"Worst-performing Major Economy" Germany Seeks to End Budget Crisis


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German Chancellor Olaf Scholz and his governing coalition are seeking to end their country's budget crisis, and agreed on a supplementary budget to finish out 2023 on Tuesday after a constitutional court ruled against the government's future spending plans.

Scholz's government, according to CGTN, had planned to "repurpose money borrowed by the German State to aid in the recovery from the COVID pandemic to green projects and industry subsidies." However, the court ruled the planned spending was unconstitutional, creating a "60 billion Euro hole" in Germany's budget.

The budget deal will reportedly allow the German government to "take on $47.2 billion in new loans and make $16.5 billion in cuts." This does not include cuts that need to be made next year that could further slow down what is considered the world's worst-performing major economy.

As DW Global Media reported, German Finance Minister Christian Lindner stated, "with this 2023 supplementary budget, we are dealing with the consequences of the judgment by the Constitutional Court." Last week Linder said "he would declare 2023 a year of emergency so as to put the existing spending plans on a 'firm constitutional footing.'"

Chancellor Scholz reportedly shared with the Bundestag (German Parliament) in a defense of his government's plan to end the budget crisis on Tuesday that "nothing will change" for recipients of benefits. "The state will honour its commitments…. But this ruling creates a new reality … that will make it more difficult to meet what are still important, shared goals for our country."

The supposed shared goals for Germany were Scholz's modernization plan to invest in new sources of affordable renewable energy such as wind, solar, and hydrogen and to support battery and computer chip production.

The *Irish Times* reported that "Opposition leader Friedrich Merz, chairman of the centre-right Christian Democratic Union (CDU), disputed the chancellor's framing of the budget emergency as the result of unprecedented and unexpected crises."

The *Times* continued:

> He said the crisis was caused by the Scholz coalition trying to "square the circle" of contradictory priorities: "bloated" welfare spending and state-funded climate plans of the Social Democratic Party (SPD) and Greens, alongside liberal Free Democratic Party priorities to cut taxes and balance the budget.
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> "Given this defeat I would have expected at least a word of regret or apology from you," said

> Mr. Merz. “That this is the government of the world’s fourth largest economy, it’s just embarrassing what we see and hear from you.”
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> Maintaining budget discipline in Germany, the CDU leader said, was of European importance in terms of holding together the single currency. “If this dam breaks in Germany then dams will break in all other countries,” said Mr. Merz. “Germany has a role model function here whether you want to live up to that or not.”

With the supplementary budget approved, the question of next year’s budget remains to be answered. According to AP, “The government would have to scramble to cover shortfalls of roughly 30 billion to 40 billion euros — plus 20 billion to 30 billion euros for 2025 — compared with earlier plans, according to Holger Schmieding, chief economist at Berenberg bank. Ultimately, spending may be reduced by as much as 0.5% of annual economic output for the next two budget years, Schmieding said.”

Germany’s debt crisis is real, but nowhere near the level that other leading countries hold. According to the Associated Press, “Germany has the smallest long-term debt pile of any of the Group of Seven advanced democracies, with debt of 66% of gross domestic product. That compares to 102% in Britain, 121% in the U.S., 144% in Italy and 260% in Japan.”

There is a glimmer of hope that Germany’s economy will slowly improve. The latest macroeconomic forecast for Germany by the European Commission released last week stated that after an expected economic decline of “0.3% in 2023,” the “domestic demand is set to pick up, driven by a real wage increase. Together with recovering foreign demand, this is expected to support a pick-up in GDP growth to 0.8% in 2024 and 1.2% in 2025.”

Moving forward, hopefully Scholz and the Bundestag can agree on a solid 2024 federal budget that includes necessary spending cuts and, as Merz stated, allow Germany to retain its “role model function” in budget discipline.