

strategy&

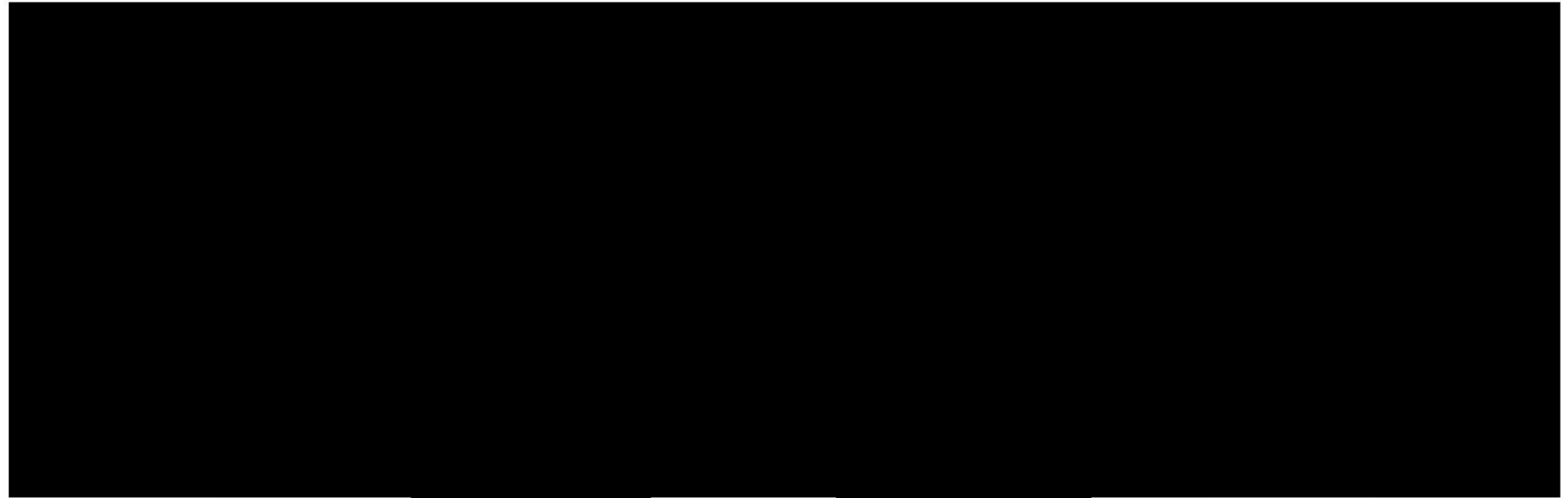
The Road to Recovery

Considerations for a strong and resilient European Union

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A quick personal introduction first ...



[redacted]@pwc.com

[redacted]@pwc.com

[redacted]@pwc.com

[redacted]@pwc.com

Current uncertainty about global vaccination scale-up hint at a more severe economic impact, also for the EU

Evaluation of economic impact per scenario



38% of economists expect that it takes until 2023 or later for EU economies to return to pre-crisis levels of economic output

*Clemens Fuest, President of the Ifo Institute –
August 2020 survey¹⁾*

Effective vaccines



- The availability of one or more effective vaccines will fuel **U-like** economic recovery
- Once critical threshold of vaccinated people reached, **no further social distancing measures** needed
- **Fastest** economic recovery (with no mutations and a reliable supply chain)

Mutations and measures



- Repeated mutations and hampered supply chain leads to **W-like** economic recovery
- Governmental strategy **determines direction** towards repeated lockdown (herd immunity as alternative)
- **Longer** time horizon till full economic recovery

Mutation and supply chain chaos

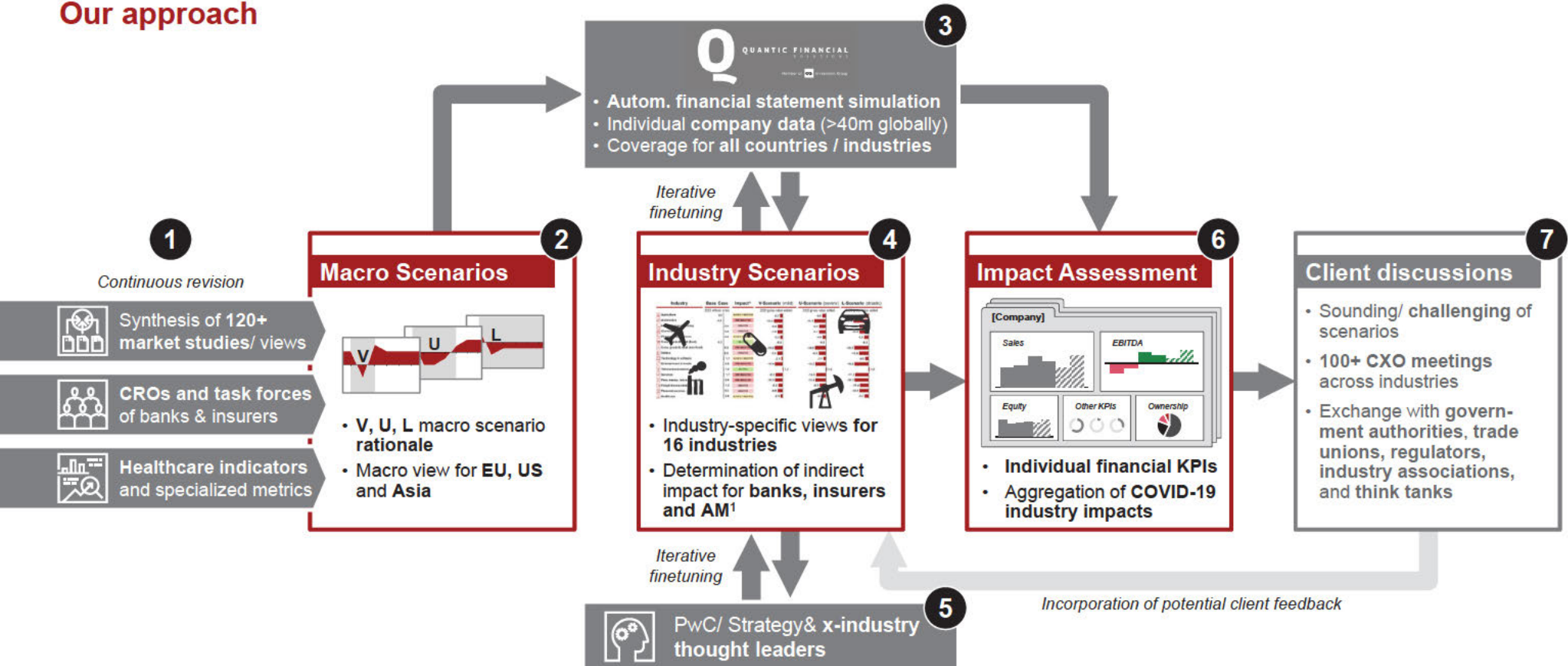


- Repeated mutations and non-functional supply chain lead to **heavily stretched** **V-like** economic recovery
- Uncertain extent of economic risk while homogeneous **COVID-19** spread impacts all industries (herd immunity as trajectory)
- Recovery horizon **not foreseeable**

Who suffers how much?

We assess the COVID-19 impact across industries


















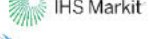








Our approach



1) Asset managers, incl. real estate asset managers
Source: Strategy& analysis

Scenarios are continuously re-evaluated according to market views – substantial GDP contraction in all scenarios

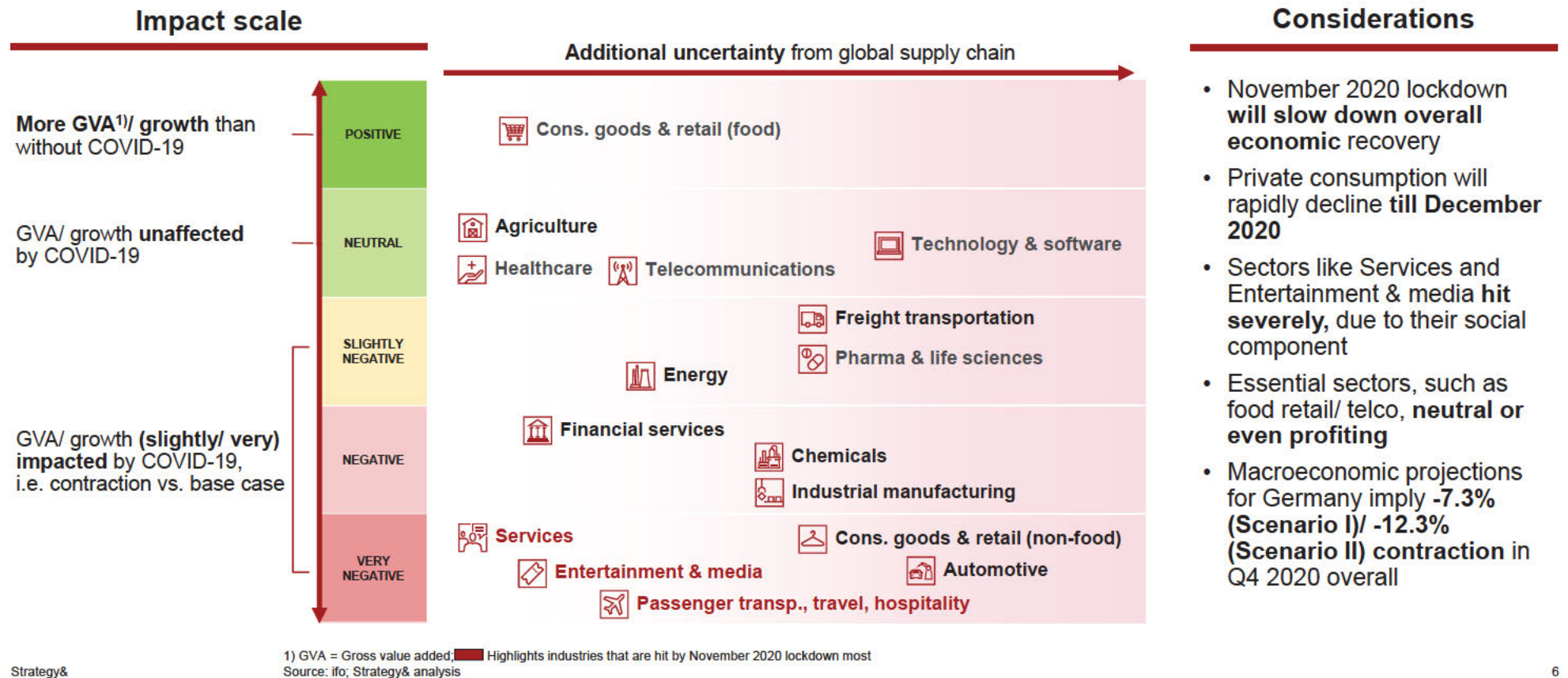
Scenario parametrization (GDP focus) - our synthesis of market views

		Actual				Base (no COVID-19)			Effective vaccine			Mutations and measures			Sources (excerpt)
		2019	2020	2021	2022	2020	2021	2022	2020	2021	2022	2020	2021	2022	
	GDP Growth (%)	6.1	5.7	5.5	5.4	1.2	11.0	5.3	-0.9	4.1	7.8				                  
China															
	GDP Growth (%)	1.3	1.0	1.3	1.3	-9.2	5.0	3.7	-9.7	3.5	2.6				
EU ¹⁾															
	GDP Growth (%)	0.6	0.9	1.6	1.6	-6.9	4.2	3.1	-7.5	2.8	2.0				
Germany															
	GDP Growth (%)	6.1	7.0	7.3	7.3	-2.6	7.7	6.2	-3.5	5.2	2.1				
India															
	GDP Growth (%)	0.5	1.8	1.7	1.8	-4.9	3.5	2.1	-6.0	3.2	1.4				
KSA															
	GDP Growth (%)	1.3	1.4	1.8	1.5	-10.1	6.1	3.9	-11.0	4.2	3.1				
UK															
	GDP Growth (%)	2.0	2.0	1.9	1.8	-8.1	5.1	4.3	-8.9	4.3	3.9				
USA															

Further Parameters: Unemployment rate, Consumer Price Index, USD Exchange Rate, Long-Term Bond Yields, National Stock Index, Oil Price, Gold Price

November 2020 lockdown will further hamper economic recovery; industries differentially impacted

COVID-19 impact by industry and effect of November 2020 lockdown

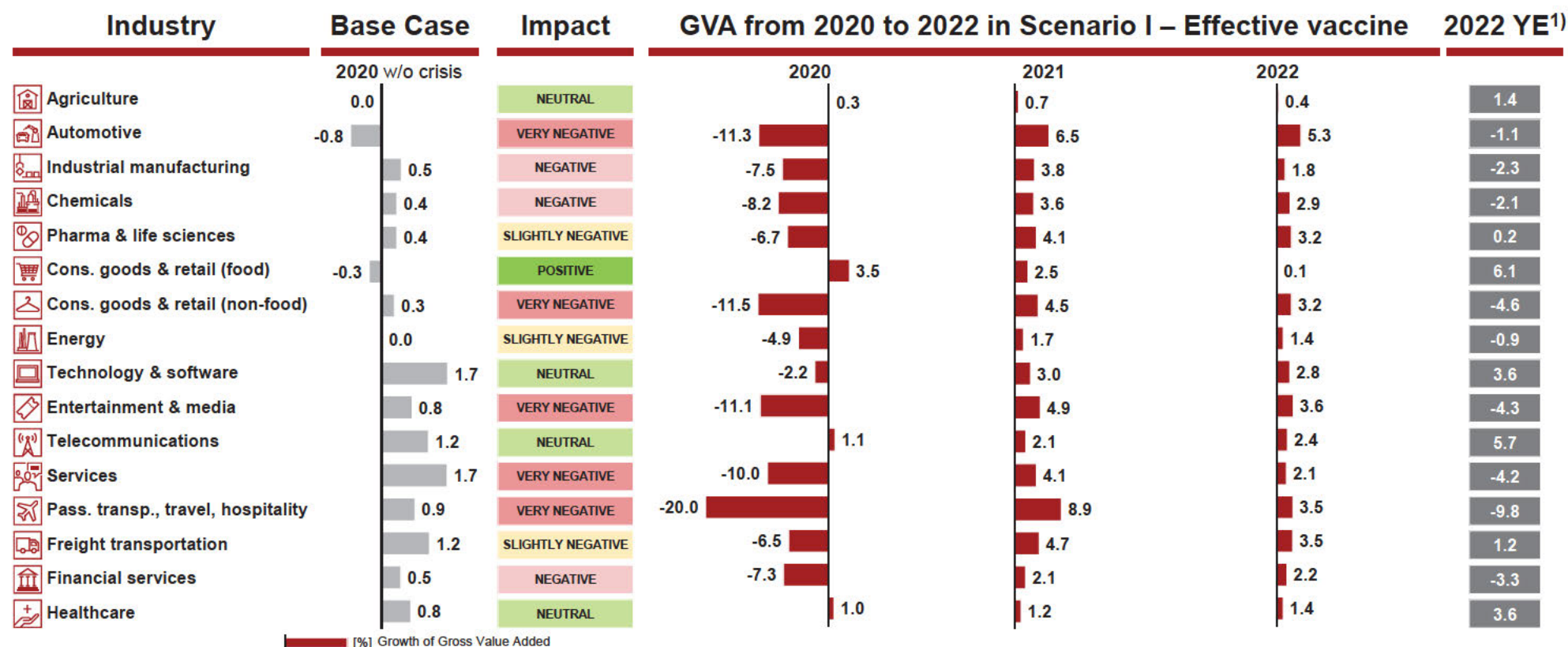


Strong GVA contraction across industries till 2022 expected; pre-COVID levels only partially restored

Impact on industries (Gross Value Added %)



Germany

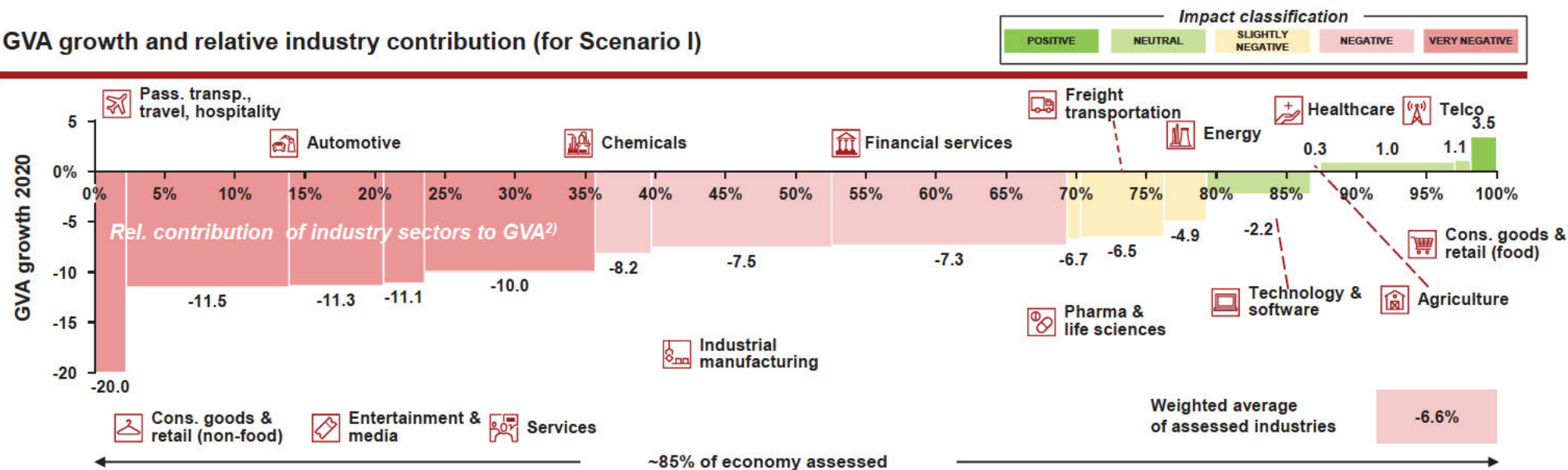


Negative GVA growth predicted for nearly all industries; Cons. goods & retail (non-food) and automotive strongly hit

Industry trajectories (2020)



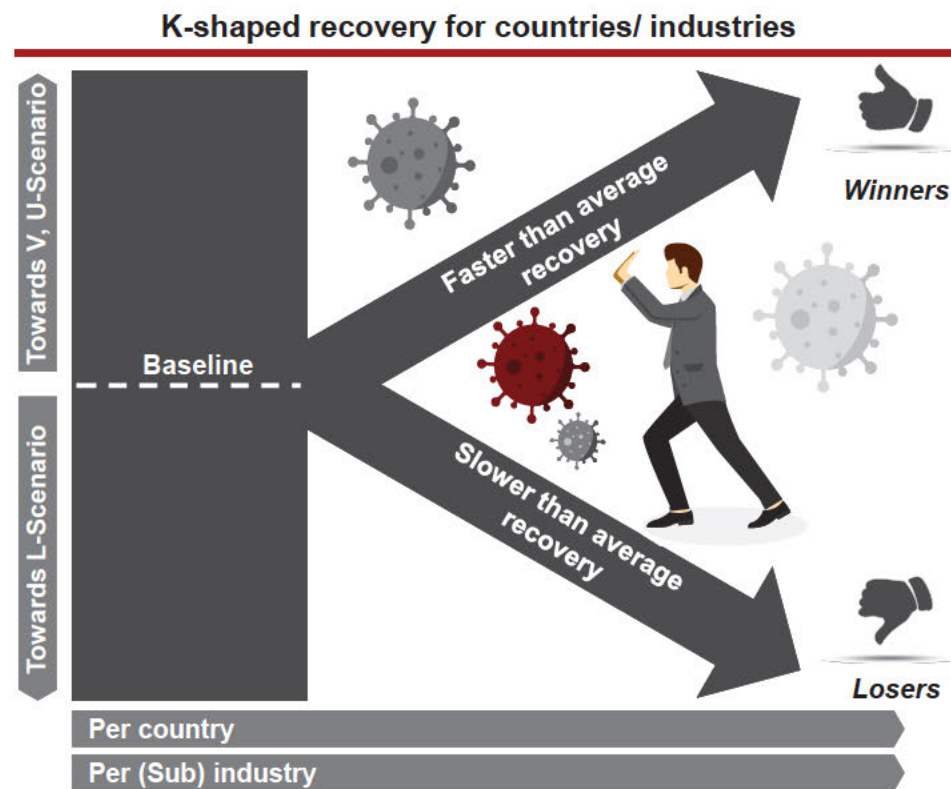
GVA growth and relative industry contribution (for Scenario I)



- Severe economic impact on large scale contributors on GDP (Services, Automotive, Cons. goods & retail (non-food))
- Only Cons. goods & retail (food), Telecommunications, Agriculture as well as Healthcare as contributors in the positive spectrum

10 months into the pandemic, winners and losers among countries and industries become evident: a K-shaped recovery

K-shaped recovery



Important take-aways

Baseline

- COVID-19 pandemic **imposes similar stress** on all countries/ (sub)industries by a large
- Healthcare systems and cultural differences differ on **country level**, while performance **differs between (sub)industries**

Winners

- Countries **with more efficient governmental regulations** and medical system
- (Sub) industries **not severely impacted** by lockdown and government restrictions or profiting from changed client behaviour

Losers

- Lower capacity to initiate large-scale **mitigation** and stimulus programs
- (Sub) industries that are **reliant on physical client** interaction as well as industries that are (classically) more crisis prone

The EU stands at a critical point – decisions will impact the decades to come

Current Situation

- Today, the European Union (EU) is facing one of the major challenges in its history. It has become clear that strategic autonomy across a number of areas has become a major priority. The EU will need to rethink its **industrial strategy** and link it to the necessary supply chains, including production within and outside the EU.
- **Financing** the recovery and using tailored vehicles and instruments will be of paramount importance, especially with liquidity levels so low and treasuries under strain.
- Continuing with existing Union priorities and **shifting towards a sustainable economy, digital and green** at the core, are now more than ever likely to be the key elements for a resilient comeback.
- With employment levels at an all-time low, it will be important to match **education and skills** in a better way to the opportunities proposed by this new economy.
- Common policies and concerted actions to protect the most vulnerable have shown their effectiveness during this crisis, and the EU can pride itself upon its **social heritage, protection, and services model**. During the recovery phase, special attention should be given to the protection of youth as well as the most vulnerable.
- The **European health system**, at large, has shown its robustness, and further investments in this sector will be required to maintain and strengthen Europe's health research and infrastructure.
- **Public services** should be holistically analysed and lessons should be drawn to consider where best to spend scarce public money to guarantee the most essential and critical services for citizens, whilst looking at digital and other solutions to cover less essential public service tasks.
- The EU stands at a critical point, where the choices it makes will have an impact on the decades to come. It is therefore important that we prepare for, respond to, and ideally emerge stronger from the COVID-19 crisis.

The EU is facing one of the major challenges in history – financing the recovery is of paramount importance

Overview on available Resources

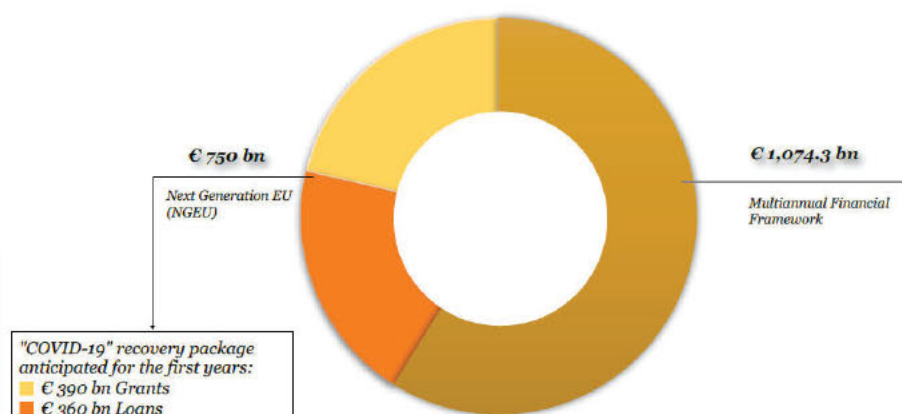
Multiannual Financial Framework 2021-2027 & Next Generation EU: available resources

The EU has woken up

The new EU budget or Multiannual Financial Framework (MFF) will cover seven years as usual, from 2021 to 2027. This time, however, the MFF is strengthened by Next Generation EU (NGEU), often referred to by the press as the "Recovery Fund", which will constitute the main tool for implementing the recovery package in response to the socio-economic consequences of the COVID-19 pandemic.

The total amount of commitments is equal to € 1,824.3 bn of which:

- 1,074.3 on the MFF
- 750 on the NGEU



Points of emphasis

These funds will determine countries' involvement in direct management planning. Experience on ESIF must represent the starting point as well as a challenge to improve. On all financial instruments, however, a better ability to respond and foster the resilience of businesses to new opportunities is pivotal

We have outlined 10 priorities for an even stronger and more resilient Europe (1/2)

- 1 Digital**

Reduce regulation to the bare minimum and harmonise rules across the EU, attract talent, and redirect financing towards digital investments, fostering innovation, digital agility and industrial competitiveness leading to growth, job creation, intellectual capital and benefitting all societal stakeholders.
- 2 Data**

With strong privacy considerations being part of European traditions, greater use of data for sectors which have a strong societal impact will enable governments to win over citizens who will clearly understand the benefit for their everyday lives.
- 3 Sustainable Economy**

Accelerate the investments in climate-resilient infrastructure, with a perspective of driving significant near-term job creation through the transition to a lower-carbon future. Make maximum use of InvestEU and ensure investors can scale their contribution to the EU Green Deal.
- 4 Industry**

As prioritisation will be key for ensuring a rapid economic recovery, identify vulnerable and critical industries most affected by the recession and align policies that can nurture these industries and protect them from unfair or unchecked competition. Evaluate incentives to limit the impact and ensure quick recovery and that all new economic packages are in line with the long-term priorities of the Member States (e.g. sustainability).
- 5 Smart Trade**

Develop a smart trade agenda that supports the Union's competitiveness and access to critical raw materials whilst boosting investment in research on substitutes and assess how production can be modified in such a way as to rely less on imports.

We have outlined 10 priorities for an even stronger and more resilient Europe (2/2)

- 6 Education & Skills**

Investments are needed across the EU's education network, starting from primary level to stimulate young minds and ensure that children are taught using modern teaching techniques and relevant subject matter in line with new economic realities. Launch a focussed investment programme for refurbishing schooling infrastructure to align educational aspirations with modern and energy efficient facilities that will support students on their educational paths. Fund employees reskilling initiatives in targeted industries
- 7 Health**

Develop a common infrastructure for health analytics, connected to other external national & international research infrastructures and ensure maximum interoperability of health data. Invest in advanced analytic capabilities with cross-data modelling for a closely knit diagnostic net including testing and infrastructure
- 8 Mobility**

Assess and exploit the possible long-term advantages of reduced demand, e.g. lower traffic in peak hours thanks to remote working replacing commuting, by properly redesigning the network capacity after the emergency; design investment plans accordingly and take this opportunity to achieve appropriate cost optimisation in underperforming activities, and review bus. development strategies planned before COVID-19
- 9 Borders & Customs**

Intensify support for collaboration efforts of Member States in the field of IT. Considering that the budget pressure will further increase after COVID-19 and that the Member States already face serious challenges delivering on national IT projects, a change of mindset in the delivery of the Multi-Annual Strategic Plan for Electronic Customs (MASP-C) should be put in place
- 10 Financing & Recovery**

Ensure that the increase of public debt issuance within the Eurozone is leveraged to create an on-shore capital market through these benchmark assets; ensure that EU banks will participate in the fees and flows in debt capital markets, instead of contracting as Member States with banks headquartered in third countries (post-Brexit). Also enhance the flow of liquidity support to those in need by simplification of standards (e.g. allowing working capital financing under EU ESIF and national programs) and avoid misuse of public support money by ensuring liability tranches of the banks involved

Planning & implementation of National Recovery and Resilience Plans is essential – particularly for smaller countries

Overview of key issues

The drafting of National Recovery and Resilience Plans

European countries are facing a historical challenge: creating a system and taking on the shared responsibility for a change in order to delineate new trajectories with respect to the pre-COVID structural blocks, different for each Member State.

#weareready

Quick but impactful? Deciding on what to invest through the calculation of long-term returns (e.g. investments in training and applied research, attractiveness of the country for high-skilled workers) #longtermanalysis #vision

The political, economic and social parties must converge towards a collaborative path to bring out the needs of territories and stakeholders, the expected impacts and the necessary tangible and intangible assets.

Method and discipline in choices, involvement? Data driven mechanisms for evaluation and open and intelligent consultation solutions, able to aggregate ideas, skills and quick and transparent #decisionalttools

Management challenge: from planning to implementation

Plans will have to identify simplified implementation tools and reporting and control procedures capable of reducing the administrative burden of the Entities.

Supporting the #productivity of PA: the automation of administrative processes to reduce time management, for a #citizenatthecentre of public action and a PA at the service of businesses. Administrations, already under strain for the implementation of the Cohesion Policy, see economic resources more than doubled in the face of an unchanged staff

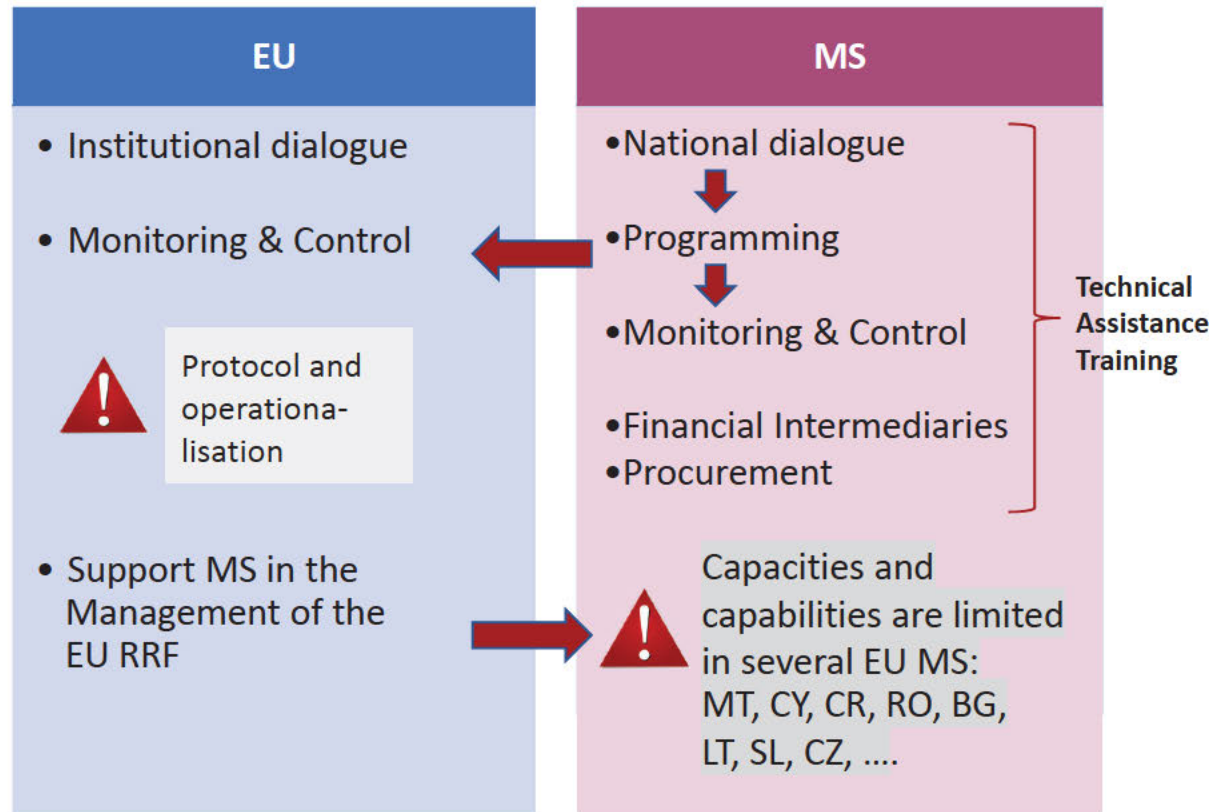
Key success factors will be

- (i) the #coordination ability;
- (ii) the construction of #resultoriented financial flows based on phases and #milestones and not at real costs;
- (iii) the adoption of management methods based on international Project Management standards, for the effective implementation of the investment strategy

For public decision-makers and stakeholders there is a double challenge, that of governing choices and having a more agile and flexible decision support, of predictive analysis of critical path of individual investments and reforms

MS (especially smaller ones) primarily need support to manage the resources of the RRF

RRF – Challenges and accompanying measures



Develop a framework to manage, monitor, coordinate and assess the performance and impact of the investment made under the RRF – provide sufficient support for MS to manage the resources of the RRF



Benefits:

- Better coordination between investments and reforms
- Establishment of similar indicators for the monitoring across all EU MS
- Capacity to assess the combined impact of several interventions in one priority axis
- Secure absorption of the funds (e.g. possibility to stop projects if they do not meet the expected results -> Development of evidence based policy as only high-impact projects would be prioritised)
- Coordination with other forms of intervention (MFF, national funds, etc)
- Increased transparency (and accountability) via de publication of open-data

Germany, in a front-runner role, filed its RR plan in synch with member states' agreement on EU RRF in December 2020

Outline of the GER RR Plan

Areas of EU RRF	
1	<i>Power up</i> – The frontloading of future-proof clean technologies and acceleration of the development and use of renewables..
2	<i>Renovate</i> – The improvement of energy efficiency of public and private buildings.
3	<i>Recharge and Refuel</i> – The promotion of future-proof clean technologies to accelerate the use of sustainable, accessible and smart transport, charging and refuelling stations and extension of public transport.
4	<i>Connect</i> – The fast rollout of rapid broadband services to all regions and households, including fiber and 5G networks.
5	<i>Modernise</i> – The digitalisation of public administration and services, including judicial and healthcare systems.
6	<i>Scale-up</i> – The increase in European industrial data cloud capacities and the development of the most powerful, cutting edge, and sustainable processors..
7	<i>Reskill and upskill</i> – The adaptation of education systems to support digital skills and educational and vocational training for all ages.
Σ 672.5 bn EUR	



Areas of GER RR Plan*	
1	Climate Change and Energy Transition Strategy
2	Digital Economy and Infrastructure
3	Digital Education
4	Stronger Social Cohesion
5	Reinforced Resilience of Health System Against Pandemics
6	Modern Administration and Elimination of Barriers to Investment
Σ 29.3 bn EUR	





* as of 15 December 2020

However, review of “Restart Germany” (April 2020) shows a mixed picture of progress so far

Overview of areas covered in Restart Germany, with assessment of progress so far







1 Economy & Finance

-  Fast and comprehensive access to Government support instruments, with clear guidelines for operations in crisis 
-  Promotion of ecosystems resilient against Covid-19, strong protection mechanisms and liquidity management 





5. Education & Remote Work

-  Remote schooling concepts, space management concepts 
-  Digital collaboration platforms and curricula, and tools for virtual co-operation (tele-work) 





4. Society & Cohesion

-  Flawless detection capabilities, controlled re-opening based on testing and learning strategies 
-  Virtual enterprise culture, adaptation of business models and jobs 

2. International & Security

-  International co-ordination and initiatives against new threats 
-  Minimised supply shortages, strengthened cyber-security and fight against Covid-19 

3. Infrastructure

-  Hygiene standards permanently increased, resilience in infrastructure and public sector organisations 
-  Promotion of contact-less business models 



Strategy&


Economy


Government

  
No Progress Yet Fully Addressed

Experience from implementing large funding schemes and programmes bring about a number of lessons learnt

Outside-In Perspective



- Help getting started - Provide assistance to member states in initiating the scheme, in developing their national plans and in setting up an implementation mechanism
- Care - To ensure implementation success, handle scheme as a managed programme, not as a usual funding scheme
- Don't trust paper only - Follow up on plans, carry out assessments / benchmarks of implementation and progress
- Provide support – ensure assistance capacity for member states throughout the programme
- Don't be orthodox - Provide openness to review and update plans, funding priorities and instruments
- Learn - Foster exchange on what works and on priorities