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Economic response in phase two of COVID 19 in PAM region

In its latest *Global Economic Prospects* report, issued on 8 June 2020, the World Bank states that, due to the impact of the COVID-19 pandemic, global economy will shrink by 5.2 per cent this year, representing the deepest recession since World War Two, and triggering a dramatic rise in extreme poverty. Moreover, the OECD, in its latest report issued on 10 June, projects that the global economic output will shrink by 7.6 per cent, if a second COVID wave washes over the world in the coming months.

In both scenarios, the shock to the world economy and living standard is absolutely unprecedented and it will bear long-lasting effects.

An effective national and international response requires multiple key elements, such as a coordinated and comprehensive strategy to support economic activity, and sound preparations for economic recovery. This strategy would combine short, medium and long-term initiatives among all stakeholders, including among countries, cities, the public and private sectors, and civil society.

In this context, countries and regional institutions in the Euro-Mediterranean region have so far adopted socio-economic response measures to prevent more people from falling into poverty and unemployment. Among these are the following:

Financial packages in the EU

EU Member States have committed to provide liquidity support for sectors facing disruptions and for companies facing liquidity shortages, consisting of public guarantee schemes and deferred tax payments, which are estimated at 16% of EU GDP. Never-the-less, many on the announced measures, particularly the grant element of the financial aid, need the consensus by all EU member states and long negotiations are expected due to the lack of agreement between the most affected countries in the south and those of central and northern Europe.

On 18 March, the ECB decided to launch a EUR 750 billion *Pandemic Emergency Purchase Programme (PEPP)*, to expand the range of eligible assets under the corporate sector purchase programme (CSPP) and to ease the collateral standards. These measures are aimed at ensuring that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb the Covid-19 shock.

On 31 March, the proposal for a *Coronavirus Response Investment Initiative* (CRII+) was approved by the European Parliament and the Council, and will be enforced as of 1 April. This will allow the use of EUR 37 billion, under cohesion policy, to address the consequences of the COVID-19 crisis.

On 22 April, the EU Council has granted its approval for the "Coronavirus Response Investment Initiative Plus" (CRII+), which allow Member States - for the period between 1 July 2020 and 30 June 2021- to request 100% financial support from the EU budget, and allow farmers to obtain access to liquidity or to get compensation for their losses through favourable loans and guarantees of up to 200,000 euros.

Furthermore, on 11 June 2020, the European Investment Bank (EIB) approved € 7.5 billion of financing for projects across Europe and around the world. This includes new business lending programs to support those sectors most impacted by the COVID-19 pandemic.

MENA region

According to the Arab Monetary Fund, the governments of the Arab countries, represented by the central banks and ministries of finance, have adopted incentive packages worth nearly $ 180 billion (9.5 per cent of the GDP of the Arab countries) with the aim of supporting the affected sectors and groups, and reducing the size of the expected impact resulting from the pandemic's restriction of activity in a number of economic sectors the basic.

Most MENA economies introduced fiscal and financial measures to release pressure on some industrial sectors, to continue implementing already signed projects and contracts, and to facilitate access to their local market to foreign investors.

On 11 June, the International Monetary Fund reported that Governments around the world have spent $10 trillion in fiscal actions to respond to the novel coronavirus pandemic and its economic fallout, but significant further efforts are needed.

Creating inter-ministerial structures

In the wave of the pandemic, many national governments in the region quickly adopted measures to strengthen institutional coordination by creating inter-ministerial structures or *Ad-Hoc* task forces in charge of monitoring and evaluating the progress of the situation, and anticipating the direct and indirect economic repercussions of COVID-19. For example, the Tunisian government has created a National COVID-19 Monitoring Authority, gathering senior officials from all ministries to monitor the regularity of the supply of basic products, the distribution of social assistance to poor families or families without income. In Morocco, an Economic Watch Committee (CVE) was created to take the necessary measures to mitigate the economic impacts of the pandemic. It includes representatives from the public and private sectors. The Italian government, on its side, in addition to a task force of experts also held a week-long consultation with all actors of the economic sector, called the "*Stati Generali*".

Supporting of tourism industry

Tourism, including its related supply industries and services, is one of the economic sectors first and most heavily affected by the COVID-19 in the Mediterranean region and in the whole world.

In particular for Europe, the European Commission aims at supporting Europe's tourism industry by :

- Ensuring liquidity for tourism businesses, in particular SMEs, through guarantee schemes for vouchers and further liquidity, to support companies in the transport and travel sectors. As part of EU funding, the EC has made available up to €8 billion in financing for 100,000 small businesses hit by the crisis, through the European Investment Fund.
- Saving jobs with up to €100 billion in financial relief, in addition to partnerships between employment services, social partners and companies to facilitate reskilling, especially for seasonal workers.
- Connecting citizens to local tourism offer, promoting both local attractions and Europe as a safe for tourist destinations, through encouraging a digital transformation of tourism services to offer more choice, and building a sustainable, innovative and resilient European tourism ecosystem.

For MENA economies, tourism represents a major economic pillar and a key component of economic diversification for oil-exporting countries. In this regard, many MENA governments have taken initiatives to support the tourism industry in their countries.

Measures include specific credit lines for tourism enterprises, as introduced by the Central Bank of Egypt, exemptions from tourism levies and other fees, as implemented in Bahrain and the United Arab Emirates, and debt rescheduling such as in Tunisia.

Particular attention has also been given to the tourism sector in countries' post-lockdown strategies. In Egypt for example, hotels have been authorized to reopen for domestic tourists at 25% capacity until end of May and 50% capacity from June onwards, provided they comply with the safety measures required.

Relaxing of lockdown measures

European countries are gradually lifting COVID-19 restrictions; but there it has proven difficult to find agreement among EU countries themselves on a common approach on the reopening of internal borders, as well as for future reopening of external borders. Each country has adopted different measures. Experience has shown that every country had its own rules and its own timetable for reopening to tourists, both from its EU neighbors and further afield.

As of end of May, several MENA countries have begun to gradually relax lockdown measures and implement their exit strategies. Deconfinement plans are either progressive, such as Lebanon's five-step reopening plan, which started on 27 April, or rely on a geographical breakdown between low-risk and high-risk regions. Algeria, Bahrain, Iraq, Jordan, Lebanon, Saudi Arabia and the UAE have all authorized businesses and commercial outlets to resume activity, at least partially.

In all countries, the gradual easing of restrictions has been coupled with permanent strict preventive measures, with businesses required to comply with precautionary measures in order to be allowed to re-open.

Measures to support SMEs

SMEs generate more than 90% of jobs and represent 99% of businesses in the Euro-Mediterranean region.

On 26 May, the Board of Directors of the European Investment Bank (EIB) has agreed on the structure and business model of the new Pan-European Guarantee Fund (EGF) to tackle the economic consequences of the Covid-19 pandemic. All EU Member States have been invited to contribute to the EGF, with a share of the €25 billion, equal to their share of EIB capital.

The EGF will become operational as soon as Member States accounting for at least 60% of EIB capital have signed their contribution agreements. Meanwhile, a Contributors Committee has been set up. It will enable the EIB Group to scale up its support for mostly small and medium-sized European companies, mobilizing up to €200 billion of additional financing. At least 65% of the financing are earmarked for SMEs. A maximum of 23% will go to companies with 250 or more employees, with restrictions applying to larger companies with more than 3,000 staff.

In the MENA region, governments have joined the global approach and have activated various concrete tools, notably:

- Deferrals of tax and other payments: Algeria (except for large firms); Egypt (for industrial and tourism sectors); Jordan; Lebanon; Morocco (excl. large firms); Palestinian Authority; Saudi Arabia (plus fast track on government dues); Tunisia (plus fast repayment of tax credits); UAE (reduction in government fees and fines; 20% refund on custom fees, etc).
- Deferral of payment of loans by banks: Algeria; Egypt; Iraq; Jordan; Palestinian Authority; Saudi Arabia; Tunisia; UAE.
- New loans for firms in affected sectors: Egypt (manufacturing and tourism); Morocco; Saudi Arabia; Tunisia.

- Other measures, including reducing utility bills (Egypt; Saudi Arabia); direct support to pay wages (Saudi Arabia – 60% for three months); and compensation for firms losing business (Algeria).

Informal economy

Informal economy is generally associated with limited or lack of social protection coverage and low and unstable revenues, making informal workers particularly vulnerable in facing a crisis. Informal workers are concentrated in low-productivity jobs requiring physical presence, with no possibility to work remotely. In the context of the COVID-19 crisis, many of them face a dilemma between complying with the health measures and maintaining a source of income to pay for their food and other basic expenses.

In Europe, all national governments have implemented various socio-economic packages to shore up business and workers' immediate needs. Most governments have committed to paying a proportion of employees' wages for those affected by the pandemic. They also offer additional financial support in the form of moratoriums on mortgage payments and support for rents. In addition, governments have put in place a range of different measures to support at vulnerable groups and self-employed workers.

On 19 May, the EU has put in place an instrument to adopted a temporary scheme, which can provide up to €100 billion of loans under favourable terms to help workers keep their jobs during the crisis, including for self-employed persons, as a particularly important safety net for workers in the hardest-hit economies The instrument will then be operational until 31 December 2022.

In the MENA region, economies are characterized by a sharp dichotomy between a formal labor market and a precarious informal economy. Formal private employment is limited and accounts on average for less than a fifth of employment. Informal labor market represents on average 68% of employment in the region.

In this regard, governments across the region have made an unprecedented institutional and policy effort to support households and businesses throughout the crisis. Exceptional measures have been taken to ensure that the response also targets those groups which usually fall outside of social safety nets, such as informal and seasonal workers. Moreover, joint initiatives have been initiated with the private sector and civil society organizations to reach the most vulnerable populations.

Long-term recovery plans

On 27 May 2020, the European Commission has put forward its proposal for a major recovery plan. To ensure that the recovery is sustainable, even, inclusive and fair for all Member States, the Commission has proposed a powerful, modern and revamped long-term EU budget boosted by Next Generation EU. This is an emergency temporary recovery instrument, to help repair the immediate economic and social damage brought by the coronavirus pandemic, kick-start the recovery and prepare for a better future for the next generation.

Next Generation EU amounting to €750 billion, as well as targeted reinforcements to the long-term EU budget for 2021-2027, will bring, if adopted, the total financial firepower of the EU budget to €1.85 trillion.

The funds raised for Next Generation EU will be invested across three pillars: a) Support to Member States with investments and reforms, b) Kick-starting the EU economy by incentivizing private investments, and c) addressing the lessons of the crisis. The proposed EU budget in intended to power a fair socio-economic recovery, repair and revitalize the Single Market, guarantee a level playing field, and support the urgent investments.

In the MENA region, the Arab league is currently working at devising a comprehensive long-term plan to address the economic repercussions of the pandemic on Arab countries, but the details are not yet known.