Germany: Government decides on additional fiscal stimulus

Signs of bottoming out at the start of the year now seem like a distant memory, given the current uncertainty and impact from Covid-19. Last night, the government decided on an initial fiscal package to address the economic fallout. Will it be enough?

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First the good news. German industry finally showed signs of life or at least a bottoming out at the start of the new year. Industrial production increased by 3.0% month-on-month in January. As expected, the sharp December drop was revised upwards to -2.2% MoM, from initially -3.5% MoM. All sectors saw a sharp rebound in activity. At the same time, exports stagnated in January, while imports increased by 0.5%. The trade surplus dropped to the lowest level since January 2016 and stood at €13.9 billion.

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At face value, this morning's data is encouraging, adding evidence to a bottoming out of the German manufacturing sector. However, Covid-19 has changed everything. Being fully-integrated and dependent on the global economy, Germany will feel the impact of the unprecedented combination of supply-side and demand-side shocks. The only two questions are how strong the negative impact will actually be and how long it will last.

Against the background of several economic shocks hitting the German economy, the government last night decided on a first package to tackle the economic impact from the coronavirus. What did the government decide?

- The conditions to apply for the so-called short-time work schemes, subsidised by the government, which helped stabilise the German labour market during the 2008/9 crisis, will be loosened. Also, the government announced an increase to its share in the subsidies.
- Investments will be increased by €3.1bn per year, from 2021 to 2024. This is less than 0.1% GDP per year.
- The government will discuss and prepare liquidity support for companies suffering from the economic impact of Covid-19. Exact numbers were not mentioned.

Step in the right direction but size could be insufficient

The German government's decisions tick the right boxes. However, as so often, the absolute size of the measures could quickly prove to be too small. One reason for the relatively small size is the fact that the current set of measures allows the government to postpone the politically-sensitive question of how to deal with the debt brake and the "Black Zero". Last night's decisions will lower the fiscal surplus, without pushing the budget into negative territory. In our view, the German government's package is a good step in the right direction, but it will only tackle the impact from a short-lived economic shock. If Covid-19 spreads further and the economic impact worsens, last night's move will not have been the final word.

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