

Public finances*

General government budget

Surplus fairly high again this year ...

The German government's finances have remained in good shape this year. The general government surplus is expected to decrease yet remain significant (1.9% of gross domestic product (GDP) in 2018). The debt ratio, i.e. government debt in relation to nominal GDP, declined to 61.2% in the first half of the year (from 61.9% at the end of 2018). Going forward, it is likely to fall rapidly again, undershooting the reference value of 60% by next year at the latest.¹

... but declining, chiefly due to looser fiscal policy

Fiscal policy loosening is the chief factor driving down the surplus. It is especially apparent in the marked rise in spending on areas such as pensions and investment. Additionally, the positive cyclical effect is waning. Tax revenue, in particular, is thus seeing somewhat slower growth than in previous years. However, the economic slowdown is putting less of a strain on public finances than a glance at real GDP and the degree of capacity utilisation in isolation might suggest. The reason for this is that wages and salaries, employment and unemployment, and private consumption are developing comparatively favourably. Lower interest expenditure and spending on bank support measures are easing the pressure on public finances. Although payments for Norddeutsche Landesbank (Nord/LB) are expected this year, they will be significantly lower than those for HSH Nordbank last year.

Surplus set to sink further in the coming years

It is foreseeable that the surplus will sink further in the next two years. Cyclical developments are once again likely to play a role here in the coming year, with the additional working days having a positive impact (calendar effect). Furthermore, the fiscal policy stance will continue to be eased considerably. For 2020, for example, central government is planning to increase spending on transport and digital infrastructures, education and defence. There are

also indications of continued high expenditure growth for pensions, healthcare and long-term care. On the revenue side, the Bundestag has resolved to partially abolish the solidarity surcharge in 2021. The new climate protection programme will also put a slight burden on the government budget on balance (for more information, see p. 62). Some of the additional revenue generated from CO₂ pricing as from 2021 is to be passed on to households and enterprises as relief to compensate for rising energy costs. Moreover, additional expenditure for the promotion of measures to reduce emissions is already envisaged as of 2020.²

In structural terms, the surplus is likely to decline considerably up to 2021. At the same time, there is still fiscal leeway within the budget rules. This leeway could potentially be used, for instance, to improve the conditions for growth and employment. For example, central government could bring forward the reduction of the solidarity surcharge to the coming year. It still appears appropriate to completely abolish this surcharge in the foreseeable future, possibly embedding it in a more fundamental tax reform.³ State and local governments could reinforce their efforts to improve their educational opportunities and infrastructure. However, such endeavours will probably continue to be restricted by the limited amount of construction projects which are ready to go ahead,

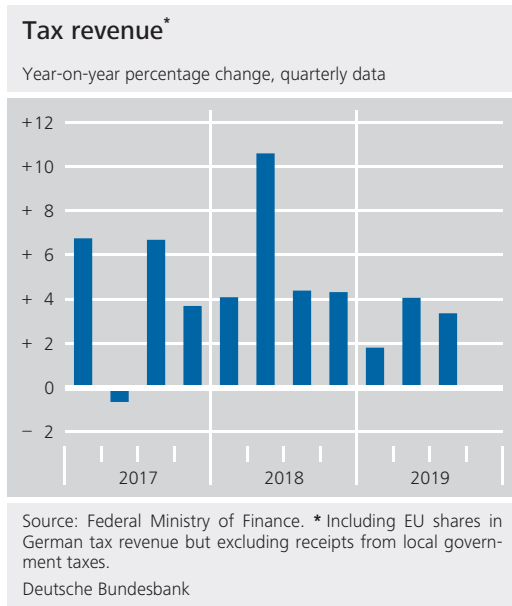
Measures conducive to growth and employment could be accelerated

* The section entitled "General government budget" relates to data from the national accounts and the Maastricht debt ratio. This is followed by more detailed reporting on budgetary developments (government finance statistics). No data for the third quarter of 2019 are yet available for local government or the statutory health and public long-term care insurance schemes. These will be analysed in the short commentaries in subsequent issues of the Monthly Report.

¹ The debt ratio is markedly higher overall, according to the latest data revisions. Most notably, nominal GDP was revised downwards.

² At the federal level, the coalition government recently agreed on key points of the announced basic pension and other measures. Comprehensive information on budget effects is not yet available.

³ See Deutsche Bundesbank (2019a), p. 67.



as well as a shortage of construction and labour market capacities. In this regard, it is also important to ensure that additional spending does not dissipate in the face of higher prices.

Public finances are supporting economic activity, currently no need for economic stimulus packages

Germany is being called upon by some to launch a larger economic stimulus package. However, with regard to cyclical developments, this does not appear to be necessary at present. For the most part, the economic situation is regarded as being more or less within the normal range; the majority of forecasts envisage that economic growth will pick up again and do not foresee a much greater degree of slack. In this context, public finances are already stabilising Germany's economic growth appreciably. As described above, the fiscal policy stance is already expansionary – even in the absence of additional measures – and the automatic stabilisers are also operating. The considerable risks to the economic outlook, resulting primarily from the external environment, are nonetheless to be borne in mind. Should economic activity slump and aggregate capacity become substantially underutilised, fiscal policy would also be called upon to spur the economy (as was the case during the economic crisis of 2009⁴). This is also in line with the fiscal rules and the escape clauses they include for economic downturns. The fact that the German govern-

ment's finances are sound would then facilitate a sizeable contribution to stability.

Budgetary development of central, state and local government

Tax revenue

Tax revenue⁵ growth in the third quarter was robust; it increased by 3½% on the year (see the adjacent chart and the table on p. 60).

Continued robust tax revenue growth in Q3

Wage tax growth remained dynamic, at 6½%. Child benefits, which are deducted from tax revenue, rose by €10 each month as of July, depressing the growth rate in the third quarter by around 1 percentage point. However, a negotiated special payment in the metal-working and electrical engineering industries had a bolstering effect. Progressive taxation was dampened by tax relief measures, among them an adjustment to the tax scale to compensate for last year's bracket creep. Profit-related taxes overall stagnated at a high level. Of these, assessed income tax continued to record dynamic growth, and corporation tax also rose significantly. By contrast, non-assessed taxes on earnings (which mainly consist of investment income tax on dividends) recorded a sharp decline. In year-on-year terms, however, the fact that profit distribution shifts within the year repeatedly plays a role here, masking the underlying trend. The decrease in the third quarter offsets the sharp rise seen in the first half of the year. Withholding tax on interest income and capital gains continued to decline. Turnover tax revenue, which is quite volatile over the course of the year, increased by 3%.

According to the latest official tax estimate, tax revenue (including local government taxes) is expected to rise by 2½% for 2019 as a whole. In the estimation model, the assumed macro-

Subdued rise in tax revenue in 2019 ...

⁴ See also Deutsche Bundesbank (2010).

⁵ Here, tax revenue includes EU shares in German tax revenue, but excludes receipts from local government taxes, which are not yet known for the quarter under review.

Selected technical information on the official tax estimate

The official tax estimate is drawn up by the Working Party on Tax Revenue Estimates (*Arbeitskreis Steuerschätzungen*), which is chaired by the Federal Ministry of Finance. It combines input from experts at the Federal Ministry for Economic Affairs and Energy, the federal states' finance ministries, five economic research institutions, the Federal Statistical Office, the German Council of Economic Experts, the German Confederation of Local Authority Central Associations (*Bundesvereinigung kommunaler Spitzenverbände*) and the Bundesbank.¹

Macroeconomic assumptions

The official tax estimate is based on the Federal Government's latest macroeconomic projection (see the table on p. 61). This comprises a short-term projection for the current year, the next year and (in the autumn) the year after, as well as a medium-term projection covering the years subsequent to that. In the medium-term projection, it is assumed that any output gap existing at the end of the short-term projection horizon will be closed by the final year of the medium-term projection. Uniform rates of economic growth are applied for these years.

Applicable tax legislation

The tax estimate is based on the tax legislation applicable at that time. This means, for instance, that revenue losses stemming from the partial abolition of the solidarity surcharge were not yet factored into the current estimate. The Family Relief Act (*Familienlastungsgesetz*), for example, had a substantial impact on the current estimate, as it did on the May 2019 estimate.

Amongst other objectives, this legislation is intended to offset bracket creep caused by inflation experienced in the previous year.

Impact of court rulings

In addition, the tax estimate factors in the impact of court rulings (some dating back quite a long time), which can have a significant effect on revenue growth. As in previous estimates, the current estimate contains revenue losses resulting from such rulings. As well as factoring in a ruling on VAT (see footnote 6 on p. 60), the estimate assumes perceptibly decreased revenue in non-assessed taxes on earnings.² Furthermore, the current estimate takes account of revenue shortfalls stemming from an administrative order issued in connection with a decision regarding interest paid on tax arrears.³

In terms of statistical recording, the effects of court rulings on government finances are reported in different ways in the financial statistics (on which the tax estimate is based) and the national accounts. In the financial statistics, court rulings reduce tax revenue when the repayments are made (cash basis accounting). In the national accounts, however, they are recorded as government spending (capital transfers) as soon as the decision takes legal effect. This means that the point in time at which the effects are recorded in the national accounts sometimes lies well in advance of the cash outflow.

¹ See Federal Ministry of Finance (2019) for more information.

² Judgement of the European Court of Justice, 20 October 2011 (C-284/09).

³ Letter of the Federal Ministry of Finance dated 14 June 2018 in conjunction with Federal Fiscal Court ruling IX B 21/18 of 25 April 2018.

Tax revenue

Type of tax	Q1-Q3				Estimate for 2019 ¹	Q3			
	2018	2019	Year-on-year change			2018	2019	Year-on-year change	
	€ billion	€ billion	€ billion	%	%	€ billion	€ billion	€ billion	%
Tax revenue, total ²	523.4	539.6	+ 16.2	+ 3.1	+ 2.8	173.2	179.0	+ 5.8	+ 3.4
of which:									
Wage tax	149.8	159.0	+ 9.2	+ 6.1	+ 5.6	50.4	53.7	+ 3.3	+ 6.6
Profit-related taxes	96.3	95.4	- 0.9	- 1.0	- 0.9	27.7	27.6	- 0.1	- 0.5
Assessed income tax ³	45.2	47.1	+ 1.9	+ 4.3	+ 3.5	12.7	13.6	+ 0.9	+ 7.3
Corporation tax	25.9	24.9	- 1.0	- 4.0	- 3.8	7.2	7.6	+ 0.4	+ 5.8
Non-assessed taxes on earnings	19.4	19.5	+ 0.0	+ 0.3	+ 0.2	6.6	5.2	- 1.4	- 21.0
Withholding tax on interest income and capital gains	5.8	3.9	- 1.9	- 32.9	- 29.2	1.3	1.2	- 0.1	- 7.9
Turnover taxes ⁴	174.2	180.6	+ 6.3	+ 3.6	+ 3.6	59.2	61.1	+ 1.9	+ 3.2
Other consumption-related taxes ⁵	64.9	65.0	+ 0.1	+ 0.2	+ 0.2	22.8	22.8	- 0.0	- 0.2

Sources: Federal Ministry of Finance and Bundesbank calculations. ¹ According to official tax estimate of October 2019. ² Including EU shares in German tax revenue but excluding receipts from local government taxes. ³ Employee refunds deducted from revenue. ⁴ Turnover tax and import turnover tax. ⁵ Taxes on energy, tobacco, insurance, motor vehicles, electricity, alcohol, air traffic, coffee, sparkling wine, intermediate products, alcopops, betting and lottery, beer and fire protection.

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economic growth, including progressive taxation, makes for a slightly higher increase. However, this is dampened to a marked extent, on balance, by legislative changes. This primarily concerns the Family Relief Act (*Familienlastungsgesetz*), which includes the above-mentioned compensation for bracket creep, amongst other things. Aside from this, though, other measures such as the raised immediate write-off threshold for low-value assets also result in shortfalls. In addition, repayments are expected in connection with a VAT ruling made some time ago.⁶

... and 2020

A 2½% increase in revenue is also expected for the coming year. Macroeconomic developments and legislative changes are forecast to have more or less the same impact overall as they did this year. While the Family Relief Act will dampen revenue growth by a little more than in 2019, other legislative changes will play a less important role.

Revenue growth of 3½% is expected for each of the subsequent years up to 2024. This largely reflects the macroeconomic assumptions and progressive taxation. In net terms, revenue shortfalls from legislative changes and court rulings will weigh only marginally on growth. The tax ratio (as defined in the government finance statistics) is projected to increase to 23.6% in 2024 (2018: 23.2%). By contrast, it would remain at more or less its current level if the specified measures that have not yet been included in the official estimate were to be taken into account (particularly the partial abolition of the solidarity surcharge). In addition, the extension of compensation for bracket creep beyond 2020 and a further significant increase in child benefits in 2021 were set out in the coalition agreement. These would cause the ratio to sink slightly.

Somewhat higher growth in subsequent years

⁶ Application of the Federal Fiscal Court ruling on the VAT liability of property developers (Federal Fiscal Court ruling VR 37/10 and Federal Ministry of Finance letter dated 24 January 2019).

Official tax estimate figures and Federal Government's macroeconomic projection

Item	2019	2020	2021	2022	2023	2024
Tax revenue¹						
€ billion	796.4	816.4	845.2	875.1	904.9	935.0
As % of GDP	23.2	23.1	23.2	23.3	23.5	23.6
Year-on-year change (%)	2.6	2.5	3.5	3.5	3.4	3.3
Revision of previous tax estimate (€ billion)	2.6	- 1.7	- 1.8	- 2.7	- 3.5	.
Real GDP growth (%)						
Autumn projection (October 2019)	0.5	1.0	1.3	1.1	1.1	1.1
Spring projection (April 2019)	0.5	1.5	1.2	1.2	1.2	.
Nominal GDP growth (%)						
Autumn projection (October 2019)	2.8	2.9	3.1	2.8	2.8	2.8
Spring projection (April 2019)	2.8	3.5	3.0	3.0	3.0	.

Sources: Working Party on Tax Revenue Estimates (October 2019) and the Federal Ministry for Economic Affairs and Energy. ¹ Including EU shares in German tax revenue and receipts from local government taxes.

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Revenue expectations from May slightly adjusted

Compared with the May forecast, additional revenue of €2½ billion is envisaged for 2019. The favourable development of cash revenue in wage and income tax up to now is having a positive impact. The slight upward revision of the macroeconomic reference variables for tax revenue⁷ also partly explains the adjustment. The total revenue forecast for 2020, however, is €1½ billion lower than was estimated in the spring. This is attributable to the downward revision of the macroeconomic assumptions. Carrying forward the increased revenue level from 2019 is having a supportive effect. The downward revision of the macroeconomic assumptions is also a key factor for the revenue shortfalls in subsequent years. Legislative changes, such as tax deductions for the construction of new rental accommodation, constitute an additional burden. The downward revisions amount to between €2 billion (2021) and €3½ billion (2023) in total.

Central government budget

Slightly poorer result in Q3, disregarding special effect on interest expenditure

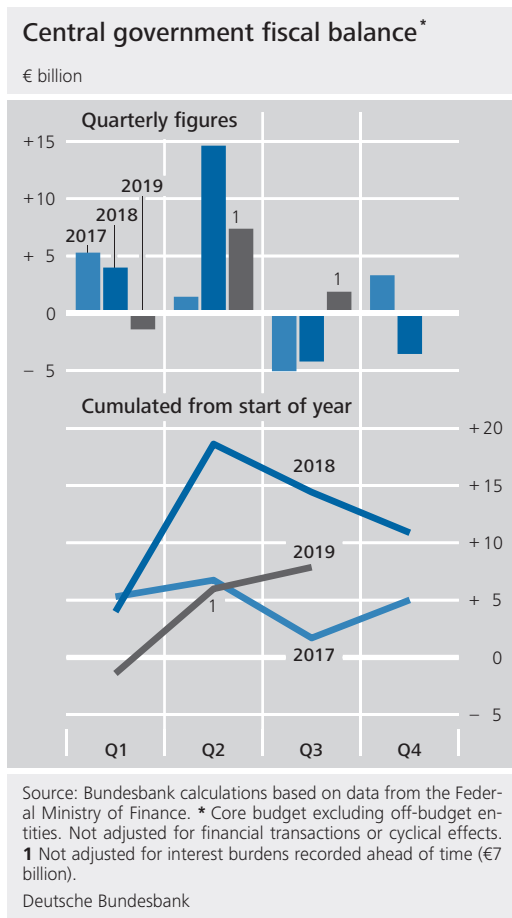
Central government recorded a surplus of €2 billion in the third quarter, compared with a deficit of €4 billion one year previously. However, if interest expenditure had not been recorded ahead of time (in the second quarter), the result would have deteriorated by around

€1 billion. Revenue rose by 1½%, chiefly on account of increased tax revenue (+2%, or €1½ billion, after deduction of additional transfers of €½ billion to the EU budget). Adjusted for the special effect on interest expenditure, spending growth somewhat exceeded revenue growth. Other operating expenditure (particularly payments for military procurements) increased especially strongly. In addition, current transfers (to the pension insurance scheme in particular) and capital transfers rose significantly. By contrast, interest expenditure continued to decline significantly, even excluding the special effect.

After three quarters, the central government budget recorded a surplus of €8 billion, compared with €14½ billion in the previous year. For the year as a whole, the budget plan envisages a deficit of €6 billion (end-2018: surplus of €10½ billion). As things currently stand, a rather moderate deterioration and a much better annual result than planned can be expected. According to the latest tax estimate, revenue is set to exceed the budget estimate by €2 billion. Interest expenditure is easing the pressure yet

Interest expenditure, in particular, significantly more favourable than planned; another surplus possible for year as a whole

⁷ Although the GDP growth rate from May was barely revised (see the table above), the variables relevant to tax revenue saw a slight upward revision overall, particularly in private consumption and entrepreneurial and investment income.



further; instead of rising by €1 billion as envisaged, it continues to fall sharply. By the end of September, it had decreased by €3½ billion altogether. Other items, such as investment grants and repayments from the EU, are developing more favourably than accounted for in the budget. Overall, the central government budget is therefore expected to end the current year with a surplus, too. Should this be the case, it would not be necessary to withdraw €5½ billion from the refugee reserve in order to avoid net borrowing, as was originally planned. Instead, a significant sum could again be set aside.

Significant reduction in reserves planned in the 2020 draft budget

In the summer, Federal Government submitted the draft budget for 2020. It envisaged a relatively large deficit of €9½ billion. This was intended to be almost entirely covered by the refugee reserve in order to achieve a balanced budget with no net borrowing once more. Increased expenditure in areas such as national

defence and family policy was largely offset in the budget plan by a global spending cut.

In October, Federal Government's climate policy resolutions that would affect the budget were incorporated into parliamentary deliberations. As of next year, additional Federal budget expenditure is planned. Supplementary climate policy actions and, in particular, annual capital injections of €1 billion into Deutsche Bahn are envisaged. This should allow Deutsche Bahn to extend its range of (relatively low-emission) transport services. Furthermore, the VAT charged for long-distance train tickets is to be reduced and air ticket taxes increased. From 2021 onwards, allowances for CO₂ emissions from transport and building heating are to be introduced. These will initially be available for purchase at a fixed price per tonne of CO₂ emitted. This price is intended to rise from an initial €10 to €35 in 2025. As of 2026, the maximum emissions volume, which is to be lowered in increments, will govern price formation – initially still within limits. Higher energy costs for households and enterprises are to be partially offset. There are also plans to temporarily expand the standard travel allowance within the income tax regime and to reduce the renewable energy (EEG) levy on electricity consumption. Particularly hard-hit enterprises are set to receive compensation.

Climate programme ...

On balance, the climate programme will only burden the Federal budget to a limited extent. It will entail new costs, but transfers to the energy and climate fund will decrease from 2020 onwards. The fund will receive all proceeds from the sale of the new emissions allowances and will initially draw more heavily on its reserves. The aim of the climate package is to reduce CO₂ emissions, in line with the EU agreements. Many doubt that this package is sufficient for this purpose. However, a regular assessment is planned in order to respond to missed targets. Should Germany exceed its permitted emissions volume, the Federal budget risks incurring financial penalties.

... likely to entail limited additional burdens at most

Final deliberations include continued commitment to balanced budget, but slightly higher deficit

Further adjustments were made to central government's 2020 budget during final deliberations. There was no need for major adjustments in connection with October's tax estimate. Compared with the summer draft budget, though, tax revenue was revised downwards by €3 billion in order to factor in planned legislative changes. For example, central government's contributions towards the refugee costs incurred at the state and local government level have been extended. Turning to other revenue, return flows from guarantees were down. To balance the revenue shortfalls, a precautionary global revenue shortfall item of €3½ billion was dissolved. In addition to a series of smaller-scale additional spending authorisations, there were, in particular, higher burdens associated with the basic allowance for job seekers on the expenditure side. Including another full refund of refugee-related spending on accommodation by local governments, additional expenditure amounts to €1½ billion here. Over and above extra spending to cover the costs of the climate programme, investment expenditure was raised by €1 billion. The significant downward revision of the interest expenditure estimate (-€3 billion) only partially offsets additional spending. The bulk of the €11 billion deficit – up by €1½ billion compared with the draft budget – is to be covered by the refugee reserve. The objective of a balanced budget with no net borrowing will thus be achieved.

Compliance with debt brake rules maintained by means of reserve withdrawals

The debt brake imposes limits on the level of structural net borrowing by central government and on relevant off-budget entities' deficits. Reserve withdrawals in the central government budget therefore balance out the relatively high planned deficits that it contains. Effects arising from financial transactions and economic conditions are factored out, which improves the structural outturn by €1 billion.⁸ At last report, a deficit of €6 billion was estimated for the off-budget entities. All in all, structural net borrowing is thus likely to run up to around €5 billion. Thanks to the substantial

reserve withdrawals, the €11½ billion ceiling will be significantly undershot.

Overall, the budget plans for 2020 appear to have been drawn up with less caution than in previous years. Despite this, expenditure could increase at a somewhat slower rate than implied by the global spending cuts. Revenue could also develop more favourably. For example, transfers to the EU budget appear to have been cautiously calculated. Based on past experience, return flows will also probably be higher than estimated. All things considered, budgeted figures could therefore be notably exceeded next year, too. Given the greater budgetary scope overall, it could be worth examining whether to scale back the solidarity surcharge as early as next year. On the whole, it would appear appropriate to completely abolish this surcharge and, if necessary, to combine this step with a more fundamental tax reform.⁹

According to data from the Federal Ministry of Finance, central government's off-budget entities recorded a surplus of €2 billion in the third quarter, compared with €3 billion in the same period last year.¹⁰ This lower figure is due in large part to the development of the energy and climate fund: its surplus was smaller following the €1 billion reduction in the transfer allocated to it in the central government budget.

The surplus for 2019 as a whole is expected to be somewhat lower than in 2018 (€6 billion). The main reason for this is that central government transfers to the energy and climate fund

Developments once again more favourable than planned

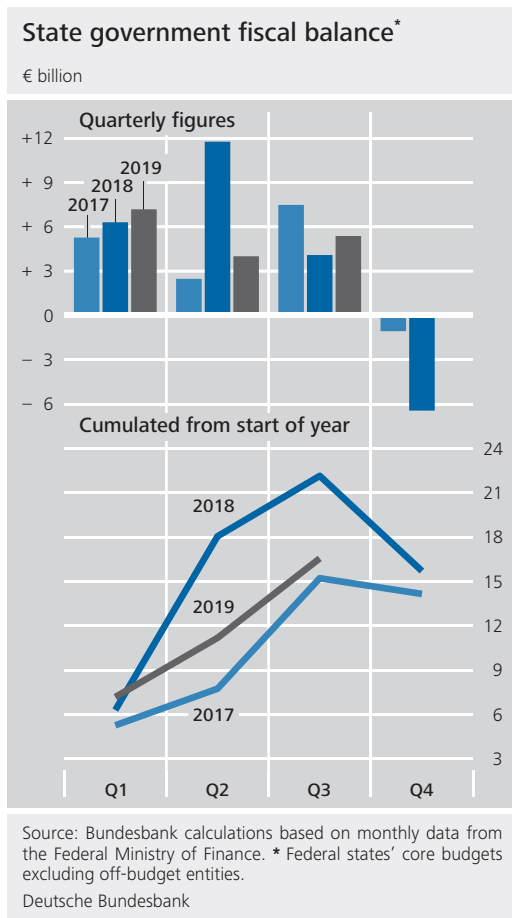
Reduced surplus for central government's off-budget entities in Q3

Slightly lower surplus in 2019 as a whole and deficit possible next year

⁸ For example, the capital injection given to Deutsche Bahn is classified as a financial transaction and thus does not count towards the structural outturn. However, a comparable payment in 2017 was classified in the national accounts as a capital transfer rather than an acquisition of financial assets. The capital injection's classification as a financial transaction in the central government budget therefore does not appear appropriate.

⁹ For more information, see Deutsche Bundesbank (2019a), p. 67.

¹⁰ SoFFin is factored out here because the considerable financial resources it borrows to refinance central government's bad bank count towards the balance.



and the digitalisation fund have been reduced by a total of €3½ billion. While the latter will receive the proceeds from the auction of 5G frequencies that came to an end in June (€6½ billion), these will be staggered due to a separate agreement on further network expansion. The absence of the €1 billion burden in 2018 resulting from the redemption of an inflation-linked central government security will provide a slightly more significant counterweight. Next year's balance will depend heavily on the extent to which funds are used for local investment and to combat climate change. In any event, the energy and climate fund's reserves are set to be significantly reduced next year as part of the climate programme. As a result, the off-budget entities could even close the year with a slight deficit overall.

State government budgets¹¹

Core state government budgets posted a surplus of €5½ billion in the third quarter, compared with €4 billion in the same quarter last year. Revenue rose sharply by 6%, driven by the rise in tax revenue (5%). Transfers from public administrations grew slightly faster still. This was partly attributable to the fact that some of these were recorded at a later point in time than last year, which had led to a marked decline in the second quarter. Expenditure rose at a slightly slower rate (5%) than revenue. In addition to other operating expenditure (6%), staff costs – a major spending component – rose sharply (6½%). The latter reflects rises in remuneration for salaried employees and pay for civil servants, as well as back-payments in connection with these. Staff increases probably also had a part to play. Growth in payments to administrations and the less significant expenditure on fixed asset formation was especially strong (14% and 14½%, respectively). By contrast, interest expenditure declined considerably. Other expenditure was also down on the year. The main reason for this was that, in North Rhine-Westphalia, payments to universities had been brought forward into the second quarter.

Year-on-year rise in surplus in Q3

After three quarters, the surplus of the core budgets stood at €16½ billion and was thus €5½ billion lower than one year previously. As the final quarter of 2018 was marked by high payments for HSH Nordbank, the balance for the year as a whole could once again come close to the balance recorded in the previous year (+€15½ billion). The medium-term outlook for state government finances also remains bright. The expectation set out in the latest tax estimate is that medium-term revenue growth will be somewhat lower than previously estimated but will remain robust. Consequently, there should still be budgetary scope for, inter

High surplus foreseeable for year as a whole and outlook bright for medium term as well

¹¹ The following data are based, unless other sources are stated, on the monthly cash statistics for the core budgets.

alia, higher investment in infrastructure or better educational opportunities.

State-specific debt brake rules in all federal states; obtaining a detailed overview proves challenging

From 2020 onwards, the debt brake under German Basic Law will apply to state government budgets. Under the debt brake, federal states will, as a rule, be required to balance their budgets with no net new borrowing. One particular area in which exceptions will apply is cyclical budget fluctuations. At the end of 2018, the debt brake had yet to be incorporated into the state legislation of three federal states.¹² During 2019, the state constitutions of Saarland and Brandenburg were amended accordingly and the provisions fleshed out in their state budgetary acts. In Berlin, the debt brake shall only be implemented in its budgetary act together with a corresponding implementing act. Furthermore, Baden-Württemberg and North Rhine-Westphalia are reworking the debt brakes in their state budgetary acts. With respect to cyclical adjustment, for instance, the state legislators are amending their rules in line with Stability Council decisions.¹³ All federal states are thus planning to incorporate the debt brake into state legislation before the ban on new borrowing comes into force. The rules vary a great deal from one federal state to the next and differ in terms of how they are enshrined in law. It is very difficult to obtain an up-to-date overview. A summary of the main design features, references in the respective state legislation and information on amendments that have been made in the meantime would be helpful. Such a summary could, for example, be provided and updated on a continuous basis by the Stability Council.

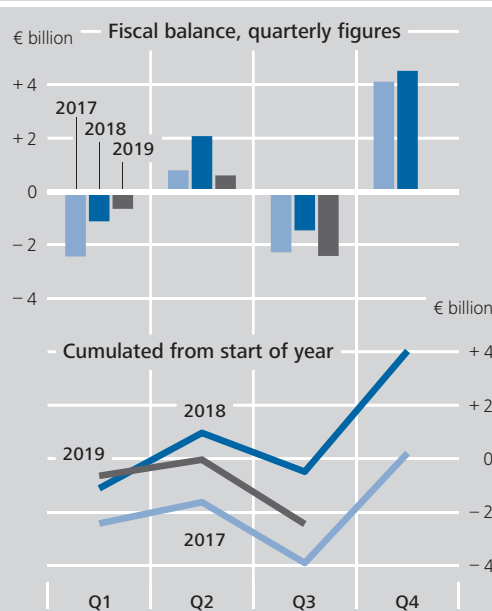
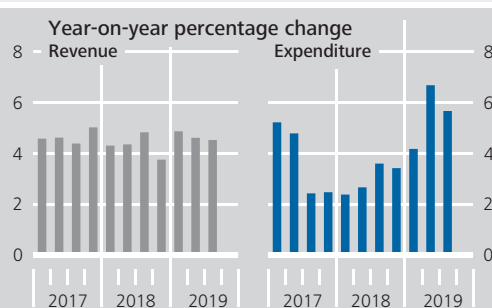
■ Social security funds

Pension insurance scheme

As usual, the statutory pension insurance scheme recorded a deficit in the third quarter. At €2½ billion, it was €1 billion higher than a year ago. Although revenue increased sharply (+4½%) thanks to continued positive employ-

Slight deterioration in result in Q3

Finances of the German statutory pension insurance scheme*



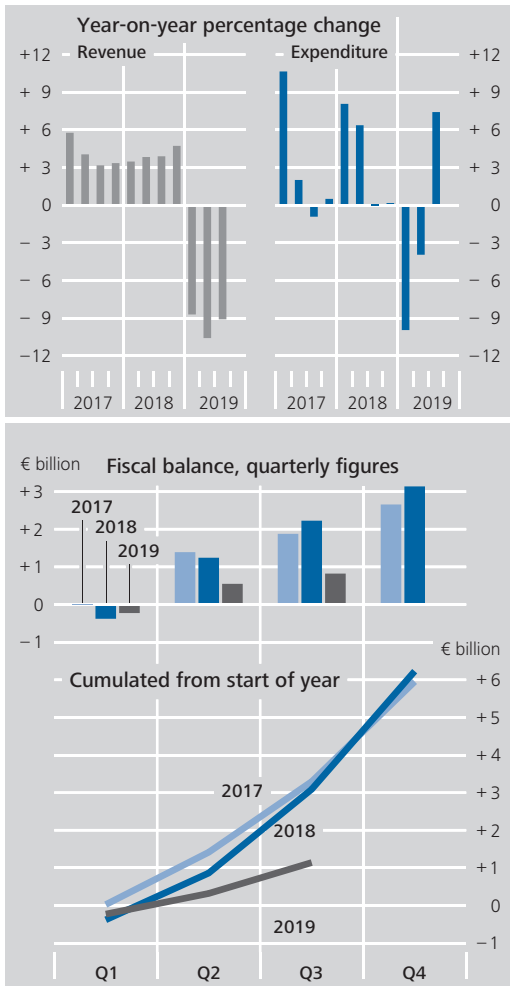
Source: German statutory pension insurance scheme (Deutsche Rentenversicherung Bund). * Preliminary quarterly figures. The final annual figures differ from the total of the reported preliminary quarterly figures as the latter are not revised subsequently.
 Deutsche Bundesbank

ment and wage developments, expenditure rose at an even higher rate of 5½%. Of this increase, “mothers’ pensions”, which were expanded at the start of the year, account for 1½ percentage points (+€1 billion compared with the same quarter last year). Other factors that raised spending were the July 2019 pension adjustment (national average: +3½%) and a moderate rise in the number of pensions. The return to parity financing of the statutory health insurance scheme is also putting pressure on

¹² For a more detailed stocktake from last year, see Deutsche Bundesbank (2018).

¹³ See also Deutsche Bundesbank (2019b), pp. 93 ff.

Finances of the Federal Employment Agency*



Source: Federal Employment Agency. * Federal Employment Agency core budget including transfers to the civil servants' pension fund.
 Deutsche Bundesbank

the pension insurance scheme. Since the start of the year, the pension insurance scheme has been paying half of the supplementary contributions for pension recipients.

Cumulated over the first three quarters, the deficit was €2 billion higher than in the previous year (-€½ billion). Nevertheless, a marked surplus should still be recorded for the year as a whole due to contribution receipts typically being higher in the last quarter of the year. While this is likely to fall far short of the surplus generated the year before (+€4½ billion), the outturn would still be a significant improvement on the figure estimated in the Federal

Significant deterioration in result for year as a whole, but surplus still marked

Government's pension insurance report in the fourth quarter of 2018 (deficit of €1½ billion).

The favourable financial situation in which the statutory pension insurance scheme currently finds itself should not detract from the fact that demographically driven budgetary strains are looming.¹⁴ Rising deficits are on the cards in the years ahead. The Federal Government has announced a reform of the statutory pension insurance scheme for the period after 2025.

Rising deficits on the cards

The Bundestag modified the annual pension adjustment formula with effect from 2020.¹⁵ Pensions are based on changes in the level of income subject to compulsory insurance contributions. However, these data are only available with a lag of almost one year. For this reason, the mid-year annual adjustment is initially carried out using national accounts data available at that point in time (effectively on a temporary basis). Following major national accounts revisions, annual pension adjustments could sometimes be quite erratic. The change in the rules was introduced in response to the most recent national accounts revision, according to which the level of gross wages and salaries per employee is currently around 2% higher. Under the rules previously in place, this would have led to wildly fluctuating pension adjustments: in mid-2020, the adjustment would have been equal to the level shift, i.e. it would have been around 2 percentage points higher, and this would then have been offset by a correspondingly lower adjustment in mid-2021.¹⁶ Under the new rules, such a leap between two datasets no longer has any effect on annual pension adjustments. As previously, pensions are brought closer into line with changes in the

Pension adjustment modified

¹⁴ See also Deutsche Bundesbank (2019c).

¹⁵ The change was added in the draft Act Amending the Act on the Establishment of the German Statutory Pension Insurance Scheme and German Pension Insurance for Miners, Railway and Maritime Workers (*Geszentwurf zur Änderung des Gesetzes zur Errichtung der Deutschen Rentenversicherung Bund und der Deutschen Rentenversicherung Knappschaft-Bahn-See*).

¹⁶ For information on the relatively complex underlying reasons for this, see Deutsche Bundesbank (2014), pp. 75-76.

level of income subject to compulsory insurance contributions once the relevant data become available. Following the new methodology instead of the old, the pension adjustments will be lower in 2020 and higher in 2021. The load on the reserves will thus be lightened by around €6 billion.

Federal Employment Agency

Significantly reduced surplus in Q3

The third quarter saw the Federal Employment Agency post a surplus of €1 billion in the core budget.¹⁷ In a year-on-year comparison, however, the surplus was down by €1½ billion. Revenue declined by €1 billion, or 9%, on the back of the considerable contribution rate cut at the start of the year (by 0.5 percentage point to 2.5%). Wages and employment remained upbeat. Had the contribution rate remained unchanged, revenue would have risen by almost 4½%. Spending on unemployment benefits increased by a very substantial 11½%. While registered unemployment as a whole (including unemployment among job seekers receiving the basic allowance) fell once more, the num-

ber of unemployment benefit recipients went up again. The number of recipients remains at a very low level, however. As advanced vocational training schemes have been expanded significantly since the start of this year, spending on active labour market policy measures rose by a considerable 5½%.

The main lines of development are likely to remain unchanged in the final quarter. This would make the surplus much smaller than in the previous year (2018: just over €6 billion). However, it is likely to be much higher than expected (€½ billion) on account of expenditure coming in way under budget. As a result, the free reserves will probably continue to build, and the threshold of 0.65% of GDP – the point at which the Federal Government considers cutting the contribution rate – will presumably be significantly exceeded. Overall, the planned additional small reduction of 0.1 percentage point for the years 2020 to 2022 is viable.

Marked surplus again for year as a whole, but much lower than in previous year

¹⁷ Excluding the civil servants' pension fund. Transfers to the fund are thus recorded as expenditure reducing the core budget balance.

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