Public finances*

General government budget

Public finances deteriorating again significantly in 2010

The public finance situation in Germany already took a significant turn for the worse last year in the wake of the financial and economic crisis. Owing to the automatic stabilisers, a collapse in revenue from profit-related taxes and extensive support measures, the deficit ratio (3.1%) exceeded the EU reference value and the debt ratio reached a record high of 73.1%. This deterioration will continue in 2010, and the deficit ratio may reach almost 5%. In contrast to the previous year, this development is primarily due to fiscal policy measures amounting to 1¼% of gross domestic product (GDP), while the cyclical component remains largely unchanged if account is taken of the growth structure.[1] Various (mainly permanent) tax relief measures and sharply rising investment are having a particularly strong impact in this respect. The clear rise in the debt ratio is set to continue.[2]

* The "General government budget" section starts with an analysis based on data contained in the national accounts and on the Maastricht ratios. Subsequent reporting on budgets of the various levels of government and social security schemes is based on the budgetary figures as defined in the government's (budgetary) financial statistics.
1 During the crisis, the macroeconomic reference variables that are particularly relevant to public finances (gross wages and salaries, private consumption, unemployment) have experienced a more stable development than GDP. Cyclical adjustment procedures oriented to the output gap (disregarding the growth structure) therefore record a more negative cyclical influence for 2009 and an easing effect for 2010, whereas the "disaggregated method" applied here, which takes account of the effect of the growth structure, records a lesser impact for 2009 and a broadly unchanged cyclical component for 2010.
2 The debt ratio is affected, among other things, by the support measures for the financial sector, although Eurostat has not yet finalised its decision on how they should be booked. While the bulk of the measures will probably have no impact on the national accounts deficit, they could considerably increase the government debt level.

Government measures reduce revenue ratio and ...

The government revenue ratio is likely to decline significantly in 2010. This is due to fiscal policy measures, such as the greater tax deductibility of contributions to the health and long-term care insurance schemes and the various tax relief measures adopted in response to the crisis (most notably the lowering of income tax rates, corporate taxation relief measures and the new preferential turnover tax treatment for the hotel trade). In the area of social contributions, by contrast, the revenue shortfalls caused by the lower annual average contribution rate to the health insurance fund were broadly offset by health insurance institutions charging insurees additional contributions and the one-off effect of particularly high insolvency benefit contributions to the Federal Employment Agency. In addition, the ratio is likely to be reduced owing, in particular, to the fact that, unlike in 2009, wages and salaries are now growing at a slower pace than nominal GDP.

... drive up expenditure ratio

The general government expenditure ratio already experienced an upsurge in 2009 and is likely to expand again somewhat this year. Since the outbreak of the crisis, substantial increases in expenditure have been agreed (especially on investment and the rise in child benefit), and spending on healthcare services will also probably continue to grow significantly. The discontinuation of the car scrappage scheme and the child bonus form only a limited counterweight to this development. Booked in such a way as to reduce expenditure, the proceeds from the auction of UMTS mobile telephone licences constitute considerable one-off windfalls.[3]

Limited improvement in 2011 due to discontinuation of temporary measures

There are signs that the government deficit will see a limited decline in the coming year. Although some one-off gains (higher insolvency benefit contributions, proceeds from the frequency auctions) will no longer have an effect, a number of assistance programmes will come to an end. Investment, in particular, is likely to fall back significantly from the comparatively high level reached in 2010. If the discontinuation of the one-off central government grants to the statutory health insurance scheme is offset by curbing spending or raising contributions, this will also lead to a certain improvement in public finances. Nonetheless, the overall public finance situation remains considerably worse than before the crisis. Since the crisis broke out, extensive permanent tax relief measures (amounting to around 1½% of GDP) have been adopted, revenue from profit-related taxes has fallen back to its long-term trend following the collapse in 2009, and the scope for expenditure has narrowed due to the downward revision of estimated output potential. In addition, the debt ratio, which is already high, will continue to rise owing to the substantial deficit, and an increase in the currently very low rates of interest would lead relatively quickly to billions of euros of additional expenditure.[4]

Priority for rapid debt reduction

As things stand, the deficit ratio might initially be lower than forecast in the Federal Govern-

3 In the national accounts, purchases and sales of non-financial assets are netted out and recorded on the expenditure side. Consequently, the proceeds from the auction (as in 2000), being the result of an asset sale, reduce expenditure in the national accounts, whereas they are posted on the revenue side in the government's (budgetary) financial statistics.
4 See also Deutsche Bundesbank, Government debt and interest payment burden in Germany, Monthly Report, April 2010, pp 15-33.

ment's stability programme of January 2010, aided in particular by the fact that the macroeconomic trend is likely to be more favourable. However, using better-than-expected budgetary developments as an opportunity for tax relief measures or spending increases would run counter to the spirit of both the national and the European rules, as well as the agreements that tie in with them. In view of the still very high deficit ratio and the growing debt ratio, a rapid consolidation of public finances must instead be given priority. The excessive deficit procedure also stipulates that better-than-expected economic developments must be used for faster debt reduction. Moreover, this would constitute an important step towards complying with the new national budgetary rules, which require central government to have a structurally close-to-balance budget from 2016 onward.

Fiscal measures to stabilise monetary union justifiable ...

Recent developments in the euro area have demonstrated just how dramatic the consequences of unsound budgetary policy can be, and they have underscored the important role played by Germany as an anchor of stability (see box "Fiscal developments in the euro area" on pages 26-27). At the end of April, the deteriorating budgetary and economic situation in Greece led to a crisis of confidence from which the country was unable to liberate itself single-handedly. As, in this very fragile situation, a sovereign default by Greece would have posed a considerable contagion risk for other euro-area member states, the euro-area finance ministers decided to grant financial assistance to Greece based on strict conditionality. As little as a week later, however, the situation on the financial markets had deteriorated again. In response, the Ecofin Council adopted an extensive package of measures, which envisages not only accelerated consolidation of public budgets in particularly vulnerable countries and the reform of fiscal rules but above all the establishment of a European financial stabilisation mechanism. While the package as a whole – like the assistance for Greece – is justifiable given the acute dangers, it weakens the member states' individual responsibility for their own budgetary policy stipulated in the Treaty on the Functioning of the European Union (TFEU) and undermines the institutional foundations of monetary union. An extensive tightening of the European rules is therefore urgently needed in order to provide strong incentives for the member states to maintain a sound budgetary policy. Otherwise, the aim pursued through the TFEU of shielding monetary policy from unsound public finances (see also box on pages 12-13) will be jeopardised.

... but undermining of fundamental principles now necessitates drastic tightening of European rules

Budgetary development of central, state and local government

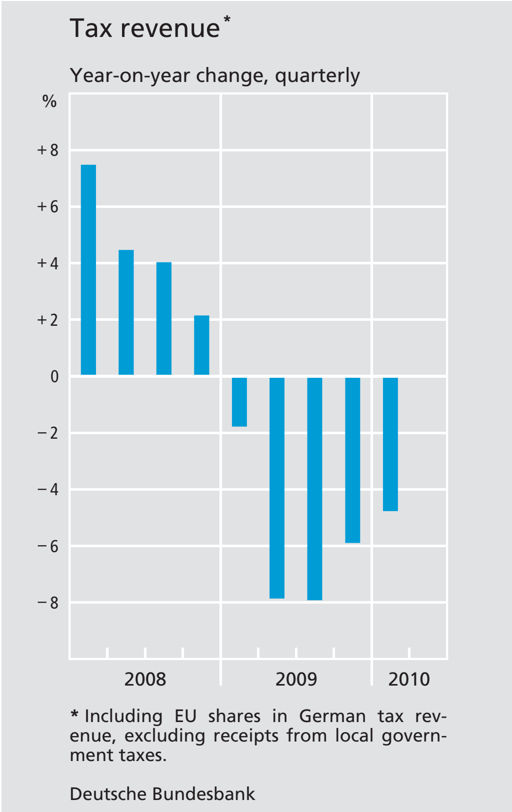
Tax revenue

Substantial decline in tax revenue in Q1

In the first quarter of 2010, tax revenue[5] fell by 5% on the year (see chart on page 75 and table on page 76). The shortfalls for income-related taxes were particularly high (-10%). Most notably, there was a steep decline in wage tax receipts (-11%), a large part of

5 Including EU shares in German tax revenue but excluding receipts from local government taxes, which are not yet known for the last quarter recorded.

which is attributable to the increase in child benefit, which was deducted from wage tax receipts, and to tax cuts (above all, expanded deduction of insurance contributions and full impact of the two rate reductions in 2009 and 2010). A considerable revenue shortfall was likewise recorded for profit-related taxes (-7%). With the underlying trend still declining, tax relief measures (as well as those already mentioned, in particular the relief measures for enterprises adopted in the wake of the financial and economic crisis) had a negative impact in this respect. In contrast to the previous year, the tax refunds made following the Federal Constitutional Court's ruling of December 2008 on the standard travel allowance for commuters had come to an end and, due to the phasing out of grants to homebuyers – which are deducted from revenue – payments for this purpose were lower. Revenue from consumption-related taxes likewise decreased (-1%), although developments over the course of the year are, in part, very volatile.



* Including EU shares in German tax revenue, excluding receipts from local government taxes.

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are lagging behind the economic trend, and the changes in tax legislation are leading, on balance, to large shortfalls (around 4% of revenue, or €20 billion).[7]

Significant drop in revenue expected for 2010

According to the latest official tax estimate, tax receipts (including local government taxes) for the year as a whole are expected to contract again significantly compared with 2009 (by 2½%).[6] The negative special effect that arose in 2009 in connection with the standard travel allowance for commuters is no longer a factor and the macroeconomic reference variables are increasing again with the economic recovery. In addition, the correction of the trend in profit-related taxes, whose revenue collapsed last year following the exceptional rise up to 2008, may be more or less complete. Nonetheless, cash receipts

Without further tax relief, return to growth from 2011 onward

In 2011, revenue is expected to increase by only 1% based on current tax legislation. Although the economy is continuing to gather momentum, additional revenue short-

6 The estimate is based on the Federal Government's current macroeconomic projection, which foresees real GDP growth of 1.4% and nominal GDP growth of 1.8% for 2010 (November 2009: 1.2% and 1.6%). In 2011, real growth is expected to be 1.6% and nominal growth 2.4%. In the medium term (up to 2014), nominal growth of 2.9% per year is forecast.
7 The Federal Government is expecting a further ruling this year in the Meilicke case regarding the treatment of corporation tax paid abroad in the taxation of dividends under the tax imputation procedure that was abolished in 2001. Temporary burdens arising from tax refunds are therefore included in the official tax estimate (a total of €5 billion, of which around €3½ billion in 2011 and €1½ billion in 2012).

Tax revenue

Type of tax	Q1 2009	Q1 2010		Estimate for 2010 [1,2]
	€ billion		Year-on-year percentage change	Year-on-year percentage change
Tax revenue, total [2]	116.7	111.2	– 4.8	– 2.6
of which				
Wage tax	34.0	30.3	– 10.9	– 7.4
Profit-related taxes [3]	16.0	14.9	– 7.2	– 6.7
Assessed income tax	3.0	6.2	.	+ 0.1
Corporation tax	4.4	2.0	– 55.6	– 2.1
Investment income tax [4]	8.7	6.8	– 21.8	– 15.2
Turnover taxes [5]	43.1	42.9	– 0.5	+ 1.6
Energy tax	4.8	4.4	– 6.9	– 1.6
Tobacco tax	2.4	2.5	+ 4.1	– 1.2

1 According to official tax estimate of May 2010. — **2** Including EU shares in German tax revenue, excluding receipts from local government taxes. — **3** Employee refunds, grants paid to homebuyers and investors deducted from revenue. — **4** Withholding tax on interest income and capital gains, non-assessed taxes on earnings. — **5** Turnover tax and import turnover tax.

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falls resulting from tax relief measures will reduce receipts by around ½% (€3½ billion) owing to time lags until the measures take full financial effect. Average revenue growth of 4% is forecast for the medium-term planning period up to 2014. Fiscal drag will lead, on balance, to additional receipts, as the positive revenue effect of the progressive structure of the income tax schedule will outweigh the negative revenue effect arising from the extensive price inelasticity of excise duties. Legislative changes will have a relatively low impact, as growth resulting from factors such as the phasing out of grants to homebuyers and the more favourable depreciation rules (first economic stimulus package) will be offset by rising shortfalls caused by factors such as tax exemption for pension insurance contributions in connection with the conversion to the downstream taxation of pension outflows, and government sponsorship of private Riester pension plans.

Revenue shortfalls vis-à-vis earlier expectations

Although expectations regarding the macroeconomic trend have improved compared with those in the latest official tax estimate in November 2009, the shortfalls of €6 billion caused by the Act to Accelerate Growth *(Wachstumsbeschleunigungsgesetz)* will lead to a revenue loss of €1 billion for 2010.[8] One key difference compared with the latest medium-term forecast (May 2009) is the fact that, given the collapse in 2009, the longer-term trend for revenue from profit-related taxes, for which predictions are subject to very great uncertainty, is now estimated to be weaker (adjusted for the correction of the macroeconomic benchmarks and for new legislative changes); another is that further tax relief measures will lead to shortfalls of €8 billion in the medium term. In the first years of the projection period, this will be offset by upward revisions due to more favourable macroeconomic assumptions; however, it is predicted that they will cease to have an impact in the final year (2013). The revenue shortfalls vis-à-vis the official May 2009 forecast are therefore considerable and are predicted to rise from €11½ billion in 2011 to €13½ billion in 2013.

8 Forecasting uncertainty for tax estimation is generally very high. Alongside forecasts regarding the macroeconomic trend or the financial impact of legislative changes, predictions concerning fluctuations in revenue from profit-related taxes that are independent of the aforementioned explanatory factors also tend to be inaccurate. See also Deutsche Bundesbank, Development of tax revenue in Germany and current tax policy issues, Monthly Report, October 2008, pp 33-57.

Central government budget

Strong growth in deficit in Q1, with falling revenue and rising expenditure

In the first three months of this year, the central government deficit almost doubled year-on-year to €21½ billion. Revenue was down by just over 7% on the year (-€4½ billion). Despite the fact that central government has been receiving motor vehicle tax revenue since summer 2009, tax receipts fell by 3% (-€1½ billion) owing, among other things, to a larger transfer for financing the EU budget. The contraction in non-tax revenue was considerably sharper, as the positive one-off effect experienced in 2009 as a result of the Bundesbank's profit distribution – which, contrary to usual practice, was used entirely for the central government budget despite exceeding the relevant threshold – had come to an end. By contrast, spending grew strongly by 7½% (+€6 billion). This was primarily due to higher payments to the social security funds (+€5 billion), especially to the Federal Employment Agency, which was in deficit and had largely depleted its liquid reserves, and to the health insurance fund. In addition, transfers to other levels of government were €2 billion higher owing principally to payments to state government in compensation for the transfer of motor vehicle tax revenue. Despite the high deficits, however, interest expenditure saw a further significant decline of 8% (-€1 billion) as a result of the very favourable refinancing conditions.

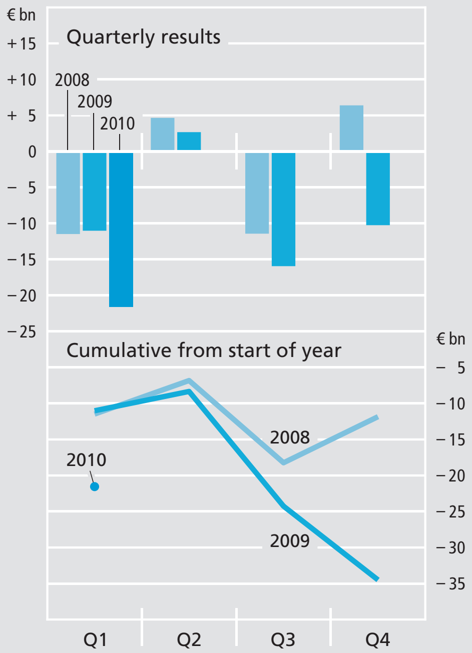
Budget plan with exceptionally high deficit estimate ...

The draft central government budget for 2010 presented by the new Federal Government at the start of the year was revised again at the beginning of March in the course of parliamentary consultations. Nonetheless, the exceptionally high deficit was reduced only moderately. The expenditure appropriations were cut by €6 billion. In particular, the revised draft budget included more favourable developments with regard to the payment to offset the Federal Employment Agency's deficit (-€3 billion), interest expenditure (-€1½ billion) and spending in connection with long-term unemployment (-€½ billion). On balance, the authorisation for net new borrowing was reduced by €5½ billion to €80 billion. However, compared with actual net new borrowing in 2009, this constitutes an exceptionally sharp rise of €46 billion. Central government's structural deficit, which is calculated by deducting the cyclical component and financial transactions and which must be reduced to no more than 0.35% of GDP by 2016 under the new debt rule, was estimated at €66½ billion, or 2.8% of GDP. Nonetheless, it must be borne in mind that the central government structural deficit estimated for 2010 was inflated owing mainly to non-recurring grants (totalling just over €16½ billion) to the Federal Employment Agency and the health insurance fund.

... but deficit likely to be significantly lower during budget implementation

Overall, the actual development of this year's central government budget is likely to be considerably more favourable than predicted. The latest tax estimate projects additional revenue of €4½ billion compared with the budgeted amount. Furthermore, the frequency auction by the Federal Network Agency brought in proceeds of €4½ billion, while the estimate in the central government budget merely matches the minimum bid (just under €100 million). On the expenditure side, too, it seems likely that actual figures

Central government fiscal deficit/surplus



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will be substantially better than the estimates. Given that forecasts of labour market developments have again been revised upward significantly, the payment needed to offset the Federal Employment Agency's deficit is likely to be considerably lower, and the budgetary authorisations for costs arising in connection with long-term unemployment should not need to be used in full. Moreover, there are signs that there will be further noticeable cost savings, not least for interest expenditure, meaning that the deficit could remain markedly below €70 billion. The structural component would probably then also be significantly lower than estimated.

Credibility of new debt limit must not be jeopardised

Under the new debt rule, the 2010 structural deficit will, as the starting value, determine the gradual decline in the borrowing limit in the transitional period up to 2016. In order to avoid jeopardising its credibility, policymakers must resist the temptation to weaken the rule prior to its initial implementation in the 2011 budget by creating loopholes in the form of additional scope for borrowing and to delay the necessary consolidation, as has happened so often in the past. With regard to the adjustment path from 2011 onward, the "reduction of the existing deficit" criterion enshrined in Article 143d of the German Basic Law requires that the budget be based at least on a current estimate of the structural deficit for 2010 rather than on the budget target. Moreover, in keeping with the spirit of the new budget rule, one-off grants to social insurance schemes should not increase the structural deficit.[9]

Need for consolidation a major challenge

The need to consolidate the central government budget until the constitutional limit of 0.35% of GDP applicable from 2016 onward is reached poses an exceptionally large fiscal policy challenge. In addition, if account is taken of the great uncertainty of budgetary forecasts, a significant safety margin with respect to the borrowing limit would seem necessary in order to avoid the need for short-term and unexpected consolidation measures, which tends to arise during economic downturns.[10] It is therefore unlikely

9 See also Deutsche Bundesbank, Federal budget for 2010 and scope for borrowing up to 2016, Monthly Report, February 2010, pp 72-73.
10 See also Deutsche Bundesbank, The reform of the borrowing limits for central and state government, Monthly Report, May 2009, pp 78-79 and J Kremer and D Stegarescu (2009), Neue Schuldenregeln: Sicherheitsabstand für eine stetige Finanzpolitik, Wirtschaftsdienst, Vol 89/9, pp 630 ff (in German only).

that there will be any leeway for additional budgetary burdens in the coming years.

High deficit for off-budget entities in 2010, too

Central government's off-budget entities recorded a deficit of €1½ billion in the first quarter of 2010 after breaking even in the same period last year. This was chiefly due to the developments in the Financial Market Stabilisation Fund. Higher acquisitions of participating interests led to a deficit of €1½ billion, compared with €½ billion in the first quarter of 2009. In addition, the Investment and Repayment Fund established in spring 2009 as part of the second economic stimulus package recorded a deficit of €½ billion, as outflows for investments and the car scrappage scheme (just over €½ billion in each case) exceeded its share of just over €½ billion in the Bundesbank's profit distribution. As in the same period last year, the Federal Pension Service for Post and Telecommunications posted a surplus of €½ billion arising from contribution payments from Deutsche Bundespost's successor enterprises, which must be put aside for repaying bonds originating from their securitisation. After a deficit of €21 billion was recorded in 2009, a funding gap of well above €10 billion is anticipated for 2010 as a whole owing to still outstanding drawdowns of funds from the Investment and Repayment Fund and the expected further acquisitions of participating interests by the Financial Market Stabilisation Fund.

State government[11]

In the first quarter, state government recorded a deficit of just over €7 billion, compared with just under €10½ billion a year earlier. However, excluding the substantial recapitalisation of BayernLB in 2009 (€7 billion), which no longer had an impact in the first quarter of 2010, the deficit rose significantly. Revenue receded further by just under 3% (nearly €2 billion). Although tax revenue still decreased perceptibly (-8½%), it should be remembered that a large part of this decline was due to the transfer of receipts from motor vehicle tax to central government from July 2009 onward. The related compensation payments from central to state government (€2¼ billion per quarter) were reflected in a rise in other revenue. Expenditure fell back significantly by 6½%. After adjustment for the bank recapitalisations in 2009, however, it climbed by 3%. Personnel expenses grew strongly (+5%) owing to the wage adjustments agreed in spring 2009 (including the east-west pay equalisation) and their extension to public sector employees with civil servant status and retired civil servants.[12]

Excluding 2009 special effect, significant rise in Q1 deficit

Further deficit increase expected for 2010 as a whole

Particularly given the further revenue shortfalls caused by tax relief measures, the deficit of the federal states' core budgets is expected to increase further for 2010 as a whole des-

11 The development of local government finances in 2009 was analysed in greater detail in the short articles in the Bundesbank's April Monthly Report. These are the most recent data available.
12 In an expansion of the monthly statistics, since the beginning of 2010 more detailed data have now also been published on the expenditure and revenue positions of the federal states. In future, this will allow a considerably improved, prompt analysis of budgetary developments (see Federal Ministry of Finance, Monthly Report, April 2010; in German only). The newly recorded items include, most notably, revenue from sales, the receipts of public administrations, expenditure on pensions and healthcare subsidies and other operating expenditure, as well as spending on interest, payments to public administrations, fixed asset formation and other investment.

pite the drop-out of the extensive bank recapitalisations vis-à-vis 2009. According to the plans available to date, the deficit is even set to reach a record high of just under €33½ billion. Although Bavaria, Mecklenburg-Vorpommern and Saxony are to manage without additional new borrowing (partly through extensive withdrawals of reserves), the particularly highly indebted federal states of Bremen, Saarland, Schleswig-Holstein and Berlin, along with all the other western German federal states, are planning to exceed their borrowing limits – in some cases very substantially. Not least owing to further tax cuts, the latest tax estimate for state government foresees an improvement of only €1 billion compared with the November 2009 estimate despite the rather more favourable macroeconomic conditions. However, compared with the latest medium-term forecast of May 2009, for which the need for adjustment was significantly greater than for the November estimate, there will be shortfalls of around €4 billion in each of the years from 2011 to 2013. All in all, the structurally balanced budget prescribed from 2020 onward is likely to be very difficult to achieve – particularly for some highly indebted federal states – without major consolidation efforts, which will mainly have to be focused on the expenditure side.

As in the case of central government, for the five states with a fundamental entitlement to transitional assistance, the structural deficit for 2010 constitutes the starting value for the gradual reduction prescribed for the coming years. As the successor to the Financial Planning Council, the recently established Stability Council has a key role to play in monitoring budgetary developments and evaluating consolidation progress before financial assistance is provided.

Social security funds[13]

Statutory pension insurance scheme

Deficit expansion despite positive revenue trend

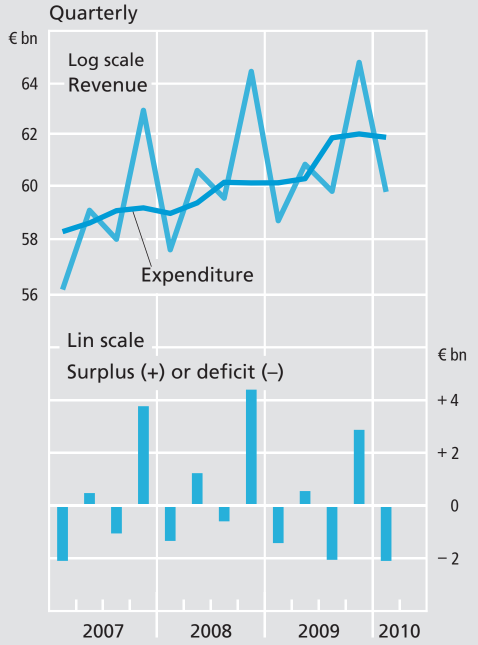
The statutory pension insurance scheme posted a deficit of just over €2 billion in the first quarter of 2010, which was thus just over €½ billion larger than in the first quarter of 2009. Growth of almost 2% was recorded on the revenue side. While employees' compulsory contributions (including contributions for recipients of short-time working benefits) climbed by only 1%, the contributions for recipients of unemployment benefits increased again very sharply (+18½%). At 2½%, the rise in transfers from the central government budget was comparatively steep, as the majority will be adjusted in 2010 in line with the considerable wage growth in 2008. At almost 3%, the increase in expenditure was sharper than that in revenue. This was mainly attributable to the growth in pension expenditure caused by the relatively large pension increase in mid-2009. By contrast, there was still only a marginal expansion in the number of pensions. Spending on rehabilitation measures saw a further surge (+20%).

13 The financial development of the statutory health and public long-term care insurance schemes in 2009 was analysed in the short articles of the March Monthly Report. These are the most recent data available.

Deficit in 2010 lower than expected

The statutory pension insurance scheme will probably record a deficit for this year, although it is likely to be considerably lower than expected in the Old-age Provision Report of autumn 2009 (€3½ billion). This is due, in particular, to the improved assessment with regard to employment and employee compensation.[14] Pensions will not be cut at mid-year even though average remuneration fell by almost ½% last year. In the absence of the safeguard clause,[15] pensions would have been reduced by 2.1% in western Germany and by 0.5% in eastern Germany. It is planned that all pension cuts that have been waived (a cumulative adjustment requirement of 3.8% in western Germany and 1.8% in eastern Germany) will be clawed back in the coming years by halving pension increases, thus enabling medium-term contribution rate targets to be met.

Finances of the German statutory pension insurance scheme



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Federal Employment Agency

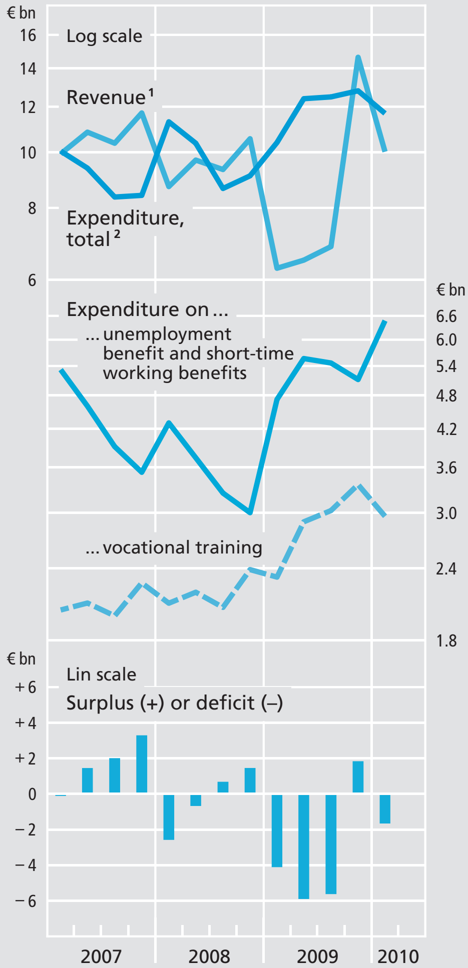
Sustained year-on-year deterioration in financial situation ...

The Federal Employment Agency recorded a deficit of just over €1½ billion in the first quarter. At just over €4 billion, it was significantly higher in the same period last year. However, the agency already received sizeable grants amounting to €3½ billion from central government in the first quarter of 2010, whereas, in 2009, transfers of the regular Federal grant did not begin until September. In addition, no reintegration payments were made to central government in the first quarter of 2010 (2009: almost €1 billion). After adjustment for these special effects, the Federal Employment Agency's financial situation deteriorated significantly. Among other things, the decline of 1% in contribution receipts played a role in this development. By contrast, considerable additional revenue from insolvency benefit contributions was generated by the increase in the contribution rate from 0.1% to 0.41% of gross wages and salaries at the beginning of the year.[16]

14 In the 2009 Old-age Provision Report, the Federal Government still expected a rise of 0.7 % in gross wages and salaries per employee and a decline of 2.0 % in the number of employed persons for 2010. At the end of April 2010, these assumptions were revised upward (to +1.0 % for average remuneration and -0.2 % for the number of employed persons). On the basis of this reassessment alone there is likely to be an improvement of around €2 billion in the financial outturn for 2010.
15 Particularly the presumed contribution to a supplementary private pension scheme ("Riester reform steps"), but also the sustainability factor would have led to a pension cut in the absence of the safeguard clause. In western Germany, the marked decline in per capita earnings would have had an additional effect.
16 After insolvency benefit payments exceeded contributions by almost €1 billion in 2009, the gap is to be closed by recording a surplus this year.

Finances of the
Federal Employment Agency

Quarterly



1 Excluding central government liquidity assistance. — 2 Including transfers to the civil servants' pension fund set up in 2008.

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... but expenditure growth decelerated at end of reporting period

Spending was up by 12½% on the year in the first quarter. However, had the first instalment of the reintegration payment not been deferred, expenditure would have climbed by almost one-quarter. This growth was again driven largely by benefits for the unemployed and short-time workers, on which almost €1 billion more was spent. Moreover, outlays on active labour market policy measures (including refunds of social security contributions for short-time working made to employers, which fall into this category) rose by just over €½ billion. Compared with the preceding quarters, year-on-year expenditure growth was markedly slower towards the end of the reporting period, and spending on short-time working benefits had already peaked in summer 2009.

Need for grants probably significantly smaller than previously estimated

The Federal Employment Agency already relied quite heavily on financial assistance from central government in the first three months of 2010. The 2010 central government budget envisages offsetting this year's deficit using grants amounting to just under €13 billion instead of loans. Combined with the €3 billion in reserves available at the end of 2009, this would cover a Federal Employment Agency deficit of almost €16 billion. In view of the recent improvement in the economic and labour market outlook, the deficit could turn out to be substantially lower. All in all, however, it is clear that a contribution rate of 2.8%, or 3.0% from 2011 onward, is not sufficient to ensure that the Federal Employment Agency is able to finance itself independently across the business cycle.