Germany

1. Economic situation

The German economy contracted by 4.9% in 2009 as export orders fell sharply in response to the global economic slowdown (Figure 1A). Germany balanced its budget in the two years prior to the economic crisis, but the fiscal balance quickly became negative as stimulus measures were adopted in response to the recession and automatic stabilisers played their role. Germany's budget deficit measured 3.0% of GDP in 2009 (Figure 1B).

Gross debt has increased only moderately in recent years to account for 76.5% of GDP in 2009, benefiting from a relatively conservative fiscal stance in the years leading up to the crisis (Figure 1C).

The economy is recovering on the back of business investment, strong export growth, and a robust and flexible labour market. The OECD projects that the pre-crisis real GDP level will be reached during 2011.

Figure 1. **Key economic indicators**

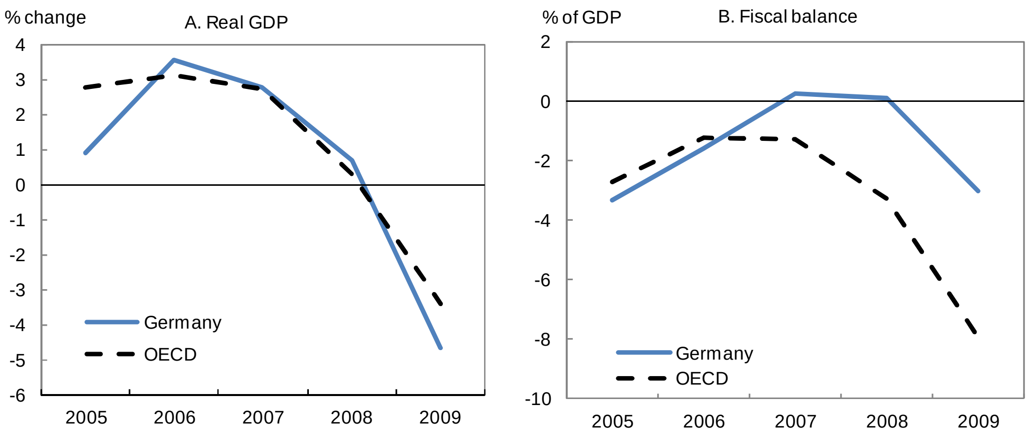
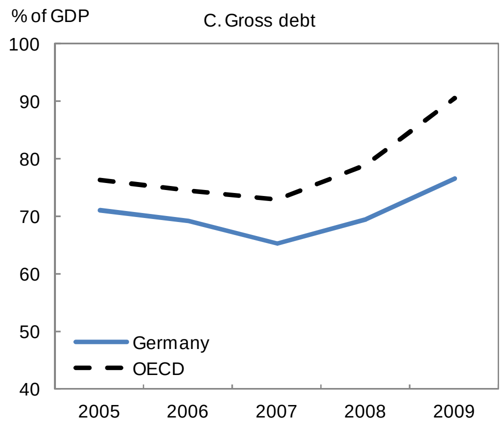


Figure 1. **Key economic indicators** *(cont'd)*



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities as a per cent of nominal GDP.

Source: OECD (2010), "OECD Economic Outlook No. 88", *OECD Economic Outlook: Statistics and Projections* (database), doi: 10.1787/data-00533-en.

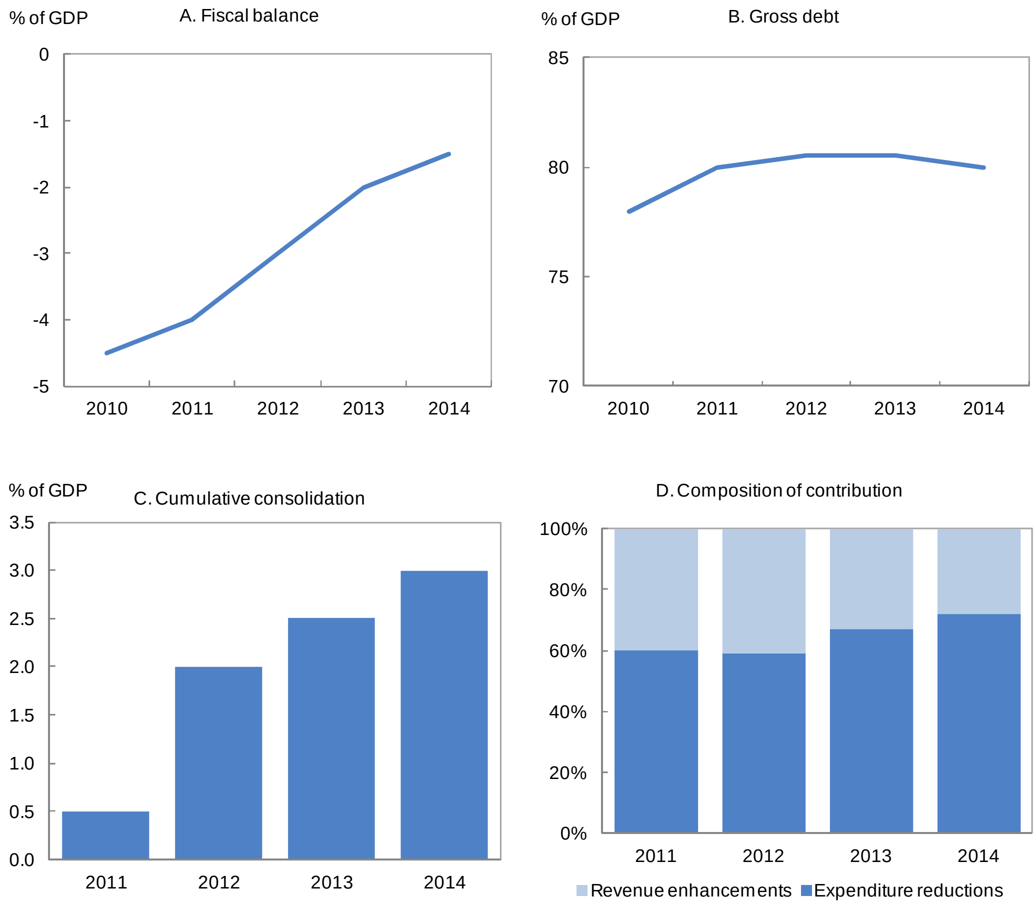
2. The government's fiscal consolidation strategy

Germany plans to reduce its budget deficit to below 3% of GDP by 2012 at the latest. The government has also announced its intent to reduce the structural deficit by 0.5% annually from 2011 onwards. Longer term fiscal consolidation will also benefit from implementation of a new fiscal rule anchored in Germany's constitution. Starting in 2011, the new budget rule (the debt-brake) will limit the federal government's structural deficit. During this transition, the federal government's structural deficit will be reduced stepwise from 1.9% of GDP in 2011 to a maximum of 0.35% of GDP from 2016 onwards. In addition, German states (*Länder*) will be required to balance their budgets in structural terms from 2020 onwards. Lower levels of government will therefore contribute substantially to the longer-term consolidation efforts under way in Germany.

In June 2010, the government announced plans for an ambitious consolidation programme beginning in 2011 that will help Germany meet its structural deficit target over the medium term. In addition to phasing out temporary fiscal stimulus measures, Germany announced a EUR 80 billion consolidation programme (3% of GDP) to be implemented over the four-year period beginning in 2011 (Figure 2C). Two-thirds of the measures are expenditure-based cuts (Figure 2D).

Germany's 2011 federal budget and accompanying 2011-14 fiscal plan also support this path, setting out an eight-point plan focusing on prioritising education, creating prospects for higher growth and employment, and assuring solid public finances. The government forecasts that Germany's deficit of 3.7% of GDP in 2010 would narrow to less than 1.5% of GDP by 2014 as the consolidation measures are implemented (Figure 2A). Gross debt is projected to be stable over the medium term, reaching a high of 80.5% in 2012 (Figure 2B).

Figure 2. **The government's planned fiscal adjustments**



Note: Fiscal balance and gross debt are general government financial balance and gross financial liabilities on a Maastricht basis as a per cent of nominal GDP. Fiscal consolidation is cumulative consolidation as a per cent of GDP. The composition of the contribution to fiscal consolidation is expenditure reductions and revenue enhancements (total = 100%). OECD calculations.

Source: "OECD Fiscal Consolidation Survey 2010".

3. Major consolidation measures

The largest consolidation measure on the expenditure side is the reduction of social security and unemployment benefits including the readjustment of parental and housing benefits. Savings from these measures will amount to 1.13% of GDP in 2011-14. Up to 10 000 staffing positions will be permanently abolished by 2014.

On the revenue side, the government has announced a number of new taxes including a nuclear fuel tax and a bank tax. Particularly, the financial transaction tax (FTT) will be implemented for an appropriate involvement of financial markets to finance the cost of economic crises. The tax will bring additional EUR 6 billion (0.21% of GDP) by 2014. Over the same period, reducing energy tax exemptions and introducing an airline travel tax will increase revenues by 0.19% of GDP.

Table 1. **Major consolidation measures**

Billions EUR (% of GDP[1])

		Budgetary impact[2] 2011-14
Expenditures		**55.1 (1.92)**
1. Operational measures		3.2 (0.11)
– Federal administration wage and job cuts	Savings in federal administration including staffing and remuneration cuts. Up to 10 000 staffing positions to be permanently abolished by 2014	3.2 (0.11)
2. Programme measures		51.9 (1.81)
– Social security and unemployment benefits	Increasing the targeted incentives for employment and readjustment of parental and housing benefits	32.3 (1.13)
– Defence	Structural reforms in federal armed forces, including a 40 000 reduction in headcount	4.0 (0.14)
– Other departmental spending	Expenditure cuts in all areas of the federal budget (excluding education and research)	15.6 (0.54)
3. Other initiatives	EUR 2 billion grant to keep statutory health insurance contributions at stable level in 2011	
Revenues		**24.7 (0.86)**
– Ecological tax	Reduced energy tax exemptions, and introduction of "ecological" airline travel tax (travel beginning January 2011)	5.5 (0.19)
– Nuclear fuel tax	Nuclear power industry to begin paying nuclear fuel tax	9.2 (0.32)
– Financial transaction tax	Introduction of the FTT to finance the cost of economic and financial crisis	6.0 (0.21)
– Other		4.0 (0.14)

1. OECD calculations using OECD forecasts of nominal GDP for 2014.

2. The table contains measures and the amount of budgetary impact of the legislative package. The package was modified in the parliamentary discussion, which ended in November 2010. The amount of budgetary impact, however, is nearly unchanged over the whole period.

Source: "OECD Fiscal Consolidation Survey 2010".

Pension reform

In 2007 Germany announced that the statutory retirement age would increase gradually from 65 to 67, to be phased in over the period 2012-29.

4. Institutional reforms

Germany implements the new fiscal rule referred to as the “debt-brake” with the 2011 federal budget, starting with a transition period. Anchored in the Constitution, the new budget rule limits the federal government structural deficit to 0.35% of GDP from 2016, while the states (*Länder*) must balance their budgets in structural terms from 2020.

Table 2. **The government’s fiscal consolidation plan**

% of GDP

Fiscal consolidation	2010	2011	2012	2013	2014
Consolidation measures (cumulative)[1]		0.5%	2.0%	2.5%	3.0%
Total deficit/surplus[2]	-3.7%	-3.0%	-3.0%	-2.0%	-1.5%
Total level of debt[2]	75.5%	77.0%	80.5%	80.5%	80.0%
Composition of fiscal consolidation (total = 100%)					
Expenditure reductions		60%	59%	67%	72%
Revenue enhancements		40%	41%	33%	28%
Consolidation by level of government					
Central		98%	62%	28%	61%
Regional and local		27%	19%	40%	17%
Social security		-25%	20%	32%	22%

1. Swing in general government balance as defined in Germany’s survey response.

2. According to the government, the notification to the Stability Council from 30 November 2010 only included a forecast update for 2010 and 2011 which showed smaller ratios than in the July forecasts. As the values for the following years were already forecast in July 2010, they should turn out – analogously to the years before – to also be lower. 2011 fiscal balance and 2010 and 2011 debt ratio rounded at 1/2.

Source: “OECD Fiscal Consolidation Survey 2010”.