

# CHART OF THE WEEK

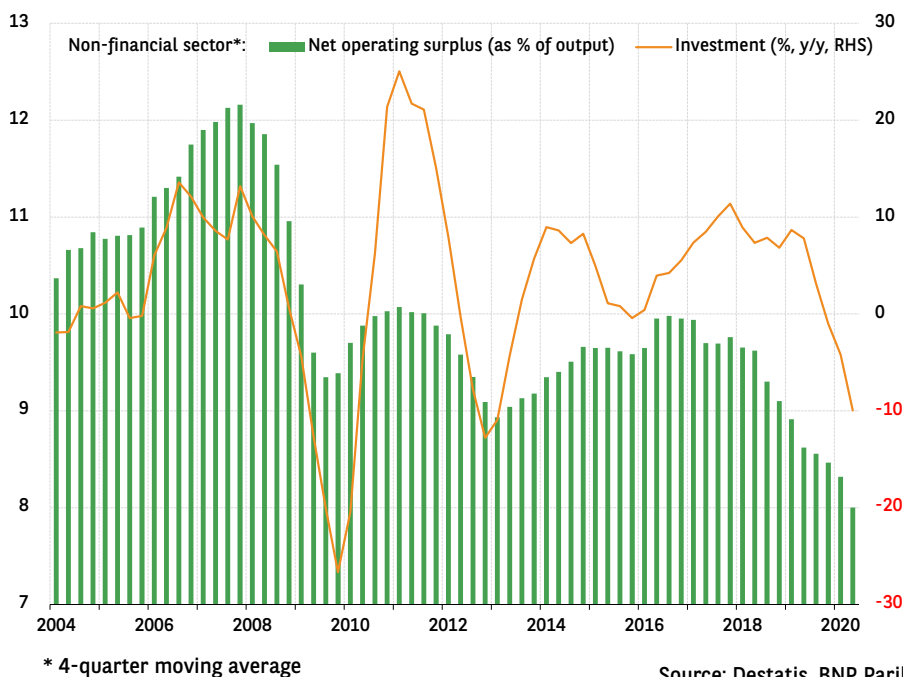
CHART  
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by BNP PARIBAS

30 September 2020

## GERMANY: FACING A SHARP CONTRACTION OF CORPORATE INVESTMENT

Raymond Van Der Putten



The Covid-19 pandemic has led to the most severe recession in Germany's post-war history. The sudden drop in revenues in combination with only partly adjustable costs has led to a fast depletion of firms' cash buffers. Business felt compelled to reduce inventories, cancel orders and defer investment projects. This had the effect of deepening the recession.

It might be tempting to think that investment could quickly regain traction again, as it did following the Great Recession in 2008-09. This sounds too optimistic. European Investment Bank (EIB) researchers estimate that the European corporate sector could have lost revenue between 13% and 24% of GDP because of the Covid-19 pandemic<sup>1</sup>. In the most benign scenario, they assume that cash positions may have absorbed revenue losses to the amount of 3% of GDP and corporate indebtedness would rise between 4% and 6% of GDP. In that case, EU corporate investment would shrink between 31% and 52%. For Germany, this implies that corporate investment would contract much more than during the Great Recession, when it declined by 26%.

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<sup>1</sup> Debora Revoltella, Laurent Maurin, Rozália Pál, "EU firms in the post-COVID-19 environment: Investment-debt trade-offs and the optimal sequencing of policy responses", Voxeu.org 23 June 2020. The authors use an accounting approach and the ORBIS databank containing information on more than 1.3 million non-financial corporates located in the EU. They study different normalisation scenarios following a three-month lockdown.

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