https://blog.en.erste-am.com/restaurants-petrol-stations-how-do-support-measures-for-the-economy-work/

Restaurants & petrol stations: how do support measures for the economy work?

Erste AM Communications

© (c) unsplash

What has occurred over the weekend (21. – 22.03.2020)?

The markets for risky assets were in a good mood during Friday. The European stock exchanges were strongly in plus and the EuroStoxx 50 could gain 3,8%. In the USA however the mood turned after the European exchanges closed and the US leading index S&P500 lost 4,5% on Friday. US and German government bonds could see gains as they are safe havens.

The weekend was dominated by announcements of fiscal measures:

- The White House in Washington announced that it is close to an agreement about a support package with Congress. It should have a record size of USD 2 trillion, which represents ca. 10% of the GPD of the USA.
- The German finance minister Olaf Scholz announced fiscal package of ca. EUR 150 billion, to support the economy and protect it from the impact of the pandemic. With that step Germany has finally given up its balanced budget policy („black 0").

Also the steps to contain the virus is continuing globally. In the USA every fifth citizen stays at home. The states of New York, New Jersey and Illinois mandated that as many employees as possible should work from home. Spain and Italy experienced on the weekend their worst day since the pandemic started. The death cases in Spain increased by 30% and in Italy by 19%.

What will we be observing in the coming days?

We reported over the last weeks several times about monetary and fiscal measures. Today we would like to present with a simple example the way these packages work. As an example we use a small city with a restaurant, a gas station and a bank branch.

Since last week that restaurant closed. The owner of that restaurant owns the property, but took out a loan to renovate the interior of that restaurant.

Now all his revenues cease until the virus containment measures are eased. Therefore the restaurant owner cannot afford the loan instalment for next month.

That would lead to a nonperforming loan at the bank. But as the Central Bank offers funds to the bank via a liquidity package the bank can defer the instalment by a month (or if necessary even longer).

The owner of the gas station has two problems at the same time. First the oil price dropped considerably and second his customers need less gas, as they drive less with their cars due to the containment measures.

But as the government has announced an economic stimulus package the gas station owner can approach a government office for fiscal support. He can get a cheap loan or can receive payments for loss of revenue. Therefore next month he can continue to pay the salaries of his employees and the lease for the gas station.

Though that is a simple example the stimulus packages over the next months for the global economy will be decisive. We will continue to follow these packages and their impact closely.

Our dossier on coronavirus with analyses: https://blog.en.erste-am.com/dossier/coronavirus/

Legal note:

Prognoses are no reliable indicator for future performance.

Legal disclaimer

Erste AM Communications