Germany finally has a budget plan for 2024

The government just announced its plan for filling the funding gap in the 2024 budget. It's a combination of expenditure cuts and new revenues, probably keeping the economy in a minor recession next year

German Chancellor Olaf Scholz

Germany finally has a budget plan for next year. This kind of headline just two weeks before year-end shows how much fiscal times have changed in Europe. In the past, German budget plans hardly ever made headlines.

The new budget follows the Constitutional Court's ruling a month ago that the reallocation of €60bn of unused debt from the pandemic era to the climate and transformation fund was not in line with the constitution. As a result, the government was forced to ex-post suspend the constitutional debt brake for the 2023 budget and to solve a funding gap of around €17bn for the 2024 budget. These two fixes, however, would not solve the longer-term funding problem of the missing €60bn.

A few minutes ago, Chancellor Olaf Scholz and the two vice chancellors of the government, Christian Lindner (Minister of Finance) and Robert Habeck (Minister of Economic Affairs) presented the main elements of the plan on how to solve the €17bn funding gap for 2024: a combination of expenditure cuts and a partial deviation from the debt brake. In short, the government plans to reduce climate-damaging subsidies, stop subsidies for electric vehicles and the solar panel industry earlier than planned, reduce some expenditures of individual ministries and try to make social expenditures "more efficient". There will also be an increase in the CO2 emission price and the introduction of a new tax on plastic packaging. The government wants to avoid a fifth consecutive year of official deviation from the constitutional debt brake but still wants to investigate whether there could be a deviation of almost €3bn to continue funding support for the damages from the 2021 floods. Finally, the climate and transition fund will be reduced by a total of €45bn for the period 2024 to 2027.

All in all, the announced measures seem to be manageable for the economy. However, the ongoing controversy of how to combine large-scale investments with balanced budgets will not end after today's announcement. In fact, with fiscal policy turning restrictive and still a high degree of policy uncertainty, the risk is high that the German economy will remain in a minor recession next year.

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