Germany: Social delivery

In its first meeting after the summer break, the German government demonstrated enthusiasm to act and deliver on its social promises, adding more pro-cyclical fiscal stimulus to the economy

Last night, the German government agreed on a series of social policy measures, all targeted at increasing purchasing power and stabilising pensions. The political leaders of the three coalition parties agreed to improve pensions for older mothers and disabled pensioners, reduce employees' contribution to the unemployment insurance scheme by 0.5 percentage points to 2.5% and guarantee to keep pensions stable at 48% (of roughly the average salary over 45 years) until 2025, while at the same time capping pension contributions at 20% (currently at 18.6%). All measures should become effective on 1 January 2019.

With this political agreement, all government members will now have to agree on the above social package before it will then be sent to parliament. However, the next steps will only be a formality. Do not expect any further hurdles.

Fiscal stimulus - for consumption but not for investment

Last night's agreement shows that the German government is trying to deliver on its promises made in the coalition agreement. In June, the government agreed to tax relief for families to the tune of €10 billion a year. In combination with last night's measures, the government is inserting fiscal stimulus of some 0.4% of GDP into the economy. While from a political point of view such pro-cyclical fiscal policies are highly understandable, a similar or even higher ambition level regarding long-term structural investments would probably benefit the economy even more.

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