FISCAL POLICY MEASURES IN RESPONSE TO THE HEALTH CRISIS IN THE MAIN EURO AREA ECONOMIES, THE UNITED STATES AND THE UNITED KINGDOM

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Abstract

The epidemiological crisis caused by the COVID-19 pandemic has prompted an unprecedented shock. The containment measures adopted by the authorities have involved the temporary shutdown of many productive activities and the general confinement of the population. These events motivated the implementation of extraordinary fiscal policy measures aimed at strengthening the health system and alleviating the adverse effects of the pandemic on the economy, and supporting economic activity in the subsequent recovery phase. This paper provides a descriptive and comparative analysis of the measures adopted in some of the main advanced Western economies (Germany, France, Italy, Spain, the United Kingdom and the United States). The objective is to have a structured view of the similarities and differences in national responses to the health crisis in the area of fiscal policy. To this end, the authors describe the budgetary and "extra-budgetary" (without an immediate direct budgetary cost, such as public guarantees) measures adopted according to their objective and functionality (health spending, support for firms' liquidity and solvency, employment protection and support for households), their instrumentation and, to a lesser extent, their size. The analysis shows the presence of high cross-country heterogeneity in terms of the amount of the support packages, although not so much in the types of measures adopted. From the analysis, two messages should be highlighted. First, regarding budgetary measures, the countries' greater commitment to subsidies and direct transfers to firms and households stands out, compared to other more indirect income support alternatives. Second, in relation to extra-budgetary measures, the main novelty of this crisis compared to previous ones is the prominence given to public guarantee programmes for the provision of liquidity to companies. These are generally implemented through public development banks, compared to other support mechanisms managed, for example, by central banks in collaboration with National Treasuries. Finally, during the recovery phase, public support is focusing on sustaining households' income and firms' liquidity – extending, in some cases, the temporary measures previously adopted – while stabilising the economy, supporting the solvency of strategic sectors and encouraging business investment.

Keywords: health crisis, fiscal policy, State aid, grants, public loan guarantees, short-time work schemes.

JEL classification: E62, E65, H00, H81, J08.

Resumen

La crisis epidemiológica provocada por la pandemia de Covid-19 ha supuesto una perturbación sin precedentes. Las medidas de contención adoptadas por las autoridades implicaron el cierre temporal de muchas actividades productivas y el confinamiento general de la población. Estos acontecimientos motivaron la implementación de medidas extraordinarias de política fiscal, con el objetivo de reforzar el sistema sanitario, paliar los efectos adversos de la pandemia sobre la economía y apoyar la actividad económica en la posterior fase de recuperación. En este documento se realiza un análisis descriptivo y comparado de las medidas adoptadas en algunas de las principales economías avanzadas occidentales (Alemania, Francia, Italia, España, Reino Unido y Estados Unidos). El objetivo es contar con una visión estructurada de las similitudes y diferencias en las respuestas nacionales a la crisis sanitaria en el ámbito de la política fiscal. A tal efecto, se describen las medidas presupuestarias y «extrapresupuestarias» (sin un coste presupuestario directo inmediato, como los avales y las garantías) adoptadas según su objetivo y funcionalidad (financiación del gasto sanitario, apoyo a la liquidez y solvencia de las empresas, protección del empleo y apoyo a los hogares), su instrumentación y, en menor medida, su tamaño. El análisis evidencia la presencia de una elevada heterogeneidad por países en cuanto a la cuantía de los paquetes anunciados, aunque no tanto en el tipo de medidas adoptadas. Del análisis realizado cabe resaltar dos mensajes. Primero, respecto a las medidas presupuestarias, destaca la mayor apuesta de los países por las subvenciones y transferencias directas a empresas y familias, frente a otras alternativas de sostenimiento de renta más indirectas. Segundo, en relación con las medidas extrapresupuestarias, la principal novedad de esta crisis frente a otras previas se refiere a la prominencia dada a los programas de garantías públicas para la provisión de liquidez a las empresas, instrumentados generalmente a través de los bancos públicos de desarrollo, frente a otros mecanismos de apoyo gestionados, por ejemplo, por los bancos centrales en colaboración con los tesoros nacionales. Finalmente, durante la fase de recuperación, los apoyos públicos se están centrando en sostener la renta de los hogares y la liquidez de las empresas —extendiendo, en algunos casos, las medidas temporales previamente adoptadas— mientras se estabiliza la economía, apoyar la solvencia de sectores estratégicos y fomentar la inversión empresarial.

Palabras clave: crisis sanitaria, política fiscal, ayudas de Estado, subvenciones directas, garantías públicas, mecanismos de empleo parcial.

Códigos JEL: E62, E65, H00, H81, J08.

Contents

1 Introduction

The epidemiological crisis caused by COVID-19 has entailed an unprecedented shock for most countries in the opening months of 2020. As the epidemic originating in China progressively spread to other economies, many countries' health systems were exposed to high levels of stress. The lockdown measures needed to slow the rate of contagion involved the temporary shutdown of productive activities considered non-essential in most countries, and the confinement of extensive sectors of the population.

These events prompted the adoption of extraordinary fiscal policy measures in virtually all advanced economies and in most emerging countries, with the aim of shoring up the health system and alleviating the adverse effects of the pandemic on the economy. Thus, budgetary items aimed at financing the increase in health spending were broadly approved. At the same time, measures geared to supporting firms' liquidity and to sustaining the structure of the productive system were implemented. In this connection, resort was had to both budgetary instruments (changes in tax policy and expenditure items in the form of subsidies, direct payments and the covering of households' and firms' fixed operating costs) and to instruments without a direct budgetary cost ("extra-budgetary" items), through public guarantee programmes for banking liquidity lines, direct loans to companies and also the recapitalisation of ailing firms. Other measures were geared to sustaining household income, operating, for example, through the strengthening of programmes involving aid to low-income households, the granting of subsidies to the self-employed affected by the crisis, and the introduction of moratoria on mortgage and rental payments and supplies to vulnerable households. In terms of employment protection, many countries bolstered unemployment systems and short-time working schemes, the distribution of temporary subsidies and the extension of social insurance arrangements.

With the pandemic lockdown phase behind us, the authorities remain most fiscally active. Their aim is to support the economy during the recovery phase. During this stage, public support is focusing on sustaining households' and firms' income while the economy stabilises and the recovery takes hold. In many cases the previously adopted temporary measures are being extended (such as the temporary and short-time employment arrangements, the direct subsidies to households and businesses, and the public guarantee programmes), supporting the solvency of firms in strategic sectors and promoting investment, public and private alike, with a view to economies' digital and ecological transition.

In the European Union (EU) countries, the adoption of many of these measures has been possible thanks to the European Commission's agreement to relax the legal framework that regulates State aid to firms, using the flexibility envisaged in Art. 107(3)(b) of the Treaty on the Functioning of the European Union. This breach of one of the pillars of the EU common market is in consonance with the exceptional circumstances prevailing, and is temporary.

Specifically, the Temporary Framework approved[1] enabled Member States to distribute aid to ailing firms through guarantees, loans with subsidised interest rates, recapitalisations, direct aid, tax payment moratoria and export credit insurance. In addition, the European Commission authorised the Member States to use the opt-out clause in the Stability and Growth Pact, which temporarily suspends the application of the fiscal rules framework in the face of exceptional circumstances, such as a serious EU-wide economic recession. The majority of members have thus activated the opt-out clause to breach their national budgetary rules. In Germany, the authorities decided to abandon the constitutional rule that sets a limit on the annual increase in public debt (the so-called “debt brake”), while the Federal Government broke its commitment to maintaining a balanced budget (“black zero”). Finally, the EU adopted a series of supranational measures supporting Member States in combating the effects of the pandemic (see Box 1 for a detailed analysis).

This paper describes and compares the measures adopted in the major Western economies, specifically the four biggest euro area economies (Germany, France, Italy and Spain), and the United States and the United Kingdom. It thus provides a structured view of the similarities and differences in the national responses to the health crisis. The tables in Annexes 1 and 2 give an itemised summary of these similarities and differences.

The different countries’ budgetary measures are classified by objective (financing of health spending, support for companies, employment protection and support for households) and a cross-country comparison is made, with a particular emphasis on their design and implementation and, to a lesser extent, on their size and the amount of the packages (Annex 1 offers a summary table in this respect). The main “extra-budgetary” measures adopted are also described, based likewise on functionality (support for the liquidity and solvency of the business sector) and comparing the amount of the public guarantee programmes, loans and capital support for companies (see Annex 2). In the case of the public guarantee programmes, the paper details the specific characteristics of the arrangements adopted in the different countries, the degree of risk coverage, the cost of financing and the maximum duration of the guarantees.[2]

The lesser emphasis in this paper on the comparison of the size of the programmes is grounded in practical reasons. First, because in many cases the amounts announced initially by the authorities have had to be subsequently revised upwards, given the greater duration and incidence of the pandemic. Second, because a direct international comparison between the relative size, in relation to the size of the economy, of the different programmes may prove

1 The Temporary Framework was successively amended to extend the coverage of the measures and State aid. See EC (2020a, 2020b and 2020c).

2 It should be stressed that the classification of the measures in this paper might differ from that presented by other individual countries in their National Accounts (NA). This is because Eurostat has not defined a single criterion, meaning the countries have followed their own criteria. Thus, whereas some countries consider furlough schemes and Social Security contribution (SSC) exemptions as general government transfers to firms in NA, which are then transferred from the firms to their employees in terms of wages or subsidy offsets, other countries record them as bigger unemployment subsidies and lower SSC. As a result, having regard to each country’s NA, these measures might simultaneously be classified as support for firms or for employee income. We adhere to a functional criterion and classify them as employment support measures.

deceptive, since the structure and size of public revenues and expenditure differ significantly across countries. This may lead countries with relatively weak automatic stabilisers to feel the need to implement sizeable discretionary packages of measures to tackle the crisis, while those with more developed stabilisers, e.g. regarding unemployment insurance and the operation of their fiscal systems, do not need to take additional discretionary measures to achieve the same budgetary policy objectives.[3, 4]

The analysis conducted in this paper highlights the fact that, in general, all the economies considered deployed a wide range of measures to support the health system, shoring up the hospital system and increasing sub-national government funds, making massive purchases of health and protection equipment, ensuring the coverage of health services for the most vulnerable and creating new funds for research.

Aid for the business sector took several forms. These ranged from tax and public expenditure budgetary measures to quasi-fiscal extra-budgetary mechanisms, operating through the granting of public guarantees, direct financing and recapitalisations. Among the measures in the former group, albeit without a direct budgetary cost, all the economies considered opted from the onset of the crisis to provide temporary deferrals of firms' tax returns and settlements, whose duration, however, varied notably from country to country. Moreover, some economies (Germany, France, Italy and the United Kingdom) also decided to grant tax exemptions or rebates to SMEs and sectors particularly affected by the pandemic. As regards support measures to the business sector implemented through public spending, there were essentially two strategies: one based on aid to companies chiefly taking the form of direct payments and non-repayable subsidies, as in Germany, France, Italy and the United Kingdom; and the second by means of cover for deferred payments in respect of supplies, rentals and mortgages, as in Spain. In some countries (Spain, Italy and France), these provisions were complemented by extensions or subsidies of financial costs, introducing moratoria on loans and mortgages. Further, owing to the marked impact of the pandemic on sectors especially exposed to the lockdown measures,[5] some countries approved specific aid packages for these sectors, such as tourism, leisure and hospitality.

Extra-budgetary aid to firms (through public guarantee programmes and, to a lesser extent, direct financing) has been the most extensive and sizeable item, not only because of the amount of public funds committed in the event of the guarantees failing, but because of the capacity to mobilise jointly public and private funds. Countries used different strategies to implement these types of measures. On one hand, the major European

3 To explain this reasoning, let us assume an economy which has an automatic stabiliser such as the temporary unemployment mechanisms. Faced with an adverse shock that entails an increase in the use of these mechanisms, an automatic rise in public spending relating to the payment of temporary unemployment subsidies will be observed, without the Government having to adopt any discretionary measure. However, if a country does not have this mechanism, when the shock arises it could adopt a discretionary measure to pay this type of subsidy. Accordingly, one country could appear to be reacting more forcefully to a crisis than another if we look at announcements of discretionary measures, simply because it does not have powerful and developed automatic stabilisers, when actually they are making the same fiscal effort.

4 See, for example, Dolls et al. (2010).

5 See Barrot et al. (2020), Brinca et al. (2020) and Prades and Tello (2020).

economies, including the United Kingdom, used State guarantee programmes for loans granted by the banking system, managed by nationwide public development banks. On the other, in the United States and also in the United Kingdom, special-purpose investment vehicles have been created (to support credit to firms), operated by the central bank and with the Treasuries contributing the capital. Moreover, there is some cross-country heterogeneity in the specific characteristics of the guarantee programmes, such as their total volume, the coverage levels of the guaranteed loans (rising to 100% in some economies and for certain types of firms), maturities and the cost of coverage. Some economies, moreover, such as Germany, Italy and Spain, activated specific support arrangements for major corporations, including recapitalisation programmes, while most countries adopted specific support measures for strategic sectors, such as the automotive and aeronautical industries.

The employment protection measures were underpinned by the mechanisms in place at the national level, although not all of them were equally flexible in responding to a crisis which, in principle, would not necessarily involve a cross-sectoral reallocation of the labour force. In this respect, the German system of reducing hours worked appears to be the most significant. Other countries, such as France, Italy and Spain, responded by strengthening their partial and temporary unemployment systems, and the United States and the United Kingdom opted to operate through loans, subsidies and tax deductions for firms deciding to retain their staff during the disruptions caused by the coronavirus. The countries also adopted a wide range of provisions aimed at supporting the liquidity of the most vulnerable households. Prominent among the most widespread measures are the moratoria on the payment of mortgages, loans and rentals (introduced in Spain, Italy and the United Kingdom), support for work-life balance and childcare (Italy, France), and the strengthening of basic income arrangements and aid for food purchases (Spain, Italy, Germany, France and the United States).

The following sections describe in detail all these measures. Section 2 sets out the measures adopted to shore up public health systems and to cover health costs. Section 3 details the support measures for firms, distinguishing between budgetary and extra-budgetary measures. Section 4 focuses on employment protection-geared measures. Section 5 details the provisions focused on sustaining household income. Finally, Section 6 draws the main conclusions.

Box 1

SUPRANATIONAL MEASURES ADOPTED BY THE EUROPEAN UNION

This box briefly describes the most significant economic and financial supranational actions and proposals approved in the EU in response to the health crisis. These measures entail joint action by the main Community institutions, i.e. the European Commission (EC), the European Investment Bank (EIB) and the European Stability Mechanism (ESM).

The **EC** enacted several measures relating to the use and flexibility in the disbursement of the funds within the Community budget for tackling the consequences of the pandemic. Firstly, the creation of the Coronavirus Response Investment Initiative (and, subsequently, of the Coronavirus Response Investment Initiative Plus), enabling the mobilisation of up to €37 billion of pre-financed but unspent structural funds. Moreover, the EC will be able to mobilise up to €28 billion of structural funds from the 2014-2020 national allocations not yet assigned to projects. Between 1 July 2020 and 30 June 2021, these programmes will obtain up to 100% funding under the EU budget, further to applications by the Member States (MSs). Up to €800 million will also be available under the EU Solidarity Fund intended for the countries most affected, and €2.7 billion from the reactivation of the fund for emergencies.

In late April, Community leaders approved a comprehensive package encompassing three safety nets to support employees, firms and the EU MSs. The first element involves the creation of a European reinsurance mechanism for national unemployment insurance schemes, an instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE). Activation of this arrangement will be through the granting of loans to the MSs for an amount of up to €100 billion, to cover expenses relating to partial employment or temporary unemployment schemes. The European Commission, on behalf of the EU, will issue debt on international capital markets to finance these loans, which will be backed by the EU budget and the guarantees provided by the MSs on the basis of their respective contribution to EU gross national income. The amount of the guarantees will be for a total of €25 billion. The instrument will remain operational until 31 December 2022.

The second element involves the creation by the EIB of a pan-European guarantee fund for €25 billion, which will provide loans worth up to €200 billion for firms, especially SMEs, throughout the EU, with the collaboration of the national development banks. This amount adds to the €40 billion that the EIB agreed to mobilise in March to cover SMEs' short-term financing needs through three facilities intended for guarantees, direct financing and the purchase of securitised loans from SMEs, respectively.

The third element of the European package approved in April refers to the creation of a new special ESM credit facility, dubbed Pandemic Crisis Support, and based on the ECCL preventive line already in place, adapted to the circumstances of the pandemic.[1] The new credit line will be able to provide funding of up to €240 billion. Each State may apply for a maximum amount equal to 2% of its 2019 GDP. Exceptionally, the sole requirement to gain access to this credit will be a commitment to use the financing to cover direct and indirect health costs relating to the fight against and prevention of the pandemic.

On the legislative front, the European authorities approved in March an easing of the restrictions on State aid through the Temporary Framework. This enables the MSs to make full use of the flexibility envisaged in European regulations (Art. 107(3)(b) of the Treaty on the Functioning of the EU).[2] Specifically, the Temporary Framework allows governments to grant State aid to ailing companies through direct aid, repayable advances, guarantees on bank loans, loans with subsidised interest rates and export credit insurance.

One requirement common to these means of aid is that they are granted only to firms that were not facing difficulties prior to the pandemic. Moreover, in the case of direct subsidies, tax advantages and repayable advances, the aid may not exceed €800,000 per company. As regards the guarantees on bank loans, the guarantee premiums shall be adjusted to minimum margins, depending on the characteristics of the beneficiary and on the duration of the loan.[3] For loans maturing after 31 December 2020, the amount involved shall not exceed double the annual wage bill of the beneficiary or 25% of its turnover. In special cases, these amounts may be increased to cover liquidity needs for 18 months in the case of SMEs and for 12 months in the case of major corporations. The maximum duration of the guarantee will be six years, and it may not exceed 90% of the principal of the loan in the event that any future losses were to be proportionally sustained by the credit institution and the State. Conversely, if the losses are attributed first to the State and then to the credit institutions, the guarantee may not exceed 35% of the principal. In the case of subsidised loans, the interest rate shall be at least equal to the base rate (1-year EURIBOR or equivalent as published by the Commission), plus minimum margins.[4] Its duration may not exceed six years and the maximum amounts will be established in the same way as those on the loans to which the bank guarantees are applied.

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1 The ECCL (Enhanced Conditions Credit Line) is one of the ESM's two preventive credit lines. Its aim is to help countries in a sound economic and financial position to maintain continuing access to markets funding. Access to the ECCL is subject to conditionality.

2 See EC (2020a).

3 For loans up to 1 year, a minimum margin of 25 bp for SMEs and of 50 bp for large corporations is envisaged; for loans of 2-3 years, the margin will be 50 bp in the case of SMEs and 100 bp for large corporations; for loans of 4-6 years, the margins will, respectively, be 100 bp and 200 bp. These conditions can be adjusted by modulating margins and loan duration.

4 See footnote 3.

Box 1

SUPRANATIONAL MEASURES ADOPTED BY THE EUROPEAN UNION (cont'd)

These provisions were extended initially in April,[5] allowing aid of up to €800,000 per undertaking, also in the form of guarantees and subsidised loans. Guarantee and loan premiums were also adjusted, allowing both their variation over time and the adoption of fixed premiums. The April update also allowed State aid to be distributed in order to support R&D activities related to combating the pandemic and to the construction and extension of medical infrastructures.

A further extension of the Temporary Framework, approved in May, authorises MSs to recapitalise non-financial undertakings.[6] Under the new framework, partial or complete recapitalisations are allowed in the event of extreme necessity and solely for companies that were not facing difficulties before the pandemic. Aid should be confined to restoring the pre-coronavirus crisis situation. MSs should justify the fact that the recipient undertaking is in the general interest and cannot obtain financing by other means. In any event, aid to a company in excess of €250 million shall be separately communicated for approval under the State aid regime.

State participation may not exceed the maximum duration of six years for listed firms and of seven years for unlisted firms. If the State's share is retained once this period has elapsed, a restructuring plan must be devised. While the recapitalisation is under way, the companies may not pay out dividends and senior management remuneration will be restricted.

State aid can take the form of the issue of new shares or hybrid capital instruments. The latter should be remunerated adding specific margins to the 1-year EURIBOR that will vary according to the beneficiary and the duration of the programme.[7] Capital buy-back operations should be transacted at a rate equal to the annual interest set for hybrid instruments plus 200 bp. Further, countries are allowed to make aid conditional upon attaining environmental objectives or combating tax evasion. The regime relating to recapitalisations will remain active until June 2021.

Finally, the European Council has agreed on a new budget, as part of the Multiannual Financial Framework (MFF) for the 2021-2027 period. The plan seeks to repair the economic and social damage wreaked by the health crisis and to strengthen the EU's long-term common strategy. The linchpin of this strategy is the inclusion in the MFF of a temporary instrument geared to recovery, the Next Generation EU.[8] The plan would significantly raise the EU's budgetary capacity to over €1.8 trillion,[9] of which €750 billion would be earmarked for financing the new recovery instrument through the issuance of debt on the financial markets (in the 2021-2026 period), backed by the Community budget, and which would have to be refunded in future MFFs by means of the creation of new Community own resources (essentially new taxes). A portion of these funds would be made available to the MSs in the form of transfers (around half the total), and another portion in the form of loans. Their main aim would be to promote investment, public and private alike, and the implementation of structural reforms at the national level, evaluated under the European Semester, in line with the policy priorities set by the EU, such as combating climate change and digitalisation.

5 See EC (2020b).
6 See EC (2020c).
7 See EC (2020c).
8 See EC (2020d).
9 Calculated using 2018 prices. The current MFF, for the 2014-2020 period, rises to €1,082 billion (at 2018 prices).

2 Measures aimed at strengthening public health systems

The crisis prompted by the COVID-19 pandemic has tested the strength of health systems worldwide. Given the seriousness of the crisis, all countries have been obliged to allocate sizeable resources to combating the pandemic, directly increasing health spending to cover medical attention, to purchase health and personal protection equipment and to shore up hospital systems.

Generally, countries have set aside sizeable funds to support the health system and research for treatments and vaccines. The amount of these packages, which normally has to be adjusted upwards, has been largely determined by the incidence of the pandemic on the population, and by the level of coverage and efficiency of their health systems in respect of management, prevention and treatment.

In **Spain,** the Government announced the bolstering of regional budgets, new funds for research, VAT reductions on supplies of health equipment to hospitals and health coverage for the most vulnerable.[6] **Italy** approved the hiring of new health staff and the strengthening of the hospital system, along with an increase in funds for emergencies. In addition, it envisaged the possibility of granting subsidies to health care goods manufacturers and approved tax rebates on sales and imports of health equipment of use for testing the spread of the pandemic.

Germany initially approved an increase in health spending to cover medical attention costs, and it set aside new funds for personal protection equipment and for research into the coronavirus. In June, moreover, the Government announced new plans for investment in medical and hospital care and in research, to protect against future pandemics.

In the **United Kingdom,** the package of measures approved included financing to alleviate the burden on the National Health System and funds to increase virus testing capacity. There was also emphasis on research into the coronavirus and a possible vaccine, under the international Coalition for Epidemic Preparedness Innovations (CEPI).

Finally, the **United States** announced new funds for the purchase of medical equipment, the development of a vaccine, the shoring-up of Medicare and Medicaid, and support for the financing of hospitals and other medical care providers for patient testing and treatment. A portion of the package was set aside to provide free testing for the population.

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6 Royal Decree-Law 7/2020.

3 Business support measures

Faced with the obligatory shutdown of much of productive activity, owing to the lockdown measures adopted to tackle the health crisis, the economic authorities deployed a broad range of temporary measures focused on sustaining the productive system, preventing company closures and smoothing economic recovery in the wake of the crisis. One widespread and immediately implemented measure was to provide support to business liquidity to cover, essentially, recurrent operating expenses (such as taxes, rentals and supplies). Companies have to continue paying these expenses despite the interruption of their business. Indeed, in the absence of billings, they might lead to applications for bankruptcy protection or to widespread business failures.

These measures took several forms:

— Fully fiscal budgetary measures, with a direct impact on the budget balance and on the level of debt, comprising tax measures (tax payment holidays and even tax reductions) and public spending measures (direct subsidies and the coverage of rental and supplier payment deferrals).

— Extra-budgetary measures, with an uncertain impact on the budget balance and on the level of debt, geared to smoothing the obtaining of liquidity through programmes involving public guarantees on bank lending and, to a lesser extent, to providing direct financing. These measures would normally be managed by national public investment and development banks, but also through other special-purpose public vehicles created to address the economic impact of the pandemic.

— Measures aimed at strengthening firms' solvency, through recapitalisations and even nationalisations, such as those considered in airline companies, under the EU Temporary Framework for State aid.

— Comprehensive packages and specific measures to support strategic sectors, These encompass, for instance, the automobile and aeronautical industries, and those particularly exposed to the lockdown measures and to control and safety restrictions, such as tourism, leisure and hospitality, where the economic impact of the pandemic will foreseeably be sharper and longer-lasting.

3.1 Budgetary measures to support business

Liquidity support measures through tax policy

Most countries opted from the outset to provide for temporary deferrals of corporate tax returns and settlements, confined to taxes related to business activity, such as self-employed and employers' Social Security contributions, VAT returns, and personal and corporate income tax withholdings and partial payments. In principle, as what are involved are delayed tax collections, these measures, though sizeable in terms of amounts, should have a very limited budgetary impact. This is based on the fact that companies should maintain their activity after the crisis and could refund taxes in the future (in some countries payment facilities deferred over time were set in place). Depending on the country in question, the focus and duration of the measures vary considerably.

Hence in **Spain,** for instance, the Government decided that tax moratoria would remain in force for six months, at no cost.[7] The focus would be on SMEs and the self-employed, with ceilings set on the aid and a legal restriction whereby deferrals could not exceed €30,000 per tax for each company. For these same groups, a six-month moratorium was established for the payment of employers' Social Security contributions. Further, the self-employed were allowed to choose the income-estimation method that most faithfully reflected their actual business turnover.[8]

In **Italy,** the Government decided to defer tax payments, Social Security contributions and VAT for March, April and May until September. The measure applies to firms whose turnover has fallen by more than 33%, that belong to the sectors most affected or that are located in areas declared to be "red zones" as of end-February.[9] Moreover, the Government decided that the regional tax on the productive activities of the self-employed and firms with a turnover of up to €250 million will be exempt from payment in June. It further exempted municipal taxes for June for hotels and tourist establishments. Finally, a tax credit was approved for 60% of rental payments (for March, April and May) for companies and the self-employed whose turnover, lower than €5 million, had declined significantly.

In **Germany,** the deferral of payment of VAT, and of personal and corporate income tax, was extended to all businesses unable to meet such payments in the course of 2020, or that have seen a significant decline in their revenue, without strict criteria being set for approval of the applications submitted. The term for the refund of these taxes was extended until 2021, thereby affecting end-year fiscal balances (lower revenue in 2020 would be offset by higher revenue in 2021). At the same time, the period for the payment of outstanding tax debts was suspended until end-2020, and tax relief was approved for SMEs in respect of losses incurred during the crisis, which may be offset by tax prepayments. Finally, as part of the fiscal package proposed in June, temporary tax measures (until 2021) were announced to support businesses and encourage investment during the recovery phase. Such measures include the increase in the depreciation rate for equipment under corporate income tax, and the extension of the offsetting of losses incurred in 2020 under this same tax.

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7 Royal Decree-Law 7/2020.

8 In Spain, the self-employed can choose between two methods for estimating their income for tax purposes: one is direct, based on actual billings, and another indirect (using modules), based on indicators that proxy the business's activity as of the close of the previous year. During the crisis, the tax authorities allowed taxpayers to use the estimation method that proved least onerous for suitably reflecting actual revenue received.

9 Initially, in Italy, contagion was most especially prevalent in certain northern provinces. In the last week of February, the Italian authorities isolated 11 municipalities in the northern regions of Lombardy and Veneto ("red zones"), with close to 50,000 people under lockdown, entailing the closure of schools and the suspension of all productive and commercial activities. In March, infection spread to most of the territory of Lombardy, Veneto and Emilia-Romagna, with these areas being designated as "yellow zones". Although the lockdown was imposed nationwide in early March, the northern regions have generally continued to be those most affected by the virus.

France approved unpenalised deferrals of up to three months for tax payments by firms and the self-employed, adjusting subsequent payment schedules and establishing financial facilities so that payment of tax obligations may be met. Furthermore, the refund of corporate income and VAT tax credits repayable in 2020 will be accelerated. In exceptional cases, it may also be decided to refund direct taxes further to case-by-case studies. Special measures have also been approved for the tourist sector, including tax exemption.

The **United Kingdom** approved the suspension of business rates for certain businesses, essentially in the retail, leisure and accommodation and nursery childcare sectors. Moreover, VAT settlements for Q2 are postponed until the end of the financial year and the self-employed may defer payment of income tax from July 2020 to January 2021. In addition, the Treasury cut the VAT rate on personal protection equipment to zero, and brought forward the elimination of VAT on e-books and e-newspapers by seven months. Further, the entry into force of the law on independent contractors has been postponed. Under the new legislation, medium and large-sized companies will be responsible for assessing their tax status and will settle the related taxes when they engage services from these independent contractors through intermediaries (such as personal services companies), which is expected to increase tax revenues.

Finally, the **United States** approved the deferral of tax payments for companies, an increase in the deductions for interest payments on borrowed funds under corporate income tax, and a temporary suspension of taxes specifically for the airline industry.

Liquidity support measures through public spending

In terms of public spending, there appear to be two strategies pursued depending on whether aid to firms is by means of direct payments and non-refundable subsidies, or through the coverage of deferrals of supplies, rental and mortgage payments. Unlike tax holidays, these types of aid would indeed have a direct budgetary impact, although they are more limited measures in terms of their target group (normally microenterprises, the self-employed and professionals) and their amount. Generally, too, insolvency regulations were amended to prevent businesses failing owing to a coronavirus-triggered liquidity crisis. Further, under certain circumstances, provisions were made so that the self-employed may opt for social aid of a different type, intended for vulnerable workers and households, such as that earmarked for the payment of supplies, rentals and mortgages (see Section 5).

In Germany, France and Italy, direct payments to firms were set in place, assigning specific emergency funds to cover the fixed operating costs of microenterprises and the self-employed. **Germany** made available direct aid, free from any repayment obligation, to cover these costs for an estimated period of three months, granting a lump-sum payment of up to €9,000 for businesses with 5 or fewer employees, and of up to €15,000 for firms with a maximum of 10 employees. The prerequisite was that the company should not have been facing economic difficulty in March 2020. Such aid was given fresh momentum in June when new temporary subsidies, to August, for a total of €25 billion, were approved to support the re-launch of business activity after the lockdown. This time, any company that had seen its revenue decline by at least 60% year-on-year in the April-May period may receive a lump-sum payment to cover up to 80% of its fixed costs. The aid was capped at €150,000 for large corporations, and, as in the previous case, at €15,000 for businesses with up to 10 employees and at €9,000 for firms with up to 5 employees.

France created a Solidarity Fund that also involves a direct, lump-sum payment per recipient of up to €1,500. Eligible firms are small businesses, with fewer than 10 employees, and with annual turnover over the past year of less than €1 million and profits of less than €60,000. Moreover, these businesses had to have been subject to administrative closure or to have seen their turnover fall by more than 70% year-on-year in March 2020. The aid comprises two components: (1) aid equal to the reported monthly turnover forgone in March 2020, up to a limit of €1,500; (2) additional aid of up to €2,000 geared to avoiding bankruptcies, if the firm cannot settle within 30 days the debts it has incurred, or if its bank denies it the liquidity needed in this connection.

Italy initially approved similar aid for the self-employed, albeit for a lower amount, comprising a lump-sum payment of €600. These measures were broadened in May, when the Government introduced support for microenterprises and SMEs with turnover of less than €5 million, through transfers for an amount proportional to the year-on-year decline in turnover in April. A reduction in energy supply payments was also approved for SMEs for a period of three months.

The **United Kingdom** authorities approved a direct subsidy of £10,000 per business for microenterprises that could not benefit from the cut agreed in respect of business rates. A further subsidy of £25,000 was established for businesses in England in the retail, hospitality and leisure sectors. For the self-employed, a lump-sum transfer equivalent to 80% of profits made in the past three months is planned, with a ceiling of £2,500/month.

In **Spain,** measures were aimed at deferring payment of certain operating costs. The temporary suspension or temporary amendment, at no cost, of supply contracts for SMEs and the self-employed whose activity had been affected by the state of alert was agreed.[10] The State will be able to compensate suppliers for the loss of revenue. The vulnerable self-employed could also receive the so-called “social rebate”, providing for discounts of 25% on electricity bills until 25 July. A mechanism was likewise set in place for the deferral of a maximum of four monthly commercial rental payments until 23 May, aimed at SMEs and the self-employed affected by the lockdown or that had seen an annual decline in their turnover of at least 75%.[11] If the landlord is a company, public housing entity or a major landlord (owning more than 10 urban properties), payment of these monthly rentals is extended for a period of two years, interest-free. If the landlord is a small owner, payment deferral can be at the expense of the deposit, which would have to be replaced within a maximum term of one year.

10 Royal Decree-Law 11/2020.

11 Royal Decree-Law 15/2020.

As in Spain, **France** also set in place this type of payment deferral for rentals and supplies for SMEs in difficulty during the time the lockdown lasted. Such deferral is automatic for firms whose activity has been halted by decree, and on a case-by-case basis for the rest.

3.2 Liquidity support measures through deferrals and subsidies of financial costs

Additionally, aid to firms' liquidity was complemented by measures aimed at alleviating the financial burden on the self-employed and on SMEs, particularly in countries where direct payments were less significant. This is the case for **Spain,** where a temporary moratorium on mortgages for premises and offices of the self-employed in a vulnerable situation was agreed until 29 September.[12] The authorities approved a deferral of repayments by companies in difficulty of loans from the Spanish General Secretariat for Industry and for SMEs, which may be refinanced over a period of two and a half years.

Following an agreement between the Italian Banking Association and business associations, **Italy** established the possibility of requesting the suspension or the lengthening of the maturities of loans granted to SMEs until 31 January 2020. The suspension of principal repayments applies to medium and long-term financing, mortgages and financial leasing contracts, with an extension of up to one year possible. As to the lengthening of maturities, this may be up to 100% of the outstanding repayment period in the case of mortgages. For short-term financing and for agricultural credit, the maximum extension will be 270 and 120 days, respectively. A special section of the guarantee fund for SMEs, endowed with €1.7 billion, guarantees these maturity-extension operations. The Gasparrini Fund, with €400 million for 2020, allows mortgage payments on principal residences to be suspended for workers affected by the crisis. The self-employed that have seen a decline in their income of 33% may avail themselves of this Fund. The Fund will cover 50% of the interest payable during the suspension period.

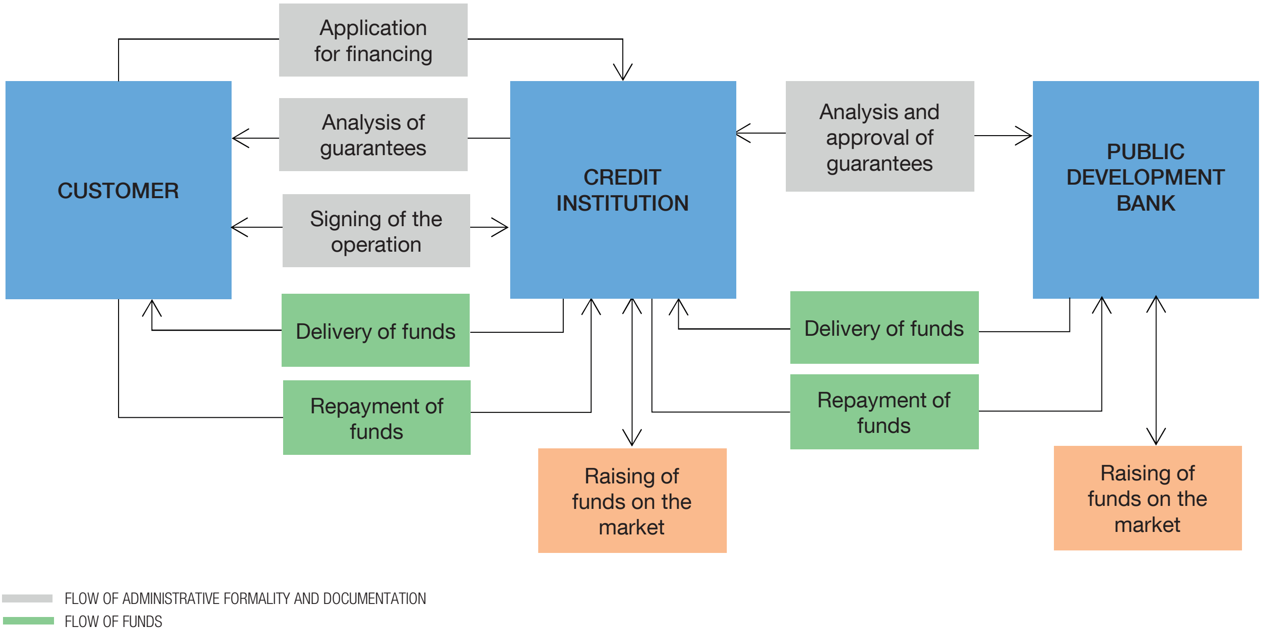
In **France,** this type of aid was not so explicit. It was confined to support by the State and the Banque de France for the public credit mediation system, to smooth the renegotiation of bank loans to ailing firms, and for the dispute arbitration system between companies, customers and suppliers. In any event, the authorities did approve a temporary moratorium on the payment of principal and interest of financing granted prior to the crisis by the public investment and development bank (Bpifrance).

3.3 Extra-budgetary measures through public guarantee and direct financing programmes

These types of measures have been the most widespread in all countries for channelling liquidity to firms affected by the crisis that need to finance working capital and investment. They have also been the most sizeable, not only for the amount of public funds involved but for their capacity to jointly mobilise public and private funds.

12 Royal Decree-Law 11/2020, extended by Royal Decree-Law 26/2020.

Figure 1
FUNCTIONING OF A GUARANTEE PROGRAMME WITH BANKING SECTOR INTERMEDIATION



SOURCES: Instituto de Crédito Oficial and own data.

In any event, a significant difference can be seen in how these types of measures have been implemented. On one hand, the major European economies, including the United Kingdom, made widespread use of State guarantee programmes for loans granted by the banking system, managed by national public development banks.

On the other hand, in the United States and also in the United Kingdom, the strategy fomenting credit to companies was implemented through the creation of special-purpose investment vehicles (to support credit to firms). These are operated by the central bank and the Treasury has a share in the capital. The strategy therefore retains a fiscal and non-monetary nature.

As opposed to this direct provision of liquidity, public guarantee programmes seek to provide firms with access to bank credit lines, extending State guarantees to cover much of the risk associated with these loans. The simple mobilisation of funds has no effect on the budgetary balance, unless the guaranteed loans begin to incur defaults, at which point the guarantee linked to the credit agreements is activated.

The guarantee programmes adopted are similar in nature and workings (see Fig. 1). However, the specific characteristics relating to the total volume of the programmes, the levels of coverage of the guaranteed loans, the terms and the cost of coverage vary from country to country (see Annex 2).

Germany

The German public guarantees programme, managed by the public development bank KfW (Kreditanstalt für Wiederaufbau), budgeted funds worth €820 billion (24% of GDP), with a guarantee covering up to 100% of the attendant risk in some cases.[13] The programme has made access to existing liquidity lines more flexible so that firms of any size, the self-employed and professionals may all participate, and conditions and coverage have been respectively eased and enhanced. Further, specific additional lines have been created given the greater liquidity needs. The programme has four types of liquidity facilities:

1. Immediate Credit Facility *(KfW Schnelkredit)*. Eligible firms have immediate access to a public guarantee on 100% of the principal. Banks do not have to conduct a prior credit analysis, which speeds access to the funds. Only medium-sized firms with over 10 employees, active since at least 1 January 2019, and that are solvent (i.e. they have been profitable for the past year or over the last three years on average) and were not in difficulty before 31 December 2019, can gain access. The loan may not exceed three months' revenues, with a ceiling of €800,000 per company for those with over 50 employees (taking the parameters set in the Temporary Framework for State aid to their limit), and of €500,000 for companies with fewer than 50 employees. The maximum term of the loan is 10 years and the interest rate is 3%, which is higher than the usual cost of the other programmes (around 1%) owing to the greater coverage and term.

2. Business loan for firms that have been present in the market for more than five years *(KfW-Unternehmerkredit)*. In this case, the State assumes 80% of the risk on loans to large firms and 90% on those to SMEs. The size of the loan is determined by the largest of four criteria: 25% of sales in 2019; double the wage bill in 2019; the financing needs for the coming 18 months (for SMEs) or the coming 12 months (for large firms); and 50% of the company's liabilities, in the case of loans higher than €25 million. In any event, the risk limit for each firm within the same group is €1 billion. The loan must be repaid in five years, following an initial grace period of one year. The interest rate ranges between 1% for SMEs and 2% for large firms.

3. Business loan for start-ups and firms with less than five years of activity *(ERP-Gründerkredit-Universell)*. For firms that have been active in the market for at least three years, the characteristics are the same as in the foregoing case, although the risk limit is set at €100 million for each firm. Firms with less than three years of activity may access these facilities, albeit with no State guarantee;

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13 Apart from the KfW's public programmes, there are also private bank guarantee programmes *(Bürgschaftsbanken)*, geared more to SMEs. These programmes have been extended, with the limit on the guarantee granted doubling to €2.5 million per company. The Federation grouping these banks will increase its share in the individual risk of each bank by 10%. The limits of each bank's exposure will increase from 35% to 50% of its operating resources. To speed through the provision of liquidity, the Federation is giving member banks the freedom to independently take decisions on guarantees of up to €250,000 within a period of three days.

alternatively, they may access the *ERP–StartGeld,* which has a limit of €30,000 for working capital loans, in which the KfW assumes 80% of the risk.

4 Special programme for syndicated loans *(KfW Kredit für Wachstum)*. Through this programme, the KfW participates in syndicated loans to medium-sized and large firms for amounts equal to or higher than €25 million. The guarantee covers 80% of the risk, but cannot exceed 50% of the firm's total debt. In any event, the amount of the loan is limited to 25% of turnover in 2019, double the wage bill in 2019, or the financing needs for the coming 12 months.

There are also KfW guarantees for export credit, and a collaborative programme between the Federal Government and the Länder (regions), which was previously restricted to firms in structurally weak regions, has been opened up to firms in other regions. Through this programme, the Federal Government covers operating loans and investments with a surety requirement of more than €50 million, guaranteeing up to 80% of the amount.

The State covers all of the new risks assumed by the KfW. The Government undertakes to refinance the programme through the Economic Stabilisation Fund, created on 23 March, for an initial amount of up to €100 billion, until late 2021, supplementing the normal market-based funding of the KfW. It should be highlighted that these guarantee programmes are funded by the KfW through market issuances and, for the first time, through participation in Eurosystem operations, specifically the TLTRO III on 24 June 2020.

France

Through the public investment bank Bpifrance, the French Government implemented a public guarantee programme for an amount of up to €300 billion (12% of GDP) for corporate bank loans. The programme also extends and relaxes existing credit facilities.

The new facilities under the programme are geared towards businesses of any size, irrespective of their legal form (in particular firms, merchants, craftsmen, farmers, liberal professionals, microfirms, associations and foundations with economic activity), except for certain real estate companies and all credit institutions and financial corporations. The business must be viable, i.e. it cannot have been subject to insolvency proceedings before 1 January 2020.

Coverage is set according to the size of the business: for businesses with fewer than 5,000 employees and turnover of less than €1.5 billion, the guarantee covers 90% of the risk; for those with more than 5,000 employees and turnover of less than €5 billion, the guarantee covers 80%; and for those with more than 5,000 employees and turnover exceeding €5 billion, the guarantee covers 70%.

The size of the loan is limited to 25% of turnover in 2019, or to two years of payroll in the case of innovative companies and companies created since 1 January 2019.

Applications may be made up to 31 December 2020, and the loans have a term of between two and six years, with a grace period during the first year. Private banks approve the application following an assessment, although in the case of loans to large firms (more than 5,000 workers or an annual turnover exceeding €1.5 billion), the guarantee is granted on an individual basis by the Ministry for the Economy and Finance.

As for existing credit facilities, Bpifrance has increased existing public guarantees to 90% for loans of three to seven years and for overdrafts for periods of 12 to 18 months. Existing guarantees on investment loans have also been extended in order to facilitate renegotiations with banks.

As part of the emergency support plan, Bpifrance has also set up unsecured direct financing programmes. Specifically, (1) the *Rebound* loan for an amount of up to €300,000 for SMEs, subsidised for seven years, with a two-year grace period, in collaboration with regional governments; (2) the *Atout* loan, amounting to up to €5 million for small firms and €30 million for medium-sized firms, with a term of three to five years and a repayment deferral period of up to 12 months; and (3) factoring claims, to mobilise invoices, for an amount of 30% of the funds mobilised.

Lastly, Bpifrance manages a start-up support programme *(French Tech Bridge)* to fund bridge loans for young, innovative companies. This financing, which may range from €100,000 to €5 million, takes the form of convertible bonds, with possible access to capital, and must be co-financed by private investors. In total, with the leverage effect, the programme could raise €160 million in capital for new French companies.

Italy

The Italian Government implemented a public guarantee scheme to provide Italian firms with liquidity amounting to €450 billion (25% of GDP). The measures are diverse and include the participation of several public institutions. There are specific programmes for SMEs.

This is the case of the guarantee fund for SMEs, geared towards businesses with up to 499 employees, providing guarantees free of charge for an estimated total of €100 billion. In line with the provisions included in the Temporary Framework, the maximum amount of the loan is determined on the basis of turnover in 2019. Alternatively, the maximum amount cannot exceed double the personnel costs recorded in the same year, or the working capital costs and investment costs in the coming 18 months. In any event, the guaranteed loan is capped at €5 million per firm. The maximum duration of the loan is six years, in line with European provisions, and the interest rates in the first year are between 0.2% and 0.5%.

The guarantees cover 100% of loans of up to €25,000, with no credit assessment required; guarantees covering 100% may be provided for loans within the limits set out in the Temporary Framework to firms with a turnover of less than €3.2 million, subject to a credit assessment of their pre-pandemic situation; for loans of up to €5 million, the guarantee would cover 90% of the principal, to which another public guarantee may be added to cover the remaining 10%. For reinsurance transactions, 100% guarantees are provided for amounts already insured by the guarantee fund of the National Confederation of Artisans and Small and Medium-sized Enterprises (Confidi) or by another guarantee fund, providing these funds do not cover more than 90% and the loan does not exceed the maximum limits established in the programme.

The guarantee encompasses transactions for which capital or other repayments have already been suspended in connection with COVID-19, provided that the conditions for accessing the fund guarantee are met. In addition, a special regime is envisaged for investment property transactions in tourism sectors, parameters have been established for determining firms' probability of default, and specific coverage limits have been set for the most affected sectors. In any event, firms that were not solvent or were distressed at 31 January 2020 are excluded.[14]

A general public guarantee scheme is also managed by the State-owned enterprise SACE. The scheme amounts to €200 billion and is geared towards large firms, SMEs and the self-employed, with a minimum of €30 billion reserved for the latter two categories. €200 billion in public guarantees for exports is also expected to be managed directly by the Government, which would release subsequent funds of the SACE for use as bank guarantees. The access conditions stipulate that beneficiaries may not distribute dividends, and the loan must be used to cover expenses relating to productive activities in Italy. In order to access these guarantees, SMEs must have previously exhausted the liquidity support provided by the guarantee fund for SMEs.

The coverage of the guarantee is less than under the programme for SMEs. Specifically, the guarantee covers 90% in the case of firms with fewer than 5,000 employees and a turnover of less than €1.5 billion; 80% for firms with a turnover of between €1.5 billion and €5 billion; and 70% in other cases. Furthermore, the scheme includes guarantees covering 80% of the exposures assumed by the State-owned bank Cassa Depositi e Prestiti S.p.A. vis-à-vis credit institutions.

The guarantee cannot cover amounts exceeding 25% of turnover or double the personnel costs recorded in 2019. The cost of the guarantee in the first year may not exceed 0.5% for large firms or 0.25% for the self-employed and SMEs. The maximum duration of the loan is six years.

During the state of emergency, the SACE is also authorised to provide guarantees and insurance coverage to foreign suppliers for the sale to the regions of goods in relation to managing the health emergency. The guarantees and insurance may also be provided to

14 The fund also provides that SMEs affected by the pandemic may request an extension of loans maturing before 30 September 2020 and a suspension of mortgage payments prior to that date. These loans and payments will be subject to a public guarantee equal to 33% of the amount.

national banks, foreign banks and Italian or foreign financial operators, provided that certain criteria are met.

Spain

The Spanish programme stipulated that the Ministry of Economic Affairs and Digital Transformation provide guarantees for a maximum of €100 billion (8% of GDP) on financing granted by credit institutions, specialised lending institutions, electronic money institutions and payment institutions. The programme, managed by the Official Credit Institute (ICO, by its Spanish abbreviation), is geared towards firms and the self-employed, and aims to cover their needs derived, inter alia, from invoice management, working capital needs, financial and tax obligations, and other liquidity needs.[15]

In the case of SMEs and the self-employed, the guarantee covers a maximum of 80% of the transaction. For other firms, the guarantee will be limited to 70% for new transactions and 60% for rollovers. The guarantees issued shall have a maximum term of five years. Financial institutions are required to ensure that the cost of these transactions is in line with the costs charged before the crisis, although they must pass on to their customers the benefit derived from the public guarantee by way of, among other options, lower interest, a longer term, more financing or a grace period on the principal.

To implement this programme, a €10 billion increase was approved in the net debt limit provided for in the ICO's budgets. Moreover, the Government authorised the creation of an extraordinary insurance cover facility of up to €2 billion, for a period of six months, with a charge to the *Fondo de Reserva de los Riesgos de la Internacionalización.*

Following the approval of the last tranche of the guarantee facility, in which some priority was given to firms in the tourism and automobile industries, the Government announced a change in strategy going forward. Thus, it was resolved to set up a new guarantee facility of €40 billion, aiming to finance business investment – rather than working capital – ahead of the recovery phase.

United Kingdom

As mentioned in the introduction to this section, the liquidity support programmes approved in the United Kingdom are different to those of the EU countries. This is the case of the Coronavirus Corporate Financing Facility (CCFF), a joint scheme by the Bank of England and the Treasury to support large firms. Through this scheme, the Bank of England operates a fund set up to purchase, on behalf of the Treasury, commercial paper with a maturity of up to one year issued by such firms, provided that they were in sound financial health before the pandemic.

15 Royal Decree-Law 8/2020.

The State also set up the Coronavirus Business Interruption Loan Schemes and Future Fund. This public guarantee programme enables firms directly affected by the pandemic to borrow from banks. Through the British Business Bank (a State-owned development bank), the State guarantees up to 100% of the value of the loan, depending on the scheme.

The programme encompasses four schemes: (1) the Bounce Back Loan Scheme, providing SMEs and micro businesses with access to credit of between £2,000 and £50,000, with a repayment period of six years (and a one-year grace period) and a public guarantee for 100% of the capital; (2) the Coronavirus Business Interruption Loan Scheme, providing SMEs whose turnover is less than £45 million with finance of up to £5 million, to be repaid over up to six years, with a public guarantee of 80%; (3) the Coronavirus Large Business Interruption Loan Scheme, to provide loans of up to £200 million to large firms with a turnover exceeding £45 million, with a guarantee of 80% and a repayment period of up to three years, and (4) the Future Fund, providing convertible loans from £250,000 to businesses carrying out equity investment. The British Business Bank will match the increase in private capital, up to a maximum of £5 million. It is calculated that up to £50 billion in finance may be granted through these instruments, 10% of which, according to the Office for Budget Responsibility, would result in losses that the State would have to assume. The Government will also provide guarantees of up to £10 billion to trade credit insurance schemes for business-to-business transactions.

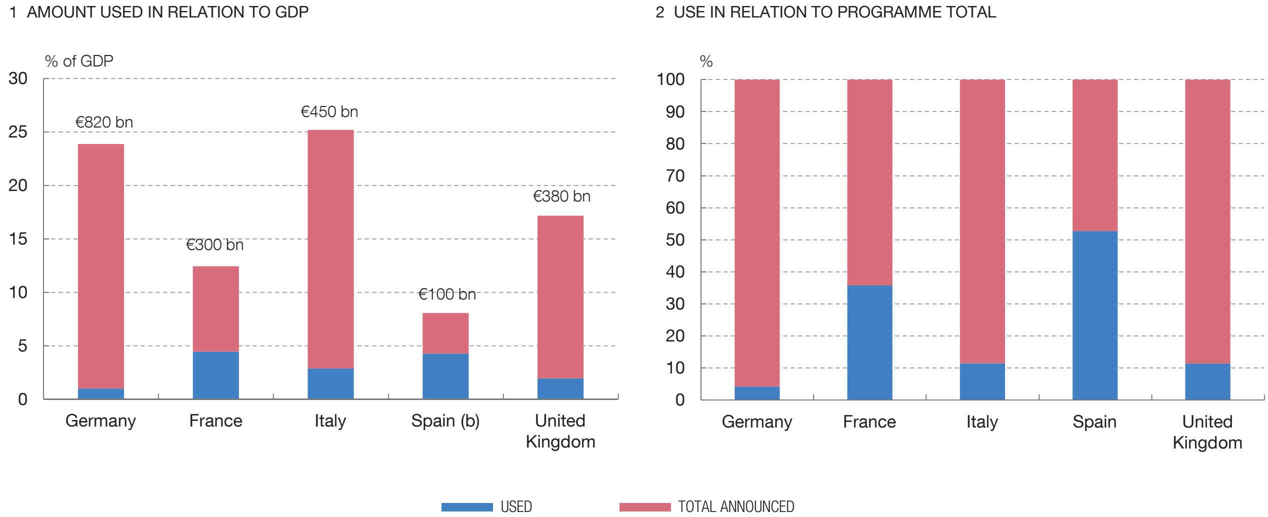
United States

The specific measures to support credit to firms and households were linked to the creation of special-purpose vehicles operated by the Federal Reserve, with an equity investment from the Treasury. The Term Asset-backed Securities Loan Facility, backed by student loans and consumer loans, has been re-established, with a $10 billion contribution from the Treasury. Moreover, in an example of coordination between the Federal Reserve and the Treasury, the Main Street Lending Program was set up for medium-sized business with fewer than 15,000 employees or annual revenues of $5 billion or less in 2019. In this case, the Federal Reserve lends to a special-purpose vehicle, which has a $75 billion equity investment from the Treasury, to purchase participation interests (up to 95%) in bank loans. This programme provides financing to enable banks to grant four-year loans, allowing interest and capital payments to be deferred during the first year. Lending is subject to leverage limits and dependent on firms endeavouring to retain employment. Furthermore, through the Coronavirus Aid, Relief, and Economic Security Act, the Government introduced a credit facility amounting to $56 billion for ailing firms.

Use of the public guarantee programmes

The European public guarantee programmes are the most important measures in terms of the level of national funds sought to be mobilised to deal with the liquidity shock experienced by firms during the pandemic. This section presents, for each country, the latest data available on the number of applications submitted and the volume of the associated guarantees (see Chart 1).

Chart 1
USE OF PUBLIC GUARANTEE PROGRAMMES (a)



SOURCES: Banco de España, drawing on national sources.

a Data for June 2020.
b In Spain, in July the Council of Ministers approved a new ICO line worth €40 billion to promote business investment. Its characteristics are still to be defined.

In **Germany,** the KfW's guarantee programme, budgeted at €820 billion (24% of GDP), came on stream on 24 March. The quick loan programme (100% guarantee up to €800,000) has been operating since 16 April. On data provided by the KfW as at 30 June, 70,290 loan applications have been received, for a volume of €50 billion, of which more than 99% have been approved for a committed amount of €33.5 billion. This represents a volume of guarantees equivalent to 4.2% of the programme (1% of GDP).

In **France,** Bpifrance's public guarantee programme, amounting to €300 billion (12% of GDP), was launched on 25 March. On the latest information available as at 26 June, applications from 525,329 firms and professionals are estimated to have been processed. The volume of guaranteed credit applied for amounts to €117 billion, €107 billion of which have been granted, i.e. 36% of the programme (4.5% of GDP).

In **Italy,** two programmes were approved in mid-March: the programme for the specific guarantee fund for SMEs, amounting to €100 billion, and the programme of the State-owned enterprise SACE, amounting to €200 billion, subsequently increased using SACE funds to an estimated €450 billion (25% of GDP). Drawing on the data available as at 2 July, close to 140 applications for guarantees from the SACE have been granted, for a total of €8 billion (0.4% of GDP). As the legislation provides that, before resorting to the SACE, SMEs request the maximum amount of guarantees that they can through the specific fund, this latter fund has received the greatest number of applications. More than 742,000 firms have applied for loans geared exclusively towards SMEs, for a total of €43.2 billion (2.4% of

GDP). Thus, the total applications made to the guarantee fund for SMEs and those provided by the SACE would amount to €51.2 billion (2.9% of GDP), i.e. 11.4% of the programmes.

In **Spain,** the ICO's first guarantee programme was approved on 17 March, for an amount of €100 billion (8% of GDP). On data from the ICO, up to 15 June, a total of 565,118 transactions have been guaranteed, corresponding to more than 400,000 firms, entailing a total of €52.7 billion in guarantees granted (4% of GDP) and liquidity of €69 billion provided to the sector, taking into account the contribution from banks. This represents around 50% of the programme initially approved. The conditions and requirements of the €40 billion programme approved in early July have yet to be established by the Council of Ministers.

Lastly, in the **United Kingdom,** at 30 June, the British Business Bank programmes have granted close to £43 billion (1.8% of GDP) in financing to over a million firms. Specifically, under the Bounce Back Loan Scheme, which opened on 4 May, loans totalling £29.5 billion have been extended, corresponding to 967,321 transactions, out of 1,186,006 applications received. Through the Coronavirus Business Interruption Loan Scheme, launched on 23 March, £11.1 billion in loans have been granted to 52,275 firms, with 104,569 applications received. The Coronavirus Large Business Interruption Loan Scheme, created on 20 April, has received 745 applications and extended £2.3 billion in guaranteed loans to 359 firms.

3.4 Extra-budgetary measures through specific programmes for large firms and recapitalisation programmes

Aside from the measures adopted through extra-budgetary mechanisms aimed at providing liquidity to firms affected by the crisis, some countries have also implemented other actions focused on large firms. These actions are largely justified by the strategic nature of these firms and their importance for sustaining the business of many productive sectors.

In Europe, the actions taken are endorsed under the amendment to the Temporary Framework for State aid published by the European Commission on 8 May 2020.[16] This rule sets out the criteria for the recapitalisation of non-financial undertakings in the EU, along with the restrictions on governance and on the remuneration of management that must be included in such aid. This amendment allows the specific programmes announced by countries such as Germany and Italy to be accommodated.

Germany was the first European country to take such action, announcing the creation of the Economic Stabilisation Fund, an extra-budgetary mechanism for bailing out large firms that is similar to the Soffin fund set up in 2009 to bail out the banks following the financial crisis. The Fund is geared towards firms meeting two of the following three criteria: revenue of at least €50 million, a balance sheet total of at least €46 million, or a workforce of at least 249 employees. Firms declared to be significant for the economy, a specific sector or national security may also be eligible.

16 See footnote 1.

The Fund comprises three pillars. The first pillar consists of a recapitalisation instrument, with a borrowing limit of €100 billion (3% of GDP), to acquire temporary holdings in the capital of ailing non-financial undertakings, through shares, convertible debt or hybrid instruments. The Fund may also establish limits on dividend payments, remuneration and the use of funds. The second pillar issues guarantees, complementing the framework of public guarantees available through the KfW. To this end, it has up to €400 billion (12% of GDP) to grant guarantees on the debt of eligible firms, help firms re-finance themselves on the capital market and counter the liquidity shortage. The term of the guarantees must not exceed five years. Lastly, through the third pillar, the Fund may transfer a further €100 billion (3% of GDP) in loans to the State bank KfW to support its guarantee programmes.

Italy also created a new fund *(Patrimonio Rilancio)*, managed by the State-owned bank Cassa Depositi e Prestiti; the fund's resources must be used to foster the recovery of large non-financial undertakings with a turnover of more than €50 million. The fund may make any type of temporary investment, including direct financing and guarantees, underwrite financial instruments, purchase assets listed on the primary and secondary markets and participate in capital increases. Lastly, aid for recapitalising SMEs has also been introduced in the form of deductions of 20% on investments in the capital of non-financial undertakings, up to a maximum deductible amount of €2 million.

Spain also introduced shareholder protection measures, through a reform of the legislation on foreign investments to prevent non-EU companies from taking control of Spanish entities in strategic sectors. Moreover, a Fund to Support the Solvency of Strategic Companies comprising €10 billion was set up through which the State can extend participating loans, purchase subordinated debt and subscribe shares or other equity instruments.[17] Consideration as a strategic company is based on various factors such as the social and economic impact of the company or its significance to security, health, infrastructure and communications.

Other European countries have not been so specific. For example, **France** announced that it could bail out publicly-owned firms, such as Air France, through recapitalisations or even nationalisation, setting an initial amount of €20 billion.

In the **United States,** the Federal Reserve set up the Primary Market Corporate Credit Facility to purchase bonds and syndicated loans issued by investment-grade large firms on the primary market; it was subsequently extended to speculative-grade firms whose rating had been revised downwards as a result of the shock of COVID-19. This facility was complemented by the Secondary Market Corporate Credit Facility for purchasing corporate bonds and exchange-traded funds on the corporate secondary market. Both facilities are instrumented through the same special-purpose vehicle, which has been provided with $75 billion in capital by the Treasury.

17 Royal Decree-Law 25/2020.

3.5 Specific programmes for strategic sectors

Some countries have identified a need to adopt comprehensive bail-out packages or specific aid measures for sectors that, either due to their strategic importance, or because they are particularly exposed to the lockdown measures and control and security restrictions, have been especially affected by the pandemic. This is the case of the tourism, recreation and hospitality sector in Europe, whose importance to the economy as a whole is undeniable in countries such as Spain, Italy, France and, to a lesser extent, Germany.

Aside from the need to have a coordinated European strategy to facilitate the movement of tourists/travellers and the easing of restrictions, the countries are adopting national strategies to support specific sectors. In **France,** a plan was announced for the tourism sector, aiming to mobilise €18 billion through direct aid, guaranteed loans and tax waivers. In **Italy,** a "holiday voucher" was distributed to households with income of less than €40,000. The amount of the voucher is proportionate to the number of members of the household and, in any event, less than €500. The voucher may be used at Italian tourist accommodation establishments between July and December.[18] In **Germany,** specific tax reduction measures were established for the hospitality sector. Lastly, **Spain** set up aid for the tourism sector, including a special ICO financing facility of €400 million with a 50% guarantee, reductions of 50% in employer Social Security contributions, and a one-year suspension of repayments on loans extended by the State Secretariat for Tourism within the framework of the specific support programmes for the sector.[19] Measures were also approved to foster temporary employment in the agricultural sector, such as compatibility of employment with unemployment benefits.[20]

The automobile and airline industries have also received specific aid to prevent the closure of production plants or to shore up the solvency of flag carriers. In **France,** the Government has announced €15 billion in aid in the form of investments and guaranteed loans to the aeronautical industry, €7 billion of which earmarked for Air France, and close to €8 billion for the automobile industry, including a plan to foster demand for electric cars.

Similar aid has been announced in **Germany,** where support for the airline Lufthansa could reach €9 billion. Moreover, as part of the (as-yet unapproved) new fiscal package presented in June, the German Government has designed a broad set of measures, which could exceed €70 billion, aiming to foster public investment in transport and digitalisation, promote electric vehicles, and boost its investment plan for the decarbonisation of industry, the transport sector and the economy in general.

Spain has established aid for the automobile industry, with plans to support purchases of low-emission vehicles and the renewal of the stock of road motor vehicles.[21]

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18 The amount of the holiday voucher was €500 for households with more than three members, €300 for two-person households and €150 for single-person households. 80% of the voucher comprised a discount on the payment to the tourist accommodation establishment, with the remaining 20% consisting of a deduction in income tax.

19 Royal Decree-Law 7/2020.

20 Royal Decree-Law 13/2020.

21 Royal Decree-Law 25/2020.

4 Measures to protect employment and aid for the unemployed

The temporary shutdown of most productive activity, approved in many countries to contain contagion, made it necessary to introduce special measures to ensure the protection of employment and of unemployment systems. Some countries, including France, Italy and Spain, strengthened their existing partial and temporary unemployment systems; in others, such as Germany, short-time working schemes were relaxed. Other economies, such as the United Kingdom and the United States, opted to operate through loans or payments to firms deciding to retain their employees on the payroll during the disruptions caused by coronavirus. In Italy and Spain, the existing employment protection measures were also complemented by other special provisions, such as the temporary suspension of dismissals and the regularisation of groups of irregular workers.

Spain opted to strengthen the existing unemployment system through four sets of specific measures. A first group of measures, geared towards employees, fostered the use of temporary layoffs or short-time work arrangements (ERTE, by the Spanish abbreviation) for reasons of force majeure and the adoption of short-time working schemes, by relaxing the requirements and deadlines for processing them.[22] In accordance with these arrangements, workers receive a benefit equal to 70% of the regulatory base, taking as reference the average for the 180 days prior to furlough, for the first six months, which is reduced to 50% thereafter. In any event, a minimum of €502 per month and a maximum of €1,400 were established, depending on the number of dependent children. These furlough schemes were also incentivised through a waiver of employer Social Security contributions (100% for SMEs with fewer than 50 workers, and 75% for other firms). The duration of the furlough schemes was initially limited to the state of alert and has been subsequently extended (most recently, to 30 September), while the exemptions have progressively been reduced as re-opening has advanced and companies have resumed activity.[23] Likewise, the foreseen or maximum term of all temporary contracts could be extended for a period equal to the duration of the suspension due to furloughing.

Second, the right to unemployment benefits was recognised for all affected workers, even if they had not contributed the minimum amount required for drawing this benefit. In addition, for the calculation of the economic Social Security benefits, cases of self-isolation and of sick leave owing to COVID-19 were treated as injuries at work, entailing higher benefits than those paid for common illness or non-occupational accidents. Both employees and the self-employed are entitled to these benefits.[24] Restrictions were also placed on dismissals, such that workers cannot be made redundant for reasons of force majeure or for economic, technical, organisational or production-related reasons for the duration of this regulation.

22 Royal Decree-Law 8/2020.

23 Royal Decree-Laws 18/2020 and 24/2020.

24 Royal Decree-Law 6/2020.

A third set of measures, geared towards the self-employed, facilitated the drawing of the benefit for the cessation of activity,[25] establishing this right for all self-employed persons whose turnover had contracted 75%. The amount of this benefit is equal to 70% of their contribution base.

Lastly, for people registered under the special domestic employee regime whose employment had been suspended or extinguished and for temporary workers whose employment relationship had terminated and who were not entitled to the contributory benefit, an extraordinary unemployment assistance benefit, equal to 80% of the Spanish public income indicator, was introduced.[26] The benefits for permanent seasonal workers were also increased.

Germany decided to ease the existing short-time work benefit mechanism *(Kurzarbeitergeld)* until the end of the year, relaxing the eligibility criteria and increasing the amount of compensation.[27] Specifically, at first the threshold of workers included in the scheme in order to apply the mechanism was cut from 33% to 10%, and the obligation of building up negative working time balances was lifted. Compensation of 60% of the net salary (67% for workers with children) was envisaged for all types of workers, including temporary employees and those from external recruitment agencies. These measures were subsequently extended, ensuring a subsidy of 70% of net salaries (77% for workers with children), following the fourth month of aid, for workers whose working hours had decreased by more than 50%. It was also envisaged that the subsidies would increase to 80% (87%) from the seventh month onwards. The total reimbursement of Social Security contributions was guaranteed for firms availing themselves of the mechanism. In June, the Federal Government announced its intention to extend these measures beyond 2020.

In March, a three-month extension of the unemployment benefit was approved for people whose benefit comes to an end between May and December 2020. For the unemployed over the age of 50, the duration of the benefit was increased to 24 months. Lastly, two additional measures were announced in June. First, the establishment of a cap of 40% on Social Security contributions until the end of 2021, such that any cost exceeding this percentage would be covered by the State. Second, the promotion of vocational training and the granting of aid to SMEs for hiring first-time job-seekers.

In **France,** the partial unemployment arrangements were shored up to cover the cost of temporary lay-offs triggered by business closures. Specifically, businesses would pay their employees compensation equal to 70% of their gross salary (around 84% of their net salary); this compensation would rise to 100% in the case of workers on minimum wage.

25 Royal Decree-Law 8/2020.

26 Royal Decree-Law 11/2020.

27 Under this mechanism, the Government subsidises, on the basis of the reduction in working hours, the salary of affected workers of applicant firms, which must continue to pay personnel costs for the period that activity is reduced or suspended. Consequently, workers continue to maintain the employment relationship with the firm. This mechanism is commonly used by German firms to adjust their production needs, even in the absence of a crisis such as the current one. See FMLSA (2020) for more details on its functioning and the recent amendments by the Government.

The State would fully reimburse this cost to businesses for gross salaries up to €6,927 per month (4.5 times the minimum wage). Unemployment insurance benefits were also extended to recipients whose benefit came to an end during the pandemic.

In **Italy,** access to the temporary unemployment arrangements for reasons of force majeure was guaranteed for all workers of companies affected by COVID-19, including agricultural, seasonal and temporary workers, for a period of nine weeks, extendible for a further nine weeks. For workers with a collaboration contract whose activity had been suspended as a result of the pandemic, a subsidy of €1,000 was envisaged in May.[28] These measures were complemented by the suspension of all dismissals for five months and the possibility of temporarily regularising irregular workers and of guaranteeing a temporary six-month residence permit for foreigners who had been employed in the agricultural sector or as domestic service workers for seeking work.

In the **United Kingdom,** the employment protection measures chiefly took the form of incentives for businesses. Specifically, for companies deciding to retain their employees on furlough rather than make staff cuts, the Coronavirus Job Retention Scheme ensured the payment of 80% of salaries up to a limit of £2,500 per month, in addition to Social Security contributions and pension system contributions. The State also decided to cover SMEs' cost of sick pay for employees who had to self-isolate, for a maximum of 14 days.

A similar scheme was set up in the **United States** with the creation of the Paycheck Protection Program; this mechanism operates through incentives, in this case geared primarily towards SMEs. The scheme was aimed at providing $670 billion (3.1% of GDP) in guaranteed loans – which may be converted into grants – to SMEs so that they could keep their workers on the payroll during the disruptions caused by the pandemic. Loans under the Paycheck Protection Program are fully backed by the Treasury, and the Federal Reserve has established the Paycheck Protection Program Lending Facility, which supplies liquidity to participating financial institutions through term financing backed by PPP loans to small businesses. A variety of tax deductions and exemptions were available to SMEs, such as the Employee Retention Credit, under which a deduction could be claimed for 50% of wages paid, up to a maximum of $10,000 per employee. It was also decided to reimburse SMEs for the cost of sick leave for up to a maximum of 14 days, and a new emergency sickness benefit was also created covering two-thirds of their monthly wages, with a cap of $4,000 per month. Moreover, the funds for unemployment benefit payments were extended. Further, unemployment benefits were increased by $600 per week, the related eligibility conditions were eased, and their duration was extended from 26 weeks to a total of 39 weeks.

28 The collaboration contract is a special contractual arrangement that can be adopted to regulate the benefits of self-employed persons providing ongoing services to a company and who, as a result, are included in the business sector. Although the workers are classified as self-employed, the business is entitled to coordinate their activities.

5 Household support measures

Aside from the employment protection measures, which represent a de facto transfer of public funds to households by sustaining salaried income, governments across the board adopted a broad range of measures aiming to support the liquidity of the most vulnerable households. Some of the most widespread measures include moratoria on mortgage and rental payments, the issuance of guarantees for the provision of basic supplies, support for work-life balance and childcare, the strengthening of basic income arrangements, and direct aid for food purchases. Some of these measures will have no budgetary cost, as they comprise deferrals of household payments for services derived from the use and occupation of dwellings.

In **Spain,** new funds were earmarked for compensating poor families owing to the suspension of activity in school canteens, enabling school meal grants to be drawn even in closed schools.[29] The State also guaranteed the provision of essential utilities (electricity, water, gas and telecommunications) by suppliers. Further, the Government strengthened funding for the regions to ensure the benefits of their basic welfare systems for vulnerable households, focusing in particular on the elderly and dependents.

In addition to these measures, the Government also introduced a minimum income mechanism, called the Minimum Living Income, for households in a situation of poverty.[30] Although this measure was already on the political agenda (and is therefore a structural, non-temporary measure), its design and implementation have accelerated as a result of the crisis. The beneficiaries are family units with one member aged between 23 and 65, unless they have dependent minors, with legal residency in Spain. Minimum income and wealth thresholds have been established for accessing the aid, and it is therefore compatible with other sources of income, providing they do not exceed the minimum threshold set. The monthly amount of income will vary from €462 to €1,015 per household, depending on the size of the family.

Other, not purely fiscal, measures have also supported households. In the case of expenses for the occupation and use of dwellings, a moratorium was established on mortgage payments for vulnerable households,[31] reaching 3 million households, with deferred payments to financial institutions potentially amounting to between €300 million and €500 million, depending on the percentage of people affected. Similarly, a moratorium on rental payments was approved for vulnerable households, as was the possibility of mandatory extensions of rentals expiring during the state of alert. In the case of major landlords, the moratorium may be extended for up to four monthly instalments, to be repaid (unpenalised and interest-free) over three years. In their capacity as landlords of public housing, general

29 Royal Decree-Law 7/2020.

30 Royal Decree-Law 20/2020. This type of scheme is present in most European countries and even in Spanish autonomous regions. Although the design and purpose of these schemes vary, they all share the ultimate aim of reducing poverty. See, for example, AIReF (2019) and Frazer and Marlier (2016).

31 Royal Decree-Law 8/2020.

government agencies are considered to be major landlords, leading to the deferral of around €187 million in income. Alternatively, the option was given for major landlords to negotiate a 50% reduction in rental payments. In the case of individual landlords, in the absence of an agreement between the parties, tenants could request an interest-free, expense-free loan, with an ICO guarantee, fully backed by the State, for an amount of up to six monthly instalments, to be repaid over up to six years which, under exceptional circumstances, may be extended for a further four years. A three-month moratorium on non-mortgage loans to households was also approved. These measures have been extended until 30 September. Moreover, in cases where a contractual service could not be fulfilled during the state of alert (specifically package holidays), the penalty-free resolution of the contracts has been guaranteed for consumers and users.

Italy adopted similar measures; however, as in the case of aid for businesses, assistance was focused on direct payments to vulnerable households. Thus, a last resort fund was set up to support low-income workers, which could have a cost of €200 million. Moreover, the Government created a temporary emergency income, lasting two months, for an amount ranging between €400 and €800, for low-income households currently excluded from public benefits. The eligibility requirements for this emergency income were: (i) an annual household income of less than €15,000 (based on the indicator of equivalent income, ISEE, calculated by the Italian National Social Security Institute (INPS), which considers income, wealth and the number of household members); (ii) capital of less than €10,000 (plus €5,000 for each household member, up to a maximum of €20,000); (iii) household income, in April, below the amount of emergency income; and (iv) the non-receipt, by any household member, of special aid in relation to the pandemic, pensions, or the universal minimum income.[32]

Furthermore, temporary work-life balance measures were adopted, such as 15 days' care leave (on 50% of wage) or, alternatively, a "babysitter voucher" of €600 (€1,000 for health workers). The measures were designed with a term of two months. Workers with children under the age of 14 were also given the right to work from home. In addition to these measures, funds for food purchases were earmarked to provide immediate assistance to households in need. Lastly, a suspension of up to 18 months of mortgage payments on principal residences was approved, budgeted at €500 million.

Germany strengthened its basic income and long-term unemployment benefit scheme, known as "Hartz IV".[33] Specifically, the Ministry of Labour extended the coverage

32 The universal minimum income is granted to Italian and European citizens and people resident in Italy for more than 10 years who have an annual household income of less than €9,360; real estate assets, other than the principal residence, valued at less than €30,000; and financial wealth of less than €6,000. The amount of universal minimum income, which in any event may not exceed €780 per month, varies depending on any other public assistance drawn by the household and on whether the principal residence is rented.

33 The subsidy known as "Arbeitslosengeld II", "ALG II" or "Hartz IV" is a social benefit aimed at ensuring certain basic living conditions for people of working age (between 15 and 67 years), subject to certain requirements, such as residing in Germany and not having sufficient resources (asset threshold). To qualify for the subsidy, applicants must prove that they are actively seeking work, have exhausted the unemployment benefit or that they have a job that does not provide sufficient resources. The assistance is significantly cut if an individual rejects job offers.

of this fund, facilitating access thereto by the self-employed, and suspended the obligation to declare income and assets in advance in order to access this benefit. As such, the self-employed may cease business activity without having to stop paying basic expenses, such as rent on their private dwelling. The additional beneficiaries of basic-income security are expected to reach up to 1.2 million, including 700,000 self-employed workers. The measure was approved for six months, but was subsequently extended until the end of 2020.

Other household support measures included temporary protection for tenants who were unable to pay their rent as a result of a drop in income (temporarily abolishing evictions), protection for households who could not pay for utilities, and increased aid for low-income households with children.

In June, as part of the announcement of a new fiscal package, the Government proposed new measures aimed at sustaining household income and consumption. Specifically, on a temporary basis (July to December 2020), the standard rate of VAT has been reduced from 19% to 16%, and the reduced rate has been lowered from 7% to 5%. Furthermore, a lump-sum payment of €300 per child was envisaged, without prejudice to existing aid. In addition, in the case of single-parent families, personal income tax deductions for dependents were doubled. Lastly, the price of electricity was subsidised to cover part of the cost of renewable energy subsidies.

France established a temporary special payment, up to May 2020, for parents and workers caring for children and dependents, comprising 90% of their net salary. Moreover, for vulnerable households, additional special assistance of €150 was established for families receiving social aid, together with an additional €100 per dependent child.

In the **United Kingdom,** people applying for statutory sick pay can claim these benefits from day 1 of their absence from work, rather than from day 4, if they are affected by COVID-19 or are self-isolating. The income threshold for accessing them was removed, including for the self-employed, and the standard allowance was raised by £1,000 per annum. The working tax credit basic element was also increased by £1,000 per annum. The measures also provided for housing benefit from local authorities.

Other measures of a financial, rather than fiscal, nature were also implemented. Included here is the support provided by banks to mortgage loan borrowers whose financial position has been affected by COVID-19, through repayment moratoria of up to three months. In consumer loans, the financial regulator decided to freeze all loans and outstanding loan and credit card payments for three months for those economically affected by the pandemic, complemented by an increase in interest-free overdrafts to £500 during that period.

The **United States** approved direct lump-sum transfers of $1,200 to each individual, plus $500 per dependent child. To ensure the progressivity of these transfers, the payments would progressively decrease for individuals with an annual income of more than $75,000, reaching zero for those whose income exceeded $99,000. The transfers were made universally, i.e. including to individuals not reporting income and recipients of Social Security benefits. By way of comparison, Bush's economic stimulus package of 2008 provided tax rebates of between $300 and $600, plus $300 per dependent child.

Funds were also mobilised for social and food assistance programmes. Specifically, the Families First Coronavirus Response Act will provide food assistance to households, and Support for Food Stamp (a federal scheme) and other subsidies for vulnerable groups of the population such as children and the elderly will be extended.

Lastly, various tax deductions were established and a three-month extension was granted for personal income tax payments. Students were also exempted from paying interest on their federal loans.

6 Conclusions

To strengthen health systems and alleviate the effects of the pandemic on their economies, in the opening months of 2020 the authorities in all countries adopted extraordinary fiscal policy measures aimed at supporting firms and households and protecting employment and the productive system. Following this lockdown phase, fiscal activism is focused on stabilising the economy, protecting strategic sectors and promoting business investment to shore up the recovery. This was the specific case of the main euro area economies (Germany, France, Italy and Spain), and in the United Kingdom and in the United States.

The measures to support firms and the self-employed were chiefly geared towards underpinning business liquidity. These measures presented one aspect that was common to all the countries considered: the recourse to deferrals of tax payments. However, they also differed in other aspects: while some countries decided to distribute direct payments and non-refundable subsidies, others opted to grant indirect aid, such as coverage of deferrals of supplies, rental and mortgage payments, complemented in some cases by loan and mortgage moratoria. Extra-budgetary aid, through public guarantee programmes and, to a lesser extent, direct financing programmes, was also widespread. Various strategies for channelling these measures, either through national public investment and development banks or through the creation of special-purpose investment vehicles operated by central banks, were also observed.

Measures to protect employment, mainly in Europe, took the form of strengthening existing partial and temporary unemployment systems, and short-time working schemes. Economies outside the euro area opted to operate through loans or payments to firms deciding to retain their staff during the disruptions caused by coronavirus. All of the countries considered also adopted a wide range of provisions aimed at supporting the liquidity of the most vulnerable households. These included moratoria on the payment of mortgages, loans and rentals, support for work-life balance, and the strengthening of the basic income arrangements and direct aid for food purchases.

It should be stressed that both the discretionary fiscal measures described in this paper and the automatic stabilisers, which are very significant in the European economies, will substantially impact the budget deficit. As a result, the COVID-19 crisis will foreseeably have significant implications for the public debt path in advanced countries. This will present additional economic policy challenges during the recovery process. In any event, there is still a high level of uncertainty as to how the pandemic will unfold, and over the intensity and duration of the recovery phase. This will require a future assessment of the continuity and appropriateness of public-sector support programmes.

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Annex 1 Fiscal policy response. Budgetary and extra-budgetary measures

Table A1.1

FISCAL POLICY RESPONSE. BUDGETARY AND EXTRA-BUDGETARY MEASURES

Country	Deferral and suspension of taxes on businesses	Subsidisation of labour costs and unemployment, and support for businesses	Support for businesses (guarantees, credit, recapitalisations)	Support for households	Other expenditure measures
Spain	Six-month moratorium on tax debts of SMEs and the self-employed up to a maximum of €30,000 per tax Adjustment of income tax payments for the self-employed	Greater flexibiliy of ERTEs, extension of unemployment benefit to more groups, greater protection for unemployed seasonal workers	Public guarantees (ICO) of €100 (+ 40) bn for loans to non-financial corporations, additional €2 bn for exporters Fund for Support for Solvency of Strategic Firms (€10 bn)	Moratoria on principal residence mortgage and rental payments for low-income employees and the self-employed Benefits for the self-employed and domestic service workers whose employment is suspended	
Italy	Tax deferral to September for firms and the self-employed Abolition of June payment for regional tax on the productive activities of the self-employed and firms Cancellation of municipal taxes for June for hotels	Unemployment subsidy for firms affected, extension to industries not covered, suspension of Social Security contributions, suspension of dismissals and regularisation of irregular workers	Guarantees for moratoria on mortgage payments; bolstering of guarantee fund for SMEs and SACE public guarantee programme (up to a total of €450 bn); large corporation recapitalisation fund	Guarantees for moratoria on mortgages, leave for care responsibilities, €600 subsidy for the self-employed, fund for low-income workers, emergency income for vulnerable households, work-life balance measures and food aid	
Germany	Temporary deferral of taxes on businesses and investment support tax measures VAT reduction for hospitality-sector firms for one year as from 1 July	Easing of and greater flexibility for *Kurzarbeit* (reduced working hours) requirements and increase in benefits Subsidies programmes and direct payments to microenterprises and the self-employed (extended to all types of firms) Unemployment benefit extended for 3 months (up to 2 years for the over-50s) 40% ceiling for Social Security contributions	KfW public guarantees programme (€820 bn budgeted) Creation of bail-out fund for large corporations: €400 bn in guarantees; €100 bn loan to KfW; €100 bn for recapitalisations Support for strategic sectors (aeronautical)	Reinforcement of Hartz IV (basic income programme) Greater protection for tenants and households unable to pay utility bills Aid to low-income households Temporary VAT reduction Lump-sum child support payment (€300)	Investment plan worth €12 bn over 4 years €55 bn in reserve in budget to cover additional needs Investment plan: support for municipalities and for the ecological and digital transition
France	Temporary deferral of taxes on businesses Refund of tax credits accelerated	Strengthening of partial unemployment arrangements Deferral of social insurance payment Creation of Solidarity Fund for microenterprises and the self-employed Deferral of lease and utility payments	Public guarantee programme for businesses of all sizes through Bpifrance totalling €300 bn Support for strategic firms	Child care allowance Increase in social aid for vulnerable households	
United Kingdom	Reduction in business rates, delay in payment of VAT and income tax for the self-employed Application of zero rating to e-publications brought forward	Payment of 80% of the salary and contributions of companies that have furloughed workers, and reimbursement of sick leave to SMEs Subsidies to SMEs and payment of 80% of profits of the self-employed in past 3 months	Public guarantees (British Business Bank and Government) and access to credit for businesses	Improvement in social welfare measures (income subsidies and rent support) Increase in subsidies for the underprivileged	Increase to other budget items
United States	Deferral of income tax payments and Social Security contributions Increase in deductions on personal income tax and on interest payments and losses on corporate income tax Deduction for preserving employment (50% of wages paid up to a maximum of $10,000 per employee) Temporary suspension of aviation taxes	Remunerated sick leave for workers in quarantine; tax relief to SMEs for sick employees Increase to a maximum of $600 per week in provision for unemployment and duration extended by 13 weeks	Interest-free, unsecured loans to SMEs, which could become subsidies depending on the percentage of staff retained Loans to non-financial corporations and businesses hardest hit, such as airlines and strategic companies	Students exempt from paying interest on federal loans Food stamps and broader Medicare coverage Cash payments to individuals ($1,200) and $500 per dependent child, to be phased out based on income (up to $99,000 per annum)	Extraordinary spending of state and local governments

SOURCE: Devised by authors based on national sources.

Annex 2 Comparison of public guarantee programmes

Table A2.1

COMPARISON OF PUBLIC GUARANTEE PROGRAMMES

(Public development banks and other extra-budgetary vehicles)

<table>
<tr><th>Country</th><th>Business size</th><th>Guarantees</th><th>Financing cost (a)</th><th>Maximum term</th><th>Amount</th></tr>
<tr><td rowspan="5">Germany</td><td>KfW - Large firms</td><td>80%</td><td>2%-2.12%</td><td>6 years (1-year grace period)</td><td rowspan="5">KfW
€820 bn

Economic Stabilisation Fund (ESF)
€400 bn</td></tr>
<tr><td>KfW - SMEs</td><td>90%</td><td>1%-1.46%</td><td>=</td></tr>
<tr><td>KfW - Large firms
(Syndicated loans > €25 m)</td><td>80%</td><td>N/A</td><td>10 years</td></tr>
<tr><td>KfW - SMEs > 10 employees</td><td>100%
(max. €800,000)</td><td>3%</td><td>N/A</td></tr>
<tr><td>ESF - Large firms > 250 employees</td><td>100%</td><td>N/A</td><td>N/A</td></tr>
<tr><td rowspan="2">Italy</td><td>Large firms</td><td>70%-90%
(25% of 2019 turnover)</td><td>< 0.5%
first year</td><td rowspan="2">6 years</td><td rowspan="2">SACE and SME fund
€450 bn</td></tr>
<tr><td>SMEs (< 500 employees)</td><td>90%-100%
(15%-25% of 2019 turnover)</td><td>< 0.2%-0.5%
first year</td></tr>
<tr><td rowspan="4">France</td><td>< 250 employees, turnover < €50 m</td><td>90%</td><td>0.25%-1%</td><td rowspan="4">6 years
(1-year grace period)</td><td rowspan="4">Bpifrance
€300 bn</td></tr>
<tr><td>< 5,000 employees, turnover < €1.5 bn</td><td>90%</td><td>0.5%-2%</td></tr>
<tr><td>> 5,000 employees, turnover < €1.5 bn</td><td>80%</td><td>=</td></tr>
<tr><td>> 5,000 employees, turnover > €1.5 bn</td><td>70%</td><td>=</td></tr>
<tr><td rowspan="2">Spain (b)</td><td>SMEs</td><td>80%</td><td rowspan="2">No more than pre-crisis levels</td><td rowspan="2">5 years</td><td rowspan="2">ICO
€100 bn</td></tr>
<tr><td>Other firms</td><td>70%
60% rollovers</td></tr>
<tr><td rowspan="4">United Kingdom</td><td>SMEs and micro businesses</td><td>100% (max. £50,000)</td><td>0% first year</td><td></td><td rowspan="4">British Business Bank
£330 bn</td></tr>
<tr><td>Companies with turnover < £45 m</td><td>80%
(max. £5 m)</td><td>=</td><td>=</td></tr>
<tr><td>Companies with turnover > £45 m</td><td>80%
(max. £200 m)</td><td>N/A</td><td>3 years</td></tr>
<tr><td>Companies requiring equity investment affected by COVID-19</td><td>Up to 50%
(max. £5 m)</td><td>Min. 8%</td><td>=</td></tr>
</table>

SOURCE: Banco de España and national sources.

a In the case of Italy and France, this refers to the premiums on the guarantees issued over the rate charged by banks.
b In Spain, in July the Council of Ministers approved a new ICO line worth €40 billion to promote business investment. Its characteristics are still to be defined.

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