STATEMENT

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Statement

Press conference on the 2019 consolidated financial statements of the Volksbanken Raiffeisenbanken cooperative financial network

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National Association
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Ladies and gentlemen: The months since our last press conference in the middle of March have been extraordinary for all of us. Coronavirus still has Germany firmly in its grip, although we have all learned – and are still learning – how to deal with this challenge on many different levels. For example, as the Board of Managing Directors of BVR we have once again decided to livestream today's press conference about the Volksbanken Raiffeisenbanken Cooperative Financial Network and its consolidated financial statements. But whereas the March press conference was streamed from the DZ BANK building in Frankfurt, I and my fellow members of the Board of Directors – Dr. Andreas Martin and Gerhard Hofmann – are welcoming you today from our laptops in a meeting room in the BVR building on Potsdamer Platz in Berlin. We very much look forward to being able to meet you in person again soon though.

The **coronavirus pandemic** has hit the German economy – and of course not just the economy – very hard. The economic downturn in spring was of a scale and depth we had never seen before. The latest economic figures for Germany give us cause to hope that **the lowest point of the recession is behind us**. Important key indicators – the ifo business climate and the GfK consumer climate – are already showing a rebound from the deep slump at the height of the lockdown. For 2020 as a whole, GDP in real terms is likely to be down by about 7 percent, and I expect solid growth in 2021 and 2022 of 5 percent and 3 percent respectively. Economic output is unlikely to return to its pre-pandemic level until 2022. This is partly because the economic recovery of some of Germany's trading partners in Europe and overseas is likely to start later and be slower. The growth impetus for exports will therefore be weak. Domestic demand will also be slow to pick up again. Despite the extensive support provided by the federal and regional governments, the disposable income of private households and capital spending by businesses will be significantly lower. In the coming months, I also expect an increase in the number of **insolvencies**, as this typically lags a little way behind the economic cycle. Hardest hit will be the sectors that were most badly affected by the lockdown and in which recovery is slow. According to surveys, these include travel agencies and tour operators as well as the hospitality sector. Suppliers to the vehicle manufacturing industries are also likely to be badly affected. The number of corporate insolvencies is likely to rise by around 20 percent in 2020. However, the baseline is low by historical comparison.
The German government acted swiftly to provide broad-based support with its **economic stimulus package**. Given the immense underutilization of capacity in some sectors, the stimulus to demand through the child bonus and a temporary cut in VAT is urgently needed. However, I would have liked stronger action to help businesses and give them clear incentives to invest. Measures to increase the willingness of our small and medium-sized businesses to make long-term investments are essential for our country and for jobs.

The €50 billion **'future package'**, part of the economic stimulus package, is intended to promote important innovation and capital expenditure in digitalization and climate protection. However, this has to be just the start of a long overdue comprehensive growth strategy. Fundamental reform of business taxes should play a central role here, which includes getting rid of the reunification surcharge completely. We also need far more digitalization of public services. According to the European Commission's statistics, Germany ranks 18th among the member states of the European Union (EU) in this regard. We should not be content with this.

Another important pillar of economic recovery is **the European Recovery Plan**, which will also help to boost the long-term cohesion of the EU. Not all member states have the fiscal policy flexibility of Germany. The strong fiscal policy impetus will help to ease the strain on the European Central Bank (ECB) – in contrast with the situation during the sovereign debt crisis – and it is a policy with which we fully agree. The ECB should then gradually scale back the additional quantitative easing measures over the coming year, as long as the economy continues to recover. I hope that on July 17, under the German presidency of the Council of the EU, the European heads of state and government will come together in support of the European recovery plan. A good compromise is essential here, because some of the objections of the so-called 'frugal four' – Austria, the Netherlands, Denmark, and Sweden – are justified. Is the sum of €750 billion really necessary to stabilize the economy? Will the money be spent in a sufficiently targeted way? The subsidies granted should be subject to certain requirements and conditions. The repayment of funds borrowed in the capital markets should in any event be completed much sooner than the European Commission's proposed deadline of 2058. Otherwise we will be shifting the burden onto the next generation.

Let us return to the situation in Germany. In a joint initiative with the German Banking Industry Committee, politicians and development banks moved quickly to launch various **coronavirus support loans for companies** in March and have continuously developed these, for example by increasing the maximum term for loans provided under the special program of Germany's KfW development bank. We are delighted to have been able to play our part in this as the leader of the German Banking Industry Committee this year. During the pandemic, the cooperative banks have not only worked with other banks to continue providing banking services under difficult conditions, but they have also made substantial resources available for advising on development loans and for checking and processing loan applications under the KfW special program. They have formed task forces that even worked through the weekends. This is reflected in their market share of around 30 percent of KfW's coronavirus development loans. To date, the cooperative banks have registered almost 30,000 KfW coronavirus development loan applications, with a total volume of €7.7 billion. More than 4,300 of these applications were for KfW rapid loans with a volume of €1.4 billion.

In the period March to June 2020, the monthly increases in the volume of loans and advances from the cooperative banks to retail and corporate customers were around 40 percent higher than the corresponding increases in the month before the virus outbreak. Overall, the cooperative banks have awarded around €17 billion more in loans and advances since the start of March. As at the end of June 2020, lending by our banks stood at €647 billion.

Ladies and gentlemen: If we look at the **German Mittelstand**, we can see that companies weakened by the coronavirus pandemic are increasingly in need of government support to strengthen their equity. Politicians therefore urgently need to introduce the option of a tax loss carryback and to increase the volume of long-term equity investments and government-backed guarantees for small and medium-sized investment companies. It would also be a very good idea if the scope of KfW's existing development program ERP-Kapital für Gründung (ERP Capital for Start-ups), a subordinated loan for entrepreneurs and start-ups with 100 percent exemption from liability, were extended so that it was available for all small and medium-sized enterprises in an amount of up to €800,000.

Dr. Martin will now report in more detail on the 2019 consolidated financial statements for the Volksbanken Raiffeisenbanken Cooperative Financial Network, that is to say the 841 local cooperative banks, Sparda banks, PSD banks, and other cooperative specialized institutions as well as DZ BANK and the central product specialists. I can however already reveal that the consolidated net income before taxes was €10.2 billion – significantly above the prior-year figure, which was already good. In the traditional customer business, the earnings of the cooperative banks were relatively stable in the circumstances.