
# GERMANY
# 2024-2025 SCENARIO

## THE TIRED OR SICK MAN?

January 2024

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

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# SUMMARY

## THE RECOVERY IN PRIVATE CONSUMPTION AND EXPORTS SHOULD FUEL ECONOMIC GROWTH

After returning to pre-pandemic levels in early 2022, GDP growth slowed to 1.9% in 2022 from 3.1% in 2021. GDP is now only 0.3% higher than before the pandemic. **The economy should grow by a modest 0.2% in 2024, below potential GDP growth, and by 1.1% in 2025.**

Europe's largest economy continues to **lag behind its neighbours** as a decade fuelled by low interest rates, cheap energy and strong exports comes to an end. Is Germany once again the sick man of Europe or rather the tired man of Europe, as Finance Minister Christian Lindner recently commented ?

**Tighter financial conditions, higher energy prices and a contraction in Chinese demand have been enough to tip the economy into negative territory.** However, as Lindner acknowledged, the problems facing the country are structural as well as cyclical. The government plans to devote a substantial part of resources to projects aimed at boosting the economy and decarbonising the country, although it has failed to introduce the measures in favour of facilitating business and providing the skills required by companies. To a large extent, the question is whether industries will continue producing in Germany, namely the pursuit of the “Standort Deutschland”, or move elsewhere.

The economy contracted by -0.1% in the third quarter of 2023, after expanding by 0.1% in the second quarter. Investment rose by 0.6% despite higher interest rates and weak sentiment, while exports and private consumption fell by -0.8% and -0.3%, respectively.

Surveys and high-frequency data show that **economic activity weakened in the fourth quarter of 2023,** anticipating a fall in GDP by -0.1% in 2023. The economy would continue to be hampered by weak consumption and exports during the first semester of 2024. **The recovery expected for the second semester of 2024 would be supported by lower inflation, higher earnings and a considerable increase in purchasing power.** Weak foreign demand for German products is expected to be offset by the recovery in domestic demand. However, tighter financing conditions would continue to restrain growth in private consumption and investment.

Inflation has been dampened by lower energy prices, tighter financial conditions, fiscal retrenchment and the continued normalisation of supply disruptions. **Despite falling inflation, the cumulative increase in prices remains.** Higher earnings are expected to keep service inflation high. Core inflation would continue to slow, although at a slower pace due to rising earnings.

Industrial production has bottomed out, although weak demand would slow the recovery in activity. Particularly, the production of energy-intensive industrial branches has raised by 3.1% after months of decline. However, these branches have yet to recover from the substantial increase in energy prices. The economy is highly exposed to external shocks. While new orders could have troughed, **high interest rates and a weak global economy are holding back demand for capital goods, which account for a significant share of exports.**

The rise in the reference interest rate has restricted access to credit, although the risk of refinancing for businesses remains limited. **Insolvencies have increased significantly, although their level is low in historical terms** and relative to the rest of the Eurozone. However, **the deterioration in economic activity in recent months is starting to have a negative impact on the labour market.** The unemployment rate should rise slightly in the first semester of 2024 and is not expected to return to the 2023 average before 2025.

The debate between financial support for the industry and fiscal orthodoxy will continue. **The government has reached an agreement to adopt a contractionary fiscal policy to comply with the national debt brake.** As a result, 60 billion euros should be raised to balance the accounts following a court ruling at the end of 2023.

# SUMMARY

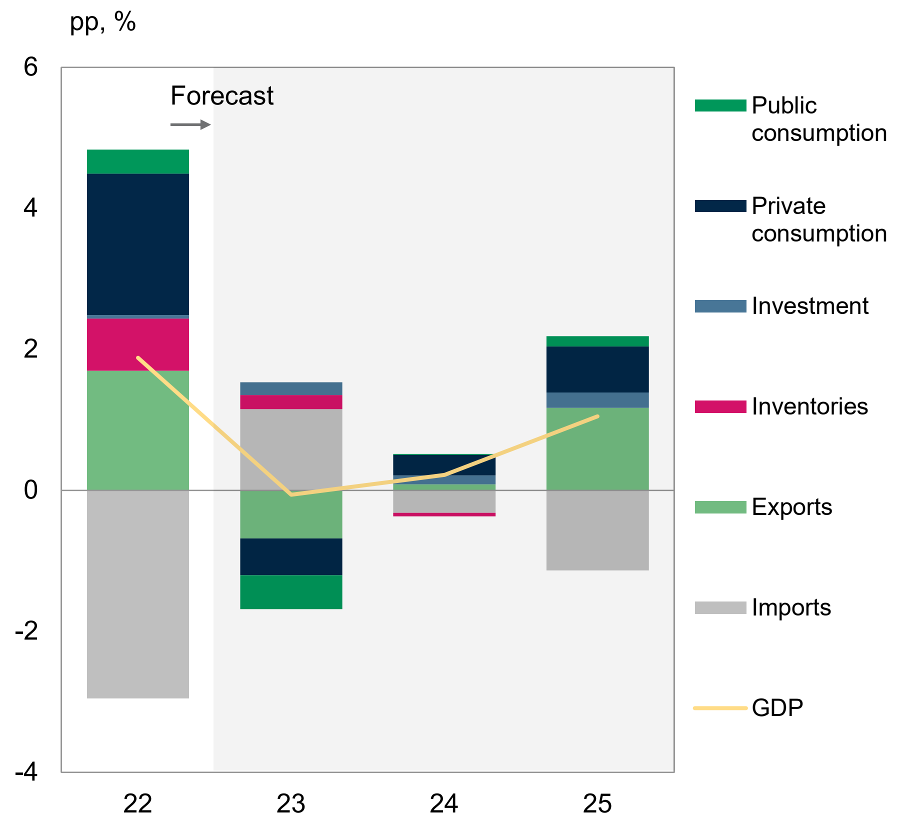
## THE RECOVERY IN PRIVATE CONSUMPTION AND EXPORTS SHOULD FUEL ECONOMIC GROWTH

### Annual forecasts

| Germany | Annual rate (y/y, %) 2022 | 2023 | 2024 | 2025 |
|---|---|---|---|---|
| **GDP** | **1,9** | **-0,1** | **0,2** | **1,1** |
| **Private consumption** | 3,9 | -1,0 | 0,6 | 1,3 |
| **Public consumption** | 1,6 | -2,2 | 0,0 | 0,7 |
| **Investment** [1] | 0,2 | 0,9 | 0,6 | 1,1 |
| **Construction** [2] | -1,6 | -0,6 | 0,3 | 0,8 |
| **Productive** [3] | 3,5 | 4,1 | 1,4 | 2,1 |
| **Other** [4] | -0,5 | -0,8 | -0,1 | -0,4 |
| **Trade balance (% of GDP)** [5] | 4,3 | 4,8 | 4,5 | 4,5 |
| **Exports** [5] | 3,4 | -1,4 | 0,2 | 2,4 |
| **Imports** [5] | 6,8 | -2,5 | 0,7 | 2,5 |
| **Inflation** [6] | 8,7 | 6,1 | 2,8 | 2,5 |
| **Core inflation** [7] | 3,9 | 5,1 | 3,8 | 2,6 |
| **Unemployment rate (%)** [8] | 3,1 | 3,0 | 3,2 | 3,0 |
| **Fiscal balance (% of GDP)** | -2,5 | -2,5 | -1,6 | -1,1 |
| **Public debt (% of GDP)** [9] | 66,3 | 65,4 | 65,3 | 64,2 |
| **Current account balance (% of GDP)** | 5,2 | 6,9 | 6,6 | 6,5 |

*Notes: 1. Gross fixed capital formation. 2. Dwellings; Buildings and structures. 3. Machinery and equipment; Transport. 4. Other tangible and intangible fixed assets. 5. Goods and services. 6. Harmonised index of consumer prices (HICP). 7. IPCH excluding food and energy. 8. Calculated according to the ILO definition. 9. Calculated according to the Maastricht criteria and expressed in nominal terms.*
*Last observation: Q3 2023*
*Sources: Crédit Agricole S.A./ECO.*

### Contribution to annual GDP




*Last observation: Q3 2023*
*Sources: Eurostat, Crédit Agricole S.A./ECO.*

# AFTER ENDING 2023 IN NEGATIVE TERRITORY, THE ECONOMY IS EXPECTED TO STAGNATE IN THE FIRST SEMESTER OF 2024

## Quarterly forecasts

| | Share (%) | Annual rate (y/y, %) | | | | Quaterly rate (q/q, %) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Germany | | 2022 | 2023 | 2024 | 2025 | 2022 | | | | 2023 | | | | 2024 | | | | 2025 | | | |
| | | | | | | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **GDP** | - | **1,9** | **-0,1** | **0,2** | **1,1** | **1,0** | **-0,1** | **0,4** | **-0,4** | **0,0** | **0,1** | **-0,1** | **-0,1** | **0,0** | **0,1** | **0,3** | **0,3** | **0,3** | **0,2** | **0,2** | **0,2** |
| **Private consumption** | 52,1 | 3,9 | -1,0 | 0,6 | 1,3 | 0,5 | -0,3 | 1,4 | -1,1 | -0,8 | 0,2 | -0,3 | -0,1 | 0,2 | 0,3 | 0,4 | 0,6 | 0,3 | 0,2 | 0,2 | 0,2 |
| **Public consumption** | 21,8 | 1,6 | -2,2 | 0,0 | 0,7 | 1,1 | 0,4 | -1,4 | -0,1 | -1,4 | -0,4 | 0,2 | -0,1 | -0,2 | -0,1 | 0,6 | 0,2 | 0,1 | 0,1 | 0,1 | 0,1 |
| **Investment** [1] | 20,2 | 0,2 | 0,9 | 0,6 | 1,1 | 2,2 | -1,6 | 1,0 | -1,3 | 1,7 | -0,3 | 0,6 | 0,1 | 0,0 | 0,2 | 0,2 | 0,4 | 0,3 | 0,2 | 0,2 | 0,1 |
| **Construction** [2] | 9,6 | -1,6 | -0,6 | 0,3 | 0,8 | 3,3 | -3,9 | -0,6 | -2,0 | 2,7 | -0,9 | 0,4 | 0,0 | 0,1 | 0,1 | 0,2 | 0,2 | 0,2 | 0,2 | 0,2 | 0,2 |
| **Productive** [3] | 6,7 | 3,5 | 4,1 | 1,4 | 2,1 | 2,0 | 0,8 | 3,7 | -1,6 | 2,4 | 0,3 | 1,0 | 0,4 | -0,2 | 0,4 | 0,5 | 1,0 | 0,7 | 0,2 | 0,2 | 0,2 |
| **Other** [4] | 3,8 | -0,5 | -0,8 | -0,1 | -0,4 | -0,4 | 0,4 | 0,2 | 0,6 | -1,9 | 0,2 | 0,4 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 | -0,1 |
| **Exports** [5] | 50,0 | 3,4 | -1,4 | 0,2 | 2,4 | -0,1 | 0,9 | 1,0 | -1,1 | -0,2 | -0,9 | -0,8 | -0,3 | 0,2 | 0,4 | 0,6 | 0,8 | 0,6 | 0,5 | 0,5 | 0,5 |
| **Imports** [5] | 45,7 | 6,8 | -2,5 | 0,7 | 2,5 | 0,0 | 2,3 | 2,1 | -1,8 | -2,2 | 0,1 | -1,3 | -0,2 | 0,3 | 0,6 | 0,9 | 1,2 | 0,6 | 0,3 | 0,3 | 0,3 |

*Notes: 1. Gross fixed capital formation. 2. Dwellings; Buildings and structures. 3. Machinery and equipment; Transport. 4. Other tangible and intangible fixed assets. 5. Goods and services.*
*Last observation: Q3 2023*
*Sources: Crédit Agricole S.A./ECO.*

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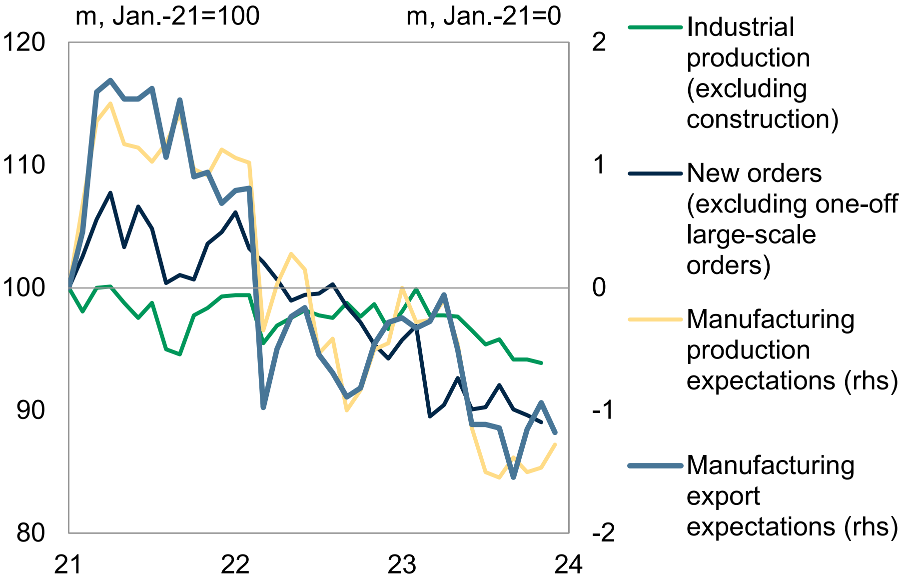
# LATEST ECONOMIC DEVELOPMENTS

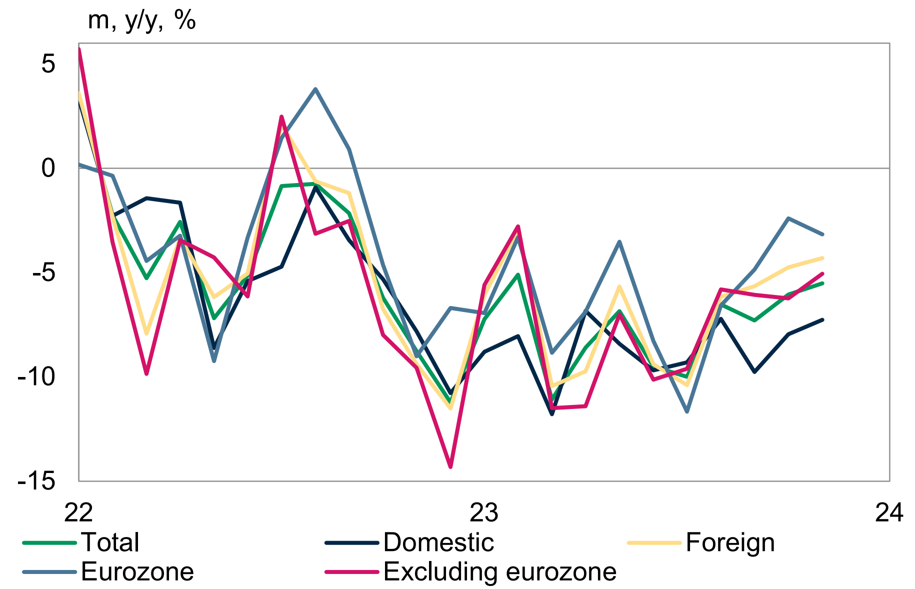
## INDUSTRIAL ACTIVITY HAS BOTTOMED OUT, ALTHOUGH WEAK DEMAND WOULD HINDER THE RECOVERY IN PRODUCTION

### Business climate surveys




*Sources: Bundesbank, Destatis, Ifo, Crédit Agricole S.A./ECO.*

### Source of new industrial orders




*Sources: Destatis, Crédit Agricole S.A./ECO.*

The industrial production index (excluding the construction sector) fell by 0.7% on a monthly basis in November, after stagnating in October. Manufacturing output fell by 0.4%, in line with October's reading. Construction production continued to fall by -3.2% in November, after -1.9% in October.

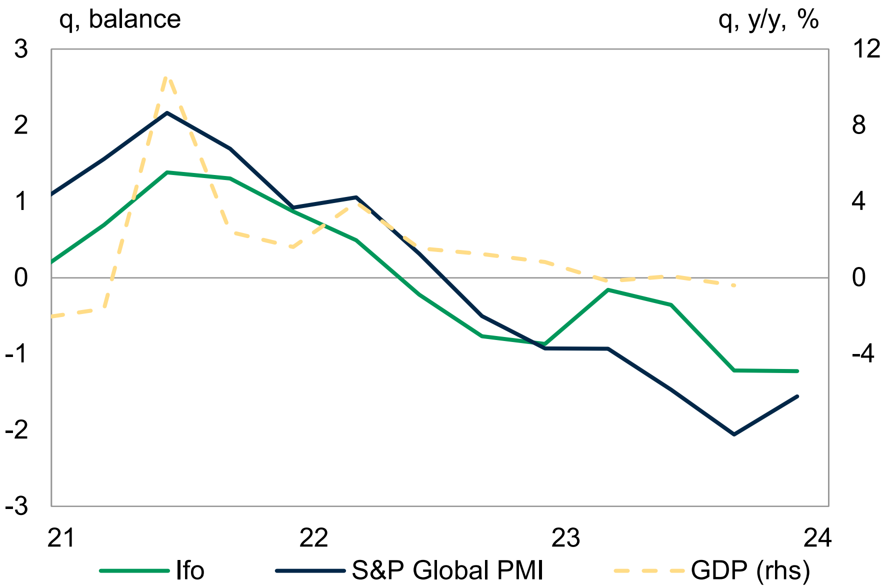
New orders for the industry fell by -0.6% in November, the same as in October. The increase of 2.3% in new orders originating in the Eurozone were not enough to offset the decrease of -1.3% in the domestic market and the decrease of -1.7% in demand from trading partners outside the Eurozone.

Compared with the volatility displayed by the monthly indicator, the last three months show a rebound in certain sectors relative to the preceding three months. For example, new orders for metal products from outside the Eurozone have increased, as well as for chemical products originating in the Eurozone, and for the paper industry from outside the Eurozone. However, domestic demand for electronic products continues to be weak and, to a lesser extent, foreign demand for pharmaceutical products and foreign demand (excluding the Eurozone) for textile products.

# LATEST ECONOMIC DEVELOPMENTS

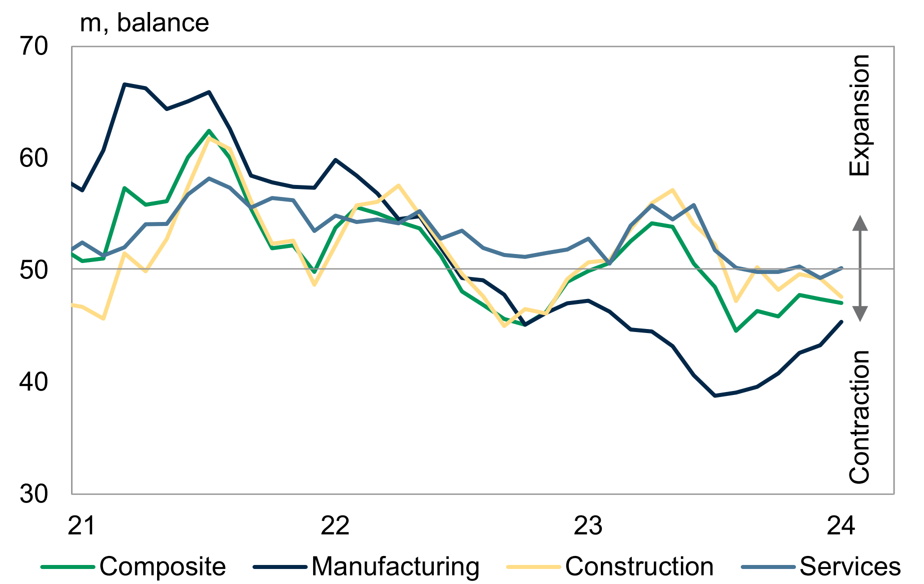
## BUSINESS SENTIMENT CONTINUES TO DETERIORATE AFTER A YEAR

### Business climate surveys




*Sources: Eurostat, Ifo, S&P Global PMI, Crédit Agricole S.A./ECO.*

### Business climate survey by economic activity




*Sources: S&P Global PMI, Crédit Agricole S.A./ECO.*

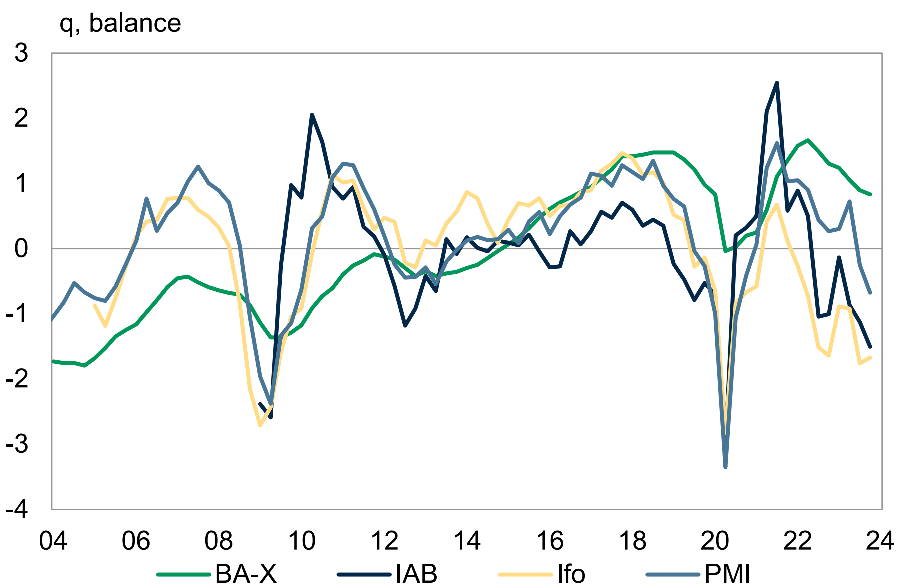
Industrial production could to have troughed, although activity is still in negative territory. The weekly activity indicator calculated by the Bundesbank shows that the contraction of the economy slowed gradually in fourth quarter 2023.

Business climate surveys also point in the same direction, showing a gradual deterioration between the second semester of 2021 and the third quarter of 2023, despite the slight rebound in the first quarter of 2023. Business sentiment could to have bottomed out in the fourth quarter of 2023.

The S&P Global Purchasing Managers Index survey details this trend by industry. The manufacturing industry accounts for most of the contraction in business climate and is proving to be the economy's major weakness.

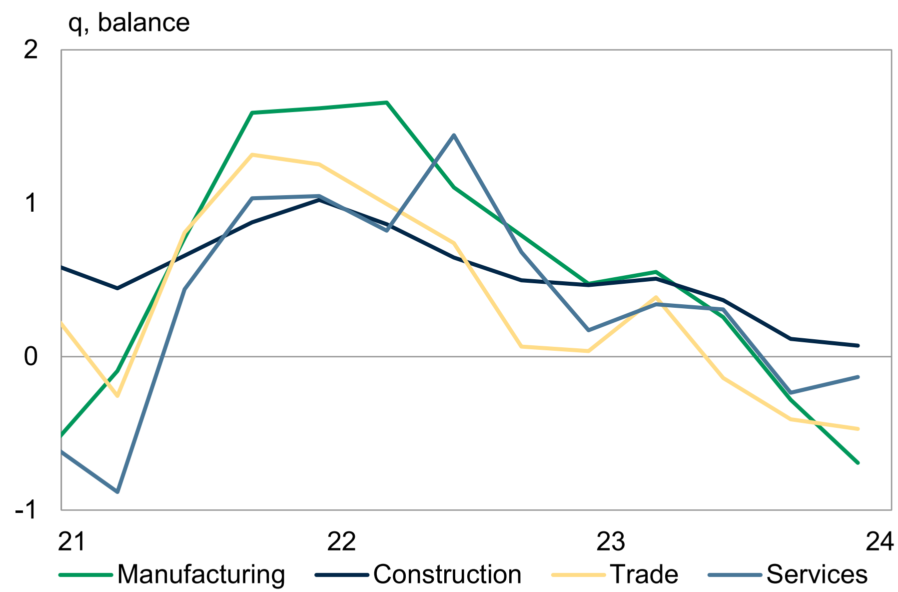
# THE DETERIORATION IN ECONOMIC ACTIVITY IN RECENT MONTHS IS STARTING TO HAVE A NEGATIVE IMPACT ON THE LABOUR MARKET

## Employment expectations surveys




*Sources: BFA, IAB, Ifo, S&P Global PMI, Crédit Agricole ECO / SA*

## Hiring expectations survey by economic activity




*Sources: Ifo, Crédit Agricole S.A./ECO.*

Weak economic activity during the second semester of 2023 is beginning to have an impact on the labour market. Employment growth slowed in the first semester of 2023 and the number of people in employment decreased in the third quarter of 2023, although this number increased slightly in October and November of 2023.

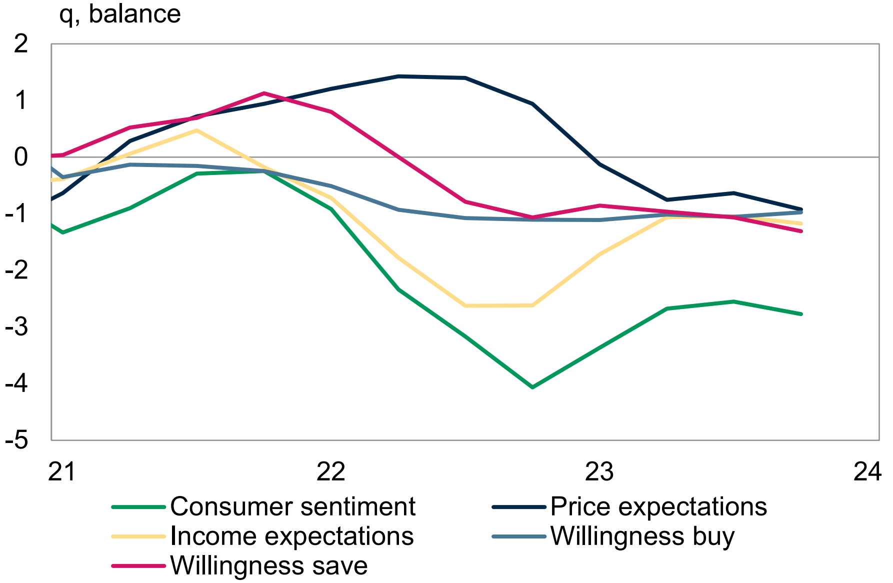
The number of vacancies communicated to the Federal Employment Agency (BFA) continued to gradually decline from the peak reached between mid-2022 and mid-2023, after which it stabilised. Given that not all vacancies are communicated to the BFA, the information can be complemented with the corresponding indicator from the Employment Research Institute (IAB).

Surveys on hiring expectations by economic activity also show the deterioration, particularly in the second quarter of 2023. The services, construction, and wholesale and retail trade sectors could have stabilised, whereas the manufacturing sector continues to fall sharply.

# LATEST ECONOMIC DEVELOPMENTS

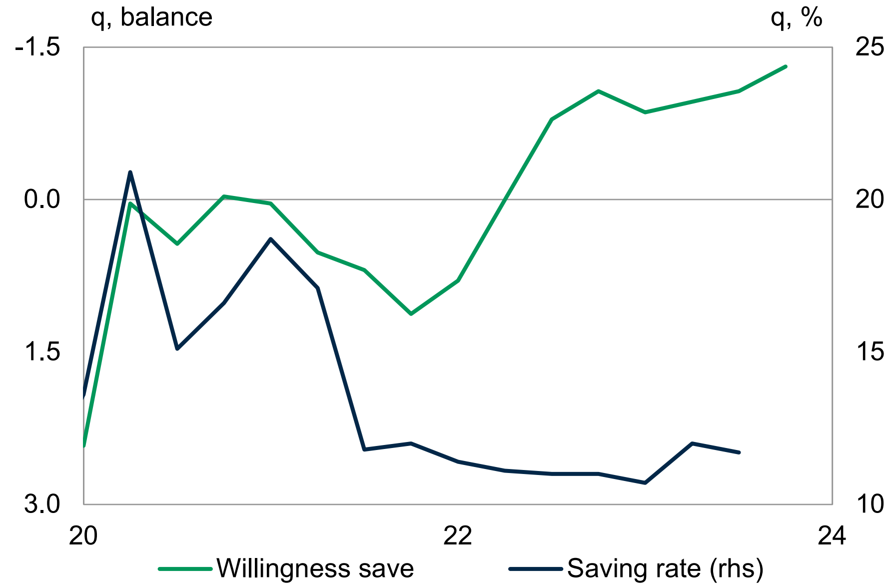
## HOUSEHOLDS TAKE A CAUTIOUS STANCE IN RESPONSE TO THE DETERIORATION IN ECONOMIC ACTIVITY

### Consumer sentiment survey




*Sources: GFK, Crédit Agricole S.A./ECO.*

### Household savings




*Sources: Bundesbank, GFK, Crédit Agricole S.A./ECO.*

Consumers report a low propensity to spend and a high propensity to save. This should help keep the savings rate high. This figure is within the average recorded in recent years, with the exception of the pandemic period.

The labour market has lost momentum, which could encourage consumers to be more cautious when spending, devoting resources to precautionary savings. The savings rate, which fell significantly in 2022, is expected to gradually pick up over the coming years, due to structural demographic factors that generate an imbalance between savings and consumption in favour of the former.

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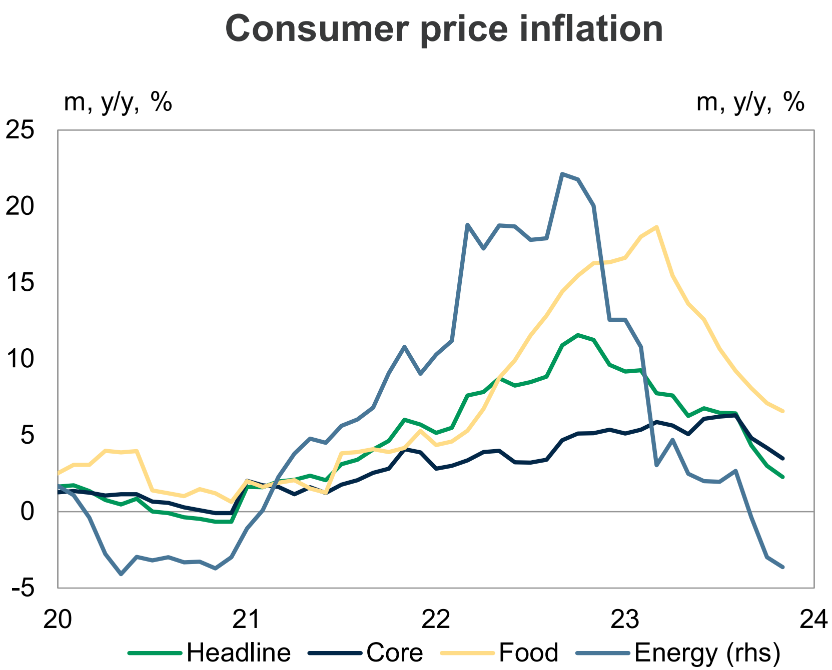
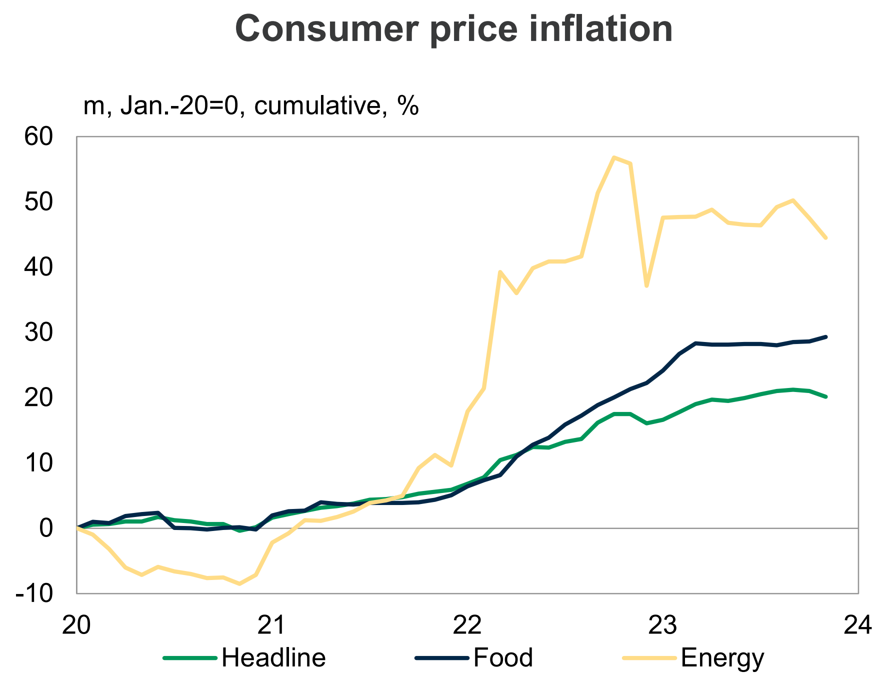
## THE OUTLINE OF OUR SCENARIO

### INFLATION SHOULD CONTINUE TO DECELERATE THANKS TO A MODERATION IN THE PRICES OF ENERGY, FOOD AND INDUSTRIAL GOODS




*Sources: Eurostat, Crédit Agricole S.A./ECO.*




*Sources: Eurostat, Crédit Agricole S.A./ECO.*

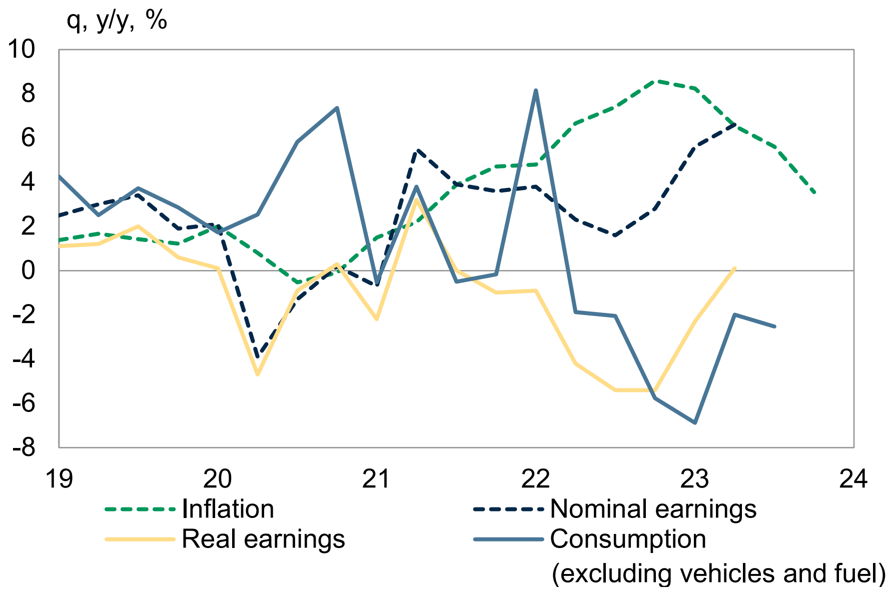
Inflation fell to 2.3% on an annual basis in November, after 3.0% in October, continuing the strong downward trend after the peak of 11.6% in October 2022. Base effects resulting from past increases in energy prices, weakening pipeline pressures, and falling demand have supported the moderation. Inflation linked to shortages derived from supply chain disruptions faded during 2023 and the resulting inflationary pressures are gradually dissipating.

Inflation is expected to continue the current trend down to 2.8% on average in 2024 and 2.5% in 2025, thus not reaching the ECB's inflation target. The moderation in prices would be driven by energy, food and industrial goods items, while the disinflationary process would not take place in the price of services, due to their higher wage component. The increase in value added tax on certain goods and services, as well as the end of subsidies on the price of electricity for consumers and businesses, would have a limited effect and spread over the next two years.

# THE OUTLINE OF OUR SCENARIO

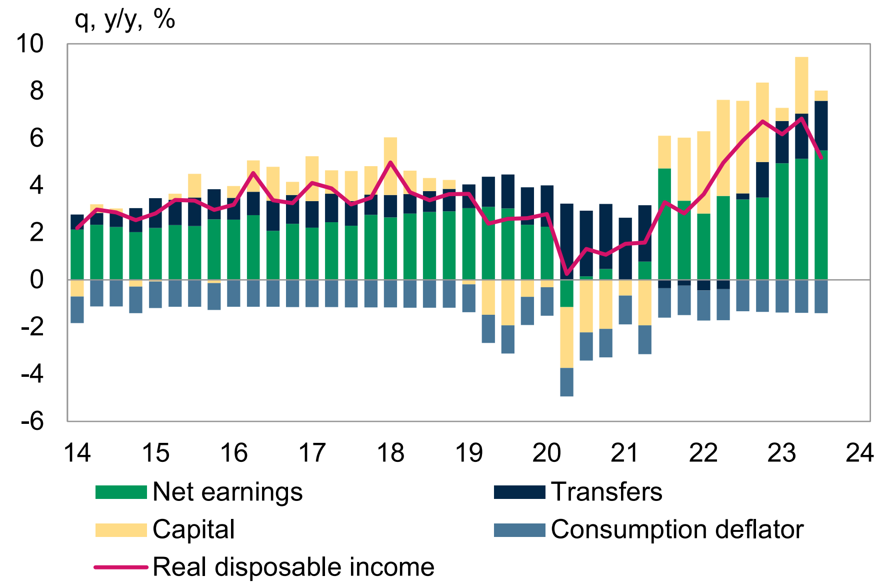
## REAL EARNINGS GROWTH SHOULD FUEL PRIVATE CONSUMPTION

### Earnings and household consumption




*Sources: Destatis, Eurostat, Crédit Agricole S.A./ECO.*

### Contribution to real disposable income




*Sources: Bundesbank, Eurostat, Crédit Agricole S.A./ECO.*

Private consumption should gradually gain momentum and contribute decisively to economic growth in 2024. The increase in purchasing power resulting from the moderation of inflation and rise in nominal earnings should drive private consumption. Even if nominal earnings grew slightly below 2023, the gains in purchasing power would be larger.

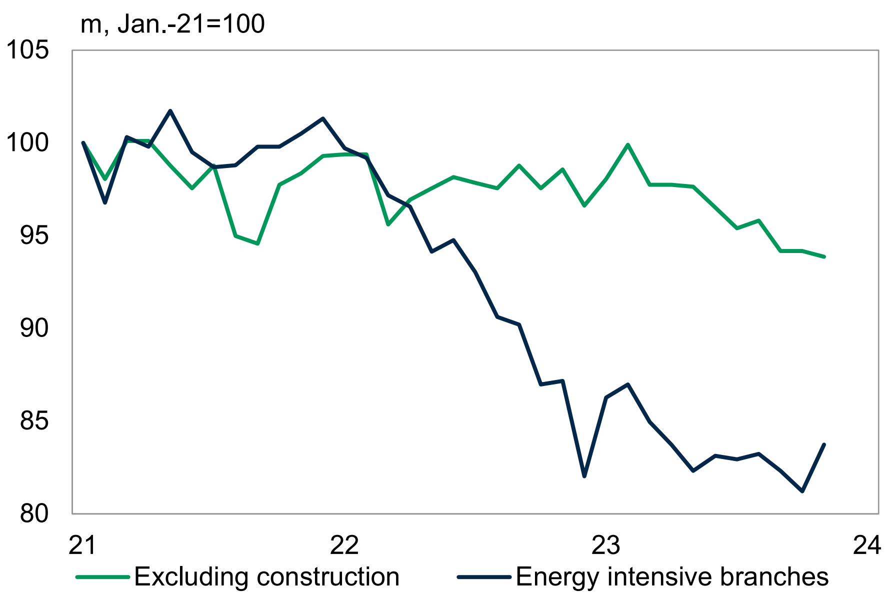
Weak economic activity is beginning to have an impact on the labour market. The unemployment rate could rise slightly in the first semester of 2024 and only return to its 2023 average in 2025, after an improvement in the second semester of 2024.

Employment is also negatively affected by structural factors. The large number of unfilled vacancies is likely due to matching problems in the labour market. Low demographics would continue to contribute negatively to labour supply growth in the medium and long term.

# THE OUTLINE OF OUR SCENARIO

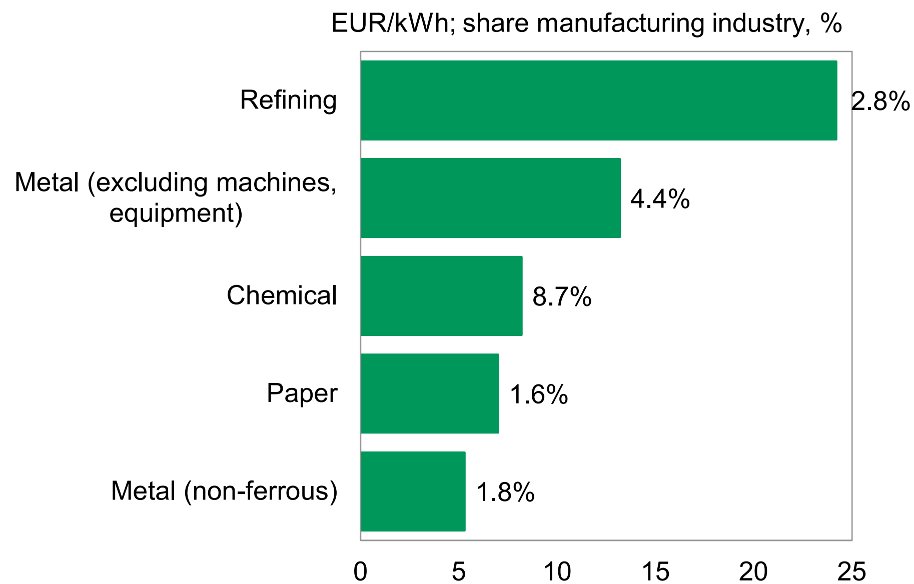
## ENERGY-INTENSIVE INDUSTRIAL BRANCHES HAVE NOT YET RECOVERED FROM THE SHOCK OF RISING ENERGY PRICES

### Industrial production




*Sources: Destatis, Crédit Agricole S.A./ECO.*

### Energy-intensive industrial branches




*Notes: Energy consumption by gross value added.*
*Sources: Destatis, Crédit Agricole S.A./ECO.*

The government announced a package of subsidies worth 28 billion euros intended to support industries facing high energy prices. He had already introduced a cap on electricity and gas prices to protect industry and households from rising energy prices.

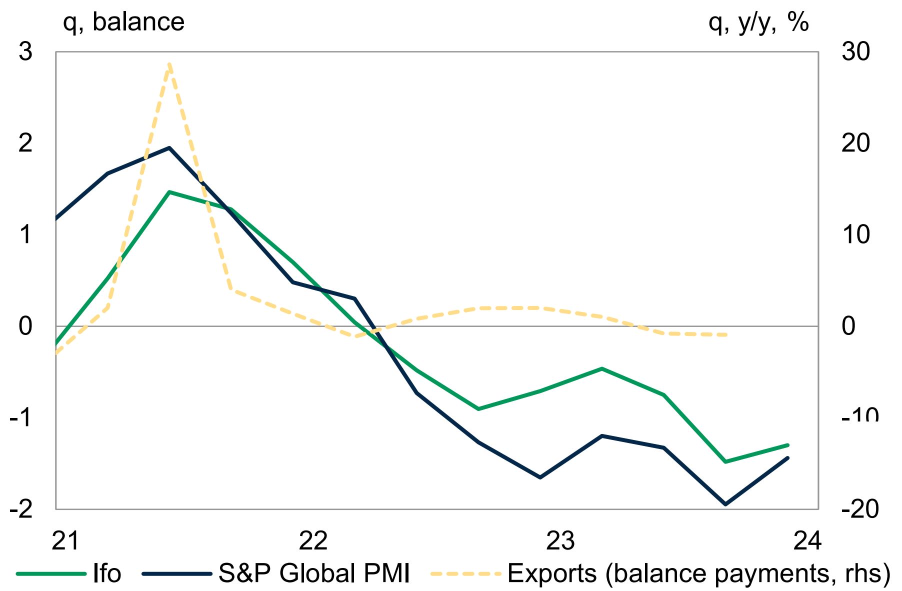
The programme introduces an electricity tax relief of up to 12 billion euros per year for 2024 and 2025, with the possibility of an extension until 2028. Electricity taxes would be reduced from 1.54 euro cents per kWh to 0.05 euro cents per kWh, the minimum level authorised by European legislation. 350 companies highly exposed to international competition would benefit from subsidies and reimbursement of the costs of purchasing $CO_2$ emission certificates. The 90 companies with the highest electricity bills would also benefit from additional relief. The flagship measure of the plan is the “super cap”, a compensation system for peaks in electricity prices, which should keep prices around 6 euro cents per kWh.

Energy-intensive industrial branches are at a disadvantage compared to their main competitors located in the United States and China, where the price of industrial electricity is considerably lower. Measures in favour of energy-intensive industries aim to prevent their relocation.

# THE OUTLINE OF OUR SCENARIO

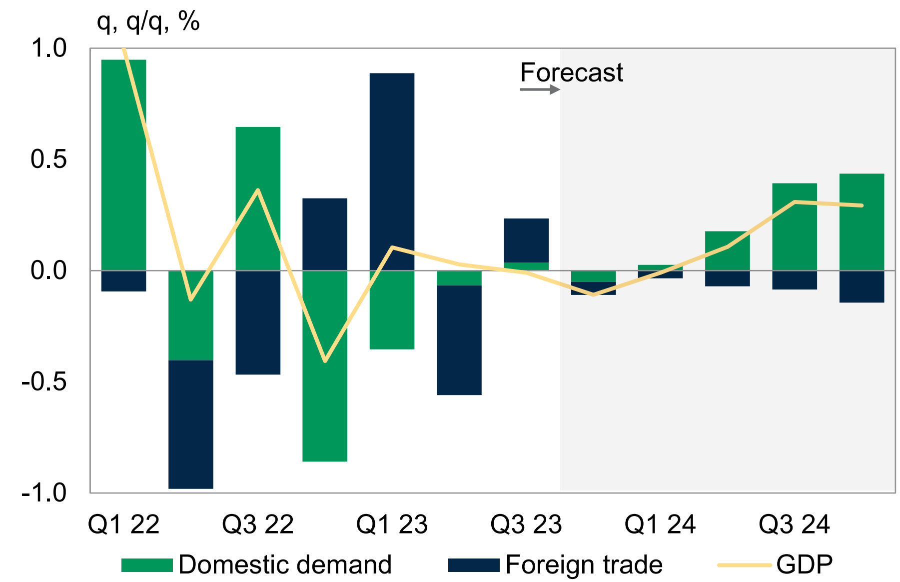
## WEAK FOREIGN DEMAND SHOULD BE OFFSET BY THE RECOVERY IN DOMESTIC DEMAND

### Export expectations surveys




*Sources: Bundesbank, Ifo, S&P Global PMI, Crédit Agricole S.A./ECO.*

### Contribution to quarterly GDP




*Sources: Eurostat, Crédit Agricole S.A./ECO.*

The export model based on a vertically integrated international value chain is under pressure. This is particularly evident in the automotive industry which relies on internal combustion engines. Production suffered in its initial phase, dependent on energy-intensive branches.

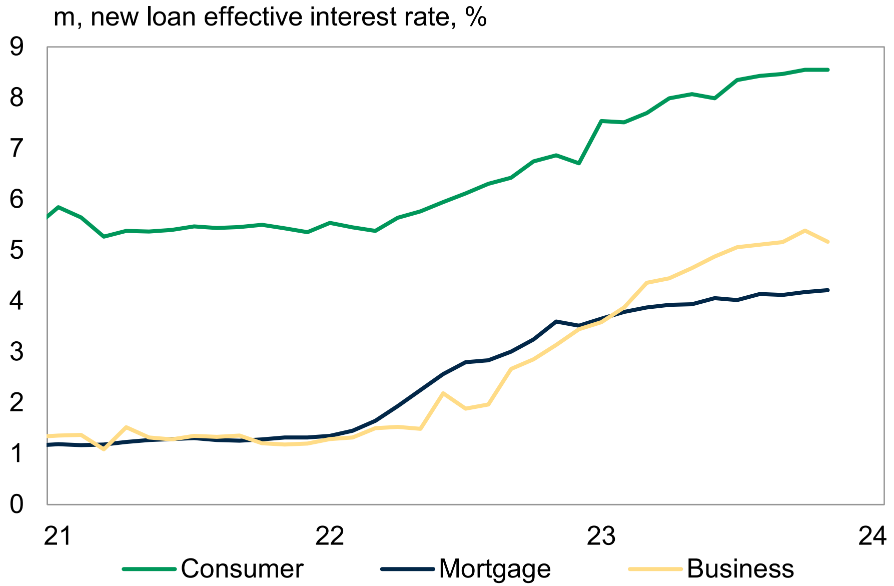
The return to growth in industrial production would be very gradual, given the weak demand for imports and domestic demand, which largely depends on the recovery in private demand.

The expected stability of the euro to dollar exchange rate means that bilateral trade in nominal terms would mainly depend on the competitive cost positions and growth prospects of export markets. However, demand from Germany's main trading partners (the United States, China and the European Union) has weakened. Growth in private consumption would boost demand for imports. Nevertheless, the trade balance should remain clearly positive.

# THE OUTLINE OF OUR SCENARIO

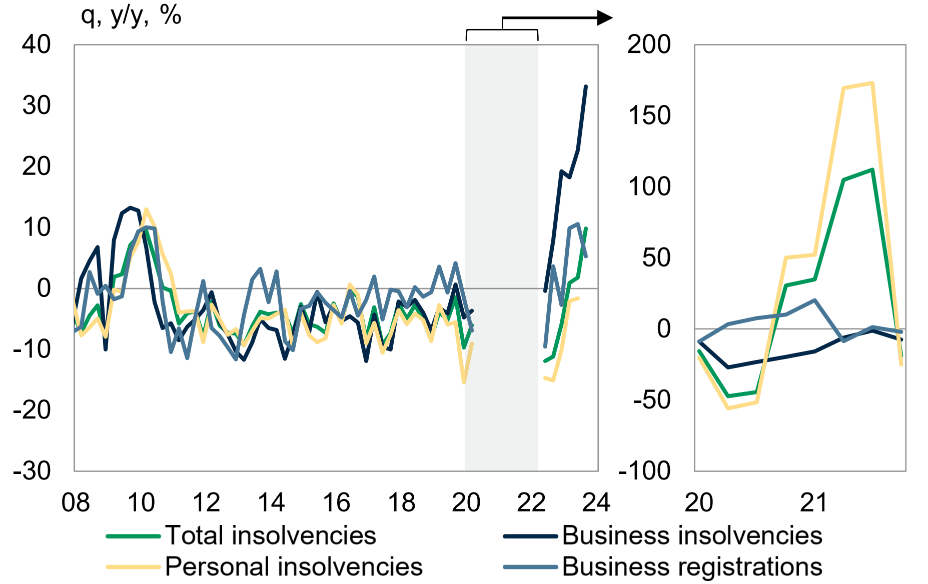
## THE RISE IN THE REFERENCE INTEREST RATE HAS RESTRICTED ACCESS TO CREDIT, ALTHOUGH THE RISK OF REFINANCING FOR BUSINESSES REMAINS LIMITED

### Financing costs




*Sources: Bundesbank, Crédit Agricole S.A./ECO.*

### Insolvencies




*Sources: Destatis, Crédit Agricole S.A./ECO.*

No immediate change is expected in the monetary policy of the ECB, whose reference interest rate is at 4.50%. The first cut should take place in September 2024, even if the inflation target has not been reached. Further cuts are expected until the second quarter of 2025, amounting 175 basis points. The size of the ECB's balance sheet would continue to shrink and reinvestment of the PEPP programme would come to an end by the end of 2024.

Interest rates have increased, particularly for businesses. However, mortgage interest rates have been negative in real terms in some cases, benefiting borrowers.

The end of financial support linked to the pandemic, the increase in financing, energy and labour costs, in a context of weak economic activity, have caused a deterioration in the situation of a growing number of businesses. This is the case of the so-called zombie companies, businesses that continuously fail to generate enough revenue to meet their interest payments, in other words, businesses that record low returns for a long period of time and do not file for bankruptcy. These type of companies, which have been kept afloat since the pandemic thanks to financial support and the suspension of the obligation to open insolvency proceedings, are now filing for bankruptcy.

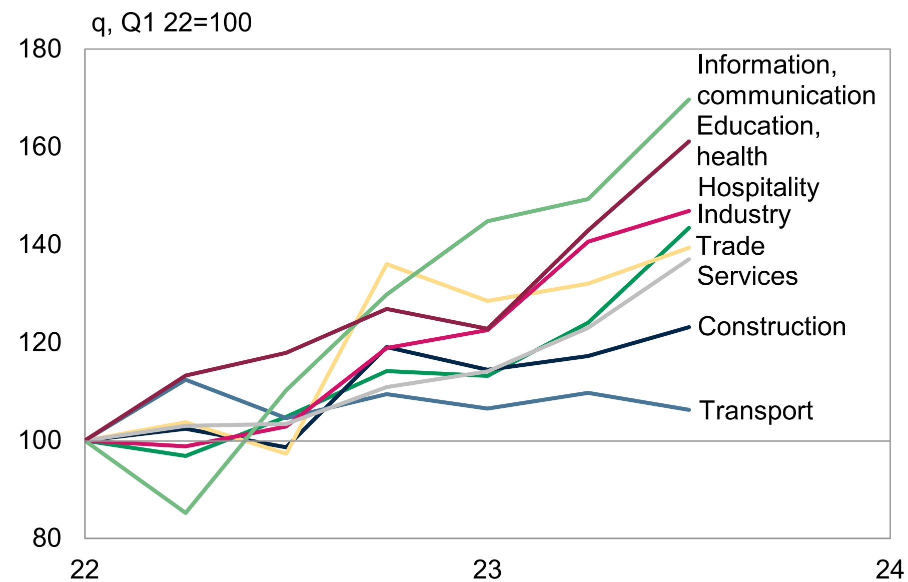
# THE OUTLINE OF OUR SCENARIO

## INSOLVENCIES RISE ALTHOUGH THEIR LEVEL REMAINS LOW

### Business insolvencies


*Sources: Destatis, Crédit Agricole S.A./ECO.*

### Business insolvencies by economic activity




*Sources: Eurostat, Crédit Agricole S.A./ECO.*

Business insolvencies have overall seen an upward trend since the first quarter of 2022. Insolvencies increased by 41% between the second quarter of 2022 and the third quarter of 2023. Insolvencies in the industry (excluding construction) increased by 43%, in construction by 23%, in transport by 6%, in wholesale and retail trade by 39%, in hospitality by 47%, in education and health by 61%, in information and communication by 70%, while in the category that includes specialised, administrative and support services, insolvencies increased by 37%. Transport activity stabilised after the initial increase, thus dodging a double-digit growth rate.

However, the number of business insolvencies is at historically low levels, at 4,699 in the third quarter of 2023, slightly higher than the number registered before the pandemic in the first quarter of 2020 and well below the peak recorded twenty years ago, at 10,072 in the second quarter of 2004.

The rise in insolvencies is clear, although the starting point is particularly low, as the obligation to open insolvency proceedings was suspended during the pandemic. This is therefore more of a correction. Furthermore, although at a slower pace, the number of businesses registrations has also increased, which in turn could justify a higher number of insolvencies.

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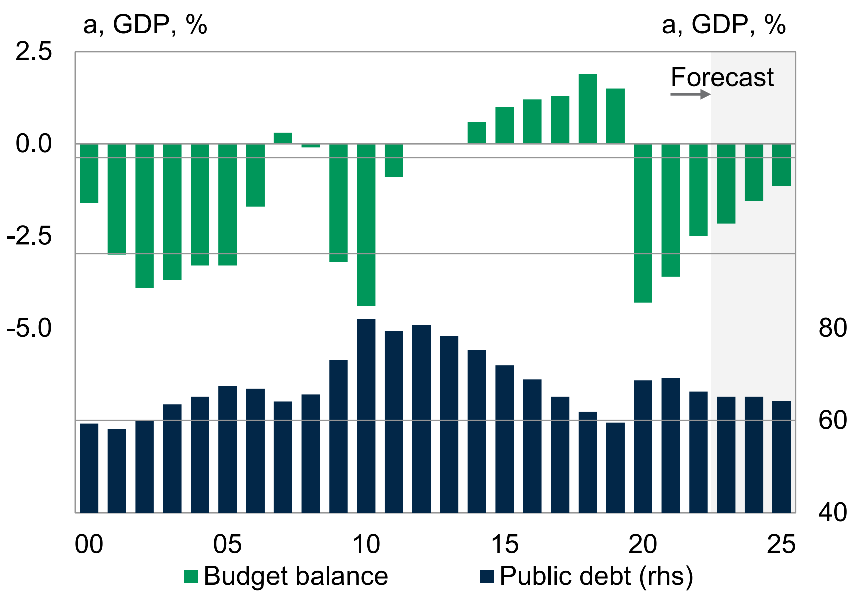
# FOCUS: PUBLIC FINANCES

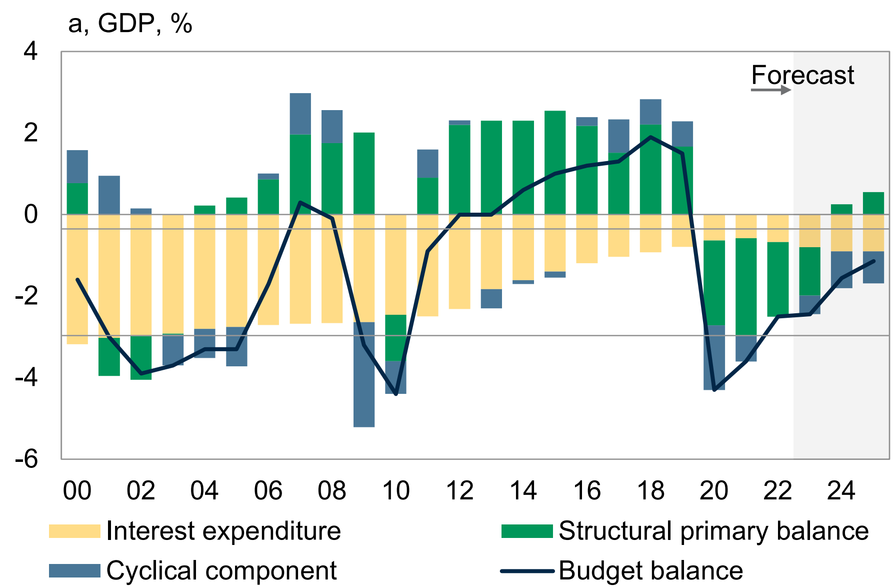
## THE DEBATE BETWEEN FINANCIAL SUPPORT FOR THE INDUSTRY AND FISCAL ORTHODOXY WILL CONTINUE

### Public finances




*Sources: Eurostat, Crédit Agricole S.A./ECO.*

### Budget balance




*Sources: BMF, EC, Crédit Agricole S.A./ECO.*

The Federal Constitutional Court, Germany's highest judicial authority, ruled in November that the transfer of 60 billion euros (equivalent to 1.5% of GDP) of unspent pandemic funds to the Climate and Transformation Fund (KTF) was not in compliance with the national debt brake. The Court indicated that the borrowing capacity must be used for the purposes originally intended and within the year for which it was approved.

The deliberation concerns a budgetary rule enshrined in the Constitution aimed at limiting structural budget deficits (that is, the budget deficit corrected for cyclical and one-off effects) to 0.35 of GDP and therefore the issuance of public debt. The debt brake can only be lifted in exceptional circumstances, such as when it was suspended under an emergency escape clause due to the pandemic, although the suspension has since been extended.

The KTF is used to channel subsidies and investments aimed at boosting the economy and decarbonising the country. The Fund is partly financed through carbon pricing and emissions trading and is one of several off-balance sheet instruments currently deployed in which financing takes place outside normal budgetary rules, thereby avoiding the debt brake.

# FOCUS: PUBLIC FINANCES

## THE DEBATE BETWEEN FINANCIAL SUPPORT FOR THE INDUSTRY AND FISCAL ORTHODOXY WILL CONTINUE

The Court ruling calls into question other off-balance sheet instruments, such as the 200 billion euro Economic Stabilisation Fund (WSF), intended to support businesses and consumers facing soaring energy costs by financing a cap on electricity and gas prices. Germany currently has 29 off-budget funds at the federal level, for a total of 869 billion euros, according to the Federal Court of Auditors, responsible for controlling public finances.

The government reached an agreement in December on a supplementary budget to settle excess spending for 2023 by suspending the debt brake ex post.

In order to get the public accounts back on track, the budget for 2024 includes a combination of spending cuts and the creation of new revenue. The coalition finally decided not to extend the suspension of the debt brake for the fifth consecutive year, meaning 17 billion euros should be raised to balance the accounts.

Regarding spending, the KTF would be reduced by 12 billion euros, and by an additional 45 billion euros between 2025 and 2027. The Fund would nevertheless still have a 160 billion euros capacity. The KTF would no longer be used to modernise the rail system. The improvements would instead be financed through the sale of property and land around the network and the sale of Schenker, a subsidiary of Deutsche Bahn. 2.7 billion euros would be saved from the WSF, due to lower than expected interest payments and the elimination of some programs. 3.2 billion euros would come from off-budget funds that do not conflict with the court decision. 3 billion euros would be saved from subsidies not aligned with the decarbonisation strategy. For example, the tax relief on agricultural diesel would be reduced by 40% in 2024, by 30% in 2025 and would end in 2026. Taking into account that the reimbursement is made the following year, the measure should recover 142 million euros in 2025, 285 million euros in 2026, 419 million euros in 2027 and 453 million euros per year from 2028. 1.4 billion euros per year would be saved by passing on companies the cost of a tax on non-recyclable plastic packaging, previously paid by the German government to the European Union. Financial support for the purchase of electric cars has been abolished and subsidies for solar panels would end. 1.5 billion euros of the budget of the Federal Ministry of Labour and Social Affairs would be saved by reducing social benefits. 1.5 billion euros from the budget of the Federal Employment Agency would also be saved. The budget of the Federal Ministry for Economic Cooperation and Development would be reduced by 800 million euros, the Federal Ministry for Digital and Transport by 380 million euros, the Federal Ministry of Education and Research by 200 million euros. 600 million euros would be saved by the reduction in pension insurance subsidies, which would be compensated with an increase in contributions.

Regarding revenues, the budget includes an increase in taxes on heating and transport fuels from 30 to 45 euros per tonne of $CO_2$, instead of the 40 euros initially discussed. The implementation of a new tax on domestic flights should raise 445 million euros. Nevertheless, the 15 billion euros in tax cuts for households would continue as planned.

How the government intends to fill the remaining deficit to reach the 17 billion euros committed remains unclear. Neither the ex-post suspension of the debt brake for 2023 nor the filling of the budgetary hole for 2024 would resolve the problem of billions of euros of additional spending which remains to be financed between 2025 and 2027. The Executive now expects the deficit to reach 1.5% of GDP in 2024, after 2.5% in 2023.

# CONTENTS

# APPENDIX

## *Abbreviations and acronyms*

BFA: Bundesagentur für Arbeit, the Federal Employment Agency.

BMF: Bundesministerium der Finanzen, the German Federal Ministry of Finance.

Bundesbank: Deutsche Bundesbank, the German Federal Bank, the central bank of Germany.

Destatis: Statistisches Bundesamt, the German national statistical service.

EC: European Commission.

ECB: European Central Bank.

EUR: euro.

Eurostat: the Directorate General of the EC responsible for statistics.

GDP: gross domestic product.

GFK: Growth from Knowledge.

HICP: harmonised index of consumer prices.

IAB: Institut für Arbeitsmarkt und Berufsforschung, the Employment Research Institute, part of the Federal Employment Agency.

Ifo: Leibniz Institut für Wirtschaftsforschung an der Universität München, the Leibniz Institute for Economic Research at the University of Munich.

ILO: International Labour Organization.

KTF: Klima und Transformationsfonds, the Climate and Transformation Fund.

kWh: kilowatt-hour.

m/m: month-on-month change.

m: month, monthly.

PEEP: Pandemic Emergency Purchase Programme, deployed to counteract the economic effects of the pandemic.

PMI: Purchasing Managers Index, produced by S&P Global.

pp: percentage point(s).

q/q: quarter-on quarter change.

q: quarter, quarterly.

WSF: Wirtschaftsstabilisierungsfonds, the Economic Stabilisation Fund.

y/y: year-on-year change.

y: year, annually.

## *Notes*

Unless otherwise stated, the consumer price index and inflation refer to Eurostat's harmonised definition, in order to be comparable between countries.

Unless otherwise stated, unemployment and the unemployment rate refer to the ILO's definition and not to the national definition, in order to be comparable between countries.

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