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Nations pledge trillions in fiscal stimulus to boost their economies

The European Union, Japan, and China propose a variety of spending initiatives to help businesses and workers

June 01, 2020 | Kristina Hooper, Chief Global Market Strategist

Last week I wrote about the need for more fiscal stimulus in order to counteract the negative economic impact of the pandemic. Since the start of this crisis, I have worried that countries would follow the same playbook that was used in the face of the Global Financial Crisis – in general, a large level of monetary stimulus with a far smaller level of fiscal stimulus. I'm happy to report that the European Union (EU), Japan, and China all announced more fiscal stimulus in the past several weeks.

Of course, I have to reiterate that it's not just the size of the stimulus that's important, but the effectiveness of each dollar spent. However, the sheer fact that governments continue to loosen their purse strings is critical.

The EU makes history with a coordinated stimulus proposal

The European Union announced a proposal to offer $823 billion (750 billion euros) in fiscal stimulus, part of an approximately $2 trillion package.[1] This financial burden-sharing among EU nations has long been awaited, which is why it is being dubbed a "Hamiltonian moment," harkening back to Secretary of the Treasury Alexander Hamilton's pivotal decision in 1790 that the US would take on debt to help finance the 13 colonies of the United States.

The plan would need the approval of all 27 EU member nations. And that is where the difficulty lies, given that several northern countries are skeptical of the plan, as they do not want their taxpayers financing spending in other countries. European Commission President Ursula von der Leyen must convince them otherwise by suggesting that this is their opportunity to strengthen the European Union and perhaps write a new future for it. As she said, "This is Europe's moment. Our willingness to act must live up to the challenges we are all facing."[2] If implemented, this would mark the first time the EU has borrowed any significant amount in order to provide fiscal stimulus; historically the EU only issued debt in order to offer loans.

Japan pledges another $1 trillion in stimulus

Last week in Japan, Prime Minister Shinzo Abe's Cabinet approved an additional $1.1 trillion in fiscal stimulus. The package includes subsidies for companies facing hardship and for firms to pay rents. And, among other measures, it also increases compensation for workers who are absent from work due to coronavirus-related issues.

This new stimulus package takes total fiscal stimulus to combat the pandemic to approximately 40% of Japan's gross domestic product (GDP).[3] In addition, a significant portion of this package will be direct spending. The government expects to pass the bill in the Japanese Diet by mid-June.

China's stimulus plan emphasizes infrastructure spending

China announced at the National People's Congress last week that it will provide a $559 billion fiscal stimulus package.[4] The obvious goal of this stimulus is to tamp down the level of Chinese unemployment and therefore stimulate growth. Much of this stimulus will take the form of infrastructure spending, including "new infrastructure" projects such as 5G networks, data centers, and electric car charging facilities.

Stimulus is harder to provide in emerging markets

We can't forget that many emerging nations are at a disadvantage in terms of their health care infrastructure and their ability to provide massive fiscal stimulus. And unfortunately, we are seeing the number of COVID-19 infections rising in some emerging markets countries – particularly Brazil and India – which means an economic recovery is even further off.

While India announced last month that it would offer more fiscal stimulus constituting approximately 10% of its GDP,[5] targeting businesses and lower income households, more could be needed the longer the pandemic goes on without the "curve being bent" in India. And in Brazil, the situation is quite dire, as confirmed infections have passed the 438,000 mark as of May 28.[5] While Brazil's fiscal stimulus thus far has totaled nearly 8% of GDP, the need for additional fiscal stimulus could be much greater.[5]

Conclusion

The reality is that in the midst of a pandemic, it is hard to divine the future – even in the very near term. That's why China, for the first time, has decided it will not release a GDP growth projection for this year. And that's why more than one in three S&P 500 companies have decided not to provide earnings guidance for this year. There are so many variables impacting the macroeconomic outlook – from monetary policy to public health policy to developments around therapies and a vaccine. But when it comes to fiscal stimulus, the past two weeks have provided more reasons for optimism about the global economic outlook.

Source

[1]Source: Wall Street Journal, "European Union plans $2 trillion coronavirus response effort," May 27, 2020

[2]Source: European Commission press release, May 27, 2020

[3]Source: Reuters, "Japan approves fresh $1.1 trillion stimulus to combat pandemic pain," May 26, 2020

[4]Source: South China Morning Post, "China pledges largest-ever economic rescue package to save jobs and livelihoods amid coronavirus," May 28, 2020

[5]Source: International Monetary Fund, "Policy responses to COVID-19"

Important information