

# Covid-19: Policy Responses in Europe vs. the US

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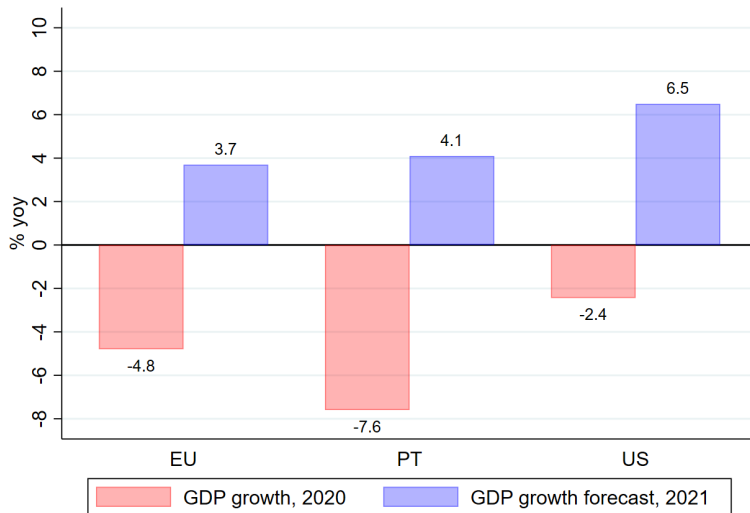
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Federal Reserve Bank of St. Louis

Economia Viva, April 2021

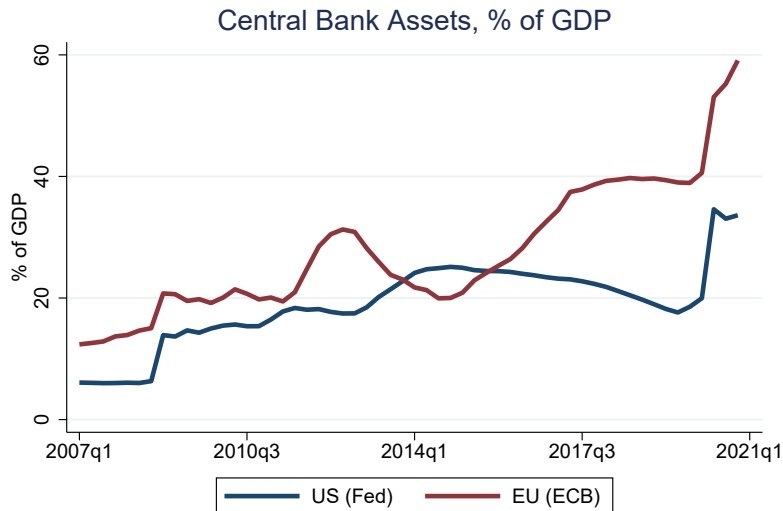
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## GDP: 2020 & 2021 forecast



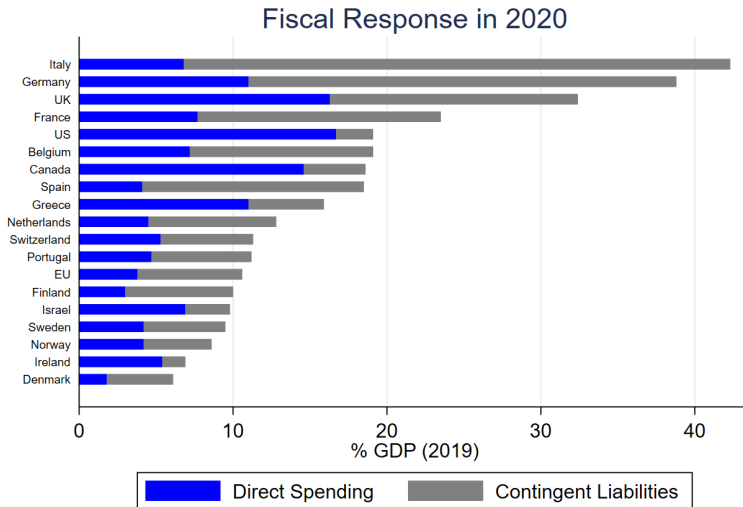
Source: FRED (St. Louis Fed), FOMC, European Commission, own calculations.

# Monetary Policy Response



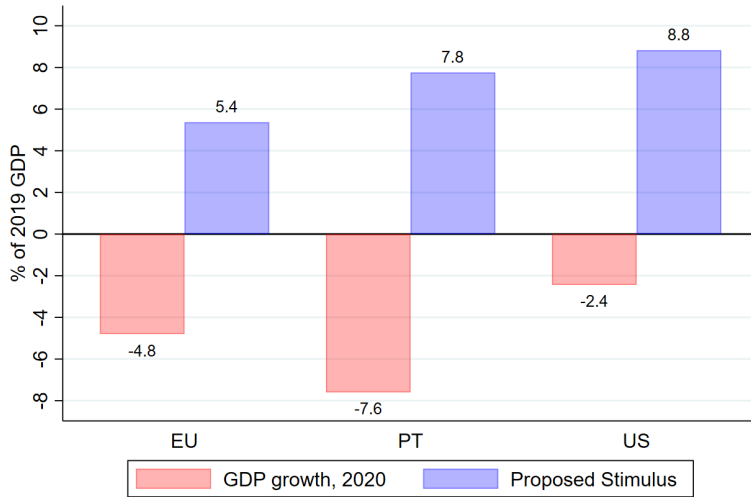
Source: FRED, own calculations.

# Fiscal Policy Relief in 2020



Source: IMF, own calculations

# Fiscal Support for the Recovery in 2021

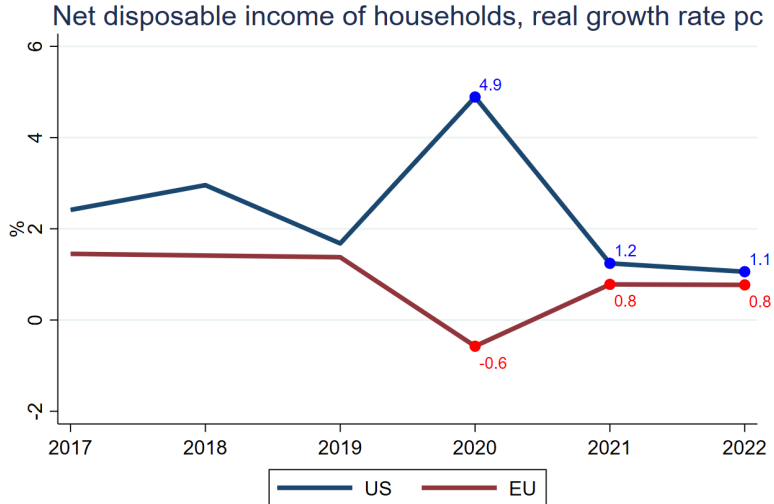


Source: FRED (Federal Reserve), Eurostat, Banco de Portugal, own calculations.  
Stimulus for Portugal corresponds to the PRR.

Is the US response “too large”?

- **“Pent-up demand”**
  1. Large increase in US disposable income during 2020
  2. Private expenditure likely to increase as economy reopens
- Blanchard & Summers
  - recovery in private expenditure + large fiscal stimulus  $\Rightarrow$  overheating
- Europe: disposable income fell + smaller fiscal stimulus package

# Disposable Income & Pent-up Demand



Source: OECD Economic Outlook, own calculations.

# Other Challenges

1. ECB's inflation aversion
  - vs. Federal Reserve's Long-Run Framework  $\Rightarrow$  average inflation targeting
2. Stability & Growth Pact suspended in 2020 & 2021 - but back in 2022!
  - Constrains fiscal stimulus at the national level for countries that need it the most
3. Legal challenges to EU recovery fund, eurobonds

## German court challenge to EU recovery fund could last months

Analysts fear hold-up may unsettle investors and undermine confidence in weaker countries



Germany's highest court will decide whether to issue a full injunction delaying the country's ratification of the EU recovery fund until it has ruled on the complaint © Theodor Wagner/EPA-EFE