

# Coronavirus - COVID-19

## Monitoring the situation internationally - Germany

April 30, 2020

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This report intends to provide DI's members with a selection of information on essential developments related to the Corona crisis in Germany.

As for now, reports are also available on the situation in the US, China, France, Sweden and the United Kingdom.

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### Situation Summary

Germany registered its first Corona-case on January 27, and as of April 30 around 162,500 cases have been reported, and 6.572 deaths have been registered. 123,500 people have reportedly recovered from the virus.

The German government and individual states have introduced a number of **operational restrictions** to counter the spread of corona virus:

- Borders have been closed to all but goods and cross-border workers.
- All non-essential stores, restaurants, bars, hotels, schools, kindergartens etc. have been closed, but shops with a retail space of up to 800 square meters were allowed to reopen on April 20.
- On April 30, children's playgrounds were allowed to reopen and religious services could resume. Museums, exhibitions, zoos and botanical gardens were also allowed to reopen.
- Meetings of more than two people outside the same household are banned, and people are required to wear masks in shops and on public transport. All big public events such as fairs and festivals will be forbidden until the end of August.
- Trucks transporting food and hygiene products have been exempted from weekend traffic ban.
- The German government will decide further openings by May 6. At this point, an opening of schools, day-care centres and a gradual resumption of sports activities is expected.

The German government has also introduced a number of **relief measures**:

- Companies can send their workers home or reduce their hours with state compensation.
- A number of tax-deferral schemes have been introduced for businesses.
- Liquidity assistance programmes that make it easier for companies to access cheap loans from banks.
- Establishment of a €600bn government bailout fund that will take stakes in stricken companies.

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### Macroeconomic Development

Like other countries, Germany has been severely impacted by the Corona crises. The following overview summarizes key economic indicators for the German, as well as other key markets for Danish companies. The figures provide an indication of the direction in which the economies are moving during the crises. The figures are the most frequently updated macro indicators and are comparable across the chosen countries. The indicators cover both consumers and companies.

A forecast from Oxford Economics for the economic growth after the spread of the Corona shows that Germany will be negatively affected by the crises, although not as badly as the rest of the Eurozone.

Real growth in GDP in 2020				
	January	February	March	April
<b>World</b>	2,5	2,3	0,0	-2,8
<b>US</b>	1,7	1,6	-0,2	-4,1
<b>China</b>	6,0	5,4	1,0	-0,2
<b>Eurozonen</b>	1,0	0,8	-2,2	-5,1
<b>- France</b>	1,2	0,9	-3,1	-5,3
<b>- Germany</b>	0,7	0,5	-2,1	-3,9
<b>UK</b>	1,0	1,0	-1,4	-5,1

Source: Oxford Economics

However, the ifo Institute has a more pessimistic outlook for the German economy. Based on a survey among 8.000 companies, they predict a decline in German GDP of 6,2 pct. for 2020. At the same time, ifo Institute suggested that a return to pre-coronavirus conditions by the end of 2021 will require a GDP growth of 8,5 pct. in 2021. They have previously estimated that every week Germany is on partial shutdown will lead to a decline in growth by 0,7 to 1,6 percentage points.

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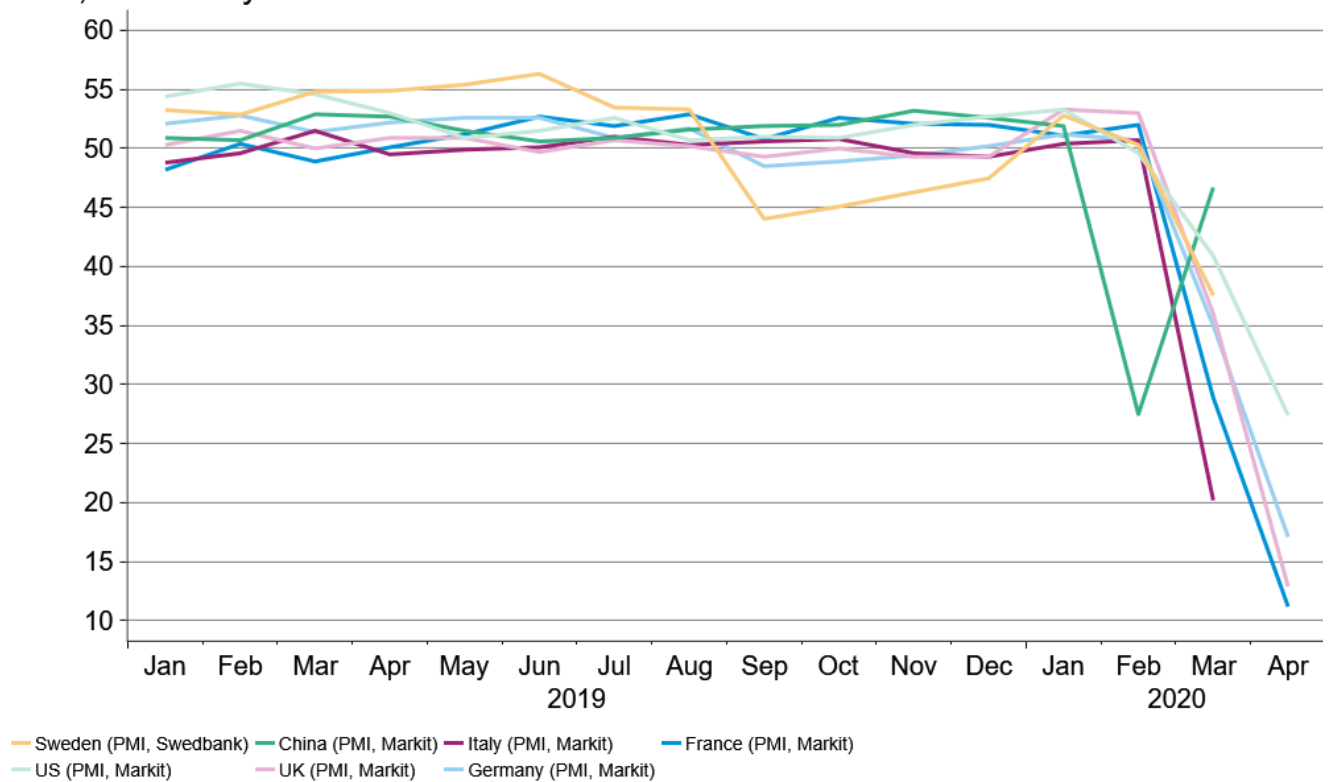


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The PMI index is a survey asking senior executives at private sector companies about their prospects for the near future, such as production output, expected orders, hiring and firing etc. In other words, this gives a good indication as to how companies are planning to react to current events, such as the Corona crises. Before the Corona-crisis took off in Europe in February, the German PMI index was at 51. This dropped to 35 in March, which is the lowest level since the financial crisis in 2009. A further drop to 17 was recorded for April, which is by far the lowest reading since comparable data were first compiled more than 22 years ago.

### Purchasing Managers' Index

Index, seasonally



Source: Macrobond

Further information on PMI: <https://ihsmarkit.com/products/pmi.html>

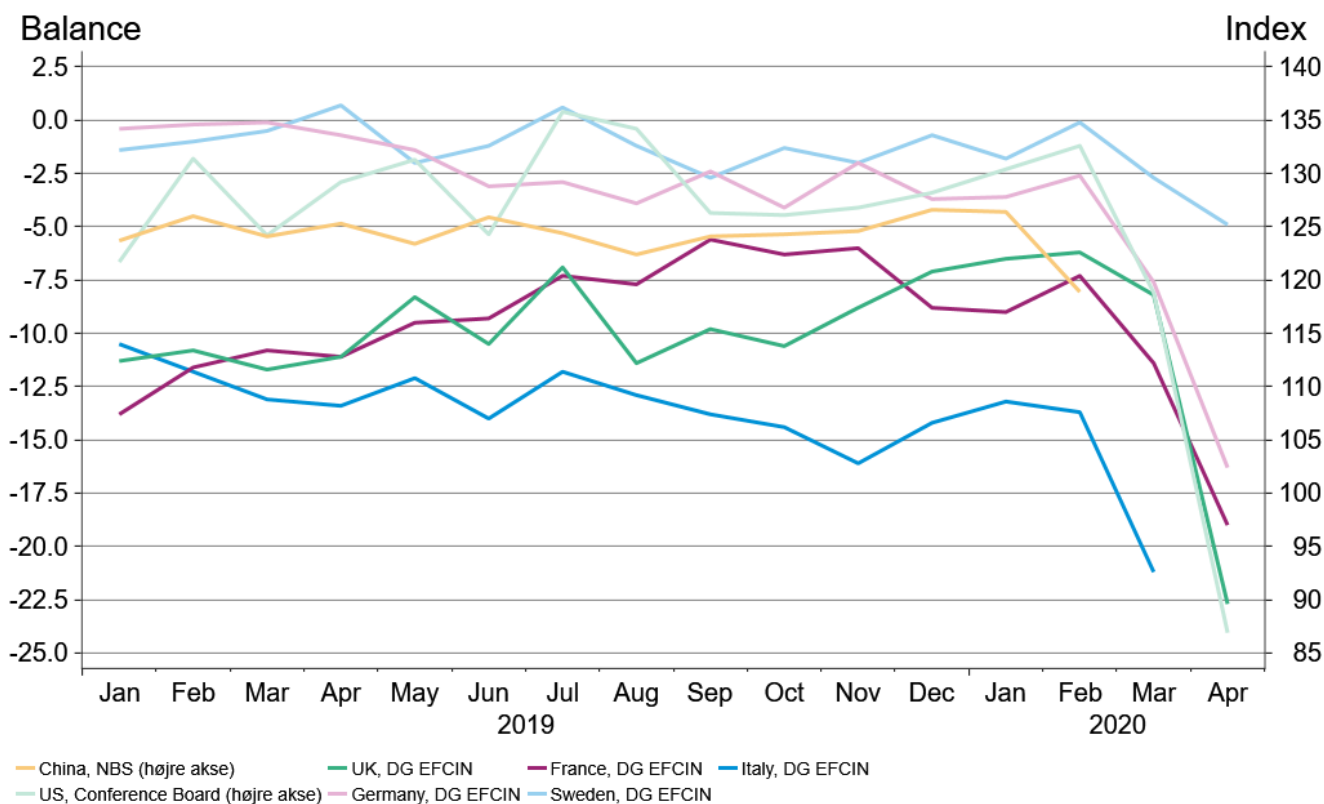
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The consumer confidence survey provides an indication of future developments of households' consumption and saving, based upon answers regarding their expected financial situation, their sentiment about the general economic situation, unemployment, consumption and capability of savings. The figures for Germany show a sharp drop in consumer confidence although not as sharp as in the UK, France, Italy and the US.

### Consumer confidence



Source: Macrobond (Consumer Surveys)

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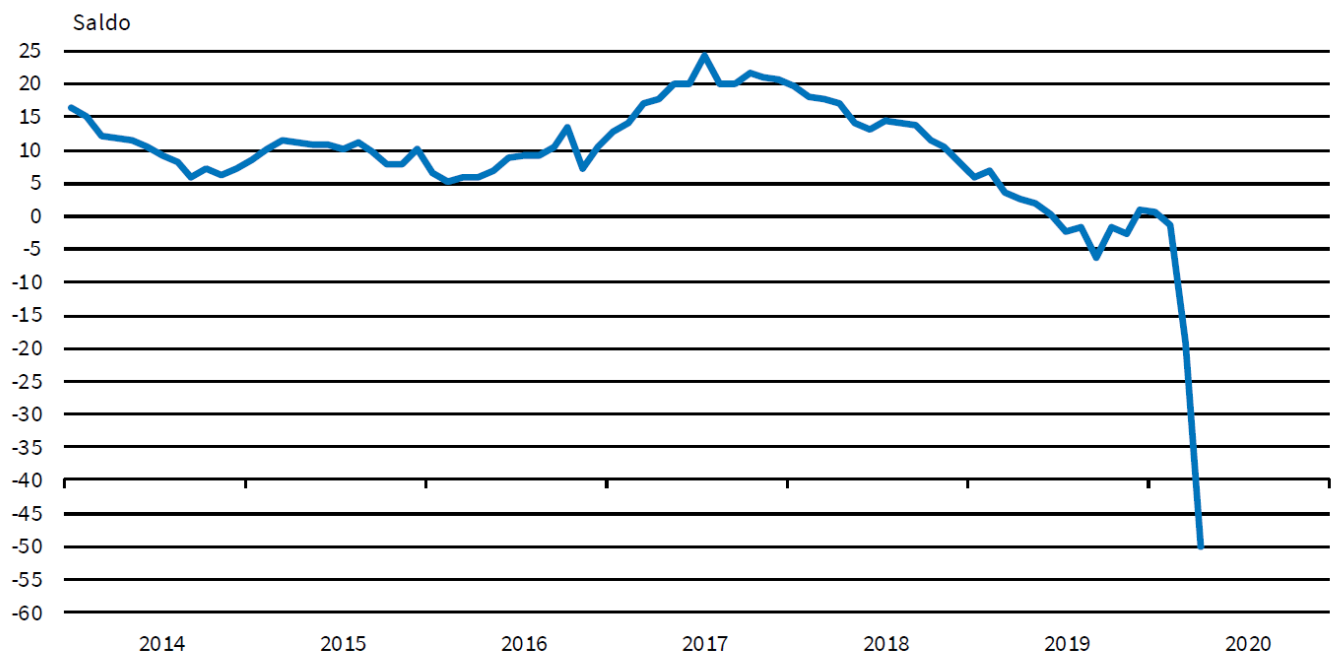
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Sentiment among German exporters is in free fall. In April, the ifo Export Expectations for manufacturing plunged from minus 19,0 points to minus 50,0 points. This is the lowest value ever measured, and the severity of the decline is also unprecedented. The coronavirus pandemic is leaving deep scars on export markets.

Expectations fell to new lows in numerous sectors. Many key German industries are particularly affected, such as automotive manufacturing, mechanical engineering, and electrical engineering. The decline of export expectations in the chemical industry was comparatively moderate in the previous month, but these companies now expect significant declines in export sales. The only bright spot this month was the pharmaceutical industry, which is expecting stable export business.

### ifo Exporterwartungen im Verarbeitenden Gewerbe

Saisonbereinigt



Quelle: ifo Konjunkturumfragen, April 2020.

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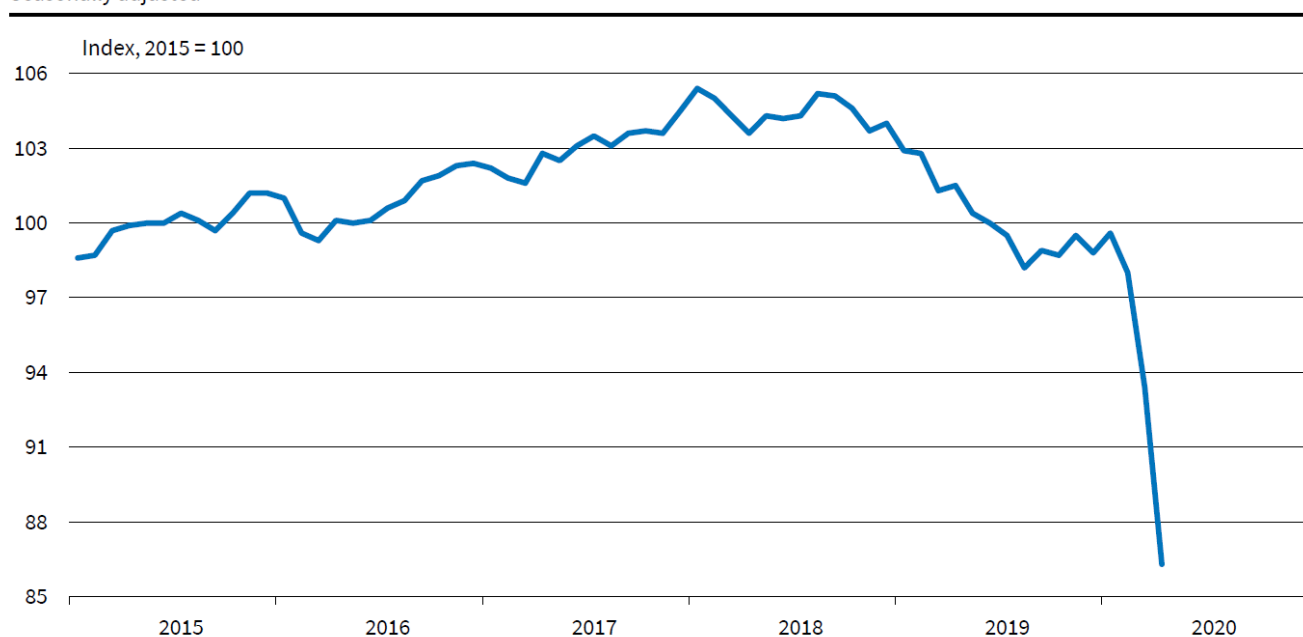


According to figures from ifo Institute, personnel departments of German companies are preparing for layoffs. The ifo Employment Barometer plummeted to 86,3 points in April after measuring 93,4 points in March. This represents a historic low. There has never been such a marked decline in the barometer itself, which will correspond to a rise in unemployment in Germany.

In all four sectors, the decline in the barometer is unprecedented. The service sector even experienced a new alltime low, with layoffs expected for the first time since the financial crisis. In manufacturing, the trend in declining employee numbers that began prior to the financial crisis is set to intensify. In trade, headcounts will also drop, with supermarkets being the sole exception. And despite its recent boom, even the construction sector can no longer escape the negative trend in employment.

### ifo Employment Barometer Germany<sup>a</sup>

Seasonally adjusted



<sup>a</sup> Manufacturing, service sector, trade, and construction.

Source: ifo Business Survey, April 2020.

ifo Institute

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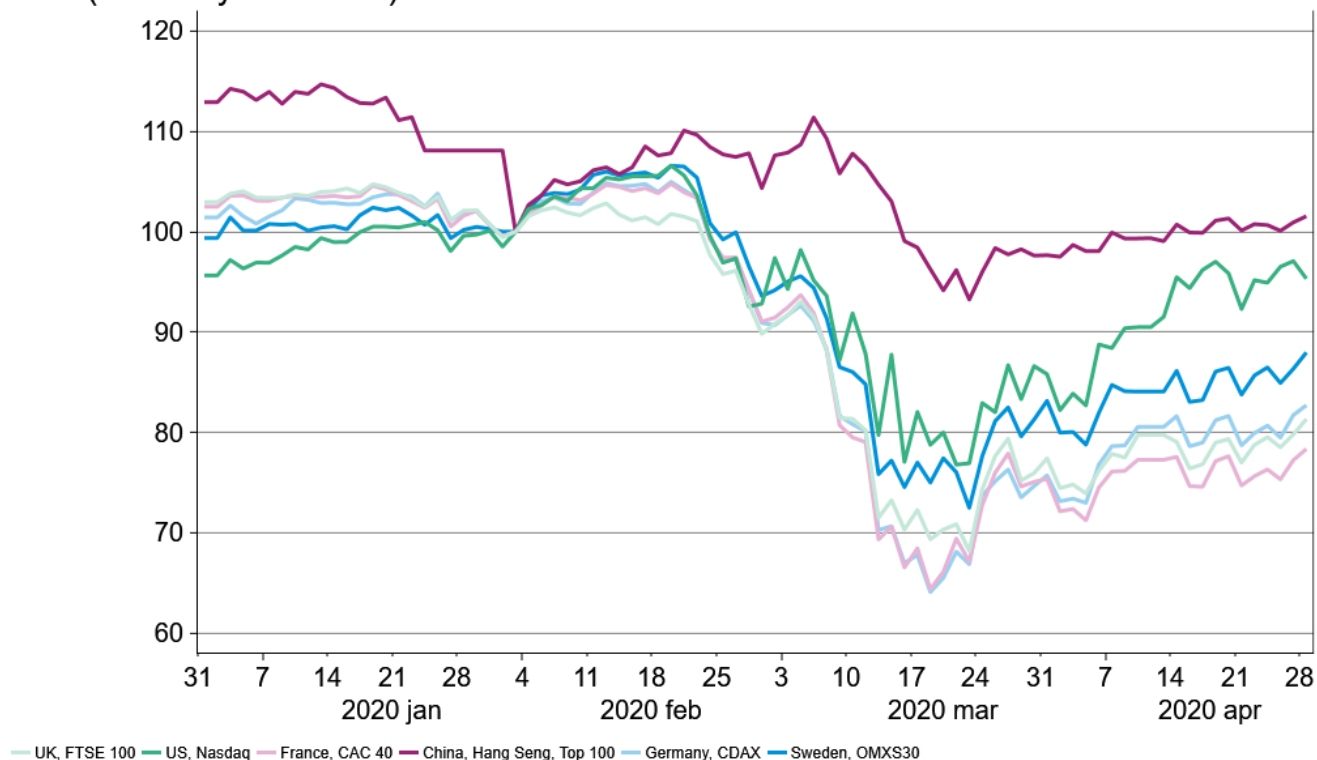


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Movements in stock market indexes provides information regarding investors' views of the future expected income of companies. A look at the indexes for most traded stocks (the larger companies) in the main countries, shows that Germany – along with France – has been among the worst performing stock markets. German companies are heavily reliant on global value chains and access to global export markets, so any disruptions on access to global markets – such as those created by the current crises – will naturally have a heavy impact on German companies. The index has recovered somewhat since mid-March, but is still among the worst performing indexes along with the French and UK indexes.

### International stock index

Index (February 3rd = 100)



Source: Macrobond



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### Operational Restrictions

#### Reopening measures

On April 15, the German government announced a number of measures to gradually relax coronavirus lockdown measures. Smaller shops, bookstores and car dealerships were allowed to reopen on April 20, and students were allowed to take their final exams. On April 30, Angela Merkel announced that children's playgrounds can reopen and religious services can resume. Museums, exhibitions, zoos and botanical gardens were also allowed to reopen, but she also said that it was too early to reopen the country's schools and kindergartens. Strict curbs on social contact remain in place and Germans are required to wear masks in shops and on public transport in most German states. Gatherings of more than two people remains banned. All big public events such as fairs and festivals will be forbidden until the end of August. Restaurants, bars and hotels will also remain closed.

The government has postponed the decision of further openings until May 6. At this point, a further opening of schools, day-care centres and a gradual resumption of sports activities is expected.

#### Border

Border controls and closures have been introduced, but goods and cross-border workers are largely unaffected. Workers need to provide proof of a job in order to be able to cross the border. Other unnecessary trips into and out of high-risk areas are not permitted.

In order to protect public health, persons suspected of infection with the coronavirus may be refused entry on a case-by-case basis. To avoid the uncontrolled spread of the coronavirus, such persons would be transferred to the responsible authorities of the neighboring country in an orderly manner.

Since April 10, all returning travelers (regardless of citizenship, but with a long term stay in Germany) have been required to quarantine themselves for 14 days.

#### Internal mobility

- Meetings of more than two people outside the same household are banned.
- Rail services are restricted.
- Weekend traffic ban for >7.5 t HGV suspended for trucks in most states, although suspension mainly covers transportation of food and hygiene products.
- Bus and coach service are restricted.

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### Shops

- Restaurants, hairdressers and other non-essential stores have been closed since March 22, but shops with a retail space of up to 800 square meters were allowed to reopen April 20.
- Museums, exhibitions, memorials, zoos, botanical gardens and playgrounds were reopened on April 30. However, bars, clubs, theatres, concert halls, casinos, swimming pools are still closed. Big public events such as concerts and fairs will remain banned until at least August 31.
- Sunday sales bans have been lifted for food shops, pharmacies, petrol stations, banks, post offices, laundries.

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### Relief measures

#### **Making reduced hours compensation benefit (Kurzarbeitergeld) more flexible**

- Germany's Kurzarbeiter-scheme allows temporarily laid-off workers to receive so-called "Kurzarbeitergeld" or "short-work money". Under the scheme, companies hit by a downturn can send their workers home, or radically reduce their hours, and the state will replace a large part of their lost income. According to the Ifo Business Climate survey, a quarter of all German companies expect automotive (41 percent), mechanical engineering (33 percent), and electrical engineering (32 percent).
- The threshold of employees that need to be affected by the downturn has been lowered from 33 pct. to 10 pct.
- Already in January the possible period for short-time work was extended from 12 to 24 months.
- The Federal Employment Agency will cover 60 pct. of the net salary of employees without kids, and 67 pct. for those with kids, in case of short term working and will reimburse the social contributions for the lost working hours to the employer.
- Partial or complete waiver of the need to build up a negative balance in working hours.
- Short-time working allowance will also be available to temporary workers.

#### **Tax-related liquidity assistance for businesses**

- Options for deferring tax payments and reducing prepayments will be enhanced, and enforcement rules will be adapted.

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- It will be easier to grant tax deferrals. Revenue authorities will be able to defer taxes if their collection would lead to significant hardship. The revenue authorities will be instructed to not impose strict conditions in this respect.
- It will be easier to adapt tax prepayments. As soon as it becomes clear that a taxpayer's income in the current year is expected to be lower than in the previous year, tax prepayments will be reduced in a swift and straightforward manner.
- Enforcement measures (e.g. attachment of bank accounts) and late-payment penalties will be waived until December 31, 2020 if the debtor of a pending tax payment is directly affected by the coronavirus.

### **A protective shield with unlimited volume**

In a first step, existing liquidity assistance programmes will be expanded to make it easier for companies to access cheap loans. This can mobilise a large volume of liquidity-enhancing loans from commercial banks. To this end, our established instruments complementing loans offered by private banks will be extended and made available to a greater number of companies:

- Conditions for the KfW-Unternehmerkredit (business loan for existing companies) and the ERP-Gründerkredit-Universell (start-up loan for companies that are less than 5 years old) will be loosened by raising the level of risk assumptions (indemnity) for operating loans and extending these instruments to large enterprises with a turnover of up to €2 billion (previously, the limit was €500 million). Higher risk assumptions of up to 80 pct. for operating loans of up to €200 million will increase banks' willingness to extend credit.
- In the case of the "KfW Loan for Growth", the programme aimed at larger companies, the current turnover threshold of €2 billion will be raised to €5 billion. In future, these loans will take the form of syndicated loans and will not be restricted to projects in one particular field (in the past, only innovation and digitalisation projects were eligible). Risk assumption will be increased to up to 70 pct. (from 50 pct.). This will improve larger companies' access to syndicated loans.
- For companies with a turnover of more than €5 billion, support will continue to be provided on a case-by-case basis.
- For guarantee banks (Bürgschaftsbanken), the guarantee limit will be doubled, to €2.5 million. The Federation will increase its risk share in guarantee banks by 10 pct. to make it easier to shoulder risks, which are difficult to assess in times of crisis. The upper limit of 35 pct. of operating resources in guarantee banks' total exposure will be increased to 50 pct. To accelerate liquidity provision, the Federation is giving guarantee banks the freedom to make guarantee decisions up to €250,000 independently and within a period of three days.
- The large guarantee programme (parallel guarantees from the Federation and the Länder), which was previously limited to companies in structurally weak regions, will be opened up to companies in other regions, as well. In this programme, the Federation covers operating loans and investments with a surety requirement upwards of €50 million and a guarantee rate of up to 80 pct.

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These measures are covered by existing state aid rules. These special programmes are now being submitted to the European Commission for approval. The Commission President has already indicated that, in light of the coronavirus crisis, she will ensure that state aid rules are applied in a flexible way. The EU and Eurogroup finance ministers will advocate the necessary flexibility on the Strengthening European cohesion.

### Fiscal measures decided

- Germany passed a €156bn supplementary budget, which also foresees a €33.5bn plunge in tax revenues for this year. It will raise a total of €150bn in extra debt.
- Establishment of a bailout fund (WSF) with €500bn, that will take stakes in rescued companies (€100bn to recapitalize companies, €400bn to assume debt from companies).
- Suspension of the “debt brake”, a measure enshrined in the German constitution that limits new government borrowing to just 0.35 per cent of gross domestic product.
- €50bn hardship fund with loans to SMEs and self-employed.
- Alongside loans from the German KfW (above), this would increase total borrowing for Germany by around €350bn, or around 10 pct. of GDP.

### Credit Insurance

Germany introduced a state guarantee scheme April 14 supporting the insurance of trade between companies affected by the coronavirus outbreak. The guarantee consists of the following elements:

- The guarantee is limited to only cover trade credit originated until the end of this year
- The scheme is open to all credit insurers in Germany, covering also trade credit to purchasers of goods and services in third countries
- The guarantee mechanism ensures risk sharing between the insurers and the State, up to a volume of €5 billion, and provides an additional safety-net to cover up to €30 billion in total if required.



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### Trends and cases

The current situation also opens up new strategic opportunities for companies on the German market. Amazon Germany experienced significant growth before the Corona crisis adding a 35 pct. increase of turnover in the second half of 2019. The company has announced that their growth continues through this period of time unaffected by the Corona crises.

In general, German retailers have not yet taken up the opportunities afforded by a stronger online presence or the development of digital strategies, because the general perception is that consumers prefer physical stores. Over the last couple of weeks, services and retail concepts have evolved and are now more open towards embracing the digital world – even restaurants and food retailers are starting to offer their products and services online. Meanwhile, the crisis is starting to impact physical retail stores. The biggest department store chain in Germany, Galeria Karstadt Kaufhof, filed for creditor protection April 1, as it struggles to secure state-backed loans after closing stores in the country's coronavirus lockdown. Adidas who at the beginning of the crisis announced to suspend rent payments has reconsidered these tactics and paid rent on regular basis. Adidas has received a 3 billion Euro syndicated loans from KfW to bridge the current liquidity crisis and cancelled all dividends and bonuses for 2020.

VW Group has started their production at their sites in Bratislava (Slovenia) and Zwickau (Germany) followed by the sites in other countries as of April 28.

Lufthansa is grounded and are considering tactical insolvency to reconstruct the company: Asking for 10 billion Euro liquidity credit line but refuses to pay the interest rates nor to open for state ownership of the company.

Daimler announced first quarter earnings shrinking from 2.1 billion Euro last year to 2.1 billion Euro – Sales has dropped 17% Coworkers are asked not to apply for holiday leave until further as this will cause drain liquidity dramatically.

BMW, who currently also has paused the car production has just placed an enormous order for 5.000 KUKA robots that will be deployed in their mounting line on various sites. For KUKA who has been suffering on liquidity - also before the crisis - this order is a helping hand.

The digital paradigm shift in Germany using Telekom Deutschland's teledata in order to determine, whether further restrictions or quarantine procedures need to be undertaken has been a great success. Before the current crises, many Germans would have rejected such mass, digital surveillance. Now, most Germans accept the use of teledata to address the current situation and are also seeing the wider of opportunities of increased use of digital technologies. Currently – an anonymous data collecting health app is planned to be launched, which will collect data for research, simulations and early warning for future waves of the covid19 outbreak.

DI's office in Munich is closely following these developments towards a more openminded German interest for digital services, e-commerce and electronic money transfers. The developments create new market openings in Germany for Danish companies with years of experience within digitalization.

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### Further links

- Danish Ministry of Foreign Affairs information page on German measures (in Danish): <https://tyskland.um.dk/da/eksportraadet/corona-covid-19/>
- The Federation of German Industries (BDI) policy proposals on how to deal with the Corona crises (in German): <https://bdi.eu/#/publikation/news/wirtschaftliche-folgen-des-coronavirus-und-moegliche-massnahmen/>
- Germany's Electrical Industry (ZVEI) information page on Corona (in German): <https://www.zvei.org/presse-medien/termine/aktuelle-informationen-zur-ausbreitung-von-sars-cov-2/>
- ifo Institute – analyses of impact of the Corona-crises on the German economy: <https://www.ifo.de/en>
- DI's information page on Corona issues (in Danish): <https://www.danskindustri.dk/covid19/>
- DI's information page on Corona issues (in English): <https://www.danskindustri.dk/covid19/english/>
- DI's information page on export issues in relation to the Corona-crises (in Danish): <https://www.danskindustri.dk/covid19/eksport/>