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**Economic policies after (partly) lifting COVID-19
containment measures
Meeting of Economic Policy Councils**

9 June 2020

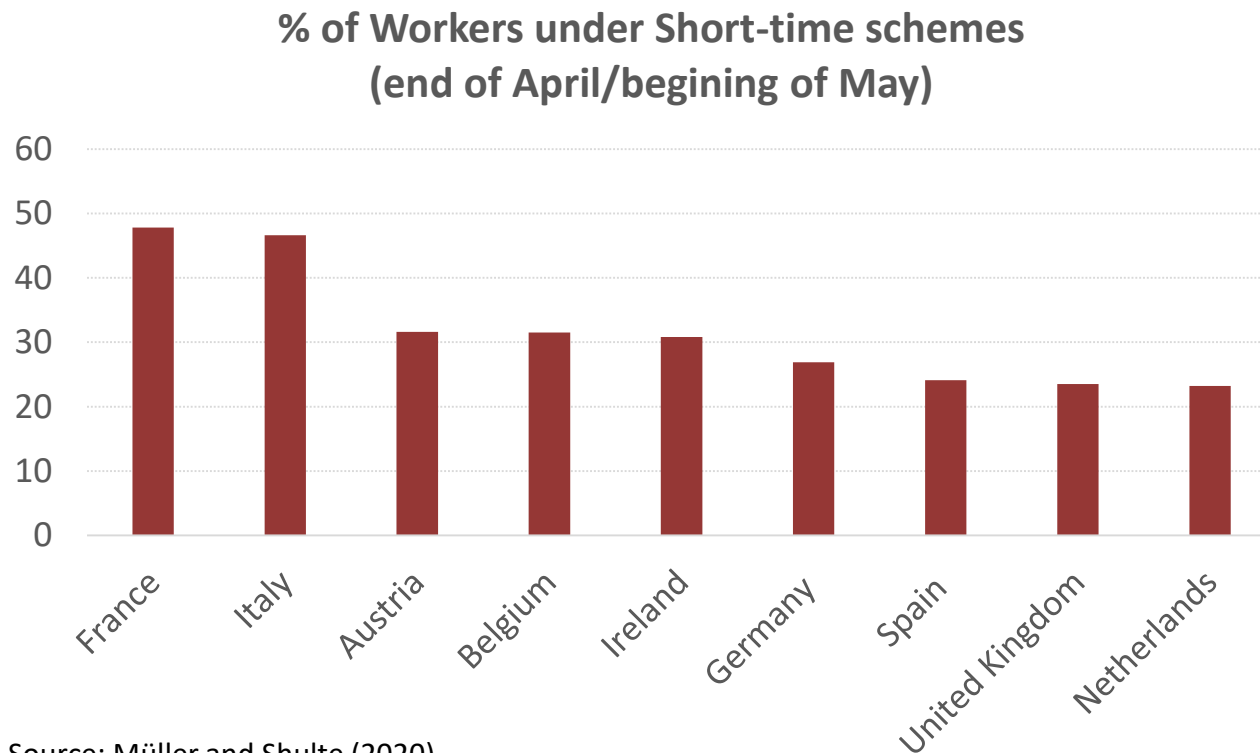
The COVID-19 shock

- COVID-19 represents an **extreme, unprecedented and global shock**
- Latest information suggest there is “**light at the end of the tunnel**”, but ...
- Macroeconomic policy is still operating under **substantial uncertainty**
 - It is still too early to make a complete assessment of the economic losses and the pandemic is not over by far
- The **economic impact** felt is **huge and varies across countries**
 - Depending on their economic structures, the intensity of the health crisis and the policy response
- The **recovery** from the Covid crisis is likely to be **slow and incomplete** and it will require significant **reallocations across sectors**

Policy actions need to remain in place to support the recovery

Significant challenges in labour and capital markets

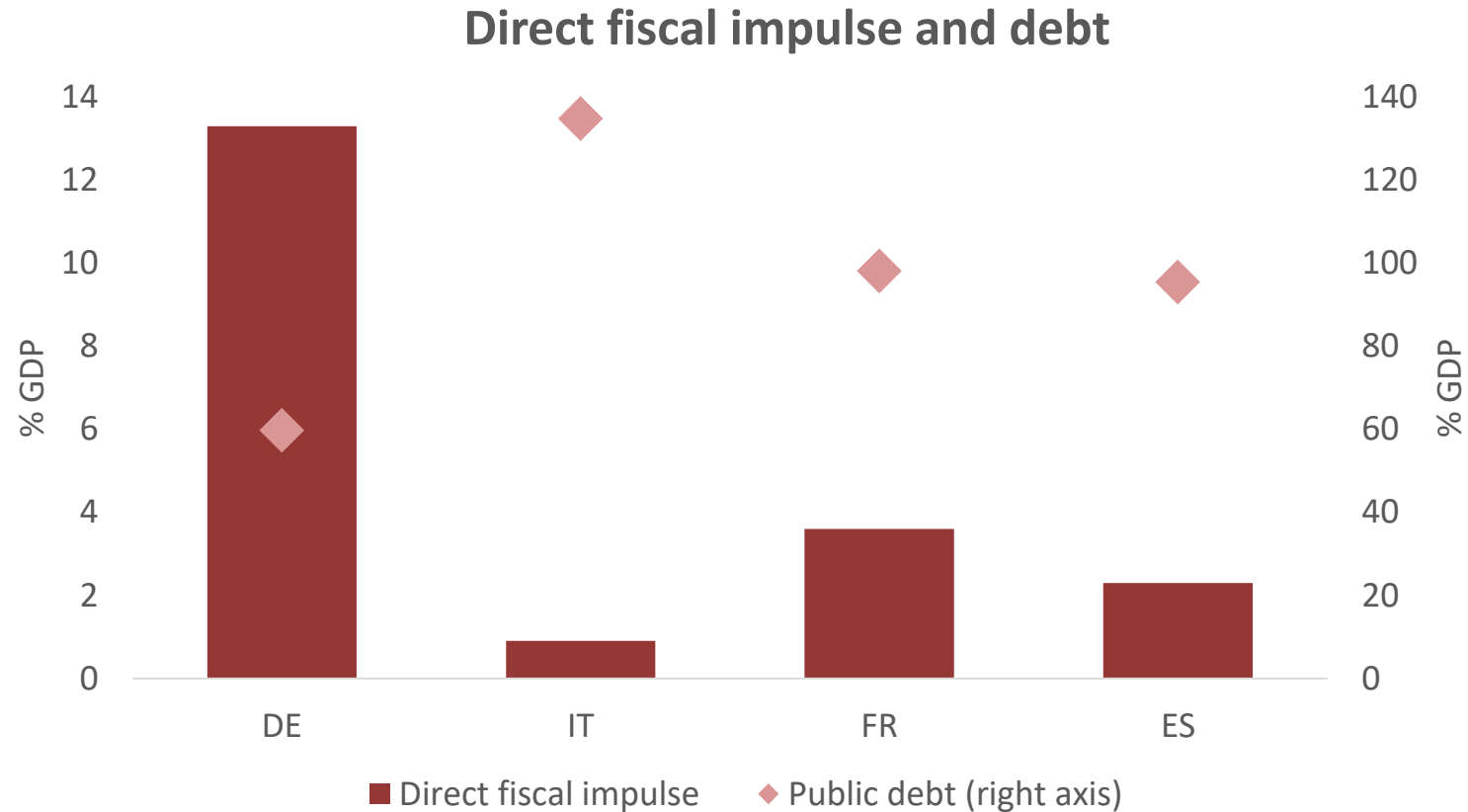
- Beyond the increase in unemployment, there is also a huge proportion of workers who are under **short-time employment protection schemes**



Source: Müller and Shulte (2020)

- In the case of **firms**: the EC recent estimates show that between 25% and 35% of companies would experience a **financing shortfall** by the end of the year after exhausting working capital and liquidity buffers (EC, 2020, 25 May 2020)

A more targeted fiscal response



Source: Bruegel

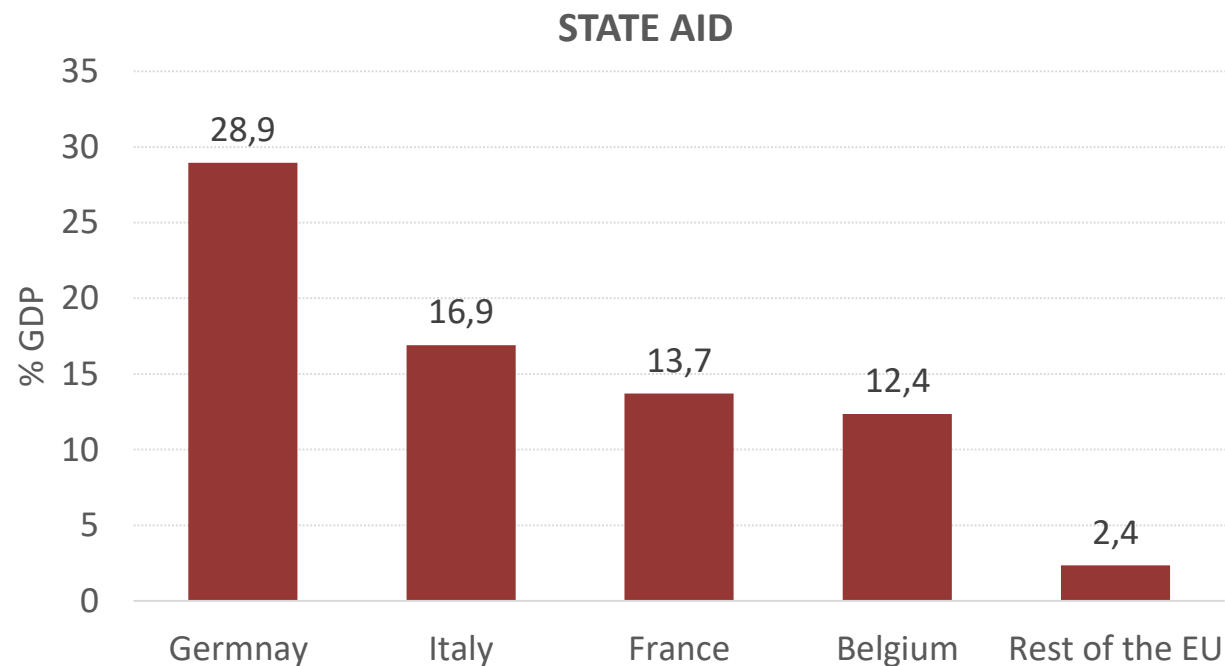
- In **countries with less fiscal space**, the response in the recovery phase will require the design of **support measures targeted at specific sectors** (such as hospitality and entertainment) and at the **most vulnerable households**
- **Liquidity support** and the **extension of short-time work schemes** are also needed

A medium-term strategy to rebuild fiscal buffers and reduce the levels of debt

- The crisis is causing an increase in **government debt** that has few precedents
- There is a need to design – sooner rather than later – a **credible medium-term strategy** to reduce debt levels and so gain credibility and transparency
- **IFIs can contribute** to calibrating the pace of fiscal adjustment
- It would make sense to **rethink our current fiscal framework**, paying more attention to observed budget deficits and debt ratios

A more coordinated response at the European level

- The initial EU response was mainly centred in **facilitating national responses**
 - Activation of the **general scape clause**
 - **Flexibility** of state aid rules



Source: European Commission

The 3-pillar safety net (BEI, SURE and ESM Pandemic credit line) and particularly the Next Generation EU proposal represent a giant step in the design of a coordinated European response



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