Coronavirus - COVID-19

Monitoring the situation internationally - **Germany**

October 23, 2020

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

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 coronavirus case on January 27, and as of October 21 around 381.000 cases have been reported, and 9.875 deaths have been registered.

Germany is **open, but**:

- Currently, an accelerated increase of transmissions in the population in Germany can be observed. Therefore, the entire population is strongly encouraged to commit itself to infection prevention and control.
- The nationwide incidence over the past 7 days increased to 51.3 cases per 100,000 population.
- The 7-day incidence is considerably higher in Berlin, Bremen, Hesse, North Rhine-Westphalia and Saarland, and moderately higher in Bavaria than the national average 7-day incidence.
- A number of COVID-19-related outbreaks continue to be reported in various settings. Case clusters are being reported particularly in the context of family events, and in nursing homes.
- Germany has introduced restrictions on travellers – both business and tourism – to and from an increasing number of regions in European countries, including the *region Hovedstaden* (incl. Bornholm) of Denmark. Almost all EU countries are currently designated to greater og lesser extents.
- All stores, shops and restaurants are open nationwide, but must observe strict hygiene conditions.
- However, the recent surge in incidents has led to a ban on meetings and gatherings of larger groups of people.
- Throughout Germany face masks must be worn when shopping and in public transport. Due the recent surge in incidents, Berlin has made it mandatory to wear face masks on some of the city's most crowded streets.
- All big public events, such as fairs and festivals, will be forbidden until at least the end of the year.
- Since 1 July, a lower value added tax has been in force in Germany. The regular VAT rate fell from 19 to 16 per cent, the reduced rate from 7 to 5.

On July 4, the German government announced a € 130 billion **stimulus package** to help economic recovery. The package rests on four pillars:

- Strengthening economic recovery through incentives for broad consumption
- Further boost to liquidity, investment and employee share ownership for companies
- € 50 billion future investment package – reducing Germany's carbon footprint and promoting R&D
- Public investment, in particular for municipalities.

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Macroeconomic Development

Like other countries, Germany has been severely impacted by the coronavirus crisis. The following overview summarizes key economic indicators for the German market 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 crisis. 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 coronavirus shows that Germany will be negatively affected by the crisis, although not as badly as the rest of the Eurozone.

Real growth in GDP in 2020

	January	February	March	April	May	June	August	September
World	2,5	2,3	0,0	-2,8	-5,1	-5,0	-4,4	-4,4
US	1,7	1,6	-0,2	-4,1	-6,1	-6,1	-4,0	-3,7
China	6,0	5,4	1,0	-0,2	0,8	2,0	2,5	2,3
Eurozonen	1,0	0,8	-2,2	-5,1	-7,8	-8,0	-7,8	-7,9
- France	1,2	0,9	-3,1	-5,3	-9,8	-10,6	-10,1	-10,1
- Germany	0,7	0,5	-2,1	-3,9	-6,1	-6,1	-6,3	-5,8
- Sweden	1,2	1,0	-1,9	-4,7	-3,6	-3,6	-4,0	-4,0
UK	1,0	1,0	-1,4	-5,1	-8,3	-10,8	-10,9	-9,7

Source: Oxford Economics

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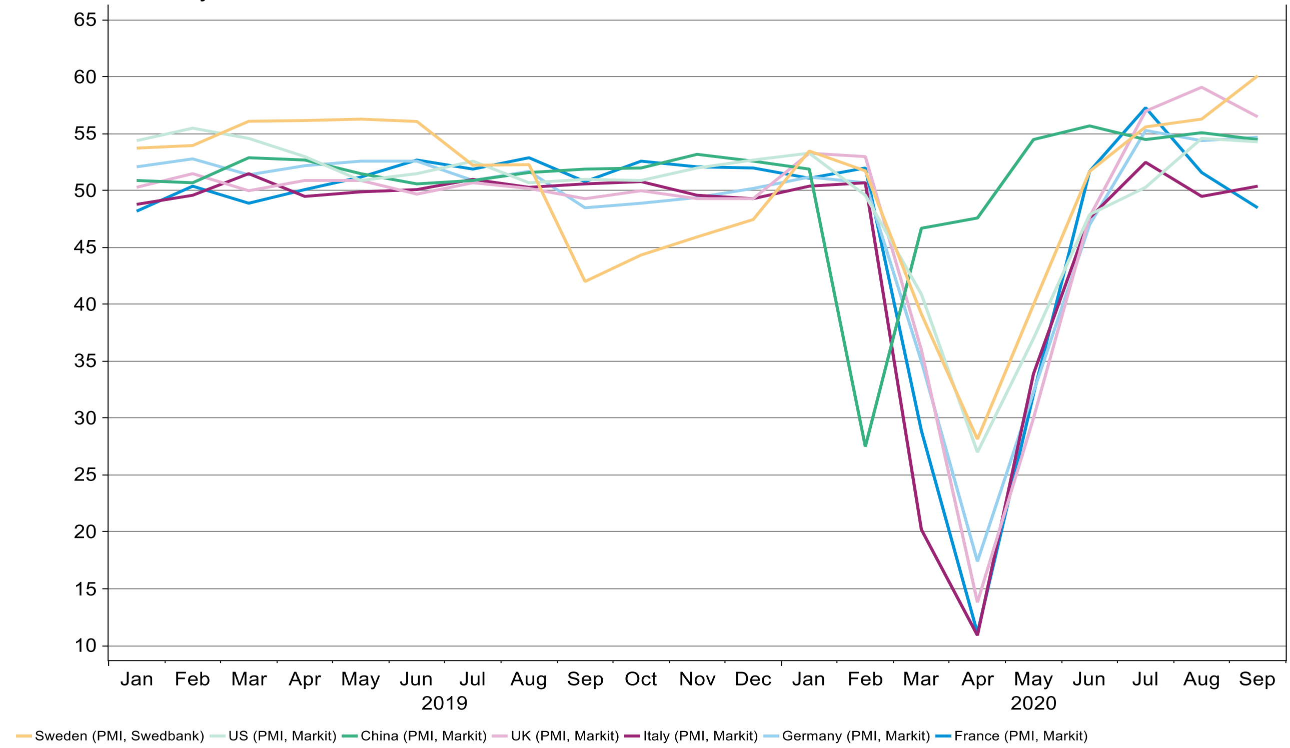
The PMI index is a survey asking senior executives at private sector companies about their prospects for the near future, such as production output, expected orders, hiring and firing etc. In other words, this gives a good indication as to how companies are planning to react to current events, such as the coronavirus crisis. Before the coronavirus 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 fist compiled more than 22 years ago. Since then, expectations have improved considerably peaking at 55,3 in July although there has been a slight drop in expectations to 54,7 in September.

Purchasing Managers' Index

Index, seasonally

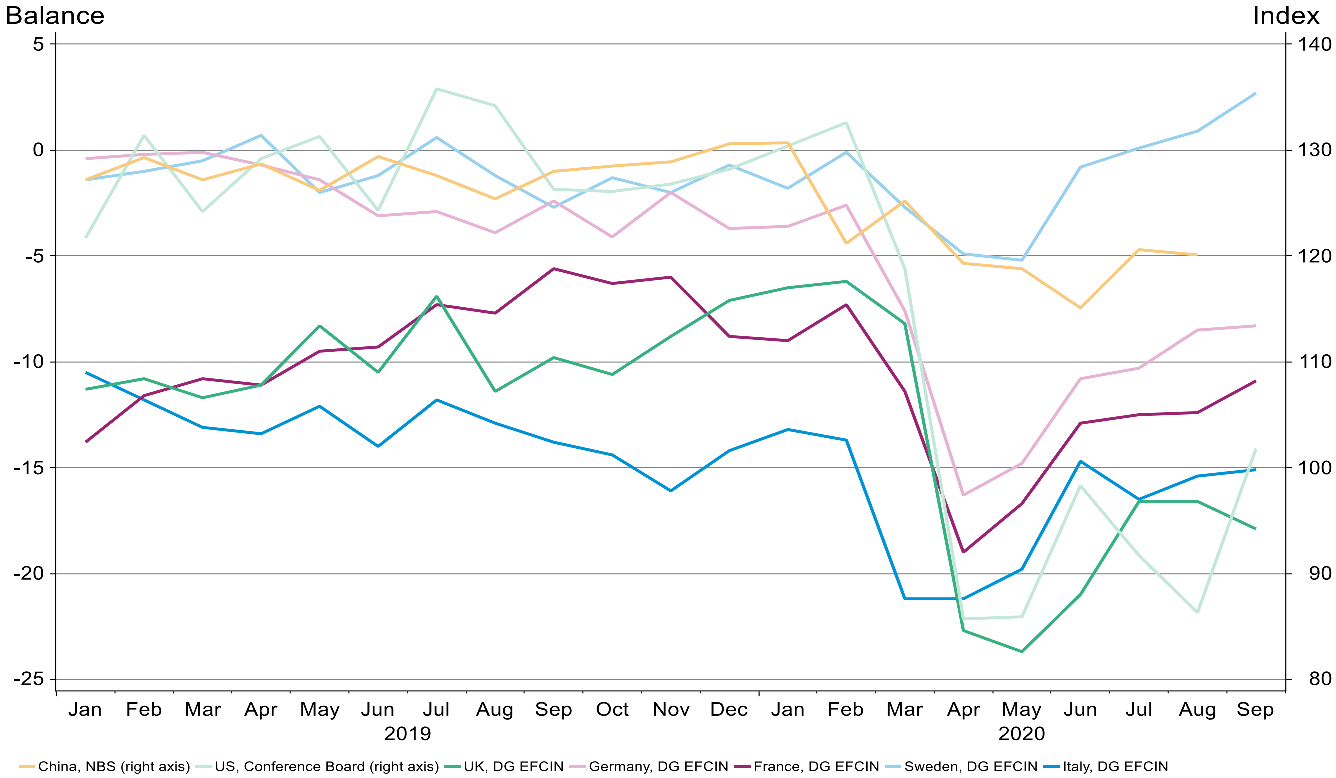


Source: Macrobond

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

The consumer confidence survey provides an indication of future developments of household 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 showed a sharp drop in consumer confidence during the initial months of the crisis from -9 in January to -19, but the confidence has since then improved somewhat to -8,3 in September.

Consumer confidence



Source: Macrobond (Consumer Surveys)

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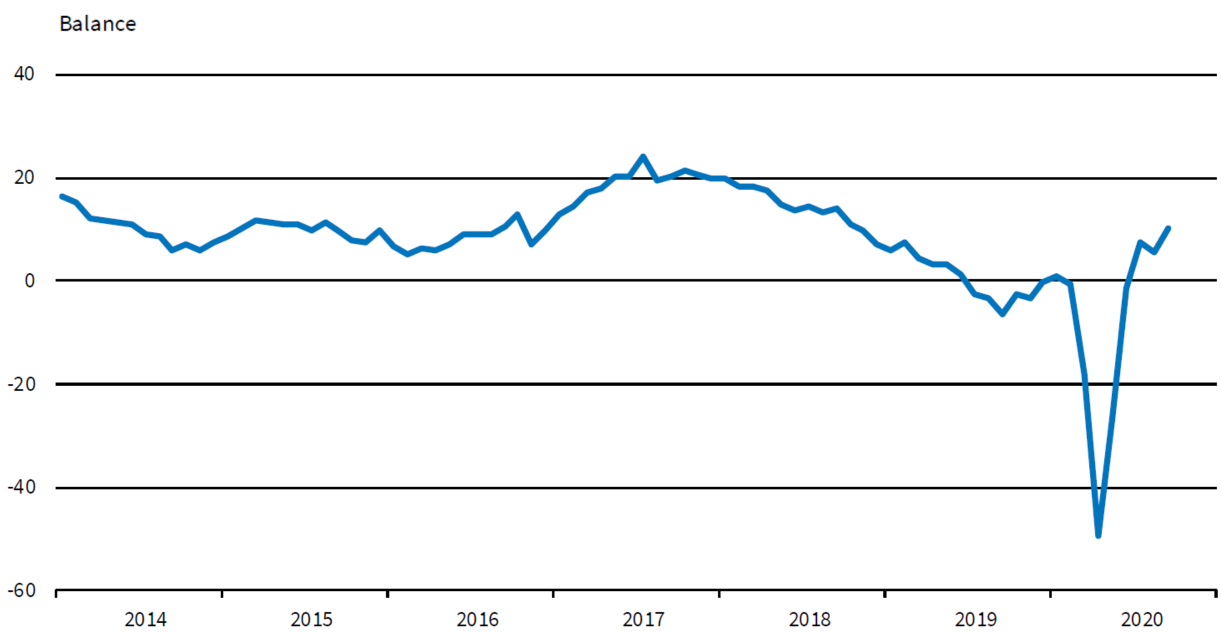
A seed of optimism has sprouted among German exporters. In September, the ifo Export Expectations in manufacturing rose from 5.5 points to 10.4 points. This is its highest value since October 2018. The upswing in industrial production in many important buyer countries is benefiting Germany's export industry.

In the chemical industry, significantly more companies expect their exports to increase in the fourth quarter. The same goes for manufacturers of electrical equipment. The automotive industry is also predicting sales growth abroad, but the mechanical engineering sector does not expect any major leaps forward for the time being; companies there are being somewhat cautious. Manufacturers of clothing, leather goods, and shoes are expecting significant losses in exports.

ifo Export Expectations for Manufacturing
Seasonally adjusted



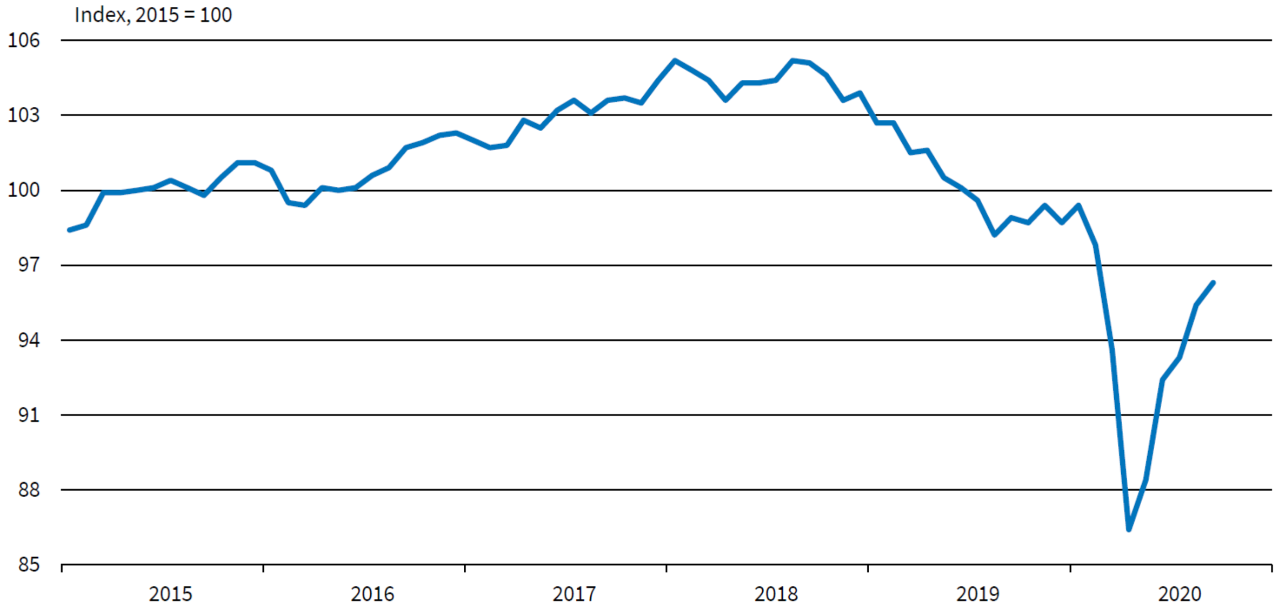
Quelle: ifo Konjunkturumfragen, September 2020.

More and more German companies are planning to hire new recruits. The ifo Employment Barometer climbed to 96.3 points in September after measuring 95.4 points in August. The economy is recovering and this development is increasingly reflected in employment.

In manufacturing, the ifo barometer continued its upward trend. Overall, however, companies are still laying off more people than they are hiring. Service providers, particularly in IT, are planning to hire more staff. In trade, the barometer made a significant leap upward. In construction, too, companies are now planning to expand their workforce.

ifo Employment Barometer Germany[a]

Seasonally adjusted



[a] Manufacturing, service sector, trade and construction.

Source: ifo Business Survey, September 2020.

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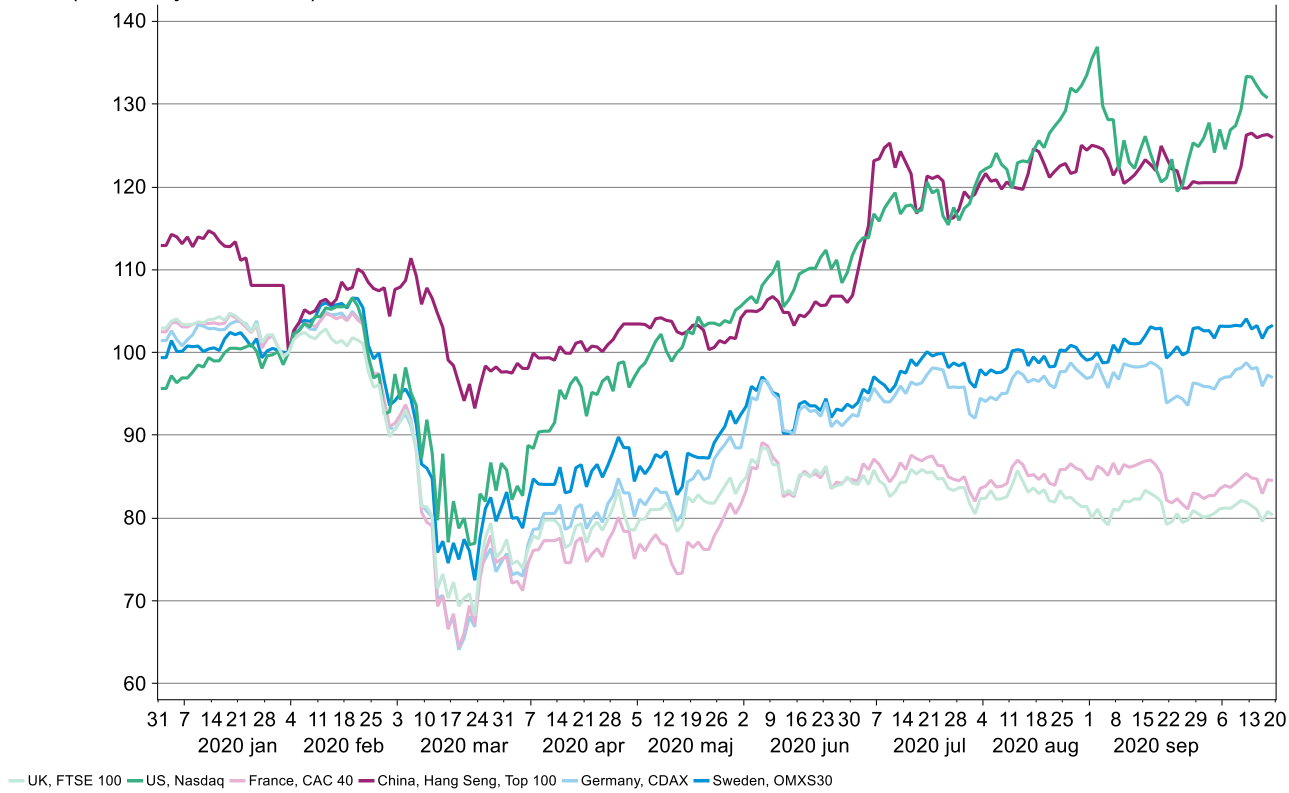
Movements in stock market indexes provide information regarding investors' views of the future expected income of companies. A look at the indexes for most traded stocks (the larger companies) in the main countries, shows that Germany – along with France – has been among the worst performing stock markets. 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 crisis – will naturally have a heavy impact on German companies. The index is on a slow path towards recovery, doing better compared to the French and UK stock markets, but considerably worse compared to the US and Chinese stock markets.

International stock index

Index (February 3rd = 100)



Source: Macrobond

Easing of Operational Restrictions

Reopening measures

- **Social distancing rules,** aimed at curbing the spread of coronavirus, remain in place.
- Due to the recent surge in incidents, a **ban on meetings and gatherings** of larger groups of people has been introduced.
- Throughout Germany, **mouth and nose protectors must be worn** when shopping and on public transport. In light of the recent surge in incidents, Berlin has made it mandatory to wear face masks on some of the city's most crowded streets.
- All **stores and shops** nationwide are open - without square meter restrictions, but subject to conditions: they must ensure hygiene measures, access control and avoid queues.
- **Bars and restaurants** in most German states have reopened since, although strict hygiene rules must be observed.
- Since 1 July, a **lower value added tax** has been in force in Germany. The regular VAT rate fell from 19 to 16 per cent, the reduced rate from 7 to 5.
- Germany has introduced **restrictions on travellers** – both business and tourism – to and from an increasing number of regions in European countries, including the *region Hovedstaden* (incl. Bornholm) of Denmark. Almost all EU countries are currently designated to greater og lesser extents. The specific areas designated as risk areas can be found on The Robert Koch Institute's website, cf. link below.
- **Warnings on travelling to many places outside the EU** remain in place.
- For **domestic travel**, the federal states can decide to what extent hotels and holiday homes will be gradually reopened, subject to certain conditions.
- **Cultural institutions** have reopened as well as worship services etc.
- **Large events,** such as public festivals, major concerts or fairs, should remain prohibited until at least 31 August.

Stimulus Measures

On June 4, the German government announced a € 130 billion fiscal package to help economic recovery by strengthening broad consumption, incentivizing private and public investment particularly in green and digital technologies as well as giving a boost to employee share programs for startups. The package is expected to be presented for approval in the Bundestag in July.

The package consists of four pillars:

1. Strengthening economic recovery through incentives for broad consumption

- The VAT tax rate will be cut from 19 per cent to 16 per cent, with the lower band going from 7 per cent to 5 per cent from 1 July until the end of the year. This measure has a cost of approximately € 20 billion.
- The government will pronounce a "Social Guarantee for 2021" to stabilize contributions into the social benefit systems at 40 per cent - this will protect net incomes of employees and improve competitiveness of companies. It will also reduce uncertainty for both employers and employees. The cost is approx. € 5.3 billion for 2020.
- A "Children's Bonus" of € 300 per child will be paid to all families. This has a cost of € 4.3 billion.
- Electricity prices will be reduced for consumers by reducing EEG, a levy on electricity prices to subsidize renewable energy sources of wind and solar. The federal budget will compensate the approximately € 11 billion levy reduction, so that there will be no adverse impact on the promotion of solar and wind.
- Single parents will receive additional relief and benefits amounting to € 0.75 billion.

2. Further boost to liquidity, investment and employee share ownership for companies

- Companies in economic sectors, struck particularly hard by revenue losses in the current crisis, will benefit from a new € 25 billion program for the "restart" months from now until August. Every company, which had a revenue decline of more than 60 per cent relative to 2019, will receive a compensation of up to 70 per cent of their fixed costs of business. The benefit will be capped at € 150,000 per company.
- The ability for companies to carry losses, incurred in 2020, backward will be increased substantially, up to € 10 million per company. It will take effect retroactively for the 2019 tax bill through the creation of a "coronavirus tax reserve". The estimated (temporary) cost to the public budgets is € 2 billion. This amount will provide direct liquidity benefits to the corporate sector.
- Corporate depreciation rates for Capex will increase significantly through the introduction of a 2.5 times higher degressive depreciation factor, with a fiscal effect of € 6 billion.
- There will be a new scheme to promote employee share programs, whereby the specific requirements for startup companies will be considered through a targeted program.
- VAT on imports will be levied on a delayed timescale, with a (temporary) cost to public budgets of € 5 billion.
- There will be a specific plan for the continuation of the "Kurzarbeiter" scheme beyond 1 January 2021.

3. € 50 billion future investment package – reducing carbon footprint and promoting R&D

- There will be a significant program of support for climate-friendly mobility through grants for e-cars, an investment program for e-mobility manufacturers, expansion of e-charging facilities, investment grants for the rail network Deutsche Bahn, federal investment grants for e-busses and e-trucks and climate-friendly power and fuel supplies for the shipping and aviation industries. These programs will amount to a total of approx. € 15 billion.
- The national Hydrogen Strategy will be funded with € 7 billion with the aim of making Germany a "supplier of the world" in green hydrogen technologies. Industrial-scale projects, including the required renewable energy sources of 5GW of power supply will be funded until 2030 with a goal of a further 5GW until 2035 and 2040. Investment grants for energy-intensive sectors will assure that these targets are reached. An additional € 2 billion-program will fund international partnerships with countries where green hydrogen can be produced with particular efficiency.
- R&D will be significantly promoted with tax incentives, incentives for university research facilities and project-based research grants covering € 2.5 billion. A significant increase in public investment, particularly for green and digital projects.
- A CO2 building refurbishment program amounting to € 2 billion will fund investments into energy-efficient buildings.
- Artificial intelligence investments will be funded with an additional € 2 billion, increasing the funding to the currently available programs from € 3 billion to € 5 billion. Investment projects into quantum computing will be funded with € 2 billion, 5G and 6G technologies and networks with an additional € 7 billion.
- A pact for public health promoting investments into health systems, hospitals, health care personnel, medical supply production and coronavirus-related vaccine research will be funded with a total of € 10 billion.

4. Public investment, in particular for municipalities

- Public investment projects in a volume of € 10 billion will be moved forward in 2020 and 2021, particularly in the areas of digitalisation of the public administration, public security projects as well as defense projects with high domestic value adding.
- Municipalities, which cover a large share of public investments in Germany, will receive fiscal support from the federal budget amounting to an additional € 4 billion p.a. through higher federal payments into social housing schemes. In addition, a Municipal Solidarity Pact 2020 will be launched to cover all losses in the corporate taxes accruing to municipalities, the estimated cost of this measure to the federal budget will be € 5.9 billion. Municipal public transport systems, which suffered large revenue losses through passenger declines, will receive additional grants from the federal budget of € 2.5 billion.

- Public tender rules will be eased while maintaining EU standards and principles of budget efficiency. Germany will be using its upcoming EU Presidency to launch an initiative to accelerate public investment across the European Union.
- Capacities in childcare facilities will be expanded to facilitate social distancing requirements with a program covering € 1 billion, daycare and full-day schooling investment programs will benefit from an additional € 2 billion.

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. In May, 7.3 million employees in Germany were on short-time work, according to ifo Institute calculations. In comparison, during the financial crisis, short-time work peaked in May 2009 with just under 1.5 million people affected.
- The threshold of employees that need to be affected by the downturn has been lowered from 33 per cent to 10 per cent
- Already in January, the possible period for short-time work was extended from 12 to 24 months.
- The Federal Employment Agency will cover 60 per cent of the net salary of employees without kids, and 67 per cent 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.
- 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 31 December 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 programs were 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 per cent 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 per cent (from 50 per cent). 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 per cent to make it easier to shoulder risks, which are difficult to assess in times of crisis. The upper limit of 35 per cent of operating resources in guarantee banks’ total exposure will be increased to 50 per cent 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 program (parallel guarantees from the Federation and the Länder), which was previously limited to companies in structurally weak regions, will be opened to companies in other regions, as well. In this program, the Federation covers operating loans and investments with a surety requirement upwards of € 50 million and a guarantee rate of up to 80 per cent

Fiscal measures decided

- Germany passed a € 156 billion supplementary budget, which also foresees a € 33.5 billion plunge in tax revenues for this year. It will raise a total of € 150 billion in extra debt.
- 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.
- € 50 billion 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 € 350 billion, or around 10 per cent of GDP.

Credit Insurance

Germany introduced a state guarantee scheme on 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.

Trends and Cases

The current situation also opens up new strategic opportunities for companies on the German market.

The stimulus package outlined above is set to boost German consumer spending (e.g. lower VAT rates) and investments into green and digital technologies.

Banks report positive solvency among German SMEs. Despite fears of more bankruptcies among SMEs and negative economic conditions, this particular segment of German companies has surprised positively. The ability to pay has been above expectations according to the savings banks and analyzes shows, that the average equity ratio is 39 pct. and thus it is not anticipated that credit depreciation will threaten the creditors liquidity.

German export is growing on mainly the Chinese market - but is still challenged on the US and UK markets.

Industrial supply and machinery companies are still lacking orders, which indicates that investment in production equipment across industries is on hold for now. Ifo survey shows a negative trend among these suppliers.

First half year earnings for the automotive industry was expected to be negative: VW with € -2.1 billion, followed by BMW (€ -1.3 billion) and Mercedes (€ -0.6 billion) losses. Surprisingly, Porsche earnings are € 1.23 billion and currently the best automotive company in all of Europe. Automotive reports growth in the number of cars sold - driven by the demand for hybrid and electric cars, September is the best sales month so far this year and growth is expected to continue – not only in the German market.

In the export market, Mercedes has surprised as a result of tailwinds in the Asian markets and this demand affects several of the supplier chains. In the domestic market, stimulus packages seem to work and in addition hereto, the German consumer chooses more expensive models in crisis, which has led to an 8% higher average value of new car sales measured on the list price. Especially hybrid SUV's are in demand.

To save jobs within the automotive industry, it has been suggested to launch stimulus programs to restart demand for traditional fossil fuelled engines. With the increased focus on green mobility, this move seems a bit desperate, but will remove stock piles of cars and extend the time needed for the German automotive industry to transform itself.

The strategy on Sustainable and Green Hydrogen Technology, which is also part of the stimulus package, will support the development of this technology by € 7 billion. ThyssenKrupp and RWE have already formed an alliance to invest in production plants and infrastructure. Many other German technology providers are looking in that direction.

According to a recent survey, close to 50 per cent of traditional manufacturing companies are looking to change suppliers in their supply chain. The near shore aspect opens opportunities for Danish subcontractors and suppliers and combined with positive outlooks for demand in 2021 the timing seems right for Danish companies to engage in new partnerships with German companies.

Entertainment, travel and tourism is still challenged.

Lufthansa has just announced their quarterly profit/loss with a 1.3 billion Euro loss - better than expected and driven by July and August travel activities and deferred tax payments. The company reports positive liquidity and is downsizing their activities. The business claims that it will take years to rebuild the market and the customer base. TUI, who is among the largest travel agents worldwide, has already received another € 1.2 billion, combined relief package and KfW credits. In total, they have received € 1.8 billion.

German consumers shop more online. Amazon is now the largest American company in Germany and has overtaken FORD and EXXON Mobile with a turnover of 20 billion Euro in Germany.

Meanwhile, the crisis is starting to impact physical retail stores which has led to bankruptcy of some large retailers, who have not yet build a strong online presence.

The digital paradigm shift in Germany, using Telekom Deutschland’s tele data in order to determine whether further restrictions or quarantine procedures need to be undertaken, has been a great success. Before the current crisis, many Germans would have rejected such mass digital surveillance. Now, most Germans accept the use of tele data 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 offered, which collects data for research, simulations and early warning for future waves of the COVID-19 outbreak.

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

Further links

- Danish Ministry of Foreign Affairs information page on German measures (in Danish): https://tyskland.um.dk/~/link.aspx?_id=53D2DF0C45684CEBB2276B346AEF1443&_z=z
- The Robert Koch Institute's coronavirus website: https://www.rki.de/EN/Home/homepage_node.html
- Germany's Electrical Industry (ZVEI) information page on coronavirus (in German): https://www.zvei.org/presse-medien/termine/aktuelle-informationen-zur-ausbreitung-von-sars-cov-2/
- ifo Institute – analyses of impact of the coronavirus crisis on the German economy: https://www.ifo.de/en
- DI's information page on coronavirus issues (in Danish): https://www.danskindustri.dk/covid19/
- DI's information page on coronavirus issues (in English): https://www.danskindustri.dk/covid19/english/
- DI's information page on export issues in relation to the coronavirus crisis (in Danish): https://www.danskindustri.dk/covid19/eksport/