Covid-19 and business support programmes in Germany: achievements, challenges, lessons

SUERF E-workshop in cooperation with KfW

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Ample support has been made available to businesses...

- Support includes both direct grants to SMEs and balance sheet measures.
- Balance sheet measures sum up to EUR 61 bn.
- Flows of grants to SMEs stand at EUR 23 bn and are forecast to reach a total of around EUR 90 bn (Soforthilfe, Überbrückungshilfe, November-/Dezemberhilfe).

Covid-19 business support measures (selection)

Source: German Statistical Office (Dashboard Deutschland)
Notes: Volumes as of 21. February 2021
... with more SME grants in the pipeline

- Soforthilfe was quick and generous, but less targeted.
- „Überbrückungshilfe III“ live since February 2021, taking advantage of the fifth amendment to and prolongation of the European Commission’s Temporary Framework.
- Raised upper limit for grants under “November-/Dezemberhilfe” also to boost flows over the next few months.
Sectors most affected by lockdowns have received most grants

- While industrial firms were able to broadly maintain production throughout the second lockdown, high-contact services sectors were again hit hardest.
- Accommodation and food services, as well as the arts, entertainment and recreations sectors received the most grants relative to their size, consistent with their higher lockdown exposure.
- Wholesale and retail trade are set to benefit from third stage of the temporary aid scheme.

Intensity of SME grants across sectors, top 5

Source: Federal Ministry of Finance
Notes: Volumes as of 21 February 2021, share of 2019 sector gross value added (GVA)
Protecting jobs has propped up household incomes

- Across Europe, GDP reacted far more strongly than household incomes.
- In some countries, disposable income in Q3 2020 was up on the year, evidencing the positive effect of stabilisation measures.
- In contrast, business profits took a sharp hit.

Sources: OECD Household Dashboard; Eurostat
Fiscal space for crisis support is plenty

- Governments’ interest expenditure has fallen dramatically over the last two decades, driven by the secular decline in interest rates.
- Germany has one of the lowest interest expenditure to GDP ratios in the eurozone.
- With interest rates expected to remain low over the next few years, additional borrowing for crisis purposes is currently of no major concern for fiscal sustainability.

Source: National statistical offices

Eurozone: Gross interest payments on public debt
For SME aid schemes, a trade-off between fast and fair...

- Easy application process.
- Fast and mostly automated approval process.
- Centralised processing.

→ Help arrives fast.

- Nobody gets „left behind“ i.e. special cases aren’t cut out by oversimplified rules.
- No overcompensation.
- Robust to fraud attempts
- Decentralised processing via Länder.

→ Help reaches the right businesses and in appropriate volumes.
...accompanied by both internal and external constraints

**Internal constraints**

- Incomplete digitalisation of the public administration.
- Coordination with Länder.

**External constraints**

- EU State aid laws.
- Capacity of tax advisors in their role of checking and channelling applications.
- Lacking internal digital capabilities require external IT providers, which may not perform as required.
Lessons learned (I/II): Incremental improvements with aid schemes

„Überbrückungshilfe III“: latest improvements of key temporary aid scheme

- **Eligibility requirements lowered**: SMEs, which suffer a monthly pandemic-related revenue drop of 30% in comparison to 2019.
- **Extended catalogue** of reimbursable fixed operating cost (rents, interest payments, etc.).
- **Amount of monthly grants raised**: Up to EUR 1.5 mn for businesses and EUR 3 mn for corporate groups.
- **Sector specific aid** for travel industry, event industry, self-employed, cultural services like theatres, cinemas and retail trade.
Lessons learned (II/II): Going further

- Special fund for „hardship cases“: Case-by-case review of companies, which fall through current eligibility criteria.

- Higher pace of disbursement would require more centralisation and investment in digital capabilities, e.g. digital company registry incl. bank account details etc.

- Needs further thought: Revised EC temporary framework allows for quick loan disbursement to SMEs, with subsequent loan forgiveness process for eligible businesses (similar to US programmes).