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# Germany – Agreement on massive fiscal package

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## Table of contents

The clock was ticking...	1
CDU/CSU and SPD reach compromise with Greens	1
Approval of the Bundestag now as good as certain...	2
... and the Bundesrat is also likely to give its consent in the end	2
Agreement should facilitate coalition negotiations	2

**CDU/CSU and SPD have agreed with the Greens on some changes to their financial package. The term “defense spending,” which is to be largely exempted from the debt brake, is being defined much more broadly. This in itself increases the future coalition’s fiscal leeway. However, the possibilities of shifting other investments to the new infrastructure fund and thus creating more leeway in the regular budget are limited. At the same time, 100 billion euros of the total 500 billion euros in special funds are to be channelled into the climate and transformation fund. This agreement should ensure the Bundestag’s approval on Tuesday. The Bundesrat must also give its approval next Friday, which is likely.**

## The clock was ticking...

The likely new governing coalition in Germany – CDU/CSU and the SPD – plans massive fiscal packages and wants changes to the constitutional debt brake to allow the necessary debt. For this, they have to amend the German constitution. The necessary majority of 2/3 can only be reached in the outgoing Bundestag; in the next parliament (which is set to be constituted on 25 March), the right-wing AfD and the left-wing Die Linke have a blocking minority. The Basic Law’s amendment requires the approval of the Green party to clear the 2/3 super majority.

## CDU/CSU and SPD reach compromise with Greens

CDU/CSU and SPD today reached an agreement with the Greens on changes to their financial package. According to current reports, this includes the following points:

1. The definition of defense spending, a significant portion of which will no longer be included in the debt brake in the future, will be significantly expanded. In the future, spending on intelligence services and on aid for states attacked in violation of international law will also be considered defense spending. This means that aid for Ukraine also falls under this item. However, since – unlike the Greens’ original proposal – the limit of 1% of gross domestic product, up to which expenditure is subject to the debt brake, will not be raised at the same time, this in itself increases the fiscal leeway of the future government.
2. The planned special fund for infrastructure investments will continue to comprise 500 billion euros. These are to be spent over the next 12 years and not – as originally planned – over 10 years. In addition, one fifth of the fund – or 100 billion euros – is to be allocated to the climate and transformation fund (KTF). It has not yet been decided

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which projects will be supported or financed with this money. In the past, the KTF was used to pay subsidies for electric cars, but also for the steel industry and chip factories. Another 100 billion euros will continue to flow to the federal states and local authorities. The remaining 300 billion euros of the special fund are to be used for infrastructure investments, although the definition of investments is very broad. To ensure that this is actually used to finance *additional* investment, the plan is that money from this special fund can only be used if the corresponding investments in the regular budget exceed 10% of total expenditure, which would have been around €45 billion last year. The extent to which shifts from the regular budget to the special fund are still possible and additional leeway can be created in the regular budget in this way will depend on the definition of the term “infrastructure”.

### **Approval of the Bundestag now as good as certain...**

After today's agreement, it can be assumed that the Bundestag will approve the finance package with the two-thirds majority needed to amend the Basic Law on Tuesday. A small question mark still remains due to the complaints filed by the AfD and the Left Party with the Federal Constitutional Court, which want to prevent the Bundestag session on Tuesday. However, it is very unlikely that the court will uphold these complaints.

### **... and the Bundesrat is also likely to give its consent in the end**

The outcome of the Bundesrat vote next Friday is somewhat more uncertain. Here, Bavaria's voting behavior could be the deciding factor. This is because the Free Voters, who form a coalition with the CSU, have been critical of the CDU/CSU and SPD plans to date, and according to the coalition agreement, Bavaria would have to abstain if the two partners do not agree. However, a blockade of the financial package, in which the Bavarian Prime Minister was significantly involved, by the Free Voters would put a heavy strain on the coalition, and in the end the Free Voters would hardly risk their participation in the government for this reason.

### **Agreement should facilitate coalition negotiations**

In summary, the financial package of the CDU/CSU and SPD should pass through the Bundestag and Bundesrat next week. The Greens' intervention has unquestionably restricted the use of the special fund's resources, although a certain reallocation of funds should still be possible, particularly via the climate and transformation fund. Further leeway arises from the continued spending on defense. The reduced need for consolidation that results from this will certainly make the coalition negotiations between the CDU/CSU and SPD somewhat easier.



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