

Germany: a budget anticipating harder times

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On 25 November, the Bundestag adopted a draft budget; for the fourth time in succession, Germany will not run a budget deficit. This will allow for a reduction in the public debt from 68% to 66% of GDP. The aim of the ruling coalition is, by the year 2020, to reduce the debt to below the limit of 60% of GDP as laid down in the Maastricht Treaty. The German government's priority is to increase expenditure on both domestic security (by increasing the budgets of the police and special services) and defence spending, the latter by €2 billion to €36.6 billion. The second objective is to resolve the problems connected to the migration crisis; in 2017 €19 billion were allocated to actions such as increasing the number of pending applications for asylum, German-language learning programmes, the development of social housing, and combating the causes of migration (an increase from €500 million to €8 billion in funds for development aid).

Commentary

- One problem for the German budget is the significant expenses related to the migration crisis. In 2015-2020 the share of social spending in the budget will rise from 53% to 57%, which means an annual increase of €34 billion. About 60% of this sum is made up of the costs of the migration crisis. The rise in social spending is intended to be Germany's response to the political crisis in many countries whose roots lie in social inequality. However, there is a risk that the growing social burden may undermine the foundations of the economic success of recent years, while at the same time failing to address Germany's serious demographic crisis.
- The budgetary savings are largely the result of a significant reduction in the interest rate on government bonds, as well as high income from taxes, and not from the government's policy of austerity. In recent years, the German government has expanded the range of social benefits (by lowering the retirement age for some sections of society, as well as introducing a minimum wage). The government has also raised subsidies, for example on funding the railways, developing renewable energy sources, and supporting the health system. According to the Kiel Institute for the World Economy, these subsidies will soar to record levels of €170 billion by the end of 2016. There is no guarantee that the budget situation will continue to improve when interest rates on German bonds rise, as the German government is expecting in the coming years. In recent weeks, the financial markets have become increasingly interested in investing capital in the United States, as evidenced by the significant rise in the dollar exchange rate and the American stock

exchange indexes.

- Germany will raise its defence expenditure next year, from 1.11% to 1.17% of GDP. However, the Finance Ministry's plans do not anticipate further rises in relation to GDP by the year 2020, but rather their return to the level of 1.11% of GDP. This would mean that Germany will not implement the gradual increase in defence spending to 2% of GDP included in the declaration at the NATO summit in Newport. If these plans are not altered, it will significantly reduce Germany's credibility as a member of the Alliance.