THE ADECCO GROUP

Comparing the outcome of Governments' response to Covid-19

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A. Executive summary

Ambition: This paper aims to compare government responses to the Covid-19 crisis, in order to determine which policies lead to the best economic outcome.

Methodology: We compare 10 countries on a set of macro-economic indicators, plotting that against various policy responses, both in terms of lockdown/isolation measures and economic support measures to workers and businesses.

Conclusion: While we need to be cautious, our data seems to point to a few tentative conclusions:

- Switzerland, Austria and Germany seem to show the most favourable economic forecast. Their policy recipe is based on
    - Short-time work
    - A sizeable economic stimulus of 6-8% of GDP
- The number of cases in a country is not the best determinant of economic impact. France for example seems successful in its attempt to reduce infections, resulting in one of the lowest rates of all countries, but may have paid a heavy economic price for its policy of severe lockdown. Its economic stimulus is significant but seems insufficient to offset the economic impact.

Recommendations:

- **Keep up economic activity:** workers' health and safety should always come first. It seems however that finding safe ways to allow some economic activity to continue will help soften the economic impact of the crisis.
- **Speed:** current results indicate that a very swift political reaction in terms of putting in place an economic stimulus package support the upkeep of GDP. This may seem obvious, and thus begs the question why countries such as the Netherlands took a long time in putting in place support mechanisms.
- **Social peace:** linked to the previous recommendation, and put forward as a remark, the countries that have fared best all know a model of social dialogue based on negotiation and not confrontation. This allowed for the speed required and a wide consensus in favour of the measures taken.
- **Support employment:** as previous crises have shown too, keeping people in work and thus avoiding lay-offs seems to be the right answer to such endemic shocks. A significant investment in short-time work with the right flanking measures seems the most effective way to prepare for a swift restart of the economy, and to mitigate the impact on workers and thus consumer demand.
- **Focus on driving the financial support to the beneficiaries:** again not reflected in the data collected, the visibility we have of the countries that are seemingly showing the most favourable economic forecast points towards a high efficiency in making the funds available almost instantly to businesses – via notably the financial services sector – and workers – via the social security agencies.

B. Introduction

This crisis is different, from every perspective, also from the economic one. Unlike previous downturns, this beginning of recession is intentional, imposed. It`s an adverse economic shock that monetary policy could not offset. And containment policies flatten the health curve but steepen the recession curve. This unavoidable trade-off is most certainly why the response from the Governments have been diverse in size and scope, speed of onset and communication. To a certain extent, these differences in approach reflect differences in cultures and political systems, which imply that what works in one part of the world may not work in another.

This paper aims to compare government responses to the Covid-19 crisis, in order to identify the most effective policies. Making this analysis at this point in time hopefully allows us to draw lessons for countries that are still in the middle of the pandemic, but it also means we are working on the basis of incomplete data. This is why this paper will be a living document, which we aim to update on a regular basis as our understanding of the impact of government measures improves.

This paper focuses on 10 countries: Austria, Belgium, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland and the UK. These were selected to offer a wide variety of policy responses within the European context. The country base may be expanded upon in future versions of the paper.

In our analysis, we looked at the following variables:

- Macro-economic indicators
- Type and timing of lockdown/isolation measures
- Measures to support businesses
- Measures to support workers, including where applicable specifically also agency workers

The findings are complemented by country overviews structured along the same set of indicators.

C. Macroeconomic analysis

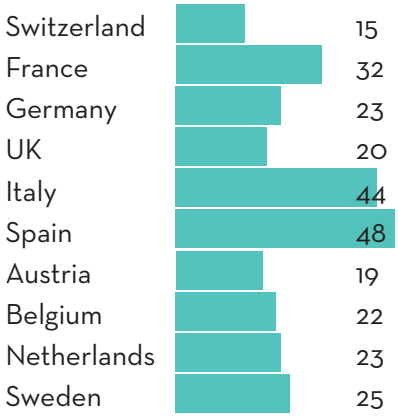
Methodology:

We ranked the ten countries in scope, based on the change in the macroeconomic KPIs in March/April vs. the pre-COVID-19 period (either January or February 2020).

From 1 to 10, each receives a score based on the ranking. We summed all the scores, and the country with the lowest score is the best (means it has, on average, been ranked top across the KPIs).
Best, under our assumptions, means that the KPIs have seen, on average across the indicators, the lowest move.

Results:

Based on the above methodology, we can indicate that the macroeconomic impact seems to have responded best **in Switzerland** (lowest score at 15), which may indeed be a result of effective government policy, while the measures have yet to show good results in Italy followed closely by **Spain.**



	GDP			Unemployment			
	%	vs. Jan fcst	Rank (Score)	%	Forecast	vs. Forecast	Rank (Score)
Switzerland	-6.0%	-7.5%	1	2.3%	2.7%	0.4%	1
France	-7.2%	-8.5%	7	8.1%	10.4%	2.3%	6
Germany	-7.0%	-8.1%	5	3.2%	3.9%	0.7%	2
UK	-6.5%	-7.9%	3	3.7%	4.8%	1.1%	3
Italy	-9.1%	-9.6%	9	9.7%	12.7%	3.0%	8
Spain	-8.0%	-9.6%	9	13.6%	20.8%	7.2%	10
Austria	-7.0%	-8.0%	4	4.4%	5.5%	1.1%	3
Belgium	-6.9%	-8.1%	5	5.2%	7.3%	2.1%	5
Netherlands	-7.5%	-9.1%	8	2.9%	6.5%	3.6%	9
Sweden	-6.8%	-7.6%	2	7.6%	10.1%	2.5%	7

Source: IMF (Apr 2020) IMF (Apr 2020) Eurostat IMF (Apr 2020)

Stock mkt Index				Consumer Confidence			PMI Composite		
P1M	P3M	YTD	Rank (Score)	Abs	vs. prev.	Rank (Score)	Abs	vs. prev.	Rank (Score)
11.7%	-12.7%	-12.3%	7	-9	1	1	43.7	-5.8	5
15.7%	-28.0%	-27.3%	5	-11	-3	6	28.9	-23.1	8
21.6%	-23.6%	-22.5%	2	-8	-4	7	35.0	-15.2	7
15.8%	-24.5%	-23.7%	4	-8	-1	4	37.1	-12.2	6
10.9%	-29.7%	-28.7%	8	-21	-7	9	20.2	-29.1	10
8.9%	-28.1%	-28.4%	10	-37	-14	10	26.7	-26.0	9
24.6%	-35.9%	-36.2%	1	-8	-4	8	45.8	-4.4	3
13.4%	-26.4%	-26.2%	6	-9	-1	3	45.8	-4.4	3
21.4%	-19.8%	-18.9%	3	-2	-	2	50.5	-2.4	1
10.7%	-17.2%	-16.4%	9	-3	-2	5	45.9	-3.2	2

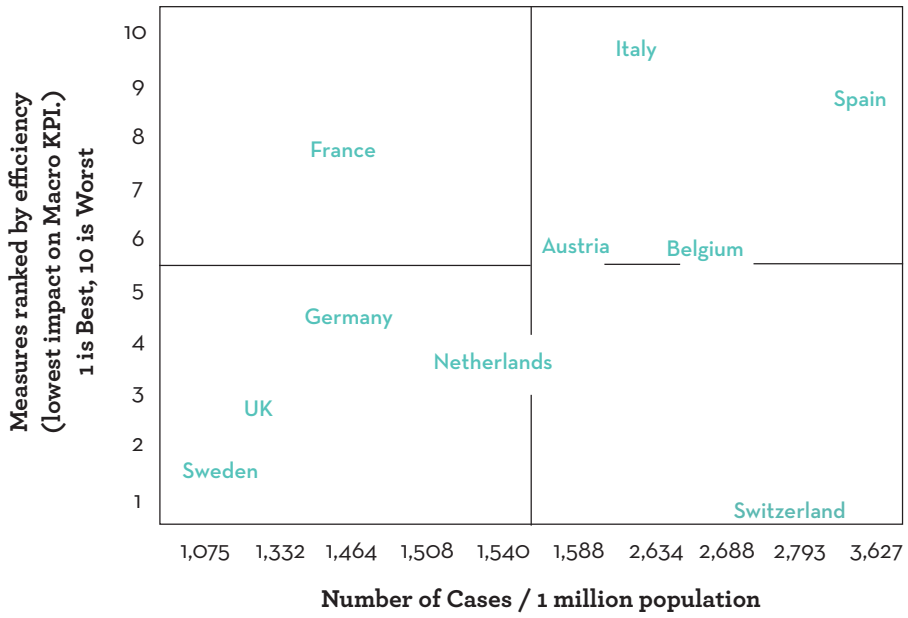
Market Watch Market Watch Market Watch Trading Economics Trading Economics of GlobalEconomy

Highlighted scores

- **GDP:** Lowest decline: Switzerland now projects a decline of -6% vs. a +1.5% increase in January release (a -7.5%pt gap)
- **Unemployment:** Worst results are in the Netherlands where, despite a low absolute, the growth in unemployment doubles between the 2 readings (from 2.9% to 6.5%)
- **Stock market:** Lowest decline is in Switzerland, while Austria shows the biggest decline (although Austria shows the biggest increase in the last month – to be monitored)
- **Economic sentiment:** All decline, but in Italy the decline is steepest
- **Purchasing intentions:** Italy and Spain show the steepest declines, almost have of the pre-COVID-19 base.

These results were also put into the context of infection numbers indicating where a country is on the curve, as well as severity, driven by number of cases per 1 million population. A couple of remarks ensue from that:

- **Switzerland** is a success story so far: second highest number of cases per capita (after Spain), but with the least impact on the macroeconomic KPIs.
- On the opposite is **France**, which has a relatively lower number of cases per capita, but the measures are not showing a macroeconomic effect yet.
- **Sweden and UK** show good results so far, albeit a relatively "less difficult" environment.
- **Spain** is showing the hardest difficulties to manage the highest number of cases per capita.



[1] The GDP 2020 growth rate in April is compared to January forecast (according to IMF forecasts)

[2] The Unemployment rate in April is compared to January forecast (according to IMF forecasts; Eurostat where IMF not available).

[3] Relevant Local Market Stock index (CAC40, DAX, SMI, etc). We look at rebound compared to the previous 3 months (P3M).

[4] Economic Sentiment Indicator (ESI), is a composite indicator made up of five sectoral confidence indicators with different weights: industrial confidence indicator (40 %); construction confidence indicator (5 %); services confidence indicator (30 %); consumer confidence indicator (20 %); retail trade confidence indicator (5 %). The growth of the ESI points to an improvement in the situation both at the industry level and at the consumer level.

[4] PMI Composite (combination of Manufacturing and Services).

D. Overview of measures

The below gives an overview of the most common measures that we have encountered across the countries.

- General
    - Timing is crucial. We have mapped the first announcement of response measures for each country.
    - Countries have taken very different approaches to testing population for Covid-19. The tests help to inform effective government policy, and government's ability to execute tests seems to serve as a proxy for government's overall response.
    - The response by governments in terms of tapping into their coffers has been impressive. While further economic, fiscal and monetary injections are still likely to follow in certain countries, we have aimed to map the overall size of the respective economic stimulus packages.
    - Severity of restrictions: On the health front, governments have taken different approaches ranging from complete lockdowns to slightly milder versions that allow for some economic activity to continue.

- Support to businesses
    - Many countries offered companies easier access to credit, either directly or indirectly via national investment banks or other institutions.
    - Payments to governments: oftentimes, governments have identified certain taxes, fees or social security contributions to be waived or postponed to ease companies' cash flow.
    - A number of countries offer specific subsidies for business costs. In some cases, these are earmarked for specific purposes like workers' salaries, in other cases they come as generic contributions.
    - A number of countries has announced changes to sick leave policies, either offering compensation for workers on sick leave, or waiving/substituting required employers' contributions to workers on sick leave.
    - One of the most comprehensive measures taken, that has already proven its worth in previous economic crises, is short-time work. The model differs between countries, but it is rooted in the retention of the workforce, with the government covering (part of) the worker's salary for the hours the workers have agreed – often within a timeframe prescribed by government, not to work.

- Support to workers
    - Although most countries in scope have relatively robust sick pay policies, some have felt a need to expand access to sick pay for certain categories of workers.
    - This crisis has made it clear that several categories of workers needed increased or simplified access to unemployment benefits.
    - Considering the unique nature of the crisis, a number of countries have paired their support measures, especially short-time work, with a moratorium on dismissals.
    - A specific group that falls outside the scope of most other measures are self-employed, and so several countries decided to provide income support for self-employed, in some cases as part of a wider program aimed at small and micro-enterprises.
    - As some workers may spend these times in inactivity, and some may have to reintegrate in new industries after the immediate crisis is over, a number of countries is offering investment in skills.
    - Finally, depending on the national context and political reality, many countries have offered other social support measures.

E. Conclusions

As countries face different starting points as well as different exposure to the actual pandemic, a comparison at these early stages of the effectiveness of specific measures poses a series of difficulties. With that said, the data for the 10 countries in scope seems to suggest that:

- Switzerland, Austria and Germany are the three countries with the biggest economic stimulus packages (6%, 8% and 6.9% of GDP respectively), have the widest ranging forms of short-time work in place, and all face relatively modest economic impact.
- There seems to be no direct linkage however between the range/number of policy measures announced, and the actual economic impact these measures have.
- The number of cases in a country is clearly not the only determinant of economic impact. Despite having a similar number of cases per million inhabitants as Italy and Spain, Switzerland performs much better economically than its peers, and Belgium too, to an extent.
- The leading country in terms of attempt to reduce infections, France, on the other hand may offer one of the lowest rates of all countries but may have paid a heavy economic price for this policy.

F. Country fiches (in alphabetical order)

AUSTRIA

Commentary

Austria seems to be weathering the storm quite well, with a relatively modest impact on macroeconomic indicators.
The Austrian approach includes a strong investment in economic support, particularly in short-time work, paired with a relatively mild lockdown.

Key indicators	
GDP growth (vs. Jan forecast)	-7.0% (-8.0%)
Forecasted Unemployment (vs 2019)	5.5% (1.1%)
Agency work developments	92% of agencies report a reduction in March
Rank on all macroeconomic indicators (out of 10 countries in scope)	2

Government Measures

General	First announcement of response measures	15/3
	Population tested for Covid-19	16,9‰
	Size of economic stimulus package (% GDP)	8%
	Severity of restrictions (scale of 1-3 low-high)	2
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	✓
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	
	Moratorium on dismissals	✓
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	✓
Total Score		8

Austria introduced a new short-time work scheme specifically for Covid-19, which sets a moratorium on dismissals and makes wage compensation dependant on average earnings.

BELGIUM

Commentary

Belgium has a high levels of cases – due to high transparency according to its government. It is interesting to see that Belgium has relatively strict lockdown measures, an early economic response, but that response could be more expansive in size and types of measures. Nevertheless, the economic impact is not among the worst.

Key indicators	
GDP growth (vs. Jan forecast)	-6.9% (-8.1%)
Forecasted Unemployment (vs 2019)	7.3% (2.1%)
Agency work developments	-50% (18 March estimate)
Rank on all macroeconomic indicators (out of 10 countries in scope)	4

Government Measures

General	First announcement of response measures	3/3
	Population tested for Covid-19	9,7‰
	Size of economic stimulus package (% GDP)	0,7%
	Severity of restrictions (scale of 1-3 low-high)	3
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	
	Compensation for workers on sick leave	
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	✓
	Moratorium on dismissals	
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	✓
Total Score		6

Due to its federal nature, the Belgium response varies across administrative regions in terms of relative economic stimulus. The government supports recently unemployed workers by paying utility bills.

FRANCE

Commentary

France has implemented one of the most severe lockdown regimes, despite a relatively modest number of cases.
Despite a wide range of economic support measures of decent size, economically speaking France has been hit hard, with the 3rd largest drop in GDP and a significant uptick in unemployment.

Key indicators	
GDP growth (vs. Jan forecast)	-7.2% (-8.2%)
Forecasted Unemployment (vs 2019)	10.4% (2.3%)
Agency work developments	-75% (estimate 2nd half of March)
Rank on all macroeconomic indicators (out of 10 countries in scope)	8

Government Measures

General	First announcement of response measures	12/3
	Population tested for Covid-19	5,1‰
	Size of economic stimulus package (% GDP)	2%
	Severity of restrictions (scale of 1-3 low-high)	3
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	✓
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	
	Moratorium on dismissals	✓
	Income support for self-employed	✓
	Investment in skills	✓
	Other social support measures	
Total Score		8

The French state pays 100% of employer's wage bills. Workers are incentivised to take-up training through higher wage compensations.

GERMANY

Commentary

Thanks to an early response and large-scale focus on short-time work Germany only faces a small uptick in unemployment numbers. That is also reflected in the significant size of the economic stimulus package.
Other measures have not been enough however to compensate for a significant loss in GDP growth.

Key indicators	
GDP growth (vs. Jan forecast)	-7.0% (-8.1%)
Forecasted Unemployment (vs 2019)	3.9% (0.7%)
Agency work developments	n/a
Rank on all macroeconomic indicators (out of 10 countries in scope)	5

Government Measures

General	First announcement of response measures	9/3
	Population tested for Covid-19	16,0‰
	Size of economic stimulus package (% GDP)	6,9%
	Severity of restrictions (scale of 1-3 low-high)	2
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	✓
	Moratorium on dismissals	
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	
Total Score		6

Germany put an early emphasis on testing, which is considered to have helped protect the health system from collapsing. The German short-time work scheme has already been in place pre-Covid and allowed employers to react quickly. At 60% wage compensation, the German scheme is not very generous.

ITALY

Commentary

Italy is heavily hit, with a high number of cases/ inhabitants. The Italian government did announce the widest range of measures of all countries (although its size in % GDP is moderate). This has not been enough however to mitigate the significant economic impact, with the highest drop in GDP of all countries forecasted, as well as a significant rise in unemployment.

Key indicators	
GDP growth (vs. Jan forecast)	-9.1% (-9.6%)
Forecasted Unemployment (vs 2019)	12.7% (3.0%)
Agency work developments	-30% (estimate 2nd week of March)
Rank on all macroeconomic indicators (out of 10 countries in scope)	9

Government Measures

General	First announcement of response measures	17/3
	Population tested for Covid-19	17,7‰
	Size of economic stimulus package (% GDP)	2%
	Severity of restrictions (scale of 1-3 low-high)	3
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	✓
	Short-time work	✓
Support to workers	Expand access to sick pay	✓
	Increased or simplified access to unemployment benefits	✓
	Moratorium on dismissals	✓
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	✓
Total Score		10

Italy introduced sector-specific social funds 3 years ago, which helped to dampen the initial impact of the crisis on worker's wages. For authority-mandated quarantine, the government will assume all sick pay and infections stemming from work are considered work accidents.

NETHERLANDS

Commentary

The Netherlands has been on the milder side of response, although it did go out with a relatively wide range of measures in support of workers and businesses. Economically speaking, the Netherlands faces almost a doubling of unemployment figures, and quite a significant drop in GDP growth. Many businesses have not triggered the support offered under the NOW scheme yet.

Key indicators	
GDP growth (vs. Jan forecast)	-7.5% (-9.1%)
Forecasted Unemployment (vs 2019)	6.5% (3.6%)
Agency work developments	-40% (-14% working hours y-o-y March)
Rank on all macroeconomic indicators (out of 10 countries in scope)	5

Government Measures

General	First announcement of response measures	17/3
	Population tested for Covid-19	5,9‰
	Size of economic stimulus package (% GDP)	1,6%
	Severity of restrictions (scale of 1-3 low-high)	2
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	
	Moratorium on dismissals	✓
	Income support for self-employed	✓
	Investment in skills	✓
	Other social support measures	✓
Total Score		8

The Dutch NOW scheme makes wage compensations for employers dependent on projected turnover loss and can reach up to 90% when all turnover is lost.

SPAIN

Commentary

Spain has become the hardest-hit country in Europe. The government enforced wide ranging restrictions on public life and economic activity, however, the extend of the government's economic stimulus has been comparatively small. The most recent forecasts for the Spanish economy and labour market are severe. The recovery of the Spanish economy will most likely require additional public stimuli.

Key indicators	
GDP growth (vs. Jan forecast)	-8,0% (-9,6%)
Forecasted Unemployment (vs 2019)	20.8% (+7,2%)
Agency work developments	-70% y-o-y (March)
Rank on all macroeconomic indicators (out of 10 countries in scope)	10

Government Measures

General	First announcement of response measures	12/3
	Population tested for Covid-19	12,8‰
	Size of economic stimulus package (% GDP)	0,7%
	Severity of restrictions (scale of 1-3 low-high)	3
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	✓
	Moratorium on dismissals	✓
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	✓
Total Score		8

Spain regards Covid-19 related lay-offs as force majeure, which allows employees to receive full unemployment benefits. Additionally, the government provides support for households by suspending utility payments and rents.

SWEDEN

Commentary

Sweden has been hesitant to enforce restrictions on business and public life akin to the lockdown measures in other countries, but has indicated a turnaround. Considering the forecasted macroeconomic effects of the crisis on Sweden, it appears that the softer approach of the government has not fully achieved the intended effect. In light of low testing rates and skyrocketing unemployment, changes to government response might need to be considered.

Key indicators	
GDP growth (vs. Jan forecast)	-6,8% (-9,1%)
Forecasted Unemployment (vs 2019)	6,5% (+3,6%)
Agency work developments	n/a
Rank on all macroeconomic indicators (out of 10 countries in scope)	7

Government Measures

General	First announcement of response measures	n/a
	Population tested for Covid-19	5,4‰
	Size of economic stimulus package (% GDP)	3,8%
	Severity of restrictions (scale of 1-3 low-high)	1
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	
	Short-time work	✓
Support to workers	Expand access to sick pay	✓
	Increased or simplified access to unemployment benefits	✓
	Moratorium on dismissals	
	Income support for self-employed	✓
	Investment in skills	✓
	Other social support measures	
Total Score		8

Sweden introduced not a short-time work scheme, but rather a wage compensation for temporary lay-offs. The scheme halves employer's wage bills and compensates for more than 90% of worker's wages.

SWITZERLAND

Commentary

Switzerland was quick to respond to the Covid-19 crisis but stayed clear of strict lockdowns despite of high per capita infection rates.
The economic response of the government has been timely and adequate while wide-ranging employment and social measures are expected to keep unemployment rates low.
The implementation of government measures has been successful and effective in Switzerland.

Key indicators	
GDP growth (vs. Jan forecast)	-6% (-7.5%)
Forecasted Unemployment (vs 2019)	2.7% (+0.4%)
Agency work developments	-50% (3rd week of March)
Rank on all macroeconomic indicators (out of 10 countries in scope)	1

Government Measures

General	First announcement of response measures	28/2
	Population tested for Covid-19	22,7‰
	Size of economic stimulus package (% GDP)	6%
	Severity of restrictions (scale of 1-3 low-high)	2
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	
	Compensation for workers on sick leave	
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	✓
	Moratorium on dismissals	
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	✓
Total Score		6

As a measure to safeguard the liquidity and cashflow of businesses, the government quickly implemented a fast credit scheme for which it will assume 100% of the risk for loans up to CHF 500k accessible to private citizens and SMEs.

UNITED KINGDOM

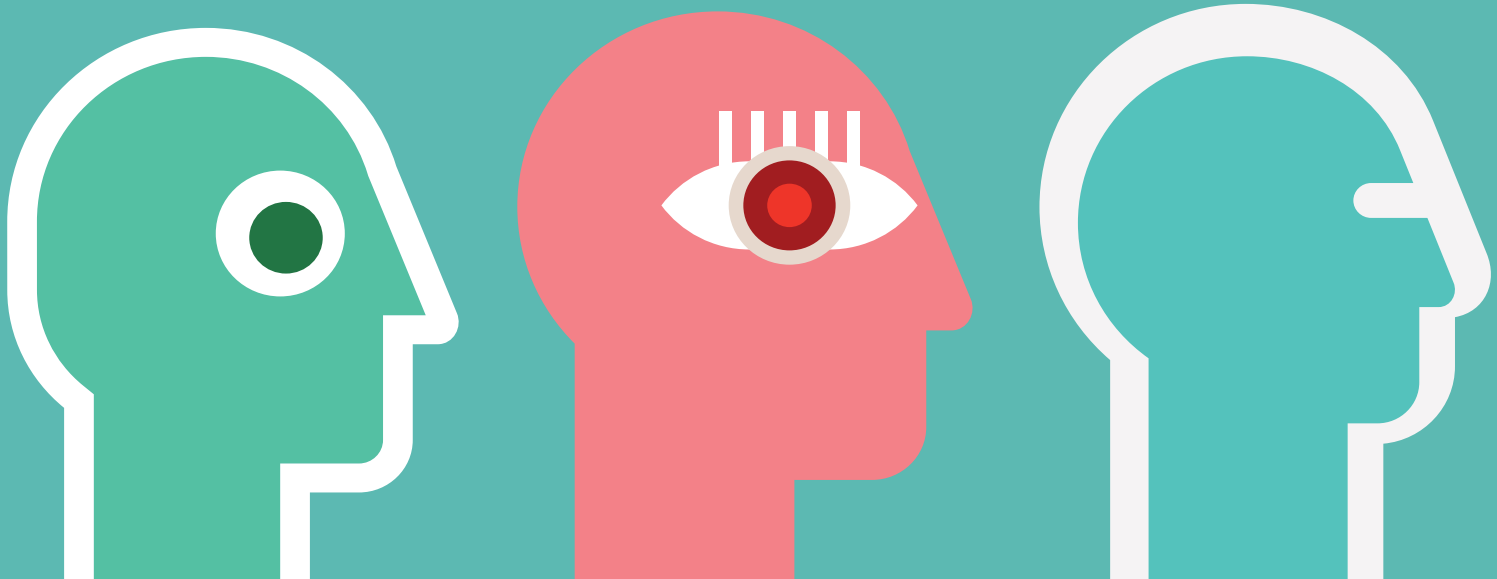
Commentary

Compared to other European countries, the government of the United Kingdom responded relatively late. When fatalities started rising quickly, the government implemented a strict lockdown on public life.
Looking at the modest size of economic stimulus and low testing rates, there is room for additional government effort.

Key indicators	
GDP growth (vs. Jan forecast)	-6.5% (-7.9%)
Forecasted Unemployment (vs 2019)	4.8% (+1.1%)
Rank on all macroeconomic indicators (out of 10 countries in scope)	3

Government Measures

General	First announcement of response measures	11/3
	Population tested for Covid-19	4,3‰
	Size of economic stimulus package (% GDP)	1,4%
	Severity of restrictions (scale of 1-3 low-high)	3
Support to businesses	Access to credit	✓
	Payments to governments postponed/cut	✓
	Subsidies for business costs	✓
	Compensation for workers on sick leave	✓
	Short-time work	✓
Support to workers	Expand access to sick pay	
	Increased or simplified access to unemployment benefits	
	Moratorium on dismissals	
	Income support for self-employed	✓
	Investment in skills	
	Other social support measures	
Total Score		6

The UK introduced a Coronavirus JobRetention Scheme through which the government covers 80% of salaries up to £2500/month. Self-employed have been granted easier access to UniversalCredit, which covers up to 80% of average profits.

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