

Measures of the German Federal Government to support business during the Corona crisis

Version: 15 May 2020

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Berlin, May 2020

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1. Motivation

Background

- In March 2020, the German Government has taken a series of measures to slow down the spread of the Corona virus
- At the same time, Germany's most important trading partners are also affected by the Corona crisis
- This combination of domestic measures and weakening of the global economy has a strong negative impact on the German economy
- In order to limit the economic consequences, in March 2020 the Federal Government started to flexibilise existing and to introduce new instruments

Objective of this Policy Briefing

- Presentation of measures adopted so far, based on information provided by the Ministry for Economic Affairs and Energy, the Ministry of Finance, the Ministry of Labour and Social Affairs and the KfW
- Focus: Federal Government; measures taken by the federal states (Länder), the EU and the ECB are not examined here

2. Instruments of the Federal Government

a. Short-time work allowance

Overview of short-time work allowance



Economic reasons or unavoidable event (e.g. Corona)



Employer introduces short-time working



Employee receives short-time work allowance from employment agency



Operating restrictions and work loss



Employer applies for short-time work allowance at employment agency



Source: Own illustration

Target group: All companies and employees

Type of measure:

- Wage replacement for employees (grant)
- Reduction of work between 10% and 100% possible
- Compensation: 60%/67% of the net wage
- New: reduction of social security contributions
- New: 70%/77% from 4th month, 80%/87% from 7th month of reception

Precondition:

- Unavoidable event, temporary & unavoidable work loss
- $\geq 10\%$ of employees have a loss of earnings of $>10\%$ (before: min. 1/3 of employees needed to be affected)

Funding: Unemployment insurance

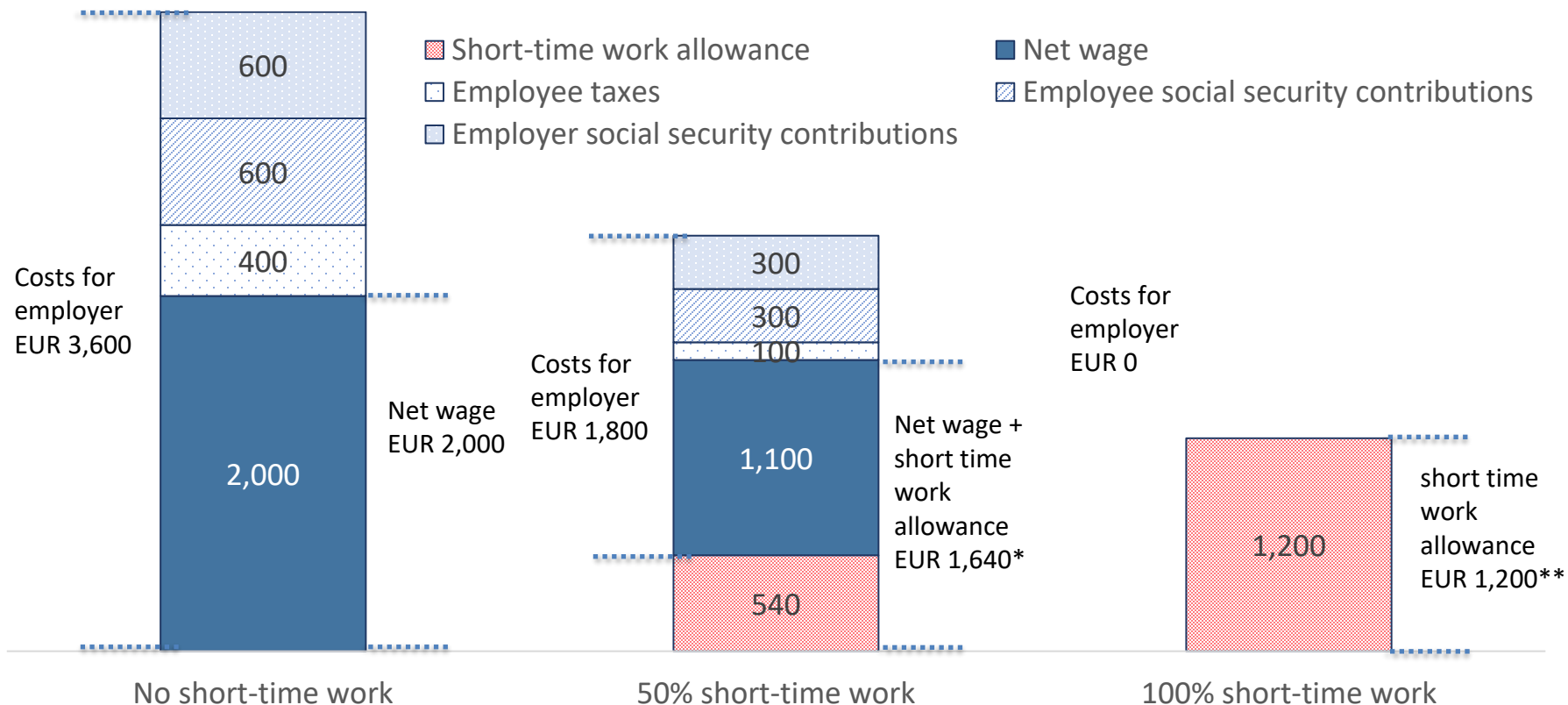
Application: Company at local employment agency

Financing volume: no limit

Existing program? Yes, but facilitated access

Period of validity: Facilitated access from 01.03. to 31.12.20

Short-time work allowance: example using 60% work replacement



Source: Own illustration; assumption: employee without children; with children: 67% of net wage (instead of 60%)

*Consists of new net wage (EUR 1,100) and short-time work allowance (EUR 540); calculation short-time work allowance: $(2,000 - 1,100) * 60\% = \text{EUR } 540$

**Consists of new net wage (EUR 0) and short-time work allowance (EUR 1,200); calculation short-time work allowance: $(2,000 - 0) * 60\% = \text{EUR } 1,200$

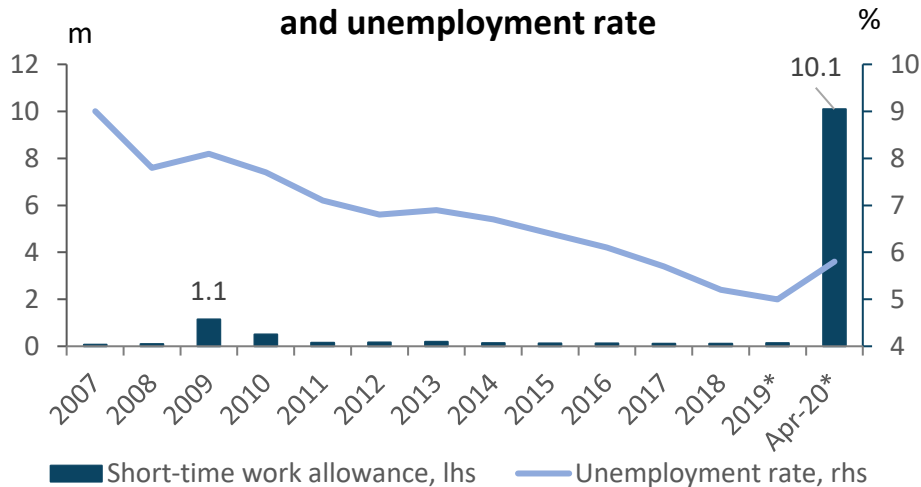
Short-time work allowance: assessment

- Central instrument that proved its worth in the international financial crisis; 2009: GDP down by 5.7%, but almost no increase in rate of unemployment
- Considerably eases the burden for companies, as labour costs account on average for 69% of value added in Germany
- Reduced burden for employers in respect of social security contributions is also important
- In addition: positive effect on employees and their consumer spending
- Finally: significant facilitation of a "new start" after the crisis
- Disadvantage: "expensive" instrument; cost likely to be much higher than in 2009 (EUR 6 bn); current reserves at Federal Employment Agency EUR 26 bn

Thus: well-established instrument with quick and far-reaching effect; nevertheless, further instruments are necessary, since companies have expenses for rents, loans, etc., in addition to labour costs

Short-time work allowance: impact so far

Workers in short-time and unemployment rate



Source: Federal Labour Office; *partly preliminary data

Share of companies which laid-off employees or did not renew fixed-term contracts in April 2020

Sector	Share of firms
Restaurants	58%
Hotels	50%
Travel agencies	43%
Car manufacturers	39%
Retail trade	17%
Construction	3%
Pharmaceuticals manufactures	0%

Source: ifo institute 11 May 2020

Short-time work allowance

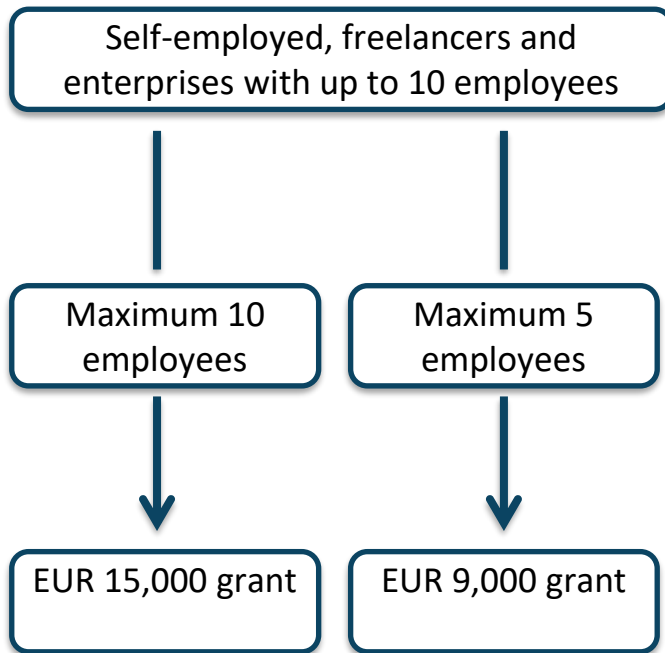
- Sharp increase in March/April
- Until 26.04.: 751,000 applications for 10.1 m employees (2009: 1.4 m)
- Almost 30% of total employment

Unemployment rate (seasonally adj.)

- Mar: 5.0%, no increase vs Feb
 - Apr: strong increase to 5.8%
 - Further increase likely, especially in most affected sectors
- **Key role of short-time work allowance in reducing, but not preventing a rise in unemployment**

b. Grant for freelancers and micro enterprises

Overview of grants for freelancers and micro enterprises



Source: Own illustration based on Ministry of Finance

Target group: freelancers and micro enterprises (up to 10 employees)

Type of measure:

- One-off grant of up to EUR 9,000 or EUR 15,000 (up to 5 or up to 10 employees)
- Name: “immediate help”
- Start of programme: 23.03.20

Precondition:

- Economic difficulties as a result of the Corona crisis
- Company must not have been in financial difficulties before March 2020, damage occurred after 11.03.20

Funding: Federal Government

Application: exclusively electronically at Länder bodies, e.g. promotional banks of the Länder

b. Grant for freelancers and micro enterprises

Financing volume: EUR 50 bn (ca. 1.5% of GDP)

Existing programme? No

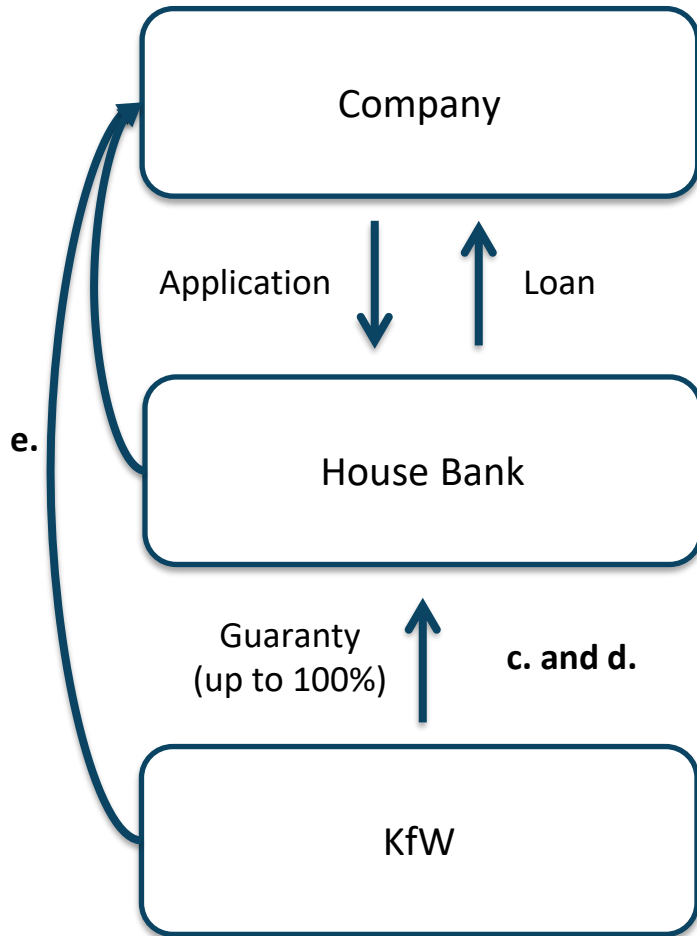
Period of validity: for 3 months; application to be submitted by 31.05.20

Assessment

- Grant (no loan)
- Payment is made – at least in some Länder – within a few days, as the application is very simple and no credit assessment is needed
- Immediate impact; status 04.05.: 1.4 m applications approved; ca. EUR 10 bn disbursed
- Positive: stabilisation of situation of target group and prevention of spill over to other actors (banks, landlords)
- Negative: relatively expensive instrument, since it is a grant; abuse cannot be ruled out despite ex-post checks

c.- e. KfW instruments

Overview KfW instruments



Source: Own illustration

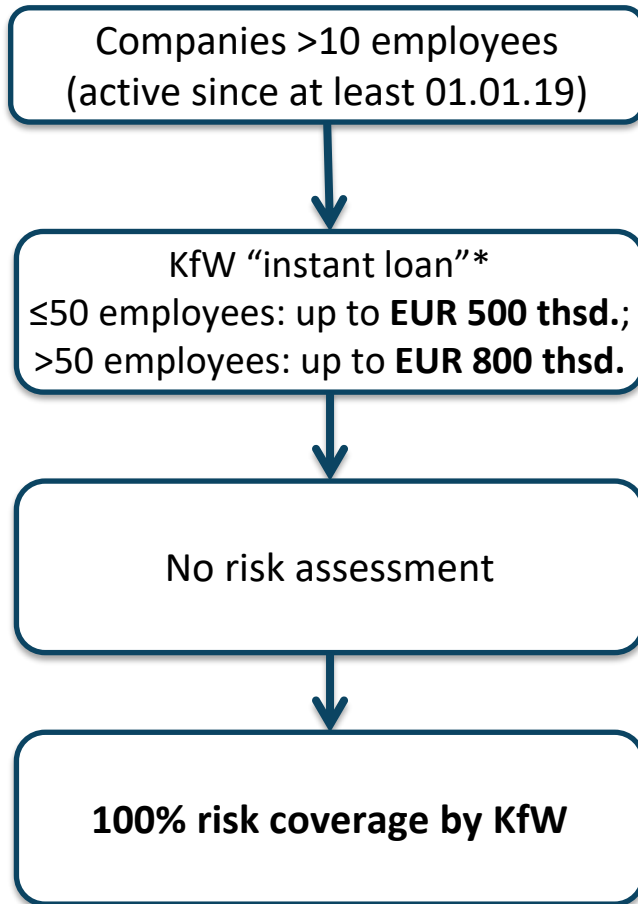
KfW

- Germany's promotional bank
- Key role for financial support to companies in normal times, but also during the current crisis
- Key feature: No direct loans to companies*
- Instead: loans are provided by house bank; KfW guarantees (part of) these loans; two-tier system
- Several instruments to take into account different sizes of companies

*exemption: syndicated loans (e.)

c. KfW “instant loans”

Overview KfW “instant loans”



**Amount limited to 25% of annual turnover in 2019*

Target group:

- Mainly SME; micro-enterprises not eligible
- Self-employed and freelancers, if >10 employees

Type of measure:

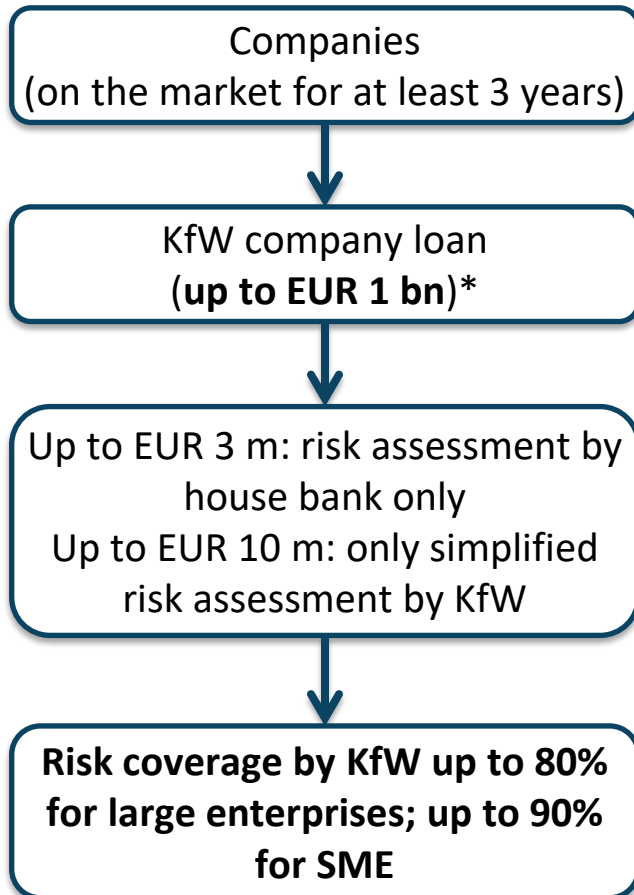
- Guarantee for loan by house bank
- Maximum amount: EUR 800 thsd.
- 100% risk coverage by KfW
- Rapid disbursement, since no risk assessment
- Interest rate: 3% p.a.
- No repayment in first 2 years
- Up to 10 years for repayment

Precondition:

- Company active at least since 01.01.19
- Company made a profit in the sum of the years 2017-2019 or in 2019

d. KfW special programme: loan guarantees

Overview “KfW loans” for companies



**Amount limited to 25% of annual turnover in 2019 or twice the wage costs of 2019 or the current financing needs for the next 12 months for large companies or 18 months for SME; limited to 50% of company's total debt in the case of loans exceeding EUR 25 m*

Target group:

- Mainly SME and large companies; self-employed eligible

Type of measure:

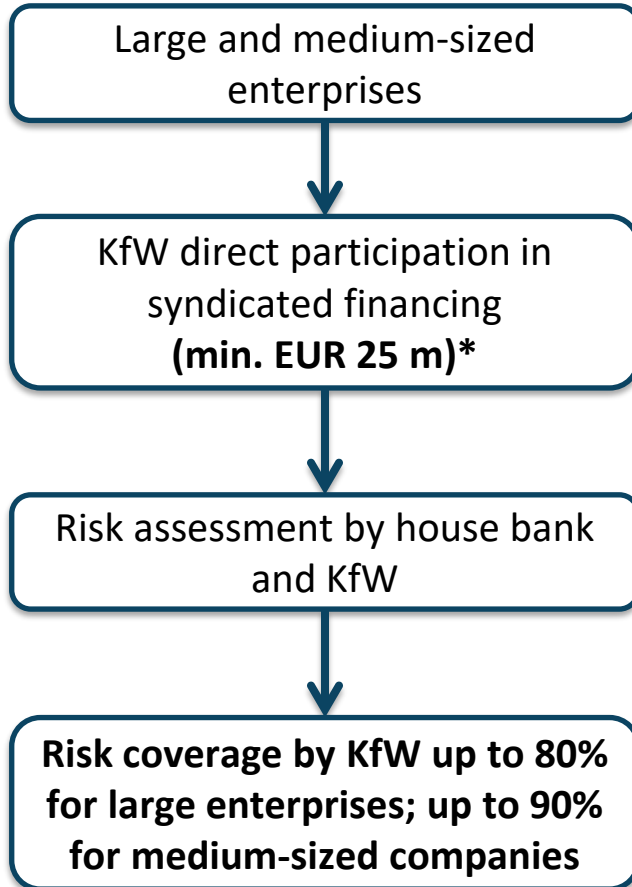
- Guarantee for loan; up to 90% risk coverage for SME, up to 80% for large enterprises
- Maximum amount: 25% of turnover in 2019 or comparable criteria
- New: streamlined application process; no KfW risk assessment for loans up to EUR 3 m
- Interest rate: 1.00% - 2.12% p.a.
- No repayment in first 2 years
- Up to 10 years for repayment

Precondition:

- Financing difficulties due to the Corona crisis
- On the market for at least 3 years

e. KfW special programme: syndicate financing

Overview KfW syndicate financing



**Amount limited to 25% of annual turnover in 2019 or twice the wage costs of 2019 or the current financing needs for the next 12 months; limited to 50% of company's total debt or 30% of total assets*

Target group: large and medium-sized enterprises

Type of measure:

- Direct participation in syndicated financing by KfW
- Same conditions for the KfW share as with the consortium partners
- Risk share of KfW amounts to up to 80% of the risk of the total syndicated financing
- Amount of loan limited to a maximum of 50% of total company debt or 30% of total assets
- Same interest rate as syndicate partners
- Up to 6 years

Precondition: financing difficulties due to the Corona crisis

Examples:

- Adidas: EUR 3 bn – 80% KfW
- Sixt (car rental): EUR 1.5 bn – 70% KfW

Assessment of KfW instruments (c. – e.)

Financing volume: no limit on guarantees; EUR 822 bn in state budget so far

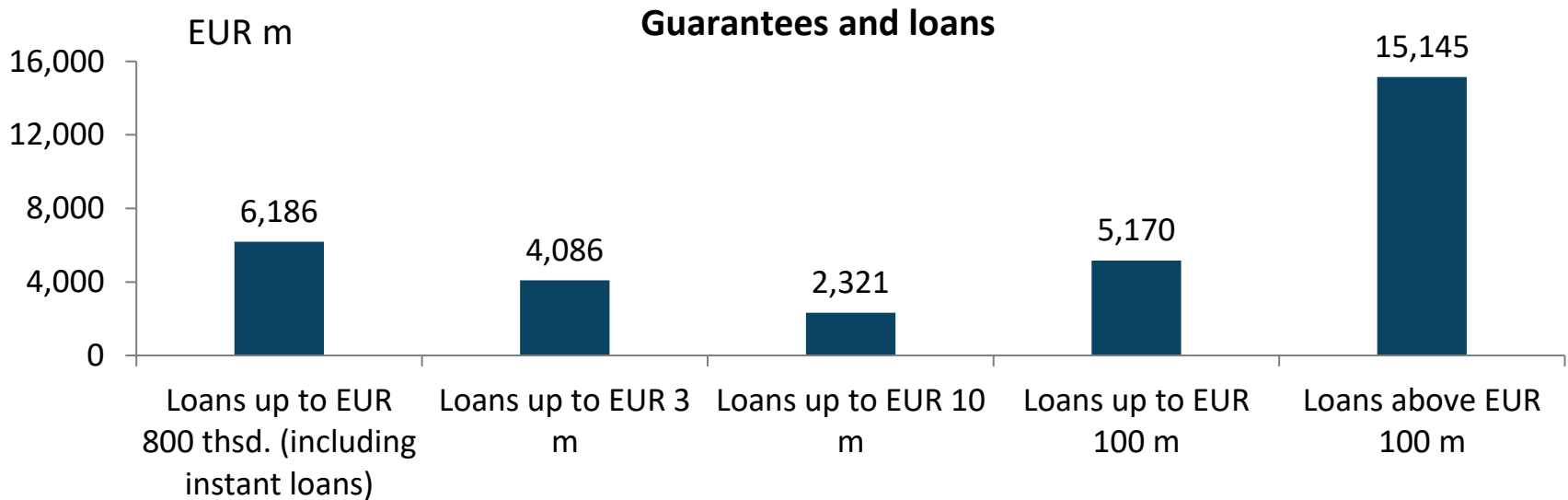
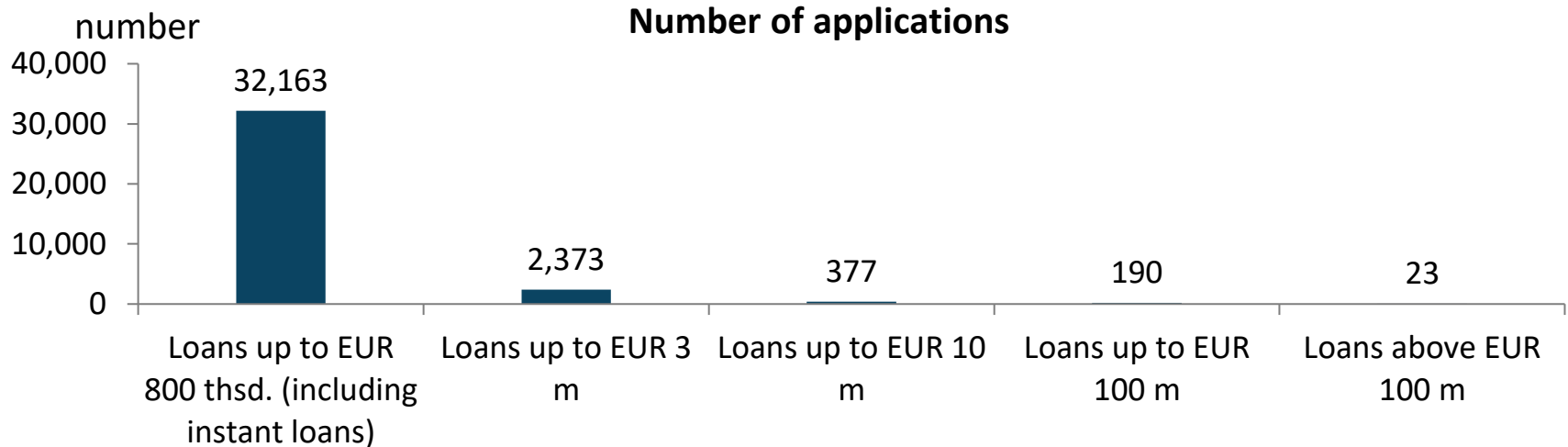
Existing program? “Instant loans” new; special programme also new, but based on existing instrument

Period of validity: not defined

Assessment

- Use of different instruments improves targeting
- Instant loans (c.): mainly for smaller companies; abandonment of risk assessment accelerates disbursement, but considerable risks for state
- Loan guarantees and syndicated financing (d. – e.): mainly for medium-sized and large companies; slower decisions but higher amounts
- All in all effective measures; as of 08.05.: 35,126 requests with a loan volume of EUR 32.9 bn
- Support for micro-enterprises targeted by other instruments (see b.)
- This is also the case for start-ups (less than 3 years on the market, see g.)

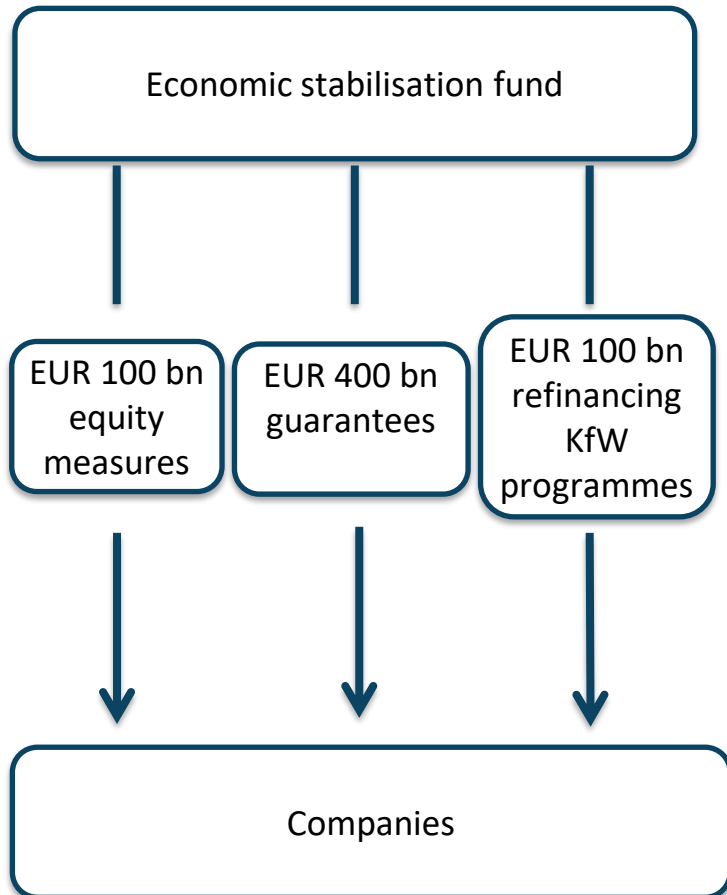
Applications for KfW instruments



Source: Statista, data as of 08.05.20

f. Economic stabilisation fund

Overview economic stabilisation fund



Source: Own illustration based on Ministry of Finance

Target group: large companies (>250 employees) and SME that are important for critical infrastructure

Type of measure:

- EUR 400 bn state guarantees to help companies obtain financing on the financial market
- EUR 100 bn for direct state holdings in companies (equity)
- EUR 100 bn to refinance KfW instruments (see c. - e.)

Precondition: large companies or SME relevant for critical infrastructure

Funding: Federal Government

Application: Federal Ministry for Economic Affairs and Energy

Example:

- Lufthansa: EUR 9 bn (still under negotiation)

f. Economic stabilisation fund

Financing volume: EUR 600 bn (EUR 400 bn guarantees, EUR 200 bn credit authorisations)

Existing programme? Transformation of the financial market stabilisation fund from the time of the international financial crisis; institutional basis was in place

Period of validity: until the end of 2021

Assessment

- The fund is intended to support financing of large and for critical infrastructure relevant companies (e.g. electricity, communications technology, electronic payment transactions) and to protect them from takeovers
- Measures intended as ultima ratio: companies only receive support if no other financing possibilities are available

g. Support for start-ups

Measures

- Financial support for start-ups
- Funding: EUR 2 bn
- Two pillars based on existing structures

Pillar 1: new “Corona Matching Facility” (CMF)

- Target: start-ups with investment from private venture capital (VC) funds
- Government provides matching funds to VC funds, thus indirectly strengthening support for start-ups
- For each deal: matching funds limited to 50% of financing

Pillar 2: Venture companies through promotional state agencies

- Target: start-ups with no VC funds investment
- Venture capital to be provided in close cooperation with promotional agencies such as regional development authorities
- Risk will be shared between federal government, Länder authority and possible private investor

Assessment

- When drafting support measures, it is important not to forget start-ups
- But: financial support for start-ups more difficult than for standard companies
- As a rule, financial support to start is done via equity, not loans
- Thus: start-ups unlikely to benefit from KfW instruments recently installed
- Pillar 1: risk management is conducted by private VC funds; makes sense, since this is a very specialised task
- Pillar 2: use of promotional agencies to support those companies, which do not feature VC investments

h. Export and supplier credit insurance

Export credit insurance (“Hermes cover”)

- State export credit guarantees against payment default available for German exporters
- Normally applicable only for exports to emerging and developing countries, because risk not sufficiently covered by private insurers
- New: guarantees extended for exports to other EU countries and selected OECD member states for short payment terms (up to 24 months)

Supplier credit insurance

- Credit insurance protects suppliers against payment defaults of customers
- New: to maintain supply chains during Corona crisis, Government guarantees payments by credit insurers of up to EUR 30 bn in 2020
- Credit insurers cover EUR 500 m themselves and defaults which go beyond the EUR 30 bn guarantee
- In 2020, 65% of the premiums of credit insurers go to the Government

Assessment

- Important measures to maintain domestic and international supply chains
- Also important to supports exports
- Both instruments are “only” guarantees and therefore unclear whether they will lead to public expenditures

i. Tax and regulatory measures

Tax measures

- Granting of deferrals of tax debts from income, corporate and value added tax
- Adjustment of advance payments for income and corporate tax
- No enforcement measures and late payment surcharges for income, corporate and value added tax
- Reduction of VAT to 7% for restaurants from 01.07.20 to 30.06.21
- Setting off foreseeable losses for SME:
Foreseeable losses in 2020 allowed to be offset against advance tax payments from 2019

Precondition: companies directly affected by Corona crisis

Funding: Federal Government, Länder, municipalities

Application: tax authorities

Financing volume: not specified

Existing program? No

Period of validity: initially until the end of 2020

Assessment

- Positive effect on liquidity of companies
- Simple implementation
- Practically no costs for the state, as only postponement of tax payments
- **Thus**: very reasonable and cost-effective measures
- **Note**: measures also suitable for countries with limited capacity to generate financing, including developing and transition countries

i. Tax and regulatory measures

Regulatory measures

Protection against insolvency

- Obligation to file for insolvency for affected companies suspended until 30.09.20
- Right of creditors to request the opening of insolvency proceedings restricted for a three-month transitional period

Protection of tenants (also applies to private households)

- Landlords may not terminate the rental agreement due to rental debts from the period 01.04. to 30.06.20 if the rental debts are due to the effects of the Corona pandemic

Ensuring companies' ability to act

- Facilitation for holding of general meetings (attendance without presence, etc.)

Assessment

- Positive effect on liquidity, but also on the solvency of companies
- Preventing insolvencies of companies that have a good chance of survival after the crisis
- Thus: An important prerequisite for rapid recovery after lifting of containment measures
- Positive: No additional costs for the state
- Negative: Windfall profits, especially for companies that already have sufficient liquidity through other instruments

3. Overall assessment

- Rapid, effective and targeted measures are needed to combat the Corona crisis
- The Federal Government took measures as early as March and thus reacted quickly
- Highly effective measures for freelancers and micro enterprises from the beginning
- After initial difficulties, now also high effectiveness in KfW loans for small and medium-sized enterprises
- A wide range of measures allows for a targeted approach to prevent windfall profits and abuse as far as possible
- Fiscal implications are significant but manageable; at the same time, the measures should allow a quick recovery after the crisis, which will then contribute to a reduction in the debt-to-GDP ratio
- **Conclusion:** Adequate economic policy response; however, it is important to make adjustments to the instruments if necessary

Annex 1: Financial measures and main target groups

Measure Company size	a. Short-time work allowance	b. Grant for freelancers and micro enterprises	c. KfW “instant loans”	d. KfW loan guarantees	e. KfW syndicate financing	f. Economic stabilisation fund	g. Support for start-ups	h. Export/supplier credit insurance
Large companies	✓			✓	✓	✓		✓
medium-sized enterprises	✓		✓	✓	✓	✓ (if relevant for critical infrastructure)	✓ (if start-up or young company)	✓
Small enterprises	✓		✓	✓		✓ (if relevant for critical infrastructure)	✓ (if start-up or young company)	✓
Micro enterprises (up to 10 employees)	✓	✓		✓			✓ (if start-up or young company)	✓
Self-employed and freelancer	✓ (in case of employed staff)	✓	✓ (if >10 employees)	✓				✓

Annex 2: Costs of the measures for the Federal Government

Instrument	Amount in 2020	Type of measure
a. Short-time work allowance	EUR 26 bn*	Grant
b. Grant for freelancers and micro enterprises	EUR 50 bn	Grant
c. – e. KfW instruments	EUR 450 bn	Guarantees and loans
f. Economic stabilisation fund	EUR 600 bn	Guarantees, loans and equity
g. Support for start-ups	EUR 2 bn	Equity
h. Export and supplier credit insurance	EUR 30 bn	Guarantees
Total	Ca. EUR 1,158 bn	

**Reserves of the Employment Agency*

Annex 3. Social security for households

Simplified access to basic social security benefits (social protection package)

- Easier access to basic social security benefits for self-employed (especially those working in the cultural and media sectors)
- Between 01.03. and 30.06.20 the declaration of not having substantial assets is sufficient for an application
- Extension of unemployment benefit

Possibility of refusal of payment for basic services (e.g. electricity, telephone)

- Despite non-payment households do not fall in arrears
- Limited initially until 30.06.20
- Also applies to micro enterprises

Wage compensation due to school and kindergarten closure

- If childcare cannot be provided otherwise, parents receive 67% of the monthly net income (max. EUR 2,016) for up to six weeks
- Payment by employer, reimbursement by competent state authority

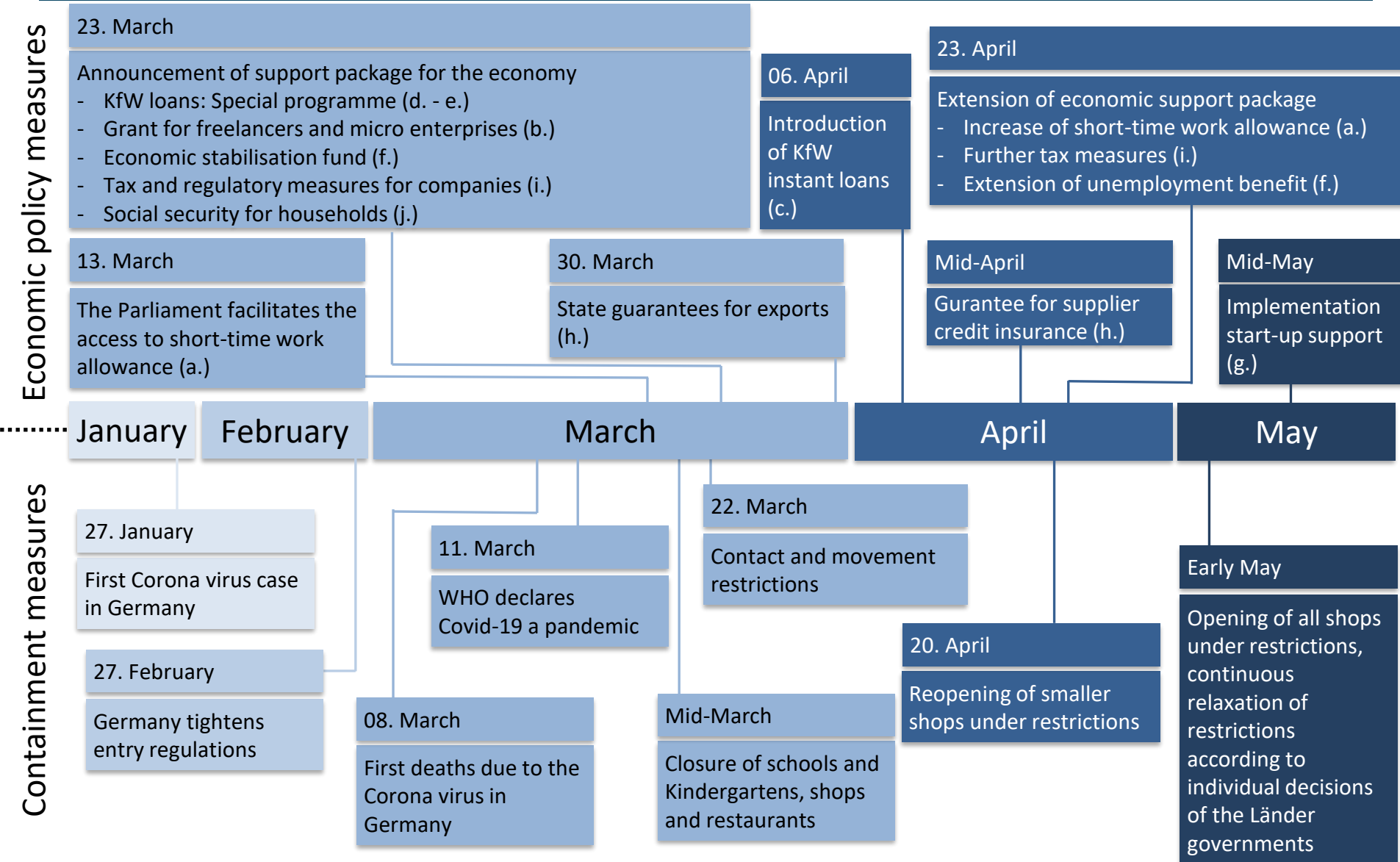
Deferral of consumer loans

- Claims of the lender for repayment, interest or redemption payments due between 01.04.20 and 30.06.20 are deferred
- The precondition is that consumers have lost income due to the pandemic

Assessment

- Measures for households include grants as well as protection against claims if grants are insufficient
- Government mainly uses existing instruments (basic social security benefits) and facilitates access

Annex 4: Timeline of events



About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

The German Economic Team is financed by the Federal Ministry of Economics and Energy. The consulting firm Berlin Economics has been commissioned with the implementation of the project.

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