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

# 18th Newsletter on the economic impact of the Covid-19 pandemic

## European Developments (17-24/07)

***"Europe is united, Europe is present. We have demonstrated that the magic of the European project works because when we think that it is impossible, there is a spring in our step thanks to respect and cooperation."***

Charles Michel, President of the European Council

***"We want negotiations with the EP to be open. The proposal is on the table but we want to improve it. And we want to improve it, above all, by focusing on responding to cuts that are unjustifiable for us."***

David Sassoli, President of the European Parliament

***"The picture is much more negative when it comes to the EU long-term budget (the MFF). Parliament cannot accept the proposed record low ceilings as they mean renouncing the EU's long-term objectives and strategic autonomy."***

EP Negotiating Team on EU Budget

**ECB**

- The ECB set up repo lines with the Central Banks of Hungary, Serbia and Albania.

**European Commission**

- The Commission announced €112 m. of humanitarian aid for Tajikistan.
- Three flights carrying essential goods to South Sudan and Yemen were conducted as part of EU Humanitarian Air Bridge.

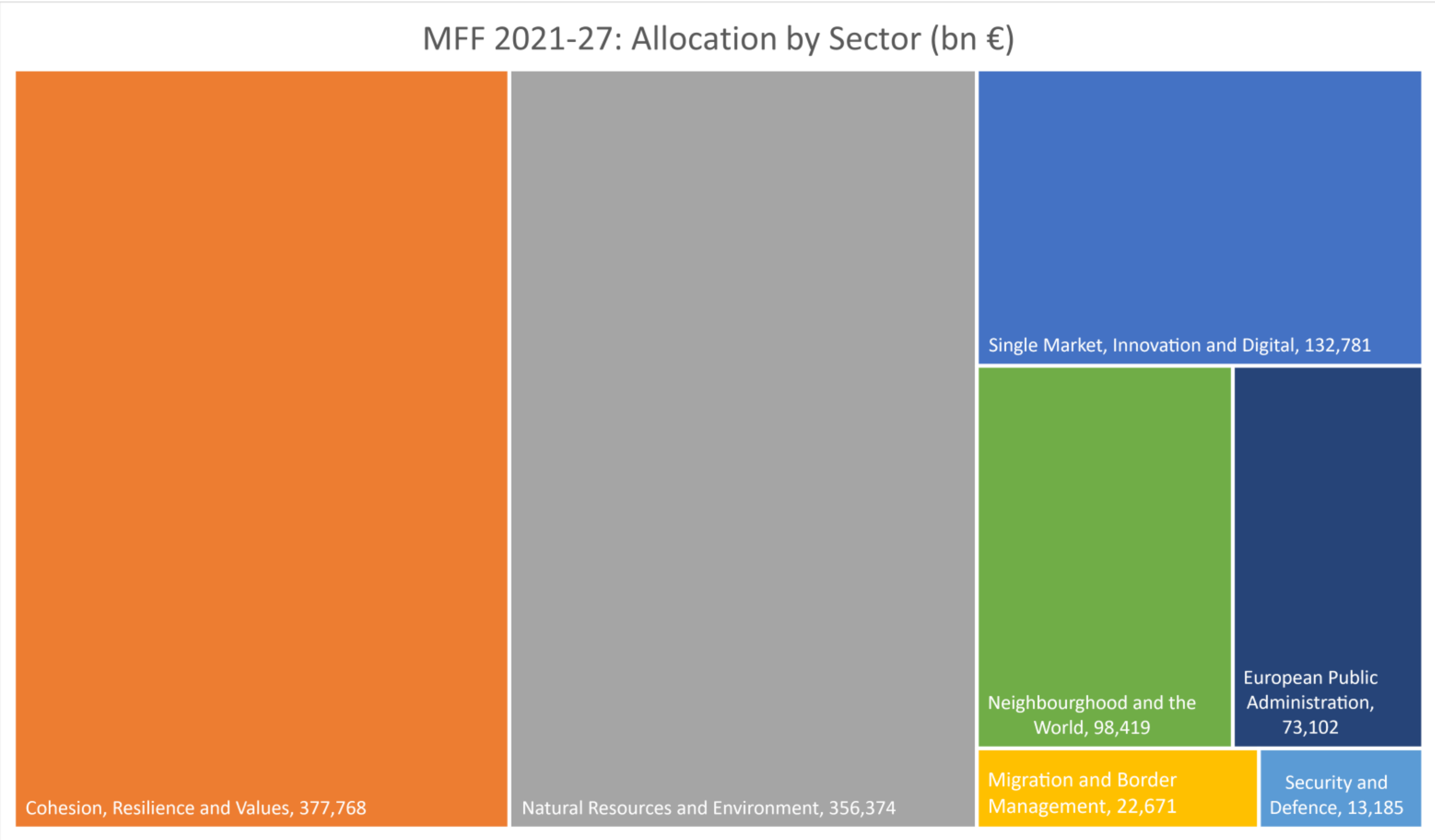
## Special Issue: MFF 2021-27 Agreement

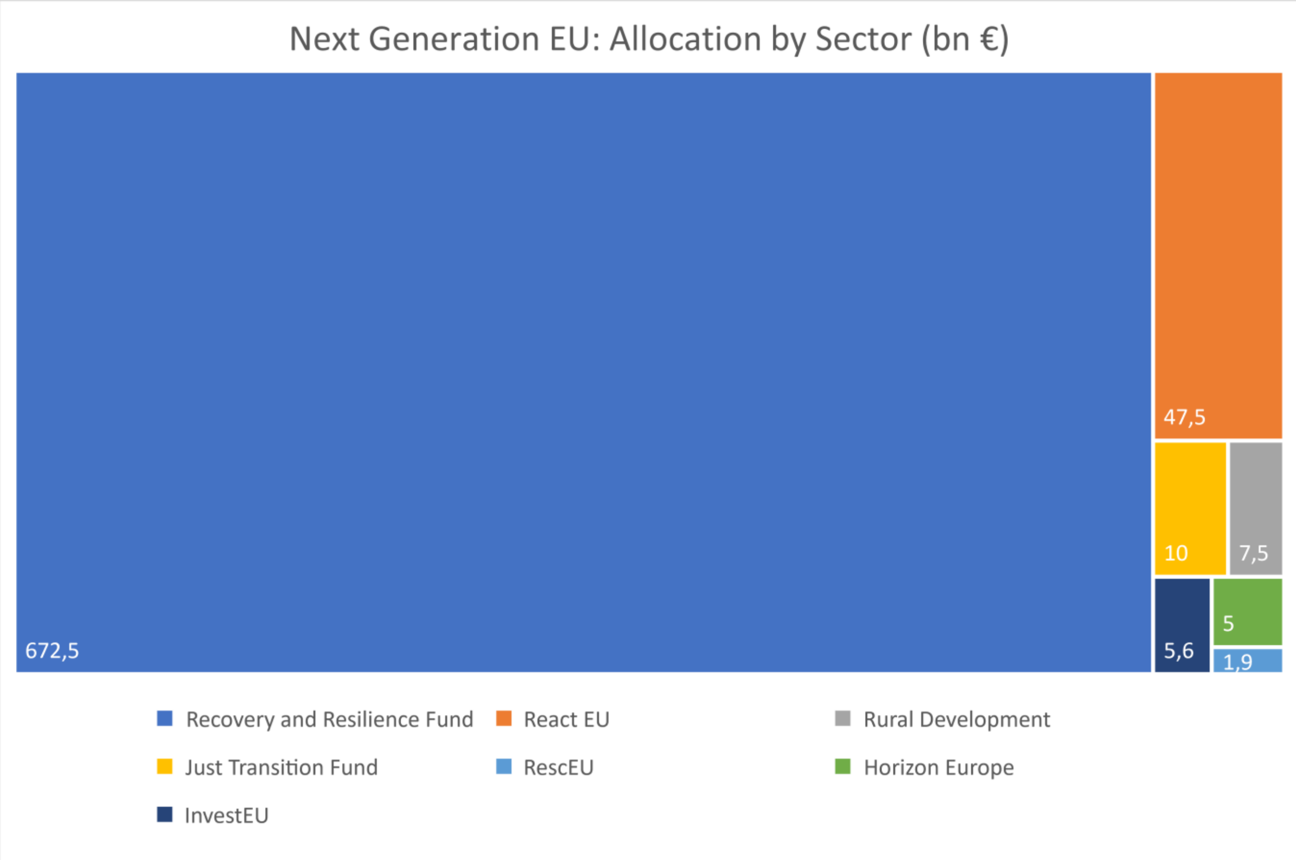
### Advantages

- Unprecedented borrowing by the EU
- Large grant component, although smaller than that of the initial proposal
- EU is set to introduce new own resources. As of 1/1/2021, a new national contribution based on the mass of unrecycled plastics will be introduced.

### Disadvantages

- Less funding for research. healthcare and climate transition than initially proposed and rejection of the Solvency Support Instrument
- Rebates for AT, DE, DK, NL& SE are increased.
- Lack of clarity regarding the link between EU funds and respect of rule of law.






## National Developments (17-24/07)

**France: The Government announced a plan of €5.5 bn to support young people entering the labour market.**

**UK: The Government provided £100m to a vaccine manufacturing facility in Essex in order to accelerate the production of a vaccine for Covid-19 in the future.**

**Australia: The annual budget deficit is expected to reach 9.7% of GDP, the largest since the end of WWII.**

**South Korea: The Government watered down its recent proposal for a tax on capital gains exceeding 20m Won by increasing this threshold to 50m Won.**

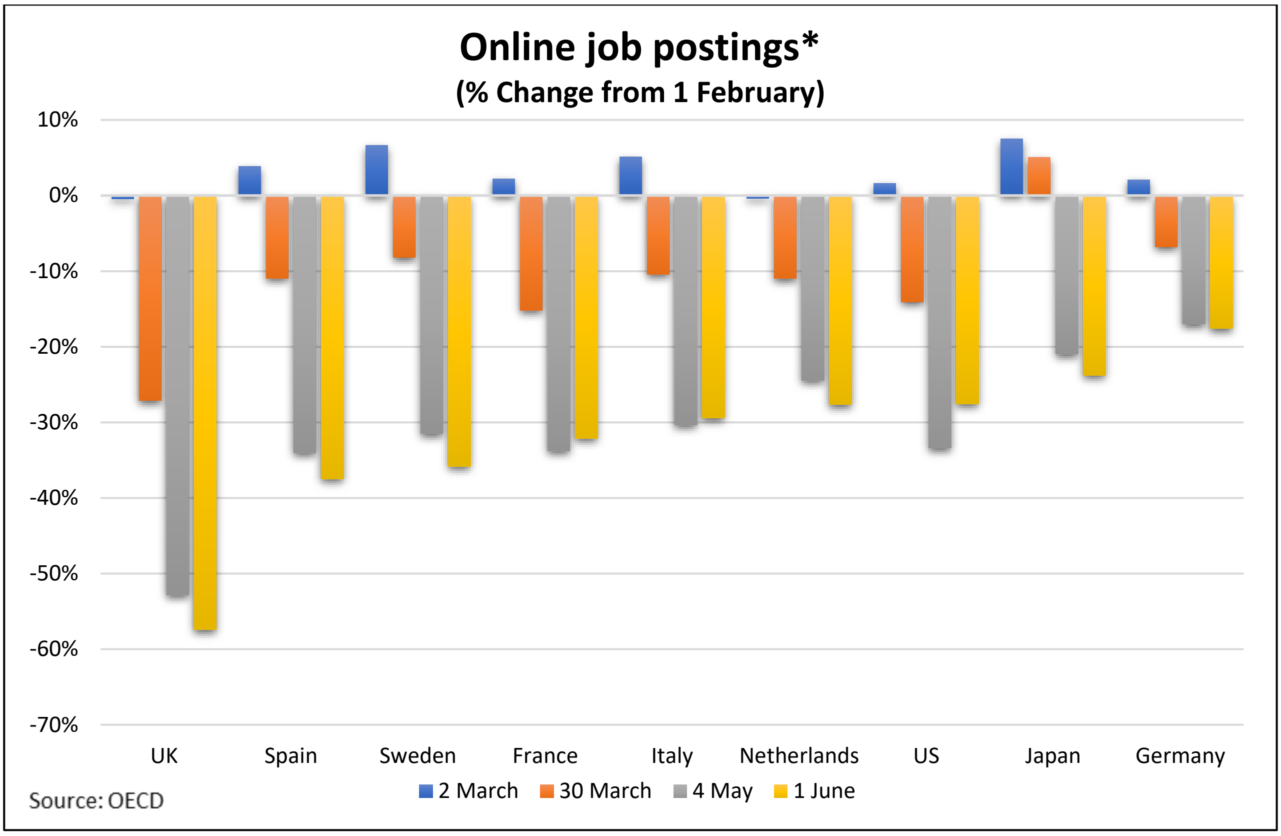
## Breakdown of measures[6] (16/03 – 24/07)

| | EU | France | Italy | Germany | Netherlands | Austria | Denmark | Spain | Greece | Portugal | Ireland |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **A. Fiscal Measures[1]** | €377.5 bn | €135 bn[2] | €52.5 bn | €286 bn | €33.1 bn | €40 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** | €665 bn | €315 bn | €530 bn | €819.7 bn | Min. €33 bn | €9 bn | 94.7 bn DKK | €115.2 bn | Not Specified | €13 bn | Min. €5 bn[1] |
| **D. Tax Deferrals** | - | Not specified | €22.4 bn | €500 bn | €36 bn | Up to €10 bn | 208 bn DKK | €9.7 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.

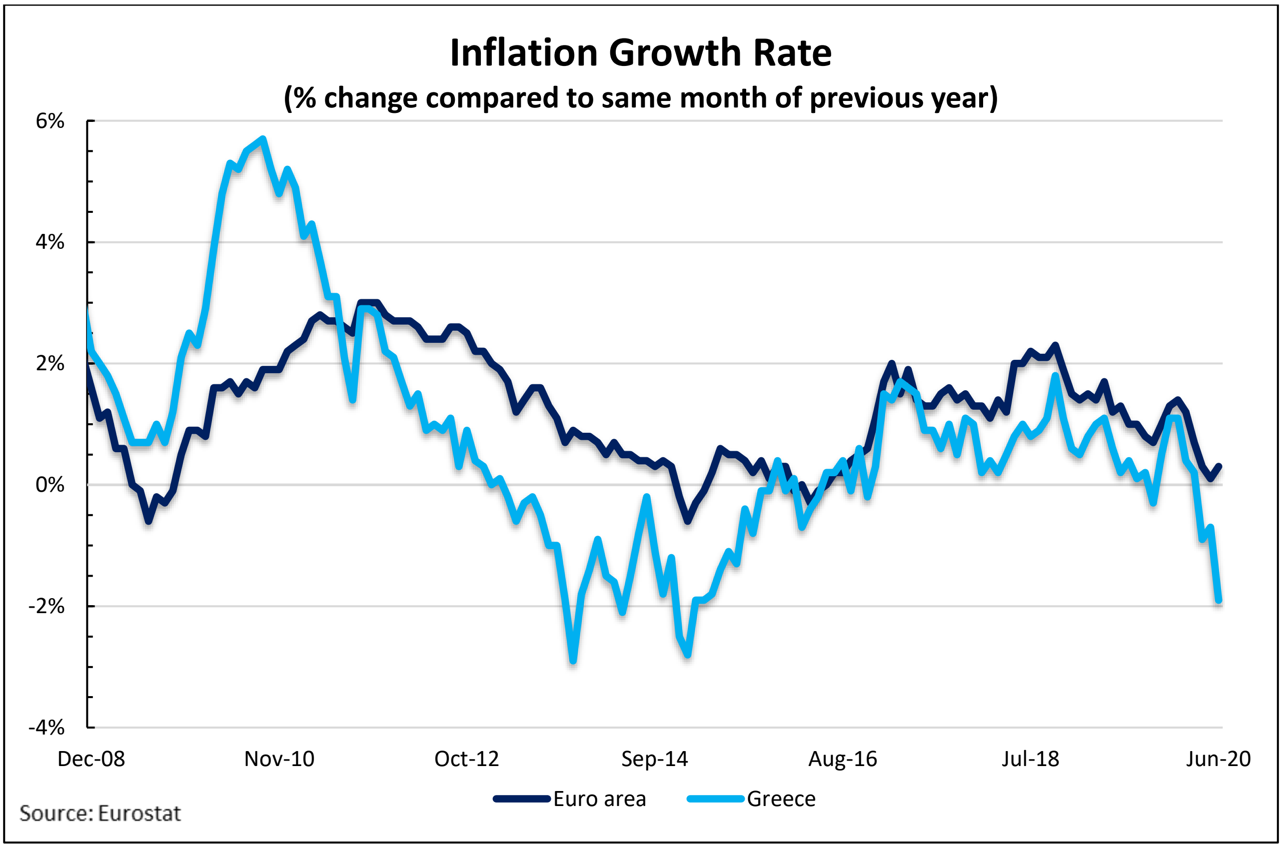
| | USA | Canada | Australia | UK | Japan | Russia | India | Brazil |
|---|---|---|---|---|---|---|---|---|
| **A. Fiscal Measures**[7] | ≈$1.7 tr. | 232 bn CAD | 137.2 bn AUD | £162.5 bn | ¥148.9 tr.[8] | ≈3.2 tr. RUB[8] | 9.45 tr. INR[8] | ≈ 800 bn BRL[8] |
| **B. Monetary Measures (Total)** | Unlimited | 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.

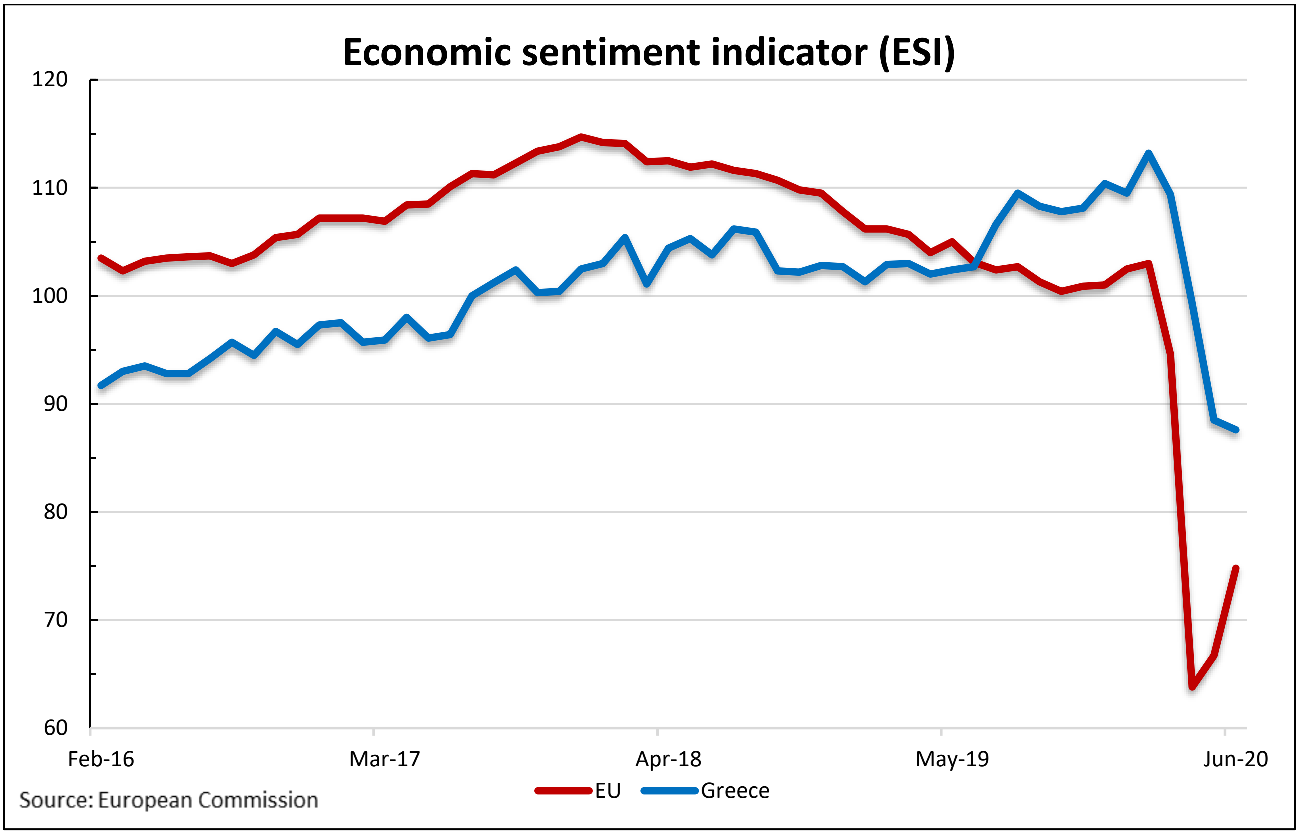



*Data sourced by Indeed.com.

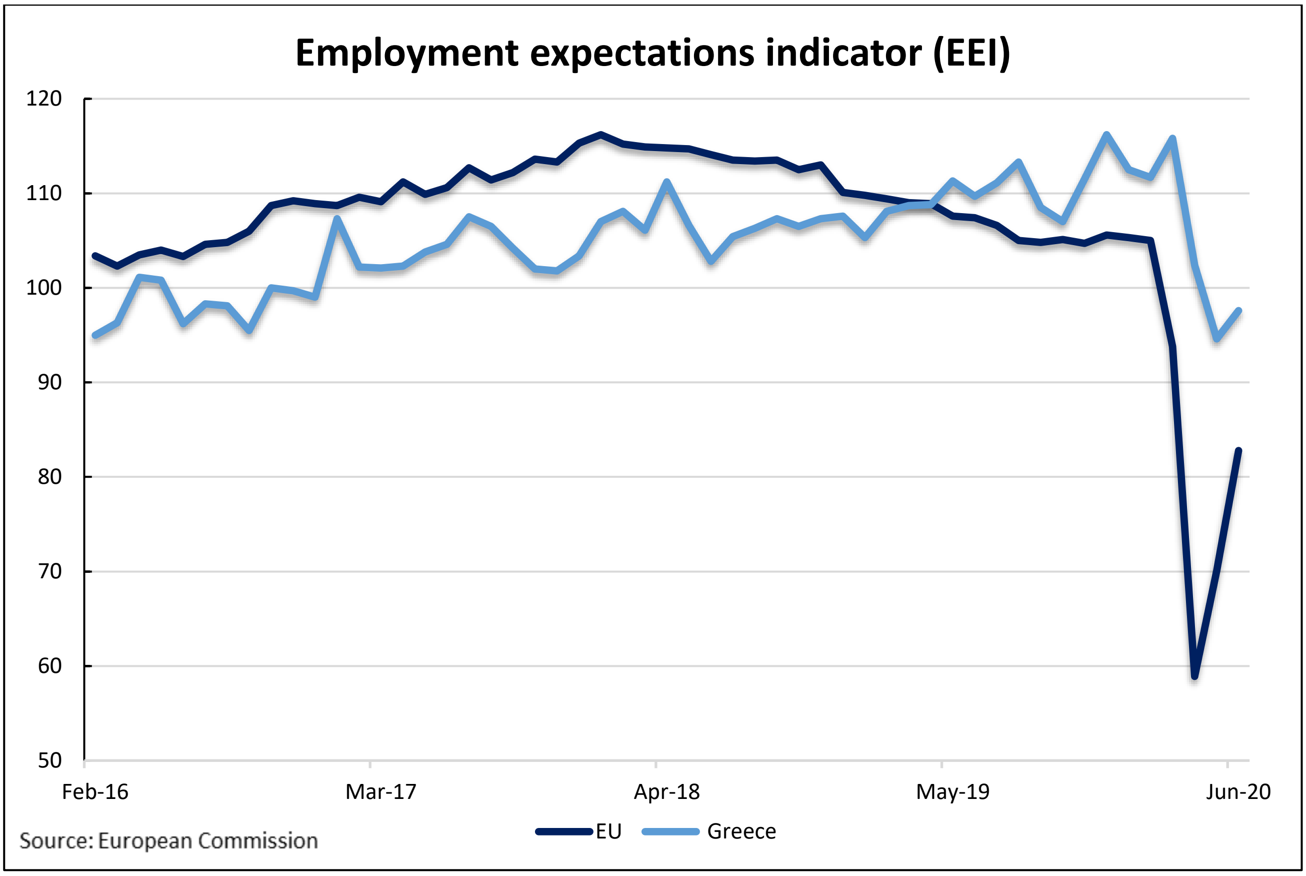
According to the OECD Employment Outlook (7/7), the number of job advertisements posted online on a given day decreased dramatically between March and June despite the partial re-starting of economic activity in several countries.



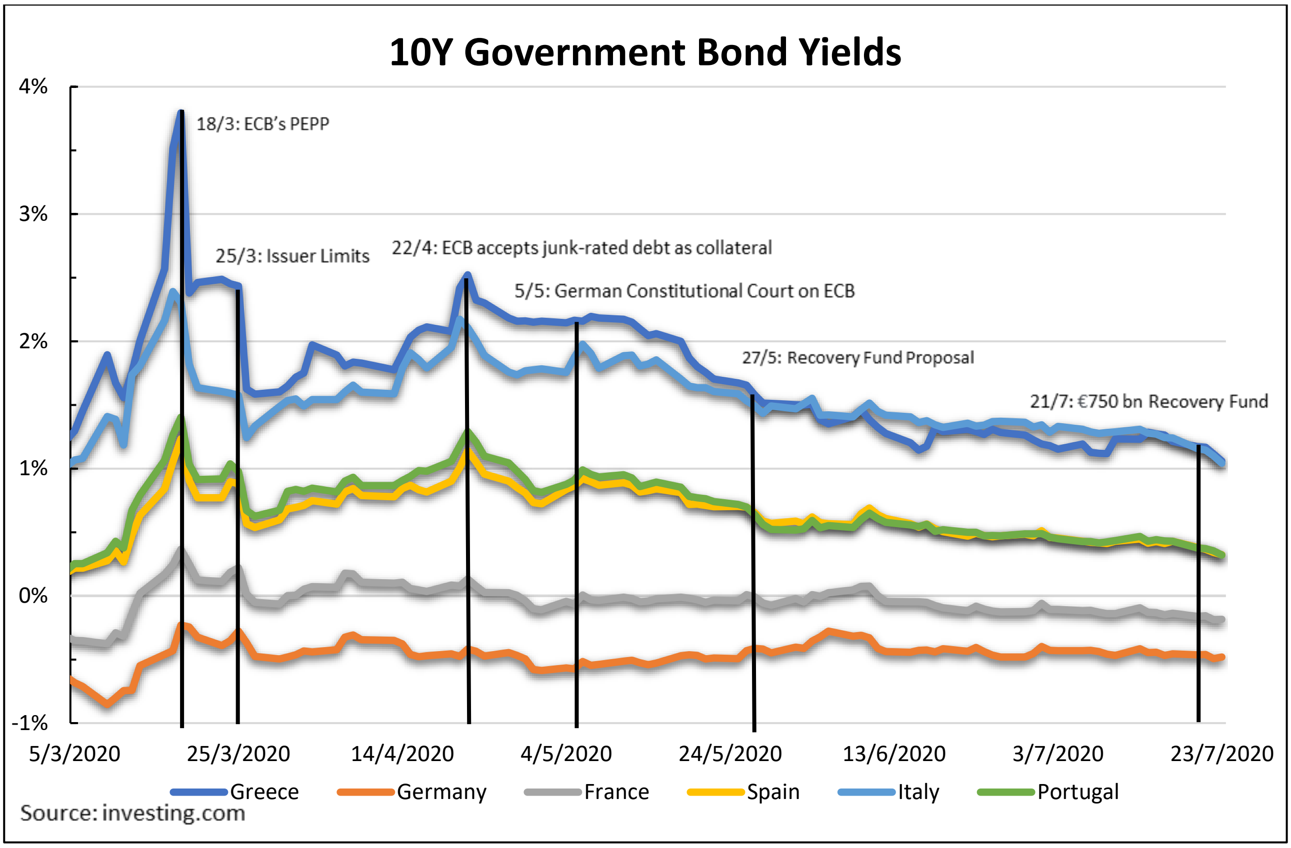

According to the Eurostat (17/7) latest data update, the inflation rate in Euro Area increased to 0.3% in June but remains in extremely low levels. Inflation in Greece was estimated at -1.9%.



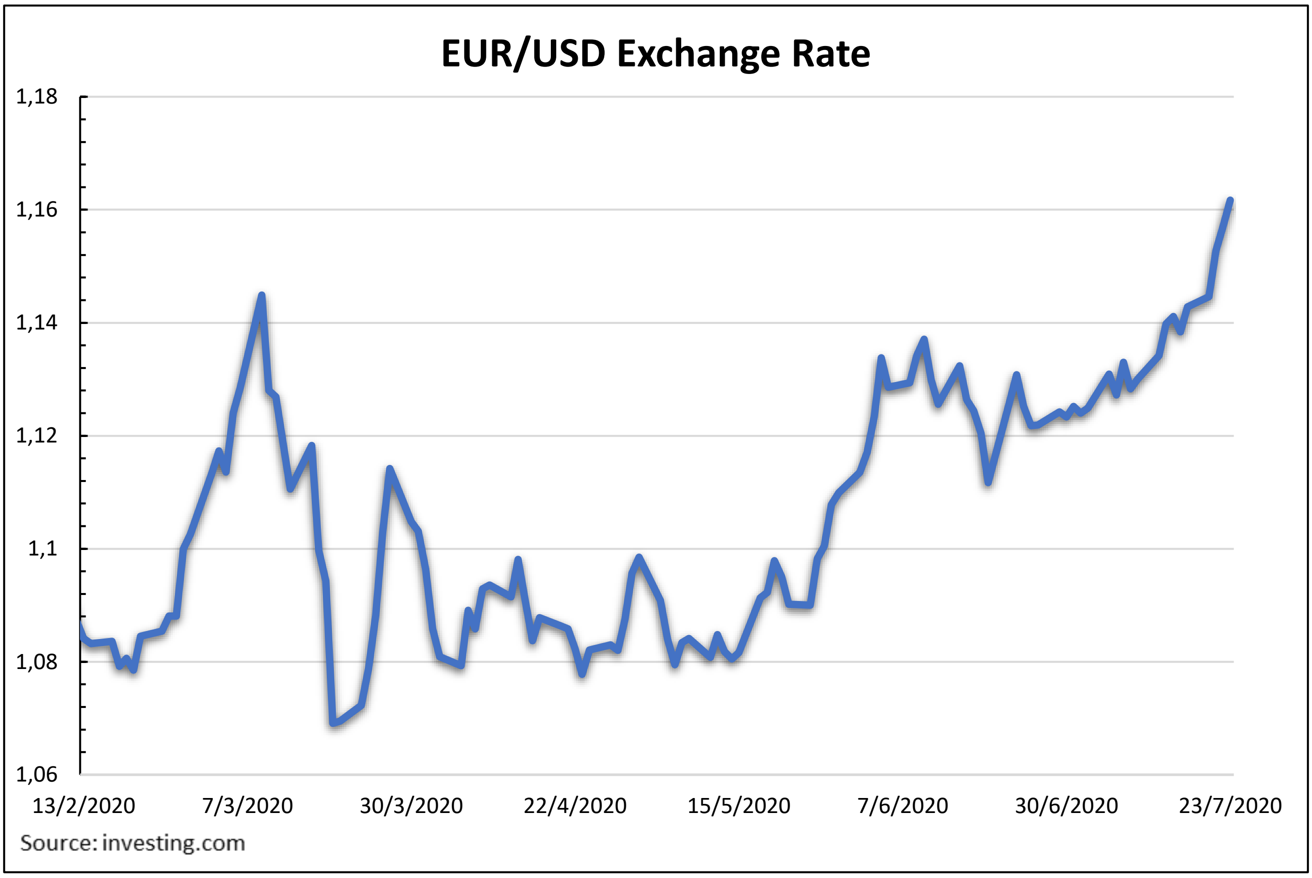

According to the European Commission, the Economic Sentiment Indicator (ESI) climbed in June, in the EU, compared to May, at 74.8 points. In Greece, ESI decreased marginally at 87.6 points.



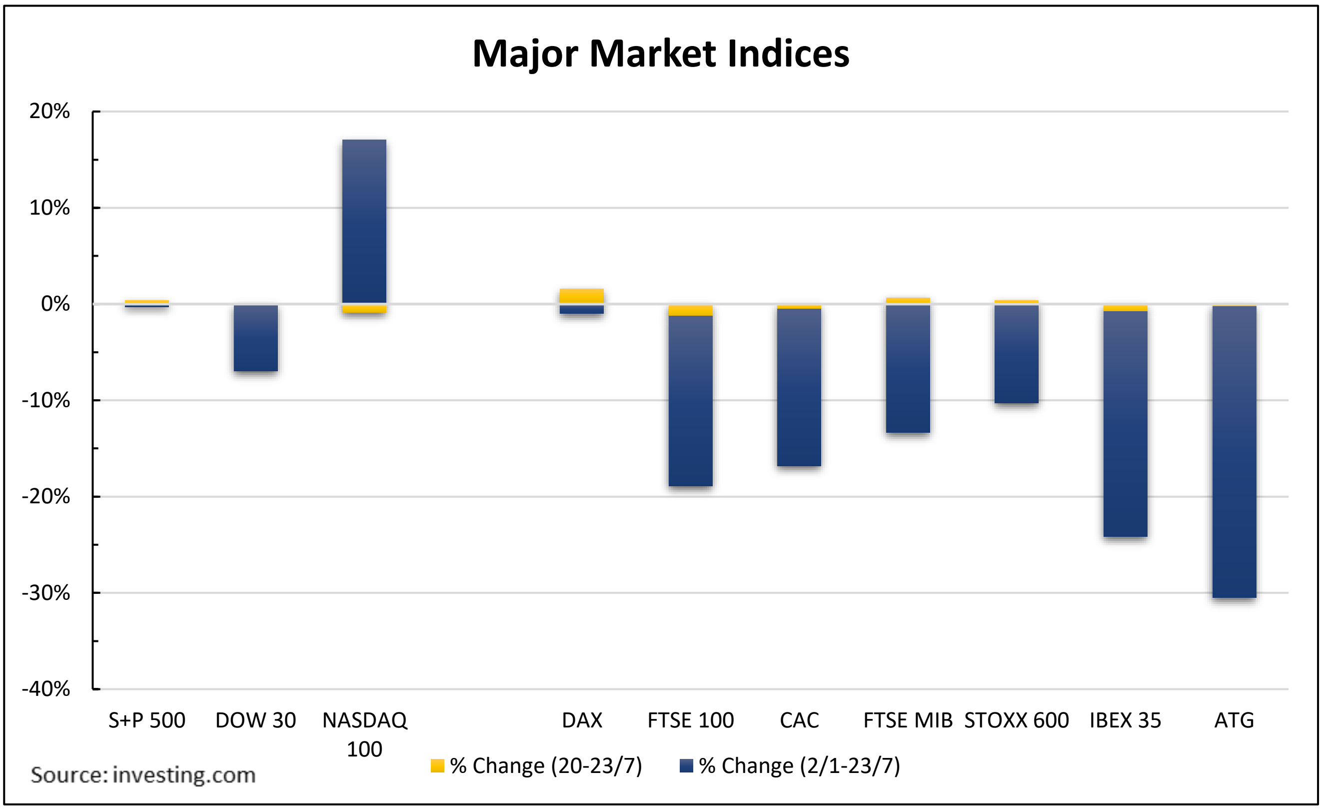

According to the European Commission, the Employment expectations indicator (EEI) climbed in June, in the EU and Greece, compared to May, at 82.8 points and 97.6 points respectively.



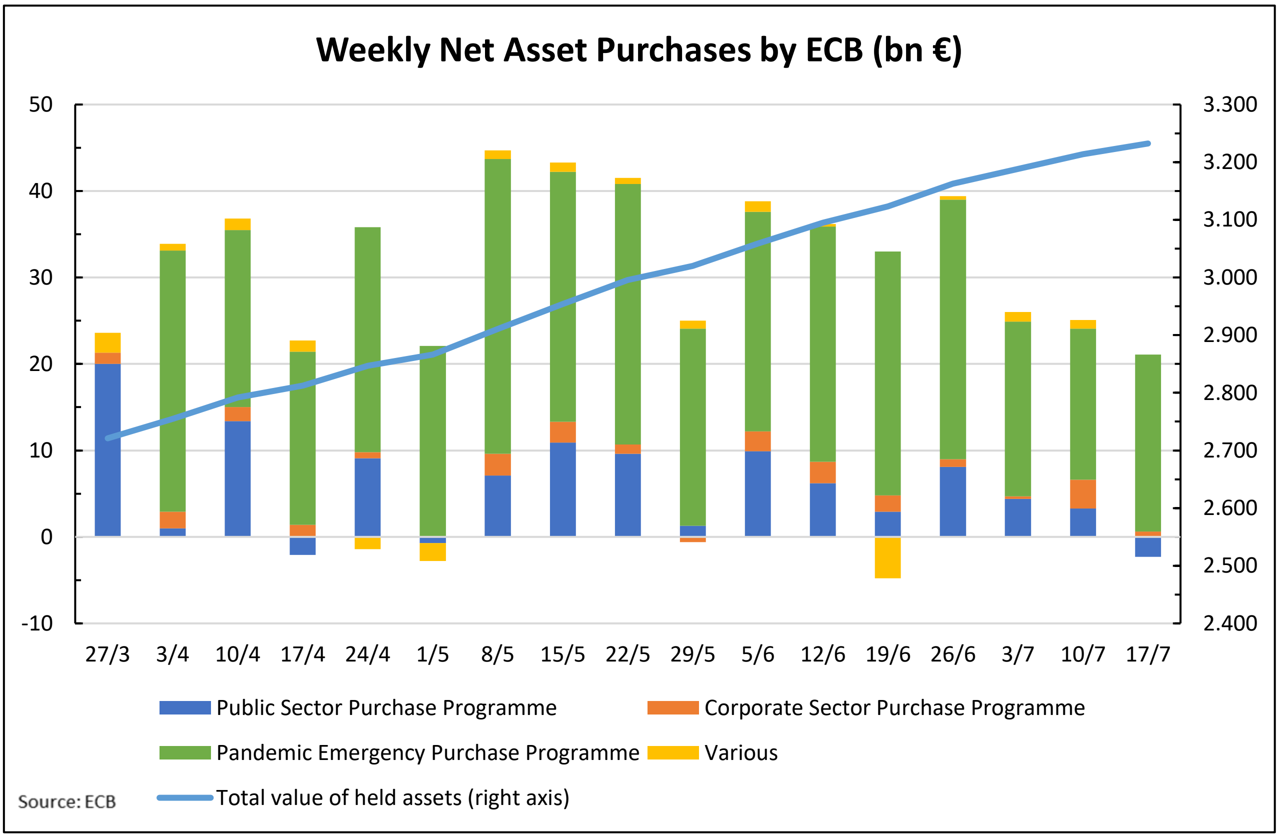

Eurozone government bond yields dropped this week following the July 21 EU leaders' deal on a €750bn Recovery Fund.




In the foreign exchange market, the EUR/USD exchange rate increased this week and is currently at 1.1617 $/€




The trends in both the Wall Street and the European stock markets varied this week. The Athens General Composite was on a partially downward trend due to tensions in Greek-Turkish relations.




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*

Tagesschau hosts a comprehensive FAQ article about the **European Council's approval of the €750bn Recovery Package**, **and the agreement on the EU budget for 2021-27**, both projects amounting to a staggering €1.82 trillion. The package is divided into two parts, with €390bn in grants and €360bn in loans for countries that have run into economic difficulties. Most of the funds (70%), have to be committed in 2021-22, with the rest reserved for 2023. The funds have to be spent by 2026. The distribution of the funds takes into account the economic impact of the pandemic to member-states' economies during 2020-21. The EU will introduce its own sources of income, so that the repayment of the funds (to be borrowed by the European Commission in the international markets) does not burden national budgets. The repayment is expected to begin before 2027, and continue until 2058.

**The coronavirus crisis seems to have allowed Europe to make a leap towards genuine integration**, according to Shahin Vallée on The Guardian. The €750bn Recovery and Resilience package is far from perfect. It is too small and too slow to respond alone to the depth of the shock imparted by the pandemic and it requires national governments to present reform programmes before they can receive funds. Nevertheless, from a political standpoint, the agreement breaks important taboos. Gone are the days when weaker eurozone countries could only hope for European loans with austerity conditions attached. Yet, the agreement raises a number of questions. Firstly, member states had to agree to cut some of the most important and future-oriented parts of the EU budget, in particular in research, healthcare and the green-energy transition. Secondly, there is only a very superficial control of the compliance of spending with the EU's climate objectives and, perhaps more importantly, there is no clear mechanism for ensuring that recipient countries abide by the essential rule of law and democratic values enshrined in European Treaties. Thirdly, the frugal four are allowed to delay disbursements if they are displeased with economic reforms. Finally, the critical weakness of the agreement is the lack of a clear commitment to common European taxation.

After EU leaders reached an agreement on the proposed €750bn Recovery package, the most important question now is **how member-states should spend the available funds.** According to Christian Odendahl on Project Syndicate member-states need to make swifter progress toward carbon neutrality over the coming decade. The European Commission has already proposed to spend a sizeable chunk of the Recovery Package on investments that promote long-term growth while fostering green and digital transitions. However public investment will do little to boost spending in the next few years, with infrastructure projects being time consuming. The solution lies in a bold green tax reform. By making harmful greenhouse-gas emissions more costly, green taxes push consumers and firms out of polluting activities and make energy conservation profitable. Green taxes can be politically problematic, since industries report new losses, and people might not be able to afford to insulate their homes or buy a fuel-efficient car, but such difficulties can be easily overcome since the new EU funds can help mitigate these effects. At a regional level, the EU's "Just Transition Fund" can support local economies, where polluting sectors are major employers. Governments should supplement this assistance with national investment programs to make green taxes more politically acceptable in these regions.

Der Spiegel in a report claims that the EU deal has been an historic success, with virtually **all member-states declaring victory**. Indeed, the revised Franco-German proposal has satisfied, not only the frugal 4+1, but also the Hungarian and Polish governments, which are notoriously eurosceptic. Yet the report mentions **one big loser**, which in this case is the European Parliament. The frugal countries in order to accept the proposal, demanded defunding major projects, most of which had been proposed by the European Parliament. These projects are crucial for the future of the EU, regarding climate policy, the digitalisation of the EU, research, and tackling youth unemployment. Still, the major blow for the Parliament is that Hungary and Poland managed to receive funding, since the Recovery Package has no restrictive clauses regarding the democratic values of recipient member-states.

As expected, the Parliament reaction has been rapid. Süddeutsche Zeitung reports that there has even been a draft, which rejects the financial framework 2021- 27 in its current form. Still, EP president David Sassoli welcomed the decision of the European Council. Above all, it was very important to keep the Recovery Package at €750 billion. The joint raising of debt, which was taboo a few months ago, is no longer a question today. According to a commentary of Die Zeit, **the European Parliament demands renegotiations and a new compromise between the EU member states**, viewing the cuts in research and climate protection and the absence of a sufficient clause about the rule of law, as an outright violation of the values, which the Parliament safeguards.

**The polish people have reelected Andrzej Duda for the presidency** after a controversial election, which divided Poland in "east vs west" and in "urban vs rural". According to Adam Łazowski in CEPS, Duda has raised eyebrows around the world with his anti-semitic and homophobic rhetoric and has managed to separate the electorate into 'true' Poles voting for him, and the 'worst kind' voting for Trzaskowski. Still this is not a complete victory but a pyrrhic one, since Duda must face two main consequences of his actions. First, he ought to ease the wound of the divisive policy he followed, and effectively unite the rest of the electorate. Secondly, he must declare his own independence from Jarosław Kaczyński, who is the de facto leader of PiS. Even though he won by a very slim majority (just 1.03%), this outcome cements Poland once more as a beacon of Euroscepticism.

More than ever, **poorer countries need the support and cooperation of advanced economies.** But the developed world, argues Pinelopi Koujianou Goldberg on Project Syndicate, is turning inward. In the US, the current administration suspended H-1B visas for skilled foreign workers until the end of 2020. Meanwhile in Europe, the carbon border taxes, included in the bloc's ambitious Recovery Package, will place heavy burdens on developing countries with lower environmental standards. These protectionist measures are hurting developing countries, and therefore it is important that advanced economies keep their borders open. Firstly, this will help poorer countries lift themselves out of poverty and will ease the pressures of migration. Secondly, economic prosperity will reinforce peace and stability. Thirdly, the citizens of developing countries will contribute to the prosperity of advanced economies through innovation and consumption. Those trying to build a better world should therefore make it a priority to support the global poor and there is no more effective way to help them than by keeping borders open.

**Unlike the United States, which appears to be squandering the opportunities presented by the COVID-19 crisis, Europe has risen to the occasion**, underlines Stephen S. Roach on Project Syndicate. After the July 21st, the EMU stool finally has all three legs: a common currency, one central bank, and a credible commitment to a unified fiscal policy. Europe's fiscal breakthrough drives an important wedge between the overvalued US dollar and the undervalued euro. America's rapidly worsening macroeconomic imbalances and a government abdicating all semblance of global leadership means that the dollar is ripe for a sharp decline. Whereas the IMF expects the US current account deficit to hit 2.6% of GDP in 2020, the EU is expected to run a current account surplus of 2.7% of GDP – a differential of 5.3 percentage points. With the US entering the COVID crisis with a much thinner saving cushion and moving far more aggressively on the fiscal front, the net-saving and current-account differentials will continue to shift in Europe's favor – putting significant downward pressure on the dollar. As the world's most unloved major currency, the euro may well be headed for an exceptional run of its own.

**By the time the COVID-19 crisis erupted, China had become the world's largest supplier of key medical products**, accounting for half of all European and US imports of personal protective equipment, [writes Dani Rodrik on Project Syndicate]. Increasingly, China's role in the world economy is portrayed in terms of imperial aggression, while the geopolitical tensions are real, we still should not let economics become hostage to geopolitics. Firstly, the growth policies, that today provoke the wrath of other countries, are the reason China has become such a large market for Western exporters and investors. Secondly, China's industrial policies are not necessarily unfair to competitors. Chinese producers are rarely accused of propping up prices, which is the hallmark of market power. More often, the complaint is the opposite, with such considerations probably applying more to the US and European firms that are frequently the dominant players in high-tech markets. Much of the new push for industrial policy in the US and Europe is motivated by the perceived Chinese "threat", but economic considerations suggest this is the wrong focus. The needs and remedies lie in the domestic sphere, and the objective should be to build more productive, more inclusive economies at home, not simply to outcompete China or try to undercut its economic progress.

[Stefania Benaglia writes on CEPS] about the **virtual EU-Indian summit, which took place on the 15th of July.** Without doubt, the EU needs a strong partnership with India to meet its objectives of becoming a global leader and tackling climate change. On the other hand, India needs a new and dependable partner. Still, the real potential for unlocking the relations lies in the possible reopening of the free trade area (FTA) negotiations. Their suspension in 2013 hit the partnership hard, as the absence of talks on economic cooperation was misread by most as a lack of political interest. The potential profits of a trade agreement between EU and India are estimated around €8- 8.5bn for both sides.

**The global pandemic forced a large number of workers to reorganise their lives away from a worksite, towards new models of working at or near home**, [according to Christy Hoffman and Sharan Burrow on Social Europe]. One survey of chief financial officers concluded that 74 per cent of companies intended to keep some proportion of their workforce on a permanent remote status. However, this situation is ripe for abuses. Employers and employees need to reach agreements in order to ensure the voluntary choice of remote work, the right to disconnect and the right to return to the office. Moreover, unions must also guard against remote work becoming a pathway towards the 'Uberization' of these workers. It is easy to imagine how the lines between 'remote' work and 'platform' work could blur, as work devolves into commercial contracts, such as 'pay by project' independent-contractor arrangements, or old-fashioned work easily outsourced to lower-cost destinations. Workers' representatives must be at the tables of power—with employers, governments and international bodies—to negotiate the conditions of this transition.

**In the wake of COVID-19, there is an urgent need for sovereign debt restructuring, including debt relief,** according to Joseph E. Stiglitz et al. on Project Syndicate. While some ad hoc relief has already been promised by official creditors, indebted poor countries are facing again private creditors without a sovereign debt restructuring mechanism. The most promising measure is a collective action clause (CAC) that allows a restructuring to go forward when approved by a supermajority of the creditors. In the ongoing debt negotiations between Argentina and private creditors, one creditor group has been pressuring Argentina to remove this innovative feature from future debt contracts. This would be a disastrous precedent that would set back by more than a decade the development of the international legal architecture for sovereign debt. In the long run this would not benefit the majority of creditors, who have an interest in timely and orderly restructuring arrangements that can reconcile their risk exposure with emerging-market realities. The beneficiaries only include vulture funds, well-established law firms and investment banks.

**The COVID-19 pandemic will deal a heavy blow to many of the EU's southern neighbours across the shores of Mediterranean,** making a strategic revaluation of the Union's approach even more urgent, argues Luigi Scazzieri of the Center for European Reform. While most of the southern neighbours have not yet been severely hit by the pandemic itself, they will suffer from its economic fallout: unemployment and social strife will fuel instability, migration towards Europe and possibly conflict. If Europeans want their neighbourhood to be stable, they need to take more responsibility for its security. They should, for example, be much more proactive in Libya, agreeing on a common strategy, trying to obtain a ceasefire and providing troops for peacekeeping once a ceasefire is struck. Moreover, the EU should make the countries in its southern neighbourhood a more ambitious offer: deeper market access, more opportunities for their citizens to work in Europe, and more financial and technical assistance. The Union should also develop an associate membership model for democratic countries in the region that would be eligible for membership were it not for their geographic location. At the same time, the Union should target financial assistance more strategically, pushing countries to respect human rights and align with its foreign policy goals, maintaining ex-ante conditionalities.

With the EU deal on the horizon, Riccardo Perissich claimed on CEPS that the **EU must find new revenue sources.** This could be in the form of a new tax, such as an environmental one, but still the author suggests that it could be quite a risk since most air and maritime transport companies are on the brink of bankruptcy. The second option is a digital tax aiming at American companies, a subject long debated at length. There is broad agreement that at present the web companies do not pay their fair share of tax in the countries in which they operate. Either way, Perissich argues that the Recovery Package is of crucial importance, but still needs its own funding.

The COVID-19 pandemic struck each sector of the economy, including the arts. Even though the **UK has announced a £1.57bn support package for cultural institutions**, made up of £880m. in grants and £270m. in repayable loans, Andrew Lloyd Webber –the worldwide famous composer - claims that **the package will not suffice**. Theatre stages across the UK are scheduled to reopen on the 1st of August with strict social distancing rules, with Webber claiming that things are hopeless since a play needs at least 65% capacity in order to be profitable, thus the government dooms the producers to run at a loss. On the other hand, the Minister of Culture Oliver Dowden supported this initiative on BBC, stating that the package will protect the "Crown Jewels of the UK", such as the Royal Albert Hall and national galleries, and is designed to provide enough funds for the rest of 2020.

## *ELIAMEP experts write*

"Some governments have used the coronavirus for their own purposes. Viktor Orbán in Hungary and Recep Tayyip Erdogan in Turkey are examples of politicians who used the pandemic to curtail democratic rights and expand their power. On the contrary, Greece weathered the crisis with exceptional efficiency and professionalism. When state institutions deliver for the majority of citizens, democracy is strengthened."

**George Pagoulatos**, Director General, ELIAMEP, *Handelsblatt, 19/07*

"There is no doubt that the final result is a product of compromise and that the critique aimed at particular parts of the deal is justified. However, it could not have been otherwise. We must not forget that the European project is unique in human history and that progress in finding common solutions for 27 different countries is a slow and difficult process, always based on mutual compromises. In this context, the agreement of 21st July is undoubtedly significant , not only because it responds, in a way that was lacking in the previous crisis, to the needs of European citizens at a difficult time, but also because it lays the foundations for the creation of a common fiscal capacity in the long term, strengthening substantially the prospects of European integration."

**Dimitris Katsikas**, Head of the Greek and European Economy Observatory, ELIAMEP, *Capital.gr, 23/7*

"And in this case, since all the statistical and mathematical methods did not bring the result that would allow the final compromise, the "candies" were mobilized, which in this case took, as usual, the form of emergency aid to various countries, without even offering some pretentious justification, as time was pressing. Thus, we saw, among other things, an additional aid of 1.55 billion euros for the Czech Republic, 600 million for Poland, 300 million for Portugal and 650 million for Germany. The candies also took the form of returns mainly to the four frugal countries that reacted to the end."

**Alekos Kritikos**, Special Advisor, ELIAMEP, *Ta Nea, 22/7*

"[The Frugals] do not want to be sidelined by the Franco-German alliance. What this group of countries is trying to prevent is [NextGenerationEU] becoming a structural feature of the EU -cross-border transfers in the form of grants resulting from EU borrowing. They do not want this to happen again. They want this to be a one-off thing."

**George Pagoulatos**, Director General, ELIAMEP, *Al Jazeera, 21/07*

**THE NEXT BULLETIN WILL BE ISSUED ON 21/08. HAVE A NICE & SAFE SUMMER!**