

The German Ministry of Finance presents spending plan for the next few years

Ministerstwo Finansów RFN przedstawiło plany wydatków na najbliższe lata, Konrad Popławski

The German government adopted a draft amendment of this year's budget and updated its spending plan for 2012–2016. Germany intends to observe the 'budget brake' rule, which imposes the obligation to keep the structural deficit at a level no higher than 0.35% of GDP, from 2014. The government is planning to reach a balance between income and expenditure starting from 2016.

The ministry also presented a draft amended budget for this year, which provides for an increase in the deficit from 26.1 to 34.8 billion euros. The reasons for these include the lower than planned profit of the Bundesbank (its income is 1.8 billion euros lower than in the current version of the budget) and Germany's contributions to the European Stabilization Mechanism (expenses 8.7 billion euros higher than planned), which is being launched this year and not in 2013 as had originally been planned. Contributions to the ESM will not cause an increase in the German deficit calculated according to the Maastricht criteria, but they will be added to Germany's public debt. The budget must still be approved by the Bundestag, which means that some changes are possible, but no major shifts should be expected.

Commentary

- The rapid improvement in the budget situation is mainly an effect of the good market situation, tax revenues growing at a stable rate and the low costs of servicing Germany's public debt. Savings in the coming years will be made owing to the reduction of subsidies for the social fund. Spending on education (expenses on education and science in 2006–2013 are set to grow from 3% to 4.6% of GDP) and development aid (development aid expenses are set to reach 0.4% of GDP from 2013 and 0.7% of GDP from 2015) will, however, continue to increase, which proves that the government grants high priority to these two policies. Although these proposals have been positively received by most of the media, plans to restrict the deficit have been criticised by business circles and the Bundesbank as lacking ambition and based mainly on increasing tax revenues.
- The improvement of the situation in public finances proves that the resolution strategy for the eurozone which has so far been adopted has been beneficial from the point of view of the stability of Germany's public finances. Germany's consent to interventions

from the European Central Bank last December has brought about an improvement in the sentiments on the financial markets and will allow the German economy to maintain a stable growth rate also this year. However, the situation in other eurozone member states to which Germany offered high loan guarantees will be of key significance from the point of view of the budget.

- The good situation in public finances is adding to Germany's reliability in motivating the other member states of the eurozone to keep financial discipline, including in meeting the requirements of the fiscal pact. The pact imposes the obligations for the eurozone member states participating in it to restrict their structural deficit to a level of 0.5% of GDP and will come into effect next year in the countries which will have ratified it.