



European Council
Cabinet of the President

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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

Global Financial Crisis (GFC)	COVID-19 crisis
<input type="checkbox"/> No crisis management framework	✓ European Stability Mechanism (ESM)
<input type="checkbox"/> Weaknesses in banking supervision	✓ Banking Union – Single Supervisory Mechanism



Strong political drive...

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**



Conclusions

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)

