

The Fiscal Response to Inflation in Germany

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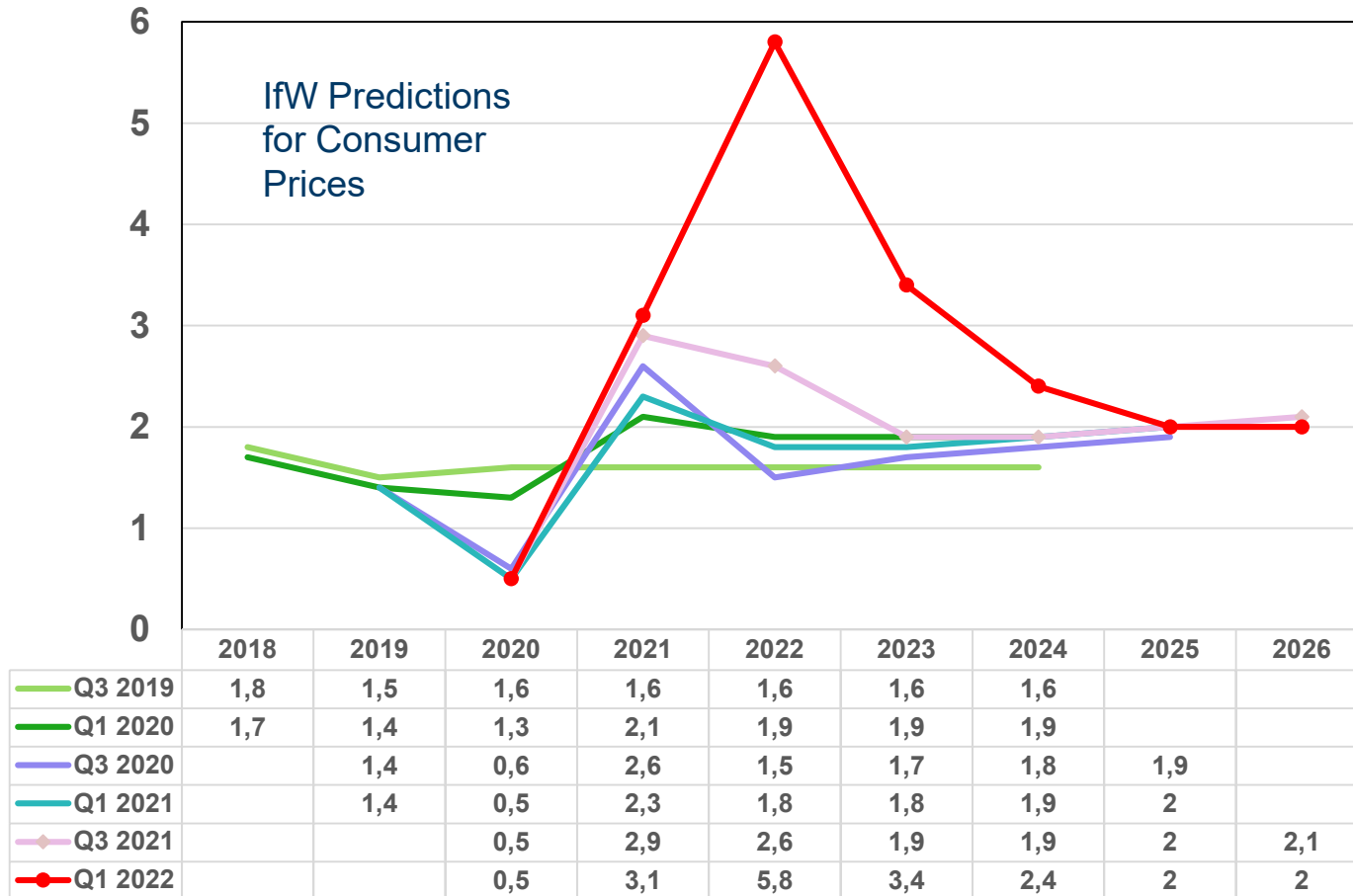
EU IFIs Network Meeting, May 11, 2022



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- I. The return of inflation
- II. The role of the public sector
- III. The German response
- IV. Assessment

I. The return of inflation



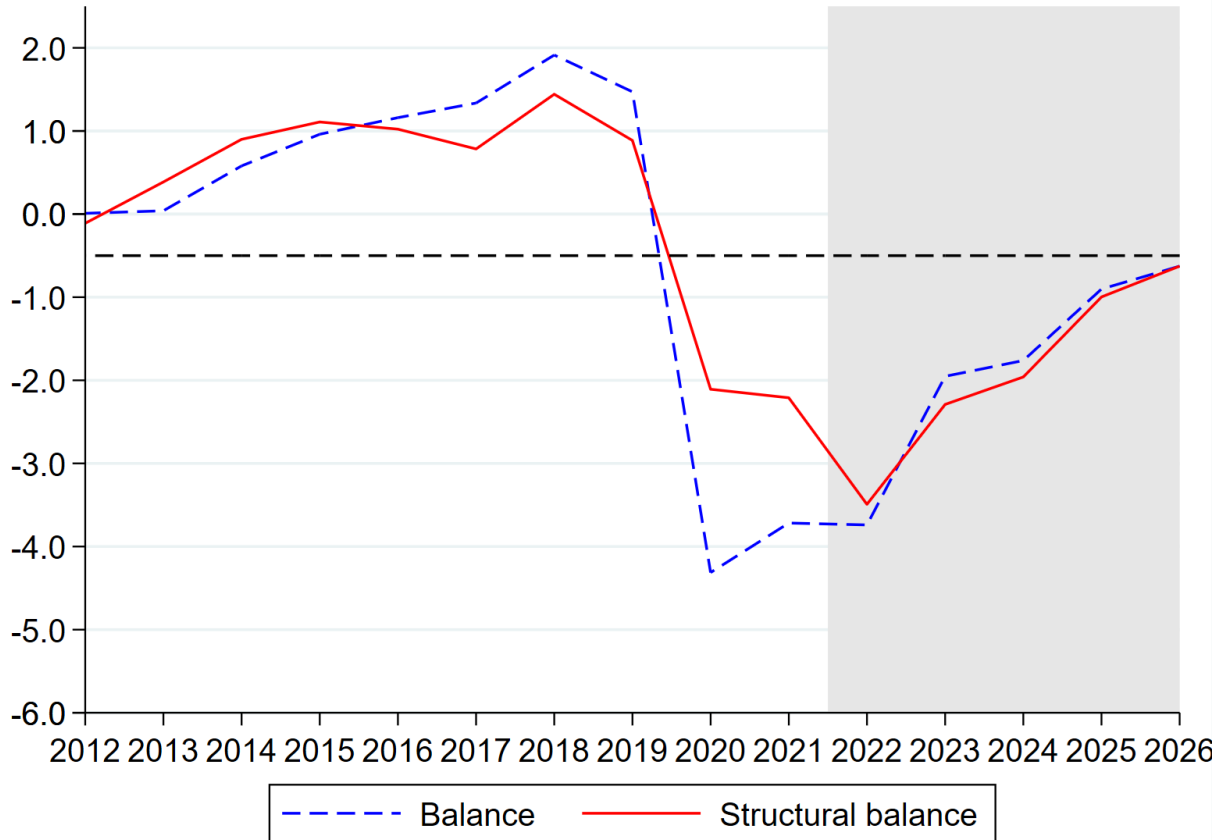
- Energy prices
- Covid-19 and supply shortages
- Consumers' "cash hoarding"
- Labor supply shortage
- Expansive monetary policy
- Fiscal expansion

„Idiosyncratic and temporary factors“?

Christine Lagarde, President of the ECB, April 21, 2021

- Key primary responsibility: monetary policy
- Main fiscal instrument: contraction
 - Redistributive measures
- Crisis measures: price controls & rationing

III. The German response



III. The German response

	Measures taken by the German federal government*
1	One-off heating allowance for housing benefit recipients
2	Early abolition of electricity levy
3	Immediate supplement for children affected by poverty
4	Increased limit for itemized income tax deductions
5	Increase of basic income tax allowance
6	Lump sum payment for employees
7	Increase of child benefits
8	One-time payment for welfare recipients
9	Temporary reduction of energy tax, June to August 2022
10	Subsidy for public transport

**Measures in the federal government's supplementary budget proposal from April 28, 2022*

Income tax: deductions, allowances & rebates	17 Bill. € *
Temporary decline of excises and levies on energy	10 Bill. € *
Increase of welfare aid	1 Bill. € *
Subsidy for public transport	1 Bill. € *

Approximate budgetary impact in 2022: 29 Bill. € * or 0.76% of GDP

**estimates, budgetary figures may differ*

- Germany's fiscal stance is expansionary in 2022 to 2024
- Fiscal consolidation currently planned not before 2025
- Response to inflation mostly by further fiscal expansion
 - Lowering income taxes
 - Transfers to households
 - Price subsidies
- Exception: temporary reduction of energy taxes

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<https://www.publicfinance.rw.fau.eu/>

https://www.stabilitaetsrat.de/EN/Beirat/Beirat_node.html