“This eighth edition of the ECON Bulletin is published after a summer period bursting with institutional activity to implement the recovery package adopted by EU leaders on 21 July, after a five-day historical summit. In the midst of a very grim economic forecast, there was a strong sense of urgency to adopt a recovery package that would bring great hopes to the EU: the ‘Next Generation EU’ could generate 2% of additional GDP by 2024 and create up to 2 million jobs.

Institutional matters aside, the summer break was also the opportunity to observe with our own eyes the impact of the pandemic on tourism in the EU. Composed of a great majority of SMEs and characterized by a strong interdependency (i.e., a crisis in one subsector such as aviation has damaging consequences for the whole tourism value chain), this sector will have a hard time overcoming this year’s drastic reduction in activity and booking – up to 90% in some regions! However, as is often the case, local authorities have shown impressive resilience and have deployed treasures of imagination to support the actors of this sector on their territory. I have decided to dedicate this bulletin’s thematic focus to the tourism industry and to feature a couple of interesting initiatives in very small villages.

Indeed, even small initiatives can make a difference: I am convinced that a strong recovery will require the involvement of all, no matter the size of the constituency or the extent of the authority’s competences. This 8th bulletin continues to highlight the responses of local and regional authorities to relaunch the local economy and to support citizens in a tangible way. You will also find at the end, the usual summary table listing these measures by type of action.

The fallout of the pandemic is still highly visible and the prospect of a second wave in Europe cannot yet be ruled out. However, let me reiterate that it is now time to move away from an ‘emergency mode’ and focus on the efficient implementation of recovery plans that have been recently adopted at EU, national and regional levels all across Europe. In line with this new phase in our collective effort, I wish to adapt the format of this bulletin and look forward to presenting you its new format next month.”

--- Michael Murphy (IE/EPP), Chairperson, Tipperary County Council, Chair of the ECON commission
EU leaders agree on a EUR 1.82 trillion response to the fallout of the pandemic

On 21 July, after a five-day summit, EU leaders agreed on a comprehensive package that combines the classical Multi-annual Financial framework (MFF) with a focused and limited in time “EU Recovery plan” that tackles the socio-economic consequences of the COVID-19 pandemic.

EU leaders agreed to provide the EU with a total firepower of EUR 1.82 trillion composed of:

- The EUR 1.074 trillion seven-year budget (against 1.100 proposed by the European Commission and 1.300 requested by the European Parliament). The European Council revised downwards its ambitions in some areas such as research (Horizon Europe) or the Erasmus program. Several countries (“the Frugal four”) have also obtained a marked increase in the “discounts” from which they benefit as net contributors (from EUR 46 billion for the 2014-2020 budget to EUR 53 billion for 2021-2027).

- Next Generation will be allocated EUR 750 billion (390 billion in grants and 360 billion in loans) and its main instrument – the Recovery and Resilience Facility – will go from EUR 560 billion in the Commission’s original proposal to EUR 672.5 billion. However, EU leaders reduced the financial envelope of the Just Transition Mechanism that will support regions in their transition towards a climate-neutral economy to EUR 10 billion while the Commission initially proposed EUR 40 billion (it is still significantly higher than the EUR 5 billion the CoR and the EP had hoped for and requested). The proposed increased of the budget of the European Agricultural Fund for Rural Development (EUR 15 billion) was also was halved.

The consent of the European Parliament on the EU budget (MFF) is required. However, in their 23 July resolution, MEPs threatened to withhold it: they regret the cuts on the budget; the softening of the “rule of law conditionality” on payments to Member States and the absence of concrete proposals on the issue of “own resources” (required to finance part of the recovery fund).

In its Communication on the Annual Sustainable Growth Strategy 2021 published on 17 September 2020, the Commission indicates that an effective implementation of Next Generation EU could generate 2% of additional GDP by 2024 and create up to 2 million jobs. Over time, this additional growth is estimated to "make the Recovery and Resilience Facility self-financing, through additional activity and additional tax revenues generated for the Member States and the EU".
The Commission tries to protect the Single Market by pushing for more harmonised travel rules

On 4 September, the Commission proposed a set of recommendations to harmonise COVID-19 restrictions on travellers across Europe.

The crisis and the subsequent closure of borders has led to unprecedented disruptions to the free movement of people, goods and services – the latter being the essence of the EU Single Market and being crucial for the economic recovery after the pandemic. To harmonise a currently hectic situation and increase predictability, the Commission proposes a set of recommendations that inter alia foresees that the European Centre for Disease Prevention and Control will produce a weekly map that attributes a colour to every region or country (green, orange or red). There would not be any restrictions for travellers coming from green or orange zones and restrictions for red zones would be harmonised.

Economic Impact Analysis

European Commission, Summer 2020 Economic Forecast, 7 July 2020

According to the forecast, the euro area economy will contract by 8.7% in 2020 and rebound by 6.1% in 2021 (from -8.3% in 2020 and to +5.8% in 2021 for the European economy).

Employment also significantly declined in the second quarter but much less than the fall in GDP, which is due to the support put in place in Member States and in the EU (e.g. SURE instrument, flexibility in the use of cohesion policy funds). The economic outlook continues to depend crucially on the evolution of COVID-19 and of the restrictions to economic activity adopted to contain it. However, looking forward to the end of the year and 2021, the European economy is expected to bounce back – but with (i) an incomplete recovery even at the end of 2021 and (ii) bigger and more persistent differences across Member States than expected in spring.

OECD, “Unprecedented falls in GDP in most G20 economies in second quarter of 2020”, 14 September 2020

The OECD reckons that the damage to the world’s major economies created by coronavirus lockdowns has been four times more severe than the impact of the 2009 global financial crisis.

In the second quarter of 2020 (i.e. when the effects of the pandemic begin to be felt more widely), GDP in the G20 area dropped by a record -6.9%, which is much more significant than the -1.6% recorded in the first quarter of 2009 (at the height of the financial crisis). It is interesting to note that those figures are less grim that the provisional estimates from August (-9.8%). The unprecedented blow to growth induced by COVID-related restrictions is visible in every G20 country in the second quarter of 2020 – with China being the significant exception (+11.5%). In Europe, the GDP dropped in France (-13.8%), Italy (-12.8%) and Germany (-9.7%).
**Background information**

In Europe, the tourism sector accounts for 10% of EU GDP (up to 25% in Croatia, 22% in Cyprus and 21% in Greece if the indirect impact is included) and creates 23 million direct and indirect jobs. Yet, COVID-19 is putting the EU tourist industry under unprecedented pressure: a 60% to 90% reduction in bookings compared to similar periods in previous years was observed, leading to an estimated loss of 6 million jobs.  
Source: European Commission

**JRC work on tourism vulnerability and resilience**

The map below comes from a thorough analysis conducted by the Joint Research Centre of Commission analysing spatiotemporal patterns of tourism in Europe. It shows that the regions most at risk because of seasonality are scattered across the EU; however at a varying intensity (e.g. some islands in Greece are 90% dependent on tourism). Their vulnerability depends on their reliance on domestic or EU tourism, seasonality and intensity.

**Regional vulnerability to tourism**

Source: JRC
Tourism Policy Responses to the coronavirus, OECD, 2 June 2020

The tourism sector has been heavily disrupted – notably because most firms in the tourism sector are SMEs with often-limited resources and obstacles in accessing capital, which means that they are less likely to be able to survive shocks of this magnitude than larger firms. The tourism sector is also characterized by high diversity and fragmentation: tourism services are often interdependent and a crisis in one sub-sector (such as aviation) has destructive fallout on the whole tourism value chain. This comprehensive OECD report also indicates that the COVID-19 crisis should be seen as an opportunity to rethink tourism for the future. Comprehensive tourism recovery plans must be prepared quickly and take into account longer-term implications of the crisis on the sector (e.g. changed travel behaviors). A structural transformation is needed in order to develop a more sustainable and resilient tourism economy in the future (e.g. avoid over-tourism), in line with the green and digital transformations.

Extract of another OECD report that illustrates how some cities have taken advantage of the crisis to rethink the development of their tourism business models.

“The city of Florence (Italy) wants to regain 30% of its tourism activity by the end of the year without mass tourism, which has led residents to feel dispossessed of their city center. The plan for the renaissance of Florence (“Rinasce Firenze”) now prohibits access to the city center by tourist buses. In the longer term, buses will have to stop on the outskirts of the city. The plan also provides for restoring use of the center to residents and businesses, thus preventing the opening of new hotels or restaurants. The cities of Barcelona (Spain) and Budapest (Hungary) have also chosen to reorient tourism towards a more cultural model adapted to families”.

Concrete initiatives by small villages to boost tourism

* The small village of San Giovanni in Galdo in Southern Italy (around 500 inhabitants) is offering 40 one-week stays for free to travelers who wish to visit the region between July and October. By providing free accommodation in some of its empty houses, the village hopes to bring life back and to put the region on the map as an attractive tourist destination. The initiative was widely publicized and the village received more than 8 000 applications.

* The Cypriot village of Kissonerga (around 2 000 inhabitants) has announced that some EUR 70 000 will be allocated to tourism-related businesses to guarantee the survival of local entrepreneurs. The local government also envisions cuts in garbage collection fees for tourism businesses especially affected by the quarantine and will extend existing contracts for the management of sport and tourism infrastructures.
Policy Debate

Shahin Vallée, “With its recovery deal, is the EU finally starting to act like a unifying force?”, German Council on Foreign Relations, 22 July 2020

Authors argue that the EUR 750 billion recovery and resilience package breaks important political taboos and demonstrates a willingness for more integration.

While the global financial crisis in 2008 shed light on the fragilities and incompleteness of Europe’s monetary union, the COVID-19 crisis seems to have allowed Europe to advance towards genuine integration by forcing leaders to face up the architectural problems of its monetary union. Despite the imperfections in the design of the recovery and resilience package, it is - from a political perspective - a significant step forward with a unanimous (even if reluctant for some) agreement on common debt, common expenditure and the possibility of common taxation. However, this historical agreement raises some important issues:

- To finance the recovery, EU leaders had to cut some forward-looking parts of the EU budget (e.g. research, healthcare or the green-energy transition).
- The foreseen control of the compliance of Member States’ spending with the EU’s climate objectives is very superficial and there is no clear mechanism to ensure the respect of rule of law and democratic values by beneficiary Member States.
- A coalition of small countries was able to extract a number of important concessions (rebates).
- Most importantly maybe, the lack of a clear and concrete commitment to common European taxation will prevent this unprecedented agreement from constituting a real “Hamiltonian leap” (Alexander Hamilton enabled the United States to become a true federation by designing the government takeover of the debts of individual States in the 18th century).

Carlo Altomonte, Andrea Coali and Gianmarco Ottaviano, “EU recovery plans should fund the COVID-19 battles to come; not be used to nurse old wounds”, Bruegel, 6 July 2020

Authors argue that EU recovery funds must be allocated through a forward-looking approach based on EU regional specificities.

The Commission’s proposal for the Resilience and Recovery Facility proposes allocation criteria mainly linked to past economic performance and the impact of the pandemic on GDP. Indeed, the economic impact of COVID-19 is not necessarily linked to the spread of the virus and the spill over effects of the pandemic must be taken into account: contagion rates and previous economic performance are consequently not sufficient to allocate recovery funds. To adequately support the economic rebound, funds should rather be spent through an ambitious approach based on the specificities of the economic and industrial and structure of EU regions.
Daniel Dombey and Martin Arnold, "Diverging fortunes for Europe’s two-speed economy", Financial Times, 17 September 2020
Countries in Northern Europe such as Germany are rebounding from the pandemic more strongly than southern nations like Spain.
Before the COVID-19, Spain had been growing faster than the Eurozone average, while Germany was on the brink of recession. However, the pandemic changed the tendency: Spain’s economy contracted by 22% and Germany "only" by 12%. Analysts argue that this two-speed recovery — in which Europe’s fiscally stronger north is rebounding faster than the more heavily indebted south — is likely to increase tensions on fiscal markets and increase political tensions. Those reinforced structural divergences between the north and south of the Eurozone reinforce the difficulties of setting monetary policy for the Union.

David Bailey et al, “Regions in a time of pandemic”, Regional studies journal, Volume 54, 2020
Given the uneven geographical dimension of the impact of the pandemic, regional analyses are essential to understand the long-term changes it will trigger – for instance on the new technologies sector.
The current crisis will result in lasting changes in the way people and firms operate and the new technologies sector will not be spared. The COVID-19 pandemic may accelerate the take up of “4.0 technologies” (e.g. biotechnology, artificial intelligence, drones) to minimise risks from Covid-19 but the adoption of such new technologies may move down the list of priorities for many firms that have already spent significant resources to guarantee their survival. In the current context of uncertain economic recovery and tepid demand, they may lack the financial resources and the willingness to engage in the Fourth Industrial Revolution. Yet, authors argue that “delaying capital investment in automation and AI might have significant implications for the long-term competitiveness of European industries”; with a long-term detrimental impact on the fate of regions where those industries are located.

Julia Anderson, Francesco Papadia and Nicolas Veron, “Government-guaranteed bank lending: beyond the headline numbers”, Bruegel, 14 July 2020
Analysis shows that concerns about potential distortions of the single market because of the national discrepancies in the amount of loan guarantees offered by EU governments to their businesses can be allayed.
Loan programmes have been one of the main instruments used by EU governments to mitigate the liquidity crisis for businesses and sometimes represent more than half of the rescue funds announced at national level. Commission’s executive Vice-President Margrethe Vestager expressed concern in May about potential cross-border competitive distortions of the single market because of the unequal use of loan guarantees among Member States (e.g. the overall state aid programmes announced by Germany amounts to 51% of the EU total). However, authors found out that the headline envelope of
loan programmes as announced by Member States is not necessarily correlated with the actual use of government-backed credit facilities by businesses. Consequently, they conclude that, in practice, “negative scenarios of cross-border market distortions driven by countries’ different fiscal capacities appear to have been generally avoided so far”.


The Director of the OECD Centre for Tax Policy and Administration argues that tax systems have a significant role to play to respond to the pandemic and to ensure that - rather than simply returning to business as usual - the structural weaknesses that the crisis has highlighted are addressed. Given that the crisis has reinforced inequalities (low-income earners, young people, temporary and self-employed workers have been hit harder), governments may not be able to resort to traditional revenue-raising recipes to restore public finances (i.e. increasing taxes on labour and consumption). Governments will need to find alternative sources of revenues: fair and efficient taxation of property and personal capital, digital taxation, environmental tax. The latter is a central priority given that current taxes on polluting fuels are utterly insufficient to spur a shift towards clean energy: “70% of energy-related CO2 emissions from advanced and emerging economies are entirely untaxed and some of the most polluting fuels remain among the least taxed” (see: OECD, “Using Taxes for Climate Action”, 2019 for more information).

Responses at regional and local level

Brussels Region (Belgium)
The Brussels Region has created a four-phase plan for recovery. The first phase is currently underway: nearly EUR 500 million have been allocated to emergency measures for people and businesses affected; which represents an average expenditure of EUR 410 per inhabitant: e.g. regional guarantees on bank loans, anticipation of aid for economic expansion, compensation for companies affected by the federal government's precautionary measures to combat the spread of the virus. The second phase of the plan has just been approved and concerns short-term measures with a direct impact on people and businesses requesting public support. Finally, the last two phases (still under consideration) will include (i) measures to support citizens’ purchasing power and employment as well as (ii) measures aimed at rethinking urban development, production, consumption and solidarity models.

Galicia Region (Spain)
The Region of Galicia has launched the project "Connect-19" to boost and strengthen market access for innovative ideas in the fight against the pandemic (e.g. cosmetic substances with anti-viral capacities or sensory kits for early detection of coronavirus infections). With a subsidy of EUR 600 000,
the start-up accelerator programme will provide financial and expertise to 20 SMEs whose projects were selected to help them enter national and international markets.

**Trentino-Alto Adige Region (Italy)**
The *Autonomous Province of Trentino* has allocated EUR 1 million in grants for local SMEs to promote the resumption of industrial production. These grants will support the development of innovative technologies, products or services that can find application in the management of the post-emergency phases of COVID-19. Each company can request a grant for a maximum of EUR 50 000 - with the financing of up to 100%.

**Bordeaux (France)**
The Bordeaux Metropole is setting up an *Economic Emergency Fund* to support local businesses and associations and created an initial emergency fund of EUR 15.2 million, complementary to the regional system in order to support local companies with less than 5 employees. This fund will also include metropolitan support of EUR 500,000 to associations in difficulty (social and solidarity economy, tourism and events, etc.). This mechanism will result in the payment of a lump sum grant of EUR 1 000 to support 500 associations in the region. The *City of Bordeaux* has also taken complementary measures and continues to deploy several actions to support entrepreneurs (suspension of rents in business incubators managed by the City, flexibility in the application of late payment penalties on public markets) and businesses (fees exemptions; creation of a website to identify local businesses and provide information on delivery possibilities; opening of a new farm “drive” distribution point).

**Milan (Italy)**
The city of Milan has developed a comprehensive recovery strategy *“Milan 2020: Adaptation Strategy”*. Among other things, the strategy foresees the promotion of businesses engaged in the digitisation of services and the optimisation of digital tools to support and complement the various sectors and public initiatives. The strategy also foresees support for the resumption of the construction sector (giving priority to care and maintenance of the local territory and short-term construction projects) and support to social innovation and collaborative economy. It is worth mentioning that the city uses the COVID-19 as an opportunity to ponder collectively on the fundamental characteristics and expectations of what the city should be, its size, and the needs in terms of well-being.

**Górnośląsko-Zagłębiowska (Poland)**
The Górnośląsko-Zagłębiowska Metropolis (GZM) addressed the challenges faced by its member municipalities, *inter alia* by systematising available information on its website (e.g. informing about national-level measures such as the Anti-Crisis Shield for the business sector). Aware of the role of public procurement in the reduction of the effects of COVID-19, GZM also collected invitations to
tenders announced by its member municipalities on its website and presented plans related to future public procurement offering. It also introduced a series of webinars entitled “REthinking Metropolises”, which gathers different metropolises around Europe to enable exchange of good practices and potential counter-measures.

**Grez-Doiceau (Belgium)**

The municipality of Grez-Doiceau adopted a set of measures to implement a local recovery plan aimed at supporting small businesses and strengthening the reflex of citizens to buy locally. It includes *inter alia* the provision of a surface intended for local artisans; the promotion of the use of “Creashop” initiative for the creation of new quality and innovative businesses (with particular attention paid to projects including a reflection around short distribution circuits and the circular economy) or the inclusion of notions of proximity, locality and sustainability in public procurements to allow businesses from Grez-Doiceau to participate.

**Huesca (Spain)**

The municipality of Huesca launched a new campaign called “Bonos impulsa Huesca” (Vouchers to Boost Huesca) to reactivate consumption and business activity in the city. The initiative aims at distributing vouchers to residents to spend in the local economy from August until the end of the year – which will mean putting EUR 1.5 million into circulation. Each resident of the Aragonese city will be provided with up to EUR 50 a month in the form of vouchers that can be used to get significant discounts in local stores.

**Summary tables of regional & local measures by type of response**

The following tables outline some of the measures taken by different local and regional governments, those covered in ECONomic Bulletins no. 1, 2, 3, 4, 5, 6 and 7. This is not meant to be an exhaustive list. We are interested in finding out about economic measures of any kind, adopted or planned by other local and regional governments, to contribute to this collective learning exercise, to help create synergies while suggesting potential lines of action. Your contribution is welcome and can be sent to econ@cor.europa.eu.

<table>
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<tr>
<th>Regional responses</th>
<th>Regions</th>
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<tr>
<td>Direct aids (grants) to the self-employed and/or SMEs</td>
<td>North Rhine-Westphalia, Catalonia, Basque Country, Murcia, Pays de la Loire, Malopolska, Corsica, Valle D’Aosta, Flanders, Azores, Nouvelle-Aquitaine, Wallonia, Hesse, Asturias, Hauts-de-France, Bavaria, Bretagne, Région Sud, Silesia, Sicily, Galicia, Andalusia, Lazio, Baden-Württemberg, Friuli-Venezia Giulia, Centre-Val de Loire, Ústecký Region, Valencian Region, Opolskie, Madrid Region, Bruxelles Region, Trentino-Alto Adige</td>
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### Regional responses

| Support systems for the granting of loans at 0% rate | Pays de la Loire, Corsica, Basque Country, Nouvelle-Aquitaine, Central Bohemia, Bretagne, Région Sud, Sicily, Murcia, Lazio, Centre-Val de Loire, Valencian Region, Opolskie |
| Refinancing, adaptation or extension of existing funding in repayable advances | Corsica, Basque Country, Pays de la Loire, Nouvelle-Aquitaine, Hauts-de-France, Bretagne, Région Sud, Lazio, Centre-Val-de-Loire, Centre-Val de Loire, Valencian Region, Opolskie |
| Exemption, discount, deferment or fractionation of regional taxes | Lombardy, Valle D’Aosta, Istria, Catalonia, Navarra, North Rhine-Westphalia, Murcia, Flanders, Hesse, Asturias, Zuid-Holland, Offaly, Sicily, Andalusia, Lazio, Friuli-Venezia Giulia |
| Postponement or exemption of rent payments of business premises linked to the government | Lubelskie, Istria, Basque Country, Asturias, Virovitica-Podravina |
| Creation of a virtual marketplace promoting business collaboration to face the health emergency | Zwolle, Catalonia, Navarra, Nouvelle-Aquitaine, Rhineland-Palatinate, Murcia, Centre-Val de Loire, Valencian Region, Madrid Region, Galicia |
| Creation of a support team for businesses to disseminate information on existing support and offer consultancy services | Zwolle, Catalonia, Nouvelle-Aquitaine, Hauts-de-France |

### Local Responses

Creation of a support team available via online or hotline to disseminate information on existing support or consultancy services

| Nantes, Lisbon, Braga, Stuttgart, Gothenburg, Bilbao, Valencia, Mafra, Vienna, Mannheim, Kungsbacka, Katowice, Espoo |

Financial aid or increase of existing funds addressed directly or indirectly to local companies or the self-employed

| Vienna, Dusseldorf, Lisbon, Berlin, Hamburg, Valencia, Valenciennes, Mannheim, Sintra, Espoo, Nice, Lyon, Bordeaux, Huesca |

Compensation schemes for SMEs and entrepreneurs having contracts with the municipality

| Utrecht, Barcelona, Tallinn, Espoo, Nice, Vilnius |

Payment of damages (e.g. cancelled events)

| Utrecht, Berlin, Tallinn, Haarlem |

Creation of a website gathering local initiatives

| Zaragoza, Ghent, Lodz, Pinagau, Florence, Mannheim, Nice, Lyon, Częstochowa, Frankfurt, Haarlem, Póvoa de Varzim, Bordeaux, Grez-Doiceau |

Loan guarantees

| Berlin, Hamburg, Sofia, Vienna |

Useful links


- European Commission’s dedicated Coronavirus response website

- European Commission, Policy measures taken by the EU Member States against the spread and impact of the coronavirus (update 28 May)


The fiscal response to the economic fallout from the coronavirus, Bruegel Datasets
https://www.bruegel.org/publications/datasets/covid-national-dataset/#belgium

The EP’s EPRS is publishing a series of Briefings on the emergency measures adopted by individual Member States. So far, two Briefings were published, concerning:
- Belgium, France, Germany, Hungary, Italy, Poland and Spain
- Bulgaria, Estonia, Latvia, Malta, Austria, Romania, and Slovenia

A summary of national measures to support SMEs http://www.eurada.org/covid-19/

CPMR Special newsletter https://mailchi.mp/crpm/covid19news

ESPON programme pooling local experiences and territorial policy responses:

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/

Eurocities online platform (with response actions undertaken by members):
https://covidnews.eurocities.eu/

OECD database on regional government accounts and a technical report presenting key findings:
https://stats.oecd.org/Index.aspx?DataSetCode=REGION_DEMOGR and

COVID-19 EU PolicyWatch database on responses from governments at national level with 29 cases also at regional and local level: https://www.eurofound.europa.eu/data/covid-19-eu-policywatch

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: