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HELLENIC FOUNDATION FOR EUROPEAN & FOREIGN POLICY
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Greek & European Economy Observatory

8th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (08-15/05)

"The final word on EU law is always spoken in Luxembourg. Nowhere else."
Ursula von der Leyen, President of the European Commission

"The European Parliament recalls the need to preserve the credibility of our Union and warns the Commission against the use of financial wizardry and dubious multipliers to advertise ambitious figures (...)"
European Parliament, Resolution 2020/2631

"[Infringement proceeding against Germany] would trigger a significant escalation, potentially tipping Germany and other member states into a constitutional conflict that would be very difficult to resolve"
Peter M. Huber, Judge of the German Constitutional Court

- The European Commission approved state aid measures of 9 member states, of total value €12.5 bn.

European Commission

- The Eurogroup specified terms and details on ESM's Pandemic Crisis Support. Eurozone countries will be able to request financial support of 2% of their respective GDP with maximum average maturity of 10 years until 31/12/2022.

Council of the EU

National measures (08-15/05)

Italy: Further stimulus measures of €55 bn were adopted. The new package includes, inter alia, the extension of the unemployment benefit and tax deferrals for businesses.

France: The Minister of Finance announced economic support of €18 bn for the tourism sector that includes, inter alia, tax deferrals and state-backed loans.

Bulgaria: The Prime Minister announced the reduction of VAT for restaurants and the entertainment sector from 20% to 9%.

India: President Modi announced a stimulus package of $266 bn without specifying how it will be distrubuted.

UK: The wage subsidy scheme for furloughed employees was extended until the end of October.

Saudi Arabia: The Government announced further budget cuts of $26.6 bn and an increase of VAT from 5% to 15%.

International Monetary Fund

- From 08/05 to 14/05 the IMF has approved the requests of 8 countries for financial support through the Rapid Credit Facility, Rapid Financing Instrument and Catastrophe Containment and Relief Trust. Total amount approved: 2.1 bn SDR ($2.95 bn)

Breakdown of measures[5] (16/03 – 15/05)

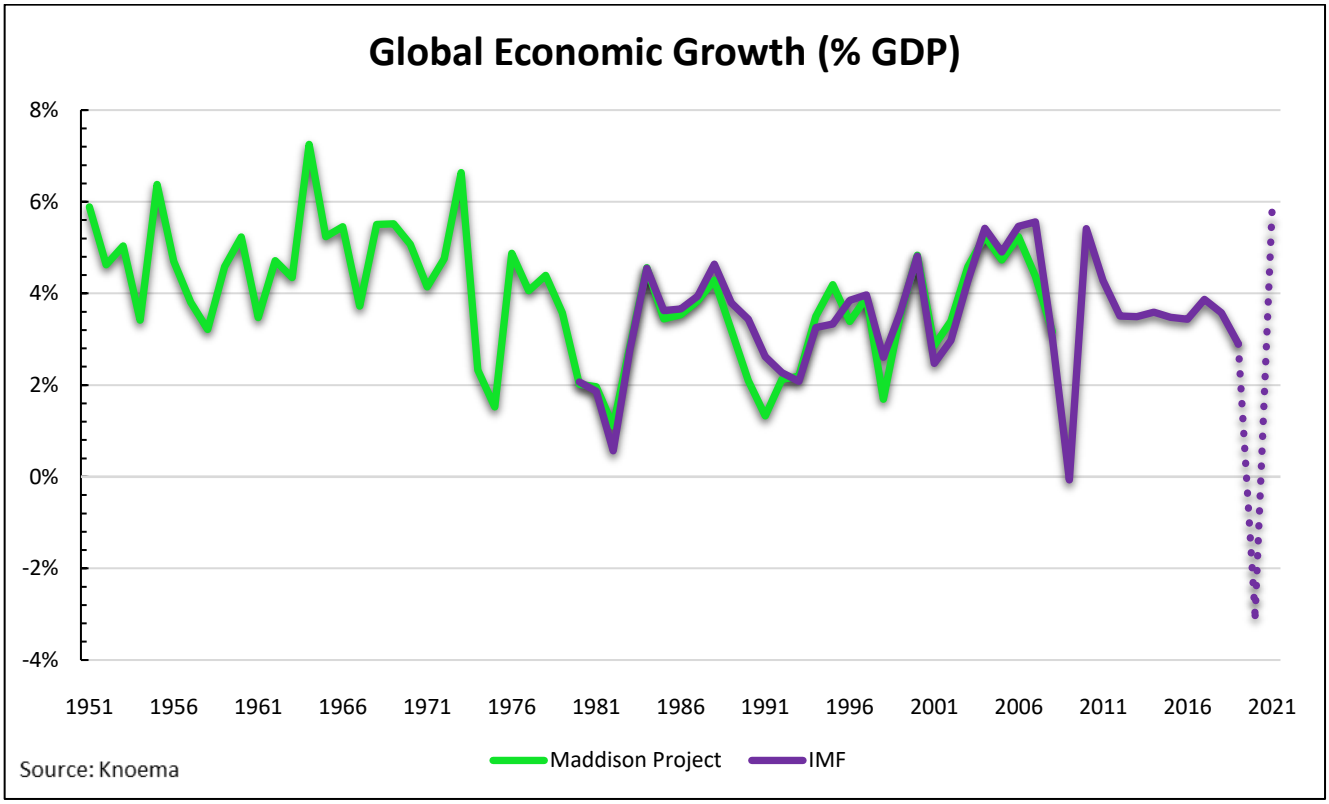
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€56.7 bn	€16 bn	€453.3 bn	€20.1 bn	€26 bn	55.9 bn DKK	€31.2 bn	€3.92 – 3.97 bn	€1 bn[1]	€7.2 bn[1]
B. Monetary Measures (Total)	€1.99 tr.[2]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
C. Loans/Guarantees	€305 bn	€337.9 bn	€530 bn	€819.7 bn	Min. €12.1 bn	€9 bn	66 bn DKK	€112.4 bn	Up to €3 bn	€3.96 bn	€400 m.[1]
D. Tax Deferrals	-	€19 bn[3]	€15.3 bn	€500 bn	€35 – 45 bn (est.)	Up to €10 bn	165 bn DKK	Min. €14 bn	€4.11 bn	€6.2 bn	Not Specified
E. Labour Market Measures[4]	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]	Allowance of €800 to workers temporarily laid off in impacted sectors	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 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.
[3] Combined package of tax deferrals and annulments of €32 bn. As the amount of deferrals and annulments is not separately specified, we adopt Bruegel's hypothesis about the equal distribution of the package with €16 bn for deferrals και €16 bn for annulments.
[4] The amount of these measures – if specified – is included in the fiscal measures.
[5] Sources: IMF Policy Tracker, OECD Country Policy Tracker, Bruegel Institute & official government announcements.

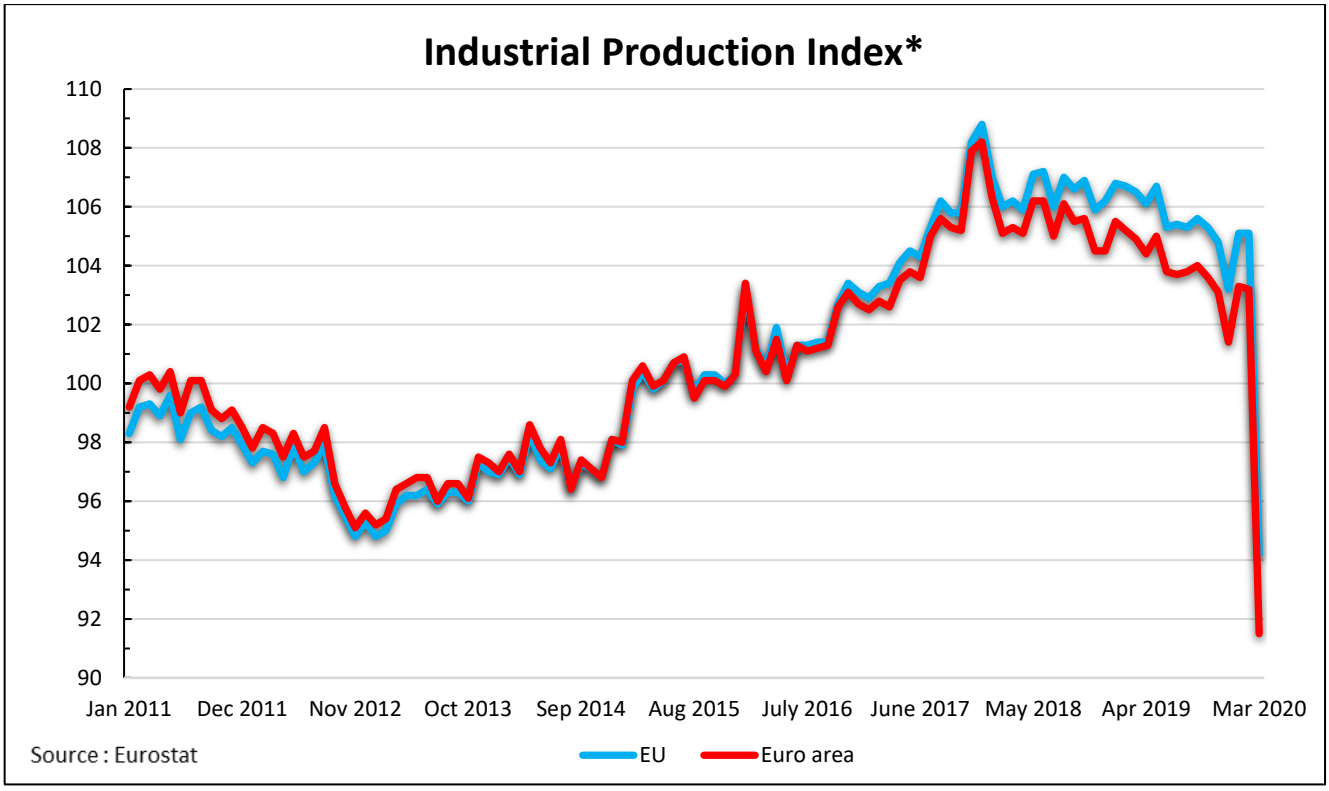
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[6]	≈$1.3 tr.	108.3 bn CAD	193.8 bn AUD	£103.7 bn	¥108.2 tr.[7]	500 bn RUB[8]	1.85 tr. INR[8]	≈ 470 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £645 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 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. 3.7 tr. INR	≈ 1.2 tr. BRL
C. Loans/Guarantees	$1.257 tr.	65 bn CAD	35 bn AUD	£330 bn[8]	Min. ¥2.1 tr.	Not Specified	-	Min. 36 bn BRL
D. Tax Deferrals	$561 bn	85 bn CAD	-	Not Specified	Not Specified	Not Specified	Not Specified	Not Specified
E. Labour Market Measures[9]	$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

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

Recent Economic Developments (11-14/05)

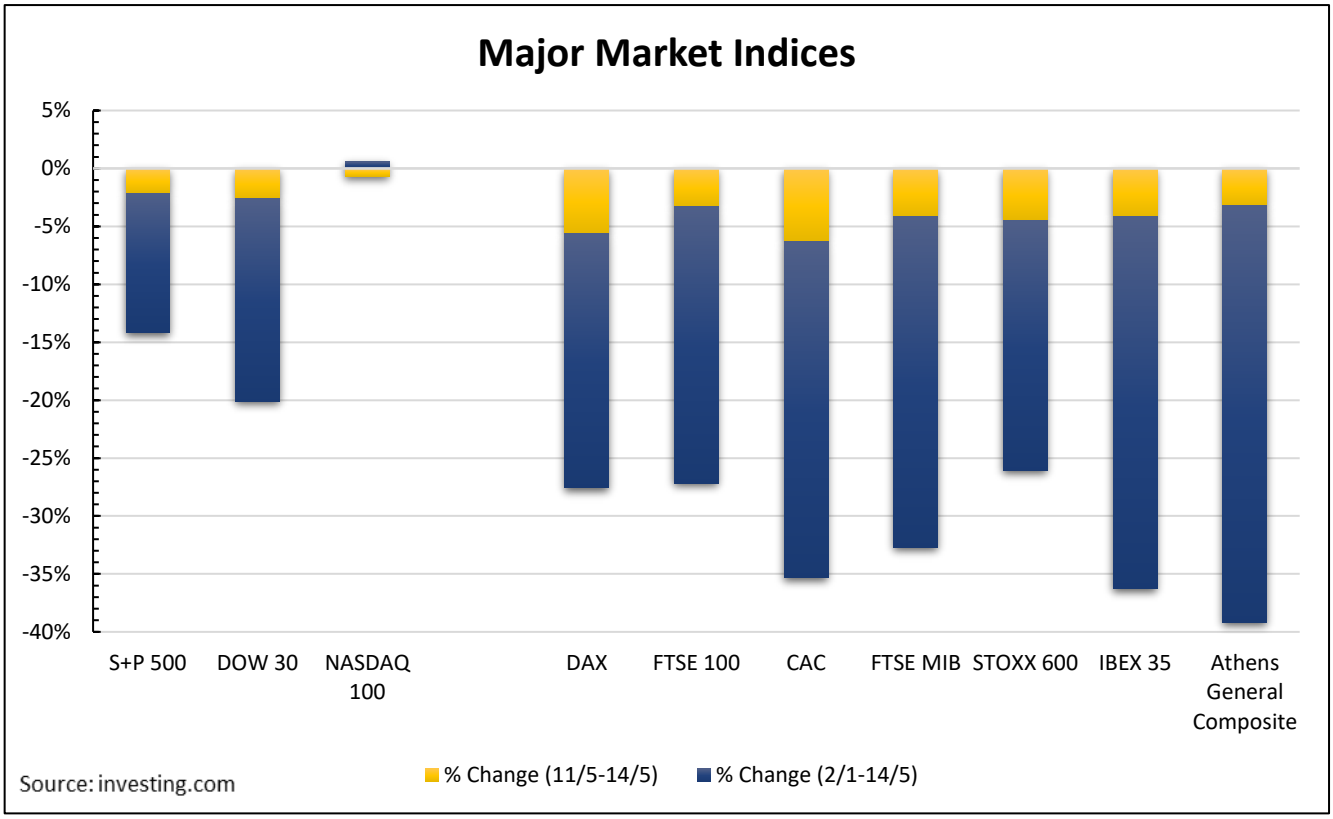


This chart presents Global GDP Growth from 1951 to 2021. The COVID-19 pandemic will lead the world economy to its deepest recession since World War II according to the IMF (14/4). The Global GDP is expected to decline by 3% in 2020 and increase by 5.8% in 2021.

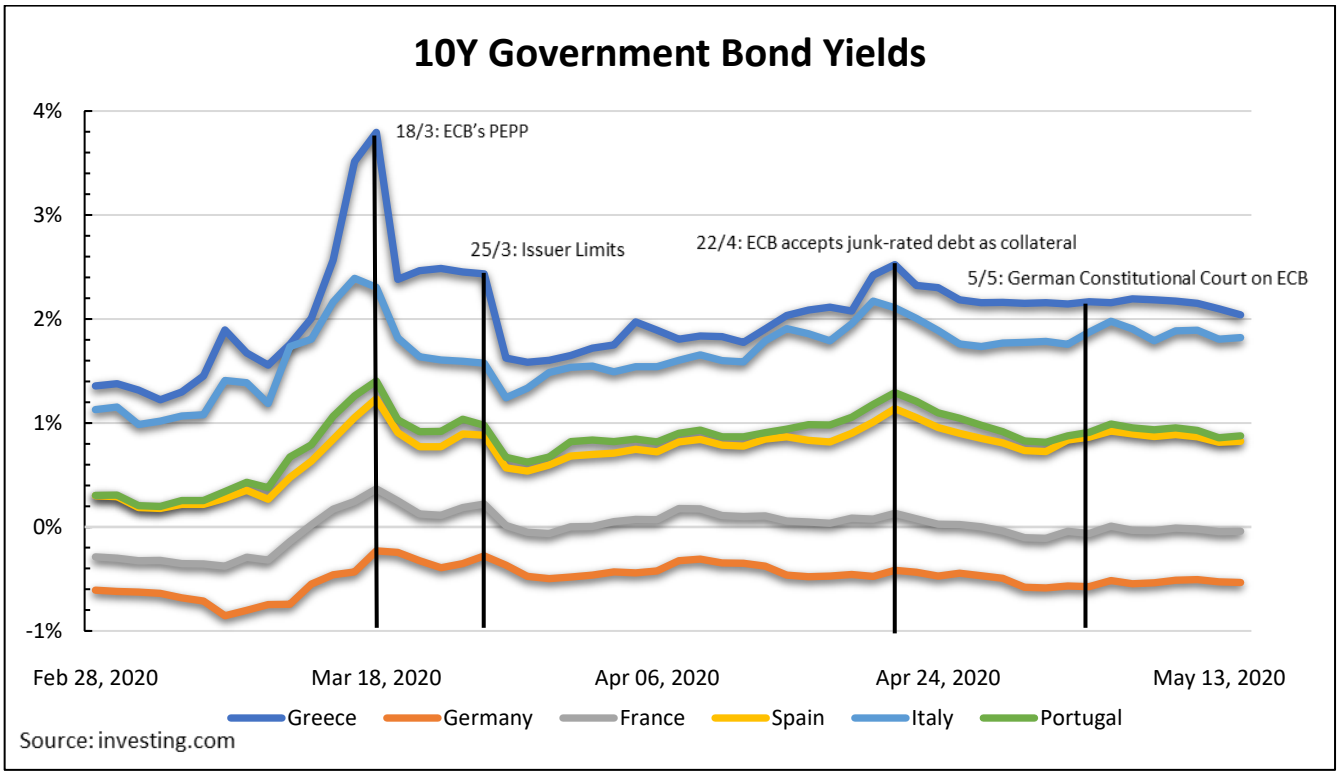


*Base year:2015=100

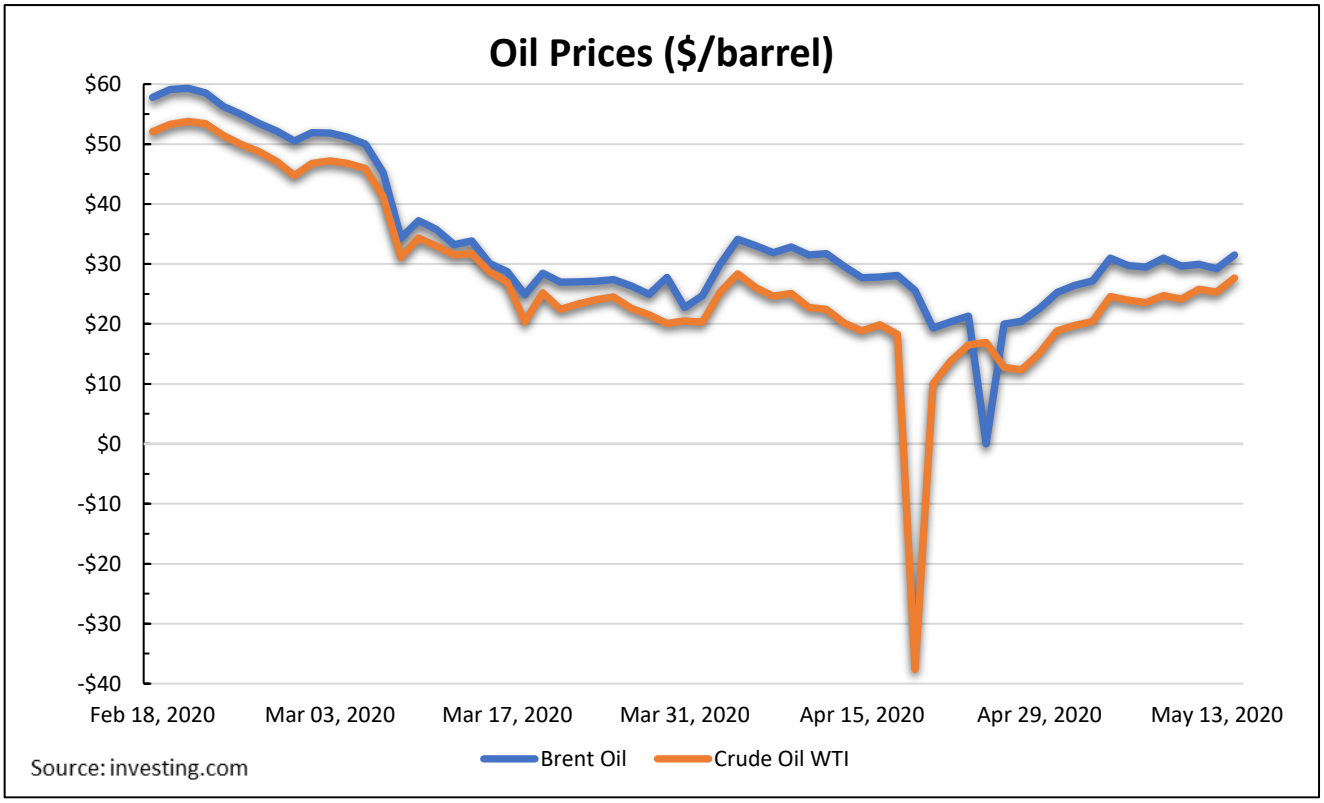
According to estimates from Eurostat (13/5), EU and Euro Area industrial production decreased sharply in March, as several countries went into lockdown.



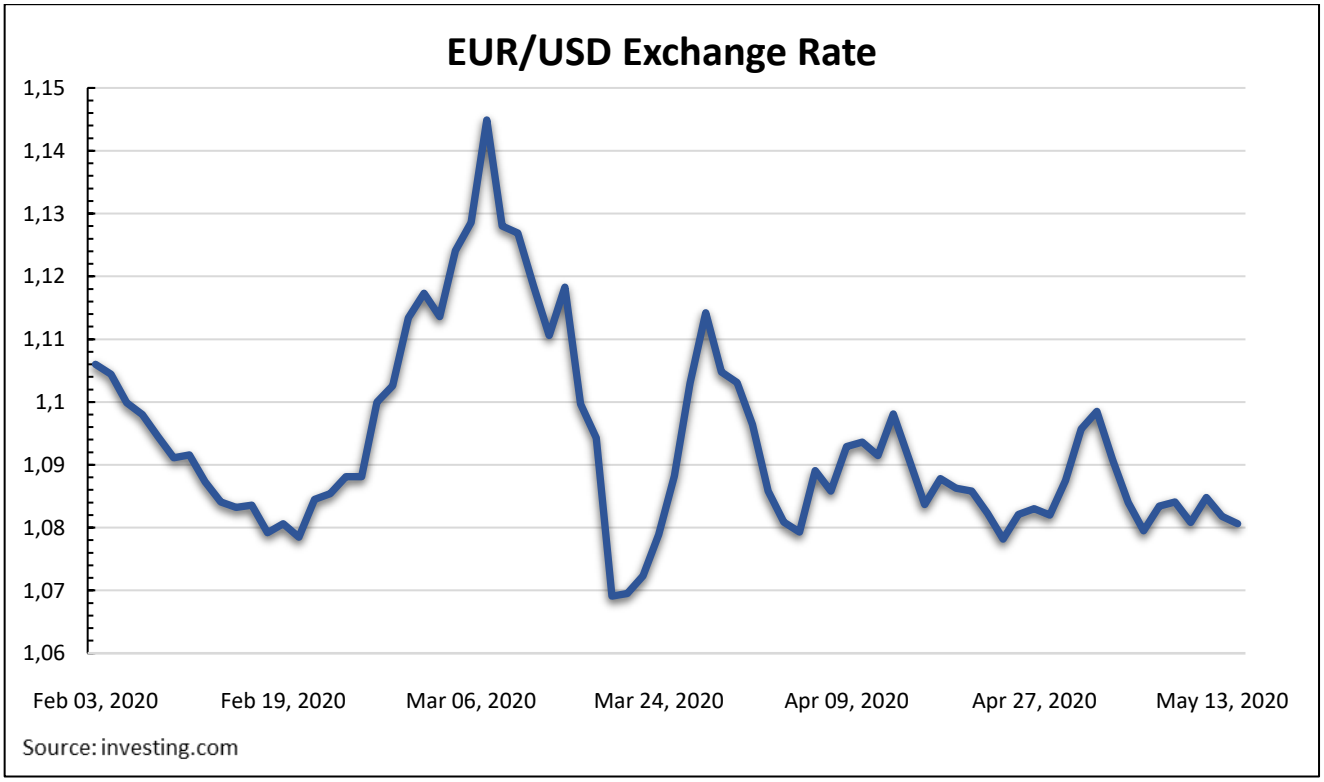
European stocks fell sharply on Thursday with investors reacting to negative macroeconomic developments, such as the decline of the industrial production. Wall Street indices also dropped slightly, following the trend of European Markets.



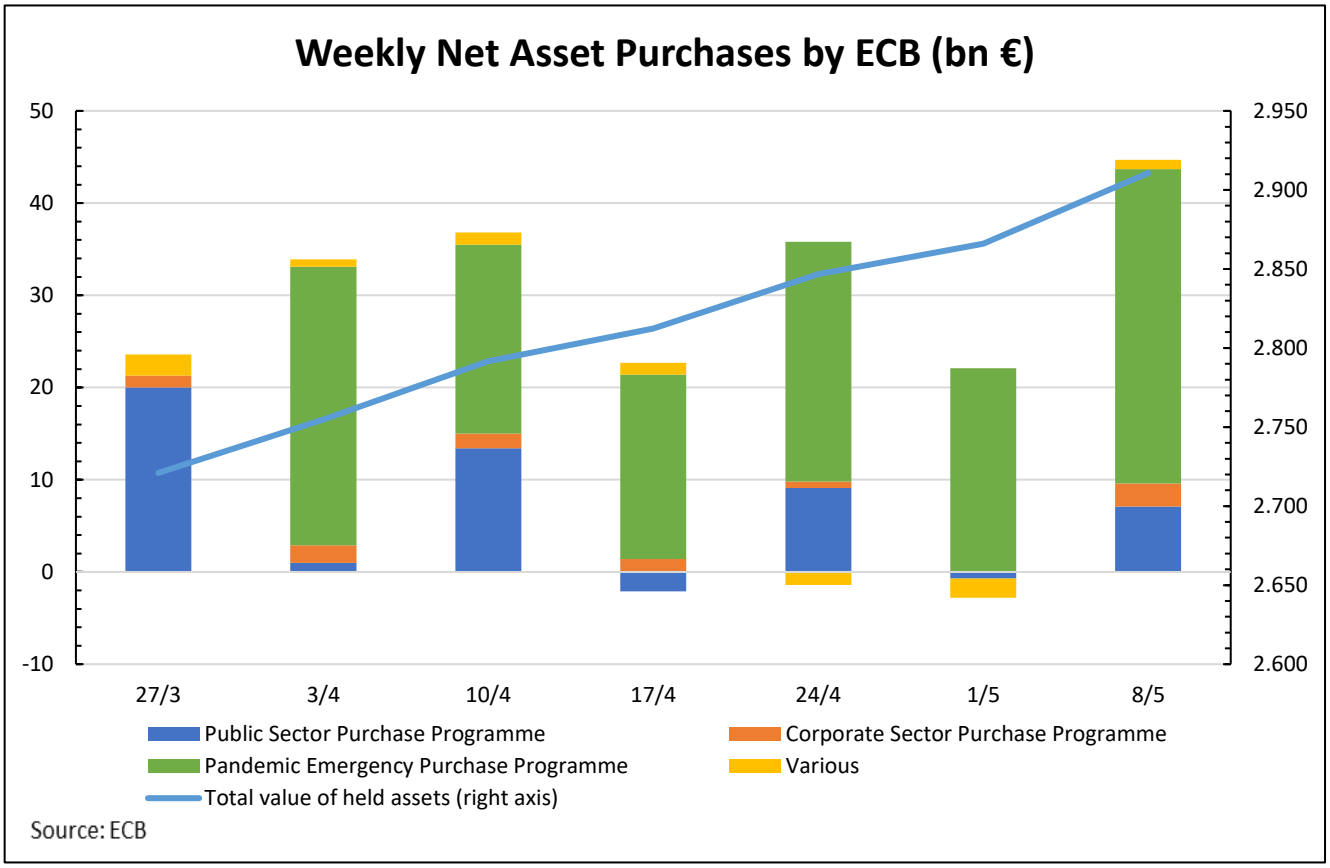
Eurozone government bond yields stabilised this week as the ECB continues PEPP purchases.



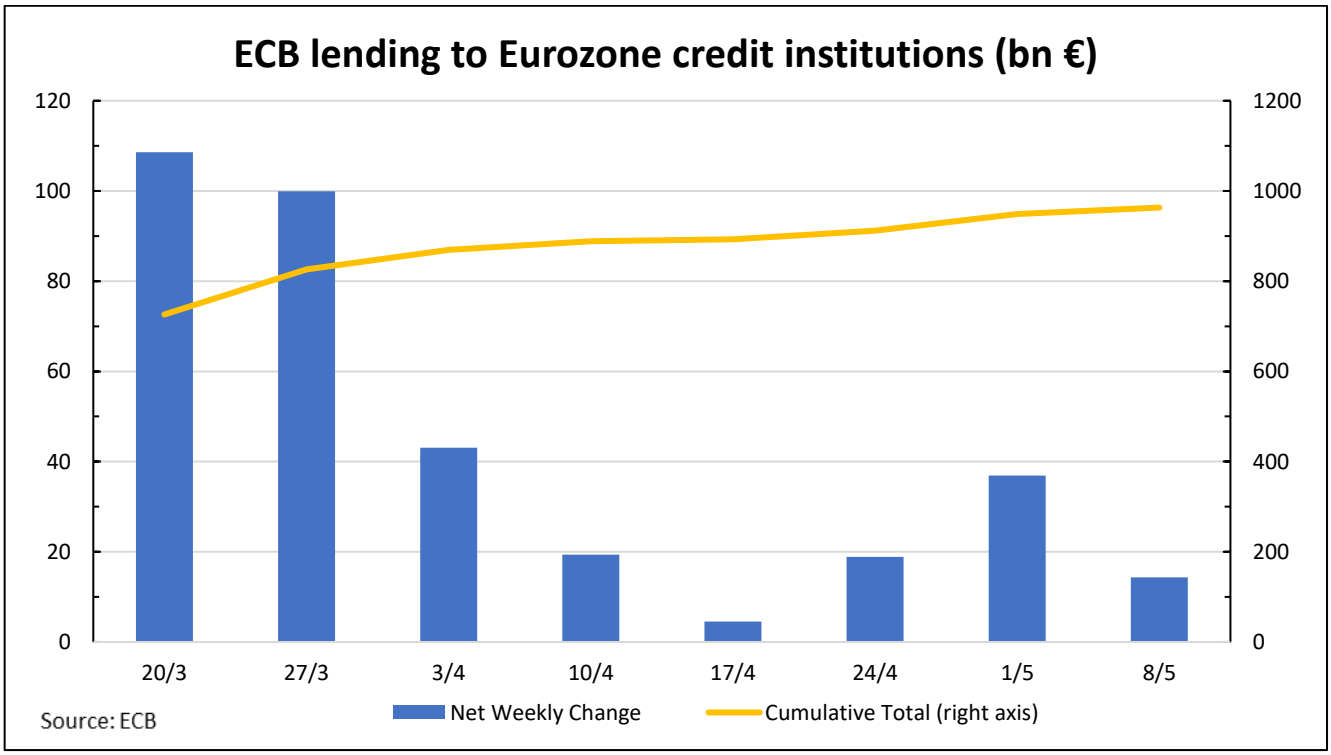
Oil prices settled higher on Thursday after the International Energy Agency forecast lower global stockpiles in the second half of 2020.



In the foreign exchange market, the EUR/USD exchange rate decreased and is currently around 1.0806 $/€.



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 the 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

Despite state support, the COVID-19 crisis is wreaking havoc on households' finances across Europe. As Catarina Midoes shows on Bruegel, **100 million Europeans cannot afford two months without income**, with those born outside the EU especially at risk. Nevertheless, the analysis of Pérez et al. published on VoxEU, suggests that the impact of the COVID-19 crisis is likely to be concentrated in some countries and, generally, on the most vulnerable segments of the working population, since restrictions on economic activity are **mainly affecting workers with lower wages and worse employment conditions**. The impact also appears to be more significant for women and young workers. It is important to notice that these segments of the working population are also probably the ones with fewer resources available to face unemployment and sudden income losses. The challenges for unemployed people are likely to be quite significant in the short- and medium-term, since they will have to look for jobs in a context of subdued economic activity and employment scarcity, calling for large scale policies.

By no means, are the findings of Berg et al. at VoxEU surprising, by suggesting that workers in developed economies are more capable of working from home are not surprising. Many workers in developing nations are employed in occupations that cannot be done from home, and these occupations are more common. It is six times more common to be a street vendor in a low-income country than in a high-income country, and 17 times more common to be an agricultural labourer. Nevertheless, while applying quarantines and social distancing is effective from a public health perspective, the economic consequences are more severe in today's economies (e.g. in times of the Spanish Flu, production was largely home-based), as well as alarming, due to disparities. Of concern are the implications of working from home for work-life balance, which may be difficult to manage particularly if children or other dependents require attention; it may also potentially lead to **discrimination against workers with care responsibilities**.

We should have known that sooner or later — and probably sooner rather than later — we would face an adverse economic shock that conventional monetary policy could not offset, notes Paul Krugman on VoxEU. He believes that there is a very good case for putting **a sustained, productive and permanent program of stimulus** in place as soon as possible, instead of 'scrambling' to come up with short-term measures every time crises arise. More specifically, he proposes that the next US president and Congress move to permanently spend an additional 2% of GDP on public investment, broadly defined (infrastructure, as well as R&D and child development), and not pay for it – similar measures could be adopted in the advanced world as a whole.

Simeon Djankov indicates before the members of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament that the current crisis has important differences with the previous Eurozone crisis. On the one hand, the COVID-19 crisis is truly global, happening simultaneously in the whole world, which limits the opportunity for companies to shift their sales from one market to another, as was largely possible during the eurozone crisis. On the other hand, COVID-19 is at the same time a demand and supply crisis, while the eurozone crisis was primarily a crisis in demand. With these differences in mind, he makes four points. First, **this crisis requires massive government spending**. Second, this spending is through infusion of money into the private sector. Third, this money is best disbursed as interest-free loans through commercial banks. Fourth, as the recovery accelerates—and this may only be next year and in some sectors in 2022—parliaments around Europe need to consider schemes of debt forgiveness for the private sector.

Ultimately, the subsidiarity principle implies that the EU should do what member countries cannot do by themselves. In the context of the current crisis, this implies issuing very long-term debt. Massimo Bordignon and Guido Tabellini argue in VoxEU that this could be achieved by endowing **the new EU Recovery Fund with genuinely own EU sources of revenue**. Providing the EU with revenue from EU own tax bases would also improve the quality of EU expenditures, as well as create a common safe asset along with a more effective and transparent coordination between monetary and fiscal policy in times of crisis. Ultimately, it could pave the way to the creation of a euro area fiscal capacity.

In a commentary published by the European Capital Markets Institute, René Karsenti argues that **social bonds can play a crucial role** in the fight against Covid-19 and in the race to contain the resulting economic fallout and build resilience to future shocks. In addition to direct contributions by governments and philanthropists, innovative finance mechanisms such as social bonds could be used to fund Covid-19 vaccines and effective approaches to treatment.

After all, '**if it comes with interest, it's no recovery**'. This is the title José Gusmão chose for his article on Social Europe, sending a clear message to the leaders of the EU. These funds are crucial, not for high-politics victories but for economic reconstruction and the tackling of poverty and injustice. Additionally, the author claims that recovery funds are not an economic time machine to an era of economic euphoria; instead they could operate as a locomotive for a new, solidary, and green Eurozone. That new model could potentially serve in the future as the new institutional structure, introducing a fair, redistributive, and social system.

The **limits of monetary policy** were clearly set by Jay Powell, Chair of the Federal Reserve, in his statement at the Peterson Institute for International Economics. He said the central bank has lending (and again, he stated that it is not normally the job of a central bank to lend directly to the non-financial private sector and that such measures shall end upon the end of the crisis), but not spending powers. The Fed will do everything to support credit, but the latter, i.e. the heavy lifting, will have to come from the US Congress. His remarks are relevant to the European case, too, for the boundaries of monetary policy are not clear – as the recent judgement of the German Federal Constitutional Court proved.

To those already arguing in favour of domestic production over international trade, the COVID-19 pandemic seems like a case in point. Yet Pinelopi Koujianou Goldberg argues on Project Syndicate that a closer look at the facts shows that, if anything, the current crisis offers powerful evidence of why **we need global supply chains** and widely distributed production. In reality, domestic supply chains are more robust only in highly unlikely scenarios where all other countries are simultaneously hit by a negative shock. If you are the only one not afflicted by a global crisis, it obviously helps to have production located at home. In the case of a pandemic, every country is affected, but outbreaks tend to peak at different times. When the United States is facing the worst of the crisis, other countries may have already flattened their epidemic curves, and can therefore serve as a source of trade – and as such, of resilience.

A paper by Nadina Iacob and Felice Simonelli of the Centre for European Policy Studies, prepared for the Policy Department for Economic, Scientific and Quality of Life Policies of the European Parliament, proposes a regulatory framework for optimising current and potential **benefits of e-commerce for the single market**. In the EU, facilitating access to digital copyrighted content and improving the sustainability of online platforms are priorities.

The myth of the death of the Central Bank is examined by Adam Tooze in his article on Foreign Policy. Faced with the recent decision of the German court, it may be tempting to retreat into a defense of the status quo, against the expanded role that central banks are trying to pursue. That would be a mistake. Though it is flawed in many ways, according to the author, the court's judgment does expose a real gap between the reality of 21st-century central banking and the conventional understanding of its mission inherited from the 20th century. What we need is **a new monetary constitution**, embracing the unique element of central banks – that of independence.

Europe is in the nascent stages of a new debate about China, Andrew Small of the European Council on Foreign Relations notes. A decade ago, the modest but helpful Chinese role in Europe's sovereign debt crisis bought Beijing goodwill, influencing European leaders' China policies to this day. Before the crisis, the EU aimed to strengthen its economic ties with China, initiating larger investment flows, stronger economic presence, and increased bilateral trade. The current crisis is likely to have the opposite effect. Deliberations in Europe about long-term issues ranging from supply chain diversification to telecoms security will take place in an atmosphere of **intensified distrust of the Chinese government**, and of greater clarity about China's role under Xi Jinping's leadership.

Elkerbout et al. of the Centre for European Policy Studies assess the implications of the pandemic crisis on EU climate policy. The post-corona recovery can both put the EU's decarbonisation progress back on track – following an unavoidable hit on low-carbon investments – but the EU's Green Deal proposals can likewise support the general economic recovery. It will be important to ensure that recovery measures are compatible with global climate change and **European Green Deal priorities** so that stimulus money will flow to economic activities that have a place in a climate-neutral world. As time passes, the re-launch may actually offer a unique opportunity for the EU to live up to the Green Deal's promise of economic modernisation along the Paris decarbonisation objectives.

Last, but by no means least, the European Commission recommendations to get Europe ready for the summer holiday season include a gradual approach to open up Schengen borders, as well as health and safety protocols for travel to, as well as within the holiday regions. An extensive article of Der Spiegel about the German border policy during the corona crisis, hails Greek and Portuguese safety measures and estimates that these two countries will enjoy a higher tourist inflow, contrary to Italy and Spain which had the highest death toll in the EU, crippling their tourism industry in 2020. This is a relief sign for Greece and Portugal, as the **'Corona-summer'**, as Der Spiegel named it, **could still be saved**.

ELIAMEP experts write

"Institutional rigidities and distributive coalitions underwrite the EU impasse. Its institutions (such as EMU rules) were built to service historical priorities of the past decades. The EMU shielded itself against the threat of inflation – the enemy now is deflation. It forbade the sharing of risks, the mutualisation of debts and burdens – but today without such risk-sharing imbalances will be accentuated and the internal rift will grow wider. It was made to impose strict observance of the rules (pacta sunt servanda) – but today these rules are leading to a stalemate."

George Pagoulatos, Director General, ELIAMEP, *kathimerini.gr, 10.05.2020*

"The shift in the international economic environment and its growing link to political (domestic and international) aspirations of the main players in the international system complicate the issue of competitiveness for Europe, and direct it towards new solutions that no longer focus only on improving productivity of the European economy, but also favour the adoption of protective action through legal and political means."

Dimitris Katsikas, Head of the Greek and European Economy Observatory, ELIAMEP, *capital.gr, 14.05.2020*

"It has already been sufficiently substantiated that digitisation and automation cause job losses while creating new positions, which, however, require new skills or new combinations of skills. At the same time, new forms of occupational safety and social security are now needed, as many of the existing ones are being overturned. To an increasing degree, this accelerating job loss is irreversible. We saw this in the crisis of 2008, where jobs that were automated relatively easily did not return. So even when the threat of COVID-19 completely disappears, many businesses and organisations will continue to adopt automation solutions either to reduce costs, or because customers now prefer automated processes, as well as to be better prepared to manage a next crisis."

Antonis Trifyllis, Member of the Advisory Board, ELIAMEP & **George Mitakidis**, *tovima.gr, 10.05.2020*

"What is important for Greece is that Turkey is trying to reach an agreement first with the US through soft power and medical diplomacy, but also because Turkey needs the support of the Fed for a currency swap agreement. The criteria for the Fed's support are very strict, many of which are not met by Turkey. It remains to be seen whether, and to what extent, the personal relationship between Trump and Erdogan will have an impact to that effect. It is possible that Erdogan will turn to the ECB for some kind of support. Thus, the EU may play a role – under strict preconditions, in line with the European principles and values, which, however, are likely to be in conflict with Turkey's current stance."

Sotiris Sermpos, Researcher, ELIAMEP, *Interview on sputniknews.gr, 12.05.2020*

"The decision [of the German Federal Constitutional Court] is being issued at a critical juncture for the EU. Expectations for economic solidarity and political initiative are high. If the legal instruments that could meet these expectations are challenged and strong reactions arise, the competent European authorities will be reluctant to take the necessary measures, putting a brake on the dynamics of the EU. And inevitably, the price will be paid by the weakest member-states."

Vasiliki Poula, Research Assistant, ELIAMEP, *ekathimerini.com, 10.05.2020*