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COVID-19

Summary of EU Economic Response

Key points

- The European Commission and the EIB have pledged dozens of billions of euros to help Member States and EU financial institutions provide the necessary liquidity to EU businesses
- Several of these programmes will be specifically dedicated to SMEs and mid-caps, including, through the EIF, those supported by venture capital funds
- The ECB has promised to do "whatever it takes" to counter the risk of monetary policy transmission
- Temporary legal amendments have been introduced to ensure Member States are able to take the appropriate and necessary actions to sustain viable businesses

Summary of EU economic response

While most of the attention over the past few days has been on the policy measures taken at national level to provide support to companies affected by the Covid-19 crisis, several actions were also taken at EU level to help, directly or indirectly, businesses to bear the burden posed by the pandemic on their activities.

1. **Commitments through the European budget (MFF)**

The European Commission, with the support of the European Investment Fund (EIF), has launched different programmes within the remit of the existing EU budget. Some of these will be directly available to private equity-backed portfolio companies, others will help Member States to take additional measures to support their economy.

a) Coronavirus Response Investment Initiative (CRII)

From 13 March, the EU has quickly mobilised cash reserves from the EU funds to provide immediate liquidity to Member States' budgets, increasing directly the amount of investment in 2020 to fight the crisis. The scope of the EU solidarity fund was also increased in light of the public health crisis.

In total nearly **€37 billion**, coming from under the EU Cohesion programme (€8 billion) and the general EU Budget (€29 billion co-financing), will ultimately be granted to projects in EU Member States to fight the crisis (see below).

As part of the CRII, the European Commission recently made available a **€1 billion** EU budget guarantee to the European Investment Fund (EIF) via the European Fund for Strategic Investments (EFSI) under the COSME Loan Guarantee Facility and the InnovFin SME Guarantee under Horizon 2020. In turn, the EIF will provide liquidity and guarantees to banks and allow them to "provide loans to at least 100,000 European SMEs".

The Guarantee will allow the EIF to provide guarantees worth **€2.2 billion** to financial intermediaries, **unlocking €8 billion** in working capital financing. It will be available to SMEs and small mid-caps (up to 499 employees), through the EIF existing programmes. Invest Europe is in constant contact with the EIF to ensure this new programme can be used in the most efficient way by companies supported by our industry.

b) Support mitigating Unemployment Risks in Emergency (SURE)

The separate initiative is designed to protect jobs and workers affected by the coronavirus outbreak. It will consist in a financial assistance of up to **€100 billion** in total in the form of loans granted on favourable terms. The € 100 billion are backed by **€25 billion** of guarantees voluntarily committed by Member States to the EU budget.

Loans will be made directly to Member States to cover the costs of their public programmes that allow firms to reduce the working hours while providing income support. This is therefore an indirect support to the various national programmes. This scheme was approved by the Eurogroup on 9 April.

c) Future of the EU Budget (MFF)

EU Ministers of Finance have already acknowledged that the Covid-19 crisis will impact ongoing negotiations on the next seven-year European budget, which could play a central role in the economic recovery. It however remains to be seen if and to what extent future credit lines will be increased.

2. Involvement of the European Investment Bank (and European Investment Fund)

On 16 March, the EIB Group has proposed an emergency plan to mobilise up to **€40 billion** of financing divided into the following programmes:

- up to **€20 billion** of financing mobilised through dedicated guarantee schemes to banks based on existing programmes for immediate deployment
- **€10 billion** of dedicated liquidity lines to banks to ensure additional working capital support for SMEs and mid-caps
- **€10 billion** for asset-backed securities (ABS) purchasing programmes allowing banks to transfer risk on portfolios of SME loans

On 3 April, the EIB Group endorsed the creation of an **additional €25 billion guarantee fund to mobilise up to €200 billion of** additional liquidity and short-term capital support for the European economy. The goal is to provide existing products to local banks and other financial intermediaries to ensure that viable businesses, explicitly including SMEs and mid-caps funded by venture capital funds, are able to survive the crisis.

3. Monetary Policy (European Central Bank)

On 18 March, after some hesitation, the European Central Bank took the initiative to launch a new temporary asset purchase programme of private and public sector securities, the so-called PEPP. The programme will have an overall envelope of **€ 750 billion**. The ECB also took other steps, such as an expansion of the range of eligible assets under the corporate sector purchase programme (CSPP) to non-financial commercial paper, and the easing of the collateral standards by adjusting the main risk parameters of the collateral framework.

On 7 April, the ECB took a step further and adopted collateral measures to mitigate the tightening of financial conditions across the euro area.

4. Eurogroup response

As part of the Eurogroup discussions on 9 April, an agreement was found between Ministers of Finance to decrease conditionality for the use of the **European Stability Mechanism credit line**, essentially ensuring that EU countries can benefit from the support for an amount equivalent to 2% of their respective GDP provided they are using this instrument for 'direct and indirect healthcare, cure and prevention related costs to the COVID-19 outbreak'.

Discussions will continue in the coming weeks to determine whether there should be further mutualisation of the public debt linked to the coronavirus outbreak. So far Ministers of Finance have only agreed that a **Recovery Fund** will be set up in the future, without giving any indication of whether debt will be mutualised to finance the fund.

5. **Ease of state aid, fiscal and procurement requirements**

Early in the crisis, the European Commission took action to lift some of the conditions under which Member States can provide guarantees to businesses by using their own budgets. A Temporary Framework was set up to enable Member States to use the full flexibility foreseen under **EU State aid rules** and under the **EU fiscal rules** (by triggering the escape clause of the Stability and Growth Pact). The Temporary Framework was extended on 3 and 9 April. The Commission also offered guidance on the use of all the flexibilities offered by the **EU public procurement** framework on 1st April.