

# Assessing the Economic Impact of COVID-19

#LSECOVID19

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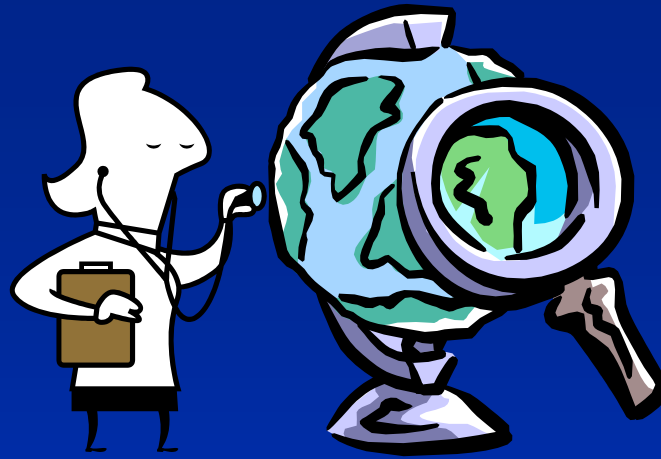
## **Dr Miranda Xafa (@Mxafa)**

CEO of E.F. Consulting Ltd and a senior scholar at the Centre for International Governance Innovation (CIGI).

## **Chair: Professor Kevin Featherstone**

Eleftherios Venizelos Professor in Contemporary Greek Studies and Professor in European Politics and the Director of the Hellenic Observatory.

*Hosted by LSE's public event series - COVID-19: The Policy Response, Hellenic Observatory and the National Bank of Greece.*



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# Greece-Economic impact of COVID-19 pandemic

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Miranda Xafa

Presentation at LSE-Hellenic Observatory webinar

May 7, 2020

# COVID-19 pandemic: Key issues for Europe

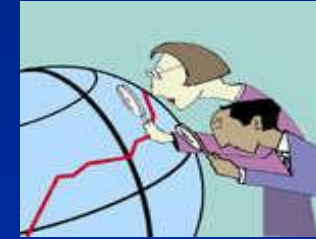
- EU member states face the same storm but are not all in the same boat.
- Southern European countries are more dependent on hard-hit tourism, have less fiscal space.
- Several countries have accumulated levels of debt not seen since WWII, enabled by near-zero interest rates.
- Within the EU, the temporary repeal of state aid rules could cause severe economic and market dislocations in the absence of risk sharing.

# Disconnect between fundamentals and markets ended abruptly in Feb 2020

- Global bond rally, which drove GGB yields to all-time lows in 2019, ended in mid-Feb with abrupt widening in credit spreads.
- Greek stock market: among top performers globally in 2019, with ASE up  $\approx 50\%$ , lost all its gains in Jan-Apr 2020.



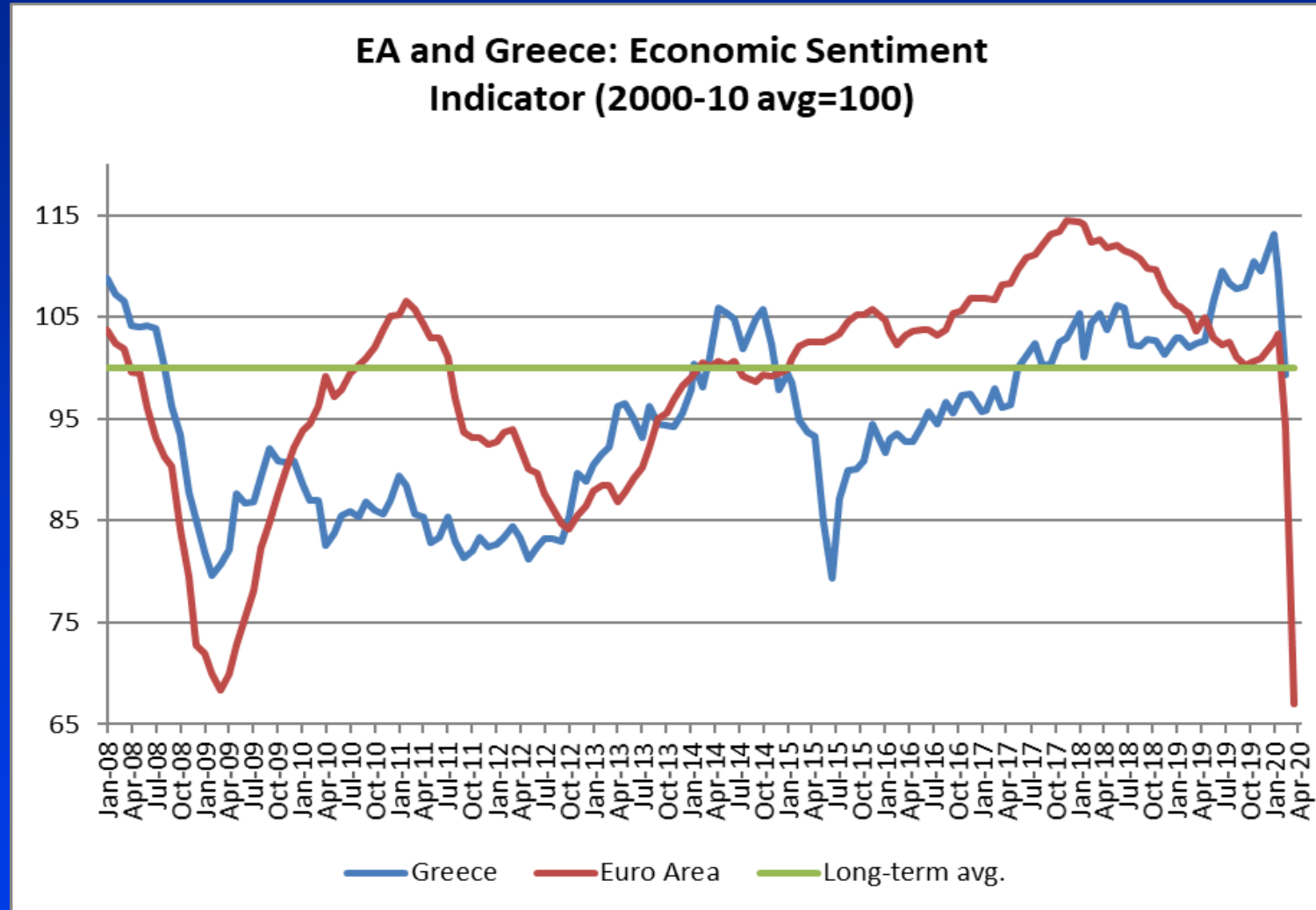
## April 2020 update of IMF's World Economic Outlook was downbeat



<b>GREECE</b>	<b>2019</b>	<b>2020*</b>	<b>2021*</b>
<b>GDP growth</b>	<b>1.9%</b>	<b>-10.0%</b>	<b>5.1%</b>
<b>General government balance/GDP</b>	<b>0.4%</b>	<b>-9.0%</b>	<b>-7.9%</b>
<b>Primary balance/GDP</b>	<b>4.0%</b>	<b>-5.1%</b>	<b>-4.4%</b>
<b>General government debt/GDP</b>	<b>179.0%</b>	<b>200.8%</b>	<b>194.8%</b>

Source: IMF *World Economic Outlook* and *Fiscal Monitor*, April 2020

# Greece: Economic sentiment sunk in April after reaching 20-year high in January



Source: Eurostat

# Ample global liquidity provides support to equity and bond markets



- The ECB launched the €750bn Pandemic Emergency Purchase Program in mid-March 2020.
- QE re-started in Nov 2019, with net asset purchases of €20bn/mo; additional purchases of €120bn in 2020 were launched in March.
- ECB QE program similar in scale to those undertaken by US, UK, JA.
- Interventions by the ECB can buy time by keeping interest rates low, but restoring growth depends on government policies (fiscal stimulus, growth-oriented reforms).

# **Eurogroup has approved 3 support schemes, but has yet to formulate a consistent crisis response**

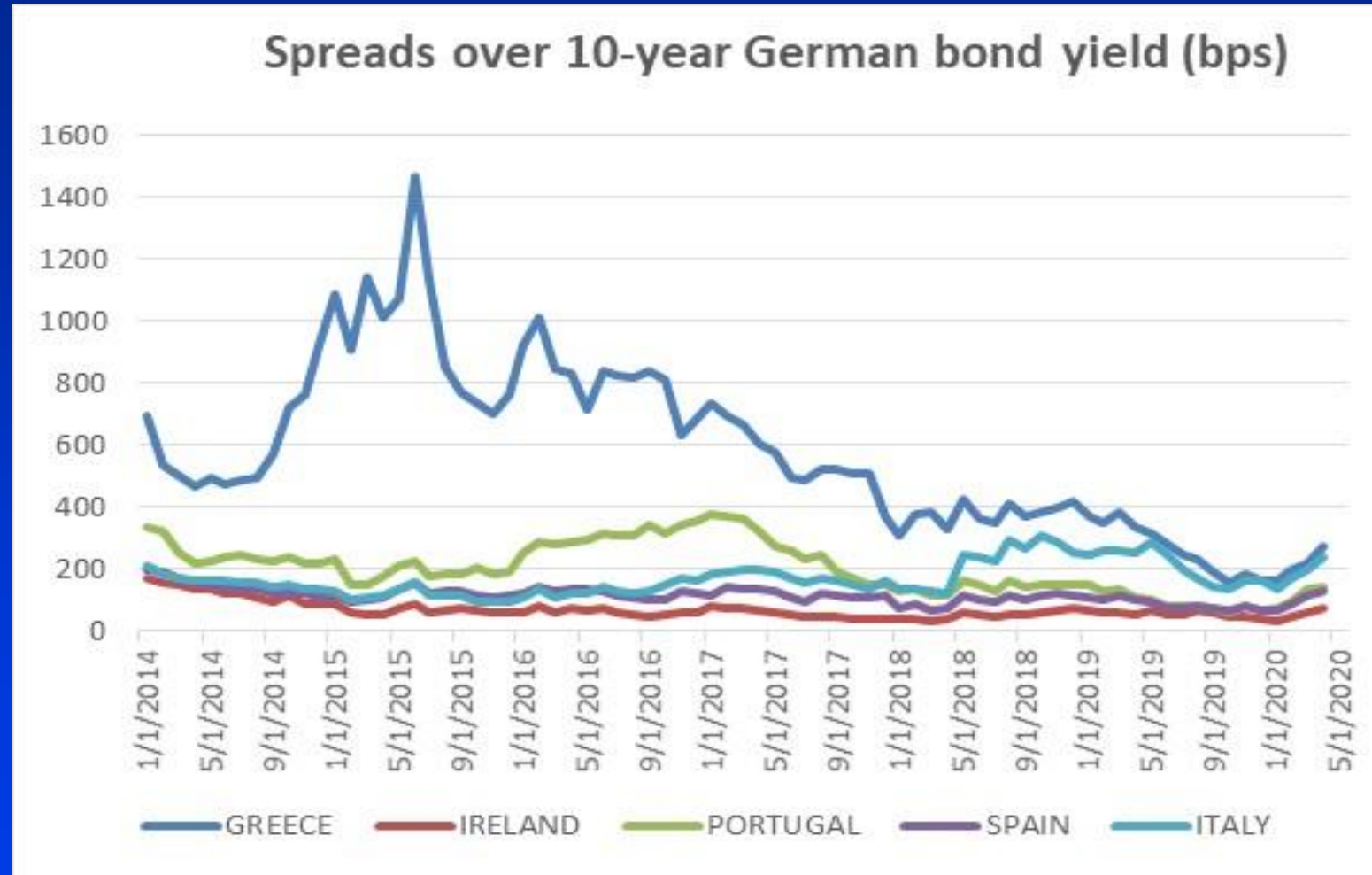
- ESM: pandemic emergency loans, up to 2% of recipient country's GDP
- EIB guarantees and loans to businesses
- SURE: temporary program to support employment funded by EC bond issue
- Greece can draw up to €8bn (4% of GDP) from these programs.



## EU recovery fund under discussion

- Recovery fund proposal centered on EU Multiannual Financial Framework (MFF) 2021-27.
- Sizable common EU budget, originally proposed by France in 2018 as part of a plan for deeper EMU, has been downgraded to a proposed Budgetary Instrument for Competitiveness and Convergence (BICC) of €12.9bn over 7 years, clearly insufficient to tackle the COVID-19 pandemic crisis.

# Greece's credit spread has widened since February

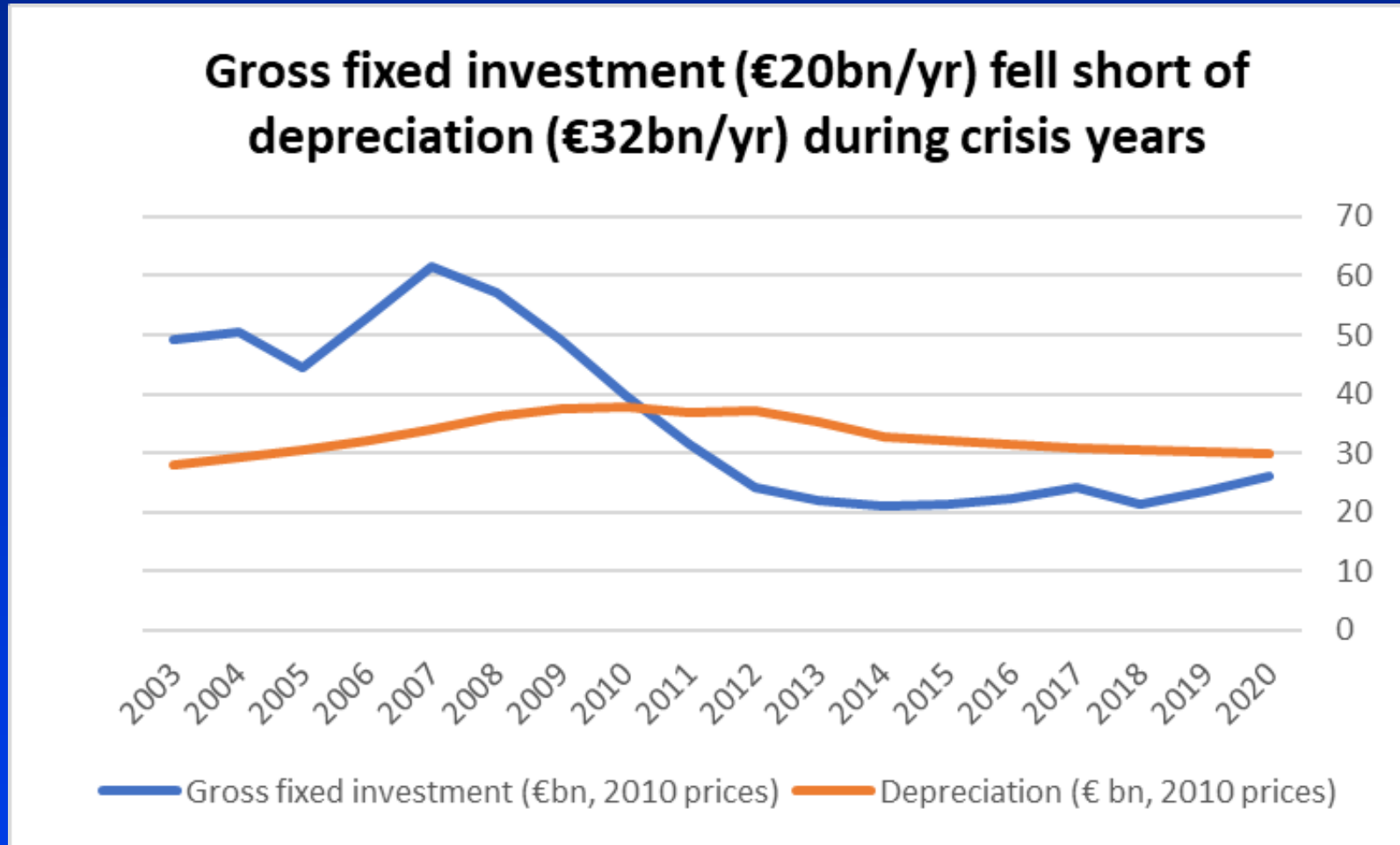


Source: Bloomberg

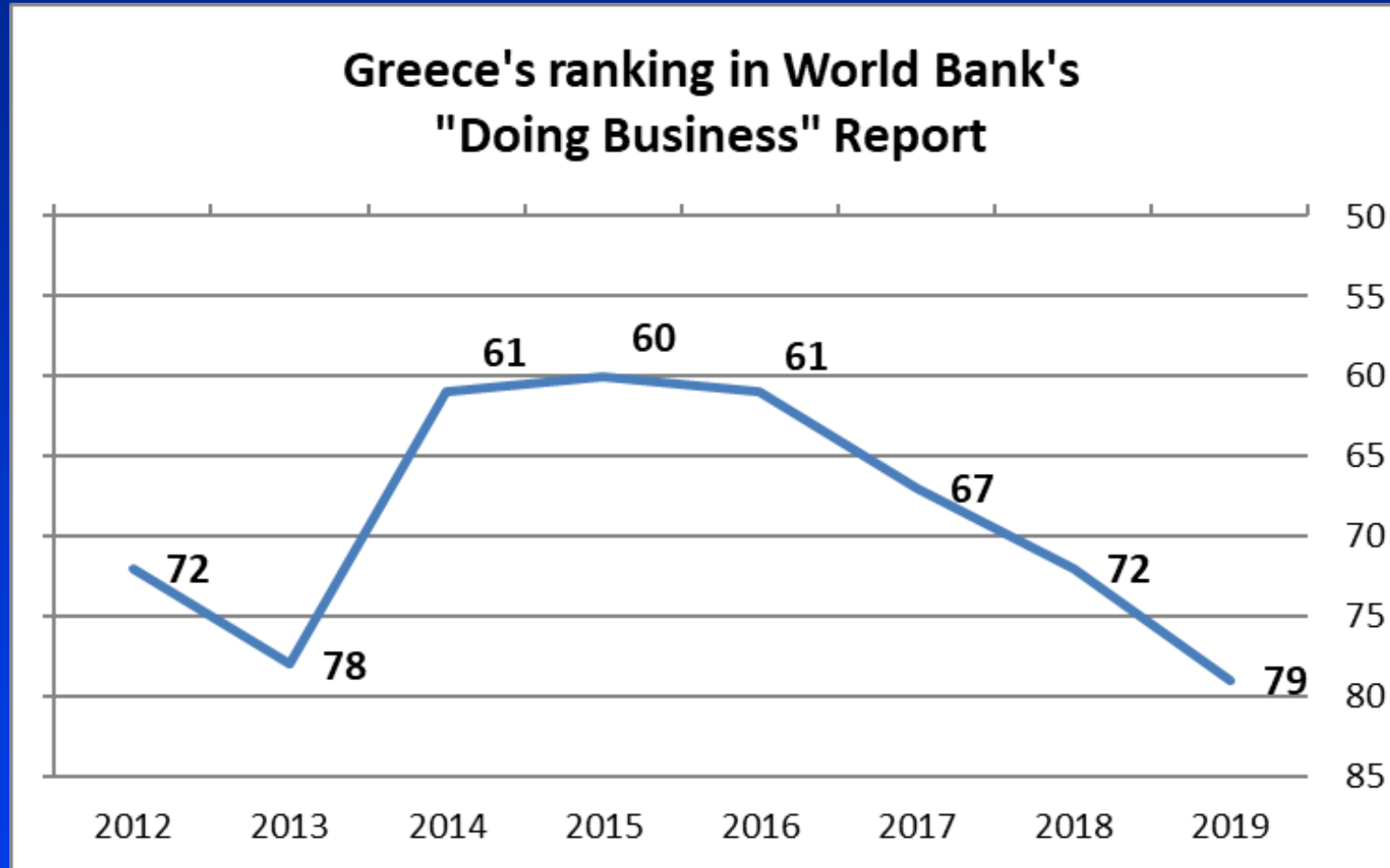
## Three key challenges

- Investment gap (GFI/GDP: 20% EA, 11% GR)
- Low competitiveness ranking (World Bank, World Economic Forum)
- High levels of public debt (€334bn, 179% of GDP) and NPEs (€69bn, 41% of total loans) at end-2019

# Greece needs €100bn of investment in the next eight years just to restore pre-crisis capital stock

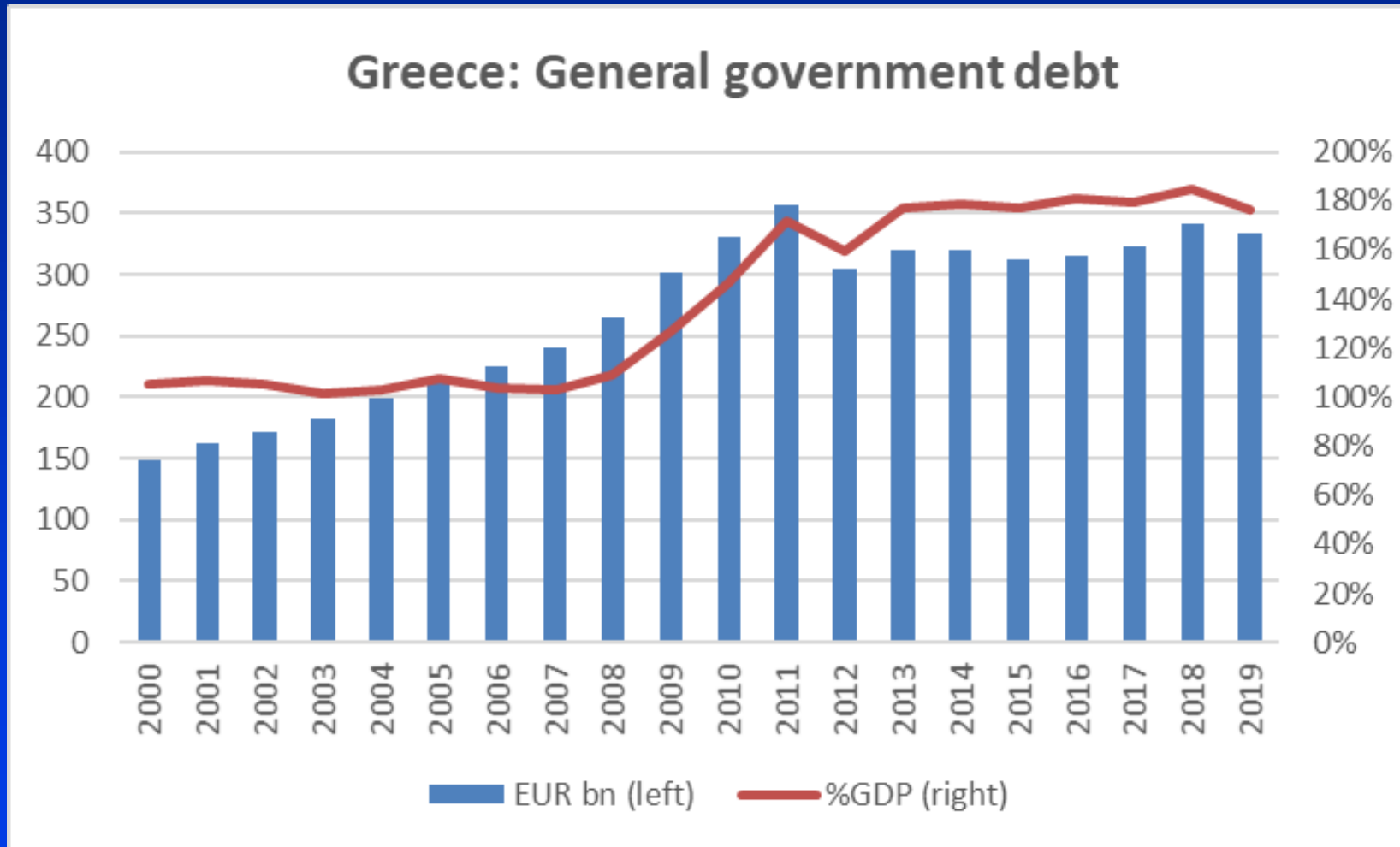


# Greece downgraded in competitiveness rankings in recent years



Source: World Banks "Doing Business" reports

# Public debt is higher now than after PSI



Source: IMF Fiscal Monitor

## **Expenditure review needed**

- Greece spends 16% of GDP on pensions, by far the highest in EU.
- The 2016 reform cut pensions for new retirees, but left “old” pensions up to 40% above the new.
- The IMF estimates that Greece spent €18bn subsidizing loss-making public sector companies in 2012-18. Keeping these zombie companies alive locks scarce resources into unproductive uses.

**Thank you!**



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