The EU response to Covid-19: breaking old taboos?

THE EU RESPONSE TO COVID-19: WINNERS AND LOSERS

25 JANUARY 2022

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EU ‘fiscal’ response to the pandemic

Four taboos broken:

1. Deviation from the SGP criteria
2. Fiscal stabilizer for the EU – Shock absorption capacity
3. Issuance of common EU debt
4. Importance of public investment

Taboo 1: fiscal rules suspended: no constraints for MS with less fiscal margin

Taboo 2: a quasi-automatic fiscal stabilizer

<u>Main features</u>:

Loans-support for MSs' sudden and severe increase in actual and planned public expenditure for short-time schemes and similar measures

EC issues common EU social bonds (10 to 20 yrs maturity) for total 100 bn EUR

Smooth procedures: upon MS request, EC proposes support and Council approves with QMV

Main <u>advantages</u> for:

- Highly indebted countries: lower yields (e.g. EU bond 10 yrs (-0.24%) 20 yrs (0.13%) vs Italy 10 yrs (0.72%) 20 yrs (1.25%)
- Small local debt market: BG, EE, HR, CY, LV, LT, MT, SK, PL and RO do not issue 20 yrs bond

The success of SURE

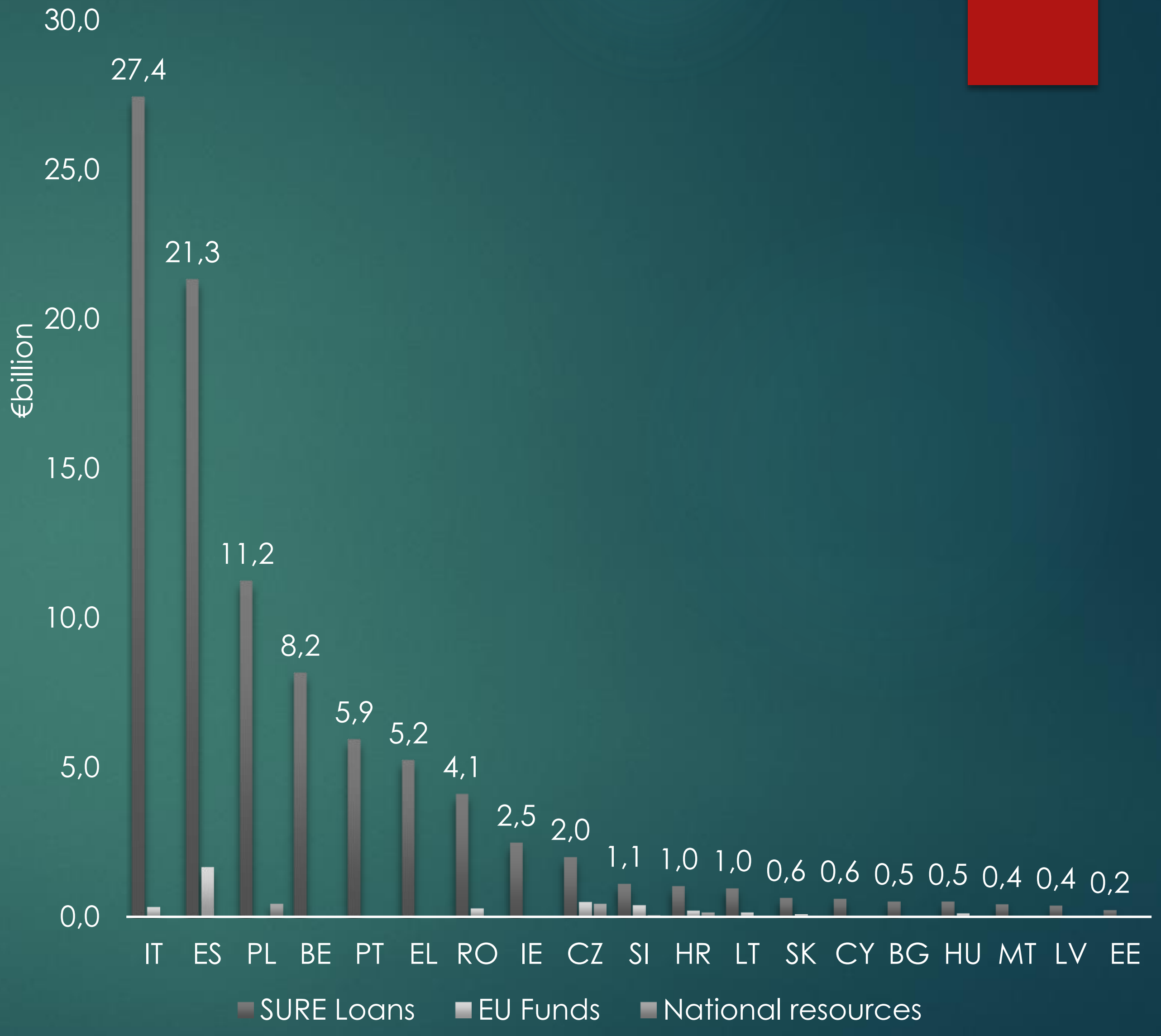
Redistribution: €95 billion have been granted to 19 member states to support short time work schemes and similar measures

Solidarity: MSs' guarantees are callable, irrevocable and unconditional

Swift implementation: €90 billion have already been disbursed to member states in the form of back-to-back loans

Financial success: notable investor demand on all maturities (oversubscription of over 10 times)

Efficiency: €5.8 billion have been saved by member states in interest payments



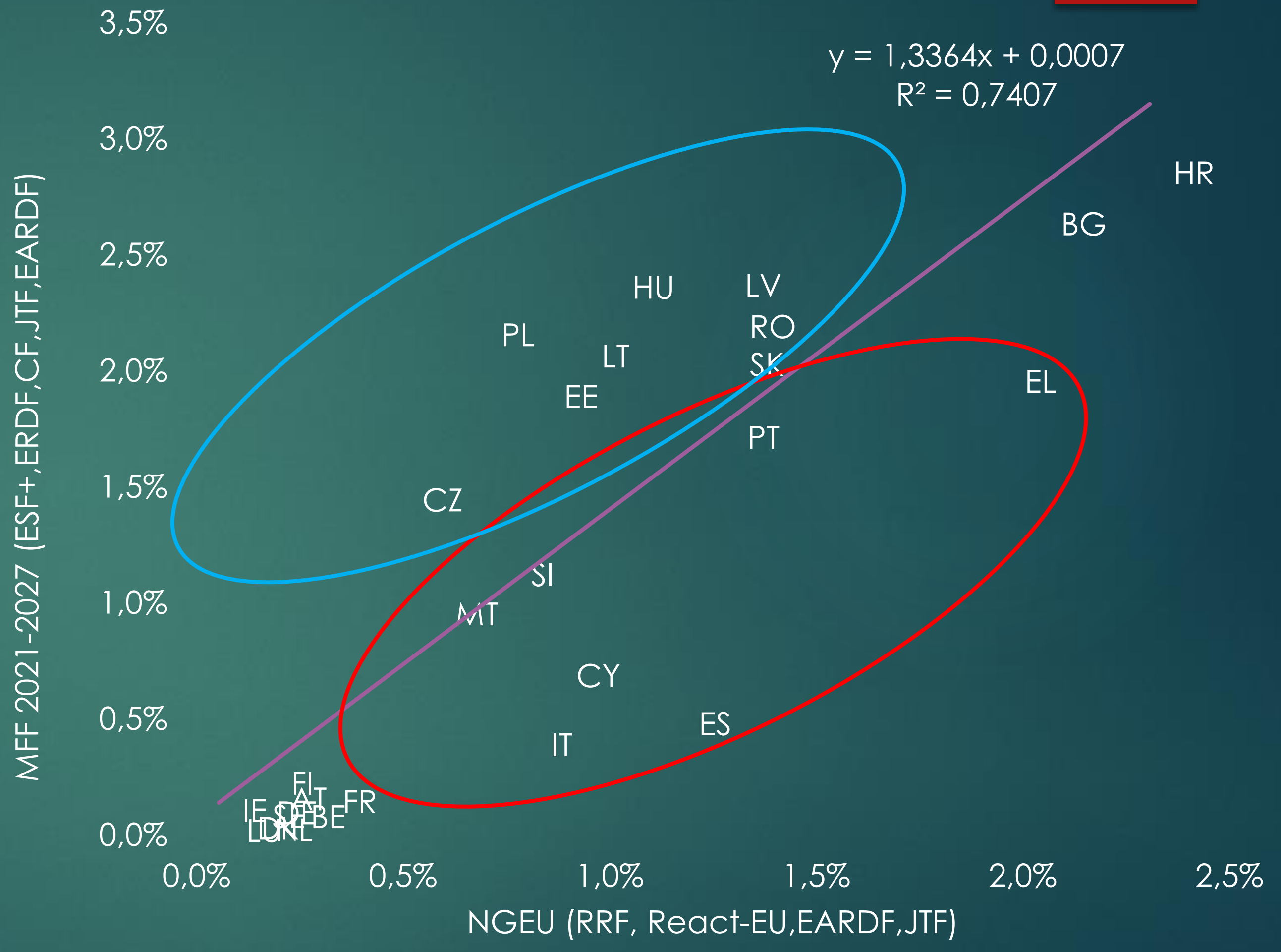
Taboo 3: NGEU common borrowing

<u>Common debt</u>: The EU will raise money by temporarily lifting the maximum amount that the EU can request from Member States to cover its financial obligations to 2.0% of EU Gross National Income

<u>New own resources</u>: The associated European debt, which has a long-term duration is guaranteed by the next EU budget (2021-2017) and will have to be repaid (including interest) by means of increases in the revenues of these same MFFs, also through the introduction of new own resources

<u>Redistribution</u>: Primary objective of the recovery package is to support low-income Member States with higher unemployment rates before the outbreak of the pandemic crisis and lower GDP (= redistribution)

<u>Shock absorption</u>: Indicators of the shock (GDP contraction or unemployment increase relative to pre-2019 baseline) accounts for only for minority element in official RRF allocation

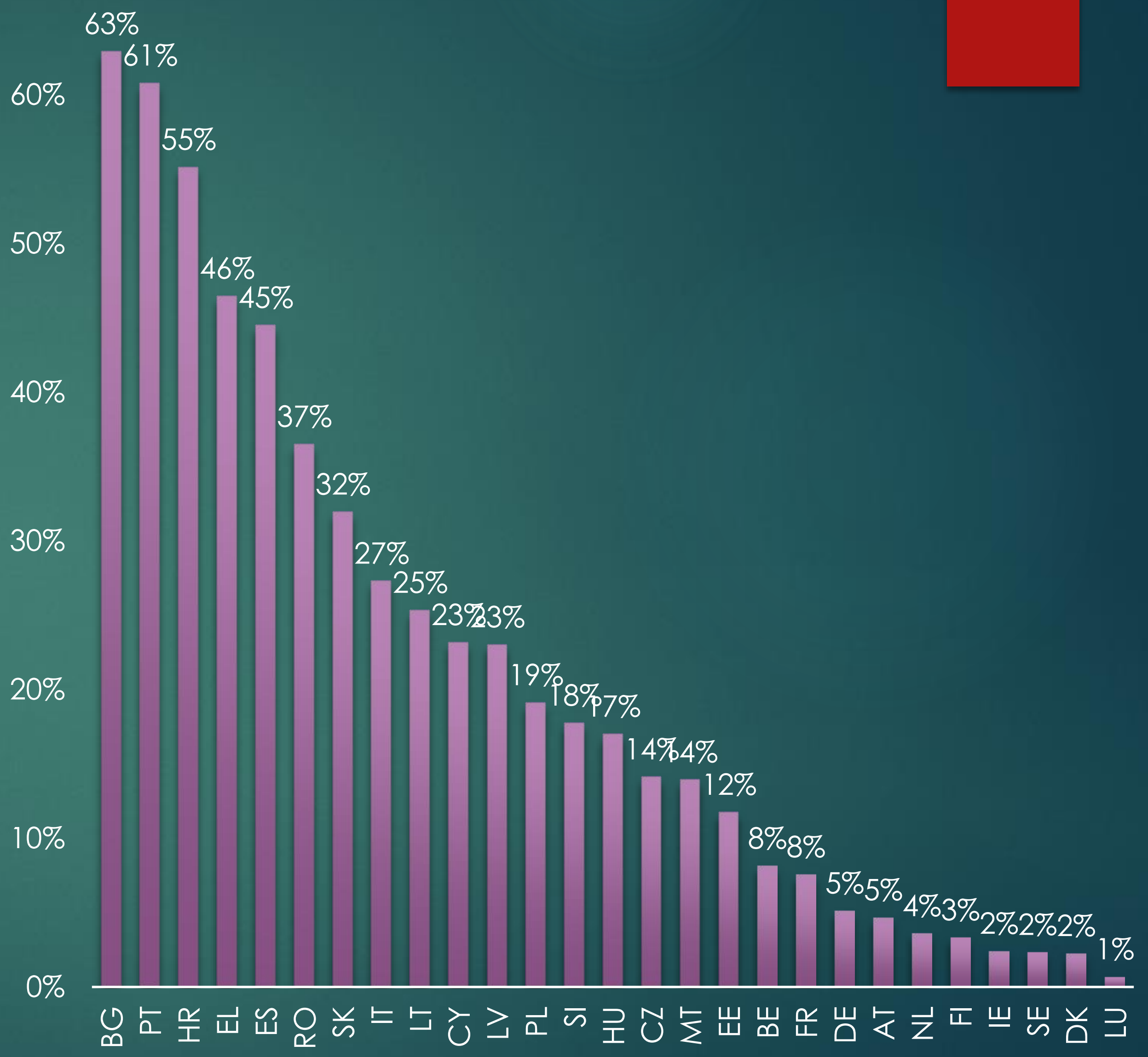


Taboo 4: relaunching public investments?

Public investment went through a prolonged contractionary phase over the past decade. Between 2008 and 2016 public investment in the European Union declined from 3.4% of GDP to 2.7%. In 2019, still 15% below its pre-crisis levels

Infrastructure has declined substantially. The government sector is the main driving force behind the decline (-37% between 2009 – 2017). Sectors most hit: transport and education

Annual infrastructure investment gap EU-27 pre-Covid: EUR 155 bn (50 ICT, 17 energy generation, 7 water-waste, 6 social and affordable housing, 8 education, 17 health and 50 mobility)



Annualised RRF allocation (grants): ratio to general governments' gross fixed capital formation (average 2016-19)

Thank you very much

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