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COVID-19 MED BRIEFS

Responding to the Challenges of COVID-19 in the Mediterranean
Répondre aux défis du COVID-19 en Méditerranée

November 2020 Brief No 9

Economic Policy Responses to COVID-19 : the case of EU and non-EU Mediterranean Countries

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Keywords: Covid-19, Fiscal Policy, Monetary Policy, Economic Policy, Interest Rates.

Executive Summary

The coronavirus (COVID-19) pandemic has not only led to human casualties but also generated a severe global economic downturn. Governments have responded with economic stimulus packages to mitigate the adverse effects of this downturn. In this paper, we analyze the economic policy responses adopted by 21 Mediterranean countries. Our analysis shows that the packages that were introduced were strikingly different among EU member and non-EU member Mediterranean economies. Particularly, the ones by non-EU member Mediterranean countries are insufficient to address the needs of households and individuals. We make specific policy recommendations to improve pandemic recovery in Mediterranean region.

1. Introduction

The novel coronavirus (COVID-19) outbreak emerged in Wuhan, China in December of 2019 and still persists globally. The COVID-19 pandemic has spread to 213 countries and territories causing about 40 million cases and more than 1.1 million deaths as of late October 2020 (WHO, 2020). Similar to other regions of the world, Mediterranean countries have been affected by the pandemic at an enormous scale. As of October 15th, there are about 3.35 million cases and 130 thousand COVID-19 patients have lost their lives in the region.

In addition to the deterioration of public health and loss of lives, the outbreak generated a major global economic downturn. The COVID-19 pandemic has direct negative effects on the economy. Specifically, infected workers who are isolated or hospitalized cannot join the workforce. Furthermore, uncertainty about the progress of the outbreak leads economic agents to withdraw from economic activity. In addition to these direct effects, stringent non-pharmaceutical public health measures adopted by governments (i.e., travel bans, city lockdowns, social distancing) to slow down the spread of the virus have contributed to economic inactivity by limiting human mobility and business operations (Atkeson, 2020; Eichenbaum, Rebelo, and

Trabandt, 2020). Consequently, the COVID-19 pandemic and associated drastic public health controls have disrupted supply chains, diminished or halted economic activity in some sectors, and led to mass unemployment. To mitigate these negative economic consequences and to recover public welfare, governments have adopted stimulus packages (Elgin et al. 2020; Gourinchas, 2020) in different forms. These packages usually consist of monetary, fiscal, and balance of payments/exchange rate policies and show wide variation across countries with regard to their scale and scope (Elgin et al. 2020, Baldwin and Weder di Mauro, 2020).

Monetary policies adopted by countries generally consist of cuts in the policy rate, cuts in the reserve requirement ratios as well as can be in the form macro-financial measures including liquidity support to banks, provision of cheap credit to firms, and buying government bonds to provide liquidity to government authorities (IMF, 2020). Typical fiscal policies include transfers to households and businesses, extension of social safety nets, and funds for the healthcare system.

Some examples of fiscal policies adopted by some Mediterranean countries are listed in Table 1.

Table 1: Examples of Different Fiscal Policy Measures

Country	Content of fiscal policy	Size
France	Support for self-employed and small businesses	2 billion Euros
Greece	Recruitment of 2000 healthcare workers for public hospitals and new investment in the health system	1 billion Euros
Italy	Unemployment benefits and freelancer support	10,3 billion Euros
Malta	Major Tax Deferrals and write-offs	200 million Euros
Portugal	Financial Support furloughed workers	600 million Euros
Spain	Supplementary appropriation to the Ministry of Health	1 billion Euros
Albania	Support for small businesses	61.4 million USD
Cyprus	Support for the health sector	100 million Euros
Libya	Support for municipalities and local councils	36.5 million USD
Lebanon	Additional funding for private hospitals	293 million USD
Slovenia	Wage subsidies suspended workers	50 million Euros
Israel	A one-off grant program for adults and families with children excluding high-income earners	2 billion USD
Croatia	Reducing or writing off tax obligations	25 million Euros
Turkey	2000 TL to 1 million households	255 million USD
Morocco	2000 dirhams/month in April for 1 million temporarily unemployed	220 million USD
Montenegro	One-off financial assistance to low-income pensioners and social welfare beneficiaries in the amount of EUR 50 each	
	1 million Euros	
Egypt	Support for the Tourism sector	3.18 billion USD
Jordan	A temporary cash transfer program for the unemployed and self-employed	114 million USD
Tunisia	Cash transfers for low income households and for disabled and homeless people for three months	163.3 million USD
Bosnia and Herzegovina	Transfer to unemployment funds	15 million USD
Mauritania	Subsidies to 30,000 poor households	
	10 million USD	

Source: Authors' own calculations

When we look at the examples listed in Table, we observe that the types of fiscal policy measures are mostly in the form of support for the health care sector and the labor market. Some countries also have adopted measures that provide direct non-refundable support for small businesses. For example in Albania, the government has provided support in the amount of 6.5 billion LEKI (about 61.4 million USD) of small businesses/self-employed that are forced to close activities due to the COVID-19 pandemic by paying them minimum salaries (up to two in the case of family businesses with unpaid family members), doubling of the unemployment benefits and social assistance layouts. A similar policy was also adopted by France where the government provided significant support for self-employed and small businesses with a total amount of 2 billion Euros. As another example, the national accord government in Libya has given LD 50 million (36.5 million USD) to municipalities and local councils. Malta has implemented major tax deferrals and write-offs in the amount of 200 million Euros. Other examples of such policies are from Cyprus and Lebanon.

Most countries have increased the funds for the government and private healthcare sector. For example, Greece has allocated about 1 billion Euros for recruitment of new healthcare personnel and investment in public hospitals. Similarly, Spain has approved a package of 1 billion Euros as a supplementary appropriation to the Ministry of Health.

In this policy brief, we aim to present evidence for the economic policy responses given by national governments in the Mediterranean region, discuss the sufficiency of these responses, and make recommendations for better future policy responses.

2. Approach and Results

To study the economic policy responses adopted by Mediterranean countries, we use the database consisting of economic policy measures adopted by 168 countries as a response to COVID-19 pandemic (Elgin, Basbug and Yalaman, 2020). Using information from the International Monetary Fund's Policy Tracker, national government, monetary policy authorities' and media websites, this database quantifies all sorts of economic policy measures adopted by national governments in response to COVID-19.

The original database includes six policy variables classified under three categories: fiscal policy, monetary policy and balance of payment/exchange rate policy; however, for this policy brief we specifically focus on the fiscal and monetary policy responses. Fiscal policy package, coded as a percentage of GDP, includes all fiscal measures adopted by countries. In this policy brief the monetary policy category includes the following variables: 1) Interest rate cut by the monetary policy authority (coded as a percentage cut from the ongoing rate as of February 1st, 2020), 2) Cut in the reserve requirements (again reported as a percentage change from the ongoing rate on February 1st, 2020), 3) The size of the macro-financial package (coded as a percentage of GDP) that includes all kinds of macro-financial measures including, but not limited to, asset and bond purchases as well liquidity injections mainly done by monetary policy authorities and credit deferrals and newly issued credits for businesses.

In Table 2 below, we report regional and global statistics using data from 21 Mediterranean countries. Eight of these countries are European Union (EU) members having shores to the Mediterranean, namely Spain, France, Italy, Malta, Croatia, Cyprus, Slovenia and Greece, whereas 13 of them are the Mediterranean countries that are members of the Euro-Med Group, namely Algeria, Albania, Bosnia and Herzegovina, Israel, Egypt, Montenegro, Jordan, Turkey, Tunisia, Mauritania, Morocco, Lebanon and Libya. Here, for the bottom four policy measures, the reported statistics are from the latest version of the dataset (dated September 10th, 2020).

Table 2. Means and Standard Deviations of Different variables in Different Country Groups

Variable	Mediterranean (21)	Mediterranean (non-EU members) (13)	EU members (8)	World
GDP per capita	15.71 (±13.78)	8.13 (10.72)	28.02 (8.13)	14.99 (20.12)
GDP per capita (PPT)	25.81 (±14.74)	16.55 (9.36)	40.84 (7.29)	23.79 (23.87)
GDP Growth Forecast for 2019 (made in Fall 2019)	1.62 (5.01)	1.10 (6.31)	2.45 (1.50)	2.78 (3.11)
GDP Growth Forecast for 2020 (made in 2019)	2.73 (1.49)	2.97 (1.67)	2.34 (1.16)	3.77 (6.69)
GDP Growth Forecast for 2021 (made in 2019)	2.78 (1.44)	3.17 (1.58)	2.15 (0.95)	3.46 (2.07)
GDP Growth Forecast for 2019 (made in 2020)	2.48 (2.98)	2.59 (3.73)	2.30 (1.25)	2.78 (2.88)
GDP Growth Forecast for 2020 (made in 2020)	-8.50 (11.91)	-9.07 (15.25)	-7.59 (2.24)	-3.41 (7.06)
GDP Growth Forecast for 2021 (made in 2020)	8.80 (16.96)	11.20 (21.92)	5.21 (0.86)	5.36 (6.19)
Fiscal Policy (% GDP)	7.95 (6.69)	3.58 (3.45)	15.07 (3.75)	6.06 (6.71)
Policy Rate Cut (%)	17.31 (23.85)	21.56 (19.77)	10.42 (29.46)	23.03 (28.52)
Cut in Reserve Requirements (%)	12.91 (23.80)	11.24 (14.60)	15.63 (35.20)	21.80 (34.56)
Macro-Financial (% GDP)	10.97 (15.72)	2.02 (2.28)	25.52 (17.51)	6.39 (9.73)

Source: Authors' compilation

There are several observations we can make from Table 2. First, the Mediterranean region's GDP per-capita (measured by PPT or in nominal terms), as represented by these 21 countries, is slightly higher than the world average. However, when we divide the region into two, as EU members and non-members, we observe that these two subgroups are strikingly different. The non-EU members are poorer than the world average, whereas the EU members have twice of the world GDP per-capita.

Next, we look at the IMF's growth forecasts given by the World Economic Outlook (WEO) for years 2019, 2020 and 2021. Here we use two forecasts made at two different points in time for the same three years. The first forecast was published by the IMF in October 2019 and the more recent one in late April 2020, after the pandemic had started. We observe that for the whole region, the forecasts were substantially lower than the world average. The non-EU Mediterranean countries were driving down the forecasts for 2019 whereas the expectations for 2020 and 2021 were higher for non-EU Mediterranean countries compared to the ones of EU countries. However, the WEO 2020 forecasts have changed drastically due to the COVID-19 pandemic. First, 2019 did not materialize as bad as expected, particularly for the non-EU members. However, IMF expects the region to be severely hit by the pandemic. The 2020 growth forecast for the whole region is -9.07% which is much worse than the forecast for the world average. Moreover, IMF also forecasts that the adverse effect on the non-EU members of the region will be more significant. Nevertheless, a substantial bounce is also expected in 2021.

Considering these highly adverse forecasts, particularly for the year 2020, one could expect a large policy response in the region. Surely, there are other factors playing a role in policy design; however, with other things equal, one would expect countries more severely hit by the crisis to adopt larger stimulus packages to overcome the economic crisis.

Regarding fiscal policy, the average of the EU-Med (21) is well above the world average. However, note that this difference is largely due to the high fiscal stimulus packages adopted by EU members. In this regard, when the EU member countries are excluded, the average fiscal package size (2.53%) is much lower than the world average. Figure 1 (see annex) presents the fiscal package series for all the 21 economies. Moreover, Figure 2 presents the evolution of the fiscal package announcements since late March to late September 2020. In addition to the already existing gap at the beginning of the pandemic, we observe here that the gap between the EU members and non-EU members in the region has widened over the course of the COVID-19 pandemic.

On the monetary policy front, with regard to the policy rate cut, we observe that the central banks in the region have not lowered interest rates as much as the world average has. The main reason for this is that the European Central Bank (ECB) did not lower interest rates during the pandemic since it had already lowered them earlier. Croatia, which is an EU member, but not within the Eurozone, is an exception and has lowered the repo rate from 0.30 to 0.05 %. Instead, the European Central Bank has adopted other monetary policy tools such as cuts in reserve requirements and macro-financial packages (see Table 2). However, non-EU countries of the region have primarily lowered their policy rates and also to a lesser extent the reserve requirement ratios, albeit not as much as the EU members or the world average. Finally, as for the macro-financial packages, there is a striking gap in the region among EU members and non-EU countries. Largely, thanks to the large asset purchase program conducted by the ECB, the EU members had significant packages, whereas these measures were much smaller in the non-EU members of the region. Figure 3 and Figure 4 (see annex) present the two key monetary policy indicators, the cut in the policy rate and the macro-financial package series for all the 21 economies.

3. Conclusion

Our analysis of the economic policy responses adopted by Mediterranean and EU-Med countries shows that there is a large divide across the EU member and non-member countries in the region. Although the expectation is that the non-EU Mediterranean countries are expected to suffer more from the crisis, their fiscal and macro-financial packages are substantially smaller than what is needed for a healthy pandemic recovery.

4. Implications and Recommendations

While countries around the world are going through a similar process regarding COVID-19, namely the spread of the virus followed by increase of cases and deaths, there is a wide variation in the policy responses adopted. The main sources of this variation are country-specific economic situations in the pre-pandemic period and their overall economic growth and performance. Our analysis shows that economic stimulus packages, especially those adopted by the non-EU Mediterranean countries, are sub-optimal. Surely, in addition to the size, the contents of the fiscal or macro-financial packages, also deserve a closer look as one can argue that how the money is spent could be more important than how much is spent. Nevertheless, we believe that a comparison of package sizes is still relevant considering the limited set of policy tools that countries can adopt.

The economic stimulus packages need to target the most affected units in the economy. The disruption of economic activity and associated mass unemployment left millions of people with loss of income and increased debt. In order to help individuals and households sufficiently, programs such as helicopter money and universal basic income (UBI) could be considered. Even if a comprehensive and permanent UBI policy could be out of reach for the non-EU member Mediterranean countries, they can still adopt it on a temporary basis. Such a move would also be very helpful for workers and their families outside of the social safety net, particularly for those who work in the informal economy. Informal sector is relatively large in the region and employs a significant fraction of the overall workforce.

In addition, a flexible unemployment insurance program, such as the one adopted by Germany, can be a good example for Mediterranean countries as well. More generous and comprehensive unemployment benefits would prevent workers from detaching the labor market.

There are also steps that can be taken to help firms. For instance, providing financial aid to firms for employee compensation as wage subsidies, which has already been in effect in some European countries, can be adopted by Mediterranean countries as well. Some countries may experience a lack of economic and especially fiscal resources to adopt aforementioned policies. One effective option to overcome this can be by designing novel fiscal policies, for example introducing wealth tax.

Another policy measure that could also be adopted by the countries in the region requires the governments step in the goods and the service markets and acting as a buyer of the last resort. This can be especially needed by sectors that face a severe cut in demand. To boost the demand in these sectors, governments can act as buyers themselves in the form of coupons and distribute these to the general public. Of course, this would require a significant degree of fiscal expansion as such a program shall be financed out of the national budget.

Yet another important action for Mediterranean countries would be the coordination among national governments and integration of economic policies. A regional coordination and integration would not only allow richer countries to assist poorer ones but also facilitate transfer of lessons learned.

Surely, the non-EU economies in the region have more limited resources when it comes to fiscal or monetary policy. For example, the Federal Reserve Board of the US could announce that they can print an infinite amount of money if needed and one could easily imagine a similar announcement by the European Central Bank. However, such an announcement of a significantly expansionary monetary policy should not be expected by the monetary authorities of the other countries in the region, which have vulnerable domestic currencies and the values of these currencies are adversely affected by an expansionary economic policy in the form of expansionary fiscal or monetary policy. That is why one should not expect the same level of expansion by the non-EU members in the region; however, the adverse effects of such an expansion could be mitigated or to some extent tolerated with the right mix of policy measures.

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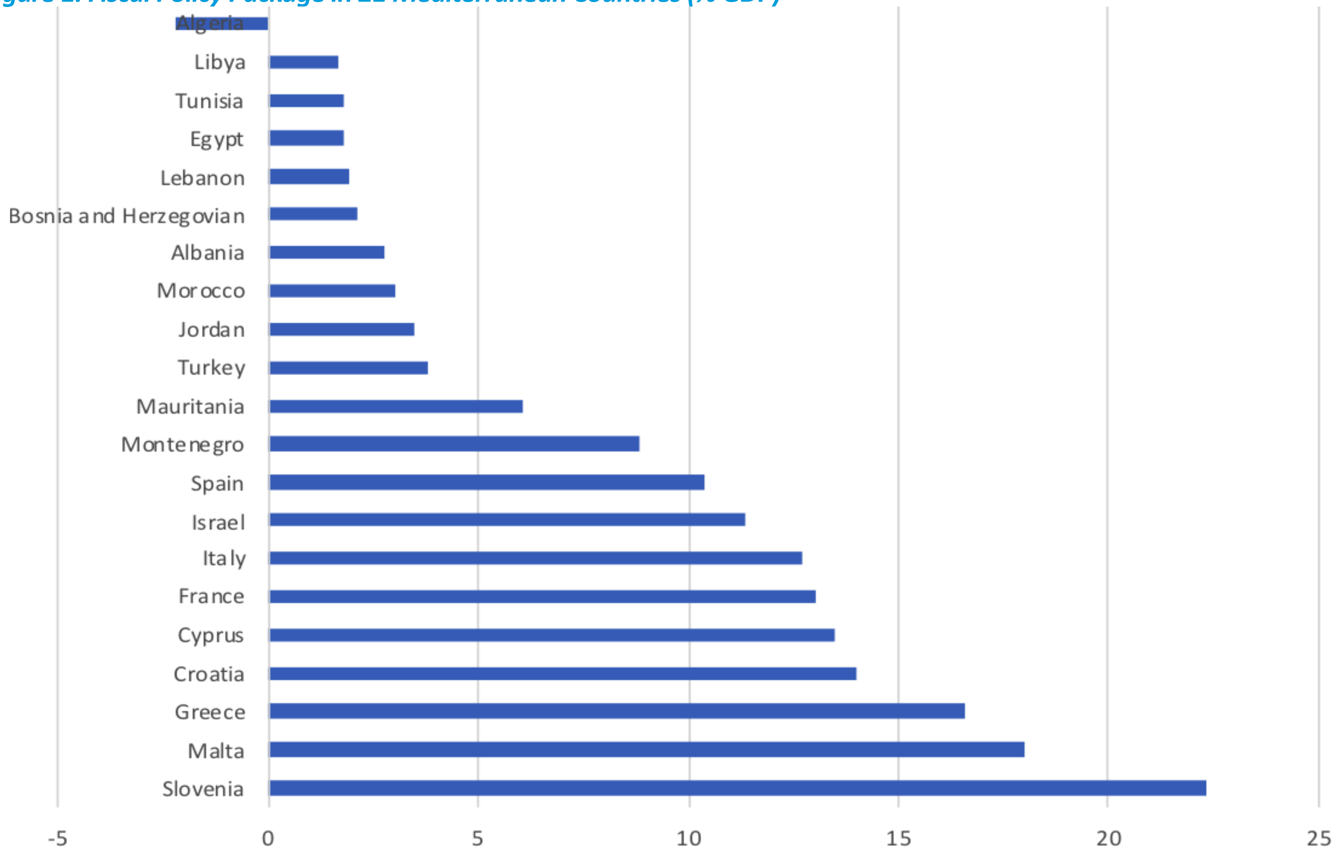
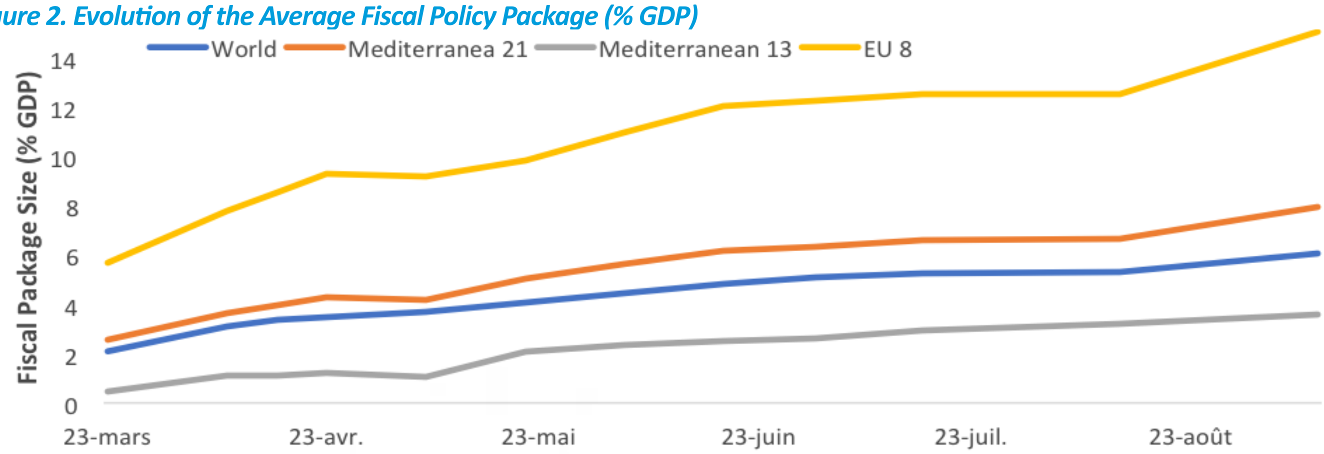
Annex

Figure 1. Fiscal Policy Package in 21 Mediterranean Countries (% GDP)



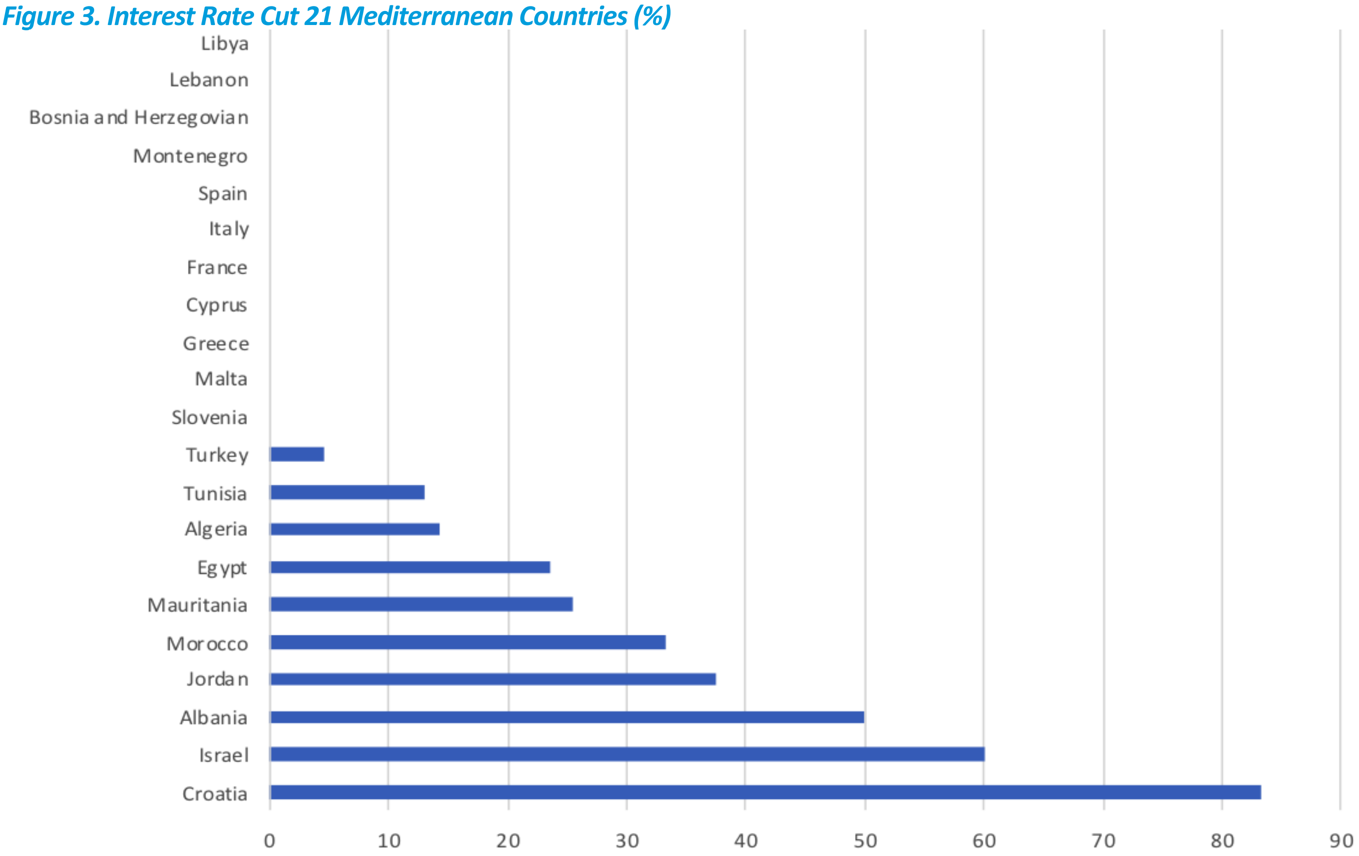
Source: Authors' own calculations

Figure 2. Evolution of the Average Fiscal Policy Package (% GDP)



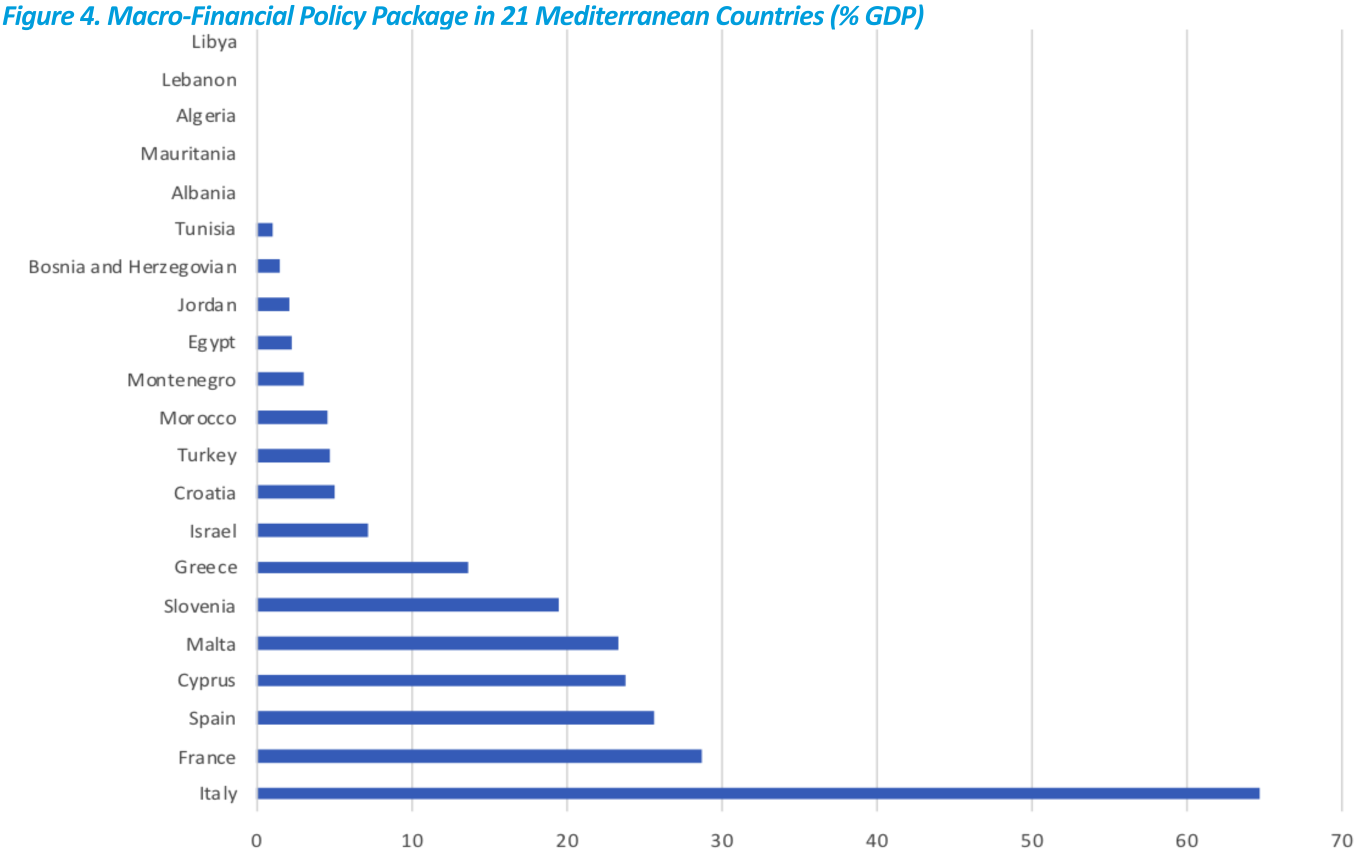
Source: Authors' own calculations

Figure 3. Interest Rate Cut 21 Mediterranean Countries (%)



Source: Authors' own calculations

Figure 4. Macro-Financial Policy Package in 21 Mediterranean Countries (% GDP)



Source: Authors' own calculations

COVID-19 MED BRIEFS

CMI-FEMISE "COVID-19 MED BRIEFS"

The recent coronavirus crisis threatens the health, economies and societies of all countries, regardless of level of development. In the South Mediterranean countries the fight against the pandemic is even more complicated. It must be done with limited health and economic resources compared to other regions. In addition, it takes place in a unique social and geopolitical context.

Cooperation and EU-Med strategies in key sectors are needed. Therefore, CMI and FEMISE have decided to join forces and launch this series of Policy Briefs to pave the way for thematic analyses and prescriptions, which will be explored throughout this series.

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This Policy Brief is produced as part of the series of Policy Briefs on « Responding to the Challenges of COVID-19 in the Mediterranean » that is undertaken in partnership between FEMISE and the Center for Mediterranean Integration (CMI).