

Coronavirus – international economic response

An overview of economic measures implemented by select countries to combat the negative effects of the COVID-19 outbreak

May 27, 2020

Producer

National Journal Presentation Center

Roadmap

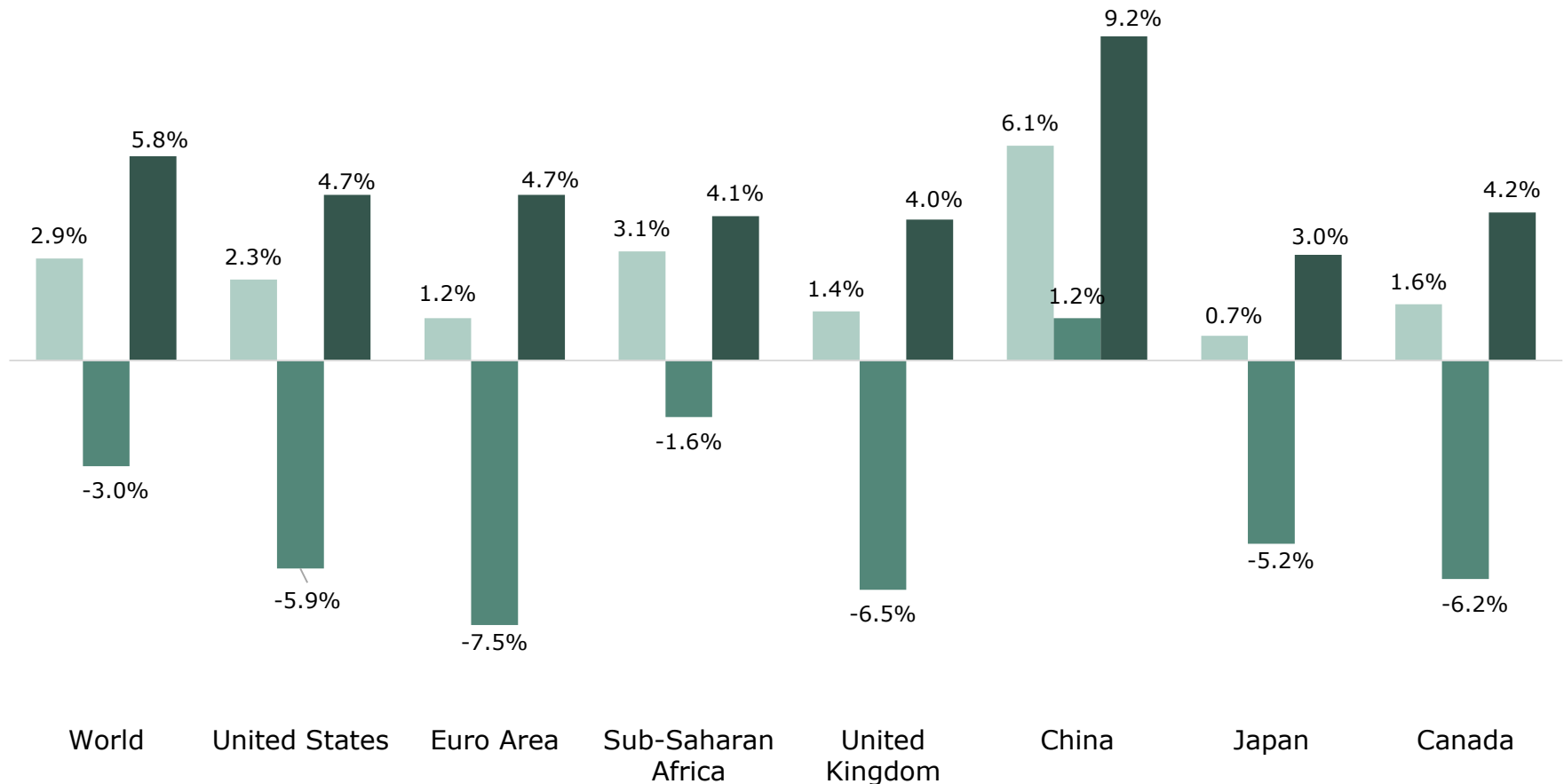
- The impact of COVID-19 on the global economy
- Country fiscal response spotlights

The IMF forecasts negative real GDP growth in 2020 nearly all regions

Real GDP growth forecasts

YEAR-ON-YEAR PERCENTAGE CHANGE, APRIL 2020

■ 2019 ■ 2020 ■ 2021



Sources: International Monetary Fund.

Slide last updated on: May 17, 2020

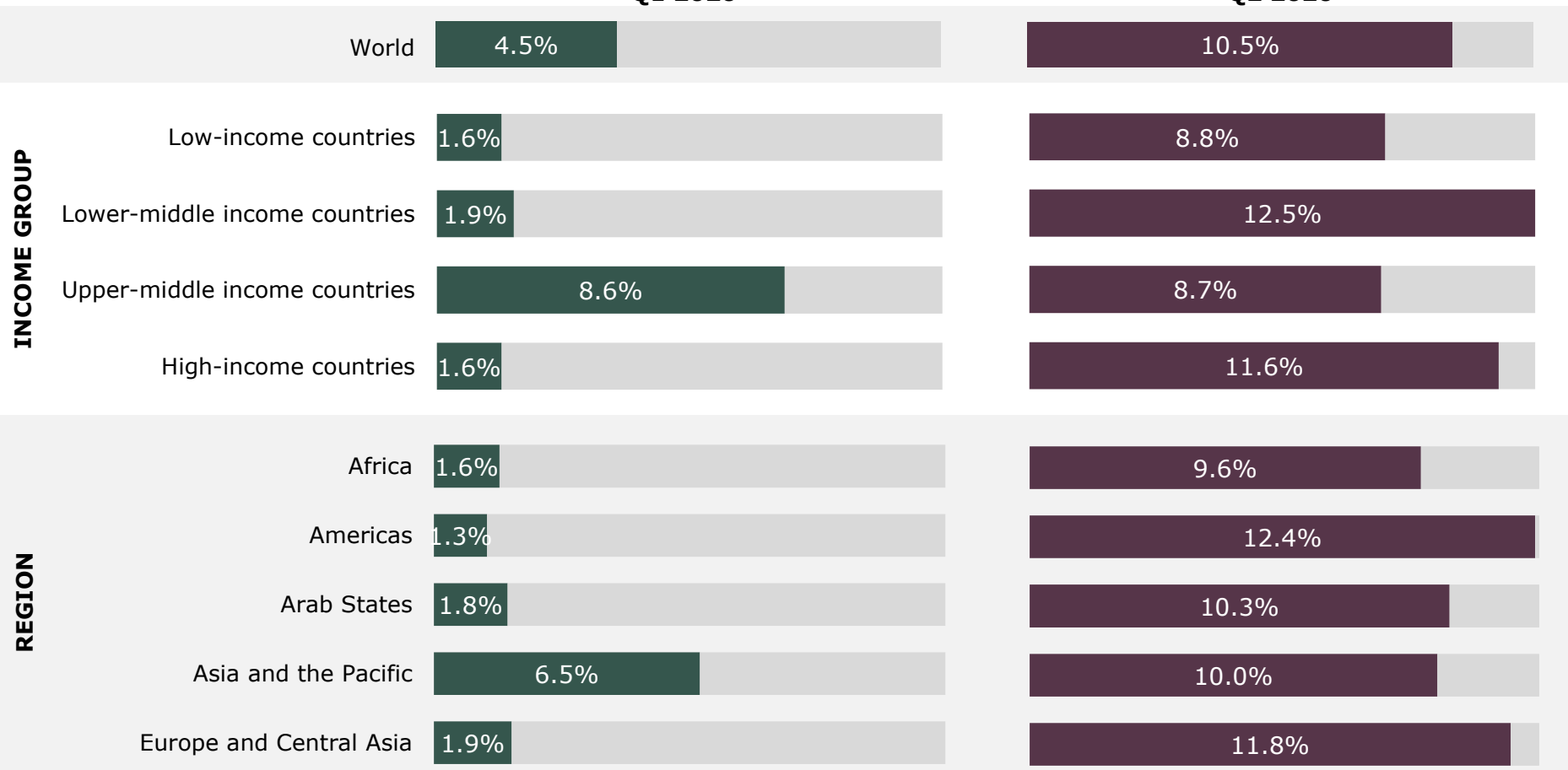
Predictions on Q2 2020 decreases in working hours are the worst for the Americas and Europe and Central Asia

Estimated percentage drop in aggregate working hours, compared to pre-crisis baseline (Q4 2019)

BY REGION AND INCOME GROUP

Q1 2020

Q2 2020



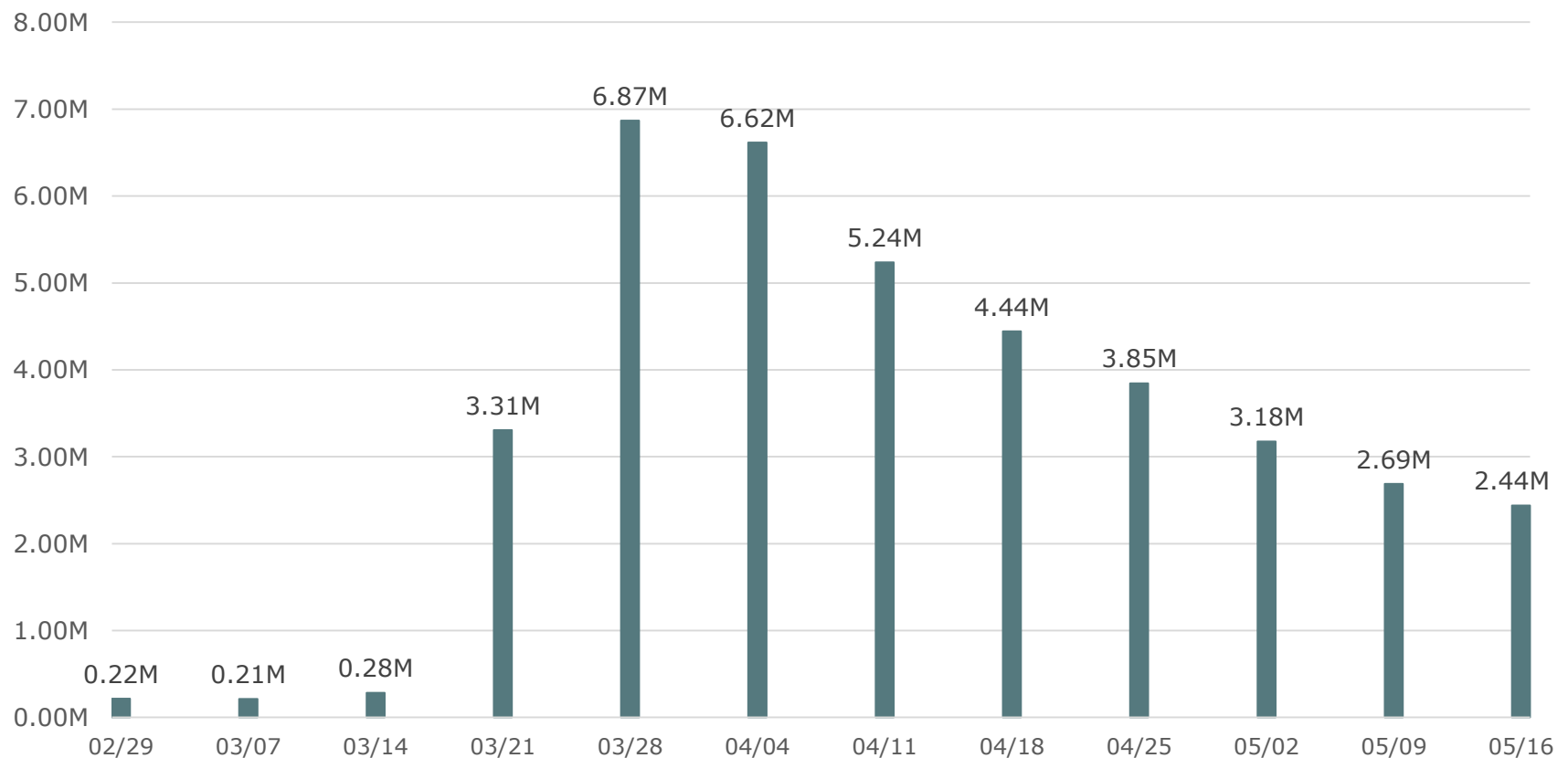
Sources: International Labour Organization.

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The number of seasonally adjusted initial unemployment claims in the US over the past three months is over 36 million

Initial unemployment insurance weekly claims, seasonally adjusted

FEBRUARY 29, 2020 – MAY 16, 2020



Sources: Department of Labor.

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Roadmap

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- Country fiscal response spotlights



United States: COVID-19 economic response

Estimated spending as a percent of GDP: 11%

Background

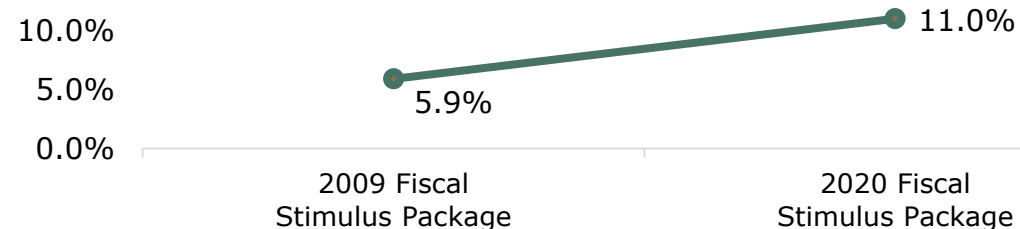
- More than **1,384,000 confirmed cases**
- U.S. **economy contracted** at an annualized rate of **4.8%** in Q1 2020
- As of April, the U.S. economy **lost 16% of all jobs due to COVID-19**
- April unemployment rate: **14.7%**
- Many states have **begun reopening in a phased manner**, starting with elective surgeries and outdoor recreations

Overview of fiscal measures implemented

- The U.S. government has passed three primary phases and one supplemental phase of emergency funding to combat the coronavirus and its impacts
- The **first phase totaled \$8.3B**, most of which went towards medical supplies and R&D, but \$1.25B went towards economic stabilization measures, such as small business loans
- The **second phase totaled \$100B** and went towards funding mandated paid leave, food assistance programs, and unemployment payments
- The **third phase totaled \$2.2T** and included direct payments of up to \$1,200 to individuals, increased unemployment benefits and a four-month benefit guarantee, \$350B in small business loans, and \$500B in lending funds to support large businesses (\$25B for airlines)
- A **supplemental phase** provided an extra \$310 billion to the Paycheck Protection Program and additional funding for hospitals and testing

Fiscal response measures, COVID-19 vs Global Financial Crisis

FISCAL MEASURES AS % OF COUNTRY GDP, AS OF APRIL 17, 2020



Sources: International Monetary Fund; Atlantic Council.

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Germany: COVID-19 economic response

Estimated spending as a percent of GDP: 4.9%

Background

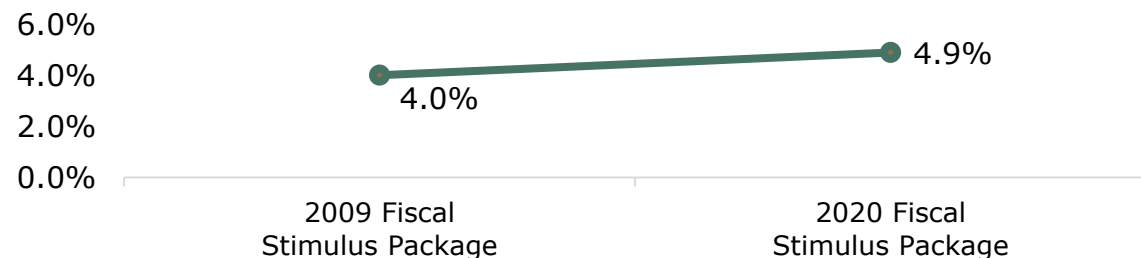
- More than **174,284 confirmed cases**
- The Ifo Institute for Economic Research's **employment barometer dropped 86.3 points** in April, representing a "historic low" in which all four sectors (manufacturing, construction, services and trade) witnessed a sharp drop in employment
- The German economy **began a slow reopening on Apr. 20**; containment measures have been eased for all shops, restaurants, and sports facilities

Overview of fiscal measures implemented

- The federal government adopted a **supplementary budget of €156 billion**, which included:
 - **Expanded access to short-term work subsidies** to preserve jobs and income for workers
 - **Expanded childcare benefits** for low-income families
 - **€50 billion in grants for small business owners** and other groups disproportionately affected by COVID-19
 - **Expanded duration of unemployment insurance** and leave benefits
- The government created an **economic stabilization fund (WSF) worth over €600 billion** which, in coordination with the public development bank KfW, is expanding access to public guarantees for firms and credit insurers
- **State governments have also passed economic measures**, amounting to roughly €48 billion in direct support and €73 billion in loan guarantees

Fiscal response measures, COVID-19 vs Global Financial Crisis

FISCAL MEASURES AS % OF COUNTRY GDP, AS OF APRIL 17, 2020



Sources: International Monetary Fund; Atlantic Council; Reuters.



Italy: COVID-19 economic response

Estimated spending as a percent of GDP: 1.4%

Background

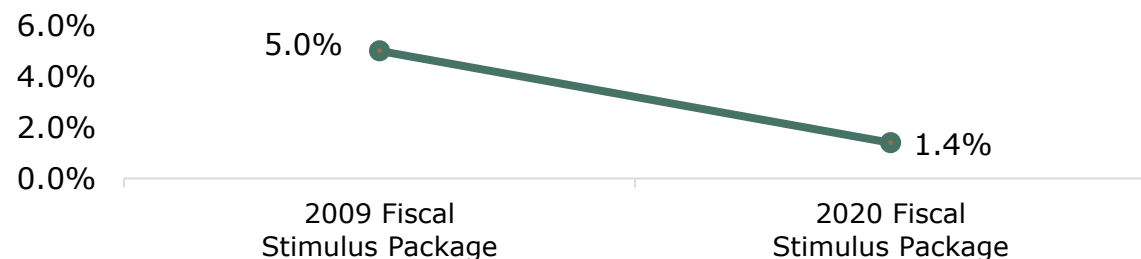
- Though once a hotspot for COVID-19 cases, net inflows of cases in Italy are declining, and it now **has fewer than 80,000 active cases**
- **The nationwide lockdown expired on May 4**; since then, restaurants have been opened for takeout, some travel is permitted within regions, and manufacturing and construction have opened with new safety rules
- **Shops, museums, and other public venues** opened on May 18

Overview of fiscal measures implemented

- The federal government adopted a €25 billion emergency package on March 17, which included:
 - **€10.3 billion to preserve jobs and support the income** of laid-off workers and the self-employed
 - **€6.4 billion to support businesses** using tax deferrals and the postponement of utility payments
 - **€5.1 billion to support credit supply**
- **A Liquidity Decree was issued allowing up to €400 billion for additional state guarantees**
- **State governments have also passed economic measures**, amounting to roughly €48 billion in direct support and €73 billion in loan guarantees
- The government **agreed to a “relaunch” package of fiscal measures on May 15**, amounting to €55 billion; it awaits Parliamentary approval

Fiscal response measures, COVID-19 vs Global Financial Crisis

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Canada: COVID-19 economic response

Estimated spending as a percent of GDP: 8.4%

Background

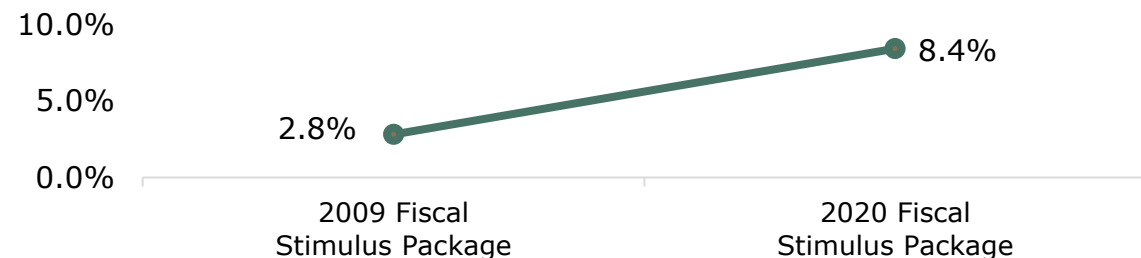
- More than **70,000 confirmed cases**
- **Canada lost over 3 million jobs** between March and April; its April **unemployment rate reached 13%**
- Canada's economy is also being **negatively impacted by the global decline in oil prices**
- On Apr. 28, Prime Minister Trudeau and premiers across the country **issued a joint statement supporting a public health approach to restarting the economy**

Overview of fiscal measures implemented

- The federal government has implemented tax and spending measures **worth \$205 billion CAD**, including:
 - **\$116 billion CAD in direct aid to households and firms**, such as wage subsidies, payments for workers lacking sick leave or access to employment insurance, and an increase in existing tax credits and childcare benefits
 - **Funding specified for indigenous communities**
 - **\$85 billion CAD in liquidity support through tax deferrals**
- **The government created the “Canada Emergency Response Benefit,” which provides a taxable benefit** of \$2,000/month for up to four months to eligible individuals (specifically, those facing unemployment or reduced work)
- **Increased childcare benefits include:** increasing Canada Child Benefit payments by \$300 per child and increasing tax credit funds for low- and modest-income families (avg. \$400 for individuals and \$600 for couples)

Fiscal response measures, COVID-19 vs Global Financial Crisis

FISCAL MEASURES AS % OF COUNTRY GDP, AS OF APRIL 17, 2020



Sources: International Monetary Fund; Atlantic Council; Financial Post.



United Kingdom: COVID-19 economic response

Estimated spending as a percent of GDP: 5.1%

Background

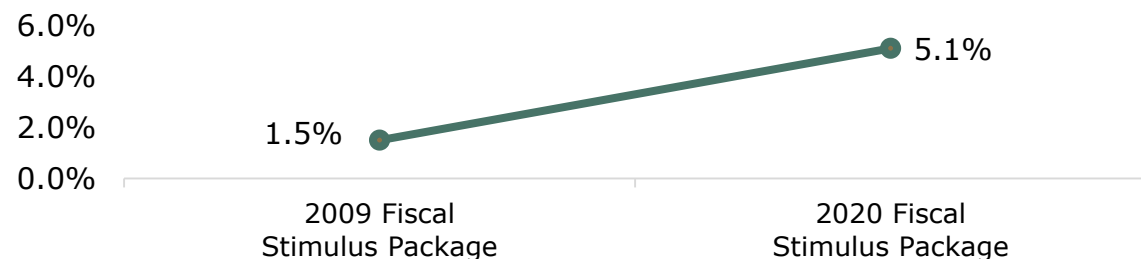
- More than **233,000 confirmed cases**
- **The economy contracted by 2%** in Q1 2020 compared to Q4 2019, with a 5.8% month-on-month contraction in March
- **The government implemented very restrictive measures**, greatly limiting reasons people are able to leave their homes
- On May 10, the **government released plans to ease the lockdown**, with the first phase lasting from May 13 to 31

Overview of fiscal measures implemented

- The federal government has implemented tax and spending measures including:
 - **£27 billion to support businesses** through property tax holidays, direct grants for firms, and compensation for paid sick leave
 - **£7 billion to strengthen the social safety net** by increasing Universal Credit scheme payments
- The government established **three loan schemes** to facilitate access to credit for businesses—the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme, and the Bounce Back loan scheme
- **VAT payments have been deferred** for Q2 2020 through the end of the financial year; self-employed workers' income tax payments have been deferred six months
- The government has **committed to paying 80% of self-employed and furloughed employees' earnings** for March-May (capped at £2,500/month)
 - The scheme for furloughed employees has been extended through Oct. 2020

Fiscal response measures, COVID-19 vs Global Financial Crisis

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Saudi Arabia: COVID-19 economic response

Estimated spending as a percent of GDP: 2.8%

Background

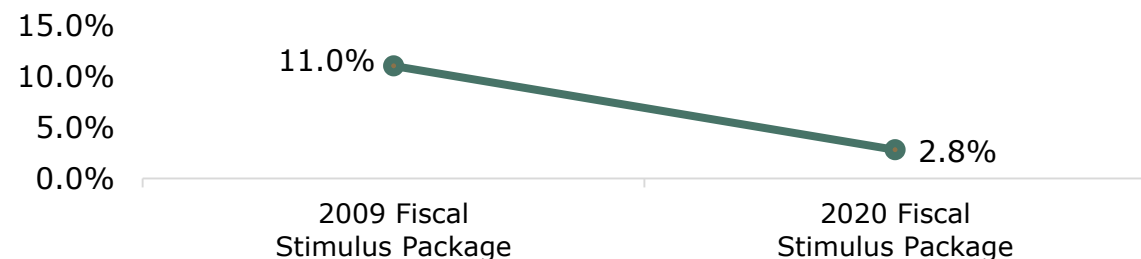
- More than **46,869 confirmed COVID-19 cases**
- The Saudi government is dealing with a **dual public health and economic crisis**, largely due to its economy's oil dependence and plummeting oil prices
- Though many strict curfews and travel restrictions have been lifted, a **5-day nationwide lockdown will be imposed during the Eid holidays** beginning May 23

Overview of fiscal measures implemented

- The government announced a **SAR 70 billion package** on March 20, including suspension of government tax payments, fees, and other dues to free up liquidity for the private sector
- The government has also **made budgetary reallocations, totaling SAR 47 billion**, to increase health resources to fight COVID-19
- **Spending cuts have been implemented in non-priority areas**, freeing SAR 50 billion to implement emergency initiatives
- On Apr. 3, the government **authorized the unemployment insurance fund (SANED) to be used to provide support for wage benefits** to the private sector who retain their staff, totaling SAR 9 billion
- Commercial, industrial, and agricultural sectors are receiving **electricity subsidies**
- On May 10, new measures were announced to **raise more non-oil revenues and maintain the budget envelope**, including cuts and delays in capital spending, removal of cost-of-living allowances, and increasing VAT to 15%

Fiscal response measures, COVID-19 vs Global Financial Crisis

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Japan: COVID-19 economic response

Estimated spending as a percent of GDP: 20.0%

Background

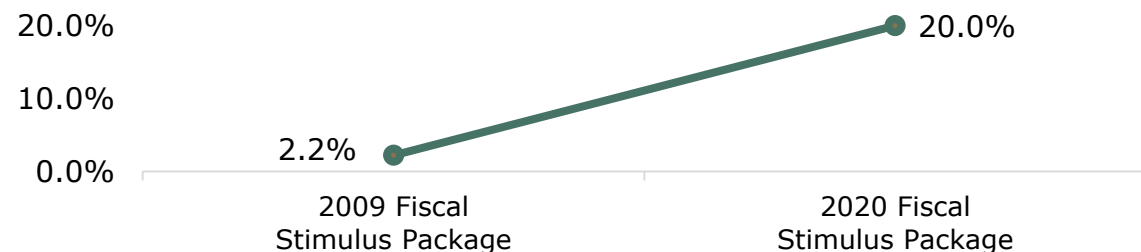
- Over **16,049 confirmed COVID-19 cases**
- **90 countries** are subject to Japan's entry ban
- A **nationwide state of emergency**, enabling prefectural governors to implement stay at home orders and school/public facility closures, was implemented on April 16
- As of May 14, **39 out of 47 prefectures have lifted their states of emergency**

Overview of fiscal measures implemented

- The *Emergency Economic Package Against COVID-19* (worth ¥117.1 trillion) was passed on Apr. 7 with 5 objectives:
 - Developing preventive measures against the spread of COVID-19 and enhancing treatment capacity
 - Protecting employment and businesses
 - Regaining economic activities after containment
 - Rebuilding a resilient economic structure
 - Enhancing readiness for the future
- **Key measures passed so far include:** cash handouts to all individuals and affected firms, tax payment and social security contribution deferrals, and concessional loans from both public and private financial institutions
- The PM announced he will have a compiled **second FY2020 supplementary budget** by end-May

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