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

16th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (03-10/07)

"The risk of an increasing divergence was the rationale for proposing our common recovery plan. This risk appears to be materialising. This is the argument for Next Generation EU and it is now stronger than ever."
Paolo Gentiloni, European Commissioner on Economy

"Europe will only emerge from the crisis stronger than ever if we are willing to overcome our differences and identify shared solutions. European solidarity is not a humanitarian gesture, it is a sustainable investment."
Angela Merkel, Chancellor of Germany

"I am not prepared to accept an additional tough conditionality beyond what I consider perfectly natural, which is the framework of the European Semester."
Kyriakos Mitsotakis, Prime Minister of Greece

"We would be significantly further ahead in Europe today if the idea of establishing a European monetary fund had prevailed in the 2010 Greece-crisis. We cannot miss this chance again."
Wolfgang Schauble, President of the German Federal Parliament

- The Eurogroup elected Paschal Donohoe, Irish Minister of Finance, as President. Paschal Donohoe will replace the outgoing president, Mario Centeno, as of July 13.

Council of the EU

- The Commission announced a package of exceptional measures for wine producers. Measures include, inter alia, an increase by 10% of EU contribution in national support programmes for the wine sector.

European Commission

National Developments (03-10/07)

France: The new Prime Minister announced €1.1bn of further support for healthcare workers.

Czech Republic: The Lower House voted in favour of increasing the country's deficit to €19bn for 2020, the highest in Czech history.

USA: The US Immigration and Customs Enforcement announced that students whose courses go fully online lose their eligibility to stay in the country.

UK: The Minister of Finance announced a recovery package of £30bn which includes, inter alia, a VAT cut and further employment support.

Asian Infrastructure Investment Bank

- The AIIB approved loans of a total $1.16 bn for two development banks in Turkey and for the Government of Kazakhstan, within the framework of its COVID-19 Crisis Response Facility.

Breakdown of measures[6] (16/03 – 10/07)

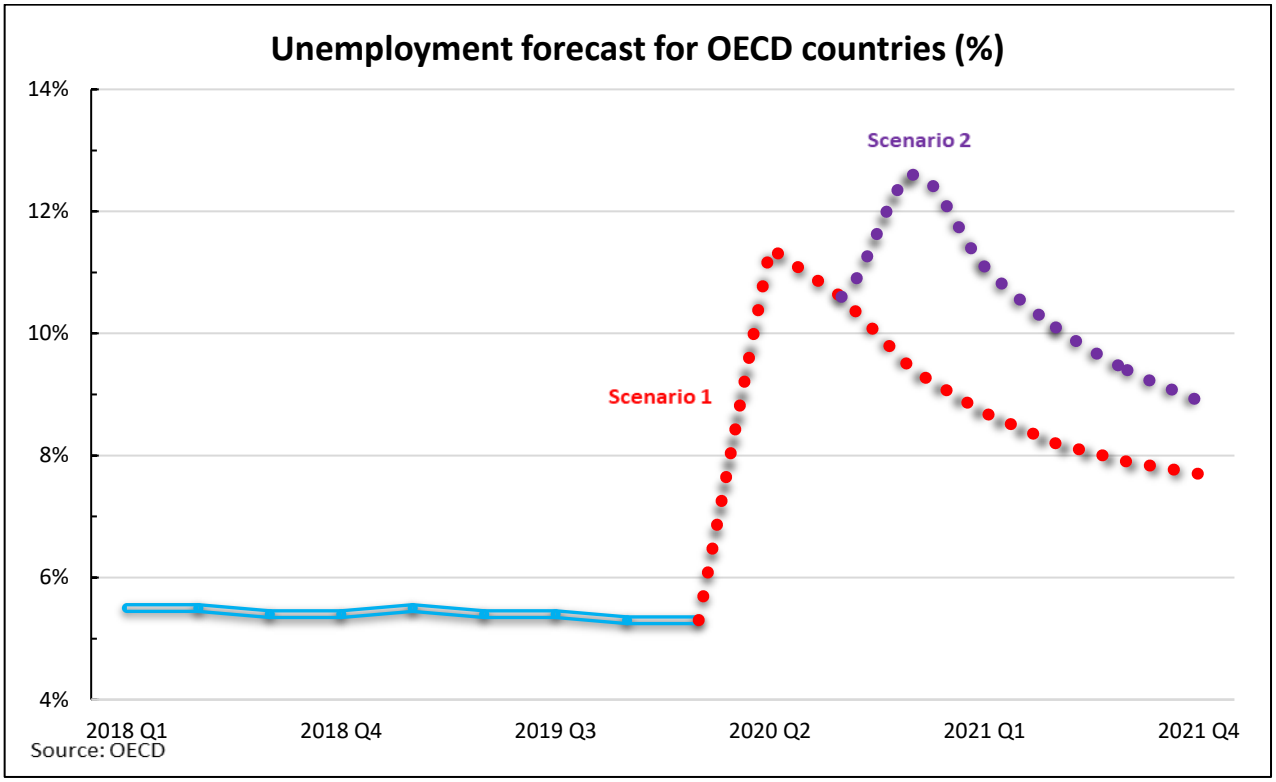
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€135 bn[2]	€52.5 bn	€286 bn	€33.1 bn	€42.2 bn	131.4 bn DKK	€31.2 bn	€24 bn[3]	€1 bn[1]	≈ €6.8 bn[1]
B. Monetary Measures (Total)	€2.6 tr.[4]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
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.

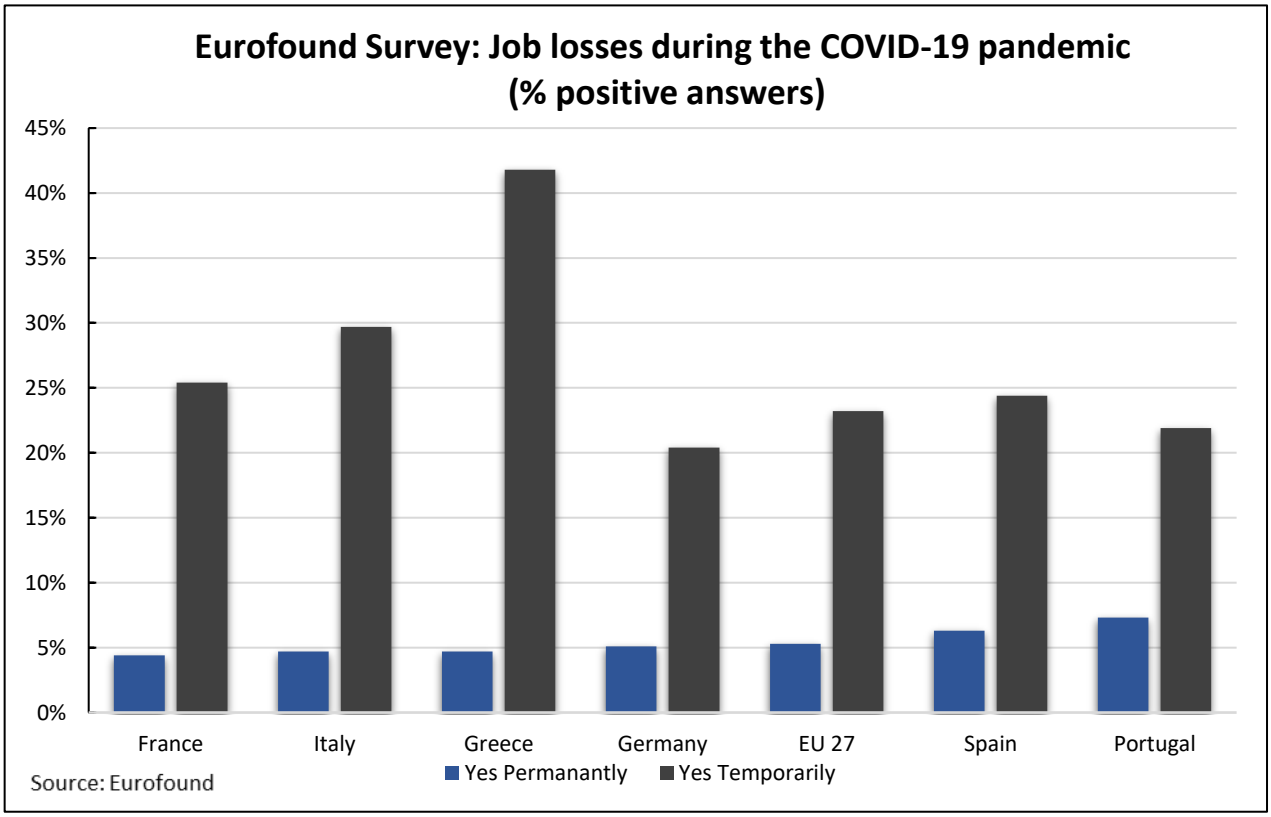
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[7]	≈$1.7 tr.	177.6 bn CAD	133.8 bn AUD	£162.5 bn	¥148.9 tr.[8]	≈3.2 tr. RUB[8]	9.45 tr. INR[8]	≈ 800 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £940 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 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.

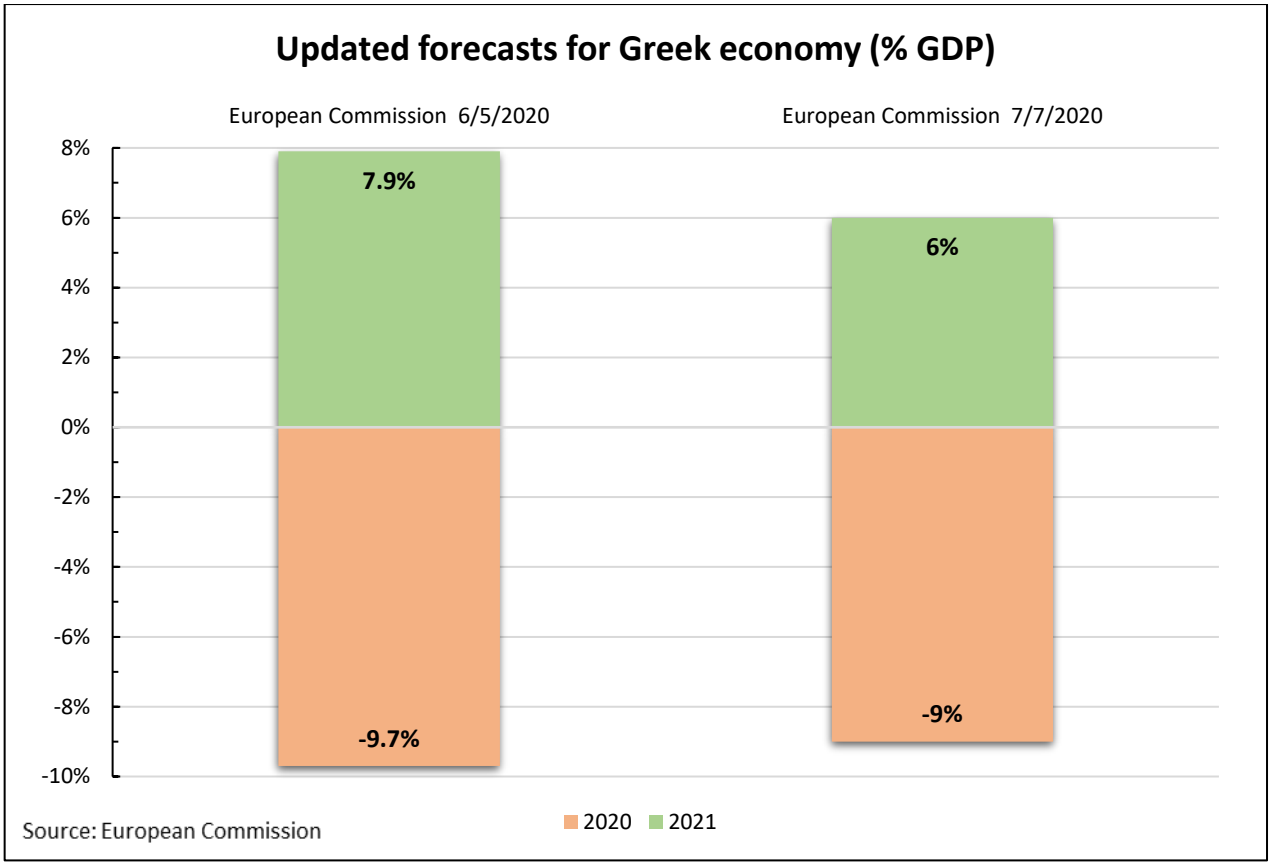
Recent Economic Developments (06-09/07)



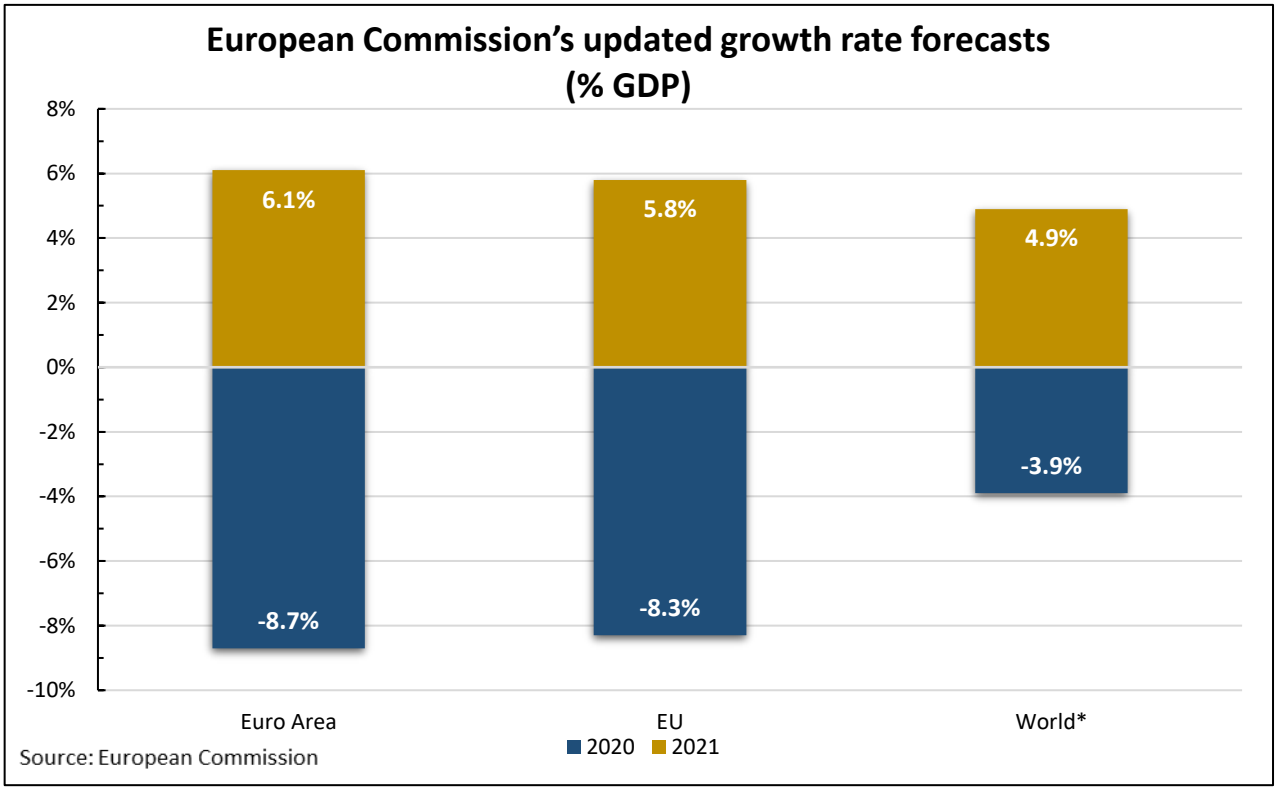
According to the OECD Employment Outlook (8/7), the average unemployment rate forecast for OECD countries is based on two possible scenarios: the first expects a COVID-19 pandemic retreat this year, while the second projects a second outbreak later in 2020. The average unemployment rate is expected to rise to at least 9.4% by the end of 2020, which is the highest level since the Great Depression of the 1930s.



According to survey of the EU Agency for the improvement of living and working conditions (Eurofound) conducted in April, the percentage of the Greek people (members of the labour force) who answered that they lost their jobs permanently during the pandemic was 4.7% and 41.8% for those who answered that their loss was temporary. According to the survey, Greece ranks first place in the EU when it comes furloughed workers.

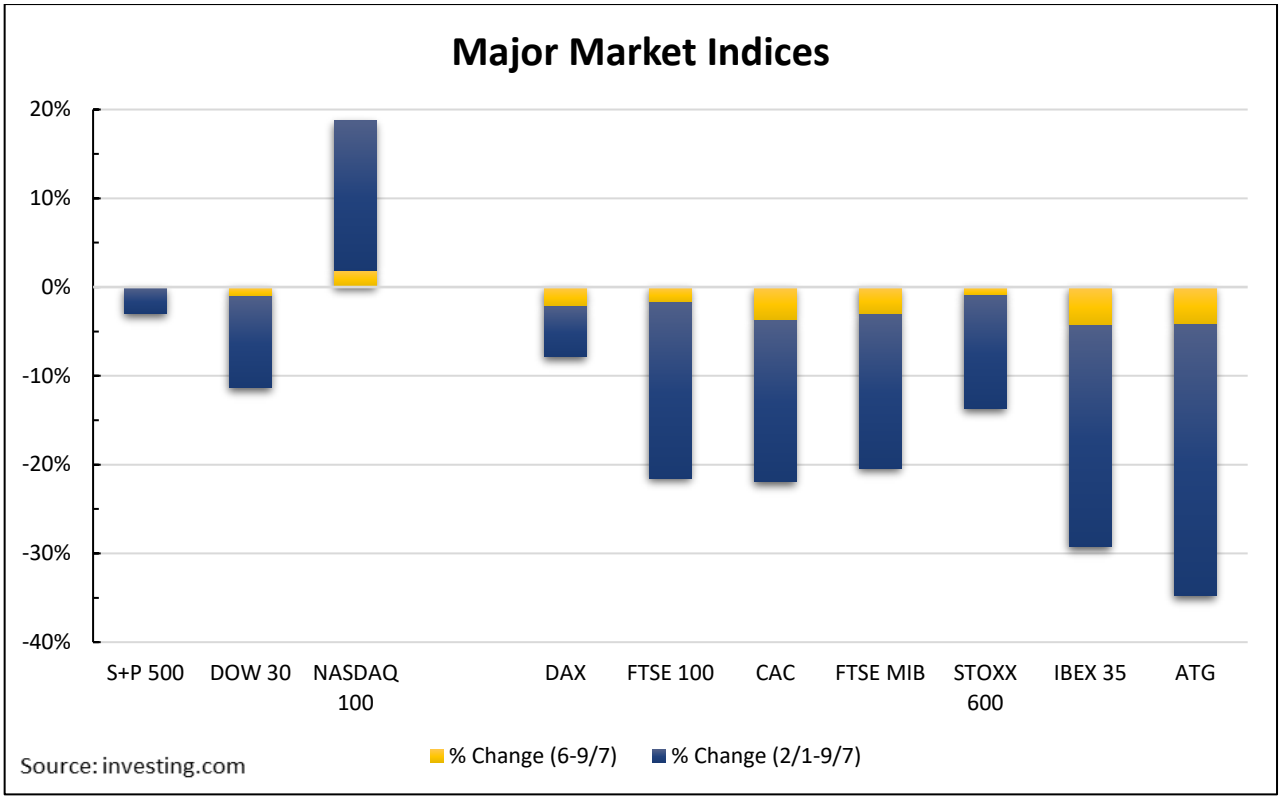


According to the European Commission's updated Economic Forecast (7/7), the Greek economy is expected to have a lower recession in 2020 but also a lower recovery in 2021 compared to May's projections. GDP is projected to decline by 9% in 2020 compared to 9.7% projected in May, followed by a partial recovery of 6% in 2021 compared to the original 7.9%.

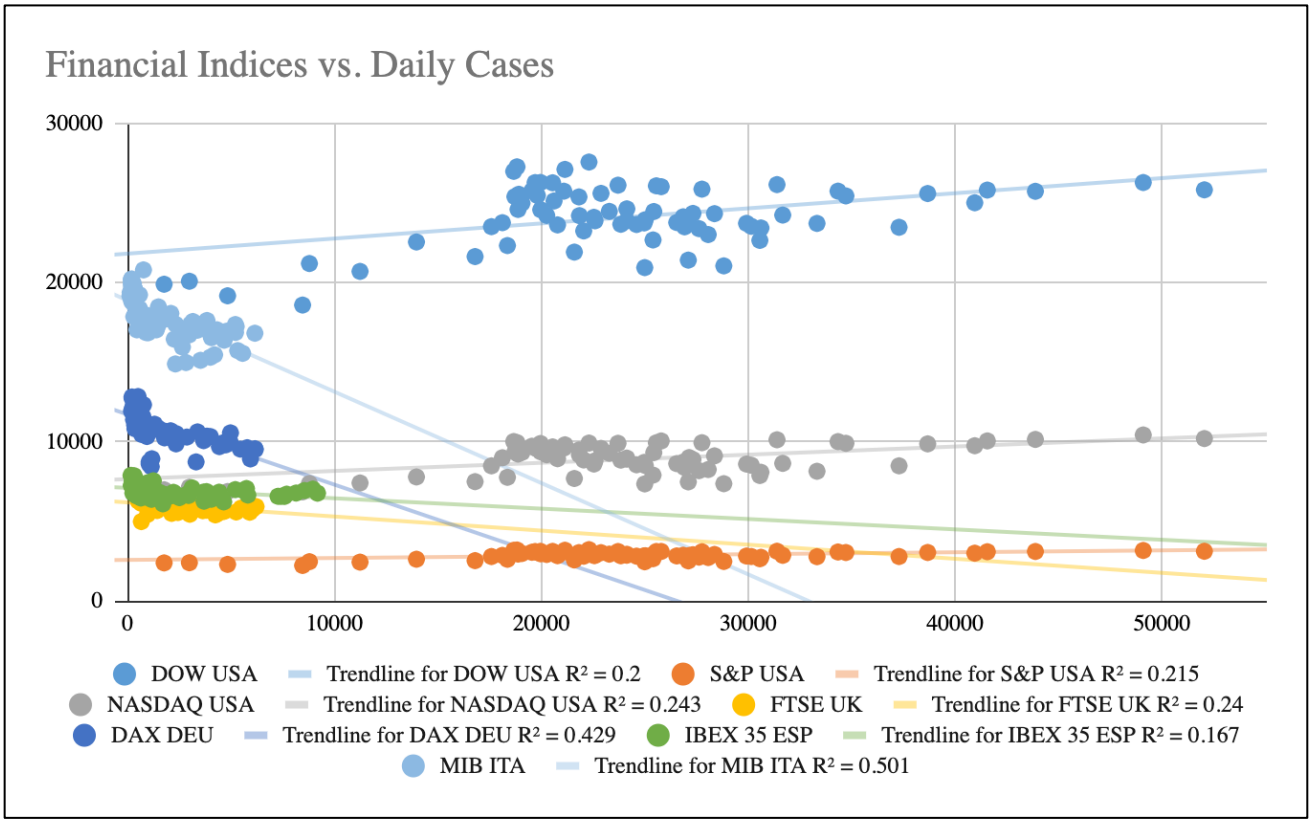


*Excluding EU.

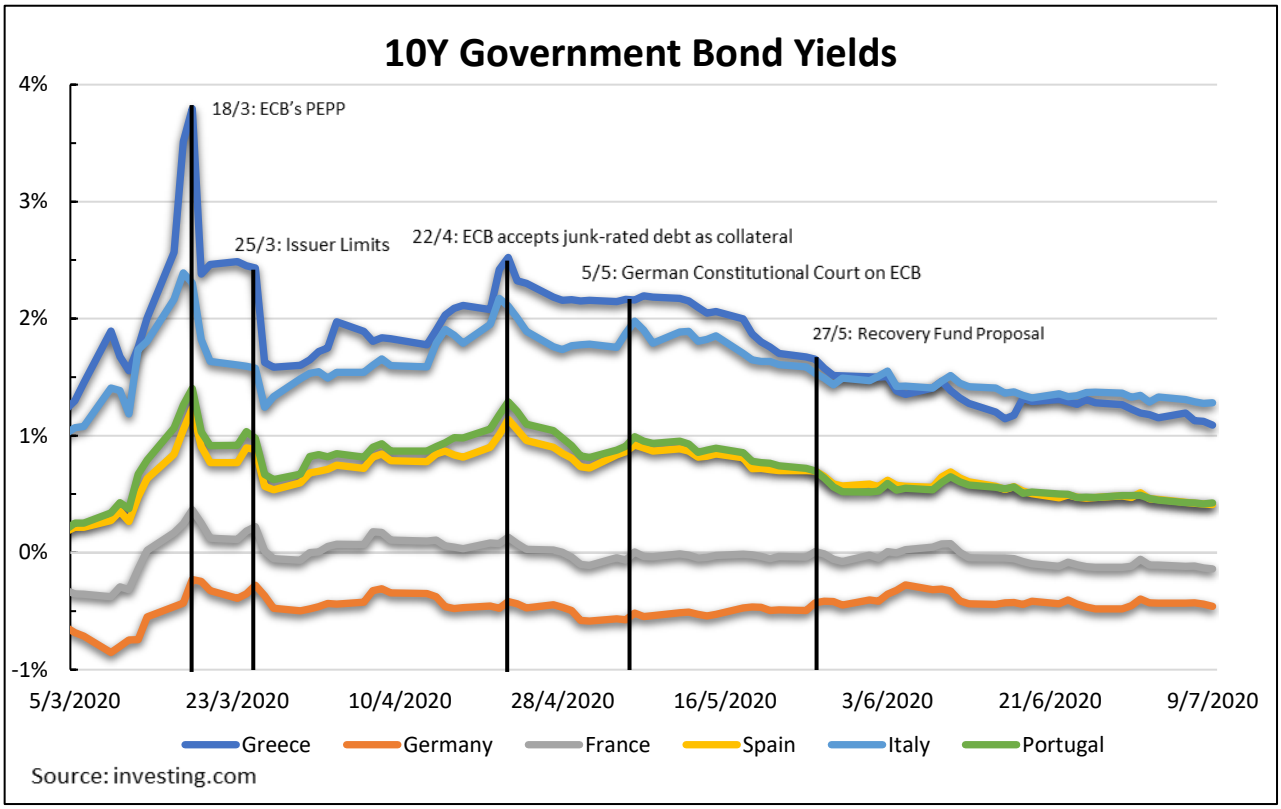
According to the European Commission's updated Economic Forecast (7/7), Eurozone, EU and the global economy are expected to suffer a significantly deeper recession in 2020 compared to May's projections. GDP is projected to decline more in 2020, followed by a slower recovery in 2021.



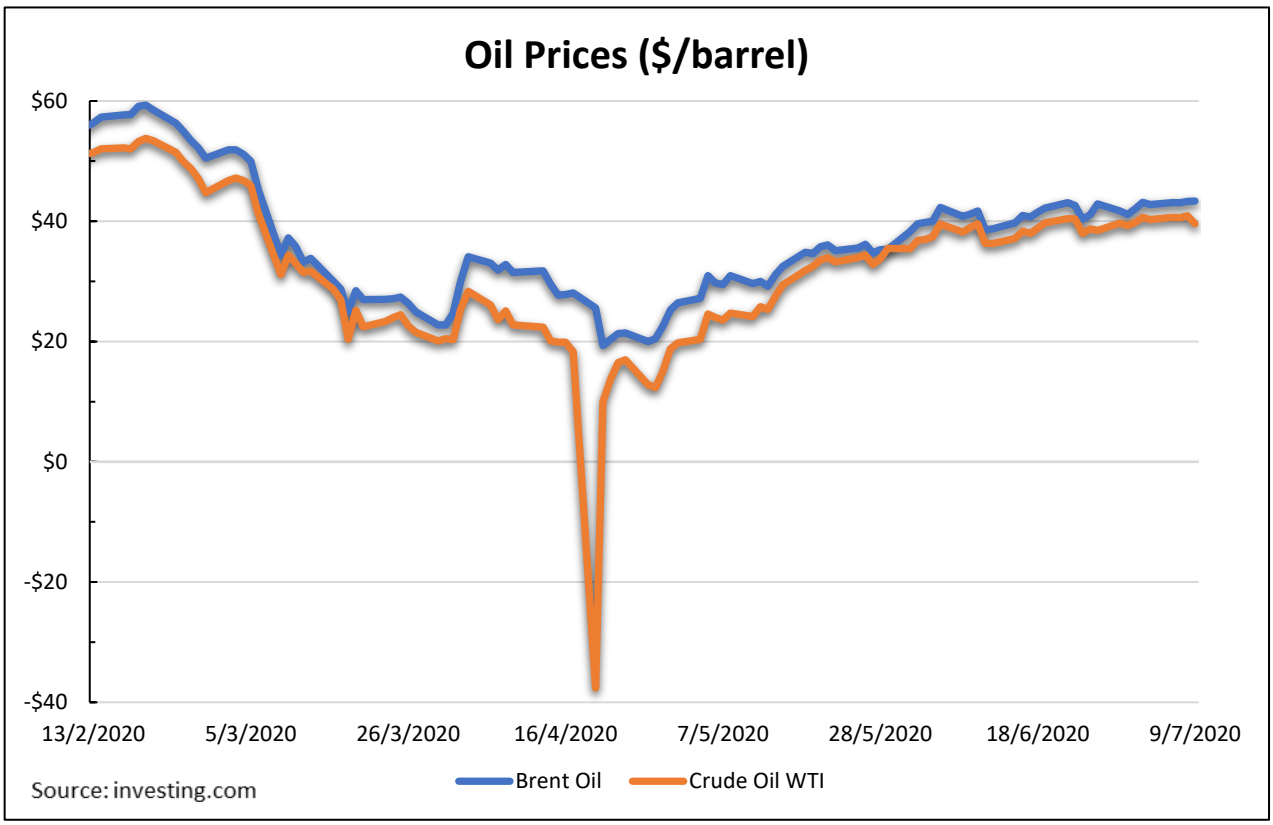
Most Wall Street and European indices fell on 9/7, investors reacting to the rapid increase of COVID-19 cases in the US.



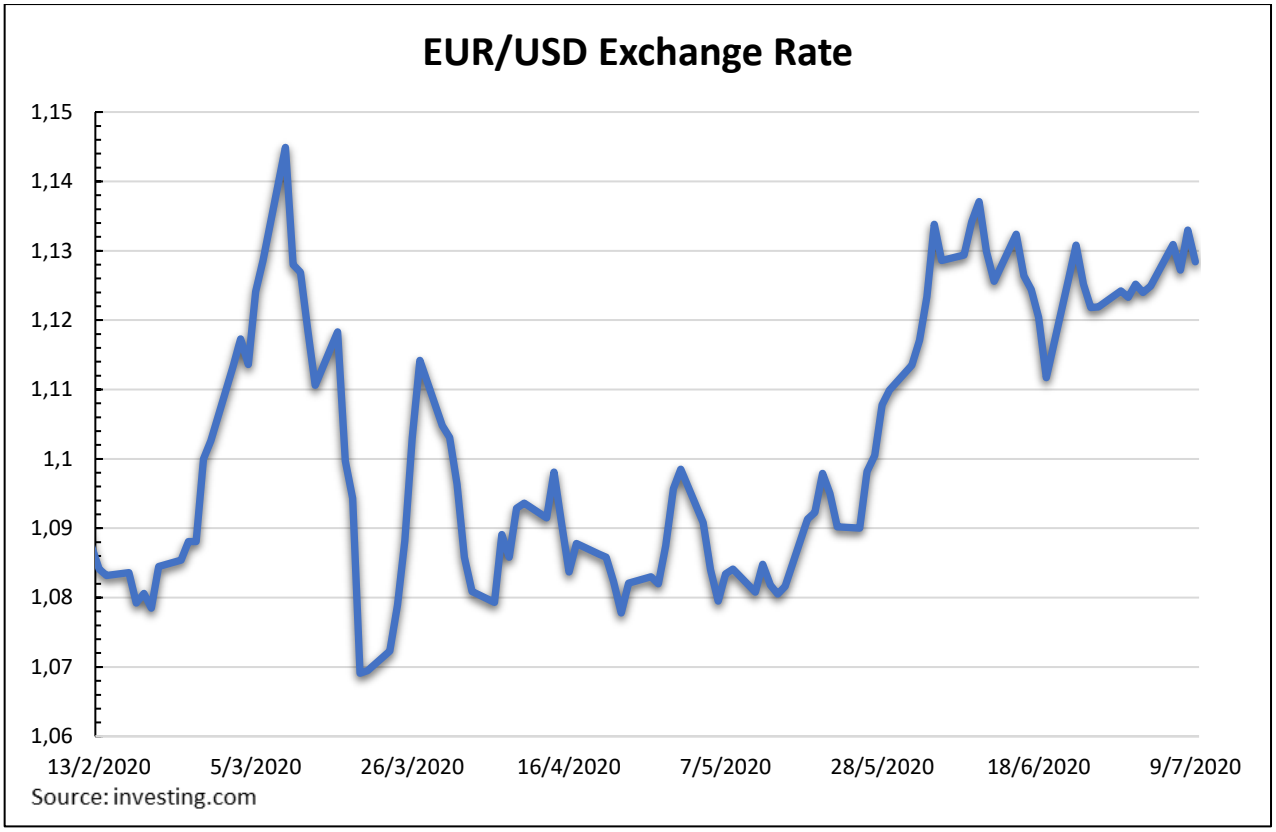
The graph shows the correlation between the number of daily Covid-19 cases and the level of major stock indices in different countries. It is evident that in the US, contrary to other countries, stock prices are detached from the pandemic spread, which defies rational expectations. Stock prices rise, instead of falling, when Covid-19 cases spread!



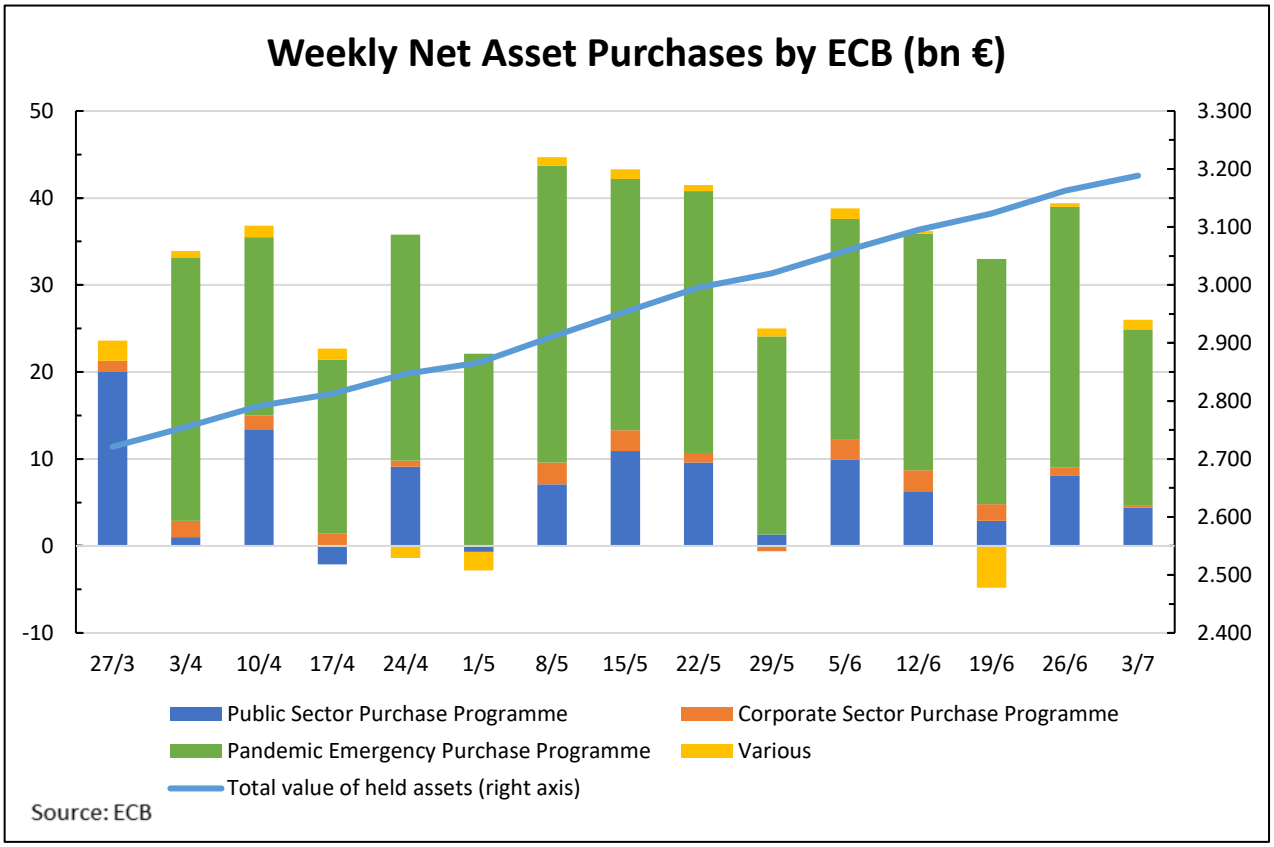
Eurozone government bond yields were stable again this week. The Greek bond yield dropped further, reaching its lowest record since March.



Oil prices settled higher on Thursday with the international benchmark Brent trading at $43.329 per barrel and the American benchmark WTI at $39.56 per barrel.



In the foreign exchange market, the EUR/USD exchange rate decreased week and is currently at 1.1284 $/€



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.

In Focus

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

Forecasters agree that the economic fallout from COVID-19 has caused the sharpest drop in economic activity in Europe and globally since WWII. Just how deep the drop of activity was in the second quarter, which sectors were most strongly affected by containment measures, and how swift the rebound will be as they are gradually lifted is still very uncertain. 'Deeper recession, wider divergences' is the caption that Maarten Verwey and Björn Döhring give on VoxEU to the Commission's Summer 2020 interim forecast, given its estimations showing **a deeper drop of output in the second quarter of 2020 than earlier anticipated. The recovery is now also expected to be less swift than was projected in Spring,** with differences across member states set to be more pronounced. Minimising hysteresis and avoiding persistent economic divergences within the EU and the Eurozone requires the rapid agreement and deployment of common support measures at EU level. The risk otherwise is of significant distortions to the internal market and of even deeper divergences between countries that could ultimately threaten the smooth functioning of the monetary union. Regarding Greece, real GDP is expected to decline by 9% in 2020 and to increase by 6% in 2021. The forecast remains subject to an exceptional level of uncertainty, in particular due to the large exposure to risk surrounding travel and the impact on Greek tourism. Upside risks are related to a more benign outlook for domestic demand, in case of a faster improvement in sentiment.

Nevertheless, COVID-19 could be described as a 'good crisis' since it has proved that the EU is much more than an assemblage of incessantly bickering small to medium-size countries, according to Daniel Gros on Project Syndicate. The most obvious success of coordination was epidemiological– nearly all member states managed to stabilize their infection rates at a low enough level that local outbreaks were kept under control, by implementing mandatory social-distancing rules, which were lifted only after the virus was brought under control. USA cannot claim the same success as the EU, with little to no action taken to combat the consequences of the crisis. Unemployment has surged to 13% in the US, whereas in the EU remains stable at 6.7%. On the economic front, the proposed Recovery Fund, based on **the Franco-German agreement, indicates that the ties that bind EU together extend well beyond treaties and members' self-interest.** The proposal could be the locomotive that will support member states, which found themselves in a stalemate during the crisis and potentially, will push the EU as a whole out of this crisis, demonstrating that the mistakes of 2010 belong to the past.

In its proposed Recovery Fund, the European Commission uses allocation criteria mainly linked to infection rates and past economic performance. To foster an efficient economic rebound post COVID-19 crisis, Carlo Altomonte, Andrea Coali and Gianmarco Ottaviano of Bruegel propose instead to avoid country-level disbursements and instead, **allocate funds through a forward-looking approach based on the specific industrial and economic structure of EU regions in light of the strong regional differences within countries**. Such an approach to the allocation of EU funds would allow for an intervention that is consistent over time and space: it considers the future inherent trade and production risks embedded in each region's industrial structure, as well as differences in regions' industrial structures.

The German EU Council Presidency is another source of intense debate in the context of European affairs. Der Spiegel hosts an article regarding the priorities and goals of Angela Merkel in the second half of 2020. **Germany wants to set four priorities in the coming months: Cohesion, Climate protection, Digitalization of the EU, and Europe's role in the world**. Furthermore, an article in Die Zeit, mentions the crucial summit on 17/7, regarding the Reconstruction Fund. The Commission wants to equip the reconstruction plan with 750 billion euros (out of which 500 billion should flow as grants) focusing on southern Europe, which has been hit particularly hard by the pandemic. Apart from the Fund, the EU budget consists of over one trillion euros and will be discussed at the special summit. The details of both projects are still highly controversial among member states.

The proposal for a Support to mitigate Unemployment Risks in an Emergency (SURE), despite some limits, represents a first step towards a European job insurance scheme that helps preserve employment and cushion the social consequences of mass redundancies, according to Cinzia Alcidi and Francesco Corti on the Centre for European Policy Studies. Furthermore, its counter-cyclical nature and the significant volume of resources mobilised make SURE Europe's first step towards an EU fiscal capacity stabilisation instrument. SURE remains, however, a temporary mechanism, primarily because it is legally based on Article 122(2) TFEU, which is triggered only upon exceptional circumstances beyond member states' control, i.e. the pandemic. This is because SURE, ultimately, relies on the guarantees offered by all individual member states in this specific context. Nevertheless, there could be a possibility of **transforming SURE into a permanent mechanism (yet still for temporary support) if the Commission were able to access guarantees without waiting for the ad hoc consent of each and every member state**. The Commission has already expressed its intention to build on SURE to propose a permanent instrument, and the European Parliament has long given its support for a loan-based stabilisation capacity within the MFF. No strong opposition should come from member states because, as the current crisis shows, any country can find itself in trouble and benefit from SURE.

A pertinent question to ask is how well-prepared households were in the European Union to handle an unexpected expense. Maria Demertzis, Marta Domínguez-Jiménez and Annamaria Lusardi of Bruegel found **that one in three EU households is unable to meet an unexpected shock during regular times, let alone during a pandemic**. COVID-19-related support measures put in place across the EU are intended to provide economic help to those households where members have lost jobs or face a severe reduction in income. However, in a number of countries where one in two households was already fragile – typically countries that are already economically weaker – state help is likely to be smaller and shorter-lived. Their evidence shows that there are major differences between EU countries in term of financial fragility. This points to different degrees of urgency and also to the need for different policies to promote financial resilience.

It is also time to act against the hawkish companies, which during the pandemic applied for state aid, but still managed to pay dividends to their shareholders, according to Eva Joly on Social Europe**.** In France for example, more than half of the top 40 companies decided to distribute dividends (estimated between €35 and €41 billion) despite their plead to the public sector for help. In Germany, Volkswagen has shifted 80.000 employment contracts to part-time and managed to cash out 3,3 billion in dividends. The state has to intervene to ensure the transparency, limit the tax evasion of corporations, and make sure that the high-end of the private sector pays its due. According to Joly, the best measure to tackle corporate misconduct has been adopted by France, Denmark and Italy: companies with headquarters or subsidiaries in tax havens—without carrying out any real activity there—will not be entitled to any public aid to deal with the Covid-19 crisis.

As the coronavirus crisis spread across Europe in March, several countries found themselves desperately short of masks, respirators, test kits, and even healthcare staff as they struggled to contain outbreaks. With the EU and the US initially slow to respond, China stepped into the vacuum. A paper by Soula et al. on the German Marshall Fund looks at prominent Chinese coronavirus-related donations to Europe between March 12 and April 20, 2020, as well as at the Chinese media coverage and narratives that accompanied them. Three points emerge from this analysis. First, Chinese assistance stretched well beyond the high-profile cases of hard-hit Italy and Spain to countries large and small, suggesting that **alleviating the health crisis may have been only one of many purposes behind the Chinese Communist Party's (CCP) decisions**. Second, with the CCP exercising an ever-growing level of control over the private sector, the distinction between public and private donations is not clear-cut and Beijing typically trumpeted both as evidence of its generosity, propelling China's national and economic interests. Third, Chinese donations were accompanied by a sustained communications and diplomatic push aimed at a global audience, promoted via all available channels, solidifying the case for 'mask diplomacy'.

As they look at the state of their coronavirus-hit economies and US President Donald Trump's poor standing in opinion polls, many European leaders may be tempted to put on hold any plans to meet NATO's target of spending 2% of GDP on defence, according to Ian Bond of the Centre for European Reform. Politically and economically, this is a bad time to try to get European politicians to think seriously about increasing and rationalizing defence spending. Nevertheless, the EU needs to act. Trump is not a reliable ally, and the damage he has done to the trans-Atlantic partnership is likely to linger. Only a handful of European NATO members have met the alliance's target of spending 2% of GDP on defence over the past 20 years, while the U.S. has consistently exceeded it, spending 3.1-4.9%. But **Europe's problem is not just the amount it spends on defence, but the inefficiency and ineffectiveness of its spending**: Europeans get far too many systems and far too little military capability for their money.

The multidimensional turmoil that the pandemic has created could not have left the political association of the EU unaffected. The EU Coalition Explorer of the European Council on Foreign Relations presents the results of the EU27 Survey conducted by the European Council on Foreign Relations in the 27 member states of the European Union. It illustrates the expert opinions of more than 800 respondents who work on European policy in governments, think-tanks, academia, the media, and elsewhere. Across 20 policy areas, the platform shows the **potential for future coalition building between EU member states** and can be used to locate the EU's political centre – or centres – from which a more capable and cohesive European Union can be built.

Stay-at-home orders, when effective, can save both lives and the economy, according to Chen et al. on VoxEU. Even though the short-term economic impact is very significant, not getting the pandemic under control can impose even higher economic costs in the future. In the context of the US, returns on firms located in lockdown states are higher following the lockdown. These reactions can be interpreted as reflecting updated beliefs of market participants in the light of events that follow the lockdowns, such as compliance with stay-at-home orders. As such, **shareholders seem to respond more positively to lockdowns when infections are high, compliance is better, and the short-term costs are smaller in relation to future costs** in the event of future work stoppages.

Robert J. Shiller on Project Syndicate attempts to analyse **the recent meltdown of the stock market in the USA through three distinctive phases.** The first phase starts on January 30, to February 19, with a 3% rise in the S&P 500 from the beginning of the coronavirus crisis**.** The second phase began when the S&P 500 plummeted 34% from February 19 to March 23, resembling the historical 1929 stock market crash. The beginning of the third phase was when the S&P 500 market began its 40% rise, which was related to genuine news about economic policies for tackling the recession. On March 23, with interest rates already close to zero, the US Federal Reserve announced an aggressive program to establish innovative credit facilities. Four days later, Trump signed the $2 trillion Coronavirus Aid, Relief, and Economic Security (CARES) Act, promising aggressive fiscal stimulus, thus recalibrating the stock market indexes back to a plausible "normal". The author concludes, that in all three phases of the current stock market, the effects of economic policy news are apparent. But price movements are not necessarily a prompt, logical response to them. In fact, they rarely are.

Nevertheless, **V-shaped crisis and recovery are still plausible, despite the structural economic problems that lie ahead**, according to Jim O'Neill states on Project Syndicate**.** The pandemic has struck, not only the Western World, but also emerging and developing economies. Still, around the world governments have mustered an absolutely massive economic-policy response, intervening with remarkable monetary and fiscal measures. Many governments have vastly exceeded the scale of the response to the 2008-10 global financial crisis and recession. If a V-shaped recovery does occur, it will be important to shift attention to other issues, such as the quality of future growth. We must not repeat the mistakes of 2009-10, when the recovery left much to be desired in terms of productivity gains and inclusion.

ELIAMEP experts write

"My feeling is that there will be an agreement because that's what always happens. It will be the product of a compromise – from this compromise the 'frugal' countries, led by the Netherlands, will have to get something, so this proposed package of the European Commission will likely suffer cuts, e.g. regarding duration of disbursement, size, proportion of grants, conditionality. Time is of the essence because the crisis requires immediate fiscal relief."

George Pagoulatos, Director General, ELIAMEP, *Greek Public Radio-1, 09.07.2020*

"Indeed, enjoying high popularity again, German Chancellor Angela Merkel did not hesitate to move forward with the 'exemplary change' after the crisis of the pandemic, together with French President Emmanuel Macron. He supported the creation of the Recovery Fund, acknowledging that Germany needed Europe and reaffirming its strong and ever-repeated position that 'what is good for Europe has been and is good for Germany'. At the same time, these positions have created great expectations as they have been expressed by the longest-serving chancellor, who has proven that she is able to shape the European agenda on a number of issues."

Panayotis Tsakonas, Senior Research Fellow, ELIAMEP, *To Vima, 05.07.2020*

"The Turkish government's effort to keep construction, construction companies and employment intact is linked to its insistence on a low-interest policy and the granting of attractive mortgages through state-owned banks so that the real estate market does not collapse. This, of course, undermines the stability of the Turkish banking system, which in the pre-AKP era was usually at the center of any economic crisis. The need to manage short-term crises is forcing the Turkish government to sacrifice the Turkish banking system. All this is reflected in the exchange rate of the Turkish lira against the US dollar, perhaps the most sensitive indicator of confidence in the government's economic policy."

Ioannis Grigoriadis, Senior Research Fellow, ELIAMEP, *Ta Nea, 04.07.2020*

"The culmination of the Greek-French defense relations with the prospect of supplying two French Belh@rra frigates for the Greek Navy is considered an essential and not a theoretical step. Athens and Paris seem to be reaching an agreement that, in a relatively short period of time, will lead to the inclusion of the two frigates in the defense force of Greece, whose fleet needs a much-needed renewal. And it seems that the purchase of these ships will most likely be the beginning of a long-term cooperation between the two countries with the prospect of supplying others later or, at best, in the Greek-French cooperation of building frigates of this type in Greek shipyards."

George Kaklikis, Special Advisor, ELIAMEP, *Ta Nea, 03.07.2020*

"The provision of a common euro-denominated safe asset, as well as an autonomous fiscal capacity, remain of critical importance, especially for the interdependent economies of the Eurozone, which are under the constraints of the Stability and Growth Pact, having, at the same time, lost the instrument of exchange rate policy. Therefore, even if decisive action is now taken to address the economic impact of the pandemic, the Eurozone will again be vulnerable to the next asymmetric economic shock."

Dimitra Tsigkou, Junior Research Fellow, A.G. Leventis Foundation Research Chair Fellow, ELIAMEP, *capital.gr, 09.07.2020*

"The possibility of using nuclear weapons at any time, intentionally or due to miscalculations or accidents is at its highest level after decades of retreat after the end of the Cold War era, taking into account the increasing weaknesses of cyberspace. The danger is closer than we think. The Doomsday Clock of the Atomic Scientists team, which includes Nobel laureates and former politicians, on January 23, 2020 moved even closer to midnight, i.e. to the nuclear holocaust. The situation is now shown to be just 100 seconds before midnight! It is the first time since 1945 that the clock shows less than two minutes before midnight. Atomic Scientists warn: 'The clock is still ticking. Immediate action is needed'."

Pantelis Ikonomou, Research Associate, ELIAMEP, *Metarrythmisi, 09.07.2020*