

Germany: More money

Last night, the German government decided on another fiscal stimulus package. At 9bn euro (some 0.2% of GDP), this package is rather an extension of the existing stimulus measures than anything new, and seems to be not much more than a band-aid



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With still few signs of an easing of the current lockdown measures in sight, the German government last night decided on another small fiscal stimulus package, mainly extending existing measures for families, companies and restaurants.

Last night's measures are another band-aid for most. And in our view, they smell like sweets necessary to prepare the country for an extension of the current lockdown measures beyond mid-February

Families will receive a one-off 150 euro per child while last year, families received a one-off 300 euro per child. People receiving basic social care benefits will also receive a one-off 150 euro.

Companies will be allowed to use higher losses than usual for tax deductions and the cultural sector will receive a support package of 1bn euro. Finally, the reduced VAT rate of 7% for restaurants and cafes will be extended from mid-2021 to end-2022.

VAT rules for restaurants and cafes actually show that looking beyond the pandemic, Germany's tax system could benefit from some harmonising. Before the pandemic, VAT of 19% was applied to both meals and drinks in restaurants and cafes. With the VAT reduction in July, meals in restaurants were taxed with 7%, and drinks at 16%. Delivery services were taxed at 5%. Since 1 January and the end of the temporary VAT reduction, meals are still taxed at 7% as the lower VAT had been extended until mid-2021, while drinks fall again under the 19% VAT rate. VAT on delivery services increased to 7%. Dizzy already?

With last night's decision, the 7% VAT on meals in restaurants and cafes will be extended until end-2022. But as a reminder, no café or restaurant is currently open in Germany.

When assessing last night's measures, it is important to remember that large portions of the stimulus packages agreed last year are still in the pipeline and have not yet made it into the economy. Also, one of the most effective measures, short-time work, had already been extended until the end of 2021.

Last night's measures are another band-aid for the most hit sectors during the ongoing lockdowns. In our view, they also smell like the sweets necessary to prepare the country for an extension of the current lockdown measures beyond mid-February.

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