Germany

Country note, January 2019

Stability Council
Independent Advisory Board

Key messages:

- **Due to fiscal expansion, the general government surplus is predicted to decline in the medium-term.**
- **The German economy exhibits positive cyclical effects on public finances.**
- **Germany continues to meet the upper limit for the structural deficit (MTO) with a safety margin until 2022.**

Macroeconomic outlook

In October, the federal government expected real GDP to grow by 1.8 % in 2018 and 2019, which is in accordance with projections published by other institutions. More recent growth forecasts for 2018 and 2019 tend to be lower. Nevertheless, a positive output gap is expected to prevail over the next years. However, the estimates for the output gap vary considerably. The federal government predicts the output gap to be around 0.5 % even expanding slightly until 2020 and declining towards 0.1 % in 2022. Despite expecting a slightly smaller GDP growth rate, the Independent Advisory Board finds a larger output gap estimate more plausible.

Short-term fiscal outlook

The latest fiscal forecast presented by the Federal Ministry of Finance includes a substantial fiscal surplus for the general government in 2018 of 1¾ % of GDP. This reflects surpluses at the federal, the state and the municipal levels as well as for the social security funds. When adjusted for the cyclical component as well as one-off and temporary measures, this translates into an expected structural surplus of about 1¾ % of GDP in 2018. This number is rather on the upper end of the bandwidth of estimations of other institutions and reflects the relatively small cyclical component.

Medium-term fiscal outlook

Current projections point to a considerable reduction of surpluses of the federal government, municipalities and social security funds over the next years. Already in 2019, the surplus is projected to drop to approximately ½ % of GDP, where it is expected to remain until 2022. This decline is predominantly the result of fiscal easing associated with the measures adopted by the federal government. Owing to the high level of capacity utilization, the structural budget balance is lower than the unadjusted budget balance. However, from today's perspective, it will remain positive up to the year 2022. The debt-to-GDP ratio is expected to decrease below 60 % around 2019 and to reach 52 % in 2022.

Fiscal framework and national fiscal rules

In its latest report (December 2018) the Independent Advisory Board sees Germany in compliance with the 0.5 % deficit ceiling in this year and in the medium-term (until 2022).

Currently, state and federal governments are implementing procedures for assessing their debt brakes. The board recommends aligning the delineations for the deficit ceilings under these debt brakes with the general government structural deficit rule. This would help avoiding situations in which the federal and state governments are complying with their debt brakes but are failing to meet the general government deficit target.

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

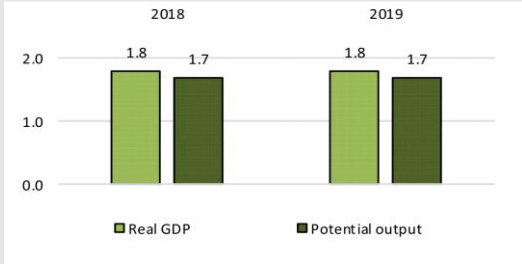


Chart 2: Output gap (% of potential output)

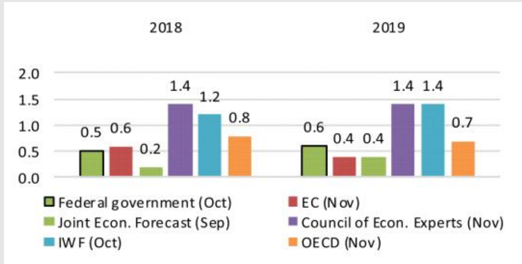
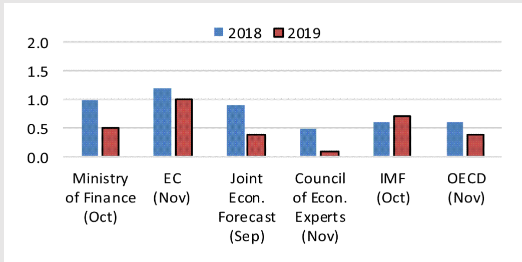


Chart 3: Structural balance (% of GDP)



Key indicator forecast

		2017	2018	2019	2020	2021	2022
Real GDP[1)]	[% y-to-y]	2.2	1.8	1.8	1.8	1.3	1.3
Potential output[1)]	[% y-to-y]	1.7	1.7	1.7	1.7	1.7	1.5
Output gap[1)]	[% of pot. output]	0.5	0.5	0.6	0.7	0.3	0.1
General government budget balance[2)]	[% of GDP]	1.0	1 3/4	1	3/4	1/2	1/2
Cyclical component[2)]	[% of GDP]	0.3	0.3	0.3	0.4	0.2	0.1
Structural balance[2)]	[% of GDP]	1.1	1 3/4	1/2	1/2	1/4	1/2
Debt-to-GDP-ratio (Maastricht)[3)]	[% of GDP]	63.9	60 3/4	58	55 3/4	53 3/4	52

The data are taken from: 1) the autumn projection by the federal government; 2) the Independent Advisory Board's Tenth Statement on compliance with the upper limit for the structural general government budget deficit pursuant to Section 51 (2) of the Budgetary Principles Act (HGrG); 3) the updated fiscal development assessment by the Federal Ministry of Finance of November 2018.

Contact: tobias.goerbert@fau.de   www.stabilitaetsrat.de/EN/Beirat   Phone: +49 911 5302 376