

Public finances*

General government budget

General government budget still balanced in 2014, ...

The public finance situation in Germany has remained relatively favourable this year. For the third consecutive year, general government is likely to achieve a broadly balanced budget (2013: +0.1% of gross domestic product (GDP)), while the revenue and expenditure ratios are likely to remain more or less unchanged (2013: both at around 44½%). As things currently stand, the impact of cyclical factors will remain almost neutral on an annual average and the cyclically adjusted result will also be broadly balanced as in 2013.¹ Although sharper growth in social security spending is placing a strain on the general government budget, interest expenditure is continuing to fall due to very benign financing conditions and the Bundesbank's dividend has risen significantly. While the social security funds are likely to largely scale back their surpluses from 2013, central, state and local government budgets are expected to improve to a certain degree.

... but deterioration expected in 2015

A deficit – albeit a small one – is on the horizon next year. This is primarily because the social security funds are expected to run up considerable deficits, which will substantially erode their relatively high reserves. The impact of cyclical factors on government budgets is likely to remain almost neutral. From the present perspective, various strain and relief measures on the revenue side broadly offset each other. For instance, while both the contribution rate to the statutory pension insurance scheme and the average additional contribution rate to the statutory health insurance scheme are expected to be cut, contributions to long-term care insurance are to be raised. Burdens on the expenditure side are attributable to the rising cost of the pension reform package and, in no small part, to additional spending on long-term care. Additional expenditure on transport infrastructure, education and research, which got off to a slow start, is also likely to pick up the pace.

As a result, the expenditure ratio is set to rise despite further cuts in interest expenditure.

As things currently stand, the debt ratio is still on a downward trend (end-2013: 76.9%; mid-2014: 75.4%). This is primarily due to nominal GDP growth in the denominator, which pushes down the ratio when the general government budget is broadly balanced. Furthermore, the liabilities and assets of government-owned bad banks are to be reduced further. The assistance agreed for euro-area countries and payments to the European Stability Mechanism (ESM) are not pushing up debt this year by nearly as much as in previous years.

As things currently stand, debt ratio still on downward trend

After a brief (compared with other European countries) period of stress in the wake of the 2008-09 financial and economic crisis, Germany's general government budget was balanced again in 2012. The fact that economic strains eased relatively quickly and that a large proportion of fiscal support measures in connection with the crisis were of a temporary nature also helped expedite this recovery. Moreover, the conditions for public finances in Germany were particularly favourable. For instance, while taxes and levies were cut overall between 2008 and 2012 and the resulting shortfalls clearly ex-

Relatively sound public finances reflect favourable conditions and previous reforms

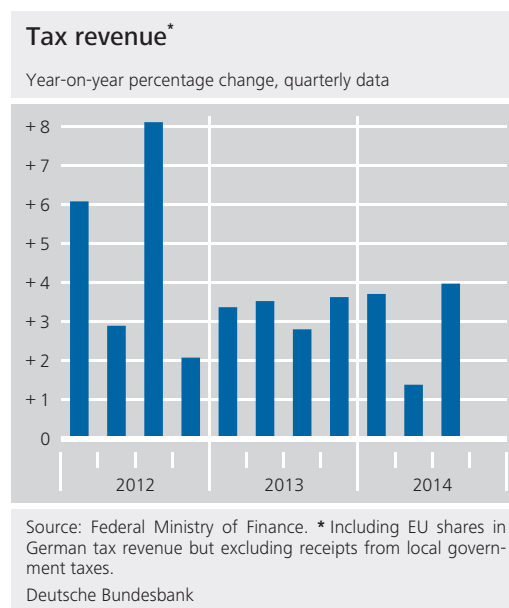
* The section entitled "General government budget" refers to data contained in the national accounts and the Maastricht ratios pursuant to the European System of Accounts (ESA) 2010. For information on the latest revisions, see Deutsche Bundesbank, Monthly Report, September 2014, pp 7-12, and the press release of 2 October 2014. The results for the fiscal balance and for revenue and expenditure underwent minor revision again with the Maastricht notification, which was published by Eurostat in October; see Eurostat, Press Release No 158, 21 October 2014.

¹ This estimation is based on the Eurosystem's cyclical adjustment method; 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. By contrast, the cyclical adjustment procedure used for EU budgetary surveillance and the procedure for the central government's debt brake (which is based thereon) paint a clearly negative picture of the economic situation.

ceeded additional revenue from fiscal drag,² the GDP growth structure raised revenue. Very low interest rates and falling structural unemployment provided relief on the expenditure side. In addition, labour market and pension reforms that were concluded some time ago helped keep overall expenditure growth firmly in check despite sharper rises in other areas.

Given high uncertainty, initially maintain course mapped out in current plans

Given the still high debt ratio and unfavourable demographic trends, Germany would be well advised to achieve a budget position that is at least structurally balanced in the medium term, too. Aside from this, it is essential that central and state government build up sufficient safety margins vis-à-vis the strict national deficit ceilings, which will come into force for all federal states, too, as of 2020 at the latest. To this end, central and state government should include surpluses in their budget plans under normal circumstances, which means that there is an ongoing need for further consolidation. In view of the considerable uncertainties regarding global and European economic developments, however, it appears appropriate to initially maintain the fiscal policy course mapped out in current plans. Due, in particular, to the social security funds' dwindling reserves, this will involve easing the general government fiscal stance next year (measured in terms of changes in the cyclically adjusted primary balance ratio). The automatic stabilisers should, as a rule, be allowed to operate freely. Thus, if economic activity were to pick up, a better budget outturn would be possible, whereas a downturn would result in cyclically induced higher deficits. However, an additional debt-financed economic stimulus package would be of little help given Germany's economic situation or taking into account the comparatively small boost it could be expected to provide to the rest of the euro area. There is enough leeway to devise fiscal policy measures aimed at strengthening the underlying conditions for growth without having to resort to borrowing, namely by improving the budget structure and making government activities more cost-effective. For example, infrastructure can be better maintained



and expanded as necessary without incurring new debt.

Budgetary development of central, state and local government

Tax revenue

Tax revenue³ in the third quarter of 2014 was up by 4% on the year. The pace of growth was thus somewhat faster than in the first six months of the year, but this was chiefly attributable to strains arising from a one-off factor⁴ in the second quarter (see the chart above and the table on page 70). Year-on-year growth in wage tax revenue was somewhat higher than that in gross wages and salaries owing to the usual effects of tax progression. Furthermore, cash revenue was bolstered by stagnating child

Further robust growth in tax revenue in 2014 Q3

² In this context, the term "fiscal drag" encompasses the overall (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 Including EU shares in German tax revenue but excluding receipts from local government taxes, which are not yet known for the quarter under review.

⁴ Court orders issued by Hamburg Fiscal Court on 11 April 2014 (case number 4 V 154/13) after a complaint was lodged by nuclear power plant operators ruling that the operators should be provisionally refunded for nuclear fuel tax payments.

Tax revenue

Type of tax	Q1 to Q3				Estimate for 2014 ^{1,2}	Q3			
	2013		2014			2013		2014	
	€ billion		Year-on-year change € billion	%	Year-on-year change %	€ billion		Year-on-year change € billion	%
Tax revenue, total ²	416.4	428.9	+ 12.5	+ 3.0	+ 3.5	139.0	144.5	+ 5.5	+ 4.0
<i>of which</i>									
Wage tax	113.3	120.3	+ 7.0	+ 6.2	+ 6.1	38.0	40.5	+ 2.5	+ 6.7
Profit-related taxes ³	67.8	68.7	+ 0.9	+ 1.3	+ 1.0	18.8	20.3	+ 1.5	+ 8.1
Assessed income tax	31.6	33.8	+ 2.1	+ 6.8	+ 5.8	9.8	10.0	+ 0.2	+ 2.1
Corporation tax	14.8	15.0	+ 0.2	+ 1.6	- 1.2	3.3	4.3	+ 1.0	+ 30.4
Investment income tax ⁴	21.4	19.9	- 1.5	- 6.9	- 5.3	5.7	6.0	+ 0.3	+ 5.4
Turnover taxes ⁵	146.3	150.8	+ 4.5	+ 3.1	+ 3.1	50.0	51.1	+ 1.1	+ 2.2
Energy tax	24.2	24.6	+ 0.3	+ 1.3	+ 1.4	10.1	10.0	- 0.1	- 0.7
Tobacco tax	9.5	9.9	+ 0.4	+ 4.4	+ 4.7	3.9	3.7	- 0.1	- 3.2

Sources: Federal Ministry of Finance and Bundesbank calculations. **1** According to official tax estimate of November 2014. **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

benefit payments. Revenue from profit-related taxes was up by 8%, also due to a one-off factor affecting non-assessed taxes on earnings. By contrast, revenue from consumption-related taxes increased at a slower pace of 2%.

Full-year revenue rise mainly reflects macro-economic 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 underlying macro-economic developments⁵ as well as additional revenue from fiscal drag. However, legislative changes are expected, on balance, to result in limited revenue losses. On the one hand, shortfalls are envisaged, not least due to the rise in the basic income tax allowance and the gradual changeover to downstream taxation of pensions, with tax exemption on contributions being raised. On the other hand, the phasing-out of both the homebuyers' grant and the investment grant (which are deducted from cash revenue), the increase in real estate acquisition tax, which has been implemented in some fed-

eral states, and annual tobacco tax rises are likely to have a positive impact, in particular.

A gain of 3% is expected in 2015. Growth in macroeconomic reference variables for tax revenue is forecast to be roughly the same as in 2014 and legislative changes are likely to be relatively insignificant. However, tax refunds are expected as a result of previous court rulings.⁶ Average annual growth rates of 3½% are forecast for 2016 to 2019. The projected developments will continue to largely reflect macroeconomic growth assumptions and fiscal drag.

Similar growth forecast for subsequent years

⁵ This estimate is based on central government's current macroeconomic projection. For 2014, real GDP growth is expected to be 1.2% and nominal growth 3.2% (May: +1.8% and +3.5%, respectively). GDP growth for 2015 is forecast to be 1.3% in real terms and 3.2% in nominal terms (May: +2.0% and +3.8%, respectively). In the medium term, nominal growth of around 3% per annum is still forecast.

⁶ Chiefly the European Court of Justice ruling of 20 October 2011 on the taxation of dividends paid to EU/EEA companies, with total losses of €2½ billion distributed over the course of 2015 and 2016 (case C-284/09).

Legislative changes will only slightly dampen the impact of fiscal drag over the remainder of the forecast horizon. The tax ratio (as defined in the government's financial statistics) is therefore projected to rise to 22.5% by the end of the forecast period in 2019 (2013: 22.1%).

Revenue expectations confirmed for 2014 and revised downwards for subsequent years

The May forecast for 2014 has thus been revised slightly upwards. However, it should be noted that the calculations do not factor in any shortfalls as a result of the ruling by Hamburg Fiscal Court regarding the suspension of the nuclear fuel tax. Nuclear power plant operators who lodged a complaint with Hamburg Fiscal Court received just over €2 billion in refunds in May and this ruling has resulted in risks for the central government budget, which are likely to total just under €3 billion for 2014. If the Federal Constitutional Court and the European Court of Justice confirm that these complaints are founded, additional tax shortfalls of €4½ billion (cumulated) will have to be included for the period up to the end of 2016.⁷ Previous expectations for 2015 onwards have been revised downwards, although the revenue shortfalls are limited and tax developments are by no means expected to be unfavourable going forward. These revisions primarily stem from the fact that the forecast for the 2015 macroeconomic setting is now gloomier than it was in May. Tax revenue in 2015 is now forecast to be €6½ billion lower, while the revisions for 2016 to 2018 range between -€7 billion and -€4 billion.⁸ In addition to risks from the nuclear fuel tax, there is uncertainty with regard to future economic developments and receipts from profit-related taxes, which are volatile and thus difficult to estimate.

Central government budget

In the third quarter of 2014, the central government deficit fell significantly on the year (from €8 billion to €3 billion). Revenue recorded sharp growth of 6½% (€5 billion), which was mainly driven by a €4½ billion rise in tax revenue (partly due to a fall of €2 billion in deductions for transfers to the EU budget). By contrast, overall ex-

Clear decline in deficit in 2014 Q3 due to sharp revenue growth and stagnating expenditure

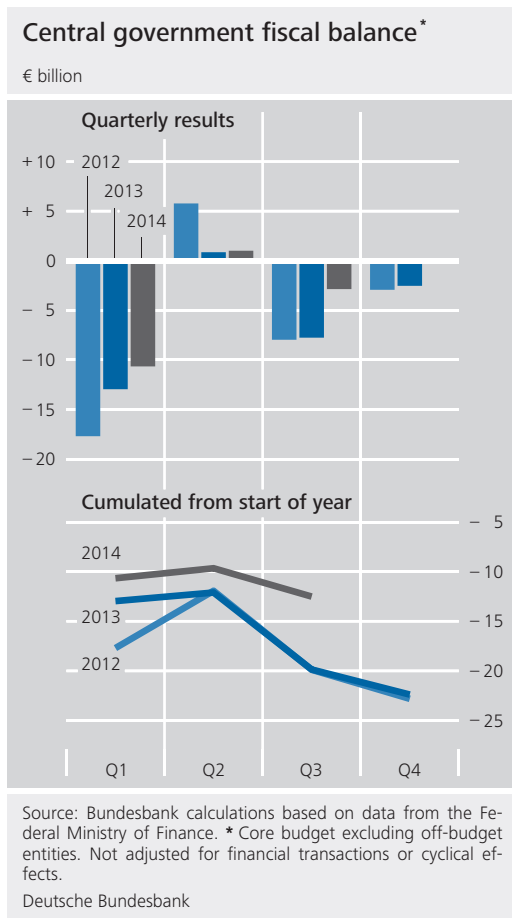
penditure virtually stagnated. Interest expenditure again recorded a notable decline (€1½ billion), with premiums paid when issuing new securities accounting alone for €1 billion of this drop. By comparison, growth was recorded in personnel expenditure (€½ billion) – retrospectively applying the spring pay agreement to civil servants and retired civil servants is likely to have had a particular effect here – and in payments to state government (€½ billion), reflecting not least central government's increased contribution to the basic allowance for the elderly.

Central government posted an overall deficit of €12½ billion for the first three quarters of 2014. In order to achieve the planned deficit of €6½ billion, a surplus of €6 billion will have to be generated in the final quarter. This would constitute an improvement of €8½ billion on the previous year. All in all, this appears to be achievable. First of all, the considerable one-off burdens that were recorded at the end of 2013 (advance payments to the flood assistance fund of €8 billion as well as a contribution payment of €4½ billion to the ESM) no longer exist. Moreover, further relief is expected from lowering payments to the health insurance fund (€1½ billion) and reclaiming flood assistance fund resources (€1 billion). However, additional strains are expected from other sources compared with the final quarter of 2013. The latest tax es-

Planned deficit for 2014 seems achievable despite deterioration in macroeconomic environment

⁷ Nuclear power plant operators who lodged a complaint with Hamburg Fiscal Court received €2.2 billion in refunds in May. If these are not repaid to general government and these operators continue to make no payments for the remainder of the year, this will result in shortfalls which are likely to total just under €3 billion compared with the results calculated by the Working Party on Tax Revenue Forecasting. Other operators who are not affected by the ruling of Hamburg Fiscal Court currently continue to pay this tax and, by the end of 2014, will likely have paid a total of around €2 billion since the tax was introduced in 2011. The Federal Constitutional Court and the European Court of Justice have not yet ruled whether the nuclear fuel tax is constitutional. The official tax estimate includes just over €1 billion a year for 2015 and 2016 in revenue from the nuclear fuel tax, which is only due to be levied until the end of 2016.

⁸ After adjustment for the financial impact of legislative changes made in the intervening period (with an insignificant impact on revenue) and corrections concerning the fiscal effects caused by court rulings (downward revision of €1 billion in 2015 and €1½ billion in 2016), revenue estimates were revised downwards by €6 billion for 2015 and by €6 billion to €4½ billion for 2016 to 2018.



Tax shortfalls possible vis-à-vis budget plan, but relief from sources such as interest expenditure, other operating expenditure and non-tax revenue

estimate forecasts additional revenue of €½ billion this year vis-à-vis the budget plan for the year as a whole. However, these figures do not contain strains arising as a result of Hamburg Fiscal Court's ruling on refunds and the suspension of payments of nuclear fuel tax. If the Federal Fiscal Court does not reverse the preliminary legal protection soon, the shortfalls are likely to exceed the provisions made in the budget, resulting in net tax shortfalls of €1 billion. Additional strains of €½ billion compared with the budget plan are also likely to be recorded for unemployment welfare benefit (II). However, relief is expected especially in the areas of interest expenditure and other operating expenditure (due to the fact that this type of spending in the defence ministry⁹ is still likely to be lower than planned). This should far exceed the total amount budgeted for global spending cuts (€2 billion). Furthermore, much-higher-than-anticipated funds from the EU and fines imposed by the Federal Cartel Office are also to be expected on the revenue side.

The structural central government budget balance, which is relevant to the debt brake, is expected to reach a surplus of €1 billion. As central government's autumn forecast of nominal GDP growth is 0.3 percentage point lower than in the assumptions made when the budget was approved in June, the cyclical burden estimated using the calculation method for the debt brake has risen by €2 billion to €7 billion. The budget plan envisages a net burden from financial transactions of €3 billion. If the deficits from the Energy and Climate Fund and the flood assistance fund (central government off-budget entities), which are relevant to the debt brake, of potentially around €2 billion are also included in the plan, as they were in the previous year, the forecast structural surplus would again amount to €1 billion after revision for these effects. However, on the basis of the cyclical adjustment method used by the Bundesbank, the cyclical impact on the fiscal balance is almost neutral; a slight structural deficit is thus expected.

Structural surplus still possible even if deficit of flood assistance fund is included – but very high cyclical burden forecast

The draft central government budget for 2015, which was approved by the Federal Cabinet at the beginning of July, envisaged a balance between revenue and expenditure without any net new borrowing for the first time in four-and-a-half decades. Given the very favourable conditions expected at that time, it was possible to finance new central government projects without putting undue strain on the budget. Compared with central government's draft budget, the latest tax estimate projects revenue shortfalls of only €½ billion – despite perceptibly weakened growth expectations – because deductions from tax revenue for transfers to the EU budget are now down by €2 billion. At the end of the parliamentary Budget Committee's adjustment meeting, a reassessment of expenditure growth in connection with long-term unemployment led to estimates being revised up-

After parliamentary adjustments, budget plan for 2015 still envisages no new net borrowing

⁹ According to press reports, the entire funds planned in the departmental budget are to be exhausted. However, this already includes global spending cuts and transfers from other operating expenditure to personnel expenditure.

wards by €1 billion, while payments to the statutory pension insurance scheme declined by €½ billion as a result of cutting the contribution rate. Furthermore, appropriations for interest expenditure, in particular, which were previously generous, were reduced in the wake of the significant decline in interest rates since the summer (-€1½ billion). Overall, it was therefore possible to maintain a balanced budget as set out in the coalition agreement without the need for saving measures.

Plan envisages balanced budget for 2015 in structural terms as defined in debt brake, too

Calculating the structural deficit as defined in the debt brake, central government estimated a cyclical burden of €5 billion in its autumn projection. By contrast, according to Bundesbank estimates, the impact of cyclical factors will be almost neutral. Central government's method, after deduction of the planned net relief of €1½ billion from financial transactions, thus results in a structural surplus of €3½ billion. Factoring in an unchanged deficit for the flood assistance fund and omitting the one-off burden in the 2014 budget plan caused by anticipated (one-off) shortfalls from nuclear fuel tax in the amount of €2 billion, the structural position will thus change little compared with the current year (despite a further reduction in the interest burden).¹⁰

Strive to achieve target of substantial safety margin vis-à-vis deficit ceilings

Looking at the extended planning horizon of the present financial plan, the tax estimate projects that central government revenue shortfalls will decline from €3 billion to an overall relatively moderate €1½ billion between 2016 and 2018. After presenting the tax estimate, the Federal Finance Minister also announced a package for these years that contains a total of €10 billion of additional central government investment and is to be financed without new net borrowing. Central government will need to describe how it intends to offset these budgetary burdens as part of the next decision on benchmark figures in March 2015 at the latest. Given the current uncertain situation, a structurally close-to-balance budget could be achieved, and the automatic stabilisers should be allowed to operate fully where necessary.

Based on the autumn forecast's medium-term assumption of GDP growth persistently remaining slightly above potential GDP growth, it would still make sense to remain below the deficit ceilings anchored in the debt brake. Central government debt remains very high, even if the burdens associated with it are obscured to a certain extent by the currently very low level of interest rates. Furthermore, burdens will increase as a result of demographic change. Overall, there is much to be said for factoring in a larger safety margin in order to be able to compensate for any unpleasant surprises without the need for procyclical fiscal policy. If a further increase in infrastructure investment were considered necessary, for instance, this should then be financed by providing services in a more cost-efficient manner and by shifting budget items.

Central government's off-budget entities (excluding bad banks) reported a surplus of €½ billion in the third quarter, as they had done one year previously. This was largely attributable to the pension reserve and the Restructuring Fund, which has up to now been regularly financed in the summer quarter by revenue from the bank levy (€½ billion). A deficit was recorded by the flood assistance fund, in particular, but this remained very limited at just under €¼ billion. However, outflows are likely to rise considerably until the end of 2014, mainly due to the repayment of €1 billion to the central government budget. Nevertheless, surpluses in precautionary off-budget entities for future pension burdens, the significant redemption of the Investment and Repayment Fund financed by Bundesbank profits, and the surplus in the special fund for the redemption of inflation-indexed Federal securities should have a much greater impact on the whole in 2014. Be that as it may, the surplus will be considerably down on the 2013 level (€11 billion),

Another slight surplus for off-budget entities in 2014 Q3

¹⁰ With the updated cyclical adjustment based on data from the autumn 2014 projection, which indicates a somewhat lower cyclical burden for 2014 compared with the value for the budget outturn calculated using the simplified method.

which was largely the result of the flood assistance fund being topped up (€8 billion).

State government budgets¹¹

Surplus in 2014 Q3 thanks to high tax revenue and muted expenditure growth, ...

Following a deficit increase in the first half of 2014, the situation improved again in the third quarter for state government core budgets: after recording a deficit of €1 billion one year previously, they generated a surplus of €1½ billion. The sharp rise in revenue of 4½% (€3 billion) was chiefly driven by strong tax growth of just over 5%. By contrast, expenditure went up by only just over 1% (€1 billion). Even growth in personnel expenditure remained comparatively moderate at 2½% (€½ billion), as the second stage of wage increases agreed in 2013, which came into force at the start of 2014, had not been fully applied to civil servants and retired civil servants.¹² Growth in current transfers to local government (+1%) and investment expenditure (+1½%) was still somewhat slower. In addition, other operating expenditure (-½%) and specifically interest expenditure (-11½%, or €½ billion) both fell.

... but progress made in deficit reduction not assured for year as a whole

Following this recent positive development, the full-year deficit of the state government core budgets could remain largely unchanged in year-on-year terms at €2 billion. The recent sale of asset-backed securities by BayernLB will initially bring the Bavarian state government budget €1 billion in revenue in the form of state aid repayments. At the same time, however, expenditure linked to calls on guarantees in connection with assistance provided to the Landesbank appears to be just as high.¹³

Gloomy outlook for 2015, and extensive consolidation still needed by 2020 in several federal states

State government finances could once again come under increased pressure next year. Despite a downward revision in the latest tax estimate (-€3 billion), the rise in tax revenue remains sizeable (+2½%). Moreover, additional central government funds for childcare and education (including 100% assumption of costs for student grants and loans) are planned, and favourable funding options are likely to provide

further relief for interest payments. Expenditure is expected to be placed under considerable strain, however. For example, the results of the new wage negotiations that are on the agenda will also affect payments to civil servants and retired civil servants. Wage adjustments are of particular importance, given the high proportion of state government budgets allocated to expenditure on personnel. In light of the highly divergent fiscal positions of the federal states, as well as the major differences vis-à-vis their economic strength and price levels, it would stand to reason to differentiate between the federal states more than at present in this regard.¹⁴ The current transfers to local government are likely to continue rising at an appreciable rate. Overall, it is particularly crucial for federal states with high financing deficits to promptly address their consolidation requirements, which need to be met by 2020. Moreover, consistent deficit reduction should not be limited to satisfying debt brake requirements; instead, the aim should be to make tangible progress working towards safety margins vis-à-vis a balanced budget, as already achieved by some federal states. Although, as a general rule, the east German states currently find themselves in a favourable financial position, they also need to take into account the fact that special-purpose grants, which are still high, will be discontinued over the next few years. In this respect, regarding current budget surpluses as leeway for future expenditure increases would create a number of problems.

¹¹ The development of local government finances in the second quarter of 2014 was analysed in greater detail in the short articles in the Bundesbank's October 2014 Monthly Report. These are the most recent data available.

¹² The Constitutional Court of North Rhine-Westphalia rejected the state ruling regarding a heavily muted increase in civil servant salaries for pay grades A 11 and higher as unconstitutional. A larger retroactive increase was later agreed for these groups, which added €½ billion to the budget burden. However, it would appear that payment is still outstanding.

¹³ See Bavarian State Ministry of Finance, Regional Development and Regional Identity, Press Release No 421 of 30 October 2014.

¹⁴ See Deutsche Bundesbank, The reform of financial relations in the German federal system, Monthly Report, September 2014, pp 33-52.

■ Social security funds¹⁵

Statutory pension insurance scheme

Financial improvement slows down in 2014 Q3

The statutory pension insurance scheme recorded a deficit of just over €½ billion in the third quarter, which was around half as high as the previous year's figure. However, financial improvement was even more pronounced in the preceding quarters. Revenue grew strongly by 4%, which mainly reflects ongoing favourable employment and wage developments. But growth in expenditure accelerated more markedly to 3%, particularly owing to the higher pension increase in year-on-year terms (1.67% in western Germany and 2.53% in eastern Germany).

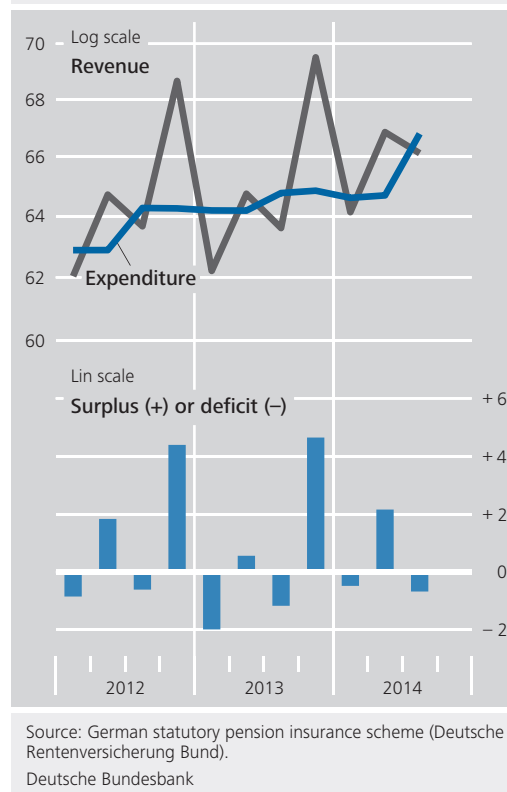
Surplus in 2014 adds to contribution rate reduction potential

The benefit increases agreed in spring 2014 (particularly mothers' pensions and full pensions at 63) have thus far increased spending only minimally, with a sizeable catch-up effect now anticipated until the end of 2014. Nevertheless, another surplus is expected for the year as a whole owing to the stable, strong growth in contribution receipts. This is expected to play a role in pushing the scheme's financial reserves to over the upper limit of 1.5 times its monthly expenditure at the end of 2015: under current legislation, this would mean lowering the contribution rate by 0.2 percentage point to 18.7% at the turn of the year. Although benefit increases mean that a deficit and associated decline in reserves are on the cards for 2015, the financial reserves are still likely to remain above the upper limit if the contribution rate is not lowered. In subsequent years, however, the lower contribution rate will accelerate the depletion of the reserves, and the minimum level of reserves of 0.2 times the scheme's monthly expenditure will be reached sooner. Thereafter, if there are no changes to benefits legislation, there will likely be prolonged pressure to raise the contribution rate due to the demographic outlook.

As a result of changes in the methodology for the national accounts, particularly due to the in-

Finances of the German statutory pension insurance scheme

€ billion, quarterly data



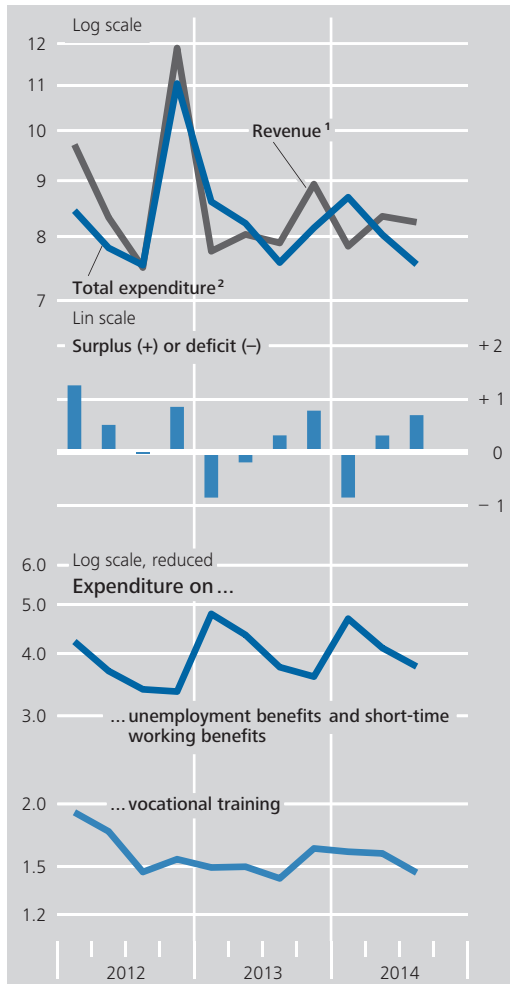
clusion in the statistics of disabled persons employed in workshops, *per capita* earnings are considerably lower than they were in the past. Under current legislation, this is to be taken into account in the pension increase, which will consequently be around 1 percentage point lower in mid-2015. For this reason alone, the contribution rate can be set 0.1 percentage point lower. However, the pension level will only be determined by national accounts earnings in the short term and on a temporary basis. The adjustment formula contains a correction factor; this ensures that the pension increase and level are determined, approximately, by the income of persons in the statutory pension insurance scheme who are subject to compulsory insurance contributions rather than by national accounts earnings. The downward adjustment in 2015 will

Revision of national accounts results in temporary reduction of pension increases

¹⁵ The financial development of the statutory health and public long-term care insurance schemes in the second quarter of 2014 was discussed in the short articles of the Bundesbank's September Monthly Report. These are the most recent data available.

Finances of the Federal Employment Agency

€ billion, quarterly data



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

thus be reversed in the following year by a correspondingly higher pension increase. Pensions will therefore only be lower for one year.¹⁶ Even factoring in this dampening effect, next year's pension increase could be substantial at about 1½%. In view of the additional benefits that have been introduced, total pension expenditure in 2015 will increase at one of the highest growth rates recorded since the mid-1990s. In principle, the statutory pension insurance scheme could be shielded from the temporary effects of national accounts revisions if the level of income subject to compulsory contributions were directly relevant to the adjustment. How-

ever, it would then be necessary to postpone the mid-year adjustment date until the end of the year due to the late availability of data.

Federal Employment Agency

At just over €½ billion, the surplus recorded by the Federal Employment Agency in the third quarter was up by half on the year. Revenue grew by almost 4½%, with expenditure even ½% below its 2013 level. This was primarily attributable to the gradual phasing-out of subsidies for partial retirement schemes and to reduced insolvency benefit payments. By contrast, payments for unemployment insurance benefit (I) remained virtually unchanged compared with 2013, while spending on vocational training increased slightly once again.

Improvement in 2014 Q3

The Federal Employment Agency recorded a slight surplus for the first three quarters as a whole. A considerable surplus is expected in the fourth quarter owing to the usual final-quarter bonuses, which means that the result for the year as a whole is likely to be far more favourable than the figure of just under €½ billion (including civil servant pension funds) estimated in the Federal Employment Agency's budget plan. The key factors behind this improved performance are unexpectedly high contribution receipts, on the one hand, and lower-than-anticipated spending on active labour market policy measures, on the other. By comparison, payments for unemployment insurance benefit (I) marginally exceeded the target figure. All in all, the current situation, which is characterised by a persistently low level of unemployment and a continued rise in employment (particularly employment subject to social security contributions), is financially beneficial for the Federal Employment Agency. This trend is likely to continue next year as well.

Result for 2014 as a whole more favourable than estimated in budget plan

¹⁶ An example of a similar effect, albeit the other way around, was seen in 2010 when legislators intervened to prevent a pension cut (in line with reduced per capita earnings); instead, it was ruled that the cut would be implemented over time by reducing subsequent increases.