

Status Report on Actions and State Aid Measures against Economic Impacts of COVID-19 at European Union and Member State Level

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Abstract:

The Coronavirus pandemic is a major shock for our societies and economies. As it qualifies as an “unusual events outside the control of government”, the European Commission is ready to accommodate exceptional spending to contain the COVID-19 outbreak. Actions should be fast, targeted and coordinated. The full flexibility of European State Aid Frameworks should be exploited to support companies in need, and thus, the citizens of the European Union. As a response to the Covid-19 pandemic, Members States are urgently rolling out targeted state aid measures to reconstruct their economies and minimise the negative impacts. Our objective is to examine the most important actions of the European Commission to answer the economic challenges caused by the crisis, together with the specific measures that have been introduced by the Member States so far. The first research results show that as the situation evolves, a strong coordination and immediate actions could be observed from the European Commission’s side, in parallel with a continuous extension of the toolbox (state aid measures), more effective communication and consultation with the Member States, and a strong openness towards bottom-up initiatives.

Introduction – Busiest March ever for the European Commission?

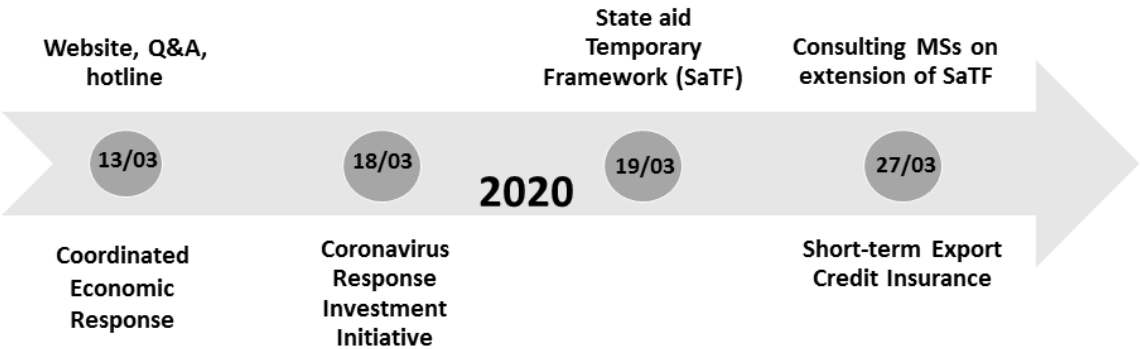
“We will do whatever is necessary to support the Europeans and the European economy.”

Ursula von der Leyen, President of the European Commission (EC 2020a)

In a period of approximately two weeks in March 2020, the European Commission (EC) has completed six major actions and approved 14 state aid notifications including 22 specific national measures, as a response to the Coronavirus pandemic (*Figure 1*). After setting up a coordinated information flow mechanism and task force, it provided an umbrella for the Member States (MSs) with the Communication on a Coordinated Economic Response to the COVID-19 Outbreak, as an immediate response to mitigate the socio-economic impact of the pandemic. Then, it ensured the necessary budgetary means for the fight with the launching of the Coronavirus Response Investment Initiative (CRII), and on the next day, it put in place the State aid Temporary Framework that specified 5 possible state aid measures to be introduced at the Member States’ level. In connection to the above, the EC activated the general escape clause of the Stability and Growth Pact also, to ensure sufficient liquidity.

Soon after, as an answer to the indication of some MSs, the Commission temporarily removed all countries from the list of “marketable risk” countries (until 31 December 2020), and launched a consultation about the extension of the recently introduced 5 measures, to provide even more targeted and efficient tools for Members States to reconstruct and support their economies. Now this is far from the end ...

Figure 1 Major Actions of the European Commission against Economic Impact of COVID-19
(as of 28 March 2020)



+ 14 State aid decisions to approve 22 national measures

Source: author’s compilation based on public data, 2020

In the followings, we summarise the content and importance of the main actions completed by the EC so far (in the order of their introduction), and we present the main measures submitted by the Member States to the EC in the form of notifications, based on the EU level actions and in line with the state aid rules.

1. Specific Actions of the European Commission and the European Regulatory Framework

Action 1: Ensuring steady and Structured Information flow

As an early action, the European Commission aimed to ensure a steady, fast and structured information flow between the responsible officials at the EU and Member State level authorities. For this reason, the Directorate-General for Competition (DG Competition) has set-up a dedicated mailbox and telephone number, to assist Member States with any queries they have or measures they would like to discuss (EC, 2020b). Additionally, the EC also set up a Task Force to coordinate work with the Member States, identify their precise needs and assist them.

Action 2: Providing an Umbrella

As a next step, on 13 March 2020, the European Commission adopted a Communication on a Coordinated Economic Response to the COVID-19 Outbreak, as an immediate response to mitigate the socio-economic impact of the pandemic. Three of the total four points in this communication were connected to support people (employment, income and jobs), firms (liquidity of financial sector to support continuously the economy), and Member States (decisive and coordinated actions through using the full flexibility of the EU State Aid and Stability and Growth Pact Frameworks). The Communication already specified some possible MS level measures, such as wage subsidies, suspension of payments of corporate and value added taxes or social contributions, and support to companies coping with liquidity shortages and needing urgent rescue aid. It also projected a special legal framework under Article 107(3)(b) TFEU (Treaty on the Functioning of the European Union) to adopt in case of need, and reinforced the EC's willingness to work with all Member States to ensure that "possible national support measures to tackle the outbreak of the COVID-19 virus can be put in place in a timely manner" (EC 2020b).

In order to operationalise this policy goal, a dedicated budgetary base had to be established, through which the main fiscal response to the Coronavirus could arrive from the Member States' national budgets, in accordance with EU State aid rules. The EC also published a Notification template for aid measures under the Temporary Framework for State aid measures that Member States can use to submit their planned measures to the EC for approval.

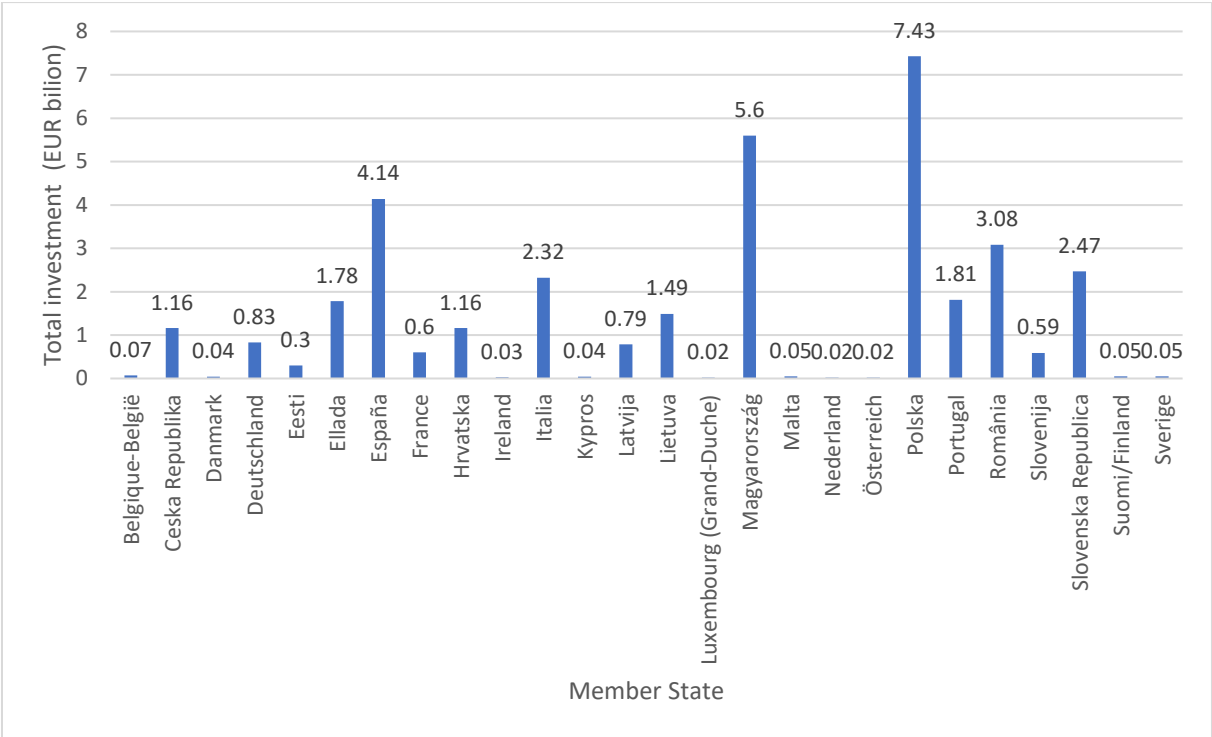
Action 3: Exploiting Full Flexibility of the European Fiscal Framework

Based on the proposal of the EC to the Council, exceptional spending was allocated: the EU budget was mobilised (EUR1 billion to be redirected from the EU budget as a guarantee to the European Investment Fund to incentivise banks to provide liquidity to SMEs and midcaps). Additionally, the readiness of the EC was confirmed to promote short-time work schemes, upskilling and reskilling programmes in particular, and the preparation of the legislative proposal for a European Unemployment Reinsurance Scheme was accelerated.

From the state aid perspective, the most important measure was the launching of the Coronavirus Response Investment Initiative (CRII) on 18 March 2020. It targets to mobilise all existing EU budget resources to provide financial support to Member States for their immediate response to the Coronavirus crisis and its long-term impact. Under this new initiative, the Commission proposed to direct EUR 37 billion (initially EUR 25 billion was announced) under Cohesion policy to the fight against the Coronavirus crisis. For this reason, Member States should not refund the unspent pre-financing for ESIF (European Structural and Investment Funds) in 2020 (in the amount of EUR 8 billion), but can use it to the fight against COVID-19.

In addition to this amount, EUR 29 billion structural funding was also allocated to the purpose, as yet unallocated from the 2014-2020 EU budgetary period. Thus, immediate liquidity could be provided to MSs’ budgets. The CRII consists of (1) an immediate EUR 37 billion of European public investment¹, (2) maximum flexibility in applying EU spending rules and (3) access to the EU Solidarity Fund (EC 2020c).

Figure 2 Indicative Breakdown by Member State of Investment Volumes related to Released Liquidity under the Coronavirus Response Investment Initiative (in EUR billion)



Source: author’s compilation based on public data, 2020

Action 4: Specific Measures to be Applied at MS level I. (Top-down)

On 19 March 2019, the Commission adopted a State aid Temporary Framework, and on 20 March 2020, a Communication was launched from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact. It has to be noted, that it is not the first time that the EC sets up a Temporary Framework as an answer to global challenges. In connection to the global economic crisis, on 26 November 2008 the EC first adopted a “European Economic Recovery Plan, in response to the economic situation and also published a communication about a “Temporary framework for State aid measures to support access to finance in the current financial and economic crisis².

¹ The roughly €8 billion has already been paid to Member States by mid-March.

² The framework in 2008 consisted of several specific measures on state aids (namely: compatible limited amount of aid, aid in the form of guarantees, aid in the form of subsidised interest rate, aid for the production of green

The Temporary Framework 2020 will be in place until the **end of December 2020** and provides in its original form for **five types of aid**, which can be granted by Member States, as follows:

1. **Direct grants**, selective tax advantages and advance payments: Member States will be able to set up schemes to grant up to €800,000 to a company to address its urgent liquidity needs.
2. **State guarantees** for loans taken by companies from banks: Member States will be able to provide State guarantees to ensure banks keep providing loans to the business customers who need them. These state guarantees can cover loans to help businesses cover immediate working capital and investment needs.
3. **Subsidised public loans** to companies: Member States will be able to grant loans with favourable interest rates to companies. These loans can help businesses cover immediate working capital and investment needs.
4. **Safeguards for banks** that channel State aid to the real economy: Some Member States plan to build on banks' existing lending capacities, and use them as a channel for support to businesses – in particular to small and medium-sized companies. The Framework makes clear that such aid is considered as direct aid to the banks' customers, not to the banks themselves, and gives guidance on how to ensure minimal distortion of competition between banks.
5. **Short-term export credit insurance**: The Framework introduces additional flexibility on how to demonstrate that certain countries are not-marketable risks, thereby enabling short-term export credit insurance to be provided by the State where needed. The Commission will continue monitoring the situation and stands ready to amend the list of marketable risk countries if needed. (EC, 2020d)

Action 5: Immediate Answer to Indication from Member States on Short-term Credit Insurance

As a next step, the EC temporarily removed all countries from the list of “marketable risk” countries (until 31 December 2020), with the aim to make public short-term export credit insurance more widely available. Here, it is important to point out that the European Commission continuously communicates with the Member States about the planned (temporary) measures in connection to COVID-19, and the amendment of the regulation on short-term export credit insurance was based on a bottom-up initiative, namely the indication of some MSs that they expect a global contraction of the private insurance market for exports to all countries due to the coronavirus outbreak.

products, risk capital measures, cumulation and aid ceilings), and some simplification measures (short-term export credit insurance) and the simplification of the procedures, and was based on Article 87(3)(b) of the Treaty and Article 2 of the Commission Regulation (EC) No 1998/2006 of 15 December 2006 on the application of Articles 87 and 88 of the Treaty to *de minimis* aid.

So, on 23 March 2020, the Commission launched an urgent public consultation aimed at assessing the availability of private short-term export-credit insurance capacity for exports to all countries listed as “marketable risk countries” in the Short-term export-credit Communication. As the public consultation identified an urgent insufficiency of private insurance capacity for export, and in the same time, a demand to be significantly growing in the very short term, the Commission amended the communication accordingly, within 4 days starting from the launching of the public consultation. Based on the amendment, there is no need for the Member State to demonstrate that the respective export target country is temporarily “non marketable” (EC, 2020e).

Action 6: Specific Measures to be Applied at MS level II. (Bottom-up)

In addition to the above, on 27 March 2020, the Commission has sent to MSs a draft proposal about the planned extension of the 5 measures in the State Aid Temporary Framework (adopted on 19 March 2020). The EC specified 5 new proposed measures as follows:

- 1. More support for coronavirus related research and development (R&D)** to address the current health crisis. Even more aid can be granted, if Member States cooperate across borders.
- 2. More support for the construction and upgrading of testing facilities** for products relevant to tackle the coronavirus outbreak, such as vaccines, medical equipment or devices, protective material and disinfectants. Member States can also grant no-loss guarantees to provide incentives for companies to invest. Even more aid can be granted, if Member States cooperate across borders.
- 3. More support for the production of products** relevant to tackle to coronavirus outbreak, such as vaccines, medical equipment or devices, protective material and disinfectants. Member States can also grant no-loss guarantees to provide incentives for companies to invest. Even more aid can be granted, if Member States cooperate across borders.
- 4. Targeted support in the form of deferral of tax payments and/or suspensions of employers' social security contributions** to help avoid lay-offs due to the coronavirus crisis in specific regions or sectors that are hardest hit by the outbreak.
- 5. Targeted support in the form of wage subsidies for employees** to help avoid lay-offs due to the coronavirus crisis in specific regions or sectors that are hit hardest by the outbreak.

As a short comparison, it can be concluded that the new (proposed) measures are more targeted in two ways, as in sectoral terms they focus on (1) R&D, testing and production in connection to the coronavirus, and (2) employment-related impacts of the virus that are applicable for all companies in need.

Thus, there is a good potential that the aim of the EC with the extension, specified as “The targeted support possibilities give Member States more flexibility to intervene selectively on the basis of greatest need.” (EC, 2020f) could be achieved.

The short description of the EC’s actions and the date of their introduction are summarised in *Table 1*.

Table 1 Summary of Actions of the European Commission European Commission against Economic Impact of COVID-19 (as of 28 March 2020)

Date	Action	Description
13/03/2020	Communication on a Coordinated Economic Response to the COVID-19 Outbreak	Member States can make generally applicable changes in favour of businesses which fall outside State Aid rules. They can also grant compensation to companies for damage suffered due to and directly caused by the Coronavirus outbreak. Launch of website, Q&A, hotline
18/03/2020	Coronavirus Response Investment Initiative (CRII).	A comprehensive set of measures that will: ... Cushion the blow for people’s livelihoods and the economy by applying full flexibility of EU fiscal rules; Set up a EUR 37 billion Coronavirus Response Investment Initiative to provide liquidity to small businesses and the health care sector ...
19/03/2020	State aid Temporary Framework (SaTF)	Adoption of a State aid Temporary Framework based on Article 107(3)(b) TFEU and specification of 5 possible state aid measures for MSs. and (On 20 March 2020, Communication on the activation of the general escape clause of the Stability and Growth Pact)
27/03/2020	Amendment of Short-term export credit insurance regulation	Temporary removal of all countries from the list of “marketable risk” countries (until 31 December 2020) with the aim to make public short-term export credit insurance more widely available. ³
27/03/2020	Commission Statement on consulting Member States on the proposal to extend State aid Temporary Framework	Proposal to additional 5, more targeted measures that could be introduced by MSs

Source: author’s compilation based on public data, 2020

³ “The Short-term export-credit insurance Communication, which is in force since 2013, provides that trade within 27 EU Member States and nine OECD countries listed in its Annex, with a maximum risk period of up to two years, entails marketable risks and should, in principle, not be insured by the State or State supported insurers.” The Commission will re-assess the situation in 2020 and give clarity on “marketable risk countries” beyond 31 December 2020. (EC, 2020e)

2. Measures at Member State level

Based on the specific actions of the European Commission described in the above, Member States have been actively submitting state aid measure proposals to the EC for approval. In the followings, we summarised the submitted and approved MS measures so far, but it has to be stressed that the list is extending on a daily basis. The EC has been approving the measures within 24-48 hours following the notifications from the Member States. All the measures in the following table (*Table 2*) were adopted under the Temporary framework, with the exception of the ones marked with “*”.

Table 2 Member State Measures against the Economic Impact of COVID-19 Submitted to the European Commission (as of 28 March 2020)

Date of adoption/ submission	Planned Member State (MS) Aid Measure Submitted to European Commission
11/03/2020	Denmark: Compensation scheme for cancellation of large public events related to COVID-19*
13/03/2020	Denmark: Danish guarantee scheme for SMEs affected by COVID-19
16/03/2020	France: Plan to secure the financing of companies (3 measures)
16/03/2020	Germany: Interest subsidy scheme (2 measures, subsidised loans)
18/03/2020	Portugal: Portuguese guarantee schemes (4) for SMEs and midcaps affected by Coronavirus outbreak
20/03/2020	Italy: Production of medical equipment and masks
17/03/2020	Luxembourg: Scheme for enterprises in temporary financial difficulties due to COVID-19
17/03/2020	Latvia: 2 measures: loan guarantee scheme and subsidised loan scheme
21/03/2020	Germany: Bundesregelung Bürgschaften 2020 - guarantee measure to further support economy
24/03/2020	Germany: Direct grant scheme to support companies “Small amounts of aid”
24/03/2020	Spain: Guarantee schemes for companies and self-employed workers
25/03/2020	UK: 2 separate schemes: Guarantee scheme and SA.56794 - COVID-19: direct grants schemes to support small and medium-sized enterprises (SMEs)
25/03/2020	Denmark: Danish scheme that partially compensates the self-employed for the losses of turnover*
25/03/2020	Italy: Italian State guarantee supporting a debt moratorium from banks to small and medium-sized enterprises (SMEs)
27/03/2020	Luxembourg: guarantee measure to further support economy in coronavirus outbreak

*: State Aid Measures adopted under Article 107(2)b TFEU

Source: author’s compilation based on public data, 2020

It can be seen from the summary that several MSs are more active than the others; Germany has already submitted three notifications, so as Denmark, while Italy and Luxembourg have submitted two notifications so far. It is also apparent, that no notification has arrived until this date from the V4 countries, according to the data officially published on the Commission’s dedicated state aid website.

If we go one step further, and examine the types of the submitted (and mostly already approved) measures, we can state that the German example follows a clear intervention logic, as it proceeds from the non-cash state aids (interest subsidy scheme and guarantees) towards in-cash state aids (direct grant scheme) without a sectoral focus. This is a general tendency, almost all MSs started with non-cash subsidies. On the other hand, it is interesting that Italy and Luxembourg have followed the opposite intervention logic, starting with in-cash measures. It can also be concluded that no geographical prioritisation can be observed, while as company size, small and medium-sized companies are prioritised in the early measures.

**Table 3 Comparison of Member State Measures against Economic Impact of COVID-19
(as of 28 March 2020)**

	Cash	Non-cash	Company type and sectoral focus	Duration
Denmark	X (direct grant)		public events	6-31 March 2020
Denmark		X (guarantee)	SMEs, all sectors	30 Sep 2020
France		X (subsidized loan guarantees)	SMEs in focus plus others, all sectors	31 Dec 2020
Germany I.		X (subsidized interest rates)	All undertakings in all sectors	31 Dec 2020
Portugal		X (guarantee schemes)	SMEs, all sectors	31 May 2020
Italy I.	X (repayable)		All undertakings medical devices	31 Dec 2020
Luxembourg	X (repayable)		All undertakings in all sectors	30 Sep 2020
Latvia		X (loan guarantee and subsidized loan)	All undertakings in all sectors	31 Dec 2020
Germany II.		X (loan guarantee)	All undertakings in all sectors	31 Dec 2020
Germany III.	X (direct grants, repayable advance or tax and payment advantages)		All undertakings in all sectors	31 Dec 2020
Spain		X (guarantee schemes)	All undertakings in all sectors	30 Sep 2020
UK	X (direct grants)	X (guarantee schemes)	SMEs in all sectors	30 Sep 2020
Denmark	X (direct grant, max. EUR 3000)		Self-employed in all sectors	9 June 2020
Italy II.		X (guarantee schemes)	SMEs in all sectors	30 Sep 2020
Luxembourg II.		X (loan guarantee)	All undertakings in almost all sectors	31 Dec 2020

Source: author's compilation based on public data, 2020

Summary and Conclusions

Our aim was to examine the most important actions of the European Commission to answer the economic challenges caused by the crisis, together with the specific measures that have been introduced by the Member States so far. The situation is rapidly changing on a daily basis.

At the European level, our first research results show that as the situation evolves, a strong coordination and immediate actions could be observed from the European Commission's side, in parallel with a continuous extension of the toolbox (state aid measures), more effective communication and consultation with the Member States, and a strong openness towards bottom-up initiatives. In a period of approximately two weeks in March 2020, the European Commission (EC) has completed six major actions and approved 14 state aid notifications including 22 specific national measures, as a response to the Coronavirus pandemic. After setting up a coordinated information flow mechanism and task force, it provided an umbrella for the Member States (MSs) with the Communication on a Coordinated Economic Response to the COVID-19 Outbreak. Then, it ensured the necessary budgetary means for the fight with the launching of the Coronavirus Response Investment Initiative (CRII), and on the next day, it put in place the State aid Temporary Framework 2020 (as there was a Temporary Framework in 2008 also) that specified five possible state aid measures to be introduced at the Member States' level. Soon after, bottom-up actions have been completed as the removal of all countries from the list of "marketable risk" countries and a consultation about the extension of the Temporary Framework with five additional measures. There is more to come.

At the Member State level, countries are actively rolling out state aid measures, that they have to submit prior to the EC for approval in the form of notifications. The EC has been approving the measures within 24-48 hours and most of the measures so far were adopted under the Temporary Framework 2020. Some MSs are more active, like Denmark and Germany with three notifications, or Italy and Luxembourg with two, while some others like the V4 countries (that have a major part in the investment volumes related to released liquidity under CRII) have not yet submitted any notification. It does not mean that they have not yet introduced measures, as we know that several measures have been already introduced in these countries also. The intervention logic is different in case of the MSs, most of them start with non-cash incentives and move towards in-cash, while others follow the opposite logic. Common pattern in the measures submitted and approved so far is the focus on SMEs at first, and the full geographical coverage. As regards future, we expect a rapid increase in the submitted notifications, also from V4 countries, a move towards in-cash subsidies and large companies, prioritisation of large employers and employment related measures, maybe also sectoral focus, the extension of the duration of the measures, and more active communication between the EC and the Member States and also with the public (most importantly with economic actors).

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EC 2020f: European Commission, Coronavirus: Commission Statement on consulting Member States on the proposal to extend State aid Temporary Framework, 27 March 2020, available at:

https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_551

Notification template for aid measures under Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak

Treaty on the Functioning of the European Union - PART THREE: UNION POLICIES AND INTERNAL ACTIONS - TITLE VII: COMMON RULES ON COMPETITION, TAXATION AND APPROXIMATION OF LAWS - Chapter 1: Rules on competition - Section 2: Aids granted by States - Article 107 (ex Article 87 TEC), available at: <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A12008E107>

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State Aid Measures adopted under Article 107(2)b TFEU

12 March: SA.56685 Denmark, State aid notification on compensation scheme cancellation of events related to COVID-19 (Decision)

25 March: SA.56791 Denmark, Temporary compensation scheme for self-employed financially affected by the COVID 19 (Decision)

State Aid Measures adopted under the Temporary Framework

25 March 2020:

SA.56794 United Kingdom, Coronavirus Business Interruption Loan Scheme (CBILS) Grant (Decision)

SA.56792 United Kingdom, UK COVID 19 measure CBILS Guarantee (Decision)

SA.56690 Italy, State guarantee to support debt moratorium by banks to SME borrowers (Decision) 24 March 2020:

SA.56803 Spain, COVID-19 - Guarantee scheme to companies and self-employed to support the economy in the current COVID-19 outbreak (Decision)

SA.56790 Germany, DE - Federal Framework "Small amounts of aid 2020" (Decision)

SA.56787 Germany, COVID-19: Bundesregelung Bürgschaften 2020 (Decision)

SA.56742 Luxembourg, Scheme for enterprises in temporary financial difficulties due to COVID-19 (Decision) 23 March 2020:

SA.56722 Latvia, COVID-19: Loan guarantee scheme and subsidised loan scheme (Decision)

22 March 2020:

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21 March 2020:

SA.56709 France, France – COVID-19: Plan de sécurisation du financement des entreprises (Decision)

SA.56708 Denmark, Danish guarantee scheme for SMEs affected by COVID-19 (Decision)

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