

State government budgets: analysis of detailed results for 2018

State government finances have been in good shape in recent years. Last year saw their core budgets close with a surplus of €13½ billion. In structural terms (that is, particularly after adjusting the outturns for financial transactions and cyclical effects) and adding off-budget entities and local government, the surplus came to as much as €33½ billion, which is €9½ billion higher than the 2017 outturn. Every federal state showed a structural surplus.

That said, major differences still persist among the federal states. Low interest rates are easing the added strains imposed by above-average debt. Even so, widely differing interest expenditure is still clearly a major factor. Only some of Germany's state governments are spending less on other fiscal items or generating higher revenue in order to fully offset their heavier interest burden. Tax revenue levels remain within a relatively narrow range among the non-city states, as they do for the city states, thanks to the large-scale redistribution of revenue under the state government revenue-sharing scheme. This scheme makes allowance for the city states having additional needs. Against this background, they have far higher levels of revenue and expenditure relative to the size of their populations.

The available financial statistics data have been specifically prepared to better detect how each state government's revenue, expenditure and fiscal balances evolved last year. The data used should nevertheless be interpreted with caution. For example, financial transactions (such as acquisitions of equity) are defined too broadly in some instances, producing structural outturns which sometimes overstate the economic reality. This matters, not least because of the debt brake, which is generally based on these structural indicators. All in all, a great deal still needs to be done to improve the underlying statistical data, such that the results they deliver are more informative and more readily comparable across federal states. The onus here is particularly on the Stability Council, which plays a crucial role in fiscal surveillance in Germany.

State government fiscal data and their comparability

Quarterly reports available quickly, but lack some data inputs

The Bundesbank's Monthly Report comments every three months (in February, May, August and November) on how state government budgets as a whole are performing. This is based on the monthly cash figures for the core budgets. Equivalent data on off-budget government entities and local government are not available until a later date.

Annual reports based on better statistical data because they ...

An article in the October 2018¹ edition of the Bank's Monthly Report gave a more detailed account of fiscal developments in the individual federal states, with the data used there having been prepared specifically for this purpose. The Bank now intends to make summaries of the previous year's budget outturns and a commentary on selected aspects a regular feature in its Monthly Report – starting with the present article on developments in 2018. The aim here is to present the outturns in a more informative and harmonised manner, such that the data better reveal how fiscal results have evolved over time and across state governments. These regular articles will include off-budget entities, reclassify some expenditure and revenue items and adjust the fiscal data to take account of special factors with a particular focus on "adjusted structural outturns", which are calculated as follows:²

... include off-budget entities and local government, ...

– Entities which are not included in the core budget but form part of the government sector (off-budget entities) and local government are assigned to the respective state government to take account of the fact that federal states transfer tasks to these entities to a varying extent. Off-budget entities include reserves for infrastructure development and civil servant pensions, higher education institutions and construction units, but not market-oriented enterprises under state ownership. Furthermore, including local government makes the non-city states more readily comparable with the city states,

which always include this level of government in their calculations.

- Financial transactions reported in the financial statistics are excluded from the outturns. Fundamentally, financial transactions merely reallocate financial assets, which means that they are, in effect, budget-neutral. For example, cash expenditure in the form of a loan (= increase in receivables) or cash revenue from the sale of shares in an undertaking (= reduction in equity holdings) is disregarded, so it leaves the balance unchanged. Many debt brakes (including that of central government) adjust for financial transactions in much the same way. The national accounts, which form the basis for calculating the Maastricht deficit, likewise exclude financial transactions from the fiscal balance. However, unlike the financial statistics, the national accounts do not closely follow the classification in the budget, but instead reflect the economic nature of the transactions. For example, if a federal state offsets repeated losses at an entity, the national accounts would post a deficit-increasing transfer, even if the budget reports this as an acquisition of equity (financial transaction) (see also p. 41 and pp. 44 f.). Appropriate and desirable as such adjustments may be, they need to be examined more thoroughly on a case-by-case basis, which would go beyond the scope of this article.
- Financial statistics data include the state government revenue-sharing scheme with all the cash flows during the reporting year. In this article, the data are adjusted for the lagged settlement of payments under the scheme. These settlement payments are posted to corresponding reporting years on an accruals basis so as to eliminate distortions in cross-state comparisons and over time.

... exclude financial transactions, ...

... account for settlement payments in the revenue-sharing scheme on an accruals basis, ...

¹ See Deutsche Bundesbank (2018a), pp. 13-47.

² For details, see Deutsche Bundesbank (2018a), pp. 19-22.

... eliminate cyclical effects, and ...

– Data are adjusted for cyclical effects, rendering them more comparable over time. This is done using the Bundesbank’s cyclical adjustment procedure, which is currently based on the spring 2019 macroeconomic forecast. As a result of this, the state government outturns are also comparable with each other, which is not the case with the debt brake surveillance work of the Stability Council.³

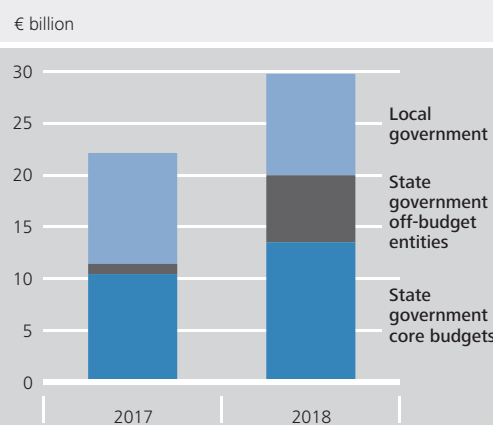
... adjust for one-off effects

– Data should ideally also be adjusted for any sizeable one-off effects (relative to the budget volume of the federal state in question). Otherwise, they will overshadow underlying developments. Suitable data are available only for the core state government budgets in 2018 (monthly cash statistics of the Federal Ministry of Finance). However, adjusting the data for these payments will probably eliminate the most substantial one-off effects.

Statistical data need to be improved

Yet for all such adjustments, the underlying data still have some shortcomings, and these also make it more difficult to compare the calculated fiscal balances. One common shortcoming is the absence of key information, which prevents the data from reflecting economic substance as rigorously as the national accounts figures (which are not available at a federal state level). More needs to be done on this front, then, to boost the informative value of the data. The onus here is particularly on the Stability Council, given its role in monitoring compliance with the national debt brakes and the EU fiscal regime in Germany. This function ought to make the Council especially keen to have a comprehensive and comparable set of underlying data, since they are, after all, used for the reports on the budgetary situation and the fiscal forecasts on which the Council’s decisions are based. The independent advisory board of the Stability Council, whose members include an expert from the Bundesbank, has repeatedly called for improvements to the data quality.⁴

Breakdown of the state and local government surplus*



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data.
 Deutsche Bundesbank

Budget outturn of federal states as a whole

Core state government budgets posted a surplus of €15½ billion in the monthly statistics at year-end 2018. Later closing entries reduced this figure to €13½ billion. Many federal states topped up their reserves with the closing entries, which in turn boosted the surpluses of off-budget entities. The latter closed the year on aggregate with a surplus of €6½ billion. Local government likewise recorded a high cash surplus of €9½ billion. Altogether, the surplus for state and local government came in total to €29½ billion (see the table on pp. 42 f., number 1⁵). This was €7½ billion up on the figure for 2017 (see the table on pp. 48 f., number 1).

Overall surplus of state and local governments very high and up further

The picture presented by the structural outturn – that is, after adjustment for financial transactions, and cyclical and one-off effects – is more favourable still.

Structural outturn better still: ...

³ See Deutsche Bundesbank (2019), p. 96.

⁴ Most recently in Independent advisory board to the Stability Council (2019), pp. 19-21.

⁵ The data in the tables are reported on a per inhabitant basis.

Budgetary figures for the federal states (including local government) in 2018*

Item	BW	BY	BB	HE	MV	NI	NW	RP
Fiscal balance in € million	4,404	6,558	989	1,620	809	3,725	5,109	1,453
Population in millions (at mid-2018)	11.1	13.0	2.5	6.3	1.6	8.0	17.9	4.1
Derivation of adjusted structural balances	€ per inhabitant							
Fiscal balance (1)	399	503	394	259	503	467	285	356
Financial transactions (net) (2)	- 33	- 73	- 15	- 98	- 129	- 72	- 57	5
Settlement of payments under the state government revenue-sharing scheme (3)	21	- 10	- 54	30	23	6	- 15	114
Adjusted balance (4) = (1) - (2) + (3)	453	566	355	388	655	545	328	465
Cyclical component (5) ¹	52	52	48	54	48	49	52	50
One-off effects (6)		61				125		
Adjusted structural balance (7) = (4) - (5) - (6)	400	452	307	333	607	371	276	415
Memo item: After deduction of consolidation assistance
Net interest burden ² (8)	140	- 7	117	205	113	137	175	213
Adjusted structural primary balance (9) = (7) + (8)	541	445	424	539	720	508	450	628
Expenditure, revenue and debt	€ per inhabitant							
Total expenditure (10)	6,495	6,955	6,529	7,296	6,149	5,982	6,809	5,873
of which:								
Personnel expenditure (11)	2,732	2,605	2,652	2,814	2,531	2,618	2,651	2,630
of which: Expenditure on current staff (11a)	2,013	1,928	2,249	2,135	2,093	1,954	1,948	1,963
of which: Pension benefits ³ (11b)	719	677	404	679	438	664	704	666
Other operating expenditure (12)	1,058	1,159	1,230	1,410	1,250	1,063	1,480	1,238
Interest expenditure (13)	162	70	134	232	160	186	231	239
Transfers to households (14)	650	743	804	990	879	960	1,041	807
Fixed asset formation (15)	658	817	426	470	607	386	360	385
Adjusted total expenditure ⁴ (16)	6,126	6,313	6,401	6,776	5,632	5,870	6,669	5,823
Less interest expenditure (16a)	5,964	6,243	6,267	6,544	5,472	5,685	6,439	5,584
Less interest expenditure and fees (16b)	5,510	5,780	5,635	5,783	4,985	5,258	5,490	5,030
Total revenue (17)	6,891	7,458	6,922	7,557	6,652	6,451	7,094	6,230
of which:								
Tax revenue ⁵ (18)	5,011	5,060	4,555	5,145	4,577	4,701	4,905	4,716
Fees (19)	454	462	632	761	486	426	948	553
Transfers from central government ⁶ (20)	383	375	894	528	940	435	476	424
Adjusted total revenue ⁴ (21)	6,576	6,879	6,756	7,166	6,287	6,417	6,997	6,288
Less fees (21a)	6,122	6,416	6,124	6,405	5,801	5,991	6,049	5,735
Debt (22)	5,190	2,210	7,529	9,356	7,248	9,571	12,705	12,581
Calculated average rate of interest (%) ⁷ (23)	3.01	2.88	1.72	2.33	2.22	1.95	1.75	1.87
Tax rates and multipliers	%							
Real estate acquisition tax (24)	5.0	3.5	6.5	6.0	5.0	5.0	6.5	5.0
Real estate tax B ⁸ (25)	397	394	408	473	427	431	570	402
Local business tax ⁸ (26)	367	375	319	413	380	407	451	378
Other data								
Personnel (full-time equivalents per 1,000 inhabitants) ⁹ (27)	33.8	30.7	35.1	34.0	31.0	32.3	32.3	33.1
Recipients of pension benefits (per 1,000 inhabitants) ¹⁰ (28)	13.4	12.7	4.4	14.0	4.2	13.9	13.7	13.5
A 13 annual gross civil servant pay (in €1,000) ¹¹ (29)	62.5	65.5	61.5	60.8	62.1	62.0	60.7	60.5

Sources: Federal Statistical Office, quarterly cash statistics (including post-bookings); Bundesbank calculations. * Core budgets and off-budget entities. Abbreviations: BW – Baden-Württemberg, BY – Bavaria, BB – Brandenburg, HE – Hesse, MV – Mecklenburg-West Pomerania, NI – Lower Saxony, NW – North Rhine-Westphalia, RP – Rhineland-Palatinate, SL – Saarland, SN – Saxony, ST – Saxony-Anhalt, SH – Schleswig-Holstein, TH – Thuringia, BE – Berlin, HB – Bremen, HH – Hamburg. **1** Data pursuant to the Bundesbank's cyclical adjustment proced-

ure based on figures from the spring 2019 macroeconomic forecast. **2** Interest expenditure less interest income. **3** Including healthcare subsidies and refunds to central government for legacy claims for pension benefits in eastern Germany. **4** Excluding financial transactions and payments under the state government revenue-sharing scheme made by states providing contributions. Payments under the state government revenue-sharing scheme are settled on the income side. **5** Taxes and compensation for motor vehicle tax; state government revenue-

SL	SN	ST	SH	TH	BE	HB	HH	Total	Item
374	2,751	775	- 1,696	1,125	2,100	172	- 550	29,719	Fiscal balance in € million
1.0	4.1	2.2	2.9	2.1	3.6	0.7	1.8	82.9	Population in millions (at mid-2018)
								€ per inhabitant	Derivation of adjusted structural balances
377	675	350	- 586	524	579	252	- 300	359	Fiscal balance (1)
8	225	- 55	- 1,102	2	- 76	- 119	- 1,793	- 118	Financial transactions (net) (2)
- 16	6	8	30	- 2	- 125	- 4	- 40	0	Settlement of payments under the state government revenue-sharing scheme (3)
353	456	413	546	520	530	367	1,453	477	Adjusted balance (4) = (1) - (2) + (3)
49	48	47	50	48	66	68	72	52	Cyclical component (5) ¹
								22	One-off effects (6)
304	408	367	496	472	464	299	1,381	403	Adjusted structural balance (7) = (4) - (5) - (6)
41	.	330	468	.	442	- 142	.	.	Memo item: After deduction of consolidation assistance
426	13	133	160	163	330	861	280	147	Net interest burden ² (8)
730	421	499	656	635	794	1,160	1,661	550	Adjusted structural primary balance (9) = (7) + (8)
								€ per inhabitant	Expenditure, revenue and debt
5,938	6,043	6,730	7,318	5,916	8,109	9,341	11,617	6,656	Total expenditure (10)
									of which:
2,832	2,620	2,615	2,478	2,518	3,051	3,252	3,511	2,692	Personnel expenditure (11)
2,047	2,247	2,189	1,828	2,123	2,322	2,364	2,520	2,036	of which: Expenditure on current staff (11a)
785	373	425	650	394	729	888	991	656	of which: Pension benefits ³ (11b)
1,261	1,134	1,600	1,036	952	2,482	2,190	3,245	1,347	Other operating expenditure (12)
439	54	184	213	189	340	1,037	448	195	Interest expenditure (13)
627	733	611	912	725	828	1,053	841	850	Transfers to households (14)
285	630	475	526	514	345	331	735	523	Fixed asset formation (15)
5,832	5,864	6,644	6,177	5,876	7,953	9,086	9,698	6,447	Adjusted total expenditure ⁴ (16)
5,393	5,810	6,461	5,964	5,687	7,613	8,049	9,250	6,252	Less interest expenditure (16a)
4,960	5,326	5,941	5,478	5,350	6,913	7,273	7,068	5,605	Less interest expenditure and fees (16b)
6,314	6,712	7,082	6,731	6,440	8,687	9,594	11,317	7,014	Total revenue (17)
									of which:
4,744	4,530	4,532	4,719	4,579	6,275	6,420	6,903	4,987	Tax revenue ⁵ (18)
433	485	520	487	337	700	777	2,181	646	Fees (19)
721	743	1,168	591	803	906	1,118	644	542	Transfers from central government ⁶ (20)
6,184	6,314	7,059	6,723	6,396	8,482	9,454	11,151	6,923	Adjusted total revenue ⁴ (21)
5,751	5,830	6,539	6,236	6,058	7,782	8,678	8,970	6,277	Less fees (21a)
17,903	2,574	10,428	13,173	8,524	16,468	35,024	21,181	9,176	Debt (22)
2.41	1.90	1.70	1.74	2.10	2.05	3.05	2.27	2.08	Calculated average rate of interest (%) ⁷ (23)
								%	Tax rates and multipliers
6.5	3.5	5.0	6.5	6.5	6.0	5.0	4.5	5.4	Real estate acquisition tax (24)
439	498	419	393	435	810	687	540	472	Real estate tax B ⁸ (25)
445	422	363	380	408	410	469	470	402	Local business tax ⁸ (26)
									Other data
32.0	34.5	35.1	30.2	34.7	40.4	41.2	37.0	33.2	Personnel (full-time equivalents per 1,000 inhabitants) ⁹ (27)
16.9	2.9	5.0	13.3	4.8	17.0	22.3	19.7	12.4	Recipients of pension benefits (per 1,000 inhabitants) ¹⁰ (28)
60.7	64.1	62.5	59.8	62.4	60.6	61.2	61.7	61.8	A 13 annual gross civil servant pay (in €1,000) ¹¹ (29)

sharing scheme and general supplementary central government grants according to provisional settlement figures. **6** Excluding general supplementary central government grants and compensation for motor vehicle tax. **7** Interest expenditure as a percentage of debt at the end of the previous year. **8** Revenue-weighted average local government multipliers for 2018. **9** Public sector personnel working for state and local government on 30 June 2017. Not including areas in which non-public sector enterprises normally operate (such as university and other hospitals,

nutrition, utilities, transport, finance). **10** Recipients of pension benefits at state and local government level on 1 January 2018. **11** Total of annual basic salary at the final level of the pay grade, general job-based allowance or structural allowance, special payment(s), assuming a 40-hour week. Total column shows the un-weighted mean here. The A 13 pay grade applies in particular to many school teachers. Source: DGB Besoldungsreport, March 2018.

... eliminating significant burden of financial transactions ...

Financial transactions weighed heavily on the outturn. The standard budget categories under the financial statistics framework showed a net burden to the tune of almost €10 billion (see the table on pp. 42 f., number 2). Eliminating such transactions leaves a reported surplus of €39½ billion, i.e. €11½ billion more than in the previous year. This is a case in point with regard to shortcomings in the underlying statistical data. From an economic vantage point, part of the adjustment item does not represent a shift within financial assets, which means that it should not be considered as a financial transaction. Half of the reported net burden from financial transactions was due to guarantees in respect of HSH Nordbank, for example. But this ultimately constitutes an absorption of loss. Probably, other losses recorded by unprofitable entities have been absorbed and posted in the financial statistics as an acquisition of assets, too. At all events, the recognition of the guarantees in the financial statistics will be improved as from the 2019 reporting year. From now on – as in the national accounts – they will no longer be posted as financial transactions.

... outweighs relief from cyclical factors ...

The cyclical component provided continuing tailwinds for state government finances in 2018, coming in at €4½ billion (see the table on pp. 42 f., number 5), which was only slightly up on the previous year's figure.⁶ The balance adjusted for the cyclical component declined accordingly.

The cyclical component identified here differs significantly, in some cases, from the figures calculated by numerous federal states using their own cyclical adjustment procedures. In particular, the tax-smoothing procedures are less suited to eliminating cyclical effects and thus bringing structural growth trends to light. Added to this is the fact that differences in the specific methods employed by the individual federal states make it all but impossible to compare the results properly.⁷

In 2018, two car makers were ordered to pay fines totalling €2 billion into the state government budgets of Lower Saxony and Bavaria. The Federal Ministry of Finance reports these amounts as significant one-off effects (see the table on pp. 42 f., number 6).⁸ Similar one-off effects were not listed for earlier years, nor are any such effects immediately apparent, which is why no further adjustments were made to the outturn for 2017.

Overall, then, the budgetary situation in the federal states (and their local governments) was exceptionally good last year. Adjusted for the aforementioned factors, the structural surplus (see the tables on pp. 42 f., number 7 and pp. 48 f., number 7) rose significantly, climbing from €24 billion in 2017 to €33½ billion in 2018 (1.0% of GDP). The €1½ billion decline in the interest burden played no more than a minor part in this improvement. The adjusted structural primary surplus (that is, the structural fiscal balance adjusted for the net interest burden; see the table on pp. 48 f., number 9) increased by €8 billion.

... and one-off revenue from fines

Overall structural surplus high and showing strong growth

2018 outturns in individual federal states

Given this exceptionally favourable overall outturn, all the federal states registered an adjusted structural surplus for the first time (see the table on pp. 42 f., number 7; to improve comparability across federal states, the variables in question are shown on a per inhabitant basis).⁹ Every state government posted a strong adjusted structural surplus, with Hamburg

Clear structural surplus in all federal states

⁶ Compared with the data reported in the October 2018 edition of the Monthly Report, the cyclical component in 2017 is €3 billion higher due to revisions.

⁷ Federal states' cyclical adjustment procedures are discussed in Deutsche Bundesbank (2017), p. 38 and p. 41.

⁸ The aforementioned guarantee charges for HSH Nordbank are also shown there, but they have already been eliminated due to their classification as financial transactions.

⁹ A population-weighted federal state average is used for the national reference figure. This means that high-population federal states have a greater weight.

achieving by far the strongest result, which was three times the German average, while North Rhine-Westphalia was at the other end of the table, at roughly two-thirds of the national reference figure. Results were somewhat better in Bremen, Saarland and Brandenburg.

Comparability restricted by statistical difficulties

The statistical difficulties discussed above are also an issue when it comes to comparing data across federal states. For instance, some outturns are overstated in cases where financial transactions that were eliminated on the expenditure side were not used to acquire assets of value. Also, a lack of data means that it is not possible to adjust for any one-off effects at the local government level or in off-budget entities.

Examples of overstated acquisitions of equity ...

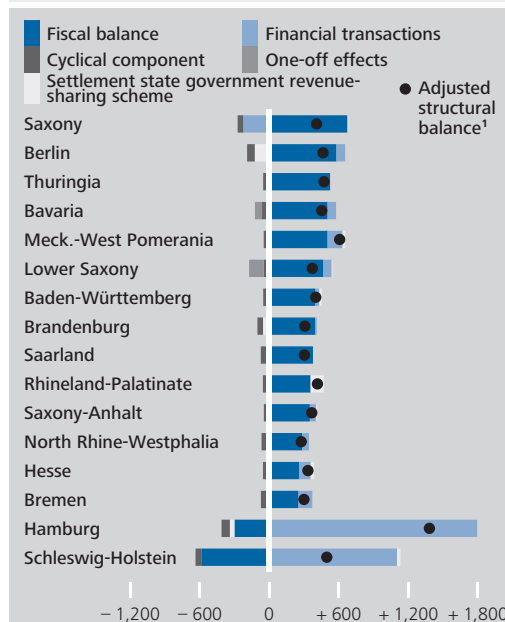
For an illustration of these problems, one need only look at Bremen and Saarland, two federal states which receive consolidation assistance on condition that they limit their structural deficit. Bremen, for example, made a large capital injection into a hospital enterprise in 2018. This transaction is recognised in the city state's budget – and in the financial statistics based on those data – as an acquisition of equity. However, that equity is not expected to generate an adequate return in the form of profit distributions or capital appreciation. This is why this transaction does not represent an acquisition of financial assets under the rules for Germany's national accounts but, instead, constitutes a capital transfer that affects the fiscal balance. In Saarland, meanwhile, the state theatre (Theater Saarbrücken) has been receiving capital injections for many years to offset its losses. Apparently, these capital injections are nonetheless being posted as acquisitions of equity in the reported state government core budget figures.¹⁰ In principle, capital transfers used to absorb losses should already be recorded as such in the financial statistics.

... and loans

Another example may be found in North Rhine-Westphalia, where major guarantee calls by the former WestLB were apparently routinely posted as financial transactions (loans) on a

Derivation of the adjusted structural balance of state and local government in 2018*

€ per inhabitant



Sources: Federal Statistical Office and Bundesbank calculations. * Financial statistics data. ¹ Fiscal balance adjusted for financial transactions, settlement of payments under the state government revenue-sharing scheme, cyclical and one-off effects. Deutsche Bundesbank

number of occasions in the past, even though no financial assets of value were acquired as a result. The same goes for the aforementioned guarantee call in connection with HSH Nordbank in Hamburg and Schleswig-Holstein. Starting this year, however, guarantee calls will be recognised in the financial statistics in the same way as they are shown in the national accounts, i.e. as capital transfers. This means they will affect the structural outturn.

The Stability Council monitors what progress the federal states in receipt of consolidation assistance are making in consolidating their budgets.¹¹ It does so adopting an approach

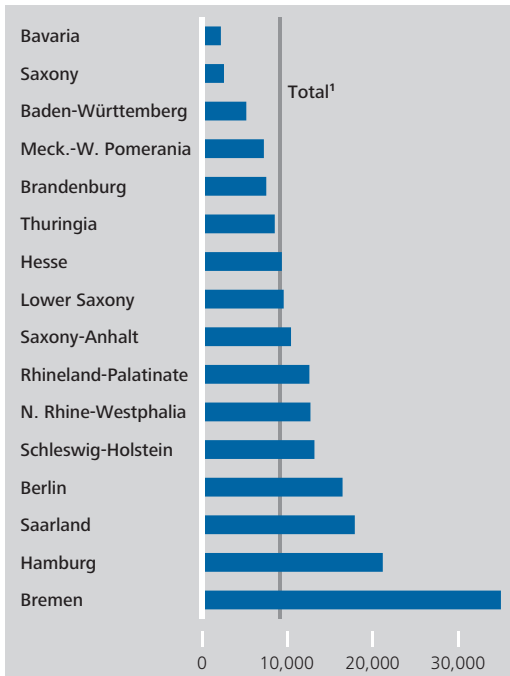
Without consolidation assistance, a structural deficit in Bremen

¹⁰ The capital injections even increase the reported acquisitions of equity in Saarland's consolidated state outturn (including the theatre as an off-budget entity). This topic is discussed at greater length in the box on pp. 51f.

¹¹ The federal states of Berlin, Bremen, Saarland, Saxony-Anhalt and Schleswig-Holstein are recipients of consolidation assistance for the fiscal years of 2011 to 2019 on condition that they continue the agreed reduction paths for their structural budget deficits.

State and local government debt in 2018*

€ per inhabitant



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data. Debt in the non-public and public sectors (non-consolidated). **1** All state and local governments.
 Deutsche Bundesbank

that adjusts the structural outturns for any consolidation assistance (granted only on a temporary basis). Applying the same approach to Saarland would shrink that federal state's adjusted structural surplus to a smaller residual, while Bremen would post a distinct deficit.

Debt levels and interest burdens vastly different

Expenditure on interest varies a great deal from one federal state to another (see the table on pp. 42 f., number 13, and the chart on p. 46), mainly because they each have different levels of debt (see the table on pp. 42 f., number 22). At the end of 2018, for instance, per capita debt was almost four times the national average in Bremen, but less than one-third of the national reference figure in Bavaria and Saxony.

Most federal states paid down a notable volume of debt in 2018 (see the table on pp. 48 f.,

number 22). Bremen, by contrast, saw a further marked increase in its level of debt, even though it had no fiscal deficit to cover. Bremen did, however, assume the debt of one institution of higher education, a transaction which is recognised as a capital transfer in the national accounts but not recorded at all on the expenditure side of the financial statistics. But this fact alone fails by some margin to explain the growth in Bremen's stock of debt. Indeed, it would appear that Bremen, facing an impending need for temporary funding, took out additional (mostly non-interest-bearing) cash advances. Debt levels rose somewhat more quickly still in Hamburg, chiefly because the guarantees issued in respect of HSH Nordbank were credit-financed. At the same time, it would appear that funds were set aside. With the exception of Hesse and North Rhine-Westphalia, the fiscal balance (see the table on p. 42 f., number 1) will have overstated the evolution of debt levels. Hesse saw its debt decline largely owing to the debt relief that was provided by the state-owned WIBank for cash advances taken out by local government. In effect, responsibility for this debt has been transferred to a newly established off-budget entity (the "Hessenkasse"). However, owing to the structure chosen, the underlying debt statistics used here (Federal Statistical Office, Fachserie 14, Reihe 5) no longer include this debt, though they do draw attention to this fact.¹²

Significant discrepancies in some cases between budget outturn and change in debt level

Local governments in other federal states are still highly indebted with cash advances in some cases. The federal states of Saarland, Rhineland-Palatinate and North Rhine-Westphalia, for instance, have outstanding local government cash advances of well above €1,000 per capita on average. In July, as a conclusion from the work of the Commission on Equivalent Living Conditions, the commission members from the Federal Government floated the general prospect of granting central government assistance, albeit conditional on a

Local government legacy debt from cash advances a major challenge for federal states in question

Different debt levels, so wide divergence in interest expenditure

¹² This debt is added for the purpose of calculating the Maastricht debt level.

cross-state consensus being reached, which appears unlikely at present. Ultimately, the onus of responsibility for local government finances is not on central government, but on the individual federal states. The latter oversee local government budgets and run the local government revenue-sharing scheme. The positive fiscal situation in the federal states should make it easier for them to quickly roll out programmes like the one in Hesse.

Risk premiums not responsible for differences in average interest rates

Like debt levels, there are also variations in the calculated average rates of interest (see the table on pp. 42 f., number 23) paid by the state governments, although such differences are of less significance. It would seem that such average interest rates are not founded on risk premiums charged for exceptionally high levels of debt – rather, the key factors are differences in interest rate fixation periods, in the percentage of loans taken out during years when rates were low, and in hedging operations.

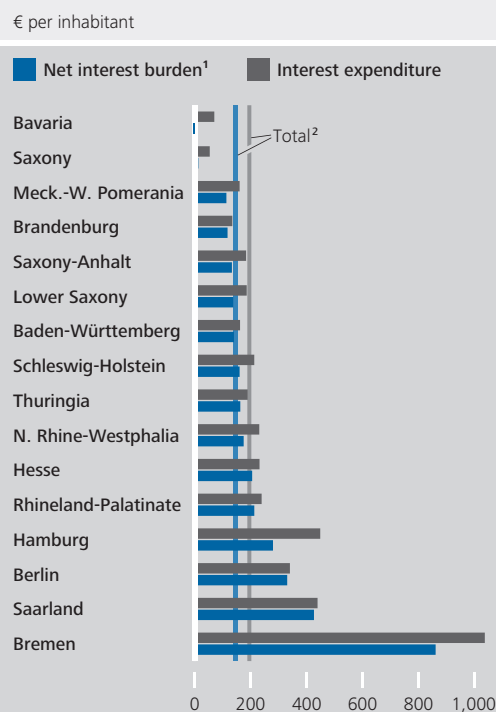
Earnings from interest income need to be offset

High debt servicing costs can look somewhat less substantial when they are offset by returns on assets. The resulting net interest burden shows interest expenditure less interest income (there is no adjustment for other returns on assets, such as dividends, because they are not reported consistently as a separate item in the financial statistics). As shown in the table on pp. 42 f., number 8, the net interest burden was in fact slightly negative in Bavaria and only slightly positive in Saxony, while at the other end of the scale, Bremen was quite some way behind Saarland, despite its high interest income. The figure for Berlin is also well above the average. By contrast, Hamburg's sizeable interest income offset some of the city state's high interest expenditure.

The bigger the interest burden, the higher the structural primary surpluses tend to be

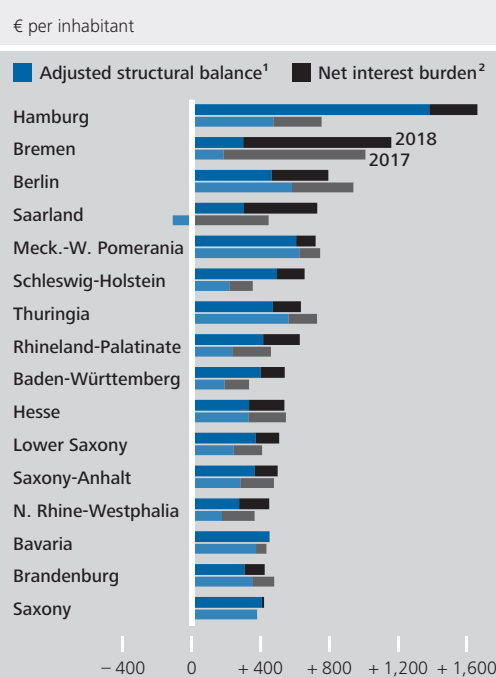
Federal states faced with higher interest burdens turned out to be more frugal elsewhere in their budgets last year. This explains why the adjusted structural primary balances (i.e. the structural balance excluding the net interest burden, see the table on pp. 42 f., number 9) were mostly better for those federal states with

State and local government interest burden in 2018*



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data. **1** Interest expenditure less interest income. **2** All state and local governments.
 Deutsche Bundesbank

Adjusted structural primary balance of state and local government*



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data. **1** Fiscal balance adjusted for financial transactions, settlement of payments under the state government revenue-sharing scheme, cyclical and one-off effects. **2** Interest expenditure less interest income.
 Deutsche Bundesbank

Budgetary figures for the federal states (including local government) in 2018 compared with the previous year*

Item	BW	BY	BB	HE	MV	NI	NW	RP
Fiscal balance in € million	3,027	987	81	36	- 253	1,874	2,427	- 73
Derivation of adjusted structural balances	€ per inhabitant							
Fiscal balance (1)	273	74	31	5	- 157	234	135	- 19
Financial transactions (net) (2)	69	- 103	29	3	- 113	- 22	14	1
Settlement of payments under the state government revenue-sharing scheme (3)	6	- 37	- 45	1	27	- 5	- 21	201
Adjusted balance (4) = (1) - (2) + (3)	210	140	- 43	2	- 17	251	101	182
Cyclical component (5) ¹	1	0	2	0	2	0	1	2
One-off effects (6)		61				125		
Adjusted structural balance (7) = (4) - (5) - (6)	209	79	- 44	3	- 19	127	100	180
Net interest burden ² (8)	- 2	- 67	- 11	- 12	- 7	- 27	- 15	- 12
Adjusted structural primary balance (9) = (7) + (8)	207	11	- 55	- 9	- 26	99	85	168
Expenditure, revenue and debt	€ per inhabitant							
Total expenditure (10)	95	468	218	213	277	262	118	35
of which:								
Personnel expenditure (11)	104	95	115	134	77	99	116	85
of which: Expenditure on current staff (11a)	63	61	92	100	52	71	78	61
of which: Pension benefits ³ (11b)	41	34	23	34	25	27	38	24
Other operating expenditure (12)	17	124	22	62	26	85	- 9	13
Interest expenditure (13)	- 6	- 13	- 10	- 10	- 7	- 14	- 19	- 45
Transfers to households (14)	3	33	14	- 6	- 9	20	- 3	11
Fixed asset formation (15)	- 35	83	31	63	73	15	44	14
Adjusted total expenditure ⁴ (16)	130	408	267	308	169	230	152	78
Less interest expenditure (16a)	136	421	277	318	176	244	171	123
Less interest expenditure and fees (16b)	114	406	258	274	179	196	116	114
Total revenue (17)	369	541	249	221	121	498	254	17
of which:								
Tax revenue ⁵ (18)	269	312	192	229	249	278	205	270
Fees (19)	22	14	19	44	- 3	47	55	9
Transfers from central government ⁶ (20)	4	- 21	- 54	19	- 68	- 8	7	- 9
Adjusted total revenue ⁴ (21)	341	548	224	313	152	484	253	260
Less fees (21a)	319	534	205	269	155	436	198	250
Debt (22)	- 210	- 232	- 290	- 632	38	3	- 503	- 244
Calculated average rate of interest (%) ⁷ (23)	0.25	- 0.21	- 0.08	- 0.02	- 0.16	- 0.17	- 0.09	- 0.15
Tax rates and multipliers	%							
Real estate acquisition tax (24)	-	-	-	-	-	-	-	-
Real estate tax B ⁸ (25)	1.8	1.8	2.2	3.1	2.5	3.9	3.5	1.7
Local business tax ⁸ (26)	- 1.3	1.5	- 1.2	2.9	3.6	3.6	- 0.9	- 4.5

Sources: Federal Statistical Office, quarterly cash statistics (including post-bookings); Bundesbank calculations. * Core budgets and off-budget entities. Abbreviations: BW – Baden-Württemberg, BY – Bavaria, BB – Brandenburg, HE – Hesse, MV – Mecklenburg-West Pomerania, NI – Lower Saxony, NW – North Rhine-Westphalia, RP – Rhineland-Palatinate, SL – Saarland, SN – Saxony, ST – Saxony-

Anhalt, SH – Schleswig-Holstein, TH – Thuringia, BE – Berlin, HB – Bremen, HH – Hamburg. **1** Data pursuant to the Bundesbank's cyclical adjustment procedure based on figures from the spring 2019 macroeconomic forecast. **2** Interest expenditure less interest income. **3** Including healthcare subsidies and refunds to central government for legacy claims for pension benefits in eastern Germany.

SL	SN	ST	SH	TH	BE	HB	HH	Total	Item
463	1,615	95	- 1,589	- 199	- 338	88	- 624	7,618	Fiscal balance in € million
									€ per inhabitant
467	396	45	- 549	- 91	- 99	129	- 341	91	Derivation of adjusted structural balances Fiscal balance (1)
30	391	- 17	- 757	- 5	- 68	- 76	- 1,266	- 46	Financial transactions (net) (2)
- 21	24	21	70	- 4	- 87	- 91	- 17	- 2	Settlement of payments under the state government revenue-sharing scheme (3)
415	29	83	278	- 90	- 118	114	909	136	Adjusted balance (4) = (1) - (2) + (3)
1	1	- 1	1	1	1	- 1	2	1	Cyclical component (5) ¹
								22	One-off effects (6)
414	28	84	277	- 91	- 119	115	907	113	Adjusted structural balance (7) = (4) - (5) - (6)
- 21	13	- 62	24	- 3	- 26	36	- 1	- 20	Net interest burden ² (8)
393	41	22	301	- 94	- 145	150	906	93	Adjusted structural primary balance (9) = (7) + (8)
									€ per inhabitant
- 195	- 79	255	836	245	488	236	1,053	252	Expenditure, revenue and debt Total expenditure (10)
									of which:
104	142	97	116	78	178	110	97	111	Personnel expenditure (11)
78	119	72	79	51	116	89	68	76	of which: Expenditure on current staff (11a)
25	23	25	37	28	62	21	28	35	of which: Pension benefits ³ (11b)
- 98	37	108	23	- 30	93	43	149	46	Other operating expenditure (12)
- 22	- 8	- 42	- 14	- 22	- 24	38	- 42	- 16	Interest expenditure (13)
- 45	4	10	- 8	13	14	39	53	9	Transfers to households (14)
- 22	56	78	54	66	140	- 68	- 328	34	Fixed asset formation (15)
- 167	- 3	243	80	258	449	130	- 197	208	Adjusted total expenditure ⁴ (16)
- 146	5	285	95	279	473	93	- 156	224	Less interest expenditure (16a)
- 164	- 26	199	89	320	429	17	- 287	190	Less interest expenditure and fees (16b)
271	317	302	287	154	388	367	713	344	Total revenue (17)
									of which:
284	207	307	252	260	331	344	474	264	Tax revenue ⁵ (18)
18	31	86	6	- 41	44	75	131	35	Fees (19)
- 49	- 51	- 89	- 15	- 57	- 41	- 37	- 27	- 15	Transfers from central government ⁶ (20)
248	26	328	359	168	330	245	712	345	Adjusted total revenue ⁴ (21)
230	- 5	242	353	208	286	170	581	310	Less fees (21a)
- 262	- 248	- 313	943	- 465	- 263	981	1,287	- 220	Debt (22)
- 0.09	- 0.09	- 0.43	0.14	- 0.33	- 0.11	0.18	- 0.40	- 0.11	Calculated average rate of interest (%) ⁷ (23)
									%
									Tax rates and multipliers
-	-	-	-	-	-	-	-	-	Real estate acquisition tax (24)
20.3	2.5	4.7	3.0	- 0.4	-	1.0	-	2.8	Real estate tax B ⁸ (25)
4.0	- 0.6	2.4	2.2	1.6	-	9.0	-	0.2	Local business tax ⁸ (26)

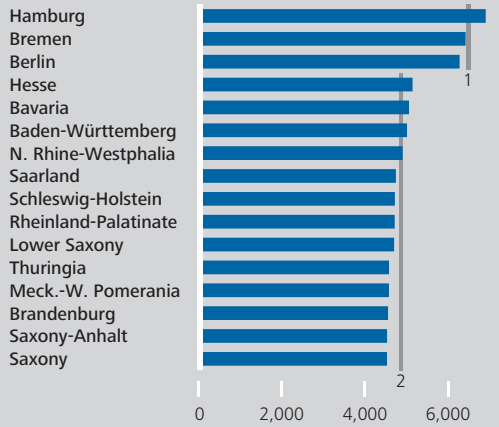
⁴ Excluding financial transactions and payments under the state government revenue-sharing scheme made by states providing contributions. Payments under the state government revenue-sharing scheme are settled on the income side. ⁵ Taxes and compensation for motor vehicle tax; state government revenue-sharing scheme and general supplementary central government grants as settled at mid-

2019. ⁶ Excluding general supplementary central government grants and compensation for motor vehicle tax. ⁷ Interest expenditure as a percentage of debt at the end of the previous year. ⁸ Revenue-weighted average local government multipliers for 2018.

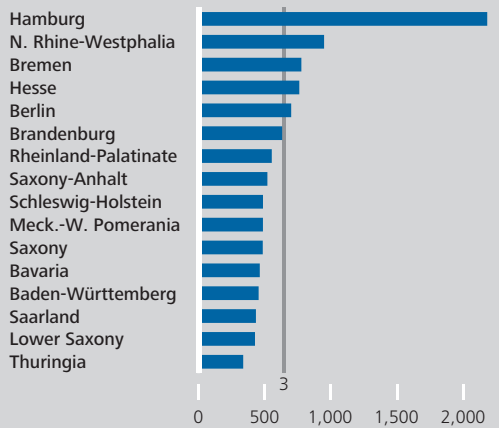
State and local government tax and fee revenue in 2018*

€ per inhabitant

Tax revenue



Fee revenue



Sources: Federal Statistical Office, Federal Ministry of Finance and Bundesbank calculations. * Financial statistics data. **1** City states in total. **2** Non-city states in total. **3** All state and local governments.

Deutsche Bundesbank

higher interest burdens. This primary surplus was highest in the city states, with Hamburg ranking first. Of the non-city states, Saarland posted the best figure.¹³ On the other hand, there are the federal states with small interest burdens. In this category, Saxony recorded the smallest adjusted structural primary surplus, closely followed by Brandenburg and Bavaria.

Changes compared with 2017

The adjusted structural balance for Germany's federal states as a whole improved by just over €110 per capita compared with 2017 (see the

table on pp. 48 f., number 7).¹⁴ There was a very broad spectrum of outturns across the federal states, however, with Hamburg's strongly improved balance proving to be a particularly striking feature and with Berlin suffering the strongest deterioration. On balance, the outturn in those federal states with below-average figures for 2017 showed a somewhat stronger improvement.

There are a variety of reasons why some federal states fared better than others. Berlin, for instance, saw what was by far the strongest growth in personnel expenditure (see the table on pp. 48 f., number 11), with a move that brought, in particular, Berlin salary levels closer to the national average. Second, Berlin's fixed asset formation also increased exceptionally strongly (see the table on pp. 48 f., number 15) after many years of low spending in this area. And, third, like in the new federal states, there were lower central government grants for infrastructure reconstruction in eastern Germany, which left the outturns worse off than in the previous year.

Hamburg, by contrast, benefited from considerably higher revenue, with tax revenue (adjusted for payments under the state government revenue-sharing scheme and for later settlements, see the table on pp. 48 f., number 18) playing the biggest part in this. Adjustments to multipliers for real estate tax and trade tax or a higher real estate acquisition tax were immaterial in this regard (see the table on pp. 48 f., numbers 24 to 26). Another source of relief for Hamburg was the decline in adjusted primary expenditure (see the table on pp. 48 f., number 16a), which was mainly due to decreasing fixed asset formation.

Structural balances improve nationwide compared to the previous year, but differences are marked

Variety of reasons for differences: additional spending in Berlin, but lower central government grants, ...

... key factors in Hamburg: strong upturn in tax revenue and spending cuts

¹³ If consolidation assistance is excluded, the figure would have been only slightly higher than that of North Rhine-Westphalia.

¹⁴ The revision of the cyclical component mentioned in footnote 6 has led to a reduction in the adjusted structural balance for 2017 compared with the figure published in the October 2018 edition of the Monthly Report.

Difficulties in analysing consolidated data

In its 2006 “Berlin judgement”, the Federal Constitutional Court (*Bundesverfassungsgericht, BVerfG*) was critical of the official financial statistics.¹ Partly in response to this, the Federal Statistical Office has re-included government entities hived off from the core budgets (off-budget entities).² Data on expenditure and revenues as required by law are collected from these entities for the financial statistics, but other accounting systems, such as commercial double-entry bookkeeping, are often used. The available information must then be re-classified to fit into the required financial statistics categories, and in some cases simplifying assumptions need to be made. Moreover, the classification systems used for the core budgets do not draw a clear distinction between payments to off-budget entities and those to market-oriented public companies (and return flows from such entities). This creates a state of affairs in which payment flows between the entities of a federal state might not be correctly consolidated in all cases, meaning that figures are then overstated.

Financial statistics reclassify payments in some areas in order to avoid errors. For example, transfers to off-budget entities for pension provision, which are booked as personnel expenditure in the budgets, are adjusted accordingly.

There is no direct consolidation of transfers, however. This means transfers reported in the core budgets and off-budget entities are likewise aggregated if they are intra-entity transfers. In this respect, the consolidated result for the transfers is overstated. Only the overarching budget category (i.e. current or capital revenue and expenditure) is consolidated. The outturn of this over-

arching category is thus less than the sum of the subcategories.

In principle, the above-mentioned consolidation of the overarching categories is based on information taken from the revenue side.³ This can lead to additional problems. If, for instance, a local government records revenues from one of its one-off entities, this amount is deducted from the revenue of the core budget and an equal amount subtracted from the corresponding expenditure group of the off-budget entity. The consolidation therefore does not change the local government’s total balance. It is, however, conceivable that the corresponding expenditure in the off-budget entity was recorded in a different manner or at a different time. In this case, the consolidated superordinated group for expenditure would be understated. The total expenditure is reduced even though no expenditure to be consolidated was recorded. If, however, revenues from other government entities are not recognised as such, the consolidated expenditure and revenue groups are overstated. This is to be expected for fee revenues from other government entities. For the majority of recipients, no distinction is made as to whether such fees originate from an intra-government payment or from third parties.

¹ See BVerfG, 2 BvF3/03, paras 204 and 58.

² However, the reporting population is subject to repeated change caused by spin-offs, mergers, liquidation of off-budget entities and sectoral reassignments. In this respect, it is not always easy for accounting departments to recognise whether or not a transaction partner is allocated to the government sector. Ultimately, it would appear to make sense for the accounting system to assign the units automatically using a public register.

³ See Rückner (2011), p. 1109.

In principle, fiscal balance errors can also arise from payment flows within a state. For example, sometimes apparently no expenditure was recorded in the financial statistics if an off-budget entity transferred a profit to the core budget, provided this transaction was not recorded in the income statement. This meant that a revenue was recorded in the core budget but that the off-budget entity did not book any expenditure and thus the (consolidated) balance appeared too favourable. On the other hand, compensation payments from the core budget to off-budget entities were also apparently not always recognised as income in the latter, which resulted in the consolidated result being understated. Such sources of error appear to have been effectively rectified in the meantime.

The bottom line is that, in spite of progress in some areas, the adjustment of state out-

turns for payments between government entities is still unsatisfactory. In order to improve the quality of data, efforts could be made towards achieving a harmonised accounting system for all entities that belong to the general government sector. There should at least be a clear differentiation between the payment flows to other parts of the respective state and others. In addition, a further subdivision of payments to other levels of government and a clear classification of payments to non-government entities would make sense. Under section 49a of the Budget Principles Act (*Haushaltsgrundsatzgesetz*), it is the task of central and state government to take account of statistical requirements in government accounting.⁴

⁴ See Deutsche Bundesbank (2018b), p. 67.

Decline in spending in Saarland overstated by the statistics, but with no bottom line impact

Detailed data on payments between state entities are vital for preventing errors in the consolidated view of individual budget categories. Saarland's capital spending is a case in point. Due to shortcomings in the data, the financial statistics reported a negative aggregate figure for the (consolidated) federal state level. This means that expenditure developments during the reporting year were understated accordingly. This did not distort the fiscal balance, however (see the box on pp. 51 and 52).¹⁵

■ Selected aspects

State government revenue-sharing scheme largely levelling out tax revenue

The state government revenue-sharing scheme and supplementary general central government transfers are intended to minimise differences in per capita financial capacity between the federal states. Local government tax revenue is included up to 64% (with adjustments being made for the use of differing multipliers). Furthermore, the population of city states is given

a 35% higher weighting. If the accruals-based tax revenue (see the table on pp. 42 f., number 18 and the chart on p. 50) is considered only for the non-city states, the differences remaining under the revenue-sharing scheme are, in fact, moderate.¹⁶ Thus, Hesse¹⁷, which yields a particularly high revenue, was 5½% higher than the figure for the non-city states, and Saxony and Saxony-Anhalt were 7% below

¹⁵ It appears that Saarland experienced some inconsistencies concerning payments in connection with redemptions of long-term securities. One off-budget special fund holding debt instruments issued by Saarland posted repayment return flows from the core budget as revenue affecting the fiscal balance. In the core budget, the redemption of long-term securities financed by other entities was not taken to the fiscal balance. Against this background, it would appear that the capital expenditure has been understated.

¹⁶ Unlike in the government financial statistics, the revenue of the states providing contributions is reduced by the payments under the state government revenue-sharing scheme.

¹⁷ Bavaria achieves a higher financial capacity in the state government revenue-sharing scheme, since this involves adjustment for its considerably lower real estate acquisition tax and its significantly lower multipliers for business tax and property tax.

it. If the special-purpose grants for reconstruction in eastern Germany are added to this, their shortfall is reduced further to below 4%. However, before the ex ante redistribution of turnover tax receipts as the first stage of the government revenue-sharing scheme, the range (relative only to the federal state level) among the non-city states was still between 46% below the average in Saxony-Anhalt to 32% above it in Bavaria.¹⁸ The burden from the equalisation stages totalled €700 per capita of the population in Bavaria, while the inflows in Saxony-Anhalt (including the “special assistance”) were as much as almost twice as high.

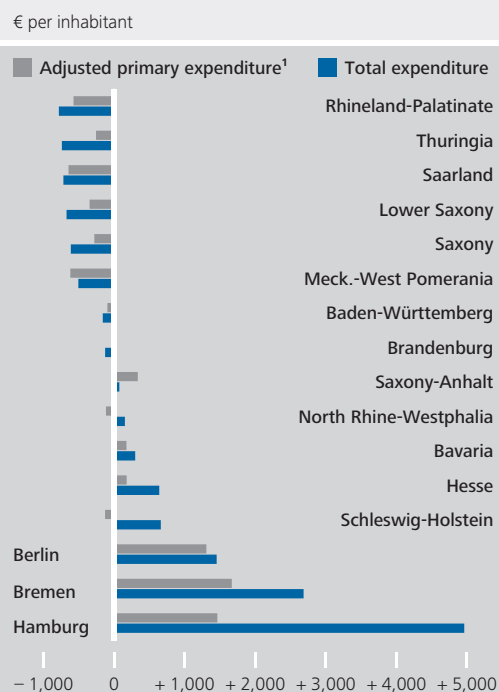
Strong dispersion of receipts from fees – also due to spin-offs ...

The per capita receipts from fees varied much more strongly (see the table on pp. 42 f., number 19 and the chart on p. 50). They were at by far their highest in Hamburg, while, in Thuringia, they amounted to no more than just over half of the national figure. One reason for these differences is the varying degree to which tasks that lie within the responsibility of each of the federal states are outsourced to enterprises outside the government sector. This means that the relevant receipts from fees and staff costs, operating expenditure and investments are no longer recorded in the government financial statistics presented here. Matters of superregional importance in individual federal states also sometimes play a role, such as the port in Hamburg. Thus, a higher recorded level of receipts from fees does not necessarily go hand in hand with a greater burden on the general public of a federal state. Moreover, this indicates additional budgetary leeway only if they increase the cost coverage rate (i.e. if the expenditure is not correspondingly higher either).

... and apparently consolidation problems

Furthermore, in connection with fees, there are apparent problems in consolidating transactions between government entities in individual federal states. For instance, in some federal states, such as in North Rhine-Westphalia, there are off-budget entities that manage and rent out administrative property. In this case, rent payments from the core budget are paid

Difference in state and local government spending from national figure in 2018*



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data. ¹ Total expenditure less payments into the state government revenue-sharing scheme, purchases of financial assets, fee revenue and interest expenditure.
 Deutsche Bundesbank

to this off-budget entity. These amounts are evidently not consolidated, but instead recorded as expenditure of the core budget and revenue of the special fund (in this instance as sales which are classified as fees). In effect, this results in double-counting under property costs, since the rents and the operating expenses and financing costs covered by them are added together.

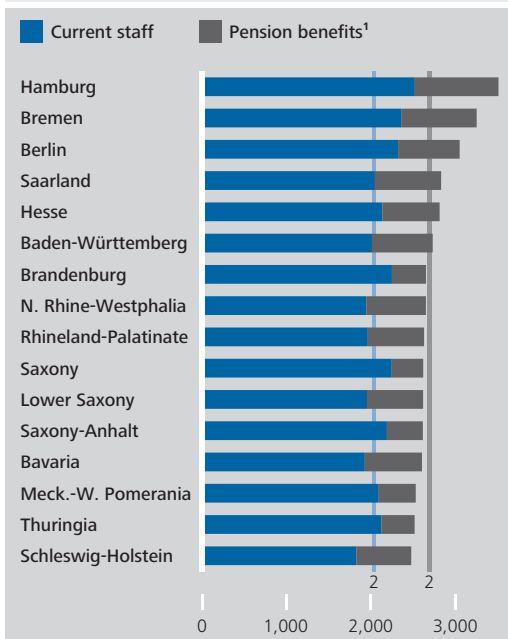
Thus, the adjusted total receipts and expenditure (see the table on pp. 42 f., numbers 21 and 16) are easier to compare between federal states if the fees are deducted on the expenditure and the revenue side. In addition, interest rates are then also deducted on the expenditure side. The range is then significantly narrower (see table on pp. 42 f., numbers 21a and 16b).

Budgetary scope easier to compare by adjustment of fees

¹⁸ See Federal Ministry of Finance (2019).

State and local government expenditure on personnel in 2018*

€ per inhabitant



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data. ¹ Including refunds under the legislation incorporating legacy claims and entitlements to pension benefits in eastern Germany into the west German pension scheme. ² All state and local governments in total.
 Deutsche Bundesbank

Highest adjusted primary expenditure in Bremen; lowest in Saarland

Among the non-city states, adjusted per capita primary expenditure was highest in Saxony-Anhalt. However, this was accompanied by a very high level of central government transfers on the revenue side (see the table on pp. 42 f., number 20). Saxony-Anhalt was closely followed by Hesse and Bavaria, which had the highest levels of tax revenue. Saarland was at the other end of the spectrum: low primary expenditure was offset by above-average interest expenditure and below-average revenue.¹⁹ The correspondingly adjusted primary expenditure of the city states was far higher than the figures for the non-city states. Despite a significantly lower level of tax revenue and a very high interest burden, Bremen reported markedly higher primary expenditure than Hamburg.

Outsourced tasks can distort comparison

Caution is advisable when comparing individual revenue and expenditure categories across federal states – as addressed on pp. 52 f. For example, the extent to which core areas, such as

schools and childcare, are outsourced to non-government enterprises can vary greatly across federal states. In some cases, these enterprises are still receiving central government transfers, whereas primarily higher personnel costs and other operating expenditure would be recorded if there were no outsourcing. Transactions between government entities are also not always consolidated in a satisfactory manner in the government financial statistics. Thus, the comparisons for individual expenditure categories allow no more than tentative conclusions to be drawn about how economically a federal state uses funds or to what extent it performs services. Nonetheless, a number of differences appear noteworthy.

With regard to personnel expenditure, new federal states have considerably lower pension obligations owing to a below-average number of recipients of civil servant pensions (see the table on pp. 42 f., number 28). The same also applies if payments for special pension provisions and supplementary pension schemes for government employees before 1990 are included (see the table on pp. 42 f., number 11b). By contrast, new federal states have higher expenditure for current employees (see the table on pp. 42 f., number 11a) due, not least in many cases, to sizeable staffing levels in relation to the number of inhabitants (see the table on pp. 42 f., number 27). In addition, having a larger percentage of employees who are not civil servants, which eases the burden stemming from pension payments, leads to additional expenditure on social security contributions. However, the expenditure of the city states on current employees was still considerably higher than that of the new federal states. This is particularly true of Hamburg, which collected high fees at the same time. Expenditure was especially low in Schleswig-Holstein. In addition to relatively low staff numbers, this was also due to a below-average level of remuneration. Pay levels varying more greatly than

New federal states have low pension obligations but high staff numbers

¹⁹ The statistical problems explained in footnote 15 only play a limited role here.

before along with the diverging costs of living within Germany can make staff recruitment easier in urban areas. At the same time, the burden on financially weak federal states would tend to be eased with regard to staffing costs. Pay levels in the public sector would then also be more likely to reflect local differences in private sector pay.²⁰

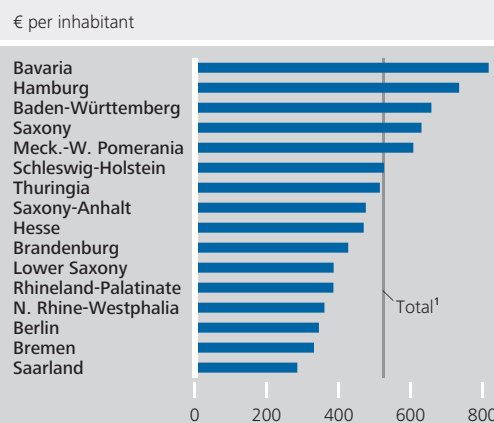
Marked differences in transfers to households, but partly offset by central government

Bremen reported the highest figure for transfers to households (see the table on pp. 42 f., number 14), closely followed by North Rhine-Westphalia. Saxony-Anhalt and Saarland were at the other end of the table. However, in Saxony-Anhalt, at least, this is likely to be due to a different classification. Here, some social benefits, otherwise provided by local government, are provided at state government level and are not recorded as transfers there, but rather as other operating expenditure. This expenditure was also particularly high in this instance (see the table on pp. 42 f., number 12). The extent to which this plays a role in Saarland cannot easily be derived from the data at present.²¹ In order to assess the burdens in individual federal states from transfer expenditure (social benefits), it should be noted that these are partly offset by central government. For instance, central government completely reimburses the costs of the basic allowance for the elderly and for persons with reduced earning capacity and almost half of the accommodation costs of those receiving unemployment benefit II. Thus, net expenditure in these areas, which is ultimately relevant to the regional cost burden, was not only much lower, there was also considerably less disparity between federal states. Central government implicitly absorbs differences in the cost burden in this respect. An even somewhat greater shift to central government might be worth considering.²²

Fixed asset formation: significant dispersion between federal states, ...

Expenditure on fixed asset formation is a focal point when considering infrastructure development. Expenditure varied substantially, with spin-offs and geographical features specific to certain federal states also likely to have played a part in this. Bavaria posted the highest per

Fixed asset formation by state and local government in 2018*



Sources: Federal Statistical Office and Bundesbank calculations.
 * Financial statistics data. ¹ All state and local governments.
 Deutsche Bundesbank

capita figure (see the table on pp. 42 f., number 15), noticeably ahead of Hamburg. Among the new federal states, whose funds for reconstruction in eastern Germany are now running out, Saxony and Mecklenburg-West Pomerania were clearly in the lead. Berlin, Bremen and, above all, Saarland remained considerably below the national average.

Ultimately, however, it is not the comparison of the expenditure level that is decisive. Far more important is the extent to which public infrastructure can be deemed to meet the individual needs of each federal state. Meaningful data on this are not available.

... but key data on infrastructural needs are lacking

Room for improvement in analysis of state government finances

All in all, it is difficult to make cross-state comparisons of individual revenue and expenditure items. The picture is distorted, not least, by differences concerning the transfer of tasks to

²⁰ See Deutsche Bundesbank (2015), pp. 35-36.
²¹ In Saarland, benefits are granted by a regional authority that is not captured in the core budget. How these benefits are recorded is not immediately apparent from the regional authority's business plan, which is attached as an annex to the state budget.
²² See also Deutsche Bundesbank (2016), p. 19.

Transferring tasks to non-government entities makes comparisons more complicated

Desirable: data for each federal state broken down by government function and nationally coordinated accounting systems

More precise demarcation of financial transactions in financial statistics and budget plans

non-government entities that do not belong to the government sector. Current comprehensive data, broken down by government function, which include the grants to such entities, exist at present only in the national accounts for general government.

It would be desirable to have near-time access to financial statistical data for each federal state with a breakdown by government function. Furthermore, additional data would be important for consolidating transactions between government entities for individual categories of households, too. Double counting and other biases can scarcely be avoided without a system that is closely coordinated between state governments, local governments and off-budget entities.

Starting this year, guarantee calls will no longer be shown as financial transactions in the government financial statistics (in line with the national accounts). As a result, they will then essentially have a detrimental effect on the reported adjusted structural balance. Expenditure on equity purchase will continue to be recognised as a financial transaction. However, if sufficient yields are not expected from this, it would be an economic imperative to record such expenditure as transfers in the financial statistics, like in the national accounts. This

would also create greater pressure to ensure the proper classification of items when drawing up the budget. The effectiveness of the debt brake could be better safeguarded in this way.

Clear and unbiased data are important for assessing the finances of the individual federal states. The situation and structure of the consolidated state and local government budgets reflect political decisions regarding how a state performs its tasks and what spending this involves. In addition to meaningful budgetary data, it would be beneficial for federal states to agree on result indicators for major functions and to publish the figures. Examples of this are performance indicators of educational outcomes or the quality and availability of child-care or transport infrastructure. Federal states possess a relatively broad range of legislative and organisational powers. The current positive budgetary situation should make it easier for the states to use these powers to provide services that are in line with needs. Meaningful performance indicators would also make it easier to assess the various specific strategies adopted by the individual federal states. One advantage of federalism is being able to learn from such specific state-level approaches and make better use of future opportunities in this way.

Meaningful indicators for fulfilling tasks are also important for strengthening competition

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