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

14th Newsletter on the economic impact of the Covid-19 pandemic

European Developments (19-26/06)

"Discussions showed differences of opinion on various issues, for example on the overall size of Next Generation EU, on the balance between grants and loans, on the allocation key, and on own new resources and rebates."
Ursula von der Leyen, President of the European Commission

"With the Next Generation EU, the net balance improves for each Member State, provided that repayment is financed by new own resources! This means net contributors pay less and net recipients get more."
Johannes Hanh, Commissioner on Budget and Administration

"The recovery is going to be a complicated matter, I would characterise it as sequential and restrained. (...) We are not going to return to the ex-ante status quo. This recovery is going to be incomplete and might be transformational."
Christine Lagarde, President of the ECB

- The Commission green-lighted the state aid package of €6 bn for Lufthansa.
- The Commission published its draft proposal for the EU Budget of 2021. Its size amounts to €510.7 bn of which €344 bn will come from Next Generation EU.

European Commission

- The Council decided to defer the application of the new VAT regime on e-commerce by 6 months.
- The Council adopted a regulation easing capital requirements for banks temporarily. These exceptional measures include, inter alia, a lower required amount of capital for NPLs and delayed implementation of the IFRS 9 accounting standard.

Council of the EU

National measures (19-26/06)

France: The Government announced a two-year extension of its partial unemployment scheme, following negotiations with the social partners.

Spain: The Government announced financial support of €4.3 bn for the tourism industry, of which €2.5 bn will be provided as grants.

The Netherlands: The Government decided to provide €3.4 bn of state aid to Air France-KLM. This package comes on top of €7 bn already provided to the airline carrier by France.

Hungary: The Central Bank cut its benchmark rate by 15 bp, to 0.75%. This is the first reduction of the rate since 2016.

USA: In light of the stress tests conducted by the Fed, a cap on dividends and a total ban of share buybacks were imposed on 33 banks.

South Korea: The Ministry of Finance announced it intends to impose, from 2023, a tax of up to 25% on capital gains above the threshhold of $16,700.

International Monetary Fund

- From 19/06 to 25/06 the IMF has approved the requests of Montenegro and Guinea for financial support through the Rapid Credit Facility, Rapid Financing Instrument and Catastrophe Containment and Relief Trust. Total amount approved: 167.6 m. SDR ($231.7 m.)

Breakdown of measures[6] (16/03 – 26/06)

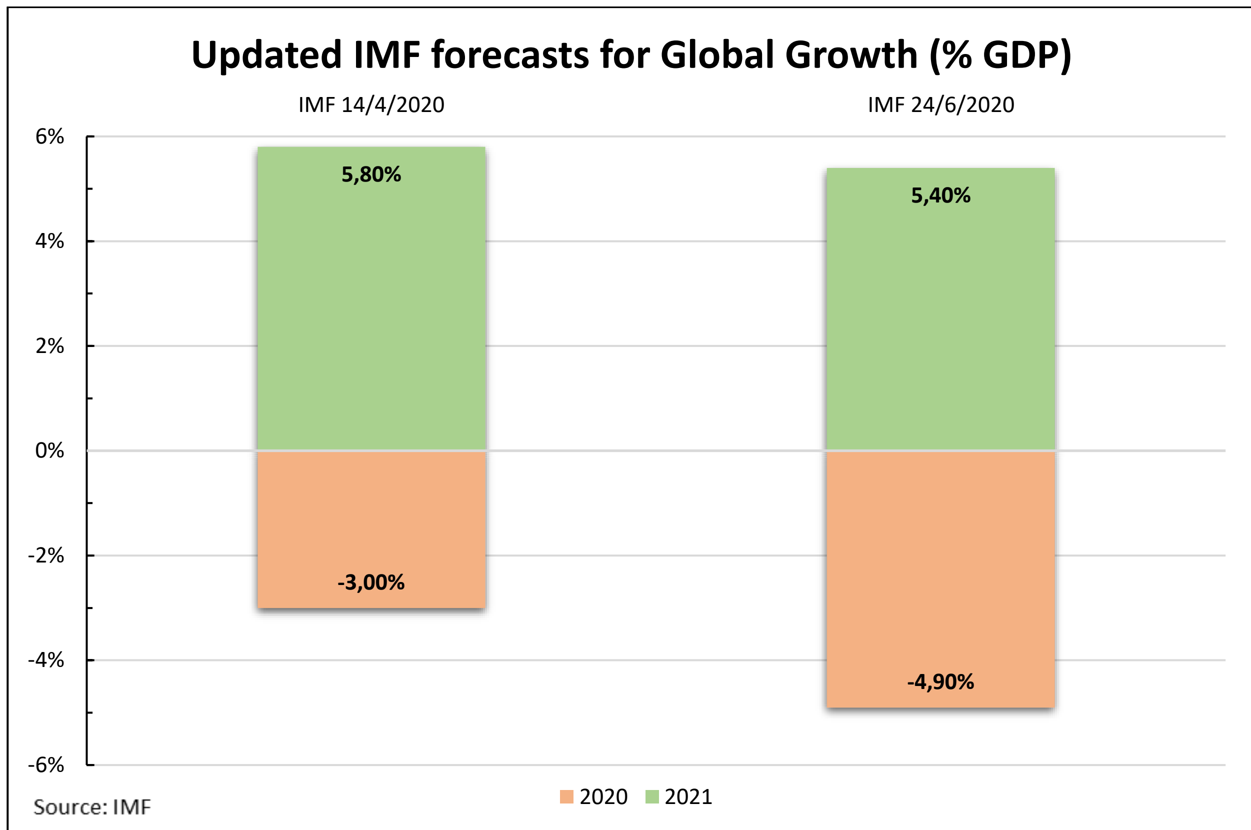
	EU	France	Italy	Germany	Netherlands	Austria	Denmark	Spain	Greece	Portugal	Ireland
A. Fiscal Measures[1]	€65 bn	€110 bn[2]	€52.5 bn	€286 bn	€33.1 bn	€42.2 bn	120.9 bn DKK	€31.2 bn	€24 bn[3]	€1 bn[1]	≈ €6.8 bn[1]
B. Monetary Measures (Total)	€2.6 tr.[4]	-	-	-	-	-	Bank credit facility increased	-	-	-	-
C. Loans/Guarantees	€305 bn	€315 bn	€530 bn	€819.7 bn	Min. €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.

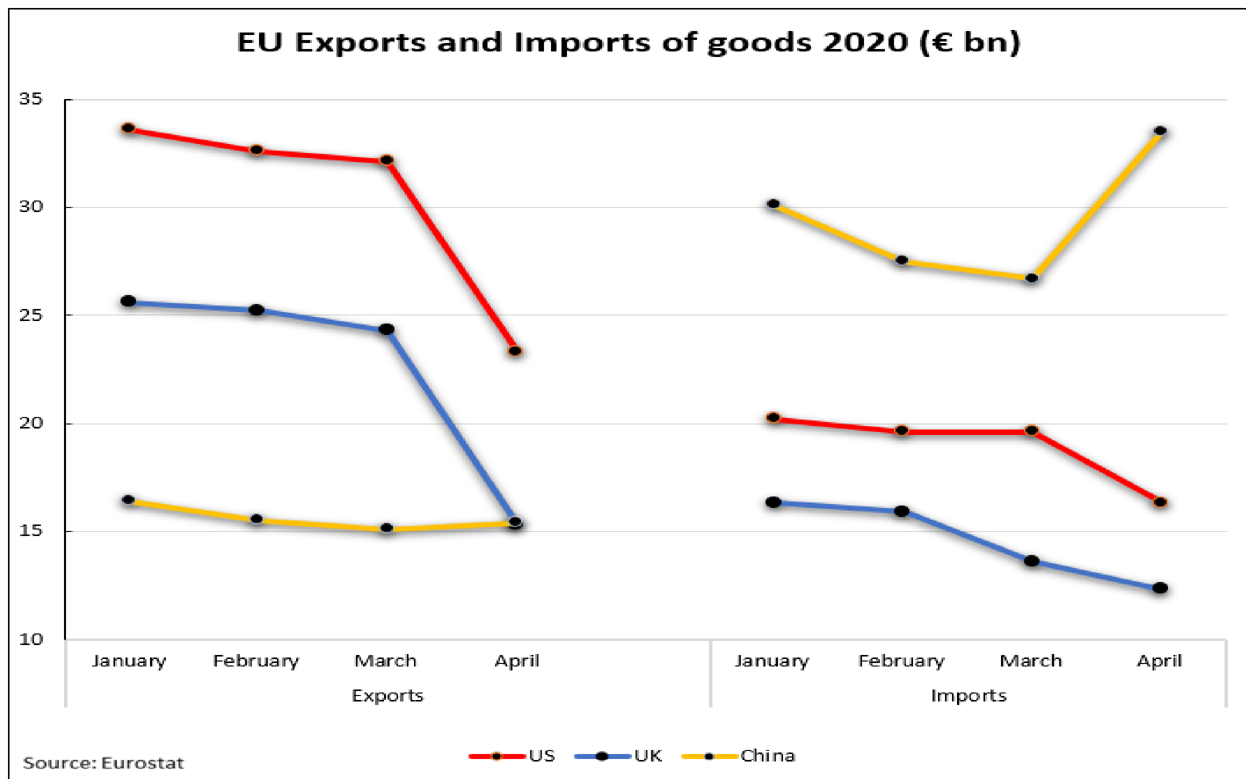
	USA	Canada	Australia	UK	Japan	Russia	India	Brazil
A. Fiscal Measures[7]	≈$1.7 tr.	120 bn CAD	133.8 bn AUD	£132.5 bn	¥148.9 tr.[8]	≈3.2 tr. RUB[8]	9.45 tr. INR[8]	≈ 580 bn BRL[8]
B. Monetary Measures (Total)	Unlimited	Not Specified	Min. 90 bn AUD	Min. £940 bn	Unlimited	Not Specified	Min. 3.7 tr. INR	≈ 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.

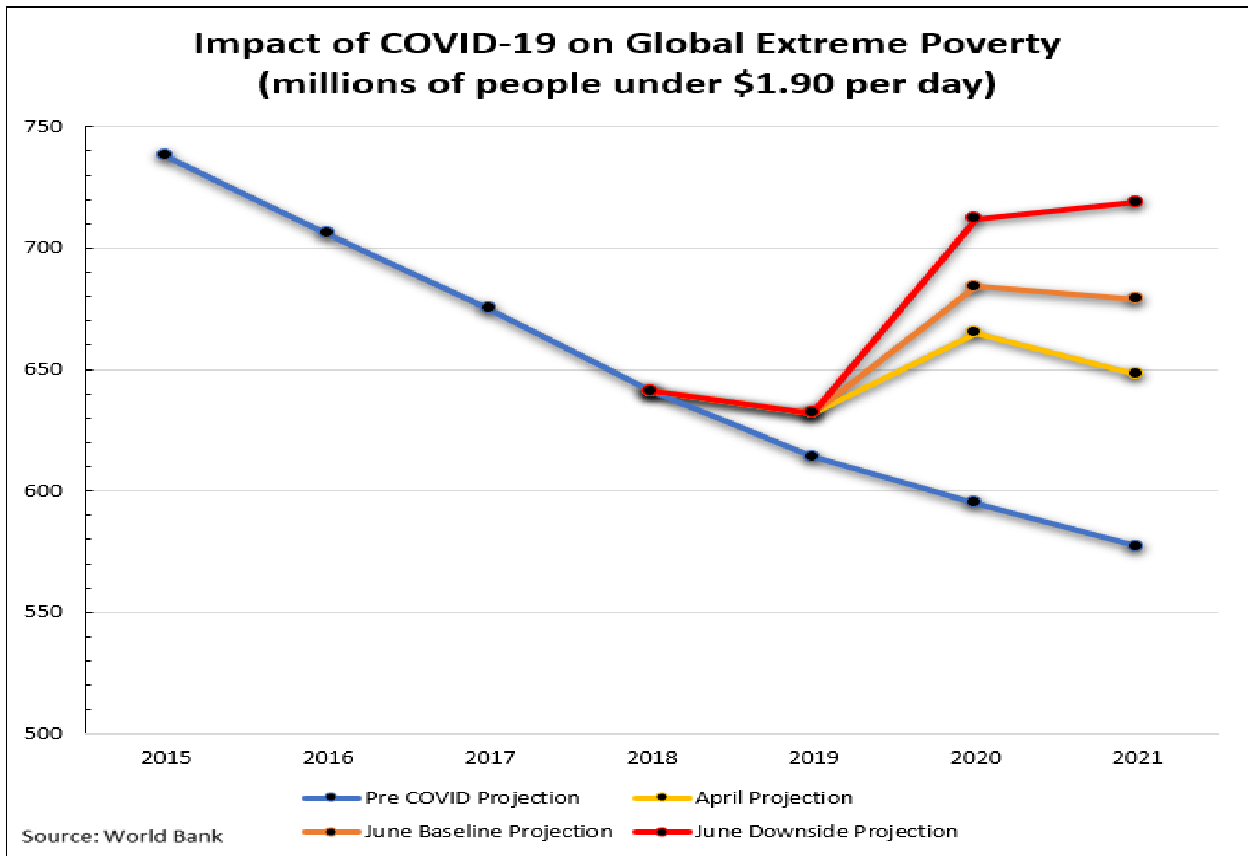
Recent Economic Developments (22-25/06)



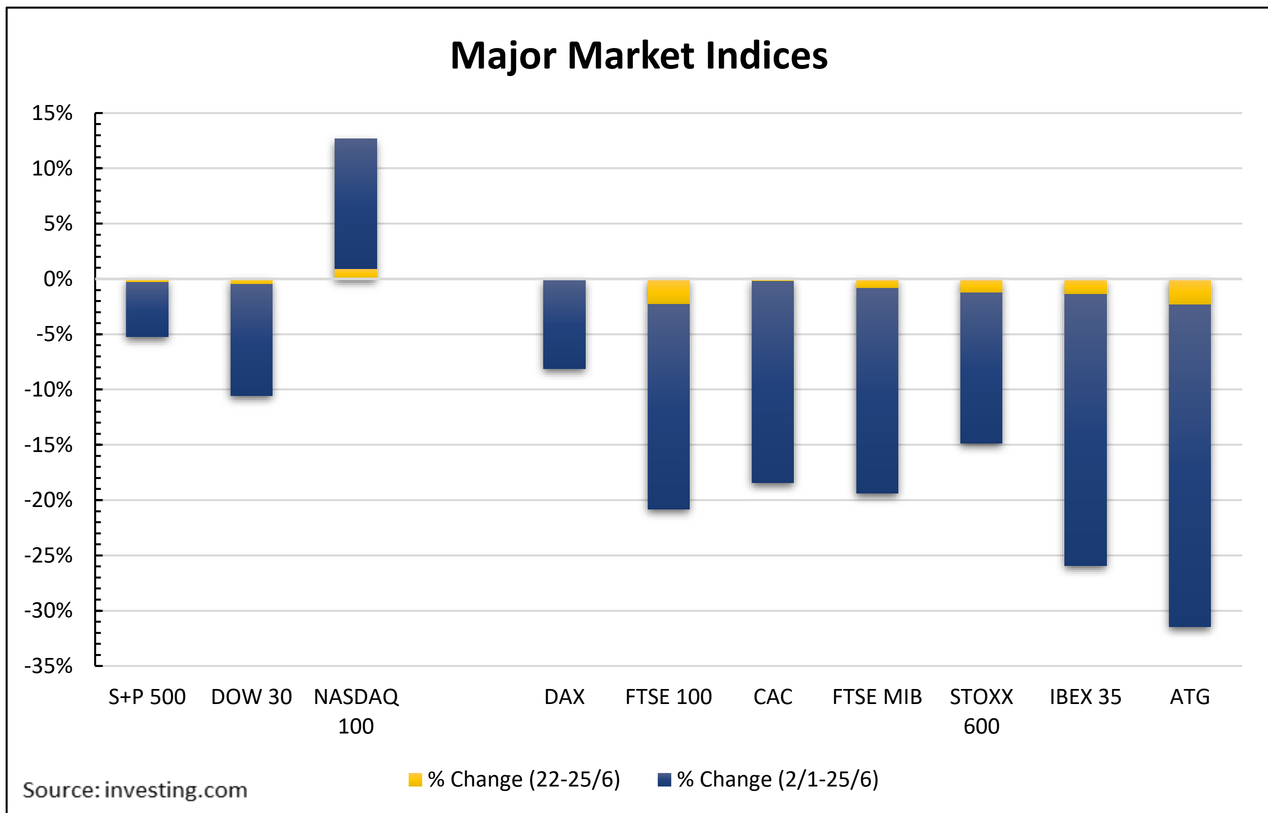
According to IMF's updated [World Economic Outlook](#) (24/6), the world economy is expected to suffer a significantly deeper recession and recover more gradually compared to April's projections. GDP is projected to decline by 4.9% in 2020, followed by a partial recovery projected at 5.4% in 2021.



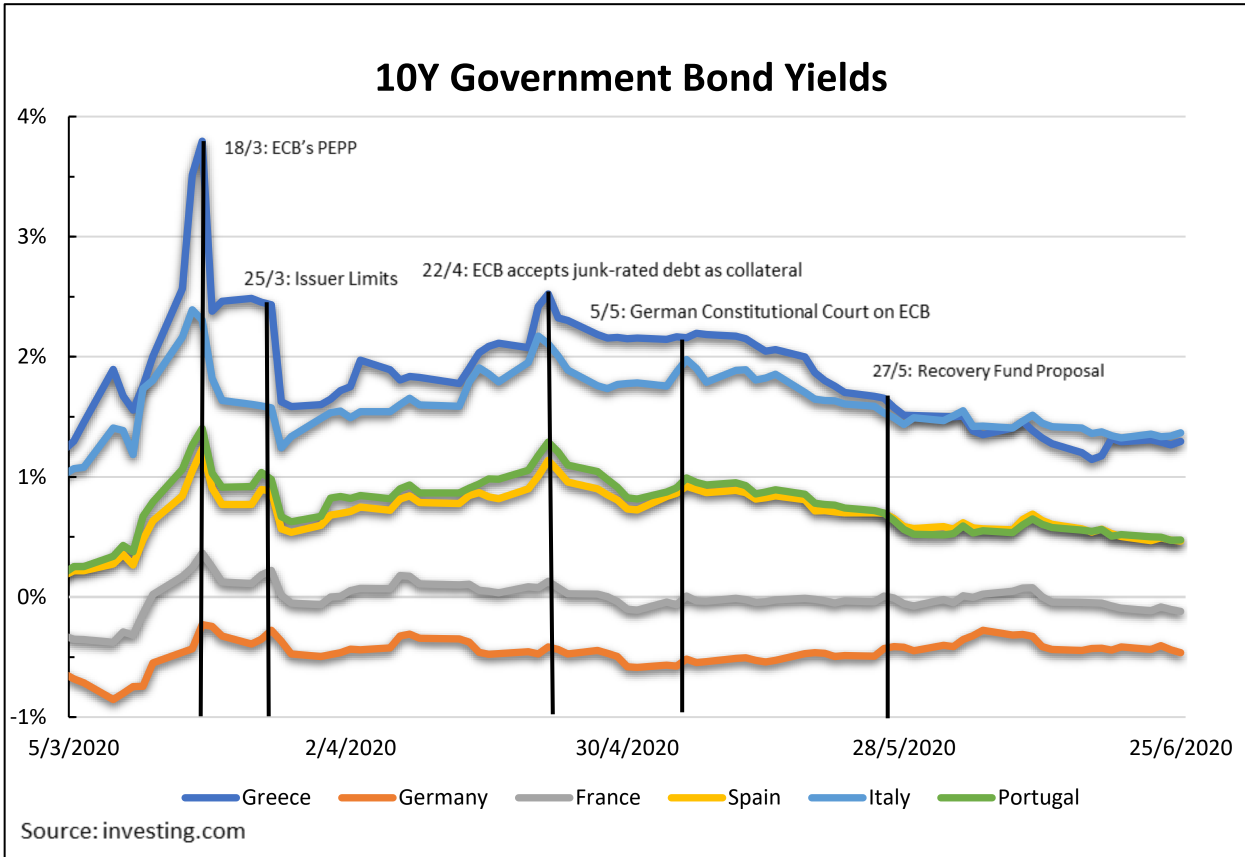
According to [Eurostat](#) (22/6), EU's external trade with its trade partners has varied in recent months.
Exports to US and UK fell dramatically after the lockdown measures in March, whereas the sharp increase in imports from China was due to an increase in imports of specific textile articles (face masks fabricated from textile, surgical masks, disposable face masks, etc.).



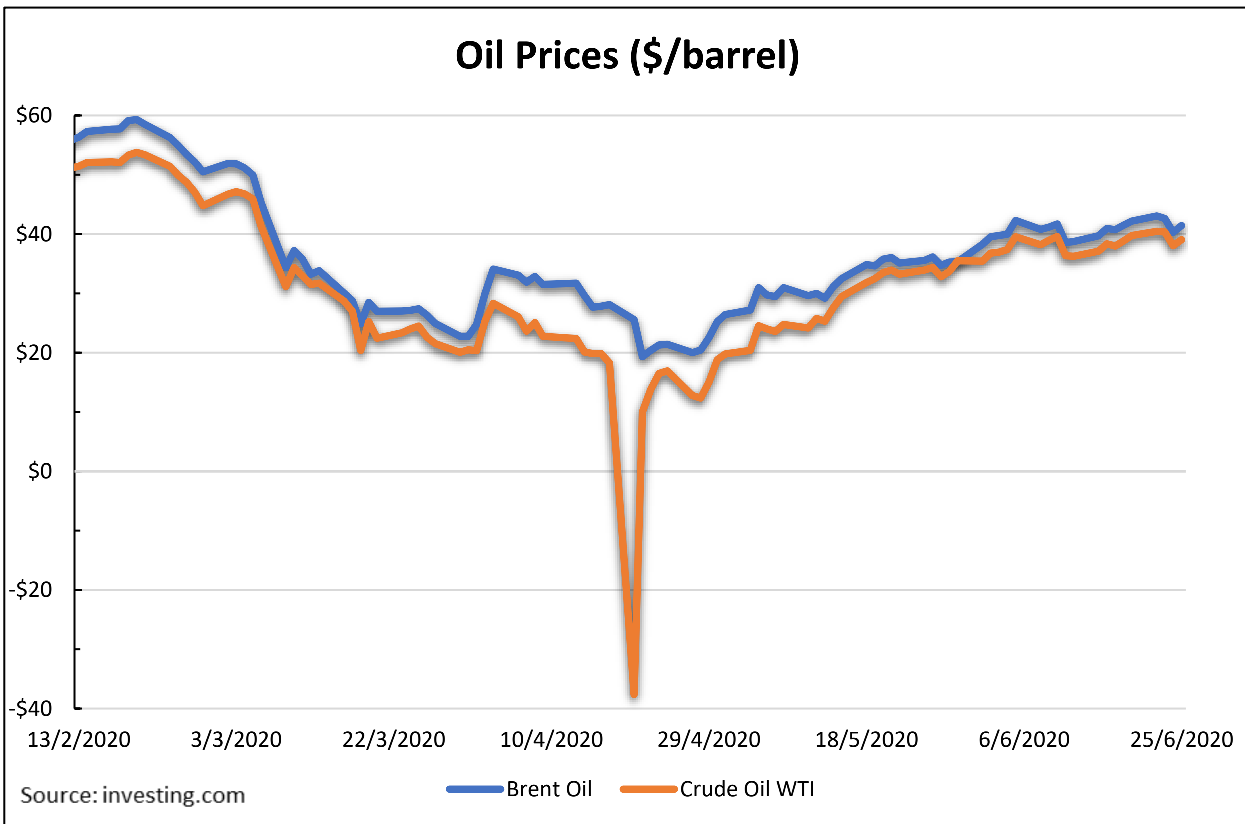
According to the World Bank (8/6), the new estimate of the impact of COVID-19 on extreme poverty is based on two scenarios (baseline and adverse). The number of people who live in extreme poverty (under $1.90/day) is expected to rise dramatically in both scenarios.



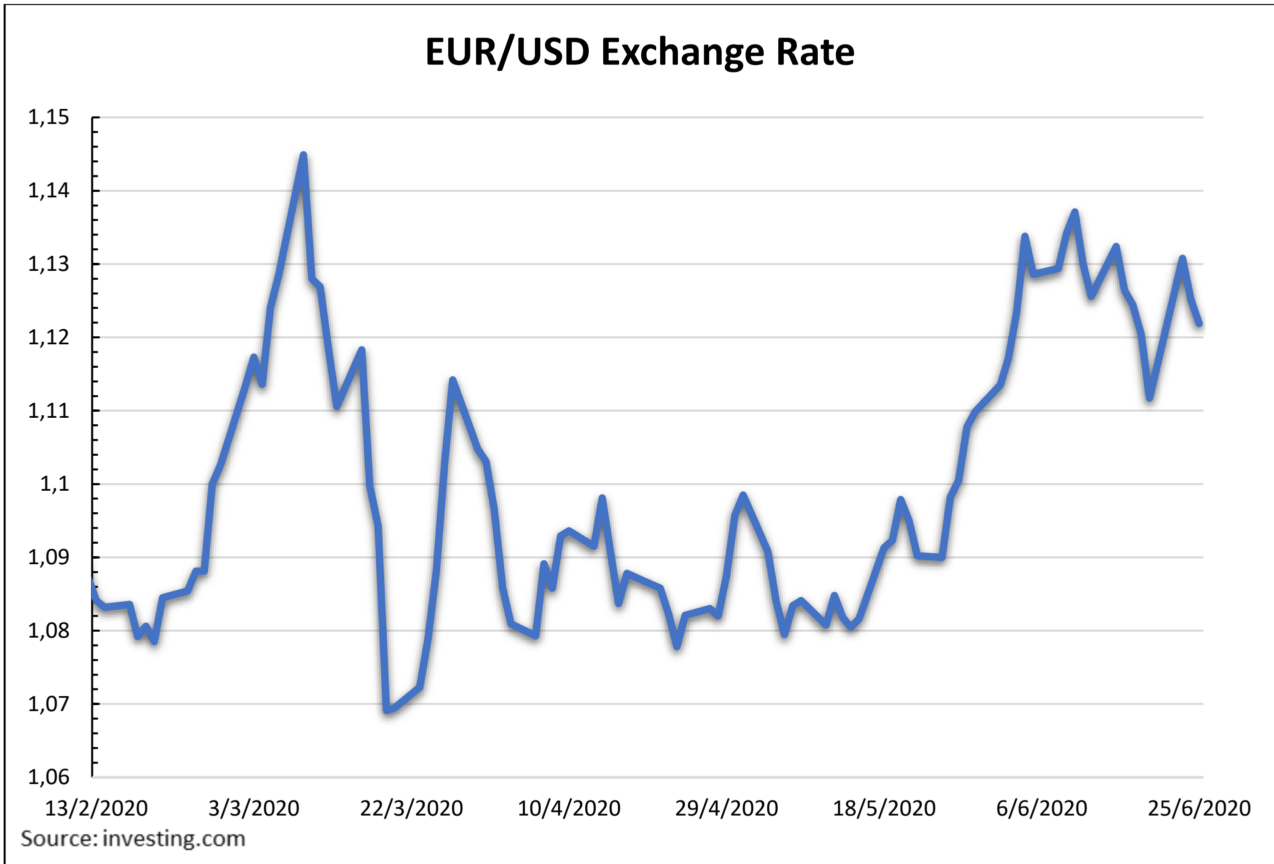
Most Wall Street and European indices fell on Thursday. Investors reacted to fears over a second wave of COVID-19 during summer.



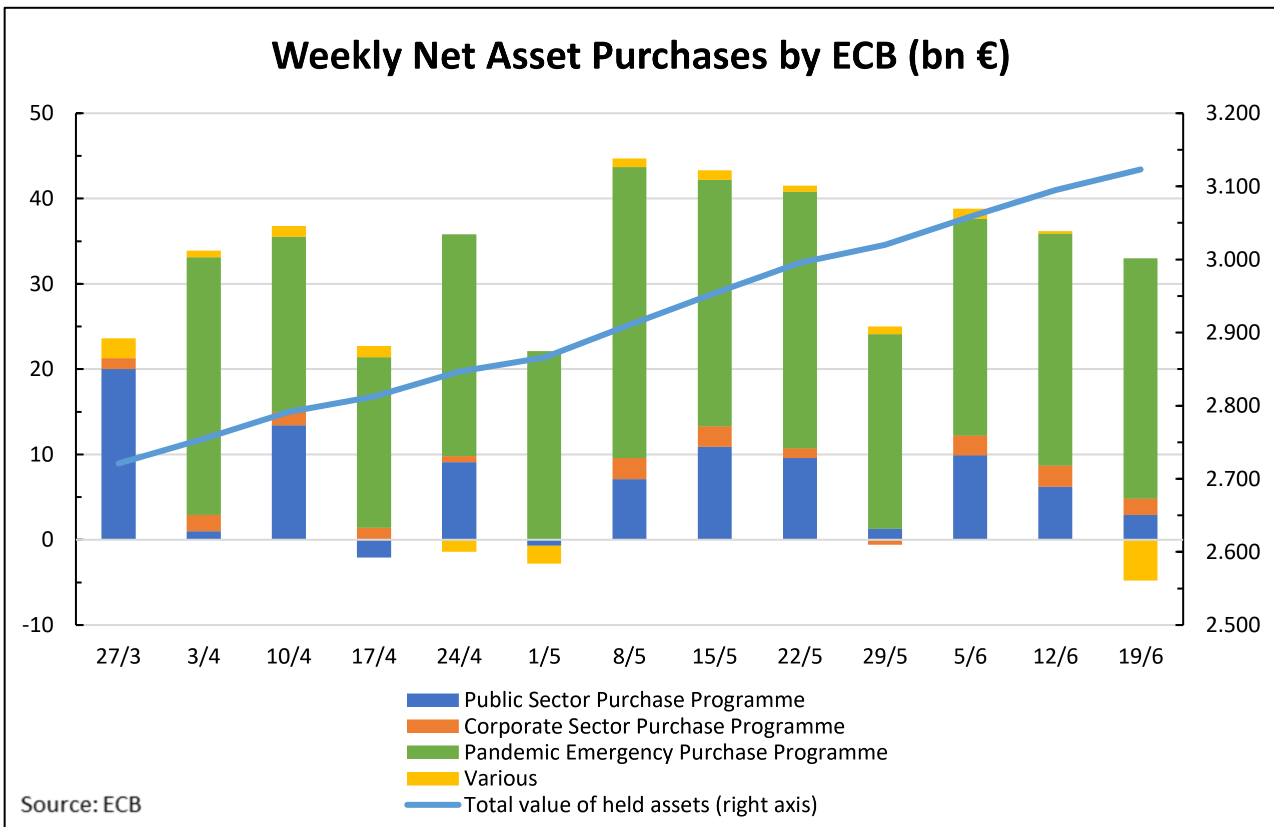
Eurozone government bond yields were stable this week as the ECB continues government bond purchases through PEEP.



Oil prices settled higher on Thursday with the international benchmark Brent trading at $41.45 per barrel and the American benchmark WTI at $39.05 per barrel.



In the foreign exchange market, the EUR/USD exchange rate decreased this week and is currently at 1.1219 $/€.



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.

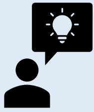
In Focus

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

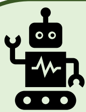
Within the EU, the leaders of the member states are negotiating the modalities of a sizeable recovery facility, within the constraints of EU law. A key constraint for EU recovery facilities stems from Article 310 TFEU, the so-called 'principle of budgetary balance', which establishes that all Union items of revenue and expenditure "shall be shown in the budget" and that the "revenue and expenditure shown in the budget shall be in balance". For decades, and until a few weeks ago, this was universally seen as prohibiting the EU from borrowing to finance its expenditure. According to Päivi Leino on the Centre for European Policy Studies, the Next Generation EU proposal stands in remarkable contrast to this traditional reading. The Union would issue debt to be spent during the next few years as grants, mostly under environmental, agricultural and cohesion policies. These debts would be repaid over three decades starting from 2028, with as yet unspecified means. Jean Pisani-Ferry on Le Monde calls this 'breaking a taboo'. Another way of putting it might be that **perhaps Next Generation EU is 'breaking the law',** says Leino. Crises present tempting opportunities to advance institutional ambitions that would in normal times be politically impossible. But violating the Treaties would have profound consequences.

Most governments have taken measures to protect vulnerable workers and firms from the worst effects of the sudden drop in activity related to COVID-19. **But as lockdowns are lifted, the focus must shift, and governments in advanced economies must design measures that will limit the pain of adjustment**. As such, a new policy toolkit is needed, argue Olivier Blanchard, Thomas Philippon and Jean Pisani-Ferry on Bruegel. As usual in the aftermath of a major shock, protection must be balanced with reallocation, taking into account changing prospects for sectors and firms. Incentives must be given to firms to resume activity, and, when needed, to adjust, such as wage subsidies, partially guaranteed loans, and a process-light restructuring of legacy debts. At the same time, unemployment benefits should be strengthened to help workers.

Zane Rasnača argues in a European Trade University Institute Policy Brief that the **highly mobile workers within the EU, although invaluable to the agriculture and tourism sectors, are one of the least protected groups against the pandemic.** Apart from the high unemployment, caused by the closed borders within the EU, there has also been a downright degradation of the living conditions of workers, who have been forced to remain unemployed or work in conditions of low safety and hygienic standards. Even though effective action has been lacking at the EU level, member states have introduced various measures to deal with this issue. For example, Belgium, while limiting entry and exit for frontier workers, doubled the allowed period of work for the seasonal workers already on its territory. In Germany, seasonal workers have to undergo a health check upon arrival, then for 14 days a so-called 'de facto on-the-job quarantine'. These short-to-medium-term measures can sustain the highly mobile working force, until the EU develops a long-term plan.



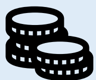
During the COVID-19 crisis, start-ups have continued to play a critical role for economies. Some innovative young firms have reacted fast and flexibly to the pandemic, and have been critical in helping many countries shift towards fully digital work, education, and health services, and have provided innovations in medical goods and services. Nevertheless, according to Flavio Calvino, Chiara Criscuolo and Rudy Verlhac on VoxEU, **most existing start-ups face significant challenges due to the COVID-19 crisis, as they are more vulnerable than older firms to the shock brought by the pandemic.** They tend to engage in high-risk activities compared with other small and medium-sized firms (SMEs), face constraints in accessing traditional funding, and have a more precarious relationship with suppliers and customers. Crucially, they also often rely on a small founding team, and this can further increase their vulnerability to labour supply shocks during the pandemic. This is why COVID-19 is not only a challenge for existing start-ups but also for the creation of new ones.



While automation is likely to foster overall economic prosperity, it comes at the price of increasing inequality. **The COVID-19 pandemic is reinforcing both the trend towards automation and its effects**, according to David Bloom and Klaus Prettner on VoxEU. This is because, first, automation, robotics, modern information and communication technologies, and artificial intelligence have been incredibly useful in fighting the pandemic, as well as in alleviating its economic consequences. Second, the COVID-19 pandemic will likely accelerate the development and implementation of automation technologies because of greater incentives to substitute capital for labour. Third, robots and smart technologies offer great potential for disease surveillance and contact tracing, diagnosing COVID-19 and other diseases without face-to-face contact, and even disinfecting contaminated areas in hospitals and other public spaces. Fourth, supply chain and travel disruptions caused by COVID-19 might undermine the integration of economies and encourage self-reliant economic systems, at least in (strategically) important sectors such as the production of medical supplies and drugs.

Saadia Zahidi argues on Project Syndicate that **the distribution of risk among the public, the private sector and the government needs to be reconsidered**. The current situation has revealed the multiple weaknesses of the current economic system, particularly in times of crisis, when governmental intervention becomes necessary. Since the beginning of the pandemic, the global economy has been stimulated with $9 trillion from governmental spending. **This short-term help comes without doubt with long-term obligations**. These could be further restraints on who gets the governmental help, excluding for example companies headquartered in tax heavens, or requiring the upgrading of environmental standards. For example, “the French government has attached ‘green strings’ to its €7 billion bailout of Air France-KLM, requiring the airline to commit to halving its carbon dioxide emissions (per passenger and per kilometre) relative to their 2005 level, by 2030.” Lastly, the negative socio-economic consequences of the pandemic demonstrate the need for public spending for reducing inequalities and safeguarding the stability of the economy from the hawkish behaviour of certain parts of the private sector.

While not all EU member states have suffered equally from the pandemic, none has been spared from social and economic hardship either, rendering pan-European solidarity necessary. Individual acts of solidarity paved the way for donations of hundreds of thousands of protective masks and other medical supplies to those countries most affected. The institutions of the European Union eventually assumed a critical role in coordinating Europe's response to the crisis. "Let us do the right thing together – with one big heart, not 27 small ones," as Ursula von der Leyen said in a speech to the European Parliament on 26 March 2020. The European Solidarity Tracker of the European Council on Foreign Relations collects and displays instances of pan-European solidarity throughout the coronavirus crisis and is being updated and expanded continuously throughout the summer of 2020.



The UK's decision to leave the EU in June 2016 raised fears among many that the example of Brexit could challenge the unity of the Union and might even lead to a domino effect, leading to wholesale disintegration. Nevertheless, according to Fabian Zuleeg of the European Policy Centre, in reality, Brexit has brought the EU27 closer together. **The level of unity in the withdrawal process has been remarkable, and the UK has not been able to divide and conquer.** While there will be permanent losses associated with Brexit, their significance will fade over time, and the economic impact of Brexit may be masked as a consequence of the COVID-19 crisis. Given that there might be no discernible negative Brexit effect, Euroscepticism might re-appear, hailing Brexit, as the right way to go. As such, one of the main lessons the EU must learn is that Brexit will and should remain a key concern for the Union and its member states long after the UK has left.

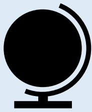
Now that the COVID-19 pandemic has ushered in a steep economic downturn, highly indebted emerging markets and developing countries are facing potentially ruinous fiscal crises, **the costs of which will fall on ordinary citizens**, according to Daron Acemoglu on Project Syndicate. Debt restructuring and cancellation should be clearly framed as emergency measure that will discriminate between those institutions that have acted properly and those that have entered into deals with corrupt and authoritarian governments. We need a new international body not only to oversee the rules of future financial engagements and monitor financial malfeasance, but also to backstop a new global framework of norms and standards. Only that can ensure the system's legitimacy in the eyes of developing countries and international financial institutions alike.

Landry Signé on Project Syndicate analyses the resiliency of the African continent and the potential it carries during the time of the pandemic. Despite the multiple warnings of the Western world for an imminent humanitarian crisis in the continent, Africa has yet to encounter the first stage of this pandemic, while simultaneously thanks to **six factors, the growing economies of Africa are being characterised as a positive exception**. First, African economies are becoming increasingly competitive. Second, Africans support the ongoing trend toward better and more accountable governance resulting from democratic elections, term limits, and increased civic participation. The third positive trend is demographic. Sub-Saharan Africa's population is expected to increase from 1.1 to 1.4 billion by 2030. Fourth, Africa's innovative and productive potential has already attracted substantial foreign investment and finance. Fifth, Africa continues to diversify its trade patterns. Lastly, Africa is also benefiting from the rapid expansion of its mobile broadband networks, which can attract investors to the information and communications technology sector. This 6-sided pattern could be a locomotive of development and prosperity, as long as there is a safe, democratic, and effective leadership.

The global pandemic has led to job losses of catastrophic proportions in the United States. From February to April of this year, employment fell by 21 million, or more than 13%. In May, a small recovery occurred, and observers are reasonably confident that the recovery will continue, at least until a potential second round of the pandemic occurs. What do recoveries from past US recessions teach us about the recovery from the pandemic recession, Robert Hall and Marianna Kudlyak wonder on VoxEU. Remarkably consistent recoveries have occurred in the US after every recessionary shock that caused a spike in unemployment, and there are reasons to believe **that the recovery from the current shock will be more rapid, because unemployment contains a much larger fraction of workers on temporary layoff than in previous recoveries**. However, there is a great deal of uncertainty about the possible recovery rate.

Initially, **unemployment surged only on the American side of the Atlantic, while in France, as elsewhere in Europe, temporary job retention schemes absorbed most of the (more severe) shock to employment**. Jérémie Cohen-Setton and Jean Pisani-Ferry on the Peterson Institute for International Economics compare household support packages in the United States and France to shed light on this difference. The US approach, in propping up family support and unemployment benefits, has taken for granted that workers made idle would be laid off by their employers (and possibly rehired later on). It has not put emphasis on maintaining the employment relationship. Accordingly, payments went largely to workers individually rather than through their employers. By contrast, in France as in many other European countries, government assistance has kept workers attached to their employers even when they were closed for business. By making its job retention scheme open to all companies suffering a temporary drop in business, this approach has managed to greatly limit the increase in unemployment and maintain employment relationships. The US package is also more costly – sheltering US household income required enacting new programs. In France, because the safety net is more extensive and since a larger portion of French disposable income is unaffected by ups and downs in economic cycles, direct checks or more generous unemployment benefits were mostly unnecessary.

A new iteration of class struggle is seen by Nouriel Roubini on Project Syndicate as driving the wave of protests and revolts in America and elsewhere. After the 2008 financial crisis, many firms sought to boost profits by cutting costs, starting with labour. Instead of hiring workers in formal employment contracts with good wages and benefits, companies adopted a model based on part-time, hourly, gig, and freelance, creating what the economist Guy Standing calls a 'precariat': **a new class of alienated, insecure workers who are ripe for radicalization and mobilization against the 'plutocracy'**. This class is growing once again, now that highly leveraged corporations are responding to the crisis as they did after 2008: taking bailouts and preserving their earnings targets by slashing labour costs. With a growing number of Americans falling into unemployment and economic insecurity, while major corporations strive, mobilisation might not come as a surprise.



EU member states have been discussing how to deal with the socio-economic repercussions of the COVID-19 pandemic, collectively. While lively debates about internal solidarity continue, **there is also the pressing issue of how the EU and its member states wish to support third countries, outside the EU, in tackling their health and economic emergencies**. The European Policy Institutes Network published a report, which delves into the question of whether and how external solidarity features in economic policy and public discourse in COVID-struck Europe. It finds that, for now, neither 'coronationalist' nor geopolitical ambitions dominate the relatively depoliticised debates about international cooperation and development aid. The case of Greece was covered by Dimitris Katsikas and Dimitra Tsigkou of ELIAMEP, who argued that Greece has suspended foreign aid for the time being, as part of its 'pragmatic approach', with the issue receiving no public attention.

ELIAMEP experts write

"I think we will reach an agreement for two very simple reasons. The first is that the crisis is very big, as a result of the pandemic, so if we do not do something collectively, the danger for the EU is great – there is even the risk of disintegration. Secondly, behind all this, there is a Franco-German agreement. The fact that the Germans have, in fact, complied with Macron's proposals, and have many other countries behind them, along with the gigantic effects of the crisis, means that we will reach an agreement, obviously after some compromises and concessions, which will ensure the signature of 27 countries. That is, the surprise is not that the member states of the EU are fighting – the miracle is that they manage to sometimes agree."

Loukas Tsoukalis, President of the Board, ELIAMEP, *ΣΚΑΙ 100,3, 24.06.2020*

"Which long-term trends are reversible? The weakening of liberal democracy and rise of authoritarian populism. Orban, Putin and Trump are not the insurmountable horizon of our future. Expansion of income inequalities in developed countries, fuelling waves of nationalism and populism. As the inequalities intensify, so does the social and political mobilisation to deal with them. Obviously, this requires political initiatives and intergovernmental cooperation – for taxing cross-border transactions and dealing with tax havens. Obviously, undermining these efforts (such as the US withdrawal from the international framework for taxing technology giants) does not help. But political change can reverse the trend."

George Pagoulatos, Director General, ELIAMEP, *Kathimerini, 21.06.2020*

"Last Wednesday, European Commission Vice-President Margrethe Vestager presented proposals for ways in which the EU seeks to deal with non-European companies investing in the EU, subsidised by their home governments. Given the evolution of foreign direct investment by non-European countries in the EU over the past decade, it is clear that the Commission's proposals are aimed at - albeit not exclusively - Chinese companies. Taking another step, the European Commission imposed tariffs on two Chinese-owned Egyptian companies exporting fiber glass to the EU. The decision marks the EU's first attempt to tackle China's global trade expansion through targeted tariffs on companies, which are backed by Beijing, yet their activity takes place outside of China."

Jens Bastian, Special Advisor, ELIAMEP, *Ta Nea, 22.06.2020*

"Beijing and Brussels agree on a lot. Obviously, there are disagreements. The Chinese government, for example, does not tolerate interference in its internal affairs, while Europe – mostly Germany – is seeking better access to the Chinese market and fairer treatment of European companies. The US government sees China far more geopolitically than the EU and is trying to persuade its European partners to adopt a tough line. Communication-wise, there is a climate of polarisation that is being reproduced by the media and puts Europe in a difficult position. An artificial dilemma is being created that European states must choose between America and China. In essence, however, the United States is well aware that co-operation is essential."

George Tzogopoulos, Research Fellow, ELIAMEP, *Ta Nea, 22.06.2020*