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# German coalition confronted with a new budget hole?

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**According to press reports, the German government has to renegotiate its compromise for the 2025 federal budget. Obviously, legal reviews have shown that part of the budget compromise reached at the beginning of July could be problematic from a constitutional perspective. The coalition may once again facing difficult negotiations.**

At the beginning of July, Germany's ruling coalition presented a compromise on the 2025 federal budget. We had already pointed out at the time that this agreement contained a number of questionable points. For example, funds of the state owned KfW bank that were earmarked for the gas price brake should be used for other purposes. In addition, some of the subsidies to Deutsche Bahn (state owned railway) and the highway company (state owned company to run Germany's motorways) were to be provided as loans, which would treat them as "financial transactions" that would be deducted from the Constitutional debt brake. The German government stated at the time that this conversion of the subsidies into loans should be checked later. The use of KfW funds for other purposes was also considered to be constitutionally uncertain.

Now, according to media reports the Federal Ministry of Finance stated that two legal assessments have shown that further discussions on the planned projects are necessary. The doubts probably primarily relate to the use of KfW funds, as this would mean that emergency funds actually intended for combating a crisis would once again be used in the "normal" budget. In a ground breaking ruling, the Federal Constitutional Court had prohibited a similar transfer in November of last year. In addition, the conversion of the subsidies to the highway company into loans is likely to be also legally questionable, as the company has no own income apart from the payments from the federal government.

This means that the federal government will probably not be able to avoid looking for further savings in the 2025 budget. The liberal FDP will hardly agree to a suspension of the debt brake or tax increases. The exact size of the shortfall is uncertain. It is probably in the high single-digit billions. The coalition is unlikely to find it easy to cover this with additional savings.



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