



Estimating the size of the European stimulus packages for 2009¹

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1. Introduction

On 26th November, the European Commission proposed an EU-wide economic stimulus of € 200 billion that features prominently on the agenda of the European Council on 11 /12 December. The purpose of this note is to assess how national plans put forward by the member states (and by the Commission regarding the Community part of the plan) measure up to the €200 billion objective.

The proposal by the European Commission is not very specific in two respects. Geographically, the proposal leaves it open which country is to contribute how much to the €170 billion part of the fiscal stimulus to be contributed by member states. As for the timing, the proposal does not contain any clear timeline showing which part of the stimulus is to be delivered by when. However, both the geography and the timing of the European stimulus are important elements of what needs to be discussed over the coming days and beyond.

This note is designed to contribute to the debate on the geography and timing of the stimulus by presenting estimates of the size of fiscal stimuli that have recently been proposed (and in some cases already adopted) by individual member states. To address the time dimension, we limit ourselves to those parts of the stimulus packages that are set to become effective before end 2009 since the economic downturn is currently predicted to be most severe in 2009.

To reduce the complexity of the exercise, we only take into account the 13 largest economies in the EU that make up more than 90 percent of the EU's GDP, plus the planned boost at the Community level. Despite this simplification, the task of estimating the size of the different programmes remains challenging not least because of the great variety of different instruments used and the rapid evolution of national debates.

¹ Updated version of 12th December 2008. New data for Austria and on the new Belgian package has been added

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In the following section of this note, we present our main findings. The third section then explains the methodology underlying our results. Finally, the annex lists the country specific tables on which our assessment is based.

Main Findings

The estimates regarding the effective size of the active fiscal stimulus (beyond automatic stabilisers) are summarised in Table 1.

In our evaluations, fiscal stimuli delivered in the form of tax cuts or expenditure increases are treated separately from the government-sponsored provision of extra credit to producers and consumers, or economically similar measures.

Table 1: Estimating the size of the stimulus package for 2009

	Tax extra expenditures € bn ³	cuts expenditures % of GDP	and	Extra credit & similar measures € bn* % of GDP
Belgium	1.24	0.35%		2.13 0.60%
Denmark	0.00	0.00%		0.00 0.00%
Germany	14.81	0.58%		21.80 0.85%
Ireland	0.00	0.00%		0.00 0.00%
Greece	0.00	0.00%		8.00 3.10%
Spain	12.31	1.10%		48.28 4.32%
France	14.30	0.72%		52.70 2.64%
Italy	-0.26	-0.02%		0.00 0.00%
Netherlands	1.30	0.21%		0.00 0.00%
Austria	3.33	1.14%		0.60 0.21%
Poland	1.72	0.49%		5.50 1.56%
Sweden	0.13	0.04%		0.00 0.00%
United Kingdom	17.06	1.01%		0.00 0.00%
Total largest 13 EU economies:	75.23	0.57%		139.01 1.18%
Total imputed for EU27⁴	83.70	0.57%		154.65 1.18%
European Community	9.30	0.07%		18.50 0.14%
Imputed Grand Total	93.00	0.64%		173.15 1.32%

The most important reason for this is that one euro of subsidised credit is typically substantially less than the fiscal equivalent of one euro. In normal times, it only amounts to the amount of credit provided multiplied by the difference between the subsidised and the relevant market interest rates. Clearly, this approach is not readily applicable in times of liquidity restrictions and we recognise that

³ Converted at current exchange rates for countries outside the euro area.

⁴ Assuming that the average stimulus package as a proportion of GDP is the same in the 14 member states not covered in our analysis as it is in the 13 larger member states covered in this note.

government-sponsored credit can contribute to supporting private spending. However, the two categories of stimuli are essentially not - or at least not directly - commensurate, and it is problematic that the public discussion nevertheless often treats them as such.

Clearly, the contributions to the European stimulus vary substantially by country. According to our estimates, the classic fiscal stimulus is greatest as a percentage of GDP in Spain, not least due to measures intended to cushion the blow to the real economy resulting from the bursting of a domestic property bubble. At the other extreme, Italy appears to be engaging in marginal fiscal consolidation in response to the crisis, thereby reducing the effect of the automatic stabilisers. Spain is also most active when it comes to the provisions of additional credit and similar measures. However, the size of the plans in these two categories is not closely correlated. Greece, for example, is only active in the latter category.

The weighted average of the classic fiscal stimulus over the 13 countries reaches 0.57 percent of GDP. Assuming that the 14 small member states not covered in this note deliver a stimulus of the same proportion of GDP as the 13 larger member states, this can be taken to be the size of the stimulus as a proportion of the EU's GDP. Adding the 0.07 percent contribution of the European Community, the fiscal boost would reach 0.64 percent of the EU's GDP. This would appear to be substantially below the target of the Commission proposal that member states should strive to reach 1.2 percent of GDP.

However, two things should be noted. First, the Commissions' plan allows countries to count towards the total size of the stimulus measures that would only become effective well after our cut-off point of end 2009. Second, by counting government-sponsored credit provision and economically similar measures towards the overall size of the package, estimated at 1.18 percent of the EU's GDP, the 1.2 percent of GDP target set by the Commission would be within easy reach even by the end of 2009. Similarly, it is clear that EU-level target of 0.3 percent of GDP is nominally within reach based on the current proposals.

However, declaring victory on the European stimulus package by simply adding extra credit provisions to the direct fiscal stimulus would be questionable on economic grounds. Our findings suggest that it will in that event be essential to look beyond that headline figures. It should be recognised that the likely real impact on aggregate demand in the near future may well be more limited than suggested by the headline figures.

2. Methodology

The estimates we produce are based on publicly available information at the time of writing. Government announcements regarding planned fiscal measures are counted towards the estimates only to the extent that they have provided a break-down of the total amount announced into concrete individual measures.

Qualifying criteria

Legislative or administrative measures are included in our estimates if:

- they were adopted after 1st September 2008 or
- they had not yet been adopted but their adoption is highly probable.

Furthermore, the effects of such measures are only included to the extent that they were expected to occur between September 2008 and end 2009. All such effects are grouped under one of the following headings:

- *additional spending disbursed*
- *foregone tax revenue* and
- *extra credit and economically similar measures*

Measures intended to (fully or partly) refinance the stimulus are counted negatively to the extent that they become active before the end of 2009. Expenditures brought forward to that period that were planned for 2010 or beyond are also counted whereas changes in cash-flow within the period under consideration (between September 2008 and end 2009) are regarded as neutral. Early payments of individually defined government liabilities or subsidies are the economic equivalent of government sponsored provision of credit and are only be counted as such.

Additional spending (on and off budget) and foregone tax revenues are treated as commensurate. One of the difficulties with planned off-budget increases investment (such as in state-owned enterprises) is that it is difficult to ascertain whether these investments are in fact additional or were already planned anyway. However, to the extent we lack information here we give the announced plans the benefit of the doubt.

Additional credit volume and economically similar measures such as changes in the timing of payments are listed separately.

For the sake of simplicity, we also exclude mere reallocations within budget positions, even if they are likely to have marginal effects on consumption or investment.

Calculation of effects

For the quantification of tax cuts, only the mechanical effect of the tax cuts are considered, excluding changes in tax revenues resulting from changes in the behaviour of individuals and firms. We thereby avoid having to make contentious assumptions about agents' behaviour during crises.

For the calculation of additional credit volume, measures at the core of the financial sector rescue packages including the recapitalisation of banks, the buying-up of problematic assets from banks and the guarantee of credits between banks are excluded. Also excluded are measures proposed by government where government does not have proper legislative control over the actors that are to carry out the measures, e.g. the proposals by some member states involving EIB actions.

Amounts are entered as billions of euros or billions of national currency units.

Annex: Member state and community-level breakdown**Belgium**

The Belgian stimulus was announced on 11th of December.

	€ bn	% of GDP
Additional fiscal spending:	1.238	0.35%
Additional credit + similar measures	2.130	0.60%

Category	Measure	Net amount (€ bn)
Tax cuts	Measures for construction sector ⁵	0.30
	No tax on credit insurance	0.02
Extra spending	Higher unemployment pay ⁶	0.10
	Energy subsidy to households ⁷	0.14
	Higher social security allocations ⁸	0.51
	Investments into green technology	0.02
	Larger fund for energy cost reduction ⁹	0.01
	Accelerated public investments	0.12
	Lower cost of using food safety agency ¹⁰	0.03
Extra credit + similar measures¹¹	Participation funds (for SME credit) ¹²	0.30
	Measures for companies facing liquidity problems ¹³	0.44
	Lower tax retention ¹⁴	0.23
	Amount of tax retention to be kept at company	0.04
	Indexation of taxes taken into account in tax retention	1.12

⁵ Largely VAT cuts for construction work.

⁶ Temporary measure for 2009 only.

⁷ Each Belgian household shall receive an energy voucher over € 30.

⁸ Contains the “welfare envelope” and additional welfare measures taken in the 2009 budget.

⁹ This figure represents the budgeted costs for enlarging the fund.

¹⁰ Lower fees to be charged to industry clients.

¹¹ More access to financing instruments for export, import and investment risks is also planned through the “Ducroire”, but no additional budget or credit impact is quantified since existing resources are to be better utilised.

¹² New product “INITIO” largely designed to offer credit to SMEs.

¹³ Consists of measures to allow later payment of bills and of debts to the government.

¹⁴ These last three measures apply to tax retention only, not to the final amount of taxes paid by firms and are thus the economic equivalent of an interest-free loan.

Denmark

No package according to our criteria (but budgetary expansion of 0.4% of GDP already decided in 2007 comprised of higher EITC and higher threshold for the middle income tax bracket).

Germany

	€ bn	% of GDP
Additional fiscal spending:	14.81	0.58%
Additional credit + similar measures	21.80	0.85%

Category	Measure	Net amount (€ bn)
Tax cuts¹⁵	Degressive depreciation deduction	1.94
	Higher tax-free allowances for companies	0.24
	Suspension of car tax on new vehicles ¹⁶	0.44
	Tax deductibility of professional commute ¹⁷	5.00
	Package for tax burden reduction, stabilisation of social security contributions and investment in families ¹⁸	6.00
Extra spending	Investments in transport infrastructure ¹⁹	1.00
	Longer eligibility for short-time compensation	0 ²⁰
	Improvement of regional economic structure	0.20 ²¹
Extra credit + similar measures	Co2-friendly renovation of houses	2.80
	Credit for infrastructure investment by municipalities in structurally disadvantaged regions	3.00
	Corporate innovation and energy-efficiency credit	1.00
	Additional credit for SMEs	15.00

Ireland

¹⁵ The deductibility of construction work from the personal income tax will only have fiscal effects in 2010 and thereafter.

¹⁶ This includes an extended car tax holiday for cars fulfilling strict ecological criteria.

¹⁷ "Pendlerpauschale" was reintroduced, valid retroactively from 2007, by a constitutional court ruling. Since the Federal Ministry has announced it will not re-finance these expenditures, these payments work as a stimulus. Only repayments for the years 2007 and 2008 are considered here since the 2009 deduction will only be paid out in 2010.

¹⁸ Mainly higher childcare benefits, tax deductions based on the number of children and lower employee contributions to unemployment insurance. The total amount is in effect a mix of cuts in taxes and social security contributions and additional spending.

¹⁹ Acceleration of planned projects already in the pipeline.

²⁰ Costs of this measure remain unclear, not least due to interactions with other social insurance systems.

²¹ Of which € 100 million are paid in cash and another € 100 million in commitment authorisations.

Ireland is planning a neutral cyclically adjusted budget: Automatic stabilisers will be allowed to work, but no further anti-cyclical fiscal policies will be enacted.

Greece

	€ bn	% of GDP
Additional fiscal spending:	0.00	0.00%
Additional credit + similar measures	8.00	3.10%

Category	Measure	Net amount (€ bn)
Additional + similar measures	Special government bond issue to supply SME credits and mortgage loans ²²	8.00

²² Although this will show up in the budget as government deficit, its effect is to provide extra credit at low interest rates.

Spain

	€ bn	% of GDP
Additional fiscal spending:	12.31	1.10%
Additional credit + similar measures	48.28	4.32%

Category	Measure	Net amount (€ bn)
Tax cuts	Longer tax-exemption of saving accounts for housing purchases even if no house is bought	0.03
	Extended eligibility for tax deductions when selling houses	0.10
	Reduction in employer social contributions for hiring previously unemployed workers	0.08
Extra spending	Employment Plan ²³	1.10
	Public Investment Fund ²⁴	8.00
	Sector specific support ²⁵	3.00
Extra credit + similar measures	Option to temporarily halve mortgage repayments ²⁶	2.50
	Credit for enterprises and families ²⁷	42.00
	Deductions for low-income families ²⁸	2.00
	Early payment of unemployment benefits ²⁹	0.08
	Up front tax deduction for housing ³⁰	1.70

²³ Yet undefined plan to be comprised of active labour market measures and temporary employment schemes.

²⁴ Allocated to municipalities for subcontracting public works.

²⁵ Although officially called sector-specific, this package contains both sector specific and cross-sector support. € 800 million earmarked to support the car industry, remainder to be spent on environment (€ 600 million), research and innovation (€ 500 million), a new care component of the welfare state (€ 400 million), housing renovations and sustainable tourism

²⁶ This measure allows homeowners in economic hardship only to pay half of their mortgage instalments for two years, effectively an option to restructure mortgage debt to allow slower repayment.

²⁷ Provided by the government-owned ICO bank (Instituto de Crédito Oficial).

²⁸ Timing change: rather than being repaid at a later moment in time as previously practised, the deductions will now be applied before the initial tax payment.

²⁹ Economic equivalent of an interest free loan.

³⁰ Economic equivalent of an interest free loan.

France

	€ bn	% of GDP
Additional fiscal spending:	14.30	0.72%
Additional credit + similar measures	52.70	2.64%

Category	Measure	Net amount (€ bn)
Tax cuts³¹	Reduced obligation to contribute to social insurance conditional on new hiring, for very small firms	0.70
Extra spending	Direct public investment (government and local government) ³²	6.50
	Sectoral subsidies: housing industry, subsidies to building, renovation, buyers and renters.	1.20
	Sectoral subsidies: car industry	0.60
	Increased payment to the endowment for the basic income provision ³³	0.80
	Employment policies	0.50
	State-owned enterprises investment	4.00
Extra credit & + similar measures	Credit for PPP projects	16.00
	Loans and guaranteed loans to SMEs	22.00
	Loans to social housing construction	4.50
	Faster implementation of research tax credit and profit tax reimbursement ³⁴	5.60
	Change of VAT reimbursement mechanism ³⁵	3.60
	Higher down-payments on public procurement projects ³⁶	1.00

In the absence of further information, the planned additional investments by state owned enterprises are assumed to be in addition to existing investment plans.

³¹ A further measure of changing the accounting rules for capital depreciation will only lead to budgetary effects in later years.

³² Most of these investments were originally planned for after 2010 and are now overwhelmingly to take place in 2009.

³³ 'Revenu de solidarité active'

³⁴ Economic equivalent of an interest free loan.

³⁵ Economic equivalent of an interest free loan.

³⁶ Economic equivalent of an interest free loan.

Italy

	€ bn	% of GDP
Additional fiscal spending:	-0.26	-0.02%
Additional credit + similar measures	0.00	0.00%

Category	Measure	Net amount (€ bn)
Tax cuts	No increase of highway toll	0.09
	Tax cut for productivity bonuses ³⁷	0.46
	Deductibility of corporate tax from regional corporate tax	1.19
	Deferred VAT payments ³⁸	0.19
	Municipal infrastructure investment	0.00
	Voluntary revision of company book values ³⁹	-2.76
	More tax inspections	-1.88
	Tax inspections of private associations	-0.15
	Increased taxation of TV services	-0.47
Extra spending	Spending on low income families	2.40
	Aid to house mortgages	0.35
	Unemployment benefits	0.10
	Financing of strategic infrastructure	0.06
	Increased tax revenue costs	0.05
	Renewal of school cleaning contracts	0.11

³⁷ Less income tax paid on bonuses based on productivity criteria.

³⁸ Loss of revenue from later payment of VAT by companies will lead to a marginal tax revenue losses as some firms will have gone bankrupt before paying up their tax liabilities.

³⁹ Presumably in response to intensified enforcement efforts.

Netherlands

	€ bn	% of GDP
Additional fiscal spending:	1.30	0.21%
Additional credit + similar measures	0.00	0.00%

The total size of the Dutch package has been quantified as EUR 6 bn, 1% of GDP. Since other proposed measures such as tax cuts designed to benefit SMEs, the accelerated payment of public sector bills and active labour market policies have not been allocated money yet, we cannot here take into account these parts of the Dutch economic stimulus.

Category	Measure	Net amount (€ bn)
Tax cuts	Accelerated depreciation for investments	1.10
Extra spending	Unemployment benefits (working hours reduction)	0.20

Austria⁴⁰

	€ bn	% of GDP
Additional fiscal spending:	3.325	1.14%
Additional credit + similar measures	0.600	0.21%

Category	Measure	Net amount (€ bn)
Tax cuts	Early implementation of income tax reform	2.20
	Degressive depreciation deduction	0.23
	Burden reduction for families with children ⁴¹	0.50
Additional Spending	Regional employment initiatives ⁴²	0.08
	Additional research expenditure ⁴³	0.05
	Mandatory kindergarten year for all	0.07
	Energy saving cheques ⁴⁴	0.10
	Investment in public facilities ⁴⁵	0.02
	"Mittelstandsfonds" - venture capital fund for SMEs	0.08
Extra credit + similar measures	additional erp credits	0.20
	credit guarantees for SMEs	0.40

⁴⁰ We include measures agreed on by the new government but not yet formally adopted by parliament.

⁴¹ Contains different forms of tax deductions for families with children.

⁴² Supporting corporate investments with employment effect and continuing education measures.

⁴³ To be spent directly on programmes and projects.

⁴⁴ Incentive programme for households to engage in energy-saving investments.

⁴⁵ investments into buildings and other real estate owned by the BIG, the state-owned real estate group.

Poland

	PLN bn	% of GDP
Additional fiscal spending⁴⁶:	6.80	0.49%
Additional credit + similar measures	21.50	1.56%

Category	Measure	Net amount (PLN bn)
Extra spending	Increased co-financing of EU structural funds projects	6.80
Extra credit + similar measures	New SME credit line	20.00
	Investment in renewable energy from national fund for environmental protection	1.50

Sweden

	SEK bn	% of GDP
Additional fiscal spending⁴⁷:	1.33	0.04%
Additional + similar measures	0.00	0.00%

Similar to the Dutch economic stimulus plan, the Swedish stimulus has been announced as being worth SEK 8.3 billion, of which only 1.33 billion has yet been allocated to measures. We therefore cannot take into account other proposed measures such as reduced social security contributions by employers for newly hired staff, tax deductions for residential renovation work and increased efforts on vocational education.

Category	Measure	Net amount (SEK bn)
Extra spending	Increased employment service (active labour market policy)	1.00
	Additional infrastructure investment	0.33

⁴⁶ Other components of the Polish stimulus plan as published by the Polish government are not included here since they were already part of the budget, ie decided before our cut-off date 1st September 2008 (income tax and VAT reforms). PLN 40 billion in guarantees of bank liabilities are part of a financial sector bailout and thus also not considered here.

⁴⁷ SEK 8.3 bn have been announced as the size of the stimulus by the Swedish government, but only those SEK 1.33 bn allocated to measures are counted here. The other cited measures have not been quantified or allocated funds yet.

United Kingdom

	GBP bn	% of GDP
Additional fiscal spending⁴⁸:	14.90	1.01%
Additional + similar measures	0.00	0.00%

Category	Measure	Net amount (GBP bn)
Tax cuts/increases	VAT cut ⁴⁹	12.50
Extra spending	Accelerated capital expenditure ⁵⁰	2.40
	Mortgage rescue and support for Mortgage Interest Schemes for eligible homeowners in difficulty ⁵¹	0.00

⁴⁸ A new top rate of 45% of the personal income tax much discussed recently will only be introduced in 2011.

⁴⁹ Cut from the previous standard rate of 17.5% to the European minimum standard rate of 15% until end 2009.

⁵⁰ GBP 3 bn shall be brought forward for spending during the 2008-2009 and 2009-2010 fiscal years. Our figure assumes a start of spending in January 2009 and uniform distribution of spending until March 2010, thus yielding GBP 2.4 bn of spending during the 2009 calendar year.

⁵¹ Has not been quantified yet.

Community level

	€ bn	% of GDP
Additional fiscal spending:	9.30	0.07%
Additional credit + similar measures	18.50	0.14%

Category	Measure	Net amount (€ bn)
Extra spending	ESF spending forwarding	1.80
	Plan to spend budget reserves on energy and internet infrastructure ⁵²	2.50
	Forward structural funds spending	4.50
	Accelerated call for trans-european transport projects (TEN-T)	0.50
Additional credit + similar measures	Additional EIB SME loans	10.00
	Additional loans specifically to mid-size companies	1.00
	EIB mezzanine finance facility	1.00
	Climate change financing by EIB	6.00
	EBRD additional credit for green and infrastructure investment	0.50

⁵² The proposed spending of EU budget reserves has so far been rejected by national finance ministers who would need to approve this measure.