

EUROPEAN UNION INSTITUTIONS' RESPONSE TO COVID-19 PANDEMIC

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Abstract:

*The paper aims to review the measures taken by the **European Union institutions** in response to the present health and economic crisis. This approach is useful to understand the extent to which the European Union's institutional response to crisis situations, such as the current one, is adapted to the circumstances both in terms of response and in terms of the nature and scale of the efforts made. To this end, I will first define the concept of institutional response. Then I will identify the main institutions of the European Union involved in the European Union's reaction. Subsequently, I will make an inventory of the measures taken by the European institutions as well as a brief analysis of them in terms of potential impact. Finally, I will conclude on the institutional response of the European Union in terms of reaction speed, the appropriateness of the measures taken and their size.*

Keywords: *European Union, fiscal measures, institutional response, economic crisis*

JEL classification: *E50, E60. E70*

Introduction

The last 12 years have meant, for people worldwide, the confrontation with two major crises: the financial crisis from 2008 and the health and economic crisis generated by COVID 19 pandemic.

If the response of European Union Institutions to 2008 crisis was rather slow and sometimes fumbling one (see Greece example), the response to 2020 crisis was prompt and more targeted. Amid a wavering start, the European Union mobilized its resources, succeeding in proving that, when absolutely necessary, the much desired solidarity of its member states facing a major crisis.

The present short paper aims to review the institutional measures taken by European Union institutions and analyze their relevance, size and time.

Description of the Problem

a. Concept of Institutional Response

The first step of the process will be to define the concept of Institutional Response of European Union's main organizations.

For the purpose of this paper the Institutional Response means all administrative and legislative measures taken by European Union's institutions that address the EU member states and aim at ameliorating / removing the negative effects of a harmful event.

b. European Union's institution response

All EU institutions have taken specific measures, according to their field of activity, in response to the current crisis generated by the COVID 19 pandemic.

However, for the purpose of this paper, I will, only, review the measures taken by:

- European Commission

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- European Council
- European Central Bank
- European Investment Bank

The European Union's institutions harmonize their effort to reach the maximum effect of their effort to mitigate coronavirus outbreak.

c. Measures review

1. European Commission's response to Covid 19 pandemic crisis

The role of European Commission is to coordinate the common response of European Union to COVID 19 pandemic crisis.

According to their website(https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response_en) the efforts of the European Commission materialized in the following:

- Recovery package of €1.8 trillion that combines the EU budget for 2021-27 and NextGenerationEU. Under the agreement the Commission will be able to borrow up to €750 billion on the markets.
- Temporary state aid rules- provide liquidity to member states' economies to support citizens and save jobs in the EU.
- Activating 'escape clause' that allows maximum flexibility to our budgetary rules. This will help EU countries support healthcare systems and businesses, and secure people's jobs during the crisis.
- Help Member States to protect critical European assets and technology in the current crisis. (screening of foreign direct investment)
- Economic policy guidance to all EU Member States in the context of the pandemic.
- Temporary Support to mitigate Unemployment Risks in an Emergency (SURE) is designed to help people keep their jobs during the crisis
- Financial support for hard-hit small and medium businesses
 - The EIB Group aims to invest an additional 20 billion Euro in small and medium-sized businesses.
 - The Commission is already mobilizing 8 billion Euro to help at least 100,000 companies, together with the EIB Group.
- Investment Initiative-Unspent cohesion policy funds used to provide Member States with immediate liquidity.

2. European Council's response to Covid 19 pandemic crisis, according to their website (<https://www.consilium.europa.eu/en/policies/coronavirus/timeline/>):

- Approval of 87.4 billion Euro in financial support for member states under SURE- EU's temporary instrument to mitigate unemployment risks during the COVID-19 crisis
- Approval of 2020 budget increase for COVID-19 response- Additional 6.2 billion Euro to the EU 2020 budget to address the impact of the COVID-19-crisis. The additional funds will go to:
 - development and deployment of a COVID-19 vaccine: the European Commission will use this money to pre-order vaccine doses (€1.09 billion)
 - Corona Response Investment Initiatives (CRII and CRII+): redirecting money from the EU budget to tackle the COVID-19 crisis (€5.1 billion)
- Approval of the recovery package and the European budget for 2021-2027

- 750 billion Euro recovery effort. 390 billion Euro from the package will be in the form of grants and €360 billion in loans. Agreement for a long-term EU budget for 2021-2027 of 1074 billion Euro

3. European Central Bank's response to Covid 19 pandemic crisis, according to their website (<https://www.ecb.europa.eu/home/search/coronavirus/html/index.en.html>):

- Helping the economy absorb the shock of the current crisis-The €1,350 billion pandemic emergency purchase programme (PEPP) aims to lower borrowing costs and increase lending in the euro area.
- Keeping borrowing affordable-Supporting access to credit for firms and households-increase of the amount of money that banks can borrow from ECB and made it easier for them to borrow for loans to small and medium-sized firms.
- Responding to short-term concerns related to pandemic effect- smooth over any temporary funding issues for solvent banks by offering immediate borrowing options at favourable rates. This support helps banks continue granting loans to citizens and firms in need.
- Increasing banks' lending capacity-less strict about the banks' buffers for difficult times
- Preserving financial stability through international cooperation- currency swap lines so that central banks can meet increased demand.

4. European Investment Bank's response to Covid 19 pandemic crisis, according to their website (<https://www.eib.org/en/about/initiatives/covid-19-response/index.htm>):

- Pan-European Guarantee Fund (EGF) to tackle the economic consequences of the COVID-19 pandemic. The Fund was endorsed by the European Council as part of the overall EU COVID-19 response package. It will enable the EIB Group to scale up its support for mostly small and medium-sized European companies, providing up to €200 billion of additional financing.
- Financing package that will go towards bridging loans, credit holidays and other measures designed to alleviate liquidity and working capital constraints for SMEs and mid-caps. The EIB Group, including the European Investment Fund, which specialises in support for SMEs, will work through financial intermediaries in the Member States and in partnership with national promotional banks.

The financing package consists of:

- Dedicated guarantee schemes based on existing programmes for immediate deployment.
- Dedicated liquidity lines to banks to ensure additional working capital support for SMEs and mid-caps of €10 billion;
- Dedicated asset-backed securities (ABS) purchasing programmes to allow banks to transfer risk on portfolios of SME loans, mobilizing another €10 billion of support.

The potential impact of all these measures on economic recovery of the European Union economy is described in the Table 1, as it follows:

Table 1

Potential Impact of the measures taken by European Institution in response to COVID 19 crisis

No.	Measure	Impact
European Commission		
	Recovery Package	High
2.	Temporary State Aid Rules	High
3.	Escape Clause	High
4.	Screening foreign direct investments	Moderate
5.	Economic guidance for member states	Moderate
6.	SURE	High
7.	Financial support for small and medium businesses	High
	Investment Initiative	High
European Council		
1.	Approval of SURE	High
2.	Approval of budget increase	High
3.	Approval of the recovery package and the European budget for 2021-2027	High
European Central Bank		
1.	Helping the economy absorb the shock of the current crisis	High
2.	Keeping borrowing affordable	High
3.	Responding to short-term concerns	High
4.	Increasing banks' lending capacity	High
5.	Preserving financial stability	High
European Investment Bank		
1.	Pan-European Guarantee Fund	High
2.	Financing package that will alleviate liquidity and working capital constraints for SMEs and mid-caps	High

Source: Author

Conclusions

Reviewing some of the measures taken by European Union Institutions mentioned above we may observe the following:

- I. European Union's institutions analyzed in this paper proved to have administrative capacity to build a coherent response to the coronavirus crisis
- II. Compared with the speed of the response of European Institutions to the 2008 crisis, the reaction to coronavirus crisis was faster and more articulate
- III. European Institutions transformed the pandemic crisis into an opportunity to move forward to fulfillment of its major goals such as digital transformation or Green Deal
- IV. The fiscal measures taken are a step towards a potential fiscal Union due to

European common fiscal response in time of crisis

- V. The measures taken solidarity proved, once again, the solidarity of the member states, strengthening the position of Europe globally

Future Directions

This short paper can be developed in the future by:

- i. Monitoring the economic and social effect of the measures taken by European Union institutions
- ii. Identifying ways to speed up the European Union's Institutional Response to crisis

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