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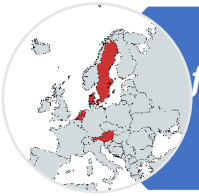
Greek & European Economy Observatory

13th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (12-19/06)

"The pandemic shows us how vulnerable Europe is. Therefore, I want to stress to you that cohesion and solidarity in Europe were never as important as they are today."
Angela Merkel, Chancellor of Germany, Addressing the German Parliament



"We believe that when we borrow money together in the EU, the fundamentally sound way to use that money is to convert it into loans for those who really need them, on the best possible terms."
Excerpt from the op-ed written by the Prime Ministers of SE, NL, DK & AT

"There is no country in the world for which the national budget is 1% of the total wealth. We need to increase this so that we can relaunch our economy."
Elisa Ferreira, Commissioner for Cohesion and Reforms

"The money must be found elsewhere: in the pockets of big tech, big polluters, and tax dodgers. (...) The Parliament will give its consent to the next MFF only if a basket of new own resources is introduced"
Letter of the Leaders of 5 EP political groups to European Council

European Commission

- The Commission launched the 'Re-Open EU' platform to provide useful information for Europeans willing to travel within the EU.
- The Commission will also provide financial aid of €60 m. to 8 countries of the Horn of Africa to alleviate the impact of the pandemic.

National measures (12-19/06)

Germany: The Government will invest €300 m. in CureVac, a biotech company, taking a 23% stake.

Spain: The governing coalition approved further fiscal stimulus of €16 bn which includes, inter alia, increased funding for healthcare and income support measures.

Austria: The Minister of Finance presented a new stimulus package of €19 bn.

USA: The Fed announced the initiation of corporate bond purchases in the secondary markets.

UK: The Bank of England decided to maintain its benchmark rate at 0.1% and to increase asset purchases by £100 bn, to £750 bn.

Japan: The Central Bank decided to increase bank lending by ¥35 tr., to ¥110 tr. (≈$1 tr.).

Asian Infrastructure Investment Bank

- The AIIB approved loans of a total $1.35 bn for India, Mongolia and Pakistan, within the framework of its COVID-19 Crisis Response Facility. These loans come on top of another $1.6 bn in loans that have been approved since early April.

Breakdown of measures[6] (16/03 – 19/06)

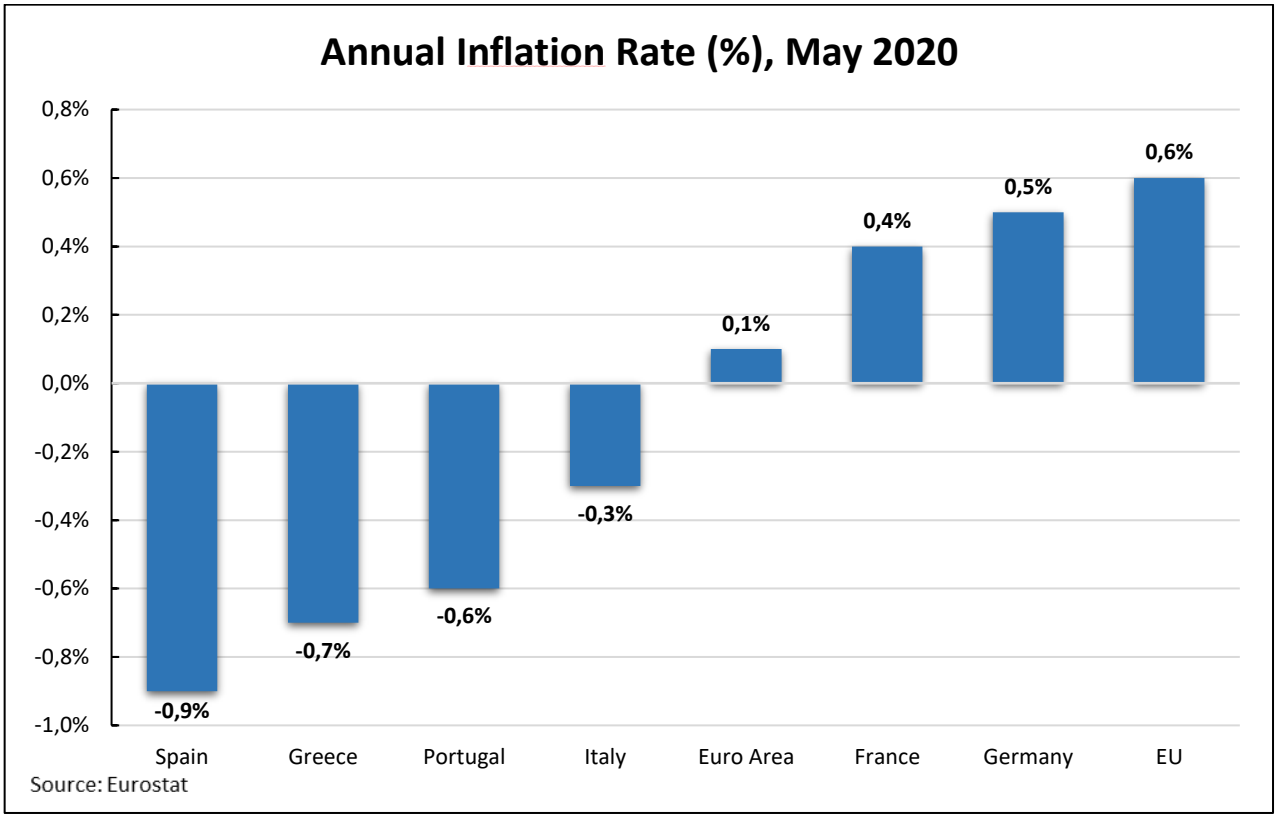
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€110 bn[2]	€52.5 bn	€286 bn	€33.1 bn	€12.2 bn	120.9 bn DKK	€31.2 bn	€24 bn[3]	€1 bn[1]	≈ €6.8 bn[1]
B. Monetary Measures (Total)	€2.6 tr.[4]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
C. Loans/Guarantees	€305 bn	€315 bn	€530 bn	€819.7 bn	Min. €12.1 bn	€9 bn	70 bn DKK	€112.4 bn	Not Specified	€13 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.

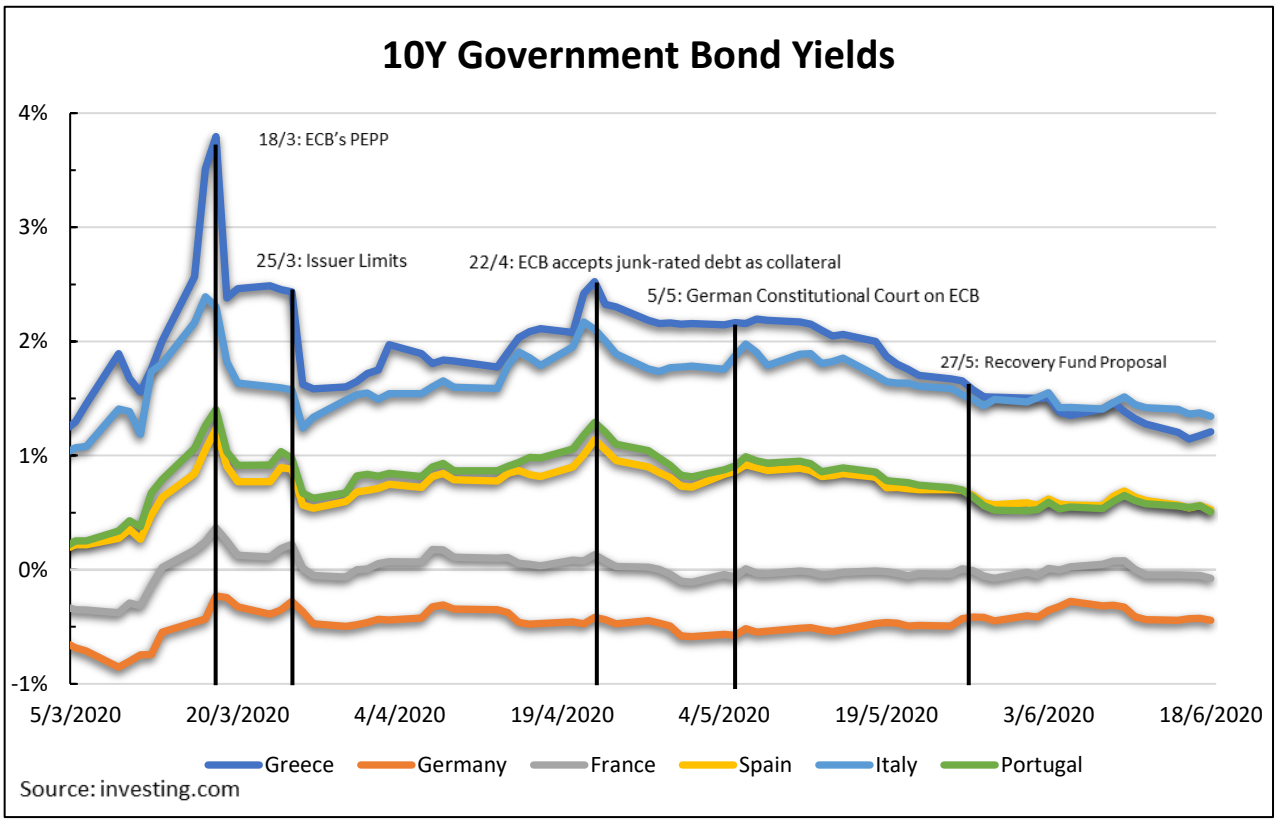
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[7]	≈$1.7 tr.	120 bn CAD	133.8 bn AUD	£132.5 bn	¥148.9 tr.[8]	≈3.2 tr. RUB[8]	9.45 tr. INR[8]	≈ 580 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £940 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 1.2 tr. BRL
B1. Asset Purchases	Not Specified	Not Specified	Not Specified	Min. £750 bn	Not Specified	Not Specified	Not specified	-
B2. Bank Liquidity	Not Specified	Not Specified	Min. 90 bn AUD	Min. £190 bn	Not Specified	700 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. ¥2.135 tr.	Not Specified	-	≈ 253 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.

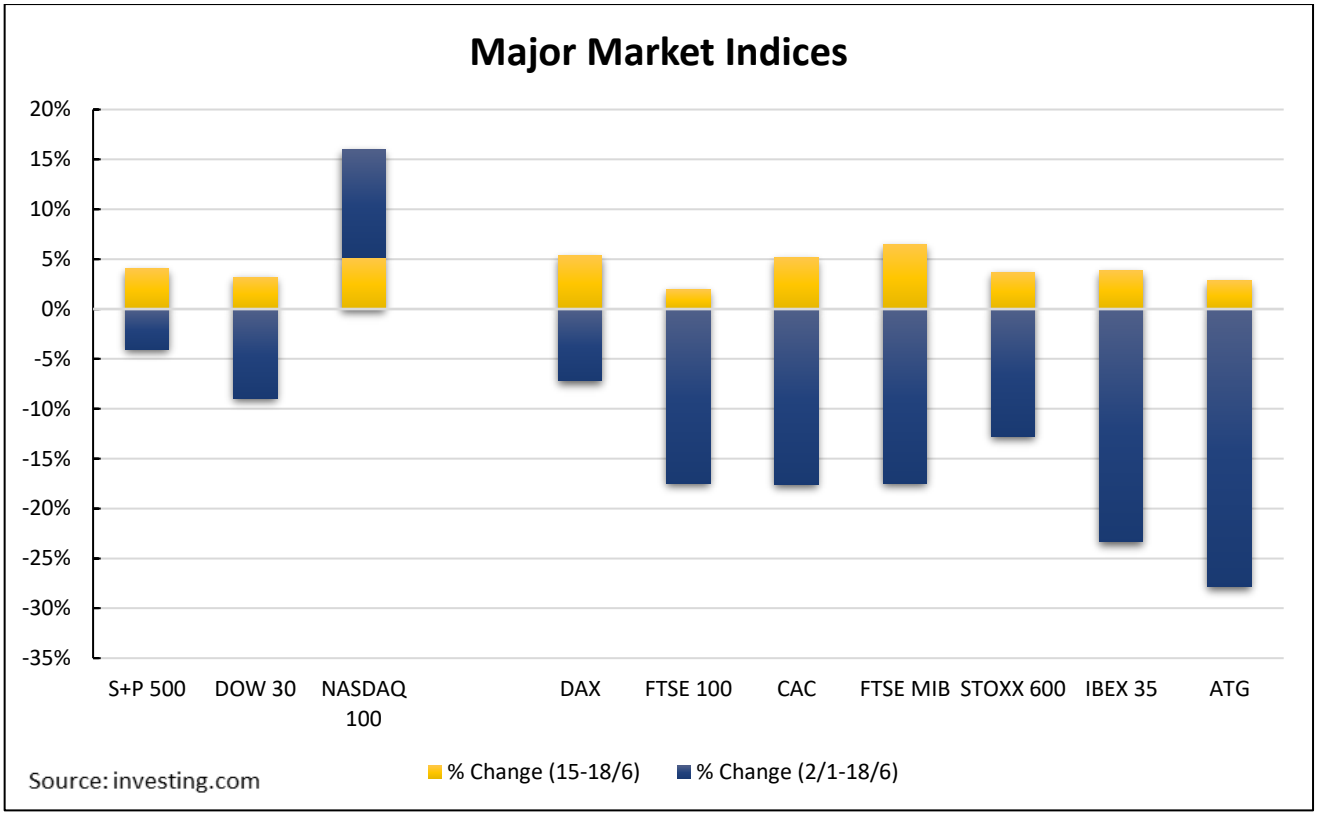
Recent Economic Developments (15-18/06)



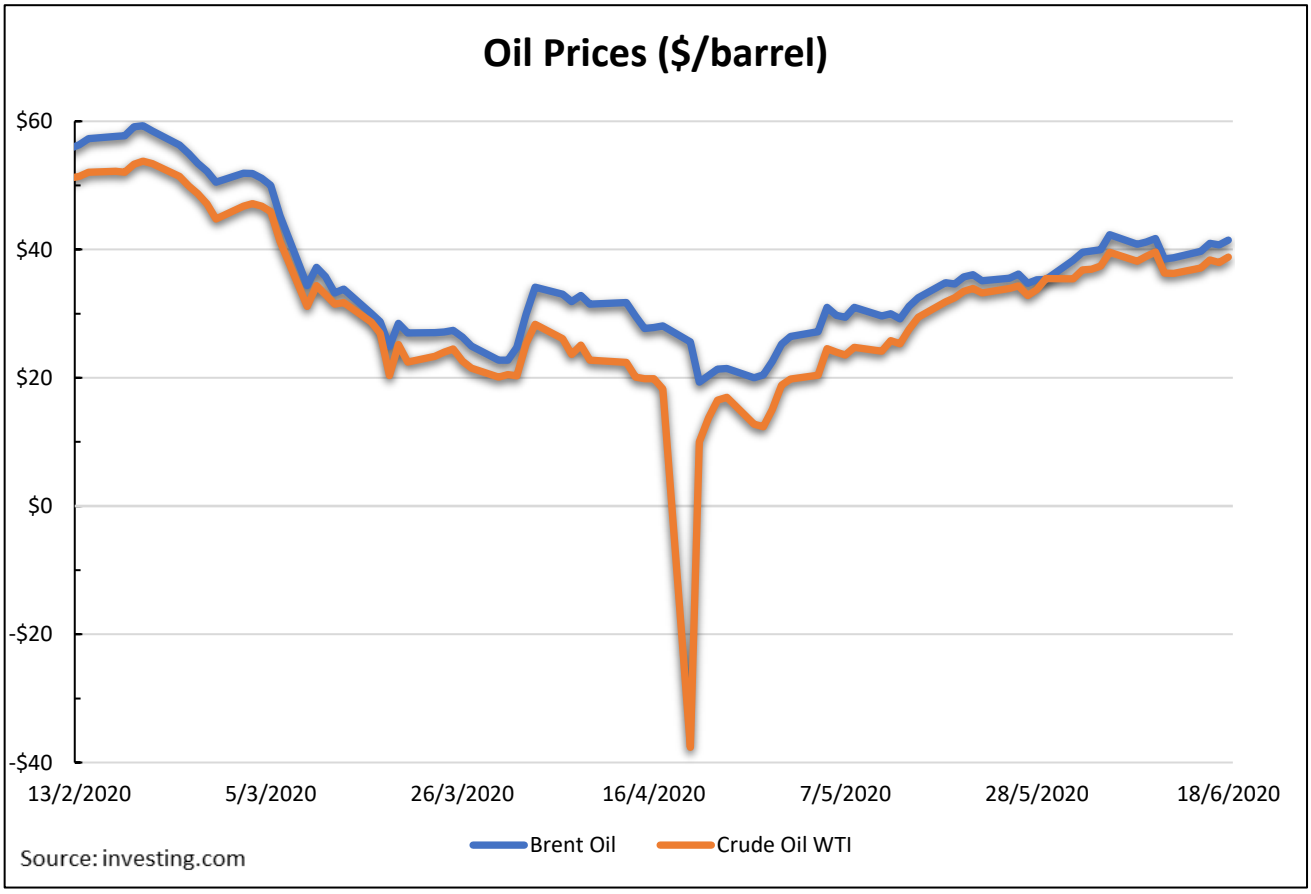
According to Eurostat (17/6), the inflation rate in May in the Euro Area and EU was 0.1%, and 0.6% respectively. Among member states included in this chart, Spain and Greece recorded the lowest inflation rates, -0.9% and -0.7% respectively.



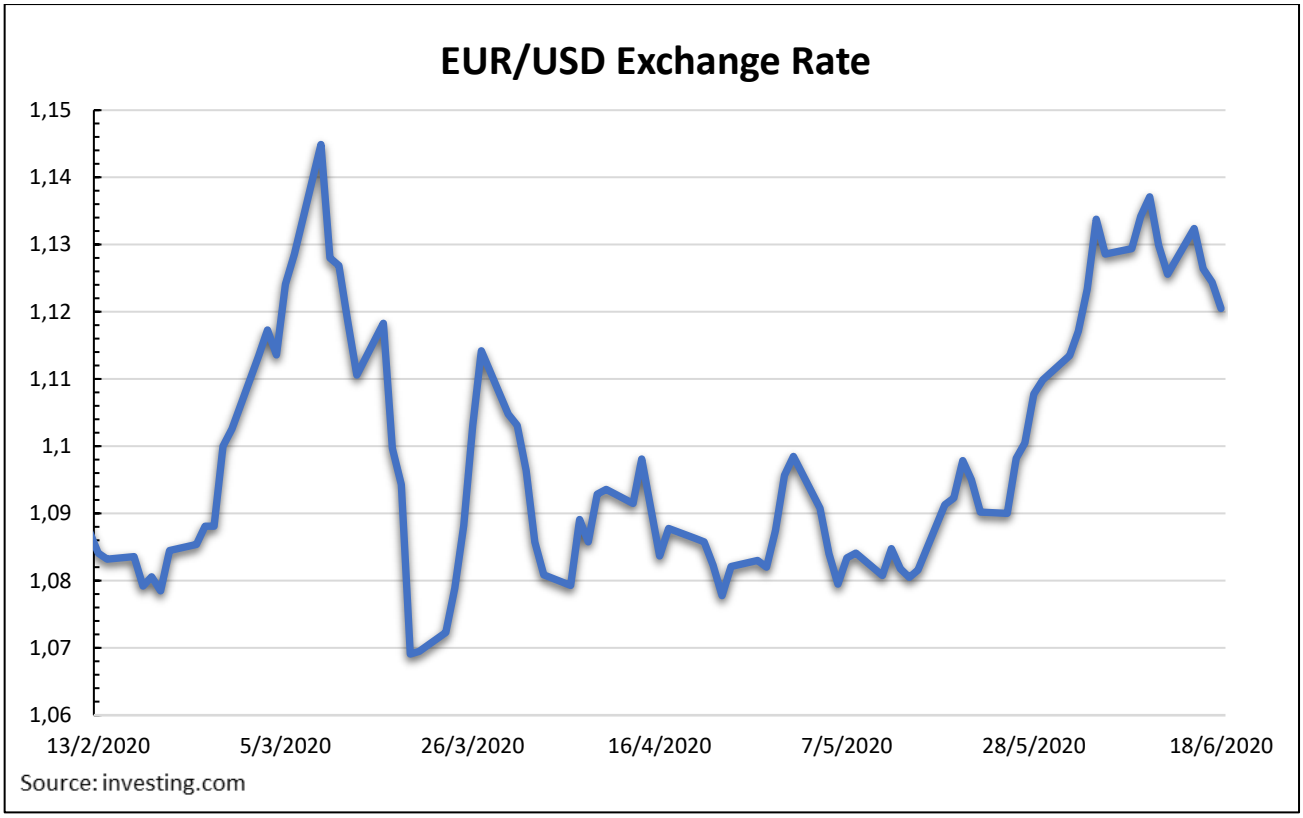
European government bond yields for both the core and periphery countries fell this week. The Greek bond yield continued its declining trend since the breakout of the pandemic.



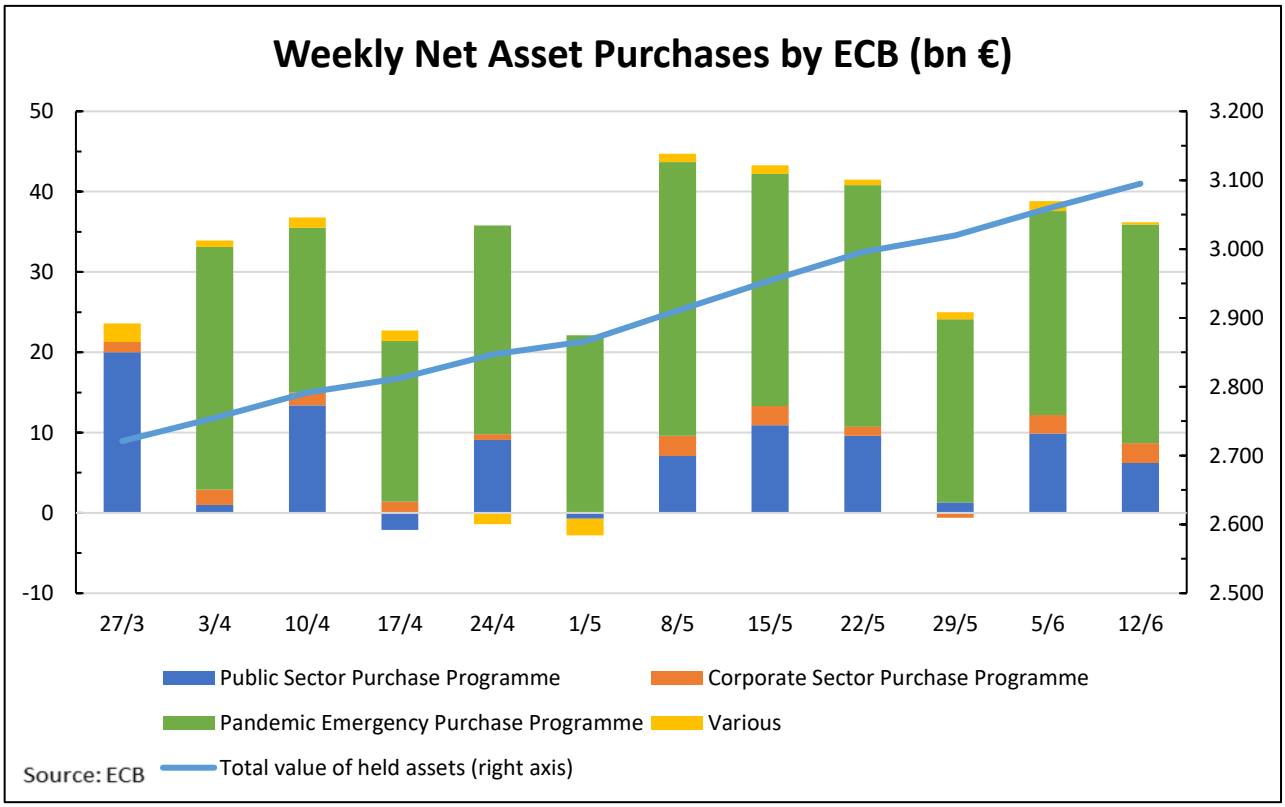
Both Wall Street and European indices climbed this week. European markets moved higher following the positive market sentiment in the sovereign bond market.



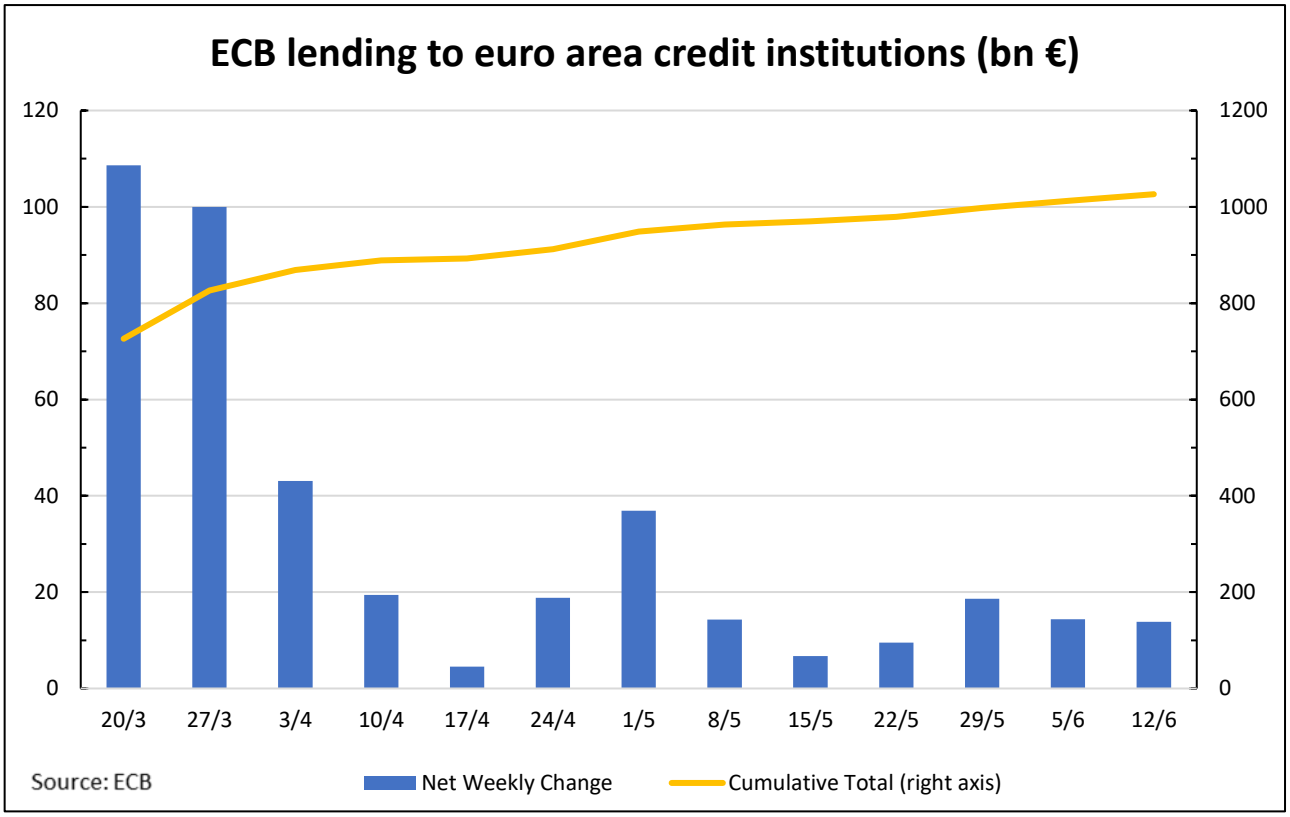
Oil prices settled higher on Thursday with the international benchmark Brent trading at $41.47 per barrel and the American benchmark WTI at $38.84 per barrel.



In the foreign exchange market, the EUR/USD exchange rate decreased this week and is currently at 1.1205 $/€.



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

When European leaders convene on the 19th of June, the main question will be **how much EU member states can expect to receive from the European Commission's recovery proposals**, i.e. the €750 billion 'Next Generation EU' plan and the additional €11.2 billion amendment to the 2020 annual budget. Despite the fact that the Commission has so far shied away from publishing an estimate of national shares, according to Zsolt Darvas of Bruegel, cross-country allocations will include both an insurance element (countries hit harder get more EU funds) and a redistribution element (countries with lower GNI per capita get more EU funds). More specifically, based on the Commission's proposal, Italy and Spain would be the largest beneficiaries of grants in terms of absolute sums, while Bulgaria, Greece and Croatia would receive the highest shares of their GNIs, around 15%. Regarding guarantees, Italy and France would be the largest beneficiaries in absolute sums, while Greece would top the list in terms of GNI share. Yet the proposal would represent a net benefit for all EU countries, even if there is only a small positive economic impact over the long-term. The proposed very long-maturity loans would lead to non-negligible benefits, exceeding 1% of GDP for some countries.

Enforced social distancing and lockdown measures to contain COVID-19 restrict economic activity, especially among workers in non-essential jobs who cannot 'telework', with severe implications for inequality and poverty. Juan Palomino, Juan Rodríguez and Raquel Sebastian analyse on VoxEU the capacity of individuals in 29 European countries to work under lockdown and the potential impact of a two-month lockdown on wages and inequality. Firstly, they show that **the lockdown increases poverty in all European countries**; more specifically, they find a 10% mean loss rate for poor workers, i.e. those below 60% of the median wage. This goes up to 22.5% when an additional 6-month period with partial functioning of closed activities is considered. Secondly, the proportion of poor workers increases significantly for all European countries. The average increase is 4.9 percentage points under two months of lockdown and 14.5 percentage points with an additional partial closure period of six months. These values imply that – assuming the absence of counteracting government measures – the percentage of poor people in Europe may substantially increase, even if lockdown does not last long.

A powerful, albeit controversial, instrument in every central bank's toolkit is the monetisation of government deficits. According to Paul de Grauwe and Sebastian Diessner on VoxEU, **one of the main virtues of monetary finance in the current context is that it would spare governments from having to issue new debt**: if all new debts were monetised, the crisis would not increase government debt-to-GDP ratios. For countries suffering the worst of the pandemic, the threat of a bondholder panic that would destabilise the euro area will have been removed from the equation. This advantage has underpinned growing acceptance of the argument that some form of monetary finance is becoming inevitable, in light of the severity of the current downturn. However, a number of fundamental objections are commonly raised against all forms of monetary finance: a) risks of runaway inflation once the road of monetisation is taken, b) the supposed illegality of monetary finance in the EU, c) by financing government debt through money creation, the central bank merely exchanges one type of debt for another and d) monetary finance is argued to be incompatible with central bank independence. The authors conclude that the price to be paid is moderate inflation in the medium term, but is a price worth paying, since we would avoid future sovereign debt crises in the euro area.

It is the responsibility of Europe's leaders to ensure that recovery reaches children too, underlines Réka Tunyogi on Social Europe. Daycare and schools, as well as targeted social services, such as psychological support, family counselling and home visits, have been shut down during the lockdown. Therefore, children and families in vulnerable situations are missing out on much-needed support. Governments should seek exemptions from deficit rules to enhance social investment while pursuing national reforms of child-protection systems and policies aimed at preventing poverty and inequality. Moreover, **the EU budget powering the recovery plan promises at least 5% of total expenditure under the European Social Fund Plus to help lift children out of poverty.** Its endorsement by the EU leaders would be a milestone for investment in children.

Amidst this crisis, there is an urgent need of extending the Brexit transition period, yet **the UK government is adamantly refusing to either ask for, or accept an extension**. It is highly unlikely that the government will change its mind before July 1, the deadline stipulated by the Withdrawal Agreement to agree to an extension of up to one to two years. Assessing the different scenarios, which all involve huge uncertainties, Fabian Zuleeg, Tobias Lock and Jannike Wachowiak of the European Policy Centre argue that the most legally sound option appears to be the conclusion of a mixed treaty. But even then, a lot of obstacles remain. A mixed agreement would involve a lengthy ratification process and the likely return of vested interests and political disagreements within the UK and the EU. Once the UK realises that the EU is not willing to compromise the integrity of the Single Market to grant them the deal they want, the question of how to buy more time will be back on the agenda.

Another fundamental EU crisis concerns the rule of law in its member states. In 2017, the Hungarian government had passed a law, which obliges foreign-funded NGOs to report all the grants they receive from abroad. This week, according to Der Spiegel, the ECJ has decreed that this measure violates EU law**.** This applies even more pressure to Hungary, which has developed a habit of ignoring EU law, especially on asylum and migration. According to Charles Grant of the Centre for European Reform, **there are dangerously too many divides between member states.** The 'West vs East' divide regarding human rights and pluralism is added to the pre-existing 'North vs South' rift over economic policy, in times of deglobalisation, 'Nation First' policies, and pending unrest (e.g. the yellow jackets in France).

When it comes to the agricultural sector, many employers seem to continue to fail to provide decent working and employment conditions, according to Johan Danielsson et al. on Social Europe, despite the fact that the EU devotes 38% of its budget to support the sector. The COVID-19 crisis has highlighted those concerns due to the unacceptable working and employment conditions of the sector, regarding health and safety, and its dependence on migrant workers whose freedom of movement has been limited by the lockdowns. It is time for the EU to send a clear message: **funding is not for those who exploit workers**. Any funds withheld could be used for other objectives, such as worker training, or for strengthening the capacity of the European Labour Authority (ELA). In addition, the EU should support the capacity-building of social partners in the sector and promote collective bargaining. The high demands on the rest of the business community, for proper use of EU funding, should also apply to agriculture.

Southeast European countries start from a different point in the transition to the European Green Deal. They face systemic challenges both in their energy markets and in implementing the EU's energy acquis, according to Mihnea Catuti, Irina Kustova and Christian Egenhofer of the Centre for European Policy Studies, and that is why a more regionally focused approach is required. The authors examine three countries in the region that have been sometimes seen as reluctant to embrace this transition, Bulgaria, Greece and Romania. They find that six main barriers might prevent more integrated and efficient markets in the region: a) high dependence on fossil fuels, often supported by policy, b) market concentration and state intervention, c) illiquid markets, d) occasional poor interconnectivity and cross-border energy trade, e) poor regulatory framework and institutional design, and f) weak strategies for managing the transition. **The combination of carbon-intensive energy sectors, relatively low energy efficiency, and the below-EU average GDP per capita of Bulgaria, Greece and Romania, makes the transformation both technically challenging and politically sensitive**. The European Green Deal and the 'just transition' offer new opportunities for the region (including COVID-19 recovery funds) to develop lower carbon intensity energy systems. But cash injections alone will not be sufficient additional custom-tailored mechanisms that reflect its specific needs during the transition are needed.

Like every continent, Africa has been bracing itself for a sharp economic downturn. However, this is also an **opportunity to promote the growth of African small and medium-sized enterprises (SMEs)**, according to Assia Sidibe on Project Syndicate. Since the beginning of the outbreak, young entrepreneurs and SMEs have been actively involved in developing innovations to combat the potential effects of the virus in African countries, showcasing their flexibility and adaptability. Properly resourced, these innovations could support manufacturing industries that would strengthen Africa's defences against COVID-19 and create long-term sustainable businesses offering stable jobs. Governments should ensure access to start-up capital and create a transparent and reliable regulatory environment. Business leaders on their side, should provide early-stage funding, seed capital, and mentoring workshops for young innovators in order to boost entrepreneurship.

Die Welt's panorama of the constant briefing regarding COVID-19, features Turkey's first criticism against the German government, following the latter's decision to label **Turkey as a high-risk area for summer vacations**. Even today, Turkey remains the third most popular tourist destination for Germans, after Spain and Italy. At the same time, Spain is gradually opening its borders and it is estimated that 11,000 German tourists visited the Balearic Islands, with only 6 COVID-19 cases recorded. Finally, Die Welt mentions that **Greece is also expected to receive significant tourist inflows** from the North, as it is properly prepared with 687 doctors and staff and 450 beds exclusively for the Greek islands.

ELIAMEP experts write

"The German government bought a 23% stake of CureVac to prevent a hostile acquisition. This is a type of state aid and intervention we had not been used to in the European Union. We are heading towards a redefinition of industrial policy in the European Union with the logic of protecting companies from hostile takeovers and third countries, in our case the US and China. Moreover, we are witnessing the emerging pursuit of European autonomy in an environment where global supply chains are gradually breaking down and vital production is becoming more localized. There is a pursuit of reducing dependence of supply chains on China. All these together with green development, and the new emphasis on social cohesion and strengthening public health systems, constitute the new post-pandemic environment in Europe leaving behind a more lasting legacy."

George Pagoulatos, Director General, ELIAMEP, *iefimerida.gr, 17.06.2020*

"The German leadership seems to have realized the pressing need to support the economies of the South, as a new deep economic crisis, on a background of intense Euroscepticism inherited from the previous crisis, would pose a significant threat to the sustainability of the eurozone. At the same time, the recent decision of the German Constitutional Court showed the limits of the ECB's 'creative' monetary policy, indirectly imposing, rather ironically, fiscal action. The circumstances are favourable as Chancellor Merkel seems more interested in her political legacy, which leads her to adopt the compromising positions of her Social Democrat governing partners."

Dimitris Katsikas, Head of the Greek and European Economy Observatory, ELIAMEP, *TO VIMA, 14.06.2020*

"With a pandemic-caused recession ante portas, the US needs the rare consensus between the two major parties at home and good trade relations that are currently lacking abroad. A new fiscal stimulus package will need broad consensus, which, though, due to Trump, seems impossible. With interest rates reaching 0, the margin for monetary manoeuvre has almost disappeared. The last hope in Euro-American relations is the failure of the current president in the upcoming elections."

Thanos Veremis, Vice-President of the Board of Directors, ELIAMEP, *TA NEA, 13.06.2020*

"The Commission has finally proposed an ambitious but realistic combination of subsidies and loans of 750 billion euros, which will raise the EU budget to 2% of its Gross National Income for the period 2021-2024. This amount will be drawn from international capital markets, guaranteed by the EU budget, which is a major institutional innovation, resulting from the inability to cover such an amount through an increase in national contributions or from the EU's own resources. In other words, the fiscal need created the imperative for bold institutional adjustments."

Panayiotis Ioakimidis, Member of the ELIAMEP Advisory Board, and **Alekos Kritikos**, Senior Policy Advisor, ELIAMEP, *TA NEA, 15.06.2020*

"While the US economy is in recession and there are millions of unemployed, these mobilizations across the country are raising hopes for political change in and beyond Washington. The slogan 'Without (racial) justice, there is no peace' is already prompting initiatives for legislative changes in Congress. Many senior business executives in the United States, from the Bill and Melinda Gates Foundation to the African-American head of the pharmaceutical company Merck Co Kenneth C Frazier, have publicly addressed the problem of racism in law enforcement and called on the business community to take action."

Jens Bastian, Senior Policy Advisor, ELIAMEP, *TA NEA, 13.06.2020*