



# COVID-19: Long-run Consequences

## *The Importance of Size and Timing*

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# What is the *Lockdown Crisis*?

## ***Two-Tier Shock***

- *Supply Shock*: sharp reduction production triggered extreme liquidity needs
- *Demand Shock*: Liquidity constraints reduce propensity to consume/invest

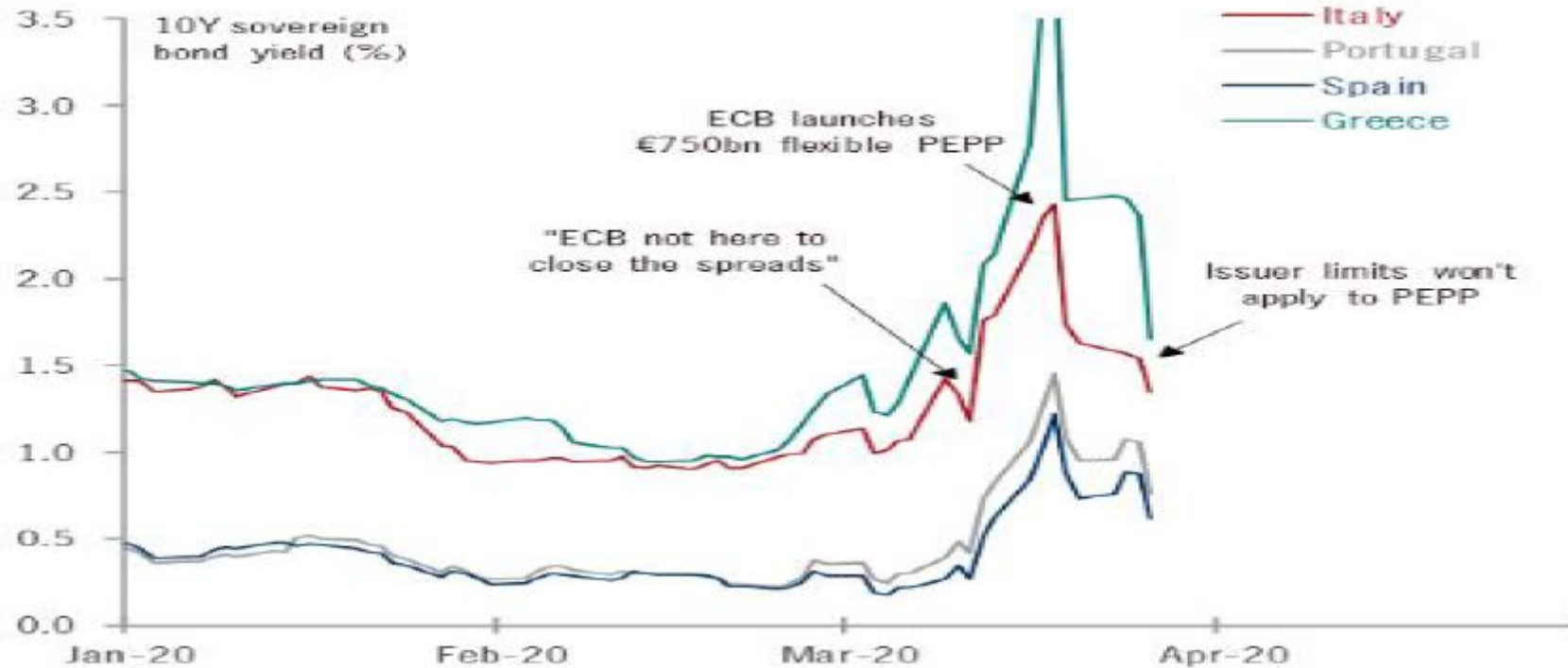
## ***Two-Tier Response: Monetary and Fiscal***

### ***1. Monetary Response***

- American: QE, Corporate Credit Facility - 2,300 Bn USD
- European: (PE)TLTRO, APP, PEPP - 1,300 Bn Euro



## Uncertain Monetary Policy in Europe



# Capital Key

Nationale Bank van België/Banque Nationale de Belgique (Belgio)	2,9630	276.290.916,71
<b>Deutsche Bundesbank (Germania)</b>	<b>21,4394</b>	<b>1.999.160.134,91</b>
Eesti Pank (Estonia)	0,2291	21.362.892,01
Banc Ceannais na hÉireann/Central Bank of Ireland (Irlanda)	1,3772	128.419.794,29
Bank of Greece (Grecia)	2,0117	187.585.027,73
Banco de España (Spagna)	9,6981	904.318.913,05
<b>Banque de France (Francia)</b>	<b>16,6108</b>	<b>1.548.907.579,93</b>
<b>Banca d'Italia (Italia)</b>	<b>13,8165</b>	<b>1.288.347.435,28</b>
Central Bank of Cyprus (Cipro)	0,1750	16.318.228,29
Latvijas Banka (Lettonia)	0,3169	29.549.980,26
Lietuvos bankas (Lituania)	0,4707	43.891.371,75
Banque centrale du Luxembourg (Lussemburgo)	0,2679	24.980.876,34
Bank Ċentrali ta' Malta/Central Bank of Malta (Malta)	0,0853	7.953.970,70
De Nederlandsche Bank (Paesi Bassi)	4,7662	444.433.941,02
Oesterreichische Nationalbank (Austria)	2,3804	221.965.203,55
Banco de Portugal (Portogallo)	1,9035	177.495.700,29
Banka Slovenije (Slovenia)	0,3916	36.515.532,56
Národná banka Slovenska	0,0011	00.000.000,00

%

€

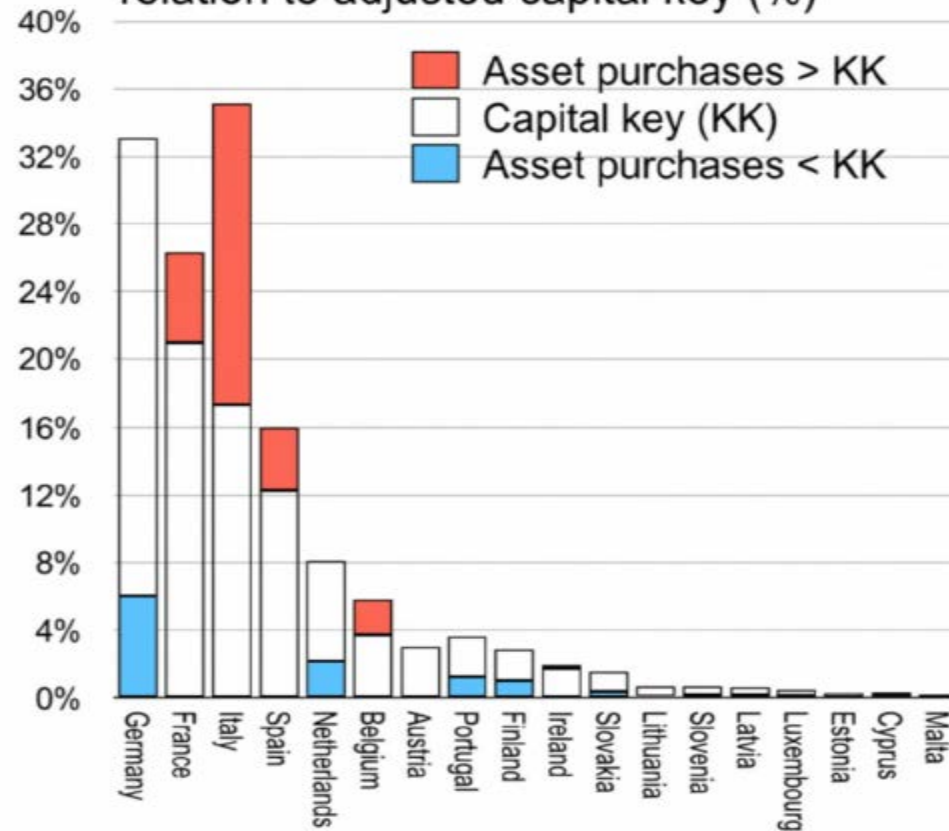


## ECB ramps up bond purchases



Source: ECB

### Eurosystem: March PSPP purchases in relation to adjusted capital key (%)



Source: European Central Bank and Exante data.





# Europe with a plan(s)?

## ***Two-Tier Shock***

- *Supply Shock*: stop production triggered extreme liquidity needs
- *Demand Shock*: Liquidity constraints reduce propensity to consume/invest

## ***1. Monetary Response***

## ***2. Fiscal Response***

- American: CARES act – 2,000 Bn USD
- European
  - National (around 3% GDP)
  - Multilateral
    - Coronavirus Response Investment: flexible use cohesion funds – 37 Bn Euro
    - European Stability Mechanism (**ESM**) – up to 2 % GDP – 250 Bn Euro
    - EIB guarantee for SMEs – 200 Bn Euro
    - SURE – European Unemployment Insurance – 100 Bn Euro
  - Recovery Plan – TBD/1,500 Bn?



# What to Expect when You are Expecting

- **Euro Area (13,5 Tr USD) /Union (19 Tr USD)**
  - National Fiscal Response: roughly 3% GDP, average
  - European Fiscal Response: 37 Bn + 550 Bn
  - ECB: 1,300 Bn Euro between PEPP and APP and facilitated extended LTRO
- **USA (20 Tr USD)**
  - CARES Act: >2,000 Bn USD, on top automatic stabilizers – above 10% GDP
  - Fed: 2,300 Bn USD across different programs
- **Open questions?**
- Cross-country and cross-sectors **different resilience** to *lockdown*





## Initial sectoral losses due to strict lockdown measures

(percentage of gross value added)

Sector	Loss
Agriculture	10
Industry (excl. manufacturing and construction)	40
Manufacturing	40
Construction	40
Retail trade, transport, accommodation, food service activities	60
Information, communication	10
Financial and insurance activities	10
Real estate activities	20
Professional, scientific, administrative and technical activities	30
Public administration	10
Arts, entertainment, recreation and other activities	30

Source: ECB staff.



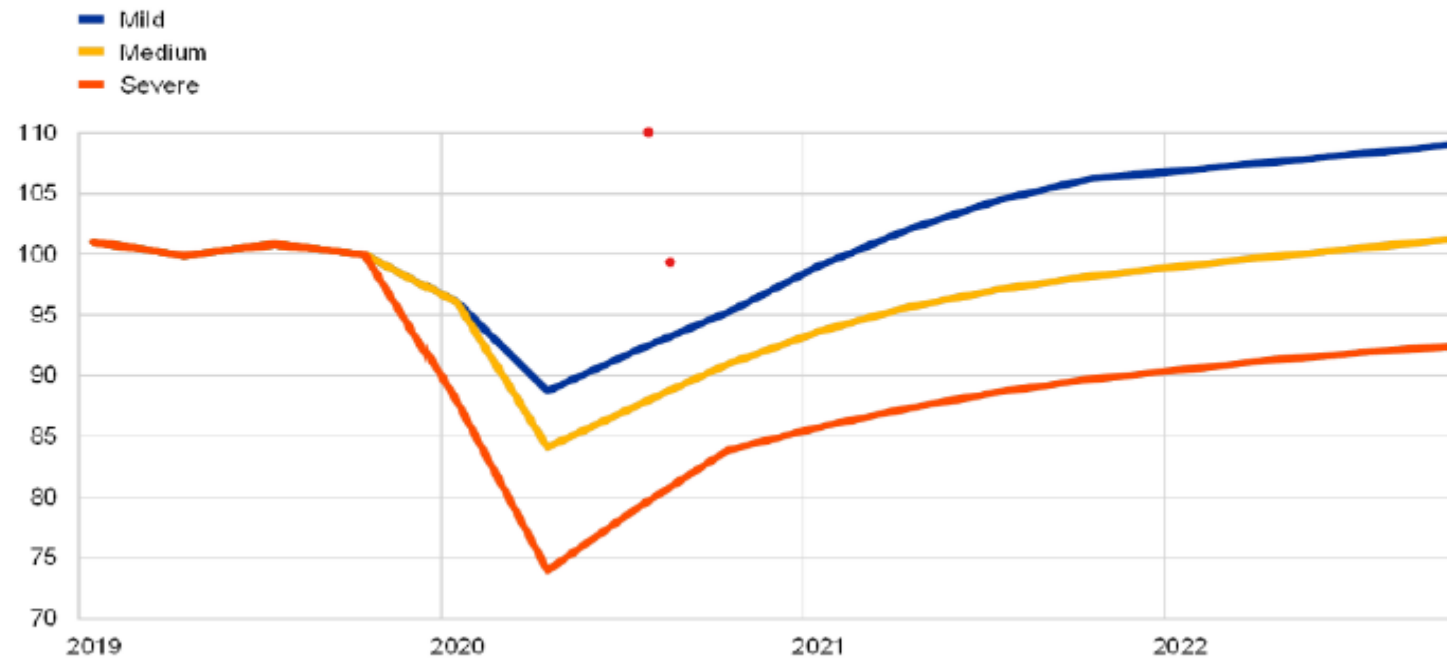
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- **Asynchronous recovery:** trade diversion or trade disintegration?



## Euro area foreign demand under the mild, medium and severe scenarios

(index, 2019 Q4 = 100)



Source: ECB calculations.



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  - Cross-country and cross-sectors **different resilience** to *lockdown*
  - **Asynchronous recovery**: trade diversion or trade disintegration?
  - Shared problem: **managing Debt level** post crisis
    - Financial disintegration or integration?



# Public Debt in Advanced Economies in 2011

