



Covid crisis: Caution remains the order of the day

The rigid “shutdown” measures are showing a first virological success. Now economic policy remains a challenge. For the Chief Economists of the Savings Banks Finance Group, the following aspects are crucial regarding the renewed reviews scheduled for 30th April and 6th May:

- Pragmatic further shop openings depending on the trajectory of infection rates. Uniform nationwide anchoring of standards for respiratory protection, distance and hygiene rules.**
- In view of the current increase in savings, there is now no need for a comprehensive economic stimulus package. There is currently no need for major reductions in VAT or income tax. In the short term, however, the further gradual improvements in short-time working that have already been introduced will prove helpful.**
- The regulatory relief for banks in the face of the Covid crisis should be anchored in principle up to and including the fourth quarter of 2021.**
- The slump in growth in Germany in 2020 will be in the range of -5 to -15 percent. We assume an average of -7 percent (see examples in the appendix). In 2021, by contrast, there is renewed hope of high catch-up growth in Germany, as in Europe in general.**

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First Successes...

- The dynamic spread of the coronavirus that we were still witnessing in the first half of March has flattened out. In parallel with this development, the Chancellor and her Corona Cabinet, in consultation with the heads of government of the Länder, took the decision on 15th April 2020 to relax the first restrictions on economic and social life. This was an important first step. Reviews and further developments are now due on 30th April and 6th May.

...but there is a need to develop further practical solutions

- In practice, it has become evident that details of the decision, such as the restriction of shop opening to sales areas below 800 square metres, are being circumvented. If business premises are artificially reduced in size, there will be a greater risk of increased contact.
- Health-related, economic and social impacts require careful consideration. Overly rapid, unplanned loosening can endanger human life and carries the astronomical price of a "shutdown" becoming necessary again. So far, however, the infection figures demonstrate that the federal and state governments have taken the right path overall.
- The decisive factor driving the much desired reopening of economic and social life is the consistent adherence to distance rules and hygienic protective measures. This requires prudent behaviour on the part of each individual. Compliance with the protective measures by each individual must become the new normal state of affairs at companies, and in public life in general.

On the initiated expansion of short-time work compensation

- The instrument of short-time work compensation has already proven its worth in previous recessions, especially during the financial crisis of 2008/2009. And in the current situation, it is set to provide even better services. The need for bridging is now obvious. In some cases, business closures have been ordered by the authorities. In such cases, the ethical and economic logic is almost indisputable. But even in cases where closures or reductions in business activity have been decided by companies for economic reasons, this has generally become necessary in the Corona crisis due to an unforeseeable stroke of fate and not due to bad business decisions.

- For the individuals affected, the direct experience of help is decisive. In this acute, severe crisis, the preservation of employment structures and, quite decisively, the stabilisation of income and money cycles are imperatives on top of the overall economic situation. The short-time working allowance is, therefore, an important instrument to support consumer demand.

- To reinforce this effect, the coalition committee has proposed a graduated increase in the reference rates (70 percent from the fourth month, 80 from the seventh; in both stages with supplements for households with children). The previous regulation was already quite generous. Now the further scope is being used. We consider this gradualistic expansion to be right.

- However, with reference rates approaching the 100 percent mark, the risk of deadweight effects would inevitably increase. The margin before costs and damages exceed the additional benefit is narrow. Full compensation in any case would be too much. The staggered approach now envisaged is also sensible on the basis of such considerations. The first few months are most likely to be

shouldered by those affected themselves. Solidarity-based support grows appropriately with the duration of the burden. At the same time, the staggered timing strategy limits any windfall effects. It likewise makes sense to limit the duration of the measures (for the time being). These could and should be adjusted flexibly, depending on the further course of the pandemic and its economic consequences.

- In any case, the discussion about this instrument and about wage compensation in general, should not be conducted on the basis of permanent distributional considerations. Other instruments must be used for recognition and distribution goals. For stronger productivity-oriented participation in value creation to be considered necessary, this must first be relaunched itself. The instrument of short-time work is valuable for bridging and stabilising the situation. However, it should not be overstretched.

An economic stimulus package must fit into the right phase

- For similar reasons, the discussion about an economic stimulus package must not be exaggerated and, above all, not be misplaced in terms of timing. Later, when production capacities have been restored, a general lack of demand may become apparent, which then needs to be compensated for. Early considerations for an economic stimulus package can and should be pondered - preparation does not hurt.
- But the measures must not be armed at an inopportune moment. There is no point in showering the population with purchasing power as long as, in many areas, citizens do not have any money to spend. An undesirable effect would involve demand being concentrated in bottleneck areas.
- As long as the spread of the virus has not been permanently contained, we do not want consumers to crowd into pedestrian zones, department stores or onto domestic

beaches. Economic stimulus packages are an important element underpinning a recovery, but only in later phases.

Regulatory relief helps

- The ECB, EBA, ESMA and the national and European supervisory institutions have worked together to create a large number of regulatory simplifications for banks and savings banks. So far the easing of regulations, such as the 6th MaRisk amendment or the classification of problem loans, has not yet been finally negotiated, and all measures should be placed in context.

- In this respect, a reliable and consistent time frame remains crucial for the effective transmission of monetary and fiscal policy measures. And a uniform time frame is also important with respect to the planning security of banks and savings banks.

- From an economic and regulatory point of view, it is important that all derogations granted in the wake of the Covid crisis should, in principle, be granted up to and including the fourth quarter of 2021, at least until the first-round and second-round effects have been processed.

Economic slump in 2020 more drastic than in 2009...

- It is true that the institutions of the Savings Banks Finance Group, which are intensively examining the economic prospects for Germany, Europe and the world, each have different scenarios. However, all of them expect a sharp drop in growth in 2020 and a gradual recovery in the course of the third and fourth quarters of this year. Admittedly, the premise here is that there will not be further waves of infection, as was the case with the Spanish flu 100 years ago.

- All in all, our institutions expect a slump in growth of between -5 and -15 percent for Germany in 2020. The wide

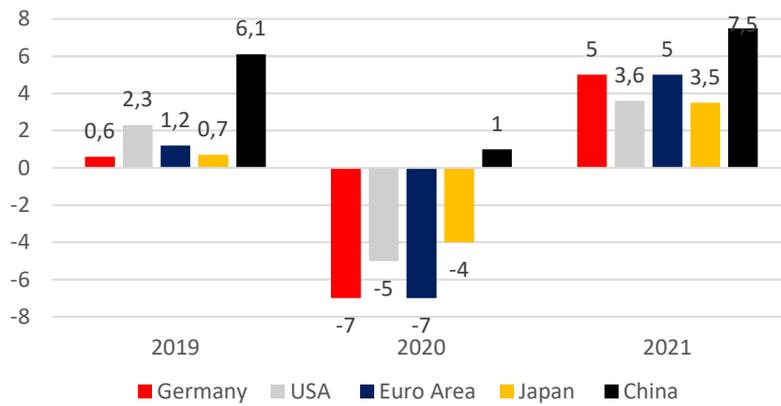
range reflects the high level of uncertainty that prevails. The realistic figure is a slump in growth of -7 percent.

- We have presented the current forecasts of NORD/LB, Berliner Sparkasse and LBBW in the Notes, which essentially share this expectation about the further course of the economy.

...but there is a prospect of a partial recovery in 2021

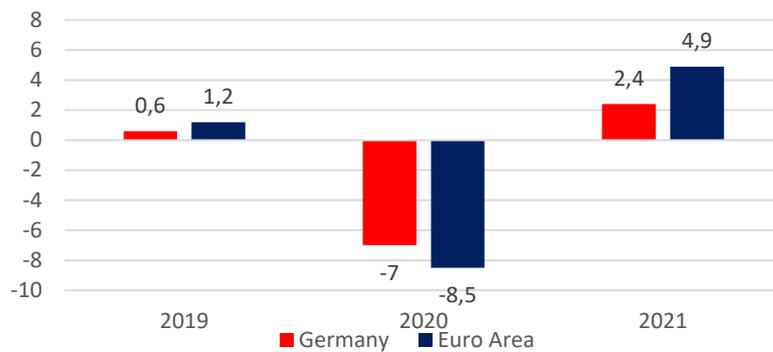
- On the positive side, the aphorism coined by Popper, "Confidence is a duty in difficult times," currently also applies to all economic forecasts for 2021: 2021 will be a year of significant recovery. This statement is shared unanimously by all leading economic researchers along with our institutions. Factoring in catch-up effects, growth rates could be achieved in Germany in 2021 that are higher than the peak value of 2.5 percent attained in 2017.

Appendix: GDP forecasts of selected institutions from the S-Finanzgruppe



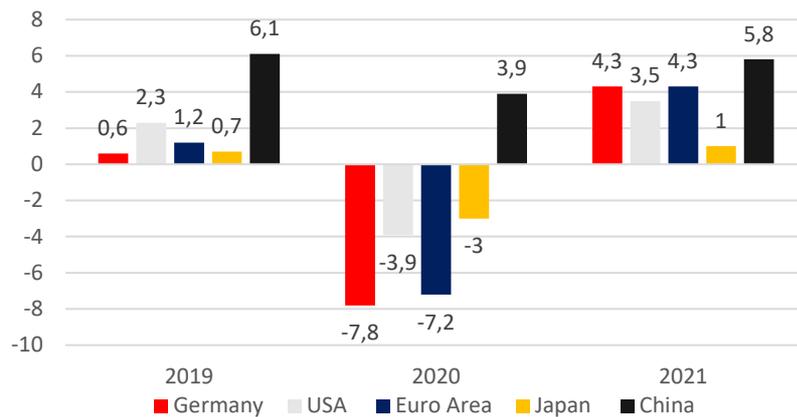
GDP, real change in % on previous year

Source: LBBW



GDP real change in % over the previous year

Source: Berliner Sparkasse



GDP, real change in % on previous year

Source: NordLB

Disclaimer

The present positions of the Chief Economists do not necessarily reflect the position of DekaBank or the position of the respective Landesbanken and savings banks. This paper was prepared with the help of the following eight institutions:

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