

Country note, July 2019

Key messages:

- The macroeconomic outlook has weakened: the positive output gap is expected to close in the current year.
- All levels of government are predicted to run surpluses in the short and the medium term.
- Germany continues to meet the upper limit for the structural deficit (MTO) with a safety margin until 2023.

Macroeconomic outlook

In the German Stability Programme issued in April 2019, the federal government expects real GDP growth to slow down. Its forecasts for growth are 0.5 % in 2019 and 1.5 % in 2020, which is in accordance with projections published by other institutions. The positive output gap estimated for 2018 is expected to close in the current year and to stay about closed in the medium term until the end of the projection period 2023. There is no clear consensus regarding the output gap among other institutions. While the Joint Economic Forecast has produced a similar prediction, others, including Deutsche Bundesbank and IMF, see a positive output gap during the projection period.

Short-term fiscal outlook

The latest update of the fiscal forecast from the Stability Programme by the Federal Ministry of Finance includes a substantial surplus for the general government in 2019 of 1 % of GDP. This reflects surpluses at state and municipal level as well as for the social security funds. The federal government's budget is expected to show a balance of approximately zero. When adjusted for the cyclical component as well as one-off and other temporary measures, this translates into an expected structural surplus of about ¾ % of GDP. This number is within the bandwidth of estimates published by other institutions. For the first time since 2002, the debt-to-GDP ratio is expected to decrease below 60 % in the current year.

Medium-term fiscal outlook

Current projections point to a significant minor reduction of surpluses of the federal government, municipalities and social security funds over the next years. In 2021, the unadjusted surplus of the general government is projected to fall to about ¼ % of GDP and to rise back to ½ % in 2023. Owing to the prediction of an almost closed output gap, the Federal Ministry of Finance expects that the structural budget balance is about the same order of magnitude. From today's perspective, it will remain positive up to the year 2023. The debt-to-GDP ratio is projected to decline further to 51¼ % in 2023.

Fiscal framework and national fiscal rules

In its latest report (June 2019) the Independent Advisory Board endorses the growth forecast and the updated fiscal forecast of the Federal Ministry of Finance. Accordingly, Germany is expected to comply with the 0.5 % deficit ceiling in this year and until 2023.

As of 2020, the Stability Council is in charge of monitoring the debt brakes for the budgets of the federal and state governments pursuant to Article 109 (3) of the German constitution. The Stability Council has meanwhile defined the procedures along with a harmonised system for budget monitoring. For the assessment of the compliance with the upper limit for the structural budget deficit and for compliance with the European rules and regulations, the information provided in this analysis system could be very helpful. However, for various reasons, the Advisory Board considers the improvement of the information unsatisfactory: for instance, the forecast horizon is limited to the next year, the procedures for cyclical adjustment are not harmonised, and data need not be up-to-date. Nevertheless, the Advisory Board recommends that the information provided as part of the procedure is made publically available, which is currently not envisaged.

Key indicator forecast

		2018	2019	2020	2021	2022	2023	Source
GDP, price-adjusted	[% y-to-y]	1.4	0.5	1.5	1.2	1.2	1.2	1
Potential output	[% y-to-y]	1.5	1.4	1.4	1.4	1.2	1.1	1
Output gap	[% of pot. output]	1.0	0.1	0.2	0.0	0.0	0.0	1
GG balance	[% of GDP]	1.7	1	¾	¼	¼	½	2
Cyclical component	[% of GDP]	0.5	0	0	0	0	0	2
GG structural balance	[% of GDP]	1.3	¾	½	¼	¼	½	2
Debt-to-GDP ratio	[% of GDP]	60.9	58¾	56½	54¾	53	51¼	3

1: Spring projection by the federal government. – 2: Eleventh Statement regarding compliance with the upper limit for the structural general government budget deficit pursuant to Section 51 (2) of the Budgetary Principles Act (HGrG). – 3: German Stability Programme 2019.

Chart 1: Real GDP and potential output (% y-to-y)

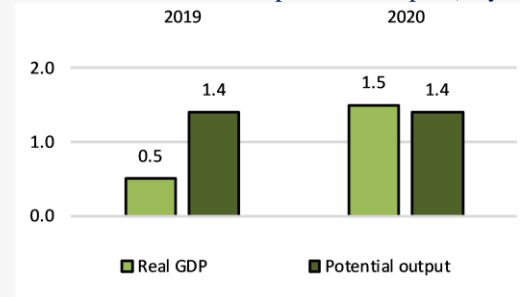


Chart 2: Output gap (% of potential output)

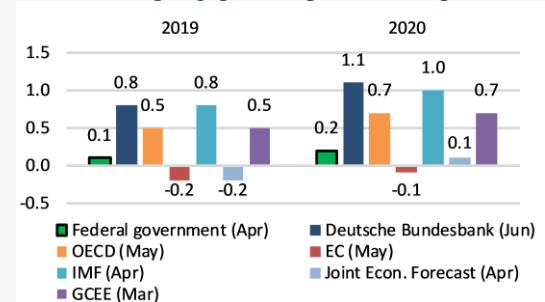


Chart 3: Structural balance (% of GDP)

