

ECONOMIC PULSE

GERMANY: COVID19 KILLS ECONOMIC ACTIVITY IN H1 2020

In the latest months, economic activity was virtually stagnant. As can be seen in the chart, the export-oriented manufacturing sector was operating well below potential, whereas activity in the more on the domestic market oriented sectors such as construction and services remained buoyant. The outbreak of the Covid19 in Germany has changed the picture completely.

In order to stop the spread of the virus, the economy has largely come to a standstill. To reduce public movement, non-essential shops had to close and restaurants could only open for lunch. In addition, border controls were reintroduced with five countries. More drastic measures such as home confinement could be expected if citizens do not voluntarily limit interaction. In a television address, Angela Merkel, the German chancellor, called the coronavirus epidemic the biggest challenge Germany has faced since the Second World War.

To support business and protect jobs, the government has unveiled an assistance programme and tax policy measures totalling billions of euros. The programme has three main pillars. First, access to the short-time work compensation scheme (Kurzarbeit) will be facilitated. In particular, eligibility requirements have been loosened. During the global financial crisis in 2008-10, the Federal Employment Agency paid almost EUR 10 billion in short-time work allowances.

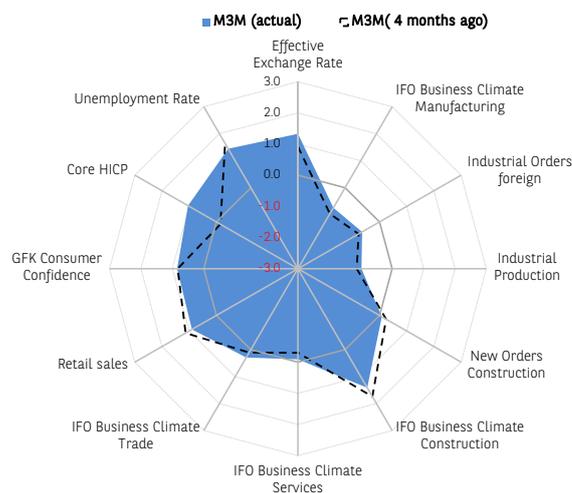
Second, to improve their liquidity, businesses will be able to defer billions of euros in tax payments. Third, existing liquidity programmes will be broadened to give companies access to cheap loans, in particular through the state development bank KfW. The government is still working on how these loans can be repaid once the pandemic ends without unduly weighing on the recovery. Programmes of export credits and other guarantees to help companies in crisis are to be expanded.

At this stage, it is very difficult to foresee when the epidemic will be contained and the economy could restart again. Based on what happened in China and Korea, we assume this to happen in Q3 2020. However, as it takes some time before supply chains are fully restored, the government might consider a modest fiscal stimulus programme in Q3 2020 in order to restore confidence. Moreover, the partial abolition of the solidarity tax may be brought forward to 1 July 2020. Both measures would be welcome for kick-starting the economy.

Raymond Van Der Putten

QUARTERLY CHANGES

■ 3-month moving average (actual) --- 3-month moving average (4 months ago)



SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area signals an improvement. In the right pane, the surprise is an actual outcome that differs from the market forecast (Bloomberg).

