Germany

Stability Council
Independent Advisory Board

Country note, January 2018

Key messages:

- **The German economy exhibits sustained economic growth with positive cyclical effects on public finances**
- **With a general government structural surplus, Germany meets its upper limit for the structural deficit (MTO) by an appreciable margin**
- **The debt-to-GDP ratio is expected to drop below 60% in 2019**

Macroeconomic outlook

According to estimates by the German Ministry of Finance (MoF), real GDP increases by 2.0 % in 2017 and is projected to grow by 1.9 % and 1.7 % in 2018 and 2019, respectively (see Chart 1). The positive development is a result of high levels of external demand, domestic investment and consumer demand. In this environment, the MoF projects a positive output gap in the medium-term. The projected level of overutilisation is higher than the one estimated by the European Commission but is at the lower bound when compared to estimates of other institutions (see Chart 2).

Short-term fiscal outlook

The latest forecast based on Germany’s draft budgetary plan, adjusted for tax revenue and macro projections from fall of 2017, includes a substantial fiscal surplus for the general government in 2017 of 1 % of GDP. This reflects fiscal surpluses on the federal, the state and the municipal levels, as well as for the social insurance institutions. When adjusted for cyclical components and temporary measures the fiscal surplus translates into a positive structural surplus of about 1.3 % of GDP in 2017. This is broadly in line with the estimations of other institutions (see Chart 3).

Medium-term fiscal outlook

In the projections of the MoF, all levels of government continue to generate fiscal surpluses in the medium-term. The fiscal balance of the general government is expected to remain at 1 % of GDP for the years 2018 through 2020 and rises to about 1.2 % of GDP in 2021. In structural terms, the budget balance remains positive at 0.7 % of GDP in 2018 and 2019, respectively, and later rises to about 1 % of GDP. As of 2018, the structural surplus is expected to be below the fiscal surplus due to positive business cycle effects. The debt-to-GDP ratio is expected to decrease below 60 % in 2019 and to reach 54 % in 2021. The Independent Advisory Board perceives both upside and downside risks in the medium term. The former may materialize if the economy continues to grow stronger than expected while the latter are mainly related to political risks that may affect the global economy. A new government may target lower surpluses and decide on respective fiscal measures.

Fiscal framework and national fiscal rules

At the national level, Germany applies a balanced budget rule. From 2016 onwards, the federal government borrow up to 0.35 % of GDP adjusted for cyclical effects and financial transactions, while the states (“Länder”) must avoid structural deficits from 2020 onwards. The compliance with these rules is monitored by the Stability Council which consists of the federal finance minister and the minister of economic affairs as well as the states’ finance ministers. Germany transposed the Fiscal Compact into national law in 2013, and requires the general government, structural deficit to not exceed 0.5 % of GDP. Compliance with this rule is monitored by the Stability Council in conjunction with the Independent Advisory Board, which was created in 2013. The Independent Advisory Board assesses the projections presented to the Stability Council and points out potential risks. Its mandate is focused on monitoring Germany’s compliance with the structural balanced budget rule in the Fiscal Compact.

Chart 1: Real GDP Growth (% y-to-y, MoF)

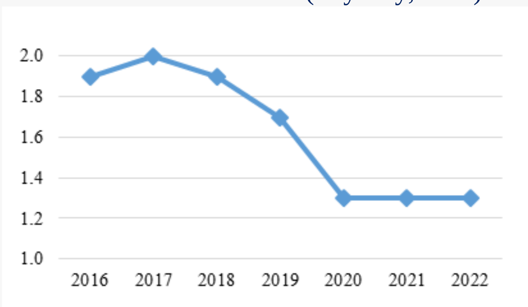


Chart 2: Output Gap (% of Potential)

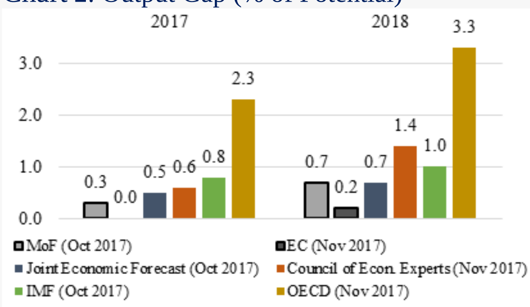
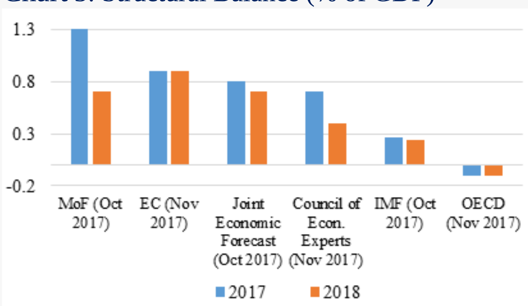


Chart 3: Structural Balance (% of GDP)



Key indicator forecast (general government)

		2016	2017[c]	2018[c]	2019[c]	2020[c]	2021[c]
Real GDP growth (MoF)	[% y-to-y]	1.9	2.0	1.9	1.7	1.3	1.3
Potential growth (MoF)	[% y-to-y]	1.7	1.8	1.6	1.6	1.6	1.5
Output gap (MoF)	[% of potential]	0.1	0.3	0.7	0.7	0.4	0.2
Fiscal balance (MoF)[a]	[% of GDP]	0.8	1	1	1	1	1¼
Cyclical budgetary component[b]	[% of GDP]	0.1	0.2	0.4	0.4	0.2	0.1
One-off and other temporary measures[a, b]	[% of GDP]	0.0	− ¼	− 0	0	0	0
Structural balance (MoF)[a]	[% of GDP]	0.8	1¼	¾	¾	1.0	1.0
Debt to GDP ratio (MoF)[a]	[%]	68,1	64¾	62½	59¾	57½	54¼

[a] Figures are rounded to one quarter % from 2017 onward.

[b] Source: MoF and computations by the Independent Advisory Board

[c] Forecast

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