



European Committee
of the Regions

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



The COVID-19 pandemic is having substantial repercussions on European economies. The Commission for Economic Policy (ECON) at the European Committee of the Regions will prepare regular economic bulletins on recent research, articles and discussions on the socioeconomic impact of the pandemic in Europe and on the different economic response measures planned and implemented at EU, national, regional and local level.



'I am very happy to launch our first economic bulletin on the COVID-19 consequences for the European economies, and response measures. On Thursday 26 March, the members of the European Council stated they would do everything necessary to meet the COVID-19 challenge in a spirit of solidarity. They also stated that the crisis would require a coordinated exit strategy and a comprehensive recovery plan and unprecedented investment. From our perspective of local and regional authorities, this coordinated strategy will have to involve all levels of government, and regions and cities will have to be given the means to be key drivers of the investment recovery action.'

But most of all, I wish to express my sincere appreciation to all who are engaged in front line public services, particularly across our health services, regional and local authority services, Government Departments and local media for your exemplary levels of commitment, and for playing your part in protecting us from this virus. Community spirit has always been strong across our Union. By working together and supporting each other, we will prevail and emerge stronger than ever. My wish for each and every one of you is to be safe and to be healthy.'

--- Michael Murphy (IE/EPP), Chairperson, Tipperary County Council, Chair of the ECON commission

Policy response from EU, Member States

[European Council meeting of 26 March 2020](#)

In a joint statement, the members of the European Council stated they will do everything necessary to meet the COVID-19 challenge in a spirit of solidarity. Besides **endorsing the proposals made by the Commission** so far, the European Council invited **the Eurogroup to present further proposals within two weeks**, 'taking into account the unprecedented nature of the COVID-19 shock affecting all our countries', 'in order to deliver a comprehensive response', and using EU instruments to support



European Committee
of the Regions

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



the Member States' action 'to the extent necessary'. Getting back to a normal functioning of our societies and economies, while drawing all lessons from the crisis, will require a **coordinated exit strategy, a comprehensive recovery plan and unprecedented investment**. The President of the Commission and the President of the European Council will start working on a Roadmap and an Action Plan to this end.

[Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis](#)

On 23 March, EU Ministers of Finance agreed with the European Commission's Communication of 20 March 2020, that the conditions for the **use of the general escape clause of the EU fiscal framework** are fulfilled. This clause is triggered by a severe economic downturn in the euro area or the Union as a whole. The use of the clause will ensure the needed flexibility to take all necessary measures for supporting health and civil protection systems and to protect economies. Ministers remain fully committed to the respect of the Stability and Growth Pact. The general escape clause will allow the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Stability and Growth Pact, while departing from the budgetary requirements that would normally apply, in order to tackle the economic consequences of the pandemic.

[Mario Centeno: Moral hazard considerations are not warranted here](#)

(After the Eurogroup meeting on 24.03) The challenge our economies are facing today is in no way similar to the previous crisis. This is a symmetric external shock. Moral hazard considerations are not warranted here. We must bear this in mind when we consider coronavirus dedicated instruments.... We look forward to more initiatives, namely from the European Commission which is expected to bring forward its unemployment insurance proposal.

[Belgium, France, Greece, Ireland, Italy, Luxemburg, Portugal, Slovenia and Spain: We need to work on a common debt instrument issued by a European institution](#)

(25.03) Heads of state and government from 9 EU countries wrote to EUCO President Charles Michel: 'The EU faces a symmetric external shock, for which no country bears responsibility, but whose negative consequences are endured by all.'

Economic impact analysis and policy response recommendations

[The economic costs of the corona shutdown for Germany: a scenario calculation](#)

(22.03) The **German IFO institute** (*Institute for Economic Research*) estimated the economic costs of partial decommissioning of the German economy due to the corona epidemic based on scenario calculations. For a shutdown of two months, their estimations show costs between 255 and 495



European Committee
of the Regions

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



billion euros (and a reduced annual growth rate of GDP between 7.2 and 11.2 %). The IFO underlines there is an urgent need to look for ways to combine gradual lifting or easing of the shutdown with effective health protection, looking into experiences of other countries, especially in Asia.

[Can Europe's finance sector resist COVID-19?](#)

(20.03) According to the **European Capital Markets Institute**, much has been achieved to strengthen Europe's finance sector after 2008, yet there is still too much unfinished business. The Coronavirus crisis should be an urgent wake-up call. EDIS and the bank back-stop are formally the most important, but even more important is the immediate response to local credit constraints.

[Industry can adapt to help coronavirus. Pandemic gives companies a chance to demonstrate responsible capitalism](#)

(FT Editorial Board, 23.03) This is the moment to demonstrate whether business leaders are serious about switching from pure shareholder value to sustainability. Shifting to something like wartime economies may be inevitable in the short term, with governments telling businesses what they may produce. That should not continue when it will no longer be strictly needed, but for now businesses must be ready to do all they can in the fight against the pandemic.

[French local governments assessing Covid-19 impact on their budgets](#)

(Les Échos, 23.03) There will be a scissor effect between a drop in revenues and the occurrence of expenses that would not have occurred in normal times, like those related to reception in schools for children of caregivers or aid-for-trade policies". "It is mainly the revenues, especially the pricing of services that are problematic."

[Territory matters in times of corona. Spatial reflections on a disruptive challenge](#)

(March) In a brief reflection, Territorial thinkers (an independent platform of experts) analyse what the corona virus does to us in territorial policy terms. Corona is sort of a "new product" which is clearly disruptive. It disrupts the way we organise our everyday lives, and it shows signs of putting existing market players out of business. Territorial interdependencies and globalisation appear to be more tangible these days

[The eurozone in the Coronavirus crisis: should the ECB finance governments?](#)

(26.03) During a CEPS webinar, **Paul de Grauwe** (LSE and KUL and CEPS) and **Daniel Gros** (CEPS and Berkeley) agreed that - to counter the **risk of a deflationary spiral** - providing liquidity to the economy is the first urgency. They also agreed that a possible solution of the solvency challenge that Italy and Spain's public budgets would face could be a **once-and-for-all issue of European bonds**



European Committee
of the Regions

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



specifically aimed at funding these two countries. This would show European solidarity and avoid making their debt unsustainable. This was unthinkable until now, but crisis times require new thinking.

Answering to a question from the CoR, Daniel Gros indicated that **an early adoption of the MFF would be a contribution to solving the crisis, but only a small one.**

[Mario Draghi: We face a war against coronavirus and must mobilise accordingly](#)

(FT, 25.3) The challenge is acting with enough strength and speed to prevent the recession from morphing into a prolonged depression. A more comprehensive approach to channelling liquidity towards employees and companies is needed. Banks will become vehicles for public policy and the capital they need must be provided by the government. Much higher public debt levels will become a permanent feature of our economies, but the cost of hesitation may be irreversible.

[An effective economic response to the coronavirus in Europe, Bruegel Policy Contribution 06/2020, by Maria Demertzis, M., A. Sapir, S. Tagliapietra and G. Wolff](#)

(March 2020) 'Whatever it takes' needs to be the motto. A coordinated and bold response is necessary. Targeted measures will not cover the many second-round effects of the shock. All EU countries should halve companies' social security contributions for three months or cut the payroll tax, to be funded by increased national deficits. The ECB should provide abundant liquidity and increase its sovereign-bond purchase programme to prevent distress in sovereign bond markets.

[Martin Wolf: This pandemic is an ethical challenge. To avert disaster, solidarity between countries must be as strong as within them](#)

(FT, 25.3) 'The virus is a shared challenge. So, too, is the coming global slump'. Generous help to emerging and developing countries will help every country's economic recovery. 'Without visible solidarity in a crisis for which nobody bears blame, the European project will be morally, maybe practically, dead'.

[Transition steps to stop COVID-19 without killing the world economy](#)

(Andrea Ichino, Giacomo Calzolari, Andrea Mattozzi, Aldo Rustichini, Giulio Zanella, Massimo Anelli on VOX, 25 March 2020) A viable strategy to address the joint health and economic crisis caused by COVID-19 involves gradually sending the young who face the lowest risks back to work on a voluntary basis. This should happen as soon as the congestion of healthcare systems is less critical, but while a large fraction of the population is not yet immune.



European Committee
of the Regions

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



[Andrea Renda and Rosa J. Castro: Chronicle of a Pandemic Foretold](#)

(23.03) This CEPS paper draws the following lessons from the pandemics: (1) Economic policy will need to shift from its current focus on efficiency, towards a greater emphasis on resilience and sustainability; (2) A more centralised governance to address health emergencies is needed; (3) Europe should create a centre for the prevention of large-scale risks; (4) Digital technologies, if handled with care, can be an important part of both a mitigation and a response strategy; (5) Europe should improve its science advice and communication functions.

[Europe needs a Covid-19 Recovery Programme](#)

(FT, 25.03) Bruegel's authors Grégory Claeys, Simone Tagliapietra and Guntram Wolff argue that a European Covid-19 recovery programme is needed to boost the recovery and prevent an L-shaped downward shift in gross domestic product, given the damage done. How should such a plan be structured?

Responses at regional and local level

Barcelona (Spain)

- [Creation of the Tax Support and Advice Office](#) which will allow for the postponement and compensation of municipal taxes for the use of public space. The plan consisting of a flexible tax collection aims to guarantee the liquidity of families, businesses and the self-employed, while also strengthening shops, the restaurant and tourism sectors.
- [Rent moratorium for properties managed by Barcelona Municipal Housing and Rehabilitation Institute \(IMHAB\)](#), both housing and commercial premises. Up to 12.000 tenants will not have to pay their rents for three months and after this period and until December they will pay slightly more rent each month to make up for these months. An item of €3.5 million in the municipal budget has been set up to undertake these measures.
- [The continuity of public contracts has been ensured](#), striving to maintain jobs and the liquidity of providers, in particular SMEs, which will continue to be paid even if their services have been suspended.



**European Committee
of the Regions**

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



Dusseldorf (Germany)

- [Aid fund of €500.000 for local companies](#), serving as interim aid to overcome their potential financial problems before the State of North Rhine-Westphalia and Federal Government offer concrete measures for businesses.

Nantes (France)

- [Measures aiming to support the economic actors](#) ranging from merchants to SMEs which, apart from the funding from the Région des Pays de Loire, also includes tax exemptions or a dedicated phone number serving as an information point.

Milan (Italy)

- A [Mutual Aid Fund](#) open to the contributions of any private donor (citizens, business, organisations, etc.) aiming to help those who have been most affected by the economic downturn and the measures taken by the authorities in this emergency crisis. By doing so, the Fund will be supporting the recovery of the city's activities.

Vienna (Austria)

- [Fund of €35 million to protect struggling SMEs](#) from the potential economic fallout. The funding is divided into three parts: € 12 million to guarantee the liquidity of Vienna's SMEs, € 20 million as emergency funds for SMEs, particularly those with less than 10 employees, and € 3 million for employment solutions.

Madrid (Spain)

- Madrid has taken [a broad number of measures across many areas](#) to face the emergency crisis. Regarding the measures on the economy, a reduction of € 63 million in taxes has been announced for those businesses in the catering, leisure, commerce and travel sector which are retaining jobs.

Zaragoza (Spain)

- [Creation of a platform](#) aimed to connect the commitment and resources of private companies



with the needs of the city in this emergency situation. The areas where companies could contribute are: education, entertainment, health, food and technology.

Utrecht (Netherlands)

- Complementing the national Dutch program, the city of [Utrecht has announced a wide range of measures](#) in order to help and protect SMEs, entrepreneurs and cultural institutions which are being particularly affected by the Corona crisis. These measures would include: deferring rent payments, easing and suspension of taxes, compensation for cancelled events, easing the application for subsistence support by self-employed persons, reduction of tourist taxes or compensation schemes for entrepreneurs who have had to close their doors and had a commercial collection contract with the municipality of Utrecht.

German Länder providing liquidity support to SMEs

- On top of the emergency liquidity support at federal level, all German Länder have decided to [provide liquidity support to SMEs](#). Some Länder only provide guarantees at zero interest rates. Most Länder, however, distribute grants to companies. The maximum size of companies benefitting of the grant support varies between 10 to 250 employees and the amount of financial assistance ranges from 3000 EUR to 40 000 EUR. Additionally, many Länder also provide loan guarantees.

The Government of the Brussels-Capital Region takes unprecedented economic and social measures

- The [Brussels Capital Region took measures](#) to counter the economic impact of COVID-19, costing more than €150m. These include: one-off grants for locked down companies; suspending payment of the City Tax for the first semester; public guarantees for companies' bank loans; low-cost loans to hotels and restaurants; suspending reimbursement of the capital part of loans granted by Finance&invest.brussels to firms in the sectors hit; accelerated grant of aids to hotels, restaurants, and firms in the sectors of tourism, events and cultural sector's firms; strengthened technical support to firms in difficulty; cancellation of the tax on taxis for 2020; specific support to firms and workers in the household cleaning sector ('titres-service').
- [Valeria Mancinelli, mayor of Ancona: "For the coronavirus emergency, the army is needed on the street. We will soon be unable to assist the most fragile people"](#).



European Committee
of the Regions

ECONomic Bulletin No. 1

COVID-19 impact and response measures

27 March 2020



(22.03) 'Municipalities cannot wait. More controls and effective interruption of production activities not strictly necessary for the survival of the country are needed'.

Additional useful links

- ESPON programme pooling local experiences and territorial policy responses:
<https://www.espon.eu/collecting-experiences-and-evidence-local-and-regional-responses-covid19>
- RSA: Regional Studies Association, evidence about how regions, cities and industry are dealing with the impact of the Coronavirus: <https://www.regionalstudies.org/about/pandemics-cities-regions-industry/>
- OECD New Digital hub on data and policy responses to Covid-19:
<http://www.oecd.org/coronavirus/en/>
- Eurocities online platform (with response actions undertaken by members):
<https://covidnews.eurocities.eu/>
- CEMR National associations as essential information hubs for local governments on the coronavirus: <https://www.ccre.org/en/actualites/view/3997>
- Association of European regions COVID-19 Hub: <https://aer.eu/covid19/>
- Association of Cities and Regions for Sustainable Resource Management:
<https://www.acrplus.org/en/municipal-waste-management-covid-19>
- European Parliamentary Research Service (EPRS)
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649331/EPRS_BRI\(2020\)649331_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649331/EPRS_BRI(2020)649331_EN.pdf);
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649338/EPRS_BRI\(2020\)649338_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649338/EPRS_BRI(2020)649338_EN.pdf)