



To the point!

Cross-Asset- and Strategy-Research

Actions speak louder than words

We must not leave Ukraine out in the cold!

Regular readers of To the point! will not be surprised by the news that I consider the strict debt brake to be in need of reform. Often, the debate revolves around the backlog of investments. But now, the situation becomes even more serious. It could potentially be a matter of war and peace!

Let's take it step by step. To get the federal budget for 2025 on solid footing, the federal government had to make adjustments and to patch some holes in the past few weeks. And one measure to consolidate the budget, which is bursting at the seams, is now to cut the commitments for military aid to Ukraine. According to media reports, the Chancellery and the Federal Ministry of Finance have agreed on this. Previous assurances that Germany intended to support Ukraine "as long as necessary" now seem like fair-weather promises. The commitment to freedom and sovereign self-determination is apparently subject to the conditions of the debt brake.

Squaring the circle will not be successful

The funds for Ukraine aid in 2024 have already been depleted, and for 2025, the (halved) budget allocation of €4 billion is already oversubscribed. In the following years, the planned assistance tends towards zero (see figure).

To ensure that Ukraine can still count on sufficient support, future payments are to be made in the form of loans. Since Ukraine is currently insolvent, these bonds are to be secured by frozen currency reserves of the Russian Central Bank.

This approach is legally on shaky ground. If one day peace should actually prevail and the sanctions against Russia are

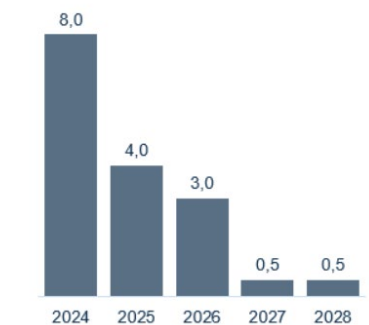
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Debt brake trumps aid for Ukraine

Germany: Budgeted bilateral aid to Ukraine (billion €)



Source: [FAS](#)

lifted, then the currency reserves will have to be returned. However, the government now intends to repurpose these as collateral for the "loans" to Ukraine. Therefore, this planned approach constitutes an additional, in this case self-imposed, roadblock for peace negotiations. Putin senses the weakness. This will not lure him to the negotiating table.

Short-term politics with long-term effects

All too often, I hear that no country has done as much for Ukraine as Germany. Now, so the argument goes, it is time for others to step up. Fair enough: countries like France, Italy, or Spain have not been noted for their generosity. But when it comes to war and peace, should we in Germany really be aiming for the lowest common denominator? Besides, this argument doesn't hold up anyway. Germany is by no means part of the top group of donors in terms of solidarity (see figure).

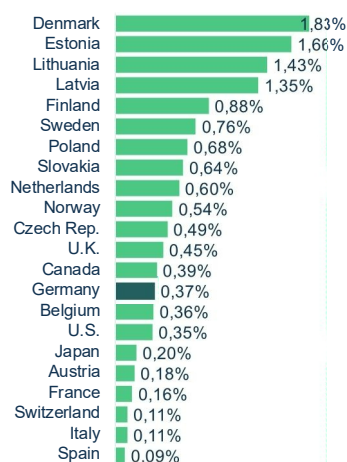
Sure, the war in Ukraine is costing a lot of money. Also to German taxpayers. But a defeat for Ukraine would be financially even more costly. Not just because we would have to spend significantly more on defense in the long term. If Russia prevails, it will trigger a flood of millions of Ukrainian refugees. How many of them will come to Germany? What's will be the cost of that?

Enough with the short-sighted vacillating!

If the corset of the debt brake is tailored too tightly, then the government must strive to make savings elsewhere or increase earmarked revenues. For this reason, more than [two years ago](#), I suggested a solidarity surcharge. I know this is deeply unpopular. But the so called "Zeitenwende" – the necessary change of German policy due to the Ukraine conflict – does not come for free. Something's got to give.

Sticking your head in the sand is not an option.

Bilateral aid for Ukraine (February 2022-June 2024, share of 2021 GDP)



Source: [Institut für Weltwirtschaft](#), Ukraine Support Tracker

“Zeitenwende” does not come free of charge

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