



LB≡BW

To the point!

Cross-Asset- and Strategy-Research

# Support Package comes with a high price tag

The risks for the state budget are not sufficiently reflected

In a marathon meeting, the coalition agreed on a package which in its entirety is expected to provide at least €65 billion in relief for citizens. The aim is to cushion the burden on households caused by skyrocketing energy costs. This third relief package is thus twice as big as its two predecessors combined.

The package is too extensive to be reproduced in detail here. This has already been done sufficiently in the media ([original text of the federal government](#)).

There is no doubt that the package will counteract the erosion of social cohesion. The financial support for households will have the effect of dampening the decline in private consumer demand. Thus, the expected recession will be limited (LBBW Research assumes a contraction of German GDP of 1% in 2023).

## Cost of measures still needs to be fleshed out

As already mentioned, the government estimates that the financial assistance will amount to more than €65 billion. Significantly, however, no individual costs have been assigned to the individual measures. Even when asked, the government has so far been unwilling or unable to give a concrete description of which measures will result in which financial burdens for public budgets. Or which part of it is to be shouldered by the federal government and which by the states.

This is not surprising. After all, many of the measures have so far only been envisaged and not formulated in detail. That is why the costs cannot be quantified.



Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

September 7, 2022

## Breakdown of the costs remains unclear

### Federal budget (€ bn)

	2021	2022	2023
Expenses	-557	-496	-445
Relief Package	0	0	-65
Tax Income	313	328	361
Dissolution of Reserves	0	0	41
Net Borrowing w/o Relief Package	215	139	17

Source: [BME](#)

For example, the parameters of the proposed excess profits tax on energy companies (now to be called the tax on windfall profits) are not defined. In any case, the profits of energy companies are not even remotely sufficient to bear a relevant part of the cost of relief.

### The 2023 budget must be revised

Therefore, the funds must be raised from the national budget. Even assuming that only half of the costs are to be borne by the federal government (€32.5 billion), this would increase federal spending by 7% in 2023 (see table). The finance minister's statement that appropriate buffers have been built into the draft budget for such a magnitude appear optimistic. All the more so as the economic outlook has deteriorated massively since the budget was drawn up (otherwise there would hardly have been the relief package). This will put pressure on tax revenues. New borrowing will therefore almost certainly exceed the level permitted by the debt brake.

Therefore, there are really only two paths left for a responsible fiscal policy: suspend the debt brake once again at least in 2023 due to the macroeconomic distortions (as proposed by me [here](#)), or implement socially balanced [tax increases](#), such as a new edition of a solidarity surcharge. Probably the former would be the better solution at present, especially since Germany's debt sustainability is excellent. Now would be a good time to get honest about the budgetary options.

---

#### Disclaimer:

This publication is addressed exclusively at recipients in the EU, Switzerland and Liechtenstein.

This publication is not being distributed by LBBW to any person in the United States and LBBW does not intend to solicit any person in the United States.

LBBW is under the supervision of the European Central Bank (ECB), Sonnemannstraße 22, 60314 Frankfurt/Main (Germany) and the German Federal Financial Supervisory Authority (BaFin), Graurheindorfer Str. 108, 53117 Bonn (Germany) / Marie-Curie-Str. 24-28, 60439 Frankfurt/Main (Germany).

This publication is based on generally available sources which we are not able to verify but which we believe to be reliable. Nevertheless, we assume no liability for the accuracy and completeness of this publication. It conveys our non-binding opinion of the market and the products at the time of the editorial deadline, irrespective of any own holdings in these products. This publication does not replace individual advice. It serves only for informational purposes and should not be seen as an offer or request for a purchase or sale. For additional, more timely information on concrete investment options and for individual investment advice, please contact your investment advisor.

We retain the right to change the opinions expressed herein at any time and without prior notice. Moreover, we retain the right not to update this information or to stop such updates entirely without prior notice.

Past performance, simulations and forecasts shown or described in this publication do not constitute a reliable indicator of future performance.

The acceptance of provided research services by a securities services company can qualify as a benefit in supervisory law terms. In these cases LBBW assumes that the benefit is intended to improve the quality of the relevant service for the customer of the benefit recipient.

---

## Windfall tax to cover only a fraction of the cost of the measures

---

---

## The debt brake will break

---