

***“Economic, Fiscal and Financial Implications of the Corona
Pandemic for Germany and the European Union”***

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One World under a common threat

- The Corona Pandemic has hit every country in the world in a devastating way, no matter:
 - What economic system
 - What political system
 - Religion of specific beliefs, ideologies
- Corona reveals the **institutional weaknesses** in every country in a reckless way

The second wave in November 2020

- OECD study September 15, 2020 showed: Germany is doing comparatively well in the fight against Covid (NZE, CH, Germany)
 - Breakdown of the Economy of „only“ 5,4% of the GDP
 - Rescue package for the economy and for the workers (so-called „Kurzarbeitergeld“)
- **October 1, 2020 new infections at 2030**
- **October 31, 2020 new infections at 19059**
- **November 2, 2020 second lockdown**

The underestimated second wave

- The intensity and danger of the second wave was completely underestimated in Germany and in the EU.
- Public discussion was mainly about:
 - Personal freedom
 - Vacation and travelling (... Mallorca)
 - Restaurant visits and shopping
 - Concerts and public life
 - „**worst case scenario**“ completely excelled

Scientific Conclusion?

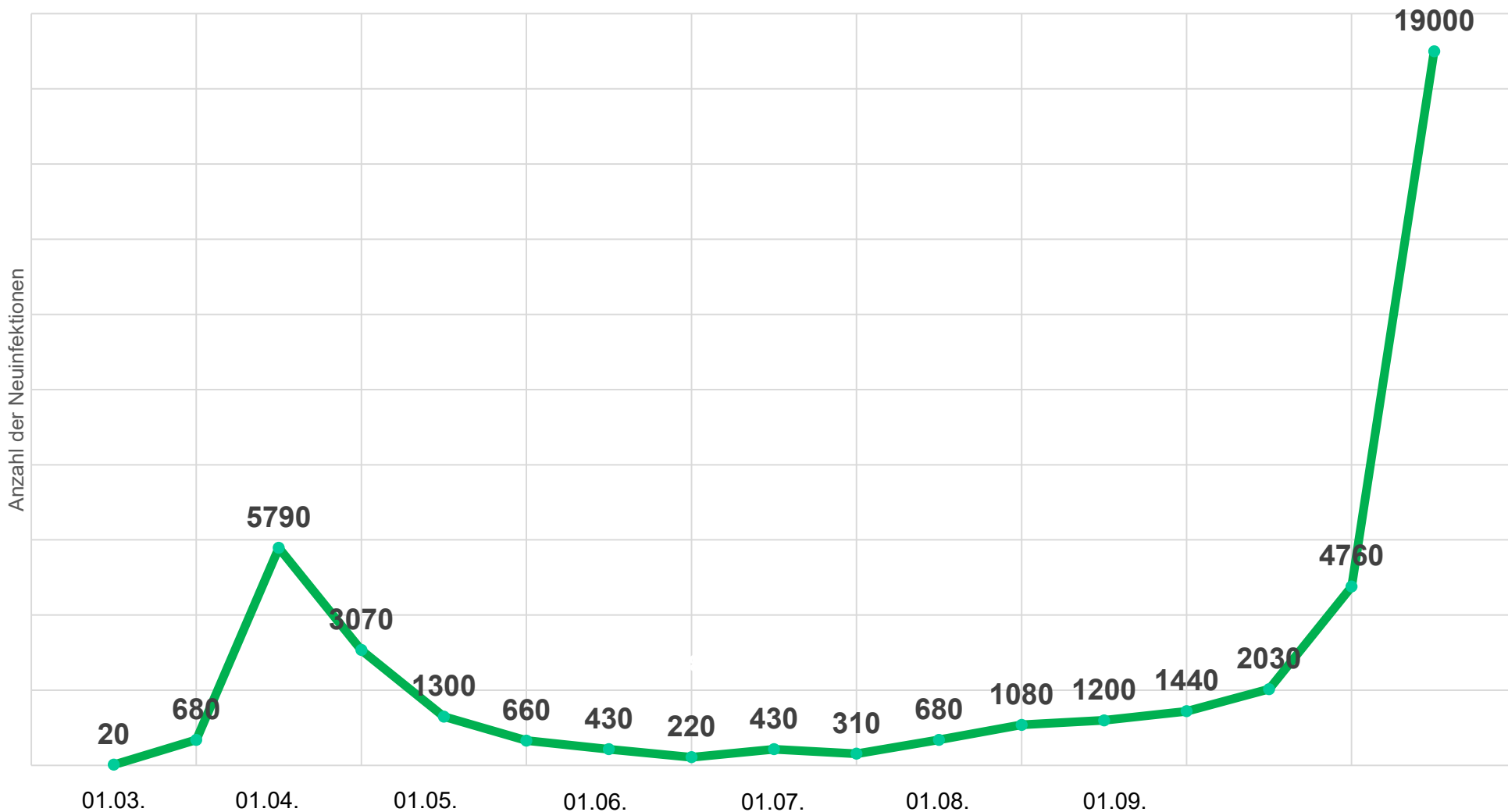
- From a scientific perspective (virology, medicine, sociology, political science, economics, law and legal studies) we have to acknowledge that we do not have concluding results about Corona.
- Even the most fundamental question how the virus evolved is completely unclear.
- New mutations emerge (UK, RSA)
- The virus can also affect animals (Denmark and minks, USA and Gorillas)

Scientific Conclusion?

- The **only thing** we know for sure is that the pandemic is a mathematical function of exponential growth
- Given the numbers of infection over time, we can calculate quite exactly the growth and the decline of the pandemic
- The mathematical characteristics and properties might be unpleasant for the affected people, but the underlying function doesn't lie

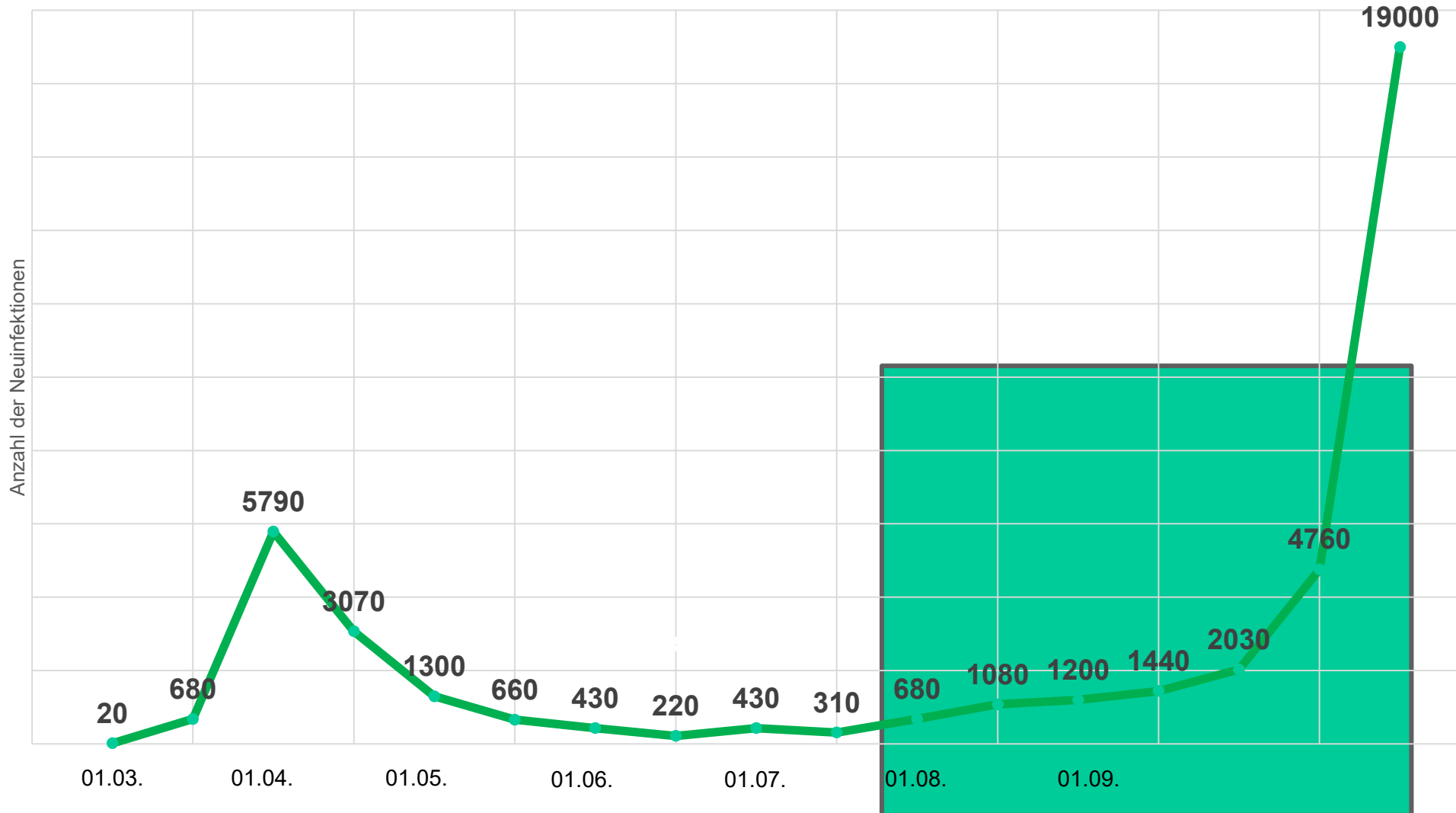
The underestimated second wave

New infections in Germany March 1 until November 1



The underestimated second wave

New infections in Germany March 1 until November 1



Economic implications of Corona

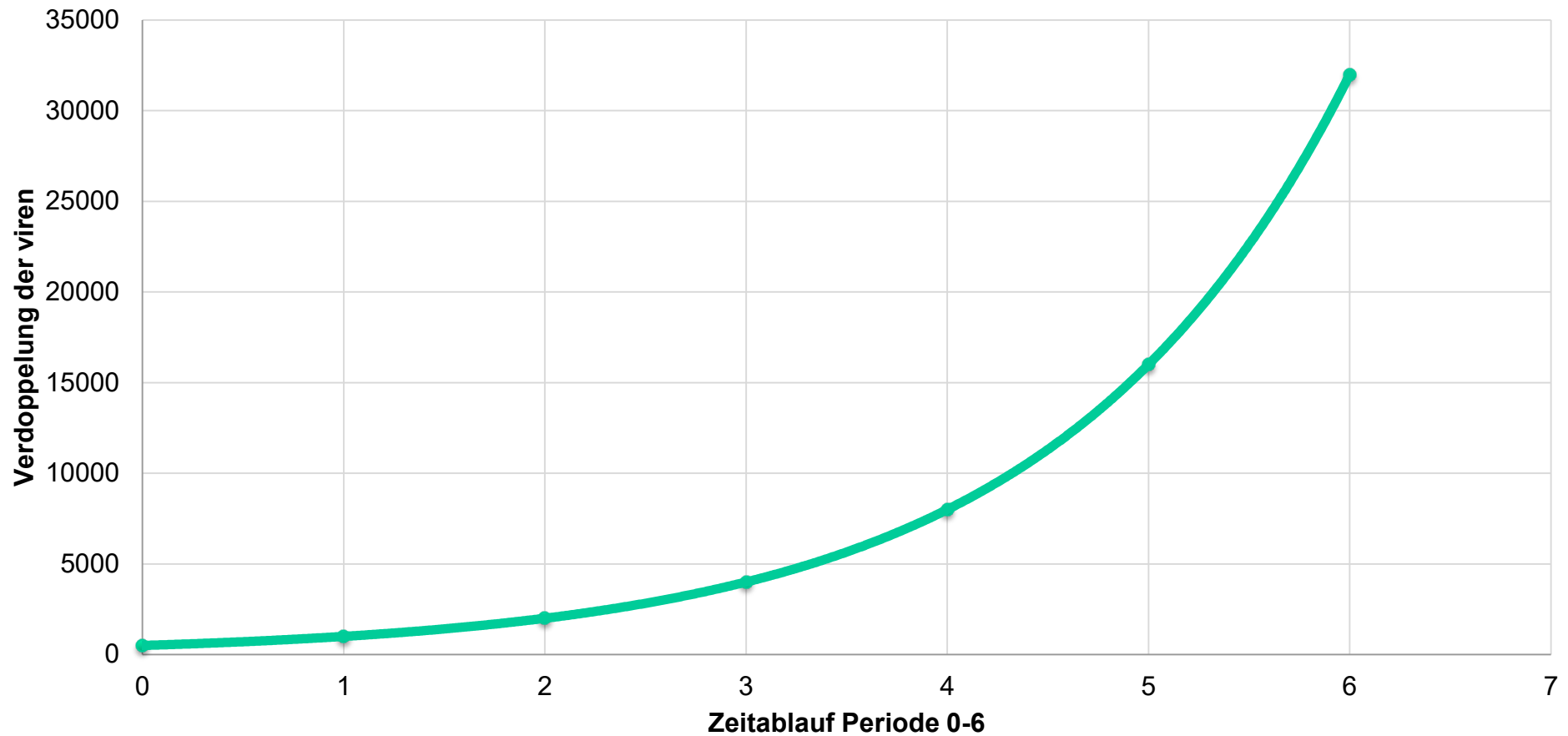
$$f(x): 500 \times 2^x$$

Number of viruses in time

Anfang 0	Periode 1	Periode 2	Periode 3	Periode 4	Periode 5	Periode 6
500	1000	2000	4000	8000	16000	32000

Exponentiell growth of viruses (and economic costs)

- The effect of exponential growth (of viruses and costs)



Indivisibility of the two curves

- First intermediate insight and or finding: The economic and the health curves are highly interdependent and **intercorrelated**: We cannot „choose“ between a healthy population and a healthy economy!
- If the pandemic will further increase, also the macroeconomic costs will grow exponentially!
- Right now, nobody can clearly calculate the economic costs for Germany and Europe!

What are the economic costs?

- Direct costs:
 - Decline of consumption and investment
 - Insolvencies (destruction of capital)
 - Unemployment (destruction of human capital)
 - (strongly) declining tax revenues
- All elements of the GDP will be affected
- **Indirect costs (but hard to measure...)**
 - **Increasing diseases and depressions**
 - **Decline in education („generation Corona“)**
 - **Domestic violence against women and children**

The approach of the Ifo-Institute (Munich)

- Distinction into two phases: **shutdown and post-shutdown**
- The Ifo team calculates several scenarios
- **Shutdown of two months:**
 - Costs of 255 – 495 billion €
- **Shutdown of three months:**
 - Costs of 354 – 729 Mrd. €
- **One single week of shutdown is about 25 – 57 billion €**

The economic impact of Corona

- Minister of Economics Altmeier (Oct. 29, 2020) expects the fall out of Corona at least until 2022
- Recent study of McKinsey about the recovery of tourism and transportation suggests that it will take at least until 2024 to reach the level of 2019 (pre Corona status)
- Again: Economic recovery clearly depends on the speed of vaccination and immunization: Interdependence of the two (and more) curves

The economic impact of Corona

- Again a few short numbers...
- It will take much longer!
 - **Example:** 60.000 vaccinations per day (this assumption turned out to be very realistic)
 - $60.000 \times 365 = 21.900.000$ per year
 - 83.000.000 citizens
 - Herd immunity for Covid 19 is about 65% of the populaton
 - That means we will have to vaccinate every day in the next three years to get closer..
- **We will have to live with the virus for very long!**

The economic impact of Corona

- **Distribution effects: Oxfam study (Jan 25, 2021):** The pandemic is mainly effecting (and hurting) very poor people!
- Up to **1,8 million jobs are in danger** (Estimation Ifo-Institute Munich)
- A three months shutdown can cause up to **6 million working reduced time** (Ifo-Institute)
- **Extreme asymmetry** of effects
 - The moderate decline 5,4% is caused by losers ... and big (tech) winners!

Historical assessment

- It is the common opinion among economist and historians that there was never before a comparable health crisis in the world!
 - Comparisons are made to the **Spanish Flew 1918**, the **World Economic Crisis 1929** and to the **Post War Situation 1945**. All these comparisons are somehow misleading: Only few elements are accurate and analyze the current situation correctly.
 - Covid 19 meets a highly interdependent and globalized world economy and tourism (also here in Russia, of course)

Effects for the state budget

- The German Government is planning new public debt for 2021 up to 218,5 million €: **This is a German all time record...**
- **Deficit (Maastricht criteria): 7,25 % of GDP**
- What can the government do fiscally and financially?
 - Reduction of government spending (???)
 - Increase of taxes (???)
 - **Increase of public debt**
 - **Extension of maturity of public debt**

The economic impact of Corona

- **International comparison:** Corona leads to a new comparison of economic and political systems
- International ranking: Good grades for some states (including Germany and Switzerland) have changed
- Disaster in the USA, Brasil and India
- Greatest concern about the effects for the developing countries, where social distancing, hygiene, masks and home office are not possible!

The European perspective



The European perspective

- Financial budget 2021-27 comes up to 1074,3 billion €
- **„Next Generation EU“ special fund: 750 billion €**
- Together, both points sum up to approx. 1.8 trillion €
- **This is the largest financial package ever created in Europe!**

The European perspective

- 750 billion € Corona rescue fund is divided into:
 - 390 billion € direct and immediate help: They don't have to be paid back! (financed over the capital market)
 - 360 billion € in form of cheap credits that have to be paid back until 2058
 - Temporary increase of the (wealthy) contribution of the states to the EU budget from 1,4 to 2,0 percent of the GDP
- **The first time in history, the European Union has issued bonds and took credit from the capital markets! (... ghost out of the bottle?)**

The European perspective

- Stability and Growth Pact will be exposed or interrupted for 2021. The single 27 states can also use their own financial resources to support their economy!
- **Next Generation EU**: 750 billion Euro
- 70% of the funds will be spend in 2021/22
- 30% will be reserved for 2023
- The **special role** of the so-called „**Frugal Four**“ (or better: Five) at the EU Summit (Austria, Denmark, Sweden, Netherlands and Finland)

The European financial framework

- 750 billion € will be borrowed from the **European Financial and Capital Markets!**
- Capital is available and desperately seeking new investment opportunities in a Zero interest environment!
- **ECB is supporting with cheap money (PEPP, Pandemic Emergency Purchase Programme)**
- **Back payment starting 2027 until 2058**

The European financial framework

- EU receives **independent financial resources**:
 - **Tax on plastic** 80 Cent pro kilogramm plastic garbage (per ton 800 €)
 - **CO₂-tax** (beginning in 2023)
 - **Tax on digital business and services** (ab 2023)
 - **Financial transaction tax** (planned)
 - Trade with environmental certificates for emissions also for trains and **cruise ships!**

The European distribution

- All countries will profit directly!
- The most affected countries (Italy, Spain, France) will be supported above average!
- The UK will not receive financial or fiscal support because of Brexit: The pandemic hit the UK immediately the week after they left the EU
- **Big question: Are there strategic differences between the German and the European Interests???**

Every European Top Export destination



Every European Top Import Partner



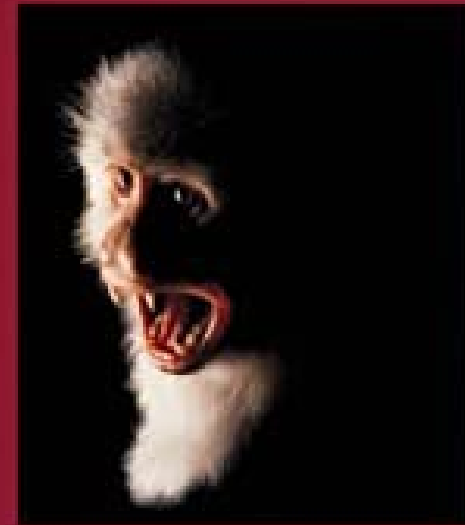
Critical points about the EU Next Generation


- **Green Deal** to fight climate change in Europe has been reduced from 40 billion 17 billion Euro
- Reduction of EU budget in the area of research, health and migration
- „Zombie companies“ and „Zombie states“
- Financially and fiscally it is hard to imagine how these enormous amounts of debt can ever be paid back...
- **But what are the alternatives in these unprecedented times...?**

... and at the end... there is hopefully a happy ending



OUTBREAK





**„Man's finest
profession is
that of uniting
men“**

Jean Monnet