



# German Government Measures for SME Exporters in Times of COVID-19 Crisis

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IfTI Working Paper 9(2020)



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## Abstract and Policy Implications

*The COVID-19 pandemic has the global economy under control. This paper deals with the economic consequences in Germany and shows the measures taken by the German government to support especially small and medium-sized export companies. The structure of the German economy and foreign trade promotion are explained as a basis. After considering the government's support measures, an evaluation of country comparisons shows that there is still potential for further measures, especially in direct lending and debt moratorium. The analysis is based on quantitative data from surveys and qualitative results from interviews with relevant ministries and market participants as well as recent publications.*

## 1. Introduction

In times of the COVID-19 pandemic, global production shutdowns, quarantine and security measures, as well as home office and home schooling have triggered a demand and supply shock. Global supply chains have been interrupted and due to the generally high complexity of German products there are no alternative suppliers available at short notice (Bofinger et al., 2020).

According to the Robert Koch Institute's report of 22 June 2020, the number of infections in Germany develops positively. After the number of infected persons had reached its peak between mid-March and mid-April, it is now steadily decreasing. In total, 4.7 % of the 190,359 infected persons died because of the virus infection.

While the pandemic is gradually calming down in Germany, the impact on the German economy becomes increasingly apparent. As the world's third largest exporting country (Statista, 2020a), the German economy is severely affected by this global crisis. Therefore, especially export companies are concerned. Approximately 97 % of these are small and medium-sized enterprises (SME) (Federal Association of SMEs Entrepreneurial Association of Germany, BVMW, n.d.), which typically have only small financial reserves. They also find it difficult to obtain loans from banks due to small transaction volumes (World Trade Organization, WTO, 2020). Therefore, German SME exporters face liquidity problems which they cannot compensate without financial support. It is the duty of the German government to formulate aid measures that will prevent an economic crisis with long-term effects. Above all, it is important to bridge the liquidity bottlenecks of SMEs in the short term (Bofinger et al., 2020).

The aim of this paper is to analyse which measures have been taken by the German government to support SME exporters and if there is still potential for further measures. First, the structure of the German economy and the foreign trade promotion will be examined. Next, it will be analysed how the COVID-19 crisis affects the German economy and German SME



exporters. The quantitative basis for this is provided primarily by surveys conducted by h&z Unternehmensberatung AG and the Association of German Chambers of Industry and Commerce (DIHK). Using current publications and interviews with the Federal Ministry of Economics and Energy (BMWi), the Federal Ministry of Finance (BMF) and the Euler Hermes AG, the measures taken are outlined. Finally, based on comparisons with other countries, it will be evaluated whether there is still potential for further measures.

## **2. The German Economy and Foreign Trade Promotion**

In the global ranking of exporting countries, Germany ranks in third position following China and the United States (Statista, 2020a). In 2019, Germany exported goods to a value of 1327.6 billion euros (destatis, 2020a; Observatory of Economic Complexity, OEC, 2020). In the same year, the United States (118.7 billion euros), France (106.8 billion euros) and China (96.0 billion euros) were the most important importers of German goods (destatis, 2020b; OEC, 2020). Overall, Germany was able to generate an export surplus of 223.6 billion euros (destatis, 2020a). While Germany achieved the highest export surpluses in 2019 with countries such as the United States or France, foreign trade with China showed an import surplus of 13.7 billion euros (destatis, 2020b). This is of special interest because China, which is considered the country of origins of the SARS-CoV-2 virus, has been Germany's most important trading partner for the past four years (destatis, 2020c).

SMEs are essential for the German economy. 3.5 million companies are classified as SMEs which represent 99.5 % of all companies (OECD, 2019; BVMW, n.d.). 34.4 % of the total turnover of companies in Germany is generated by SMEs (Science Information Service, IDW, 2020). They account for 97.1 % of German exporting companies (BVMW, n.d.).

As a consequence of the great significance of foreign trade in Germany, several instruments were implicated, targeting promotion of international competitiveness and internationalisation (German Federal Credit Institute for Reconstruction - Bank for International Project and Export Financing, KfW IPEX-Bank, n.d.). Those trade promoting instruments mainly focus on supporting German SMEs. The fact that about 1,300 German SMEs are world market leaders in their field as well as the contribution of SMEs to innovative foreign trade justify this prioritisation (Bischoff & Klasen, 2012; BMWi, n.d.a).

To provide these instruments, Germany either offers support through trade policy measures or awards statutory mandatories. Trade policy measures mainly involve the provision and processing of information on market conditions and entry barriers or advice on the legal situation in the particular foreign country. SMEs are also supported in the organisation of trade fairs abroad. Information and support can also be provided via the 140 foreign chambers of commerce in 92 countries or via the Germany Trade and Invest Programme (BMWi, n.d.b). Evaluations show that especially consultancy services are in great demand among SMEs (Euler Hermes, 2020a).

Statutory mandatories are awarded in financing and insurance of foreign business transactions to protect exporters and banks from political or economic default. This section is divided into four parts: Export and investment finance, export credit guarantees, investment guarantees

and untied loans (BMW, n.d.c). The focus of this section is on export credit guarantees, as they are relevant for the current crisis management.

Export and project finance are provided by the KfW IPEX-Bank, and the Export Credit Action Company (AKA-Bank). Support in foreign direct investments is granted by the German Investment and Development Corporation (DEG). Their legal mission is to enable transactions with developing and emerging markets (BMW, n.d.c). However, the federal government does not offer direct lending, which is often criticized by the economy and by associations (Klasen, 2020).

In export credit guarantees the mandatory is held by the Euler Hermes AG which is also the largest private credit insurer in Germany. The German export credit guarantees are also known as Hermesdeckungen (Euler Hermes, 2020a; Handelsblatt, 2020; Van der Veer, 2014). It is estimated that about 15 % of German exports are insured by private export credit insurers. Meanwhile, 1.6 % were covered by Hermesdeckungen in 2019. In fact, this means, that goods and services worth 21 billion euros were covered for exports to 154 countries (Euler Hermes, 2020a; General Association of German Insurance Industry, GDV, 2020).

Eligibility for promotion and the existence of an acceptable risk are conditions for the granting of cover (Euler Hermes, 2020a; Moser, Nestmann & Wedow, 2008). To avoid distortion of competition, Hermesdeckungen will only be granted in the event of market failures where there is no sufficient supply of insurance on the private market. Due to so-called non-marketable risks, such gaps exist above all in foreign transactions with developing and emerging countries, long credit periods, or low transaction values, as is often the case with SMEs (Klasen, 2020; Bischoff & Klasen, 2012; BMW, n.d.c; Euler Hermes, n.d.a). The application of a risk-adequate premium functions as further mean to avoid distortion of competition. As Germany is member of the Organisation for Economic Co-operation and Development (OECD) all those regulations must agree with the OECD consensus (Euler Hermes, 2020a; Felbermayr & Yalcin, 2013; BMW, n.d.c). Accordingly, 74.7 % of the covered transactions were contracts with developing and emerging countries (Euler Hermes, 2020a).

For SME exporters, Hermesdeckungen are essential because they promote their export performance (Heiland & Yalcin, 2015) and aim to create equal opportunities in international competition. Support is provided with building up a market position even in high-risk markets and maintaining this position when the risk situation changes (Euler Hermes, 2020b). The relevance of Hermesdeckungen for SMEs is shown by considering that 77.9 % of the cover applications in 2019 were submitted by SMEs (Euler Hermes, 2020a).

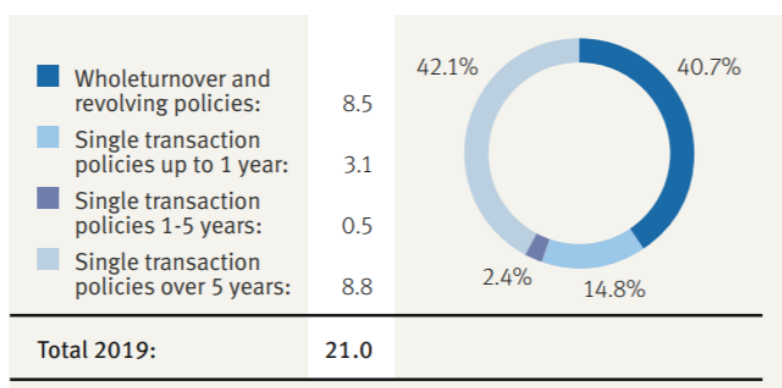
The product range of the public export credit guarantee scheme can be divided into two broad areas: supplier credit and buyer credit. With supplier credit, the exporter insures himself directly with the Federal government and can thus grant his customer a credit with a longer maturity. In the case of buyer credit, a bank is intermediated. This bank offers the foreign customer a loan, pays the supplier the order value directly after delivery of the goods and insures its risk with the Federal government (Moser, Nestmann & Wedow, 2008; Euler Hermes, n.d.a, b).

Insurance can be chosen for the periods before, e.g. with Manufacturing Cover, or after the shipment of goods, i.e. with Supplier or Buyer Credit Cover (Bischoff & Klasen, 2012; Euler Hermes, n.d.c). For exporters and banks, single cover, revolving cover for regular business

with the same buyer in a specific country and wholeturnover policies for exports to different customers in different countries are granted (Felbermayr & Yalcin, 2013; Euler Hermes, n.d.c). Regarding the government measures in times of COVID-19, it is important to note that revolving cover and single policies can in principle not be issued for exports to the European Union (EU) or OECD member states (Euler Hermes, n.d.c-e).

As shown in Figure 1, in 2019 mainly single policies with a maturity of more than 5 years and wholeturnover policies were issued. These were primarily taken up by the transport, infrastructure, and energy sectors (Euler Hermes, 2020a).

**Figure 1: Newly covered exports by horizon of risk in %**



Source: Euler Hermes, 2020a: p. 46.

The third area in the financing and coverage of foreign transactions are investment guarantees. Direct investments of German enterprises in developing and emerging countries are covered. They contribute to the promotion of the economy at home and abroad as well as to the preservation and creation of jobs. The investment guarantees of the German government protect the enterprises against political risks such as nationalization and expropriation. The auditing firm PricewaterhouseCoopers GmbH is appointed as mandatary for the administration and granting of investment guarantees (BMW, n.d.c; Investitions Garantien, n.d.).

In section four, the Federal government grants untied financial loans primarily to companies that conduct foreign business in the raw materials sector. A major reason for this is the high dependence of Germany on foreign raw materials. The loans are hedged against political and economic risks and are intended to facilitate access to raw materials abroad and secure this access for the future. Euler Hermes AG is also appointed as mandatary in this area. In 2019, around 660 million euros of untied financial loans were granted (Euler Hermes, 2020a; BMW, n.d.c).

### 3. Analytical Framework

Qualitative and quantitative data were collected and evaluated to work on the research topic. The explanations include data up to the publication date of 22 June 2020.

To learn more about the current measures of the German government to support export companies, three semi-structured interviews were conducted with members of the BMW, the BMF and Euler Hermes AG.

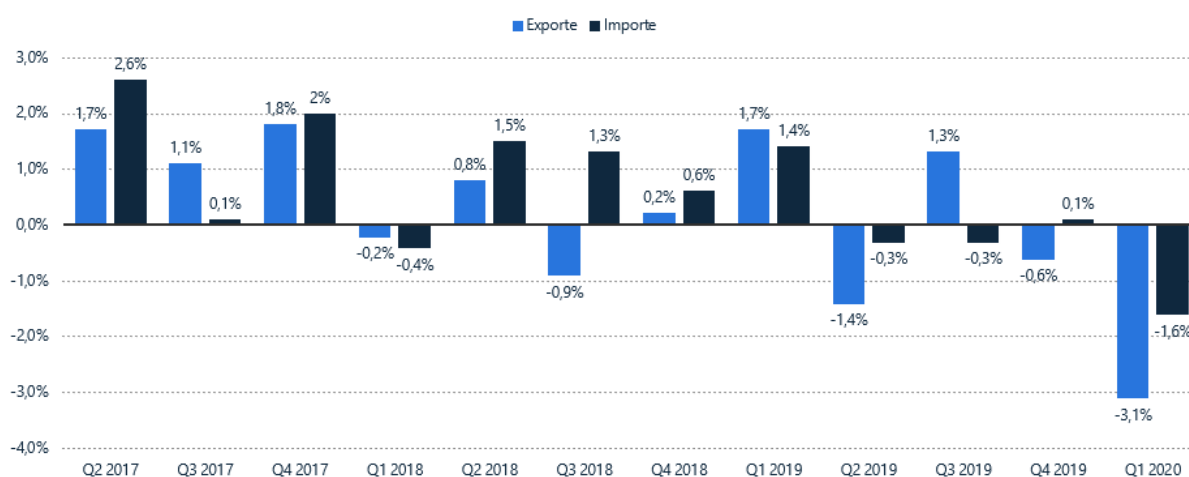
In order to better understand the situation of the companies during this crisis, six managers of different small and medium-sized enterprises were additionally interviewed in a structured way. The interview results were evaluated by means of qualitative content analysis.

As additional sources, current publications such as those of the BMWi, BMF, OECD and KfW IPEX-Bank were analysed. To meet the focus of the research topic, studies, which were mostly conducted with SMEs, were used as a quantitative data basis. These include a survey conducted by h&z Unternehmensberatung AG in the period from 6 to 8 April 2020. Accordingly, over 80 % of the 405 companies surveyed are SMEs with less than 250 employees, or an annual turnover of less than 50 million euros. In addition, a "flash survey" executed by the DIHK in May 2020 with around 10,000 participating companies, of which over 80 % are also SMEs as well as the results of a company survey commissioned by the BMWi were analysed. For the survey of the BMWi, 500 companies of different sizes and from different sectors were interviewed in the period from 14 to 23 April (BMWi, 2020a).

#### 4. Impact of the COVID-19 crisis on the German Economy and Government Measures

The impact of this worldwide pandemic on the German economy, is shown by the gross domestic product which fell by 2.2 % in the first quarter of 2020 (BMWi, 2020d). While German exports in February 2020 remained stable compared to January 2020, the situation changed in March, where exports fell by 11.8 % (BMWi, 2020b; destatis, 2020d). Being the first month which was completely affected by the pandemic, in April 2020 exports fell by 23.6 % compared to March. Exports of motor vehicles, machinery and electronic equipment were hit especially hard (BMWi, 2020c). This affects the German economy substantially, as in previous years, the automobile industry accounted for 16.8 % of all exported goods (destatis, 2020e). In total, a 3.1 % decline in German exports in the first quarter of 2020 is recorded (Statista, 2020b).

**Figure 2: Development of German exports/imports compared to the previous quarter (adjusted for price, seasonal and calendar effects) from Quarter 2 2017 to Quarter 1 2020**

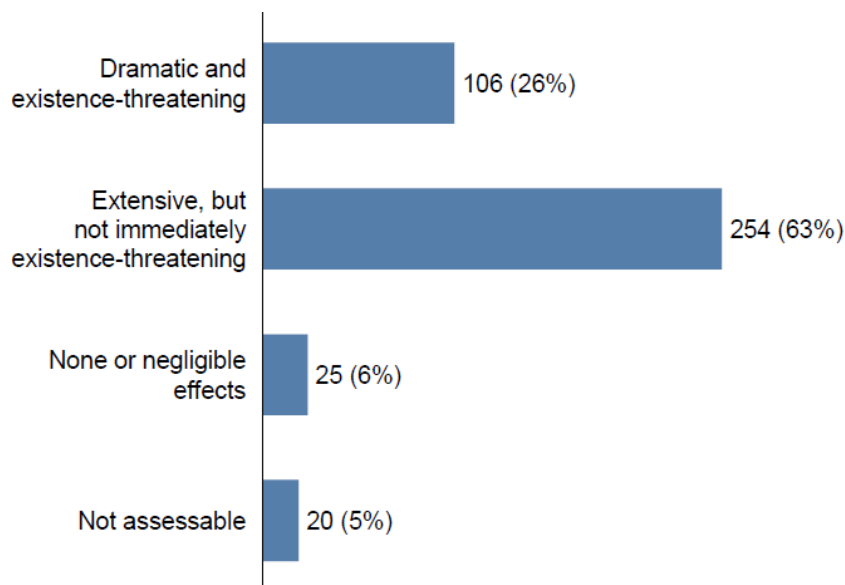


Source: Statista, 2020b.

Regarding the impact on German companies, 63 % of the interviewees expect the COVID-19 crisis to have far-reaching effects. 26 % even believe that those effects will threaten their

existence (h&z, 2020). According to the DIHK survey, 13 % of companies already face the threat of insolvency.

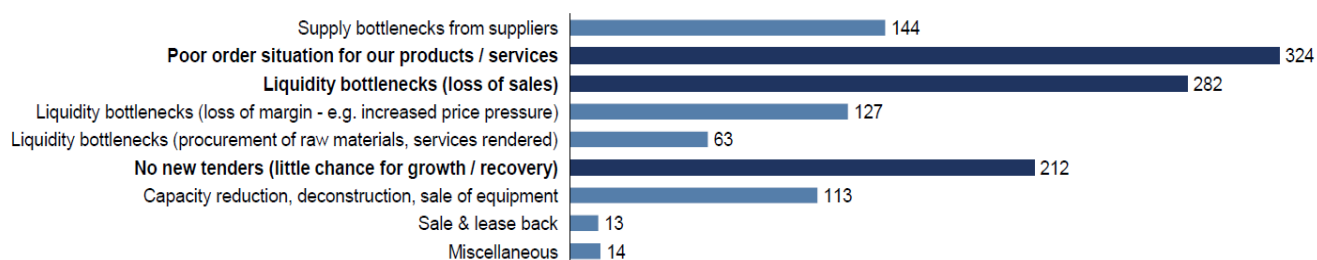
**Figure 3: How German companies assess the impact of the COVID-19 crisis on their business**



Source: h&z, 2020.

In May, 60 % of the companies reported a significant decrease in demand. 78 % of the interviewees expect a decline in turnover in 2020 (DIHK, 2020). Additionally, over 50 % of the companies surveyed consider a poor order situation and liquidity bottlenecks to be the greatest challenges (h&z, 2020). Hence, 36 % of the companies reduce their investments (DIHK, 2020).

**Figure 4: What medium and long-term challenges do companies expect**



Source: h&z, 2020.

SMEs are particularly affected by the economic consequences of the COVID-19 crisis. As they generally have small financial reserves, they are not able to respond to such a crisis in the long term. Moreover, SMEs often find it difficult to compensate for supply chain disruptions, as it is difficult to extend their rather small supplier network. Their typically smaller stocks and the often-difficult access to new capital are further challenges (WTO, 2020).

Short-time work is a tool that is used extensively to avoid redundancies. Until 27 May 2020, the Federal Employment Agency (BMAS) received short-time work notifications for 11.7 million employees. This number is already significantly higher than the 3.3 million short-time work advertisements during the global financial and economic crisis in 2009 (destatis, 2020f).

Furthermore, the unemployment rate increased from 5.3 % in February to 6.1 % in May (BMAS, 2020) and the number of vacancies on the labour market fell from 689,600 in February to 583,600 vacancies in May (destatis, 2020g).

To mitigate the consequences of the COVID-19 crisis for German companies in the short term, the government has created a protective shield which includes 353.3 billion euros of budget-effective measures and guarantees worth 819.7 billion euros. For the financing, Germany must increase its debts by about 156 billion euros (BMF, 2020a; BMWi, 2020e). To stimulate the economy in the long term and to compensate for the consequences of the crisis, an economic stimulus package totalling 130 billion euros was initiated on 3 June (BMF, 2020b; BMWi, 2020e). In the interests of fair competition, the Federal government must observe the requirements of the EU-Temporary-Framework when formulating measures (European Commission, 2020). At the same time, this means that German companies can also access aid packages from the EU, e.g. also from the Pandemic Emergency Programme of the European Central Bank worth 750 billion euros (BMF, 2020a; European Central Bank; 2020).

Regarding support for German export companies, three different measures were taken. First, in compliance with the EU-Temporary-Framework, the range of cover of state export credit guarantees was extended to short-term transactions with EU and some OECD member states. The measure is designed to counteract the gaps that might occur in the private insurance market even for these marketable risk countries (BMWi, 2020e; Euler Hermes, 2020b). To prevent these gaps from opening, a protective shield was created together with the private credit insurers Euler Hermes AG, Atradius and Coface. These can reinsure themselves with the Federal government and thus maintain their existing policies worth 400 billion euros despite the changed risk situation (BMWi, 2020e; GDV, 2020; Handelsblatt, 2020). According to the interview with the BMF, this measure is a lesson-learned from the crisis in 2009, in which private credit insurers withdrew. Third, an industry-specific scheme was introduced together with other countries to support cruise ship companies and thus the shipbuilding and supply industry. Accordingly, debts for cruise ships that were financed with state export credit guarantees are deferred for one year (Euler Hermes, 2020c).

Other measures implemented do not explicitly concern exporters but serve companies in general to bridge liquidity bottlenecks.

Liquidity is provided through loans offered by the KfW targeting companies that have financial difficulties because of the crisis and thus had no troubles until 31 December 2019. The KfW has formulated a Special Programme on behalf of the Federal government, which includes a Start-up-Loan for young enterprises and an Entrepreneur Loan for enterprises existing for more than 5 years. Therefore, the government has provided unlimited financial resources. Additionally, the so-called instant loan was implicated. This loan is particularly effective in processing due to an extremely simplified risk assessment. Liquidity for working capital and investments can thus be provided rapidly. A special feature is that the state assumes up to 100 % of the risk and charges low interest rates, which especially helps SMEs (BMWi, 2020e; KfW 2020).

Successfully proven in 2009, access to short-time work has also been facilitated now, during the COVID-19 crisis (BMWi, 2020e). This measure has a direct effect on the reduction of

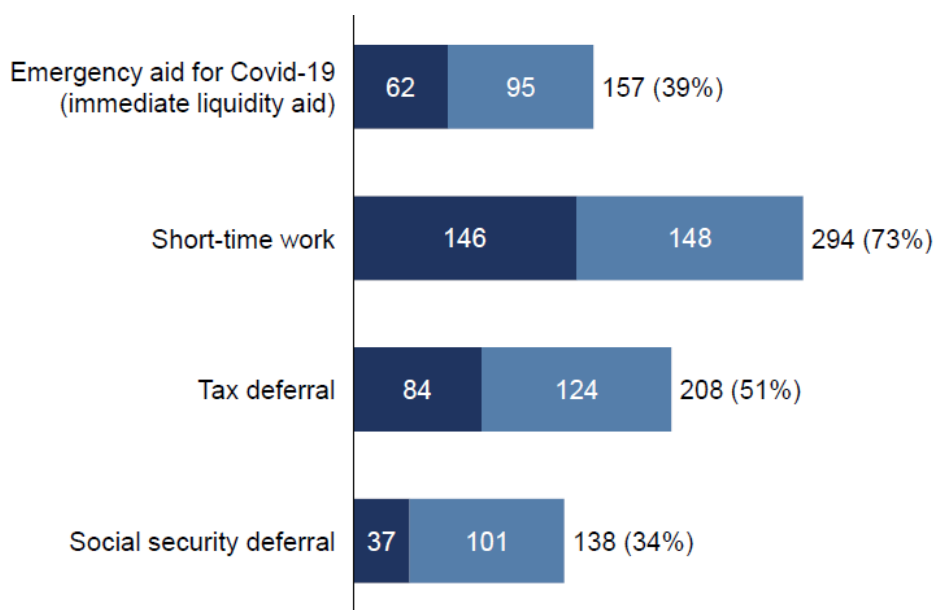


personnel costs, thus increasing liquidity and reducing redundancies. A rise in the unemployment rate is prevented (Bofinger et al., 2020; KfW, 2020). Moreover, various facilitations in tax payment through releases or deferrals were implicated (BMF, 2020a; BMWi, 2020e). On 3 June, the government also decided to reduce the value added tax (VAT) from 19 % to 16 % or from 7 % to 5 % for the reduced rate and the limits for loss carrybacks were raised (BMWi, 2020f).

Other measures include an increase in state guarantees, emergency financial aid for micro companies and a special package to support start-ups. Moreover, an economic stabilisation fund of 600 billion euros is provided and insolvency proceeding has been amended. Further numerous measures were adopted on 1 June and with the economic stimulus package on 3 June 2020 (BMF, 2020c; BMWi, 2020e; BMWi, 2020f).

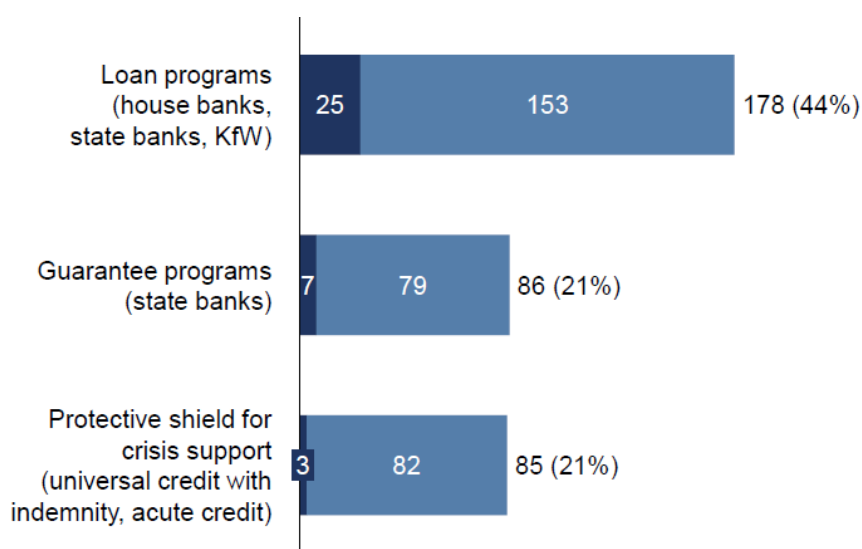
According to the h&z study and interviews with managers of several SMEs, eased access to short-time work proved as the most common measure. 73 % of the companies surveyed report that short-time work is or will be implemented (h&z, 2020). The interviews identified the KfW loans, bank guarantees and deferral of social security and tax as measures used or likely to be used. Based on the h&z study, 44 % of the companies participate in the KfW loan programmes or expect to do so in the future. One third have or will take advantage of deferring social security contributions. More than half use tax deferral or plan to do so. For the use of bank guarantees, 21 % made this statement (h&z, 2020).

**Figure 5: Measures that companies currently use or plan to use (1)**



Source: h&z, 2020.

**Figure 6: Measures that companies currently use or plan to use (2)**

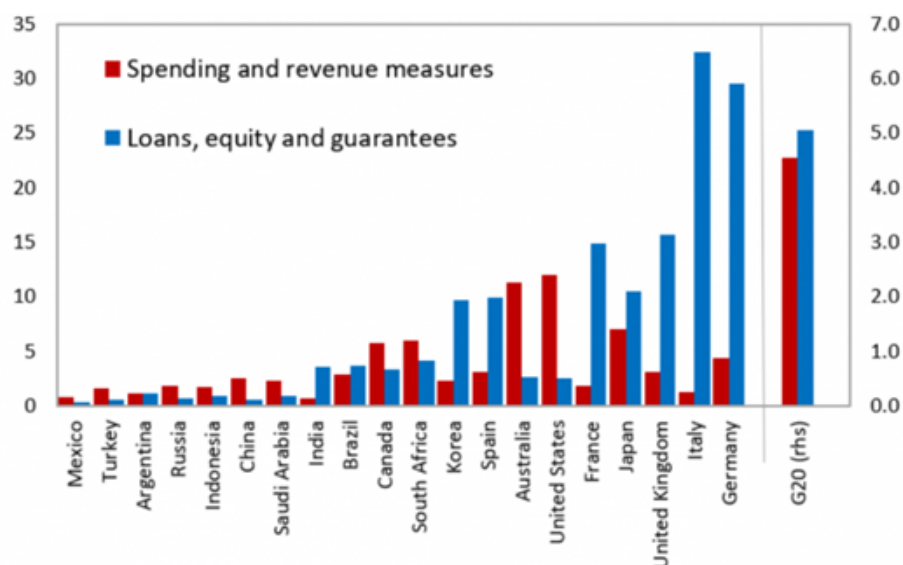


Source: h&z, 2020.

Besides public or private external support, many companies use internal possibilities to secure their existence. According to the DIHK survey, 35 % of the companies surveyed are increasingly relying on digitisation. Rationalisation measures are being implemented by 39 % of the companies (DIHK, 2020). The majority of the questioned SME managers feel sufficiently supported and find the government measures helpful. For example, Hermesdeckungen make it easier for companies to sign export contracts in these times of crisis. Nevertheless, the managers questioned saw potential regarding the measures. Above all, the different regulations of the individual EU nations but also of the federal states were criticised. The companies wish for uniform measures especially for companies in border regions and their foreign employees. Companies on which the crisis will have an impact in the coming months or years due to long maturities are particularly concerned.

Publications of the Berne Union and the OECD summarize the measures taken by various member states and export credit agencies during the COVID-19 crisis to support their companies. After analysing these comparisons, Germany is found to be relatively well positioned (Berne Union, 2020; OECD, 2020). This is in fact also supported by the comparatively high use of financial resources of 38.6 % of gross domestic product (OECD, 2020) as well as by the country comparison of the International Monetary Fund, which is shown in Figure 7.

**Figure 7: Announced fiscal measures in G20 economies, % of GDP**



Source: Battersby, Lam & Ture, 2020.

Regarding the support of German export companies, potential can be identified in debt moratorium. Only a sector-specific regulation for the cruise ship industry has been introduced, although this could help other companies across the board. As already criticised before the crisis (Klasen, 2020), direct lending customised to support export companies is still not offered (OECD, 2020). Furthermore, the analyses of the OECD and the Berne Union show that no structural aid is provided regarding digitisation, training and retraining as part of crisis management (Berne Union, 2020; OECD, 2020).

## 5. Summary and Conclusion

The impact of COVID-19 on the German economy is large. Not only a decreasing gross domestic product or declining export rates express this: People are losing their jobs or must deal with losses of earnings due to short-time work. Therefore, private household consumption is falling, and companies are reducing their investments.

To mitigate the impact and to help companies steer safely through the COVID-19 crisis, the German government has initiated several measures. If German companies use these measures sensibly, they have taken a big step in the right direction. However, internal changes should be considered as well. One possibility would be to reduce dependencies, whether on supplier or on customer side.

In summary, it must be noted that for some companies the crisis can also be a chance. The COVID-19 pandemic has ultimately forced many companies to restructure. Interviews with managers of SMEs made clear that the crisis also generated demand for products that are not part of the core business. The crisis enabled the companies to win new customers with new products, which is outlined by a study of the BMWi, published on 7 May 2020. More than a third of the companies surveyed stated that they had expanded their product and service range and were using the opportunities offered by digitisation in their distribution channels.

The COVID-19 crisis raises many new and exciting questions. For example, it will be interesting to examine how corporate insolvencies develop in Germany and how many companies will disappear from the corporate map. Also, it is not yet possible to estimate what will happen to companies that are hit by the crisis only later, such as those that require long periods for manufacture of their goods. What aid will companies receive after the majority has already overcome the crisis?

There will come a time, when the German government measures will have to be analysed in terms of their success in supporting companies. It will be interesting to see not only whether the measures were actually used, but also if they were effective and could play their part in securing German exports. Since these measures are associated with high costs, they will also lead to a massive increase in public debt. It is clear, that these debts must be repaid. But how and when this is to be done is still uncertain, which therefore represents another open question raised by the COVID-19 crisis.

## Addendum

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In a press release dated 7 July 2020, BMWi adopted a new package of measures to support the German export industry. It includes facilitations, such as the deferral of premiums for Hermesdeckungen as well as coverage of export financing for major customers abroad. In addition, improved financing and refinancing facilities for export financing banks and technical improvements were introduced (BMWi, 2020g). As mentioned in the Analytical Framework, the data analysis for this essay was completed on 22 June 2020. This new package of measures is therefore not discussed in the essay.

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## List of abbreviations & translations

BVMW	Federal Association of SMEs Entrepreneurial Association of Germany Bundesverband mittelständische Wirtschaft Unternehmerverband Deutschlands e.V.
SME	Small and medium sized enterprises
WTO	World Trade Organization
DIHK	Association of German Chambers of Industry and Commerce Deutscher Industrie- und Handelskammertag
BMWi	Federal Ministry of Economics and Energy Bundesministerium für Wirtschaft und Energie
BMF	Federal Ministry of Finance Bundesministerium der Finanzen
OECD	The Observatory of Economic Complexity
IDW	Science Information Service Informationsdienst Wissenschaft
KfW IPEX-Bank	German Federal Credit Institute for Reconstruction - Bank for International Project and Export Financing Kreditanstalt für Wiederaufbau – Bank für internationale Projekte und Exportfinanzierung
AKA Bank	Export Credit Action Company Ausfuhrkredit-Aktiongesellschaft
DEG	German Investment and Development Corporation Deutsche Investitions- und Entwicklungsgesellschaft
GDV	General Association of the German Insurance Industry Gesamtverband der deutschen Versicherungsindustrie
OECD	Organisation for Economic Co-operation and Development
EU	European Union
BMAS	Federal Employment Agency Bundesagentur für Arbeit