

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?



Source: Shutterstock

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.

German government decides on additional fiscal stimulus

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.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.