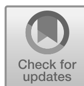

Response to Covid-19: Perspectives of EU policies and domestic policies

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Abstract. The outbreak of Covid-19 was the black swan event of the 21st century, disrupting and reshaping to some extent the mature system of international cooperation that had developed over the past decade. For countries within the EU that have adopted a uniform policy, this can mean that each country is in a very different economic situation. This paper will examine the economic policies and economic conditions of different countries within the EU during the epidemic era, as well as the impact of the European Central Bank's aid policies on each member state. I will conclude with an evaluation of the economic recovery process of the selected subjects.

Keywords: European Union, Pandemic, Covid-19, Fiscal, Monetary, Economy, Italy, Germany, Greece

1 Introduction

The Covid-19 outbreak was first reported in China in early December 2019, after which it quickly became a global epidemic. The World Health Organization (WHO) defined it as a global pandemic on 11 March 2020. This outbreak has had a serious impact on the global economy, with recessions occurring not only in China, where the outbreak was first detected but also in the United States, the European Union, Japan and almost every other economy in the world. By preliminary calculations, China is experiencing its worst recession in decades, while Europe and the Americas are not significantly better off than China [1]. The pressures of the lockdown and isolation led to the disruption of supply chains, which in turn led to the disruption and reshaping of well-established patterns of globalization.

The impact of Covid-19 on the global economy has been faster and more severe than the 2008 financial crisis [2]. The EU and its member states have generally not yet recovered from the macroeconomic weakness caused by the North-South divide and the last financial crisis, which makes the economic stress caused by the coronavirus a matter of life and death for the EU [3]. The pandemic has hit the EU economy in many ways. On the supply side, the quarantine and blockade of workers due to the threat of the spread of the virus led to the shutdown of a large number of factories, which forced the cessation of production activities on a large scale in the EU. On the demand side,

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the economic uncertainty and pessimism brought about by the pandemic gripped the European continent and demand for goods and investment was greatly reduced. Offline shopping was also hit hard by the shutdown policies. In addition to this, the further blockade of European countries at inter-regional and national borders has hit the service sector such as restaurants, bars, hotels and tourism hard [4]. It can be summarized that the Covid-19 pandemic has had a huge impact on all sectors of the economy.

2 The imperfection of the EU and its fiscal and monetary policies

The new epidemic has, to some extent, led to an amplification of the imperfection of the European Union, in terms of differences in health resources, health policies, financial situations and economic structures between countries. Although the political preferences of the member states as reflected in their own responsibilities to their fiscal, social, labour and health policies [5], those differences have led to different responses and decisions in the face of emergency situations and to the fact that the EU's unified rescue programme has had different effects on different countries.

The EU's policy response to the coronavirus is divided into a monetary component and a banking component. These two types of policy ensure that the EU can continue its past asset purchase programmes (APP) and expand its purchases of new assets (PEPP) in the face of severe economic challenges. It also ensures the continuation of the old financing policy (T-LTRO III) and the introduction of new long-term financing (LPRO).

More specifically, at the monetary level, on 12 March 2020 the ECB continued its monthly purchase programme of €20 billion (APP) and added an additional purchasing of €120 billion of financial assets in the whole year of 2020 to face the economic risks posed by the epidemic. On the 18th of March, the ECB launched the Pandemic Emergency Purchasing Programme (PEPP), a €750 billion asset purchase programme to allow the State to relax its fiscal constraints and thus provide liquidity to businesses and households through public transfer payments. The PEPP was subsequently reinforced several times, not only by strengthening the size of the total investment but also by extending the duration of the programme. At the level of banking policy, the temporary LRTO launched by the ECB on 12 March 2020 provided the transition for the subsequent launch of the enhanced T-LTRO III programme on 24 June of the same year. The aim of the temporary LRTP was to increase the full liquidity of European banks. The T-LTRO III programme was a continuation of a programme launched in 2019 to provide refinancing to European banks for three years. And the new T-LTRO III systematically improves refinancing conditions for all European banks. By differentiating banks into the most, the medium and less virtuous banks. The ECB reduces the interest rates on the three classes' respective facilities in order to facilitate financing [6].

In summary, the EU adopted an accommodative monetary policy to increase asset purchases in order to maintain liquidity of the money and strong demand of the market in the face of the sudden Covid-19 crisis. At the banking level, the ECB has also sought

to improve the liquidity of banks and ensure easy access to finance in order to keep capital active throughout the market.

3 Domestic policies adopted by the EU member states

Within the EU, national policies on Covid-19 have been very similar. In order to interrupt the widespread of the virus, EU member states have generally adopted measures to restrict gatherings to varying degrees, which have included bans on widespread gatherings, restrictions on the movement of people across regions, and the closure of schools and universities, restaurants and bars. Restrictions on the movement of people are not only regional but also occur on national and state border territories. The model of study and work has also changed, with online lectures and offices replacing the traditional offline model. In the field of travel, people are being asked to wear masks when entering public spaces, for example in hospitals and public transport. Also in some settings, people are asked to show documents such as vaccination reports, proof of nucleic acid testing and passes. The government has introduced a number of economic policies to reduce the economic impact of the epidemic and to promote economic recovery. For example, compensation for workers who have been suspended from work during the epidemic, support for the tourism and service sectors and endorsement of investment and loans for specific industries.

4 The example of Italy

Covid-19 in Europe was first started in Italy. It was almost the first impression of Covid-19 for European citizens who saw on television the sad routes used to transport the remains of victims in Italy's most developed region (the Lombardy region) and found the health emergency beyond the control of the government [6]. As the third largest economy in the European Union, Italy has a complete range of industrial sectors and highly sophisticated industrial production capacity. However, its economic performance in recent years has not been satisfactory. In 2019, the year before the outbreak, its GDP growth rate was 0.2%, almost stagnant. As the worst affected country in the West, Italy's economy has been particularly hard hit in the era of the epidemic.

Also as a production-oriented export economy, Italy is clearly not as resilient to risk as Germany. This is due to the fact that Italy is not generally considered to be a country with a prosperous economy. The fragile economy and inadequate fiscal space led to Italy's difficulty in coping with the Covid-19 pandemic. During the pandemic, many Italian companies had to stop production due to massive disruptions in global supply chains and a reduction in labour due to the domestic blockade [7]. Also, the economic pressures and uncertainties caused by the pandemic led to a significant reduction in domestic demand and global aggregate demand, which prevented Italy from resuming production for a long period of time, dealing a longer and heavier blow to the Italian economy.

Italy entered the crisis with a huge public debt burden, which caused its government to be stretched to intervene in the pandemic. Despite this, the Italian government has

actively introduced fiscal policies to mitigate the economic impact of the pandemic, mainly through three decrees. These were Decree No.18 of 17 March 2020, Decree No.23 of 8 April and Decree No.34 of 19 May. All three decrees are, in general, fiscal measures for domestic fiscal stimulus, and their total impact on the government deficit in 2020 is €75.25 billion, or approximately 4.5% of estimated nominal GDP in 2020 [7]. In general terms, these three decrees aim to achieve the following five objectives: (1) To provide transfers payments to enterprises, workers and households affected by the epidemic, an act designed to promote demand for goods and investment in production by compensating for the low wages and inefficiencies affected by the epidemic; (2) To provide tax exemptions for the production and marketing processes of enterprises with the aim of promoting production and investment; (3) Reducing the fixed costs of production, e.g. by reducing the cost of electricity; (4) Increasing government spending on goods and services, e.g. by investing in public health and education, to achieve a multiplier effect on demand expansion; (5) Reducing the capital cost for SMEs to ensure that they have easier access to bank loans and government backing.

5 The example of Germany

Germany is also a key case to test as it is a core member of the EU due to its strong industrial and export capacity, well-established supply chains and superior economic strength [8]. But for the same reasons, the decline in global demand and the stagnation of traffic has also had a serious impact on the German economy, which is heavily dependent on exports. This is not only a direct consequence of the reduced demand for goods but also reflects the risk of job losses and even unemployment for those working in the export sector.

The fiscal policy introduced in Germany has had a significant impact on the recovery of the economy to a large extent. In March 2020 Germany took on an additional €156 billion in government debt to supplement the budgets of various sectors in order to revitalise the economy. At the same time, loans of up to 400 billion euros were made available to small businesses and self-employed workers to stimulate consumption and investment. This policy has been implemented quickly, and funds can be disbursed quickly after a simple application. The downside is that it also led to a certain amount of fraud and was urgently stopped in some states [9]. A larger fiscal stimulus came in June when the German government announced a €130 billion comprehensive stimulus package that included tax cuts, transfer payments and incentives for consumption. This package of fiscal support provided some relief to Germany's tightening economy and strengthened the resilience of SMEs and individuals and households affected by the epidemic. This scheme was extended in August of the same year until the end of 2021. This plan will result in more than 60% of wages being available to workers due to reduced working hours. Also in June 2020, the German Bundestag approved a second supplementary budget of 130 billion euros, which is considered to help address current financing needs and long-term recovery goals, and this plan includes a transfer payment of 300 euros per child in the family. At the same time, schemes for SMEs were introduced. There is a €25 billion programme to compensate for the operating costs of small

businesses that have been shut down due to the epidemic and a €20 billion programme for VAT relief. In addition to this, another investment budget of €50 billion has been allocated to the reduction of carbon emissions and digital innovation, which includes investments in new energy industries such as electric vehicles and investments in 5G networks and artificial intelligence.

Unemployment in Germany has benefited from the fiscal measures introduced by the government in response to the Covid-19 pandemic, with a substantial wage subsidy scheme which proved to be sufficient to cushion the impact of the epidemic in its early stages. This raises the concern that, although wage subsidies may temporarily alleviate the stagnation and economic pressure caused by unemployment, it is still foreseeable that the wage subsidy policy may make it more difficult to effectively redistribute jobs to the productive sectors as the economy recovers [10]. However, it has to be admitted that the wage subsidies and direct transfers introduced in Germany have helped to keep workers' incomes relatively stable and, consequently, to keep aggregate social demand stable. These costly fiscal policies were largely due to the strong financial position that Germany had built up prior to the pandemic, giving it a relatively strong resilience to the risks that ensured that the economic pressures of the Covid-19 pandemic were relatively manageable.

6 The example of Greece

The case of Greece is also representative. By looking at the economic impact of Covid-19 on Greece it is possible to examine the impact of a pandemic on a country with a weak economy and whether the EU's fiscal policy is working as it should. Greece, the birthplace of the Olympics and an ancient civilisation with a long history, has had one of the lowest GDP per capita in the EU since the 2008 financial crisis. Greece now has a very weak industrial base and industrial capacity, and the government is constantly in the red, relying on shipping and tourism and EU aid. However, in the pandemic era, the blockade and isolation caused by the risk of transmission has led to a huge impact on Greece's original pillar industries.

The Covid-19 pandemic has undoubtedly placed a huge economic burden on Greece, which was just starting to experience moderate economic growth after years of recession before the country was hit by Covid-19 in early 2020. Greece, like many other countries, adopted a blockade to reduce the widespread of the epidemic, a move that had a significant impact on domestic production and tourism, among other things. The Greek government has also been active in introducing policies to support businesses and households. From March to April of 2020, the Greek government provided a support transfer of 800 euros to individual households and employees whose work was suspended and whose income was affected by Covid-19. The objective of this policy is to provide assistance to families and individuals affected by the epidemic. At the same time, the Greek government extended the existing unemployment benefits and introduced seasonal benefits to support workers who were forced out of work due to the change of seasons. In terms of support for businesses, the government has suspended contributions to companies affected by the epidemic, tax and loan repayments until later

in 2020, but companies will receive a 25% reduction if they choose to pay. Another policy is the provision of €7.9 billion in loans and guarantees by the government. The government has also temporarily reduced selected VAT rates and is supporting tourism in 2020 and 2021 to cope with the reduction in traffic due to the blockade and quarantine.

7 The policies of the ECB did help the recovery of the EU economies

Overall, the policy introduced by the ECB did help the eurozone to some extent in dealing with economic pressures. According to ECB estimates, the expansion of the PEPP and APP, as well as the recalibration of the T-LTRO III resulted in GDP growth in the euro area of around 1.3 percentage points and contributed around 0.8 percentage points to the annual inflation rate over the same time horizon [11]. At the same time, the T-LTRO III programme, a monetary easing policy to protect the supply of credit, has also made effective progress. The T-LTRO III policy is estimated to have added around €2.2 trillion during the epidemic and is predicted to increase the volume of lending significantly, also contributing to a significant reduction in interest rates on loans to non-financial corporations [12]. The ECB's bailout of Italy was a success story. The first monetary policy (APP) announcement by the ECB on 12 March caused Italian and French government bond yields to rise significantly, with Italian government bond yields rising by 0.2 percentage points. On the following 25 March, a third announcement by the ECB had a markedly lowering effect of interest on Italian bonds [13]. In the September 2020 statistics [14], PEPP stocks reached a share of around 6% of GDP in Italy, one of the highest in the EU and significantly higher than the eurozone average of 4%. At the same time, PEPP accounted for around 4% of public debt. New additional PEPP purchases between March and September also amounted to almost 6% of GDP, meaning that Italy's purchases of PEPP as a share of its GDP exceeded those of the vast majority of countries in the EU. The effect of the ECB's bailout of Germany has been unimpressive. The monetary policy (APP) announced by the ECB on 12 March had a negligible impact on German bonds, while this observation was also found on Spanish and Dutch bonds. The PEPP in German inventories is 4% of GDP until September 2020, where it was similarly maintained at around 4% in new purchases from March to September, largely in line with the eurozone average. At the same time, PEPP was around 5% of government debt. This value is slightly higher than in Italy. It can be summarised that Germany's purchases of PEPP are almost strictly maintained at around 4% of its GDP. Greece's stock of PEPP is around 7% of GDP until September 2020, with new purchases between March and September accounting for 8% of GDP. This is the largest share observable within the Eurozone, which is sufficient to demonstrate the critical role of PEPP for the Greek economy as a whole. the share of PEPP to government debt is 4%, a value on par with Italy.

8 The impact of the domestic policies

On top of the ECB's accommodative monetary policy, Eurozone countries generally pursued expansionary monetary policies and more active fiscal policies to counter the impact of COVID-19. At the monetary policy level, central banks offered flexible, low-interest business-type loans to micro and small enterprises affected by the epidemic, with the option to roll over or partially reduce previous loans. Consumer loans for unemployed workers and households were made available on a liberal basis to cover short-term household expenses. At the fiscal policy level, the government expanded the government budget significantly and contracted revenues. Firstly, consumer vouchers and cash were distributed directly to the residential sector to guarantee the daily expenses of the population due to the sharp drop in income brought by unemployment, and also to stabilise demand in the residential industrial sector. Secondly, business taxes and turnover taxes on commodity transactions were reduced, cutting fees and charges to benefit businesses and consumers. Third, some state-owned enterprises chose to shrink their profits and reduce the selling prices of basic products such as electricity. Fourth, targeted or untargeted government investment was increased to expand jobs and investments.

8.1 German: A leading position in recovery

Germany's policy in response to COVID-19 has been effective so far, with the German federal government's fiscal position improving significantly compared to 2020 and before. According to the data from the German Ministry of Finance [15], in the year 2020, the federal government's fiscal revenue fell sharply by 7.3%, and total fiscal expenditure reached 555.6 billion euros, an increase of 26% year-on-year. In the year 2021, the federal government's fiscal revenue rose, up 9.6% year-on-year, and the fiscal deficit reached 215.6 billion euros, with new borrowing of 215.4 billion euros, 84.9 billion euros more compared to 2020, but compared to budget by €24.8 billion. The German economy is recovering at a more optimistic pace compared to expectations. These were made possible by Germany's strong industrial base and sufficient fiscal space to implement timely and effective measures to deal with the economic pressures of the epidemic.

8.2 Greece: The economic recovery process is progressing better than expected

The Greek Ministry of Finance recently announced that the Greek government has repaid the entire IMF loan ahead of schedule as quoted by Reuters [16], a move that will save Greece around €230 million in interest. Greece has emerged from the quagmire of the epidemic more than expected. Although the overall debt level is still high, the public debt stock has fallen to 189.6% of GDP, and Fitch [17], the international rating agency, said that the current Greek economy is growing stronger than expected and debt levels continue to fall, raising the outlook for the Greek economy from "stable" to "positive".

The outlook for the Greek economy was revised upwards from "stable" to "positive". The International Monetary Fund [18] recently pointed out in a report that the Greek economy is expected to grow by 3.5% in 2022.

8.3 Italy: A worrying economic situation

Italy's outlook is more worrisome relative to Greece and Germany. The spread between Italian and German yields is already 213 basis points apart, which is a very dangerous sign for Italy [19]. According to the European Commission [20], Italy's economic growth is expected to be at the bottom of the EU member states in 2022, at 0.9%, due to lower consumer spending as households cut back on spending, and lower business investment due to weaker demand and higher borrowing costs.

9 Conclusion

In summary, in this article I have presented the policies implemented by Germany, Italy and Greece in response to the economic shocks caused by Covid-19 and the impact of the EU harmonisation policy on these three economies. The EU's support for Germany was not outstanding, but Germany's strong industrial strength and ample fiscal space allowed it to implement effective and timely fiscal policies. This led to Germany being the fastest to recover from the epidemic. The EU gave more assistance to Italy, but the country's recovery did not meet expectations as domestic policies were not effective enough. Greece has a high public debt but EU policies, as well as its own internal policies, have made it a good model for recovery from economic stress.

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