The COVID-19 pandemic is having substantial repercussions on European economies. The Commission for Economic Policy (ECON) at the European Committee of the Regions (CoR) examines 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.

This ninth edition of the ECON Bulletin is being published amid a resurgence of COVID-19 cases and new lockdowns in several Member States. A few months ago, we observed a sharp rebound in activity as the European economy emerged from lockdown. Even then, however, there were clear signs that the recovery was slowing down, and economic forecasts for the last quarter of the year are now less optimistic than expected because of the so-called “second wave”.

While we hope that the most acute phase of the socio-economic shock is now behind us, the fragile recovery phase requires us to ponder the impact of the measures already adopted, in order to mitigate the fallout of the pandemic. In this regard, I am proud to dedicate this Bulletin’s thematic focus to a great piece of collaborative work coordinated by the ECON secretariat: the EU annual regional and local Barometer. This report provides facts, figures and maps showing the state of EU cities and regions in the context of the COVID-19 crisis, as along with an initial analysis of the potential effect of EU recovery measures on our regions, cities and villages. It also includes a series of targeted recommendations to guide policymakers, propose tangible solutions to overcome the limitations observed and – in line with the tireless work of the CoR in this regard – ensure that the individual needs of cities and regions are taken into account in the interinstitutional policymaking process.

In the previous edition of the Bulletin I expressed the desire to adapt its format to changing contexts and focus on the current priority: recovery and resilience. I also said how I wanted to extend the scope of ECON activities which support local and regional authorities in ensuring that nowhere is left behind after a shock of this magnitude. I firmly believe that it is more important than ever for our regions, cities and villages to receive targeted information and be familiarised with existing EU support schemes and initiatives. The pandemic and its unprecedented impact on our socioeconomic structures have placed our local authorities on the front line, and they need all the support they can get to overcome this scourge. To this end, I hope that the new format of the Bulletin will make a modest contribution to the collective effort.

-- Michael Murphy (IE/EPP), Chairperson, Tipperary County Council, Chair of the ECON commission
The Commission proposes an EU Single Window Environment for Customs
This initiative is part of the new Customs Union Action Plan and aims to modernise and streamline border controls to facilitate trade, reduce the administrative burden for companies, improve safety and compliance checks and enhance cooperation.

The EU Single Window Environment for Customs will simplify procedures for businesses and traders: instead of submitting the required documents to each of the multiple authorities involved in the EU external borders’ formalities, they will only need to provide the information once through a single portal. Then, customs and other authorities will be able to access this data collectively, resulting in a coordinated approach to goods clearance and a clearer overview of the goods entering and leaving the EU. The full implementation of this Single Window will require substantial investment by both the EU and Member States. The Commission will also support them where possible, including through funding from the Recovery and Resilience Facility.

The Commission launches the Access2markets portal to support trade by SMEs
The Access2markets portal breaks down the complex set of rules governing the trade relationship between the EU and third countries, allowing companies to find details on the trading conditions of imported and exported goods easily.

In just a few clicks, companies can access detailed information for each product code on the related tariffs, taxes, rules of origin, product requirements, customs procedures, trade barriers and trade flow statistics. Businesses can also access a self-assessment tool to find out if their products comply with...
the rules of origin set out in specific agreements. The platform also provides information on the regulations regarding trade in services or on the conditions for investing in foreign markets. The portal can be accessed here.

**The Commission prolongs the Temporary Framework for state aid for 6 months**

On 13 October, the Commission extended all sections of the Temporary Framework for state aid to 30 June 2021, with the section on recapitalisation support extended for an additional three months to 30 September 2021.

The objective of this extension is to enable Member States to support businesses in the context of the pandemic, especially where the need or ability to use the Temporary Framework has not yet fully materialised. In addition, the Commission also included other new measures such as aid in the form of support for uncovered fixed costs for companies who have suffered a decline in turnover of at least 30% (with the overall aid not exceeding EUR 3 million per undertaking). A further new measure is the consideration of all commercial and political risks associated with exports as temporarily non-marketable until 30 June 2021.

**The European Commission Autumn 2020 Economic Forecast**

On 5 November, the Commission released its economic forecast in a context of high uncertainty related to the ongoing evolution of the pandemic. Overall, the EU GDP is forecast to contract by about 7.4% in 2020 before rebounding by 4.1% in 2021 - down 2 points compared to previous forecasts - and by 3% in 2022.

The economic impact of the pandemic in 2020 and the speed of the recovery in the next two years are expected to vary widely across Member States. Overall, the projected GDP increase for 2021 has decreased for all them, with the final values ranging between +2.5% and +5.5%. These forecasts are based on technical assumptions, i.e. the fact that containment measures will remain in force to some degree but that they will gradually diminish or that the EU and the UK will trade on the WTO Most Favoured Nation rules from 1 January 2021. The general government deficit ratio of the Euro area is expected to increase by 8 points (this year to 8.75% of GDP but to ease by 2.5 and 1.5 points in 2021 and 2022 respectively). A relatively strong rebound is forecast for private consumption in 2021 (which may decrease by more than 8% this year) whereas the recovery in investment spending is expected to be slower. Financial markets have held up well thanks in part to central banks' liquidity provisions, but the next two years will test the resilience of the banking sector in its crucial role of providing lending to the economy. More statistics and information - including at country level - can be found here.
André Sapir, Why has COVID-19 hit different European Union economies so differently?, Bruegel, 22 September 2020
Using statistical techniques, this policy contribution explores the role of several factors in explaining the differences in GDP losses in different EU countries, and outlines some policy implications of these results for the Recovery and Resilience Facility.
The author finds that the stringent lockdown measures, the share of tourism in the economy and the quality of governance were significant in explaining the different economic shocks between southern and northern EU countries. The level of public indebtedness does not seem to play a significant role, which suggests that the ECB’s pandemic emergency purchase programme (PEPP) has been effective in preventing high public-debt euro area countries from being cut off from the market if they tried to expand their debt issuance to respond to the crisis. GDP losses vary from around 12% in some southern countries to around 7% in some northern countries. In particular, the author computed the contribution of the three explanatory variables (i.e. lockdown, share of tourism, quality of governance) to the differential in GDP shocks between the Netherlands and four southern countries (Italy, Greece, Spain and Portugal) and found that the quality of governance could explain between 30 to 50% of these differences. In his opinion, it is therefore imperative that the RRF devote sufficient resources to improving the quality of governance of southern countries, which will also have a very positive impact on the resilience of their economies.

Paola Tamma, Cristina Gallardo and Lili Bayer, National governments spurn loan portion of EU recovery fund, Politico, 26 October 2020
This article puts forward factors that could explain why many EU Member States seem reluctant to use the EUR 360 billion of low-interest Next Generation EU loans.
Out of the nine EU countries that signed a letter in March calling for a common debt instrument, three have declared they don’t plan to access the loans for the moment and four others are hesitating. This reluctance to borrow EU money can be explained by a number of reasons, the first of which is to avoid adding to already-high government debt levels. Indeed, the lack of clarity on when or how EU budget rules will be reinstated encourages governments to be particularly cautious with their country’s debt balance. Another reason is the fact that memories of the harsh conditions and enforcement rules of the rescue programs following the 2008 financial crisis are still fresh. Last but not least, EU countries benefiting from borrowing costs equal to or lower than those of the Commission have little incentive to subscribe to its loans. The reluctance of several countries to apply for the loan portion of the package means that - in practice - the firepower of Next Generation EU is significantly reduced; which risks diluting its impact.

Thierry Philipponnat, 10 Principles for a Sustainable Recovery, Finance Watch, 2 October 2020
This publication argues that there is a contradiction between recovery and resilience in the EU Recovery plans and outlines how legislators can overcome this problem through 10 key arguments and recommendations.
The author considers that a new and more sustainable direction for Europe is necessary to achieve resilience - defined as the ability to avoid future disruption. The current Recovery and Resilience Facility (RFF) will simply mean the resumption of "business as usual", but, with the appropriate changes, it could be turned into a very powerful tool. The author argues that the RRF should be reframed to support only fully sustainable activities and the EU Taxonomy regulation used in this regard to provide clear definitions regarding what can be considered a "sustainable activity". National recovery and resilience plans should be fully aligned with the Paris agreement and their overall budgets judged by the "do no harm" principle in order to receive their share of RRF funds. The author also believes there is no reason for the Commission not to raise the target of borrowing via green bonds to 100% (instead of the actual 30%) to finance Next Generation EU and advocates a removal of EU fiscal constraints - both deficit and debt thresholds - in the light of the favourable borrowing costs and the urgent need to invest in a sustainable future for the continent.

Wim Moesen and Patrick Vanhoudt, A proposal for a public infrastructure leasing entity for Europe, CEPS, 1 October 2020
The authors argue that it could be possible to accelerate public investment without increasing public debt or taxes thanks to a leasing mechanism at EU level.
Heavy investments in infrastructure will be needed to ensure that the European green and digital transformation does take place. To limit the pressure on the public finances of Member States, which are already experiencing soaring deficits, the authors suggest using a widely-used private sector financing technique in the sphere of public finance: leasing. This “Public Infrastructure Leasing entity for Europe” would issue bonds in international markets that are guaranteed by the Member States. Such a sovereign wealth fund at the level of the EU - specialised in public infrastructure leasing - would allow both for the sustainability of infrastructure investments in Member States and, in parallel, relieve pressure on their deficits/debts (and therefore on tax levels).

Fabian Zuleeg, The end of the level playing field?, European Policy Centre, 1 October 2020
The notion of “level playing field”, that is to say an open and fair economy where everyone plays by the same rules (i.e. the EU single market), is subject to considerable tension. But instead of abandoning this idea, the EU must go beyond the concept of the Single Market and create a Single Economic Territory.
The concept of a level playing field is a core pillar of European economic integration, but the growing imbalances both inside and outside the EU are endangering this principle. For instance, there are strong external distortions which were already present before the pandemic - such as the US blocking of the WTO Appellate Body or China's continued support to domestic firms. EU Member States may be tempted to respond by providing additional support to their companies (e.g. state aid), because of rising fears that they are facing a competitive disadvantage. Today, these potential asymmetries in the single market caused by divergent levels of support among EU companies and regions have been further aggravated by the COVID-19 outbreak. The distributional consequences caused by its impact, the uneven economic response and other distortions arising from the increased state interventionism have put the internal level playing field at even greater risk.

In this scenario, the author advocates upgrading the single market to create a “Single Economic Territory”. This would entail, inter alia, a coordinated microeconomic policy approach at European
level to ensure that the EU can collectively reach its overarching objectives, while supporting its businesses in a global environment of distorted competition. First, the EU and its Member States would need to define and implement common objectives (e.g. state aid, digital and sustainable transformations) and encapsulate them in an EU-wide industrial strategy. Secondly, Member States' interventions should be tested on their compatibility and consistency with such a strategy - before considering an exemption to the Single Market rules. Even the national recovery plans should be evaluated against this broader EU strategy and adjusted, if necessary, to ensure that distortions of the Single Market are addressed. Apart from minimising asymmetries in the EU level playing field, this Single Economic Territory would ensure that the countries most affected by the fallout of the pandemic do not become permanently dependent on external support and continue to compete within the single market.


In the context of the Commission's review of the EU economic governance framework (including fiscal surveillance under the Six-Pack and Two-Pack legislation), this extensive study analyses the EU fiscal framework's structural balance and expenditure rules and introduces some recommendations.

To reform the EU fiscal framework, the authors recommend dropping the current structural budget balance rules and focusing on a framework based on a multi-year ahead ceiling for public expenditure anchored in a compatible five- or seven-year ahead debt ratio change target. The expenditure aggregate would be corrected for discretionary unemployment expenditure, interest expenditure and discretionary revenue changes. However, additionally, the authors suggest including an asymmetric golden rule that would go beyond the narrow golden rule in place known as the “investment clause” (which currently allows some co-financing of EU projects to be excluded from the fiscal indicators, for a maximum of three years and under strict conditions). There are divergent views on the desirability of a golden rule that excludes certain public investments from the operational rule. Assessing its possible benefits and drawbacks, the authors finally concluded that this potential asymmetric golden rule would be activated only in times of recession to exclude net public investment from the considered expenditure. This would create a very beneficial extra fiscal space that would be gradually removed as recovery strengthens. Besides, the activation of this asymmetric golden rule would not be based on unreliable estimates of output gaps, but on the contraction of economic output and the opinion of national and European fiscal councils and the Commission.

Taking into account other authors’ contributions, the study also advocates improved better institutional set-up with stronger independent national fiscal councils and the establishment of a European Fiscal Council. Fiscal sanctions should be replaced by instruments related to surveillance, market discipline, positive incentives and increased political cost of non-compliance, and – finally - a single general escape clause (possibly applied to each Member State separately) could replace the existing general escape clause and the intricate web of exceptions. Overall, the authors believe that this reviewed EU fiscal framework would better equip governments in the post-COVID-19 recovery.
The ECON commission coordinated the first edition of the EU Annual Regional and Local Barometer, which focuses on the effects and impact of the COVID-19 pandemic at local and regional level - from health to social, economic, environmental and democracy. The report gives facts, figures and maps on the state of EU cities and regions and provides an initial analysis of the potential impact of EU recovery measures at local and regional level. It also includes the first opinion poll since the pandemic of public trust in local, regional, and national governments across the EU - as well as trust in the EU.

The Barometer inspired CoR President Tzitzikostas’ address on the very first EU Annual Regional and Local Barometer 2020, delivered on 12 October 2020 during the European Week of Regions and Cities (EWRC) - before President von der Leyen. It attracted great interest: on the CoR website, the Barometer page received an unprecedented number of views (more than 18,000 views in late October). It is the result of a successful communication campaign: engagement and mentions of the hashtag #EURegionalBarometer tripled compared to last year’s SOTREG exercise.

The impact of COVID-19 on EU regions’ economies

Chapter II of the report focuses on the economic consequences of the COVID-19 crisis. It reminds us that the pandemic has caused the greatest economic shock to the European economy since World War II, with the EU’s GDP falling by 11.7% during the second quarter of 2020. The intensity of the pandemic varied from country to country but also has a marked geographical dimension, with impact significantly differentiated within countries (some regions in Greece, Italy or Spain may lose up to a quarter of their GDP in 2020).

The economic impact of the pandemic does not necessarily match its health impact - the regions that have suffered the greater number of deaths during the pandemic are not necessarily the hardest hit economically. To understand this differentiated impact on EU regions and cities, the report analyses the length and stringency of lockdowns and associates them with regional characteristics (i.e. the resources, but also the political, social and economic structures of local and regional authorities). The map resulting from this exercise shows that the potential impact of COVID-19 is asymmetric and territorially differentiated: the pandemic has created a new geography in the EU.
which does not correspond to usual patterns (i.e. urban vs rural or centre vs periphery divides or to EU cohesion regions).

The impact of COVID-19 on local and regional finances

LRAs are in charge of some critical elements of public action (e.g. social protection, health or economic affairs) and have been at the forefront in the management of the pandemic. LRAs expect their expenditure to be under significant pressure: around three-quarters of respondents in a joint CoR-OECD survey indicated that they expect pressure on their expenditure in many fields - including health, social services, or support for SMEs. In the meantime, their revenues fell in a significant way due to a dramatic reduction in economic activity and the related tax base (tax relief and deferment measures also affected LRAs through drops in their own and shared tax revenue). This phenomenon of simultaneous rising costs and falling revenues which undermines the fiscal balance of LRAs is dubbed the "scissor effect".

The impact of COVID-19 on local and regional finances - similarly to the impact on the general economy - will be asymmetric across EU regions and cities. As seen above with regard to revenues and expenditure, there are admittedly clear links between the broader socioeconomic impact of the pandemic and its consequences on local and regional finances. However, they are not necessarily parallel: an OECD study presents the five key factors that can explain the geographically differentiated impact among LRAs: the scope and type of their spending responsibilities; the characteristics of their revenue; their fiscal flexibility; their fiscal health, and the scope and efficiency of the support they receive from higher levels of government. In a nutshell, together with the geographical differences in broader socio-economic impact, the combination of these factors means that the impact on regional and local finances of the COVID-19 crisis will be asymmetric even between individual regions of the same Member State.
An initial assessment of the impact of EU recovery measures on EU regions and cities

To overcome these adverse consequences, the EU took steps to help Member States provide emergency and recovery support. The measures adopted are multifaceted: some of them have no direct impact on LRAs (e.g. the European Central Bank Pandemic emergency purchase programme) but a significant number of them will directly affect EU regions and cities.

Early on, the Commission reacted, inter alia, by providing for more flexibility in existing instruments and frameworks. In this regard, the Coronavirus Response Investment Initiative (CRII and CRII+) introduces flexibility in cohesion rules and somehow transforms the objectives of this policy: this regional convergence instrument also becomes a rapid action instrument that has been widely used by Member States. One must be aware that this enhanced flexibility and accelerated use of cohesion policy funding to respond to the pandemic might bear a risk of greater centralisation at Member State level. The EU has also introduced flexibility in competition (and, in particular, state aid rules) to minimise the socioeconomic fallout of the crisis. Early on, the Commission adopted a new State aid Temporary Framework to enable Member States to ensure temporary liquidity for companies or grant compensation to companies that had been hard hit. However, this flexibility is likely to be distorting competition, since many Member States or regions severely hit are not in a fiscal position to make full use of it, which could reinforce territorial disparities.

Following these early measures, the European recovery plan was created to address the economic and social damage wrought by the coronavirus pandemic but also help the EU support investment in the green and digital transitions. The core component of EUR 750 billion Next Generation EU instrument - the Recovery and Resilience Facility (RFF) – provides for very limited involvement of regional and local authorities. The current design of the governance of the instrument and its close link with the European Semester mean that it will be somewhat “spatially blind”. To remedy this lack of involvement in the design of reforms, the report proposes, for instance, a Code of Conduct on Partnership for the involvement of local and regional authorities.
in the Semester or the creation of a Recovery and Resilience Forum organised together with the European Commission. In addition to this limited role for LRAs, the Facility’s current governance process might also be problematic, given that it does not necessarily guarantee that its funds will be used to **finance long-term structural changes**. Indeed, it is plausible that Member States might choose to focus RFF funding on existing structures in preference to complex longer-term and ambitious solutions ("while you drown is not a good time to learn a new swimming technique"), which would slow Europe’s green and digital transitions.

**The fully digital 2020 edition of the European Week of Regions and Cities attracted a record 10 000 participants and 2 000 speakers, who took part in more than 500 workshops, debates and exhibitions over three weeks (5-22 October). The following part of the Bulletin will look at two workshops that were organised by the ECON Commission. These workshops – along with all the sessions from all three weeks of the European Week of Regions and Cities - are available as "videos on demand" on the **LIVE&REPLAY** platform.**

**Workshop - EER regions pathways for economic recovery**

On 19 October the ECON Commission organised a workshop to demonstrate how the **European Entrepreneurial Regions** label could be used as a tool to stimulate entrepreneurial and sustainable recovery from the Covid-19 crisis. After a welcome speech by the ECON Chair, Michael Murphy, and an academic analysis by Professor Philip McCann, the speakers representing the EER 2020 regions assessed the impact of the pandemic on their regions, showcased key measures taken and looked at the future challenges and strategy. The workshop then continued with an exchange of views on the **European SME Strategy for a sustainable and digital Europe** between the rapporteur for the CoR opinion on the matter and speakers from the European Commission and SME United. More information on the workshop is available [here](#).

**Workshop - The role of the SDGs in the crisis recovery**

On 21 October, the European Committee of the Regions, EUROCITIES, CEMR, PLATFORMA and Regions4 organised a **workshop** on the role of the SDGs in recovery from the crisis. Representatives of a large array of cities and regions presented their experience of implementing the SDGs in these disruptive times. To the question whether local and regional authorities ought to stop working on
SDGs, the reply was unanimously no, quite the contrary. Each speaker illustrated how the SDGs are all the more important in the definition of exit and recovery strategies, notably through enhanced dialogues with businesses, civil society and people.

Local and regional authority representatives were quick to point out the need for leadership from the European Commission to ensure coherent action at all levels and support their work on the ground. Estelle Góger, a member of the Commissioner for the Economy, Paolo Gentiloni’s cabinet, agreed that while the SDGs are not visible in the current EU narrative, they have never been so relevant for a sustainable European recovery. She mentioned all the EU policy initiatives effectively contributing to the implementation of the SDGs, such as the Green Deal, the Digital Strategy, the Farm to Fork Strategy and the Just Transition Mechanism. She stressed the fact that the EUR 672.5 billion Recovery and Resilience Facility is in line with the SDGs, although this is not explicitly stated.

There was general agreement that the European Semester, the EU economic policies coordination mechanism and RRF governance tool, should better integrate the SDGs with tagging, but also ensure policy coherence and a more participatory approach. With regard to the latter, the CoR, EUROCITIES, CEMR, PLATFORMA and Regions4 recommended organising a joint Commission-CoR Forum on the implementation of the RFF. They also encouraged the European Commission to further support the localisation of the SDGs, notably by including the contribution of cities and regions in the policy document on the SDGs to be published later this year.

The Network of Regional Hubs (RegHub) is launching its new phase (RegHub 2.0) and opened a call for new applicants

After a positive evaluation of RegHub's pilot phase, the CoR is now launching its mainstreaming phase and is looking for new applicants. The network consists of regionally- and locally-based public officials (“contact points”), who collect technical feedback from stakeholders about their experience on the ground of implementing existing EU policies. The regional hubs and their stakeholders have a privileged position as sources of first-hand user experience for EU policy
evaluations. For example, two RegHub contact points took part in a high-level panel with Commission Vice-President Maroš Šefčovič on 7 October 2020 during the European Week of Regions and Cities, discussing how the EU can involve interested parties more in policymaking processes. In addition, the hubs will also be part of the RegHub subgroup of the European Commission's new Fit for Future Platform and thus have an even greater and direct impact on better law-making.

Every local and regional authority in the European Union can apply to become a member of the RegHub network. The selection of the members of RegHub 2.0 will be based on the following criteria:

➢ the performance during the pilot phase (this only applies to current RegHub members);
➢ the applicants’ motivation and ability to contribute;
➢ the diversity of members in terms of institutional role and legislative powers, as well as population, size and social and economic characteristics;
➢ an proper geographical balance of members across the EU.

The call for applications (in English) is open until 30 November 2020 at the latest and is widely advertised on the CoR’s social media (Twitter, LinkedIn and Facebook).

**ECON report - Regions and cities providing SGEIs: identifying difficulties resulting from the state aid framework**

Services of General Economic Interest (SGEIs) are economic activities that deliver outcomes serving the general public that would not, or not sufficiently, be supplied by the market without public intervention. In line with subsidiarity principles, local and regional authorities (LRAs) are typically responsible for providing SGEIs. To comply with the internal market, the European Commission has outlined rules within which SGEIs may be financially supported by Member States and LRAs to ensure they can function properly. To improve clarity and flexibility, the European Commission has adopted several legal and guidance documents, such as the SGEI Decision and the SGEI Framework.

This report, commissioned by the ECON commission, provides a detailed review of state aid rules relating to SGEIs. The report also presents key concepts of the SGEI Communication and Decision respectively and identifies challenges arising from these documents under the legal framework for state aid. The analysis shows that most challenges relate to the SGEI Communication. In addition, legal uncertainty, lack of clear definitions and determining reasonable profit are crucial challenges with state aid implications. The full report is available [here](#).

**The LORDI framework and survey - How to measure digitalisation in regions and cities?**

The Covid-19 pandemic has convinced even the fiercest critics of digitalisation that the use of digital tools and services has become essential. Accordingly, the digital transformation in Europe has now become a top policy priority for the EU institutions as part of the twin green and digital transformation. In our Barometer report, we highlighted the immense infrastructure development needs at local and regional level. Before the pandemic, the digital infrastructure gap between rural and urban regions was significant: 85% of urban households had access to high-speed internet (30 Mbps) compared to 56% of rural households.
How do we actually measure the degree of digitalisation of cities and regions? Not only in terms of infrastructure, but also, for example, with regard to services provided online? What are the features that would distinguish a digitally literate, or so-called “smart” city or region from a 'beginner' in terms of digital transformation? These are questions which ECON has been tackling since the beginning of 2020, together with the European Commission and statistical experts from the ESPON 2020 Cooperation Programme. We are jointly developing the LORDI – Local and Regional Digital Indicators – framework, which will help cities and regions develop and steer relevant policies, meet commitments and support access to different financing opportunities. LORDI maps cities and regions in five broad categories: local digital infrastructure, local digital skills and capacity building, local digital economy and services, governance and digital single market, and context indicators.

LORDI is currently gathering input for a survey, the purpose of which is to validate the LORDI framework and the proposed indicator framework with cities across Europe. You are warmly invited to express your views on the relevance of the proposed indicators here.