

HERTIE SCHOOL

MASTER THESIS

**The effect of government support
during the COVID-19 pandemic:
Firm-level evidence from Germany**

Author:

Marco SCHILDT

Supervisor:

Dr. Simon MUNZERT

*A thesis submitted in fulfillment of the requirements
for the degree of Master of Data Science for Public*

April 30, 2023

Wordcount: X.XXX

HERTIE SCHOOL

Executive Summary

Master of Data Science for Public

**The effect of government support during the COVID-19 pandemic:
Firm-level evidence from Germany**

by Marco SCHILDT

The Thesis Abstract is written here (and usually kept to just this page). The page is kept centered vertically so can expand into the blank space above the title too...

Contents

Executive Summary	i
1 Introduction to the government support in Germany	1
2 Literature Review	4
2.1 Pandemic effects	4
2.2 Government support effects	6
3 Data Sources	9
3.1 Data on Government support	9
3.2 Company level financial information	9
4 Methods	11
4.1 Balance Sheet Ratios	11
4.1.1 Liquidity Ratios	11
4.1.2 Solvency Ratios	12
4.2 Difference-in-Differences	12
4.3 Causal Curve	14
5 Results	15
5.1 Balance Sheet Ratios	15
5.2 Difference-in-Differences	16
5.3 Causal Curve	17
5.4 Insolvencies	17
6 Conclusion	20
6.1 Policy Implications	20
6.2 Conclusion	20
A Frequently Asked Questions	21
A.1 How do I change the colors of links?	21
B Full list of insolvent aid beneficiaries by industry	23

Bibliography	25
Statement of Authorship	30

List of Figures

5.1	Balance sheet ratios	16
5.2	Balance sheet ratios	18

List of Tables

1.1	Overview of support instruments	3
4.1	The calculation of Balance Sheet Ratios.	12
4.2	Difference-in-difference with regression	14
5.1	Government aid impact on ratios	18
5.2	Share of insolvent aid beneficiaries by size	19
5.3	Share of insolvent aid beneficiaries by industry	19
5.4	Government aid impact on ratios	19
A.1	Complete coefficients for government aid impact on ratios . .	22
B.1	Share of insolvent aid beneficiaries by industry	24

List of Abbreviations

ATT	Average T treatment Effect on the T reated
EU COM	E Uropean COM mission
SMEs	Small and M edium-sized E nterprises

Chapter 1

Introduction to the government support in Germany

The Covid-19 pandemic has severely affected the entire world with many devastating consequences. Businesses in many parts of the economy were struggling to survive due to shocks in demand, lockdowns from governments and disrupted supply chains (EU COM, 2020).

To sustain the economy and prevent businesses from bankruptcy during the pandemic, the German government responded with a range of policies. Beside the various measures like labor cost subsidies, temporary changes in the insolvency law and tax reliefs, the financial support through grants and loans was unprecedented. The financial support was available for businesses in all sizes that affected by the pandemic ranging from self-employed individuals to small and medium-sized enterprises (SMEs) up to very large companies. From spring 2020 to summer 2022, grants, loans, recapitalizations and guarantees alone accounted for a total of around EUR 130 billion (BMWK, 2022).

A fiscal effort of this magnitude is inconceivable under normal conditions. Usually, governments are not permitted to provide extensive subsidies, due to concerns of distorting competing in the European single market (Claici, Eymard, and Vallée, 2022). The permissibility of subsidies is comprehensively regulated by European state aid laws. Before a subsidy is considered permissible under this legal framework an assessment of its necessity, incentive effect, proportionality and effect on trade and competition is needed (Claici, Eymard, and Vallée, 2022). In light of the ongoing pandemic, the EU relaxed rules on subsidies by introducing the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, by which provided national governments more freedom in order to come up with quick and extensive policy responses to support businesses (EU COM, 2020).

As part of the framework the German government had to justify the financial support measures by laying out the necessity, the appropriateness and proportionality to remedy the impact of the pandemic in the economy. Defining and deciding on the appropriateness as well as proportionality of support measures is a complex and challenging task. Due to the unpredictable scale of the pandemic, uncertainty is immense. On the other hand, the effect of support measures is nothing trivial to estimate, given that their scale was unprecedented. To ensure that the support measures are effective, efficient, a good understanding is inevitable.

The financial support measures introduced by the German government can mainly be categorized into the groups grants and loans. Grants are funds provided by the government to businesses that are not needed to be repaid. Grants are usually subject to the terms and conditions, but do not require any consideration in return. Whereas financial support measures based on loans have to be repaid, like standard bank loans. The advantage over a normal credit transaction are beneficial conditions that a company would not have received under normal circumstances from a bank. Especially not in a time where the company's future is uncertain and linked to the further development of the pandemic.

From the companies' point of view, both types of aid have the immediate effect of a liquidity injection, meaning that additional cash is available. However, in the long-term perspective the repayment obligation of loans is contrasting the effect of grants by the fact that a firm will have to service the debt and interest of the loan, regardless of whether the pandemic is over or not.

This thesis is organized as follows. After an introduction to the government support in Germany in section 1, section 2 provides an overview of the general effects of COVID-19 pandemic on business as well as the existing impact assessments of government support. Section 3 presents the data and section 4 explains the utilized methodologies. In Section 5, the causal evidence of the aid measures is shown. Section 6 covers the policy implications and concludes.

TABLE 1.1: Overview of support instruments

Beihilfeinstrument	aid
Andere Formen der Kapitalintervention	9,017,729,574.33
Bürgschaft	1,144,042,410.02
Eigenkapitalinstrumente	2,419,881,701.00
Kredite/rückzahlbare Vorschüsse	753,217,635.27
Sonstiges (bitte angeben)	14,244,894,962.69
Zinsgünstiges Darlehen	10,500,942,385.00
Zinszuschuss	9,383,307,910.00
Zuschuss	24,959,647,770.34

Chapter 2

Literature Review

2.1 Pandemic effects

The negative consequences of the COVID-19 pandemic on the economy have become evident in many areas. Many businesses were severely affected by drops in demand and containment measures ordered by authorities (EU COM, 2020).

When business operations are halting while costs like rent or personal costs continue occurring the pandemic shock eventually leads to negative cash flows for many firms (Fernández-Cerezo et al., 2021). Depending on the affectedness of the business, the liquidity reserves will inevitably deteriorate and eventually liquidity shortfalls are inescapable with negative cash flows (Puhr and Schneider, 2021). Although the demand of liquidity is individual for every company, the overall lack in liquidity is apparent.

An early simulation study from Italy quantified the total liquidity deficit of all Italian SMEs caused by the Covid-19 shock to 83.7 billion Euros at the end of 2020 (Bellucci et al., 2022). In comparison for the Belgian corporate sector, in a scenario without policy interventions, the drop in liquidity by September 2020 was quantified with 28.2 billion Euros (Tielens, Piette, and Jonghe, 2020). Empirical results from (Tielens, Piette, and Jonghe, 2020) suggests that in Belgium even businesses that used to be profitable require a large amount of additional financing to offset their liquidity shortfall. However, evidence from Belgium also showed that the COVID-19 pandemic widened the gaps between companies with some performing than in normal time (Dhyne and Duprez, 2021).

Without a return of profits, firms are in need of liquidity injection, either through additional equity or via debt. For smaller unlisted firms it is usually not a feasible option the raise equity, therefore they are usually left with the debt option and rely on credits from banks (Pagano and Zechner,

2022). Pagano and Zechner (2022) analyzed the effects of covid 19 on European companies' financial performance and found evidence suggesting differences in the effects between large firms and small and medium sized enterprises. By comparing the years 2019 and 2020 the authors found that smaller companies tend to increase their ratio of total debt to total assets (debt-ratio) whereas, large companies also increase their leverage, but significantly less. Regarding liquidity, their findings suggest that small and medium sized enterprises increased their cash-to-total-assets-ratio more than large companies. Small companies did so even more than medium sized ones. However, the authors could only speculate over the reason behind of this observation. Plausible reasons were precautionary cash hoarding and greater risk aversion. Additionally, Pagano and Zechner raise the theory that smaller companies were able to raise cash more easily due to the claim, that loan guarantee programs favored small firms. However, there is no indication that the analyzed sample of small and medium sized enterprises was representative of any specific industry, nor of aid recipients in general (OCED, 2021). The disproportionate effect on SMEs is related to the overrepresentation of SMEs in industries that are particularly effected by the pandemic shock and the tendency to have smaller cash reserves than larger companies

Credits from banks, if obtainable, increases the firms leverage and could make the firm vulnerable to new liquidity shortfalls. And additional leverage only prevents from insolvency if there is a prospect that future cash flows will enable a firm to service the additional debt. Regarding the solvency, increased leverage means a weaker equity ratio. An early Survey study from September 2020 analyzed the implications of the pandemic crisis on the equity of Germany companies and reported that for most companies the equity ratio did not change, however a strong sectoral heterogeneity with travel and gastronomy having a reduction in the equity ratio between 1.8 % and 1.5 % (Peichl et al., 2021). In Spain a survey looked at the indebtedness as well as the cash ratio of enterprises and reported findings that support the heterogeneity of the covid 19 shock across firms and, that the impact was larger for small, young and less productive firms located in urban areas (Fernández-Cerezo et al., 2021). Further support for the heterogeneity of the impact of the COVID-19 crisis on firms' sales and costs came from Belgium (Dhyne and Duprez, 2021). Regarding the indebtedness of firms, (Julin, Otte, and Kuchler, 2021) reports for Denmark that credit growth was modest during the pandemic and that firms even find managed to reduce.

The effects of increased debt can be versatile in many aspects and depend on various factors. A simulation on 14 relatively well-covered European countries estimated that an increase in the financial debt of companies has on average a negative impact on the growth of investment after the crisis, indicating negative long-term effects increased leverage (Demmou et al., 2021a).

2.2 Government support effects

The magnitude of policy responses has already provoked many researchers to look into the effects and effectiveness of various support measures. The difficult data situation has led scientists to explore different routes. Early attempts overcame the lack of data by conduction simulations studies. (Ebeke et al., 2021) estimate that in Europe the share of illiquid firms would have tripled from pre-crisis levels in the absence of policy measures. A modelling approach by (Puhr and Schneider, 2021) indicates that supporting measures in Austrian helped to reduce insolvencies by around one third. For European companies a simulation by (Demmou et al., 2021b) suggests that the combination of different measures helped to reduce the share of illiquid companies significantly with relieves for wage bills being the most effective tool.

A model by (Chang, Gan, and Mohsin, 2022) suggests that deferring taxes is the single best option of income cuts of 25 %, but a combination of loan and equity based aid is the best option when revenue drops are larger than 50 %. The modelling by (Parlapiano et al., 2020) support the effectiveness of Italian support measures in reducing illiquidity, but also report that loan based aid increased the indebtedness measured by a debt-to-asset like ratio of 1.2 %.

With a conceptual approach (Bischof et al., 2021) assessed the regulatory design of grants in Germany and argue for heterogenous effects for different industries based on their cost structure. Their justification is based transmission factors which are referring to the relationship between the average decrease in revenue and average decrease in profit of an industry. The factor can be crucial for the effect of aid schemes that are compensating costs proportionately because it has implications on the relative compensation of profits (Bischof et al., 2021). According to the numbers provided in the paper, Food and beverage service activities are industries with a higher transmission than Travel agency and tour operator activities, as well as creative, arts and entertainment activities. Even lower transmission is reported for the industry of sports activities and amusement and recreation activities.

Other assessments were based on survey data from various countries in many ways. Indications for positive effects aid for micro microenterprises as well as self-employed are reported by (Kochaniak, Ulman, and Zajkowski, 2023; Bertschek et al., 2022).

A firm-level assessment was conducted by (Bellucci et al., 2022) suggesting that remedy measures in Italy have almost halving the percentage of illiquid SMEs at the end of 2020. In Slovakia government wage subsidies reduced the probability of illiquidity for recipients (Lalinsky and Pál, 2021). Similar findings were also reported for Euro area firms by (De Santis, Ferrando, and Gabbani, 2021) and worldwide by (Igan, Mirzaei, and Moore, 2023).

(Harasztosi et al., 2022) find evidence that companies that got support expanded their balance sheet more than unsupported firms. In case of an expansion through debt, part of the change could be explained by the loan-based aid, but not in the case of equity, although the authors report that policy support raised the probability of an increase in the equity base (Harasztosi et al., 2022).

(Stien and Risan, 2022) analyzed the effect of tax deferrals in Norway and reports evidence for a significant decrease in the risk for bankruptcy. The measures taken by the Belgian authorities to mitigate the impact of the pandemic on companies earnings have been effective in averting serious solvency issues (Piette and Tielens, 2022). (Costa, 2021) used a difference-in-differences method to assess different types of support in Portugal. The reported average treatment effects for debt based aid measures suggests considerable contribution to firms' liquidity.

(Marek and Gärtner, 2022) investigated the effects of an grant based support scheme (November-December aid) in Germany based on survey data for around 2,300 firms. Their study suggests that that were granted aid have a 5 - 6% lower probability of having a liquidity shortfall within one month. Their coefficients for longer periods are indicating a decrease of the aid effect on liquidity. Although most estimates are statistically insignificant, the results can mean that liquidity injection can only be measured in the very short run and is vanishing over the following month (Marek and Gärtner, 2022) also find strong evidence that firms consider bank loans to be a substitute for the provision of transfers.

(Dörr, Licht, and Murmann, 2022) have a critical view and argue that liquidity support measures in combination with the suspensions of the duty to file for insolvency have caused an insolvency gap, especially for smaller firms. Their understanding of an insolvency gap refers to the keeping firms

alive that were already struggling before the pandemic.

Authors also investigated the effects of state aid on the productivity and firm performance. Firms in Italy with government grants in relation to the COVID-19 pandemic saw an 11 % increase in sales revenue by the end of June 2020 compared to those yet to receive the grant (Turkson et al., 2021). (Konings, Magerman, and Esbroeck, 2022) employed a difference-in-differences model with Flemish beneficiaries of government support suggesting that the aid helped sustain and preserve productivity.

Chapter 3

Data Sources

3.1 Data on Government support

The thesis uses data from european state aid transparency database (EU COM, 2023). The data base contains information about individual award data like beneficiary name, amount, Date of Granting, and the purpose of the state aid (EU COM, 2023). The legal base for the transparency requirement aid payments is Temporary Framework for State aid, however payments under 100.000 EUR (10.000 EUR for agricultural firm) are exempted from the transparency requirement, insofar the data base is not comprehensive. Nevertheless, as of spring 2023 for Germany 135.478 cases of aid related to the COVID-19 pandemic were disclosed under the objective “Remedy for a serious disturbance in the economy”. Unfortunately, the disclosed titles of the aid measures and case numbers doesn’t allow for reconciliation to the official names of the aid programs due to amendments and overlaps. In addition, in case of bigger companies the aid was usually calculation on a group level but awarded and paid in full to just one company of the group. (Sample shows that smaller companies are strongly represented)

Another thing to be mentioned is that most direct grants were granted and paid on a provisional basis and are still subject to a final determination of the granted amount. For the research this doesn’t pose an issue, since the effects of payments will be observable regardless whether the amount of aid got adjusted in later period.

3.2 Company level financial information

In Germany corporations are legally required to disclose their annual financial statements in the Federal Gazette. Although the discloser of financial

information is legally required for corporations, in there are various exemption for example for companies that are consolidated into other companies' balance sheets, and also non-compliant companies. The requirement on the disclosed financial information is depending on the size of the company. Bigger companies above certain thresholds additionally need disclose their profit and loss statements and management report additionally. However, all companies that are subject of regulation must disclose at least their balance sheet. To not exclude SMEs systematically, due to missing profit and loss statements, the data collection process is limited to balance sheet information.

The main constraint in processing the financial information from the Federal Gazette is the vastly unstandardized formatting of balance sheets causing limited readability in the data parsing step. By scraping and parsing the data for benefices of pandemic government support X.XXX company balance sheets for at least one year in the period 2018 - 2022 could be obtained.

Chapter 4

Methods

4.1 Balance Sheet Ratios

To evaluate the financial position and performance of firms in a comparable way across the data set a selection of balance sheet ratios were chosen. Ratios allow a consistent view on the companies despite their different sizes. Even though balance sheets only offer a reporting date view on the firm's financial information and can't reflect events or extreme situations during a fiscal year, they provide comparable view on companies that is standardized by accounting standards. The selection of ratios was made to get a picture of the liquidity and solvency the of firms. The ratios are calculated for each beneficiary of government support for each available year between 2018 and 2022. Calculations are shown in table 4.1.

4.1.1 Liquidity Ratios

Liquidity ratios are chosen to measure a firm's financial position to meet its obligations in the short run. As outlined in chapter 1 the pandemic shock had a significant effect on companies' liquidity and was a key consideration for the EU to loosen state aid regulation and enable large scale support measures (EU COM, 2020). The first and most representative liquidity ratio is the cash ratio, comparing the most liquid asset, cash holdings, to the total assets of a firm. Cash is the starting buffer against running costs in a crisis shock. Although usually the current liabilities are used instead of the total assets, with the available data total assets serve as a more robust denominator that has been utilized in similar research (Fernández-Cerezo et al., 2021; Costa, 2021; Igan, Mirzaei, and Moore, 2023). The quick and the current ratio provide a more conservative view on a firm's liquidity by including assets that are still considered relatively liquid against the current (short-term) liabilities. However, the key Component is short term debt, is not disclosed

TABLE 4.1: The calculation of Balance Sheet Ratios.

Category	Ratio	Calculation
Liquidity	Cash Ratio	$\frac{Cash}{Total Assets}$
	Quick Ratio	$\frac{Current Assets - Inventory}{Current Liabilities}$
	Current Ratio	$\frac{Current Assets}{Current Liabilities}$
Liability	Debt-to-Equity Ratio	$\frac{Debt}{Equity}$
	Equity Ratio	$\frac{Equity}{Total Assets}$
	Debt-to-Assets Ratio	$\frac{Debt}{Total Assets}$

consistently in balance sheets due to the fact that accounting standards allow alternative disclosure in the balance sheet appendix. For practicability, such a case the calculation had to use the total liabilities, which reduced the informative value in comparisons across firms, but still allows for comparisons on a firm level between different years.

4.1.2 Solvency Ratios

The other factor of interest is the indebtedness of firm in context with the pandemic and the remedy measures. The indebtedness, or also leverage, of a firm has implications that are rather relevant in the long-term, since debt payments are long term obligations that need to be serviced by cash flows. High levels of debt can challenge a company and can reduce profits. The debt-to-asset and the equity ratio compare the respective capital to the total assets and are behaving in opposite directions. The debt-to-equity ratio give a magnified picture on the companies leverage compared to the debt-to-asset ratio. For the simplification purposes negative ratios were omitted since result either from errors in the data parsing process or from exceptional cases like loss transfer agreements with parent companies.

4.2 Difference-in-Differences

With the obtained firm-level data the first analysis tries to (1) measure the causal treatment effect of government support during the COVID-19 pandemic and (2) explore how the effects between aid instruments on the ratios from section 4.1 differ. To estimate the causal effect of aid, the fact the aid

measures were granted consecutively over the years 2020-2023 is used for a natural experiment with a standard difference-in-differences method to estimate the average treatment effect on the treated (*ATT*). In this setting the *ATT* can be described as the average causal effect of an aid instrument on the balance sheet ratio of companies that received support. In mathematical terms can be described as following:

$$ATT = E[Y_{ratio,1i}|aid = 1] - E[Y_{ratio,0i}|aid = 1] \quad (4.1)$$

The first term describes the expected balance sheet ratio amongst the companies that got aid. The second part describes the unobservable expected ratios of the very same group of companies if they won't have received any aid. In the quasi-experimental setup, the periods 2019 and 2020 will be compared and companies that received support in 2020 serve as treated group, while companies that did not receive support in 2020, but later in 2021 or 2022 serve as the control group. The classification in treated and untreated is based on the cut-off dates of the firms of balance sheets and the date of granting the support. The setting is also performed for the periods 2020 and 2021, where the companies in the control group only received aid in 2022. For the estimation of the difference-in-difference a regression with the following linear model is used:

$$ratio_{ft} = \beta_0 + \beta_1 aid_f + \beta_2 post_t + \beta_3 aid * post_{ft} + \varepsilon_{ft} \quad (4.2)$$

Where the dependent variable is the ratio for firm (f) in period (t). The coefficients on the right side of the equation are the dummy variables *aid*, *post*, their interaction term *aid * post* and the unobserved "error" term ε . The first independent variable *aid* equals 0 when firm (f) did not receive support until after the experiment period and is in the control group. The variable *aid* equals 1 when the firm did receive support and is considered treated in experiment period and. The second independent variable *post* indicates pre- and post-shock periods resembled by 0 and 1. The third and main variable for the difference-in-difference method is the interaction term *aid * post* which will only be 1 for a treated firm ($f = 1$) in the treatment period ($t = 1$). The coefficient of the interaction describes the change in the dependent variable due to the treatment as illustrated in a table 4.1. It can be seen that by inserting the values of *aid* and *post* the coefficient β_3 of the interaction of *aid* and *post* is the estimated difference-in-difference.

The central assumption for the difference-in-difference methodology is

TABLE 4.2: Difference-in-difference with regression

	After($post = 1$)	Before ($post = 0$)	After - Before
Treated ($aid = 1$)	$\beta_0 + \beta_1 + \beta_2 + \beta_3$	$\beta_0 + \beta_1$	$\beta_2 + \beta_3$
Control ($aid = 0$)	$\beta_0 + \beta_2$	β_0	β_2
Treated - Control	$\beta_1 + \beta_3$	β_1	β_3

that the control and the treatment group are comparable and would behave parallel in over the observed periods, if there wouldn't be a treatment. The proposed setup is based on the assumption that companies who received aid at any point during the COVID-19 pandemic were sufficiently affected from the shock to be eligible for support and subsequently confirm the parallel trends assumption.

4.3 Causal Curve

Policy intervention to "prevent" the effects and save businesses for a fast economic recovery. First assessments were modeling approaches. Already lots of early assessments of state aid, also at a firm level. For getting a better understanding on the effect of aid schemes in Germany a paper analyses the effect of a company's cost structure on the effectiveness of aid measures (Bischof, Karlsson, Rostam-Aschar, Simon, 2021). This paper assumes that companies within the same sector have a similar cost structure. Since aid in Germany is based on the cost structure of companies, the authors conclude that based on the generalized approach of aid schemes, the effectiveness of aid is varying between business sectors.

Chapter 5

Results

5.1 Balance Sheet Ratios

The average observed liquidity ratios shown in Figure 5.1 for all companies of the dataset are showing an increase in liquidity in 2020 and 2021 compared to the pre pandemic years indication that companies are holding relatively more cash at the year-end since the pandemic. A study conducted by the German Federal Bank reported an increase in the average cash ratio for German companies in 2020 as well as in 2021 (Deutsche Bundesbank, 2022). For example, for SME corporations the study reported a change in the cash ratio from 0.104 (2019) to 0.110 (2020). For the current ratio and quick ratio, the same trend was reported. Further support for an increase in the quick ratio was found by another study (Bley et al., 2022). Although the exact ratios are varying between studies, there is strong support for the general trend of increasing liquidity in 2020 and 2021.

Solvency ratios are showing a less clear trend after the COVID-19 pandemic. Although minimal, the opposite trends in the equity ratio and debt-to-asset-ratio are as expected. The only visible change happened in 2020, while in 2021 the ratios are very similar to 2018 and 2019. The change in the debt-to-asset ratio is amplified in the debt-to-equity ratio, as expected. Survy Data from the KfW found an Equity Ratio of 0.318 in 2019, a decrease to 0.301 in 2020 and a recovery to 0.314 in 2021 (KfW, 2022). For very small companies with less than 10 employees, the drop in 2020 was stronger, and the recovery in 2021 was above pre-pandemic levels. Larger companies did not have a recovery after the crisis year and decreased their Equity Ratio in 2021 on average further. This could indicate that the recovery of the indebtedness in 2021 might have been driven by smaller companies. Similar observations were reported by the German Federal Bank were the debt-to-asset-ratio for SME corporations decreased in 2020.

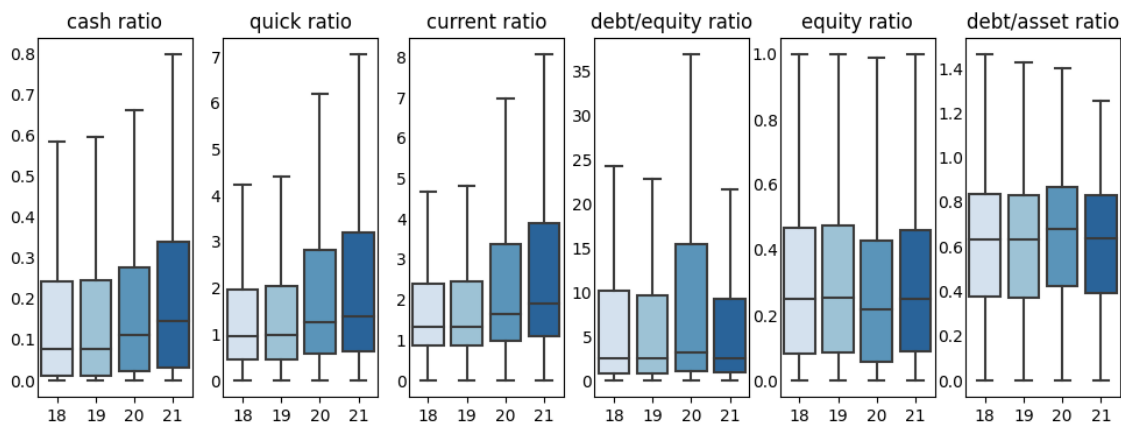


FIGURE 5.1: Boxplot with balance sheet ratios from the obtained dataset.

5.2 Difference-in-Differences

The interaction terms from the difference-in-differences regressions are shown in table 5.1. The coefficients for the aid and post are reported in Appendix A. In the first-row cash ratio coefficients are reported for grants and loans. In the 2020 column the effect for grants is the only cash ratio coefficient that is not statistically significant. In 2021 the coefficient for grants on the cash ratio was estimated to be 7.68 % indicating a strong causal effect. The average treatment effect for firms that got aid through loans is positive in 2020 and 2021, but less strong than grants. Also, the effect in 2021 is less strong compared to 2021.

The quick ratio and the current ratio only have statistically significant for loans. At a significance level of 1 % only the quick ratio and the current ratio coefficient for 2020 are significant. The treatment effects with 10.85 % and 12.71 % are even stronger than for that cash ratio. The effects for current ratio are even larger, reflecting the proportionality between the ratios. Overall, the results show strong effects of loan on the observed liquidity ratios. For grants an even stronger effect was observed in 2021, but only for the cash ratio, not for the more conservative ratios. This could be caused by the alternative the calculation that was used for part of the companies.

In the row for the debt-to-equity ratio strongly positive coefficients were observed for loans in 2020 and 2021. Since the debt-to-equity ratio reflects a firm's leverage it is plausible that loans have a causal effect on debt. Regarding the equity ratio in following row a negative effect of loans was estimated for 2020 and 2021. For grants, which aren't affecting a firm's debt, no

statistically significant effect was observable and thus indicating that grants didn't support the equity of firm. Further support for the increase in leverage through loans comes from the debt-to-asset ratio coefficients. The effects for loans are strong in 2020 and 2021 with 7.15 % and 5.26 %. For grants the causal effect is 4.12 % in 2020 and reversing in 2021 to - 3.02 %. The positive effect in 2020 is in line with missing effect on the equity ratio. The negative coefficient in 2021 on the other hand, indicates that grants helped firm's to reduce leverage by slightly.

In summary both aid measures have a significant effect on the cash ratio indicating a liquidity boost. The measured increase in liquidity through loans indicates that they were not used for refinancing existing debt, but served as liquidity injection as intended by the policy makers. Also, the increase in leverage from loans is measurable as expected. However, the estimates doesn't support the expectation that grants protect the equity. The positive effect of grants on debt-to-asset ratio and the missing effect on the cash ratio in 2020 suggest that the grants were not sufficient to prevent liquidity short falls and therefore companies had to rely on debt from other sources for additional liquidity. The reversal of the effect on the debt-to-asset ratio and the effect on the cash ratio in 2021 suggest that grants only became effective in providing sufficient liquidity and reducing leverage in 2021. However, this could be related to the fact that only relatively little grants were provided in 2020.

5.3 Causal Curve

5.4 Insolvencies

TABLE 5.1: Government aid impact on ratios

	year	2020	2021
	instrument		
cash ratio	grant	-0.0089 (0.270)	0.0768*** (0.000)
	loan	0.0527*** (0.000)	0.0351*** (0.000)
quick ratio	grant	-0.0937 (0.221)	0.0913 (0.478)
	loan	0.1085*** (0.000)	0.0929 (0.252)
current ratio	grant	-0.0825 (0.330)	0.0476 (0.736)
	loan	0.1271*** (0.000)	0.1828* (0.064)
debt to equity ratio	grant	0.2478* (0.089)	-0.1592 (0.185)
	loan	0.7306*** (0.000)	0.5043** (0.016)
equity ratio	grant	-0.0112 (0.371)	0.0108 (0.465)
	loan	-0.0486*** (0.000)	-0.037*** (0.004)
debt to assest ratio	grant	0.0412*** (0.006)	-0.0302* (0.079)
	loan	0.0715*** (0.000)	0.0526*** (0.002)

Notes: Standard errors in parentheses, *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

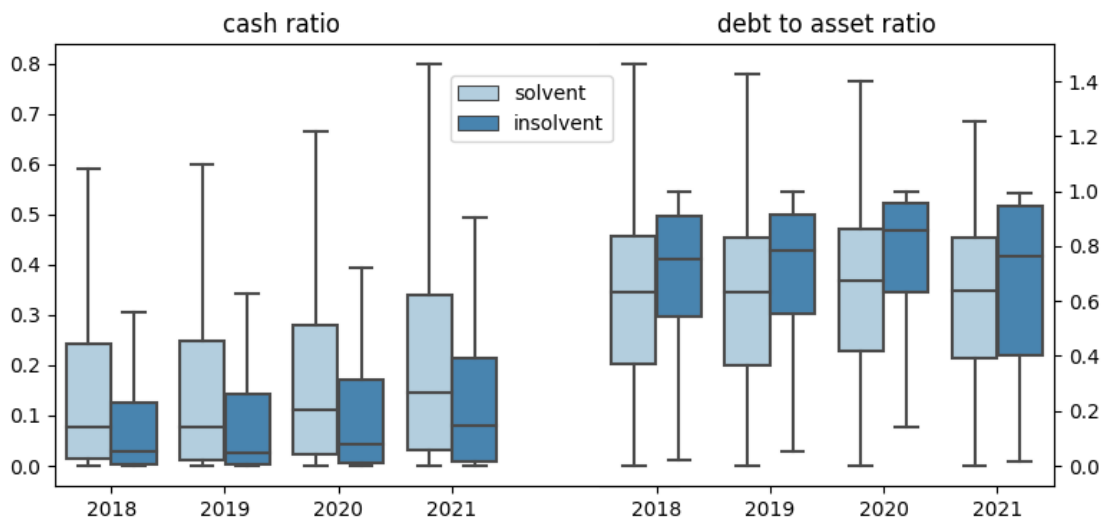


FIGURE 5.2: Boxplot with balance sheet ratios from the obtained dataset.

TABLE 5.2: Share of insolvent aid beneficiaries by size

size	aid beneficiaries	insolvent	share
SMEs	78077	526	0.67%
Large companies	25259	427	1.69%
Total	103336	953	0.92%

Notes:

TABLE 5.3: Share of insolvent aid beneficiaries by industry

industry	aid beneficiaries	insolvent	share
Food and beverage service activities	15173	88	0.58%
Retail trade, except of motor vehicles a	8810	84	0.95%
Specialised construction activities	4103	68	1.66%
Wholesale trade, except of motor vehicle	5396	56	1.04%
Manufacture of fabricated metal products	3105	40	1.29%
Office administrative, office support an	3040	28	0.92%
Sports activities and amusement and recr	5232	27	0.52%
Accommodation	9885	24	0.24%
Wholesale and retail trade and repair of	3525	17	0.48%

Notes: Tables shows industries with more than 3000 beneficiaries and is sorted by insolvencies.

TABLE 5.4: Government aid impact on ratios

	year	2020		2021	
	instrument				
cash ratio	grant	-0.038	(0.605)	0.1469	(0.337)
	loan	0.0427**	(0.046)	-0.1302	(0.394)
quick ratio	grant	0.2732	(0.645)	0.4531	(0.598)
	loan	0.1349	(0.493)	0.2365	(0.728)
current ratio	grant	0.2117	(0.759)	0.3419	(0.666)
	loan	0.0444	(0.848)	-0.0784	(0.930)
debt to equity ratio	grant	-3.9105	(0.867)	1.0318	(0.588)
	loan	2.0475	(0.262)	6.8704	(0.663)
equity ratio	grant	0.0889	(0.588)	-0.1444	(0.405)
	loan	-0.0338	(0.381)	-0.2779	(0.467)
debt to assest ratio	grant	0.0797	(0.650)	-0.0763	(0.728)
	loan	0.0892*	(0.080)	0.1806	(0.580)

Notes: Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Chapter 6

Conclusion

6.1 Policy Implications

6.2 Conclusion

Appendix A

Frequently Asked Questions

A.1 How do I change the colors of links?

The color of links can be changed to your liking using:

```
\hypersetup{urlcolor=red}, or  
\hypersetup{citecolor=green}, or  
\hypersetup{allcolor=blue}.
```

If you want to completely hide the links, you can use:

```
\hypersetup{allcolors=.}, or even better:  
\hypersetup{hidelinks}.
```

If you want to have obvious links in the PDF but not the printed text, use:

```
\hypersetup{colorlinks=false}.
```

TABLE A.1: Complete coefficients for government aid impact on ratios

type	year	ratio	aid	post	aid*post
grant	2020	cash	0.0283*** (0.000)	-0.0023 (0.322)	-0.0089 (0.270)
		quick	0.2112*** (0.000)	0.321*** (0.000)	-0.0937 (0.221)
		current	0.0655 (0.274)	0.3501*** (0.000)	-0.0825 (0.330)
		debt to equity	-0.2703*** (0.009)	-0.0676 (0.111)	0.2478* (0.089)
		equity	0.0095 (0.268)	0.0124*** (0.001)	-0.0112 (0.371)
		debt to assest	-0.0347*** (0.001)	-0.0047 (0.295)	0.0412*** (0.006)
loan	2020	cash	-0.0406*** (0.000)	-0.0001 (0.966)	0.0527*** (0.000)
		quick	-0.2065*** (0.000)	0.2744*** (0.000)	0.1085*** (0.000)
		current	-0.1688*** (0.000)	0.3123*** (0.000)	0.1271*** (0.000)
		debt to equity	0.3667*** (0.000)	-0.055 (0.291)	0.7306*** (0.000)
		equity	-0.0058* (0.069)	0.0126*** (0.000)	-0.0486*** (0.000)
		debt to assest	0.0398*** (0.000)	-0.0013 (0.751)	0.0715*** (0.000)
grant	2021	cash	-0.0159** (0.033)	-0.0199** (0.037)	0.0768*** (0.000)
		quick	0.2879*** (0.002)	0.0147 (0.899)	0.0913 (0.478)
		current	0.2055** (0.039)	0.0768 (0.544)	0.0476 (0.736)
		debt to equity	-0.1569* (0.065)	0.0167 (0.877)	-0.1592 (0.185)
		equity	0.0123 (0.238)	0.0 (0.998)	0.0108 (0.465)
		debt to assest	-0.0231* (0.058)	0.0135 (0.385)	-0.0302* (0.079)
loan	2021	cash	-0.0319*** (0.000)	-0.0153** (0.027)	0.0351*** (0.000)
		quick	-0.2017*** (0.000)	0.0715 (0.269)	0.0929 (0.252)
		current	-0.2285*** (0.001)	0.1031 (0.188)	0.1828* (0.064)
		debt to equity	0.4226*** (0.005)	0.0749 (0.656)	0.5043** (0.016)
		equity	-0.0159* (0.082)	-0.0007 (0.947)	-0.037*** (0.004)
		debt to assest	0.0379*** (0.001)	0.0165 (0.219)	0.0526*** (0.002)

Notes: Standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

Appendix B

Full list of insolvent aid beneficiaries by industry

TABLE B.1: Share of insolvent aid beneficiaries by industry

industry	aid beneficiaries	insolvent	share
Employment activities	594	30	5.05%
Construction of buildings	1247	37	2.97%
Manufacture of basic metals	586	14	2.39%
Computer programming, consultancy and re	1481	35	2.36%
Manufacture of machinery and equipment n	2226	44	1.98%
Manufacture of computer, electronic and	728	13	1.79%
Specialised construction activities	4103	68	1.66%
Manufacture of rubber and plastic produc	664	10	1.51%
Printing and reproduction of recorded me	826	11	1.33%
Other manufacturing	689	9	1.31%
Architectural and engineering activities	929	12	1.29%
Manufacture of fabricated metal products	3105	40	1.29%
Land transport and transport via pipelin	2552	31	1.21%
Manufacture of food products	1537	17	1.11%
Gambling and betting activities	2061	22	1.07%
Wholesale trade, except of motor vehicle	5396	56	1.04%
Other personal service activities	2517	25	0.99%
Services to buildings and landscape acti	1018	10	0.98%
Retail trade, except of motor vehicles a	8810	84	0.95%
Warehousing and support activities for t	1620	15	0.93%
Office administrative, office support an	3040	28	0.92%
Advertising and market research	952	8	0.84%
Real estate activities	1413	11	0.78%
Manufacture of furniture	530	4	0.75%
Activities of head offices; management c	967	6	0.62%
Food and beverage service activities	15173	88	0.58%
Rental and leasing activities	868	5	0.58%
Sports activities and amusement and recr	5232	27	0.52%
Education	974	5	0.51%
Wholesale and retail trade and repair of	3525	17	0.48%
Creative, arts and entertainment activit	1485	6	0.40%
Human health activities	1417	5	0.35%
Travel agency, tour operator and other r	2756	8	0.29%
Motion picture, video and television pro	691	2	0.29%
Accommodation	9885	24	0.24%
Crop and animal production, hunting and	1803	4	0.22%
Legal and accounting activities	646	1	0.15%

Notes: Tables shows industries with more than 500 beneficiaries

Bibliography

- Bellucci, Chiara et al. (Sept. 2022). *The consequences of COVID-19 crisis on firms' liquidity needs*. en. Working Papers 15. Dipartimento delle Finanze.
- Bertschek, Irene et al. (2022). "German Financial State Aid during COVID-19 Pandemic: Higher Impact among Digitalized Self-Employed". en. In.
- Bischof, Jannis et al. (July 2021). "Die Bedeutung der Kostenstruktur für die Effektivität von Staatshilfen". de. In: *Wirtschaftsdienst* 101.7, pp. 536–543. ISSN: 0043-6275, 1613-978X. DOI: [10.1007/s10273-021-2962-x](https://doi.org/10.1007/s10273-021-2962-x). URL: <https://link.springer.com/10.1007/s10273-021-2962-x> (visited on 04/11/2023).
- Bley, Andreas et al. (2022). *Mittelstand im Mittelpunkt*. Tech. rep. BVR, DZ BANK. URL: <https://www.bvr.de/p.nsf/0/31959EDD28C91416C1258916002CE183/%24FILE/Mittelstand%20im%20Mittelpunkt%20Herbst%202022-2.pdf> (visited on 04/27/2023).
- BMWK, Bundesministerium für Wirtschaft und Klimaschutz (June 2022). *Überblickspapier Corona-Hilfen Rückblick – Bilanz- Lessons Learned*. de. URL: <https://www.bmwk.de/Redaktion/DE/Downloads/C-D/Corona/ueberblickspapier-corona-hilfen.html> (visited on 04/24/2023).
- Chang, Lei, Xiaojun Gan, and Muhammad Mohsin (Dec. 2022). "Studying corporate liquidity and regulatory responses for economic recovery in COVID-19 crises". en. In: *Economic Analysis and Policy* 76, pp. 211–225. ISSN: 03135926. DOI: [10.1016/j.eap.2022.07.004](https://doi.org/10.1016/j.eap.2022.07.004). URL: <https://linkinghub.elsevier.com/retrieve/pii/S0313592622001084> (visited on 04/16/2023).
- Claici, Adina, Laurent Eymard, and Shahin Vallée (June 2022). *European Union: economists' perspective on state aid*. en. URL: <https://globalcompetitionreview.com/review/the-european-middle-east-and-african-antitrust-review/2023/article/european-union-economists-perspective-state-aid> (visited on 04/08/2023).
- Costa, Daniela Dias (2021). "State-Aids and Credit: Evidence from Portugal During Covid-19". en. Dissertation. Universidade do Porto (Portugal). URL: <https://repositorio-aberto.up.pt/bitstream/10216/137491/2/513100.pdf> (visited on 04/04/2023).

- De Santis, Roberto A., Annalisa Ferrando, and Elena S. Gabbani (2021). "The impact of fiscal support measures on the liquidity needs of firms during the pandemic". en. In: *Economic Bulletin Boxes 4*. Publisher: European Central Bank. URL: <https://ideas.repec.org/a/ecb/ecbbox/202100042.html> (visited on 04/11/2023).
- Demmou, Lilas et al. (2021a). *Insolvency and debt overhang following the COVID-19 outbreak: assessment of risks and policy responses*. en. OECD Economics Department Working Papers 1651. URL: https://www.oecd-ilibrary.org/economics/insolvency-and-debt-overhang-following-the-covid-19-outbreak-assessment-of-risks-and-policy-responses_747a8226-en (visited on 08/04/2023).
- Demmou, Lilas et al. (2021b). *Liquidity shortfalls during the Covid-19 outbreak: assessment and policy responses*. en. OECD Economics Department Working Papers 1647. URL: https://www.oecd-ilibrary.org/economics/liquidity-shortfalls-during-the-covid-19-outbreak-assessment-and-policy-responses_581dba7f-en (visited on 08/04/2023).
- Deutsche Bundesbank (2022). *Jahresabschlussstatistik (Hochgerechnete Angaben)*. de. Statistische Fachreihe. Deutsche Bundesbank. URL: <https://www.bundesbank.de/resource/blob/827826/967001c31efc4ad77fed0abbe19f6ac0/mL/1-0-jahresabschlussstatistik-hochgerechnete-angaben-data.pdf>.
- Dhyne, E and C Duprez (2021). "Belgian firms and the COVID-19 crisis". en. In.
- Dörr, Julian Oliver, Georg Licht, and Simona Murmann (Feb. 2022). "Small firms and the COVID-19 insolvency gap". en. In: *Small Business Economics* 58.2, pp. 887–917. ISSN: 1573-0913. DOI: [10.1007/s11187-021-00514-4](https://doi.org/10.1007/s11187-021-00514-4). URL: <https://doi.org/10.1007/s11187-021-00514-4> (visited on 04/11/2023).
- Ebeke, Christian et al. (2021). *Corporate Liquidity and Solvency in Europe during COVID-19: The Role of Policies*. IMF Working Paper 2021/056. URL: <https://www.imf.org/en/Publications/WP/Issues/2021/03/02/Corporate-Liquidity-and-Solvency-in-Europe-during-COVID-19-The-Role-of-Policies-50133> (visited on 04/17/2023).
- EU COM (2020). *Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak 2020/C 91 I/01*. en. URL: https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=OJ:JOC_2020_091_I_0001 (visited on 04/24/2023).

- EU COM (2023). *State Aid Transparency*. URL: <https://webgate.ec.europa.eu/competition/transparency/public?lang=en> (visited on 04/25/2023).
- Fernández-Cerezo, Alejandro et al. (May 2021). "Firm-level heterogeneity in the impact of the COVID-19 pandemic". en. In: *Documentos de Trabajo*. N.º 2120. ISSN: 1579-8666.
- Harasztosi, Péter et al. (Jan. 2022). "Firm-level policy support during the crisis: so far, so good?" en. In: *EIB Working Paper* 2022/01. URL: <https://data.europa.eu/doi/10.2867/24308> (visited on 04/10/2023).
- Igan, Deniz, Ali Mirzaei, and Tomoe Moore (Feb. 2023). "A shot in the arm: Economic support packages and firm performance during COVID-19". en. In: *Journal of Corporate Finance* 78, p. 102340. ISSN: 0929-1199. DOI: 10.1016/j.jcorpfin.2022.102340. URL: <https://www.sciencedirect.com/science/article/pii/S0929119922001833> (visited on 04/11/2023).
- Julin, Ida Rommedahl, Alexander Meldgaard Otte, and Andreas Kuchler (2021). *Firm financing and public support measures during the pandemic*. en. Danmarks Nationalbank Working Papers 184.
- KfW (2022). *KfW-Mittelstandspanel 2022*. de. Tech. rep. Frankfurt am Main: KfW Bankengruppe. URL: <https://www.kfw.de/PDF/Download-Center/Konzerntemen/Research/PDF-Dokumente-KfW-Mittelstandspanel/KfW-Mittelstandspanel-2022.pdf> (visited on 07/04/2023).
- Kochaniak, Katarzyna, Paweł Ulman, and Robert Zajkowski (July 2023). "Effectiveness of COVID-19 state aid for microenterprises in Poland". en. In: *International Review of Economics & Finance* 86, pp. 483–497. ISSN: 1059-0560. DOI: 10.1016/j.iref.2023.03.038. URL: <https://www.sciencedirect.com/science/article/pii/S1059056023001090> (visited on 04/11/2023).
- Konings, Jozef, Glenn Magerman, and Dieter Van Esbroeck (2022). *The Impact of Firm-level Covid Rescue Policies on Productivity Growth and Reallocation*. en. Working Papers 2022/06. Nazarbayev University, Graduate School of Business.
- Lalinsky, Tibor and Rozália Pál (2021). "Distribution of COVID-19 government support and its consequences for firm liquidity and solvency". en. In: *Structural Change and Economic Dynamics* 61, pp. 305–335. ISSN: 0954-349X. DOI: 10.1016/j.strueco.2022.03.008. URL: <https://www.sciencedirect.com/science/article/pii/S0954349X22000431> (visited on 04/10/2023).
- Marek, Philipp and Leo Gärtner (2022). "The Impact of German Public Support Transfers on Firm Finance: Evidence from the COVID-19 Crisis". en.

- In: *SSRN Electronic Journal*. ISSN: 1556-5068. DOI: [10.2139/ssrn.4156119](https://doi.org/10.2139/ssrn.4156119). URL: <https://www.ssrn.com/abstract=4156119> (visited on 04/08/2023).
- OCED (Apr. 2021). *One year of SME and entrepreneurship policy responses to COVID-19: Lessons learned to "build back better"*. en. OECD Policy Responses to Coronavirus (COVID-19). Series: OECD Policy Responses to Coronavirus (COVID-19). DOI: [10.1787/9a230220-en](https://doi.org/10.1787/9a230220-en). URL: https://www.oecd-ilibrary.org/social-issues-migration-health/one-year-of-sme-and-entrepreneurship-policy-responses-to-covid-19-lessons-learned-to-build-back-better_9a230220-en (visited on 04/14/2023).
- Pagano, Marco and Josef Zechner (Aug. 2022). *COVID-19 and Corporate Finance*. en. SSRN Scholarly Paper. Rochester, NY. DOI: [10.2139/ssrn.4185703](https://doi.org/10.2139/ssrn.4185703). URL: <https://papers.ssrn.com/abstract=4185703> (visited on 04/14/2023).
- Parlapiano, Fabio et al. (2020). *The effects of the COVID-19 shock on corporates' liquidity needs, balance sheets and riskiness*. en. Bank of Italy.
- Peichl, Andreas et al. (2021). "Eigenkapitalentwicklung im Zeichen der Coronakrise". de. In: *ifo-Studie im Auftrag der IHK für München und Oberbayern Impulse für die Wirtschaft*.
- Piette, Ch and J. Tielens (2022). "How Belgian firms fared in the COVID-19 pandemic ?" In: *Economic Review*. Publisher: National Bank of Belgium, pp. 1–33. URL: https://econpapers.repec.org/article/nbbecrart/y_3a2022_3am_3ajune1.htm (visited on 04/16/2023).
- Puhr, Claus and Martin Schneider (2021). "Have mitigating measures helped prevent insolvencies in Austria amid the COVID-19 pandemic?" en. In: *Monetary Policy & the Economy Q4/20-Q1/21*. Publisher: Oesterreichische Nationalbank (Austrian Central Bank), pp. 77–110. URL: <https://ideas.repec.org/a/onb/oenbmp/y2021iq4-20-q1-21b4.html> (visited on 04/11/2023).
- Stien, Håkon and Kristoffer Risan (2022). "COVID-19 and Government Aid: An Economy on Life Support? An exploratory study of the effects of deferred tax payments in Norway during COVID-19". eng. Accepted: 2022-08-30T10:32:41Z. MA thesis. URL: <https://openaccess.nhh.no/nhh-xmlui/handle/11250/3014324> (visited on 04/14/2023).
- Tielens, Joris, Christophe Piette, and Olivier De Jonghe (2020). "Belgian corporate sector liquidity and solvency in the COVID-19 crisis: a post-first-wave assessment". en. In.
- Turkson, Danny et al. (Nov. 2021). "Government policies and firm performance in the COVID-19 pandemic era: a sectoral analysis". en. In: *SN*

Business & Economics 1.12, p. 168. ISSN: 2662-9399. DOI: [10.1007/s43546-021-00170-6](https://doi.org/10.1007/s43546-021-00170-6). URL: <https://doi.org/10.1007/s43546-021-00170-6> (visited on 04/10/2023).

Statement of Authorship

I hereby confirm and certify that this master thesis is my own work. All ideas and language of others are acknowledged in the text. All references and verbatim extracts are properly quoted and all other sources of information are specifically and clearly designated. I confirm that the digital copy of the master thesis that I submitted on 02.05.2023 is identical to the printed version I submitted to the Examination Office on 03.05.2023.

DATE:

NAME:

SIGNATURE: