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ΕΛΛΗΝΙΚΟ ΙΔΡΥΜΑ ΕΥΡΩΠΑΪΚΗΣ & ΕΞΩΤΕΡΙΚΗΣ ΠΟΛΙΤΙΚΗΣ
HELLENIC FOUNDATION FOR EUROPEAN & FOREIGN POLICY
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Greek & European Economy Observatory

15th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (26/06-03/07)

"It is more important than ever that we help the next generation of Europeans to thrive and get on the jobs ladder, especially at this time of crisis. We are proposing clear and specific ways forward for our young people to get the professional chances that they deserve."
Valdis Dobrovskis, Executive Vice-President of the European Commission

"We have understood that we need to complete EMU. If we had completed the banking union, progressed towards a genuine capital markets union, and if we had had a common budgetary instrument for the euro area, the shock would have been more contained."
Luis De Guindos, Vice-President of the ECB

European Fiscal Board

"Ideally, a central fiscal capacity or a dedicated investment fund would be complemented by a reformed Stability and Growth Pact that simplifies the fiscal framework while allowing governments to effectively protect growth-enhancing government expenditure."
European Fiscal Board

- The Commission approved an extension of state aid rules adopted as part of the 'State Aid Modernisation' reform package in May 2012, which would expire at the end of 2020.

European Commission

European Commission

- The Council agreed on postponing the implementation of the new CAP legal framework until the end of 2022.

Council of the EU

03/07/2020

National measures (26/06-03/07)

Italy: The Minister of Education announced €2.5bn of financial support to schools in order to facilitate their reopening in September.

Greece: The Prime Minister announced economic measures of €3.5bn which include, inter alia, tax relief and financial support for the tourism sector.

Portugal: The Government announced that it has reached a deal with TAP to take an additional 22,5% stake of the air carrier, priced at €55m., thereby, increasing its total stake at 72,5%.

Sweden: The Central Bank decided to expand its asset purchase programme by 200bn SEK, to 500bn SEK. It, also, announced the initiation of a corporate bond purchase programme of 10bn SEK.

USA: The Senate voted in favour of extending the small business bailout programme until August 8, 2020.

India: The Government will provide 800m. people with free food grains of total worth $12bn to reduce the risk of mass hunger.

International Monetary Fund

- On June 26, the IMF approved the requests of Egypt and Myanmar for financial support through the Rapid Credit Facility, Rapid Financing Instrument and Catastrophe Containment and Relief Trust. Total amount approved: 4bn SDR ($5.5bn)

Breakdown of measures[6] (16/03 – 03/07)

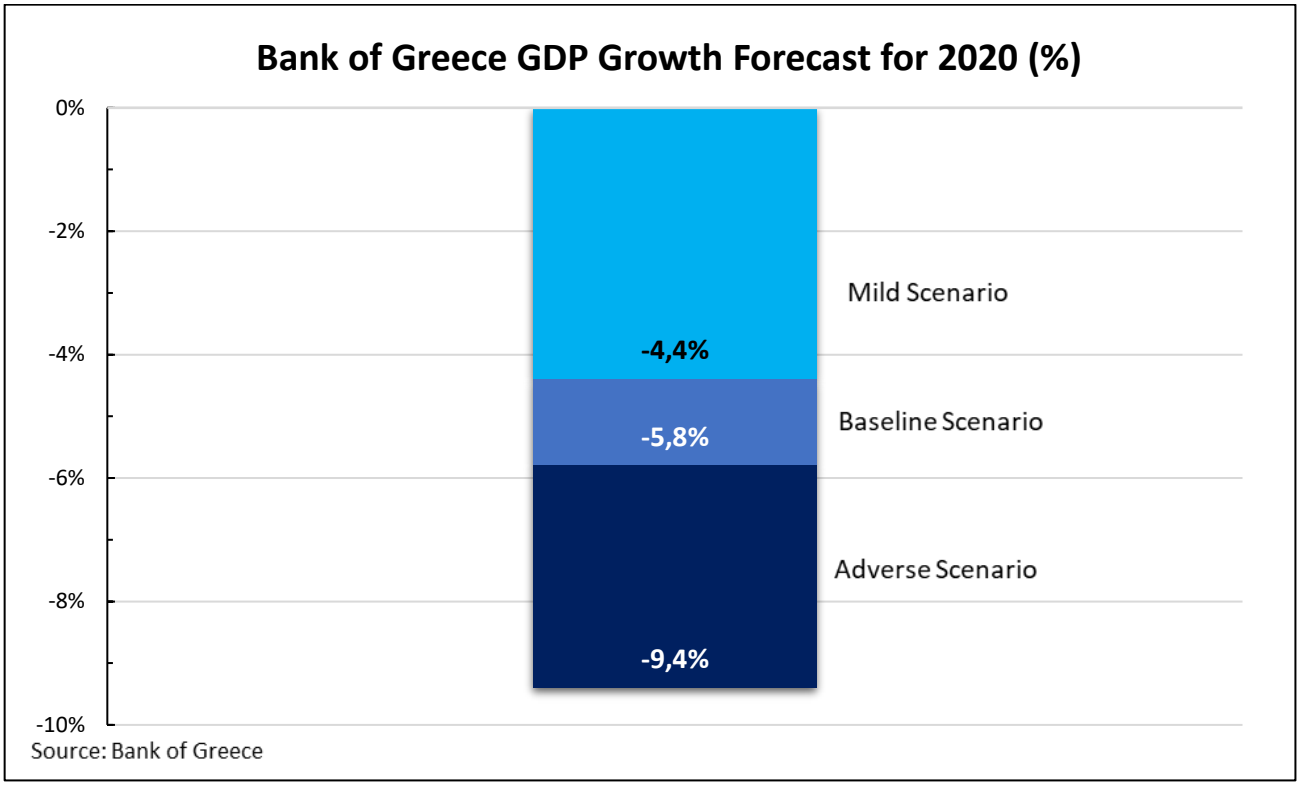
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€110 bn[2]	€52.5 bn	€286 bn	€33.1 bn	€42.2 bn	131.4 bn DKK	€31.2 bn	€24 bn[3]	€1 bn[1]	≈ €6.8 bn[1]
B. Monetary Measures (Total)	€2.6 tr.[4]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
C. Loans/Guarantees	€305 bn	€315 bn	€530 bn	€819.7 bn	Min. €30.6 bn	€9 bn	70 bn DKK	€112.4 bn	Not Specified	€13 bn	Min. €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.

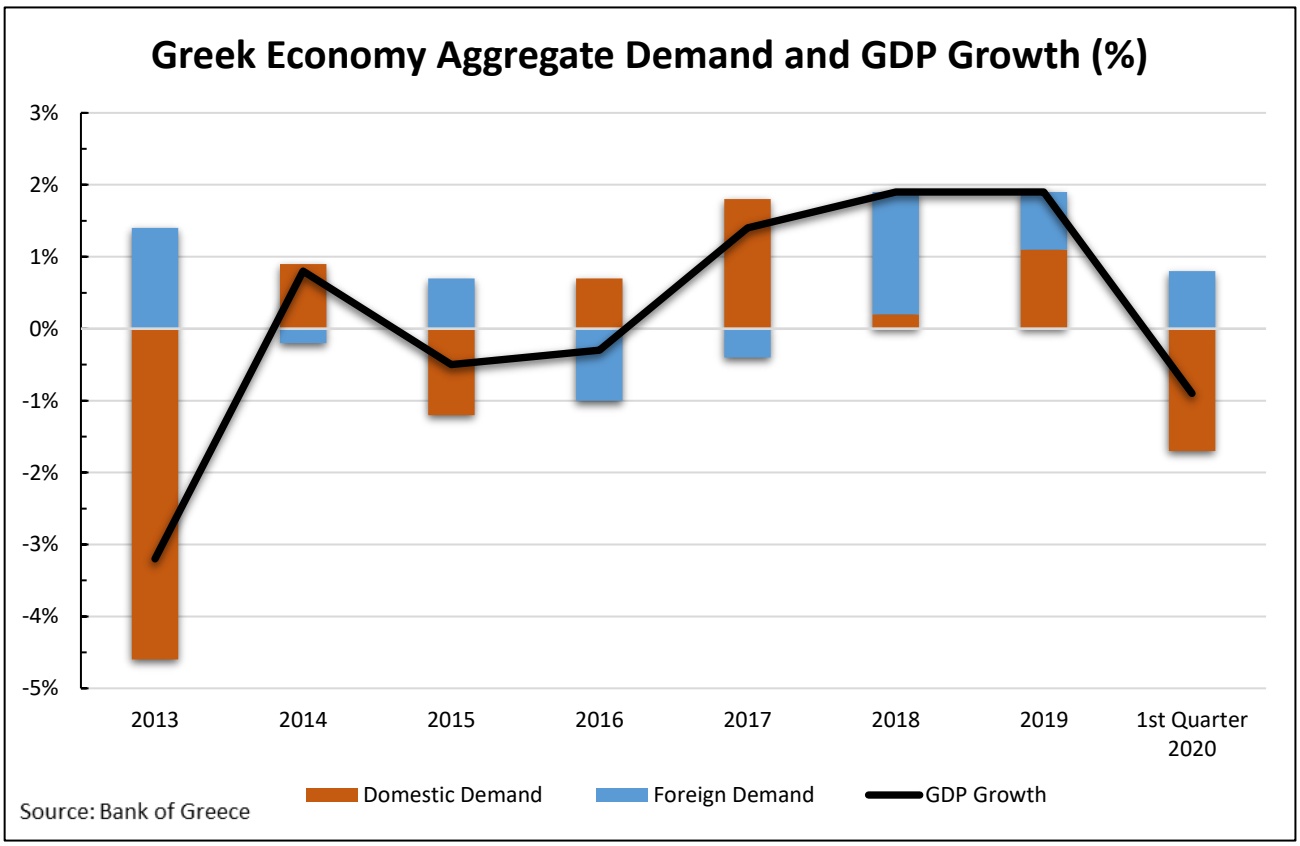
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[7]	≈$1.7 tr.	120 bn CAD	133.8 bn AUD	£132.5 bn	¥148.9 tr.[8]	≈3.2 tr. RUB[8]	9.45 tr. INR[8]	≈ 800 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £940 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 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.

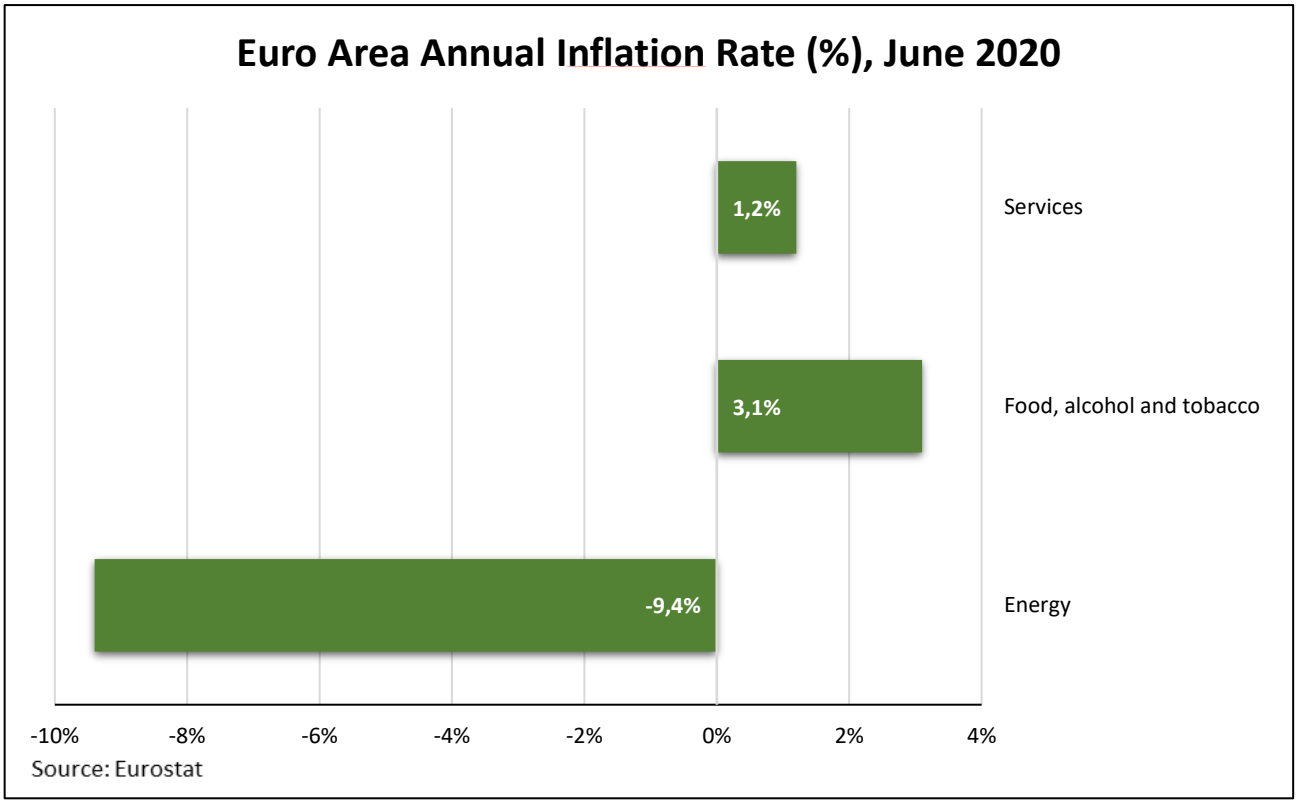
Recent Economic Developments (29/06-02/07)



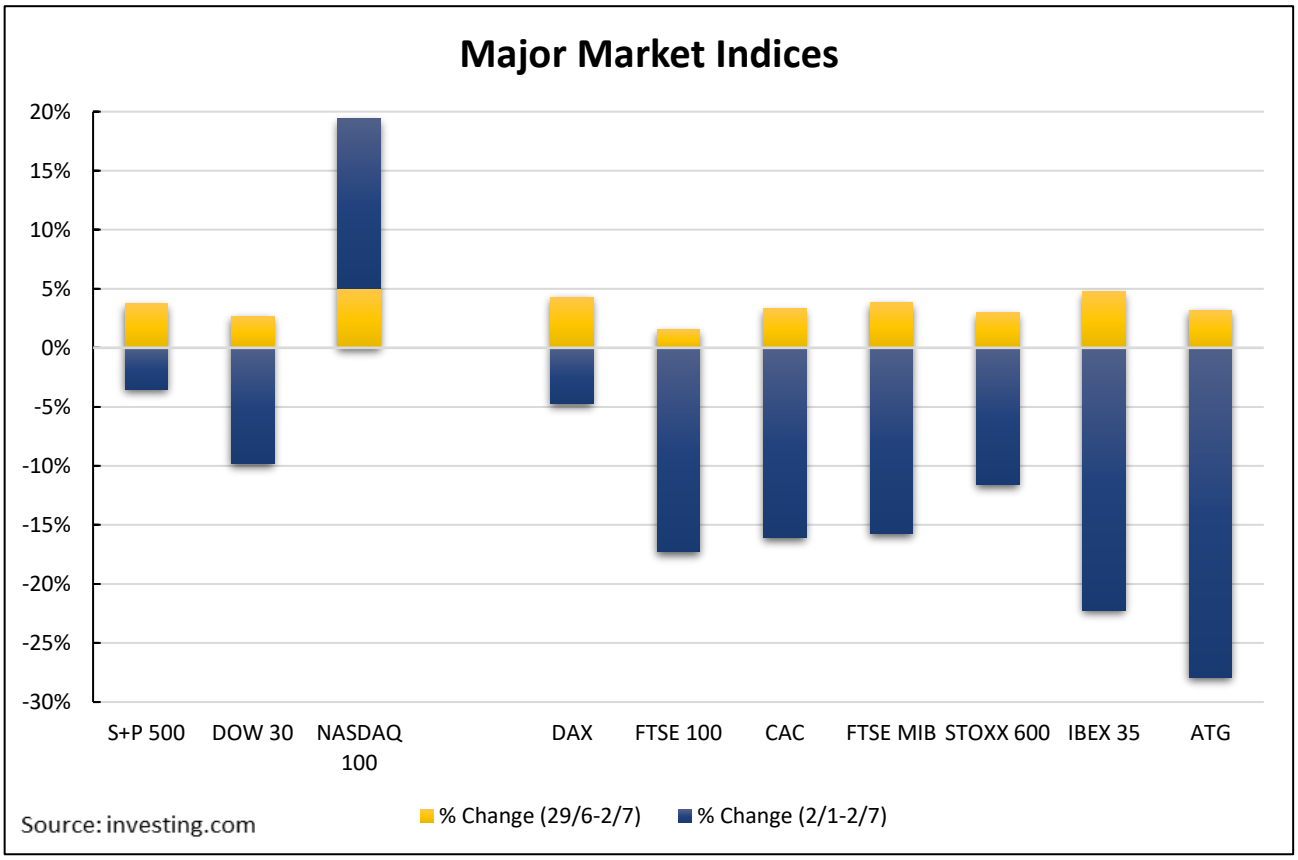
According to the Monetary Policy Report (29/6) published by the Bank of Greece, the economic activity in 2020 is expected to contract from 4.4% to 9.4%. The baseline scenario foresees a GDP decline of 5.8% .



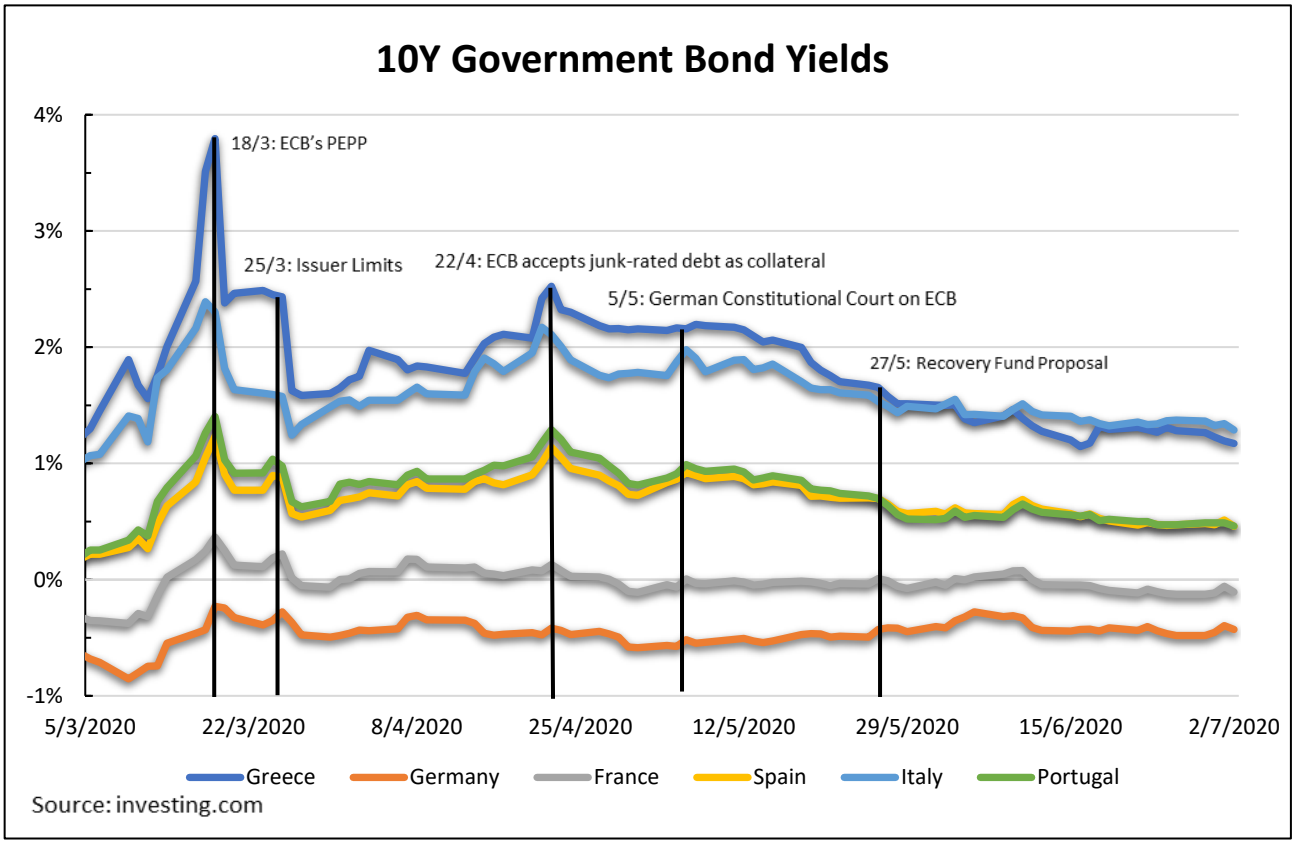
According to the Monetary Policy Report (29/6) published by the Bank of Greece, the lockdown measures implemented in most countries during the first quarter of 2020, led to a weaker external demand for Greek products and services. Domestic demand was lower compared to 2019, and GDP declined by 0.9% on a year-on-year basis.



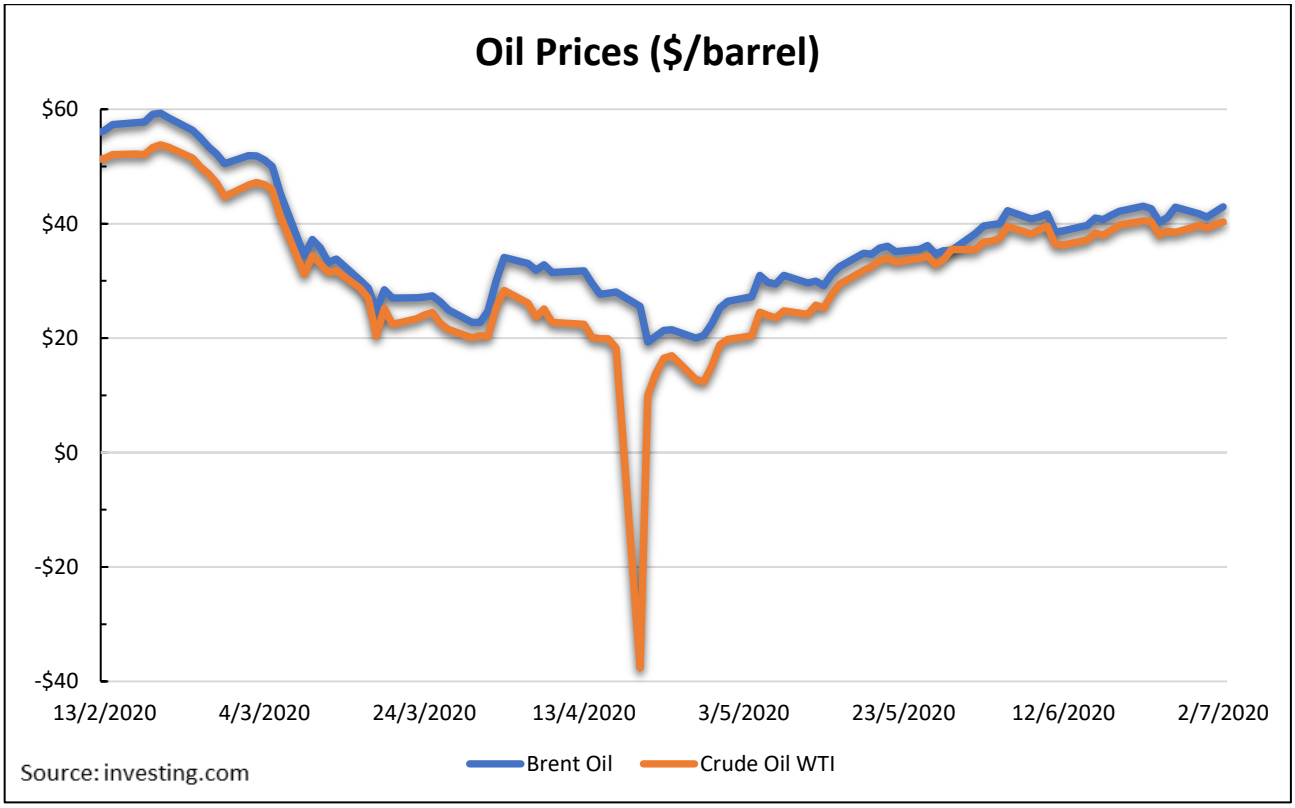
According to Eurostat (30/6), the main components of euro area inflation, food, alcohol & tobacco have the highest annual rate in June followed by services-. The energy inflation rate was -9.4%, compared with -11.9% in May.



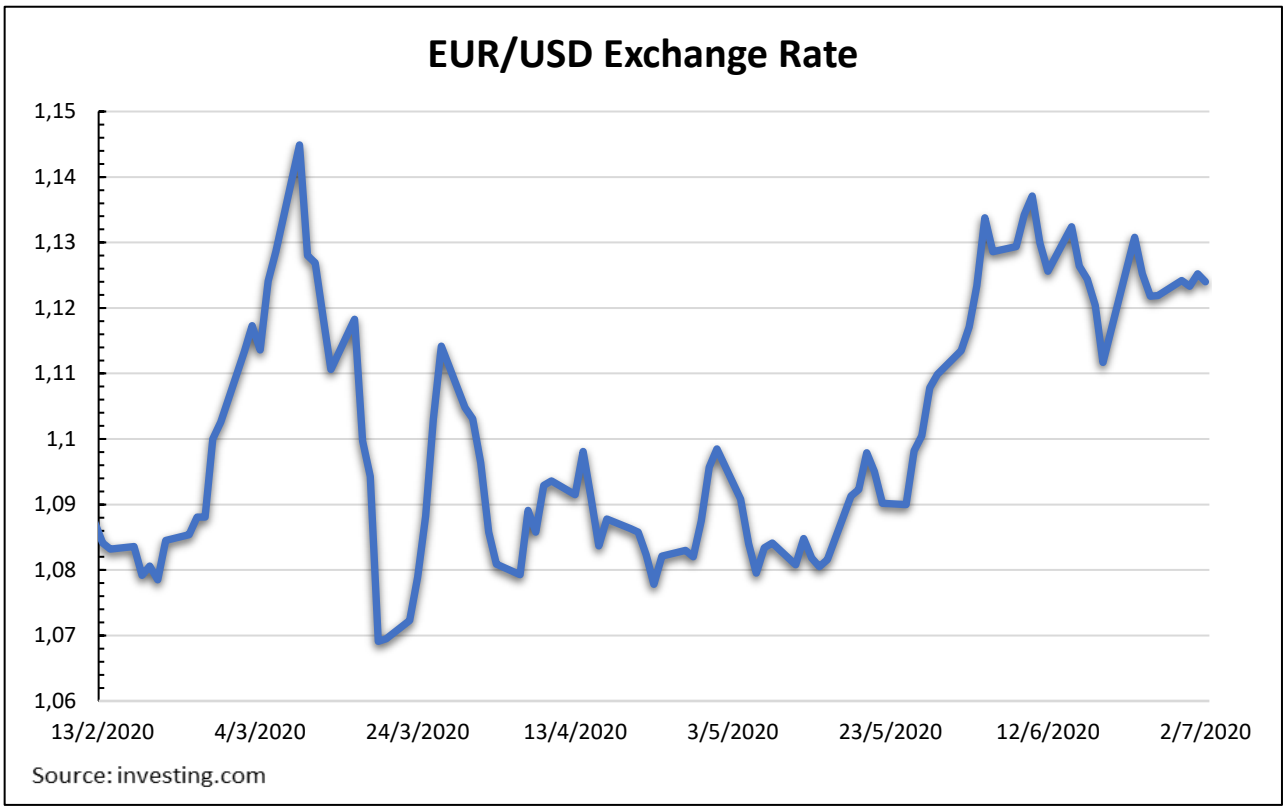
Investors in the stock market seem to be confident in the third quarter of 2020. Both Wall Street and European indices climbed this week.



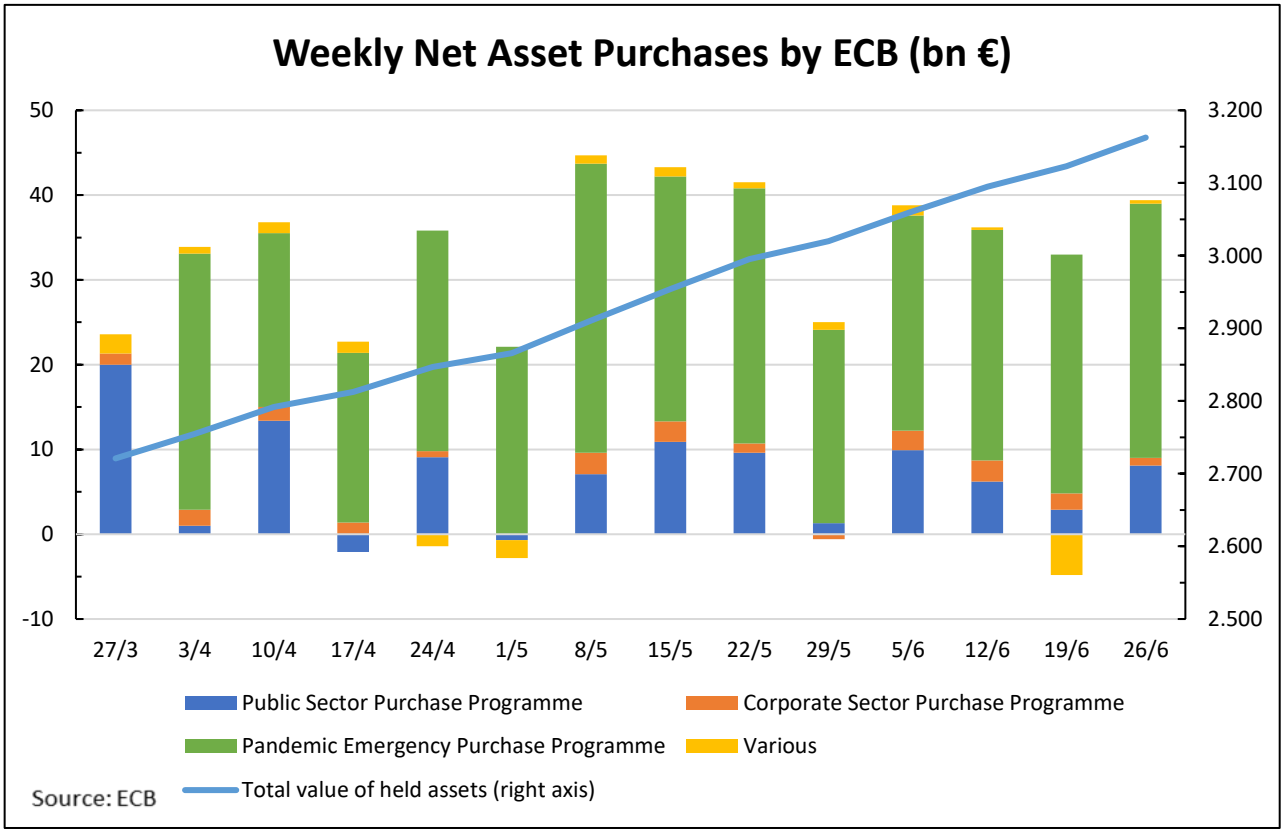
Eurozone government bond yields were stable again this week. Greek bond yield dropped below 1.17% on Thursday.



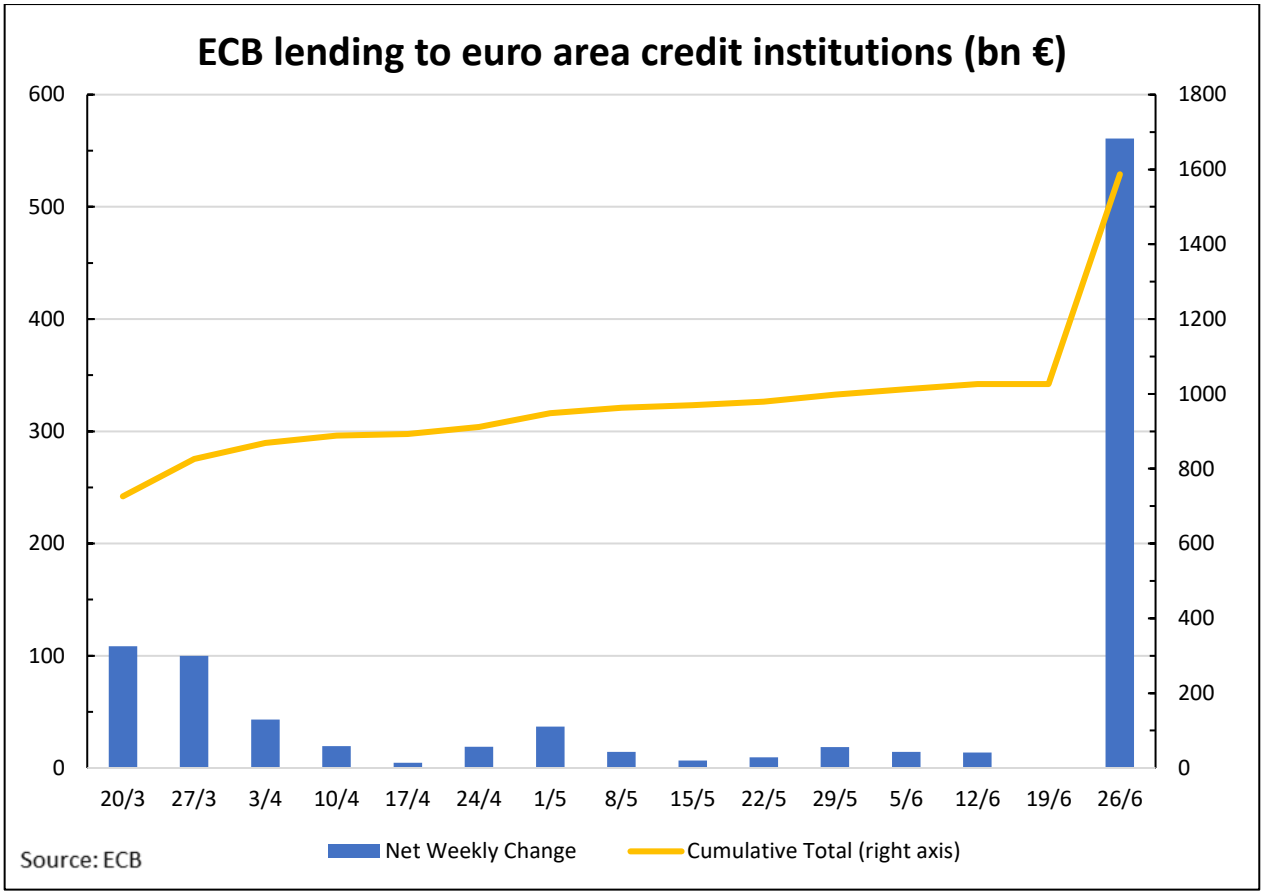
Oil prices settled higher this week, with the international benchmark Brent trading at $42.94 per barrel and the American benchmark WTI at $40.34 per barrel.



In the foreign exchange market, the EUR/USD exchange rate increased this week and is currently at 1.124 $/€. According to Bloomberg, euro is enjoying its best rally in more than two years, benefiting from hopes that EU leaders will fall into line and sign off on a landmark recovery fund to help support some of the weakest economies.



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 current economic outlook can be viewed on two levels according to Joseph E. Stiglitz on Project Syndicate. From a macroeconomic point of view, spending will fall. From a microeconomic point of view, the virus acts like a tax on activities involving close human contact. Moreover, in the case of the pandemic, there will be a third effect: rising inequality. Because machines cannot be infected by the virus, they will look relatively more attractive to employers, particularly in the contracting sectors that use relatively more unskilled labor. On top of these problems, there are two additional reasons for pessimism. Monetary policy cannot fix solvency problems, nor can it stimulate the economy while conservative objections to rising deficits will stand in the way of the necessary fiscal stimulus. **States should avoid bailing out indebted firms and must relocate public spending wisely.**

The COVID-19 recession provides a unique opportunity to rethink the role of the state, and particularly its relationship with business. The long-held assumption that government is a burden on the market economy has been debunked, according to Mariana Mazzucato and Andreo Andreoni on Social Europe. Rediscovering the state's traditional role as an 'investor of first resort' – rather than just as a lender of last resort – has become a precondition for effective policy-making in the post-pandemic era. However, in order for investment to lead to a healthier, more resilient and productive economy, money is not enough. Governments also must restore the capacity to design, implement and enforce conditionality on recipients, so that the private sector operates in a manner that is more conducive to inclusive, sustainable growth. **Assistance should come with strings attached, such as requiring firms to adopt emissions-reduction targets and to treat their employees with dignity (in terms of both pay and workplace conditions).** This is making its way into the status quo. Both Denmark and France are denying state aid to any company domiciled in an EU-designated tax haven and barring large recipients from paying dividends or buying back their own shares until 2021. Austria has made its airline-industry bailouts conditional on the adoption of climate targets, while France has also introduced five-year targets to lower domestic carbon dioxide emissions. Meanwhile, the US airline industry has been granted up to $46 billion in loans and guarantees, provided that recipient firms retain 90 per cent of their workforce, cut executive pay and eschew outsourcing or offshoring.

Germany's presidency of the Council of the EU should propose the extension of the MFF's rule-of-law conditionality to the Next Generation EU funds, according to Daniel Hegedüs and Garvan Walshe on the German Marshall Fund, and also make the funds conditional on joining the European Public Prosecutors' Office. They argue that Germany 'should not be an honest broker with the EU's autocrats' – after all, Merkel has put the rule-of-law question at the centre of her plans for Germany's presidency of the Council of the EU. For years, Orbán and Kaczynski have acted with impunity by taking advantage of the EU's and Germany's desire to calm, rather than escalate, conflict. To challenge their strategy, German diplomacy has to leave its comfort zone and not shy away from conflict. Apart from making Next Generation EU funds conditional on restoring the rule of law, the authors propose to 'tip the scale' within the European People's Party, with the CDU, the largest party in the Bundestag, summoning its courage to expel Fidesz. Lastly, the EU should acknowledge that the 'Huxit' and the 'Polexit' rhetoric of the countries' leaders is empty, since they would undermine the economies of those states and they would counter the people's will to remain in the EU.

According to the European Council on Foreign Relations' European Solidarity Tracker, which records EU member states' efforts to help one another deal with unexpected challenges arising from the pandemic, Hungary has been among the top providers of solidarity. This might come as a surprise, given Orbán's anti-EU rhetoric. However, **Hungary's solidary is instrumental and self-interested**, according to Zsuzsanna Végh of the European Council on Foreign Relations. This becomes apparent from the observation that Hungary concentrated most of its activities in its immediate neighbourhood. Firstly, this is because Budapest needed to quickly negotiate agreements, e.g. with Austria and Slovakia, so that Hungarians who had jobs in neighbouring countries and neighbouring countries' citizens working in Hungary would continue commuting for work. Secondly, pursuing a nationalist agenda under the motto 'every Hungarian is responsible for every Hungarian', Budapest's medical donations were primarily driven by priorities such as support for ethnic-Hungarian minorities in neighbouring countries and stability in the Balkans.

The mounting toll from the coronavirus pandemic and its imminent social and economic repercussions constitute a big challenge for the European project. In order to properly address this challenge, Maria Petmesidou and Ana Guillén argue on Social Europe that we need to pay attention to the underlying divisions bedeviling a recovery from the pandemic. The dominant political rhetoric in the European North and the EU institutions has been one of moral tales contrasting the 'frugal North' with the 'imprudent, reckless South'. **Citizens of the southern 'periphery' are very aware they will have to tighten their belts once again**, but it is a very different thing to have to do so in the face of contempt expressed by fellow European citizens. Legitimising policies by 'morality narratives' is unacceptable – especially among people involved in a common project. There is no future based on destructive derision and disrespect.

Given that the COVID-19 crisis demands unprecedented levels of stimulus spending, policymakers should use the occasion to adopt a more flexible form of public-sector accounting, according to Willem H. Buiter, Ian Ball and Dag Detter on Project Syndicate, by looking not just at spending and revenues, but also at assets and liabilities. Insights from the field of corporate financial management can improve governments' understanding of the trade-offs between spending cuts and tax increases. They also show that overall government indebtedness can be measured as a proportion of the physical assets a government possesses. Viewed from this perspective, a government need not rely only on projected annual GDP when generating the cash needed to service its debt. **Instead of treating capital expenditures as an immediate expense, a government can start to leverage its vast public wealth through a proper accounting of its long-term investments in infrastructure.** By taking an integrated approach, as would be done in a corporate restructuring, governments can steer their way toward a stronger recovery without the need for excessive austerity and the social hardship that comes with it.

Negotiations of the post-Brexit agreement have stalled. The British still seem to be fighting the Brexit referendum campaign, according to Andrew Duff on the European Policy Centre, while the EU reacts with orthodox positions to defend the single market. But a compromise is possible. Free and fair trade requires joint governance based on mutual trust and strong institutions. **The UK should accept the overall architecture proposed by the Commission.** In return, it will get the zero tariff deal it wants. The difficult bit is to devise mechanisms to manage divergence as and when it comes. Here the role of the specialised committees will be crucial.

Much like the first wave of the pandemic, the next phase will involve a trio of simultaneous crises, writes Joschka Fischer on Project Syndicate. To the risk of new infections getting out of control and spreading globally once again must be added the ongoing economic and social fallout and an escalating geopolitical bust-up. As if this was not destabilizing enough, one also cannot ignore the Trump factor, which means that if Trump were to win a second 4-year term, the current global chaos would escalate dramatically. We should harbor no illusions about what might come next. The crises triggered by the pandemic are so deep that they will inevitably lead to a radical global redistribution of power and wealth. For Europe, which seemed to have fallen far behind economically and geopolitically, **this moment represents an unexpected opportunity to address its obvious shortcomings**. Europe has the political values, technical know-how, and investment power to act decisively in the interest of its own principles and those of humanity more generally.

If we can manage to get the public health issues under control either through a really robust mitigation strategy or a vaccine, then we can reengage in economic activity really quickly, according to Mary Daly, Federal Reserve Bank President. But what does 'really quickly' mean? She sees **a four- to five-year recovery in her best-case scenario, with unemployment not returning to pre-crisis levels again for the said period**. In February 2020, before widespread shutdowns of economic activity to slow the spread of the virus were implemented, the nation's unemployment rate was at 3.5%, yet as of last month, i.e. in May, it rose to 13.3% – for comparison, during the Great Recession the nation's monthly unemployment rate never exceeded 10%. Daly believes that **it is 'too early to tell' whether her best-case scenario will play out** or whether a more pervasive long-lasting hit to the economy will take place. After all, data is constantly changing. A rapid rise in infections in California, Arizona, Texas and Florida has in recent weeks driven the nation's tally of new cases to a daily average of 40,000, and the governors in these states have taken steps to reimpose limits on economic activity to restrain the spread. Anthony Fauci, the top U.S. infectious disease expert, estimates that if current trends continue the country could see 100,000 new cases per day.

One deep structural characteristic seems to determine a country's COVID-19 death rate: countries' income and wealth distribution, according to Jeffrey D. Sachs on Project Syndicate. Inequality is not a death sentence, however, in most countries we are witnessing the enormous costs of mass inequality: inept governance, social distrust, and a huge population of vulnerable people unable to protect themselves from encroaching harms. The United States, for example, is so unequal, politically divided, and badly governed that it has actually given up on any coherent national strategy to control the outbreak. All responsibilities have been shifted to state and local governments. In the absence of coherent, capable, and trustworthy governments that can implement an equitable and sustainable pandemic response and strategy for economic recovery, the world will succumb to further waves of instability generated by a growing array of global crises.

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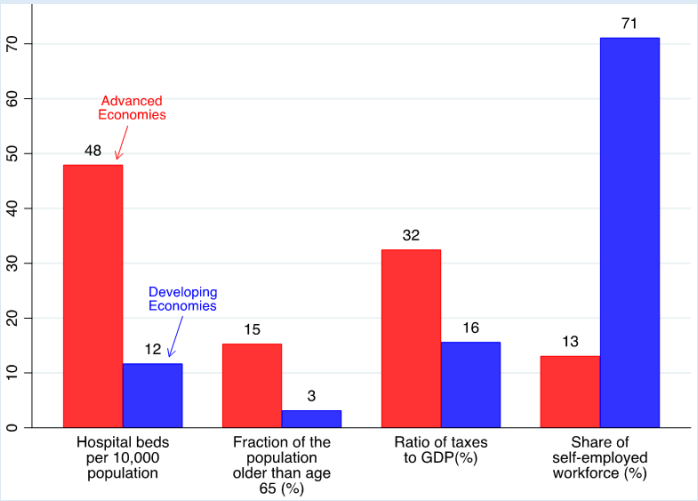
Emerging economies are fighting COVID-19 and the economic sudden stop imposed by the containment and lockdown policies, in the same way as advanced economies. However, emerging markets also face large and rapid capital outflows as a result of the pandemic, according to Benigno et al. on VoxEU. The researchers argue that **credible emerging market central banks could rely on purchases of local currency government bonds to support the needed health and welfare expenditures and fiscal stimulus**. In countries with flexible exchange rate regimes and well-anchored inflation expectations, such quantitative easing would help ease financial conditions, while minimising the risks of large depreciations and spiralling inflation. Quantitative easing can also buy time, while international cooperation and coordination coalesce, and the resources needed to provide adequate international aid packages are assembled. Emerging economies should expand their policy toolkit and should not attempt to fight this new crisis only with old tools – if anything because the tried recipe of fiscal austerity and exchange rate depreciation is not suitable to respond to the current economic challenges.

The COVID-19 pandemic has led to dramatic policy responses in most advanced economies, and in particular sustained lockdowns matched with sizable transfers to workers. Nevertheless, Alon et al. on VoxEU, show that **blanket lockdowns are less effective in developing countries both at preventing the outbreak of the disease (i.e. 'flattening the curve') and at saving lives**.



Due to low fiscal capacity, developing countries can only provide small transfers to help replace income lost during lockdown. As a result, many workers turn to the informal sector to make up the income difference and so continue to spread the disease. Consequently, a 28-week blanket lockdown in a developing country saves about 70 lives per 100,000 people, while the same lockdown in an advanced country saves about 320. **Instead, they propose age-targeted policies, where the young are allowed to work while the old are shielded from the virus**.

The research of Caitlin Brown, Martin Ravallion and Dominique van de Walle on VoxEU complements the aforementioned findings. Recommendations to limit the spread of COVID-19 call for social distancing, washing, and access to information and treatment. However, people need to be in household environments that allow them to follow those recommendations. **The world's poor, though, do not find themselves in the adequate home environment to follow WHO recommendations.** That is why the developing world is particularly vulnerable to the pandemic. The housing stock cannot be changed rapidly. But some things can be done now. The current infrastructure for information (particularly mobile-phone coverage) holds promise for getting out public health messages and information on how to access consumption support. Policies such as distributing or subsidising sturdy face masks, soap, and improved water access could be feasible in the near term and justified by both external benefits and equity impact. Home-grown innovative adaptations to the realities of life in the developing world will be crucial.

ELIAMEP experts write

"It is a fortunate coincidence that, at this highly critical juncture, when unanimity must be achieved in the European Council for the Commission's proposal to pass, the Council Presidency is run by Germany. Let me recall an equally fortunate coincidence, following the outbreak of the 2008 global financial crisis, when similarly crucial decisions needed to be taken, the Council Presidency back then was held by France. If the Presidency now was held by a smaller country with less political capital, it would be difficult to get the job done, on what is the Presidency's business, leading opposing parties to a constructive integration-enhancing compromise. So the chances of this happening this time are very high. They do not reach the point of certainty, it is not at all certain that we will have an agreement on 17-18 July. It is quite possible that another summit will be needed. But there is a strong expectation for a decision to be reached during the summer. Because, despite disagreements, there is a shared understanding that as time passes Europe's ability to effectively respond to this crisis is compromised, and therefore time is an extremely crucial parameter."

George Pagoulatos, Director General, ELIAMEP, *Interview 984, 30.06.2020*.

"The mutualisation of the debt, even if it doesn't include past debts, was being rejected in the strongest possible terms. Today, it is becoming accepted, it is related to the idea of a euro-bond and it is a step towards EU economic integration. So regardless of the answers that will be given to specific issues still under negotiation, which in our view will not be far from the Commission's proposals, the two major issues for the EU, namely a large increase in the budget and the mutualisation of debt seem to have already been answered in the affirmative. Eventually, the outcome of the European Council on the 19th of June was based on consensus, even if this was marginal."

Alekos Kritikos, Senior Policy Advisor, ELIAMEP, *Fileleytheros, 27.06.2020*

"Both Poland and Hungary are at war with the EU's institutions, including the European Parliament and the European Court of Justice. The independence of the judiciary, restrictions on opposition parties, educational policies, conflicts with the media and the management of community programs are under the microscope of the Commission. Orbán is adopting a different approach, that of illiberal democracy, where elections might take place, yet are of weak legitimacy. At the same time, both countries rely heavily on the EU's successful trade policies, the single market and the structural funds."

Antonis Trifyllis, Former European Commission official, *To Vima, 28.06.2020*

"Israel is not interested in taking the side of Greece in the Greek-Turkish developments. However, it is interested in developing ties with countries with which it can communicate relatively well and set a common course in a neighbourhood where its enemies are anything but declining over time. Instead of cultivating illusions on the Greek side, realism is required, along with an understanding of the motives of the other side and putting emphasis on the fields where there is common ground, mainly in the economy. Regarding tourism, the benefits are enormous. The work of Giannis Boutaris in Thessaloniki needs systematic study as the city has become a popular destination for Israeli tourists."

George Tzogopoulos, Research Fellow, ELIAMEP, *Ta Nea, 01.07.2020*