

SUERF | KfW Virtual workshop

COVID-19 and government firm rescue measures: best practices, current challenges, and the way forward post-corona

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Keynote:

**Government firm rescue measures during the COVID-19 crisis -
Creating the basis for a strong and sustainable recovery**

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Welcome

Dear ladies and gentlemen,

On behalf of KfW, I would also like to welcome you very warmly to our workshop today.

As I speak to you here right now, thousands of people around the world are being vaccinated against Covid-19. This brings us step by step closer to the end of this historic crisis.

But the fact that I am still in front of a monitor to speak to you also shows that we are still a long way from our pre-Corona daily lives.

However, as we see a light at the end of the tunnel, this is a good time to take a breath and look back at what has been done and been accomplished in the past months.

I am therefore very glad that we could all get together – if only digitally – for this important topic. In this workshop we will jointly take an interim review of government firm rescue measures and look ahead to what we need to tackle next. I would like to take this opportunity to thank you for sharing your expertise, knowledge and experience on this topic and I am very much looking forward to our discussion.

Situation of the corporate sector

For the past 14 months the COVID-19 pandemic has been an historic challenge in many respects. In a short time the coronavirus has spread worldwide. To contain the pandemic, public life in many countries has been brought to a standstill.

These steps were necessary to avoid an even higher number of fatalities. But they have also come at high costs, both personally and economically.

The pandemic has led to a global economic crisis that was unique in many dimensions – in the speed of its spread, its depth and its breadth. Never has a crisis affected the corporate landscape so broadly. From engineering companies to hairdressers to fitness centres – the various containment measures – business closures, distancing rules and travel restrictions – have spared no sector

The figures speak for themselves...

- Last year around 70% of German SMEs (2.7 million companies) were affected by the crisis
- More than 50% of German SMEs have reported turnover losses.
- This has put a heavy strain on the companies' financial situation. More than a third of SMEs have suffered a decline in liquidity reserves.

All in all, I think we have to state that this deep crisis has exposed the weaknesses in our economic systems. And it has painfully shown us that we need to tackle structural challenges before they become weaknesses.

Exceptional support measures

However, the extraordinary crisis also triggered extraordinary reactions. Governments throughout the European Union reacted very quickly.

With great determination they put together remarkable aid packages that have never been seen before on this scale. For example: In March 2020 the German Parliament passed an historic €1.3 trillion Coronavirus Rescue Package

While of course the first concern of these rescue measures has been public health, a wide array of measures has also been introduced to mitigate the economic impact on businesses:

- Loan guarantees, grants and subsidies but also tax deferrals –to name just a few.
- These measures are largely aimed at giving companies liquidity to withstand the immediate crisis.

Role of national promotional banks and institutions

Despite many similarities in the measures taken throughout the European Union, national governments also took into account the specific situations in their countries, and have tailored the rescue measures to their business sectors accordingly.

Europe's national promotional banks and institutions were glad to be able to provide decisive support here – together with the national governments and the banking sector.

To date, government firm rescue measures in Germany total EUR 81 billion

- EUR 47 billion – or 57% – of which were provided by KfW as part of its Special Programme.
- In addition to the expansion of existing programmes, new programmes were created like the Instant Loan, which is fully guaranteed by the German Federal Government.

Most EU countries now have similar guarantee programmes in place. This was made possible because European national promotional banks and institutions worked closely together.

How successful have these measures been?

Almost one year after the outbreak of the crisis, it is now a good time to look at the track record of all these measures. So far, the extensive and rapid response has proven to be quite successful:

- Surveys show that access to finance has remained open for the corporate sector.
- The number of corporate insolvencies has remained stable in most European countries.
- And: Although the unemployment rate has increased, it is still far below the level seen after the financial crisis.

And I know that not everything went as well - or as quickly - as some had hoped. But to take stock, we need to ask not only “Was it good?” and “Was it good enough?” but also “What would have been the alternative?”

And I firmly believe, all in all, we can say that the measures have helped to stabilise the economy and prevented a much deeper recession. Thus, I am very much looking forward to hearing in the first Panel what your experiences have been and whether you have a similar view on the measures.

Why continuation of support measures is necessary

While the numbers and figures look encouraging, this is not the time to sit back and relax

- The crisis is not over yet.
- A continuation of the support measures is therefore highly necessary.

However, they should not only be aimed at helping companies to survive but also at helping them to recover. After the need to provide liquidity to companies during the first phase of the crisis, the next step should be to increase investment. Companies have shown great adaptability so far.

At the beginning of the crisis we saw a push towards digitalisation, as well as innovation in the German SME sector. However, as the crisis has continued, innovation and investment activities have declined.

We must reverse this trend...

- ...by reducing uncertainty, setting incentives ...
- ... and, equally important, by keeping companies' access to finance open.

Opportunities of the crisis

But why is it so important to boost business investment?

- Because global challenges such as climate change continue despite the pandemic.
- Because structural challenges of the European business sector – such as digitalisation, the energy transition and the shortage of skilled workers – also persist.
- But also – most importantly – because I believe that this crisis offers opportunities to tackle these challenges, it can become a catalyst for the necessary transformation to a digital and climate-neutral economy.

In the recovery phase, we should therefore put a special focus on investments in digitalisation, innovation and sustainability. Most national stimulus packages have taken this into account and are promising starting points.

If this enables European companies to accelerate both their digital and sustainability transitions, I am optimistic that they will emerge stronger from this crisis and will be more resilient to future shocks.

You can already see how the crisis has brought momentum to the corporate landscape.

- Since the beginning of 2020, 12 European companies have joined the group of Unicorns (a unicorn startup, is a private company with a valuation over \$1 billion)
- This list includes for example:
 - Mirakl – a French cloud-based e-commerce software company
 - MessageBird – a Dutch cloud communications company
 - LiliumAviation – a German manufacturer of vertical take-off and landing aircrafts

This momentum was sorely needed! Because, when it comes to digital performance, Germany for example is mid-table at best.

Ladies and Gentlemen,

The Unicorns I just mentioned as well as many other encouraging examples of companies that have not only seen obstacles in this crisis but also opportunities make me feel optimistic that we can continue this momentum. So that we can accelerate the digital transformation and the transformation towards a climate-neutral economy.

I hope that the results and findings of our workshop can contribute to this ambitious goal. I am now very much looking forward to our discussions. And one last wish for you all: Stay healthy!