on waste management and circular economy
6. Strategy for sustainable, safe and connected mobility
7. New housing policy
8. Modernization of the justice system
9. Reform and digitalization of the Public Administration
10. Better regulation and improvement of the business environment - insolvency framework reform
11. Modernization and strengthening of the national health system
12. Education, vocational training and university reform
- 13. Labour market reform**
14. New care economy
15. Reform of social and inclusion policies
- 16. Tax reform**
- 17 Pension reform**



- The **European Semester** is the mechanism for economic policy coordination in the EU.
- It has been **temporarily modified to accommodate RRF implementation**.
- EurSem process: **monitoring of the fiscal situation and the macroeconomic disequilibria** of EU members.
- COM issues Country Specific Recommendations (CSR)
- **RRPs should address the structural weaknesses identified in CSR.**
- The incentive structure of RRF may help improve the **EurSem enforcement procedures**.



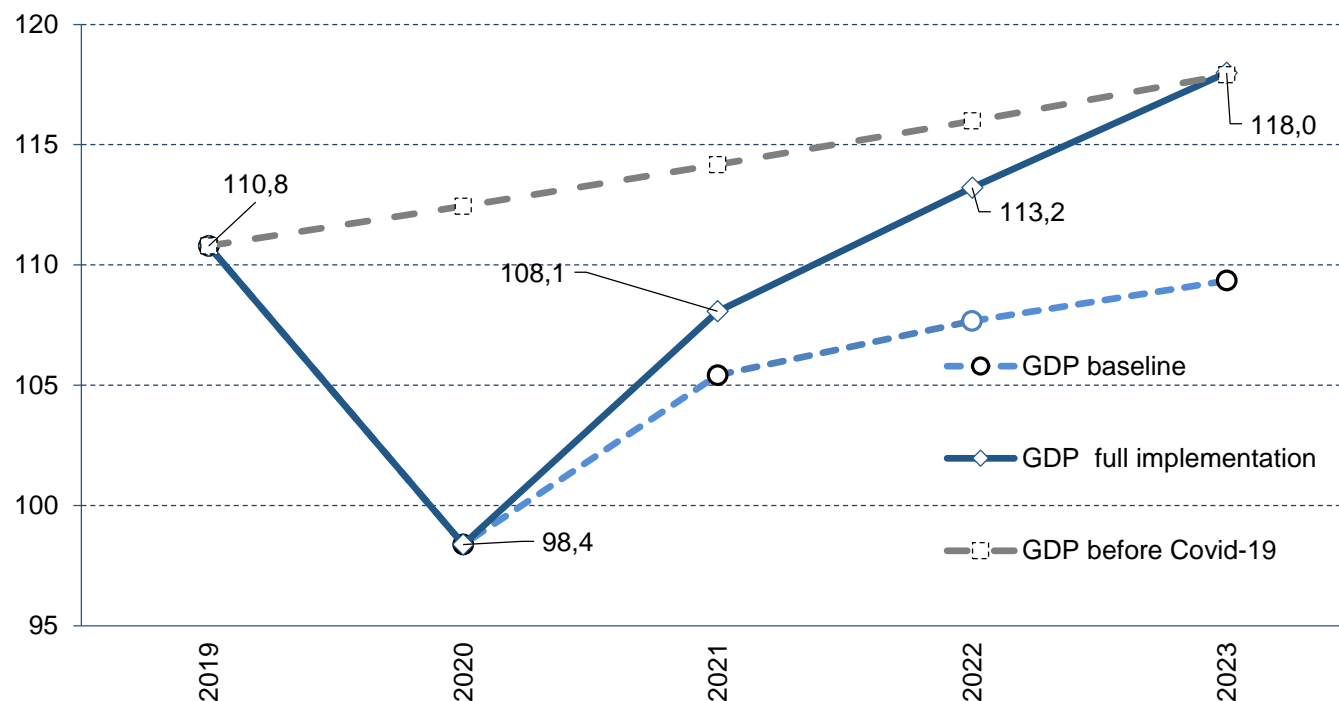


(All amounts in current prices)

- To finance NGEU, the EC will raise from the capital markets **up to €800 billion between June 2021 and end-2026, in current prices.**
- This will translate into borrowing volumes of **€150 billion per year** on average.
- Thanks to the EU's high credit rating, EC can borrow on **advantageous financial terms.**
- The **borrowing** will be concentrated between **mid-2021 and 2026.** All borrowing will be **repaid by 2058.**
- The Commission will **seek to raise 30% of the funds through the issuance of NGEU green bonds** and use the proceeds to finance green policies.

- **DFS: a two-pillar strategy:**
  - **LTF** (long term funding): regular issuance of **large and liquid EU-Bonds** in order to establish a liquid benchmark curve across the yield curve (3y-30y).
  - **STF** (short term funding): to manage the liquidity risk by establishing an **EU-Bill programme**.
- Based on the **de-linking of individual transactions from the disbursement side** (moving away from back to back funding).
- Supported by **regular communications to the markets: 6-months funding plans** and a regular Newsletter to keep investors updated.
- Funding techniques: **Auctions** (for bills, 2/mo., and bonds, 1/mo.) and **syndications** (for bonds, 1/ mo.).
- **In the first four syndicated NGEU bond issuances the EC raised €54 billion.** Largely oversubscribed and with an attractive cost of funding: EU now prices as a core Sovereign. **The target for long term funding in 2021 is € 80bn.**
- **The EU-Bill programme started** in September with a very successful transaction (in terms execution and price): the first EU-Bills auction raised **€3bn** in 3-months maturity and **€2bn** in 6-months maturity.
- The strategy ensures a **steady and regular market presence**, access to a large and well diversified investors' base, and flexibility to adapt to the changes in market environment.

**GDP level in real terms (2015=100)**



The **medium-term outlook is conditional on the implementation of the RRP**s

**Estimate of the impact of RRP**s:

- +800,000 Jobs over three year
- 1.2-1.5 peak impact 2021-27
- +0.4 to potential GDP growth in the long-term, to exceed 2%

**Under prudent assumptions :**

- Spillovers among EU countries not taken into account
- Additional funding from REACT-EU is not simulated
- 1.2 multiplier in 2021

**Caveats**

- Uncertainties: additionality, absorption capacity; crowding out/ or in of private investment?
- Lack of genuine EU projects

## COMMISSION ESTIMATES OF NGEU INDUCED GDP GROWTH

<b>Belgium</b>	0.5% - 0.9% by 2026	<b>Cyprus</b>	1.1% - 1.8% by 2026
<b>Denmark</b>	0.4% - 0.6% by 2024	<b>Latvia</b>	1.3% - 2.0% by 2026
<b>Germany</b>	0.4% - 0.7% by 2026	<b>Lithuania</b>	1.0% - 1.6% by 2026
<b>Greece</b>	2.1% - 3.3% by 2026	<b>Luxembourg</b>	0.5% - 0.8% by 2026
<b>Spain</b>	1.8% - 2.5% by 2024	<b>Austria</b>	0.4% - 0.7% by 2026
<b>France</b>	0.6% - 1.0% by 2024	<b>Portugal</b>	1.5% - 2.4% by 2026
<b>Croatia</b>	1.9% - 2.9% by 2026	<b>Slovenia</b>	1.1% - 1.7% by 2026
<b>Italy</b>	1.5% - 2.5% by 2026	<b>Slovakia</b>	1.3% - 2.1% by 2026
<b>Czechia</b>	0.8% - 1.2% by 2026	<b>Ireland</b>	0.3% - 0.5% by 2026
<b>Malta</b>	0.7% - 1.1% by 2026		

Based on Commission staff assessment reports. Not including the impact of structural reforms, potential cross-country impacts, nor other NGEU programmes, different from RRF.

A Commission study including spillover effects estimates NGEU will induce around 1.5% higher real GDP in 2024. It finds EU-wide GDP effects are around one third larger when accounting for the spillover effects from individual-country measures. There are different spillover patterns across Member States:

- For small open economies with smaller allocations (LU, IE), spillover effects are the bulk of NGEU impact.
- For larger economies with deep trade integration (DE) spillovers account for more than half of the GDP effect.
- For closer economies (BU, KR, GR, IT) with large NGEU allocations, domestic effects dominate.

## Additional policy action needed to:

- **Address emerging risks**
- Bankruptcy / **insolvency risks**.
- Expected developments in **NPLs**.
- Need to ensure and **broaden access to finance** in the recovery phase, also towards **supporting the twin transition**.

**RRPs partly respond to these** through e.g. insolvency and broader judicial reforms, set-up of publicly-backed equity funds.

- **Deepen BU and CMU**
- **Capital Markets Union:** Implementation of the 2020 CMU Action Plan.
- **Banking Union:** Strengthening and unifying banks' supervision and crisis management in the euro area.
- **Review EU Economic Governance**
- Revision of **fiscal rules**.

## ADDITIONAL SLIDES



	(A)		(B)	(C)	(D)	
<b>Belgium</b>	Max	0	€767 Mn	0,16%	€5.9 Bn	€32.8 Bn
<b>Bulgaria</b>	-	-	-	-	€6.3 Bn	€4.2 Bn
<b>Czechia</b>	Max	0	€923 Mn	0,40%	€7.1 Bn	€14.3 Bn
<b>Denmark</b>	Max	0	€208 Mn	0,06%	€1.6 Bn	€21.9 Bn
<b>Germany</b>	Max	0	€3328 Mn	0,10%	€25.6 Bn	€240.9 Bn
<b>Estonia</b>	Max	0	€127.73 Mn	0,45%	€1.0 Bn	€1.9 Bn
<b>Ireland</b>	Max	0	€130 Mn	0,03%	€1.0 Bn	€18.7 Bn
<b>Greece</b>	Max	Max	€3926 Mn	2,28%	€17.8 Bn	€12.4 Bn
<b>Spain</b>	Max	0	€9035 Mn	0,75%	€69.5 Bn	€84.8 Bn
<b>France</b>	Max	0	€5122 Mn	0,21%	€39.4 Bn	€168.4 Bn
<b>Croatia</b>	Max	0	€819 Mn	1,56%	€6.3 Bn	€3.7 Bn
<b>Italy</b>	Max	Max	€24921 Mn	1,44%	€68.9 Bn	€122.8 Bn
<b>Cyprus</b>	Max	€227 Mn	€159.51 Mn	0,73%	€1.0 Bn	€1.5 Bn
<b>Latvia</b>	€1.8 Bn	0	€234 Mn	0,75%	€2.0 Bn	€2.0 Bn
<b>Lithuania</b>	Max	0	€286 Mn	0,56%	€2.2 Bn	€3.2 Bn
<b>Luxembourg</b>	Max	0	€13 Mn	0,02%	€0.1 Bn	€2.7 Bn
<b>Hungary</b>	Max	0	€93 Mn	0,65%	€7.2 Bn	€9.7 Bn
<b>Malta</b>	Max	0	€41.13 Mn	0,30%	€0.3 Bn	€0.9 Bn
<b>Netherlands</b>	-	-	-	-	€6.0 Bn	€55.3 Bn
<b>Austria</b>	Max	0	€455 Mn	0,12%	€3.5 Bn	€27.2 Bn
<b>Poland</b>	Max	€12.1 Bn	€4680 Mn	0,86%	€23.9 Bn	€34.8 Bn
<b>Portugal</b>	Max	€ 2.7 Bn	€2158 Mn	1,01%	€13.9 Bn	€14.2 Bn
<b>Romania</b>	Max	Max	€3796 Mn	1,63%	€14.2 Bn	€15.0 Bn
<b>Slovenia</b>	Max	€0,7 Bn	€325 Mn	0,66%	€1.8 Bn	€3.2 Bn
<b>Slovakia</b>	Max	0	€819 Mn	0,84%	€6.3 Bn	€6.3 Bn
<b>Finland</b>	Max	0	€273 Mn	0,11%	€2.1 Bn	€16.4 Bn
<b>Sweden</b>	Max	0	€416 Mn	0,08%	€3.3 Bn	€33.2 Bn
<b>Total</b>	€325.6 Bn	€165.9 Bn	€63.9 Bn	-	€338.2 Bn	€952.4 Bn

A: Amounts requested

A1: Grants

A2: Loans

B: Maximum pre-financing (13% of A)

C: Pre-financing B as a ratio to 2021 GDP

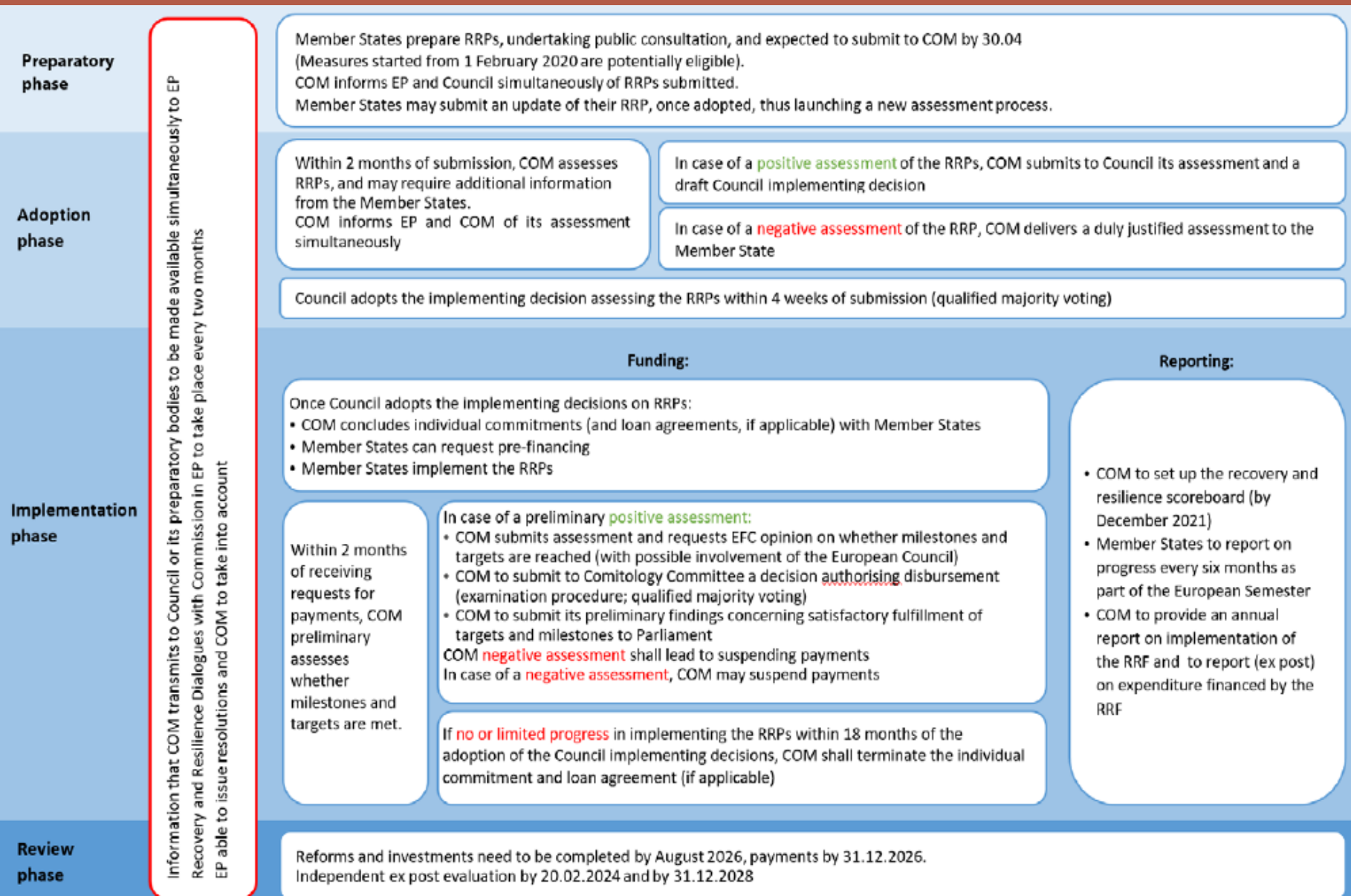
D: Maximum financial allocation:

- Max. total grants €312.5 bn in 2018 prices

- Max. Total loans €360 bn in 2018 prices

D1: Max. grants per MS in current prices

D2: Max. loans per MS in current prices



## RRPs adoption and implementation

- **Adoption:** drafts discussed with COM; assessment by the COM (criteria); proposal from COM to Council of the EU (CID); adopted by the Council (Ecofin)
- New measures 2021-23.
- 13% prefinancing.
- **Implementation:** M&T are assessed by COM to allow disbursements every 6 mo.
- Last disbursements 2026
- **Financing:** COM issuance in financial markets. Bonds to be totally repaid by 2058
- Grants to be funded by EU (new) own resources