A protective shield for employees and companies

Package of measures to mitigate the impact of the coronavirus

The German government is taking decisive and forceful action against the economic impact of the coronavirus. Federal Minister of Finance Olaf Scholz (SPD) and Federal Minister for Economic Affairs and Energy Peter Altmaier (CDU) have agreed on a far-reaching package of measures to protect jobs and support companies. The government is setting up a protective shield for employees and companies. The goal is to equip businesses with sufficient liquidity that they will be able to make it through the crisis in good shape.

The government's central message is that there is enough money available to tackle the crisis and it is going to use this money now. We will take all the necessary measures. That is something everyone can rely on.

Context

The coronavirus is a serious challenge for our whole society. Not only citizens but also companies are becoming increasingly concerned. Due to the economy's close international ties, German companies are also affected by the impact of the pandemic in other parts of the world. It is not yet possible to accurately identify the effects that the pandemic will have on the German economy, because meaningful economic indicators will not be available until later, due to their inherent time lag. Nevertheless, many companies are already feeling the initial impact of the virus. Cancellations of trade fairs and large-scale events, and the decline in travel, are affecting the service sector, especially in the areas of logistics, trade, gastronomy and tourism. At the same time, foreign demand is dropping and international supply chains are being disrupted, which impacts production in Germany.

The German government is confronting these problems with decisive economic and fiscal policy measures. Ministers Scholz and Altmaier will make liquidity available to businesses, thus securing growth and employment.

The conditions are in place to swiftly stabilise the German economy. Targeted, fast-acting measures will immediately be taken to counter the economic impact of the coronavirus, in order to bring the economy back onto a growth path as quickly as possible. This is happening in close coordination with the German *Länder* and with our European and international partners.

The Federal Ministry of Health has already been swiftly provided with around €1 billion to fight the coronavirus, including for the procurement of protective equipment such as face masks and protective suits, support for the WHO in the international fight against the coronavirus, and the provision of additional funds for the Robert Koch Institute, Germany's leading public health institution. In addition, the Federal Ministry of Education and Research has received €145 million to develop a vaccine and for treatment-related measures.

A protective shield for employees and companies

The government is creating a protective shield for employees and companies who are affected by the impact of the coronavirus. It consists of **four pillars**:

1. Making reduced hours compensation benefit (*Kurzarbeitergeld*) more flexible

Germany has a strong social security system. The automatic stabilisers that are part of this system support the economy. The German government will ensure that these stabilisers take full effect. Uncertainly and short-term disruptions to trade flows cannot be allowed to cause people to lose their jobs. In this respect, the government can take advantage of tried-and-tested tools. By the beginning of April, the rules on reduced hours compensation benefit will be adapted to suit current needs. As part of this, eligibility requirements will be loosened:

- Reduction of the minimum ratio of the employees in a company affected by shorter working hours to 10%
- Partial or complete waiver of the need to build up a negative balance in working hours
- Reduced hours compensation benefit will also be available to temporary/agency workers
- Complete reimbursement of social security contributions by the Federal Labour Office

2. Tax-related liquidity assistance for businesses

In order to improve companies' liquidity situation, the options for deferring tax payments and reducing prepayments will be enhanced, and enforcement rules will be adapted. Overall, businesses will be able to defer billions of euros in tax payments. The Federal

Ministry of Finance has already initiated the necessary coordination process with the *Länder*. The measures are described in detail below:

a. 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. This will support taxpayers' liquidity, because the timing of tax payments will be delayed.
b. 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. This will improve the liquidity situation.
c. 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.

With regard to taxes that are administered by the customs administration (e.g. energy duty and aviation tax), the Central Customs Authority (Generalzolldirektion) has been instructed to make appropriate concessions to taxpayers. The same applies to the Federal Central Tax Office (Bundeszentralamt für Steuern), which will proceed accordingly with regard to insurance tax and value added tax, which fall within its remit.

3. A protective shield with unlimited volume

Many businesses are currently suffering from declines in turnover that are not their fault, either because of disruptions to supply chains or significant drops in demand in many sectors of the German economy. At the same time, operating costs often cannot be reduced, or can be reduced only slowly. This can lead to a situation where healthy companies land in financial difficulties through no fault of their own, particularly with regard to their liquidity. The German government will protect businesses with new measures to provide liquidity, the volume of which is unlimited. Due to the high degree of uncertainty in the current situation, the government has very deliberately decided to not set any limits on the volume of these measures. This is a very significant decision which is supported by the entire federal government.

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% 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% (from 50%). 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% to make it easier to shoulder risks, which are difficult to assess in times of crisis. The upper limit of 35% of operating resources in guarantee banks' total exposure will be increased to 50%. 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%.

We are in close contact with the *Länder* development banks and the guarantee banks.

These measures are covered by existing state aid rules.

For companies that have temporarily got into serious financial difficulties because of the crisis and therefore do not have easy access to existing support programmes, we will launch **additional special KfW programmes**. This will be achieved by increasing the KfW's risk tolerance in a way that is appropriate given the crisis. Risk assumptions for investment funds (indemnity) will be improved significantly and will total up to 80% in the case of operating resources and up to 90% in the case of investments. In addition, consortium structures will be offered for these companies.

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 part of the European Commission.

The German government will put the KfW in a position to fund these programmes by making the necessary guarantee volumes available. This is not a problem, because the federal budget includes a guarantee framework of approximately €460 billion. If necessary, this can be increased by up to €93 billion at short notice.

With its export credit guarantees (known as Hermes covers), the Federation offers companies flexible, effective and comprehensive support that is sufficient for managing serious situations comparable to the years following the 2009 financial crisis. These instruments proved their worth at the time, and the funds available in the 2020 budget are sufficient for a similar increase in the funding volume. This is supported by a well-equipped KfW programme for the refinancing of export business. If there is a need for additional export cover and refinancing, the authorised amount can be increased very quickly.

4. Strengthening European cohesion

At the European level, German Finance Minister Olaf Scholz and German Economic Affairs Minister Peter Altmaier are advocating coordinated and decisive action. Germany is well aware of its responsibility to Europe. In close consultation with its European partners, the German government will dovetail its coronavirus response with those of other countries.

The German government welcomes the European Commission’s idea of a Corona Response Investment Initiative with a volume of €25 billion.

It also welcomes ECB banking supervision’s announcement that it will utilise existing leeway to ensure that banks can continue to fulfil their role in funding the real economy, as well as the measures for providing liquidity to banks that were announced by the ECB on Wednesday.

It is good that the EIB Group is supporting companies across Europe that are experiencing liquidity shortfalls due to the coronavirus, using instruments that proved their worth during past crises. In particular, the EIF’s well-established portfolio guarantees to safeguard companies’ liquidity should be used.

Outlook

All these measures show that the German government is committed to countering the effects of the coronavirus with economic and fiscal policy stimuli in order to protect companies and their employees and mitigate the impact of the crisis. The full economic effects of the crisis cannot be predicted at this stage. If there are any signs of a serious disruption to the economy, the German government, in consultation with the *Länder* and with our European partners, will use all resources available to counter this forcefully.

The German state is well prepared for such a scenario: thanks to the general government surpluses generated in recent years, it is in a position to boost the economy over a sustained period and bring it back to its previous growth path.