

The economic context of the COVID-19 pandemic in the Mediterranean countries: A comparative analysis

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[Urbanovics.Anna@uni-nke.hu] (University of Public Service)

[Teleki.Balint@uni-nke.hu] (University of Public Service)

Abstract

The COVID-19 pandemic and the related political and economic crisis had serious negative effects on most Mediterranean countries. The paper aims to examine the measures introduced by the governments concerned to ease the crisis both from a quantitative and qualitative perspective. The impact of the activities of similar purpose of the institutions of the European Union are also the focus of the research, with emphasis on the state-aid framework of the European Commission aimed at supporting the economy, and the unfortunate speech of 12 March, 2020 of ECB president Christine Lagarde, which endangered the euro and caused an extreme increase in the sovereign spreads in most of the countries concerned, endangering their banking systems. The main expected results of the research are as follows. Based on the analysis of legislative measures and communications, an evaluation of the relevant actors (governments and EU institutions) will be established. This will be supplemented with the potential implications of the research for future decision-makers concerning how they can learn from how the crisis in these countries was (mis)treated.

Keywords: COVID-19; economic measures; Mediterranean countries; crisis

1. Introduction

The COVID-19 pandemic caused a crisis unprecedented in the twenty-first century. The nature of the disease made it inevitable that countries and regional integrations like the European Union would introduce serious measures in almost all fields of life, including measures restricting the free movement of people between countries and even between regions within countries, and lockdowns which led to the suspension of the normal operation of life and business.

In this article, the consequences of the aforementioned types of measures are examined in the case of seven Mediterranean countries (Croatia, France, Greece, Italy, Portugal, Slovenia, and Spain), with a focus on the economic measures and the underlying conditions that made the former necessary. These countries have much in common not only geographically but also in terms of the structure of their economies, which made their situations similar in many ways. The Mediterranean region (the cradle of modern civilization) is composed of 22 countries located around the coastal areas of the Mediterranean Sea, and covers portions of

three continents: Africa, Asia, and Europe (Molnár, 2019, p. 30). The seven countries that are examined in this article are integral parts of the continental European Union, positioned on the northern coastline of the Mediterranean Sea.

Since we are talking about seven countries which are all Member States of the European Union, and the EU took serious steps to help the former, we should mention the main points of the economic relief package generally and in the context of these countries. However, the unintentional but still harmful effects of what the EU also did in relation to the COVID-19 crisis cannot be ignored.

2. General overview of the Mediterranean countries during the COVID-19 outbreak

Before analysing the fiscal and economic measures implemented by national governments of the studied countries, giving a general overview of the current situation of these states is essential. This section describes the general tendencies and sheds light on the severity of the COVID-19 pandemic in the countries using different basic indicators. The data used here were accessed from open-source databases that were available online, with a focus on choosing the latest relevant data.

To have better insight into the COVID-19 pandemic, confirmed cases and cases of deaths should be further investigated (Our World in Data, 2020). Among the seven countries, the most confirmed cases of COVID-19 from a cumulative perspective as of 16 November 2020 occurred in France (2.04 million cases), followed by Spain (1.5 million cases) and Italy (1.21 million cases). However, the absolute number of cases is not the best indicator as the countries differ in terms of total population. The number of cumulative confirmed cases per million people as of 16 November 2020 demonstrates that Spain leads (32,015 cases), followed by France (30,244 cases), and then Slovenia (26,717 cases). From this perspective, Portugal is in fourth place with 22,131 cases, while Croatia is fifth with 20,831 cases. The number of deaths shows the success of the healthcare systems of the states under examination. The cumulative number of deaths as of 16 November ranks Italy in first place among the studied countries with 45,733 cases, followed by France (44,124 cases) and Spain (41,253 cases). It is better, however, to measure the number of deaths per million people for the reason indicated with respect to the number of confirmed cases. The cumulative number of deaths per one million people as of 16 November shows that Spain leads with 882 deaths, followed by Italy (756 deaths) and France (667 deaths). From these descriptive statistics we can see that the most serious situations caused by COVID-19 occurred in Spain, Italy, and France.

In order to obtain a broader comparative outlook about this region of the world, the following figures should be examined (Fig. 1.).

On the left side of the figure, the daily versus total confirmed COVID-19 cases can be found, and on the right the daily versus total confirmed deaths due to COVID-19 (Our World in Data, 2020). Studying these two figures, the date of the 'bending of the curve' and general tendencies, as well as the region's position, can be observed. It is important to note that while the Mediterranean region is among the leading countries in terms of confirmed cases, thanks to the relatively developed healthcare systems the region ranks lower in terms of the number of deaths. On the other hand, the growth of the second wave is clear on the graphs.

The severity of the health-related aspects of the pandemic is reflected in the above-listed data, the former which strongly affected the economic situation of these countries. The region's states differ based on their population size as well as the size of their national economies. The latest population data from 2019 are the following: France is the most populous

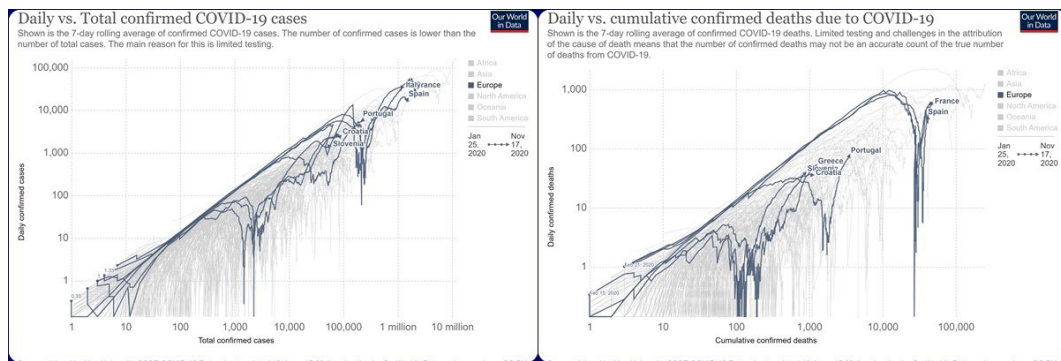


Figure 1: Daily versus total confirmed COVID-19 cases, and daily versus total confirmed deaths due to COVID-19 (Source: Our World in Data)

country (67.01 million people), followed by Italy (60.36 million people), Spain (46.94 million people), Greece (10.72 million people), Portugal (10.28 million people), Croatia (4.08 million people), and Slovenia (2.08 million people) (Eurostat, 2019). The size of national economies is measured by GDP, creating the following list in 2019: France was in a leading position (2425.708 billion EUR), followed by Italy (1787.664 billion EUR), Spain (1245.331 billion EUR), Portugal (212.3206 billion EUR), Greece (187.4565 billion EUR), Croatia (53.9367 billion EUR), and Slovenia (48.0066 billion EUR) (Eurostat, 2019). However, the data demonstrate a significant drop in real GDP for 2020, this being -10.8 per cent for Spain, -8.9 per cent for Italy, -8.2 per cent for Greece, -8 per cent for Croatia, -7.9 per cent for France, -7.6 per cent for Portugal, and -5.5 per cent for Slovenia (Eurostat, 2020). General government gross debt rose in every country. In this respect, Greece led with 205.6 per cent of gross debt in 2020, followed by Italy (155.8 per cent), Portugal (133.6 per cent), Spain (120 per cent), France (115.7 per cent), Croatia (88.7 per cent), and Slovenia (80.8 per cent) (AMECO, 2020). A significant decline in the import and export balance may be observed as well. With respect to the fall in imports, the leading

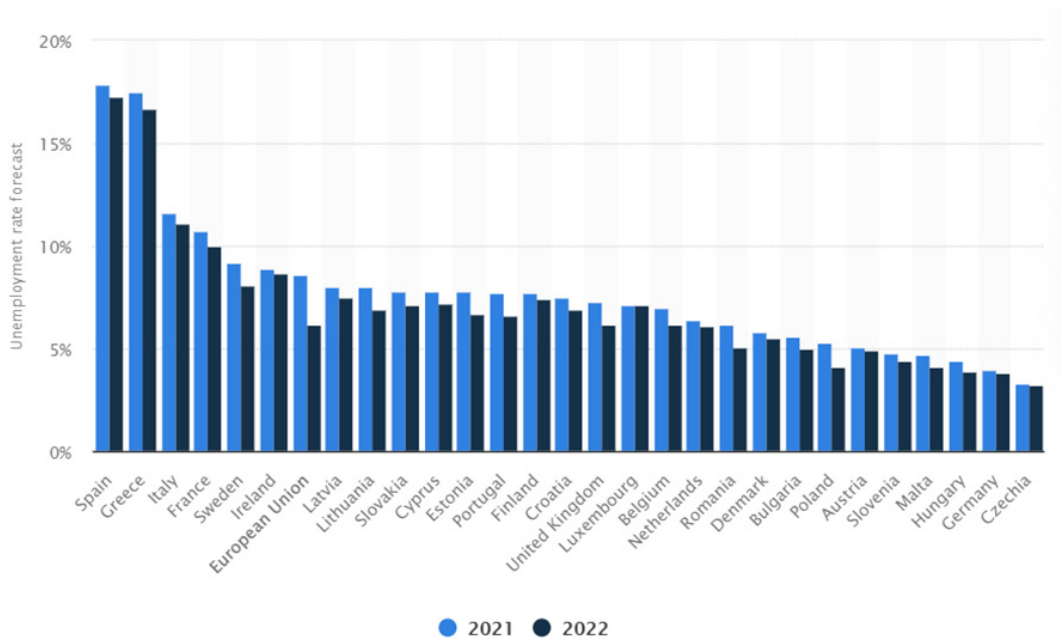


Figure 2: Share of total unemployment by country (Source: Statista)

countries are Spain and Greece with -23 per cent each, while concerning exports Greece faced the most extreme drop (-25 per cent) (AMECO, 2020).

Concerning the total unemployment rate for 2020, the study countries lead the list of European countries. With an extremely high 16.3 per cent Greece leads the list, followed by Spain (15.5 per cent), Italy (9.2 per cent), France (8 per cent), Croatia (7.5 per cent), Portugal (6.9 per cent), and Slovenia (5 per cent) (EUROSTAT, 2020). The unemployment rate rose quickly due to COVID-19, although most of the studied countries strengthened their job retention schemes. In April 2020, when lockdown measures to contain the spread of COVID-19 were in place in most euro area countries, 34 per cent of individuals in France, 30 per cent in Italy, and 21 per cent in Spain were engaged in short-time work (EUROSTAT, 2020). Concerning the unemployment forecast for 2021 and 2022 in Europe (Statista, 2020), the Mediterranean countries dominate the list. Spain leads with an estimated 17.9 per cent total unemployment rate for 2021, followed by Greece (17.5 per cent), Italy (11.6 per cent) and France (10.7 per cent). An exception in the region is Portugal is in twelfth place with 7.7 per cent (for reference, the average level of the European Union is 8.6 per cent; this is less than the average total unemployment expected in the Mediterranean region). For 2022 total unemployment is not expected to decrease significantly.

3. Methodology

The methodology used in the paper involved a mixed approach of quantitative and qualitative analyses. For the qualitative analysis, some of the policy papers and communications of the European Union or related actors were used.

For the quantitative analysis, besides the basic indicators presented in the general overview of the countries, certain databases freely available online should be mentioned. These are the COVID-19 Government Measures Dataset published by ACAPS, the Containment and Health Index published on the website of the Our World in Data, and the database of the EU Independent Fiscal Institutions along with the European Fiscal Monitor report published by the same organization in September 2020.

ACAPS's report (2020) on government maps the measures initially adopted by governments in response to the COVID-19 pandemic. The dataset registers every political measure taken, extended, or lifted in chronological order, along with the phase-out measures. The dataset is collected and uploaded in real-time by ACAPS analysts from the University of Copenhagen and University of Lund, while the scope of the dataset is global, including 192 countries. The information comes from open sources on the internet, where possible prioritizing official or governmental sources. The main taxonomy of the dataset is as follows: movement restrictions, public health measures, governance and socio-economic measures, social distancing, lockdowns. A limitation of the data is that it relies on open sources and is exposed to the various calculation methods of governments.

An aggregated index entitled the Containment and Health Index produced by the Oxford COVID-19 Government Response Tracker (OxCGRT), available on the Our World in Data website, was also involved. The index systematically collects information on several different common policy responses that governments have taken to respond to the pandemic using 18 indicators with global scope, using data from 180 countries. This includes indicators related to school closures, workplace closures, cancelling public events, restrictions on gatherings, public transport closures, public information campaigns, staying at home, restrictions on internal movement, international travel controls, testing policy, contact tracing, and face covering.

The index uses an ordinal scale that ranges between 0 and 100, where 100 indicates the strictest response policies.

The European Fiscal Monitor (2020) aims to compare fiscal responses within the scope of 24 EU Member States and the United Kingdom. It provides an overview of the economic impact, state of public finances, and fiscal measures adopted in response to COVID-19 based on volunteer cooperation on behalf of national independent fiscal institutions (IFIs). The latest report includes measures until early September 2020. Country-specific data is provided by the Fiscal Policy Commission (Croatia), the High Council of Public Finances (France), the Parliamentary Budget Office (Italy), the Fiscal Council (Greece) and the Parliamentary Budget Office (Greece), the Portuguese Public Finance Council (Portugal), the Institute of Macroeconomic Analysis and Development (Slovenia) and the Slovenian Fiscal Council, and the Independent Authority for Fiscal Responsibility (Spain).

Regarding the part of this article which examines the effects of the action taken by the EU – i.e. the measures introduced, and especially the communications of prominent leaders aimed at (or at least with the intention of) supporting the economies of the Member States and the European Union itself –, we introduce another approach; a qualitative methodology based on the concept of so-called ‘soft-power’. As the creator of the aforementioned term, Nye referred to it thus in a first article: ‘This second aspect of power – which occurs when one country gets other countries to want what it wants – might be called co-optive or soft power in contrast with the hard or command power of ordering others to do what it wants’ (Nye, 1990, p. 166). The interpretation of hard power and soft power in case of the European Union manifests in the Normative Power Europe – Market Power Europe dichotomy. The latter refers to the importance of the Single Market as the material basis of the EU, which enables it to represent and propagate values and narratives towards other international actors as it does towards the Member States and other actors of the Single Market (Damro, 2013, pp. 682–684). Economic measures (especially incentives) and strategic communication are among the most typical soft power tools. (Nye, 2005, pp. 11–15), and so are strategic narratives (Roselle et al., 2014, pp. 70–71). From this perspective, it is of incredible and equal importance what kinds of economic measures are introduced by the EU and how the leaders of EU communicate in a crisis as deep as the Covid-19 pandemic, with its attendant consequences.

4. The role of national governments in alleviating the crisis

4.1 Types of government measures imposed in reaction to the pandemic

National governments have tried to handle the challenges generated by the worldwide pandemic. They have established crisis-response plans and implemented sets of measures to remain organized and put forward a common agenda at various levels of society. In this section, quantitative analysis is conducted on the governmental measures introduced in response to COVID-19 in the countries of the region.

In Table 1, a total of 1,367 measures are classified by their main purpose. The topology follows the classification of the ACAPS COVID-19 Government Measures Dataset. The measures are broken down into five categories. It is important to note that the different categories are of varying levels of importance in the countries’ response plans. The category attracting most focus is public health measures, which is not surprising considering the severity of the COVID-19 from a health perspective, including the number of confirmed cases and number of deaths. It is also understandable that states faced and are still facing a more demanding situa-

Table 1: *Type of government measures by country (Source: authors' own table based on ACAPS data)*

Type of government measures	Croatia	France	Greece	Italy	Portugal	Slovenia	Spain	Total
Governance and socio-economic measures	14	51	9	37	76	23	31	241
Lockdown	2	5	14	10	3	1	12	47
Movement restrictions	20	21	60	30	40	21	19	211
Public health measures	51	61	61	71	86	46	95	471
Social distancing	69	43	74	42	89	21	59	397
Total	156	181	218	190	294	112	216	1367

tion than ever in terms of challenges to healthcare systems and public attention to the health issues associated with the pandemic. The second category in terms of related measures related is social distancing, while the third is governance and socioeconomic measures. The two smallest categories from this perspective are movement-related restrictions and lockdowns.

Among the countries, Portugal is in leading position in terms of the number of measures that have been introduced. It is followed by Greece, Spain, Italy, France, Croatia, and finally, Slovenia. The country focus varies between the categories as well. Public health measures are at the forefront in France, Italy, Slovenia, and Spain, which three countries were heavily hit in terms of the number of both confirmed cases and deaths due to COVID-19. Social distancing is the cluster that most measures are associated with in Croatia, Greece, and Portugal.

Table 2: *Type of governance and socioeconomic measures by country (Source: authors' own table based on ACAPS data)*

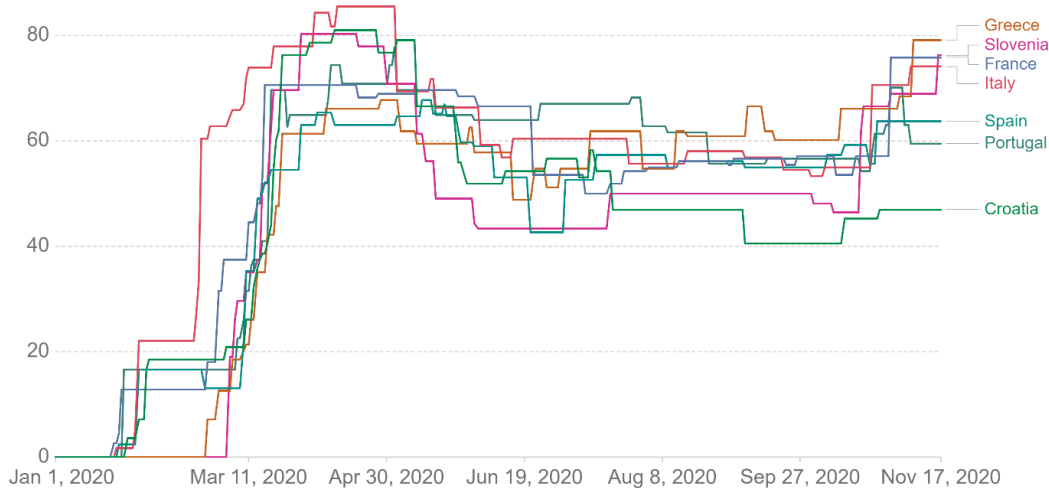
Type of governance and socioeconomic measures	Croatia	France	Greece	Italy	Portugal	Slovenia	Spain	Total
Economic measures	13	36	8	23	59	14	23	176
Emergency administrative structures activated or established	1	8	1	4	7	7	2	30
Limit product imports/exports		1		1				2
Military deployment		2		7	1		3	13
State of emergency declared		4		2	9	2	3	20
Total	14	51	9	37	76	23	31	241

As the paper has a strong focus on economic measures, it is worth analysing the governance and socioeconomic measures in detail in terms of their content. The ACAPS COVID-19 Government Measures Database breaks down these types of measures into five sub-categories.

A total of 241 measures have been introduced in the field of socioeconomic measures. Among the sub-categories, the dominance of economic measures may be observed (176 measures). This is followed by emergency administrative measures (30), state-of-emergency declarations (20), and military deployments (13). Economic measures have been at the forefront in every country and are clearly dominant. On the other hand, for the second most active category we see a variety of sub-clusters. Strong accent is placed on emergency administrative measures in Croatia, France, Portugal, and Slovenia, while military employment plays a significant role in Italy and Spain. These countries have used their military power to guarantee

COVID-19: Containment and Health Index

This is a composite measure based on thirteen policy response indicators including school closures, workplace closures, travel bans, testing policy, contact tracing, face coverings, and vaccine policy rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region.



Source: Hale, Angrist, Goldszmidt, Kira, Petherick, Phillips, Webster, Cameron-Blake, Hallas, Majumdar, and Tatlow (2021). "A global panel database of pandemic policies (Oxford COVID-19 Government Response Tracker)." *Nature Human Behaviour*. – Last updated 13 June, 06:17 (London time)
OurWorldInData.org/coronavirus • CC BY

Figure 3: *Containment and Health Index during the COVID-19 pandemic (Source: Our World in Data)*

public order; what is more, military personnel are involved in testing procedures and supervising social distancing.

The Containment and Health Index chart (Our World in Data, 2020) reveals the variety of response strategies of the countries. To better interpret the data, it is important to note the date of the first confirmed case of COVID-19 in the sample countries. The pandemic appeared first in France on 24 January 2020, then in Spain (31 January), Italy (31 January), Croatia (25 February), Greece (26 February), Portugal (2 March), and finally in Slovenia (4 March). Based on their response strategy as measured by the index, Italy (2.08) and Spain (2.70) introduced measures at the beginning very smoothly. The response was harsher in Croatia (4.17), France (6.25), Greece (8.33), Portugal (19.44) and harshest in Slovenia (22.22). It was also strict in Portugal (19.44). Measures were introduced before the first confirmed case was declared in five of the examined countries. In Portugal and Croatia, this happened more than a month before; and in Italy and Spain one week before the first confirmed case. These preventive actions delayed the appearance of the first COVID-19-related case in these countries, especially in Portugal, where due to the strict measures COVID-19 appeared only in March 2020.

The response measures reached their peak in terms of stringency in various periods. Countries can be divided into two categories with respect to the peak period; namely, countries implementing their strictest measures in spring, or in autumn (as of 17 November 2020). Highest on the stringency scale is Italy, with a value of 91.32 between 12 April and 3 May 2020. Other countries that reached a high point in spring are Croatia with 86.11 points between 2 April and 26 April, Slovenia with 85.42 points between 30 March and 19 April, Portugal with 82.64 points on 3 May, and Spain with 76.39 points between 13 May and 16 May. Greece reached a peak between 7 November and 15 November (84.03), just like France between 30

October and 15 November (82.99). It is also interesting to highlight that while Italy had the highest scores, Spain peaked at 76.39 points. The general tendency was for an easing of measures during the summer in every country, followed by stricter limitations from October again. The worsening conditions due to COVID-19 are often referred to as the second wave of the pandemic.

4.2 The common challenges of the Mediterranean economies

In general, all national economies were hit hard by the coronavirus. In the European Union, the situation was somewhat special, since the free movement of workers (and, in general, the free movement of EU citizens), which is one of the four freedoms of the EU Single Market, is essential from the perspective of certain sectors of the economy of the Member States. Although almost all sectors were hit, two of them are extremely exposed to the free movement: these were tourism and, somewhat surprisingly, agriculture. Since free movement was limited by the travel bans and lockdowns of the Member States, negative consequences were inevitable.

Tourism is a large sector in the economy of the European Union in general. According to Eurostat, in 2016 every tenth enterprise (2.4 million) was operating in this sector, employing 9.5 per cent of the EU workforce (13.6 million workers) (Williams, 2021, p. 80). Most of the seven countries we examined suffered from the exposure of their national economies to the tourism sector.

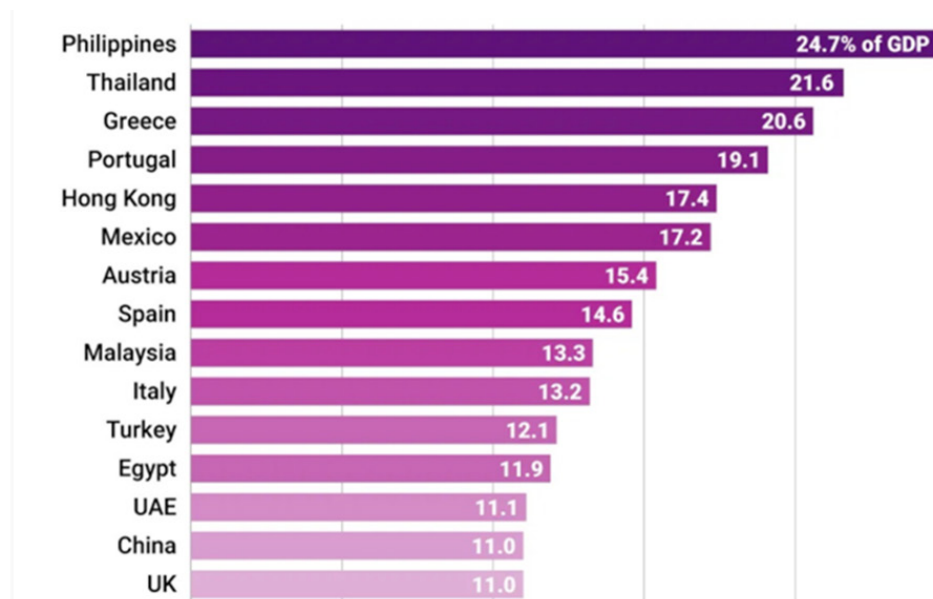


Figure 4: List of countries most dependent on tourism (Source: World Travel and Tourism Council Data (2018) and World Bank (2018), quoted by Debinski and Turrisi, 2020)

According to an analysis carried out in May 2020, all the countries – except for France – are ranked in the top 10 countries from the 50 largest economies globally that depend most on tourism as a proportion of GDP. Greece and Portugal are third and fourth, Spain is eighth

and Italy is tenth (Debinski & Turrisi, 2020). Also, Croatia and Slovenia depend a great deal on tourism, with approximately 10 per cent of GDP added by the tourism sector in both countries (Kovačević, 2020; Cvelbar & Ogorevc, 2020).

Perhaps the biggest related problem here – besides the direct effects of coronavirus – is the so-called undeclared economy and undeclared workers. Using a cross-sectoral approach it is estimated that undeclared workers constitute 11.9 per cent of the EU workforce, and the undeclared economy is responsible for 15.8 per cent of the GDP of the EU. Naturally, undeclared enterprises and firms operating with undeclared workers cannot benefit from programmes such as the Support to mitigate Unemployment Risks in Emergency (SURE), which was supported by the European Commission to the sum of 100 billion euros (Williams, 2021).

Agriculture is exposed to travel bans, restrictions, and lockdowns, since the movement of temporary labour, which is essential to this sector, almost always comes from foreign, poorer countries, or at least from other regions of the same country (Cortignani et al., 2020, p. 172). Even the agriculture of Germany depends on no less than 300,000 mainly Eastern-European seasonal workers at time of harvest. Therefore, it is not surprising that amid the first wave of the coronavirus in April 2020 the latter country sent planes to Romania to bring in workers in a safe way (Hurst, 2020).

Regarding the Mediterranean countries, Spain suffered such a shortage of agricultural workforce that 80,000 immigrants were recruited to support the sector. Spanish agriculture traditionally depends on migrants from Latin America and Africa. At the same time, Portugal regularized immigrants with pending residence permits (Cortignani et al., 2020, pp. 172–174). In Italy, temporary workers also support many farming activities; the former are mainly young immigrants engaged in working relationships characterized by extreme flexibility. Amid the restrictions, types of farms that heavily depend on temporary labour for certain crop operations, especially harvesting, faced appreciable decreases in income. Types of farms that operate with a lower level of profitability were also notably endangered, with serious implications for the social and environmental balance of the marginal areas in which they operate (Cortignani et al., 2020). The problems with the latter model are constant regardless of whether crises occur, although the Covid-19 crisis amplified the negative effects of these dysfunctionalities.

4.3 Fiscal measures in the crisis management of the Mediterranean countries

The EU Independent Fiscal Institutions database lists the measures countries have introduced to manage the crisis generated by the pandemic in the field of fiscal measures and policies. First, a quantitative overview of the measures is presented to create better insight into the type, duration, and policy objectives of these initiatives.

In Table 3, a total of 127 financial measures that were involved are broken down by type. These can be divided into six clusters. Based on the number of measures that were implemented, the ‘expense’ cluster was most numerous (52), followed by ‘tax relief’ (26), ‘guarantee’ (16) and ‘loan’ (15). Another 16 measures are ‘other’ types. Among the countries we examined, Spain introduced the highest number of such measures (59), followed by Greece (17) and Slovenia (17), Italy (13), Portugal (8), Croatia (7), and France (6). The national focus was on the category of ‘expense’ in France, Greece, Slovenia and Spain. Besides these countries, the expense category was also one of the leading ones in the remaining states, although in Italy ‘guarantee’-type measures, while in Portugal ‘loan’ and ‘tax-relief’ types of measures were equally prominent. As an exception, we can see that regarding the number of measures Croatia paid attention to loans and tax relief (Table 4).

Table 3: *Types of financial measures by country (Source: authors' own table based on IFIs data)*

Types of financial measures	Croatia	France	Greece	Italy	Portugal	Slovenia	Spain	Total
Expense	1	3	9	4	2	12	21	52
Guarantee	1	1	3	4	1	2	4	16
Investment				2				2
Loan	2	1	2		2		8	15
Tax relief	2	1	3	3	2	3	12	26
Other	1				1		14	16
Total	7	6	17	13	8	17	59	127

Table 4: *Types of other financial measures by country (Source: authors' own table based on IFIs data)*

Types of other measures	Croatia	France	Greece	Italy	Portugal	Slovenia	Spain	Total
Other categories	6	6	17	11	8	17	39	104
Loan moratorium	1							1
Regulatory measure							15	15
Suspension							5	5
Tax relief and transfers				2				2
Total	7	6	17	13	8	17	59	127

The category of 'other' types of financial measures can be further divided into regulatory measures, suspensions, tax relief and transfers, loan moratoriums, and others. Among these sub-clusters, regulatory measures were the most numerous, including 15 measures. 'Other' types of measures include a total of eight measures, but only Croatia (1), Italy (2) and Spain (20) introduced them. In Spain, regulatory measures are clearly dominant with 15 such measures being used during the phase of crisis management. Different types of other measures are included in the 'other' sub-cluster of categories, accounting for a total of 104 measures in the seven countries.

Table 5 shows the duration of the measures. The classification identifies measures ranging from those restricted only to the crisis period to long-term measures with longer-than-five-year timeframes. Most of the measures, due to the specific emergency situations, focus on the crisis period (60), but a significant number of them are intended for the short-term period, lasting up to one year (47). Furthermore, seven measures have been introduced for the medium-term, one for the longer-term, and twelve have no definitive end date. Studying the duration from a national perspective, the preference is clearly for measures that extend for the crisis period and induce short-term resilience. Croatia (4), Greece (9), Portugal (6), and Slovenia (13) focus on the crisis period, while France (4), Italy (7), and Spain (25) defined a number of initiatives effective in the short term for up to one year (Table 6).

Financial measures serve various policy objectives, such as immediate crisis-response, economic recovery, adaptation to the new normal, and other objectives. Most measures are devoted to immediate crisis-response purposes (85), while those that promote economic recovery come in second place (22), followed by adaptation to the new normal (12), and other (8). From the perspective of countries, there is consensus about the need to allocate resources

Table 5: *Duration of financial measures by country (Source: authors' own table based on IFIs data)*

Duration of the measures	Croatia	France	Greece	Italy	Portugal	Slovenia	Spain	Total
Crisis period	4	1	9	4	6	13	23	60
Long term (more than 5 years)			1					1
Medium term (up to 5 years)			2	2	2		1	7
Open-ended		1	1				10	12
Short term (up to 1 year)	3	4	4	7		4	25	47
Total	7	6	17	13	8	17	59	127

Table 6 *Policy objective of financial measures by country (Source: authors' own table based on IFIs data)*

Policy objective of the measures	Croatia	France	Greece	Italy	Portugal	Slovenia	Spain	Total
Economic recovery			3	3			16	22
Immediate crisis-response	3	6	11	8	7	12	38	85
Transition to the new-normal			2	2		3	5	12
Other	4		1		1	2		8
Total	7	6	17	13	8	17	59	127

to immediate crisis-response measures, while other policy objectives are in the forefront in Croatia (4).

Turning to the budgetary perspective regarding the above-analysed fiscal measures, clear country profiles can be drawn. It is important to note, however, what the EU averages are. Concerning discretionary measures, the EU average spend on the latter was 6.4 per cent of GDP, while for liquidity measures the EU average was 11.7 per cent (European Fiscal Monitor, 2020).

According to the EUFIS report issued in September 2020, Croatia dedicated 2.5 per cent (of GDP) to discretionary measures, and 6.1 per cent (of GDP) on liquidity measures. The spending of both countries remained, however, below the EU average. A focus was placed on tax deferrals, costing 2.1 per cent of GDP, followed by employment support equivalent to 1.8 per cent of GDP, and loans also at 1.8 per cent of GDP (European Fiscal Monitor, 2020).

The role of France as a leading power in the region is undoubted. The High Council of Public Finances dedicated 2.3 per cent (of GDP) to discretionary measures, and a much higher 16.7 per cent (of GDP) on liquidity measures. Credit guarantees are at the forefront with 13 per cent of GDP, followed by employment-support measures accounting for 1.4 per cent of GDP. In connection with this, two measures should be emphasized. France extended the short-term unemployment benefits that were designed to help avoid the negative effects of unemployment and to compensate for revenue losses. The measure was introduced on 17 March as an immediate crisis-response tool with expected funds equivalent to 1.20 per cent of GDP. Another significant measure in France entered into force on 18 March for the short-term – maintaining firms' access to credit. The decision involved Bpifrance guaranteeing on behalf of the state loans granted to non-financial firms to a total of 300 billion euros, up to 25 per cent of the latter's turnover (European Fiscal Monitor, 2020).

Greece implemented both discretionary (4.2 per cent) and liquidity (3.3 per cent) measures at a lower level. The main financial measures were issuing loans (1.8 per cent of GDP) and providing income support (1.6 per cent of GDP), while forms of tax relief (1.3 per cent of GDP) and credit guarantees (1.1 per cent of GDP) were significant contributory types of measures

as well. In Greece, two measures were highly significant. One of them was a lump-sum cash benefit of 800 euros and coverage of social security contributions, which were aimed at compensating for revenue losses and mitigating demand-shock during the crisis-period (2.08 per cent of GDP). The other measure was a tax refund in advance (of the previous year's advance tax payment) to businesses, which served as a form of liquidity support primarily to assist in the transition to the new normal (1.12 per cent of GDP) (European Fiscal Monitor, 2020).

Italy's main fiscal measures were centred on state guarantees provided through SACE that supported liquidity and helped avoid unemployment as an immediate crisis response. Grants to the value of 200 billion euros were made to banks, enabling them to grant further loans (22.05 per cent of GDP). In addition to this, the state strengthened public support for exports through a co-insurance system involving 90 per cent insurance coverage funded by SACE. Another measure was designed to support any person dealing with the economic and social costs of the emergency: over 25 billion euros were allocated to support employment and guarantee income and decent living conditions by the Wage Guarantee Fund (1.49 per cent of GDP). Besides this, four billion euros were allocated to cover cancelling the advance payment of taxes by businesses – a measure designed to support liquidity (1.20 per cent of GDP).

Portugal placed liquidity measures at the forefront using 9.6 per cent of GDP, while the value of discretionary measures remained at 3.7 per cent. Among the fiscal measures, credit guarantees lead with 9.2 per cent of GDP, followed by income support with 1.5 per cent. The main fiscal measures from a budgetary perspective served the purpose of compensating for revenue losses and mitigating demand-shock, while supporting cash-flow management was also considered important. The postponement of VAT payments and withholding some other taxes addressed companies, supplemented by another measure in the form of treasury-guaranteed loans to support the economic activity of companies with cash-flow difficulties. This latter measure was implemented using a 13-billion-euro scheme approved by the European Commission to support the Portuguese economy related to the COVID-19 outbreak. A credit moratorium was also introduced for private mortgages and SMEs (European Fiscal Monitor, 2020).

Spain introduced a high level of liquidity measures (14.8 per cent of GDP) and discretionary measures (5.1 per cent of GDP). The main type of measures were credit guarantees (11.7 per cent of GDP) and employment support (2 per cent of GDP). The state provided an unemployment subsidy to employees who had been temporarily laid-off due to the pandemic (1.24 per cent of GDP). For companies affected by the virus, the state guaranteed extra bank loans to an expected value of 8.81 per cent of GDP (European Fiscal Monitor, 2020).

Slovenia introduced discretionary measures in proportions near the EU average, valued at 5.8 per cent (of GDP), while the scale of liquidity measures remained below the EU average at 7.2 per cent (of GDP). The dominance of credit guarantees can be observed in the share of 6.4 per cent of GDP dedicated to this form of support, followed by employment support worth 2.8 per cent of GDP and income support at 1.6 per cent of GDP (European Fiscal Monitor, 2020).

4.4 *The most important measures introduced by the national governments*

All seven countries we examined introduced significant measures to alleviate the crisis and to help the economy and its actors to recover and/or boost their performance despite the unfortunate conditions.

In the field of *taxation*, the new measures were aimed at easing reporting and payment obligations. The following collection of measures only exemplifies the most important measures in each country. In Spain, there was a general suspension of tax periods and deadline

extensions in many cases. During certain intervals (e.g. between 18 March 2020 and 30 April, 2020), tax-related enforcement operations against real-estate assets undergoing administrative collection proceedings were suspended. Corporate Income Tax- (CIT), Personal Income Tax- (PIT), and Value Added Tax- (VAT) related obligations were also eased (KPMG, 2020e). The tax regime in Portugal was amended in a way that the first instalments of payments of several taxes for 2020 were postponed, and significant amendments were enacted regarding the VAT system (KPMG, 2020d). In Italy, several decrees included measures intended to assist businesses by providing loan guarantees, the government assumption of non-market risks, and some forms of targeted tax relief. Many tax suspensions and deferrals were enacted, including the suspension of tax audits (KPMG, 2020c). In Greece, a list of affected enterprises (mainly in the sector of tourism, air and sea transportation, sports centres, gymnasiums, etc.) was introduced; the former were granted an exemption from paying 40 per cent of their rental cost for commercial premises for the months of July and August 2020 (KPMG, 2020b). In France, any company in difficulty as a result of the health crisis could postpone, without penalty, the payment of direct taxes due in March, April, May, and June 2020. Many other deferrals and new rules concerning settlement plans for tax payments were introduced (KPMG, 2020a). In Croatia, facilitatory measures were introduced in the fields of certain taxes (VAT for import goods to be shown as liabilities, vaccination for employees as form of non-taxable remuneration, etc.) and several opportunities for deferrals also became available within the tax system (KPMG, 2020f). In Slovenia, a so-called 'Corona Mega Package' came into force within a very short period of time after the outbreak of the coronavirus, which also made tax deferral possible and introduced other types of easing measures, with very similar priorities and characteristics to those in Croatia (KPMG, 2020g).

In the field of *employment and social security contributions*, the new measures generally aimed to enhance the social security and health and well-being of the workforce. For instance, in Greece, employers' right to unilaterally impose remote working was extended to 31 December 2020. In France, the exceptional bonus paid in 2020 to civil servants was exempted from income tax and social security contributions. The authors would like to highlight the job preservation measures of Croatia, which involved a generous system of grants to a wide spectrum of applicants across the whole national economy. *Legal-related measures* addressed issues such as the adjustment of rules of general assemblies to the coronavirus situation. In most of the sample countries, *economic stimulus measures* were also introduced to boost the economy. Slovenia decided to allocate one billion euros from only Slovenian sources to compensate for damage to the tourism- and export-oriented economy due to travel restrictions and lockdowns (KPMG, 2020a; KPMG, 2020b; KPMG, 2020c; KPMG, 2020d; KPMG, 2020e; KPMG, 2020f; KPMG, 2020g).

5. The role of the European Union in the easing and escalation of the crisis

5.1 *The impact of the COVID-19 crisis on the EU economy*

The European Commission, in one of its earliest communications on the subject – namely, the one of 13 March 2020 – defined the problem as follows.

COVID-19, commonly known as the coronavirus, is a severe public health emergency for citizens, societies and economies. Having spread from China, the pandemic has now provoked infections in all Member States. While Italy is the most strongly affected, the number of cases is increasing

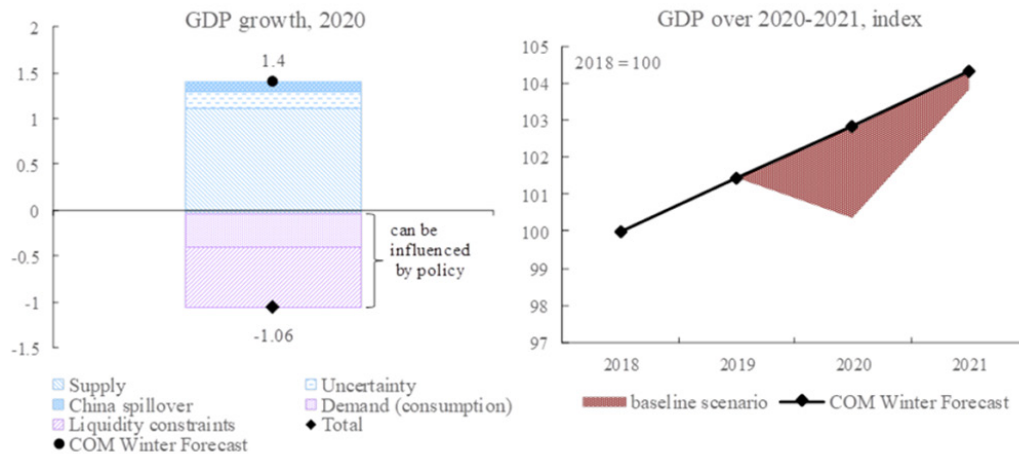


Figure 5: *Estimated impact of COVID-19 on European economies in 2020* (Source: *European Commission, 2020b, p. 2*)

across Member States and the situation is evolving quickly. The pandemic is imposing a heavy burden on individuals and societies and putting health care systems under severe strain. We must respond together to slow down the contagion, strengthen [the] resilience of our health care systems to help those in need and [make] progress in research and development. (European Commission, 2020a, p. 1)

The abovementioned document is structured as follows, highlighting the following areas of concern in relation to which the intervention of the European Union is deemed necessary and intended.

- Socioeconomic consequences.
- Ensuring solidarity in the Single Market:
 - Supply of medical equipment;
 - Transport;
 - Tourism.
- Mobilising the EU budget and the European Investment Bank Group:
 - Liquidity measures: support for firms, sectors, and regions;
 - Alleviating the impact on employment;
- The Coronavirus Response Investment Initiative (CRII).
- State aid
- Using the full flexibility of the European Fiscal Framework.

(European Commission, 2020a)

The Annexes to the document emphasize the necessity of a common approach by Member States to combat the coronavirus crisis and its impacts, among other areas (European Commission, 2020b, pp. 3–4).

As mentioned in the Methodology chapter, the following analysis about the response of the European Union to the coronavirus, including the supporting measures and strategic communications, should be interpreted such that that these instruments are all manifestations of EU soft power, or in other words, Market Power Europe.

5.2 Measures introduced to enable support-related state aid

The competition law regime of the European Union is very strict, including the rules related to applying for the state aid provided by Member States. The purpose of state-aid rules is to free the Single Market from protectionism, and by this means enhance fair competition.

In accordance with Art. 107 (1) of the Treaty on the Functioning of the European Union (TFEU): ‘Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.’ Paras (2) and (3) of Art. 107 list those cases in which state aid *shall be or may be* compatible with the internal market.

Pursuant to the coronavirus crisis, this field also required some new measures. As set out in a communication by the European Commission: ‘The Commission also stepped up to make the EU budget more readily available, to make our State aid rules fully flexible and to trigger the Stability and Growth Pact’s General Escape Clause for the first time ever. Along with measures taken by the European Central Bank, this EU response gives Member States unprecedented fiscal and financial firepower to help those that need it the most’ (European Commission, 2020c, p. 1).

The most important amendments – not amendments of the Treaty on the Functioning of the EU (TFEU) of course, but new interpretations by the Commission, partially through the Rescue and Restructuring State Aid Guidelines – are as follows.

‘In the overall effort of Member States to tackle the effects of the COVID-19 outbreak on their economies, this Communication sets out the possibilities Member States have under EU rules to ensure liquidity and access to finance for undertakings, especially SMEs that face a sudden shortage in this period in order to allow them to recover from the current situation. Member States may also design support measures in line with Block Exemption Regulations⁸ without the involvement of the Commission’ (European Commission, 2020d, pp. 3–4).

On the basis of Art. 107 (2) (b) TFEU (‘The following shall be compatible with the internal market: aid to make good the damage caused by natural disasters or exceptional occurrences’), ‘Member States can also compensate undertakings in sectors that have been particularly hit by the outbreak (e.g. transport, tourism, culture, hospitality, and retail) and/or the organisers of cancelled events for damages suffered due to and directly caused by the outbreak’ (European Commission, 2020d, pp. 4–5).

On the basis of Art. 107 (3) (c) TFEU (‘The following may be considered to be compatible with the internal market: aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest’) and as further specified in the Rescue and Restructuring State aid Guidelines, ‘Member States can notify to the Commission aid schemes to meet acute liquidity needs and support undertakings facing financial difficulties, also due to or aggravated by the COVID-19 outbreak’ (European Commission, 2020d, p. 4).

Art. 107 (3) (b) TFEU (‘The following may be considered to be compatible with the internal market: aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State’) shall be interpreted in a way which enables Member States to provide temporary state aid in line with a sets of additional requirements. (It is to be noted that the requirements slightly differ in case of primary agriculture, fisheries, and the aquaculture sector.) Several different forms of state aid are

specified as permissible according to the exception listed above, such as public guarantees on loans; aid for COVID-19 relevant research and development; and wage subsidies for employees to avoid lay-offs during the COVID-19 outbreak (for a detailed description see European Commission, 2020d, pp. 5–32).

5.3 *The Recovery Plan for Europe and the Coronavirus Response Investment Initiative*

‘To help repair the economic and social damage caused by the coronavirus pandemic, the European Commission, the European Parliament, and EU leaders have agreed on a Recovery Plan that will lead the way out of the crisis and lay the foundations for a modern and more sustainable Europe. A total of €1.8 trillion will help rebuild a post-COVID-19 Europe, which is greener, more digital, and more resilient. On 10 November 2020, an agreement was reached between the European Parliament and EU countries in the Council on the next long-term EU budget and NextGenerationEU. This agreement will reinforce specific programmes under the long-term budget for 2021-2027 by a total of €15 billion’ (European Commission, 2020e).

The Coronavirus Response Investment Initiative (CRII) was initiated at the very beginning of the crisis; it is mentioned in the Commission’s communication of 13 March, 2020, along with other fiscal proposals, such as the extension of the scope of the EU Solidarity Fund, and the mobilisation of the European Globalisation Adjustment Fund (European Commission, 2020a, pp. 7–8). Within the framework of cohesion policy, CRII and CRII+, along with the REACT-EU package, was implemented, and several Member States received support through these (European Commission, 2020f).

Regarding the Mediterranean countries we examined, 30 million euros from the European Regional Development Fund (ERDF) were redirected to help two Italian regions, Emilia Romagna and Tuscany, with the coronavirus crisis. The two regions are the first to take advantage of the flexibilities provided under the CRII. In France, the European Regional Development Fund supported the purchase of equipment for health infrastructure (masks and respirators) and provided economic support to SMEs. Furthermore, the European Commission has approved the modification of thirteen 2014–2020 Regional Operational Programmes and two national Operational Programmes in Greece. These modifications make €1.14 billion available to address the effects of the coronavirus crisis in the Greek economy through the funding of initiatives for supporting entrepreneurship (European Commission, 2020f).

5.4 *The communication failure of Christine Lagarde*

When it comes to handling crises, strategic communication is a key feature of the crisis management toolbox of the European Central Bank (ECB), and since the so-called ‘bazooka speech’ of former ECB president Mario Draghi, we know that a powerful statement from a charismatic leader can influence the financial markets to a greater degree than previously expected.

The most influential speech that Mario Draghi ever gave was a speech on 26 July, 2012 (the ‘bazooka speech’), which according to many stopped in its track the euro crisis that had been raging for three years. He said: ‘Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough’. Until that time, the ECB was focusing on price stability, but with this sentence the ECB put itself in the shoes of a powerful actor. The remarkable thing is that it seems to have worked (Verdun, 2017, p. 215).

In the case of the COVID-19 crisis, on 3 March, 2020 (at the very beginning of the escalation of the crisis in Europe), a significant speech was given by the ECB president Christine

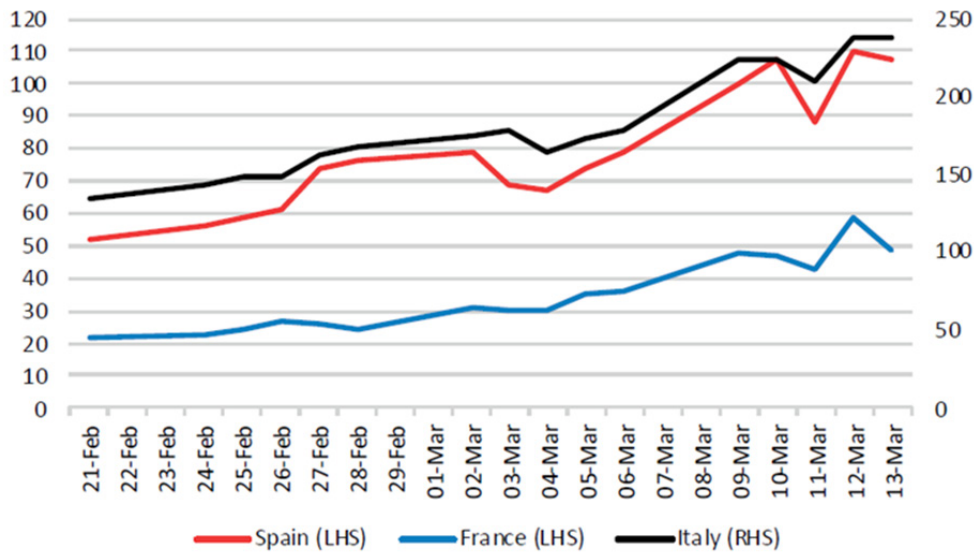


Figure 6: Sovereign spreads in Spain, France, and Italy (Source: Panizza, 2020 based on ECB online data)

Lagarde, which is now called the ‘*anti-bazooka speech*’, as its impact was of almost the same magnitude as the abovementioned speech of Draghi, only in completely the reverse direction, especially as regards the Mediterranean countries. Several authors argue that the ECB president did great harm to this group of EU Member States, which could have been even worse if certain other EU actors had not managed to calm the markets (Fig. 6).

In her speech, Lagarde made it plain that was not the duty of the ECB to ease Italy’s financial troubles: ‘There are other tools and other actors to deal with these issues’. Rapid financial market breakdown followed. The President of the EU Commission, Ursula von der Leyen, tried to make amends by affirming that the EU was ready to help Italy as much as possible (Raffaetà, 2020, p. 2). Beside Italy, Spain and France also found themselves in a difficult situation, as Lagarde said that ‘the ECB is not here to close [sovereign] spreads’. The Italian sovereign spread grew by nearly 100 basis points after the virus outbreak and reacted badly to Lagarde’s aforementioned comment. The outbreak of the virus and Lagarde’s comments were also followed by an increase in the Spanish and French sovereign spreads (Panizza, 2020, p. 259). In Italy, the position of the traditionally undercapitalised and therefore vulnerable Italian banking system also deteriorated because of the increase in the sovereign spread (Panizza, 2020, p. 259).

The opposite message to markets would have been required from euro area policymakers, who should have made it clear that the ECB would provide unlimited liquidity to governments under temporary financial stress, emphasizing that: 1) the European Stability Mechanism (ESM), the euro area’s bail-out fund, would be open to all Member States, and that, 2) the ECB was ready to use its Outright Monetary Transactions (OMT) programme of unlimited government bond purchases if a government needed it (Odendahl & Springford, 2020, pp. 148–149).

The day was saved, on the one hand, by the president of the European Commission, and on the other by a blog entry by the ECB’s chief economist Philip Lane, while Lagarde also corrected herself in a subsequent interview (Beck, 2020, p. 181). However, at the end of the day, the conclusion still remains that Lagarde is not as competent as someone in her position should be, especially in comparison with von der Leyen (Garicano, 2020; Alesina & Giavazzi, 2020).

6. Conclusions

The first conclusion to be drawn is the severity of the COVID-19 pandemic in terms of impacts on the health, economy, and politics of the Mediterranean countries. The region's states have been hit hard by the pandemic, and are among the states most affected by the economic crisis as well. The paper investigated the economic resilience of Croatia, France, Italy, Greece, Portugal, Slovenia, and Spain both from a quantitative and qualitative perspective.

A great share of the GDP of these countries is generated by tourism, thus travel restrictions and bans and lockdowns caused great damage. From the perspective of agriculture, seasonal workers are essential; consequently, the aforementioned restrictions hit that sector hard as well. For these reasons, the examined countries are greatly exposed to any restrictions on the free movement of people. The respective governments tried to introduce inventive ways to ensure the necessary workforce.

Government measures show different response strategies based on the Containment and Health Index. Based on the stringency of introductory measures, the harshest preventive responses were implemented by Slovenia and Portugal, and these contributed to the delay in the first confirmed case of COVID-19 in these countries. With respect to the strictest measures overall, Italy had the highest value on the index. Measures were introduced a month before the first confirmed case in Portugal and Croatia, and in Italy and in Spain a week before. Looking at the level of stringency, Croatia, Italy, Portugal, Slovenia, and Spain reached a peak in spring 2020 (as of November 2020), while France and Greece introduced stricter measures in Autumn 2020.

Results demonstrate that governance and socio-economic measures have been among the leading measures, besides public health and social-distancing measures. Public health measures have been at the forefront due to the extremely high number of confirmed cases and deaths due to COVID-19, including in France, Italy, Slovenia, and Spain, while Croatia, Greece, and Portugal emphasized social distancing to keep the number of cases as low as possible. Among the economic measures, emergency administrative measures dominate the response plans of the cluster of Croatia, France, Slovenia, and Portugal, while military deployment occurred in Italy and Spain. Turning to fiscal measures, a clear emphasis on assistance with expenses is found in France, Greece, Slovenia, and Spain, while guarantee-type measures were implemented mostly in Italy, and loans and tax relief in Portugal and Croatia. Based on the duration of the measures, the countries we examined have been forced to focus on immediate and short-term resilience – especially Greece, which has been facing economic crises for years. States mainly focused on measures for supporting liquidity. In alignment with this, resources have been allocated for immediate crisis-response measures, while economic recovery is stressed in Spain.

The European Union acted relatively quickly, as is demonstrated by the communications it has issued since the earliest phase of the European pandemic in around March 2020. The economic relief packages that were introduced were composed of measures of a fiscal nature, ranging from virtual financial help to the easing of the otherwise strict state-aid rules associated with EU law. As may be seen now, these measures have generally been successful, and in the seven countries contributed to damage control. However, the speech of ECB president Christine Lagarde of 12 March, 2020 was not a success story at all. Her careless choice of words and poor messaging caused the sovereign spreads of France, Italy and Spain to rise immediately, and in Italy, where the banking system is traditionally undercapitalized, other problems occurred as well. Fortunately, these effects were mitigated within days by correcting remarks.

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