ΕΛΙΑΜΕΠ
ELIAMEP
ΕΛΛΗΝΙΚΟ ΙΔΡΥΜΑ ΕΥΡΩΠΑΪΚΗΣ & ΕΞΩΤΕΡΙΚΗΣ ΠΟΛΙΤΙΚΗΣ
HELLENIC FOUNDATION FOR EUROPEAN & FOREIGN POLICY
30+ χρόνια | years

Greek & European Economy Observatory

10th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (22-29/05)

"And so in front of us once again is that same binary choice. We either all go it alone; leaving countries, regions and people behind, and accepting a Union of haves and have-nots, or we walk that road together. We take that leap forward."
Ursula von der Leyen, Πρόεδρος της Ευρωπαϊκής Επιτροπής

"If Europe wants to have any chance at all, it must now show solidarity and prove that it is capable to act. Germany has an overarching self-interest that Europe gets back on its feet."
Wolfgang Schäuble, President of the Bundestag

"What we find positive — not just myself, but the Netherlands, Sweden and Denmark — is that there is a time limit and that the fund will be a one-time emergency measure and not the first step toward a debt union."
Sebastian Kurz, Chancellor of Austria

- The Commission published its proposal on recovery funding, called NextGeneration EU, which is to provide Member States with an additional €750 bn - €500 bn in grants and €250 bn in loans. The funds will be repaid by increased own resources of the EU Budget.
- The Commission, also, approved state aid measures of 5 member states, of total value €13.8 bn.

European Commission

- The Council agreed on relief measures for aviation and railways. Measures include the easing of EU directives governing traffic rights, ground-handling services and railway safety & interoperability.

Council of the EU

National measures (22-29/05)

France: The President announced stade aid measures worth €8 bn for the automobile industry, which will include incentives for relocating production back to France.

Greece: The Government announced a state aid package of €115 m. for the aviation industry comprising, inter alia, tax relief measures and wage subsidisation.

Poland: The Central Bank cut its benchmark rate from 0.5% to 0.1%. Since the pandemic outbreak, the reduction of the rate has amounted to 140 bp.

Japan: The Government announced further economic stimulus measures of ¥117.1 tn. The package includes fiscal and liquidity measures.

UK: The Transport Secretary announced a package of £283 m. destined to support the country's public transport network.

Australia: The Government revised the budget of its employment support scheme down by 60 bn AUD due to reporting error.

Breakdown of measures[6] (16/03 – 29/05)

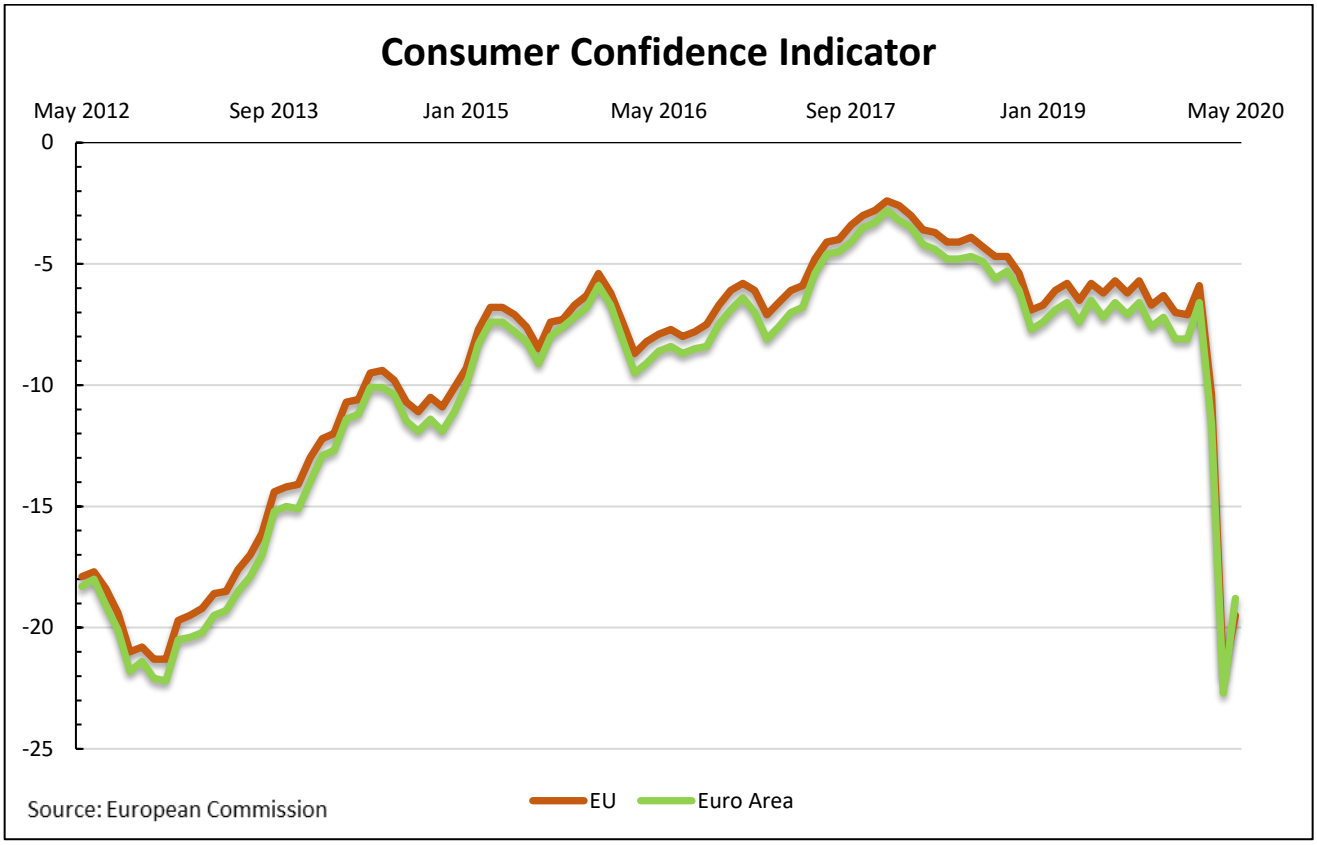
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€110 bn[2]	€52.5 bn	€156 bn	€20.1 bn	€12.2 bn	90.7 bn DKK	€31.2 bn	€24 bn[3]	€1 bn[1]	≈ €7.3 bn[1]
B. Monetary Measures (Total)	€1.99 tr.[4]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
C. Loans/Guarantees	€305 bn	€337.9 bn	€530 bn	€819.7 bn	Min. €12.1 bn	€9 bn	70 bn DKK	€112.4 bn	Not Specified	€3.8 bn	€5 bn[1]
D. Tax Deferrals	-	Not specified	€27.5 bn	€500 bn	€36 bn	Up to €10 bn	208 bn DKK	Min. €14 bn	Not Specified	€7.9 bn	Not Specified
E. Labour Market Measures[5]	SURE: Fund to provide loans to member states targeted to employment schemes. Total value: €100 bn	Income support subsidy of 70% for workers in partial unemployment status	Temporary prohibition of redundancies and prolongation of unemployment benefit	Further financing of the existing income support scheme for the unemployed	Wage subsidy of up to 90% (for businesses reporting revenue reduction of at least 20%)	Progressive wage subsidy based on the size of salary of up to 90% of working time	Wage subsidy of up to 75% (for businesses reporting revenue reduction of at least 20%)	Wage subsidy of 70%[6]	Measures include the continuation of the special allowance to workers, a wage subsidisation scheme and the extension of the unemployment benefit	Wage subsidy of up to 75% (for businesses reporting revenue reduction of at least 40%)	Unemployment benefit increase and wage subsidy of up to 70% (capped at €410/week)

[1] The total value of these measures is greater as the cost of several measures has not been estimated yet.
[2] Includes tax deferrals that are not specified separately.
[3] Includes tax deferrals and loans/guarantees.
[4] Includes the Pandemic Emergency Purchase Programme (PEPP), totalling €750 bn, the additional asset purchases of €120 bn within the framework of the Asset Purchase Programme (APP), additional liquidity of €1 tr. provided to banks through the TLTRO III programme and capital relief of €120 bn due to easing of regulations. These figures represent the total value of assets and bank liquidity that will have been added to ECB's balance sheet by the end of the respective programmes. For further details on the evolution of ECB's asset purchases, see the diagram of Weekly Net Asset Purchases below.
[5] The amount of these measures – if specified – is included in the fiscal measures.
[6] Main source: IMF Policy Tracker. Other sources: OECD Country Policy Tracker & official government announcements.

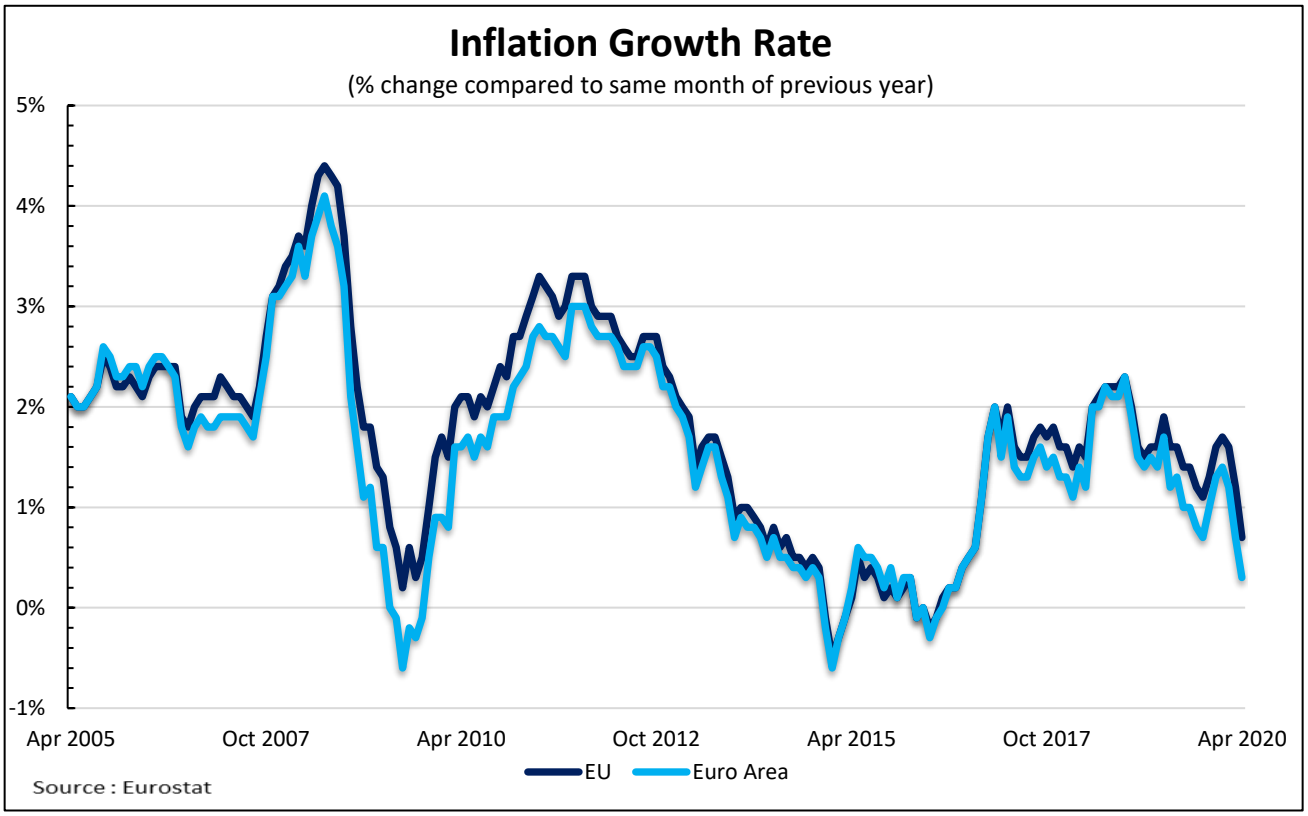
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[7]	≈$1.7 tr.	108.3 bn CAD	133.8 bn AUD	£120.1 bn	¥117.1 tr.[8]	500 bn RUB[8]	9.45 tr. INR[8]	≈ 470 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £645 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 1.2 tr. BRL
B1. Asset Purchases	Not Specified	Not Specified	Not Specified	Min. £645 bn	Not Specified	Not Specified	Not specified	-
B2. Bank Liquidity	Not Specified	Not Specified	Min. 90 bn AUD	Min. £190 bn	Not Specified	500 bn RUB	Min. 8 tr. INR	≈ 1.2 tr. BRL
C. Loans/Guarantees	$1.242 tr.	65 bn CAD	35 bn AUD	£330 bn[9]	Min. ¥2.1 tr.	Not Specified	-	Min. 36 bn BRL
D. Tax Deferrals	$561 bn	85 bn CAD	-	Min. £3.1 bn	Not Specified	Not Specified	Not Specified	Not Specified
E. Labour Market Measures[10]	$250 bn (Unemployment benefit increase)	Allowance of 2000 CAD/month to workers whose income was impacted & wage subsidy of 75% for affected businesses	Wage subsidy of 1500 AUD per employee per fortnight	Wage subsidy of 80%	-	Reduction of social security contributions for SMEs & unemployment benefit increase	Wage increase for those working in state employment schemes for the agricultural sector	Allowance of $120 for the unemployed and informally employed

[7] Does not include funds allocated for tax deferrals and loans/guarantees.
[8] It includes the funds allocated for tax deferrals and/or loans/guarantees, as the exact breakdown of the package is not specified.
[9] Supported by the BoE
[10] The amount of these measures – if specified – is included in the fiscal measures.

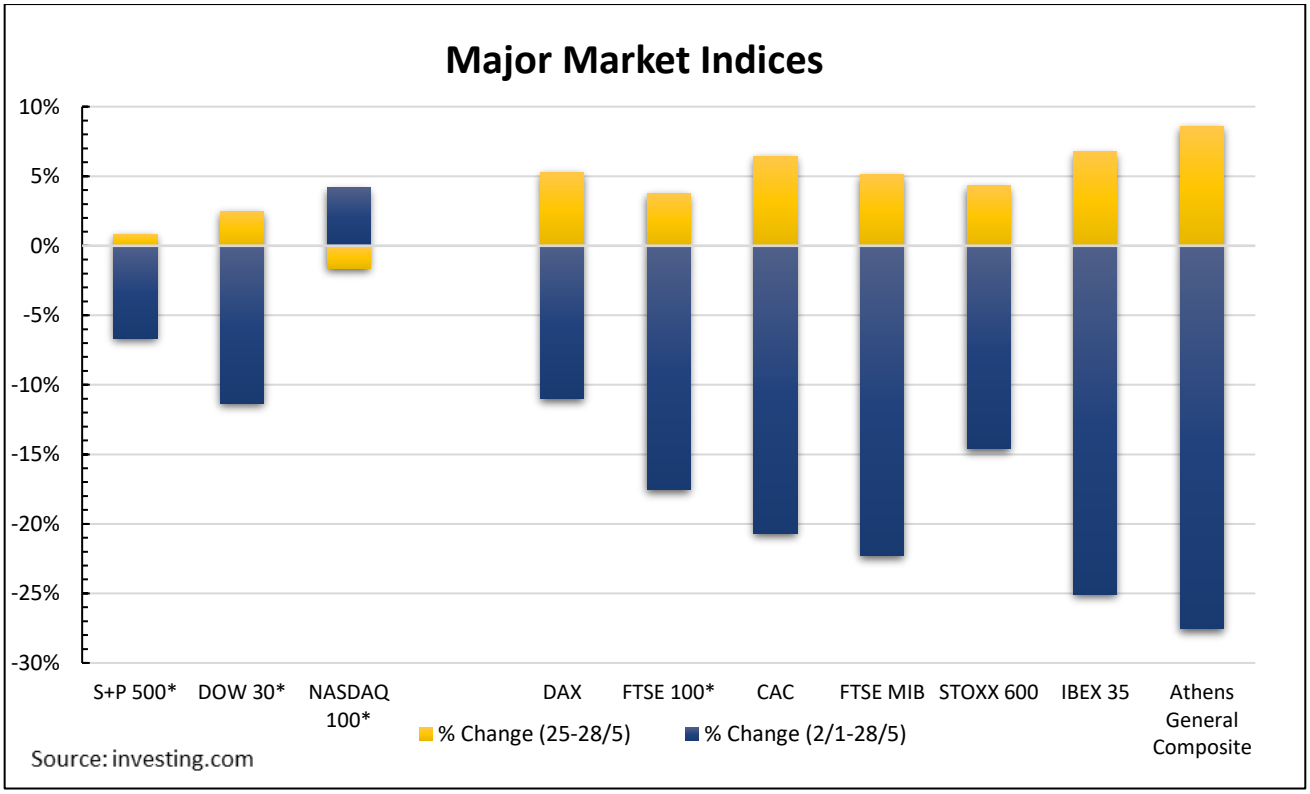
Recent Economic Developments (25-28/05)



In May 2020, the Consumer Confidence Indicator recovered lightly to a certain extent in both the EU and the Euro area. According to the European Commission, both indicators grew from -22 points (EU) and -22.7 points (Euro Area) in April to -19.5 and -18.8 points respectively.

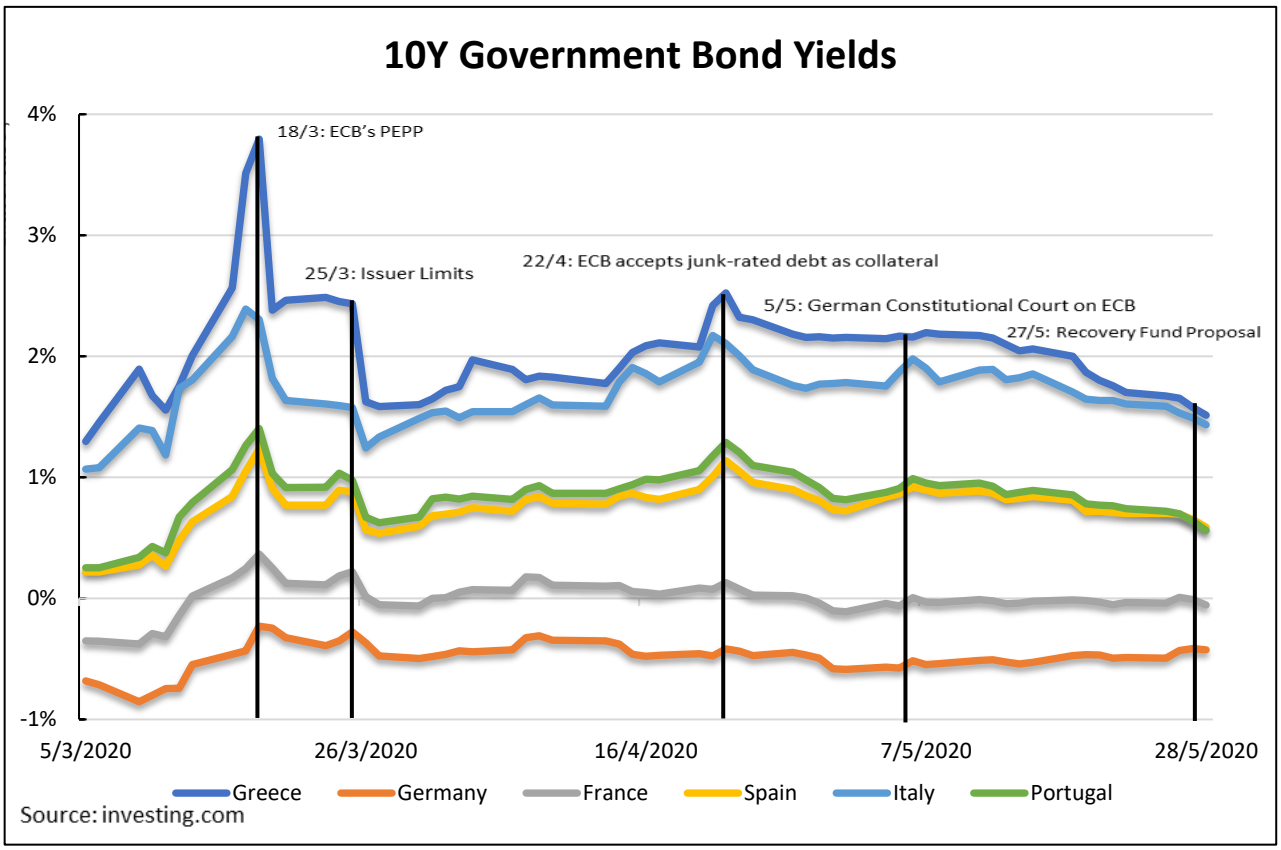


According to the Eurostat (20/5) latest data update, the inflation rate fell to 0.3% in the Eurozone and 0.7% in the EU in April.

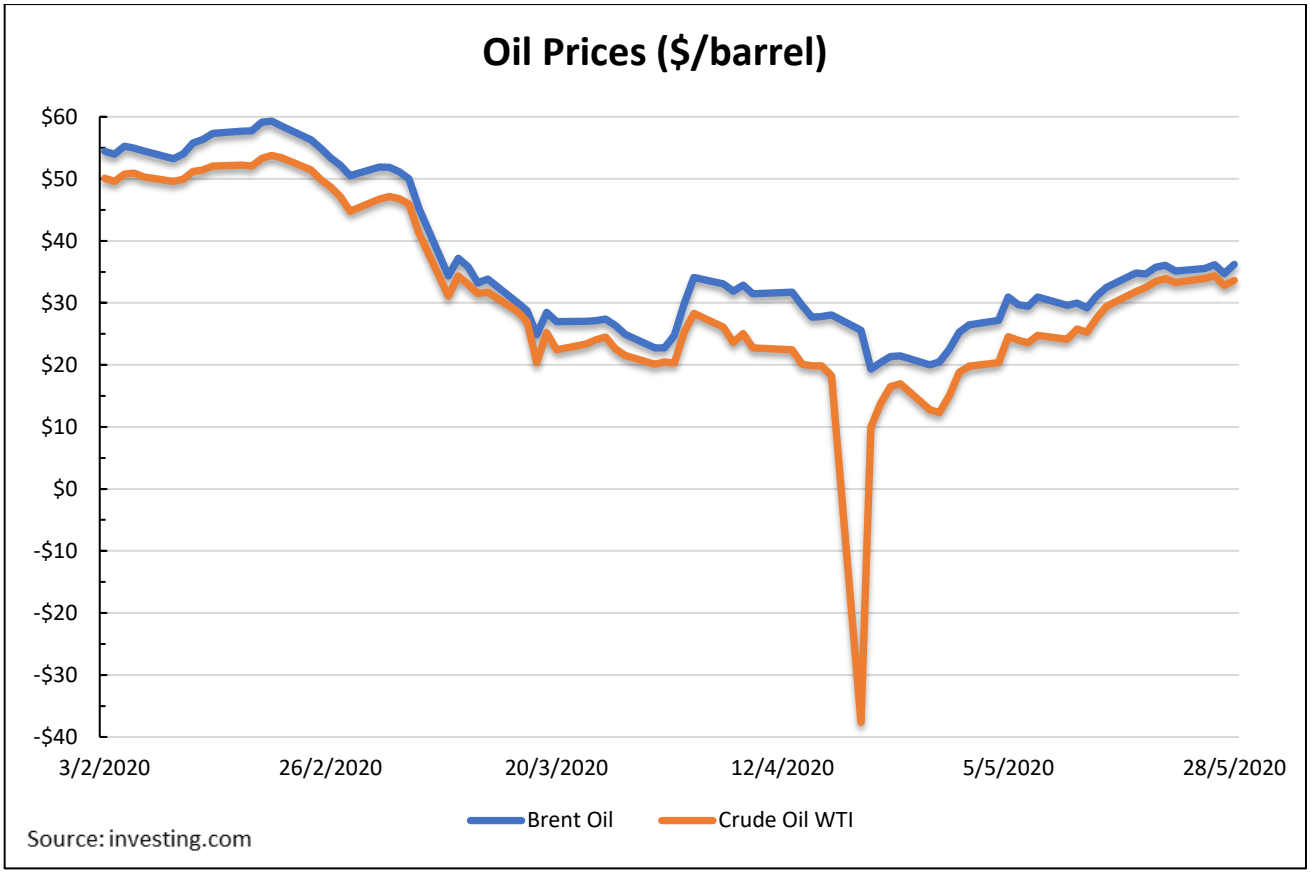


* % Change 26-28/5.

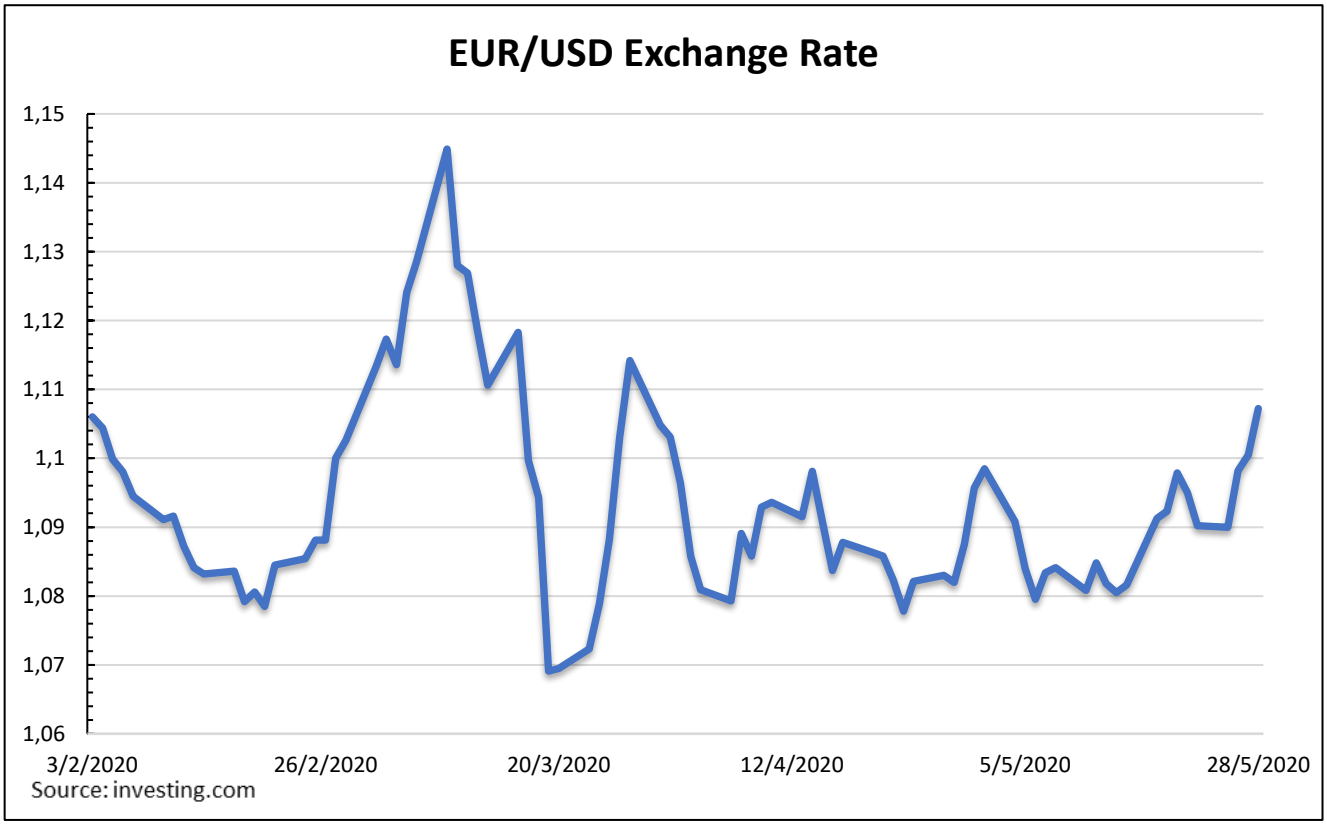
Most Wall Street indices climbed, despite rising political tensions between Beijing and Washington. European markets powered higher as the European Commission's proposal for a €750 bn Recovery Fund raises hopes for an economic rebound.



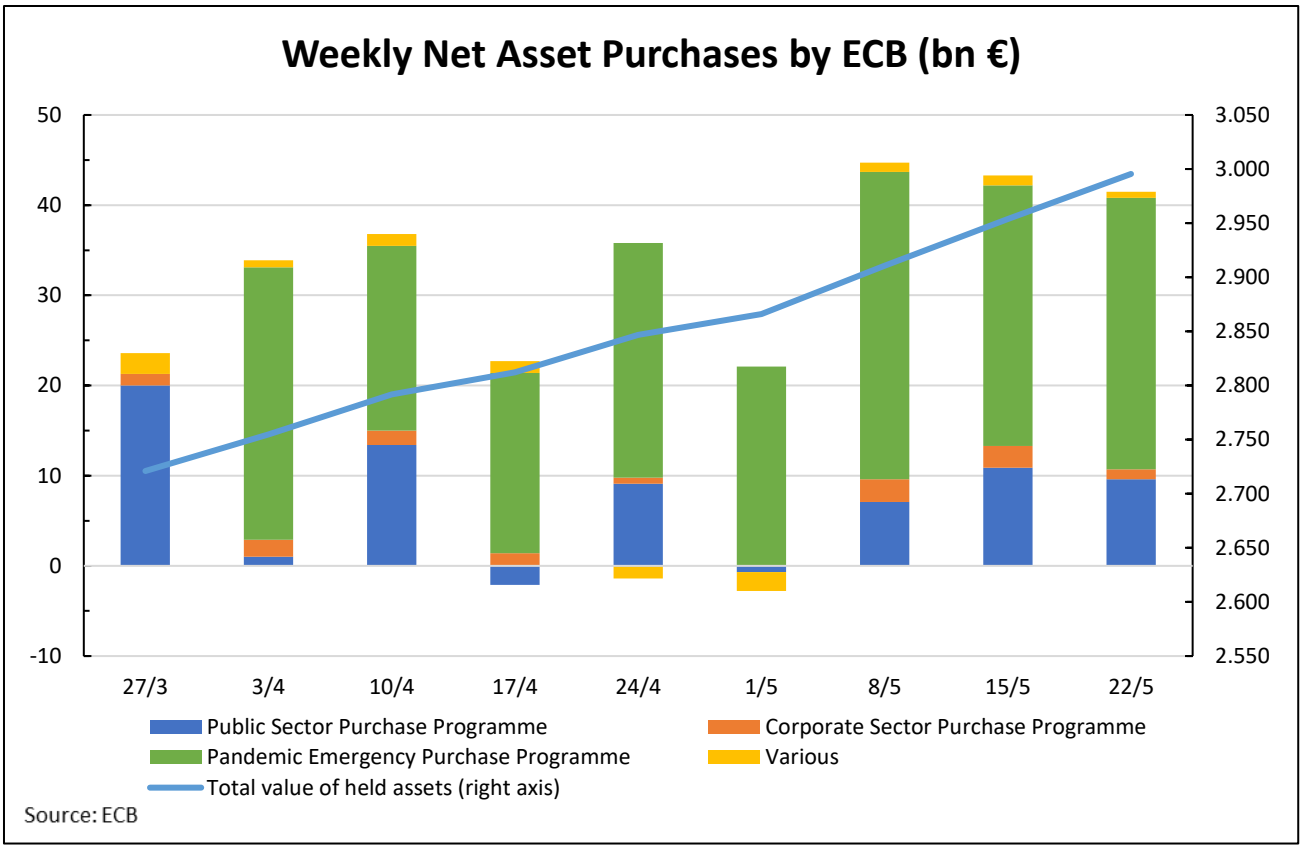
Most European bond yields fell after the European Commission's proposal (27/5) for a €750 bn Recovery Fund. German 10Y yield was up, after the ominous estimate of the Ifo institute of a 6.6% recession for the German economy in 2020.



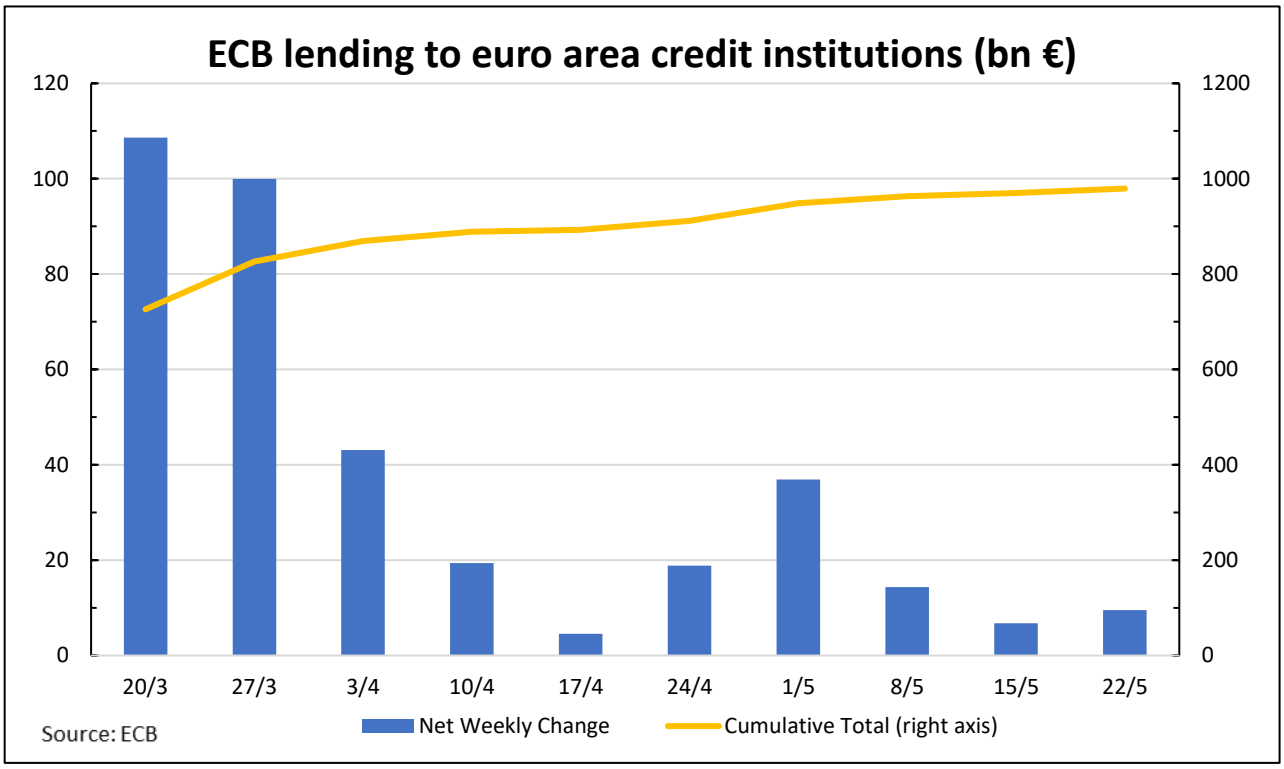
Oil prices settled higher on Thursday with the international benchmark Brent trading at $36.24 per barrel and the American benchmark WTI at $33.64 per barrel.



In the foreign exchange market, the EUR/USD exchange rate increased further and is currently at 1.1072 $/€.



On 18/3, the ECB announced a new asset purchase programme (PEPP) totaling €750 bn. Furthermore, the ongoing APP, which is in force since October 2014, was boosted on 12/3 with an additional envelope of €120 bn. The bars represent weekly net asset purchases per programme whereas the line represents the weekly evolution of the cumulative value of all assets held by ECB as part of all past and current asset purchase programmes.



On March 12, 2020, the ECB announced a package of measures, easing terms on providing loans to banks through the TLTRO III programme. The package included the reduction of the interest rate of the programme from June 2020 and the increase of the lending limit for credit institutions effective immediately. In this direction, a further easing regarding conditions on accepting claims and other assets as collateral was announced on April 7, 2020.

In Focus

Commentaries, analyses, forecasts on the economic dimensions of the pandemic

The new crash test for Europe in the time of COVID-19 comes along with a new opportunity, according to a publication of Agnès Bénassy-Quéré and Beatrice Weder di Mauro on VoxEU. During the first phase, the priority of governments was to avoid unnecessary suffering, the closure of firms and the loss of jobs, and the guiding principle was 'act fast and do whatever it takes.' In the second phase of reopening of the economy, demand is still sluggish and some of the more long-term damage of this crisis starts to become more visible. The defining principle during this phase should be to repair corporate balance sheets and avoid the problems of a debt overhang, disincentives to invest and mass insolvencies. The pandemic may well have a long-lasting impact on the distribution of demand between consumption and investment. To the extent that collective preferences have shifted in favour of preserving the environment and investing in health protection, the new growth regime will rely on more public and private investment, and less consumption – **a structural shift, which could be a blessing in disguise**.

The initiatives of the European Central Bank are examined in a joint publication of the Centre for European Policy Studies and the Brookings Institute by Belz et al. In its roles as the eurozone's main bank supervisor and lender of last resort, **the ECB has taken actions to increase banks' lending capacities and to support funding markets** through temporarily relaxed capital requirements, forbearance, eased collateral restrictions, support for bank funding and money markets and international swap lines. What else might the ECB do? Interest rates are likely already as negative as they can go, and there is the concern that rates which are too negative would not help the economy. The recent judgment of the German constitutional court has narrowed the room for manoeuvre of the ECB in terms of government bond buying, but the ECB could still buy more private sector assets, where it has more flexibility than in buying debt of national governments and could even buy equities. If a country such as Italy lost access to global bond markets, there is another tool – Outright Monetary Transactions – but the ECB cannot use it unilaterally: the country needs to first come to an agreement to borrow from the European Stability Mechanism.

In an article on Project Syndicate, Lucrezia Reichlin is sceptical about the Franco-German proposal being the 'Hamiltonian moment' that some have claimed. The proposal crosses several historical red lines, reshaping the debate on risk mutualisation and the benefits of transfers. **The EU is not a fiscal federation, but the recent proposals send a clear signal that we are moving in that direction**. Sooner or later, EU treaty revisions will be needed to build a framework for effective monetary and fiscal policy coordination, while preserving ECB independence. Yet, the political conditions for that step do not yet exist.

An equity fund for **a zombie-free and EU-wide recovery** is put forward by Anderson, Tagliapietra and Wolff of Bruegel. There are four principles to consider on how support should be given. First, only financially viable firms should receive solvency support, with viability assessed considering both the past and the future. Second, state support should not undermine competition between firms in the EU's single market. Third, state interventions should support broader societal goals, from climate neutrality to social cohesion. Fourth, taxpayers should receive their share in the rewards of the recovery; interventions must be framed as worthy public investments, not expensive bailouts.

It is time for selective debt forgiveness, writes William H. Buiter on Project Syndicate. As we exit the COVID-19 crisis, many borrowers, both public and private, will be saddled with unsustainable debt. Advanced economies have creative options for managing the explosion of debt, but the same cannot be said for developing countries. In April, the World Bank and the IMF offered a modicum of debt relief to many of these countries, and the G20 agreed to a temporary payment standstill for official debt. Nevertheless, these forms of assistance offer too little, too late. In order to properly transfer resources to low-income countries, states need to consider **the need for 'corona-grants' and a comprehensive round of debt forgiveness.**

Although young people are, in general, more resilient to COVID-19, they cannot escape its social and economic impact, according to an article by Massimiliano Mascherini and Eszter Sandor on Social Europe. Youth tend to work more in sectors, such as retail and hospitality, which are most affected by the lockdown measures. As a result, in a study conducted by Eurofound, young people in Europe reported poorer mental wellbeing and greater loneliness than other age groups - coupled with job loss **and overall insecurity about their professional and financial future**. Yet unlike other age groups, young people still trust the EU more than their national government. The EU and national governments should protect this trust by adopting policies which would prevent the explosion of another youth-unemployment crisis.

For the last half-century, the prevailing political message in many countries has been that governments cannot actually govern, resulting in the phenomenon of small government. As a result many governments now have fewer options for responding to the COVID-19 crisis, Mariana Mazzucato and Giulio Quaggiotto argue on Social Europe. At the same time however, **successful responses by other governments have shown that investments in core public-sector capabilities make all the difference in times of emergency**. Consider for example, the contrast between the US and the UK, on the one hand, and Vietnam, South Korea, and New Zealand, on the other hand. Governments that have long abdicated their duties to the private sector now need to catch up, which will require them to rethink intellectual property frameworks, public investments, and their approach to research and development.

The European Commission has made the ambitious commitment of making Europe the first climate-neutral continent while ensuring that **the transition to this new green growth model is just and fair for all European Union citizens and territories**. That is why the Commission published its proposal for a Just Transition Mechanism to provide support to territories facing serious socio-economic challenges during the transition to climate neutrality. Cameron et al. of Bruegel identify four key characteristics that are important for a just transition: a) it must be locally driven, b) include targeted welfare and labour policies, c) be included in a long-term strategy for the decarbonisation and development of local economies, and d) allow for regular assessments and modifications.

In the context of **regions relying on lignite, coal and peat as their main economic activity**, real meaning can be given to the 'just transition' concept, according to research by Egenhofer et al. of the Center for European Policy Studies. The Commission needs a region-based strategy that builds on the 'targeted approach' of the European Green Deal to achieve self-sustainable activities and avoid subsidy dependency. InvestEU should be used as funding leverage to attract large-scale industry investment.

Currently, taxpayers' money is used to support farming practices that are neither competitive nor economically viable, for the producers or for society, according to Annika Hedberg of the European Policy Centre. The European Commission's Farm to Fork strategy is a long-awaited effort to address this problem, along with its new proposal for the 2021-2027 Multiannual Financial Framework (MFF) for spending over €348 billion on agriculture and the proposal of providing an additional €15 billion for farmers and rural areas under Next Generation EU. Since the EU uses public money to support the agricultural sector, **the aim should be to make the sector both more competitive and resilient, and to increase people's welfare while also protecting the planet**. This greatly matters in the COVID-19 crisis context, since there is way too little discussion about the importance of healthy populations as our first defence against the virus, especially given the fact that in the EU, air pollution, greatly driven by agricultural emissions, causes 400,000 to 790,000 premature deaths, making the population especially vulnerable to the disease.

In a recent Policy Update, researchers of the European Policy Centre (Sundberg Diez et al.), examine the implications of the COVID-19 outbreak for migration, mobility and asylum in Europe. They highlight inter alia that **the pandemic has shed light on EU economies' reliance on both European and non-European migrant workers**, especially in the crucial sectors of agriculture, domestic work and healthcare. These areas are facing substantial labour shortages: COVID-19 placed healthcare systems under strain, while related travel restrictions hampered the movement of hundreds of thousands of seasonal agricultural workers. Against this background, calls to regularise the status of migrants already in the EU and enable them to work safely have grown, as well as to facilitate the recruitment of workers from abroad.

The COVID-19 crisis has pushed Europe's strategic thinking on China past the tipping point. Mark Leonard notes on Project Syndicate, that the new consensus in Brussels is that Europe should be more insulated from the whims of unreliable foreign governments, whether that is China or the US. Three factors have altered Europe's strategic calculus. First, the turn China has taken towards more authoritarianism. Second, the US trade assault on Europe with tariffs, sanctions, and other unprovoked attacks. Third and most importantly, China's behaviour during the pandemic; China has used the crisis in order to grow its soft power, pursue controversial economic deals and advance its own political interests. **It seems now that Europeans will soon start turning the talk of diversifying supply chains, into action.**

The Chinese government unveiled a bigger stimulus package worth at least 4.5% of GDP on May 22, after China experienced an unprecedented 6.8% year-over-year contraction in its GDP in the first quarter. Rather than repeating its old playbook of relying primarily on credit expansion as it did during the global financial crisis in 2008–10, **China is leveraging its fiscal policy to revive its economy** suffering from the COVID-19 pandemic. This is good news for financial stability, though it may be too early to tell how successful the stimulus will be, Tianlei Huang and Nicholas Lardy of the Peterson Institute for International Economics note. The absence of a growth target means officials can concentrate on stabilising employment and ensuring people's livelihoods rather than achieving a certain growth target. At the same time, China's previous goal of doubling the size of its economy by the end of 2020 from the level of 2010 needs to be postponed.

The prospect of **an open alliance for digital trade** is examined by Sam duPont in an analysis on the Centre for Strategic & International Studies. Like the last great power rivalry, the emergent competition between the United States and China is a competition between two different economic systems, and two very different political ideologies. With shared democratic values and a commitment to market-based economics, the United States and Europe have much to gain from finding consensus on rules that promote an open global digital economy. A shared approach would present a democratic alternative to China's strategy and a clear model for many other governments that are weighing their options. Given the centrality of the digital economy to politics, power, and life, building this coalition of support for free digital trade will be central to building a democratic bloc that can compete effectively in the 21st century. The alternative – continued transatlantic divergence on digital trade – only opens the door wider for authoritarian approaches to prevail, and for China's relative strength to grow.

ELIAMEP experts write

"The German government is probably acutely aware that the current crisis is widening the North-South gap (which had opened up over the past 20 years) to such an extent that it will be impossible to reverse further divergence without additional joint eurozone interventions. In a period of gradual deglobalization, with the clear emergence of three increasingly competitive economic blocs (USA, China, Europe), Germany as Europe's foremost export engine realizes the need to invest in shoring up the European Union. Fortunately, a generation of German leaders continue to sustain a visceral commitment to Europe as an intrinsic part of the post-war German democratic identity. (...) It is possible that the moment Europe discovers Hamilton coincides with the moment Germany meets France in a geopolitical appreciation of the significance of European unity. In a world of steady disintegration of international multilateral institutions, organizations and agreements, the European Union will end up heteronomous, a victim of heightened US-China rivalry, if it does not reinforce its internal unity and protect the cohesion of its common currency and the single market."

George Pagoulatos, Director General, ELIAMEP, *kathimerini.gr, 24.05.20*

"The European Commission's proposal for a €750 billion recovery fund provoked positive reactions both from a large part of the European political scene, as well as the European markets, as it provides a framework of substantial assistance to economies that have been hit hard by the pandemic [...] The negotiations to follow, until the final adoption of the plan, are expected to be particularly hard, while some aspects of the initial proposal may not survive in the final text. However, there is something different this time, which gives hope to the supporters of the proposal; the change in Germany's stance, which could be the catalyst for a historic agreement."

Dimitris Katsikas, Head of the Greek and European Economy Observatory, ELIAMEP, *tanea.gr, 29.05.20*

"The joint announcement by Merkel and Macron for a €500 billion recovery fund is the culmination of a series of recent joint initiatives and seems to be reviving the Franco-German axis of co-operation in the European Union. These proposals highlight the importance of the axis' reactivation. The adaptability and emphasis on the political dimension of European integration that France has been prioritising over time are necessary counterweights to Germany's tough economic discipline and its preoccupation with avoiding the 'moral hazard' of 'undisciplined' member states exploiting any form of flexibility."

Dimitris Katsikas, Head of the Greek and European Economy Observatory, ELIAMEP, *Fileleftheros, 23.05.20*

"Discussions have already begun on how the transition to a work-from-home model can be politically supported, e.g. to provide grants for the purchase of equipment or tax relief. These proposals are reasonable and necessary in the new era. But what about those who work side by side in retail, service, or share offices for many hours? These front-line employees are not only worthy of words of gratitude. It is a matter of justice but also of public health to support them through practical and economic means, e.g. protective equipment, regular inspections, paid sick leave, improved hourly wages. It is not possible to return to the status quo ante or to the 'business as usual' logic."

Jens Bastian, Special Advisor, ELIAMEP, *capital.gr, 29.05.20*

"It is worth noting a less discussed aspect of the proposal: highlighting the need for new EU budget revenue sources, i.e. for new EU's own resources, which will come from a simplified VAT base or from taxes to non-recyclable plastic. The idea of new EU resources existed in the previous proposal of the Commission, but with little chance of acceptance before the COVID-19 crisis. Thanks to the crisis, it seems that the need for such a budgetary innovation is maturing."

Alekos Kritikos, Special Advisor, ELIAMEP, *tanea.gr, 29.05.20*