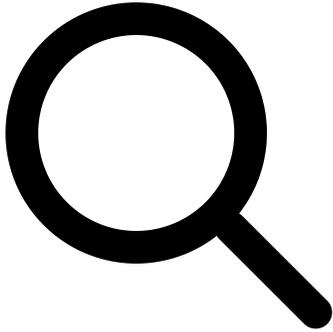


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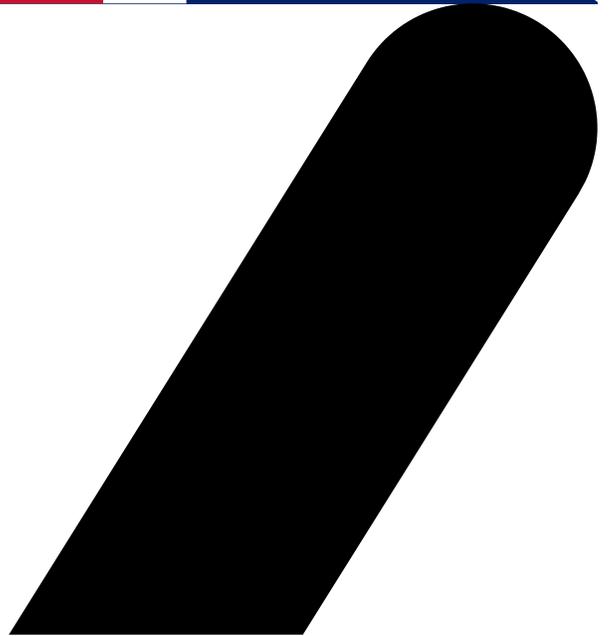
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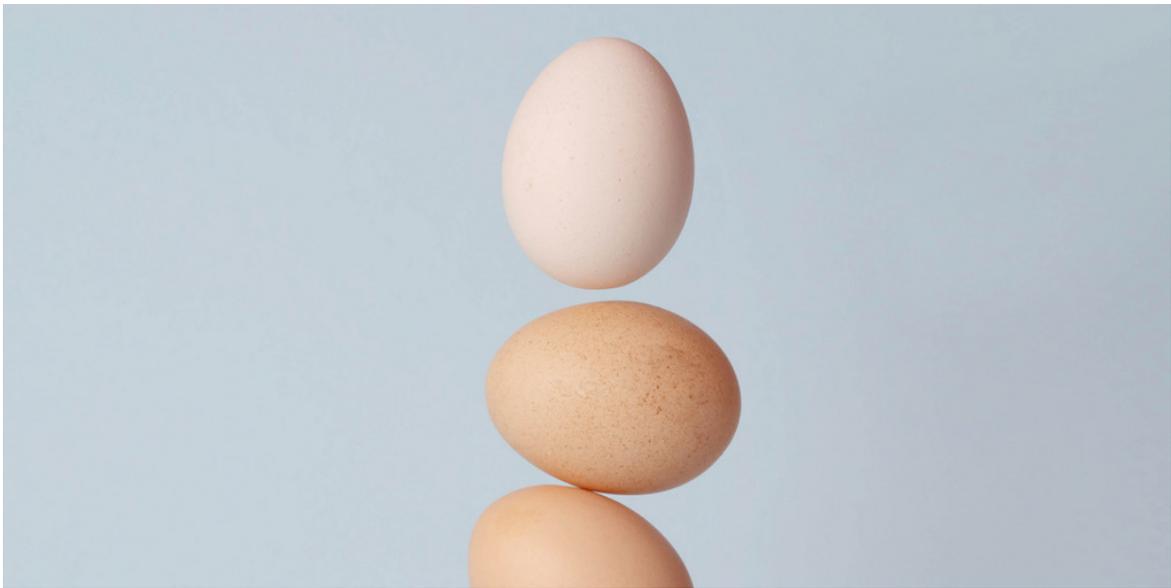
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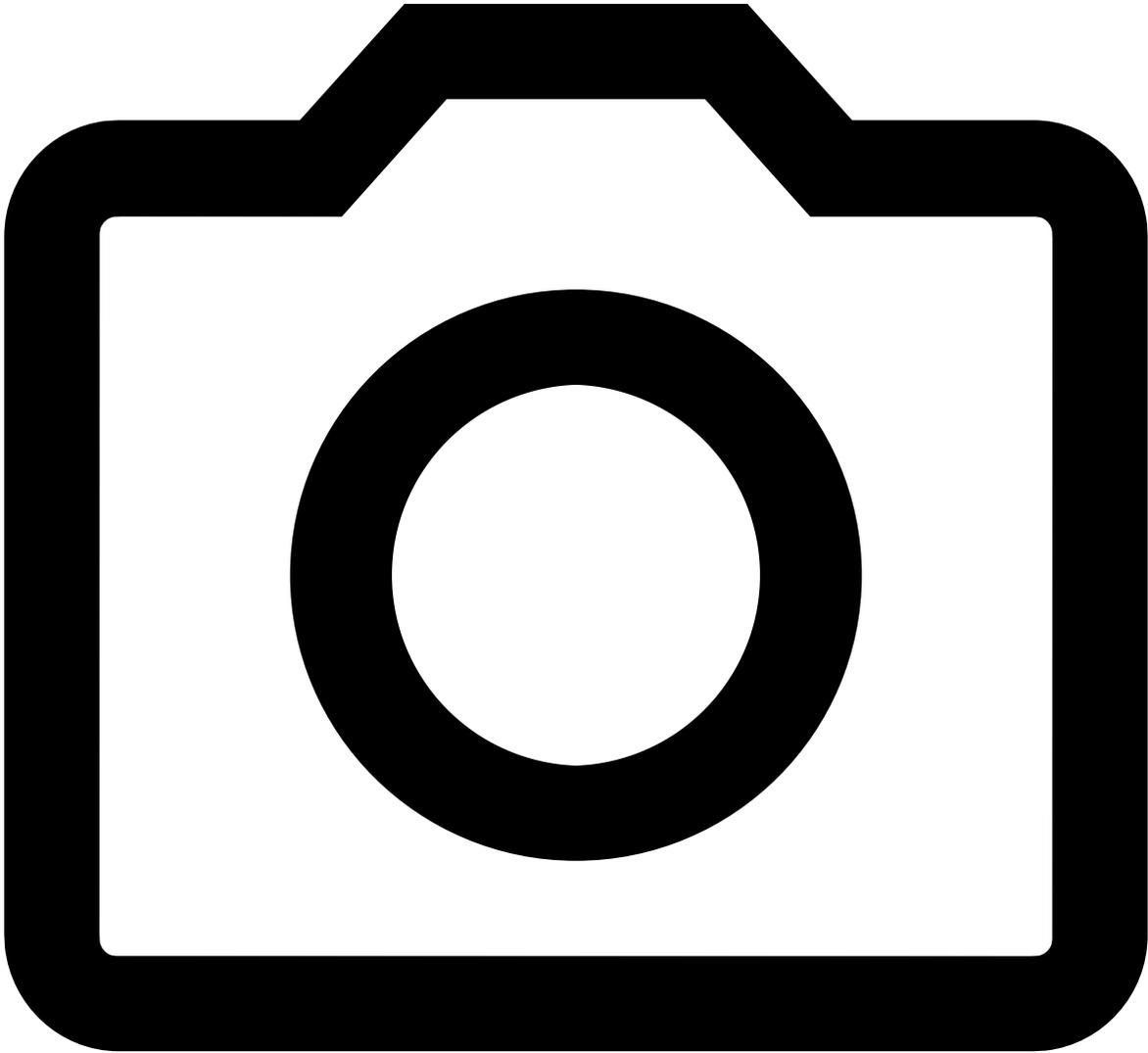
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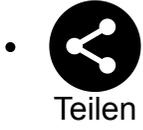
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09.04.2020

Flattening the Recession Curve

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 fallout than others. A joint European policy response to share the fiscal burden of this crisis is, therefore, urgently needed.

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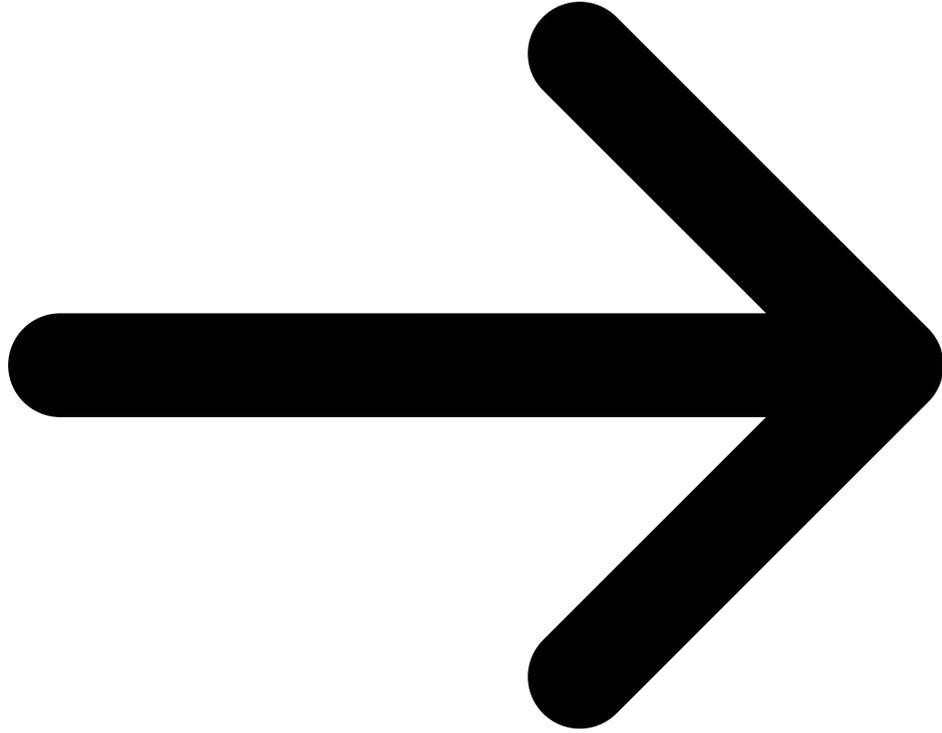
The Covid-19 crisis will bring massive economic costs for all countries in the European Union. This policy paper analyses to what extent these costs are likely to differ across member states and how governments are trying to mitigate them. This initial analysis suggests two important takeaways.

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.

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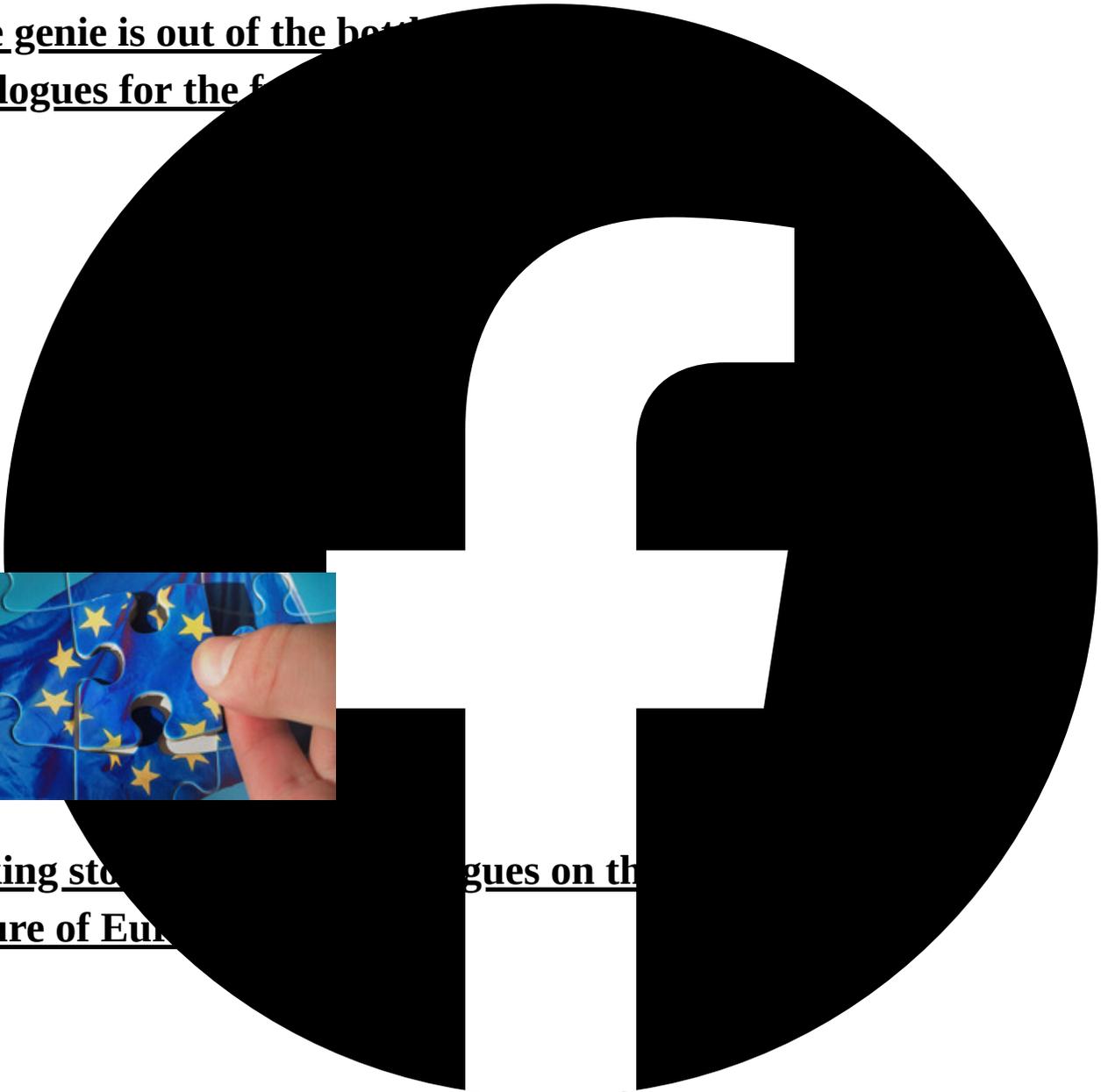
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