March, 26th 2020

Greece – New 2MDS€ financial package to cope with the economic impact of Covid-19 pandemic

1. Finance, Development & Investment Ministers Announcement, March 18, 2020

- **Strengthening the health system, by allocating a budget of at least €200M,** in addition to the current budget of the Ministry of Health. The Ministry of Health will be given all the additional funds it needs to fight the spread of the coronavirus.

- **More flexible labour market legislation for access to work,** for parents with children, flexible working hours, facilitation of teleworking and the possibility of obtaining a special purpose permit. The State participates in the distribution of costs.

- **Possibility of suspending the payment of tax and social insurance obligations** for companies closed by government decision and in sectors heavily affected by the spread of the virus. These measures are horizontal, as they concern enterprises of the specific activity code (KAD), whether they are left in operation, whether their activity is partial, whether they are closed by government order or whether they are closed on their own initiative.

The categories of KAD affected by these measures will be defined by the Ministry of Finance, on the basis of daily electronic transaction data, as well as decisions adopted on the prohibition of operation of certain sectors. The period of application of the measures will cover the month of March and, if necessary, will be extended.

For all businesses in these sectors, which maintain existing jobs, the March payments of VAT, all obligations to the tax authorities, due dates under deferred payment schemes are suspended for 4 months, i.e. until 31 July.

CORPORATE SUPPORT

Financing of companies up to €1bn Implementation of an expanded financing framework in the form of a repayable advance, with an extended repayment period and a grace period, for all companies that are strongly affected by the emergence and dissemination of Covid-19. The amount of financing available will take into account the reduction in turnover as well as the wage and non-wage costs of the employees employed by the company. The framework for the grant will be specified shortly. A precondition for obtaining this financing is the maintenance of existing jobs.

Additional support for businesses 3-month interest subsidy for sectors of the economy that are directly affected by the health crisis. If the crisis persists, the measure may be further extended.

In consultation with the banks, payments and their amortisation will be deferred until 30/9/2020. These two measures create the time needed for companies to meet their direct debt obligations and to continue operating unhindered after the crisis.

In consultation with the European Commission, for the period of economic recovery, a guarantee mechanism will be put in place for capital loans to small and medium-sized enterprises up to €3 billion.

The European Investment Bank will provide banks with liquidity to provide new loans of €2 billion.

Creation by the European Investment Bank of a guarantee facility for investment loans of up to €500 million.

Simplified access to the Entrepreneurship Fund of the Hellenic Development Bank and increased its resources by €250M to provide new loans to companies affected by the health crisis, with a subsidy of 100% of the interest rate for two years.

EMPLOYEES

All employees whose employment contract is temporarily suspended due to a suspension of activity by execution of a government decree will receive compensation in early April, from the state budget, of €800. This measure concerns around 500,000 workers, at a cost of around €400 million.

The state covers workers' social security, pension and health insurance rights and their social security contributions in full, based on their total nominal wages. (The budgetary cost, for March and April, for the approximately 500,000 workers is about €450M). For these same employees, the payment of March tax obligations is suspended for 4 months.

SELF-EMPLOYED PROFESSIONALS, AUTO ENTREPRENEURS AND SOLE PROPRIETORSHIPS

For this category of professionals, active in sectors with a strong reduction in economic activity due to the appearance and spread of the coronavirus, all tax obligations payable in March will be deferred for 4 months.

Maintenance of employment in all companies that have not suspended their activity as a condition for the suspension of the payment of insurance and tax obligations and the use of exceptional financial support instruments.

Express prohibition of dismissal of staff in enterprises closed down by order of the public authority, where such prohibition will be considered null and void.

UNEMPLOYMENT BENEFIT

Extension of the payment of ordinary unemployment benefit, as well as long-term unemployment benefit and unemployment benefit for self-employed persons and self-employed entrepreneurs for a further two months, for unemployed persons whose benefit expires on 31 March.

MEASURES IN FAVOUR OF THE SELF-EMPLOYED AND AUTO-ENTREPRENEURS

Deferral of February insurance premium payments for 3 months without interest or penalty.

MEASURES IN FAVOUR OF EMPLOYERS

Suspension of February insurance contributions for three months without interest or penalty for the companies concerned Suspension of payment of arrears to the insurance funds for three months for all companies concerned.

2. EUROPEAN INVESTMENT FUND

Beyond the €2bn, €1.8bn will be made available through the European Investment Fund, set up last week. Depending on the Eurogroup's decision, this amount will be able to finance various actions, such as company liquidity, employment support and workers' incomes.
There will be a further strengthening of corporate liquidity, through an optimum combination of resources from the public investment program, the Specific National Reference Framework, the Hellenic Development Bank and the European Investment Bank Group, in order to ensure maximum leverage.

VAT reduced to 6%, as opposed to 24% today, on the products needed to protect against Covid-19 and prevent its spread: masks and gloves, antiseptics, wipes and other preparations; soaps and other preparations for personal hygiene; ethyl alcohol used as a raw material by industry to produce antiseptics.

The addition of these species to the reduced rate of VAT will be applicable until the end of the year.

REAL ESTATE

For companies that necessarily interrupt their activity due to the spread of the virus, a payment of 60% of the rent for the commercial premises is foreseen for the months of March and April. The same measure is applied to employees of companies which interrupt their activity by necessity and whose employment contract is suspended, as regards the rent for their main residence. For the owners of the above-mentioned properties, the payment of tax obligations and the instalment payment of arrears is suspended for 4 months.

The exercise of assessing the values of real estate properties under the land value reform (new objective values) is postponed. The 2020 ENFIA property tax will be calculated on the basis of the previous regime, with the new provisions to apply from next year.

REPAYMENT OF STATE DEBTS TO THE PRIVATE SECTOR

The independent public revenue authority (AADE) will immediately reimburse all outstanding obligations to individuals and companies and return the amounts in all cases under control, up to a maximum of €30,000. AADE is simplifying procedures to avoid delays and lack of liquidity in the real economy.

A total of €218 million was reimbursed between 25 February and 13 March.

1. EUROPEAN CENTRAL BANK

On March 18th 2020, the ECB unveiled a massive €750 billion emergency support plan to restore calm to the bond markets. European government bond yields fell sharply at the start of the session, but this trend lost some of its strength during the day. They remain at very low levels.
In addition to the very large amount of 750 billion euros that the ECB is allocating to the European financial markets to deal with the economic impact of COVID-19, and even slightly higher than that announced by the Fed, this facility will be more flexible than the asset purchase program (APL) launched in 2015 and still underway. For example, the ECB will be able to buy bonds from Greece, which was not the case with the programme in place. It will be able to be used without a ceiling on monthly expenditure. And if necessary, the ECB will be able to temporarily deviate from the capital key that determines the share of purchases devoted to each euro zone country.
Bruno Le Maire: "if it does not help Italy in the face of the coronavirus, "Europe will not recover" 20 March 2020".

The French Minister of Economy and Finance said that if it did not help Italy, the EU would not recover. He also called on member states to "come together" to tackle the coronavirus crisis. "If it's every man for himself, if we let some states down, if we say to Italy, for example, 'fend for yourself', Europe will not recover," French Economy and Finance Minister Bruno Le Maire said on Friday 20 March on the 24-hour news channel LCI.

The ECB is unveiling a €750 billion plan to support the European economy. "If we are not able to pull together, it is the European political project that will be swept away by this crisis," he added, calling on the EU to follow the example of the European Central Bank (ECB), which announced a €750 billion emergency plan on Wednesday.

"We can see that the solidarity of the euro zone is being rebuilt, that interest rate differentials are narrowing," said Bruno Le Maire. "We are on the right track and we must continue to demonstrate this European solidarity over the long term so that the European continent can emerge stronger from this crisis," he added, without specifying the measures that the Member States should take. In an interview with the Financial Times on Friday, Italian Prime Minister Giuseppe Conte was more explicit. He called on the EU to use "all the power" of the eurozone's European Solidarity Mechanism (ESM) to deal with the "unprecedented" crisis of the Covid-19 epidemic. The way forward, he said, is to open up all the credit lines of the relief fund to all member states "to help them combat the consequences of the Covid-19 epidemic, on condition that each state is transparent and accountable for the way in which the resources are spent". This mechanism was set up in 2012 during the eurozone debt crisis. With a reserve of 410 billion euros, the ESM provides loans to countries in difficulty. In exchange, states - as was the case for Greece - have to submit to certain conditions. Greece, for example, has been forced into a programme of severe budgetary rigour and privatisations which have deprived it of some 15 regional airports, ports and energy infrastructure in particular.

2. EUROPEAN UNION

On 24th March 2020, nine EU countries have been calling for corona bonds to be issued EU-wide: Spain, Italy, France, Belgium, Luxembourg, Ireland, Portugal, Greece and Slovenia.

WHAT ARE 'CORONA BONDS'?

"Corona bonds" are joint debt issued to member states of the EU. The funds would be common and would come from the European Investment Bank.

This would be mutualized debt, taken collectively by all member states of the European Union. Pro-bonds countries versus the 'Frugal Four'

"We need to work on a common debt instrument issued by a European institution to raise funds on the market," the nine countries wrote in a letter to European Council President Charles Michel, ahead of Thursday's video call summit of EU leaders.

These nine countries are prone to calling for the mutualisation of European national debts, while others — richer countries in the north of Europe — usually oppose such measures.

They are Germany, Netherlands, Austria and Finland, also known as the "Frugal Four" the fiscally conservative EU states.

For decades, Germany applied a "Schwarze Null" (black zero) debt brake policy: it would never, under any circumstance, allow government borrowing.

In response to the coronavirus crisis in February, Germany announced that it would stop applying this rule, which was a major change in policy, but it does not mean it will be more inclined to accept "corona bonds". Bonds 'unlikely' to be EU's response to the crisis

Unlikely, Thursday's (26 March 2020) EU Council ended up not agreeing to issue such joint debt.

Germany and the Netherlands are reported to be leading to opposition to "corona bonds" duringThursday's meeting.

Debt sharing remains a taboo among the "Frugal Four" and issuing common bonds has already been a divisive idea among EU members in the past.

During the 2010-2012 sovereign debt crisis, while France and Italy supported the idea of issuing joint "Eurobonds", Germany strongly resisted the idea, pointing to the individual responsibility of EU member states to keep their finances in order.

Instead, the EU could decide to use the Eurozone bailout fund, named the European Stability Mechanism (ESM), a permanent agency based in Luxembourg that was created during the 2008 financial crisis and provides financial assistance, in the form of loans, to Eurozone countries or as new capital to banks in difficulty.

All EU countries that will be allocated credit from the ESM will be eligible to receive a special, unlimited programme of bonds buying from the European Central Bank, which was created during the 2012 crisis but has never been used yet.

The European Central Bank, headed by its new president Christine Lagarde, is planning to spend more than €1 trillion in private and public debt bonds buying until the end of 2020 to keep the Eurozone in good financial conditions.

Chritine Lagarde has urged the EU to consider the option to issue of "corona bonds".
EU states 'should absorb coronavirus losses not private sector'

The former president of the European Central Bank, Mario Draghi, has also called for European states to "absorb" market losses caused by the coronavirus crisis.

"The loss of revenue suffered by the private sector, and the debt contracted to reduce the deficit, must be finally absorbed, fully or in part, in the governments' statements of accounts," Draghi said on Wednesday.

Comparing the impact of the virus to that of World War I, Draghi said that the private sector did not cause" this economic shock and "cannot absorb" it.

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