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Policy Paper

Flattening the Recession Curve

Comparing Initial Fiscal Responses to the Corona Crisis Across the EU[1]

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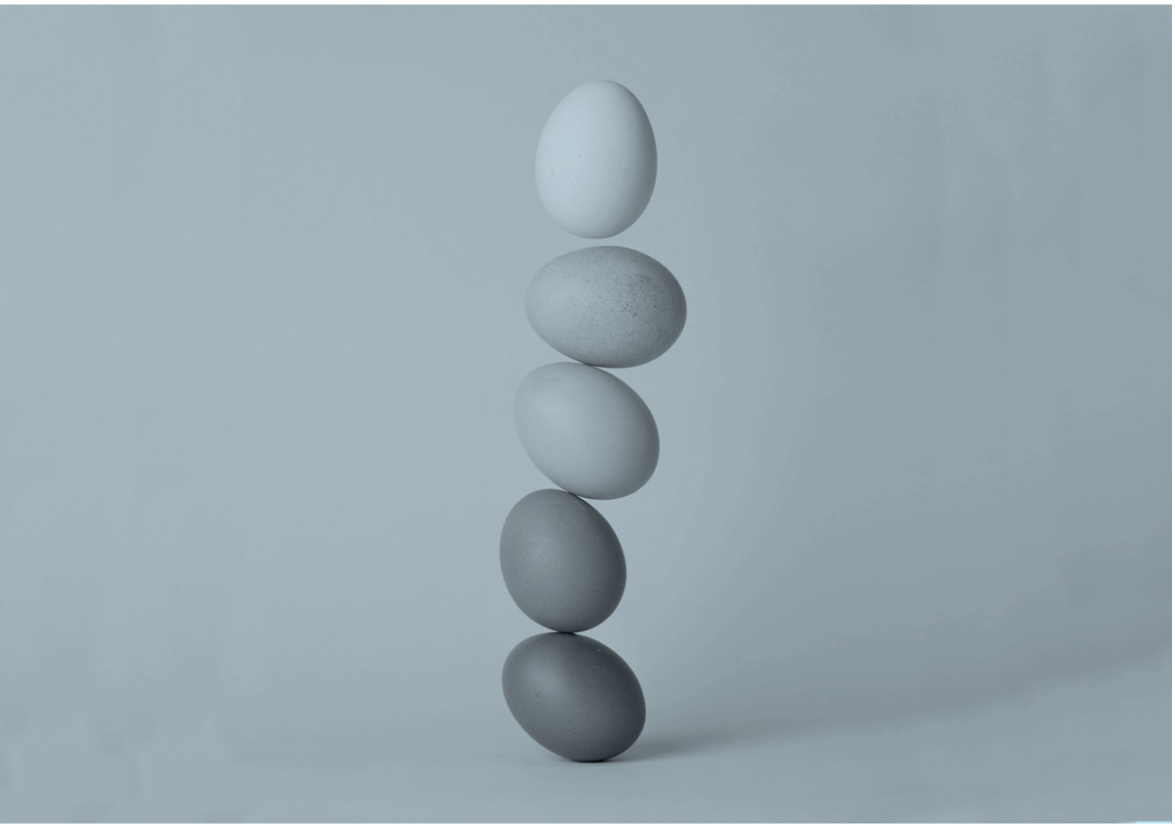
#Corona
#Recession
#FiscalPolicy



While the ongoing pandemic affects all European economies, we show that it is likely to cause much more economic damage in some member states than in others. Early fiscal crisis responses by EU governments do not reflect these differences. If anything, countries which are likely to be especially vulnerable are currently committing fewer fiscal resources to fighting the economic fall-out than others. A joint European policy response to share the fiscal burden of this crisis is, therefore, urgently needed.

[1] We thank Frank Eich for his helpful input and comments.

Executive summary

The Covid-19 crisis will bring massive economic costs for all countries in the European Union. This policy paper analyses to what extent these costs are likely to differ across member states and how governments are trying to mitigate them. This initial analysis suggests two important takeaways.

First, economic vulnerabilities differ substantially across member states. The pandemic hit European countries at very different points in their economic cycles. The potential economic damage of lockdowns and other public health measures, what‘s more, varies according to member states’ sectoral composition and business demography. Unfortunately, there are countries such as Italy, Spain, Portugal and to some extent France that combine weak pre-crisis fundamentals with a range of factors (e.g. strong dependency on especially exposed sectors) that make their economies particularly vulnerable in the current economic freeze. If these countries do not take bold counter-measures, the economic fallout is likely to be especially devastating.

Second, initial fiscal crisis responses, so far, do not seem to match the distribution of economic risks. Even though Germany, for example, is in a relatively benign position in terms of structural vulnerability to the crisis, its fiscal policy response has been much more forceful than measures taken early on in Italy or Spain. Comparing responses across EU countries reveals that this is a general pattern. So far, if anything, countries likely to be especially vulnerable to the economic repercussions of Covid-19 have committed fewer fiscal resources to fighting the fallout than others.

If this pattern persists, some European countries are bound to exit this crisis much stronger than others. To avoid even greater economic disparities amongst member states and ensure a swift recovery once the public health measures can be safely lifted, fiscal responses will require to be more substantial in some regions. While we can only speculate about why this is not already happening, one likely explanation is that countries with high legacy debt-to-GDP-ratios and low growth potential might rightly be wary of the fiscal burden implied by stronger policy measures. Therefore, a joint European policy response that shares the fiscal burden of this crisis is urgently required.

Introduction

By now, all countries in the European Union are suffering the economic repercussions of the ongoing public health crisis. As member states shut down large parts of their civil and business life to contain the spread of the virus, they have also put in train fiscal policies to fund public health measures and mitigate the economic damage of the seizure in much economic activity. This policy paper discusses these early fiscal responses. It shows that the scale and scope of the measures taken so far differ markedly across countries. At the same time, these initial differences do not seem to reflect country-level divergences in the likely costs caused by the economic shutdown. To avoid even greater economic disparities across Europe and secure a quick recovery, fiscal measures, therefore, will have to be more substantial in several regions. To ensure that all member states are able to achieve this, a joint European policy response that shares the fiscal costs of this crisis is necessary.[2]

1 Same Shock – Different Vulnerabilities

Before going into the details of fiscal crisis responses across the EU, we examine the extent to which member states' exposure to the economic consequences of the ongoing health crisis differs. Using some early proxies of economic vulnerabilities suggests substantial differences in costs across member states and magnified exposure in some countries with already weak pre-crisis economic fundamentals.

No EU member state will be able to escape the economic consequences of the Covid-19 crisis. However, the crisis is likely to affect European countries very differently for at least two reasons. First, it visits them in very different economic contexts. In some European countries, such as the Netherlands, the crisis follows years of relatively stable economic growth. In others, such as Germany, it hits home at the beginning of a downturn that's already been priced in. Yet more countries, such as Italy or France, are facing the Corona crisis in the midst of a prolonged period of economic weakness.

Second, the economic costs of shutdowns differ across sectors, firms and occupations. While the exact effects are hard to estimate in advance and will depend on a range of contextual aspects, we can identify a number of factors that are likely to increase these economic costs and those of other public health measures. At sectoral level, a high dependence on certain service sectors related to social consumption, leisure, tourism/hospitality and transport will almost certainly increase shutdown costs as these sectors are not only most directly affected by social distancing but also unlikely to experience enough delayed consumption and pent-up demand post-crisis to offset current losses. While manufacturers are also affected, especially if they rely on labour-intensive production that may be hit by public health policies such as self-isolation or travel restrictions, a V- or tick-shaped recovery is much more likely in these areas and will help the recovery.

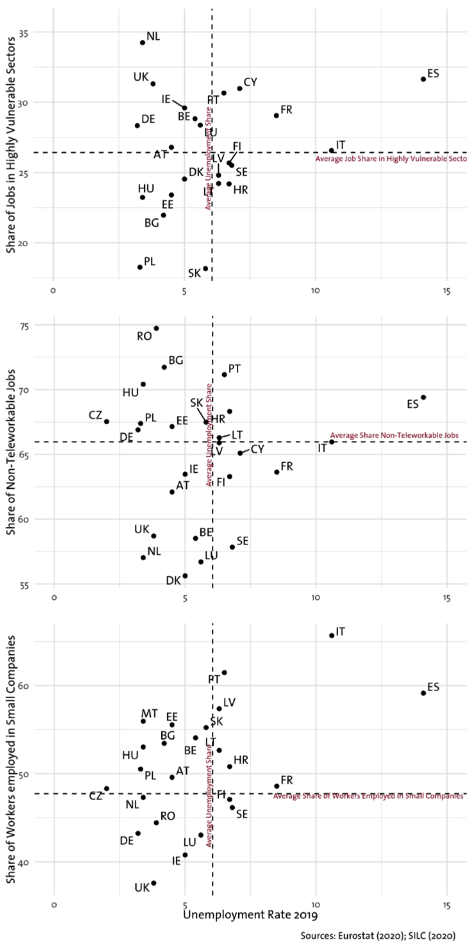
"The economic costs of shutdowns differ across sectors, firms and occupations."

Estimating economic vulnerability at the occupational level is more difficult. As a possible proxy, Dingel and Neimann (2020) have analysed what kind of professional tasks in the US could also be done from home. Whereas some jobs rely on direct personal interactions or machine use, a lot of occupations, especially administra-

[2] For a proposal on how such a one-off response could look like, see *Grund, Guttenberg and Odendahl* (2020).

tive tasks and high-skilled jobs in the knowledge economy, can also be done in isolation and are, therefore, potentially less affected by the current shock. This, of course, remains an imperfect proxy of crisis exposure. On the one hand, an administrative worker whose employer goes bankrupt will become unemployed even though his/her job could, in theory, be done from home. Also, the ability to work from home depends on other factors such as regional broadband infrastructure. Therefore, home-office could be difficult in some regions even for jobs that are, in theory, teleworkable. However, everything else being equal, we can use the share of non-teleworkable jobs in total employment to approximate another dimension of crisis vulnerability.

Figure 1: Economic vulnerabilities to the crisis across member states



Finally, business demography is likely to play a role, too. Experience from recent crises shows that, for small companies, which often have lower capital reserves, stronger credit constraints and are more sensitive to weak consumer demand, a temporary shutdown can turn into liquidity and solvency issues with striking rapidity.[3] Against this background, countries may well be more exposed to the current crisis if large parts of their economies are made up by small businesses.[4]

"Experience shows that, for small companies, a temporary shutdown can turn into liquidity and solvency issues especially quickly."

While we still lack data on the direct economic effects of the crisis, we can use these factors to map some rough estimates of the differences in exposure across member states. As a measure for the level of pre-crisis economic difficulties, Figure 1 plots member states' unemployment rates in 2019 on the x-axis. To indicate how severely lockdowns affect national economies, it shows different dimensions of vulnerabilities on the y-axis. The upper panel depicts the share of total national jobs located in highly vulnerable sectors compromising accommodation and food services, transport and other personal services. The middle panel illustrates vulnerabilities that stem from the share of non-teleworkable jobs in the overall economy, estimated from micro-level EU-SILC data, and the lower one shows the proportion of workers employed in small companies (<50 employees) within total employment.[5] This figure should, of course, be regarded with a pinch of salt given that it only

[3] See *here*.

[4] Research shows that small businesses were hit especially hard during the Great Financial Crisis (Sahin et al. 2011).

[5] Data for unemployment, sectors and business demography is drawn from Eurostat (2020). The share of non-teleworkable jobs is computed following a categorization provided by Neiman & Dingel (2020) for jobs at the ISCO 4-digit level. Teleworkable jobs include all tasks that could, in theory, be done from home regardless of sector and may well somewhat overestimate the number of occupations for which home-office is an option.

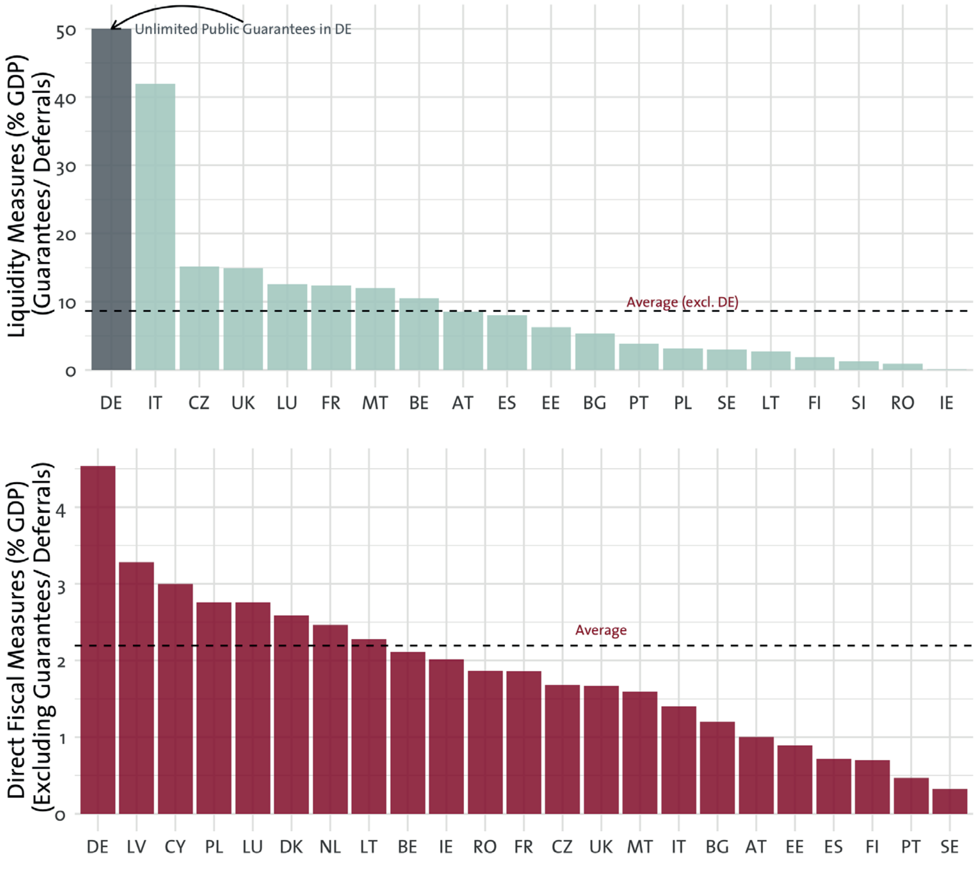
captures specific aspects when it comes to exposure to the crisis. Nonetheless, it depicts some important patterns. While the distribution of countries depends on the vulnerability measures employed, there are several countries such as Germany, Austria and Sweden, which combine low pre-crisis unemployment rates with relatively low scores in terms of other crisis vulnerabilities and are, therefore, likely to weather the economic effects of the pandemic relatively well. By contrast, some EU countries, including Italy, Spain, Portugal and to a certain extent France, consistently end up in the upper-right corner of the distribution. These countries combine relatively high pre-crisis unemployment with a significant dependence on high-risk sectors, non-teleworkable jobs and small companies and, therefore, seem especially exposed to the negative economic consequences of the public health measures now in force.

"Some countries combine relatively high pre-crisis unemployment with a large economic dependence on high-risk sectors, non-teleworkable jobs and small companies."

2 Same Crisis – Different Fiscal Policy Responses

While the exposure to the unfolding crisis differs across member states, most European governments have already triggered fiscal responses to mitigate the economic fallout. Before we go into the details of the specific programs of some of the bigger countries, we start by comparing measures across all member states. We show there is substantial variation in the scale and scope of initial responses but that this variation does not seem to square with crisis exposure. If anything, member states with high levels of vulnerability are dedicating fewer fiscal resources to flattening the recession curve than those with a more benign economic outlook.

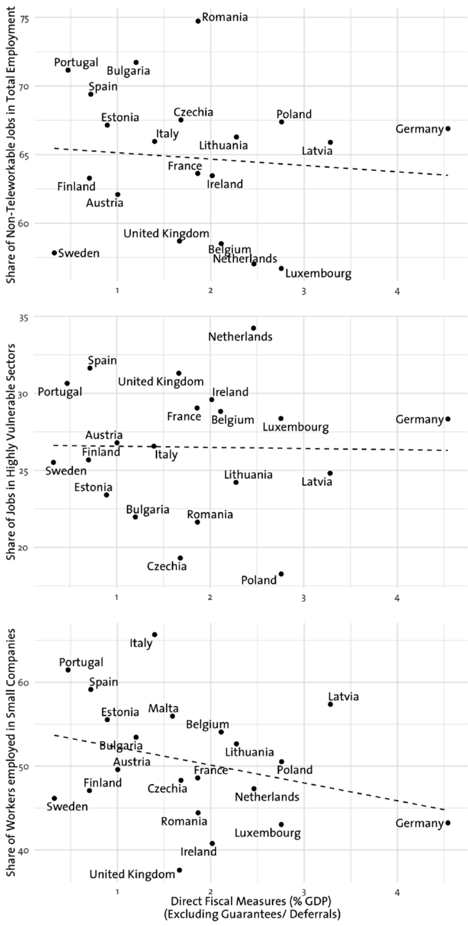
Figure 2: The size of early fiscal policy responses across member states



Sources: IMF (2020); own research

Figure 2 plots initial fiscal crisis responses according to information from IMF (2020) for all EU countries where data is available. The upper panel shows the scale of public guarantees for private credits and other liquidity measures such as resources dedicated to tax and national insurance (or social security) contribution deferrals, which generally aim at supporting domestic businesses via the temporary provision of ample cheap credit and (re)payment holidays. The lower panel depicts measures of direct non-credit-based fiscal transfers. They include, for example, cash rescue funds for affected businesses, temporary tax cuts and additional spending for new labour market measures such as short-term work programmes and extended welfare state schemes.

Figure 3: Economic vulnerabilities and early fiscal policy responses



Sources: Eurostat (2020); SILC (2020); IMF (2020)

When interpreting these numbers, we should keep in mind that for some measures it remains difficult to estimate a price tag upfront as, for example, the final costs of credit schemes or short-term working programmes will depend on uptake. Moreover, when it comes to liquidity support, countries differ when it comes to how private leverage is targeted via government cash. Nonetheless, observable differences in this initial data will matter down the road.

The variation in initial responses is stark. Considering the headline figures, Germany constitutes a clear outlier. The ambition of its national programme, which has been hailed by a broad coalition of German economic experts,[6] remains unrivalled so far. The government has announced an unlimited amount of liquidity support through public guarantees for private loans and also introduced the largest (so far) amount of cash transfers (4.5% GDP). Italy has recently substantially increased its liquidity programme but, like France, remains much more modest when it comes to direct transfers. Finally, there is a range of EU member states such as Spain and Portugal, in which spending for both liquidity support and cash payments remains below average.

Crucially, the differences in initial fiscal responses do not seem to reflect those in exposure to the economic consequences of the crisis. Figure 3 plots total direct transfers (excluding guarantees and deferrals) against our different measures of member states' economic exposure towards the public health policies now in place. It shows no consistent pattern. If anything, there is a negative relationship between initial fiscal responses and exposure to the crisis, especially when measured via the proportion of non-teleworkable jobs in total employment or econom-

[6] e.g. Baldwin, R. & Weder di Mauro, B. (2020). *Mitigating the COVID Economic Crisis: Act Fast And Do Whatever It Takes.* CEPR Press, London.

ic dependence on small companies. Countries that are especially exposed to the negative effects of social distancing, at least as of now, thus do not seem to dedicate more or even equivalent fiscal resources to mitigate the economic effects of the crisis than those in a better position in terms of sectoral composition.

"Countries that are especially exposed to the negative effects of social distancing, at least currently, commit fewer fiscal resources to mitigate the economic effects of the crisis than others."

3 Differences in Fiscal Responses in Big Member States

A comparison of initial responses to the crisis across all member states shows that the scope of the measures taken so far differs markedly country-by-country. Moreover, these differences do not correlate with early measures of economic vulnerabilities. To enable a better understanding of how exactly individual programs differ, we discuss policy variations for Germany, France, Italy, and Spain in Table 1. For comparison, we also include the UK as a large former member state with an independent central bank. Comparing the programs shows that these five member states, on the surface, are implementing similar kinds of policies. However, the resources committed to such policies differ substantially. If these differences remain in place, some member states are likely to emerge from the crisis much stronger than others.

When it comes to **liquidity support,** the programs in all five countries largely pursue similar goals. All have set up sizeable public credit guarantee schemes which target micro- enterprises and SMEs and guarantee between 70% and 90% of total borrowing. Notably, Germany and Italy remain as of now the only countries that have established a 100% credit guarantee for SMEs. However, given that the European Commission only recently changed its state aid rules to allow for complete guarantees, other member states may follow soon. Additionally, liquidity is expanded through **tax and payment deferrals**.[7] Germany and France have postponed income and corporate taxes for all companies and self-employed persons affected by the crisis for a longer period, at least until the end of 2020. The UK has deferred all VAT payments until as late as March 2021. In Italy and Spain, tax deferrals are limited to SMEs and will end, respectively, in June and no later than September 2020.

So, while the liquidity programs of the five go in a similar direction, the resources behind them differ dramatically. Germany so far remains the only country that has announced unlimited liquidity guarantees. Italy has just recently expanded the limits and now guarantees up to €750bn (43% GDP) in total lending to private companies. Currently, guarantees in France and the UK remain more limited, being capped at about €300bn (approximately 15% of GDP). As one of the member states which so far has been hardest hit, Spain has the smallest guarantee program with about 8% of GDP.

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When comparing these numbers, it is important to remember that they provide hypothetical outcomes. In the end, fiscal costs will largely depend on uptake and crisis development. Furthermore, some countries may announce future measures while public guarantees and tax deferrals are not the only way to increase liquidity. Italy, Spain and the UK are also seeking to expand credit supply through incentivizing

[7] See *here*.

banks to provide more loans, though these come without public guarantees.[8] However, so far, big European members have made available very different amounts of public money to guarantee credit supply during the crisis. Depending on how the crisis evolves, this might mean that liquidity costs in some countries are bound to increase or else threaten severe credit crunches for affected companies.

Credit-based liquidity measures are important stabilizers but also accelerate private debt afterwards and may result in severely weakened balance sheets or even a wave of bankruptcies down the road. All big member states, therefore, have started to implement complementary measures that directly channel non-credit based transfers to those affected by the crisis. Again, these policies, on the surface, look quite similar across countries but differ markedly in their generosity.

All five countries have introduced some form of **short-term work program** in which public money is used to pay workers on reduced hours some of the income they lose. Current programs not only differ in the proportion of lost wages they cover (between 60% of net income in Germany and 84% in France). Large differences in de facto generosity also exist due to caps on overall payments. In Germany, for example, the upper limit for the total payable amount is set at about €2,900 per month and in France short-term work programs can pay out as much as €6,850 per month (450% of the national minimum wage). The Italian program, on the other hand, is capped at a monthly maximum of €1,200 and thus remains below what was discussed as a potential minimum wage there last year.

In most cases, businesses with short-term work programs also receive **reliefs in tax and social security contributions**. Other than that, tax breaks, so far, play a minor role in the crisis measures of most countries. France has announced some individual tax reliefs for highly affected businesses but the details of the program have not yet been published. While Italy provides some tax credit on rental costs for businesses in lockdown, the UK, so far, remains the only member state that has announced a somewhat larger program consisting of a refund of business rates for all companies in retail, hospitality and leisure.

The starkest differences in the fiscal programs emerge with regard to the scope of direct **emergency cash funds** for affected companies and the self-employed. These programs, which inject non-repayable cash into affected sectors, are especially important in mitigating the long-term negative effects by limiting bankruptcies among viable SMEs as a result of the shutdowns. Whereas most big member states have established some form of emergency payment, the size of transfers differs markedly. In Germany, micro- companies and the self-employed can receive between €9,000 and €15,000 depending on their size. The UK supports its firms, especially in the retail, hospitality and leisure sector, with similar amounts. In France, on the other hand, cash transfers only exist for micro-enterprises and cover €3,500 at the maximum, whereas in Italy they only add up to a couple of hundred Euros or at most €1,500 for self-employed and non-salaried workers in severely affected sectors with no additional grants for businesses. In Spain, no siz-

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[8] In the UK, the Bank of England has reduced the countercyclical capital buffer from 1% to 0%, thus releasing approximately £180bn additional liquidity into the economy. Italy and Spain have said they will leverage public measures to expand private liquidity supply from the banking sector. In Italy €5bn is designed to unlock €350bn of overall liquidity, in Spain €100bn in public guarantees should lead to €200bn total liquidity. However, the details of how this leverage is to be achieved remain unclear in both countries so far.

able program for direct cash injection exists. Given the particularly strong reliance on small enterprises in Spain and Italy, this North-South divide in initial emergency transfers could result in substantial asymmetries in the recovery period.

Germany	France	Italy	Spain	United Kingdom
		CREDIT GUARANTEES AND LIQUIDITY		
Short-term 100% credit guarantees for SMEs (>10 and <250 employees) with a maximum volume of €800,000 **90% credit guarantees** for companies with up to 50mn turnover (<250 employees) **80% credit guarantees** for companies with >50mn (>249 employees) *Public Resources for Guarantees* **€600bn fund** for companies with at least 250 employees **Unlimited guaranteed liquidity** through the KfW for SMEs *Other Liquidity Measures* **€2bn** for co-investment in start-ups through the KfW	**70%-90% credit guarantees** for following credits: • Direct state guarantees on commercial loans and credit lines, for enterprises with up to 5,000 employees • State guarantees to banks on portfolios of new loans for all types of companies *Public Resources for Guarantees* **Public guarantees** of up to **€300bn** (13% of GDP) *Other Liquidity Measures* **€4bn** fund to support the cash flow of start-ups Activation of public reinsurance on outstanding **credit insurance up to €10bn**	**100% credit guarantees** for companies with up to 499 employees and a maximum volume of €800,000 **90% credit guarantees** up to a volume of €5mn *Public Resources for Guarantees* **Total guarantee volume** up to **€750bn** (43% of GDP) **State guarantees of €0.5bn** to the state development bank Extension of the SME Guarantee Fund: from €40bn up to **€100bn for guaranteed funding** *Other Liquidity Measures* Liquidity of up to **€10bn** for new loans to medium-large firms.	**80% credit guarantees** for SMEs and self-employed **70% guarantees** for new loans, **60% guarantees** for loan renewals for all other companies *Public Resources for Guarantees* Mobilisation of **€200bn liquidity,** of which **€100bn for guarantees** (8% of GDP) and the rest will be based on private sources **€2bn liquidity** guarantees for exporters *Other Liquidity Measures* The ICO is allowed to increase its funding by **€10bn** to extend its existing credit lines	**80% credit guarantees** for SMEs with a turnover of up to £45mn *Public Resources for Guarantees* **Limit of £330bn** for state guarantee loans (15% of GDP) **£1bn** to support lending to SMEs through the Business Interruption Loan Scheme *Other Liquidity Measures* The countercyclical capital buffer rate was cut to 0%, which is expected to support the ability of banks to supply **additional credits up to £190bn**

PAYMENT DEFERRALS

Deferral of income and corporate taxes for businesses and self-employed affected by the crisis until the end of 2020 Missed **rent payments** due to Corona cannot lead to **evictions** and may be postponed and fully paid until June 30th 2022.	**Deferral of social security contributions and corporate/ personal income tax** payments for firms and entrepreneurs Extension of the seasonal suspension of evictions from dwellings **Water, gas or electricity bills and rents** will be postponed for the time of the crisis for VSEs and SMEs. Supposed to **inject liquidity of of €32bn**	**Deferral of all direct taxes, indirect taxes,** contributions for businesses and self-employed with turnover below €2mn until June **Suspension of loan repayment** by SMEs until end of September **Tax controls,** coercive collection, etc. suspended (value around **€0.6bn**) **Suspension of the payment of electricity, gas, water** and waste bills in the most affected municipalities until May one-year **suspension of real estate mortgage** payments for workers having lost their jobs (costs about **€400mn**) Supposed to unlock **liquidity of €16.4bn**	**Tax payment deferrals** for SMEs and self-employed for 6 months (value of **€14bn**) Temporary **suspension of evictions** One-month **moratorium on mortgage** payments for affected workers Special regime for the suspension of public contracts, foreseeing compensation in certain cases	**VAT payments** can be deferred until March 2021 (costs about **£30bn**) **Suspension of new evictions** from social or private rented accommodation Temporary **suspension of mortgage** payments Individuals who are due to pay their personal income tax under ‚Self-Assessment' have the right to defer the payment until January 2021

SHORT-TERM WORK PROGRAMS AND EMPLOYEE ASSISTANCE

Short-time work program **covering 60% (67% for employees with children) of net earnings**	Short-time work program **covering 84% of net earnings**	Short-time work program covering **80% of gross earnings**	Short-time work program covering **70% of net earnings**	Short-time work program covering **80% of gross earnings**
• Maximum monthly payout: €2,900 • Applies to companies in which at least 10% of employees reduce hours • Social security payments fully refunded for lost work hours	• Maximum monthly payment: €6850 (450% of minimum wage) • 100% coverage for workers with minimum wage	• If salary < €2160, maximum monthly payments €998 • If salary > €2160, maximum monthly payment €1200 • All companies	• Maximum monthly payment: €2310 • Minimum monthly payment: €787 • Social security payments not refunded	• Maximum monthly payment: £2500 • So far limited for 3 months
Other Labor Market & Welfare Measures	*Other Labor Market & Welfare Measures*	*Other Labor Market & Welfare Measures*	*Other Labor Market & Welfare Measures*	*Other Labor Market & Welfare Measures*
Easier **access to social benefits** for 6 months	**Temporary agency workers** will be paid for the entire duration of their assignment as initially foreseen **Increased sick leave payment** for affected workers	**Raise of paid leave** by 12 days for disabled workers and workers caring for a disabled relative	**Increased sick pay** for infected workers or those quarantined, to 75% of the regulatory base, paid by the social security budget **Temporary contracts** can not be cancelled Temporary employment adjustment schemes have been significantly simplified	**Statutory sick pay** for self-quarantined people from the first day and refund of these cost of up to 2 weeks for small businesses with less than 250 employees
Estimated costs	*Estimated costs*	*Estimated costs*	*Estimated costs*	*Estimated costs*
Total costs not estimated yet	Overall costs of **€8.5bn**	Overall costs of **€10.3bn**	Total costs not estimated yet	Overall costs of **£6.2bn**

EMERGENCY CASH PAYMENTS

Direct cash payments for **VSEs and self-employed** for three months	Direct cash payments for **micro-companies and self-employed**	Direct cash payments for **workers and self-employed**	Extraordinary allowance for **self- employed**	Direct cash payments for **SMEs and self-employed**
• Businesses up to 5 full-time employees: €9,000 • Business up to 10 full-time employees: €15,000	• Firms with annual turnover <€1mn: €1,500 • Firms with at least one employee: additional payment of €2,000 if threatened with bankruptcy	• Low-income workers who continue working: €100 • Self-employed in the municipalities most affected: €500 per month up to 3 months • Self-employed and seasonal workers in affected industries: €600	• Self-employed workers affected: allowance about 70% of social security contributions at least for one month	• Self-employed with average profits below £50,000: taxable grant of up to 80% of their previous earnings over the last three years will be paid capped at £2,500 • Small businesses: up to £3,000 • Companies with properties used for retail, hospitality or leisure: up to £25000
Estimated Costs Total costs around **€50bn**	*Estimated Costs* **Overall €2bn** for supporting micro-companies in March and April	*Estimated Costs* Total costs at least **€3.9bn**	*Estimated Costs* Not yet estimated	*Estimated Costs* Total costs at least **£6.2bn**

TAX CUTS

	Individual tax reliefs for very affected companies	**60% tax credit** on property rental costs for companies with temporary closures for March (costs around **€540mn**)	**Exemption of employer's social security contributions** to firms affected by temporary employment schemes up to **100% for SMEs,** and **75%** for other companies **50% exemption** from employer's social security contributions from February to June for workers with permanent discontinuous contracts in the **tourism sector** and related activities	**100% relief of business rates** on property for all properties used in retail, hospitality or leisure

HEALTH				
€1.15bn for protective equipment, equipment for intensive care and research on vaccines Additional **€2.8bn** to balance losses and to increase capacity	**€260mn** for hospitals out of unspent reserves from 2019 **€0.5bn** of additional funds for the purchase of equipment and other health expenses additional emergency fund of **€50mn** for research on Covid-19	**€3.2bn** for additional healthcare spending and to support civil protection	**€2.8bn** to the regions to meet increased healthcare needs **€1bn** for the Ministry of Health to cover expenditures related to healthcare needs **€110mn** as R&D expenditures for the development of drugs and vaccines for COVID-19	**£5bn** for the National Health Service

Conclusion

Initial fiscal responses to economic challenges of the Covid-19 crisis have differed substantially across Europe. Crucially, at the macro level, these differences do not seem to reflect differences in exposure to the economic costs of lockdowns and social distancing measures. If anything, countries that are especially exposed to the economic consequences of the crisis, such as Italy and Spain, are so far doing less to mitigate its economic repercussions than member states in a more benign position.

Moreover, comparing the programs of some of the bigger member states in more detail shows that these differences do not stem from divergent policy responses. Rather, member states are pursuing similar kinds of policies but, so far, have proven unable to devote similar amounts of resources to them. This could, of course, change in the course of the coming weeks and months but even these initial differences are likely to have an effect. In many cases, immediate responses are vital to ensure the here-and-now survival of businesses and jobs, which will be difficult to resuscitate once they are gone. Time is, therefore, of the essence.

At this point, we can only speculate about why fiscal resources spent on crisis mitigation differ so dramatically across countries. Given that the ECB currently ensures favorable re-financing conditions for Eurozone countries through its PEPP program and that the European Commission has suspended EU fiscal rules, no member state faces acute funding constraints. However, countries already dealing with high legacy debt-to-GDP ratios may rightly be wary of the huge increase in public debt and potential questions about their debt sustainability that an appropriate fiscal crisis response would imply (Baldwin and Weder di Mauro 2020). This could explain why fiscal responses, so far, have remained more timid in particularly exposed and highly indebted countries such as Spain and Italy.

"Nevertheless, crisis measures need to converge quickly or else risk aggravating economic disparities across member states and may seriously harming European recovery."

Nevertheless, crisis measures need to converge swiftly or else risk aggravating economic disparities across member states as well as seriously harming the European recovery. To ensure such convergence regardless of individual member states' debt levels, growth potential and ability to fund it out of their own resources, a joint European policy response that provides for sharing the fiscal costs of this crisis is urgently required.[9]

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[9] For a proposal on how such a one-off response could look like, see *Grund, Guttenberg and Odendahl* (2020).

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