



16 March 2020

### **Responsibility, Action and Solidarity is urgently required to protect businesses, society and our economy**

European society is facing an extraordinary challenge from the outbreak of COVID19. Our sympathies are with the families of those who have already lost loved ones, and our gratitude is to the workers and businesses who are already showing exceptional courage and resilience, both to treat the sick, and to maintain the vital goods and services upon which we all depend.

It is clear that we are only at the beginning of this challenge. Protecting our society will require extraordinary **responsibility, action and solidarity** from all parties:

- **Responsibility** as businesses, workers and citizens, to ensure everything we do helps address this crisis.
- **Action** both to maintain the essential functioning of our economy in the immediate future, and ensure that once the spread of the virus is addressed, we have maintained the business eco-system vital to fully restoring our treasured European way of life.
- **Solidarity** between businesses of all size, between businesses and governments and between all EU member states.

#### **COVID19 will have a significant impact on short-term EU growth**

COVID19 will undoubtedly have a significant impact on EU growth in 2020. Whilst the size of the short-term fall in economic activity will clearly depend both on the spread of the virus and the extent of measures taken to prevent the spread of the virus, it is already clear from developments in recent days that the **impact will be substantial**, with the **likelihood of a large number of EU member states experiencing a significant, and in some cases massive, short-term downturn**. Businesses are already observing economic impacts through two broad routes:

- Firstly, we are already seeing significant reduction in economic activity through the **restrictions on movement and contact** put in place in a number of Member States. Whilst these measures will clearly have a huge impact on businesses, particularly SMEs, operating in sectors, such as tourism, hospitality, restaurants, leisure and retail, the likelihood of knock-on impacts to other sectors should not be overlooked.
- Secondly, as a result to the disruption to Chinese manufacturing already taken place, some EU manufacturers are likely to face disruption to their production given **shortage of supplies**. The spread of the virus within the EU itself, and the potential disruption of manufacturing activity from the **closure of manufacturing sites** due to COVID19 instances creates a second route through which EU production could be



significantly impacted. In addition, the **blockading of key cross-European transportation** routes is likely to further exacerbate disruptions to supply chains.

We have also seen **significant volatility in financial markets**, which has the potential to exacerbate, particularly these demand effects, with falling financial markets reducing both consumers and business confidence and in turn, consumption and investment respectively.

## Responsibility

The immediate objective of public authorities must be to seek to ensure the **right balance between safeguarding public health by reducing the spread of the virus and maintaining vital economic activity**. This requires all economic players, including businesses, workers and consumers, to take responsible action to reduce the spread of the virus.

## Action

Many businesses, particularly SMES, are already facing, or will face, severe financial pressures during the coming months. In order both to help maintain confidence across the business community, **protect the business eco-system**, and ensure that **as many companies as possible survive the present difficulties** and are able to help drive the economic recovery when restrictions related to the virus are lifted, a comprehensive package of measure is urgently required.

- **Monetary policy** needs to remain supportive, and we count on the ECB, working alongside institutions such as the EIB, to continue to put in place appropriate measures as the situation develops. This includes, in particular, **ensuring adequate liquidity** to the financial system, particularly to **ensure adequate lending remains in place for businesses**. The Targeted Longer-term Refinancing Operation (TLTRO) programmes should be extended in time and scope.
- **Financial regulator and supervisors** should stand ready to provide further measures to stabilise financial markets, for example those for corporate and bank bonds with specific measures required to maintain access to finance to the real economy including, creating a **moratorium tool for sound borrowers facing liquidity challenges related to COVID-19 effects**, and **postponing until the economy enters a more stable period**, the introduction on any proposals which have the potential to reduce lending to businesses, including the **introduction of new macroprudential measures, capital increases associated with the target review of internal models, and the finalisation of Basel III proposals**.



- **Fiscal policy** must also be supportive in the light of extraordinary, temporary falls in domestic demand. Member States must therefore be temporarily allowed to **use the maximum flexibility built into the Stability and Growth Pact**, including through giving consideration to its possible temporary suspension by use of the general escape clause. Similar flexibility should be extended to countries presently required to achieve high primary surpluses within the context of post-programme surveillance agreements. Such measures are likely to include broad measures to support consumer demand, increased expenditure related to the virus, notably around health care, as well as direct support to businesses (outlined below). In order to ensure that Member States are able to undertake such expenditure with confidence, it is important that the **Commission provides the maximum possible clarity** regarding how it intends to apply the discretion provided for in the SGP at the earliest possible opportunity. The exceptional circumstances in some Member States may make it necessary that the Commission and Council consider going beyond these provisions in order to allow for **an ambitious fiscal stimulus, co-ordinated between Member States and the EU institutions**. In the medium-term, Member States should also consider **bringing forward public investment**, including planned repairs and maintenance as a means of providing an additional stimulus.
- **Specific measures are required to support companies with viable long-term business models to survive the present downturn**. There is a significant risk of substantial numbers of companies, particularly SMEs, experiencing both liquidity and solvency issues as a result both of the COVID19 itself, or of responsible actions taken to prevent the spread of the virus (such as temporary closure of production premises).

**Member States** need to continue to urgently develop and implement specific measures to support such businesses, examples include:

- providing state guarantees for credit lines to businesses.
- postponing tax payments and social security contributions, and consider targeted reductions in VAT rates.
- providing financial support for companies for short-time working, either as result of the need to close premises directly impacted by the virus, government restrictions or in response to falling demand.
- Flexibility around unemployment insurances schemes to support businesses and workers.
- Providing necessary clarity regarding 'force majeure' clauses. The EU should encourage Member States to consider Covid-19 in conjunction with other relevant factors (e.g. travel bans, work stoppages, shop forced closures) as a situation of *force majeure* affecting contractual relationships.



- Suspension of fines to companies as a result of late payment or non-completion of government contracts.

Member States should also **fast-track implementation of the EU's insolvency directive** in order to further help viable businesses survive the present difficulties.

## **At European Union level:**

- The Commission must stand ready **to scale up** the €37 billion '**Corona Response Investment Initiative**', aimed at supporting health care systems, SMEs, labour markets and vulnerable parts of the economy. EU funding must lead to **genuinely additional support reaching EU businesses and workers**, beyond that already planned by Member States.
- Further immediate support should be provided by the **redirection of unallocated structural funds** to support vulnerable businesses, as well as rapid activation of the EU solidarity fund for health emergencies, with the EU also having an essential role to co-ordinate and inform regarding actions taken in Member States. **Deadlines related to ongoing and future grants and contracts must be postponed** and adapted to meet the needs of actual and potential participants.
- There must be **flexibility around the implementation of state aid rules**, provided this continues to support the objective of providing a level playing field for businesses across the single market.
- **A European recovery plan** must be put in place, facilitated by rapid agreement on a new Multi Annual Financial Framework (MFF), reducing uncertainty regarding EU investment funding from 2021. Such a plan, which should include a significant role for **InvestEU**, should give consideration to reducing national co-financing rates, as well as postponing proposal and reporting deadlines for existing programmes. Given the exceptional circumstances, it may also be necessary to reduce national co-financing rates for a limited period.
- **A new European e-health plan** must be developed, including a centralized mechanism at EU level to monitor the entire value chain in the healthcare sector.

## **Solidarity**

Meeting the challenge of COVID19, and ensuring that we come through this difficult period with both a limited human cost and with businesses able and ready to rapidly restore our normal way of life, will require us to **draw on our solidarity across Europe**.

Solidarity is important to protect our health, our businesses and our European society. The European business community calls on all players to act with a sense of



responsibility, **to avoid damage to our business eco-system**, as well as the functioning of the European Union.

**The Internal Market must be protected**, with the Commission closely monitoring any distortion of the internal market and discouraging the creation of national barriers that do not respect the principle of solidarity and proportionality, as established in the treaties. In particular, **transportation of goods within the EU single market, for example by trucks, must not be blocked**. Cross-border access for critical manufacturing and medical equipment maintenance services must be ensured, and export bans recently introduced by member states on personal protective equipment, medical equipment and medical devices must be urgently removed.

This solidarity must extend across the business community, between the smallest SME and the largest multi-national, between businesses and governments, and between countries across our continent.

We also call on our major trading partners to seek to maintain essential global supply chains to the best extent possible, by ensuring that actions they take to reduce the spread of the virus are both targeted and proportionate, avoiding trade and export bans.

In this context we already welcome the strong commitment taken by EU institutions to address the crisis, welcoming statements in particular by:

- **EU finance ministers** on 4<sup>th</sup> March, regarding their commitment to provide a co-ordinated response and to use all appropriate policy tools to achieve strong, sustainable growth and to safeguard against the further materialisation of downside risks.
- **Commission President von der Leyen** on 10<sup>th</sup> March, 'to use all the tools at our disposal to make sure the European economy weathers this storm', complemented by a **package of measures presented on March 13th**, to deliver a co-ordinated European response to mitigate the socio-economic impact of the COVID-19 outbreak.
- **The ECB** on 12th March announcing in particular, plans to temporarily relax capital requirements for the financial sector to support lending to the real economy, as well as more accommodative monetary policy through increasing its asset purchases by €120 billion during 2020.

The European business community believes Europe will only succeed if we work together in a spirit of solidarity. The time for common action is now. We need a bold and co-ordinated approach.