ABOUT POLICY SPOTLIGHT

Policy Spotlight is a publication of the American Chamber of Commerce in Kosovo (AmCham Kosovo) which aims to bring attention on different economic policies and outline the challenges for the development of such policies, in order to pave the way for addressing them. This edition places the spotlight on The Global Economic Response on COVID-19 pandemic.

Please note that this paper reflects the perspective of March 2020 and since the virus is evolving quickly, some information may be outdated.

THE STATE AND ECONOMIC IMPACT OF COVID-19 UP TO DATE

The COVID-19 outbreak, which originated in Wuhan, China, has created an unprecedented challenge in the world, forcing the shutdown of schools, businesses, social life and curtailing the freedom of movement - all in an effort to curb the spread of the virus and prevent the escalation of health crisis. The lockdown has sharply affected many industries by decreasing their production and distribution rate, causing declines in turnover and disrupting the supply-chain in global markets.


Economists are claiming that COVID-19 has demonstrated the potential to have, if not worse, a similar impact as 2008 global financial crisis. According to the Organization for Economic Cooperation and Development (OECD) this year, the annual global GDP growth will decline to 2.4% (fig.1) while the business closure during the crises could result in a 15% or more in some businesses (fig.2). While the immediate need for social distancing has caused people to lose their jobs, self-quarantine, panic buy and accumulate stockpile, businesses are calling for cash-flows to operate, avoid bankruptcy and possible layoffs. With that being said, the International Monetary Fund has already declared that the world is now clearly in recession.

Though the magnitude of economic impact is still unknown and uncertain, the global turmoil that the pandemic has created has prompted country leaders to start preparing stimulus in order to mitigate the economic downfall and help their economies recover swiftly, once the pandemic is over. Whether or not they will be able to do so it depends how policymakers respond to the crisis. Well-developed countries have

already projected economic policies to support businesses and workers by injecting stimulus packages, while EU bodies and international organizations are pledging to take on coordinated actions in order to alleviate the financial burden of emerging and advanced economies.

AmCham Kosovo is tracking the global economic response to the crisis. For this edition, AmCham has provided a look on the economic measures that governments of U.S., U.K, Canada, Germany, Switzerland, and France, have taken against COVID-19 up to date.

UNITED STATES ECONOMIC RESCUE PLAN

The United States of America signed a massive economic response package amid COVID-19 outbreak, worth a total of USD 2 trillion. The largest bill in American history which was enacted into a law on 27th March 2020, also known as Coronavirus Aid, Relief, and Economic Security Act (CARES), aims to limit economic and health harm caused to American citizens and business community by the pandemic. The CARES components covering stimulus payment are broad in terms of scope; however, one of the key clusters is undoubtedly the Economic Stabilization and Assistance to Severely Distressed Sectors.

In the face of economic fallout and possible credit crunch, U.S. government has taken action to shield its business community by offering multiple loan assistance.

BANKING AND FINANCE

Paycheck Protection is one of the main loan programs, which is in amount of USD 349 billion, and will be available from February 15th 2020 until June 30th, 2020. Businesses that are facing hardships in their operations during the time of coronavirus are eligible to borrow money for different purposes that include; payroll costs, employee compensation, mortgage interest obligations and rent, among others. The comprehensive economic plan under CARES Act further allocates USD 500 billion for assistance to businesses, states, and municipalities, whereas the remaining USD 454 billion may be used to support lending to eligible businesses, states, and municipalities. Through CARES Act, the Secretary of the Treasury will have the legitimacy to make loan guarantees to states, municipalities, and eligible businesses.

To help small businesses and workers whose activity has been halted by the novel COVID-19 and prevent the deep recession, U.S. will support them through a special program, namely Small Business Interruption Loans. The country made a solid commitment to also extend the CARES Act qualifications for borrowers along with the loans’ size available through the U.S. Small Business Administration. These emergency loans are guaranteed 100% through 2020 and businesses can defer loan payments for up to one year.

EMPLOYMENT SUPPORT

U.S. eligible workers that are unemployed, partly unemployed or gig-workers who are in financial distress for being laid off, furloughed or simply not working as a result of COVID-19, will receive the average of their paycheck compensation, for 26-39 consecutive weeks, depending on the states’ rules. Under CARES Act rescue package, the country will

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5Ibid.

6Ibid.

cover an additional USD 600 payment compensation up until July 31st, 2020.

**TAX PAYMENTS**

U.S. has postponed tax payments from April 15th to July 15th, 2020, without imposing any sort of interest or penalties. Among many tax measures for businesses, the act also includes a refundable payroll tax credit and allows employers to delay paying Social Security payroll taxes, with half-payment due December 31st, 2021, and the rest due December 31st, 2022.8

**UNITED KINGDOM ECONOMIC RESCUE PLAN**

In an effort to fend off recession, alleviate financial problems and mitigate the overall economic burden of business community and workers caused by spreading COVID-19, U.K. has unleashed funds to offer direct support to its citizens and business community.

**EMPLOYMENT SUPPORT**

The package of measures taken is broad and contains multiple programs, one of them it’s the Job Retention Scheme. Through this program, the government aims to subsidize 80% of workers’ salaries for the next three months, worth GPB 2,500 per month, though, only employees’ who have a PAYE (Pay As You Earn) - a method of paying income tax and contributions scheme - qualify for this program.9 The same applies for self-employed ones, except that for them, a different program known as Self-Employed Income Support Scheme, is projected. The government will also support businesses that are paying sick leave to their employees, due to COVID-19. However, it is still disputable whether the scheme for those self-employed will be implemented before June 2020.

**BANKING AND FINANCE**

Another supportive measure is Coronavirus Business Interruption Loan Scheme, which provides opportunities to businesses to access loans. This is a temporary loan scheme, delivered by the British Business Bank, to support SMEs by giving them access to bank lending and overdrafts. The U.K. government will provide lenders with an 80% guarantee on each loan and pay interest for 12 months. The scheme will offer loans of up to GBP 5 million for SMEs through British Business Bank.10 The program known as Corporate Financing Facility will also support large corporations that will help them finance short-term liabilities.11

**TAX PAYMENTS**

With regards to taxes, U.K has also postponed VAT and Income Tax payments until 31st January 2021, thus allowing businesses to expand their activities.12

**CANADA’S ECONOMIC RESCUE PLAN**

The government of Canada has taken action to support Canadian businesses and workers amid the coronavirus threat. To help business community and workers cope through these difficult times, the government has unveiled the emergency economic response plan in an amount of CAD 82 billion.13

**EMPLOYMENT SUPPORT**

The above-mentioned sum aims to retain workers jobs and offer the business community the opportunity to successfully operate, thus avoiding bankruptcy. The wage subsidy for workers of small businesses ranges to 75% of their total income. This compensation will be available for the upcoming 3 months.

**BANKING AND FINANCE**

To further stabilize the economy, Canada will Increase the credit availability for small, medium, and large Canadian businesses. The so-called Business Credit Availability Program will provide CAD 65 billion of additional support to businesses experiencing cash flow disruptions through the Business Development

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10Ibid

11Ibid

12Ibid

Bank of Canada and Export Development Canada. To further support small companies, the government pledged to establish another program named the Canada Emergency Business Account, worth CAD 25 billion, that will provide up to CAD 40,000 loans to small businesses and not-for-profits, with interest zero. However, only companies that in 2019 have paid between CAD 50,000 to CAD 1 million in total payroll are eligible for this program. Additionally, SMEs will benefit from another initiative, namely New Loan Guarantee for SMEs, which aims to support businesses in obtaining loans easier. The program will provide loans of up to CAD 6.25 million.

**TAX PAYMENTS**

Other immediate financial assistance provided by the government of Canada is postponement of the income tax payment deadline until August 31st, 2020. Whereas, for Goods and Services Tax, harmonized Sales Tax and custom duties, the deadline is set on June 30th, 2020. No interest rate or penalties will be imposed during this period, thus providing sufficient cash-flow to companies.

**GERMAN ECONOMIC RESCUE PLAN**

Conscious for the potential COVID-19 economic crisis escalation, the Federal Government of Germany has been swift in introducing a promising stimulus package - designed to assist German businesses and workers get through these hard times and increase their commercial activity on post-pandemic period.

**BANKING AND FINANCE**

Germany has introduced an unconventional measure to support its economy - unlimited emergency loans - for businesses, whose activities are hit by coronavirus. The loans will be provided through Kreditanstalt für Wiederaufbau (KfW), a German national development bank, hence, becoming the only country in Europe, and possibly in the world to implement such bold policy. Additionally, the German government has announced that the guarantee limit for guarantee banks, also known as Bürgschaftsbanken, will be doubled to EUR 2.5 million, whereas the Large Guarantee Program that was used for businesses operating in poor regions, it will now be used for businesses of other regions as well.

**EMPLOYMENT SUPPORT**

In an attempt to preserve jobs and the economy, the country will ensure that automatic stabilizers will take the full effect. Through the already in-place and previously implemented measures, Germany will ensure that workers will benefit their compensation for reduced hours of work, which will also be available to temporary and agency workers. The Federal Labour Office will cover complete social security contributions for workers.

**TAX PAYMENTS**

To further defeat the COVID-19 challenges and lower the economic discontent of businesses and workers, the government of Germany has introduced tax liquidity assistance, provided to companies that are hit by the virus. Tax payments will be deferred until 31st December 2020, allowing enough liquidity for companies. In addition, enforcement measures will not be applied before 31st December 2020.

**SWITZERLAND’S ECONOMIC RESCUE PLAN**

To help businesses and workers ease the burden caused by coronavirus outbreak, Switzerland has taken on modest measures, compared to other advanced economies. The government unveiled stimulus package worth CHF 42 billion.

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15 Ibid.
16 Ibid.
17 Ibid.
18 Ibid.
19 German Federal Ministry of Finance, Coronavirus Protective Shield, March 2020, retrieved from: https://www.bundesfinanzministerium.de/Content/EN/Staendardartikel/Topics/Public-Finances/Articles/2020-03-17-corona-protective-shield.html
20 Ibid
21 Ibid
**BANKING AND FINANCE**

The Federal Council will provide up to CHF 580 million in guaranteed bank loans, to help SMSs with financial constraints operate during the times of pandemic, while an additional CHF 10 million has been allocated for guarantee organizations/banks to help them with administrative costs that can occur during the time of pandemic. The CHF 32 billion financial support which was unveiled later on aims to directly help companies operate during these hardships.

**EMPLOYMENT SUPPORT**

It initially set up a CHF 10 billion fund support, which mainly aims to cover employees’ salaries, whose activity has been affected by COVID-19. Switzerland will also compensate the salaries of self-employed ones, freelancers and parents that are obliged to stay home to look after children. Whereas, businesses that are hardest hit by coronavirus, will gain up to CHF 1 billion financial support, with the purpose of helping them bridge liquidity of financial aid.

**TAX PAYMENTS**

Fiscal stimuli regarding postponement of taxes have been considered in Switzerland as well. Swiss businesses will be offered VAT payment holiday through the end of 2020, and the possibility to defer the payment of social security contributions. It still remains unclear how the rest of the money will be distributed among companies.

**FRANCE’S ECONOMIC RESCUE PLAN**

In an effort to help French companies stay afloat, France has taken on immediate support measures by launching a well-targeted stimulus scheme. The state has allocated EUR 345 billion to save its economy.

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23 Ibid.
25 Ibid
INTERNATIONAL FINANCIAL INSTITUTIONS RESPOND TO THE CRISSES

International financial institutions have recognized that COVID-19 is one of the greatest economic threats in modern times, and the adverse consequences stemming from the crisis are huge. Therefore, they have mobilized to use their resources to support the global economy and prevent possible escalations. It should be noted that until now, the response has been patchy, therefore, there is an immediate need for an enhanced strategic cooperation/coordination among countries and international organizations to help the global economy and companies that are attacked in the market to cope with the crisis.

World Bank Group (WBG) and International Finance Corporation (IFC), unrolled their emergency plan, worth a total of USD 14 billion. IFC, a member of the World Bank Group, will increase its COVID-19 related financing availability to USD 8 billion as part of the USD 14 billion package, up from an earlier USD 6 billion, to support private companies and their employees that are damaged by the economic downturn caused by coronavirus. However, WBG aid will mainly be used for public health purposes, while aid for socio-economic security is of secondary importance. It is not clear how much will be allocated for economic purposes.

International Monetary Fund (IMF) after declaring that the world has entered a recession, they demonstrated their will to accelerate the global economic recovery. IMF has declared that countries are already requesting funding, and that they stand ready to use its USD 1 trillion in support of member countries.32

European Bank for Reconstruction and Development (EBRD), has swiftly issued aid to offer relief to companies and overall private sector where EBRD operates. EBRD unveiled a EUR 1 billion “Solidarity Package”. The planned measures will include an expansion of trade finance and the provision of short-term finance of up to two years through financial institutions, which aims to specifically support SMEs. EBRD it is still in the phase of restructuring its loans.33

CONCLUSION AND WAY FORWARD

The dangerous virus has created a shock unlike any other we have seen in the latest years. Though the scope and damage caused to the economy by coronavirus is yet to be evaluated, the nearly total economic stagnation has created unprecedented challenges and created many economic uncertainties. Therefore, to counteract the economic fallout, up until know, countries have taken on similar approaches by putting on similar stringent restrictions and similar well-targeted and decisive economic response plans, as explained above.

Amid the utter unpredictability on how long the COVID-19 outbreak will last, temporary measures and fiscal stimulus taken by advanced economies are more than welcomed. However, a precondition in spurring a global economic recovery in post-pandemic period is to draw up sustained coordinated actions and less patchy ones. Countries need to ensure effective crisis management and bring the economy again on the growth path through enhanced coordination and mobilization on international scale.

LIST OF ACRONYMS

AmCham Kosovo – American Chamber of Commerce in Kosovo

CARES – Coronavirus Aid, Relief, and Economic Security Act

EBRD – European Bank for Reconstruction and Development

IFC – International Finance Corporation

International Monetary Fund (IMF)

KfW – KreditanstaltfürWiederaufbau

OECD – Organization for Economic Development and Cooperation

SMEs – Small and Medium sized Enterprises

WBG – World Bank Group

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Government of France, The portal of the Economy, Finance Action

French official portal for Economy, Finance, Action and Public Accounts