

# *Progress report on the implementation of the European Economic Recovery Plan<sup>1</sup>*

## **1. EXECUTIVE SUMMARY AND KEY DEVELOPMENTS**

***The recovery remains fragile. Continued stimulus is required until the recovery becomes self-sustaining ...***

*The impacts of the Union's co-ordinated action, notably through the European Economic Recovery Plan (EERP), are becoming visible. The risk of a financial meltdown and a downward economic spiral has been averted, but uncertainties remain, as unemployment and business insolvencies are still rising. In 2009, GDP is set to fall by about 4% in both the EU and the euro area. The nature and severity of the crisis differs greatly according to Member States' economic structure and situation prior to the crisis. Growth is forecast to turn positive in the second half of 2009, but will remain very weak for some time with a forecast of merely 0.7% growth in 2010. Implementation of the EERP, accompanied by a major monetary policy response and support to financial markets, has not only prevented economic meltdown, but helped stabilise the economy and allowed for a marked improvement in financial market conditions. The EU's external trade has also proved remarkably robust. With exports picking up by 17.1% in September 2009, it appears that the EU has been able to take advantage of the recovery in world trade from an early stage. However, prospects are still fragile, as demand in the economy is likely to remain weak. The withdrawal of fiscal stimuli should therefore be gradual and only start when the recovery has become self-sustaining.*

***Short-term measures to support the labour market have kept many people in jobs and prevented poverty. But unemployment is still rising...***

*The impact of the crisis is still being felt – particularly on the labour market. Unemployment typically lags behind developments in the real economy, and is forecast to reach 9.1% in 2009 and 10.3% by the end of 2010. Subsidised part-time working arrangements have been temporarily made available in many Member States, often backed up by re-skilling supported by the European Social Fund. These schemes have proved successful by keeping people in employment and in touch with the labour market. Actions to ensure early intervention and strengthened active labour market policies, as well as actions to reinforce life long learning and skills development, have also been taken in many Member States.*

*Furthermore, labour costs have been lowered (and demand boosted) in many Member States by reductions in social security contributions. Measures aimed at supporting households have*

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<sup>1</sup> The analysis in this paper is based, inter alia, on Member States' contributions, information gathered during recovery missions to all Member States, and the implementation reports submitted under the Lisbon Strategy.

*helped maintain the purchasing power of vulnerable groups, preventing poverty and social exclusion. Phasing out short-term measures will therefore require careful judgements and planning so as not to increase employment costs disproportionately and risk exacerbating unemployment levels. With the perspective of a significant transition to new jobs once the crisis is over, labour market institutions need to be made more conducive to such changes.*

***Public finances have deteriorated markedly ....***

*Public finances have been badly hit by the crisis. The average budget deficit in the EU was 2.3% of GDP in 2008, and is expected to increase to almost 7% of GDP in 2009 and to 7.5% in 2010. Worsening of the deficit can be explained primarily by the stimulus measures taken by Member States to support their economies, and by fast rising social protection expenditures required by a deteriorating economic situation. However, a substantial element is also explained by falling tax revenues as potential sources of taxation (such as asset prices and corporate profits) are eroded. The combined effect of the crisis on public finances means that the public debt ratio in the EU is expected to be around 80% of GDP by 2010, an increase of almost 20 percentage points compared to 2008. A combination of rising deficits and interest payments, low economic growth and an ageing population means that public indebtedness is likely to continue increasing, thus becoming a key policy challenge. Squaring the circle of ensuring sound public finances and investing in new sources of growth and social cohesion will therefore require careful judgements concerning the use of resources.*

***Member States' recovery measures are broadly in line with the principles set out in the EERP...***

*Overall, gross fiscal stimulus measures taken or planned by Member States amount to a total of 2.7% of GDP for 2009 and 2010 (compared to 2008). This represents a considerable increase compared to the 1.2% GDP foreseen in the EERP for the same period. Total budgetary support amounts to almost 5% of GDP in 2009, primarily as a result of significant social spending. An additional positive feature is that in line with EERP principles, the size of stimulus packages differs across countries, reflecting their individual circumstances. Member States with large macro-economic imbalances have little or no room for fiscal manoeuvre. In such cases stimulus measures have often been financed by off-setting consolidation measures, while in some countries measures have focussed on fiscal consolidation.*

*Recovery plans are generally being implemented speedily and are therefore timely, although some measures have only taken effect in the latter part of 2009. They have generally been well targeted to the policy areas identified in the EERP: around 39% of the stimulus has been directed towards supporting households' purchasing power (including vulnerable groups), 16% to supporting labour markets, 20% to investment activities, and 25% as support to businesses. Around two thirds of support measures are temporary, as many will automatically come to an end or have explicit sunset clauses, although some measures may be more difficult to reverse. Some Member States are also taking specific measures around the governance of recovery programmes, for instance by creating temporary, centralised structures with political oversight to both prioritise implementation of 'shovel-ready' projects and monitor their implementation carefully.*

*It is encouraging to see that private sector R&D and innovation expenditure has held up during the early period of the crisis. A majority of Member States maintained or even increased their public R&D budgets in 2009. These investments will no doubt contribute to*

*Europe's competitiveness in the medium to longer term, and it will be important to maintain this positive development.*

*The temporary state aid framework gave Member States the necessary flexibility to channel substantial funds to the worst-affected companies and sectors, while at the same time protecting the internal market from undue distortions of competition. Close co-ordination at the EU level has played an important part in ensuring positive spill-overs (for instance by facilitating the exchange of best practices) and continuing to avoid protectionist tendencies. As measures are phased out, due consideration should be given to potential impacts on the single market.*

***The response of Community-level instruments to the crisis has been rapid, flexible and substantial...***

*Accelerated spending through the EU budget of € 6.25 billion has provided support to Member States and regions, who are feeling the strain of severely constrained public finances, to accelerate implementation of Structural Funds programmes. The Funds have helped boost infrastructure development and have made a major contribution to retraining people and supporting social cohesion (through the European Social Fund). Almost 25,000 workers who lost their jobs in 2009 have been targeted for support from the European Globalisation Adjustment Fund (EGF). In addition, a vast increase in lending this year by the European Investment Bank (EIB) to the order of €25 billion and European Bank for Reconstruction and Development (EBRD) of the order of € 8 billion has supported access to finance, particularly for SMEs. The Commission has also launched three public-private-partnerships to support energy efficient buildings, green cars and factories for the future.*

*Following a proposal from the Commission, some € 5 billion of unspent resources in the EU budget has been reserved for investments in energy (€ 4 billion) and broadband infrastructure (€ 1 billion). The Commission is currently evaluating the energy projects submitted for co-funding. The Commission nevertheless regrets that only about one third of the potential funding available for broadband projects has been earmarked for this purpose.*

***Exit from the crisis should be combined with an active structural reform agenda ...***

*One of the key priorities of the EERP is to ensure that short-term crisis-related measures are compatible with longer-term reform goals, particularly to ensure the EU's transition towards an inclusive low-carbon, knowledge-based economy. Indeed, some of the short-term responses to the crisis even have desirable characteristics that can help achieve longer-term goals. Such features should therefore be retained even if actual crisis-related measures are phased out, for instance effective activation and skills policies (particularly for vulnerable groups) and improved job search and matching mechanisms.*

*Resources will therefore need to be channelled towards future-oriented areas such as education and skills, better reflecting labour market needs, research and innovation, environmentally friendly technologies, resource efficiency and renewable energy as well as smart infrastructure. This has been achieved to some extent, although the EU should compare its own efforts to those made by our trading partners, such as South Korea, the US and China, who are using their recovery plans to invest massively in 'greening' their economies.*

*Investments should be combined with an active structural reform agenda which helps to reduce the detrimental impact of the crisis on potential output, and hence ease the consolidation of public finances. Particular priority should also be given to reforms which are 'cost-free', such as cutting red tape to improve the business environment, and to up-front investments which will pay off in the medium- to long run, such as improving energy efficiency.*

*In the long run, investments and structural reforms designed to deliver an inclusive, smarter, greener and better connected economy with fairness, security and opportunities for all will help the EU to face up to longer-term challenges such as tackling climate change, as well as generating higher growth and more and better jobs.*

*The European Commission will present its proposals on the future strategy for Europe (EU 2020), which will replace the Lisbon Strategy for growth and jobs, in time for the 2010 Spring European Council.*

***The EU should continue to play a leading role in the G20 ....***

*Going forward, the EU should continue to play a leading role in the G20. The economic and financial crisis has brought about a permanent shift in global policymaking, in particular economic and labour market policy. Decisions taken at the G20 summit in Pittsburgh at the end of September have ushered in a new global surveillance process, the 'Framework for growth', which seeks to ensure sustainable and balanced global. The EU will contribute actively to the implementation of this new framework, although this will require stronger internal economic policy co-ordination, particularly within the euro zone.*

## **2. POLICY RESPONSES TAKEN BY MEMBER STATES**

### **2.1. National measures protecting jobs and people**

***Member States have introduced a large number of measures over the last year to reduce the impact of the recession on the income of households, to support the most vulnerable and facilitate their rapid reintegration into the labour market.*** These account for 39% of the budgetary support committed by Member States, while further measures to support labour markets represent a further 16%. Most measures are compatible with the agreed principles of being temporary, timely and targeted to those most in need of support as well as with the priorities set out by the Commission and the Member States in the *Shared Commitment for Employment*<sup>2</sup>. Measures to protect jobs and people are aimed primarily at maintaining viable jobs, reinforcing unemployment protection and other social benefits, strengthening activation and supporting labour demand and the purchasing power of households. Together with those measures aimed at improving job matching and investing in lifelong learning, they seem to have contributed positively to the stimulus effort. The Commission and the Member States have also prioritised helping young people to ensure they are not excluded from the labour market as a result of the crisis.

***Specific measures to support households:***

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<sup>2</sup> COM(2009) 257/3

- ***There have been a number of measures aimed at supporting vulnerable groups, although to different degrees and primarily through the unemployment benefit system and social assistance.*** Lowering taxes and extending benefit arrangements to groups not formerly covered has benefited large numbers of vulnerable households. The generosity of unemployment benefits was increased in AT, BE, BG, EL, IT and their coverage was extended in BG, FR, IT, PT, RO, while the conditions for having access to unemployment benefits were relaxed in SE and FI. While minimum wage levels were increased in BG, ES and LV, increases in the guaranteed minimum income and in the level of other means-tested benefits were approved in BE, BG, DE, FR, LU, UK. Some Member States have used the European Social Fund to ease labour market conditions, for instance by widening the application of unemployment benefits (IT) or bringing short-term benefits into line with current labour market conditions (DE).
- ***Tax rebates, exemptions or allowances for low-income groups are widespread*** (e.g. AT, BE, CY, DE, FR, LU, MT, PL). Specific measures were introduced to sustain low-income pensioners (BE, BG, EL, FR, RO, SE); to support heating/electricity costs (BE, EL, HU, IT); or to provide one-off payments (SI), in some cases targeted at specific items for the most vulnerable households (BG, EL, FR, IT). Some countries have taken measures to protect mortgage holders against repossession, to address over-indebtedness, or to create incentives for banks to give individuals access to credit, including people on low incomes (notably ES, FR, IT, PL, PT). Some Member States also adopted comprehensive social welfare packages (e.g. UK).

***Specific measures to support labour markets:***

- ***Short-time working (STW) schemes have contributed to avoiding mass layoffs.*** Some Member States have introduced new short term working schemes (notably CZ, HU, NL, PT, SI, SK), while others have extended the duration and/or the level of already existing ones (e.g. DE). Their coverage has been extended in BE, FR and IT to include employees on fixed-term contracts and in small companies. A few countries have relaxed the criteria for applying to the scheme, while in others stricter conditions have been imposed on firms. In order to maximise the employability of workers who have been subject to temporary unemployment or reduced working time, countries are increasingly encouraging in-work vocational training for affected workers (for instance, in the case of CZ short time working arrangements, training costs and a temporary wage supplement for those on training are co-funded by the ESF). More generally, although STW schemes are justified in times of crisis, the main risk is that they can inhibit necessary restructuring, and this calls for strict time limits and eligibility criteria.
- ***There has also been a widespread effort to improve job placement and invest in life-long learning.*** Upgrading skills and matching labour market needs is important for finding a job during the crisis, but particularly necessary to facilitating more and better employment when growth restarts. Countries have invested in enhancing and better tailoring the services provided by their public agencies, with a view to improving activation and easing labour market transitions (notably CY, DE, DK, EL, FI, FR, MT, NL, UK). Organisational mergers and / or intensified cooperation between employment and benefit services have been pursued in some Member States (DK, EE,

EL, FI, FR, HU, NL, SI), while others have established closer contacts with private employment services (e.g. AT, FR, NL) or social partners to better align training measures with the evolving needs of the labour market. The majority of interventions has been characterised by clear targeting to adequately respond to changing needs, with a renewed focus on supporting the re-integration into the labour market of recently laid-off workers and vulnerable groups.

- ***Many Member States have taken measures to support employment by reducing labour costs and reinforcing activation and mobility.*** The appropriate design of tax and benefit systems and their interaction with active labour market policies is a powerful tool in this respect. Lowering labour costs for both employers and employees already featured in medium-term reform programmes before the crisis. Income supplements and targeted in-work tax credits were reinforced notably in BE, NL, SE, SK, while incentives to step up labour mobility were also increased or re-introduced in AT, DE, LT, NL, SK. Some Member States also took measures to support female labour market participation (MT, NL). Member States have also taken specific measures targeted at youth, such as increased apprenticeships (FI, FR, UK), specific job subsidy schemes (BG, EL, FR, IT, UK) or an education and training guarantee (AT, DE). Rebates on social-security contributions for employers have typically been made conditional upon new hiring (BE, ES, FR, HU, PT, PL, SE, SK), often targeted to those most difficult to employ. In a few cases the measures have been directed towards sustaining employment in specific sectors or strategic activities (BE, ES, SE) or towards those most threatened by the crisis, i.e. low-skilled and low-paid workers (e.g. CZ).

### ***Preliminary assessment of impacts***

Labour market measures introduced (or intensified) since the crisis began have undoubtedly helped to limit the rise in unemployment and inactivity in the EU. The EU's crisis response has also built upon the positive results already achieved by the Lisbon Strategy. By developing policies in close cooperation with social partners, Member States have been able to support flexible work organisations, equip people with the skills and incentives to progress in their working lives, and provide adequate benefits to facilitate transitions. Short-time working has made a major contribution, due to its wide take-up and its generally positive impact. The targeted nature of these and other measures such as improving job placement contributes to improving the efficiency and effectiveness of labour market spending.

The up-take of benefits within existing systems has also had discernable impacts in terms of preventing substantial falls in the incomes of those worst affected by the crisis. However, Member States' capacity clearly differs in this regard, and the design and level of benefits should be properly defined in order to make work as attractive as possible for benefit recipients. Lowering taxes and extending benefit arrangements to groups not previously covered has impacted positively and rapidly on large numbers of vulnerable households, preventing many of those from dropping below the poverty threshold. The OECD expects these measures to have positive effects, stimulating both demand and employment.<sup>3</sup> The OECD also estimates that stimulus packages have saved between 3.2 and 5.5 million jobs amongst its

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<sup>3</sup> OECD Economic Outlook, No. 85, OECD Paris, 2009

members, with the EU possibly accounting for well over half of these. However, developments in labour markets typically lag behind the real economy by two or three quarters. It is therefore most likely that the full impact of the crisis has yet to hit our labour markets, in spite of a predicted return to slight growth in 2010.

*Two sets of challenges therefore arise for labour market policies:*

- ***temporary crisis related measures will need to be withdrawn in a timely and balanced manner:*** as the EU economy starts to emerge from the crisis, there will be a significant need to re-allocate jobs (e.g. an early intervention approach before actual redundancies take place) from the least competitive industries to new sources of growth. This will place a high premium on flexibility, secure transitions and skills matching in line with the flexicurity approach. Such measures will help to ensure that the economy remains stable as recovery becomes entrenched. Excessive delays in withdrawing temporary crisis-related measures should be avoided, since they could both impede the adjustment and recovery process and hinder the reallocation of resources, as workers remain attached to unviable jobs or have reduced incentives to work. However, this should be done in the context of wider reform strategies, taking into account differing labour market situations in the Member States and maintaining the desirable features of temporary measures that could support the achievement of long-term goals. Examples include those which achieve improved employability and job search and matching mechanisms.
- ***long-term labour market reform agendas, which were successful before the crisis, need to be renewed.*** Persistently high unemployment and inactivity, with potentially long lasting effects on both labour markets and potential growth, could threaten European models of social welfare, which are already coming under pressure from ageing populations. Addressing this challenge must be at the top of the labour market reform agenda. Unemployment should not be allowed to become structural. It will therefore be essential to continue investing in effective labour market measures and adequate social protection in line with the flexicurity approach. In particular this will involve supporting young people and those most affected by the crisis (via skills development, counselling and social protection safety nets), preserving jobs through internal flexibility, and improving the situation of people on non-standard contracts and the self-employed. On the demand side, the key will be to ensure continued support to businesses by facilitating start-ups and strengthening services to assist new entrepreneurs and companies.

## **2.2. National measures with a view to supporting business dynamism**

Member States have prioritised helping the worst-hit industry sectors and safeguarding a dynamic business environment in their EERPs. Measures supporting industrial sectors and business make up almost a third of overall measures introduced by Member States, and account for around 25% of the financial resources made available at both Member State and EU level.

***Measures aim to compensate for the decline in domestic and external demand, and to ease difficult credit conditions.*** Most Member States have kept in place the schemes introduced to support those sectors worst affected by the crisis (e.g. cars, tourism, construction), although

with considerable variation across Member States. So far, most measures appear to be temporary, targeted and timely.

- ***As the crisis started in the banking sector, all Member States took measures to improve access to finance for companies, particularly SMEs.*** Most Member States provided guarantees for investment credits, made particular efforts to support exporters with guarantees or credits (e.g. BE, BG, CZ, DE, DK, EE, EL, FI, LV, PT, SK) or extended guarantee schemes for SMEs. New initiatives such as the Credit Ombudsman (BE, FR) were also taken. IE, IT and FR undertook to speed up the payment of invoices by the government to the private sector, the UK government committed to pay all invoices within 10 days and FR undertook early reimbursement of fiscal debt. Some countries also lowered their corporate tax rates (CZ, SE, SI, PT). Further tax-related measures taken include the easing of depreciation rules (AT, CZ, DE, ES, FI, FR, LV, NL, PL, SK) and changes in VAT procedures (BG, DE, PT). Member States made use of the opportunities offered by temporary state aid measures and provided targeted assistance for sectors particularly affected by the crisis (EL, ES, IE, MT).
- ***Specific sectoral support schemes were, first and foremost, addressed to the worst hit sectors.*** Among the sector-specific support for demand, car scrapping schemes represent a substantial effort where 13<sup>4</sup> Member States have so far implemented recycling and recovery schemes to boost demand. These measures are temporary and, in some cases, make support conditional upon the purchase of new or nearly new vehicles that should be less polluting. However, only a few schemes have linked scrapping to low CO2 emissions (CZ, FR, PT, LU, ES, IT). DE and AT have implemented favourable conditions for the purchase of cars with higher environmental standards. Moreover, depending on the specific situation in the Member States, some took further sector-specific initiatives, e.g. AT, CY, MT, EL for tourism, FI, EL, RO for construction and IE for the property market.
- ***Better regulation and the reduction of administrative burdens help to improve the business environment at low budgetary cost.*** Several Member States included such non-budgetary measures in their recovery programmes, for instance easing tax procedures (PT, SK), insolvency laws (CZ, ES, LV) and public procurement rules (DE, LV, RO) and also liberalising of regulated markets (MT). Several Member States have made particular efforts to implement the Small Business Act (e.g. BE, ES, FR, UK, IT, IE) while most have adopted measures in at least one of its priority areas. For instance, one-stop shops for businesses were established in 18 Member States. Some Member States also took encouraging measures to strengthen competition (SE, ES). While measures taken under a *Shared Commitment for Employment* primarily concern labour markets (see section 2.1), it should also be noted that PT mobilised the European Social Fund to support entrepreneurship.

## **Preliminary assessment of impacts**

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<sup>4</sup> [http://ec.europa.eu/environment/integration/recovery\\_plan.htm](http://ec.europa.eu/environment/integration/recovery_plan.htm)



There can be no doubt that the measures detailed in this section have helped enterprises during a difficult time. Financing needs were generally relatively low during the first months of 2009 as demand slumped, with some planned infrastructure projects delayed due to financing problems. Access to finance is therefore likely to become an even more important issue during the first months of the recovery, and Member States should continue their efforts in this respect. Reducing administrative burdens and improving regulation can generally be expected to have a positive long-term impact on the business environment.

While most Member States have kept in place the horizontal frameworks introduced to support sectors worst affected by the crisis, there is considerable variation across Member States in terms of the support actually provided and the effectiveness of national schemes. An EU-wide approach to introducing support measures has nevertheless successfully avoided protectionist tendencies. Going forward, it will be important to phase out short-term measures in a timely and appropriate manner, paying due attention to the correct function of the single market. Furthermore, restoring credit flows to the corporate sector will be a necessary condition for the recovery to take hold.

### **2.3. Measures to support action on climate change, energy and infrastructure**

*Private investment has been hit particularly hard in the current economic climate. It is therefore welcome that public investment has formed a significant part of Member States' policy responses.* Overall, public investments are forecast to increase in the EU by around 3% both in 2009 and 2010, higher than the average growth rate of 2.5% in previous years. The growth of public investment decreased in only a handful of Member States compared to 2008, including IE and LT. Although new or accelerated spending on public investments<sup>5</sup> represents around a third of the EERP fiscal stimuli, measures which stimulate investments in energy efficiency only account for around 10% of the total EERP package.

*In line with the EERP, Member States have supported investments, often by accelerating existing projects.* Although there are few indications of a substantial shift towards green investment, the emphasis on energy efficiency (primarily of buildings) is welcome and significant. This suggests that the EERP will have some longer-lasting benefits in terms of the climate and energy agenda. The scope and design of measures are broadly in line with the approach set out in the EERP and with the priorities of the Lisbon Strategy.

- *Practically all Member States took measures to support physical infrastructure, notably transport infrastructure, and often by accelerating existing projects wherever possible.* DK frontloaded 5% of its long-term Green Transport Infrastructure Investment Plan (2009-2020), while SE increased its infrastructure budget by 10% in 2009 and an additional 16% in 2010. However, some planned infrastructure projects had to be delayed due to financing problems in the crisis. Many Member States have invested in their rail infrastructure, while spending is also foreseen for municipal public services such as urban regeneration (DE). Member States have put in place new framework conditions in support of infrastructure, for instance PL simplified the procedures for infrastructure investments, while some Member States

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<sup>5</sup> Including R&D – see section 2.4.

(DE, MT, NL, UK) have undertaken investments in water infrastructure, e.g. for flood defences or water supply efficiency. In DE, the government announced initiatives to strengthen competition in the energy and railway sectors.

- *Almost all Member States implemented measures to enhance energy efficiency as part of their crises responses, although general efforts to integrate long-term climate and energy objectives vary considerably.* FR, SE and MT have set out comprehensive political strategies on how to respond to climate change, while SI undertook administrative changes to the relevant institutional structure. Some of the largest recovery packages (e.g. DE) gave a prominent role to energy efficiency in short-term recovery actions. On the other hand, the limited 'greening' of recovery responses means that the environmental outreach of these measures could be limited to segments of national markets. CZ provides interesting practice in terms of accelerating EU-funded projects to increase efficiency, while IE and PT have taken particular steps to promote the installation of smart metering. Some Member States have aimed specifically at the development of renewable energy sources, mainly solar (DK, FR, HU, IT, MT, PT, SK), wind (EE, FI, HU, IE, MT, NL, PT, UK) or biomass (CZ, HU, LV, SK). Further actions aimed at increased energy efficiency include revising electricity tariffs (ES, MT, NL). Finally, more than half of the Member States have identified new fiscal instruments in their plans, both taxes on environmentally harmful activities and fiscal incentives for green behaviour.

### **Preliminary assessment of impacts**

Greening is taken up in most national recovery plans, although to a very different extent. Not all public infrastructure projects are linked to the greening of the economy, and overall there are few indications of a substantial shift towards green investment. Some measures to promote energy efficiency have been particularly successful. For instance, funding of €100 million provided by AT for increasing the energy efficiency of buildings via low-interest loans led to an estimated seven-fold total investment, with an attendant reduction of 5.3 million tons of CO<sub>2</sub> emissions. It should be pointed out that in other Member States the provision of strong incentives could have led to a quicker uptake.

'Green' investments can help to stimulate growth by presenting new business opportunities and creating jobs. For example, IE estimates that its Sustainable Energy Programme will create significant additional employment, while NL forecasts that its energy saving in housing projects (amounting to €277.5 million) could result in the creation of 20,000 jobs in 2009-2010.

Although most Member States have taken measures to increase public investment in infrastructure, the impact of many such investments will only be felt in the longer term. Many Member States have accelerated existing projects. Some Member States show particularly rapid absorption of funds, e.g. DE, where about half of the funds available for infrastructure in the second recovery package (€17.3 billion) have already been allocated to projects.

### **2.4. Measures to support research, development and innovation**

*Research, development and innovation policies are instrumental to increasing Europe's productivity growth and improving its medium term competitiveness position.* Private research and development (R&D) expenditure has increased in recent years. Policies to enhance companies' access to finance will be key to ensuring that this trend continues post-

crisis. Encouragingly, the public sector shows little sign of rolling back of existing R&D programmes. Measures to support knowledge and innovation also form an important part of the structural reform agenda under the Lisbon strategy.

- ***Many Member States have protected or increased public resources for R&D and innovation.*** Ten Member States (AT, CZ, DE, ES, FI, FR, NL, PT, SI, SK) have planned an increase of their public R&D budgets in 2009, while six Member States plan further increases for 2010 (DE, FI, LU, PT, SE, UK). The majority of Member States have taken or reinforced measures to promote private R&D, relying on a wide range of instruments such as grants, tax incentives or depreciation schemes, while public-private partnerships in key sectors were launched by 19 Member States (although not necessarily as a direct crisis response).
- ***Most recovery plans include measures to encourage eco-innovation, such as promoting fuel efficiency or electrical and hybrid cars.*** Although most measures are of a horizontal nature and therefore not sector-specific, some notable exceptions include the automotive industry (CZ, DE, DK, ES, NL, SE, SI, UK), green transport infrastructure (DE), clean energy innovation (ES, IE, NL, SK), nanotechnology (ES, PT), and broadband internet (FI, PT, SE, SI). A number of Member States improved governance and their regulatory framework for R&D and innovation: five Member States (AT, DK, FR, LU, SE) adopted revised innovation strategies, while DK and NL have broadened their innovation policy. Finally, two Member States (DK, IT) reinforced IPR protection.
- ***A joined-up approach to innovation.*** Member States appear to recognise the importance of strong connections between all sides of the knowledge triangle: business, research and education. Six Member States (BE, LT, LU, LV, PT, SI) took measures to enhance links between private business and research institutions, while eight (BG, CZ, EL, HU, LT, PL, RO, SK) are in the process of modernising and restructuring their public research sector, with a view to improving its efficiency. Some Member States adopted measures to improve university and research infrastructure (DE, EE, ES, FR, MT, NL, SI), while a noteworthy scheme introduced in NL encourages the secondment of temporarily redundant private R&D personnel to public institutions.

### **Preliminary assessment of impacts**

Both public and private levels of innovation expenditure appear largely to have held up in spite of the crisis, with many Member States even planning to increase their public budgets. Some Member States (e.g. DE, UK) have also introduced specific investment funds to boost private spending on innovation. R&D spending and support to private innovation has undoubtedly contributed to an accelerated post-crisis recovery, raising the research investment ratio in the EU. Continued implementation of the European Research Area (ERA) policy agenda will be particularly important to the recovery, given the emphasis the ERA places on opening up national research systems (both within Europe and to the rest of the world), increasing mobility of researchers and research efficiency. Significant actions will therefore include setting up pan European Research infrastructure, coordinating research programmes and opening the ERA to the world.

### 3. OVERVIEW OF COMMUNITY LEVEL POLICY RESPONSES

***Supporting the financial sector and facilitating framework conditions.*** Member States have acted swiftly to support their banking systems, through guarantees and recapitalisation. Since October 2008, the Commission has approved a total of € 3.7 trillion of financial support measure in accordance with the State Aid measures (equivalent to almost a third of EU GDP), of which € 1.5 trillion has so far been granted. Of this total, € 940 billion worth of debt guarantees have been granted, accounting for the largest part of the support. Another € 270 billion has been effectively used for liquidity and banking support, approximately € 200 billion for effective recapitalisation, and about € 89 billion for impaired asset relief. This has been carried out in a coordinated fashion, following guidelines issued by the Commission.

***EU institutions are working in partnership to stimulate the European economy.*** The EU is enabling the rapid disbursement of funds to help those worst hit by the crisis and promoting smart investments in an inclusive, low-carbon, knowledge-based economy. The EU has taken action to simplify and accelerate the use of Structural and Cohesion Funds, and has revised the European Globalisation Adjustment Fund (EGF) to enable more rapid interventions. The European Investment Bank (EIB) has also played a crucial role in providing additional funding opportunities. A preliminary assessment can already be made of the impacts of these EU-level actions:

- In 2009, the EU made significant advance payments from the Structural Funds,<sup>6</sup> allowing more money to be spent rapidly on priority projects. Total advance payments of € 11.25 billion have been approved for 2009. This includes € 5 billion of advance payments already foreseen for 2009, plus a further € 6.25 billion as a crisis response measure. Of this total, ESF advances for 2009 amount to approximately € 2.4 billion. While 8 Member States have changed their ESF programmes to include specific crisis response measures, many more have adapted their schemes to increase the pace and volume of advances to both public and private beneficiaries or to reach out to specific groups at risk. In addition, the Commission frontloaded € 500 million originally foreseen for the coming years under the TEN-T programme, leading to individual grant decisions in 2009.
- Applications to mobilise the EGF quadrupled between 2008 and 2009, while its scope has been expanded to cover redundancies directly resulting from the economic crisis. Almost 25,000 redundant workers have been targeted for EGF support so far in 2009.
- In response to the financial crisis, the European Bank for Reconstruction and Development (EBRD) raised the level of its investments to € 8 billion in 2009 (compared to a delivered business volume of € 5.1 billion in 2008) in order to help mitigate the impact of the crisis in the countries where the EBRD operates.
- The EIB committed to lending a total of € 70 billion in 2009, representing an increase of € 25 billion compared to 2008. Total confirmed lending activity in 2009 stands at € 55 billion to date. Lending is focused particularly on supporting SMEs and the energy, climate change and infrastructure sectors. The EIB also expects loan approvals

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<sup>6</sup> The European Social Fund (ESF) and European Regional Development Fund (ERDF).

for the automotive sector to reach slightly more than €10 billion in 2009, much more than originally foreseen at the launch of the EERP.

- The EIB has set up the Marguerite Fund, a public-private equity fund, which aims to invest € 1.5 billion in Member States' environmental, energy and transport infrastructure over the next 20 years.
- The Commission has presented a new initiative providing micro-credits for people who have lost their jobs and want to start their own business. The scheme is due to operate in conjunction with the EIB and other financial institutions. By leveraging approximately € 500 million, it aims to make loans of up to € 25,000 available to people normally denied access to finance.
- The European Parliament and the Council agreed to fund major energy and broadband infrastructure projects amounting to a total of €5 billion. Calls for proposals for key energy projects worth around €4 billion were launched in May 2009, covering energy interconnections (€ 2.4 billion), offshore wind energy (€ 565 million) and carbon capture and storage (€1.1 billion), while funding of €1 billion was earmarked to help rural areas get broadband internet access, create new jobs and help businesses to grow. Disappointingly however, only around 35% (by value) of the available funding is currently devoted to high-speed internet investments.
- Public-private partnerships (PPPs) are an important source of smart investments. The EU budget has therefore contributed around € 1.5 billion for three significant PPP initiatives: *Factories for the future*, *Energy efficient buildings* and *European green cars*. The Commission aims to ensure rapid start-up, and calls for proposals were launched in summer 2009 for all three partnerships. The first research projects are expected to start in the spring of 2010.<sup>7</sup>

#### **4. RECOVERY MEASURES TAKEN BY THE EU'S INTERNATIONAL PARTNERS**

*The EU was among the first of the G20 members to develop a comprehensive recovery package.* The G20 has been instrumental in seeking globally coordinated solutions to a global economic and financial crisis. A common Global Recovery and Reform Plan was agreed at the London Summit in April 2009, the focus of which includes creating growth and jobs, and building an inclusive, green and sustainable recovery. The agreement provides over \$1 trillion to the world economy. In September 2009, the G20 summit in Pittsburgh agreed on a major new global framework for economic policy, which aims to combine balanced and sustainable growth with commitment to a collective surveillance process.

According to IMF calculations, the stimulus measures of G20 members will enhance GDP growth by a weighted average ranging between 0.4% and 1.3% in 2009, and by between 0.1% and 0.3% in 2010. At the Pittsburgh Summit in September, the G20 leaders reconvened and underlined their continued commitment to cooperating for economic development and prosperity, and to combating protectionism. In spite of the EU's effective role – via the G20

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<sup>7</sup> Commission Communication on Public Private Partnerships, 19 November 2009 - [COM\(2009\) 615/4](#)

and WTO – in preventing a worldwide protectionist spiral, a recent Commission monitoring report<sup>8</sup> nevertheless identified 223 potentially trade-restrictive measures that have been taken by our trading partners over the past year. However, this has not prevented the EU from securing other trade policy successes in parallel, such as initialling a Free Trade Agreement with South Korea. In the context of global efforts towards economic recovery, it is therefore imperative that temporary, crisis-related trade restrictions are removed in a timely manner.

***Although other recovery programmes have similar objectives, the EU is leading in terms of employment outcomes.*** Many other global players have prioritised social protection in their recovery plans, for instance Japan lists employment protection as a key priority in its third stimulus package, which amounts to around \$150 billion of national government expenditure. In addition, Russia will spend almost three quarters of its 2010 national budget, and a further \$ 23.99 billion from its crisis response package, on social welfare. However, the OECD estimates that the EU has saved more jobs than any of its international partners. The significant element of social protection measures in the EERP has undoubtedly had a positive impact in this respect. In spite of the EU's leadership in terms of safeguarding jobs, the GDP growth of our international partners is nevertheless expected to outstrip the EU's predicted 0.7% growth in 2010, ranging from 1.1% in Japan, 2.2% in the United States, 2.3% in Russia and up to 9.6% in China.

***However, the most pervasive trend among competitor countries is the tendency to invest in greening their economic recovery, in many cases to a greater extent than the EU.*** Investment in infrastructure appears to be a major priority for many major global players, representing the main focus of both China and India's recovery plans. In some cases this represents a focus on renewable energy and improving the efficiency of existing systems, such the United States, which has invested some of its \$787 billion total package in developing 'smart' grids which can integrate renewable energy. China has also committed to investing around a third of its recovery package € 400 billion recovery package in environmental projects, while Japan has included subsidies for energy-efficient purchases as part of its stimulus.

South Korea's investments in environmentally-friendly measures and green technology account for 80% of its \$ 38.1 billion recovery package, with a total investment commitment of \$ 85 billion over 5 years. The 'Green New Deal' focuses on green growth, and includes a variety of projects to reduce emissions and develop technologies such as solar cells, hydrogen fuel cells, wind energy and LED production. Further efforts to promote the green economy include the purchase and installation of renewable energy products for state-led projects, and an intensification of certification standards for solar technology. Financing is planned in stages in order to avoid creating unsustainable 'bubbles' in the relevant industries.

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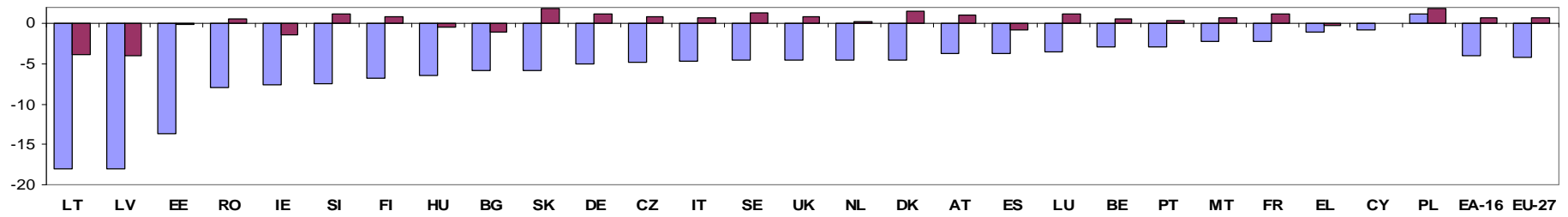
<sup>8</sup> Fifth report on potentially trade restrictive measures in the context of the global economic crisis, European Commission, November 2009

**Table 1: Overview of discretionary stimulus in EU Member States**

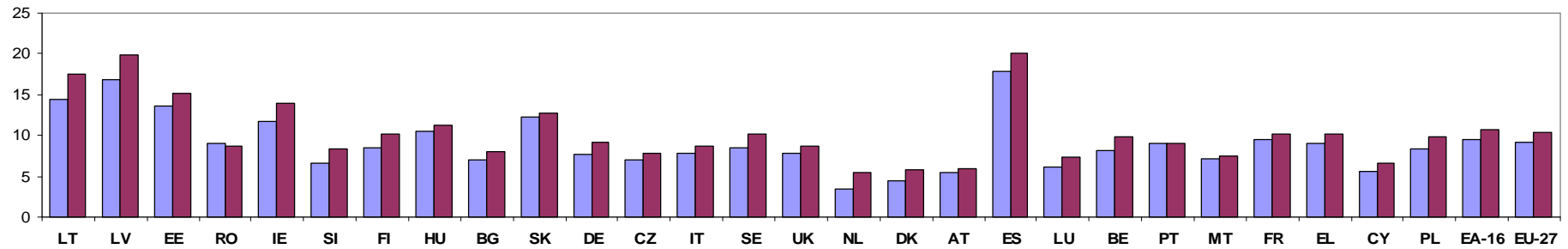
Fiscal policy														
Change in fiscal balance (aggregate over 2008-10) <sup>1)</sup>	Discretionary stimulus in 2009 <sup>2)</sup>						Consolidation measures in 2009	Discretionary stimulus in 2010 <sup>2)</sup>						Consolidation measures in 2010
	Overall (gross terms)	Out of which,						Overall (gross terms)	Out of which,					
		measures aimed at households	increased spending on labour market	measures aimed at businesses	increased investment expenditure	measures aimed at households			increased spending on labour market	measures aimed at businesses	increased investment expenditure			
	p.p. change	in % of GDP	in % of GDP	in % of GDP	in % of GDP	in % of GDP		in % of GDP	in % of GDP	in % of GDP	in % of GDP	in % of GDP	in % of GDP	
BE	-4.6	1.2	0.4	0.2	0.2	0.1	0.1	1.2	0.5	0.4	0.0	0.1	-0.6	
BG	-3.0	0.1	0.0	0.0	0.0	0.0	-3.3	1.0	0.4	0.6	0.0	0.0	-3.3	
CZ	-3.4	2.3	0.7	0.6	0.7	0.4	-0.7	1.4	0.7	0.0	0.6	0.0	-1.2	
DK	-8.2	0.5	0.0	0.3	-0.1	0.0	0.0	1.5	0.0	1.0	0.1	0.0	0.0	
DE	-5.0	1.8	0.6	0.2	0.5	0.4	0.0	2.5	1.3	0.3	0.4	0.5	0.0	
EE	-0.4	0.4	0.0	0.4	0.0	0.0	-8.8	1.6	0.0	0.9	0.0	0.8	-7.9	
IE	-7.5	0.7	0.4	0.0	0.2	0.0	-4.8	0.9	0.4	0.1	0.3	0.0	-6.5	
EL	-4.6	0.2	0.1	0.1	0.0	0.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	
ES	-6.0	2.3	0.5	0.1	0.8	0.9	-0.3	0.8	0.2	0.0	0.1	0.5	-0.9	
FR	-4.9	0.9	0.3	0.1	0.3	0.2	0.0	1.1	0.3	0.0	0.8	0.1	0.0	
IT	-2.6	0.7	0.2	0.2	0.3	0.0	-0.9	0.5	0.0	0.2	0.2	0.1	-0.5	
CY	-6.6	2.2	0.9	0.0	1.4	0.0	0.0	1.0	0.7	0.0	0.3	0.0	0.0	
LV	-8.1	1.8	1.7	0.0	0.0	0.0	-4.5	0.5	0.3	0.0	0.2	0.0	-8.4	
LT	-5.9	0.0	0.0	0.0	0.0	0.0	-8.7	-0.1	0.0	-0.1	0.0	0.0	-14.0	
LU	-6.7	2.4	1.5	0.3	0.3	0.2	0.0	2.2	1.4	0.0	0.5	0.3	0.0	
HU	-0.5	0.5	0.0	0.5	0.0	0.0	-0.7	2.1	0.0	2.1	0.0	0.0	-2.2	
MT	0.3	1.6	0.0	0.2	0.5	1.0	-1.8	1.3	0.0	0.3	0.4	0.5	-2.1	
NL	-6.8	1.3	0.2	0.2	0.3	0.3	-0.2	1.4	0.2	0.2	0.2	0.4	-0.1	
AT	-5.0	1.4	1.1	0.3	0.0	0.1	0.0	1.7	1.3	0.3	0.1	0.0	0.0	
PL	-3.8	2.2	0.0	1.0	0.2	1.1	-1.5	2.7	0.0	1.0	0.1	1.6	-0.3	
PT	-5.3	1.0	0.2	0.2	0.2	0.4	0.0	0.3	0.2	0.0	0.1	0.0	0.0	
RO	-1.2	1.9	0.2	0.1	1.6	0.0	-4.2	0.1	0.0	0.1	0.0	0.0	-9.8	
SI	-5.2	2.4	0.0	0.2	1.9	0.3	-1.1	0.5	0.0	0.4	0.1	0.0	-1.1	
SK	-3.7	0.4	0.2	0.1	0.0	0.1	-0.5	0.5	0.3	0.1	0.1	0.1	-1.1	
FI	-9.0	1.4	1.0	0.0	0.2	0.0	0.0	2.1	1.5	0.0	0.5	0.1	-0.1	
SE	-5.8	1.0	0.2	1.0	-0.2	0.0	0.0	2.1	1.2	1.0	-0.1	0.0	0.0	
UK	-7.8	1.7	1.3	0.1	0.3	0.0	-0.1	0.7	0.4	0.2	0.1	0.0	-0.6	
EU27	-5.2	1.4	0.5	0.2	0.3	0.3	-0.4	1.3	0.5	0.2	0.3	0.3	-0.5	

Notes. 1) Commission services' Autumn forecast 2009. 2) The numbers refer to the sum of the budgetary amounts of the expansionary stimulus measures, taken or planned to be taken over 2009/2010, compared to 2008, in response to the crisis and in line with the EERP. Consolidation measures are presented separately. Source: Commission services database on recovery measures.

**Graph 1: GDP growth EU Member States 2009 and 2010**

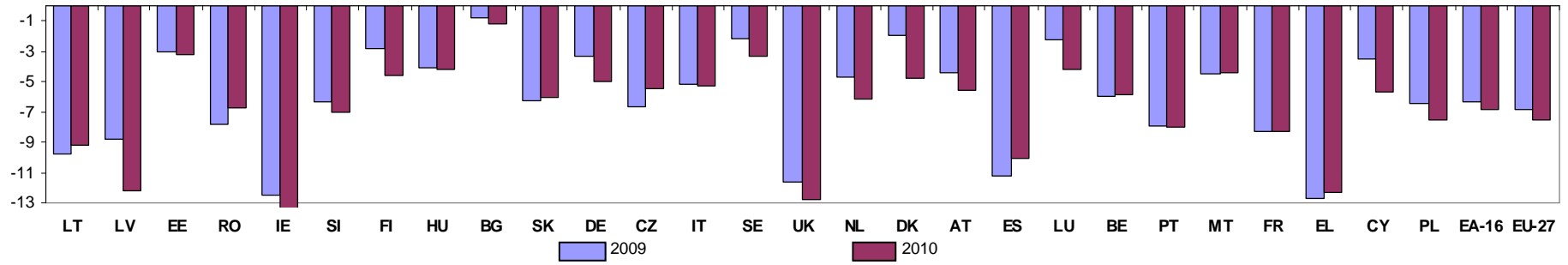


**Graph 2: Unemployment rate EU Member States 2009 and 2010**





**Graph 3: Budget balance EU Member States 2009 and 2010, % of GDP**



Source: Commission services' Autumn forecast 2009