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COMMISSION OPINION

of 26.11.2024

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 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 EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area 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 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] 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'). The Facility is expected to 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.

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] 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. 17–75.

CONSIDERATIONS CONCERNING GERMANY

6. On 15 October 2024, Germany submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013 and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Germany of 21 October 2024[3].

7. On 21 October 2024, upon the Commission recommendation for Council Recommendation on the economic, social, employment, structural and budgetary policies of Germany of 19 June 2024[4], the Council recommended Germany, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and maintaining the general government deficit below the 3% of GDP Treaty reference value.

8. Germany has not yet submitted its medium-term fiscal-structural plan.

9. According to the Draft Budgetary Plan, Germany's real GDP is projected to grow by 1.0% in 2025 (0.3% in 2024). According to the European Commission Autumn 2024 Forecast, Germany's real GDP is projected to grow by 0.7% in 2025 (-0.1% in 2024), while inflation is forecast at 2.1% in 2025 (2.4% in 2024). The main differences between both sets of projections reflect the higher investment growth in the Draft Budgetary Plan compared to the European Commission Autumn 2024 Forecast. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 (and 2024). 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.

10. Based on the Commission's estimates, the fiscal stance[5] is projected to be contractionary by 0.1% of GDP in 2025, following a contractionary fiscal stance of 0.5% in 2024. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

11. According to the Draft Budgetary Plan, Germany's general government deficit is projected to decrease to 1¾% of GDP in 2025 (2½% in 2024), while the general government debt-to-GDP ratio is set to amount to 63¼% at the end of 2025 (and 2024). According to the Draft Budgetary Plan, net expenditure is projected to grow by 3¾% in 2024 and 2¼% in 2025. As Germany has not submitted a medium-term fiscal-structural plan, the Commission has based its assessment on the reference trajectory provided to Germany on 21 June 2024 which does not take into account the data and information that has become available since the European Commission

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[3] Not yet published.

[4] Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Germany, 19.6.2024, COM(2024)605 final.

[5] 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 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.

Spring 2024 Forecast. In turn, according to the European Commission Autumn 2024 Forecast, Germany's general government deficit is projected to decrease to 2.0% of GDP in 2025 (2.2% in 2024), while the general government debt-to-GDP ratio is set to increase to 63.2% at the end of 2025 (63.0% at the end of 2024). According to the European Commission Autumn 2024 Forecast, net expenditure is projected to grow by 2.6% in 2024 and 2.7% in 2025. The main differences between both sets of projections reflect the lower overall expenditure level in 2024 in the European Commission Autumn 2024 Forecast together with a smoother rising expenditure path in the years thereafter, leading to a more gradually declining deficit and a smoother profile for net expenditure growth. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan are tilted to the downside. They mainly relate to expenditure by the defence fund and other spending items, being registered in 2025 instead of in 2024 as originally planned, overcharging spending in 2025 and therefore impacting the deficit and the net expenditure growth rate.

12. 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 2025, compared to 0.1% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Germany.

13. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include several tax measures that decrease tax revenues, such as an increase of the basic personal allowance and children's allowances and benefits as well as changes to the depreciation rules. On the expenditure side, these measures include financial support for energy-intensive companies and the phase-out of diesel subsidies. According to Commission estimates, the overall additional impact of the revenue measures decreases the general government deficit by 0.3% of GDP in 2025.

14. According to the European Commission Autumn 2024 Forecast, Germany's net expenditure is projected to increase by 2.7% in 2025, which corresponds to a cumulative growth of 5.4% in 2024 and 2025 taken together. This is due to the less favourable fiscal position in 2024 than expected last spring. The Commission is of the view that these net expenditure growth rates are not fully in line with the Council recommendation of 21 October 2024, which, as explained in recital 11, refer to the maxima from the reference trajectory Germany received from the Commission in June 2024[6].

15. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to remain stable at 2.9% of GDP in 2025 (2.9% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to remain stable at 0.3% of GDP in 2025 (0.3% of GDP in 2024).

16. Finally, the Council also recommended Germany to strengthen public investment and remove obstacles to private investment to boost competitiveness, enhance the fiscal

[6] According to the European Commission Autumn 2024 Forecast, the annual growth of net expenditure in 2025 exceeds by 0.1% of GDP – while the cumulative growth of net expenditure in 2024 and 2025 taken together exceeds by 0.2% of GDP – the maxima from the reference trajectory Germany received from the Commission in June 2024.

space for productive spending including by reforming the financing side of the first pillar pension system and to improve the tax mix for more inclusive growth and sustainable competitiveness, also by reducing disincentives to increase hours worked, in particular for second earners. For strengthening public and private investment Germany plans to modify depreciation rules, extend the research allowance, reform the building code and support new technologies like artificial intelligence. The first pillar of the pension system is supposed to benefit from more attractive private pensions and occupational pension schemes as well as the build-up of a capital-based pillar. Increasing the allowances for children and the basic personal allowance as well as measures to offset tax bracket creep are intended to improve the tax mix for supporting inclusive growth and sustainable competitiveness. Introduction of the factor-based method in income taxation is expected to increase incentives for second earners to take up work.

17. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany is not fully in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Germany's net expenditure growth in 2025 is not fully consistent with what was recommended by the Council on 21 October 2024. Therefore, the Commission invites Germany to ensure that fiscal policy in 2025 is in line with the Council Recommendation of 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	-0.3	0.3	-0.1	1.0	0.7
2	HICP inflation	% change	6.0	n.a.	2.4	n.a.	2.1
3	General government balance	% GDP	-2.6	-2½	-2.2	-1¾	-2.0
4	Primary balance	% GDP	-1.7	-1½	-1.1	-¾	-0.9
5	General government gross debt	% GDP	62.9	63¼	63.0	63¼	63.2
6	Fiscal stance (*)	% GDP	0.4		0.5		0.1
7	Net expenditure growth (annual)	% change		3¾	2.6	2¼	2.7
8	Net expenditure growth (cumulative)	% change				6	5.4

Notes :
* The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in 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 GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
Paolo GENTILONI
Member of the Commission