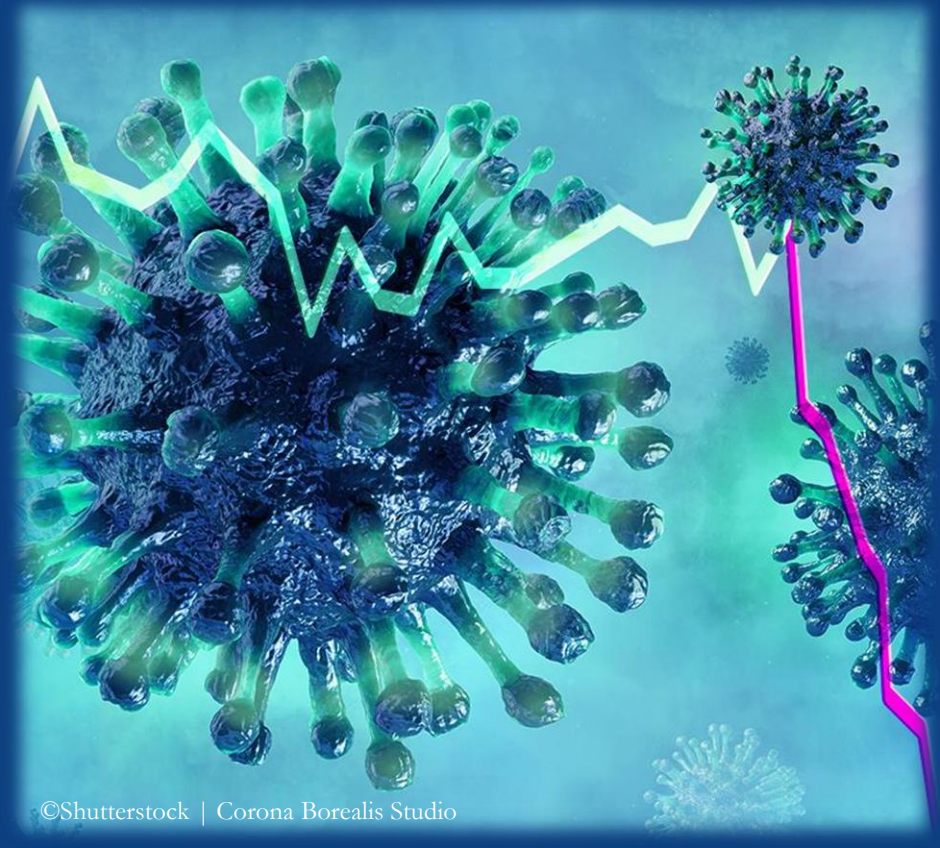


10.04.2020

A FISCAL RESPONSE TO COVID-19:
WHAT ARE THE OPTIONS?

Covid-19: Development, Economic Impact, and Fiscal Response in Germany

Clemens Fuest
ifo Institute Munich

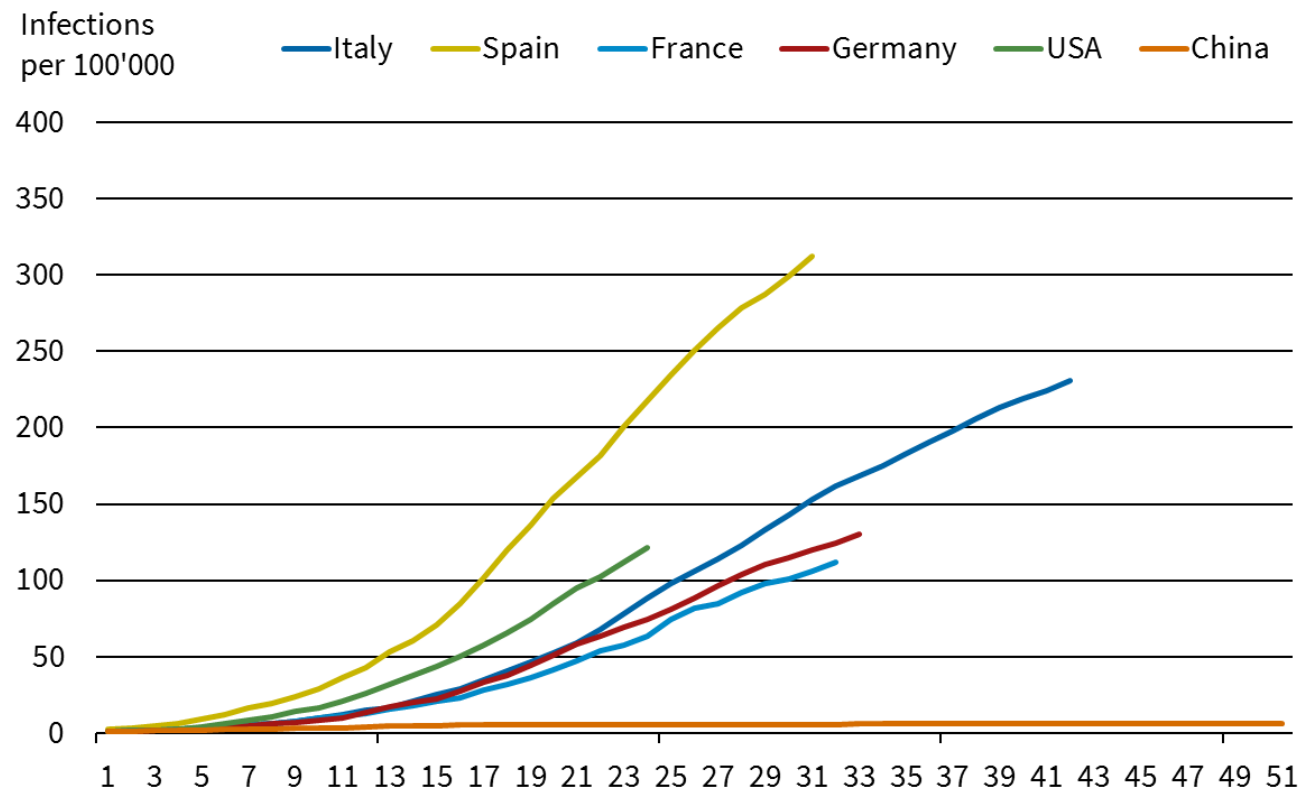


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Confirmed infections, per 100'000 inhabitants

COVID-19

Confirmed infections, days since 1 infection per 100'000 inhabitants

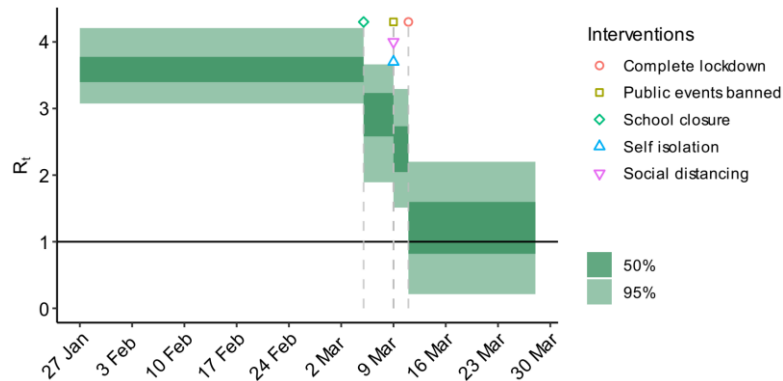


Source: European Center for Disease Prevention and Control.

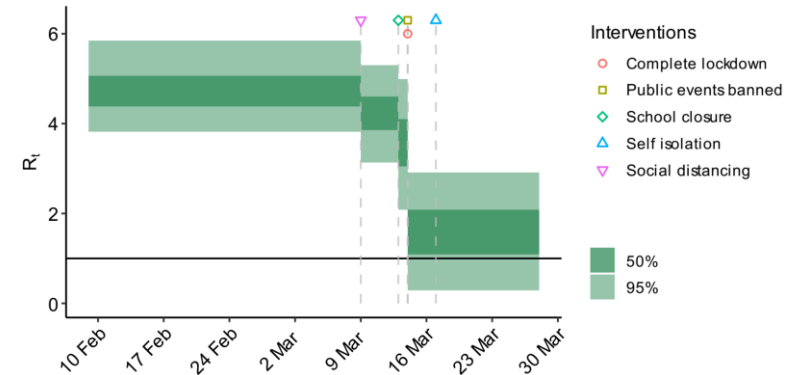
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Shutdown measures and its estimated impact on the effective reproduction number (R_t)

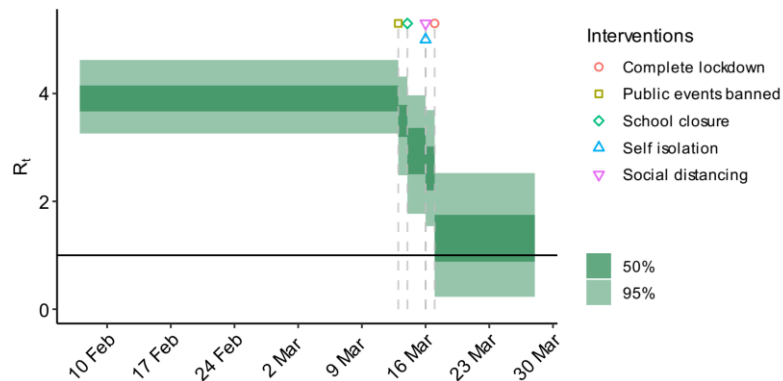
ITALY



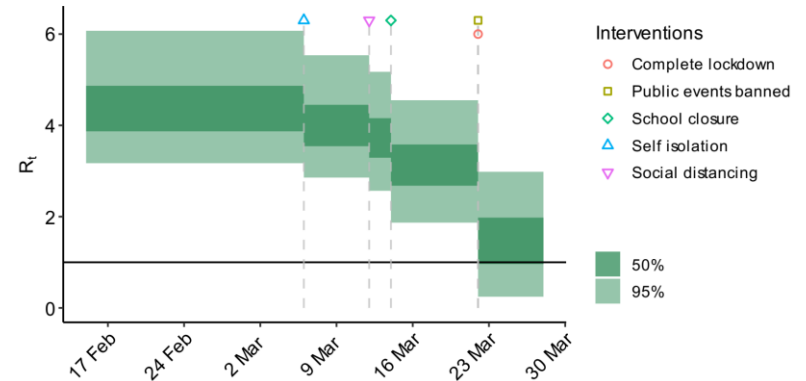
SPAIN



FRANCE



GERMANY

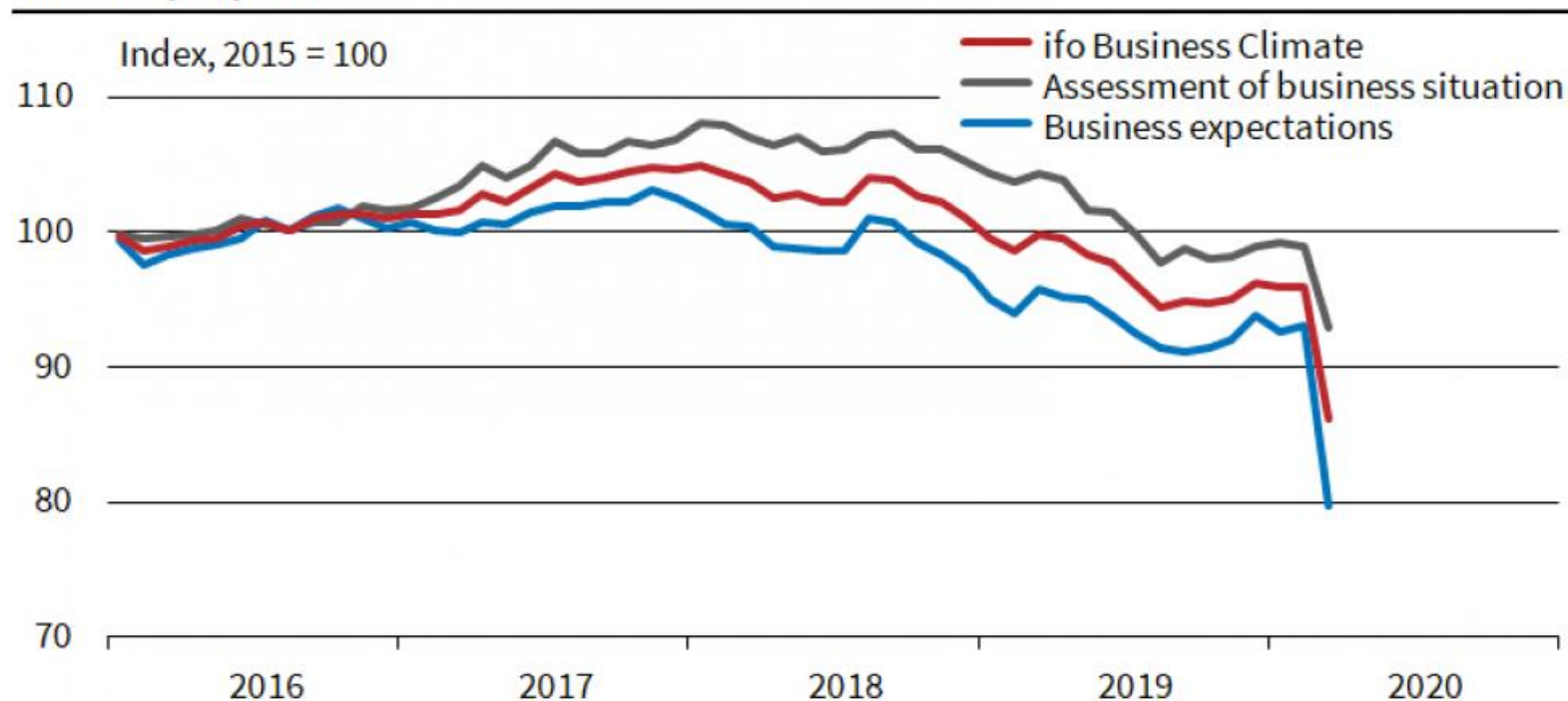


Source: ICL, Covid Report 13, 30 March 2020

German Business Climate collapsed in March 2020

ifo Business Climate Germany^a

Seasonally adjusted



^a Manufacturing, service sector, trade, and construction.

Source: ifo Business Survey, March 2020.

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Economic costs of the Coronavirus shutdown

JOINT ECONOMIC FORECAST, SPRING'20

- German GDP will shrink by **4.2 %**
(Q1: -1.9 %, Q2: -9.8%, recovery starts in Q3?)

GERMAN COUNCIL OF ECONOMIC EXPERTS

- German GDP will shrink by **2.8 – 5.4 %**
(based on 3 scenarios).

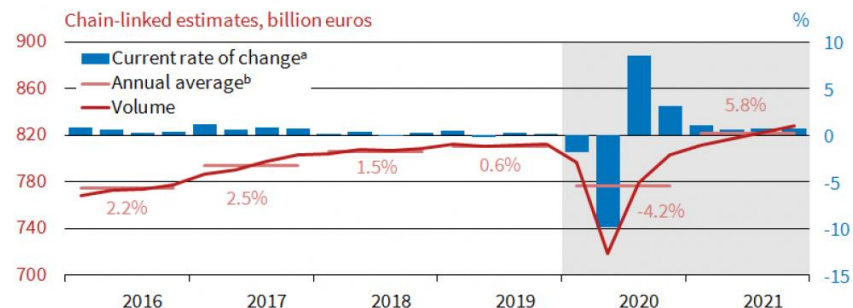
IFO INSTITUTE – 18 SHUTDOWN SCENARIOS

- Depending on the scenario, the economy will shrink by **4.3 to 20.6 percentage points** (costs of EUR 152 to 729 billion).
- A single week** of extension will cause additional costs of EUR 25 to 57 billion (a decline in GDP growth of 0.7 to 1.6 percentage points).

FURTHER RESULTS

- Unemployment** and **short-time work** will increase to high levels in all scenarios.
- Public budgets** will be burdened – in addition to fiscal response measures.
- Similar pattern for other **European countries**.

Real Gross Domestic Product in Germany
Seasonally and calendar adjusted



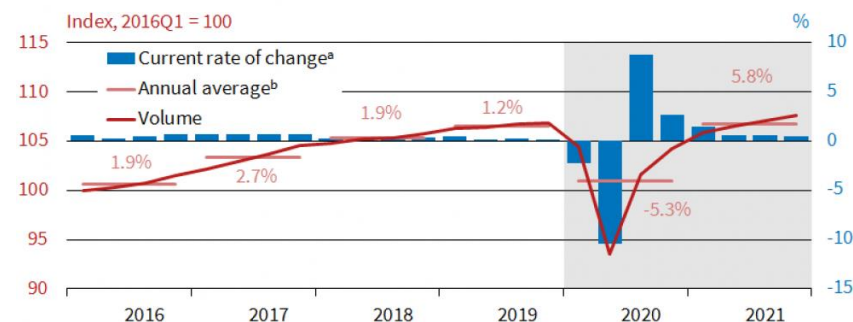
^a Change compared to the previous quarter in %.

^b Figure: Change in original figures compared to the previous year.

Source: Federal Statistical Office; calculations by the Instituts;
from 1st quarter 2020: forecast by the Instituts.

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Real Gross Domestic Product in the Euro Area
Seasonally and calendar adjusted



^a Change compared to the previous quarter in %.

^b Figure: Change compared to the previous year.

Source: Eurostat; calculations by the Instituts;
from 1st quarter 2020: forecast by the Instituts.

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Fiscal stabilisation response in Germany:

EMERGENCY PAYMENTS AND TAX DEFERRALS

Immediate assistance for small firms, self-employed and freelancers to cover fixed operating costs.

- Federal program: EUR 9,000 – 15,000 per person/firm. Volume: up to **EUR 50 billion**. Additional state level programs.
- High demand: over **1.25 million applications in the first week**.

Tax deferrals and tax pre-payment adjustments

ECONOMIC STABILISATION FUND (WSF)

Stabilisation of large enterprises in the real economy

- In total up to EUR 400 billion liability guarantees.
- In total up to EUR 100 billion for acquisition of subordinated debt and (convertible) bonds, profit participation rights, and shares in companies (“recapitalisation”).
- Granting of loans to refinance special KfW programmes.

Several conditions: e.g. emergency is no fault of their own.

KfW CORONA CREDIT LINES AND GUARANTEES

Special KfW loan programmes to improve liquidity

- 80-90 % liability by KfW, hedged by a guarantee from the federal government. Credit volumes up to EUR 1 billion. 3.800 requests for EUR 11 billion in total (6 April 2020).

KfW instant loan for medium-sized enterprises

- Credit volume per enterprise up to EUR 800,000.
- 100 % guarantee by KfW, hedged by a guarantee from the federal government.

Conditional: e.g. emergency is no fault of their own.

EMPLOYEES AND SOCIAL SECURITY

More generous short-time work scheme (*Kurzarbeit*)
470.000 firms (25 March)

Financial Crisis 2009: 56.000 Firms

Several measures to secure (basic) income, e.g.:

- (1) EUR 3 billion programme for self-employed people to ease access to basic income support.
- (2) Financial support for parents, if they suffer significant loss of income due to obligations of childcare at home during shutdown.

- Additional fiscal spending on **hospitals and medical equipment** (testing, protective gear) and provision for other spending: 55 bn Euros, not clear whether all will be spent in 2020
- Overall **expansion** of the **federal budget: 3.5 per cent of GDP**, additional state level spending programs (not included: loan guarantees and spending on short time work schemes)
- Planned increase in **federal deficit** (starting from ‚black zero‘): **4.6 per cent of GDP**
- Legislation to **loosen the obligation to file for bankruptcy** if Corona related
- Debate about starting **exit from the shutdown** (step by step) from **20 April**

Recent Policy Report:



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Monographie (Autorenschaft)

Making the Fight against the Coronavirus Pandemic Sustainable

Abele-Brehm, Andrea / Dreier, Horst / Fuest, Clemens / Grimm, Veronika /
Kräusslich, Hans-Georg / Krause, Gérard / Leonhard, Matthias / Lohse,
Ansgar W. / Lohse, Martin J. / Mansky, Thomas / Peichl, Andreas / Schmid,
Roland M. / Wess, Günther / Woopen, Christiane

2020

<https://www.ifo.de/publikationen/2020/monographie-autorenschaft/making-fight-against-coronavirus-pandemic-sustainable>

Making the Fight against the Coronavirus Pandemic Sustainable

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Coordination: Clemens Fuest and Martin Lohse
2. April 2020

Thank you!

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