COVID-19: Long-run Consequences

The Importance of Size and Timing

Filippo Taddei

Johns Hopkins School of Advanced International Studies (SAIS)

Bologna, May 1st 2020
What is the Lockdown Crisis?

Two-Tier Shock
- Supply Shock: sharp reduction in 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

10Y sovereign bond yield (%)

ECB launches €750bn flexible PEPP

"ECB not here to close the spreads"

Issuer limits won’t apply to PEPP
## Capital Key

<table>
<thead>
<tr>
<th>Bank Name</th>
<th>%</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationale Bank van Belgïe/Banque Nationale de Belgique (Belgio)</td>
<td>2.9630</td>
<td>276,290,916.71</td>
</tr>
<tr>
<td>Deutsche Bundesbank (Germania)</td>
<td>21.4394</td>
<td>1,999,160,134.91</td>
</tr>
<tr>
<td>Eesti Pank (Estonia)</td>
<td>0.2291</td>
<td>21,362,892.01</td>
</tr>
<tr>
<td>Banc Céannaí na hÉireann/Central Bank of Ireland (Irlanda)</td>
<td>1.3772</td>
<td>128,419,794.29</td>
</tr>
<tr>
<td>Bank of Greece (Grecia)</td>
<td>2.0117</td>
<td>187,585,027.73</td>
</tr>
<tr>
<td>Banco de España (Spagna)</td>
<td>9.6981</td>
<td>904,318,913.05</td>
</tr>
<tr>
<td>Banque de France (França)</td>
<td>15.64108</td>
<td>1,548,907,573.93</td>
</tr>
<tr>
<td>Banca d'Italia (Italia)</td>
<td>13.8165</td>
<td>1,288,347,435.28</td>
</tr>
<tr>
<td>Central Bank of Cyprus (Cipro)</td>
<td>0.1750</td>
<td>16,318,228.29</td>
</tr>
<tr>
<td>Latvijas Banka (Lettonia)</td>
<td>0.3169</td>
<td>29,549,980.26</td>
</tr>
<tr>
<td>Lietuvos bankas (Lituania)</td>
<td>0.4707</td>
<td>43,891,371.75</td>
</tr>
<tr>
<td>Banque centrale du Luxembourg (Lussemburgo)</td>
<td>0.2679</td>
<td>24,980,876.34</td>
</tr>
<tr>
<td>Bank Českeho (Czech)</td>
<td>0.0853</td>
<td>7,953,970.70</td>
</tr>
<tr>
<td>De Nederlandse Bank (Paesi Bassi)</td>
<td>4.7662</td>
<td>444,433,941.02</td>
</tr>
<tr>
<td>Oesterreichische Nationalbank (Austria)</td>
<td>2.3804</td>
<td>221,965,203.55</td>
</tr>
<tr>
<td>Banco de Portugal (Portogallo)</td>
<td>1.9035</td>
<td>177,495,700.29</td>
</tr>
<tr>
<td>Banka Slovenije (Slovenia)</td>
<td>0.3916</td>
<td>36,515,532.56</td>
</tr>
<tr>
<td>Národna banka Slovenska</td>
<td>0.0344</td>
<td>35,952,272.59</td>
</tr>
</tbody>
</table>
ECB ramps up bond purchases

ECB’s weekly bond purchases since 31 Jan 2020

Source: ECB
**Eurosystem**: March PSPP purchases in relation to adjusted capital key (%)
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)

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

Source: ECB staff.
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: 1,100 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**
  - 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.
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: 1,100 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
  - **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

Historical Debt Levels
(2011 U.S. dollar GDP-weighted average, percent)