Germany: Green stimulus to the rescue?
This week will show whether Germany can actually do fiscal stimulus

Content
- Black zero forever
- Green stimulus to the rescue

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.

Carsten Brzeski
Chief Economist ING Germany
+49 69 27 222 64455
carsten.brzeski@ing.de
Disclaimer
This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies). The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.