

# The role of the German Parliament in the approval and oversight of fiscal stimulus packages, Eurozone stabilization packages, and strategies to reduce fiscal deficits

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# 1<sup>st</sup> stimulus package (2008)



- „Securing jobs by stimulating growth“
  - a.k.a. „Protective umbrella for jobs“
  - retrospectively „Konjunkturpaket I“
- Cabinet Nov 5, Bundestag Dec 4
- volume: 12 bn €
- investments: infrastructure + incentives for „green“ refurbishments of buildings
- tax law: more options for depreciation, deductions, etc.
- increased lending by state-owned KfW bank



## 2<sup>nd</sup> stimulus package (2009) - „Konjunkturpaket II“

- Cabinet Jan 27, Bundestag Feb 13
- volume: 50 bn €
- infrastructure:
  - 4 bn € on federal level for buildings and roads
  - 10 bn € federal money for local authorities
- „wrecking bonus“ of 2.500 € for cars > 9 yrs old, initial volume 1.5 bn €, additional 3.5 bn € added by Cabinet in April
- publicly sponsored short-time work schemes
  - extended in duration (6 → up to 24 months)
  - social security contributions partly or fully re-imbursed
- guarantees of up to 100 bn € for lending by state-owned KfW bank
- tax relief for low incomes, health insurance ↓ 0,6 percentage points





# Parliamentary approval and oversight of stimulus packages

## APPROVAL

- Budget committee = lead committee for omnibus bill & supplementary budget
- public hearing
- important amendments
  - 10 bn € federal money for local authorities for additional investments (revoked by law in 2010)
  - right of Federal Court of Audit to examine local authorities (mostly revoked by Constitutional Court in 2010)

## OVERSIGHT

- regular reporting practices continued
- additional weekly reporting about spending levels in different programs
- 100 bn € guarantee framework: inform Budget committee beforehand if single guarantee exceeds 300 mio €
- Federal Court of Audit

## CONCLUSION

- some input in the approval stage, more or less business as usual regarding oversight



## Stimulus package II: weekly reporting about spending levels in investment program for local authorities

BMF

### Laufende<sup>1)</sup> und beendete<sup>2)</sup> Investitionsvorhaben nach dem ZulnvG zum Stichtag 15. Februar 2011

	NW	BY	BW	NI	HE	SN	RP	ST	SH	TH	BB	MV	SL	BE	HH	HB	Gesamt
Anzahl der Vorhaben	8.977	3.205	5.565	5.952	1.768	2.551	2.674	2.256	1.306	3.355	2.469	602	580	771	173	223	42.427
Investitionsvolumen (in Mio. Euro)	3.046,3	2.462,7	2.117,8	1.467,6	1.096,2	807,2	855,9	468,6	484,0	459,0	571,5	360,3	223,1	676,3	375,9	137,6	15.610,1
Finanzierungsanteil Bund (in Mio. Euro)	2.105,0	1.415,8	1.242,7	927,6	717,9	597,0	472,5	347,8	319,9	317,4	340,9	244,1	127,9	471,2	231,8	88,3	9.967,8
bereits belegte Bundesmittel (in Prozent)	98,7	99,2	100,4	100,8	99,9	100,0	100,8	97,6	99,2	99,8	99,4	103,0	99,4	99,4	101,0	99,9	99,7
kommunalbezogener Anteil (in Prozent)	84,9	75,1	75,0	79,8	73,1	79,4	81,1	70,2	72,5	82,6	88,1	72,8	69,5	—	—	—	78,4
<b>Finanzhilfen nach Förderbereichen (in Prozent der bereits belegten Bundesmittel)</b>																	
1a - Frühkindliche Infrastruktur	4,9	7,6	5,4	3,0	2,4	15,0	6,1	9,4	8,4	15,9	9,0	7,2	3,3	13,4	2,6	9,0	6,8
1b - Schulinfrastruktur	43,0	33,8	35,6	49,2	43,2	36,7	40,8	33,6	37,4	37,1	39,1	30,2	45,4	31,0	26,8	37,4	38,8
1c - Hochschulen	13,7	10,9	8,9	8,7	16,9	8,6	15,7	9,0	10,3	2,4	12,6	26,5	15,9	18,5	19,1	7,4	12,2
1d - Einrichtungen der Weiterbildung	0,7	4,4	1,1	0,7		1,1	0,6	2,2	0,8	1,3	0,2	0,4	0,4	0,2	0,2	3,4	1,3
1e - Forschung	2,7	7,5	13,8	3,5	2,6	3,4	1,5	10,5	8,4	8,1	2,2	1,4		2,1	15,2	7,6	5,7
Schwerpunkt Bildungsinfrastruktur	65,0	64,3	64,8	65,0	65,1	64,7	64,6	64,7	65,3	64,9	63,1	65,8	65,0	65,1	63,9	64,8	64,8
2a - Krankenhäuser	7,3	5,8	11,2	5,2	10,4	3,6	13,4		10,5	5,9	5,8	14,8	2,9	10,5	1,0	5,9	7,5
2b - Städtebau	3,8	1,8	4,0	0,0	3,0	4,1	2,2	5,6	2,0	0,9	1,0	3,1	4,0		6,7	2,0	2,7
2c - Ländliche Infrastruktur	1,5	10,0	3,3	2,1	1,1	0,4	1,4	3,1	3,5	1,5	1,3	2,7	5,2				3,0
2d - Lärmschutz an komm. Straßen	2,2	2,3	0,0	0,1	0,6	1,6		4,1	0,8	2,8	2,4	0,3		2,5	2,8	1,3	1,5
2e - Informationstechnologie	1,2	1,6	2,0	2,4		2,2	1,0	6,1	1,5	0,3	0,6	0,8		0,3	4,2	7,8	1,6
2f - Sonstige Infrastruktur	18,8	14,3	14,7	25,1	19,9	23,4	17,5	16,3	16,4	23,8	25,8	12,4	22,8	21,5	21,4	18,2	18,8
Investitionsschwerpunkt Infrastruktur	35,0	35,7	35,2	35,0	34,9	35,3	35,4	35,3	34,7	35,1	36,9	34,2	35,0	34,9	36,1	35,2	35,2

<sup>1)</sup> Solche Vorhaben werden als laufend angesehen, die zum Stichtag begonnen, aber noch nicht beendet sind. Als Beginn des Vorhabens wurde für Vorhaben, die auf Grund von Förderrichtlinien oder im Rahmen von Zuwendungen bewilligt werden, das Datum des Bewilligungsbescheides bzw. des Zuwendungsvertrages festgelegt, für alle anderen Vorhaben ist es der Tag des Vertragsabschlusses.

<sup>2)</sup> Von den Ländern mit Verwendungsnachweis an den Bund gemeldet.



# Eurozone stabilization packages

(1) Greece – early May 2010

(2) European Stabilisation mechanism (temporary) – mid-May 2010

- European Financial Stabilisation Mechanism (EFSM)
- European Financial Stability Facility (EFSF)

(3) European Stabilisation Mechanism (ESM) (permanent) – spring 2011



## Eurozone stabilization: (1) Greece

### APPROVAL

- MON, May 3rd: Cabinet adopts draft bill, majority parliamentary groups introduce bill in Parliament
- WED, May 5th: Bundestag refers bill to Budget Committee (BC), BC holds public hearing, BC adopts recommendation for Bundestag decision
- FRI, May 7th: Bundestag adopts bill, Bundesrat adopts bill, President signs bill into law, law published in Federal Law Gazette

### OVERSIGHT

- bill authorizes Govt generally to issue guarantees of up to 22.4 bn € for loans issued by KfW bank to Greece, based on “intercreditor agreement” on “pooled bilateral loans”
- BC has to be informed before guarantee for each quarterly loan tranche is issued
- BC receives EU/ECB/IMF progress reports



## Eurozone stabilization: (2) temporary EFSF

### APPROVAL

- TUE, May 11th: Cabinet adopts draft bill, majority parliamentary groups introduce bill in Parliament
- WED, May 19th: Bundestag refers bill to Budget Committee (BC), BC holds public hearing, BC adopts recommendation for Bundestag decision
- FRI, May 21th: Bundestag adopts bill, Bundesrat raises no objections
- SAT, May 22nd: President signs bill into law, law published in Federal Law Gazette

### OVERSIGHT

- bill authorizes Govt to provide guarantees of up to 123 bn € for bonds issued by special purpose vehicle (SPV), the European Financial Stability Facility (EFSF)
- before any guarantees are issued, BC to be informed about SPV contract
- before specific guarantee is issued, Govt has to “make an effort to win agreement of BC” (wording of EUZBBG law)





## Digression: Bundestag and European Union

- Treaty of Lisbon (signed 13 Dec 2007, entered into force 1 Dec 2009)
- Germany: complaints of unconstitutionality filed against laws ratifying Treaty
- Constitutional Court ruling of 30 Jun 2009: laws ratifying Treaty constitutional, but „accompanying law“ regulating participation of Bundestag and Bundesrat unconstitutional
- new law in Sept 2009: „Law about the cooperation of the Federal Government and the German Bundestag in European Union affairs“ (EUZBBG)
  - BT has expansive rights to be informed about undertakings at EU level, to receive documents, and to state its opinion
  - Govt has to enter reservations on behalf of Bundestag in Council of EU and has to “make an effort to win agreement” of Bundestag
  - one corollary: new EuDox database



## Eurozone stabilization: (3) permanent ESM

### APPROVAL

- European Council decision on ESM „term sheet“ on March 24/25
- plan to amend Art. 136 of the Treaty
- ESM will be established by a treaty among the euro-area Member States as an intergovernmental organisation
- probably 4 separate bills will be introduced into Bundestag in September

### OVERSIGHT

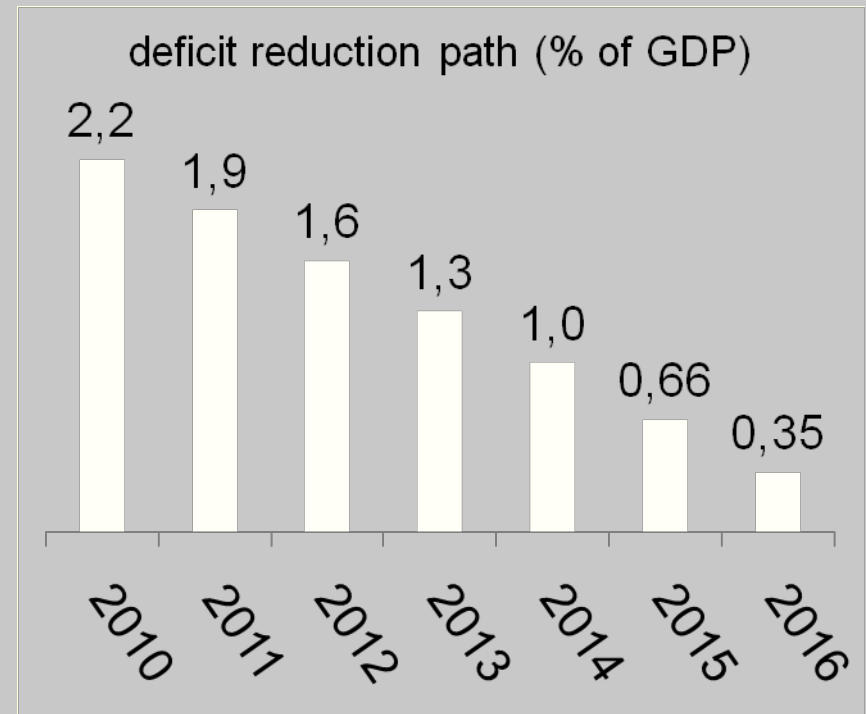
- during negotiations according to / in analogy with EUZBBG
- parliamentary oversight relating to ESM to be determined in ratification process
- discussions:
  - Reach of EUZBBG? EU affairs vs intergovernmental affairs
  - Majority needed for Treaty amendment? Simple or 2/3?
  - Decision-making in ESM? Required majorities, automatic measures, veto power for national Parliaments, etc.



## Reduction of fiscal deficits and the “debt brake”

### CONSTITUTIONAL DEFICIT RULE

- new version introduced in 2009
- starting 2016, federal budget deficit may not exceed 0.35% of GDP (Länder: 0.00% starting 2020)
- starting “ramp” for deficit reduction is structural deficit of 2010 (adjusting for cyclical effects, one-off effects and financial transactions)
- between 2011 and 2015, deficit has to be reduced in equal steps





## Oversight issues in the reduction of fiscal deficits

1) Who decides what “the structural deficit of 2010” actually is (the starting ramp)?

- a) expected deficit at adoption of 2010 budget (Dec 2009) – 80.2 bn €?
- b) expected deficit at 2011 budget proposal (June 2010) – 65.2 bn €?
- c) expected deficit at adoption of 2011 budget (Nov 2010) – n.a.?
- d) known deficit (early 2011) – 44.0 bn €?

- Ministry of Finance (BMF) opted for b), SPD parl. group demanded c) or d)
- according to one expert, b) allows for up to 13.7 bn € more deficit in 2012-2016 than d)
- actual initial BMF proposal for 2012 budget and 2013-15 plan is close to d), but not (yet) legally binding



# Oversight issues in the reduction of fiscal deficits

## 2) How to adjust for cyclical effects?

- because constitutional deficit rule is based on structural deficit, selecting the “right” method for adjusting for cyclical effects is crucial
- sub-constitutional specification of deficit rule: cyclical adjustment to be performed “in line” with procedure used in European Stability and Growth Pact
  - Output gaps working group < Economic Policy Committee < ECOFIN
- critique
  - procedure developed by committee with limited democratic legitimacy
  - ever more complex methodology that even most experts can’t follow
  - limited transparency: BMF did not explicitly state its assumption for value of output gap in 2012-15 financial framework
  - Bundestag lacks capacity for adequate control (no CBO-equivalent)



Thank you for your attention!

