

The German crisis package: a vaccine for the coronavirus's economic effects

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The outbreak of the coronavirus has caused serious problems for the German economy due to the exceptionally high degree of its internationalisation. 9 March saw the biggest slump on the German stock exchange since the attacks on the World Trade Center on 11 September 2001; the main DAX index fell by 7.9%. Industries related to mobility have experienced significant declines in turnover. Lufthansa will be forced to limit the number of scheduled flights by half, and its shares have dropped 36% since December 2019, and the German tour operator TUI has faced an even greater decline in its share value (52%). The Leipzig Book Fair and the ITB tourism fair have been cancelled, as have dozens of smaller such events. The total losses for Germany's trade fair business have now reached €1.6 billion. Germany's tourism sector estimates the losses associated with a drop in the number of Chinese visitors coming to the country at up to €2 billion. In the first two months of this year, the car sales in China collapsed (down 41%); this will seriously affect German automotive companies, which sell 26-37% of their cars on this market. The chemical industry is also struggling with problems linked to component supplies; BASF's costs could rise by €400 million due to the epidemic.

The federal government has presented a crisis package which seeks to alleviate the effects of the coronavirus epidemic on the German economy. The most important instrument is an extension of the programme of reducing working hours. Companies which registered significantly lower orders will be able to reduce the working hours of at least 10% of their staff, and the Federal Employment Agency will pay the employees 60% net of their lost wages. In this case, the state will also assume liability for the payment of social security contributions from the reduced portion of their salary. In addition, the German government will introduce limited tax relief (reducing taxes on profits from abroad from 25% to perhaps 15%; the possibility of deducting so-called digital economic goods from taxes; the option for partnerships to choose how they are taxed); it also intends to increase the state's investments in infrastructure and construction by a total of €12.4 billion in the period 2021-24.

Commentary

- The crisis package is primarily focused on making it easier for companies to adapt to a possible loss of liquidity. In the face of a looming recession, however, the economic

instruments prepared by the German government seem rather modest. It seems that policy-makers are still unsure about whether the epidemic will turn into a serious economic crisis, or whether stimulating the economy by significant public funding – when companies have a problem not with sales, but with maintaining production levels – will be the appropriate remedy.

- The government's conservative strategy may prove ineffective in the event of a deep economic slump, as public investment only stimulates the economy with a considerable delay, for example, due to the inefficiency German municipalities tend to delay in implementing large investment projects. It cannot be ruled out that the banks' concerns about corporate financial stability will lead to them limiting credit, thus deepening the companies' problems further.