

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

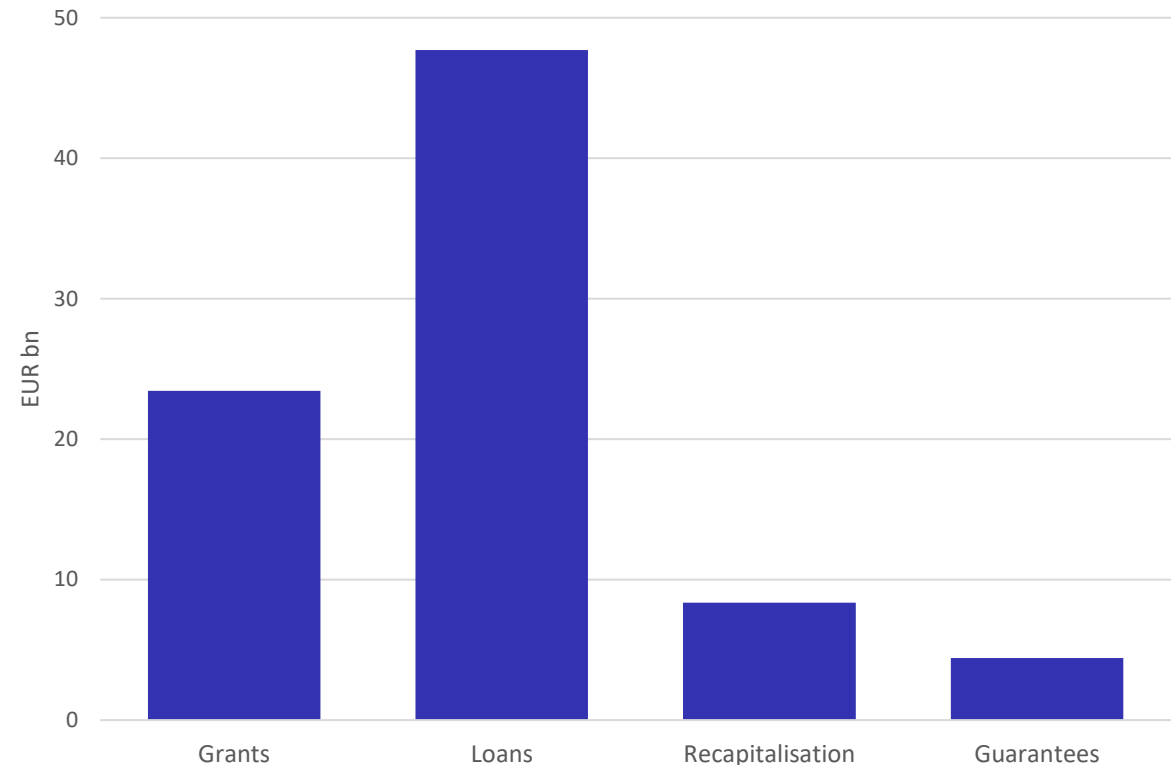
SUERF E-workshop in cooperation with KfW

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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).

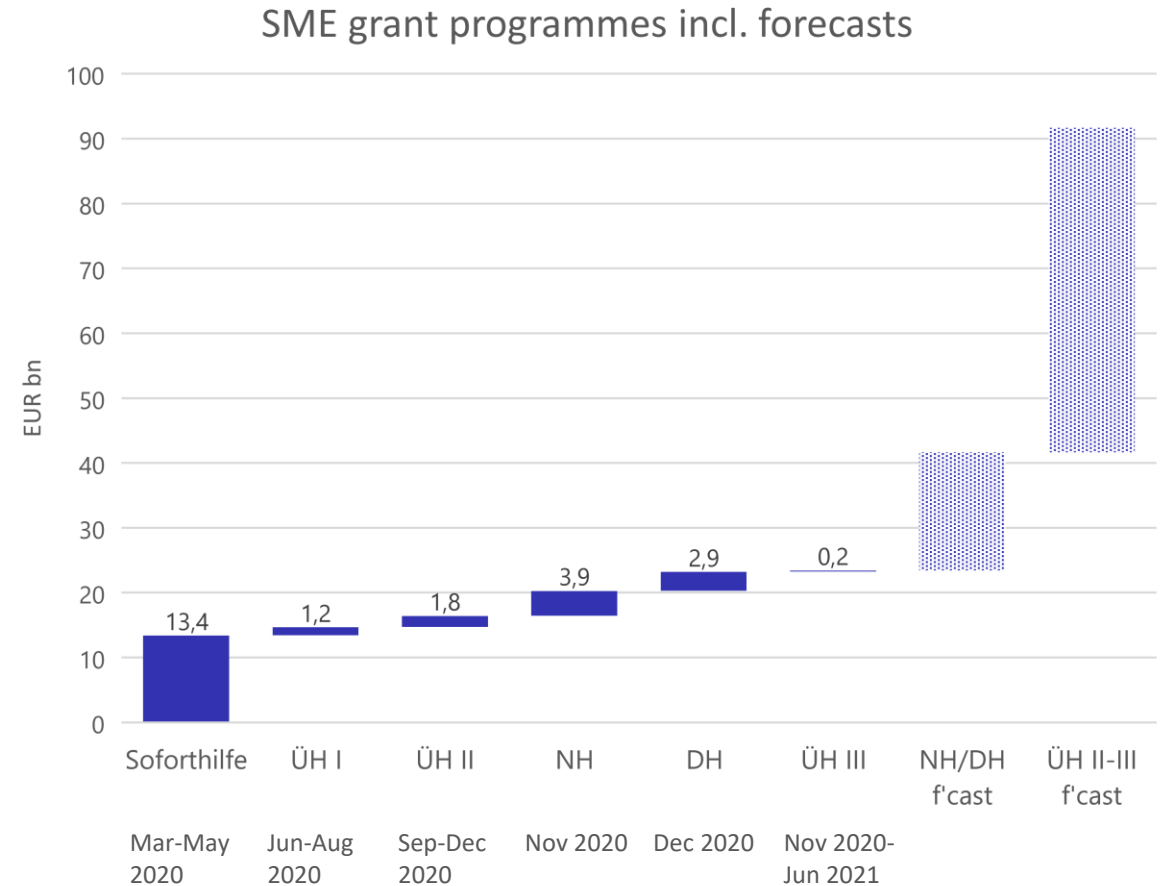
Covid-19 business support measures (selection)



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.



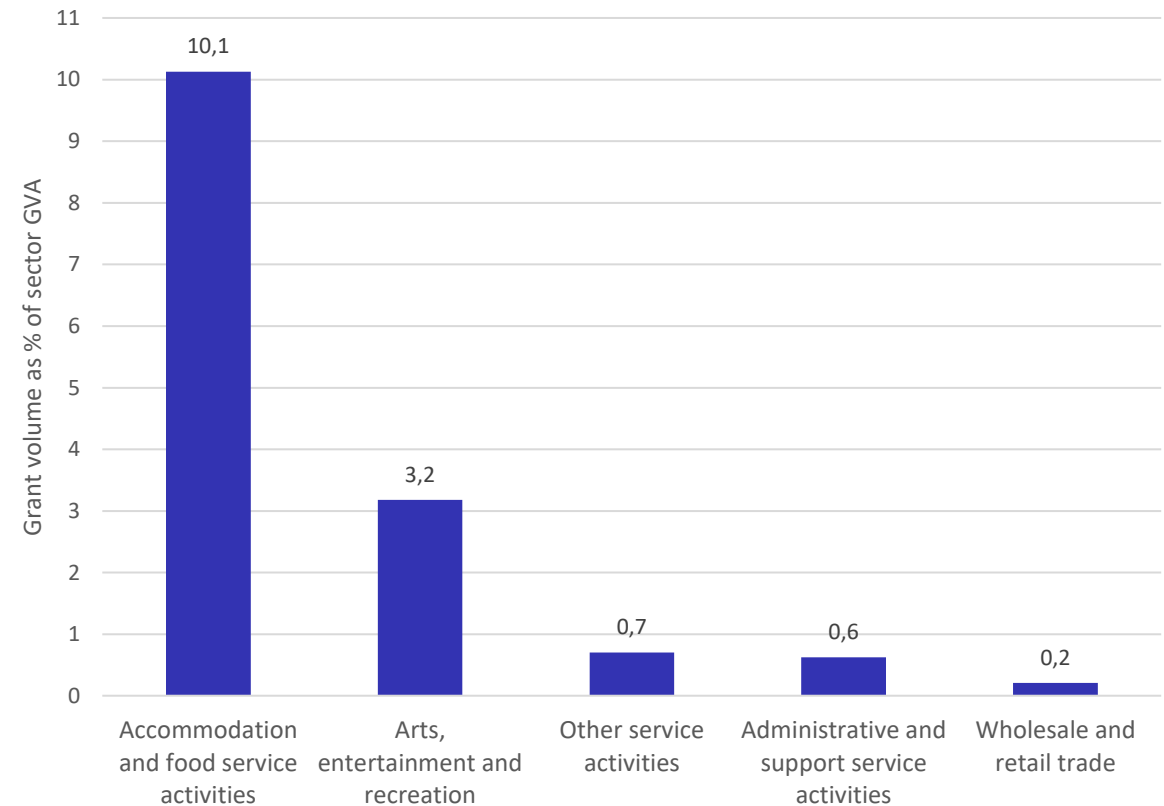
Source: Federal Ministry of Finance

Notes: Volumes as of 21 February 2021, shaded areas denote range of possible future disbursement volumes

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



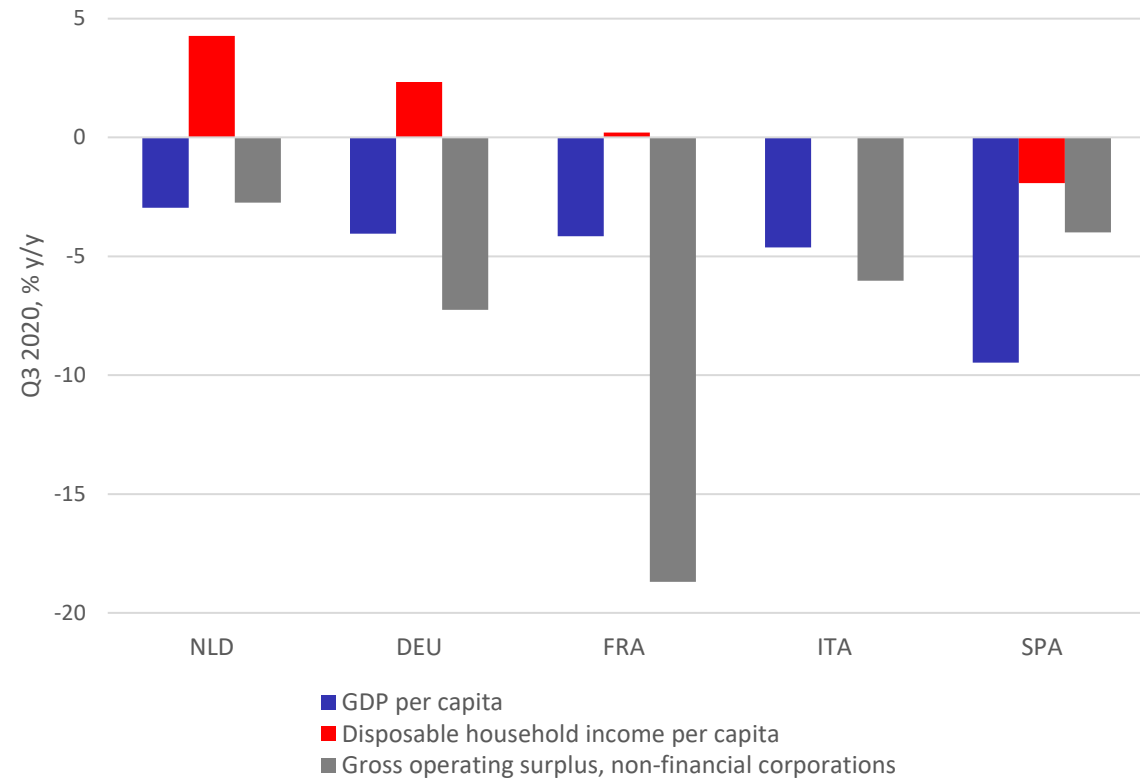
Source: Federal Ministry of Finance

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.

Change in GDP, disposable household income, and business profits, international comparison

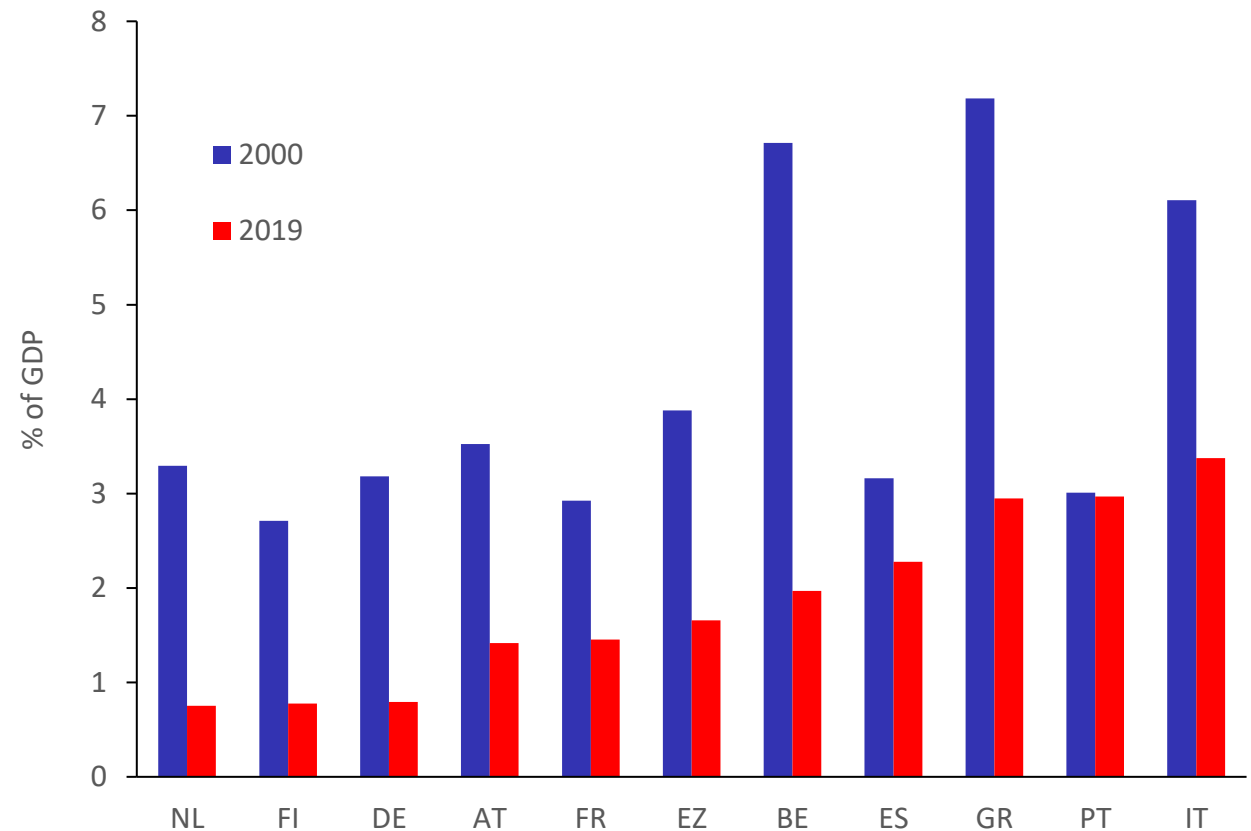


Sources: OECD Household Dashboard; Eurostat

Fiscal space for crisis support is plenty

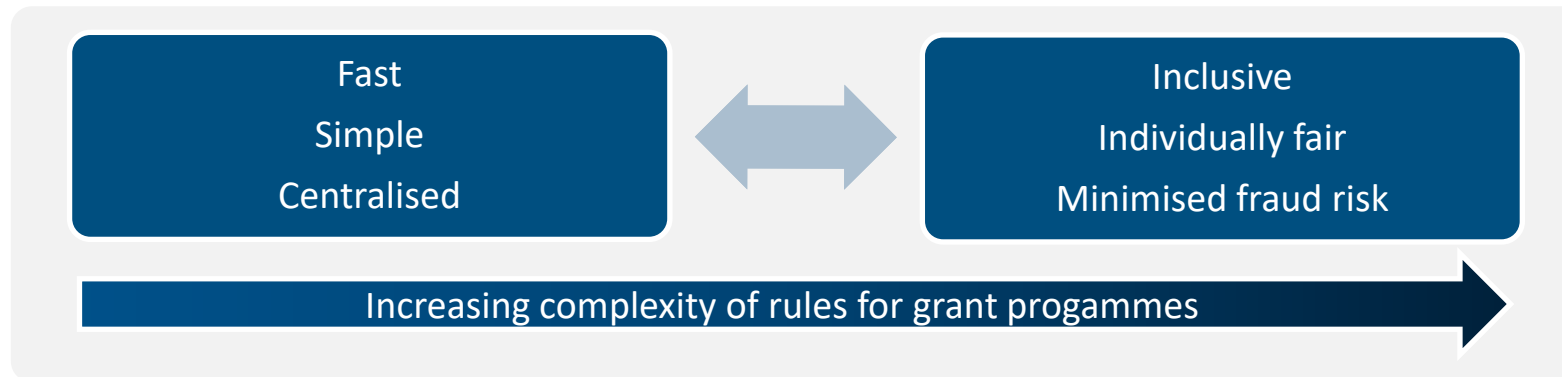
- ▶ Governments' interest expenditure has fallen dramatically over the last two decades, driven by the secular decline in interest rates.
- ▶ Germany has one of the lowest interest expenditure to GDP ratios in the eurozone.
- ▶ With interest rates expected to remain low over the next few years, additional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

Eurozone: Gross interest payments on public debt



Source: National statistical offices

For SME aid schemes, a trade-off between fast and fair...



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

→ 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).