

Germany: government reaches budget compromise for survival

Kamil Frymark, Lidia Gibadło

On 5 July, the leaders of the government coalition formed by the SPD, the Greens and the FDP announced they had reached an agreement on the budget plan for 2025. It includes three elements: budget guidelines, an amendment to the law on current government spending, and an economic stimulus package. Next year, the government plans to spend €481 billion, with debt standing at €44 billion. The aforementioned amendment will raise this year's government spending to €488 billion from the initially planned level of €477 billion. The economic stimulus package is expected to boost GDP growth by 0.5% – to 1.5% of GDP in 2025. This will be consistent with the constitutional 'debt brake' rule (*Schuldenbremse*), which limits the increase in the structural deficit, independent of economic fluctuations, to the equivalent of 0.35% of GDP.

Not all details of the provisions related to next year's budget are known yet. According to media reports, €57 billion will be allocated for investments, and funds for the defence sector are set to increase by €1.2 billion, bringing the total to around €53 billion. Additional funding is also allocated for social welfare, with a slight rise in child benefits anticipated, along with agreed upon tax reliefs. The government intends to adopt the final bills on 17 July, and then submit them to the Bundestag with the budget expected to be passed at the turn of November and December.

Commentary

- The budget compromise prevents the coalition from breaking apart (a step the FDP suggested during negotiations) and eases the most serious current dispute within the government. The framework plan was adopted in order to calm the mood inside the coalition parties just before the summer recess and to improve the poor ratings of Olaf Scholz's cabinet ahead of the autumn elections in the Eastern federal states. A significant majority of Germans (79%, according to a survey conducted by Infratest dimap on 5 May) negatively assess the government's performance; disappointment with the government's actions prevails even among those who support the SPD, the Greens, and the FDP. The overriding goal of the compromise provisions is to ensure that the government survives until the end of its term, rather than implement the agenda under the coalition agreement. Proof of this includes the failure to reform social programmes – for example, a uniform and substantial child benefit scheme was not introduced. The Federal Ministry of Family Affairs demanded about €10 billion for this purpose, which the FDP did not agree to. It also seems unlikely that any other significant changes will be

implemented during this parliamentary term. The Bundestag elections will be held next autumn, and consequently, each party will soon start operating in campaign mode and prioritise its own agenda over cooperation within the coalition.

- The FDP appears to be the winner of the budget dispute, as this party has advocated for maintaining the 'debt brake'. Limiting government spending is the most crucial issue for the Liberals. They see this move as an opportunity to boost their popularity as currently, the FDP is on the verge of the 5% electoral threshold. The FDP's success also suggests that penalties for people who receive benefits and avoid work will be introduced – a solution the SPD has opposed so far. Additionally, a significant policy change has been announced that will allow asylum seekers in Germany to be employed immediately without the usual three-month waiting period. However, the fact that the guidelines have been adopted does not mean that the negotiations concerning the budget details are over. The Bundestag will most likely amend the bills, as representatives of the SPD and Green parliamentary groups have already suggested.
- No significant increase in the Federal Ministry of Defence's budget is envisaged in the government's plan, despite the Ministry's request for an additional €6.5 billion. Next year – similar to this year (see '[The debt brake is back: the German government presents a draft budget](#)') – the shortfall needed to reach the 2% defence spending level (around €28 billion) will come from the special fund for the Bundeswehr and funds allocated for this purpose by other ministries, making it still uncertain how the German army will be financed in the medium and long term. The period after 2027, when the €100 billion from the special fund will have been exhausted, seems particularly problematic. To maintain defence spending at the level of 2% of GDP, the government formed after the federal elections in 2025 will face the challenge of increasing the regular defence budget from over €50 billion to €80 billion. Unless this budget is increased, the new cabinet may be unable to finance the subsequent military contracts that are being signed now.