

Impacts of the COVID-19 Pandemics on Euro Area Economy and Policy Responses

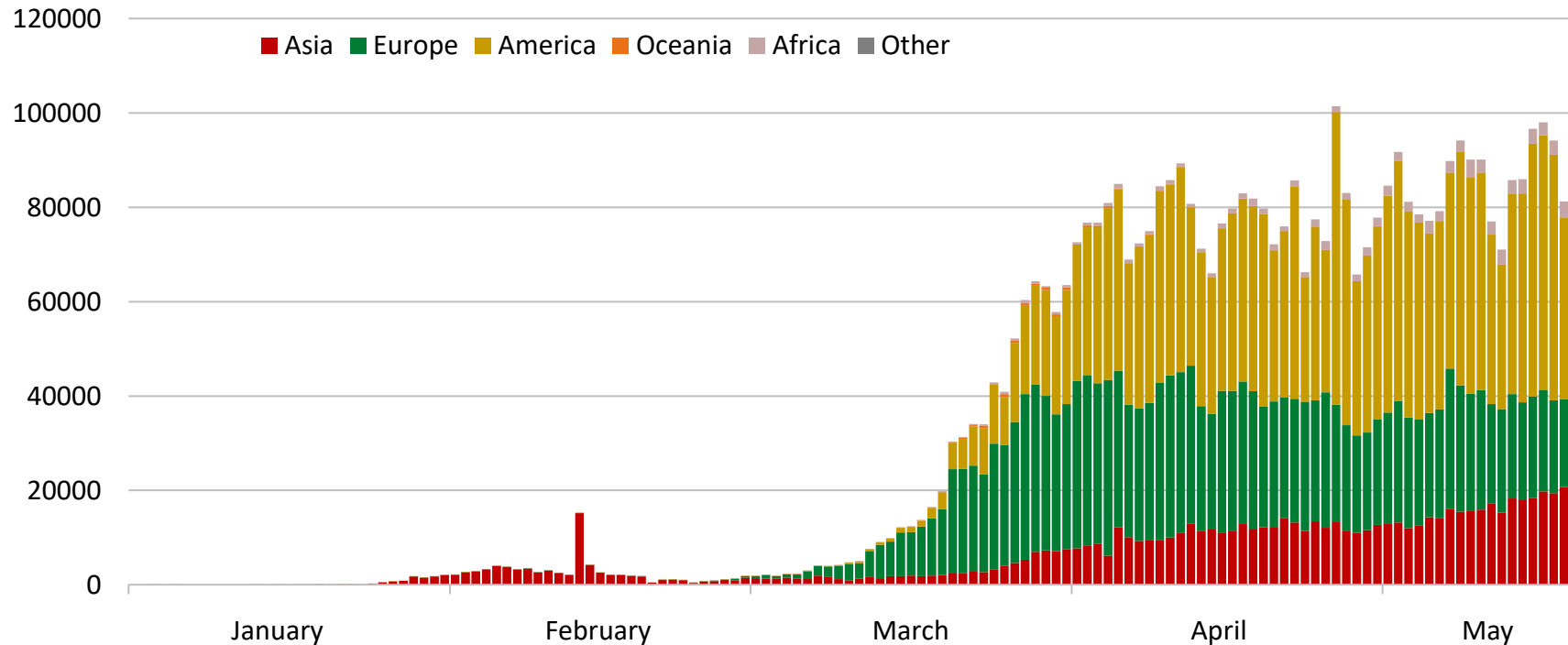
43rd Meeting of the Central Banks Governors' Club of Central
Asia, the Black Sea Region and Balkan Countries

Boštjan Vasle

COVID-19 Disease Outbreak

The spread of coronavirus in China and Europe appears to have slowed but the pandemic has picked up speed in other parts of the world

COVID-19 new cases worldwide

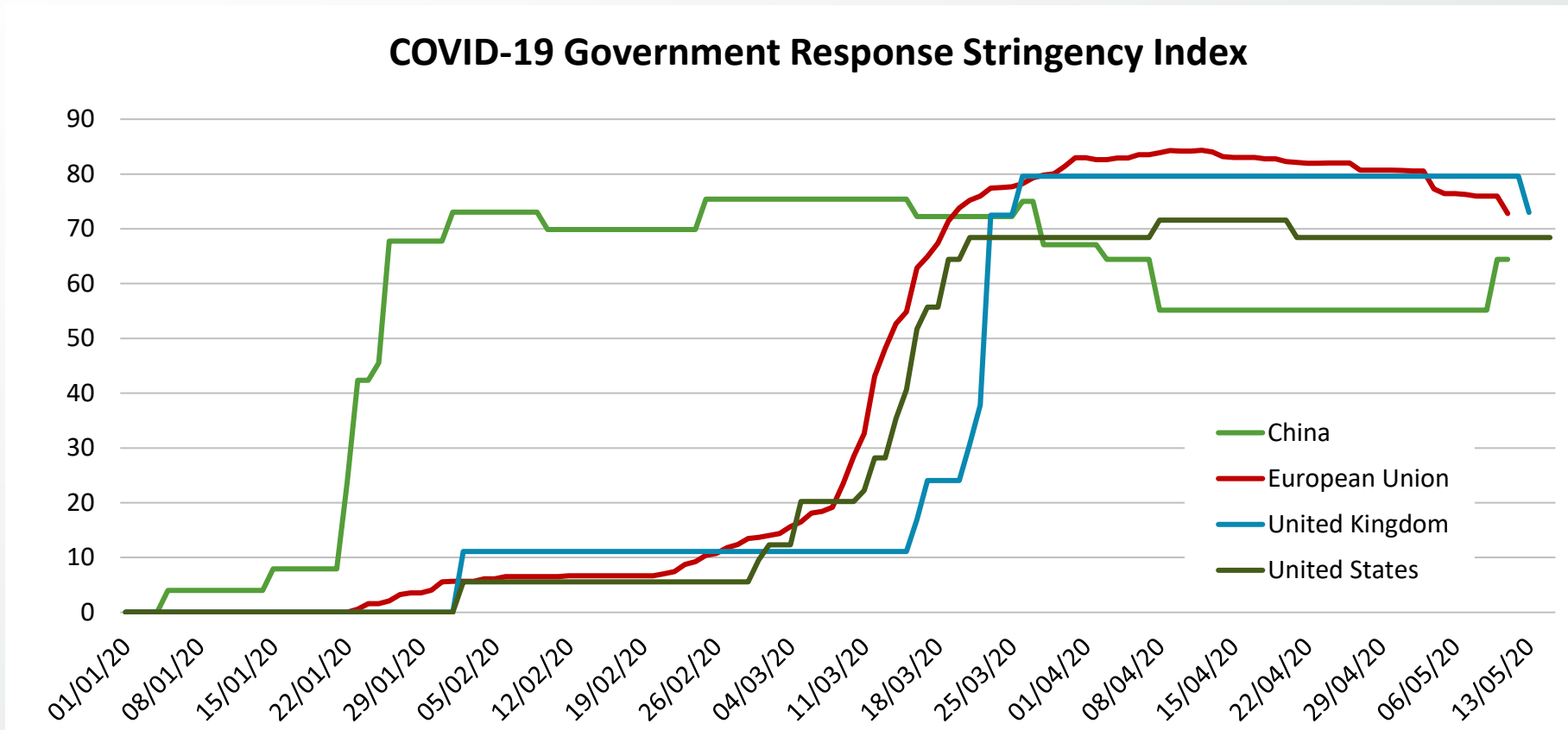


Note: All data should be interpreted with caution as the outbreak is evolving rapidly. In addition, due to the unavailability of date-of-onset data and different testing policies per country, this figure might not be reflective of the evolution of the epidemic.

Source: European Centre for Disease Prevention and Control

Government Closures and Containment Measures

Most European countries started to gradually ease the lockdown measures implemented in March but certain restrictions are expected to remain in place for some time

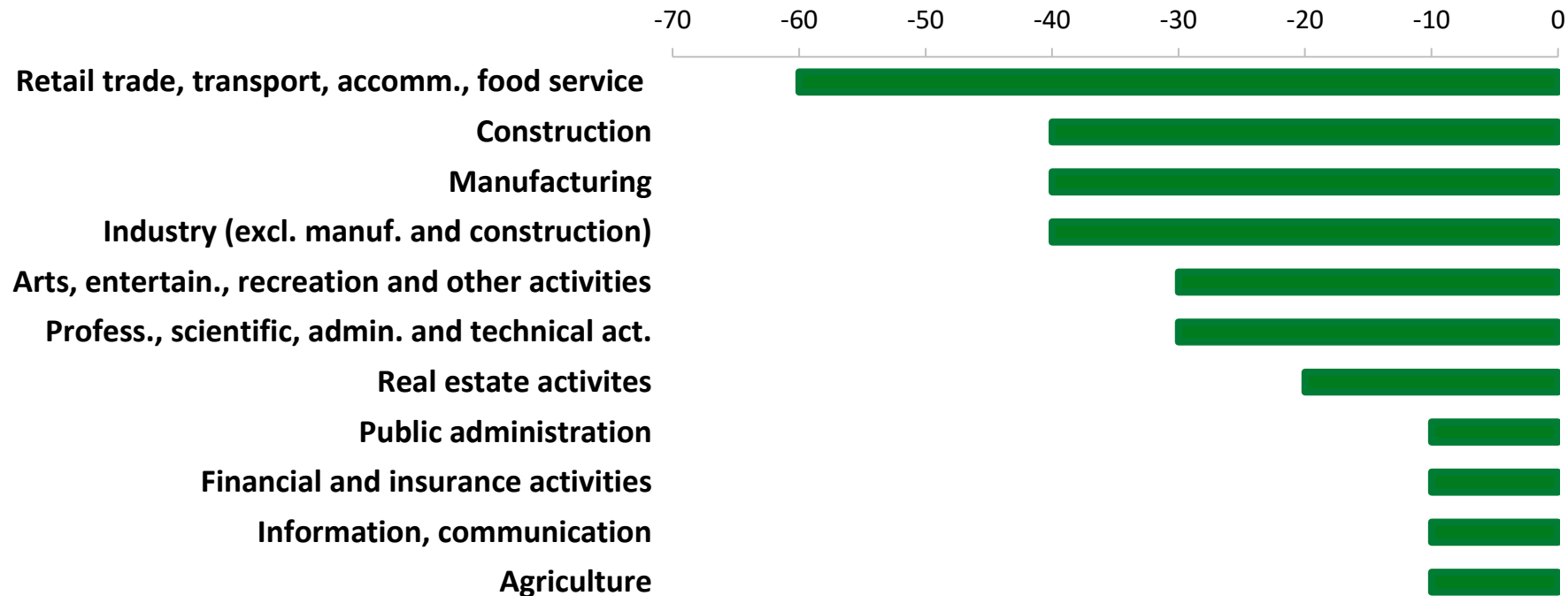


Note: The Government Response Stringency Index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 = strictest response). This index simply records the number and strictness of government policies, and should not be interpreted as 'scoring' the appropriateness or effectiveness of a country's response.

Source: Hale, Webster, Petherick, Phillips, and Kira (2020). Oxford COVID-19 Government Response Tracker – Retrieved 20th May.

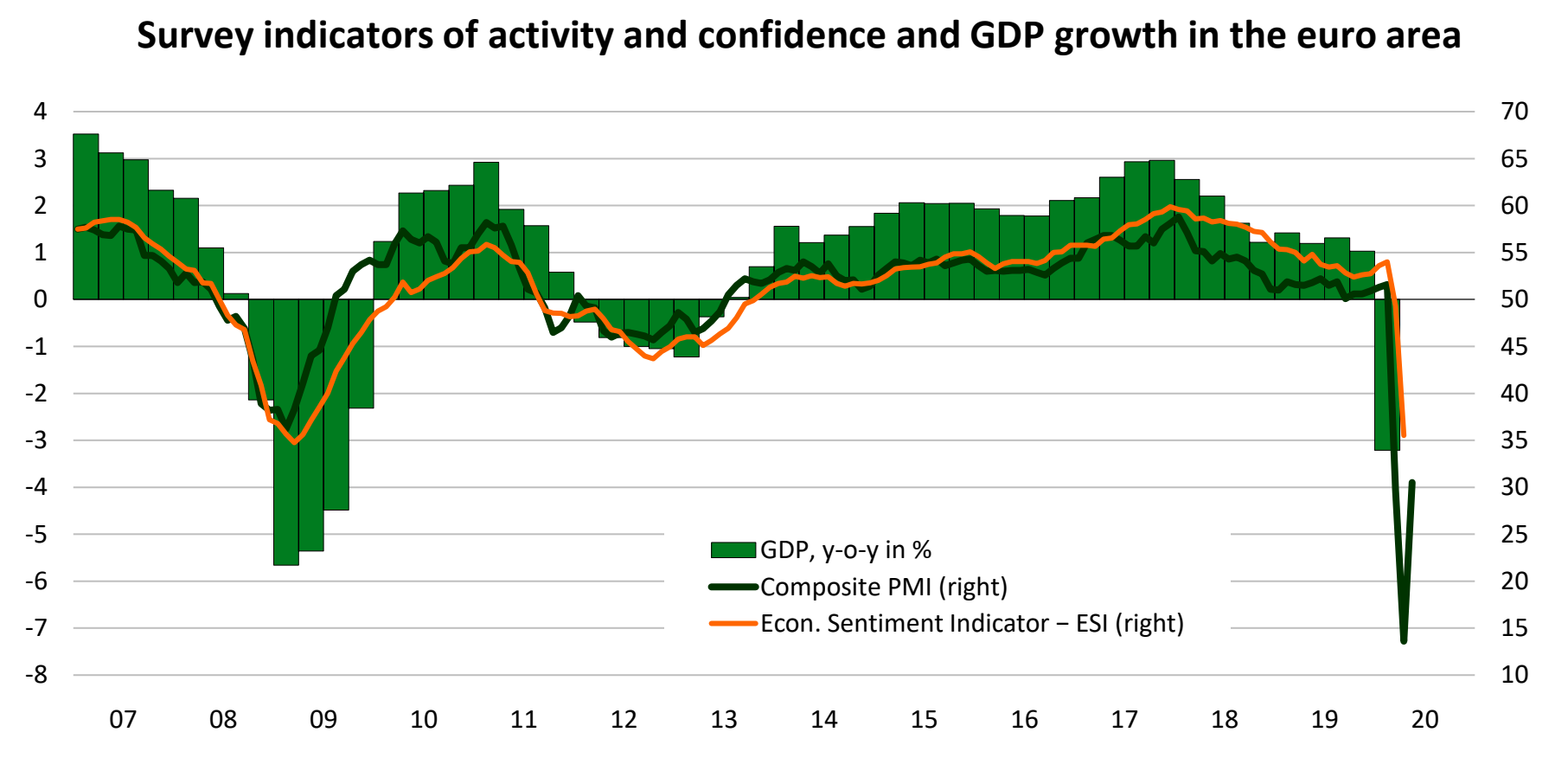
Lockdown Measures Brought the Economies to a Standstill

Initial losses due to lockdown measures (ECB base scenario, april '20, in %)



Source: ECB (Economic Bulletin 3 / 2020).

Lockdown Measures Brought the Economies to a Standstill

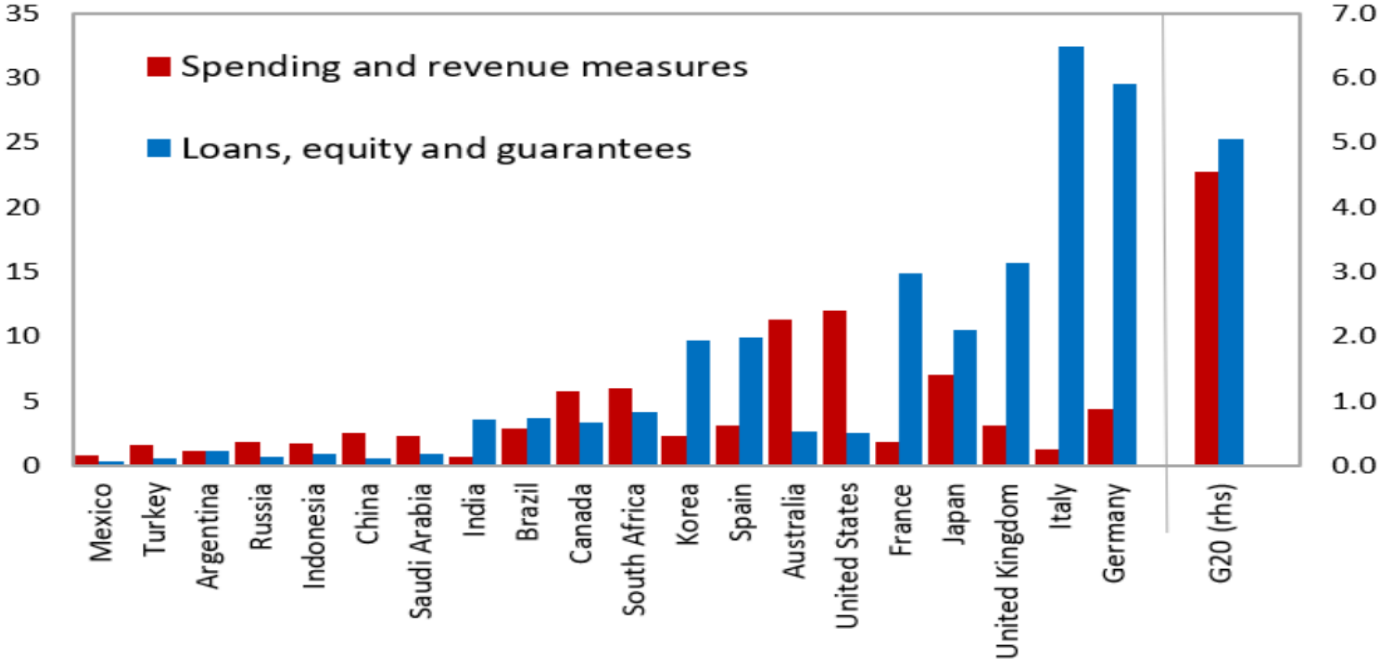


Note: PMI value above (below) 50 indicates an increase (a decrease) in activity. The ESI indicator is standardized and modified to have the same average and standard deviation as the PMI.

Source: IHS Markit, Eurostat, calculations by the Bank of Slovenia.

National Fiscal Responses to the COVID-19 Crisis

Adopted and announced fiscal measures in G20 economies, % GDP



Sources: National authorities; and IMF staff estimates as of May 13, 2020.

Note: G20 = Group of twenty. G20 aggregates are calculated using PPP-adjusted GDP weights. Estimates focus on government discretionary measures that supplement existing automatic stabilizers, which differ across countries in their breadth and scope.

Source: IMF.

Fiscal Responses in Eurozone are supported by ECB Measures (APP, PEPP)

ECB has adopted unprecedented measures to mitigate the impact of the coronavirus pandemic on the euro area economy

Interest rates	Asset purchases	Support for credit	Liquidity measures
<p>No changes to main rates:</p> <ul style="list-style-type: none"> • MRO rate at 0.00% • Depo rate at -0.50%. 	<p>APP: €20 billion per month (in force since 2019) + a total of €120 billion up until December 2020.</p> <p>PEPP: €750 billion up until December 2020 with flexible deployment (not subject to issuer/ issue limits and with temporary deviations from the capital key).</p>	<ul style="list-style-type: none"> • Improvement of the conditions of the TLTROs: minimum rate cut to -1% (depo rate -50 bps) and an increase of the maximum amount that can be requested (<i>up to 50% of eligible portfolio</i>). • Relaxed regulatory requirements on the banking sector. 	<ul style="list-style-type: none"> • New, immediate LTROs (at a rate of -0.50%) to ensure the abundance of liquidity until the TLTROs of June 2020. • New non-targeted pandemic longer-term refinancing operations PELTROs (MRO rate -25 bps) carried out as fixed rate tender procedures with <i>full allotment</i>. • Relaxed collateral requirements for refinancing operations to incorporate debt securities from the corporate sector

EU Budgetary and Financial Response to the COVID Crisis

EU institutions adopted a range of measures which: (i) lower borrowing costs and increase lending in the euro area, (ii) enable MS to activate their fiscal policies, (ii) provide loans and guarantees to MS and business.

proposed by the EC :

FLEXIBILITY OF EU RULES

relaxed fiscal rules

state aid measures

structural funds

€ 67.3 billion

USE OF THE EU BUDGET
(mostly reallocation of funds)

€ 540 billion

SAFETY NET FOR SUPPORTING JOBS, BUSINESS AND THE ECONOMY

€100 billion

loans to fund national short-term work schemes (SURE)

€200 billion

guarantees for loan to companies (EIB)

€240 billion

loans to member states through European Stability Mechanism

RECOVERY PLAN FOR EUROPE

€ 750 billion

Next generation EU temporary instrument (2021-2024), 2/3 grants, 1/3 loans and guarantees, issuance of bonds by the EC, repayment over a long period (additional EU resources at a latter stage)

in add. to **€ 1,1 trillion** **EU long-term budget** (MFF 2021-2027)

€ 1 trillion

ECB MONETARY STIMULUS

keeping interest rates very low

massive asset purchases (APP, PEPP)

support for credit (eased conditions of the TLTROs)

liquidity measures (new TLTROs, PELTROs)

relaxed regulatory requirements on the banking sector.

Sources: European Council, European Parliament Research Service, ECB

Challenges and Policy Priorities

NEAR-TERM CHALLENGES

1. Reaching EU level consensus on sharing part of the fiscal burden of the crisis
2. 2nd waves of infections
3. Boosting final demand and investment in the times of high uncertainty and depressed global demand

POLICY PRIORITIES

1. Gradual easing of restrictions with strengthening of health capacities, where needed
2. Keeping the economic policies supportive for as long as necessary and possible
3. Aligning investment initiatives with structural challenges (digitalisation, climate change, population ageing)
4. Refraining from protectionism

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