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EUROSYSTEM

THE DISTRIBUTIONAL IMPACT OF COVID-19 POLICIES IN 2020 AND 2021: THE CASE OF GREECE

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The impact of the Covid-19 pandemic on households' incomes

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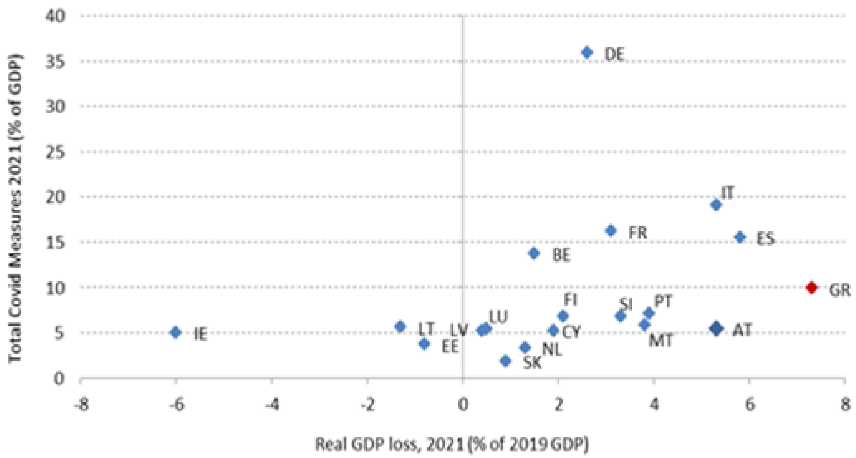
- The COVID-19 pandemic and the relevant containment measures imposed internationally to protect citizens' health took a heavy toll on economic activity and consequently on households' incomes.

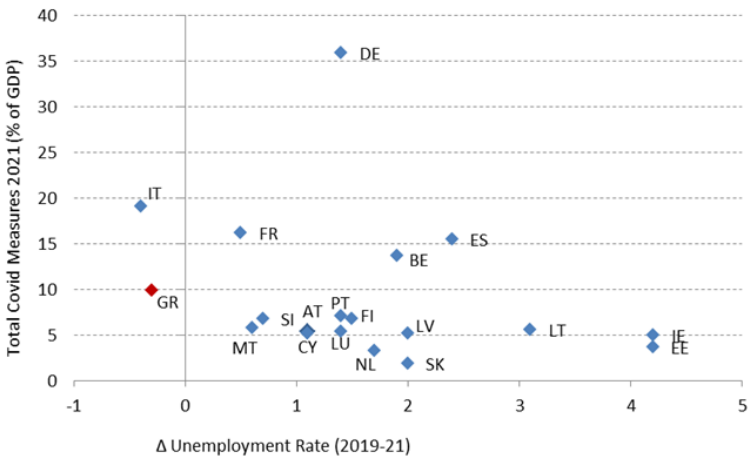
- The available empirical evidence suggests that the pandemic affects disproportionately the young, those with low education and low income, inevitably leading to an increase in poverty and income inequality in the European Union (EU) (Almeida et al. 2020).

- These developments highlight the role of fiscal policy in mitigating the negative impact of the health crisis in order to safeguard economic stability and protect the more vulnerable groups of the population.

The case of Greece

- Greece has taken strict containment measures and managed to reduce fatalities, at the expense of large output losses compared to other euro area economies.
- Compared to other EA countries, Greece had to adopt a relatively large - yet temporary and targeted- fiscal stimulus package in order to ease the effects of the recession and mitigate the effects on the unemployment rate.
- Macro evidence (ECB MPE 2021) suggests that the Greek fiscal support package was successful in controlling for greater output losses, stabilizing employment and therefore preventing scarring effects on the economy.





The case of Greece

- The Greek Covid-19 fiscal support package had a substantial impact on the general government budget balance.
  - 2020: measures amounting to €17.3 bn (or 10.5% of GDP) had a budget impact of 7.2% of GDP.
  - 2021: measures amounting to €16,0 bn (or 8.8% of GDP) had a budget impact of 8.3% of GDP.

- **What is the distributional impact of the fiscal measures adopted in Greece?**

- **Did they counteract the negative consequences of the pandemic on household disposable income, poverty and inequality in years 2020 and 2021?**
  - For 2020, see also Bank of Greece (2021).

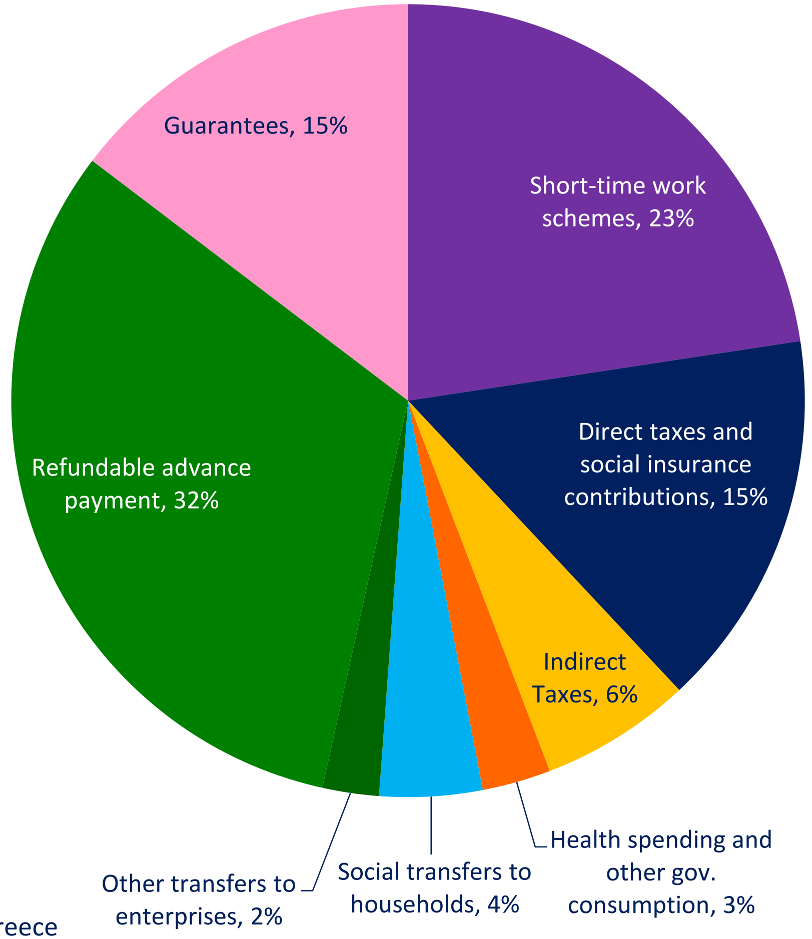
Background

- Covid-19 measures in 2020
- Covid-19 measures in 2021

Covid-19 Measures in 2020

- Enterprise support via the refundable advance payment
- Suspension of tax and social insurance obligations
- Measures stabilizing employment
  - Monetary compensation scheme
  - Subsidizing social insurance contributions of employees and freelancers
  - Creation of a new mechanism to support employment “SYN-ERGASIA"
- Guarantees to businesses
- Various social transfers to households
  - Two-month extension of unemployment benefits;
  - One-off allowance to the long-term unemployed not receiving the regular unemployment benefit;
  - Extraordinary support given to recipients of the guaranteed minimum income.
- Support measures for tenants and lessors of real estate,
- Reduction of VAT on targeted products and services and debt settlement to the tax authorities.

Estimated composition of COVID-19 related measures in 2020

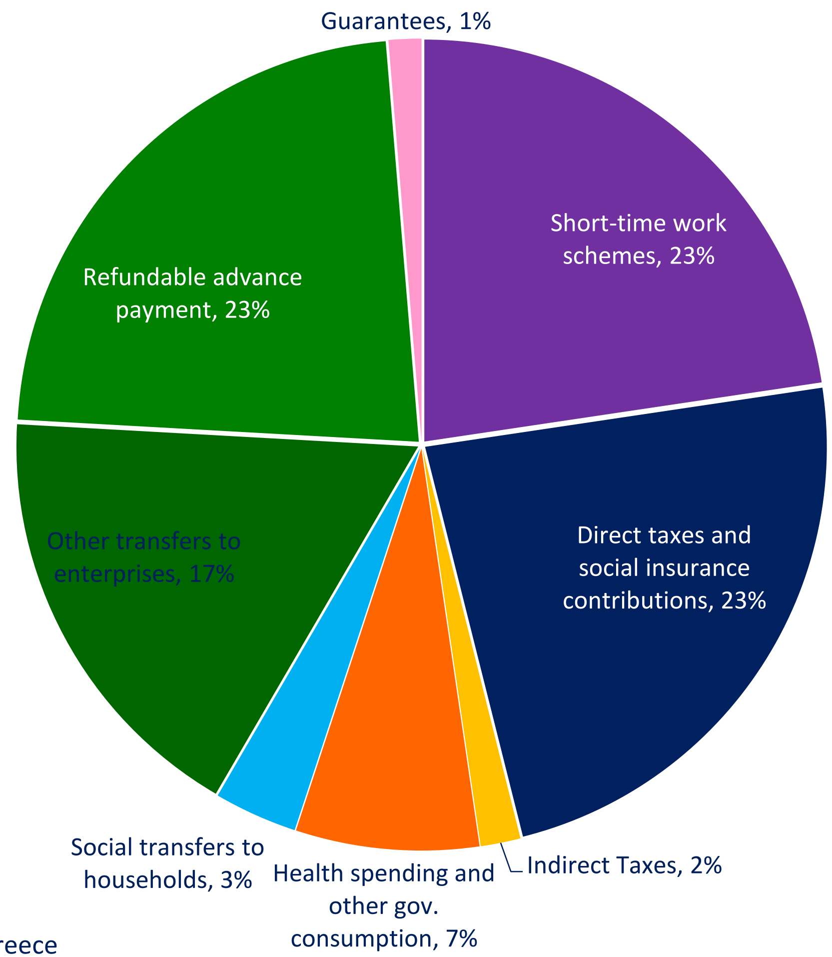


Source: Bank of Greece

Covid-19 Measures in 2021

- Extension of 2020 measures
  - Measures stabilizing employment
  - Refundable advance payment
  - Various social transfers to households
  - “Bridge” program for households (subsidy for mortgage repayment)
  - Suspension of tax and social insurance obligations
- Extra business support for their restart
- Tourism, food and beverage services subsidies
- "Bridge 2" program subsidizing loan repayment of businesses
- Reduction in social insurance contributions paid by employers (by 3pp)
- Abolition of the solidarity contribution for private sector employees

Estimated composition of COVID-19 related measures in 2021



Source: Bank of Greece

Data and Methodology

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- Data
- Methodology

Data

- Distributional effects were estimated using EUROMOD, in February following the year in question. Hence:
- Data for 2020 Measures: EU Survey on Income and Living Conditions EU-SILC 2018 (2017 incomes)
- Data for 2021 Measures: EU SILC 2019 (2018 incomes)
- As the income reference period is three years earlier than the year of analysis, incomes were adjusted to their 2020/2021 nominal levels, thus producing an artificial income distribution which may not fully reflect actual changes.

Methodology

- EUROMOD Versions I.3.0/ I.4+ were employed for 2020/2021 respectively.
- Following Figari and Fiorio (2020), for each year, three scenarios were simulated:

1. A scenario with **“No COVID-19”**, where there is no pandemic and fiscal policy remains as planned pre-COVID-19.
2. A scenario with COVID-19 but **“no COVID measures”**, whereby the pandemic adversely affects household incomes in the short term via furlough schemes.
    - The employees in furlough schemes are selected on the basis of registered cases per NACE Code according to data from the ERGANI information system.
    - An estimate for the self-employed is made on the basis of their number by affected NACE category.
    - No provision for the number of people moving to unemployment as according to the then available data from the Labour Force Survey of ELSTAT, there was no increase in the number of unemployed persons in comparison with 2019.
    - Fiscal policy remains as planned pre-COVID-19.

Methodology (cont.)

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3. A scenario with COVID and **“with COVID measures”**, whereby some of the government measures adopted to support household incomes are also taken into account, i.e. a subset of the fiscal measures concerning exclusively natural persons.

Measures (in million euro)	2020	2021
Monetary compensation for households	√	√
Two-month extension of unemployment benefits	√	√
One-off allowance to the long-term unemployed	√	
Extraordinary support given to recipients of the guaranteed minimum income	√	√
Extraordinary support to poorer pensioners		√
Reduction (by 3 p.p.) in social insurance contributions		√
Abolition of social solidarity contribution		√
Coverage (as % of all COVID-19 measures excluding guarantees and business support)	31%	31%

Results

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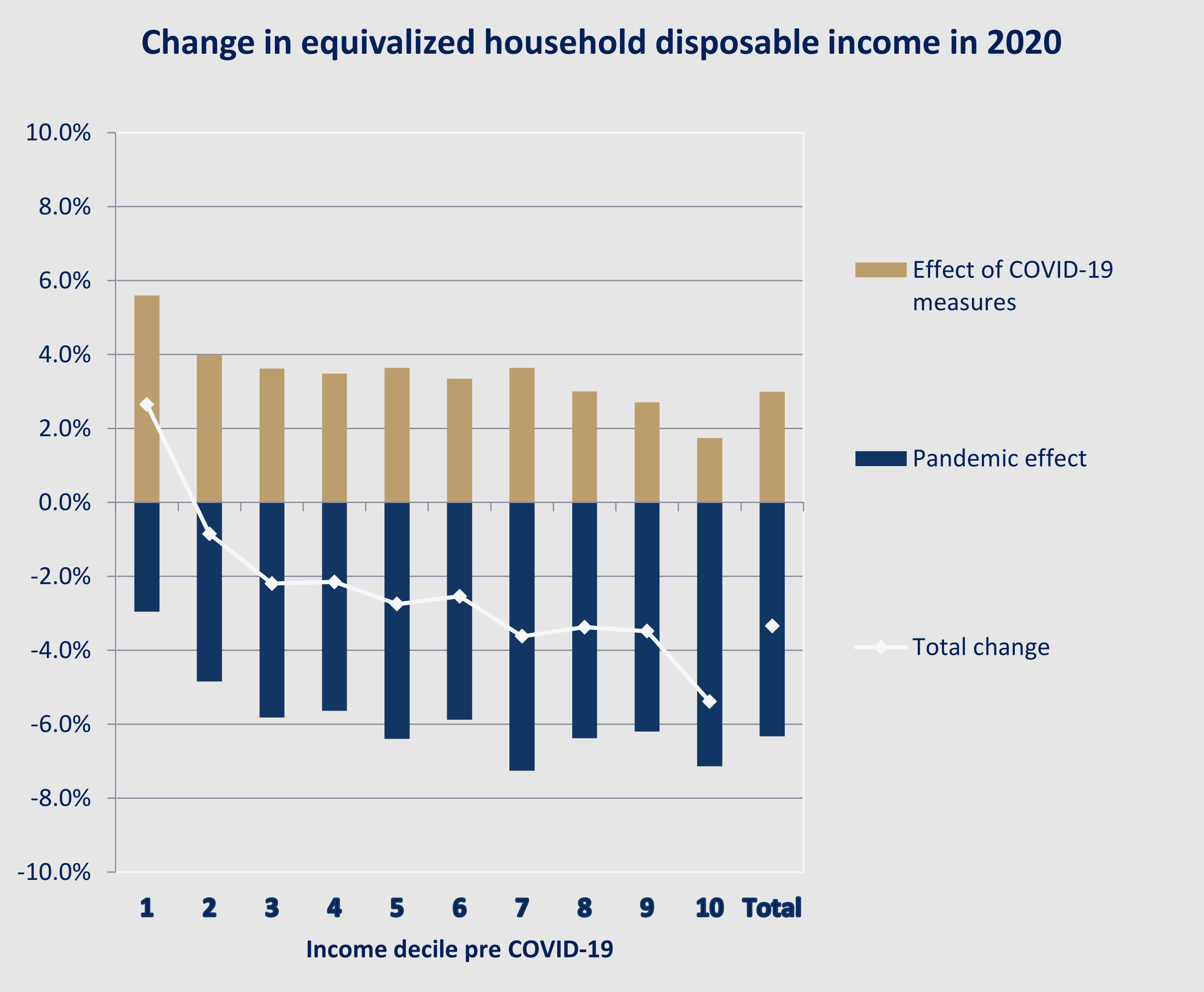
- Household disposable income
- Poverty and Inequality indices

Change in household disposable income 2020

- The health crisis hit incomes across the entire distribution
- The measures partly replaced the income losses incurred.
  - For the poorest decile, the measures overcompensated the income losses . This is because, beyond the large extent of income replacement for people in the bottom decile, there is a high concentration of unemployed persons who benefited from the extensions of unemployment benefits and the supplements to the guaranteed minimum income.
  - For the rest of the income deciles, household disposable income falls progressively with income, as the monetary compensation replaces a smaller portion of it.
- On average, household disposable income decreases by 3.3% (against a 6.3% fall without COVID measures).



Change in household disposable income 2021

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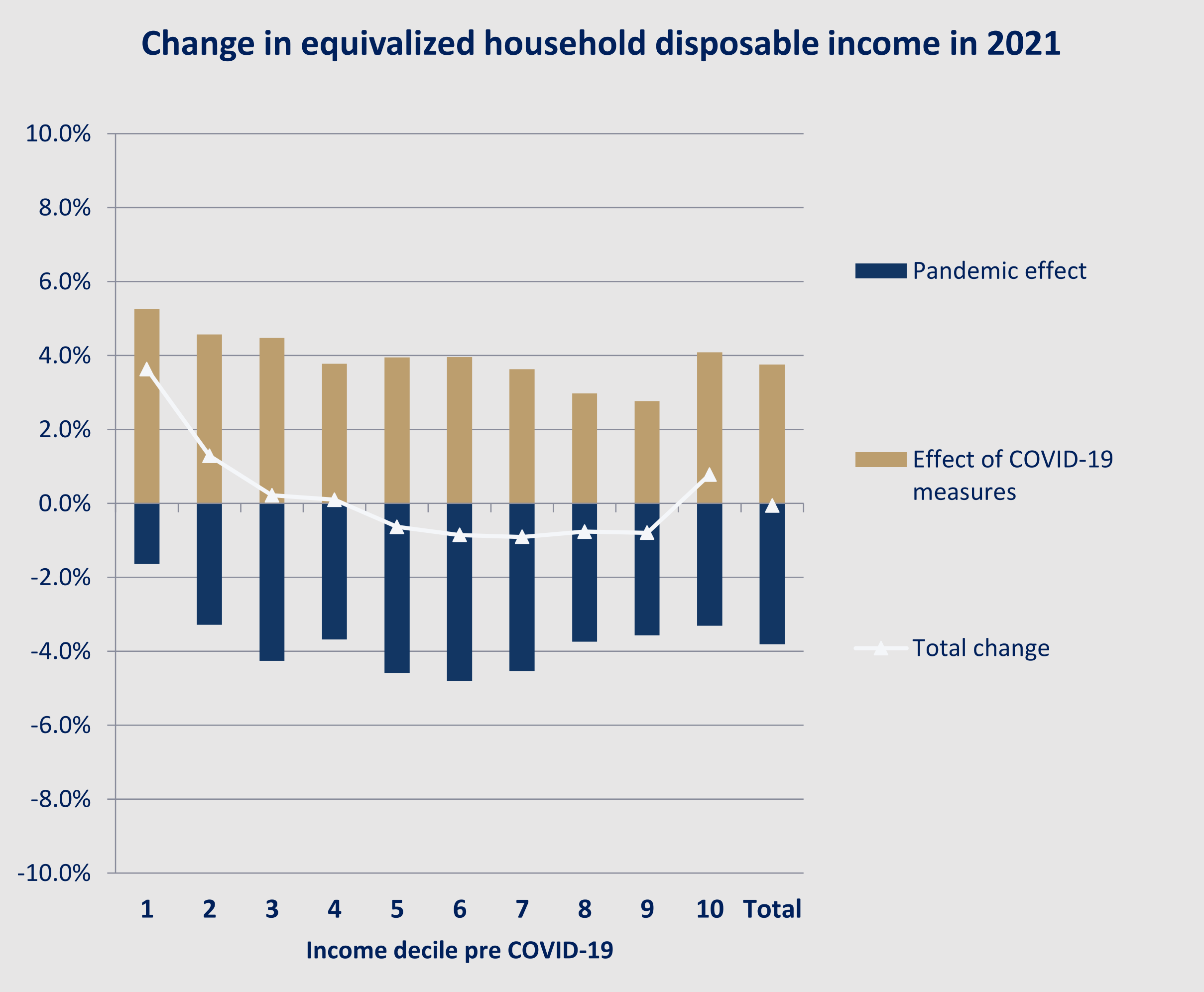
- As the economy started recovering in 2021, the health crisis hit incomes across the entire distribution, but to a lesser extent than in 2020.
- The measures replaced almost fully or even overcompensated for the income losses incurred. More so:
  - For the bottom 4 deciles, due to the income replacement effect but also due to the extension of unemployment benefits and the extraordinary support given to low income pensioners and recipients of the guaranteed minimum income.
  - The top decile, which benefited from the abolition of the social solidarity contribution.
- On average, household disposable income is virtually unchanged (marking a marginal fall of 0.1%), against a 3.8% fall without COVID measures.



Poverty and Inequality Indices 2020

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- Without measures, all indicators would have increased relative to their estimated level for 2020 prior to the outbreak of the pandemic.
- The government measures adopted to support households are shown to reverse this upward trend for all indices except for the risk of poverty, which remains higher (by 1.3 percentage point) relative to its estimate for 2020 prior to COVID.

2020	No Covid-19	With Covid-19	
		No measures	With measures
Inequality			
Gini	31.8%	32.3%	31.4%
S80/S20	5.2	5.4	5.1
Poverty			
At-risk of-poverty rate*	18.0%	21.6%	19.3%

* Poverty threshold set at 60% of 2020 incomes under a no covid-19 scenario

EU SILC 2021 (2020)	Actual
Inequality	
Gini	32.4%
S80/S20	5.8
Poverty	
At-risk of-poverty rate*	19.6%

* Poverty threshold set at 60% of 2020 incomes

Poverty and Inequality Indices 2021

- If no measures were taken, all indices would mark an increase relative to their estimated value for 2021 in the no-covid-19 scenario.
- Support measures reverse this trend for all indices except for the Gini, which remains marginally higher post-pandemic.

2021	No Covid-19	With Covid-19	
		No measures	With measures
Inequality			
Gini	30.4%	31.0%	30.5%
S80/S20	4.8	4.9	4.8
Poverty			
At-risk of-poverty rate*	17.8%	20.3%	17.3%
* Poverty threshold set at 60% of 2021 incomes under a no covid-19			

Conclusion

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- Overview
- Way forward

Overview

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- The health crisis hit incomes across the entire distribution in both years, especially at the outbreak of the pandemic in 2020.
- The fiscal measures examined have played an important role in cushioning citizens against the direct negative impact of the pandemic on their incomes, more so for 2021.
    - Especially for bottom deciles due to the income replacement effect but also due to the extension of unemployment benefits, the extraordinary support given to recipients of the guaranteed minimum income and other social transfers targeted to the most vulnerable.
- Without measures, all poverty and inequality indicators would have increased relative to their estimated level prior to the outbreak of the pandemic.
- The government measures adopted to support households are shown to reverse this upward trend for all indices except for the risk of poverty in 2020, which remains higher relative to its estimate for 2020 prior to COVID and the Gini coefficient in 2021, which remains marginally higher post-pandemic.
- These results highlight the necessity and success of counter-cyclical fiscal policy pursued for the quick recovery of the economy, which helps mitigate the adverse effects of the health crisis on poverty and inequality indices.

Way forward

- Caveats
  - The analysis does not take into account behavioural changes that may result from the implementation of government measures, but focuses on the direct distributional effects.
  - The analysis was carried out so as to timely inform about the distributional outcomes of the pandemic and the related fiscal support package and is hence based on an artificial income distribution based on data lagged by three years.
  - No provision for the number of people moving to/out of unemployment.
  - Coverage issues.
- Possible remedies
  - Carry analysis ex post using more recent data (EU SILC 2021, 2020 incomes).
    - Including information on the effect of more support measures on household disposable income.
  - Cater for unemployment transitions, based on latest available data.
  - Reduce randomness in the transitions embedded in the LMA add-on tool.

Thank you!

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