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COMMISSION OPINION

of 18.11.2020

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 sets out provisions for enhanced monitoring of budgetary policies in the euro area, 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, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission set out its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027.[7] This proposal includes the establishment

[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[2] The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

[3] https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

[4] Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

[5] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

[6] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

[7] Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING GERMANY

5. On 15 October 2020, Germany submitted its Draft Budgetary Plan for 2021. On that basis, the Commission has adopted an opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Germany[8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Germany to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Germany's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission 2020 autumn forecast, the German economy is expected to contract by 5.6% in 2020 and to grow by 3.5% in 2021. The Draft Budgetary Plan expects a similar development with a contraction of GDP by 5.8% in 2020, mainly driven by a strong decline in domestic demand (in particular private consumption and private investment) and a sharp contraction of the global economy caused by the COVID-19 pandemic. Mitigated by the short-time work scheme, the reduction in employment is according to the Draft Budgetary Plan set to remain contained, at -0.8% in 2020. The Draft Budgetary Plan anticipates a noticeable increase in GDP by 4.4% in 2021, driven by a rebound in investment, a partial recovery of private consumption and the labour market, as well as a boost from net exports.

   Germany complies with the requirement of Regulation EU No 473/2013 as the draft budget is based on independently endorsed macroeconomic forecasts.

8. The Draft Budgetary Plan projects a general government headline budget deficit of 6¼% of GDP for 2020 and of 4¼% of GDP in 2021. The high projected deficits are besides the impact of automatic stabilisers due to the large packages of measures adopted in the course of 2020 to fight the COVID-19 pandemic and to stabilise and support the economy, which amount to 4.7% of GDP in 2020 and 2.1% of GDP in

[8] Council Recommendation of 20 July 2020 on the National Reform Programme of Germany and delivering a Council opinion on the 2020 Stability Programme of Germany, OJ C 282, 26.08.2020, p. 27.

2021. These projections are broadly in line with the Commission 2020 autumn forecast expecting a deficit of 6.0% of GDP in 2020 and of 4.0% in 2021.

The Draft Budgetary Plan does not assume revenue from and expenditure financed under the Recovery and Resilience Facility. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants and treats it as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. In the case of Germany, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 2.4 billion in 2021.[9]

On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes no expenditure related to the Recovery and Resilience Facility, as the government has not yet indicated expenditure to be financed under the Recovery and Resilience Facility in 2021.[10] The evolution of the deficit in 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility.

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase from 59.6% of GDP at the end of 2019 to 70¼% in 2021, similar to the Commission's projection of 70.1%.

As in other countries, the government has provided public guarantees to sustain economic activity and sectors particularly hit by the pandemic. Should these guarantees be called, this will be reflected in public debt and deficits in the future.

The Draft Budgetary Plan is also based on the medium-term financial planning until 2024 that projects the return to compliance with the medium-term budgetary objective from 2023 onwards. In this planning, government debt is projected to start declining again from 2021 onwards from its peak in 2020.

9. Germany adopted a first package of emergency measures at the beginning of the outbreak of the pandemic in March 2020. It thereafter adopted a Recovery and Future Development Package in June 2020 that partly specified measures already taken in March. According to the 2020 Draft Budgetary Plan, those budgetary measures amount in total to 4.7% of GDP, out of which 2.2% of GDP for the package adopted in June. Revenue measures imply a budgetary impact of 0.9% of GDP, while expenditure measures account for 3.8% of GDP. According to the Commission forecast, out of these measures 4.5% of GDP are assessed to be temporary, while 0.2% of GDP appear not to be temporary or matched by offsetting measures.

[9] Indicative number based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

[10] The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). In line with the customary no policy-change assumption, the forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

The biggest measures of the March emergency measures are increased government consumption expenditure especially for the health sector amounting to 0.9% of GDP, subsidies to the corporate sector in form of grants and loans amounting to 0.8% of GDP as well as salary payments for the short time working schemes to keep people in employment amounting to 0.6% of GDP.

The biggest measures of the June package are subsidies to the corporate sector including SMEs and self-employed in form of grants and subsidised loans amounting to 0.9% of GDP as well as a temporary reduction of the value added tax from 19% to 16% and 7% to 5% applying in the second half of 2020 for 6 months amounting to 0.4% of GDP.

The Commission 2020 autumn forecast considers the described measures credibly announced and sufficiently specified and incorporates them with no difference in their assessment.

In addition, Germany adopted measures that, while not having a direct impact on the deficit, contributed to providing liquidity support to businesses in the form of deferred payments for taxes and social security contributions, reduction of tax prepayments and tax loss carrybacks for 2020 and 2021.

Moreover, Germany provided public guarantees and equity instruments for capital injections and acquiring participations in companies. The Draft Budgetary Plan indicates those measures to have a total volume of around 19.6% of GDP, whereby public guarantees cannot all be specified precisely as some have been announced to an unlimited amount. The Draft Budgetary Plan indicates a take-up of guarantees of around 1.5% of GDP at the time of its writing in October 2020.

Overall, the measures taken by Germany in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. In 2021, the budgetary impact of measures is 2.1% of GDP, of which revenue measures account for 0.6% of GDP and expenditure measures for 1.5% of GDP. According to the Commission forecast, out of these measures 1.7% of GDP are assessed to be temporary. The remaining 0.4% of GDP appear not to be temporary or matched by offsetting measures. The budgetary impact in 2021 partly results from the extension of measures already implemented in 2020. On the revenue side these measures concern, among others, the remainders of the reduction in value added tax from the previous year, amounting to 0.2% of GDP, and on the expenditure side the extension of support for the corporate sector, including the prolongation of short-time work until the end of 2021 amounting to 0.2% of GDP.

The Draft Budgetary Plan also presents a set of new measures in 2021 aimed at supporting the envisaged recovery. These new measures include tax incentives for research and investment grants regarding digitalisation and mobile communication, artificial intelligence and hydrogen energy, amounting to 0.2% of GDP. A further strengthening of the healthcare sector with investment grants especially for hospitals, support for vaccine development and acquisition of protective equipment will increase expenditure by around 0.2% of GDP. The reduction of the supplementary levy for green energy amounts to 0.3% of GDP. Families will benefit from an increase in the child allowance and child tax free allowance in 2021 amounting to 0.2% of GDP. Moreover, liquidity measures in the form of public guarantees on loans are expected to continue to play an important role in supporting the corporate sector and economic recovery.

All the measures are presented in sufficient detail in the Draft Budgetary Plan and are thus included in the Commission 2020 autumn forecast, with no difference in their assessment.

11. The Commission is of the opinion that the Draft Budgetary Plan of Germany is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Germany are supporting economic activity against the background of considerable uncertainty. Germany is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that Germany will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament

Done at Brussels, 18.11.2020

For the Commission
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