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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN
CENTRAL BANK, THE EUROPEAN INVESTMENT BANK AND THE
EUROGROUP**

Coordinated economic response to the COVID-19 Outbreak

1. INTRODUCTION

COVID-19, commonly known as the Coronavirus, is a severe public health emergency for citizens, societies and economies. Having spread from China, the pandemic has now provoked infections in all Member States. While Italy is the most strongly affected, the number of cases is increasing across Member States and the situation is evolving quickly. The pandemic is imposing a heavy burden on individuals and societies, and putting health care systems under severe strain. We must respond together to slow down the contagion, strengthen resilience of our health care systems to help those in need and for progress in research and development.

In addition to its significant social impacts and human dimension, the Coronavirus outbreak is a major economic shock to the EU, calling for a decisive coordinated economic. The spread of the virus is causing disruption of global supply chains, volatility in financial markets, consumer demand shocks and negative impact in key sectors like travel and tourism. European stock markets have fallen around 30% compared to mid-February, their sharpest monthly decline since the start of the financial crisis in 2008, and uncertainty about the development of the outbreak in the coming weeks and months remains high.

Only with solidarity and Europe-wide coordinated solutions, we will be able to effectively manage this public health emergency. We need solidarity between countries, regions, cities and citizens to contain the spread of the virus, help patients, and to counter the economic fall-out. This calls for a set of core measures and a consistent and clear common approach. **Close cooperation among all relevant actors is key.**

The Commission will fully use all the tools at its disposal to weather this storm. In addition to our coordination and guidance efforts, and our actions to limit the spread of the virus, the Commission is acting to tackle and mitigate the socio-economic consequences of the pandemic. This is about the integrity of the Single Market and more broadly the preservation of production and distribution value chains, to ensure the necessary supplies to our health systems. This is about supporting people to ensure that incomes and jobs are not affected disproportionately by the pandemic. This is about supporting firms, in particular Small and Medium Enterprises (SMEs). It is also about ensuring the liquidity of our financial sector and countering a threatening recession through actions at all levels. Finally, this is about ensuring a framework allowing Member States to act decisively in a coordinated way. In sum, this is about preparing for a quick recovery from this economic shock.

This Communication outlines the Commission's immediate response to mitigate the economic impact of COVID-19. While the described measures announced today deal with the most imminent challenges, we need to be conscious that the situation is evolving on a daily basis. The Commission will work closely together with the European Parliament, the Council, the European Investment Bank (EIB) and the Member States to implement these measures swiftly and stands ready to take all further initiatives as necessary. The Commission also supports an international response to address the global socio-economic consequences of the pandemic through the multilateral framework, with particular attention to partner countries with vulnerable health systems.

2. SOCIO-ECONOMIC CONSEQUENCES

The COVID-19 pandemic is a major shock to the global and European economy. Already today, a substantial negative economic impact on Europe has materialised, at least for the first half of this year and possibly longer if containment measures are not effective.¹ Real GDP growth in 2020 might fall to well below zero or even be substantially negative as a result of the COVID-19, and a coordinated economic response of EU institutions and Member States is key to mitigating the economic repercussions.

This shock is affecting the economy through different channels:

- the shock resulting from China's initial contraction in the first quarter of 2020;
- the supply shock to the European and global economy resulting from the disruption of supply chains absences from the workplace;
- the demand shock to the European and global economy caused by lower consumer demand and the negative impact of uncertainty on investment plans;
- and the impact of liquidity constraints for firms.

The shock will be temporary, but we need to work together to ensure that it is as short and as limited as possible, and that it does not create permanent damages to our economies. For the future, the degree of the negative outlook will depend on a number of parameters such as the lack of supply of critical materials, the effectiveness of containment measures, the downtime in manufacturing in the EU work days lost in companies and public administrations, and demand effects (e.g. mobility restrictions, travel cancellations).

Member States need to be vigilant and use all tools available at Union and national level to avoid that the current crisis leads to a loss of critical assets and technology. This includes tools like national security screening and other security related instruments. The Commission will guide Member States ahead of the application of the Foreign Direct Investment Screening Regulation.

With the COVID-19 spreading and affecting large parts of the population globally and in the Member States, economic effects are substantial and growing by the day. The effects are felt across the whole economy in particular in necessary situations of lock-down to prevent the spread of the pandemic. Measures taken to contain the virus at local and national levels might affect both supply and demand. In particular, negative demand is a consequence of the measures to contain the virus that governments are obliged to implement, affecting private, professional and social lives. Today, the sectors most affected are the health sector, tourism, transport, in particular the airline industry.

The COVID-19 pandemic has an impact on global financial markets. In late February, global equity markets and those of other high-risk assets dropped heavily amid a strong flight to safety. At the same time, prices of safe haven assets hiked on increase demand: yields on US Treasury bonds (the “safe financial asset of last resort”) dropped sharply. Share prices dropped across the board, globally. Spreads of government bonds of more vulnerable Member States increased. Non-investment grade corporate bond yields hiked.

¹ See Annex 1.

In the face of the macro-economic and financial impact of COVID-19, the economic policy response should be taken boldly and in a coordinated manner in order to achieve the following objectives:

- Contribute to saving lives. Ensuring necessary supplies spending and investments in containing and treating the pandemic.
- Ensure that workers in Europe (including self-employed) are protected against income losses and that the most affected companies (especially SMEs) and sectors have the necessary support and financial liquidity.
- Mitigating the impact on the overall economy with all available EU tools and a flexible EU framework for Member States action used to its full.

3. ENSURING SOLIDARITY IN THE SINGLE MARKET

3.1. SUPPLY OF MEDICAL EQUIPMENT

The Single Market is at the heart of the European Union. In times of crisis it is the solidarity instrument to ensure that essential goods necessary to mitigate health risks outbreak can reach all those in need. By making sure those goods are available across the EU, the Single Market contributes to the protection of our health. Unilateral national restrictions to the free movement of essential supplies to the healthcare systems create significant barriers and affect dramatically Member States' capacity to manage the COVID-19 outbreak.

It is crucial that national measures pursue the primary objective of health protection in a spirit of European solidarity and cooperation. Some Member States have already adopted or are preparing national measures affecting the export of personal protective equipment, such as protective glasses, facemasks, gloves, surgical overalls and gowns, and of medicines. These measures risk preventing such essential goods from reaching those who need them most, notably healthcare workers, field intervention teams and patients in affected areas all across Europe. They create domino effects: Member States take measures to mitigate the impact of measures taken by other Member States.

In a short time span, restrictions have spread to an increasing range of products, starting with personal protective equipment and extending more recently to medicines. Restrictions on exports ignore integrated supply chains. They create bottlenecks to production of essential supplies by locking inputs in specific Member States. They disrupt logistics and distribution chains, which rely on central warehouses. They encourage stockpiling responses in the supply chain. Ultimately, they reintroduce internal borders at a time where solidarity between Member States is the most needed.

Annex 2 provides guidance for Member States on how to put in place adequate control mechanisms to ensure security of supply across Europe.² The Treaty allows Member States under certain strict conditions to deviate from Single Market rules. Any national restrictive measure taken under Article 36 TFEU to protect health and life of humans must be justified, i.e. suitable, necessary and proportionate to such objectives by ensuring an adequate supply to the relevant persons while preventing any occurrence or aggravation of shortages of goods, considered as essential, such as personal protective equipment, medical devices or medicinal products. Any planned national measure restricting access to medical and protective equipment must be notified to the Commission, which is to inform the other Member States thereof.

² See Annex 2.

The measures so far notified to the Commission have been assessed with regard to ensuring that essential goods reach those who need them the most. The Commission is treating those cases as a matter of priority and supports Member States to correct any such measure. In case Member States do not sufficiently adapt their rules, the Commission will take legal action.

Some national measures prevent exports of essential supplies to third countries, the ultimate objective being to preserve the viability of the EU's health care systems. Should exports to third countries jeopardize the response capacity of the EU to the COVID-19 outbreak, the Commission can take action and put in place a system of authorisations for exports of certain products.

The Commission is taking all necessary steps to ensure adequate supply of protective equipment across Europe. Given current global shortages, the Commission launched an accelerated joint procurement procedure with 26 Member States. As a further safety net, the Commission is adopting a measure under the EU Civil Protection Mechanism (rescEU) for the Union to buy such equipment. This could lead to first purchases by beginning of April, if approved by Member States. The Commission is also putting forward a Commission Recommendation on the conformity assessment and market surveillance procedures within the context of the COVID-19. This will enable, in particular, to increase the supply of certain types of equipment such as the disposable face masks.

It is key to act together to secure production, stocking, availability and rational use of medical protective equipment and medicines in the EU, openly and transparently. The Commission has reached out to suppliers to assess shortages and asked them to immediately increase production. Together with Member States and the European Medicines Agency, the Commission has also set-up an executive steering group to monitor potential shortages of medicines due to COVID-19. Furthermore, it is monitoring the situation through the Medical Devices Coordination Group, including on the availability and performance of different diagnostic devices and cooperation regarding different national approaches on diagnostic tests.

3.2. TRANSPORT

The COVID-19 outbreak is also having a major impact on our transport systems. The European supply chains are closely linked. These links are maintained through an extensive network of freight transport services. Interruptions to these flows of goods lead to severe economic damage.

The international and European aviation industry has already been severely hit by the outbreak. The situation is still deteriorating on a daily basis. Traffic is expected to decline further in coming weeks. In order to help ease the impact of the outbreak, the Commission is proposing targeted legislation to temporarily alleviate airlines from their slot usage obligations under EU law. Once in force, this temporary measure will allow airlines to adjust their capacity in view of falling demand caused by the outbreak.

For land-based supply chains, these have been severely affected by the introduction of bans of entry at land-borders, or restrictions on drivers accessing certain Member States. This affects all goods, but in particular critical supply materials and perishable goods, and with the vast majority of companies in the sector being SMEs, these impacts are immediate and severe.

Regardless of the transport mode, the Commission is working with Member States on ways of ensuring economic continuity, guaranteeing the flow of goods and the supply chain, securing essential travel, as well as the functioning of the Internal Market and transport safety.

3.3. TOURISM

Pressure on the EU tourism industry is unprecedented. It is confronted with a considerable reduction in international arrivals (massive cancellations and drop in bookings for example from American, Chinese, Japanese, and South Korean travellers). It is also impacted by the slow-down of intra-EU and domestic travel, notably due to the growing reluctance of EU citizens to travel and national and/or regional preventive safety measures. SMEs in the sector are particularly affected by this general decrease of tourism and business travel. The disruption in intra-EU and domestic travel (representing 87% of tourists arrivals) since end February is aggravating the situation. The sector of Trade Fairs and congresses is particularly impacted with more than 220 events cancelled or postponed in Europe for the 1st quarter of 2020. Other related sectors such as food and beverage services as well as education and cultural activities are also coming under increasing pressure by the COVID-19 outbreak and the efforts to contain its spread.

The Commission is liaising with Member States, international authorities and key EU professional associations to monitor the situation and coordinate support measures.

4. MOBILISING THE EU BUDGET AND THE EUROPEAN INVESTMENT BANK GROUP

4.1. LIQUIDITY MEASURES: SUPPORT TO FIRMS, SECTORS AND REGIONS

In order to facilitate immediate relief to hard-hit SMEs, **the EU budget will deploy its existing instruments in order to support them with liquidity**, complementing measures taken at national level.

EUR 1 billion will be made available from the EU budget as a guarantee to the European Investment Fund (EIF) in the coming weeks to support approximately EUR 8 billion of working capital financing and help at least 100,000 European SMEs and small mid-caps³.

The support will be channelled through the existing instruments of the EIF Programmes that support investment. Lending will, within the limits of applicable legislation, be refocused to working capital loans with a maturity of 12 months or more. In particular, the loan guarantees under COSME – the EU programme for the Competitiveness of Small and Medium-Sized Enterprises – will be boosted, together with the InnovFin SME Guarantees under the Horizon 2020 programme, so that banks offer access to bridge financing to micro enterprises, SMEs and small mid-caps. These instruments will be reinforced with €750 million through the European Fund for Strategic Investments (EFSI) in the coming weeks. In addition, as a further dedicated measure, EFSI will provide to the EIF another € 250 million to quickly roll-out support to SMEs in a concerted effort with EU National Promotional Banks and Institutions.

Additionally, credit holidays - allowing for delayed repayments of loans - will be implemented for affected companies under the same instruments, alleviating the strain on their finances. Member States are encouraged to make full use of the existing financial

³ The support that will come from the below sources and used in the following way:

- €500 million of EFSI EU Guarantee will be allocated to COSME Loan Guarantees – to become available within the coming weeks;
- €100 million of EFSI EU Guarantee will be allocated to InnovFin SME Guarantees – to become available within the coming weeks;
- €250 million is already available under the Infrastructure and Innovation Window of EFSI and will be redirected to support instruments for SMEs, where possible in a concerted effort with EU National Promotional Banks and Institutions;
- €150 million will be reallocated within the EFSI SME Window from instruments that support longer-term specific interventions to shorter-term actions with faster effect.

instruments under Structural Funds to address the financing needs and to maximise the use of Structural Funds through new financial instruments as appropriate. The Commission is ready to assist Member States in this respect.

The Commission, while continuing to work closely with the EIB Group and the European Bank for Reconstruction and Development, will call for the immediate actions to be taken by these institutions to prioritize sectors, products and instruments that would provide the most efficient and impactful support to the affected businesses, as well as request their close coordination with other partners to respond to the evolving events.

MAINTAINING THE FLOW OF LIQUIDITY TO THE ECONOMY – THE BANKING SECTOR

The banking sector has a key role to play in dealing with the effects of the COVID-19 outbreak, by maintaining the flow of credit to the economy. If the flow of bank credit is severely constrained, economic activity will decelerate sharply, as companies struggle to pay their suppliers and employees. Banks' capital ratios have improved substantially in recent years, they are less indebted, and their reliance on sometimes volatile short-term funding has declined.

Banks must have adequate liquidity to lend to their customers. The Commission takes note of ECB monetary policy decisions announced on 12 March 2020.

Banks must be able to use this additional liquidity to provide new credit to businesses and households as appropriate. The Commission takes note of the statements by the Single Supervisory Mechanism and the European Banking Authority (EBA) on actions to mitigate the impact of COVID-19 on the EU banking sector adopted on 12 March and invites competent authorities to take a coordinated approach and further specify how to make best use of the flexibility provided by the EU framework.

The EU framework allows national governments to provide, where appropriate, in the form of state guarantees, support to banks, if they themselves experience difficulties in accessing liquidity. While there is no evidence that banks are currently experiencing any liquidity constraints, such a situation could arise for some banks if the crisis worsens significantly. In such circumstances, those banks would not be able to maintain their capacity to lend to the economy.

Aid granted by Member States to banks under Article 107(2)(b) TFEU to compensate for direct damage suffered as a result of the COVID-19 outbreak (see further explanation above) does not have the objective to preserve or restore the viability, liquidity or solvency of an institution or entity. As a result, the aid would not be qualified as extraordinary public financial support.

4.2. ALLEVIATING THE IMPACT ON EMPLOYMENT

Specific measures are needed to alleviate the employment impact for individuals and the hardest hit sectors, when production is interrupted or sales drop. We need to protect workers from unemployment and loss of income where possible, as they should not become victim of the outbreak. Short-time work schemes have proven effective in a number of Member States, allowing for temporary reduction of working hours whilst supporting the income of the workers. Currently, 17 Member States have some form of such a scheme in place. It could be useful to extend these schemes across the EU. Moreover, temporary extensions of sick pay or changes to unemployment benefit arrangements can serve to support households' income. The promotion of teleworking could also dampen the impact.

The EU stands ready to support Member States where possible in alleviating the impact on workers. It already assists them in preventing and tackling unemployment for instance through the EU structural funds, including the European Social Fund, and the new Coronavirus Response Investment Initiative as set out below.

Furthermore, the Commission will accelerate the preparation of its legislative proposal for a European Unemployment Reinsurance Scheme. This initiative aims to support those in work and protect those who have lost their jobs in case of large shocks, as well as to reduce pressure on national public finances, thus strengthening the social dimension of Europe, and increasing its cohesion. The scheme would in particular be geared towards supporting national policies that aim at preserving jobs and skills, for instance through short-time work schemes, and/or facilitating the transition of unemployed people from one job to another.

4.3. THE CORONAVIRUS RESPONSE INVESTMENT INITIATIVE

With the “Coronavirus Response Investment Initiative” (CRII) as proposed today, the Commission proposes to direct EUR 37 billion under the cohesion policy to the COVID-19 outbreak and to implement this fully in 2020 through exceptional and accelerated procedures.

To this effect, the Commission proposes to relinquish this year its obligation to request refunding of unspent pre-financing for European structural and investment funds currently held by Member States. This amounts to about EUR 8 billion from the EU budget which Member States will be able to use to supplement EUR 29 billion of structural funding across the EU. This will effectively increase the amount of investment in 2020.

Moreover, up to EUR 28 billion of as of yet unallocated structural funds from the existing national envelopes and including national contributions should be fully eligible for fighting the crisis thereby providing Member States with the needed sources of funding.

The Commission will set up a Task Force at the highest level to work with Member States to ensure that action can be taken on this basis within weeks.

A key element of the proposal is that it makes all potential expenditure for the fight against the COVID-19 outbreak eligible as of 1 February 2020 for financing under the Structural Funds so that Member States can spend the means as quickly as possible to fight the outbreak. In addition, the Commission also proposes to make it possible to shift significant amounts of funds within programmes in a simplified way. These measures should allow all Member States to reprioritise and guide support in the coming weeks to where it is most needed, in particular:

- To provide support to the healthcare system, e.g. through the financing of health equipment and medicines, testing and treatment facilities, disease prevention, e-health, the provision of protective equipment, medical devices, to adapt the working environment in the health care sector and to ensure access to health care for vulnerable groups;
- To provide liquidity to corporates in order to tackle short-term financial shocks linked to the Coronavirus crisis, covering e.g. working capital in SMEs to address the losses due to the crisis, with special attention on sectors which are particularly hard hit;
- To temporarily support national short time working schemes which help cushion the impact of the shock, in combination with up-skilling and reskilling measures.

If programme modifications are deemed necessary, the Commission will work closely with the national and regional authorities to streamline and accelerate the corresponding procedures taking into account the impact of the Coronavirus crisis on the administrative capacity of Member States.

Maximising the impact of the Coronavirus Response Investment Initiative depends on Member States ensuring a speedy implementation of these measures as well as a swift reaction of the co-legislators. In view of the unprecedented circumstances, the Commission is calling upon the Council and the European Parliament to swiftly approve this Commission proposal.

In parallel, the Commission will immediately reach out to those Member States most concerned in order to start preparing the Initiative's implementation. The Commission will also support Member States in making the best use of the flexibilities that already exist in EU programmes. Member States are invited to appoint a senior government minister and a top civil servant as co-ordinators to this effect.

Moreover, as part of this initiative, the Commission is proposing to extend the scope of the **EU Solidarity Fund** by also including public health crisis within its scope. Up to EUR 800 million is available in 2020.

The European Globalisation Adjustment Fund could be also mobilised to support dismissed workers and those self-employed. Up to EUR 179 million is available in 2020.

5. STATE AID

Given the limited size of the EU budget, the main fiscal response to the Coronavirus will come from Member States' national budgets. EU State aid rules enable Member States to take swift and effective action to support citizens and companies, in particular SMEs, facing economic difficulties due to the COVID-19 outbreak. At the same time, they make sure that State aid is effective in reaching those companies in need and that harmful subsidy races are avoided, where Member States with deeper pockets can outspend neighbours to the detriment of cohesion within the EU.

Member States can design ample support measures in line with existing State aid rules:⁴

- First, Member States can decide to take measures applicable to all companies, for example wage subsidies and suspension of payments of corporate and value added taxes or social contributions. These measures alleviate financial strains on companies in a direct and efficient manner. They fall outside the scope of State aid control and can be put in place by Member States immediately, without involvement of the Commission.
- Second, Member States can grant financial support directly to consumers, e.g. for cancelled services or tickets that are not reimbursed by the operators concerned. These measures also fall outside the scope of State aid control and can be put in place by Member States immediately, without involvement of the Commission.
- Third, State aid rules based on Article 107(3)(c) TFEU enable Member States, subject to Commission approval, to meet acute liquidity needs and support companies facing bankruptcy due to the COVID-19 outbreak.
- Fourth, Article 107(2)(b) TFEU enables Member States, subject to Commission approval, to compensate companies for the damage suffered in exceptional circumstances, such as those caused by the COVID-19 outbreak. This includes measures to compensate companies in sectors that have been particularly hard hit (e.g. transport, tourism and hospitality) and measures to compensate organisers of cancelled events for damages suffered due to the outbreak.
- Fifth, this can be complemented by a variety of additional measures, such as under the *de minimis* Regulation⁵ and the General Block Exemption Regulation⁶, which can also be put in place by Member States immediately, without involvement of the Commission.

Currently, the impact of the COVID-19 outbreak in Italy is of a nature and scale that allows the use of Article 107(3)(b) TFEU. This enables the Commission to approve additional national support measures to remedy a serious disturbance to the economy of a Member State, which the Commission considers to be present in Italy. In reaching this conclusion, the Commission has considered a series of indicators, including but not limited to the expected contraction of GDP, the stringent public measures imposed, including prohibition of events, school closures, circulation restrictions, the constraints on the public health system, as well as flight cancellations and travel restrictions imposed by other countries.

⁴ Details on the different types of instruments are provided in Annex 3.

⁵ Under the *de minimis* Regulation (Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to *de minimis* aid), grants of up to €200,000 over a 3-year period do not constitute State aid. In the road freight transport sector, the threshold is €100,000 over a 3-year period. For agriculture and fisheries, the threshold amounts to €25,000 and €30,000, respectively.

⁶ Commission Regulation (EU) N°651/2014 of 17 June 2014.

The Commission’s assessment for the use of Article 107(3)b for other Member States will take a similar approach of the impact of the COVID-19 outbreak on their respective economies. This is a live and developing situation. The Commission is constantly monitoring the situation across the EU, in close contact with Member States. Finally, the Commission is preparing a special legal framework under Article 107(3)(b) TFEU to adopt in case of need. This was done in one exceptional case in the past during the 2008 financial crisis, when the Commission adopted a Temporary Framework in 2009.⁷

The Commission has put in place all necessary procedural facilitations to enable a swift Commission approval process. Decisions are taken within days of receiving a complete State aid notification from Member States, where necessary. The Commission has set up a dedicated mailbox and telephone number to assist Member States with any queries they have. To further facilitate swift Member State action, the Commission stands ready to provide templates based on precedent decisions on below possibilities to grant aid to companies in line with existing EU State aid rules.

6. USING THE FULL FLEXIBILITY OF THE EUROPEAN FISCAL FRAMEWORK

Targeted fiscal support measures should be implemented in line with the principles set out in section 5, to counter the immediate negative socio-economic consequences of the virus outbreak. This includes support to companies in specific sectors and areas that face disruption of production or sales and are therefore affected by a liquidity squeeze, in particular SMEs. Action could include:

- Tax measures aimed at firms in affected regions and sectors (e.g. deferred payment of corporate taxes, social security contributions and VAT; advancement of government payments and arrears; tax rebates; direct financial support).
- Guarantees to banks to help companies with working capital and export guarantees, possibly complemented with supervisory measures.

These fiscal measures, as well as the measures needed to protect workers against income losses, are urgent in order to support economic activity and should be used to mitigate the economic downturn. A well-coordinated fiscal response should aim to counter the effects of drops in confidence, and of the related demand effects. Acting decisively now will help to maximise the impact of our actions and their effect later on.

The Commission will propose to the Council to apply the full flexibility existing within the EU fiscal framework, with a view to helping Member States to address the COVID-19 outbreak and deal with its fallout.

- When assessing compliance with the EU fiscal rules, the Commission will propose to the Council to exclude the budgetary effect of one-off fiscal measures taken to counter-balance the economic effects of COVID-19. The Stability and Growth Pact can accommodate targeted exceptional expenditure. Support measures such as those urgently needed to i) contain and treat the pandemic, ii) ensure liquidity support to firms and sectors, and iii) protect jobs and incomes of affected workers, can be considered as one-off budgetary spending.
- The Commission considers that the flexibility to cater for “unusual events outside the control of government” is applicable to the current situation. When an unusual event

⁷ Temporary Community framework for State aid measures to support access to finance in the current financial and economic crisis, initial version OJ C16, 22.1.2009, p.1.

outside the control of a government has a major impact on a Member State's fiscal position, the Stability and Growth Pact envisages that Member States can be allowed to temporarily depart from required fiscal adjustments. As a result, this clause can also accommodate exceptional spending to contain the COVID-19 outbreak. In particular, the clause can apply to health care expenditure and targeted relief measures for firms and workers, provided they are temporary and linked to the outbreak. The Commission will follow that approach when making proposals and recommendations to the Council.

- The Commission will propose to the Council that the Union institutions adjust the fiscal efforts required from Member States in line with the EU fiscal rules. This would allow to take into account country-specific situations in case of negative growth or large drops in activity.
- The Commission stands ready to propose to the Council that the Union institutions activate the general escape clause to accommodate a more general fiscal policy support. This clause would – in cooperation with the Council – suspend the fiscal adjustment recommended by the Council in case of a severe economic downturn for the euro area or EU as a whole.

7. CONCLUSION

Counterbalancing the socio-economic effects of the COVID-19 outbreak requires bold actions taken timely and in a coordinated way by all EU decision makers. Swiftly implementing the actions outlined in this Communication is key in this endeavour. The Commission will closely monitor the developments of the situation. It stands ready to take all further necessary initiatives.

The measures announced deal with the situation as it is presented today.

We need to be conscious that it is evolving on a daily basis. A further deterioration of the economic outlook cannot be excluded.

The Union has equipped itself with bold tools since the last financial crisis to support Member States and ensure the stability of financial markets. We have learned the lesson from previous years and will act, making use of all available tools. The Union should do whatever it takes to minimise the impact of the COVID-19 and related containment measures to our citizens, companies and economies. As part of our coordinated and bold response, national measures beyond what is announced in the Communication will be available, acting in common and making the most of the EU toolbox in a spirit of solidarity.



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ANNEXES 1 to 3

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Coordinated economic response to the COVID-19 Outbreak

ANNEX 1 – THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

In its interim Winter Economic Forecast released on 13 February 2020, the European Commission projected subdued GDP growth in the EU and the euro area at 1.4% and 1.2% in 2020 and in 2021, respectively. Given the very limited data available at that time, this forecast incorporated a small temporary shock based on the assumption that the pandemic would be limited to China and would peak in the first quarter of 2020 thus having very limited global spillovers. The forecast, however, flagged the spread of the virus as a significant downside risk for the global and European economy.

COVID-19 is now a pandemic and the Commission services have produced new estimates of its potential economic impact. They are stylised scenarios and not a forecast. They are made by using updated assumptions and modelling techniques. It should be stressed that there is still a lot of uncertainty about the extent of the economic impact of the crisis, which *inter alia* will depend on the spread of the pandemic and on the capacity of public authorities to act quickly to contain the health and economic repercussions.

The base case scenario is based on two assumptions:

- 1) it is assumed that as a pandemic, COVID-19 will have the same mortality and morbidity across Europe and the rest of the world based on the most recent estimates available. This is important: whilst the pace of the spread of the virus is uneven across Member States with Italy currently being the most affected, it is assumed that over time all Member States will be affected to the same extent.
- 2) given the current epidemiologic trends across Member States, it is assumed that the necessary restrictions, which affect labour supply and demand in some sectors (e.g. travel, retail etc), will have a bigger impact compared to what was observed in China.

The analysis distinguishes between a series of transmission channels through which COVID-19 will affect the European economy. They include (i) the shock resulting from China's initial contraction in the first quarter of 2020; (ii) the supply shock to the European and global economy resulting from the disruption of supply chains and absences from the workplace; (iii) a demand shock to the European and global economy caused by lower consumer demand and the negative impact of uncertainty on investment plans, (iv) and the impact of liquidity constraints for firms.

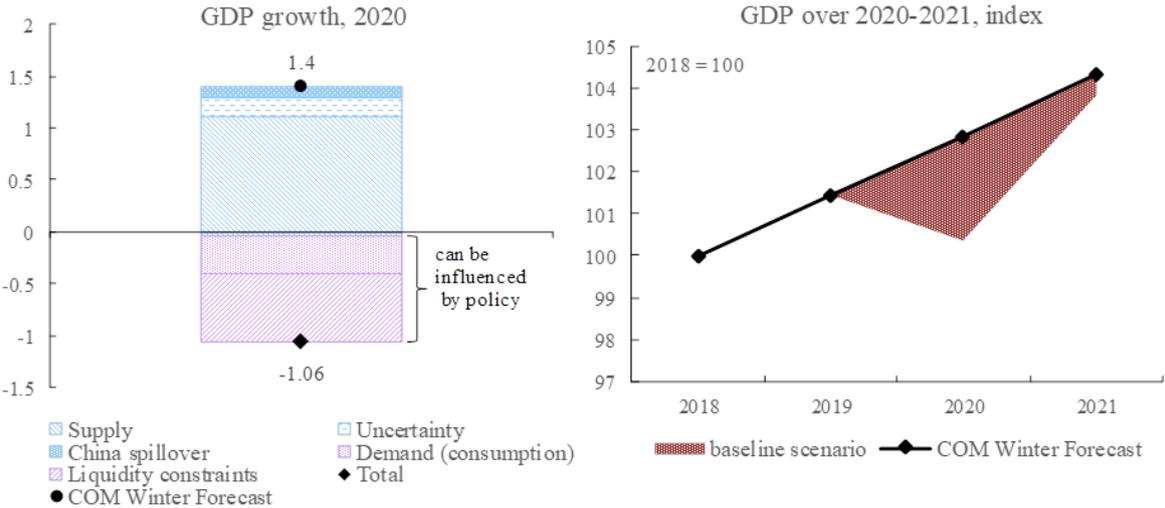
The COVID-19 crisis is estimated to have a very large detrimental economic impact on the EU and euro area. The direct impact through all channels is estimated to reduce real GDP growth in 2020 by 2.5 percentage points compared to a situation where there would be no pandemic. Given that real GDP growth was forecast to be 1.4% for the EU in 2020, this would imply it could fall to just over -1% of GDP in 2020, with a substantial but not complete rebound in 2021.

However, some of the direct impacts in 2020 can be offset by timely and effective policy action which could mitigate the negative impact on real GDP. The EU institutions and Member States are putting into place policies to mitigate the economic impact of the crisis. Policy measures will not be able to shield the EU from negative effects of the crisis coming from China, and only to a very limited extent if at all from the supply-side shock on labour. However, they can play an important role in offsetting the negative repercussions coming from lower consumer demand and from liquidity-constrained companies. Combined, those channels account for just over half of the estimated potential impact on growth so there is

material scope to mitigate the economic impacts. Overall, the base case scenario is that real GDP growth in 2020 will be zero or even be substantially negative as a result of COVID-19. A coordinated economic response of EU institutions and Member States is key to mitigating the economic repercussions.

More adverse scenarios, linked to a deeper impact of the pandemic cannot be excluded.

Graph 1. Estimated impact of the COVID-19 pandemic on the EU economy: scenario in 2020



Source: Commission

ANNEX 2- NATIONAL MEASURES RELATING TO MEDICAL PRODUCTS AND DEVICES AND OF PERSONAL PROTECTIVE EQUIPMENT

1. CONTEXT AND NEED FOR A COMMON APPROACH

The COVID-19 virus crisis is an unprecedented health emergency. It represents a serious threat at global level, with a strong impact on Europe.

It is the primary responsibility of EU Member States to take the appropriate health measures in the context of the current crisis. It is crucial that the primary objective of protection of health and human life is pursued by all national measures in compliance with EU rules. The internal market rules support Member States in this respect by ensuring efficiency, synergies and European solidarity.

The single market for medical and personal protective equipment is deeply integrated and so are its value chains and distribution networks. Essential products include protective glasses, facemasks, gloves, surgical overalls and gowns¹. A good organisation of the overall market in the supply of critical products is the only way to prevent scarcity for the people who need them most – public health systems and, in particular, healthcare professionals, field intervention teams and patients.

This requires a European response. All European Heads of State and Government committed to this and in the conclusions of the President of the European Council after the video conference of 10 March 2020, they tasked the European Commission to centralise the analysis of the needs and to come up with initiatives to prevent shortages. It must be ensured that the internal market functions properly and that any unjustified obstacles are avoided, in particular as regards masks and ventilators.

In this spirit, the Commission has already organised a procurement procedure for personal protective equipment for 20 Member States under the Joint Procurement Agreement launched on 28 February 2020 and, subject to availabilities on the market and reports by Member States, may launch further joint procurements.

Second, together with Member States and the European Medicines Agency, the Commission has set up an executive steering group to monitor potential shortages of medicines due to COVID-19. The Commission is also monitoring the situation in the context of the Medical Devices Coordination Group (MDCG) and its subgroups, for example availability and performance of different diagnostic devices and cooperation regarding different national approaches regarding diagnostic tests. Finally, contacts are being maintained also with the main professional organisations of manufacturers and other economic operators, patients, users etc.

Third, the Commission is analysing the needs and the production capacities required in Europe, with the goal to make sure that protective equipment and medicines are available where they are most needed. The Commission is supporting the industry in its efforts to react to this exceptional situation.

¹ All this equipment is relevant not only for protection against COVID-19 but also in several other fields for healthcare professionals in medical treatments (urgencies, chronic diseases, infective, oncological, surgical operations, personal care etc.) as well as for professionals and users of other industrial and handcraft activities (e.g. environmental protection and waste treatment, chemical and biological processes, etc.).

Fourth, measures may be necessary to ensure that, in case of scarcity, medical and personal protective equipment is reserved on the market and channelled to those who need them most. National measures may be necessary to this effect. Any planned national measure restricting access to medical and protective equipment must be communicated to the Commission, which is to inform the other Member States, to permit comments. To enable a coordinated response, the Commission will establish a joint Task Force. The Commission will also continue to provide all needed coordination in order to facilitate the exchange of information, to identify all needed synergies and to contribute to the effective and consistent implementation of national measures. Any national restrictive measure shall not prevent or discourage the participation of companies established on the national territory to the participation of joint procurement procedures at EU level.

Some Member States have already adopted or are preparing national measures which affect the availability of essential products. If not well designed, such measures risk exacerbating rather than alleviating problems, in particular if they focus on limiting cross-border supplies of the products in question rather than directing them to those who most need them both in the national territory and throughout Europe, while avoiding stockpiling, panic purchases and wastage through non-priority or even counter-productive uses within the Member State in question. Such negative effects are likely to be even more acute when restrictions are imposed by Member States having a leading or central market position in the production, import and distribution of personal protective equipment and of medical devices. The recent decisions by Member States to ban or severely restrict exports – in one case extending to of 1324 products, including paracetamols and medical devices - contribute to the risk of shortages in other Member States, thereby putting at risk the health of people living in Europe and should be corrected as a matter of urgency.

The Commission recalls below the relevant legal provisions and the common objectives which all national measures have to pursue, in order not only to be lawful but above all to support all Member States in their efforts to mitigate the risks and impact of the COVID-19 virus crisis.

2. LEGAL FRAMEWORK FOR RESTRICTIVE NATIONAL MEASURES

Article 35 of the TFEU prohibits national restrictions on exports. Member States may take measures justified by “the protection of health and life of humans”, under Article 36. These individual measures need to comply with the principle of proportionality, i.e. they need to be appropriate, necessary and proportionate to achieve such objective, by ensuring an adequate supply to the persons who need the most while preventing any occurrence or aggravation of shortages of goods, considered as essential – such as individual protective equipment, medical devices or medicinal products – throughout the EU. This means in particular that:

1. A simple export ban alone cannot meet the legal requirement of proportionality. Such a measure does not, in itself, ensure that the products will reach the persons who need them most. They would therefore prove unsuitable to reach the objective of protecting the health of people living in Europe. For example, an export ban would not avoid stockpiling or purchasing of goods by persons who have no or limited objective need and would not ensure channelling the essential goods where they are most needed, i.e. infected persons or health institutions and staff.
2. Measures without a clearly identified scope restricted to actual needs, a solid rationale and/or a limited duration may increase the risk of scarcity and therefore are very likely to be disproportionate.

3. Measures regulating the concerned markets with adequate mechanisms to channel essential goods where they are needed the most both within the Member States and to qualified buyers in other Member States, can be a positive contribution to the overall coordinated European approach to help saving lives.
4. Price regulations may be helpful to avoid soaring and abusive prices, provided these rules apply equally to all relevant traders without discrimination on the basis of nationality or establishment, and provided they are accompanied by other suitable measures to channel supplies to those most in need.

ANNEX 3 – STATE AID

Aid to companies facing acute liquidity needs and/or facing bankruptcy due to COVID-19 outbreak

Under EU State aid rules, i.e. the Commission’s Rescue and Restructuring Guidelines based on Article 107(3)(c) TFEU, Member States are able to grant urgent and temporary assistance in the form of loan guarantees or loans to all types of companies in difficulty. Such aid would cover companies’ expected operating needs for a 6-month period.

In addition, companies that are not (yet) in difficulty can also receive such support, if they face acute liquidity needs due to exceptional and unforeseen circumstances such as the COVID-19 outbreak, in compliance with relevant conditions, notably with regard to the level of remuneration that the beneficiary is required to pay for the State guarantee or loan.

Generally, companies that have already received such support in the past 10 years would not be eligible for further aid to avoid that economically unviable companies are kept in the market artificially (the “one time, last time” principle). However, the Commission **stands ready to** accept exceptions to that rule in exceptional and unforeseeable circumstances such as the COVID-19 outbreak, following an individual notification.

Furthermore, the Rescue and Restructuring Guidelines enable Member States to put in place dedicated support schemes for SMEs and smaller state-owned companies, including to cover their acute liquidity needs for a period of up to 18 months. For example, in February 2019, the Commission approved a €400 million support scheme in Ireland² to cover acute liquidity and rescue and restructuring needs of SMEs as a Brexit preparedness measure. The Irish authorities have now repurposed this measure to help companies cope with the COVID-19 outbreak. Similar support schemes are also already in place in other Member States, notably Finland, France, Germany, Poland and Slovenia, and for certain regions in Austria, Belgium and Spain. The Commission stands ready to assist other Member States to swiftly put in place similar schemes, if need be. If Member States wish to increase the budget of approved schemes in view of the COVID-19 outbreak, an increase of less than 20% of a budget does not need to be notified and can be done by Member States directly, without further involvement of the Commission. Notifications of budget increases of more than 20% benefit from a simplified assessment procedure.

Aid to compensate companies for damages suffered as a result of the COVID-19 outbreak

Article 107(2)(b) TFEU enables the Commission to approve State aid by Member States to make good the damage directly caused by natural disasters or exceptional occurrences.

In order to qualify as an exceptional occurrence, an event must be (i) unforeseeable or difficult to foresee; (ii) of significant scale/economic impact; and (iii) extraordinary, i.e. differ sharply from the conditions under which the market normally operates. The Commission considers that the COVID-19 outbreak qualifies as such an exceptional occurrence in the EU.

Measures under Article 107(2)(b) TFEU can be targeted to assist specific sectors, in the form of schemes, or individual companies. Therefore, this possibility may be useful for Member

² SA.53350 (2019/N) – Ireland – Budget increase of R&R aid scheme (SA.49040 as amended to cover temporary restructuring support by SA. 50651)

States to design schemes for all types of companies in sectors that have been particularly hard hit (e.g. aviation, tourism and hospitality), or grant individual support to specific companies.

Member States can draw on past experience and case practice to design such schemes. For example, in the context of the 9/11 attacks, the Commission approved support schemes in France and Germany based on Article 107(2)(b) TFEU to cover operating losses incurred by airlines in the period from 11 to 14 September 2001, linked to the closure of airspace as a result of the attacks.³ Furthermore, in the context of the Icelandic volcanic eruption and dust cloud in April 2010, the Commission approved a support scheme in Slovenia to cover 60% of the economic losses of airlines and airports (compared to a situation where the disaster would not have occurred) in the period following the disaster, until the companies could again operate normally.⁴

Article 107(2)(b) TFEU also enables Member States to compensate organisers of events, if events such as concerts, festivals, sport tournaments, cultural or commercial fairs, are cancelled as a direct consequence of an exceptional occurrence on their territory. On 10 March 2020, the Commission received a notification from Denmark (the first and so far only State aid notification linked to the COVID-19 outbreak) on a scheme to compensate organisers of events with more than 1,000 participants that had to be cancelled due to the COVID-19 outbreak. The Commission took a decision to approve this measure within 24 hours of receiving the notification from Denmark. It stands ready to provide assistance based on this template to other Member States that wish to implement similar measures.

For all measures taken under Article 107(2)(b) TFEU, there must be a direct causal link between the aid granted and the damage resulting from the exceptional occurrence for each beneficiary, and any aid must be limited to what is necessary to make good the damage. In this context, the Commission stands ready to work with Member States to find workable solutions, including for example on the use of proxies to determine economic loss, in line with EU rules.

³ SA 269/2002 – Germany – Compensation for direct damage caused by the closure of external airspace for the period 11 to 14 September 2001; SA 309/2002 – France – Sécurité aérienne - compensation des coûts à la suite des attentats du 11 septembre 2001.

⁴ SA.32163 – Slovenia – Rectification of consequences of the damage caused to air carriers and airports by earthquake activity in Iceland and the resulting volcano ash in April 2010.