

The EU's response to support the real economy during the economic crisis: An overview of Member States' recovery measures

The current financial and economic crisis is the most severe of its kind experienced in several generations. It has impacted the real economy in the European Union through tighter credit conditions, collapsing confidence, and a sharp contraction in global demand and trade. This has led to a slump in investment activity and a sharp drop in output and capacity utilisation, particularly in manufacturing and construction. The depth and global nature of the crisis poses a threat to otherwise viable and competitive businesses. It could lead to massive wasteful labour shedding and the destruction of technological know how and human capital. It could leave the most vulnerable groups of the population particularly exposed. To counter these pernicious effects of the crisis the European Union has taken strong action under the European Economic Recovery Plan (EERP), encompassing financial rescue packages, fiscal stimuli, temporary support to hard-hit sectors, and targeted support to vulnerable groups. This paper provides a preliminary assessment of the adequacy of Member States' recovery plans supporting the real economy—labour markets and vulnerable groups; investment; and businesses (it does not cover financial sector support measures). It looks in particular at the time-consistency of the short-term measures designed to avert major dislocations of economic activity and assesses the compatibility of the short-term crisis response with the European Union's long-term policy objectives under the Lisbon strategy. The main finding is that the European Union's response to the crisis is strong and, at the current juncture, appears adequate and that measures being pursued under Member States' recovery plans are for the most part in line with the principles and guidelines enunciated in the EERP. However, investment support, while including a substantial element on energy efficiency, does not seem to represent a significant push toward the low-carbon economy. There continues to be scope for learning from good practices pursued by several Member States, particularly in the area of labour markets where measures may need to be stepped up, if presently forecast increases in unemployment are confirmed. Business support measures may require closer EU-level co-ordination, particularly where they are targeted at specific sectors. Finally, exit strategies from these measures are mostly missing and should be developed.