



## To the point!

Cross-Asset- and Strategy-Research

# Germany's budget is taking shape

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

July 12, 2024

## The draft federal budget falls short on the need to ramp up investment

In a rare display of unity, German Chancellor Olaf Scholz, Vice Chancellor Robert Habeck, and Finance Minister Christian Lindner unveiled their draft for the country's 2025 federal budget last weekend. It's a political achievement that many would have considered implausible, given the ongoing clashes within the squabbling government coalition. This budget is a strong signal that Germany's politically diverse "traffic light"-coalition of the center-left SPD, the environmentalist Green Party, and the pro-business FDP intends to navigate its complex "ménage-à-trois" until the regular federal election in September 2025. A cabinet decision on July 17th is expected to rubber-stamp the compromise.

### On paper, the budget looks quite solid

According to the draft, the German federal government plans to spend 481 billion EUR in 2025, only about 1% more than this year. The constitutional debt brake will be maintained. A "state of emergency" that would allow for its suspension cannot be reasonably declared. Germany's public debt ratio is likely to decrease further.

At the same time, the Finance Ministry proudly announced that investment expenditures will reach a record level of 57 billion EUR. This may be accurate in absolute numbers. Anything else would have been utterly shocking after the high inflation episode over the last two years. Yet, the record in nominal capex spending barely makes a real dent in the backlog of investments (see last week's [To the point](#)). Compared to what is necessary, it is nowhere near enough. What is needed to remove the investment backlog is a large excavator, not an espresso spoon. The Ger-

---

Germany's cantankerous coalition bands together!

---

---

"Record-level investments" are not enough

---

man Economic Institute (IW) estimates that an additional 600 billion EUR in public capital expenditures will be required over the coming decade, on top of what was already planned. With the debt brake and the simultaneous promise not to raise taxes, such volumes are not feasible. A special fund for clearly defined investments would be advisable instead. A two-thirds majority would be needed to implement this. The opposition is unlikely to agree to this, as pre-election campaigning is already in full swing.

### Bookkeeping alchemy and gimmicks

Due to the economic downturn and resulting loss of revenue, the adherence to the debt brake can only be ensured through some accounting sleight of hand. For instance, the cyclical component of the debt brake rule will be reformulated. This should add a few billion euros in flexibility, without changing anything in the real world. The same applies to how gains and losses from the issuance of government bonds are accounted for. And finally, a supplementary budget in 2024 will result in higher reserves available in 2025. Those gimmicks buy a little time, but the fundamental challenges remain unaddressed. For example, it is unclear how defense spending will be financed once the special military fund set up after Russia's invasion of Ukraine runs out in 2027.

### Growth initiative: a good first step

Simultaneously, the leadership of Germany's government coalition presented a comprehensive package of 49 measures known as the "Growth Initiative", aimed at doubling the potential growth of the economy by 0.5 percentage points. Many of the measures are welcome – such as strengthening work incentives, streamlining regulations, or easing tax rules for companies. However, to advance German growth in the targeted manner, the initiative remains too piecemeal. But some credit is due: at least, it is a first step in the right direction. The journey is made by walking...

---

A bit of a shell game is involved as well

---

---

Measures to stimulate growth

---

---

#### Disclaimer:

This publication is addressed exclusively to recipients in the EU, Switzerland, Liechtenstein and the United Kingdom. This report is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely information on concrete investment options and for individual investment advice, please contact your investment advisor.

**We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.**

Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

Additional Disclaimer for recipients in the United Kingdom: Authorised and regulated by the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany). Deemed authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorisation, are available on the Financial Conduct Authority's website.