

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



Source: Shutterstock

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.

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 <http://www.ing.com>.