Angela Merkel's €130-Billion COVID Bailout - Germany

Why in news?

Germany's governing coalition agreed on a €130 billion stimulus package to help relaunch the country's economy.

What is the COVID-19-led economic impact?

- Like many other economies, Germany has taken a heavy hit from the COVID-19 pandemic.
- Germany started lifting the restrictions on 20 April 2020 after about a month of lockdown.
- Compared to other countries, this was relatively short.
- Nevertheless, the country's economy still went into recession in the first quarter of 2020.
- The downturn is expected to deepen in the current quarter.
- In May 2020, unemployment rose from 5.8% to 6.3%.
- This is despite the government program to allow companies to cut back the hours and salaries of more than 7 million employees in return for keeping them on.
- It has been a point of pride for Merkel's government for keeping the budget balanced for 6 years.
- But the crisis has forced authorities to borrow €156 billion to finance the existing rescue packages and cover an expected decrease in tax revenue.
- However, Germany can afford to increase government spending, having been financially prudent in recent years.

What is the stimulus package all about?

- The package is titled 'Fighting the corona pandemic, sustaining prosperity, strengthening future potential.'
- It addresses 57 areas with a budget ceiling of €130 billion.
- These have been bundled into three broader areas:

1. economic crisis management
2. developing potential segments
3. a commitment to honour EU duties and obligations

- The stimulus package will essentially -

i. boost consumer spending
ii. invest in innovation
iii. ease the financial strain on German families and citizens

What are the key features?

- The package included a temporary reduction of the value added tax from 19% to 16% starting July 2020 with an aim to support poorer consumers.
- With this measure, the German government foregoes €20 billion in tax income.
- But it hopes to accelerate consumption in rural and urban areas.
- €8 billion have been allotted to support families with children, with more support for single parents.
- Of this, one measure is a one-time payout of €300 per child.
- Municipalities in debt are to receive financial aid from the federal government.
- Trade tax losses of local governments amounting to €15 billion are to be financed by the central and state governments.
- Overall, they stand to benefit from an allocation of €25 billion for infrastructure, socio-economic and energy sectors.
- For the first time, the local health sector has received funding attention.
- A programme, budgeted at €2 billion, specifies plans for expanding hospital capacities, installing digital infrastructure, telemedicine and robotic investments.

- Climate change and clean energy were prioritised with an allocation of more than €20 billion to -
    i. strengthen e-mobility capacities for battery production
    ii. setting up of charging stations
    iii. incentives to shift small and medium enterprises from diesel to e-vehicles
- Train, shipping and airway networks are to receive modernisation and clean-energies funding of more than €15 billion.
- The funding of onshore and offshore hydropower technology strategies were laid out in detail.
- It includes ambitious goals of up to 5 GW capacity to be set up by 2030.
- For this purpose, Germany aims to cooperate with African countries that are rich in water resources.

- Besides this, the government will -
    i. extend aid to sectors that have been particularly badly hit by the pandemic
    ii. increase financial incentives for electric and hybrid vehicles

iii. fund the expansion of childcare facilities

- There will also be greater government investments in areas such as renewable energy storage, quantum computing and digitalisation.
- Notably, Germany is already offering a total of more than €1 trillion in aid via various packages which include -
  i. money to tide small companies and individual entrepreneurs through virus-related closures
  ii. pumping capital into bigger companies where needed

What is the significance?

- Germany is a country that has been slow in adopting new technologies.
- This has placed it in a disadvantageous competitive position, when compared to other developed and developing economies.
- Ground realities of production and employment losses have now showed the inevitability of globalisation comprising goods, capital and labour mobility.
- In this backdrop, the current stimulus package has been comprehensive.
- It covers everything from artificial intelligence and smart city solutions to pensions and student payouts, leaving out no socio-economic area.
- German government's post-pandemic economic stimulus program has thus definitely restored faith of its citizens in its systems.

Source: BusinessLine, Euronews

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