

Germany to Override Debt Limit, Again, to Resolve Budget Crisis

Chancellor Scholz pledged financial support for economic modernization and Ukraine, but will need backing for new borrowing to fill a spending gap.



By Melissa Eddy
Reporting from Berlin

Chancellor Olaf Scholz urged lawmakers on Tuesday to override Germany's borrowing limits for a fourth consecutive year, allowing his government to take on billions of euros in fresh debt to modernize his country's economy despite a budget crisis triggered by a constitutional court ruling.

"It would be a grave, unforgivable mistake to neglect the modernization of our country in the face of all these acute challenges," Mr. Scholz told Parliament, citing persistently high energy prices and the wars in Ukraine and the Middle East.

Afterward, a powerful leader of the opposition Christian Democrats signaled he may be willing to accept Mr. Scholz's plan, a sign that the fiscal crisis that has gripped Germany for two weeks and threatened to fracture the government's three-party coalition may begin to ease.

Germany's highest court on Nov. 15 threw out a special fund set up by the government that shifted credits approved in 2020 to combat the coronavirus pandemic to instead finance environmental projects and green technology. The court ruled that credits taken out in a given year for a specific purpose had to be spent within that time, and for the designated purpose.

That ruling opened up a 60 billion euro, or \$64.6 billion, hole in the budget and forced Mr. Scholz's government to find a new way to meet

spending demands that have further strained the already fractious coalition between his center-left Social Democrats, the environmentalist Greens and the fiscally conservative Free Democrats.

Lawmakers had planned before the court ruling to hold a vote on Friday to approve the coming year's budget. That plan has been postponed until the government can clarify spending for the current year. Mr. Scholz said his government would finalize a new spending plan for 2024 "as quickly as possible" and warned that it would include spending cuts.

For the current year, the government is now preparing to ask Parliament to approve about 45 billion euros, or \$49 billion, in fresh debt for 2023. To justify this borrowing, a supplementary budget drawn up on Monday cited the spillover effects from the energy crisis triggered by Russia's invasion of Ukraine.

But that will still leave a gap, making painful spending cuts of several billion euros necessary at a time when high energy prices, stubborn inflation and a slump in foreign trade is expected to hit the German economy.

One part of the budget that will not be affected by cuts in spending is support for Ukraine. Germany is the second-largest donor to Ukraine, after the United States, and Mr. Scholz has pledged to double Berlin's support to €8 billion next year.

This support was of "existential importance" for Kyiv and for Europe, Mr. Scholz said. "We will continue this support as long as necessary."

Other important spending commitments include billions in subsidies aimed at attracting new industries to Germany, such as the chipmakers Intel and TSMC. Both companies have planned factories in states in eastern Germany, lured in part by government subsidies financed by the fund that was struck down by the court ruling.

Governors for the two states where the chipmakers plan to build have

expressed confidence that the subsidies will be fully funded, but the government has not yet clarified where the money would come from.

On Monday the economy minister and vice-chancellor, Robert Habeck, heard from leaders of Germany's 16 states — including several Christian Democrats — who urged the government to maintain its spending commitments to projects aimed at attracting green industry and modernizing the economy to meet its goal of carbon neutrality by 2045.

Mr. Scholz needs Parliamentary approval for two special funds to allow the government to borrow beyond the limit set in the constitution, which restricts annual borrowing to 0.35 percent of gross domestic product.

This borrowing limit can be exceeded only in cases of emergency, as happened when the economy came to a standstill at the beginning of the pandemic in 2020, or to provide aid to a region hit by a natural disaster, as happened when severe flooding struck the Ahr valley in 2021.

Friedrich Merz, leader of the center-right Christian Democrats, the party that filed the legal challenge against the special funds approved by Mr. Scholz's government, indicated that his party would scrutinize the proposed fix, but did not appear likely to oppose it.

But he cautioned that his party, the leading opposition against Mr. Scholz's Social Democrats, would be less willing to support more emergency funds in the budget for the coming year.

“If the federal government is of the opinion that it should again have an extraordinary emergency situation in 2024, then I do not see this as constitutional,” Mr. Merz said. “At least from today's perspective.”

Melissa Eddy is a correspondent based in Berlin who covers German politics, social issues and culture. She came to Germany as a Fulbright scholar in 1996, and previously worked for The Associated Press in Frankfurt, Vienna and the Balkans.