

Cross-country Comparison of Economic Outcomes and Policy Responses to Support Individuals in June

BY PASCAL UNGERSBOECK

Original post [here](#).

Since March, countries around the globe have implemented policies to support individuals and households through the downturn that has resulted from the global COVID-19 pandemic. Over the last five months countries have implemented different economic policies in response to various stages of the pandemic. Based on the [YPFS four-phase model of the economic consequences of the pandemic](#), Run-Rescue-Recession-Recovery, this blogpost discusses different policy trajectories and economic outcomes for countries at different stages of the pandemic, with a focus on support to individuals.

The first part of this post discusses countries, such as Austria, South Korea, Germany, and Hong Kong, that have been able to rapidly reduce the rate of infection and control the spread of the virus. As they lift many of the public health measures that were put in place, these countries currently aim to transition to the final phase, recovery, by implementing measures to boost aggregate demand and stimulate the economy. Policymakers in these countries currently face the challenge of returning the economy to pre-crisis levels of productivity while balancing public health objectives and avoiding a new wave of infections.

The second part of this post focuses on two South American countries experiencing significant pandemic activity, Chile and Peru. In both countries, the rate of infection has recently peaked and most public health measures remain in place, shuttering much non-essential activity. These countries are in the recession phase and policies are currently focused on extending previously implemented measures to offer support to individuals in order to stabilize the economies as the pandemic persists and economies are not yet ready to fully reopen.

Finally, the post provides a brief discussion of next steps for policy in the US. As the rate of infection in the country continues to rise and support measures implemented in the CARES Act expire in July, the country faces increasing pressure to extend support beyond the measures implemented in March.

Recovery in Asia and Europe

Korea and Hong Kong were among the first countries affected by the virus and the first countries to contain the rate of infection. New infections peaked in early March in Korea and late March in Hong Kong. Both countries managed to control the spread of the disease without the costly lockdown measures implemented in other countries.

Despite the absence of explicit lockdown measures, however, their economies suffered from depressed demand as a result of social-distancing requirements. For both, this

translated into the highest levels of unemployment in a decade. Although unemployment rates in both countries remained low compared to other countries, the policy responses in Hong Kong and Korea included a set of measures to promote employment protection, job creation, and support to vulnerable workers and households.

Korea's most recent support program, announced in early June and adopted on [July 3](#), was the country's third budget increase in response to the pandemic, valued at KRW 35.3tn (\$29.4bn and 1.8 percent of GDP). The [first](#) package was passed on [March 17](#) and offered funding for disease control measures while also providing support to vulnerable households through direct payments and expanded unemployment support. Direct support was provided through vouchers and gift certificates issued to low-income households while unemployment support focused on job retention through wage subsidies. The [second](#) bill, passed on [April 30](#), included funding for emergency support to households in lower income brackets. The three packages together amount to KRW 54.6tn (\$45.4bn and 3.4 percent of GDP).

The June recovery package, labelled the [Korean New Deal](#), focuses on boosting the labor market and promoting recovery. It contains a broad range of measures to promote job retention through wage support and funding for small and medium-sized enterprises. Unlike previous bills, the most recent package also includes funding to promote job creation (see the YPFS [blog post](#)). Although short, the shock to the Korean labor market was severe, with 467,000 jobs lost in April, the largest monthly decline since the Asian Financial Crisis. [Unemployment in Korea](#) stood at 4.5 percent in May.

Similarly, beginning in March, Hong Kong implemented a number of measures to support the most affected households and boost the depressed labor market. At 5.9 percent for the period between March and May, the [unemployment rate in the country](#) was at its highest level since March 2005, when the country was recovering from the 2003 SARS crisis. By comparison, unemployment in Hong Kong peaked at 5.5 percent during the Great Recession.

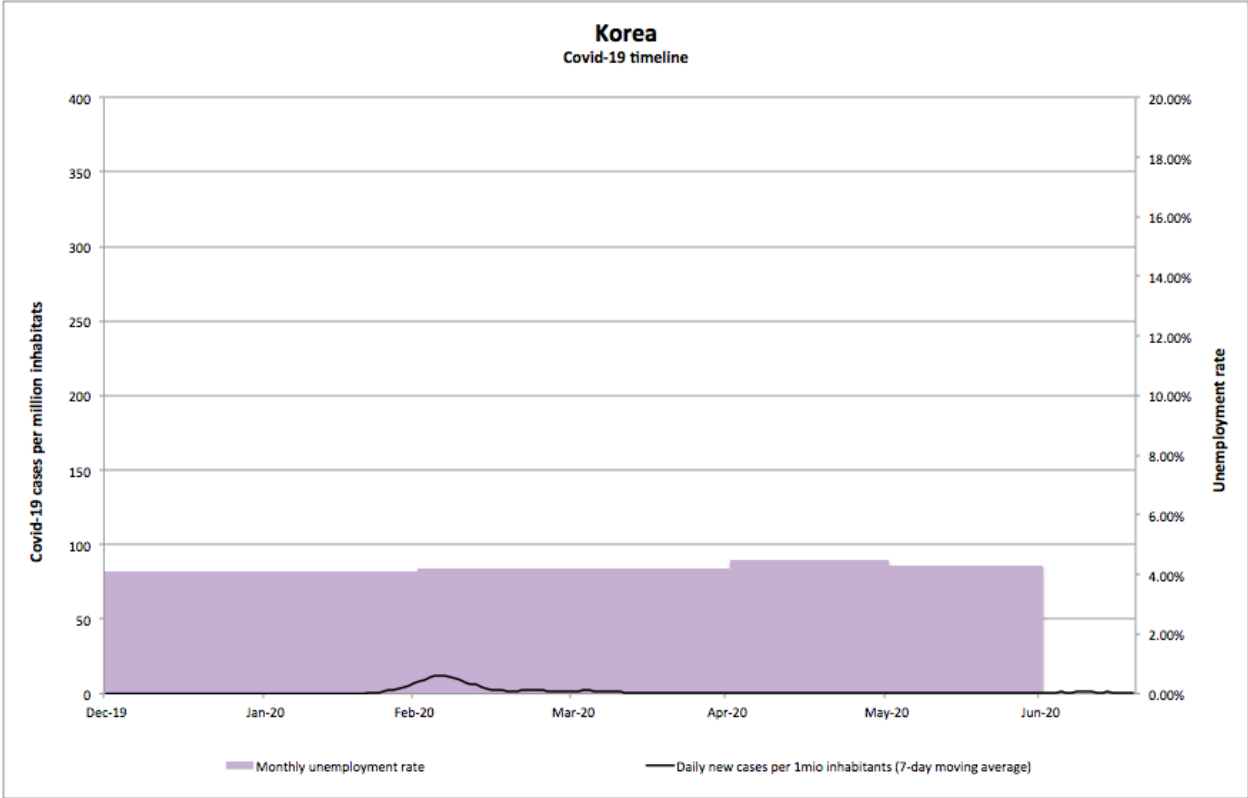
In Hong Kong the government has provided three support packages. Two packages were extended through the country's [Anti Epidemic Fund](#) (AEF). The [first support package](#) (HKD 30 billion), which created the country's [Anti Epidemic Fund](#) (AEF), was passed on February 21; a [second round of funding](#) (HKD 137.5 billion) passed on April 18. Other measures aimed at addressing the impacts of the virus were included in a broad-based HKD 120 billion [relief package](#) announced by the government on February 26 as part of the new budget. All three packages together amount to HKD 287.5 billion (\$37 billion, 10.2 percent of GDP).

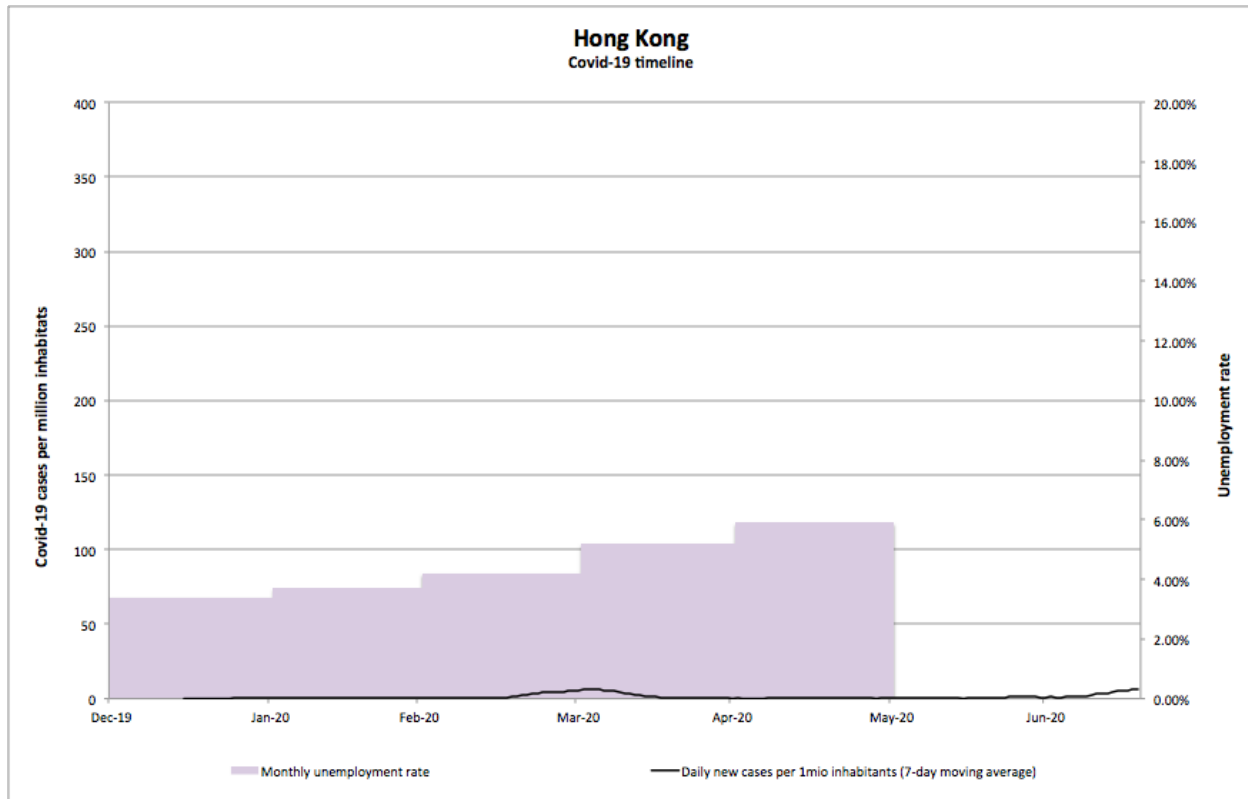
The first round of funding offered through the AEF focused on disease control measures and subsidies for businesses; about HKD 2 billion were offered to support families and students. The second round of AEF funding focused on job retention and job creation, with a set of measures valued at HKD 89 billion. A dominant part of this funding was the [Employment Support Scheme](#) (ESS), which was designed to provide HKD 81 billion

in wage subsidies to workers in Hong Kong, an approach similar to the short-time compensation (STC) programs implemented in some European countries. Finally, the HKD 120 billion relief package, which passed in May, includes two additional measures for households: a direct payment of HKD 10,000 to permanent residents aged 18 or above (HKD 71 billion) and an income tax cut with a ceiling of HKD 20,000, expected to benefit 1.95 million taxpayers.

Although public health policies were implemented rapidly, economic support measures for households announced during the early stages of the pandemic were delayed pending legislative approval and suffered from administrative delays. [Online registration](#) for the direct payout program only opened on June 21, with the first payments made July 8. The [legislation](#) allowing income tax reduction was passed on June 19 and the ESS started accepting applications from employers on May 25. Given the long implementation time, support in Hong Kong acted more as a boost to aggregate demand as the country recovered from the virus than a stabilizer during earlier stages. However, the case of Hong Kong also underlines the uncertainty surrounding countries' ability to transition towards recovery while the virus remains a threat.

Recently, Hong Kong has experienced a new wave of infections as daily case reports rose above their peak in March. The numbers remain low compared to other countries discussed below, with 67 new cases (9 cases per million) reported at the new peak on July 16. Authorities responded with a new [set of public health](#) measures on July 13. The measures include mandatory masks in public transportation and a ban on public gatherings of more than four people.





As the number of COVID-19 cases in parts of Asia began declining in March, rates of infection began increasing in Europe. Germany and Austria were among the countries that were able to rapidly control the spread of the virus. Both countries saw a decline in the rate of infection by early April. Their early support policies focused on expanding public funding of STC programs that European employers traditionally use heavily during downturns. Although unemployment increased, it remained low compared to other parts of the world. In May, the rate peaked in Germany at 6.2 percent and in Austria at 6 percent.

In May, following effective public health measures to contain the virus, Austria began lifting restrictions on economic activity and in June it announced a second wave of support intended to boost recovery. The total value of the new measures is estimated at €12 billion (2.6 percent of GDP). This support comes in addition to €38 billion provided previously for a total of €50 billion, or 10.9 percent of GDP.

While previous support measures for households had largely focussed on stabilizing the labor market by funding the country's unemployment insurance and STC program ([Kurzarbeit](#)), the [June policy package](#) focuses on families and provides direct support for households in four ways:

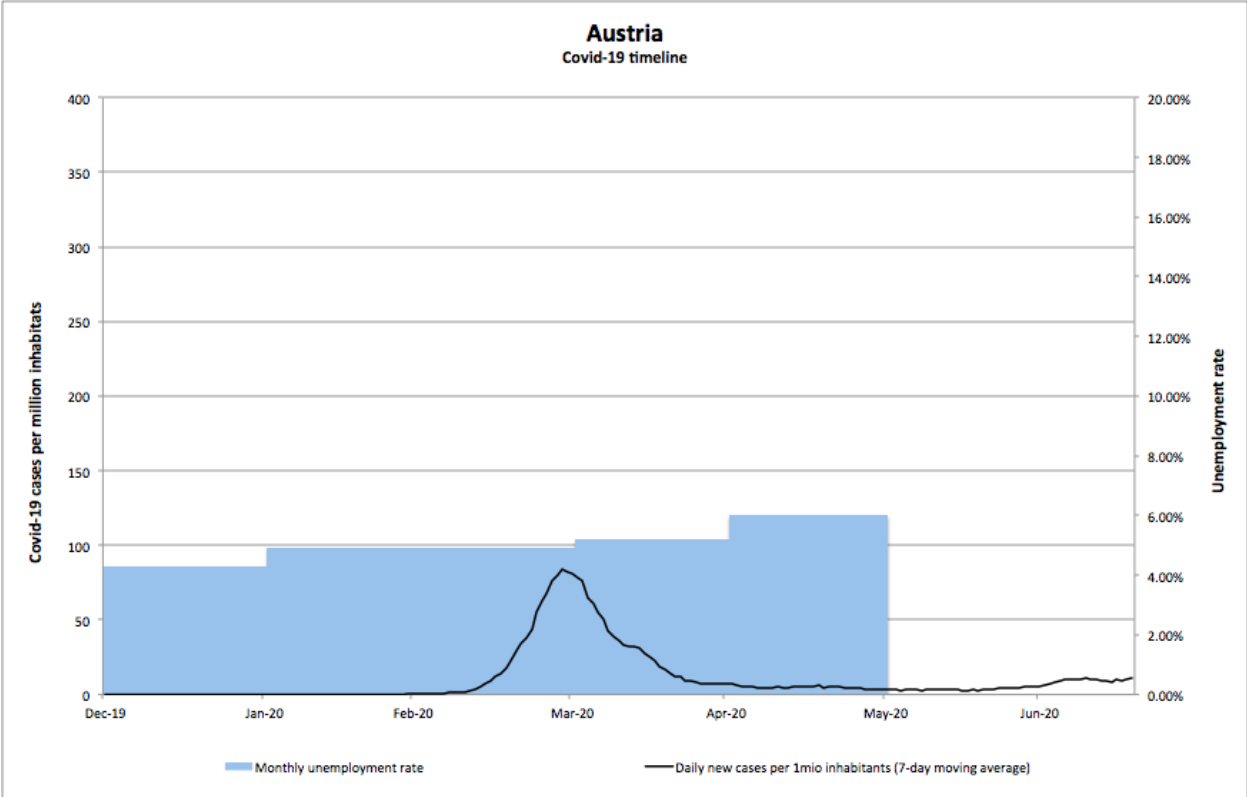
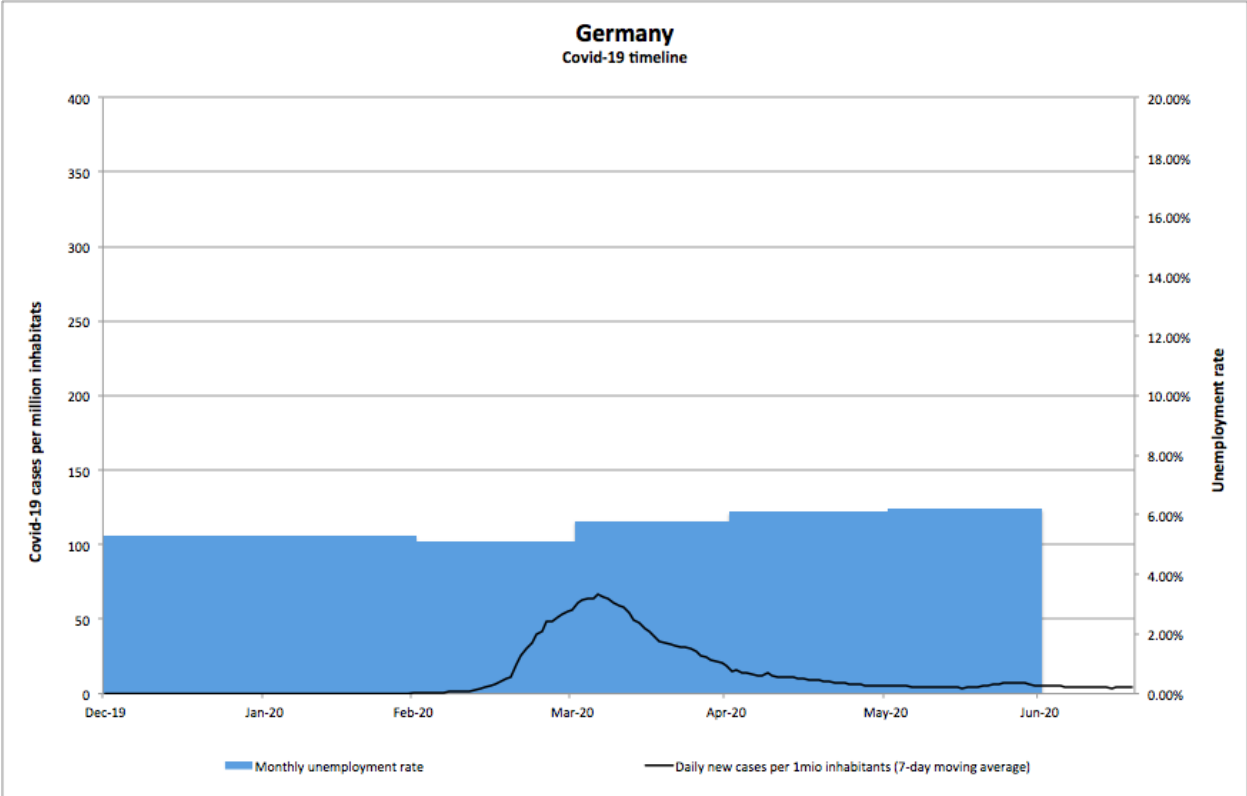
- Reduction of the marginal income tax rate in the lowest bracket (€ 11,000 to € 18,000) from 25 percent to 20 percent – a maximum decrease in taxes due of €350
- One-time payment of €100 for taxpayers with annual income below €11,000

- One-time payment of €360 per child for families, and
- One-time payment of €450 for unemployed workers.

In a press conference, Chancellor Kurz noted that the support would amount to a payout of €1,000 for an average household, an amount smaller than the expected payout under direct support programs in the US or Hong Kong (both over \$1,000 per taxpayer).

Similarly, [Germany](#) relied on STC as a stabilizer during the early stages of the crisis. The German government announced its recovery package on June 3. The package is valued at €130 billion (3.7 percent of GDP). New measures to support individuals and households largely focus on families with three main measures:

- One-time payment of €300 per child
- Increase from €1,908 to €4,008 of the income tax credit for single parents, and
- VAT lowered from 19 to 16 percent (and from 7 to 5 percent for goods and services that are taxed at a lower rate; including food, public transport and some medical expenses).



Extended support in South America

COVID-19 infections in South America began to increase in April. Peru and Chile were two of the hardest hit countries and are among the ten countries with the highest number of confirmed infections per million inhabitants--and are higher than in the US. However, rates of infection in both countries have recently declined and Peru has relaxed its lockdown; Chile never had a formal lockdown. Both countries first implemented measures to support households in March and April and are currently expanding previously announced programs, given the continued severity of the pandemic.

Peru reported 1,000 confirmed cases in late March, about the same time as new infections peaked in Europe. The government reacted at the onset of the pandemic with the announcement of a large [economic stimulus package](#) totaling PEN 90 billion (USD 26 billion or 12 percent of GDP) to provide support to households and critical sectors of the economy as the country entered a strict national lockdown. Decades of [conservative fiscal management](#) put Peru in a position where it was able to respond to the pandemic with one of the world's largest fiscal packages relative to the size of its economy. Peru entered the lockdown with one of the lowest debt-to-GDP ratios and highest sovereign bond rating (BBB) in the region. Its government debt-to-GDP ratio currently stands at 27 percent.

The support package included a number of direct support measures for individuals:

- **Economic Benefit for Emergency Social Protection:** an unemployment program that provides monthly payments of PEN 760 (\$219) to workers who are unable to work due to the lockdown. Only workers with gross wages below PEN 2,400 are eligible for support. The support was also initially limited to companies that employ less than 10 workers
- A series of measures meant to provide PEN 760 monthly payment to vulnerable individuals including families, independents workers, rural populations, and
- Employees are allowed to withdraw up to PEN 2,400 from compensation-for-time-of-service (CTS) accounts. CTS accounts collect employee contributions over time to provide payouts when workers are terminated or migrate to a new job, since the Peruvian government does not provide unemployment benefits in normal times.

Peru is currently in the recession phase of the pandemic's economic cycle. Since the lockdown was announced in March, the [unemployment rate in Peru](#) has constantly increased. It reached 16.3 percent in June, more than doubling since January, when it stood at 6.3 percent. The government responded to worsening labor market conditions in June by extending the unemployment support provided under the [Economic Benefit for Emergency Social Protection](#) program to companies that employ less than 100 workers, making the support available to a much larger share of the labor force. Additionally, the government provided PEN 700 million (\$200 million) to [Trabajo Perú](#) (Work Peru), an initiative of the labor ministry launched in 2011 to promote the

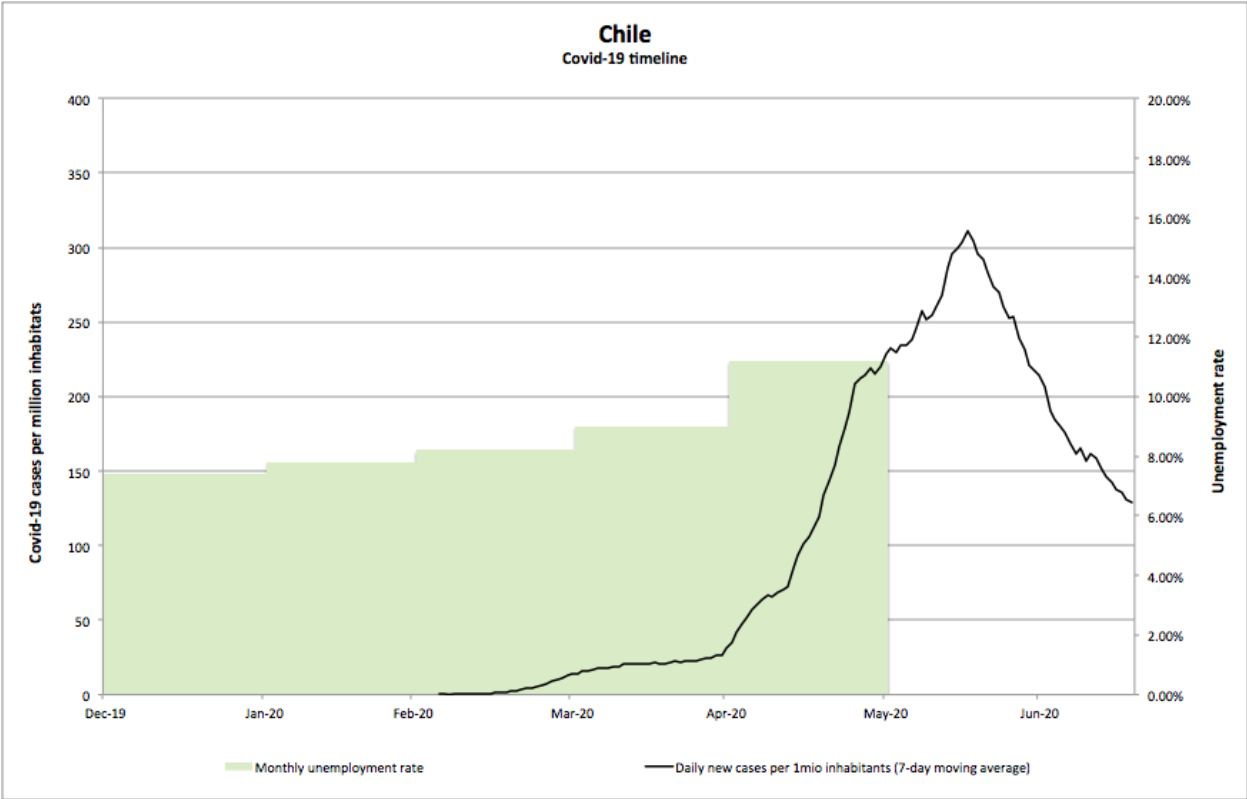
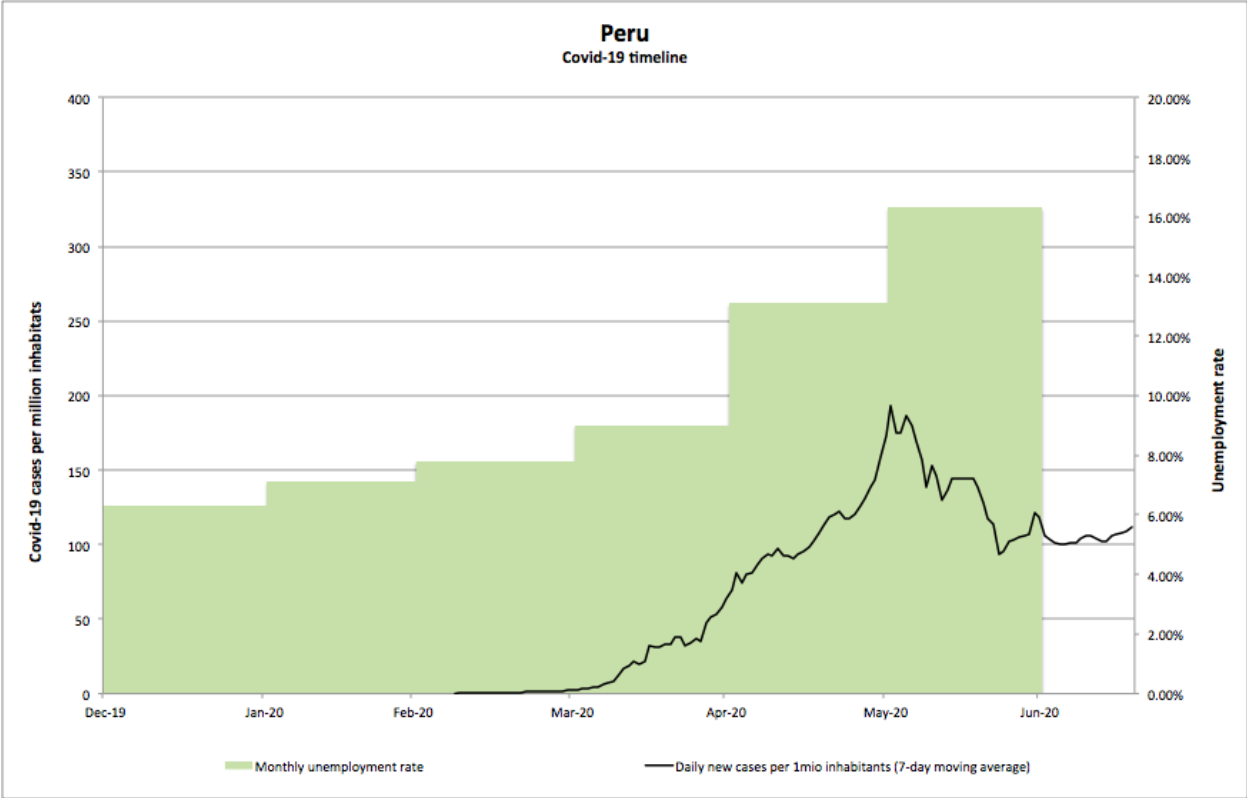
creation of jobs for low-income Peruvians through public infrastructure projects. The latest funds aim to provide 226,000 temporary jobs.

The progression of the virus in Chile parallels the developments in Peru, with new infections peaking in June. As of July 18, both countries had over 300,000 confirmed cases. The Chilean government initially reacted with a \$11.75 billion support package (4.2 percent of GDP) announced in March.

Measures to support individuals and households included the following:

- \$2 billion for the national solidarity fund to insure sufficient funds for unemployment support to those workers whose individual severance accounts are insufficient to cover payments. The [Chilean unemployment system](#) uses a combination of individual accounts (like Peru) and a solidarity fund.
- Extension of unemployment benefits to workers who are furloughed due to the pandemic. This allows workers to maintain ties to an employer who continues to pay the worker's healthcare and pension contributions. The [replacement rate](#) depends on whether funds are drawn from an individual account or the solidarity fund. The rate decreases monthly until it reaches the floor of 30 percent.
- Monthly payments of CLP 50,000 (\$63) for each member of households who are eligible to receive support under the government's family subsidy program ([Family Income Support Bonus](#)).
- Three monthly payments for vulnerable households and households ([Emergency Family Income](#) - EFI) that do not have a formal income earner. The amount depends on the size of the household. Households of up to four members receive CLP 65,000 (\$82) each. Payments to larger households are smaller.

The [unemployment rate in Chile](#) has also followed a trajectory similar to its neighbor's over the course of the year. The 3-month average rate peaked at 11.2 percent in May, up from 7.4 percent in January. Given the continued severity of the crisis, Chile remains in the recession phase of the crisis. In response, authorities announced a [second round of support](#) of \$12 billion on June 14, more than doubling the total support provided (8.4 percent of GDP combined). The second wave of support [increases](#) to CLP 100,000 the support each member of a household can expect under the EFI payout. The package also provides a replacement rate floor at 55 percent for unemployed workers until August.



Support to expire soon in the US

The number of new reported COVID-19 cases in the US increased rapidly in March before slowly declining during the first weeks of April. However, new infections began increasing in June and July as many states began to reopen but at a more rapid rate. The rate of infection has continually increased since early June and the US remains the country with the highest number of confirmed cases globally; it ranks 12th on a per capita basis.

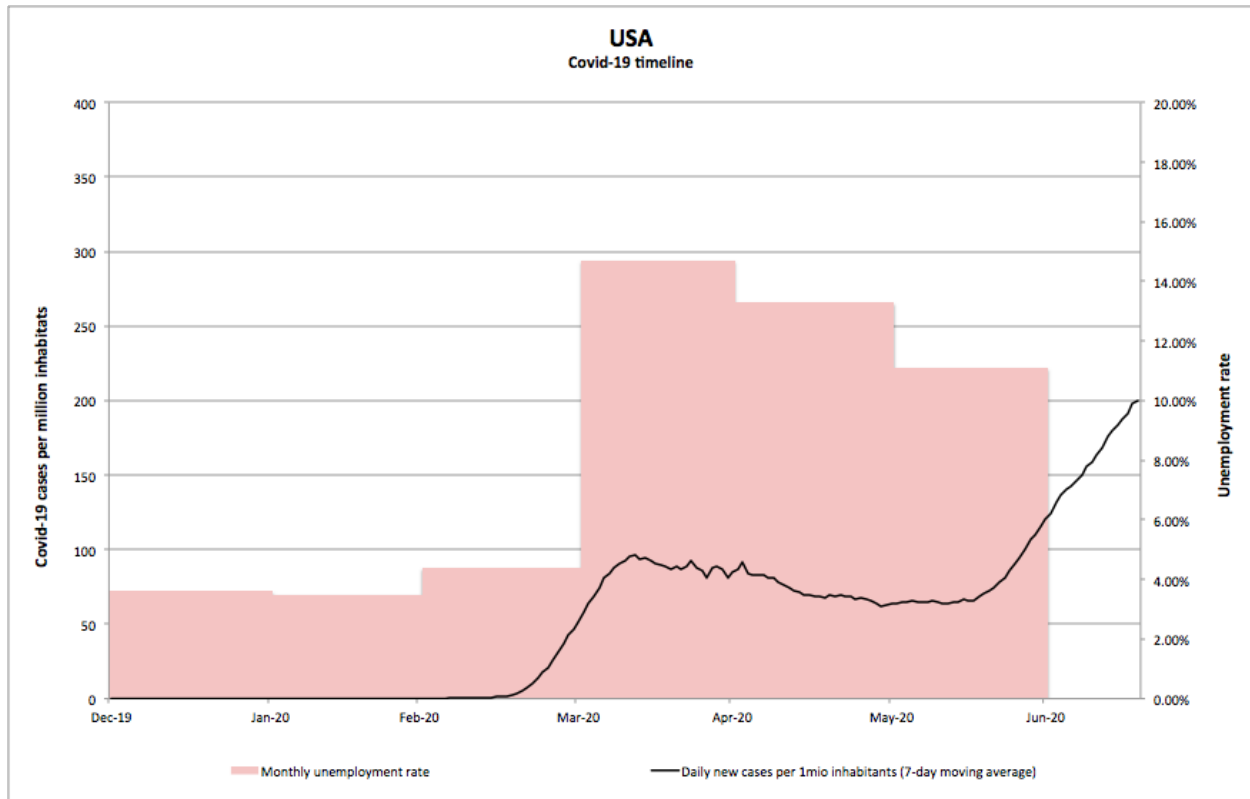
To combat the effects of managing the virus, the US government reacted with the largest economic stimulus bill in the country's history. The CARES Act passed on March 27 provided total support of \$2.3 trillion (11.2 percent of GDP), including a set of measures to support individuals.

The two main measures for households included:

- One-time payments of \$1,200 to eligible individuals. Individuals with an annual income above \$75,000 received a fraction of the total payment.
- \$600 weekly payment to unemployed workers (Federal Pandemic Unemployment Compensation, FPUC). Individuals receive these payments in addition to state unemployment benefits. This measure expires on July 31.

(See [our previous YPFS blog post](#) for a more detailed review).

The country entered its first recession since the Global Financial Crisis and reported the highest unemployment rates since the Great Depression. The US began the year with an unemployment rate of 3.5 percent in January, the lowest in decades. Unemployment began increasing in March and peaked at 14.7 percent in April as a result of widespread lockdown measures. The June unemployment rate was 11.1 percent. Efforts to augment previous support to individuals, including the \$3 trillion HEROES Act passed by the House on May 15, have so far failed to gain approval in the Senate. (Notably, the Payroll Protection Plan, a program of forgivable loans for small business was reauthorized and extended.) However, Senate majority leader Mitch McConnell has recently mentioned the possibility of a bill containing a [second stimulus payment](#) and there remains debate around a potential [extension of the controversial \\$600 per week unemployment supplement](#).



Concluding remarks

The discussion above highlights the fact that effective public health measures are essential to allow countries to transition from the recession to the recovery phase of the pandemic economic cycle. It also shows that support to individuals and households is a key component of policy responses at both stages.

During the recession phase, some countries successfully implemented measures intended to prevent job destruction and made payments to support vulnerable households through the downturn. The first wave of support in Austria and Germany achieved this by relying on wage subsidies to facilitate partial employment and prevent layoffs. Korea limited the shock to the labor market by gaining rapid control over the rate of infection through proactive public health measures while also providing income support to vulnerable households. This allowed it to avoid shutting down its economy, thus limiting negative economic effects. and

Chile and Peru remain in the third phase of the cycle, recession, as the rate of infection recently decreased - although not yet enough to allow policy to transition to recovery. In response, both countries extended measures implemented previously to support households through the downturn. Their policy mix focuses on support for vulnerable households and unemployed workers as well as preventing further job destruction.

Countries that were able to successfully manage the rate of infection have recently shifted their policy to measures that promote economic recovery. At this stage, support

measures aim to boost household demand and promote job creation. This is the case for the recent measures offering direct support to families in Austria and Germany as well as the job creation measures contained in the Korean New Deal, as well as the Hong Kong direct payments now being made. However, economic output is expected to remain depressed until a vaccine or treatment becomes widely available, as consumers are unable or unwilling to return to pre-crisis consumption patterns. Additionally, the recent deterioration of the public health situation in Hong Kong highlights that recovery prospects remain uncertain until the virus can be defeated through widespread access to treatments or vaccination.

Similar to Peru and Chile, the US remains in the third stage of the process and any prospects to steer policy towards recovery are compromised by the ever-increasing rate of infection in many states across the country. Without a second wave of support, the country faces the risk of further job destruction and a deepening recession before eventually entering the recovery phase as the public health situation improves and stabilizes.

COVID-19 cases - data sources:

<https://ourworldindata.org/grapher/total-daily-covid-cases-per-million>

<https://data.gov.hk/en-data/dataset/hk-dh-chpsebcedr-novel-infectious-agent>