Finanzgruppe
Deutscher Sparkassen- und Giroverband

Current developments on the Corona crisis

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The corona pandemic attributes economies around the world to basic economic activities: health, food and housing. It will be many weeks and months before all economic activities can be revived.

In contrast to the financial crisis of 2009, the corona shock is hitting the real economy directly with full force. As a result of this current "shut-down", the economic departments of the Landesbanken, savings banks and DekaBank are expecting an economic downturn this year that is unprecedented since the Second World War. The GDP in Germany will plummet between three and ten per cent in 2020, depending on the duration of the pandemic. Next year, if the pandemic is hopefully overcome, and possibly with a vaccine found by then, most economies should grow again. Catch-up effects could further accelerate growth. We have attached some current estimates by DekaBank and Landesbanken for 2020 and 2021.

The fiscal and economic policy have delivered!

➔ Germany and Europe have taken action: Fiscal policies are delivering "Whatever it takes". The rules of the Stability Pact are rightly suspended for the duration of the pandemic by the European Finance Ministers and the European Commission taken into account the extraordinary occasion COVID-19 pandamic. It is now important to make full use of all possibilities through the European Stability Mechanism for the period of the pandemic. After overcoming the financial crisis, the ESM has built up new financial resources. With its high rating and the possibly use of corona bonds, it can quickly generate additional aid if the crisis will be longer than many expected. In addition, the EIB will also provide support with a pan-European guarantee of EUR 25 billion. This can help Italy in particular, depending on the further course of the crisis.

- ➔ The Federal Government has also set the right course with the Economic Stabilization Fund (WSF) as well as through the KfW programmes and the aid for micro, small and medium-sized enterprises. The liquidity of companies must remain secure during the period when the economies are at a standstill. The volumes involved are considerable: for the Federal Government alone this is just under 4.5% of the annual GDP that has not yet been reduced. All in all, this will indeed increase Germany's total debt by only under 10%. However, this is appropriate for this situation, and thus, the foundations for a recovery in a few weeks or months remain in place.
- ➔ Nevertheless, fiscal policy should not now be overstretched with further demands. Forbearance of taxes and charges will help to limit the liquidity bottlenecks that are now arising. By contrast, claims for major tax cuts in income tax or value-added tax miss the mark. Even the complete abolition of the solidarity tax is currently not the most important topic. The health policy precautionary measures to overcome the pandemic require a reduction in demand behaviour in many areas, i.e. the restriction of overall economic demand to core areas such as health and provision with food and basic services.

Monetary policy accompanies fiscal policy: Financial markets reassured for now!

- ➔ Especially the Germany's higher debt facilitates eases the refinancing for the ECB. According to DekaBank, the newly agreed purchases of EUR 750 billion for the bond purchase programmes expanded by the ECB would, according to the current key, mean that the newly resolved purchases of EUR 750 billion would be worth around EUR 110 billion for Bunds. Also, there is a risk of a shortage of opportunities to purchase corporate bonds and especially covered bonds. Accordingly, correspondingly higher borrowings are welcome overall. It is therefore to be expected that Bunds yields will remain at their level for now. However, it is questionable whether this will remain the case if, with renewed rising uncertainty on the global stock markets, money should once again flow more firmly into the safe haven of German government bonds.
- ➔ The losses on the global stock markets and the high volatility demand the highest level of vigilance from the supervisory authorities. Austria has tightened the regulations on short selling. In the USA, there are discussions about not publishing all data in a timely manner to limit the decline in the stock exchanges. In addition, the major fiscal programmes will lead to new levels of public debt worldwide, which may not only provide a liability for the future but also play a role in financial markets stability on the stock exchange floors. This is exacerbated by the fact that the debt ratios are being arithmetically increased by the contracting in GDP, and the sustainability of the debt is suffering. All in all, only globally coordinated

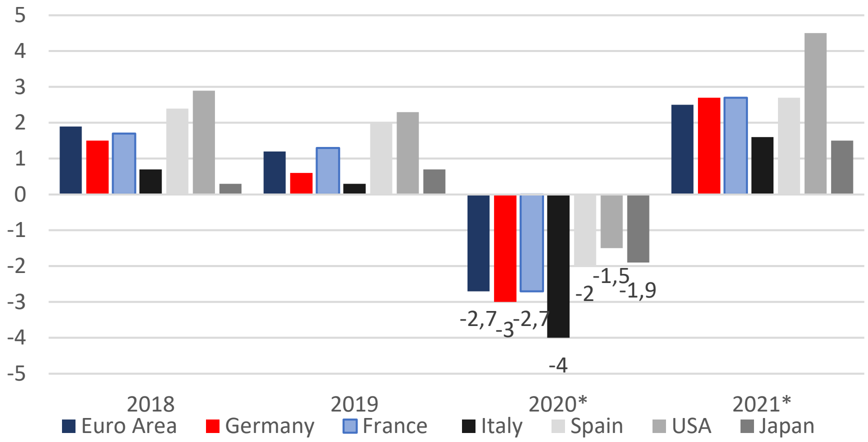
measures within the framework of the G20 in broad-based actions across all asset classes could help to calm the stock markets.

- ➔ In the current situation, monetary policies all over the world have reacted appropriately with targeted programmes and asset purchases. They have also decided on joint measures to safeguard liquidity. Most recently, the Fed in the US followed the ECB's lead with its measures announced at the beginning of the week to secure liquidity for companies individually. Besides, no further interest rate cuts have been made yet in the USA for the time being.
- ➔ Further interest rate cuts deep into the negative range as well as helicopter money can now also not help in Europe. Instead, the aim is to stabilise financing conditions and secure the liquidity of companies. Monetary policy measures are currently being implemented in dialogue with the banks and savings banks. However, if the pandemic should last longer, it might be necessary to examine whether the measures already taken, for example, by the ECB, need to be further expanded.
- ➔ In economic terms, the corona crisis is first and foremost a crisis of the real economy and not of the financial economy. Nevertheless, banks and savings banks play a major role in overcoming the crisis. Relief for banks and savings banks can enable them to support the real economy even more effectively. Across Europe, countercyclical capital buffers have been reduced and a pause has been announced for many new regulations. Pragmatic simplifications - such as a further temporal definition of non-performing loans - are also on the way.

Appendix:

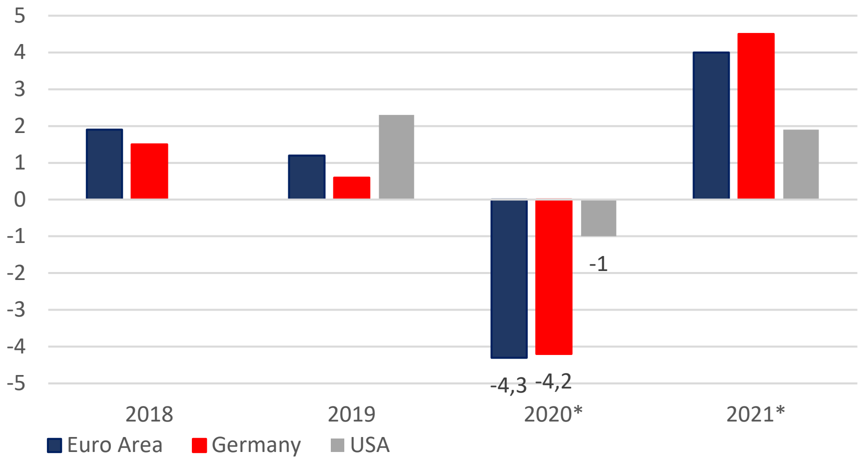
Selected forecasts of the institutions of the S-Finanzgruppe.

These forecasts are regularly reviewed and adjusted.



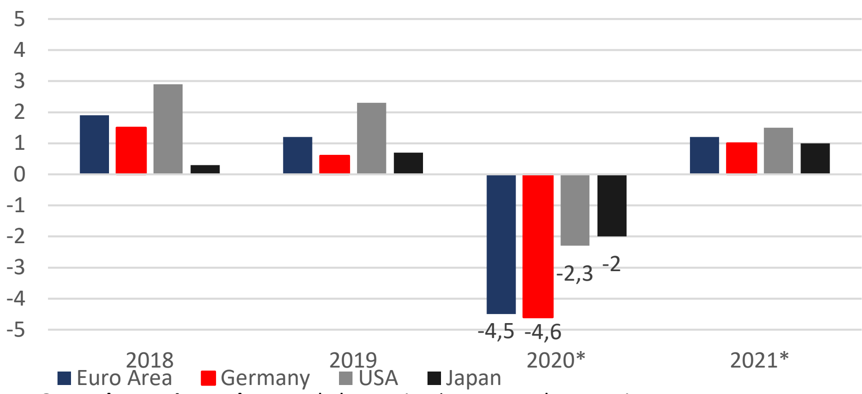
Gross domestic product, real change in % over the previous year

Source: **Helaba Volkswirtschaft Research; * Forecast - Status 20.3**



Gross domestic product, real change in % vs. previous year

Source: **Deka; * Forecast Status - 18.3**



Gross domestic product, real change in % compared to previous year

Source: **Deka; *Forecast - Status 19.3**

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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