Public finances*

General government budget

General government budget broadly balanced in 2013

The German general government budget recorded a small surplus of 0.1% of GDP for 2012, and it is also expected to post a broadly balanced result for 2013. The cyclical component, which was still distinctly positive in 2012, is likely to decline owing to the economic slowdown over the year as a whole.[1] After adjustment for cyclical influences, there will probably be a slight improvement in the fiscal balance, and the structural result is likely to be close to balance. Although fiscal policy measures – not least the lowering of the pension contribution rate – will place a burden on the general government budget overall, this will be slightly outweighed by the relief provided *inter alia* by further moderate growth in social payments and the fall in interest expenditure.

Debt ratio high, but declining

The debt ratio, which is still high (as at end-2012: 81.0%), is expected to decline considerably in 2013. This fall is primarily due to nominal GDP growth in the denominator and the continued portfolio reduction at "bad banks" in the government sector. By contrast, the deficits still being posted by some state and local governments, as well as the euro-area stabilisation measures, are slowing down the reduction of the (gross) debt ratio. At the end of June 2013, the debt ratio stood at 79.8%.

Revenue and expenditure ratios virtually unchanged

The revenue ratio is not expected to change substantially in 2013. Although the social contribution rates were lowered significantly on balance at the beginning of the year, fiscal drag[2] and the continued revenue-rich GDP growth structure are raising the ratio on a similar scale. Expenditure might increase at a somewhat faster pace than nominal GDP, growth in which is moderate on an annual average due to cyclical reasons. However, the rise in the expenditure ratio will be dampened by another moderate pension increase in 2013 and the expected further slight decrease in interest expenditure.

With no new measures, little change likely for 2014 either

In the absence of new measures, no major budgetary movements and a continued decline in the debt ratio are likely for 2014, too. As things currently stand, cyclical factors are expected to have no significant impact on the general government budget. The decline in both the average interest rate and the debt ratio are presently expected to continue to provide relief for interest expenditure. With regard to the cyclically adjusted primary balance, positive and negative factors, such as the further rules-based cut in the pension contribution rate or fiscal drag, could more or less balance each other out.[3]

Marked structural surpluses advisable

In the medium term, the structural budgetary situation could see a further moderate improvement and somewhat higher structural surpluses could thus be achieved, *inter alia* if the relief provided by a falling debt ratio and favourable financing conditions is allowed to impact on the budgets and is not squandered by a more expansionary budgetary stance. This would ensure that the high debt ratio is reduced relatively quickly, which would provide a better basis for tackling the looming burdens

* The analysis in the "General government budget" section is based on data contained in the national accounts and on the Maastricht ratios. The subsequent reporting on the budgets of the various levels of government and the social security funds is based on the figures as defined in the government's financial statistics (which are generally in line with the budget accounts).
1 The disaggregated ESCB cyclical adjustment procedure is used in this context, see Deutsche Bundesbank, A disaggregated framework for analysing public finances: Germany's fiscal track record between 2000 and 2005, Monthly Report, March 2006, pp 61-76. The cyclical influences are calculated using the relevant budget variables, ie, in particular, developments in wages, on the labour market and in private consumption.
2 In this context, the term "fiscal drag" encompasses the (positive) revenue effect of bracket creep in income taxation and the (negative) impact of the fact that specific excise duties are largely independent of prices.
3 The analysis is based on the assumption that the euro-area debt crisis will not escalate again.

arising from demographic change. In view of the national budget rules, too, it would be sensible to make the most of the currently exceptionally favourable conditions for Germany's public finances and reduce the remaining deficits at the various levels of government. In particular, the upper borrowing limits proved to be ineffective in the past and were rightly tightened as part of the 2009 reform. Under the revised framework, it would be advisable for central and state government to generally factor in clear safety margins below the upper limits in order – as far as possible – to avoid the need for short-term and procyclical adjustments should the assessment of the budgetary situation change. Given past developments, aiming to achieve a structural surplus of roughly 1% of GDP for central and state government combined would not be an over-ambitious objective. There is also much to be said for not fully exploiting the deadlines – which from today's perspective look very long for most government levels – for when the final debt brake ceilings are to enter into force (2016 onwards for central government and 2020 onwards for state government).

Very uncertain forecast surpluses should not be seen as providing extra spending scope

Overall, the budget surpluses partly envisaged in the medium-term projections, which are subject to great uncertainty, should not be seen as providing scope for extra unfunded budgetary burdens. Policymakers should instead focus on structural improvements when seeking, for example, to enhance education or infrastructure or modify the tax and transfer system.

Budgetary development of central, state and local government

Tax revenue

Further robust growth in tax revenue in Q3

Tax revenue[4] was up by just under 3% on the year in the third quarter (see chart on page 59 and table on page 60). The increase was based on a broad range of taxes – wage tax, consumption-related taxes and profit-related taxes. At 4%, growth in wage tax was still somewhat above average, although this is solely due to the stagnation in child benefit, which is deducted from receipts. Revenue from profit-related taxes rose by nearly 3%. Receipts from assessed income tax continued to record dynamic growth. The sharp decline in non-assessed taxes on earnings and the strong increase in corporation tax are due to special factors in 2012. Revenue from consumption-related taxes increased at a below-average 2%.

Full-year revenue rise mainly reflects macroeconomic developments

According to the latest official tax estimate, tax revenue (including local government taxes) is forecast to rise by 3½% for the year as a whole. This growth primarily reflects the macroeconomic developments and, to a lesser extent, fiscal drag.[5] The financial effects of various legislative changes are expected to more or less balance each other out overall. On the one hand, shortfalls are envisaged, not least due to the basic income tax allowance being raised somewhat and the gradual changeover to downstream taxation of pensions. On the other hand, in particular the expiry of both the homebuyers' grant and the investment grant (which are deducted from cash revenue) as well as increases in real property transfer tax and tobacco tax will bring in additional revenue.

Similar growth forecast for subsequent years

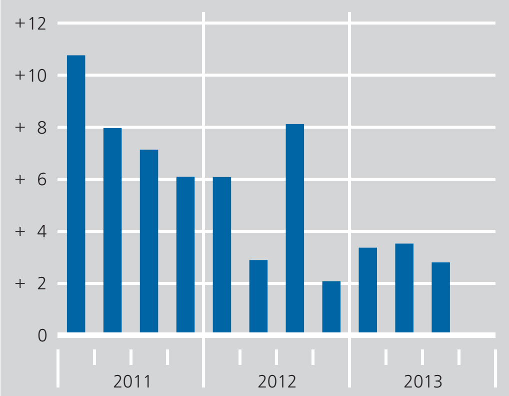
Revenue is forecast to rise by just over 3% in 2014. Although the macroeconomic reference indicators for tax revenue are expected to grow at a significantly faster pace, the volume of receipts will be dented, in particular, by tax refunds envisaged in the wake of court rul-

4 Including EU shares in German tax revenue but excluding receipts from local government taxes, which are not yet known for the quarter under review.
5 This estimate is based on central government's current macroeconomic projection. For 2013, real GDP growth is expected to be 0.5% and nominal growth 2.6% (May: +0.5% and +2.2%, respectively). GDP growth for 2014 is forecast to be 1.7% in real terms and 3.3% in nominal terms (hardly any change compared with May). In the medium term, nominal growth of around 3% per year is still forecast.

ings.[6] Furthermore, changes in tax legislation that have already been adopted will produce shortfalls on balance in 2014. For the years thereafter up to 2018, revenue is forecast to rise by 3½% per year on average. The projected developments largely reflect growth assumptions, while fiscal drag will also cause a marked increase in revenue. The dropout of the special factors relating to court rulings will partly offset the slightly dampening effect of legislative changes. The tax ratio (as defined in the government's financial statistics) is projected to rise to 23.0% by the end of the forecast period (2012: 22.5%). Overall, the increase is largely attributable to fiscal drag (½ percentage point, or €16 billion).

Tax revenue*

Year-on-year percentage change, quarterly data



Source: Federal Ministry of Finance. * Including EU shares in German tax revenue but excluding receipts from local government taxes.

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Revenue expectations up noticeably

Revenue expectations have been raised noticeably compared with the May 2013 forecast. This is above all due to the more favourable intra-year developments, which were in part also projected forward as a baseline effect for subsequent years. Furthermore, from 2014 onwards, the upward adjustments owe something to the slightly better macroeconomic setting. The fact that the first revenue shortfalls in connection with the court rulings referred to above are no longer expected to occur in 2013 but repayments are now envisaged for 2014 and 2015 is also of relevance for the revisions. After adjustment for the financial impact of legislative changes made in the intervening period and corrections caused by the court rulings, revenue assumptions were revised upwards by €4 billion for 2013, €2½ billion for 2014 and €2 billion to €2½ billion for the years 2015 to 2017.

Central government budget

Deficit virtually unchanged in Q3

The central government budget posted a deficit of almost €8 billion in the third quarter, which was only marginally lower than the figure recorded one year previously. Revenue rose (by ½%, or €½ billion) on a par with tax receipts, while deductions for transfers to the EU budget once again increased sharply (by €1½ billion). Expenditure was virtually unchanged. Although payments to the social security funds decreased by almost €1 billion, not least owing to the cut in transfers to the health insurance fund, and payments to state government fell by the same amount, this was offset by higher interest expenditure, particularly owing to discount burdens, and evidently the transfer to Greece[7] (accounting for just over €½ billion each) as well as somewhat higher payments to households, not least for long-term unemployment welfare benefit. However, transfers to the new fund for tackling the damage caused by the flood in the spring of 2013 have not yet been made.

Deficit estimate in supplementary budget realistic in principle

The supplementary budget that was passed in the summer envisages a deficit of €25½ billion for 2013 as a whole. Compared with the estimates – which, with the exception of the transfer to the flood assistance fund, are in line with those in the original budget plan – there are extra burdens arising from the assistance for Greece agreed at the end of 2012 and the Bun-

6 Above all the ruling by the European Court of Justice of 20 October 2011 on the taxation of dividends paid to non-resident companies (case C-284/09).
7 In November 2012, the Eurogroup agreed inter alia to transfer to Greece the computed profits expected to be made by the respective national central banks on Greek sovereign bonds purchased under the SMP, regardless of the actual profit distributions.

Tax revenue

Type of tax	Q1 to Q3 2012 € billion	Q1 to Q3 2013 € billion	2013 Year-on-year change € billion	2013 Year-on-year change %	Estimate for 2013[1,2] Year-on-year change as %	Q3 2012 € billion	Q3 2013 € billion	2013 Year-on-year change € billion	2013 Year-on-year change %
Tax revenue, total[2]	403.4	416.4	+ 13.0	+ 3.2	+ 3.4	135.2	139.0	+ 3.8	+ 2.8
of which									
Wage tax	106.8	113.3	+ 6.5	+ 6.1	+ 5.9	36.6	38.0	+ 1.4	+ 3.9
Profit-related taxes[3]	64.4	67.8	+ 3.4	+ 5.2	+ 5.9	18.3	18.8	+ 0.5	+ 2.9
Assessed income tax	27.3	31.6	+ 4.3	+ 15.7	+ 12.0	8.9	9.8	+ 0.9	+ 10.6
Corporation tax	13.0	14.8	+ 1.8	+ 13.5	+ 17.2	2.5	3.3	+ 0.8	+ 30.7
Investment income tax[4]	24.1	21.4	− 2.7	− 11.2	− 9.0	6.9	5.7	− 1.2	− 17.4
Turnover taxes[5]	144.7	146.3	+ 1.6	+ 1.1	+ 1.4	49.1	50.0	+ 0.9	+ 1.8
Energy tax	24.1	24.2	+ 0.1	+ 0.5	+ 0.2	10.0	10.1	+ 0.1	+ 0.9
Tobacco tax	9.5	9.5	+ 0.0	+ 0.4	− 1.4	3.6	3.9	+ 0.2	+ 6.9

1 According to official tax estimate of November 2013. **2** Including EU shares in German tax revenue but excluding receipts from local government taxes. **3** Employee refunds, homebuyers' grant and investment grant deducted from revenue. **4** Withholding tax on interest income and capital gains, non-assessed taxes on earnings. **5** Turnover tax and import turnover tax.
Deutsche Bundesbank

desbank's lower profit distribution. Furthermore, spending on long-term unemployment welfare benefit could also be somewhat higher than budgeted. Although the November tax estimate suggests that the 2013 central government budget will now record significantly higher revenue than had been forecast in the spring, this still leaves revenue shortfalls of €½ billion compared with the budgeted figures. By contrast, relief might be provided by interest expenditure. It also looks likely that payments for calls of guarantees will be lower than budgeted. Overall, the deficit estimated in the supplementary budget could be met from today's perspective. However, some room for manoeuvre remains, particularly in the case of privatisation proceeds, which makes it difficult to forecast the budget outturn.

Structural deficit set to decline

In the 2013 supplementary budget, structural net borrowing – which is the key benchmark for the debt brake – is estimated at €13½ billion, after deducting net expenditure on financial transactions of €5 billion and calculated cyclical burdens of €6½ billion.[8] This is thus still well below the ceiling of €33 billion postulated by the Federal Ministry of Finance.[9] The transfer to the flood assistance fund was still included in the calculation as a structural burden, whereas the Federal Ministry of Finance recently announced that it will use consolidated data on the fund and the central government budget when calculating the structural

8 The revised macroeconomic assumptions in central government's autumn forecast led to a €2 billion reduction, down to €4½ billion.
9 In the control account, any positive and negative deviations of the structural deficits (albeit calculated using a simplified procedure) from the regular upper limit at the budget outturn are added together. The final calculation for 2012, made in September 2013, produced a positive cumulative balance of €56 billion. Under a recent change in the law, it was decided that the bonus accumulated up until the end of 2015 during the transitional period will be cancelled. This will prevent the amounts accrued under special circumstances being used in future years to offset growth in debt, which is actually at odds with the intention of the debt brake.

deficit.[10] The financial linkage between the two accounting entities would thus be consolidated – as is appropriate – and only the outflows from the fund will have an impact on the structural deficit. The structural deficit is consequently significantly lower than estimated in the 2013 supplementary budget, but in subsequent years the payments made from the fund will impede balance improvements. After cyclical adjustment (using updated figures for both years), a year-on-year improvement in the structural deficit thus appears likely.[11] A key factor behind this is the cut in net transfers to the social security funds of €5 billion, which was newly agreed for the 2013 budget.

Surpluses in current fiscal plan up to 2017 amid continued great uncertainty

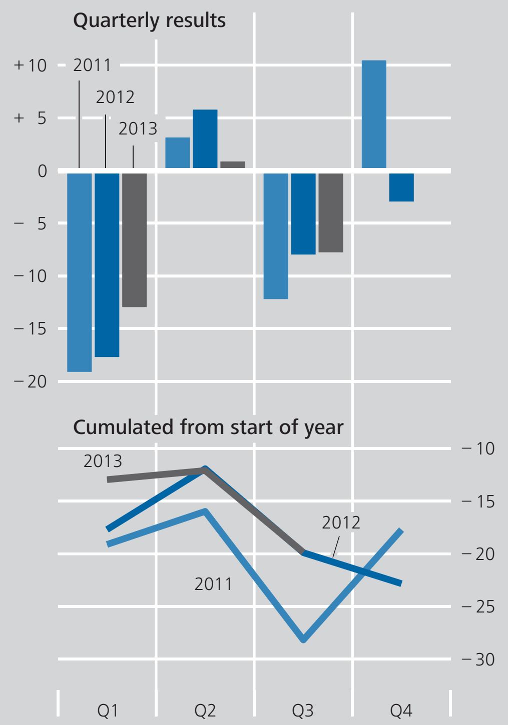
The incoming Federal Government will have to present a new draft of the 2014 budget. The draft approved by the outgoing government at the end of June envisaged a significantly lower level of net borrowing (€6½ billion) than in the 2013 supplementary budget. This is primarily due to temporary burdens no longer applying (2013: flood assistance fund payment of €8 billion and €4½ billion higher capital contributions to the ESM). On the revenue side, growth in tax revenue of €8 billion was set against lower estimates for privatisation proceeds (-€4 billion). In structural terms, a surplus of €2 billion was recorded. For the coming years, despite a considerable increase in interest expenditure, the fiscal plan envisages a steady improvement culminating in a surplus of €9 billion in the final year, 2017. It should be noted that there are specific budgetary risks in this context, particularly with regard to the assumed revenue from a financial transaction tax from 2015 onwards and the planned cutbacks in defence expenditure (which apparently do not take pay increases into account). Furthermore, there is still a great deal of uncertainty over future developments in the euro-area debt crisis, not least with regard to guarantees on assistance loans and repercussions for macroeconomic developments.

Given the combination of favourable economic conditions and great uncertainty, the summer plans were by no means ambitious. Instead, it is actually very advisable to factor in clear safety margins below the strict constitutional limits for structural borrowing. In light of the foreseeable demographic burdens, it would also be desirable to already bring down the high levels of central government debt by achieving marked surpluses. Overall, experience to date shows that, with sizeable downward revisions vis-à-vis the plans in some cases, it is not advisable to see the surpluses envisaged in central government's fiscal plan as providing scope for new budgetary burdens. Before, for example,

Favourable financial situation does not provide scope for extra budgetary burdens

Central government fiscal balance

€ billion



Source: Bundesbank calculations based on data from the Federal Ministry of Finance.
Deutsche Bundesbank

10 For a recommendation in this regard, see also Deutsche Bundesbank, Public finances, Monthly Report, August 2013, p 72.
11 According to the underlying Bundesbank estimate – which was updated for both years and takes into account the growth structure – the cyclical component for 2013 is somewhat less favourable than the figure for 2012 (in contrast to the central government procedure for the debt brake). For information on the procedure used, see Deutsche Bundesbank, Calculating structural deficits in the central government budget – some technical comments, Monthly Report, August 2012, pp 64-65.

increased spending on expanding or maintaining infrastructure or on improving education and childcare is approved, existing efficiency reserves should be exploited. If further measures bringing about expenditure increases are considered necessary, it makes sense, for the reasons stated above, to counterfinance them.

Central government off-budget entities record smaller surplus in Q3

Central government's off-budget entities (excluding the bad bank FMS Wertmanagement, for which data are not yet available) recorded a surplus of €½ billion in the third quarter, compared with a figure of €1½ billion in the same period last year. The positive result is largely attributable to the civil servants' pension reserve and the restructuring fund, even though revenue from the bank levy (just under €½ billion) was only about half as high in year-on-year terms. The flood assistance fund recorded only minor outflows up until the end of September. For the year as a whole, the revenue surplus of the off-budget entities (excluding FMS Wertmanagement and loss compensation paid to this entity) is likely to be significantly higher than the figure of €2½ billion recorded one year previously. This is due to the planned advance payment from the central government budget to finance the flood assistance fund, which more than offsets, in particular, the burden of €1½ billion arising from the first repayment of an inflation-indexed five-year Federal note (Bobl) in the second quarter of 2013.

State government budgets[12]

Only slight decline in deficit in Q3

The improvement in the fiscal balance of the state government core budgets continued in the third quarter, but was only moderate. The deficit fell only slightly in year-on-year terms by €½ billion to €1 billion. Revenue grew by 2½% (€2 billion). Although tax receipts went up by 5% (€2½ billion), there was a significant drop in proceeds from asset sales (-€½ billion), for example. Expenditure rose at a somewhat slower pace (just over 1½%, or €1½ billion). Spending on personnel increased considerably (by +4%, or €1 billion) following the rise in negotiated pay rates at the beginning of 2013 and the – in some cases delayed and scaled-down – extension to public sector employees with civil servant status and retired civil servants. Other operating expenditure also increased significantly (by +4½%, or €½ billion), as did transfers (by +6%, or €1 billion) – not least owing to higher payments to local government (including central government's contribution to the basic allowance for the elderly and extending day care for small children, which are both transferred to local government via state government). By contrast, following North Rhine-Westphalia's (one-off) capital repayment to SoFFin (€1 billion) in 2012, there was a marked drop in investment. Moreover, the sharp decline in interest expenditure continued.

Deficit for year as a whole probably down on year

Given that there has so far been an overall improvement of €3½ billion, the deficit for the year as a whole is also likely to be lower than the level of €5½ billion recorded one year previously. It will thus be well below the figure in the budget plans (€13 billion), although these are based in part on outdated assumptions regarding tax developments. According to the latest tax estimate, in 2013 state government is once again expected to record considerable additional tax revenue (+€2½ billion compared with the May estimate), and revenue estimates for subsequent years have also been revised upwards somewhat. Overall, it is likely that, in 2013 at least, this will more than compensate for the significant growth in personnel costs, other operating expenditure and, in particular, general state government grants to local government, which will increase in line with the favourable tax developments.

Following the positive outcome of the referendum in Bavaria, seven federal states have now enshrined the debt brake in their constitutions, although – with the exception of Saxony –

12 The development of local government finances in the second quarter of 2013 was analysed in greater detail in the short articles in the Bundesbank's October Monthly Report. These are the most recent data available.

Rapid and rigorous implementation of debt brake and fundamental reform of federal financial relationships

these provisions will not fully enter into force until 2020. While a few other federal states have adopted similar provisions in their state budgetary regulation laws, unlike constitutional provisions, these can easily be amended again and are therefore generally less effective, as is already apparent in individual cases. In Berlin, Brandenburg, North Rhine-Westphalia and Saarland, new rules have yet to be adopted. In addition to a rapid, while at the same time rigorous, implementation of the debt brake by individual federal states, it also appears highly advisable to address the reform of federal financial relationships – which must enter into force by 2020 at the latest – in a timely and comprehensive manner. In the wake of the forthcoming reform of the financial equalisation scheme among the federal states and the expiry of the infrastructure reconstruction scheme in the eastern states, a decision ultimately needs to be made regarding the extent to which differences in financial capacity between the federal states are acceptable, also in view of regional price differences. Adverse incentives in the financial-capacity-oriented financial equalisation scheme could be reduced by a lower absorption of additional tax revenue and by shifting tax administration to central government. Furthermore, the option of strengthening the tax autonomy of the individual federal states (giving them the right to introduce surcharges or discounts – on income tax, for example) could be considered. This would facilitate compliance with the strict debt brake against a backdrop of significant differences regarding existing strains such as interest expenditure and other ongoing differences in financial capacity, while at the same time maintaining scope for flexibility where spending preferences differ.

Social security funds[13]

Statutory pension insurance scheme

Revenue losses from cut in contribution rate …

The statutory pension insurance scheme recorded a deficit of just over €1 billion in the third quarter of 2013, which was €½ billion higher than one year previously. Revenue hardly changed on the year. The cut in the contribution rate from 19.6% to 18.9% resulted in a slight drop in employees' compulsory contributions. However, if the contribution rate had remained unchanged, they would have gone up sharply by 3½%. Contributions made on behalf of recipients of unemployment insurance benefit (I) also increased in unadjusted terms, although at a significantly slower pace than in previous quarters. Central government grants also decreased, as the change in the contribution rate is taken into account in most cases when calculating the new levels of the grants.

… and subdued expenditure growth due to low pension increase

At only just under 1%, expenditure growth slowed significantly in the third quarter owing to a small pension increase of 0.25% in western Germany (eastern Germany: +3.29%). The subdued growth is also due to the current decline in the number of pensions stemming from the "demographic lull" as a result of a low number of people reaching retirement age at the present time, the gradual increase in the normal age of retirement to 67 years and most likely the fact that since 2012 women have no longer been able to draw a pension earlier – upon reaching 60 years of age – without a particular reason (with the corresponding deductions to their pension).

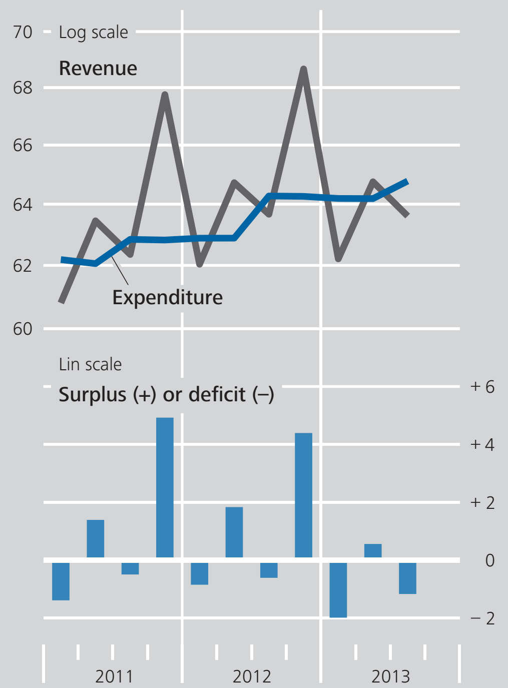
In the absence of benefit increases, sharp cut in contribution rate to reduce excessive reserves

The cumulated deficit of the statutory pension insurance scheme for the first three quarters of 2013 amounted to just over €2½ billion. One year previously it had recorded a surplus of just under €½ billion. A marked financial deterior-

13 The financial development of the statutory health and public long-term care insurance schemes in the second quarter of 2013 was discussed in the short articles of the September Monthly Report. These are the most recent data available.

Finances of the German statutory pension insurance scheme

€ billion, quarterly data



Source: German statutory pension insurance scheme (Deutsche Rentenversicherung Bund).
Deutsche Bundesbank

ation had been planned in order to bring the reserves back down to 1.5 times the scheme's monthly expenditure. However, it now looks likely that the reserves will not be scaled back and that, instead, a surplus will actually be recorded as contribution receipts are usually particularly strong in the final quarter of the year owing to bonuses. In 2014, the scheme will thus once again be legally required to bring the reserves back down to their upper limit by means of a further cut in the contribution rate. In the absence of benefit increases, a further reduction of 0.6 percentage point will probably be necessary.

Current easing in financial situation does not create scope for permanently higher expenditure commitments

As such a low pension increase, caused by special factors, is hardly likely to reoccur in the coming years and the number of pensions will increase again, the statutory pension insurance scheme will inevitably record considerable deficits in the future. The reserves are being depleted at an accelerated pace and as soon as there is a risk of the lower limit of 0.2 times the scheme's monthly expenditure being undershot, the contribution rate will have to be put back up again in the second half of the current decade. Furthermore, the at present particularly favourable financial situation will be of hardly any consequence with regard to improving the long-term prospects of the statutory pension insurance scheme, as the current promising employment situation is already taken into account to a large extent in the projections. The positive situation should therefore not divert attention from the more difficult times that lie ahead for the scheme. Additional permanent expenditure commitments cannot be financed without permanently higher taxes and social security contributions. Thus, for example, the additional inclusion of a child-raising year for parents of children born before 1992 would result in additional expenditure of around €6½ billion per year, which would need to be offset by increasing the contribution rate by about ½ percentage point over several decades.

Federal Employment Agency

Improvement in Q3 overstated owing to abolition of reintegration payment

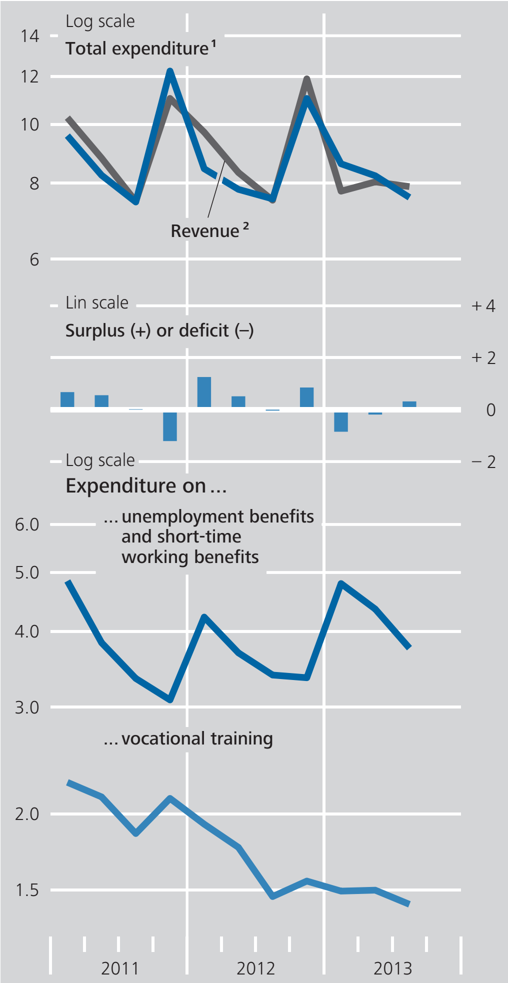
The Federal Employment Agency posted a surplus of just under €½ billion in the third quarter of 2013. While this is better than the slight deficit recorded one year previously, the improvement is overstated as at that time the Federal Employment Agency still transferred a reintegration payment instalment of just under €½ billion to central government. Revenue went up by almost 5½% overall. This is attributable, first, to the continued strong growth in contribution receipts (just over 3%) and, second, to revenue from insolvency benefit contributions almost quadrupling following the marked rise in the contribution rate. On the expenditure side, with an overall increase of only ½%, the reduced – although still very significant – rise in unemployment benefit payments (+10%) and the abolition of the reintegration payment (an instalment of which had still been paid one year previously) largely balanced each other out. No more savings of any note were made in the area of active labour market policy measures. It appears that spending on this item has reached a trough.

Surplus on horizon for year as whole

The deficit of the Federal Employment Agency for the first nine months of 2013 came to just over €½ billion. One year previously, it had still recorded a surplus of more than €1½ billion at the end of September. However, after adjustment for the abolition of the payments between the Federal Employment Agency and central government (reintegration payment and central government grant), rather than a financial deterioration of almost €2½ billion, there is an improvement of €½ billion. If the more favourable operational developments are carried forward, it looks like the Federal Employment Agency could well record a slight surplus for 2013 as a whole, given that receipts are usually strong in the fourth quarter. A further easing in the financial situation is on the horizon for 2014 owing to the forecast economic revival.

Finances of the Federal Employment Agency

€ billion, quarterly data



Source: Federal Employment Agency. **1** Including transfers to the civil servants' pension fund. **2** Excluding central government liquidity assistance.

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