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Germany: third relief package for the energy crisis

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On September 14, the German government began deploying the third relief package – it passed a bill to introduce a Citizens' Basic Income (*Bürgergeld*), which will replace a benefit for the long-term unemployed within the Hartz IV system (Arbeitslosengeld II) on 1 January 2023. It will be around €50 higher than the existing benefit. The package was presented in early September by Chancellor Olaf Scholz and the leaders of the parties that make up the ruling SPD-Green-FDP coalition. In addition to the Citizens' Basic Income, the main anti-inflation measures under the new package include: a cap on profits for electricity producers, a freeze on electricity prices up to a certain level of consumption, a reduction in the VAT rate on gas from 19% to 7%, a reform of the housing allowance, changes to income tax thresholds, one-time allowances for pensioners and students, and the introduction of a new nationwide promotional ticket for public transport. The planned measures are expected to have a total value of €65 billion, and are in addition to the relief measures agreed upon in February and March of this year, with a total estimated value of €30 billion (see Appendix).

The scope of the aid reflects the scale of the growing energy crisis in Germany, which is generating increasingly serious socio-economic problems. For the average German household, the cost of natural gas has already tripled over the past 12 months (from 6 to 18 cents per kWh), and the cost of electricity has risen by about 25% (from 32 to 40 cents per kWh). Moreover, the main part of the expected wave of increases will come in the last quarter of this year and next year. The increases in energy prices translate into inflation which, according to the latest measurement in August was 7.9%, but the Bundesbank believes it could exceed 10% in the autumn. At the same time, they pose a serious social problem, as they hit less affluent citizens the hardest – calculations by the Institute of the German Economy show that as many as a quarter of Germans spend at least 10% of their net income on energy, which is deemed as the energy poverty line. High energy costs are also generating increasingly serious challenges for companies. This is especially true for energy-intensive industries, where the number of plants cutting back or even halting production is on the rise. It is equally true for the energy industry itself, where companies are increasingly reporting problems with maintaining liquidity.

Commentary

- The vast majority of the measures proposed in the relief package require statutory changes. Individual mechanisms will only be clarified with the next stages of the legislative process in the Bundestag and Bundesrat. Amendments to laws will be processed separately and at different speeds, and influenced by further coalition

negotiations. The final version of the shielding instruments and the legislation implementing them may in some cases differ markedly from the original vision. Nor does the package prevent further steps by the government to protect consumers and businesses from the effects of high energy prices and inflation. Further moves will depend on the effectiveness of the solutions adopted so far (some of which will not take effect until next year) and developments in the raw materials market. The enactment of additional social assistance will also be influenced by public sentiment. Already 49% of German citizens consider the adopted package insufficient.

- In order for some of the announced proposals to enter into force, the approval of the Bundesrat is required. The Bundesrat federal states (especially those governed by the opposition Christian Democrats, but also Baden-Württemberg, where the prime minister is a Green politician) have already announced their desire to renegotiate the package directly with Chancellor Scholz. The dispute is primarily over the states' share of the program's financing – a planned meeting between the states' finance ministers and Christian Lindner, head of the federal finance ministry, is expected to address this. Among other things, the government is counting on the states to cover half of the cost of the all-German public transport ticket (estimated at €3 billion a year). The way some tax breaks are designed would also result in falling revenues to local government budgets.
- The rules for financing the package have not been precisely defined. The government's hopes for covering the related expenses probably involve higher tax revenues (mainly as a result of high inflation), as well as a levy on extraordinary corporate profits, which is still under consideration. Receipts may also be boosted by so-called cold progression, i.e. keeping nominal tax thresholds unchanged despite higher inflation. Nor can the use of off-budget financing by special funds be ruled out – especially if the economic situation were to deteriorate drastically and reach the scenarios of a relatively mild recession (-0.7 to -1.5% of GDP). In the face of such significant expenditure, the declarations of the Finance Ministry are something of a surprise, given that it supports the restoration of the constitutional debt anchor in 2023 and does not see the need to amend the budget.
- The generality of many of the moves announced in the package is due to the expectation of analogous or similar decisions at the EU level. This is especially true of the planned change to remove some of the profits of electricity producers and to freeze electricity prices for end users. This is the most important change when looked at from the perspective of stopping the rise in electricity prices for consumers and is potentially the most complicated to implement. Berlin prefers EU-wide solutions, as they reduce the risk of potentially negative consequences stemming from interfering with the mechanism of the EU's common energy market and, moreover, the ideas proposed by the European Commission (as a result of intensive German lobbying) correspond with the plans presented by the German government.
- The adoption of the package is the coalition's response to shifting public sentiments and the growing expectations which Germans have that the government will combat inflation. Anti-inflation measures were one of the most important elements of public debate in Germany this summer. The package was intended to emphasise the government's efficiency, improve the chancellor's low ratings and resolve the conflicts within the ruling

camp that had been growing for weeks. These included ways to combat inflation and high energy prices, arms supplies to Ukraine (see *Niemieckie dylematy dotyczące dostaw broni dla Ukrainy*) and the scope of pandemic restrictions ahead of this fall's COVID-19 wave. The majority of citizens (52%, according to a 9 September poll by the Forschungsgruppe Wahlen centre for ZDF TV) view the atmosphere inside the coalition critically. Contributing to this was the open criticism of Scholz coming from within the coalition ranks (it was about the financial scandal in Hamburg, see *Niemcy: maile kanclerza pod lupą śledczych*) and the SPD's accusations of unprofessionalism levelled against the Green party's vice chancellor and economy minister Robert Habeck. The chancellor himself is also under increasing pressure, with his party losing support in the polls (currently at around 19%), and 68% of Germans, including 40% of SPD supporters, dissatisfied with the government's work (DeutschlandTrend poll for ARD TV on 1 September).

- The high social transfers announced are also expected to maintain the support for helping Ukraine. Currently, 70% of citizens (including 97% of Green supporters, 82% of SPD supporters and 74% of FDP supporters) say they are ready to continue supporting Ukraine despite rising energy prices. This could change as a result of protests against high energy rates, which also included slogans for the opening of Nord Stream 2 or the withdrawal of targeted sanctions against Russia. So far, the scope of these demonstrations has been limited to a few cities in the eastern states (mainly Leipzig and Dresden, but also Berlin), where a total of several thousand demonstrators have gathered. As the effects of the war become more acutely felt, however, resentment over support may increase, especially among Germans in the eastern states. The situation will be exploited by the AfD and the Left, the fringe parties organising protests which are reinforcing dissatisfaction with government policies in a crisis. Support for these two parties has risen in recent weeks to 13% and 5% respectively. The size of the social support which, together with the two previous relief packages reaches €95 billion, is similar to the €100 billion allocated by the German government to modernise the Bundeswehr through a special fund. The fact that these sums are comparable will be exploited politically and will help reduce criticism within the ranks of the SPD and the Greens over increased military spending.

APPENDIX. Relief packages in Germany

The first relief package – worth nearly €16 billion, presented by the coalition on 23 February 2022:

1. **Abolition of the Renewable Energy Levy (EEG-Umlage) as of 1 July 1 2022** – this was included in electricity bills, paid by all consumers in Germany. As of the beginning of this year, the rate was 3.72 cents per kWh and accounted for about one-tenth of the cost of electricity;
2. **One-time heating cost allowance** – beneficiaries of the housing allowance were eligible to receive the benefit. It was €270 for a one-person household and €350 for a two-person household, plus an additional €70 for each additional member;

3. **Raising the income tax free threshold** (from €9,984 to €10,347);
4. **Increasing the commuting lump sum** (from 35 to 38 cents per kilometre).

The second relief package – worth about €14 billion, presented by the coalition on 25 March 2022:

1. **A one-time energy allowance of €300** – intended for those who are employed, the benefit is received with the September paycheck;
2. **One-time benefit of €100 per child (Kinderbonus)** – for Kindergeld (child benefit) recipients, payments made in July this year;
3. **A one-time benefit of €200 for welfare recipients;**
4. **A one-time benefit of €100 for recipients of unemployment benefits;**
5. **Introduction of a monthly public transportation ticket for €9** – the price was valid for three months (June, July, August) on urban, suburban and regional transportation;
6. **Reduction of excise taxes on fuel** (by 30 cents per litre for gasoline and 14 cents per litre for diesel) – the lower tax rate was in effect from June to August this year.

Elements of the third relief package:

1. **Introducing a cap on the profits of electricity producers** – this is planned to limit the income (*Erlösobergrenze*) earned from the sale of electricity on the exchange when it is generated at non-gas power plants. The operation of the market based on the "Merit Order" principle (the market price of electricity is determined based on the variable cost for the power plant supplying the most expensive energy to the market at any given time) is to remain unaffected. The amount resulting from the difference between the current wholesale energy price and the newly set profit limit is to go into a special account. The coalition wants to use the Renewable Energy Levy (EEG-Umlage) mechanism to implement the new rules administratively. This mechanism has been in operation since 2000 and until recently subsidies were paid to renewable energy generators through it. This time the funds would flow in the opposite direction – from generators to consumers. Many details of the new solution have not been disclosed, most notably the amount of the planned cap. Berlin would like to implement an analogous system throughout the EU (based on proposals from the European Commission). In the absence of an agreement at the EU level, unilateral action has been announced;
2. **Freezing the price of electricity for households and small and medium-sized enterprises up to a certain level of consumption** – the funds to ensure the ongoing financing of the mechanism are to come from capping the income of power generators on the exchange. The top-down tariff set by the state is to apply only to "baseline consumption" – its amount or method of calculation was not disclosed. If consumption exceeds the set value, current – extremely high – market prices would apply. In the public debate, the most common proposals from some politicians and experts were for this special tariff to reach, for example, 75-80% of last year's consumption – as this would provide an incentive to save energy;

3. **Limiting the increase in the grid charge** – this rate is expected to rise sharply in Germany in October, reflecting the rising costs of operating the electricity system. If this were to happen, it would put an additional burden on end users' energy bills. The German government wants to use some of the funds from the reduction in power generator revenues to subsidise the cost of operating the system;
4. **Deferring the increase in the carbon fee in the national emissions trading system** – currently the transport and building use sectors have a price of €30 per ton of CO_2 emissions. According to the law, this should be raised to €35 in 2023, €45 in 2024 and €55 in 2025. The increases are to be postponed for a year;
5. **A one-time payment of €300 for pensioners** – scheduled to be paid in December this year, along with the pension;
6. **A one-time payment of €200 for students** – how and when it will be disbursed was not specified;
7. **Establishment of an expert commission to curb the increase in heating costs** – to be composed of representatives of various circles (scientific, economic, trade unions, consumer associations) and to work out a shielding mechanism for households affected by high natural gas prices. A special tariff for basic consumption is being considered, similar to electricity;
8. **Reform of the housing allowance (*Wohngeld*)** – as of 1 January 2023, the group of beneficiaries is to be significantly expanded – from the current approximately 700,000 people to 2 million. In addition, its value is to be permanently increased by a subsidy for heating costs and a "climate component" (details were not provided). Furthermore, for the period from September to December this year, those eligible to apply for the housing allowance are to receive a one-time benefit to cover rising heating costs – €415 for a one-person household, €540 for a two-person household plus €100 for each additional member;
9. **Introducing the** Citizens' Basic Income **(*Bürgergeld*)** – from 1 January 2023, it is to replace the "basic security" for the so-called long-term unemployed under the Hartz IV system (Arbeitslosengeld II);
10. **Raising the basic amount on which social security contributions are paid from €1,600 to €2,000** – the change is to take effect on 1 January 2023. It is expected to benefit primarily middle-income workers;
11. **Changes to income taxes** – as yet unspecified changes to tax thresholds designed to counteract so-called cold progression. This consists of the fact that, while nominal incomes rise in the wake of higher inflation, tax thresholds remain unchanged, generating additional fiscal burdens;
12. **Increasing the child allowance** – the monthly allowance for the first and second child is to be raised by €18 (it currently stands at €219);
13. **Assistance for energy-intensive companies and energy industry players** – an extension and/or increase in the scope of financial support for companies (e.g., expansion of the availability of liquidity loans from the KfW bank, an extension of energy cost subsidies for

plants in energy-intensive industries);

14. **Introducing a public transport ticket that is valid throughout Germany** – this is intended to be a permanent solution, following on from the promotional monthly ticket available from June to August this year for €9 (for all public transport in urban, suburban and regional transport). Its success – a total of 52 million passengers used the ticket – prompted the government to construct a replacement solution. The biggest advantage of the offer was the ability to travel between different fare zones. Funding remains an issue – the coalition partners want to set aside €1.5 billion for this purpose and get the states, which are responsible for the day-to-day operation of regional transportation, to provide the same amount. Under the coalition's plan, the new all-German monthly ticket would cost between €49 and €69, with the Greens and SPD calling for the lower amount;
15. **Extension of the temporary working time reduction mechanism** (the so-called *Kurzarbeitergeld*) – this would entail the state covering part of the wage costs in the event of company shutdowns;
16. **Extension of the reduced VAT rate in the food industry (7% instead of 19%);**
17. **Reduction of the VAT rate on gas from 19% to 7%** – to last from October this year until the end of March 2024 to partially offset the additional costs associated with the new gas levy in effect during the same period. The proceeds will facilitate the financing of a bailout for gas importers (see. *Niemcy: koszty ratowania importerów na barkach konsumentów gazu*);
18. **Extension of compensation for remote work** – this amounts to €5 per day (maximum €600 per year), and citizens can deduct the amount from tax. The solution was introduced for the duration of the pandemic and was to last only until the end of 2022.