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COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Germany

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(Only the German text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013[1] lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 8 March 2023, the Commission adopted a Communication[2] providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.

4. On 26 April 2023, the Commission presented three legislative proposals[3] to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023[4] and on 27 October 2023[5], the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to apply. The fiscal component of the Spring 2023 country-specific recommendations

1 Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, (OJ L 140, 27.5.2013, pp. 11).

2 Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

3 Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

4 Council Conclusions on 'Orientations for a reform of the EU economic governance framework' of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

5 European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23

included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

5. As announced in its fiscal policy guidance for 2024[6], the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.

6. The Recovery and Resilience Facility[7] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives')[8]. The Facility will strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING GERMANY

8. On 13 October 2023, Germany submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Germany of 14 July 2023[9], the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

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6 Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final

7 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, (OJ L 57, 18.2.2021, p. 17).

8 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

9 Council Recommendation on the 2023 National Reform Programme of Germany and delivering a Council opinion on the 2023 Stability Programme of Germany, OJ C 312, 1.9.2023, p. 38.

9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU[10]. That report assessed the budgetary situation of Germany, as its general government deficit was planned to exceed the Treaty reference value of 3% of GDP in 2023 according to its 2023 Stability Programme, while its general government debt in that year exceeded the Treaty reference value of 60% of GDP. The report concluded that the deficit criterion was not fulfilled.

10. According to the Draft Budgetary Plan, Germany's real GDP is projected to grow by 1.6% in 2024 (0.4% in 2023). In turn, according to the Commission 2023 autumn forecast, Germany's real GDP is projected to grow by 0.8% in 2024 (-0.3% in 2023), while HICP inflation is forecast at 3.1% in 2024 (6.2% in 2023).

    The main differences between the two sets of GDP projections reflect different cut-off dates of the projections, since the Draft Budgetary Plan is based on the federal government's spring projections of 26 April 2023 and thus could not take into account weaker-than-expected economic activity during the first half of 2023. Elevated production costs, a further tightening of financing conditions and a loss in purchasing power due to slower-than-projected disinflation have put an additional burden on consumption and investment. Foreign demand has evolved less favourably than previously expected, thus negatively affecting the trade outlook.

    Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be more favourable than the Commission's 2023 autumn forecast for 2024 (and 2023), but this does not entail a risk to the budgetary projections.

    Germany complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

11. According to the Draft Budgetary Plan, Germany's general government deficit is projected to decrease to 2% of GDP in 2024 (from 2½% in 2023) This decrease is mainly driven by stronger economic growth and higher social security contributions due to rate increases. The general government debt-to-GDP ratio is set to decrease to 64¾% at the end of 2024 (from 65¼% at the end of 2023).

    In turn, according to the Commission 2023 autumn forecast, Germany's general government deficit is projected to decrease to 1.6% of GDP in 2024 (from 2.2% in 2023), while the general government debt-to-GDP ratio is set to decrease to 63.6% at the end of 2024 (from 64.8% at the end of 2023).

    The main differences between both sets of projections reflect the higher projected expenditure on energy measures in the Draft Budgetary Plan, which assume higher energy prices at the beginning of 2024 than the Commission 2023 autumn forecast.

12. Based on the Commission's estimates, the fiscal stance[11] is projected to be contractionary at 0.6% of GDP in 2024, following a contractionary fiscal stance of 0.6% in 2023.

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[10] Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM(2023) 631 final.

[11] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.1% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, a similar amount as in 2023. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Germany.

14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are expected to be largely wound down by the end of 2023, and some measures remain in place until the end of April 2024. They consist of measures extended from 2023, in particular the electricity and gas price brakes and the temporary reduction of value added tax on gas as well as the one-year delay in the increase of the CO_2 price. The cost of these measures is partly offset by taxes on windfall profits of energy suppliers, namely the tax on excess profits for certain energy companies.

In addition, the Draft Budgetary Plan includes several new and extended revenue and expenditure measures for 2024 that are not directly related to energy price developments. On the revenue side these include several changes to income taxation, the long-term care contribution rate and the toll for trucks. On the expenditure side they concern additional spending from the climate and transformation fund and for security and defence. The aggregate cost of these measures is estimated by the Commission at 0.4% of GDP in 2024 and they are expected to have a longer lasting impact on public finances, beyond 2024.

15. On 14 July 2023, the Council recommended that Germany ensure a prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure[12] in 2024 to not more than 2.5%.

According to the Commission 2023 autumn forecast, Germany's net nationally financed primary expenditure is projected to increase by 2.6% in 2024, which is slightly above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 0.0% of GDP in 2024. This projected growth rate of net expenditure in 2024 included in the Commission forecast is impacted by a reclassification of public transport entities into the general government sector as of 2023[13], which created a break in the time series. When correcting for this effect, projected growth rate of the net nationally financed primary expenditure is below the recommended maximum growth. This is in line with what was recommended by the Council.

On 9 November 2023, after the submission of its Draft Budgetary Plan, the German government announced a multiannual package of measures to support industries suffering from high electricity prices. If not compensated, these new measures would

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the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

12 Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

13 This increased government expenditure in 2024 compared to 2023 is captured by the expenditure growth indicator while having a negligible effect on the government deficit through a similar increase in revenues.

raise the projected nominal increase in nationally financed net primary expenditure in 2024.

On 15 November 2023, the Federal Constitutional Court (*Bundesverfassungsgericht*) of Germany ruled that the Second Supplementary Budget Act 2021 is void. This Act had transferred EUR 60 billion (1.5% of GDP) of pandemic related borrowing authorisations into the Climate and Transformation Fund. This ruling is expected to impact the spending plan of this fund in the years to come.

16. Moreover, the Council recommended that Germany take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Germany should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission 2023 autumn forecast, the net budgetary cost[14] of energy support measures is projected at 1.4% of GDP in 2023, 0.3% in 2024 and 0.1% in 2025. In particular, the electricity and gas price brakes, the temporary reduction of value added tax on gas are assumed to remain in force until April 2024, while the one-year delay in the increase of the CO_2 price is assumed to remain in force also in 2025[15]. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 1.2% of GDP in 2024, whereas net nationally financed primary expenditure[16] provides a contractionary contribution to the fiscal stance of 0.6% of GDP in that year. To sum up, the energy support measures are not projected to be wound down as soon as possible in 2023 and 2024 and the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation.

The net budgetary cost of energy support measures targeted at protecting vulnerable households and firms is estimated at 0.1% of GDP in 2024 (0.2% in 2023), of which 0.1% of GDP preserve the price signal to reduce energy demand and increase energy efficiency (0.2% in 2023).

Taking the additional measures announced on 9 November 2023 into account would reinforce the assessment that energy measures are not projected to be wound down as soon as possible in 2024. Furthermore, the assessment that savings related to a phase-out of energy measures are not projected to be fully used to reduce government deficit would be confirmed.

17. In addition, the Council recommended that Germany preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience

[14] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[15] Measures that, according to the Draft Budgetary Plan, are not to be phased out in the course of 2024 are, in principle, assumed in the Commission 2023 autumn forecast as having a budgetary impact also in 2025.

[16] This contribution is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

Facility grants and other EU funds, in particular to foster the green and digital transitions.

According to the Commission 2023 autumn forecast, nationally financed public investment is projected to increase to 2.7% of GDP in 2024 (from 2.5% of GDP in 2023) and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.2% of GDP in 2024 (0.2% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Germany continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.

The Draft Budgetary Plan includes medium-term budgetary projections until 2027. The general government deficit is projected to decrease gradually to 1½% of GDP in 2025 and 1¼% in 2026 and 2027. In turn, the general government debt is projected to decrease gradually to 64¾% of GDP in 2025 and 2026 and 64¼% in 2027.

19. Finally, on 14 July 2023, the Council also recommended Germany to improve the tax mix in order to achieve more inclusive and sustainable growth, in particular by improving tax incentives in order to increase hours worked as well as to safeguard the long-term sustainability of the pension system. Several changes to income taxation like reducing the tax bracket creep, increasing child allowances and the basic allowance as well as the law for fostering growth opportunities for companies are expected to contribute to more inclusive and sustainable growth and increase hours worked. The introduction of a capital-based pillar to the pension system in 2023 will contribute to safeguarding its long-term sustainability.

20. According to the Commission 2023 autumn forecast, the growth of net nationally financed primary expenditure is projected to respect the recommended maximum growth rate in 2024.

However, according to the Commission 2023 autumn forecast, and taking into consideration the information included in Germany’s Draft Budgetary Plan, the emergency energy support measures are not expected to be wound down as soon as possible in 2023 and 2024. The related savings are projected to be only partially used to reduce the general government deficit in 2024. Taking the additional measures announced on 9 November 2023 into account would reinforce the assessment that energy measures are not projected to be wound down as soon as possible in 2024.

Germany is expected to preserve nationally financed public investment. Germany should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany is not fully in line with the Council Recommendation of 14 July 2023. Therefore, the Commission invites Germany to wind down the energy support measures as soon as possible in 2023 and 2024.

At the same time, the Commission projects Germany’s headline budget deficit at 1.6% of GDP in 2024, below the Treaty reference value of 3% of GDP, and the government debt ratio at 63.6% in 2024, above the Treaty reference value of 60% of GDP, and 5.4 percentage points of GDP below the ratio at end 2021.

The Commission is also of the opinion that Germany has made some progress with regard to the structural elements of the fiscal recommendations made by the Council on 14 July 2023, and thus invites the German authorities to make further progress.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

Table: Key macroeconomic and fiscal figures

	2022	2023		2024	
	Outturn	**DBP**	**COM**	**DBP**	**COM**
Real GDP (% change)	1.8	0.4	-0.3	1.6	0.8
HICP inflation (%; annual average)	8.7	-	6.2	-	3.1
General government balance (% of GDP)	-2.5	-2½	-2.2	-2	-1.6
Primary balance (% of GDP)	-1.8	-1¾	-1.4	-1	-0.7
General government gross debt (% of GDP; at end-year)	66.1	65¼	64.8	64¾	63.6
	COM	**COM**		**COM**	
Fiscal stance (*) (% of GDP)	-2.8	0.7		0.6	
Fiscal adjustment (**) (% of GDP)	-2.9	0.7		0.6	
Change in total net budgetary cost of energy support measures (***) (% of GDP)	1.2	0.2		-1.2	
Growth in net nationally financed primary expenditure (% change) (A)				2.6	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)				2.5	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (B-A)				-0.1	
Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation (*****) (% of GDP)				0.0	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes (and levies) on windfall profits by energy producers.

(****) According to the Council Recommendation 'on the 2023 National Reform Programme of Germany and delivering a Council opinion on the 2023 Stability Programme of Germany', (OJ C 312, 1.9.2023, p. 38).

(*****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

'DBP' 2024 Draft Budgetary Plan, 'COM' Commission 2023 autumn forecast.

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For the Commission
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