The EU economic policy response to COVID-19: the July historic European Council deal and challenges ahead
Key elements of the July European Council deal

- **EUR 1074bn Multiannual Financial Framework** (MFF)

- **Next Generation EU**: EUR 750bn Recovery Fund (grants: 390bn; loans: 360bn)

- **Own Resources Decision**: Union borrowing to finance grants and loans to Member States
EU early crisis response

- Early understanding of systemic aspect and need for common response – threat to the Union as a whole
- All EU institutions and Member States lived up to their responsibilities timely and in a proactive manner:
  a) **Commission**: state-aid rules, general escape clause, SURE proposal (to support short-term working schemes);
  b) **EIB** Pan-European Guarantee Fund
  c) **ESM** Pandemic Crisis Support
  d) **ECB** monetary policy & ECB Banking Supervision

- Benefits from institution-building in the aftermath of GFC

<table>
<thead>
<tr>
<th>Global Financial Crisis (GFC)</th>
<th>COVID-19 crisis</th>
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<tbody>
<tr>
<td>No crisis management framework</td>
<td>✓ European Stability Mechanism (ESM)</td>
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<tr>
<td>Weaknesses in banking supervision</td>
<td>✓ Banking Union – Single Supervisory Mechanism</td>
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Strong political drive: 5 European Council videoconferences convened by President Charles Michel in the run up to the July historic deal (10/3, 17/3, 26/3, 23/4, 19/6)

- Initially very divisive ‘Coronabonds’ debate – red line: grants vs loans

- 23/4: Leaders’ common understanding on need for a recovery fund; Commission tasked to make a proposal

- 18/5: Franco-German joint paper: – 500bn Recovery Fund, borrowing for spending/grants

- 27/5: Commission’s proposal for a recovery package

- 17-21 July: European Council historic deal
...led to transformative recovery package

- **EU recovery package** combines macroeconomic stabilisation with structural objectives (greening and digitisation)

  ⇒ **30%** of MFF and NGEU for **climate - European Green Deal** (12-13 December 2019 European Council)

  ⇒ **20%** of Recovery and Resilience Facility (EUR 672.5bn) for **digital transition** (1-2 October European Council)

- Increasingly **challenging global environment** increases **value of European unity**
**Historic agreement**

- **Improved macroeconomic stabilisation**: EU fiscal response of macroeconomic significance & monetary policy no longer the only game in town

- **Ground-breaking approach**: Union borrowing for transforming EU’s economies

**Challenges**

- **Reputational risk for EU**: successful implementation enhancing growth potential is key to sustaining trust

- **Strengthening EMU architecture**: institutional constraints stretched, not changed (exceptional and temporary nature of recovery package)