

## Germany suddenly has a €60bn hole in its budget

The German Constitutional Court has ruled against Olaf Scholz's coalition government's decision to push unused funds from pandemic support into the climate and transformation fund. The government now has a budget hole of 60 billion euros



The court ruling is a blow to Chancellor Olaf Scholz

Germany's Constitutional Court has ruled that the government's decision to reallocate €60bn of unused debt from pandemic support measures to its climate and transformation fund is unconstitutional.

It's bad news for the government and means that the budget for 2024 can surely not be agreed this week. The government will now have to fill a hole of €60bn. This is not automatically linked to actual expenditures but rather to the total size of the government's climate and transformation fund. This fund is a core element of the government's strategy to tackle Germany's long list of structural challenges. The fund has a size of about €210bn for the period 2024 to 2027. The government had planned to use more than €50bn from this fund next year.

In short, today's ruling shows that, at least in Germany, legal expertise is not necessarily the same as economic expertise. In the logic of Germany's constitutional debt brake, today's ruling makes

sense. It simply says that debt piled up in special circumstances or crisis situations cannot be used to tackle another one. However, the question remains whether the debt brake makes economic sense when the country struggles with structural stagnation and a long list of serious challenges and transitions, of which many need fiscal support.

To some extent, today's ruling also opens the door to more special-purpose vehicle financing and creative accounting. It also shows that structurally accommodative fiscal policies in Germany are very unlikely to happen any time soon.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

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