

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.

Author

Carsten Brzeski

Global Head of Macro

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 N.V. 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. 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 authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.