

Press Release

German start-up dynamics in times of Covid 19

IfM Bonn examined the effects of the coronavirus-pandemic on the creation and closure of businesses

Institut für
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Bonn, 12.11.2020. According to studies conducted by the IfM Bonn, three aspects had a major impact on start-up dynamics in the commercial business sector during the first half of 2020: The national border closures at the beginning of the Covid 19 crisis, the different economic consequences of the pandemic and the extent of support measures of the federal and state governments.

Compared to the first half of 2019, the number of commercial start-ups fell by 15.5 %, the number of company closures even by 20 %. The net balance – i.e., the difference between total start-ups and closures – amounted to 6,800, which was significantly higher than in the same period of the previous year (+600). As a consequence, the business population grew in the first half of 2020.

"At the beginning of the Covid 19 pandemic, the entry of foreign nationals into Germany was considerably restricted. This seems to have exerted a negative impact on start-up dynamics since the number of newly started individual companies by foreign nationals fell by more than 25 % in the first half of 2020 – and thus more strongly than for German nationals. For the latter, the decline was around 14 %," reports Dr Rosemarie Kay. "An indication that entry restrictions indeed played a major role was the above-average decrease of start-ups in the construction industry – despite the ongoing high demand for construction services. Typically, a large number of foreign nationals, including those entering the country precisely for this purpose, set up their businesses in this sector".

Due to the pandemic, the number of business start-ups fell in the hotel and restaurant industry as well as in the arts, entertainment and recreation sector. By contrast, the IfM researchers noted an increase in the number of commercial start-ups in the health and social services sector, in agriculture, forestry and fisheries, as well as in financial and insurance services.

The IfM researchers attribute the decline in company closures primarily to the various financial support measures provided by the federal government, the states and municipalities, as well as to the suspension of the obligation to file for insolvency. Nonetheless, in future they expect an increase in closures of those companies that over long periods are strongly affected by the pandemic-related restrictions.