

The impact of COVID-19 on the Internal Market

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Structure of the Presentation

1. Impact of the pandemic on the EU
2. Measures taken at Member State level
3. EU responses to the pandemic
4. Different sectors, different impacts
5. Preparation for future pandemics

1. Impact of the pandemic on the EU

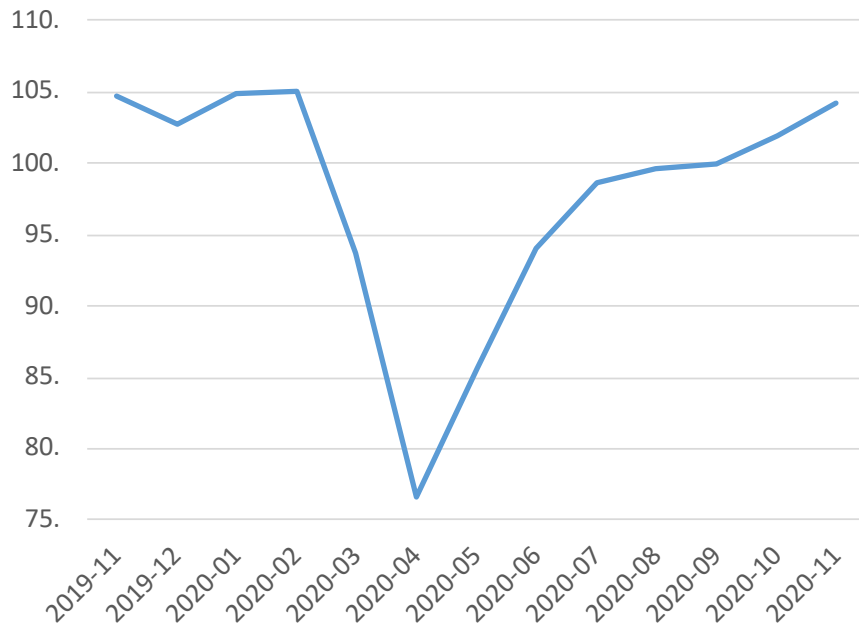
Largest recession since WWII

- EU GDP is expected to have fallen 7.4% in 2020, more than in the Global Financial Crisis of 2009.
- Southern European economies were impacted more strongly than northern European economies.

Economic impact

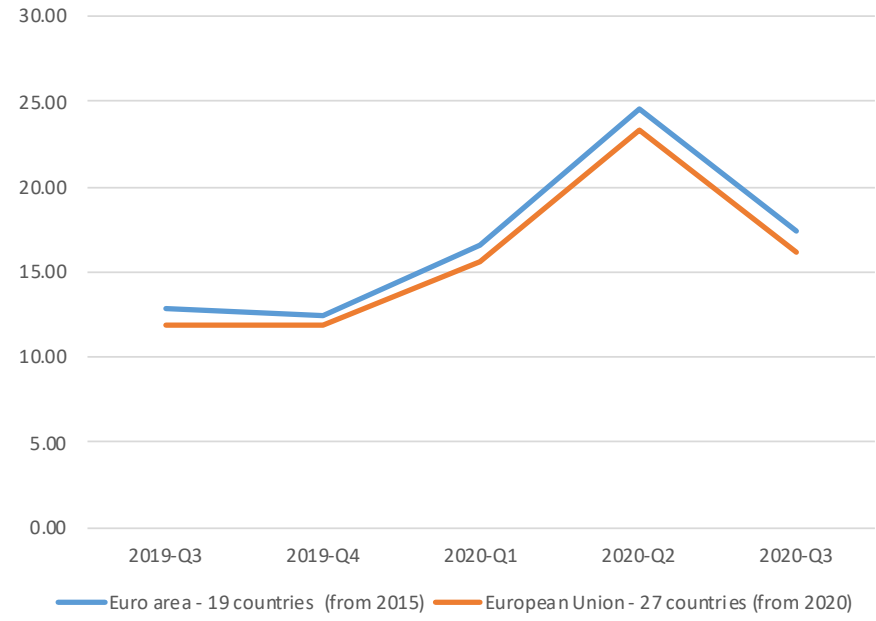
- Savings increased strongly, while investment decreased.
- There was a strong decline in trade and industrial production during the first wave, but both subsequently recovered.
- Hours worked declined strongly during the first wave, but the impact on employment was limited.

Industrial Production



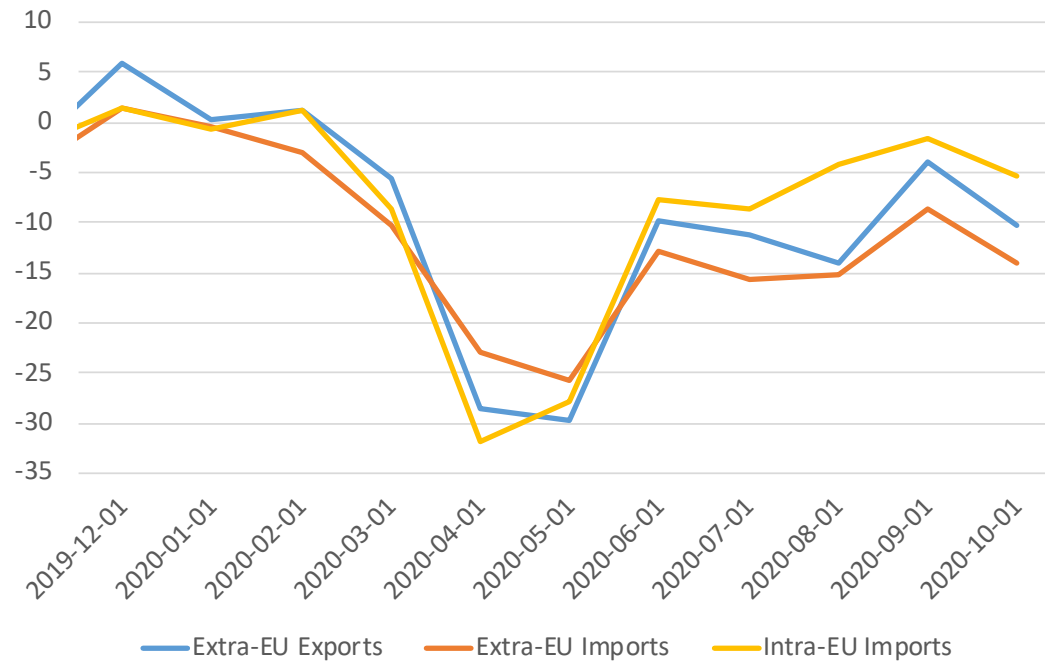
Source: Eurostat, online data code: STS_INPR_M.
Note: Index (2015=100), Volume index of production, seasonally and calendar adjusted data.

Gross Household Savings



Source: Eurostat, online data code: TEINA500.
Note: The gross saving rate of households is defined as gross saving divided by gross disposable income, with the latter being adjusted for the change in the net equity of households in pension funds reserves. Seasonally adjusted data.

Intra- and extra-EU Trade, percent change from previous year



Source: Eurostat, "EU trade since 1988 by BEC" (DS-032655). Monthly Data. Intra-EU trade is computed based on exports between the different Member States of the European Union. Bruegel computations.

2. Restrictions at Member State level

Lockdowns and social distancing

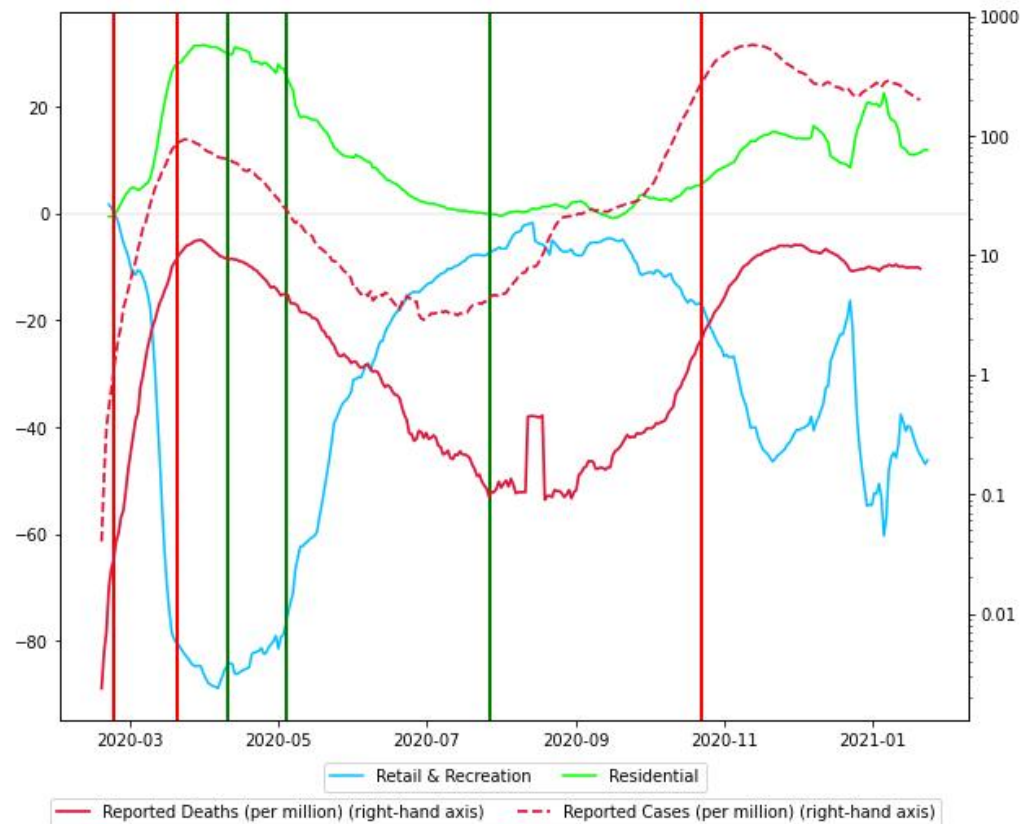
- Mobility restrictions and lockdowns during the first and second waves of the pandemic, loosening over the summer.
- Closure of public events, workplaces, retail activity, schools.

Restrictions on cross-border travel

- Border closures during the first and second waves.
- Exceptions: commuters, seasonal workers, business travel.

New cases per day, deaths per day, and relative personal mobility, Italy

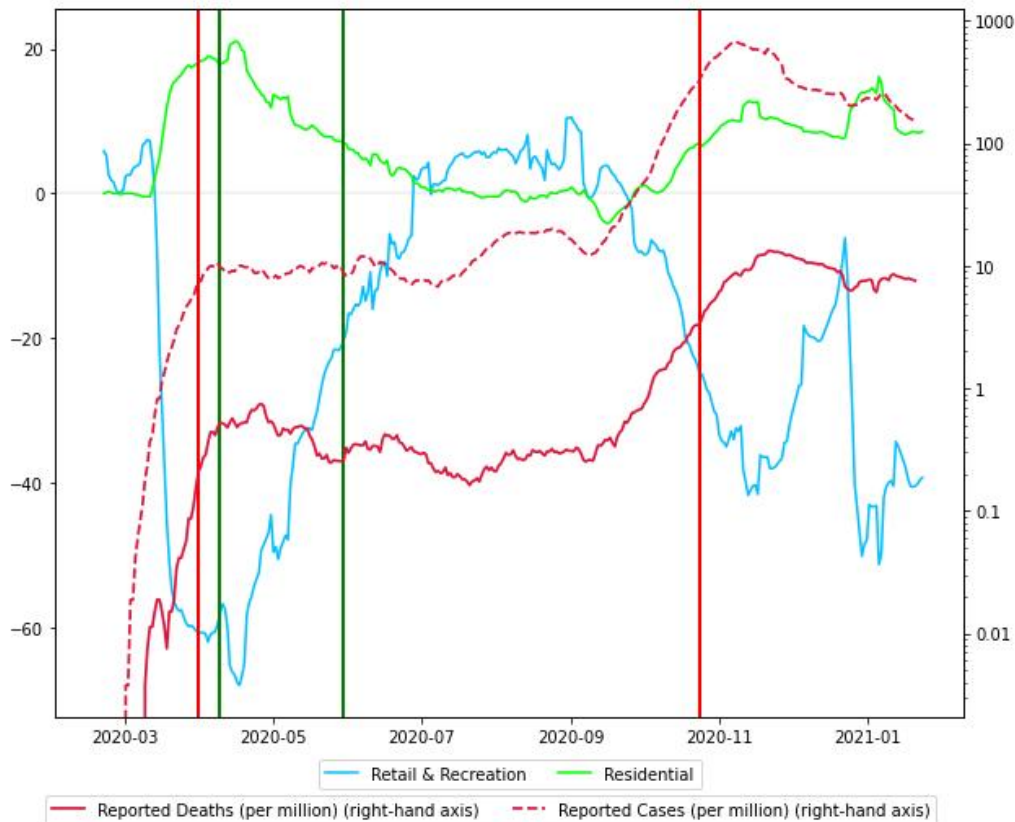
- Restrictions in response to rising cases and deaths in the first wave.
- Time spent in retail and recreation, transport, and at work declined.
- Time spent at home increased.
- Trends reversed over the summer as the pandemic eased.
- Restrictions returned with the second wave.



Sources: *Our World in Data* for cases and death, *Oxford database* (see Hale et al. (2020)) for restrictions, *Google mobility data* (see Aktay et al. (2020)) for changes in various forms of mobility, *Bruegel calculations*.

New cases per day, deaths per day, and relative personal mobility, Poland

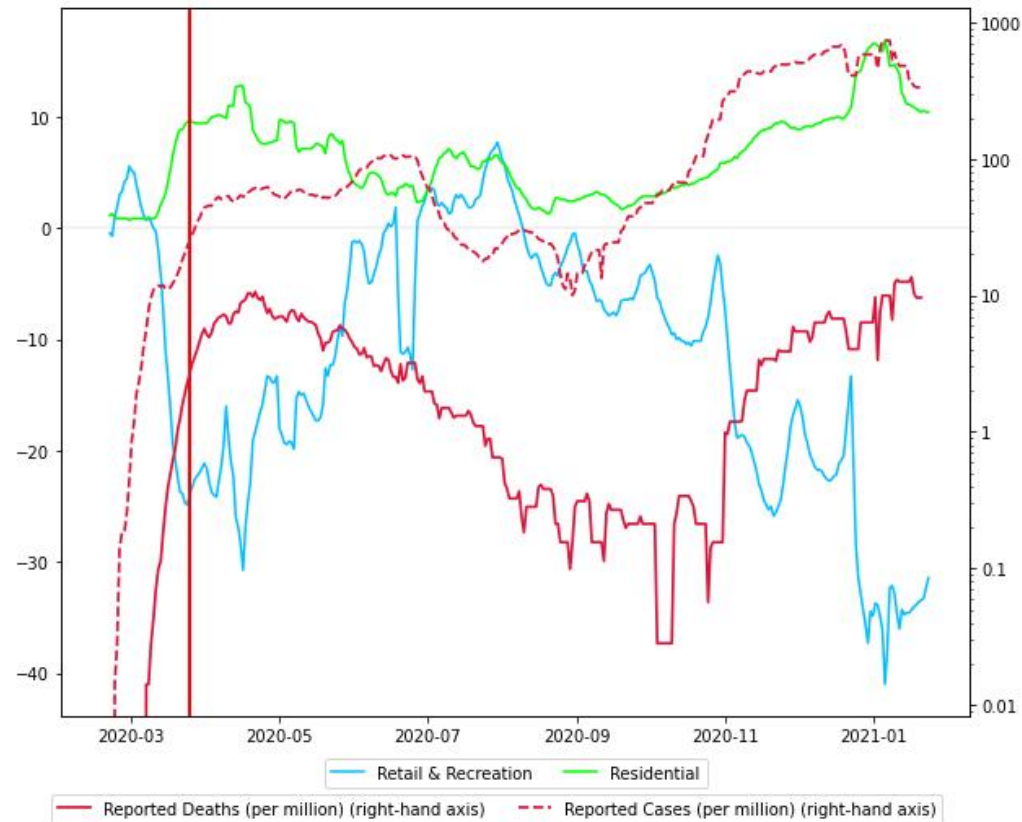
- In many eastern European Member States, the first wave was fairly mild.
- Even so, restrictions were introduced.
- Time spent in retail and recreation, transport, and at work declined.
- Strong restrictions were re-imposed with the second wave.



Sources: Our World in Data for cases and death, Oxford database (see Hale et al. (2020)) for restrictions, Google mobility data (see Aktay et al. (2020)) for changes in various forms of mobility, Bruegel calculations.

New cases per day, deaths per day, and relative personal mobility, Sweden

- Sweden tried a different approach, with restrictions only on public events.
- People still chose to spend less time in retail and recreation, transport, and at work.
- Results have been mixed, with a relatively high number of deaths.



Sources: *Our World in Data* for cases and death, Oxford database (see Hale et al. (2020)) for restrictions, Google mobility data (see Aktay et al. (2020)) for changes in various forms of mobility, Bruegel calculations.

3. EU responses to the pandemic

Green lanes enabled goods to continue to flow.

Travel arrangements

- Member States have mostly followed Commission guidelines on travel from third countries.
- Guidelines for travel restrictions within the EU.
- Corresponding consumer protection measures.

Contact tracing apps

- Exposure notification instead of contact tracing.
- Lack of cross-border interoperability.

Consumer protection

- Right to refunds for huge numbers of cancelled trips.
- Vouchers to mitigate harm to consumers and carriers.

Customs arrangements and VAT

- Delay permitted in custom reporting obligations.
- VAT and customs duty waiver for relevant medical goods.
- Restrictions on export of medical goods, also by the EU.
- The EU and like-minded partners proposed a WTO Trade and Health initiative to avoid disruption to supply chains.

An expanded EU role in procurement of vaccines, medecines and medical equipment

- ESI (< €2.7 bn): vaccine procurement
- JPAs: medical equipment and PPE
- rescEU (€370 mn): medical stockpiling
- COVAX (€500 mn): vaccines for developing countries

Joint procurement of vaccines via ESI: mixed results

- Decision to procure jointly was a triumph of policy!
- Avoided competition where smaller or poorer Member States might well have been shut out.
- Funding R&D for multiple vaccines in the early phases was entirely appropriate.
- Volume orders for approved vaccines were, however, placed many months too late.
- Delays in ordering have caused delays in delivery, with serious consequences for the EU.

4. Different sectors, different impacts

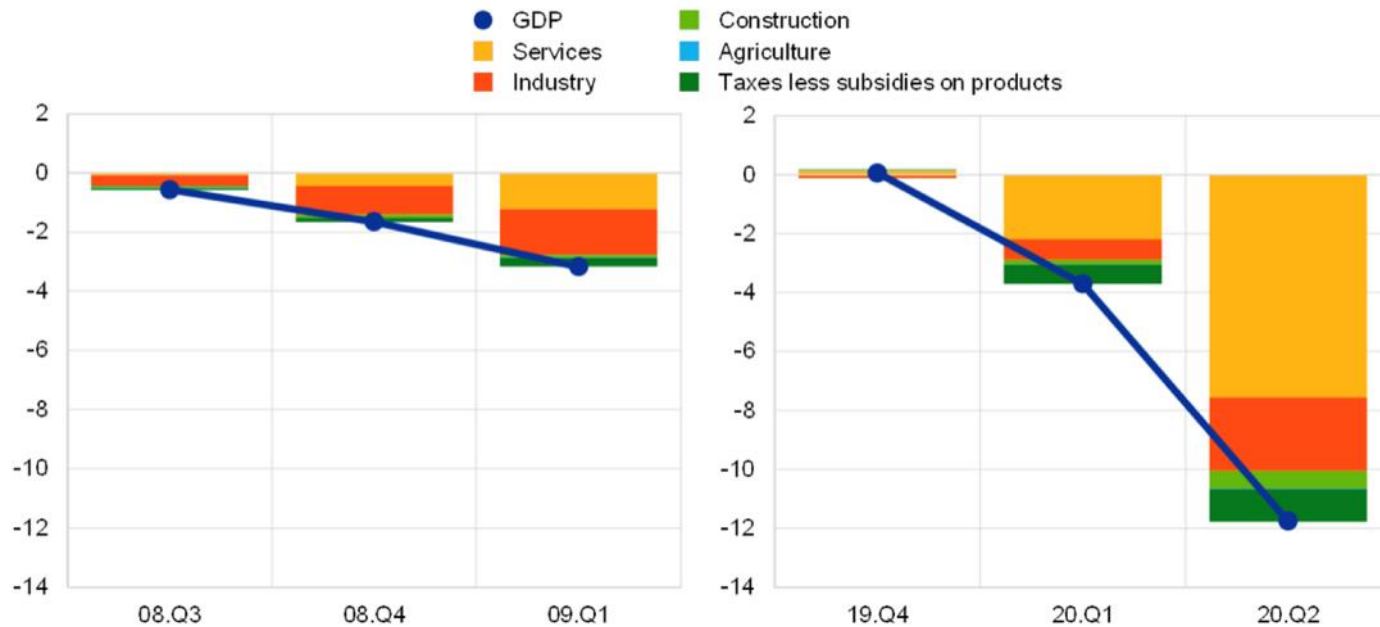
Supply and demand shocks from lockdowns

- Trade and industrial production declined at first, but recovered.
- Shift to remote work mitigated impact on many sectors.
- Restrictions devastated tourism and hospitality services.

Effect on population groups

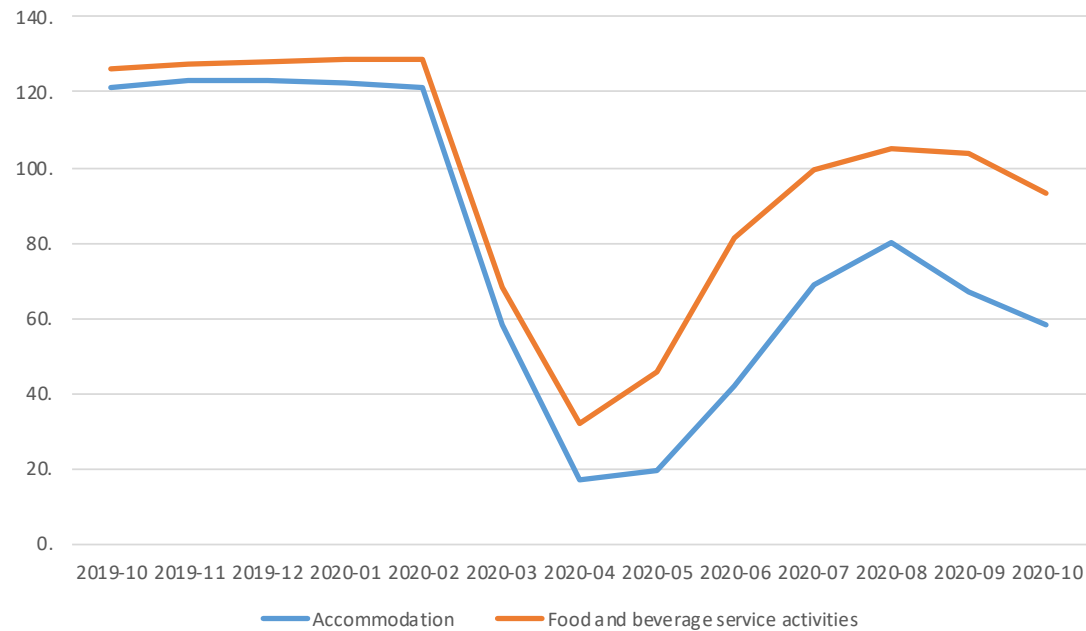
- Southern European Member States were hit hard.
- Many women work in impacted service industries, and women are affected more than men by school closures.
- Youth unemployment increased.

Many sectors were hurt more by the pandemic than by the 2009 financial crisis Quarterly change in gross value added



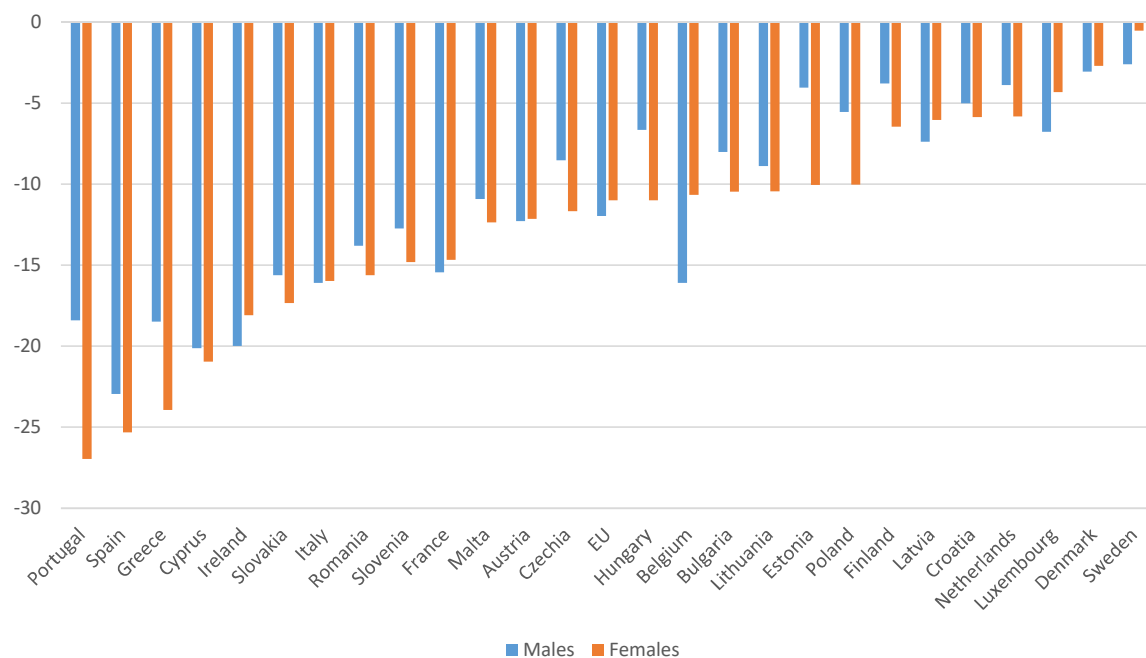
Sources: Speech by Philip R. Lane, Haver and ECB staff calculation based on data for Germany, Spain, France, Italy and the Netherlands.

Turnover in accommodation and food services



Source: Eurostat, online data code: STS_SETU_M. Index 2015=100, monthly data, seasonally adjusted.

Percentage change in hours worked between Q1 and Q2 of 2020



Source: Authors' own calculations based on Eurostat, online data code: LFSI_AHW_Q. Quarterly data, seasonally adjusted.

5. Preparation for future pandemics

Ex-post evaluations are needed once sufficient time has elapsed

- Some ambitious form of an EU Health Union is needed.
- Proactive measures to increase resilience must not languish until the next pandemic arrives.

Carry forward successful initiatives, but with fine tuning

- Green lanes for the free flow of goods.
- Protection for consumers with cancelled trips, bankrupt firms.
- Prompt notification to the EU of restrictive measures taken.
- Member State decisions must consider the European dimension.

The decision to avoid the use of contact tracing apps might need re-thinking in a more severe pandemic

- Most EU apps today do exposure notification only.
- Without automated assistance, manual contact tracers have been overwhelmed.
- The EU response to the pandemic has been respectful of privacy, but less effective in terms of public health than that of some Asian countries.
- Cross-border interoperability needs proper attention.
- A calm reflection would be in order when we are no longer in a state of crisis.

The EU approach to travel and tourism is still evolving

- A common EU electronic vaccination/immunity passport would seem to be in order.
- What privileges that passport should confer, together with other factors, is a sensitive discussion.
- There is a need to balance economic gains from the reopening of tourism against possible costs in terms of public health.
- Uniform rules for safe conduct on flights would also appear to be desirable.

Joint procurement of vaccines needs further work

- Speed matters: the cost of the pandemic is some €18K per person per year, a dose of vaccine < €30.
- Global demand for vaccines is high.
- The design of the ESI did not consider the need to “pivot” to volume purchases of approved vaccines.
- Initial funding of €2.7 bn left ESI with no discretion.
- EU decisionmakers need a mandate to place well-reasoned bets, some of which might not pay off.
- Supply chains need better management, but suppliers face legitimate risks that cannot be ignored.

Enlightened self-interest calls for continued attention to the international dimension

- Reduce the risk of constant re-introduction of infection.
- Reduce the risk of evolution of new and even more dangerous variants of a virus in non-EU populations that are still at risk.
- Avoid needless disruption to trading partners.
- COVAX is positive, but small in comparison to needs.
- Avoid counter-productive export restrictions that risk both retaliation and needless disruption to supply chains.
- The WTO Trade and Health initiative merits support.
- Continued diplomacy and goodwill are needed.

Thank you for your attention!

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