

Germany: Green stimulus to the rescue?

This week will show whether Germany can actually do fiscal stimulus



Germany, Green vineyards above Stuttgart city

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Over to you, Berlin. Next to the monetary stimulus 'big bang' and Mario Draghi's new 'as long as it takes' proclamation, this was the main message of last week's European Central Bank meeting. The call for fiscal stimulus has never been louder. And this week will show whether the eurozone country with the deepest pockets finally plans to empty them.

Black zero forever

Fiscal stimulus in Germany? No way. This has been a common reaction by many commentators and financial market participants over the last few years. The so-called debt-brake, an almost obsessive focus on fiscal surpluses, and frequent denial of the need for any public investment programme have led to many frustrations and disappointments. However, since the start of the year, the mood in Germany has gradually changed. It started with more conservative economists, who suggested changes to the constitutional debt brake to make room for investments, then reached mainstream media outlets and finally even politicians in Berlin have started to contemplate some fiscal stimulus (though no members of the government). The recent downswing of the economy has also clearly played an important role in this development.

Unfortunately, when German finance minister Olaf Scholz presented the federal budget last week, hopes for fiscal stimulus were indeed undermined once again. Remember that the federal budget

is not the total budget used in fiscal surveillance under the Stability Pact. However, Scholz's budget plans clearly lacked ambition. The government is sticking to its plan of a balanced budget until 2023. The so-called 'black zero' stands. Public investment is projected to increase by a meagre EUR0.9 billion next year and stay constant thereafter.

Green stimulus to the rescue

However, before giving up on the possibility of German fiscal stimulus, be aware that these budget plans completely exclude possible costs from the government's grand strategy to tackle climate change. This strategy is supposed to see the light on Friday, 20 September. According to a report in the German newspaper *"Welt am Sonntag"*, the government is looking for a EUR40bn package until 2023. This package could include higher subsidies for electric cars, subsidies for climate-friendly real estate renovations and investments in rail. Whether or not the package will also include a CO2 tax remains unclear.

Given comments over recent days, the financing of such a climate package could be done 'off-budget' or through some so-called Special Purpose Vehicles. Even the option of special green government bonds has been mentioned. The advantage of these financing methods is that they wouldn't collide with the constitutional debt brake and would 'only' be subject to European fiscal surveillance under the Stability Pact.

This is not the place to assess the German government's strategy to tackle climate change. Needless to say that any such strategy should be all-encompassing and preferably coordinated at the European level. However, just looking at it from a eurozone growth perspective, Friday 20 September could finally show that Germans can do fiscal stimulus. Green stimulus. It would not be enough to stop the current slide of the economy towards recessionary territory, but it could be an important cornerstone in Germany's recovery and its quest for a new economic model.

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