EUROPEAN
COMMISSION

Brussels, 18.11.2020
SWD(2020) 853 final

COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of Germany

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Germany

{C(2020) 8503 final}

Table of Contents

EXECUTIVE SUMMARY

- After real GDP grew by 0.6% of GDP in 2019, it is expected to contract sharply in 2020 namely by 5.8% according to the Draft Budgetary Plan and by 5.6% according to the Commission 2020 autumn forecast. For 2021, the Draft Budgetary Plan projects GDP to recover partly and expand by 4.4% and by 3.5% according to the Commission projections. As a consequence, real GDP in 2021 is set to remain below the level attained in 2019. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate from a surplus of 1.5% of GDP in 2019 to a large deficit of 6¼% in 2020, before the deficit decreases to 4¼% in 2021. The Commission 2020 autumn forecast projects a similar deficit of 6.0% in 2020 and 4.0% in 2021. On 20 May 2020, the Commission has therefore prepared a report under Article 126(3) TFEU analysing whether Germany is compliant with the deficit criterion of the Treaty and concluded that the deficit and criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 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.
- For the time being, since the submission of the Recovery and Resilience Facility and subsequent approval are only expected to take place in 2021, the Commission forecast includes only 0.1% of GDP pre-financing of Recovery and Resilience Facility grants in the budgetary projections for 2021 and treats them as a financial transaction with no impact on the budget balance, but with a public debt reducing impact.
- The emergency measures adopted in March 2020 to fight the COVID-19 pandemic together with the recovery package adopted in June 2020 have a deficit increasing impact of 4.7% of GDP in 2020 and 2.1% of GDP in 2021. They comprise, among others, extraordinary healthcare expenditure, liquidity support for the corporate sector including small- and medium sized companies and self-employed in the form of grants and subsidised loans as well as short-time work schemes to keep people in employment. Other liquidity measures and public guarantees do not entail an immediate budgetary effect. The extension of the current framework for public guarantees can be estimated at 19.6% of GDP knowing that some guarantees were provided to an unlimited amount. Overall, the measures taken by Germany in 2020 were in line with the guidelines of the Commission Communication of 30 March 2020 on a coordinated economic response to the COVID-19 outbreak.
- In 2019, public debt had just fallen below the 60% threshold for the first time since 2002 at 59.6% of GDP. As a consequence of the large amount of

measures taken to fight the pandemic, the debt level in the Draft Budgetary Plan increases to 71% of GDP in 2020 before decreasing slightly to 70¼% of GDP in 2021. The Commission 2020 autumn forecast projects similar debt levels of 71.2% of GDP in 2020 and 70.1% of GDP in 2021.

- Overall, most of the measures set out in the Draft Budgetary Plan of Germany are supporting economic activity against the background of considerable uncertainty. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plans of Germany (hereafter called the Plan), which was submitted on 15 October 2020 in compliance with Regulation (EU) No 473/2013.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance of the EU Member States agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021[1] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[2], the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Germany does not take into account the implementation of the reforms and investments, and their associated costs, envisaged under the RRF.

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

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

[2] 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

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 a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

As the debt ratio is projected to be 71% of GDP at the end of 2020, exceeding the 60% of GDP reference value of the Treaty, Germany also needs to comply with the debt reduction benchmark.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic scenario underlying the Draft Budgetary Plan assumes a drop in real GDP of 5.8% in 2020 due to both the strong decline in domestic demand (in particular private consumption and private investment) and the sharpest contraction of the global economy in post-war history 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. In comparison, the 2020 Stability programme was based on the ad-hoc assumption for the federal government's 2020 supplementary budget of GDP falling by 6% in 2020, while refraining from a projection for 2021.

In addition to automatic stabilisers draining the budget due to the drop in economic activity and employment, the government took a series of measures to counter the adverse effects of the COVID-19 outbreak. As a consequence, it projects to incur an unprecedented deficit as well as an increase in the debt level that comes on top of that.

The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic and its economic consequences. The macroeconomic scenario does not take into account the resurgence of infection rates in October 2020 and the re-imposition of containment measures, restricting various activities. As assumed in the Commission 2020 autumn forecast, this could negatively impact GDP growth in 2021, even if countervailing measures to support businesses seem to be in the pipeline.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	0.6	-6.0	-5.8	-5.6	n.a.	4.4	3.5
Private consumption (% change)	1.6	n.a.	-6.9	-7.2	n.a.	4.7	3.6
Gross fixed capital formation (% change)	2.5	n.a.	-3.7	-3.8	n.a.	5.2	2.8
Exports of goods and services (% change)	1.0	n.a.	-12.1	-9.7	n.a.	8.8	6.2
Imports of goods and services (% change)	2.6	n.a.	-8.1	-6.8	n.a.	7.5	5.5
Contributions to real GDP growth:							
- Final domestic demand	1.9	n.a.	-3.4	-3.9	n.a.	3.4	2.9
- Change in inventories	-0.7	n.a.	0.0	0.0	n.a.	0.0	0.0
- Net exports	-0.6	n.a.	-2.3	-1.7	n.a.	0.9	0.6
Output gap[1]	1.2	n.a.	-5.2	-5.1	n.a.	-2.0	-2.7
Employment (% change)	0.9	n.a.	-0.8	-1.0	n.a.	0.4	0.2
Unemployment rate (%)	3.1	n.a.	3.7	4.0	n.a.	3.2	4.0
Labour productivity (% change)	-0.3	n.a.	-5.0	-4.6	n.a.	3.9	3.3
HICP inflation (%)	1.4	n.a.	0.0	0.4	n.a.	0.0	1.4
GDP deflator (% change)	2.2	1.8	1.9	2.6	n.a.	1.5	1.4
Comp. of employees (per head, % change)	3.0	n.a.	-0.1	-0.8	n.a.	2.7	2.8
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.1	n.a.	7.5	6.0	n.a.	7.4	6.3

Note:

[1]In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

The macroeconomic forecast underpinning the budget was prepared by the Federal government in August 2020 and was endorsed by an independent body, notably by the project group Joint Economic Forecast (Gemeinschaftsdiagnose). In its opinion published on its website[3], the project group declares the forecast plausible in view of the information available at the time and gives its endorsement. Germany has not chosen to have its budgetary forecasts endorsed or prepared by an independent body.

3. Recent and planned fiscal developments

On 20 July 2020, the Council addressed recommendations to Country in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Germany to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery, when economic conditions allow, Germany should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

[3] http://gemeinschaftsdiagnose.de/wp-content/uploads/2020/09/Interimsprojektion2020-08_Bundesregierung_Befuerwortung.pdf

3.1. Deficit developments

As usual the Draft Budgetary Plan reports on the budgetary situation of the general government, which comprises the federal government, regional governments, municipalities and social security funds. 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 a volume of 4.7% of GDP in 2020 and 2.1 of GDP in 2021. These projections are in line with the Commission 2020 autumn forecast expecting a deficit of 6.0% of GDP in 2020 and of 4.0% in 2021. Compared to the 2020 Stability Programme the deficit projection of the Draft Budgetary Plan is by 1 percentage point smaller for 2020 (previously deficit of 7¼% of GDP). The difference is mainly due to a slightly better GDP outlook as well as expectation for a more gradual disbursement of the funds for stabilising the economy, also overlapping to 2021.

The revenue-to-GDP and expenditure-to-GDP ratio for 2020 are about ¾ percentage points higher in the Draft Budgetary Plan compared to the Commission 2020 autumn forecast, which is mainly due to a more contracted GDP forecast in the Draft Budgetary Plan. In 2021, those ratios are relatively aligned between the two forecasts, besides smaller variations between the revenue and expenditure items, also given that the Draft Budgetary Plan projects a stronger rebound in GDP growth, resulting in a similar GDP level like the Commission 2020 autumn forecast.

The Draft Budgetary Plan forecasts a slight decrease of the structural deficit as recalculated by the Commission using the commonly agreed methodology[4] from 3.5% of GDP in 2020 to 3.4% in 2021. Based on comparable macroeconomic projections and a similar deficit forecast, the Commission 2020 autumn forecast expects for 2020 a similar structural deficit of 3.4% of GDP. For 2021, the Commission projects an improvement of the structural deficit to 2.7% of GDP. The smaller structural deficit compared to the Draft Budgetary Plan can be explained by the stronger effect of the economic cycle. Similarly to the macroeconomic forecasts, the fiscal projections in the current circumstances are subject to a high degree of uncertainty.

However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance. Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.[5]

---

[4] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

[5] The measure of the output gap is complicated in the face of a sharp economic turnaround and very high level of economic uncertainty.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020			2021			Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**46.7**	**46.7**	**47¼**	***47***	**46.2**	**n.a.**	***45¾***	**46.0**	**-1**
of which:									
- Taxes on production and	10.7	10.7	10¼	*10¼*	10.1	n.a.	*10*	10.5	-½
- Current taxes on income,	13.3	13.3	12¾	*12¾*	12.5	n.a.	*12½*	12.3	-¾
- Capital taxes	0.2	0.2	¼	*¼*	0.2	n.a.	*¼*	0.2	0
- Social contributions	17.3	17.3	18¼	*18¼*	17.9	n.a.	*17¾*	17.7	¼
- Other (residual)	5.2	5.2	5½	*5½*	5.5	n.a.	*5½*	5.2	0
Expenditure	**45.2**	**45.2**	**54½**	**53**	**52.2**	**n.a.**	**50**	**50.0**	**5**
of which:									
- Primary expenditure	44.4	44.4	53½	52¼	51.5	n.a.	49½	49.3	5
of which:									
Compensation of employees	7.9	7.9	8¾	8½	8.4	n.a.	8¼	8.2	¼
Intermediate consumption	5.3	5.3	5¾	6¼	6.3	n.a.	5¾	6.1	½
Social payments	24.5	24.5	27¾	27½	27.2	n.a.	26½	26.5	2
Subsidies	0.9	0.9	3½	2½	2.6	n.a.	1¾	1.5	¾
Gross fixed capital formation	2.5	2.5	2¾	3	2.8	n.a.	2¾	2.8	¼
Other (residual)	3.3	3.3	5¼	4½	4.2	n.a.	4½	4.2	1¼
- Interest expenditure	0.8	0.8	¾	¾	0.7	n.a.	¾	0.6	-¼
General government balance (GGB)	**1.5**	**1.5**	**-7¼**	**-6 ¼**	**-6.0**	**n.a.**	**-4¼**	**-4.0**	**-6**
Primary balance	**2.3**	**2.3**	**-6½**	**-5 ½**	**-5.3**	**n.a.**	**-3¾**	**-3.4**	**-6**
One-off and other temporary measures	0.0	0.0	0	0	0.0	n.a.	0	0.0	0
GGB excl. one-offs	**1.5**	**1.5**	**-7¼**	**-6 ¼**	**-6.0**	**n.a.**	**-4¼**	**-4.0**	**-6**
Output gap[1]	1.2	1.4	n.a.	-5.2	-5.1	n.a.	-2.0	-2.7	-3.4
Cyclically-adjusted balance[1]	0.9	0.8	n.a.	-3.5	-3.4	n.a.	-3.4	-2.7	-4.1
Structural balance (SB)[2]	**0.9**	**0.8**	**n.a.**	**-3.5**	**-3.4**	**n.a.**	**-3.4**	**-2.7**	**-4.1**
Structural primary balance[2]	1.7	1.6	n.a.	-2.6	-2.7	n.a.	-2.6	-2.1	-4.2

Notes:

[1] Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

[2] Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

The Draft Budgetary Plan does not assume revenue from and expenditure 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 projection for 2021, the 10% pre-financing of the Recovery and Resilience Facility grants[6] and treats them 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. On the expenditure side, in line with its no-

[6] The amount of pre-financing is 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.

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.[7]

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.

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.

The planned deficit for 2020 and 2021 is in strictu sensu not compliant with the national fiscal rules, that allow only a structural deficit of 0.35% of GDP on the federal level and no structural deficits on the regional level of the Länder. However, the German constitution provides in its article 115(2) the possibility to adopt an escape clause for emergency situations out of the control of the government by parliamentary vote. This escape clause was triggered by the German Parliament as a consequence of the COVID-19 pandemic, so that the budget for 2020 and 2021 is not in conflict with the national fiscal rules.

3.2. Debt developments

The Draft Budgetary Plan indicates that the government debt-to-GDP ratio will increase by roughly 11½ percentage points from 59.6% at the end of 2019 to 71% in 2020, similar to Commission's projection of 71.2%. The snowball effect will entail a sizeable debt-increasing impact of more than 3 percentage points with respect to 2019, driven by the considerable contraction in nominal GDP. Likewise, the primary deficit will add more than 5 additional percentage points to the debt ratio, mainly due to the measures adopted to counter the impact of the COVID-19 pandemic. The stock-flow adjustments will also contribute to increasing the debt by almost 3 percentage points, mainly as a result of the creation of the Economic Stabilisation Fund for fighting the pandemic, that provides equity instruments like capital injections and loans to strategic corporations – these transactions are not registered in the deficit accounts given their financial nature.

[7] 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). 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.

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**59.6**	**75¼**	**71**	**71.2**	**n.a.**	**70¼**	**70.1**
Change in the ratio	-2.1	15½	11½	11.5	n.a.	-¾	-1.1
Contributions[2]:							
1. Primary balance	**-2.3**	**6.4**	**5.4**	**5.3**	**n.a.**	**3.7**	**3.4**
2. "Snow-ball" effect	**-0.9**	**3.4**	**3.1**	**2.5**	**n.a.**	**-3.3**	**-2.7**
Of which:							
Interest expenditure	0.8	0.8	0.7	0.7	n.a.	0.6	0.6
Real growth effect	-0.3	3.7	3.6	3.4	n.a.	-2.9	-2.4
Inflation effect	-1.3	-1.2	-1.2	-1.6	n.a.	-1.0	-1.0
3. Stock-flow adjustment	**1.0**	**5.8**	**2.8**	**3.6**	**n.a.**	**-1.1**	**-1.7**

Notes:

[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission 2020 autumn forecast (COM); Commission calculations

For 2021, the Draft Budgetary Plan projects the debt ratio to decrease by around ¾ percentage points, to 70¼% of GDP. The lower debt-increasing effects from the primary deficit compared to 2020 are set to be largely offset by the projected brisk economic rebound through the snowball effect and some changes in stock-flow adjustments. The debt-increasing contribution by interest payments is projected to remain broadly stable with respect to 2020. A significant risk underlying the forecasts relate to the sizeable amount of public guarantees provided and taken up as mentioned below. The possibility that some of these guarantees could be called represents a downward risk to the government balance in 2021 and subsequent years.

The debt projections in the Draft Budgetary Plan for 2020 are somewhat lower than in the Stability Programme due to the lower primary deficit and fewer financial transactions projected in the Draft Budgetary Plan as the disbursement of the measures adopted to counter the pandemic occurs at a slower speed, compared to the assumptions pf the Stability Programme at the beginning of the pandemic, overlapping into the year 2021.

The Commission 2020 autumn forecast projects a similar evolution for the debt ratio in 2020 and 2021 compared to the Draft Budgetary Plan, with a slightly weaker primary deficit and snow-ball effect in both years.

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020 and the measures planned to sustain the recovery in 2021. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the national authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic and as part of a coordinated Union approach, Germany adopted in 2020 timely budgetary measures to increase the capacity of its health system, contain the pandemic, stabilise the economy and the labour market and support the sectors and entities particularly affected. Germany adopted emergency measures at the beginning of the outbreak of the pandemic in March 2020 and further 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. The remaining 0.2% of GDP do not appear to be temporary or matched by offsetting measures. 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 small- and medium-sized enterprises 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 (VAT) in the second half of 2020 for 6 months amounting to 0.4% of GDP (reduction of general VAT rate from 19% to 16% and of the reduced VAT rate from 7% to 5%). The Commission 2020 autumn forecast considers the described measures credibly announced and sufficiently specified and incorporates them with no difference in their assessment.

Table 4.1.a. Main discretionary measures adopted/announced with budgetary impact reported in the Draft Budgetary Plan

List of measures	Description	ESA Code (Expenditure / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)		
					2020	2021
	Tax reduction including reduced VAT from 19% to 16% and 7% to 5%	D.21, D.51 Revenue	Adopted		0.5	-0.3
	Stabilisation of social security contribution rates and reduction of supplement for green energy	P.51, D.31, D.61 Expenditure	Adopted		0.2	0.3
	Support to small and medium-sized companies	D.39, D.75, D.92 Expenditure	Adopted		0.8	-0.7
	Support for small enterprises and self-employed	D.39, D.52, D.62 Expenditure	Adopted		0.6	-0.6
	Additional health spending for hospital beds and purchase of protective equipment	P.2, P.51, D.75, D.92 Expenditure	Adopted		0.7	-0.5
	Short-time work scheme to keep people in employment	D.39, D.61, D.62 Expenditure	Adopted		0.8	-0.6
	Other smaller measures		Adopted		1.1	-0.2
				Total	**4.7**	**-2.6**

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.

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)		Current take-up (actual contingent liability, % of GDP)
	KfW special programme	Adopted		4.5	1.4
	Guarantee banks	Adopted		Unlimited	0.0
	Guarantee programme	Adopted		Unlimited	0.0
	Guarantee for credit insurers	Adopted		0.9	0.0
	Guarantee for liquidity protection loans from the Landwirtschaftliche Rentenbank	Adopted		0.0	0.0
	Financing guarantees provided to companies by the Economic Stabilisation Fund	Adopted		12.1	0.0
	Increase in the guarantee framework of the Länder	Adopted		2.1	n.a.
	Financial cooperation Guarantees for international economic cooperation	Adopted		n.a.	0.1
			Total	**19.6**	**1.5**

***** Any budgetary impact related to expected losses or actual calls should be provided in the standard table **5.1 Description of discretionary measures included in the draft budget** *(see Code of Conduct,* https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

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.

4.2. Measures in 2021

In 2021, the budgetary impact of measures is 2.1% of GDP, of which revenues 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 do not appear 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.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission 2020 autumn forecast, most of the measures planned by Germany in 2021 are supporting economic activity against the background of considerable uncertainty.

At the same time, it would be useful 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.

5. ANNEXES

ANNEX 1: Mandatory variables not included in the Draft Budgetary Plan

The Draft Budgetary Plans does not include several mandatory variables, including:

- Table 1a. Macroeconomic prospects: 2019 levels for contributions to real GDP growth

- Table 1d. Sectoral balances: statistical discrepancy

- Table 3. General government expenditure and revenue projections at unchanged policies: social payments and unemployment benefits

- Table 4ci. General government expenditure by function: data on education, healthcare and employment expenditure

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.