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Coronavirus interim aid scheme: A ripple or a mighty wave?

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- Early this year, the government had to put together massive bailout and aid packages to avert an imminent economic collapse. Although the German economy has generally navigated the first phase of the coronavirus crisis with relative aplomb, public finances have suffered a setback with regard to their long-term sustainability that will continue to make itself felt for years to come – if not for an entire decade.

- The state faces a dilemma when it comes to its aid and support policies: not only does it need to respond to economic concerns and ensure short-term macro stability, it also has to keep an eye on the medium- to long-term impact on sovereign debt. Likewise, determining the right amount of aid to give is anything but trivial. While the aid packages that are tailored to big companies and their employees – especially the short-time work allowance – have played an instrumental role in stabilising the economy, the assistance measures that have been introduced for the solo self-employed and small businesses are widely considered to be virtually ineffective.

- Indeed, cash outflow from immediate assistance and temporary aid schemes has so far fallen considerably short of the expectations. There are many reasons for the hesitant utilisation of the temporary aid schemes. They range from the overly strict access rules and inflexible aid ceilings during the initial phase to high bureaucratic hurdles and effort involved with submitting an application. One major problem for many solo self-employed persons is still that the "fictitious entrepreneur's salary" is not covered by the aid programme.

- In light of November's partial lockdown, the government has now decided to further increase the payout from the interim aid schemes. Consequently, the mere ripple of support often bemoaned in this area could ultimately gather enough strength yet to become a mighty wave. The "November assistance" programme (estimated volume: EUR 15 bn) is designed to provide those affected by the early-winter lockdown with fast and targeted help. Moreover, the government intends to provide additional, substantial financing (approximately EUR 22 bn) for the renewed extension of the interim aid schemes (including "new beginning aid for solo self-employed") until the end of June 2021 as well.

- The provision of aid over the further course of the crisis is to be strictly guided by necessity, effectiveness and appropriateness. As fiscal resources are limited (the state cannot provide unlimited comprehensive cover), and as the crisis-related need for consolidation is already significant, there simply is not enough money for additional, expensive, scattershot aid packages such as temporary value-added tax cuts.

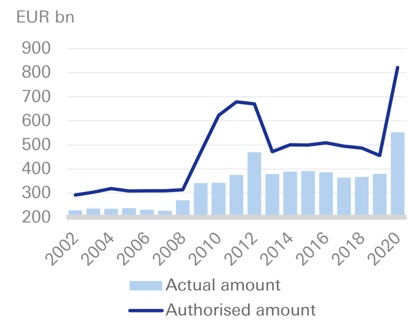
Lower-than-expected utilisation of aid packages thus far

According to the German Federal Ministry of Finance (BMF), a total of EUR 71.4 bn in coronavirus aid has been approved to date (as at November 10, 2020). The largest share is accounted for by the various liquidity aid schemes provided by the state-owned KfW development bank (EUR 45.9 bn). The second largest item of aid came in the form of emergency aid (EUR 13.8 bn), which was replaced by the interim aid schemes, followed by the Economic Stabilisation Fund's (ESF) capital measures (EUR 6.5 bn), the large-scale guarantees and guarantees of the guarantee banks (EUR 3.9 bn) and interim aid scheme I (EUR 1.3 bn), which expired at the end of August. It can therefore be concluded that the actual utilisation of these state aid measures by German companies, businesses and entrepreneurs is significantly below the maximum financial volumes or indeed the expected request volumes. This applies in particular to the emergency aid (budget funds allocated in the first supplementary budget 2020: up to EUR 50 bn) within the scope of the interim aid scheme I (budget funds in the second supplementary budget 2020: EUR 24.6 bn; largest single item in the economic stimulus package). But also the capital injections by the ESF into large enterprises, amounting to EUR 6.5 bn, have also been relatively modest so far (maximum volume: EUR 100 bn) (see figure 4).

To the contrary, corporates have very actively made demands on short time allowances (*Kurzarbeitergeld*) – including compensation of social contributions –, which is paid by the Federal Employment Agency (Bundesagentur für Arbeit; BA). Based on data by the BA, at the peak in April 2020 approximately six million persons were working short time (with the corresponding lack of work averaging almost 50%). Even though the number of short time workers has in the meantime fallen substantially again, it still remains high. The German Council of Economic Experts (Sachverständigenrat; SVR) expects the realized number of persons working short time to reach more than one million on average in 2020 (employment equivalent), which will lead to correspondingly large fiscal expenses. Already in the first ten months of 2020 (January until October) the BA's expenses on the short time scheme amounted to around EUR 19 bn (0.6% of GDP). Taken together with the expenses for unemployment benefits, this has led to a jump in the BA's expenses by EUR 22.8 bn (compared to the respective period in the previous year) (see table 1). This year the BA could post a deficit of around EUR 30 bn, according to the Deutsche Bundesbank. This would imply that the BA's financial reserves of roughly EUR 25 ½ bn (end of 2019) would be already fully depleted by the end of 2020.

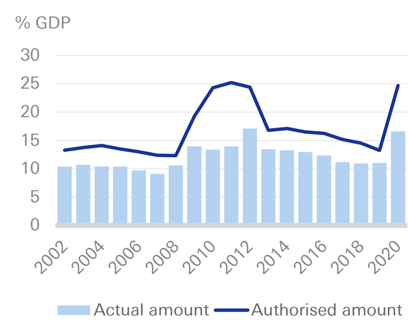
However, demand for the federal guarantee framework (under the Budget Act) has increased noticeably. The actual utilisation of federal government guarantees over the course of the crisis shot up by more than EUR 170 bn – from EUR 379.7 bn (11% of GDP) at the end of 2019 to EUR 552.6 bn (16.6% of GDP) at the end of September 2020 (see figures 1, 2, 3 and 4). A look back shows that the current increase in the number of guarantees actually utilised has risen much steeper than during the global financial crisis, both in absolute terms and in terms of economic output (see figure 3). At the same time, it should also be noted that at just under EUR 270 bn (approx. 8% of GDP) there is still plenty of room for manoeuvre until hitting the current ceiling of around EUR 821.7 bn (see figures 1 and 2). Still, even this does not appear to be an unusual development. The maximum limit was never fully utilised during the financial crisis of 2008/09 (as well as subsequent years) (see figure 1).

Figure 1: Upper federal guarantee limit was raised to more than EUR 800 bn



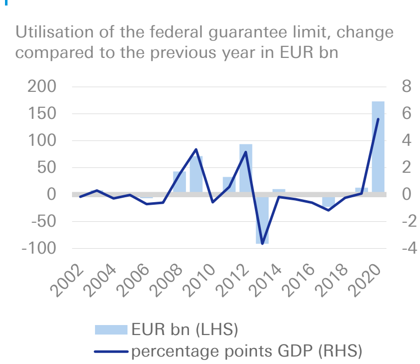
Actual amount 2020: Actual utilisation as of 30th of September 2020
Source : Federal Ministry of Finance, Deutsche Bank Research

Figure 2: Maximum federal guarantee volume (budget law) accounting for roughly 25% of Germany's GDP



Actual amount 2020: Actual utilisation as of 30th of September 2020
Source : Federal Ministry of Finance, Deutsche Bank Research

Figure 3: Increase has been more pronounced than during the global financial crisis



2020: Utilisation as of 30th of September
Source : Federal Ministry of Finance, Deutsche Bank Research

Figure 4: Overview of economic assistance in the coronavirus crisis

EUR bn

	Actual value	Maximum value or estimate
1. Aid for freelancers, self-employed individuals and enterprises		
Immediate assistance for small businesses, freelancers and the self-employed (as of November 10, 2020)	13.8	50
Temporary aid schemes I+II[2, 4] (as of November 10, 2020)	1.3 (1.5)	24.6
Exceptional financial assistance ("November assistance") (just started)		14
Temporary aid scheme III (incl. "New beginning aid for solo self-employed") (from January 1, 2021)		22
2. Federal guarantees		
Federal guarantee framework expansion (under the Budget Act)[3]	172.9	365.5
Economic Stabilisation Fund guarantees		400
3. Loans and capital measures		
KfW loans[4, 5] (as of November 10, 2020)	45.9 (~58)	
Economic Stabilisation Fund (as of November 10, 2020)	6.5	100
	January-October 2020	January-October 2019
Expenditure by the Federal Employment Agency (BA)		
Unemployment benefits and short-time work (total)	37.1	14.3
thereof: Expenditure for unemployment benefits	18.0	13.6
thereof: Expenditure for short-time work[1]	19.0	0.7
Short-time work allowance	10.9	0.5
Social security payment reimbursement	8.2	0.2

1) Including reimbursements of social security payments due thereon by the Federal Employment Agency
2) Reflects the status of interim aid scheme I (June-August 2020). Interim aid scheme II (September-December 2020) was launched on October 21. According to press reports it is estimated, however, that only a total of EUR 5 bn will need to be spent in 2020, including the current interim aid scheme II.
3) Expansion yoy. Actual value: change between December 31, 2019, and September 30, 2020
4) Approved or applied for volume (in brackets)
5) The ESF ensures the KfW's ability to issue loans by providing refinancing capacity of up to EUR 100 bn (sub-loans to KfW). The federal government guarantees KfW loans for coronavirus aid of up to EUR 150 bn.

Source : Federal Ministry of Finance, Federal Ministry for Economic Affairs and Energy, Federal Employment Agency, FAZ

Nevertheless, it should not automatically be assumed that state aid has failed to achieve its objective simply on account of the relatively low use of the aid funds (compared to the mobilised maximum values), or that it has not been received by the economy. When regarding the situation as a whole, one must take into account that the financial framework provided by the government was estimated ex ante in conditions of high uncertainty (which increases the risk of misjudgements). It also appears that policymakers chose to set the ceilings too high rather than too low for two reasons. First, no politician wants to be accused of having not acted decisively enough in a crisis. Second, the aid packages (in particular the extension of the guarantee framework) were probably set out so generously in order to increase the resulting positive psychological impact. The somewhat improved economic development may have also led to lower usage, as was the case for the reduction of many prophylactic bank loans, for example. The relatively low usage of the ESF by large enterprises may also be due to the fact that the state aid granted under this framework is subject to substantial conditionality with relatively unattractive interest rate modalities, the objective being to ensure that there is no deadweight effect and that state aid is only used in cases of absolute necessity.

The state has reacted with a patchwork of anti-crisis measures

The coronavirus crisis has hit the German economy hard, and with it its national fiscal policy. Though it has sufficient buffers at its disposal, it will soon have to contend with increasing demographic burdens. The German federal government and states were forced to put together huge rescue and aid packages for employees, companies, the self-employed, municipalities and social security institutions in next to no time so as to avert an imminent economic and financial collapse and to keep the damage to long-term growth potential to a minimum. Altogether the above measures sum up to the largest financial aid program in the history of the Federal Republic of Germany. It includes e.g. substantial financial relief with regard to short time allowances, tax relief measures (for example a temporary improvement of the depreciation allowance, an extended tax loss carry back) or subsidies as well as liquidity support for companies. In addition to the above-mentioned purely monetary measures, serious interventions in creditor protection were also undertaken to prevent a negative chain reaction of mass insolvencies, staff cuts and economic slumps. Among others, these include the extensive suspension of a company's obligation to file for insolvency (which, since October, has only been possible in the case of over-indebtedness rather than illiquidity) and the restrictions on a landlord's right to terminate a rental contract in the event of late payment by the tenant (from April to June).

So far, Germany has navigated the first phase of the COVID-19 crisis relatively well by international comparison – both in terms of the course of the pandemic and the real economic and fiscal disruptions. While the government support measures tailored to larger companies (and their employees) – above all the short-time work allowance paid by BA, as well as the capital measures of the newly created ESF – have played a major role in preventing economic collapse, the aid programmes introduced for the solo self-employed, freelancers and smaller companies (such as the emergency and interim aid schemes) are widely considered to be less effective. The actual outflow of funds within the scope of these programmes serves as proof of this fact. Even after several subsequent improvements, they are still well below the volume of aid envisaged at the outset. We will discuss the government aid measures implemented to date in the following, with a particular focus on the emergency and interim aid schemes, respectively, that have come under criticism. In doing so, we aim to highlight possible causes for the low level of utilisation to date and take a look at the further development of the aid measures that is currently in the implementation process.

The finance minister has pulled out all the stops and promised a mighty wave

While the rapid and decisive intervention of the state has quite impressively averted an economic slump, the costs of the policy are already enormous in scope. Based on estimates made by the Federal Ministry of Finance (BMF), the entirety of measures taken in connection with COVID-19, including the economic stimulus package and other priority measures undertaken by the federal government and the social security funds, are likely to result in a budgetary burden of nearly EUR 230 bn over the next two years alone (in national accounting terms) (see German Budget 2021).

In addition, there are further coronavirus-related contingent liabilities of up to EUR 650 bn (equalling 19.6% of GDP), resulting from the guarantees promised by the federal government (approx. EUR 180 bn/5.4%),[1] the ESF (EUR 400 bn/6.1%) and the federal states (approx. EUR 70 bn/2.1%). Moreover, there are additional contingent liabilities which could arise from the unlimited provision of liquidity for businesses and companies via the federal guarantee framework (volume: roughly EUR 822 bn or 24.6% of GDP).[2] This concerns, among other things, the guarantees assumed by the federal government in association with the special KfW programme, the activities of the guarantee banks or certain guarantee programmes (large-scale guarantees). Further budgetary burdens may also arise if the state has to write off public loans and equity interest (ESF, federal states) (e.g. in the event of insolvency of supported companies). The ESF alone can inject up to EUR 100 bn (3% of GDP) of capital into failing large enterprises.[3] Even though the (real) economic slump this year is likely to be less severe than initially feared, German public finances have been set back by many years, if not an entire decade, in terms of their medium- to long-term sustainability. The German debt ratio is expected to rise from below 60% to above 70% of GDP. In the medium term, demographic change will have a significant negative impact on public finances. German taxpayers will also be expected to shoulder the financial burdens associated with the EU reconstruction fund in the medium term (which are not reflected in the expected increase in the national debt ratio[4]).

Despite the fiscal fireworks, many self-employed point to insufficient aid

The government's decisive action and the sheer volume of financial resources mobilised highlight that both the will to alleviate the coronavirus crisis and the necessary financial strength of the state to do so are present. However, although the state has set off what can only be described as a fiscal firework – with many of the crisis prevention measures since extended and/or even expanded – there are still many self-employed people and companies in the worst-hit sectors (hotels, restaurants, tourism, leisure and events) who consider the state aid to be too restrictive. Their current criticism is mainly directed at the interim aid scheme that came out of the emergency aid. Within this context, critique is often aimed at the subsidies paid to companies, which are seen as being far too limited, with the granting of aid being subject to overly strict conditions. The high bureaucratic hurdles have also been criticised. The programme is structured in such a way so as to ensure that funds are allocated in a targeted manner while minimising misuse of funds. To do so, aid applications must be submitted through a tax adviser, accountant or sworn auditor. For micro-enterprises, in particular, the associated administrative costs are likely to constitute a major hurdle.

At the beginning of September, the German Hotel and Restaurant Association (DEHOGA), among others, warned of a wave of bankruptcies, called for improvements in the temporary aid scheme and called for further state measures

1 The federal government guarantees both the loans granted by the state-owned KfW development bank for coronavirus aid schemes (volume up to EUR 150 bn) and any compensation for commercial loan insurers (maximum EUR 30 bn).
2 The upper limit of the guarantee framework was raised significantly by approximately EUR 357 bn (10.7% of GDP) to EUR 821.7 bn (24.6% of GDP) in the first supplementary budget for 2020. According to the Federal Ministry of Finance (October 2020 monthly report), the framework was allocated EUR 552.6 bn (16.6% of GDP) as of September 30, 2020, which represents a considerable increase of some EUR 172.9 bn (5.2% of GDP) compared to the end of 2019.
3 In addition, the ESF can obtain EUR 100 bn on the capital market to pass on to the KfW as sub-loans to allow the KfW to refinance the special coronavirus aid programme.
4 The EUR 750 bn EU reconstruction fund (financed through EU debt) subsidises, among other things,

to shore up ailing businesses.[5] According to DEHOGA, the hotel and restaurant industry still faces major difficulties: revenue lost by restaurant and hotel owners amounted to EUR 17.6 bn in the period from March to June alone (according to a more recent survey, revenue fell by 55.8% between March and August). The association also underlines that this has resulted in more than 60% of catering and hotel businesses fearing for their economic survival. Another survey of 5,600 restaurant and hotel owners conducted by DEHOGA at the beginning of September was cause for concern, with just under 65% of the businesses stating that the liquidity support and loan programmes offered by the state were not sufficient to secure their existence. The businesses also complained about the bureaucratic application process, the delayed payments and the insufficient amount of subsidies. Although the association welcomed the extension of the interim aid scheme until the end of 2020, it stressed that this alone would not be enough. Rather, some essential elements of the aid programme need to be improved (e.g. reimbursable costs or eligible applicants).

While the short-time work allowance is a universally recognised, crisis-tested and highly effective support mechanism for millions of workers (and their employers), the newly created ESF has also saved some large enterprises from insolvency, both directly through capital measures and indirectly through its enormous positive psychological impact. The ESF also has the advantage of being able to draw on the experience of the Financial Market Stabilisation Fund (SoFFin), which was set up during the global financial crisis. As concerns the emergency and interim aid schemes – which play a central role in the current crisis in securing the livelihoods of the self-employed, small businesses and freelancers – the government was more or less forced to head into uncharted territory.

Searching for the right amounts: conflicting objectives and the trial and error principle

“Appropriate” economic aid that is capable of securing livelihoods essentially depends on the fixed costs of a company’s operations (rents, leases, interest expenses for loans, expenses for necessary maintenance, etc.). Fixed costs, which are fairly hard to reduce, lead directly and inevitably to losses for companies in lockdown. However, this effect can vary greatly from sector to sector. Businesses with higher fixed costs need significantly higher levels of state support to secure their existence than businesses with mostly variable costs. From a company perspective, it comes down to at least partially offsetting unavoidable losses in order to financially survive the lockdown phase. From the state’s perspective, the objective is to secure the economic viability of companies in need by no fault of their own through grants in the short term.

This confronts the state with a dilemma: not only does it need to respond to economic concerns and ensure short-term macro stability, it also has to keep an eye on the interests of taxpayers and contributors, as well as the medium- to long-term

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non-repayable grants totalling EUR 390 bn that flow to the EU member states (national grant amount dependent on select criteria). In addition, the fund also has a total volume of EUR 360 bn at its disposal that can be used as loans to member states as needed (up to 6.8% of national GNI). Redemption of the associated EU debt is to begin in 2028 at the latest and be completed by the end of 2058. Repayment is to be made, among other things, through new EU revenue sources (such as a digital tax, a CO_2 border tax or a financial transaction tax). In the event of a shortfall, however, the (national) contributions to the EU budget would have to be increased and/or expenditures would have to be reduced.

5 See press release from September 8, 2020: „DEHOGA zieht Corona-Zwischenbilanz: Gastgewerbe weiterhin in großer Not“.

impact on sovereign debt. After all, the sharp rise in government spending and debt during the pandemic has to be reduced after the crisis in order to rebuild the fiscal buffers for the next crisis. In terms of the emergency and interim aid schemes, this means that the state cannot provide unlimited comprehensive cover. A full reimbursement of the loss of revenue suffered on account of coronavirus would overburden it financially. What the state should do, however, is to offer companies that are facing existence-threatening situations through no fault of their own emergency aid for the duration of the pandemic or the associated economic restrictions. The right amount in this case is a matter for debate. Similarly, their determination – for instance, with regard to the amount of eligible operating costs or the maximum amount of support – is anything but trivial. Ultimately, the state was also taken by surprise by this pandemic and had to cobble together its rescue packages in a very short amount of time and under great macroeconomic uncertainty.

Coronavirus aid in transition: from emergency to interim aid schemes

The emergency aid scheme concluded at the end of March 2020 initially supported exclusively the solo self-employed, freelancers and smaller companies (with up to ten employees). The aid applied across all sectors and was granted in the form of non-repayable grants to cover fixed costs. All applicants had to do was assure that they were in a business situation that threatened their livelihood through no fault of their own (i.e. due to the coronavirus pandemic). Grants could be applied for until the end of May 2020 for a funding period of three months. The one-off grants were limited to a maximum amount of EUR 9,000 or EUR 15,000 (companies with up to five or ten employees, respectively), so that the monthly grant paid out could not exceed EUR 3,000 or EUR 5,000, depending on the size of the company.[6] Due to this payment cap possibly being too tight, the aid money may have been almost entirely used in many cases to pay rents, with the effect that landlords were largely shielded from the consequences of the crisis, but not the companies. Within this context, a survey of some 400 hotel owners conducted by DEHOGA in October 2020 offers interesting insights. Around 40% of those questioned stated that their landlords had shown no concessions in terms of rent payments during the crisis. The Green faction in parliament therefore also criticised the programme as "sham aid" (see Frankfurter Allgemeine Zeitung dated November 6, 2020).

Another point of criticism related to the fact that solo self-employed received grants but not their "(fictitious) entrepreneur's salary", or *fiktiver Unternehmerlohn*. Since solo self-employed persons (unlike employees subject to social insurance contributions) do not receive short-time work allowance – even if they pay into the unemployment insurance system – many of them abruptly fell back to the basic social security level.[7] The level of aid here was indeed fairly modest when compared to the millions of short-time workers, whose short-time work allowance entitlements have been raised to up to 80% (workers without children) or 87% (workers with children) of their net income later in the period of entitlement. Further criticism of the aid measures came from German SMEs. While small businesses and self-employed persons received the emergency aid and large enterprises are

6 Applicants were able to submit requests for emergency aid until May 31, 2020. Many federal states topped up the federal subsidies with their own state programmes.
7 Instead, self-employed persons were granted easier access to basic welfare so that they could cover their living and accommodation costs. At the same time, the customary assets audit was dispensed with.

able to count on financial aid from the ESF,[8] SMEs initially had to close their liquidity gaps exclusively through the reduction of their own financial reserves and/or by means of state-granted loans and/or guarantees. However, some federal states (such as Baden-Württemberg[9] have closed this gap by means of their own support programmes. The federal government has now also closed this SME gap by opening up emergency aid, which has been further developed into interim aid, to practically all companies.[10] In addition, the temporary aid scheme was accompanied by an expansion of the eligible cost catalogue.[11] Being able to depict the whole spectrum of fixed costs allows for sector-specific differences to be taken into account more effectively when aid is granted.

Link to revenue loss is correct in principle, but strict access requirements and rigid aid ceilings problematic

In order to target the most severely affected companies, the interim aid scheme was linked to the actual loss of revenue, both in terms of access requirements for said aid and the amount of aid paid out. More specifically, the aid was only paid out to those companies that could demonstrate an average drop in revenue of at least 60% between April and May 2020 (as compared to the period between April and May 2019). The amount of aid was then based on the actual decline in turnover. For example, in the case of a year-on-year decline of 70% or more in June, up to 80% of the eligible costs were reimbursed. In the case of revenue losses of 50% to 70% or 40% to 50%, respectively, the compensation payments ultimately totalled up to 50% or 40% of the eligible costs, respectively. Furthermore, the aid was capped at EUR 50,000 per month and business, or a total of EUR 150,000. Exceptions were granted only in a few justified cases.[12] For micro-enterprises with up to five (or ten) employees, the maximum possible reimbursement amounts were initially capped at EUR 9,000 (or EUR 15,000) per month, similar to the levels of the emergency aid.

While the initial focal point was welcomed by taxpayers, its actual design and implementation (access requirements, aid ceilings) turned out to be more problematic. The overly rigid access requirements ultimately resulted in unequal treatment of companies (with potentially harmful distortions of competition). While those companies that were able to meet the access conditions received interim aid, all other companies were left completely empty-handed. A large number of companies that only narrowly fell short of the eligibility threshold therefore received no aid whatsoever despite seeing an equally serious threat to their economic viability. Already in July we viewed this extremely strict access threshold to be quite problematic (see Focus Germany: Sounding out the Q2 GDP slump). In hindsight, it probably would have been wiser not to set up such a rigid access threshold, as the amount of the operational grants paid individually to the companies was already geared towards their (percentage-based) decline in revenue. Accordingly, the German Council of Economic Experts (SVR) notes that such a rigid access threshold

8 This is explicitly aimed at large enterprises. At least two of the three criteria must be met: (1) The balance sheet total must amount to at least EUR 43 m, (2) revenue must amount to at least EUR 50 m and/or (3) the company employs an annual average of more than 249 employees.

9 The state has set up an Equity fund for SMEs (Beteiligungsfonds für kleine und mittlere Unternehmen), which expressly provides for equity stakes for SMEs (50 to 250 employees, revenue of max. EUR 50 m, annual balance sheet total of max. EUR 43 m).

10 All companies – regardless of their legal form – are now eligible for the interim aid scheme as long as they do not qualify for aid from the ESF and their annual turnover does not exceed EUR 750 m.

11 For instance, in the form of a flat-rate reimbursement of 10% of eligible costs to take account of personnel costs not covered by short-time work allowances. The tourism sector saw a similar approach, with commissions to be refunded on account of cancelled trips which had not yet been paid also being

leads to companies whose declines in revenue fall just below the threshold being treated differently than companies whose declines in revenue were just above the threshold. The SVR argues that companies which were hit by coronavirus could have been given more targeted assistance by linking the amount of the individualised company grants to the average decline in revenue of the sector – through the implementation of sliding zones, and without fixed limits.[13]

Similarly, as in the case of emergency aid, compensation for lost entrepreneur's salary has still not been paid out, presenting a significant problem for a large number of self-employed workers. The interim aid schemes therefore do not really help many solo self-employed (see also the SVR annual report), who account for at least 4.6% of the workforce in Germany (as of 2019), because their entrepreneur's salary is not covered, and because most solo self-employed persons have only low (eligible) fixed costs. Moreover, the administrative effort involved in submitting an application (e.g. costs for the tax consultant, time) is in many cases disproportionate to the size of the grant they can expect. In this context, the head of the Association of Founders and Entrepreneurs Germany (Verband der Gründer und Selbstständigen in Deutschland), Andreas Lutz, pointed out that for about 80% of the solo self-employed, an application for aid would not make any fiscal sense, as filing for the application through a tax adviser often costs more than what would subsequently be received in aid payments.[14] Another problem is the amount of time and the high workload of the tax consultants required for the application. The German Association of Tax Advisers (Deutscher Steuerberaterverband) has drawn attention to the fact that the amount of work caused by coronavirus by far exceeds the processing capacities of the industry, and combined this insight with the demand to remove bureaucratic obstacles.

As a result, many solo self-employed are still likely to receive significantly less state support than larger companies and their employees, for example. This is because the latter are likely to benefit to a greater extent from interim aid schemes on account of the relatively high proportion of fixed costs, as well as receiving substantial amounts of aid for short-time work allowances.

Interim aid scheme still seems to be severely hampered

Whatever the driving factors are for the lower utilisation, most taxpayers will be happy to see that large amounts of the state funds have remained unused (provided that they are not subsequently misappropriated). This puts the state in the fortunate position of being able to increase and/or extend the financial support in the second wave of the pandemic and in the event of a double dip recession, respectively. However, what is critical is that the situation of the sectors damaged by coronavirus has worsened considerably again with the second wave, while the outflow of funds for emergency and interim aid is still lagging enormously.

An analysis by the Federal Ministry of Finance shows that around 80% of the emergency aid applications had been approved by the end of June (see July 2020

taken into account.

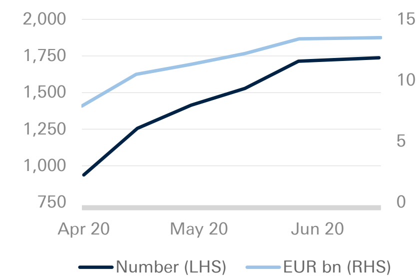
12 This amount could only be exceeded in justified, exceptional cases, for example if the temporary aid calculated on the basis of the eligible fixed costs would have been at least twice as high as the maximum amount.

13 See the 2020/21 annual report of the German Council of Economic Experts: "Corona-Krise gemeinsam bewältigen, Resilienz und Wachstum stärken". p. 98 ff.

14 See interview in Handelsblatt dated July 29, 2020.

monthly report)[15] (see figure 5). Most outflows of funds occurred in March and April, indicating that emergency aid most likely arrived swiftly during the height of the crisis phase. Likewise, aid was relatively well targeted to the most affected sectors of the economy, such as the services sector (approx. EUR 10 bn or 75% of the emergency aid approved) (see figure 6). On the other hand, the significant slowdown in the outflow of funds in May and June may have been attributable to the decreasing number of (vulnerable) companies that were eligible to apply due to the high barriers to accessing funds rather than just economic recovery (staggered payments in accordance with actual decline in revenue). With an actual outflow of funds of only EUR 1.3 bn, "interim aid scheme I" has also only used a small fraction of the total programme volume of just under EUR 25 bn thus far (see figure 4).

Figure 5: Emergency help: Approved applications and financial volume



Source : Federal Ministry of Finance

Figure 6: Approved immediate assistance by sector

	EUR bn	% share
Total	**13.5**	**100.0**
Services (total)	**10.1**	**74.7**
Other services	2.5	18.3
Hospitality	1.6	11.9
Freelance, scientific and technical services	1.6	11.9
Trade (incl. vehicle repairs and maintenance)	1.6	11.6
Other business services	0.6	4.8
Art, entertainment and recreation	0.6	4.7
Health and social services	0.6	4.4
Manufacturing	**0.9**	**6.3**
Construction	**0.9**	**6.5**
Agriculture, forestry and fishing	**0.1**	**1.0**
Mining, extraction of stones and soil	**0.0**	**0.0**
Energy supply	**0.0**	**0.1**
Water supply, waste-water and waste disposal and pollutant clean-up	**0.0**	**0.1**
Other	**1.5**	**11.1**

Source : Federal Ministry of Finance, Deutsche Bank Research

The dose has to be selectively increased to ensure the interim aid scheme ripple turns into an actual wave

Although the government has softened many of the requirements for temporary aid scheme II (access requirements, reimbursement rates), which was launched in September, the aid still does not seem to have reached the required level.[16] Similarly, policymakers have still not been able to bring themselves to agree on the reimbursement of entrepreneur's salaries for the self-employed. Even the relatively low aid caps have either not been adjusted or only slightly.[17] Now the subject of political implementation process, temporary aid scheme III (from January until end-June 2021) seems to include a further easing of restrictions, which seems unavoidable in view of the current partial lockdown and its effects. The renewed extension of the interim aid scheme should go along with significant improvements for solo self-employed as well as the cultural, event and tourism industries. For example, the monthly aid ceiling per company is to be quadrupled from EUR 50,000

15 See article "From emergency to temporary aid: stabilisation measures for solo self-employed and SMEs".

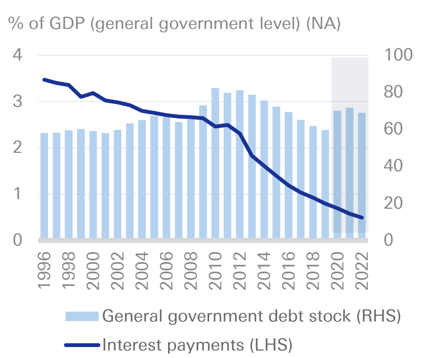
16 In the case of temporary aid scheme II, businesses are now already eligible to apply for aid if they have recorded year-on-year declines in revenue of at least 50% (based on two consecutive months between April and August 2020) or if there is an average year-on-year decline in turnover of at least 30% (based on the period between April and August). Likewise, cost reimbursements of up to 90% of eligible fixed costs are now possible (previously only up to a maximum of 80%).

17 Though the caps for smaller businesses (EUR 9,000 and EUR 15,000, respectively) have been abolished, the standard grant amount remains limited to a maximum of EUR 50,000 per month and applicant. Higher subsidy rates are only paid in exceptional cases under interim aid scheme II, for example if entire industries come to a standstill (such as event promoters or the exhibition industry).

to a maximum of EUR 200,000, which should lead to significantly greater outflows of funds.

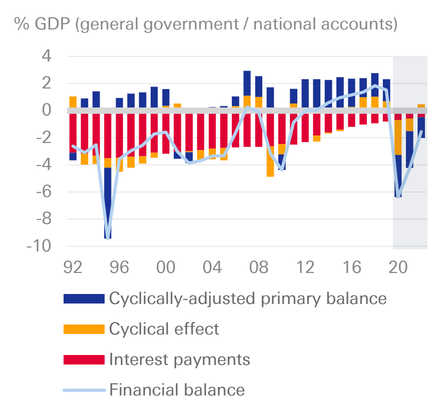
The government also plans to provide exceptional financial assistance ("November assistance") to those sectors of the economy directly and indirectly[18] affected by the partial lockdown in November. Specifically, it intends to reimburse 75% of the average weekly revenue in November (based on November 2019 figures) through a one-off cost lump sum. Solo self-employed with strongly fluctuating revenue may also use the average weekly revenue of the previous year for their calculation. The financial volume of the "November assistance" is estimated to amount to around EUR 15 bn (see Monthly Report by the Federal Ministry of Finance as of November 2020). As with the previous interim aid schemes, applications must be submitted through a tax consultant, auditor, sworn auditor or lawyer. However, in order to at least reduce the bureaucratic burden for micro-enterprises, solo self-employed who are not expected to receive more than EUR 5,000 in subsidies are now exempt from this obligation. In addition, there is to be a one-off "New beginning aid for solo self-employed" in the first half of 2021. This programme, designed as part of temporary aid scheme III, is intended to replace 25% of lost revenue and is limited to EUR 5,000. It should be paid as a lump sum to cover operating expenses. In total, the fiscal costs for the new interim aid programme (including "New beginning aid") are estimated to amount around EUR 22 bn (approx. 0.6% of GDP in 2021). This lump sum of costs is to be financed mainly from the unspent EUR 24.6 bn budget for the interim aid schemes. Against the background of the as yet stagnating outflow of funds, it seems that only EUR 5 bn in interim aid (excluding "November assistance") will be paid out this year, according to press reports.

Figure 7: Debt ratio set to spike sharply in 2020



Source : WEFA, Destatis, Eurostat, Deutsche Bank Research

Figure 8: Budget outlook 2020-22



Source : Federal Statistical Office, AMECO, OECD, Federal Ministry of Finance, Deutsche Bank Research

Nevertheless, the turnaround undertaken by the government should ultimately help to ensure that the outflow of interim aid funds is faster and more substantial in the future – something that is also sorely needed. The worsening of infection rates has once again darkened the outlook for the economy. Despite the brief recovery experienced in summer, many companies have used up their financial reserves and

18 Indirectly affected companies are, however, only eligible to apply if they can demonstrate that they regularly and provably generated 80% of their revenue through companies directly affected by the lockdown measures.

are coming under increasing financial pressure. It is therefore both correct and inevitable that the government should extend its stabilisation measures in the area of interim aid schemes. In order to prevent mass insolvencies and keep the economic damage during the winter months to a minimum, the promised aid must flow out quickly and without too much red tape. In other words, also in the area of interim aid the ripple needs to be turned into a mighty wave! However, due to the foreseeable high financial burdens caused by the coronavirus crisis, not everyone who raises their hands for more aid need necessarily receive more aid from the state. After all, the state cannot provide unlimited comprehensive cover, as its fiscal resources are also finite. A look at the current fiscal and debt trends highlights this issue. In 2020 alone, the debt ratio is expected to rise from below 60% at the end of 2019 to over 70% by the end of the year, meaning that a large part of the fiscal buffer built up over the past decade would dissipate within only one year (see figure 7).

The public deficit should amount to more than 6% of GDP in 2020 and still remain above 4% in 2021 (see figure 8). In the medium term the government is confronted with significant consolidation needs as the budgetary relief from sharply declining interest payment will gradually peter out. Moreover fiscal pressure from adverse demographics will intensify.

Aid spending should therefore be strictly based on necessity, targeting and adequacy, even during the further course of the crisis. After all, there will be no money left in the future for additional expensive, scattershot aid measures (such as the reduction in value-added tax) which also benefit sectors of the economy such as online retail that have been affected hardly or not at all by the crisis.

Appendix 1

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