Technical briefing

10.2.e

13 March 2020

Economic impact of the CovID-19 outbreak

- Growth is deteriorating quickly compared to previous forecast
  - Winter forecast was based on the initial effects from the outbreak in China (1.4% and 1.2% growth expected in 2020 for EU and EA respectively)
- No hard data is available on the economic situation
  - Hard data will only come with a significant time lag (first estimate of Q1 GDP growth will be released by Eurostat on 15 May)
  - Surveys and economic sentiment indicators reflecting the outbreak are also not yet available (latest DG ECFIN business and consumer survey published on 27 February)
- Estimates of the economic impacts are based on a modelling exercise and are not a projection
- Growth in 2020 might fall to well below zero or be substantially negative
  - Economic policy response is key to mitigate the economic repercussions

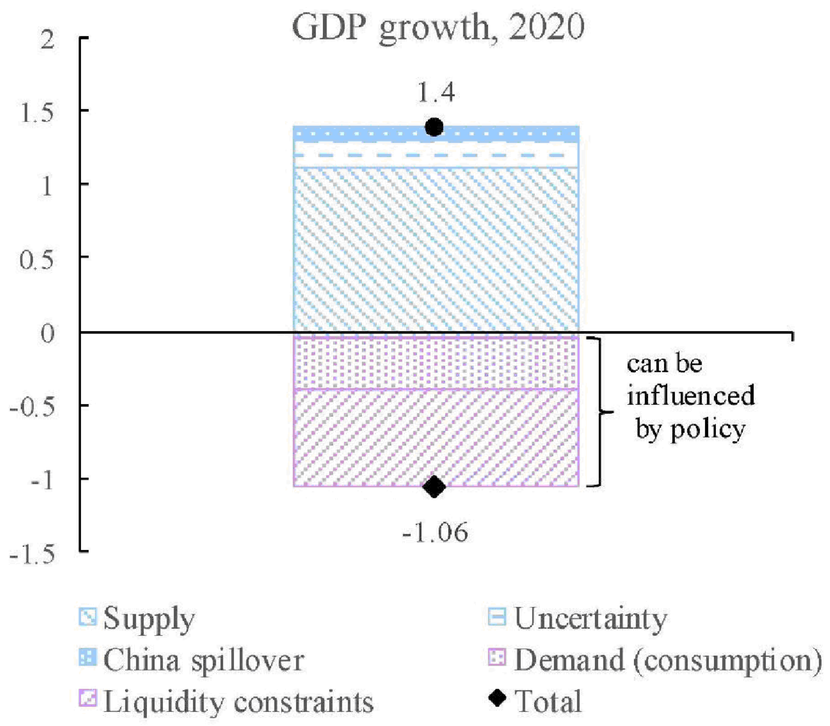
Transmission channels

- Spillovers from China
  - Initial effects from the outbreak in China
- Supply-side effects
  - Disruption of supply chains and increased absenteeism as staff is sick or in containment
- Demand-side effects
  - Lower consumption (tourism, restaurants…) and increased precautionary savings
- Liquidity constraints
  - Negative impact on investment plans
- Increased uncertainty
  - Negative impact on investment plans

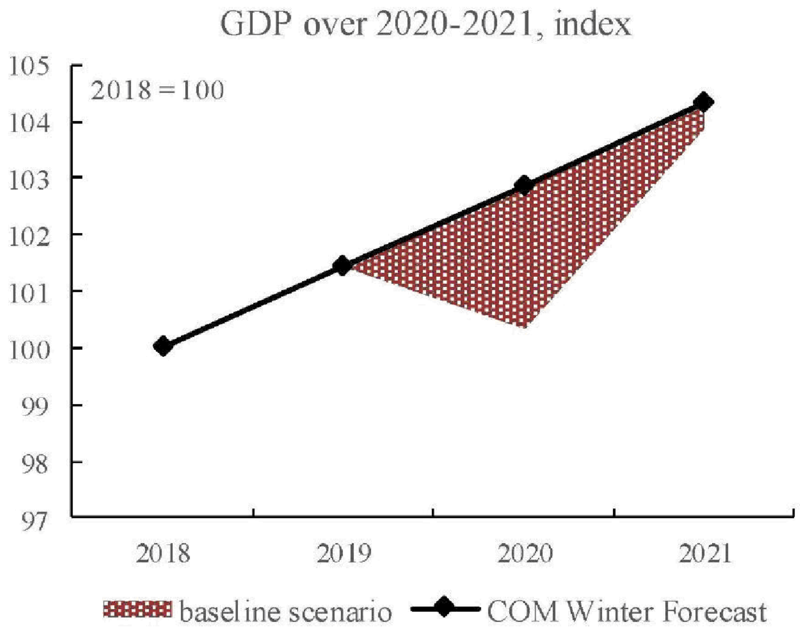
European Commission

Economic impact

Simulated impact on GDP growth in 2020



Simulated impact on GDP in 2020-2021



Main components of an economic policy response

Economic policy response should be primarily conducted by Member States with the EU as a second line of defense.

- Medical expenditures
  - Ensuring necessary expenditures and investments to contain and treat the pandemic
- Liquidity support for companies
  - Measures to ensure that companies that are affected, and in particular SMEs, do not suffer exceedingly
- Income support for workers
  - Protection of workers against income losses related to work disruption
- Mitigating the impact on the overall economy
  - Letting automatic stabilizers play
  - Further discretionary actions at EU and Member States' level as needed

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Focus on measures provided with EIB/EIF

- EUR 1 billion made available in the coming weeks to be deployed until end-2020
- Expected impact of EUR 8 billion
- Support to SMEs and small midcaps
- Focus on loans for working capital with a maturity of 12 months or more

- **COSME and Innovfin SME guarantee:** EUR 750 millions
  - Support will come through EFSI
- **Additional funds to EIF**: EUR 250 million
  - Support also come through EFSI
  - SME support together with national promotional banks
- **Delayed repayment of loans**

Member States are also encouraged to make full use of the Financial Instruments under Structural funds

SGP is sufficiently flexible to deal with the situation

- When assessing compliance with the fiscal rules, the Commission always corrects for the impact of **automatic economic stabilisers** (i.e. drop in revenue) and **one-off measures**.

- The Commission considers that the flexibility to accommodate exceptional spending related **"unusual events outside the control of government"** is applicable to the current situation, allowing a Member State to temporarily depart from required fiscal adjustment.

- **The fiscal effort required from each Member State will be modulated** as foreseen in the EU fiscal rules, taking into account negative growth or large drops in activity.

- **The general crisis clause for the euro area or EU could be activated** to accommodate a more general fiscal policy support, should a substantial change to the growth outlook occur.

Thank you

European Commission