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MCC Press Release

MCC study sheds light on the fragile financing of climate policy in Germany

With a view to the current budget discussions for 2025: the "KTF" is overburdened, federal money is needed for important funding and investment programmes.

Berlin, 19/06/2024. The "Climate and Transformation Fund" (KTF), the central financing instrument for the climate transition in Germany, is overburdened. The reserve set aside as a safety cushion, which for a long time had totalled tens of billions of euros, is as good as gone. Projections for key expenditure items show a high level of momentum, and without help from federal money, many funding programmes are at risk. This is shown in a study by the Berlin-based climate research institute MCC (Mercator Research Institute on Global Commons and Climate Change) launched to coincide with the current government consultations on the 2025 federal budget and medium-term financial planning to 2028. The study is available on the MCC website.

The background is an ultimately failed attempt by the governing so-called "traffic light coalition" in January 2022 to provide additional funding to reach the more ambitious climate policy goals set by the last Merkel cabinet: the current government decided to transfer 60 billion euros of unused debt authorisations – originally approved to fight the coronavirus pandemic – to the KTF. However, in November 2023, the Federal Constitutional Court declared this re-appropriation to be unconstitutional. As a result, the government cut this year's KTF budget in February from 57.62 to 49.14 billion euros while making heavy use of the remaining reserve, which will dwindle to only 317 million euros by the end of the year.

"This means that expenditure will now still be financed for 2024," explains Niklas Illenseer, Policy Analyst in MCC's Policy Unit and lead author of the study. "However, this repair operation has created a fragile structure for the future. This is because the KTF is now essentially fuelled by European and national carbon pricing revenues – which should actually be directed to private households and companies as compensation, to ensure a socially balanced climate transition. However, the money is largely earmarked for other purposes: around two-thirds (33.69 billion euros) will go towards funding programmes and investments, and only one-third will be used for compensation. So far, not a single cent has been earmarked for the ‚climate money' compensation scheme announced in the coalition agreement."

The study illustrates the kinds of pressure the fund is under. For example, grid operators project a fifth more subsidy payments for electricity generation plants covered by the Renewable Energy Sources Act (EEG) in 2028 compared to 2024 – this also suggests that more funding will be required for the EEG surcharge financed by the Climate and Transformation Fund. And for the area of "microelectronics for digitalisation", there are commitment appropriations of 12.78 billion euros for the years 2025 to 2028, which severely restricts the scope for action. In plain language, this means that appropriate and targeted compensation for the burden of carbon pricing will not be affordable if the KTF also finances the existing funding and investment programmes.

There is also a problem on the revenue side: carbon pricing revenues fluctuate with the economy and also because carbon prices are increasingly determined freely by the market. Paying compensation that fluctuates correspondingly is justifiable. "Funding and state investments, on the other hand, must be secured so that there is planning security and no abrupt discontinuation of programmes," explains Ann-Katrin Schenk, Head of the MCC Policy Unit and co-author of the study. "Such sudden funding stops can unsettle private investors and damage the credibility of climate protection measures."

Against this backdrop, politicians might consider viewing the financing of climate protection as a government task, and place it on a new basis. The study emphasises that such restructuring requires a thorough stocktake – the assessment of individual expenditures in terms of impact and efficiency – and a willingness to consolidate. Only then can the question of additional federal funding be addressed. Qualitative and quantitative reforms to the constitutional debt brake are already being discussed, as are proposals for a credit-financed special fund anchored in Germany's Basic Law. Last but not least, an ecological tax reform could cut the Gordian knot by eliminating climate-damaging subsidies, freeing up funds for climate-friendly investments and thus contributing two-fold to the fight against global heating.

Reference of the cited article:
Illenseer, N., Schenk, A., 2024, Der KTF auf unsicheren Füßen: Herausforderungen für die Finanzierung der Klimapolitik in Deutschland, MCC-*Arbeitspapier*
https://www.mcc-berlin.net/Publications/2024_MCC_Der_KTF-auf_unsicheren_Fuessen.pdf

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