Germany: Another fiscal bang

The German government agrees a €130 billion package to kickstart the economy

German Chancellor Angela Merkel at the Hannover Industry Fair earlier this year

It took two long days of negotiations but last night the German government presented the next phase of its unprecedented fiscal stimulus. Up to now, the impressive fiscal stimulus had been mainly aimed at cushioning the imminent impact of the Covid-19 crisis and limiting the economic fallout. Last night's stimulus package is now aimed at kickstarting the economy.

Details of the fiscal stimulus package

The €130bn (almost 4% of GDP) stimulus package includes more than 50 different measures. In our view the most relevant are the following:

- VAT will be temporarily cut from 19% to 16%, from 1 July until 31 December
- The lower VAT rate for hospitality will be reduced from 7% to 5% over the same period
- An additional one-off child allowance of €300 per child
- A €50bn fund to address climate change, innovation and digitisation within the German economy. From this €50bn, a doubling of the financial incentive to buy electric cars from €3,000 to €6,000 will be financed
- Social security contributions will be capped at 40%, at least until 2021, to stabilise net income. Additional costs for social security will be covered by the government.
- Tax loss carrybacks and faster depreciation rules for investments are intended to provide

more liquidity and investment incentives for companies
- Another liquidity and loan support programme of €25bn for small and medium-sized companies for June to August. Eligible companies will be those which saw sales drop by 60% or more year-on-year in April and May
- At least €10bn will be used to help municipalities struggling with lower tax receipts, with public spending on infrastructure and housing.

According to finance minister Olaf Scholz, the package will be partly financed by additional net new borrowing. Some €60bn of the €156bn in new debt approved in March had not been tapped, yet.

Since the start of the crisis, the German government has agreed on fiscal support and stimulus measures amounting to more than 30% of GDP. Within these measures, cash-out fiscal stimulus amounted to more than 5% of GDP. Last night's package adds another 4% of GDP, making Germany's fiscal reaction to the crisis quite outstanding. It is not only the size of the packages which is remarkable but also the fact that the German government has made a complete U-turn in its approach to fiscal policy. This not only the case for Germany but also for Europe. From austerity champion to big spender. Just a few months months ago, such a comment on German fiscal policy would have been almost unthinkable.

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