

Covid-19 Crisis: Evaluating EU/EMU responses and proposal

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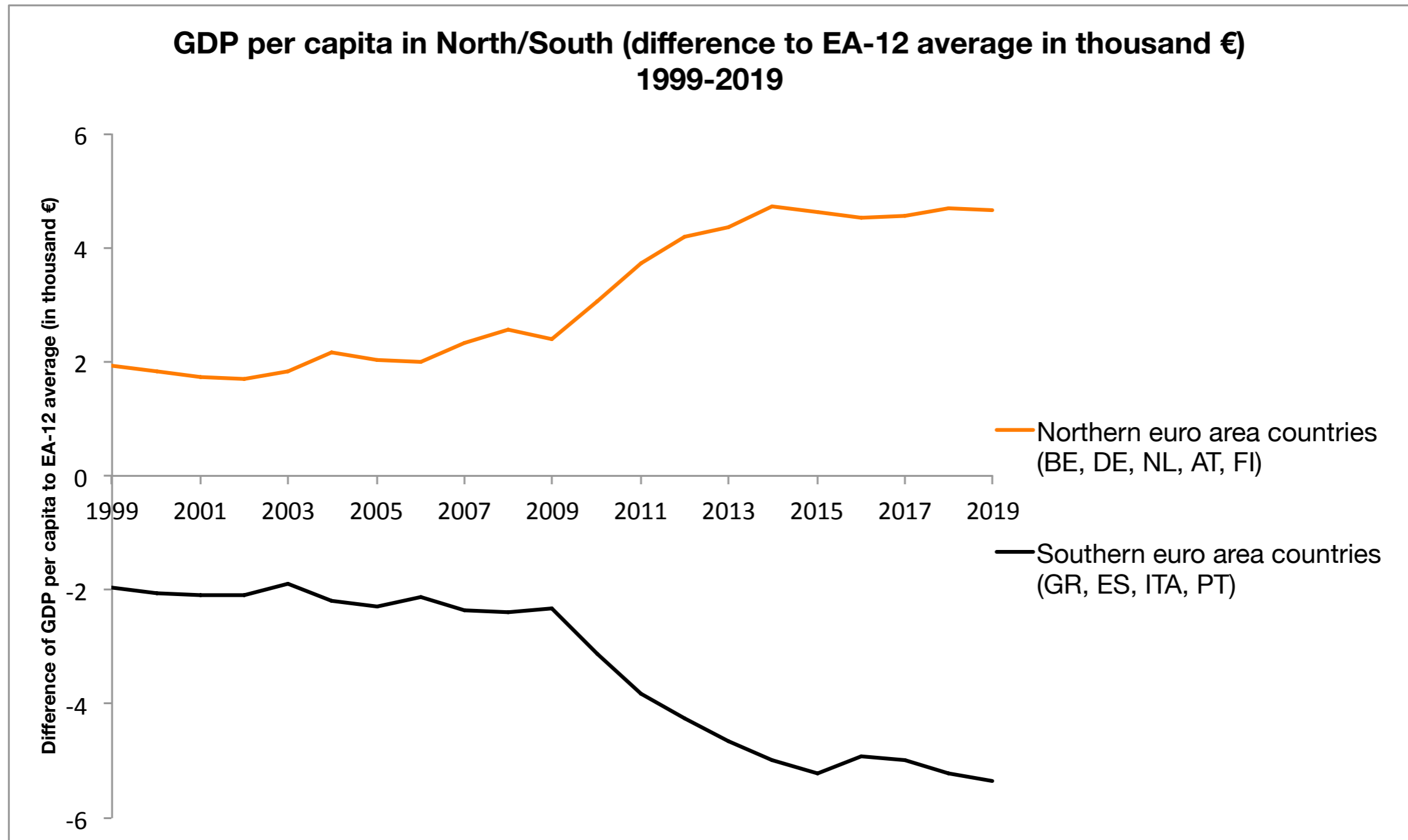
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The bigger macro picture on the Corona crisis in the € area

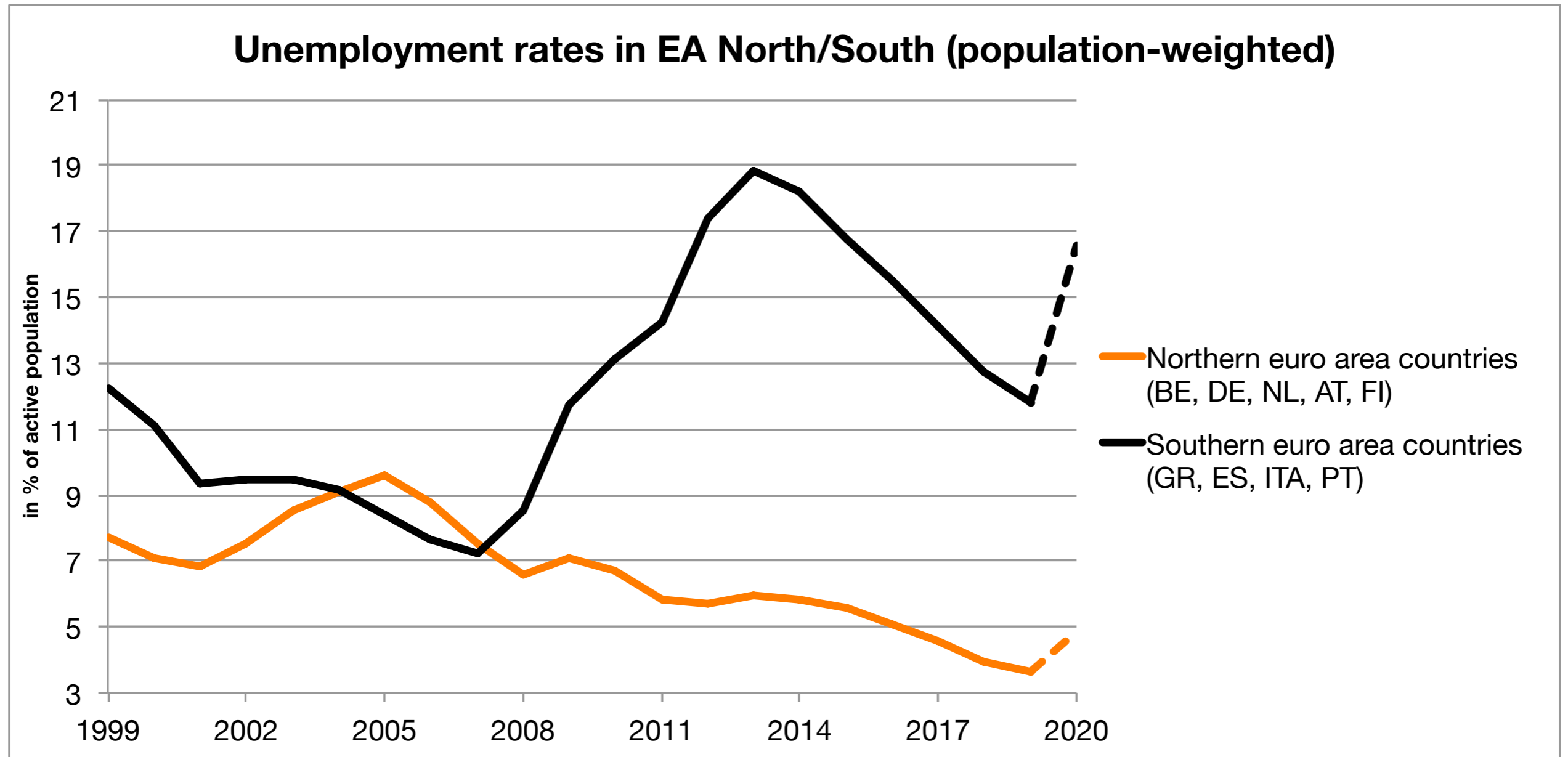
- **Corona crisis politics** (e.g. debates on ESM and the recovery fund) can be better understood when you take the big macro picture into account
- **Starting positions** of euro area countries are **very different**
- Crisis will affect **Southern euro area countries** stronger than Northern countries

GDP per capita gaps have widened in pre-Corona years



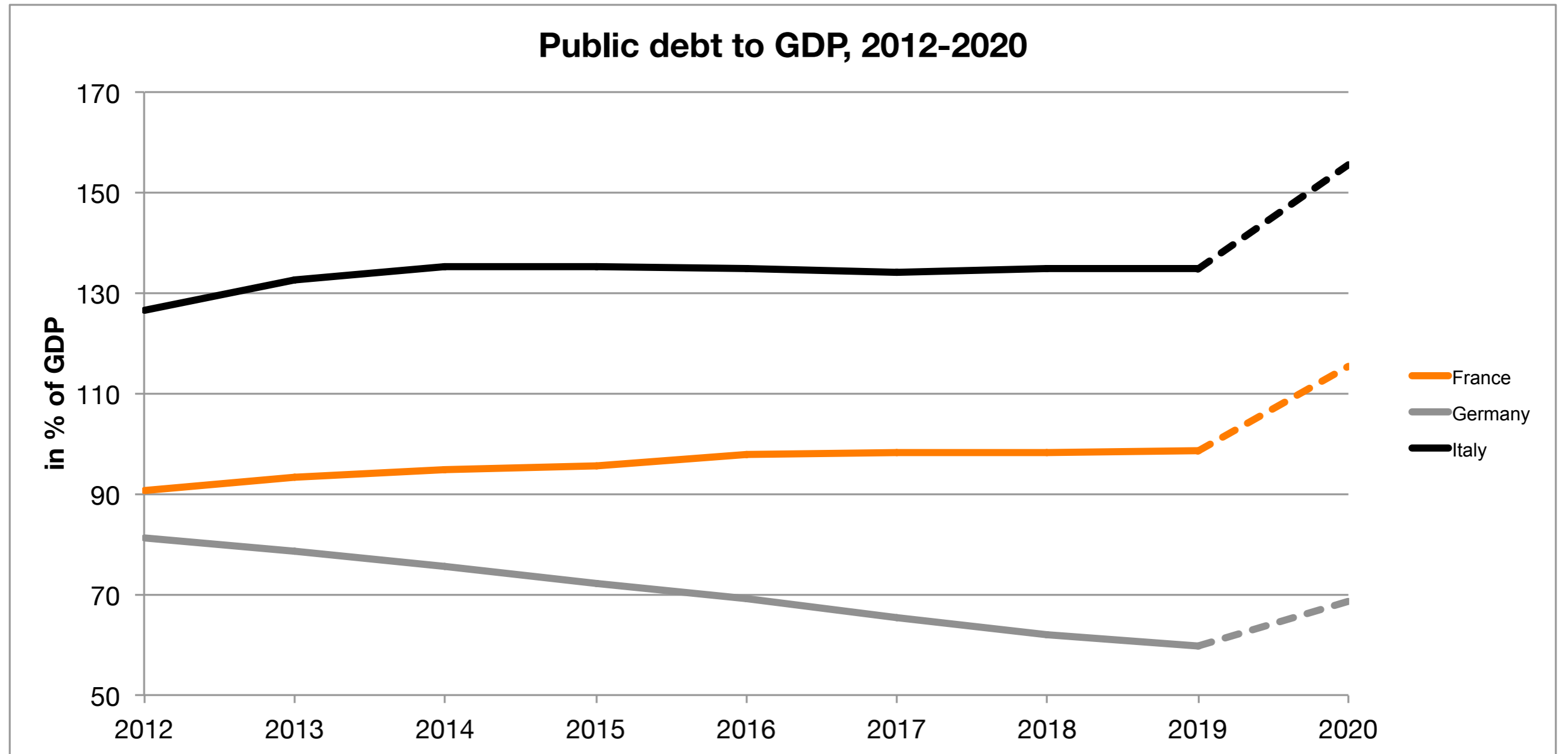
Source: AMECO; own calculations.

Unemployment rates rise from a much lower level in Northern euro area countries



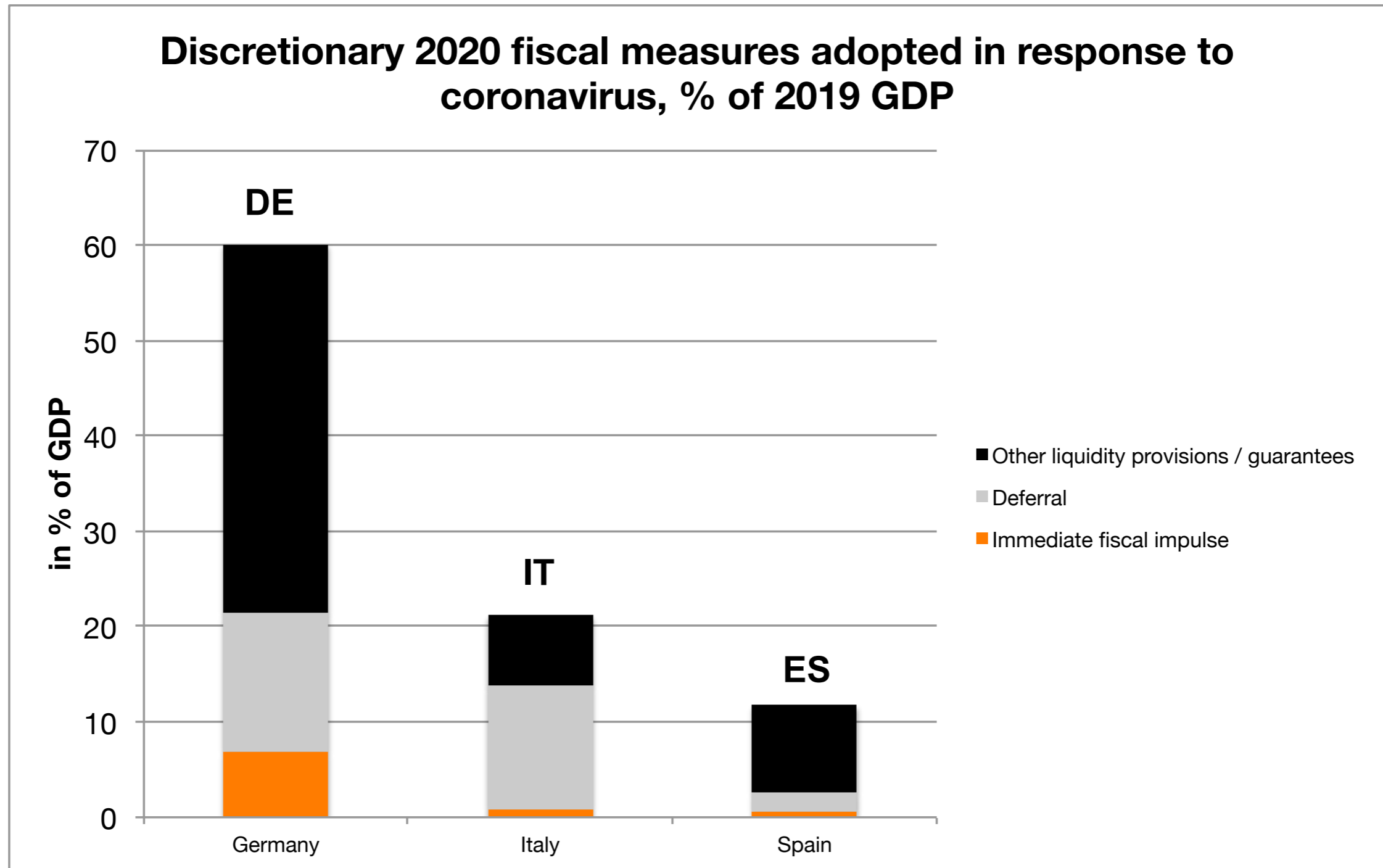
Source: IMF WEO April 2020; own calculations.

Differences in how the Corona crisis will affect public debt



Source: IMF Fiscal Monitor April 2020.

Fiscal policy responses have to far been very uneven



Source: Bruegel

Summary: The broader context of the Corona crisis

- **North/south divide** in starting positions, but the Corona crisis will also have asymmetric effects, hitting the Southern countries harder
- **Macroeconomic problems** are much more pressing in Italy and Spain than in Germany and Netherlands
- Covid-19 shock **requires strong European fiscal response**
 - **Uneven fiscal response** will lead to further divergence and put the survival of the euro area at risk
- **Macroeconomic divergence** has fuelled **political polarisation**
 - See debates on ESM and “Corona” bonds

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Questions

- Are the **current proposals coming from the Eurogroup and the Commission** enough?
- What can **assure a sustainable recovery** of the European economy?
- Can **disparities between EU-North and EU-South** be overcome?
- How will **Europe** emerge in the **global context** post Covid-19 crisis?