

German government sends in the paramedics

The recent 'Sick man of Europe' debate seems to have woken up the German government as it just announced a ten-point programme to support the economy. We are afraid that today's announcement will not be enough



German Chancellor
Olaf Scholz

The summer break in Germany was anything but calm. Ongoing tensions between the government's coalition partners and a growing concern that the economy is in for a longer period of stagnation have increased the sense of urgency to act. In a regular post-summer offsite, covering several topics, the government today agreed on a ten-point programme to support the economy. Not everything in this programme, however, is new. It is in fact a combination of old and new measures.

Here are the details:

- The main new element is a so-called Growth Opportunity Law, basically introducing tax allowances and tax incentives for investments in energy efficiency, research and development. It also includes new depreciation rules for investments in new buildings to support the real estate and construction sector. According to the government, this law

should provide a fiscal stimulus of around €7bn per year.

- Start-up capital of around €1bn.
- For the rest, the programme includes the already pre-announced Climate and Transformation Fund with more than €200bn to finance the green transition. According to the government announcement, €100bn from this fund will be available next year.
- The programme also includes the usual announcements to reduce bureaucracy, invest in e-government, speed up public tenders and provide secure and affordable energy. It also has some shoulder-clapping elements, stressing the measures taken so far.

It's interesting to also look at what the programme doesn't include. The heatedly-discussed energy price cap for industry is not (yet) part of the programme.

Today's package is not a game-changer

In short, many of Germany's current economic problems are homemade and cannot be solved with one magic fiscal bullet. Therefore, it is not only about the numbers. The additional fiscal stimulus announced today is €8bn (0.2% GDP), which is less than the recently-announced earmarked €20bn for potential subsidies for the chip industry.

Consequently, today's package will not be a big game-changer for the German economy. Still, it shows that the government has finally become aware of the economy's problems. That being said, it will probably require more concrete steps in the same direction to get the economy up to speed again. Paramedics are normally not trained to provide long-term care.

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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