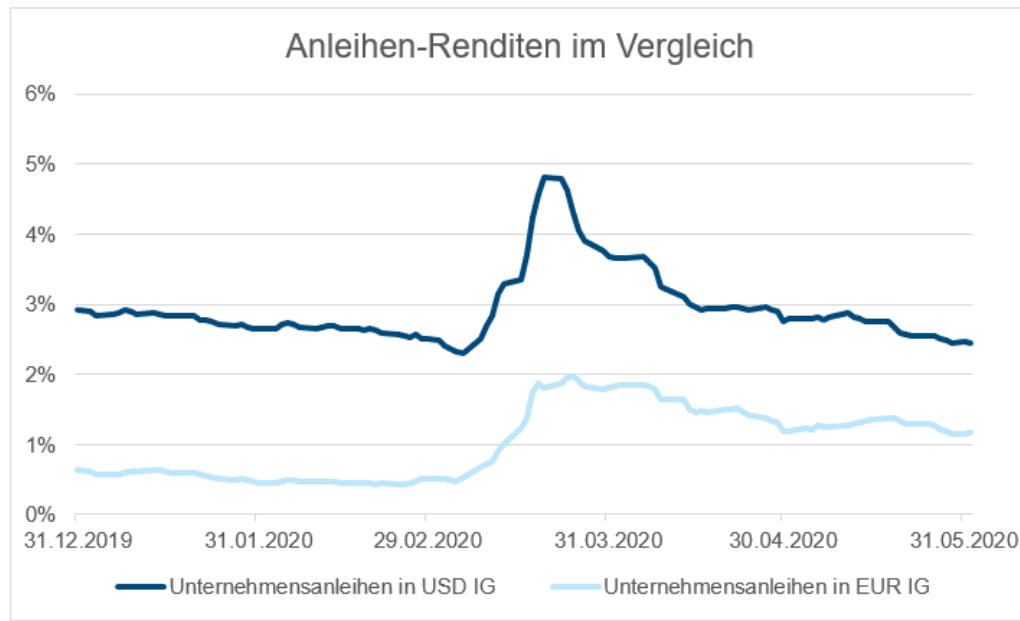


<https://blog.en.erste-am.com/german-government-approves-eur-130bn-stimulus-package-to-emerge-from-the-crisis-with-a-bang/>

## German government approves EUR 130bn stimulus package to “emerge from the crisis with a bang”

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With a massive economic stimulus package, Germany's government intends to cushion the consequences of the coronavirus crisis. On Wednesday evening, after days of tough wrangling, the leaders of the coalition agreed on an economic stimulus package for 2020 and 2021 to the tune of EUR 130bn.

This historic measure is intended to revive the economy and consumer spendings and avert a severe recession resulting from the corona pandemic. Germany's Chancellor Angela Merkel spoke of a good result and a courageous response to the crisis. Vice Chancellor Scholz summed the results up saying: "We want to emerge from the crisis with a bang."

### Government issues surprising temporary VAT cut

The core of the package is what the government calls a temporary reduction in value added tax. From July to December, VAT is to be lowered to 16 per cent from the previous 19 per cent. The move came as a surprise to many, as there has never been a VAT reduction in Germany before. The temporary nature of the tax cut is intended to motivate consumers to bring forward planned purchases or not to postpone them until later.

The surprising reduction was received with mixed feelings. Dietmar Bartsch, deputy leader of the left-wing parliament faction, described the program as generally "incredibly expensive" and the temporary VAT reduction as "economically absurd". Tax expert Stefan Bach of the German Institute for Economic Research, on the other hand, praised the VAT reduction for its fairly even distribution effect – provided, however, that companies also pass on the VAT reductions to their customers. Unfortunately, previous studies on the effects of tax cuts in Europe do not provide any clear results to rely on.

Companies from sectors that have been particularly hard hit by the crisis will also be supported: interim aids to the tune of a maximum of EUR 25bn are planned, according to the resolution paper. The aim is to prevent a wave of bankruptcies among small and medium-sized enterprises. In addition, the German federal government, together with the states, wants to compensate for the trade tax loss of municipalities, which is estimated at EUR 11.8bn, costing the federal government 5.9 billion.

### The package's goal is to boost innovation and climate protection

Another key point of the crisis package is sustainability. Environmental protection and future technologies are to be promoted significantly. For instance, the decision was made against a premium for low-emission gasoline and diesel cars, while significantly higher premiums will be granted for electric cars. Climate protectionists welcomed this step, however, the automotive industry was predictably disappointed, having expected additional purchase incentives for cars with modern, low-emission combustion engines as well. Shares of several car manufacturers temporarily reacted to the decision with significant losses.

The package is also intended to promote public transport. Thus, an additional EUR 5bn are to be made available to Deutsche Bahn to increase its equity capital. In addition, EUR 2.5bn in aid is planned for local public transport. Citizens are also to receive support for electricity costs. To this end, the EEG levy for the promotion of green electricity plants is to be reduced from 2021 by means of subsidies from the federal budget.

A one-off child bonus of EUR 300 per child is to be paid out with the child benefit. And finally, the package also aims to help forests and the lumber industry with an additional EUR 700m. The money is to be made available for the reforestation, conservation and sustainable management of forests.

### Economists praise the government decisions in first reactions

The economic stimulus package gives the economy and experts hope for a rapid recovery after the corona crisis. The initial reactions of companies and economists were generally favourable. The industry association BDI stated that the government's announcement constitutes a "strong signal to citizens and companies" that the package will "significantly mitigate the recession". Employers' Association President Ingo Kramer said that the resolutions were a "contribution rapidly leaving the crisis behind", while the German Association of Skilled Crafts (ZDH) called the package a "remarkable response to an unprecedented crisis". The president of the Ifo Institute, Clemens Fuest, also praised the package as well thought-out and balanced, while the head of the German Council of Economic Experts, Lars Feld, told the Handelsblatt newspaper that he was "pleasantly surprised".

In any case, expectations for the economic stimulus package are high, as the latest economic data from Germany continue to paint a bleak picture. German industry has recently seen orders plummet at record speed. In April, 25.8 per cent fewer orders were received than in the previous month, the Ministry of Economics announced on Friday. This marks the strongest decline since the statistics began in 1991.

In its current forecast for this year, the German Central Bank expects a 7.1 per cent decrease in economic performance. However, its outlook is now more positive, thanks in part to the economic stimulus package, the central bank announced on Friday. For 2021, the central bank's economists expect 3.2 per cent growth, and in 2022 real GDP is expected to increase by 3.8 per cent

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