Public finances*

Government finances in the coronavirus pandemic

Overview

Government finances have stabilising effect in coronavirus crisis

In recent years, German government finances have recorded significant surpluses and a declining debt ratio. Last year, the surplus stood at 1.4% of gross domestic product (GDP). At 59.8%, the debt ratio was below the 60% mark for the first time since 2002. The budget plans for the current year were already expansionary, and the expansion has intensified considerably since March in the wake of the coronavirus pandemic. Extensive fiscal policy measures have been implemented to support the health system and limit economic damage. A crisis situation like this shows how important sound public finances are. They enable the government to take on extensive costs and risks without sacrificing confidence in its ability to act.

Economic stimulus package in preparation

It was important and right that fiscal policymakers quickly set up a broad rescue package. As the duration and economic impact of the constraints are difficult to estimate reliably, further adjustments may become necessary. The Federal Government is preparing an economic stimulus package for the time ahead. This enables counteractive action to be taken should weak demand continue after the severe restrictions. The programme could also incorporate other government objectives, such as climate protection or digitalisation. Owing to the favourable starting position, as things currently stand, government finances still have sufficient scope for a strong stimulus if necessary. As with the current support measures, this programme should be temporary. When the fiscal stabilisation measures are phased out and the economy recovers, government finances will then improve again automatically, at least to a large extent. Given the high level of uncertainty, it is not yet possible to reliably assess the extent to which a subsequent consolidation will be necessary to comply with the budgetary rules again. In this respect, it is reasonable to focus on stabilising economic activity for the time being and to not yet address potential consolidation measures. There is therefore also ample justification for initially continuing to monitor and assess developments as well as, for example, basing the Federal Government's budget plans in autumn on better information – including a renewed update of the tax estimate.

Focus on stabilising economic activity

High deficit in 2020 and sharp rise in debt due to …

In the current year, government finances are chiefly marked by the consequences of the pandemic. A high deficit and a sharp rise in the debt ratio are on the cards, though the actual extent of both remains very uncertain. According to its stability programme of mid-April, the Federal Government expects a deficit ratio of around 7% and a debt ratio of approximately 75%. While the European Commission's May projection shows a similar development, the Joint Economic Forecast of early April displayed a more favourable outlook. The official tax estimate just presented does not fundamentally change the picture (for more details on the tax estimate, see pp. 76 ff.).

… automatic stabilisers and fiscal measures

This year's development is, first, crucially shaped by automatic stabilisers. The economic downturn is causing taxes, in particular, to fall sharply[1] and expenditure on short-time working and unemployment benefits to soar. The situation is further aggravated by measures to

* The section entitled "Government finances in the coronavirus pandemic" refers to the general government as well as national accounts data and the Maastricht debt ratio. This is followed by more detailed reporting on budgetary developments (government finance statistics) at the individual levels.

1 The development of social contributions is also muted, but they are not affected to the same extent as taxes. This is because they are largely dependent on wages and pensions, which are more stable. In addition, short-time working and unemployment benefits are also subject to contributions to the health, long-term care and pension insurance schemes.

support revenue and expenditure. For instance, short-time working benefits, unemployment benefits and the basic allowance for job seekers were temporary expanded. In addition, the Federal Employment Agency is refunding the social contributions for short-time working benefits in this crisis. One-off transfers have been agreed, especially for small enterprises. Deferring taxes and social contributions as well as simplifying reductions in advance payments of taxes on income is improving enterprises' liquidity situation. In addition, enterprises can receive extensive credit guarantees, and capital injections are also being offered. Loans and injections from these programmes increase the Maastricht debt level.[2] The deficit increases in cases where domestic guarantees result in a payment obligation for the government or capital injections are considered transfers from the outset (as they ultimately constitute a loss absorption measure).

Health protection measures

Health protection: transfers to expand and reserve capacity for COVID-19

Since the beginning of the coronavirus epidemic in Germany, extensive health protection measures have been taken. The first priority was to curb the spread of the virus and to reserve capacity for treatment. Investment grants enable hospitals to significantly increase their capacity for intensive care. In-patient, and also out-patient, treatment not related to the coronavirus is currently only being administered to a limited extent. In return, central government is reimbursing hospitals for remuneration shortfalls so that they can concentrate on the treatment of COVID-19 cases. In addition, hospitals receive higher remuneration for nursing activities. The health insurance institutions are providing compensation for the largest part of revenue shortfalls as a result of reduced outpatient and dental treatment. They are also making one-off payments to providers of therapeutic treatment. Overall, government health expenditure is expected to experience a temporary perceptible rise despite only moderate utilisation of large parts of the health system at present.

Economic and income support measures

Limit economic damage

Economic activity was reduced in many ways in order to contain the coronavirus epidemic. Fiscal policy measures have been deployed to prevent or mitigate economic damage. They aim at limiting corporate insolvencies and unemployment as far as possible. In addition, social benefits have been temporarily expanded to soften income losses.

Expanded short-time working benefits stabilise labour market

Since March, labour input has fallen significantly. So far, this appears to be chiefly reflected in lower working hours rather than higher unemployment. The Federal Employment Agency is thus primarily making higher payments for short-time working benefits.[3] The prerequisites for this insurance benefit have been temporarily reduced in the present crisis. For example, it is currently available in cases where fewer working hours have been cut, and can be received for a longer period of time. In addition, the Federal Employment Agency is paying the social contributions that enterprises otherwise have to pay.[4] Short-time work is thus significantly easing the burden on enterprises from wage costs. This should help both to avoid redundancies in the event of a temporary loss of work and to maintain income prospects. An agreement has also just been passed enabling the individual benefit to be raised temporarily should short-time working arrangements stay in place for a longer period of time. Given

2 The guaranteed loans are assigned to the government because it bears the majority of the risks (for 80% to 100% of the loan amount).
3 Like unemployment benefits, short-time working benefits can be considered automatic stabilisers. Enterprises register short-time work and pay workers up front. Once working hours have been cut, enterprises have three months to claim a refund from the Federal Employment Agency.
4 The enterprise generally pays the full contributions (employer and employee share excluding contribution to unemployment insurance) on 80% of the lost gross remuneration.

the poorer chance of recruitment during the current crisis, the period of entitlement to unemployment benefit I was also extended by three months for the rest of the year.

Basic allowance and partial compensation for loss of income due to restricted childcare

Households with no or low income can apply for the basic allowance. Their assets or a higher standard of housing are not taken into account for the time being. In addition, losses in earnings this year will be partly offset if they occur as a result of a government decision to restrict childcare.

Enterprises: transfers, tax subsidies, credit guarantees and capital assistance

In order to preserve the liquidity and, in some cases, the solvency of enterprises, central and state government have launched extensive assistance programmes. Very small to medium-sized enterprises, self-employed persons and freelancers can receive one-off transfers. The funds are intended to help cover ongoing operating costs in the event of a lack of revenue as a result of the coronavirus pandemic. Central government is also planning to provide additional support to restaurants and the catering trade by temporarily lowering the VAT rate on food. In addition, there will be guarantees for low-interest loans for enterprises across all sectors, covering 80% to 100% of the loan amount. The loans are mostly to be settled via government-assigned special programmes run by the KfW banking group and state government promotional banks. For large enterprises that are generally healthy, central government also added an Economic Stabilisation Fund (WSF) to the Financial Market Stabilisation Fund (SoFFin). In addition to providing credit guarantees, this new fund can also grant capital under certain conditions. Central and state governments have issued extensive authorisations for transfers to enterprises, credit guarantees and capital injections. Central government alone plans to transfer €50 billion. The guarantee framework for credit guarantees in the central government budget was increased by up to €510 billion. The WSF has a guarantee framework of €400 billion and credit authorisations of €200 billion.

Pressure on corporate solvency mounts with length and intensity of crisis

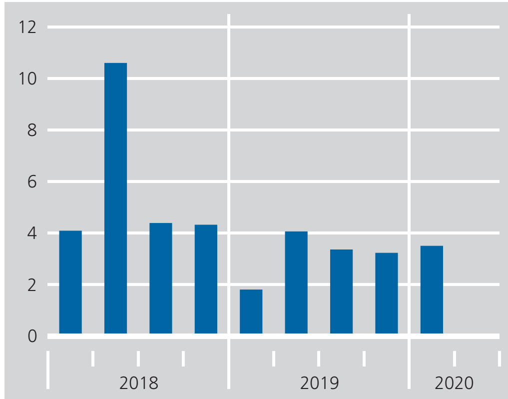
The longer economic activity is restricted as a result of the pandemic, the more squeezed enterprises will be. If insolvencies are to be avoided as far as possible, it would be logical to retool government assistance from liquidity support to solvency protection. This can generally be achieved by means of transfers or acquisition of equity. So far, central government has only provided such assistance for small and major enterprises. Given the extraordinary crisis situation, closing existing gaps appears to warrant consideration. Care should be taken to support, wherever possible, only those enterprises experiencing problems as a result of the coronavirus pandemic and where the business model holds the promise of success after the crisis.

Deferring taxes and lowering advance tax payments eases strain on enterprises' liquidity

In addition to these measures, special tax rules have come into force aimed, in particular, at improving the liquidity situation. These rules affect profit-related taxes, turnover tax and selected central government taxes. For instance, this year it will be possible to defer tax payments without incurring interest, and there will be no compulsory enforcements. Furthermore, special advance payments of turnover tax made after the beginning of the year can be reimbursed without having to forego the otherwise associated deadline extension of one month. Enterprises can defer the payment of social contributions until the end of May. The procedure for lowering advance payments of income, corporation and local business taxes has also been simplified. Aside from this, there are plans to reimburse some advance payments made last year for losses incurred this year. In this context, it would appear worthwhile extending these options further still. These measures will ease the strain on enterprises in the short term by lowering liquidity outflows. This will initially result in lower government tax revenue in cash

Tax revenue*

Year-on-year percentage change, quarterly figures



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

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terms, but revenue will then be correspondingly higher going forward.[5]

Fiscal rules

Exemption clauses of budgetary rules activated

In times of crisis, the budgetary rules offer sufficient flexibility to allow an appropriate fiscal response. For instance, the European budget limits have been suspended for the time being (see p. 86). Central government and most federal states have adopted supplementary budgets and, for this purpose, have activated the exemption clauses for their debt brakes. The social security funds and local governments do not have comparable rules. There is much to suggest that central and state governments should support them in tackling the burdens stemming from the crisis. Generally speaking, central government is responsible for the social security funds, whilst individual federal states are responsible for their municipalities. Overall, the government is thus in a position to make a broad-based, strong contribution to stabilisation during the crisis. It is not yet possible to reliably assess for how long and to what extent this will be necessary. If the exemption clauses are lifted later on, the regular fiscal rules will come back into force.

Further measures at the European level

Assistance measures at European level

At the European level, too, far-reaching measures are envisaged to manage the economic consequences of the coronavirus crisis as effectively as possible (see the box on pp. 85-90). Within the EU, Germany has a comparatively strong economy and an effective social security system. Its government finances enjoy a high level of confidence and the financing conditions on the capital markets are exceptionally favourable. In this respect, European instruments are less targeted at Germany and, at the same time, Germany is likely to make a greater contribution owing to its relative economic strength.[6]

Budgetary development of central, state and local government

Tax revenue

Tax estimate subject to extreme uncertainty

As described above, tax revenue is being significantly affected by the coronavirus crisis. While this was still barely discernible in the first quarter (+3½% in a year-on-year comparison; see the adjacent chart and the table on p. 77),[7] a sharp decline is expected for the year as a whole. The current tax estimate also envisages large shortfalls in tax revenue. Overall, these are in line with the latest expectations. Following strong shortfalls in the current year, revenue will rebound in 2021. According to the tax estimate, however, tax revenue will still fall far short of the October 2019 projection in the

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5 As long as these measures target liquidity only, there is no change in the tax liability. Payments are simply postponed for a time. This shift is reflected in the monthly payment flows, which are shown in the finance statistics. In the national accounts, taxes are generally recorded on an accrual basis. A deferral of tax liabilities therefore does not affect tax revenue in the national accounts. Over and above this, incoming payments are allocated to the corresponding period in Germany using a stylised short time lag.
6 See Deutsche Bundesbank (2020a).
7 This figure excludes receipts from local government taxes, which are not yet known for the first quarter. These are included from here on in the following remarks.

medium term, too. This is due to the fact that economic activity as outlined in the Federal Government's spring projection will fail to reach the trajectory that had previously been expected. That said, the uncertainty surrounding the current estimate is extremely high overall – both in terms of macroeconomic developments and the effects of tax measures. In this respect, it shows more of a snapshot of what is potentially a rapidly changing economic situation. It would therefore make sense for there to be an additional update of the tax estimate in September. The draft central government budget for 2021 and the medium-term fiscal plan up to 2024 should then be based on this.

Considerable decline in tax revenue expected this year

Specifically, the new official tax estimate puts tax revenue at down by 10% for 2020. This is driven largely by the macroeconomic assumptions (see the table on p. 78), which include declines in all major macroeconomic reference variables for tax revenue. Progressive taxation will also reduce revenue because average wages are expected to decrease. Short-time working benefits, which replace a large part of lost income, are not taxed.[8] In addition, the tax measures that have already been put in place in response to the coronavirus crisis will lead to shortfalls of around €20 billion (see the remarks on pp. 75 f.). Legislative changes adopted prior to these measures will likewise have a net dampening effect.[9] This applies first and foremost to the Family Relief Act *(Familienentlastungsgesetz),* under which the previous year's bracket creep was compensated and child benefits were raised, in particular.

Strong recovery in 2021

A 10½% increase in revenue is expected for the coming year. The driving factors will be the assumed overall economic recovery and progressive taxation. In addition, the discontinuation of tax measures introduced to tackle the coronavirus crisis will create additional revenue. It is expected that tax payments deferred in 2020 will be made at this point. By contrast, the partial abolition of the solidarity surcharge will have a negative effect. Further legislative changes and court rulings will only marginally reduce growth. Growth of between 3% and 4½% is expected for 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 moderately on growth. The tax ratio (as defined in the government finance statistics) will tumble to

Growth in subsequent years driven by economic growth and progressive taxation

Tax revenue

Type of tax	Q1 2019	Q1 2020		Estimate for 2020[1]
	€ billion	€ billion	Year-on-year change %	Year-on-year change %
Tax revenue, total[2]	175.2	181.4	+ 3.5	− 9.8
of which:				
Wage tax	50.9	53.4	+ 4.8	− 3.4
Profit-related taxes	32.1	34.6	+ 7.9	− 24.7
Assessed income tax[3]	17.5	18.7	+ 7.2	− 25.3
Corporation tax	9.2	8.5	− 7.6	− 41.3
Non-assessed taxes on earnings	4.0	4.9	+ 24.1	− 10.6
Withholding tax on interest income and capital gains	1.4	2.5	+ 71.3	+ 22.4
Turnover taxes[4]	60.4	60.1	− 0.6	− 9.1
Other consumption-related taxes[5]	20.1	20.5	+ 1.7	− 5.1

Sources: Federal Ministry of Finance and Bundesbank calculations. 1 According to official tax estimate of May 2020. 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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8 However, while not being taxed, short-time working benefits are factored in when the tax rate is determined ("Progressionsvorbehalt"). This leads to higher tax rates, which in turn leads to a moderate increase in tax revenue in the following year.
9 The official tax estimate is generally based on current legislation.

Official tax estimate figures and the Federal Government's macroeconomic projection

Item	2019	2020	2021	2022	2023	2024
Tax revenue[1]						
€ billion	799.3	717.8	792.5	816.0	851.1	883.3
% of GDP	23.3	21.9	22.7	22.7	23.0	23.1
Year-on-year change (%)	3.0	– 10.2	10.4	3.0	4.3	3.8
Revision of previous tax estimate (€ billion)	2.9	– 98.6	– 52.7	– 59.1	– 53.8	– 51.7
Real GDP growth (%)						
Spring projection (April 2020)	0.6	– 6.3	5.2	1.4	1.4	1.4
Autumn projection (October 2019)	0.5	1.0	1.3	1.1	1.1	1.1
Nominal GDP growth (%)						
Spring projection (April 2020)	2.7	– 4.7	6.8	3.0	3.0	3.0
Autumn projection (October 2019)	2.8	2.9	3.1	2.8	2.8	2.8

Sources: Working Party on Tax Revenue Estimates (May 2020) 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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21.9% in 2020 (2019: 23.3%). After that, it will pick back up to 23.1% in 2024.

Revenue expectations down significantly compared with October 2019, even in medium term

Compared with the October 2019 forecast, tax revenue shortfalls of €98½ billion are anticipated for 2020. While this is chiefly attributable to the downward revision of macroeconomic assumptions, the measures introduced in response to the coronavirus crisis also necessitated a major correction. Shortfalls will then be significantly lower in 2021 (€52½ billion). Although strong economic growth is assumed, and the measures in place to boost corporate liquidity will then no longer be in place (i.e. tax payments will be expected following the expiry of coronavirus measures), this will not be enough to offset the losses incurred in the previous year. Revenue shortfalls will also arise due to the fact that, unlike in October, the tax estimate now factors in the partial abolition of the solidarity surcharge and further tax cuts. Revenue expectations for 2022 to 2024 were scaled back by between €50 billion and €60 billion per year. The decisive factor here is that, according to the spring projection, the economic activity that underlies these expectations will continue to catch up at no more than a moderate pace and will stray noticeably from the path previously laid out. Structural tax cuts are also reflected, especially the partial abolition of the solidarity surcharge.

Central government budget

Still a surplus in central government budget at start of year, …

The central government budget recorded a surplus of €2 billion in the first quarter, compared with a deficit of €1½ billion at the start of the previous year. Revenue was up sharply (+9%). Tax revenue grew significantly, partly as a result of lower transfers to the EU budget. The Bundesbank's high profit distribution had a slightly greater impact on revenue still, exceeding the previous year's figure by €3½ billion. The budget estimate was also exceeded by this amount. According to the budget plan, this additional revenue is still to be transferred to the investment and repayment fund for debt repayment. Expenditure rose by 5%, with the coronavirus crisis barely playing a role at this time.

… but supplementary budget includes high borrowing authorisation to finance major pandemic-related burdens

At the end of March, the Federal Government approved a supplementary budget for the current year to tackle the tremendous pandemic-related burdens that lie ahead. The €37½ billion remaining in the refugee reserve under the old plans was not utilised for this purpose. Instead, net borrowing of €156 billion is envisaged. This is intended to cover tax revenue shortfalls of €33½ billion – one-tenth of the revenue previously estimated. On the expenditure side, €50 billion was earmarked for transfers to micro-enterprises, €7½ billion for additional basic allowance benefits and €6 billion

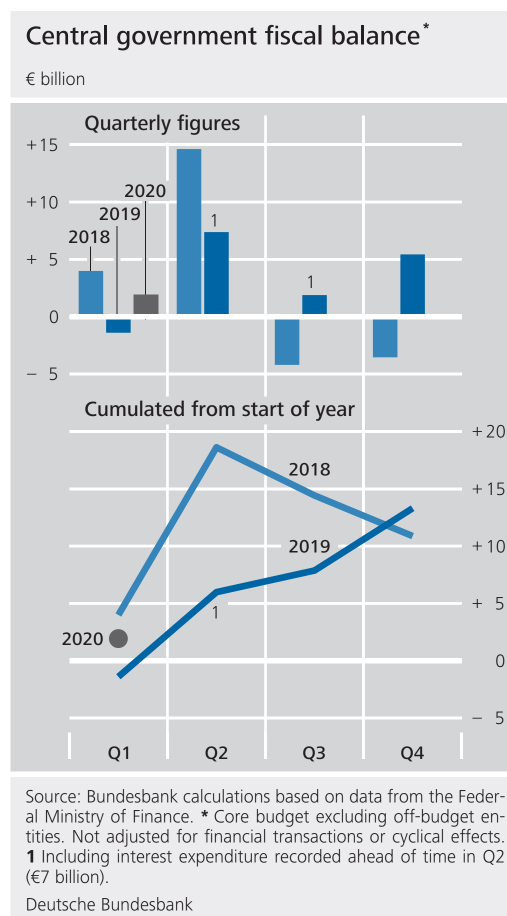
for higher calls on guarantees. In addition, €3½ billion was budgeted to contain the epidemic in Germany. A global additional spending item of €55 billion, which was formed in response to the crisis, is very extensive. Furthermore, the guarantee framework, which can be flexibly implemented with the approval of the Budget Committee, was expanded considerably (by up to €510 billion). With regard to guarantees, attention is likely to be focused on loans issued by the Kreditanstalt für Wiederaufbau (KfW) for companies, in particular.

Use made of debt brake exemption clause, repayment up to 2042 planned

The supplementary budget is based on a sharp downward revision of nominal GDP. The cyclical burden is now estimated at €50 billion. As cyclical effects are factored out of the debt brake, net borrowing of 0.35% of GDP permitted under the debt brake has increased by this amount. Nevertheless, planned net borrowing is expected to exceed the constitutional limit by €100 billion owing to wide-ranging additional spending authorisations and tax revenue shortfalls in connection with the coronavirus crisis (see the table on p. 80). It was thus with good reason that the Bundestag invoked the exemption clause. At the same time, it adopted a repayment plan to pay off this debt incurred under the exemption clause, which involves undershooting the ceiling for structural net borrowing (currently €12 billion) by €5 billion per year for 20 years starting in 2023. This will be counted as repayment.

Uncertainty high – central government budget can make a strong temporary contribution to stabilising economic activity

It is currently difficult to gauge how extensive borrowing will actually be. According to the new tax estimate, tax revenue will lag behind the figures in the supplementary budget by €7 billion. Further tax cuts and an economic stimulus package are on the horizon. However, the large global additional spending item, in particular, is likely to still provide a considerable buffer, which will be able to at least partly offset further revenue shortfalls and additional expenditure. Overall, the central government budget is in a good position to make a strong temporary contribution to stabilising economic activity. Moreover, financing conditions remain highly favourable. Once the coronavirus crisis has been overcome, central government finances will automatically stabilise significantly, even if the economic stimulus package, in particular, is temporary. It will only be possible to reliably gauge remaining consolidation requirements for future compliance with the budgetary rules (including the repayment of debt incurred under the exemption clause) once the structural effects of the pandemic can be identified more precisely. In view of this, it was with good reason that preparation of the medium-term fiscal plan (as well as the draft budget for 2021) was postponed until late summer.[10] However, it could still be too early even at this point in time for a firm plan, potentially backed up by specific measures, to return to normal budgetary rules.



Source: Bundesbank calculations based on data from the Federal Ministry of Finance. * Core budget excluding off-budget entities. Not adjusted for financial transactions or cyclical effects. **1** Including interest expenditure recorded ahead of time in Q2 (€7 billion).
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10 The benchmark figures adopted by the Federal Government in mid-March for its fiscal planning did not yet take into account the spread of the coronavirus and the consequences of this for the central government budget. There is therefore a considerable need for adjustment.

Key central government budget data in connection with the debt brake*

€ billion

Item	2019	2020	
	Provisional actual	Budget (November 2019)	Supplementary budget (March 2020)
1. Fiscal balance	13.3	– 11.0	– 167.0
2. Coin seigniorage	0.2	0.3	0.3
3. Transfer to (–)/withdrawal from (+) reserves	– 13.5	10.6	10.6
4. Net borrowing (1.+2.+3.) (repayment: +; borrowing: –)	–	–	– 156.0
5. Balance of financial transactions	0.0	– 0.3	– 0.3
6. Cyclical component in the budget procedure[1]	– 2.9	– 0.5	– 50.1
7. Balance of incorporated off-budget entities	0.7	– 5.9	– 5.9
Digitalisation fund	0.3	– 1.0	– 1.0
Energy and climate fund	1.8	– 3.8	– 3.8
Flood assistance fund	– 0.6	– 0.5	– 0.7
All-day schools (as of 2020)		1.0	1.0
Fund to promote municipal investment	– 0.9	– 1.6	– 1.3
8. Structural net borrowing (4.–5.–6.+7.) (repayment: +; borrowing: –)	3.5	– 5.1	– 111.5
9. Structural balance (8.–2.–3.)	16.8	– 16.1	– 122.4
10. Structural balance adjusted for updated estimate of potential output[2]	0.8	20.7	– 135.2
11. Debt brake ceiling (–0.35% of GDP[3])	– 11.5	– 11.7	– 11.7
12. Amount credited to the control account (8.–11.)	15.0	6.6	–
13. Credit balance on the control account at year-end	52.2	46.5	52.2
14. Amount exceeding ceiling (11.–8.)	–	–	99.8
15. Outstanding repayment amount	–	–	99.8
16. Size of refugee reserve at year-end	48.2	19.2	37.6

Sources: Federal Ministry of Finance and Bundesbank calculations. * For more information, see Deutsche Bundesbank, Public finances, Monthly Report, February 2016, pp. 68 f. **1** Simplified procedure applied: 2019 adjusted to national accounts figures published in February 2020 and 2020 supplementary budget adjusted to the Federal Government's March 2020 expectations. **2** Potential output based on the Federal Government's 2020 spring projection. **3** GDP: gross domestic product. Here, this refers to GDP in the year before the budget is prepared.

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Significant outflows from new Economic Stabilisation Fund planned

Central government's off-budget entities posted a deficit of just over €1½ billion in the first quarter.[11] A surplus of €1 billion had been recorded one year earlier. The new Economic Stabilisation Fund, in particular, is likely to run a large deficit over the remainder of the year. In addition to a guarantee framework of €400 billion to protect loans to larger enterprises, it also has credit authorisations of €200 billion. One half is intended for capital injections for larger enterprises, while the other half is intended to finance government-guaranteed KfW loans.

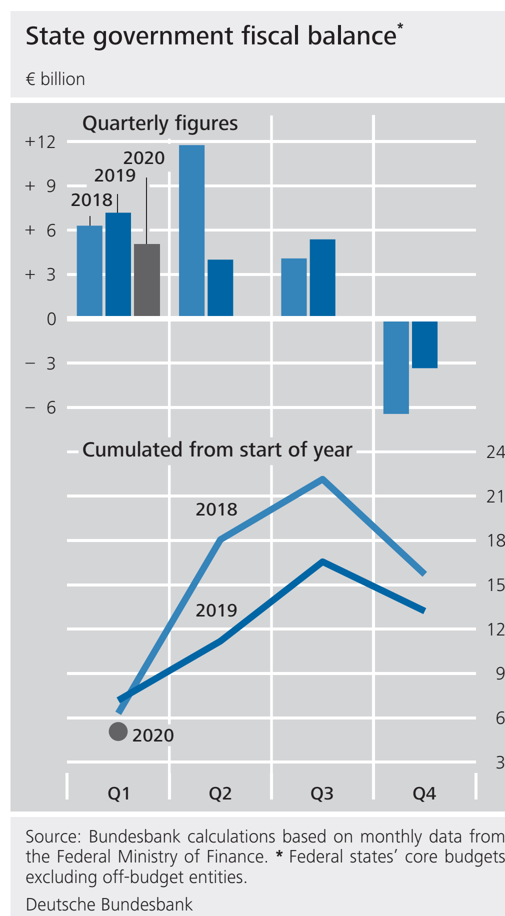
State government budgets

Large deficit this year due to pandemic-related burdens

In order to overcome the coronavirus crisis, most of the federal states are making use of the exemption clause in their debt brake and adopting supplementary budgets. After several years of positive balances and despite a surplus of €5 billion in the first quarter,[12] state government budgets are now expected to record a very large deficit this year. Expenditure is likely to rise sharply. For example, the federal states are responsible for financing certain hospital investments. In addition, they have set up various state-specific programmes for resident enterprises. By providing one-off grants, the majority of federal states are supplying smaller enterprises with aid on top of central government assistance as well as – unlike central government – supporting medium-sized enterprises. In addition, the federal states are offering guarantees for loans to enterprises, subsidised liquidity loans via their promotional banks and, in some cases, capital injections for enterprises. Several federal states are also reimbursing their

11 According to data from the Federal Ministry of Finance, i.e. excluding bad banks and other entities that use commercial double-entry bookkeeping. SoFFin's deficit is also factored out. It is based on funds transferred to refinance the bad bank FMSW. In return, the direct debt of FMSW which is also attributable to central government is repaid.
12 The quarterly data on state government budgets are based on the monthly cash statistics for the core budgets.

local governments for costs that can be clearly attributed to the crisis, with one particular example being lost fees for day care facilities for small children. The usual transfers to local government financed using state government tax revenue will initially continue as planned. More comprehensive stabilisation assistance at the local government level appears foreseeable. By contrast, state government tax revenue will fall considerably – which is also indicated by the current tax estimate (-8½%).[13] If the federal states further expand their support programmes or co-finance an additional economic stabilisation package, their budgets will be put under more strain. However, deficits in state government budgets will also shrink again as temporary fiscal measures cease to apply and the overall economic recovery gains a stronger foothold. The exact extent to which the deficits will decrease cannot be reliably estimated here, either.



Source: Bundesbank calculations based on monthly data from the Federal Ministry of Finance. * Federal states' core budgets excluding off-budget entities.
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Consolidation reports: deficit ceilings complied with in 2019

The states receiving consolidation assistance (Berlin, Bremen, Saarland, Saxony-Anhalt and Schleswig-Holstein) were required to demonstrate by the end of April 2020 that they had reduced their structural deficits in 2019 as agreed. The aim was to prepare the budgets of these federal states for the debt brake, which would apply from 2020 onwards. If the respective federal states' structural deficits (adjusted for cyclical effects and financial transactions) come under the agreed ceiling, the states receive the full amount of consolidation assistance for the reporting year. This assistance will be paid out for the last time for 2019. According to the reports and press releases that have already been published by Berlin, Bremen and Saxony-Anhalt, these requirements were met.

Local government finances

Large deficit expected this year due to sharp decline in tax revenue

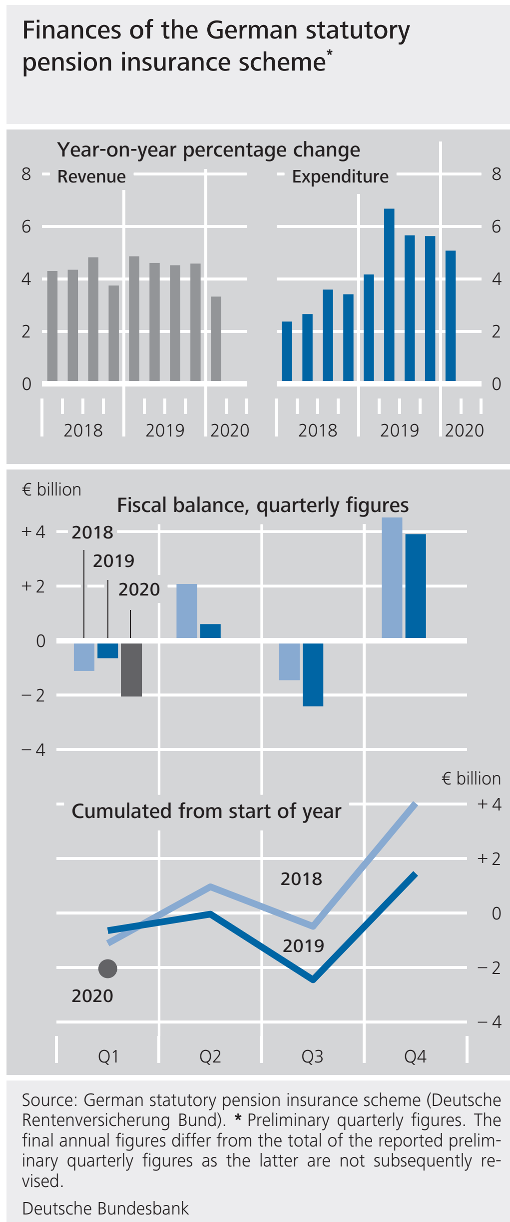
Local government budgets are also coming under massive pressure as a result of the coronavirus crisis. A large deficit is anticipated for the current year. In particular, local business tax revenue – a large revenue item – will decline considerably (by 19½% according to the latest tax estimate). Revenue from local government shares in income and turnover tax will also decrease. By contrast, the regular transfers from state government will boost revenue. Local government expenditure is likely to increase significantly again this year. In particular, the temporary relaxing of the means-tested assessment of the basic allowance will increase spending on social benefits.

Protection against pandemic-related burdens together with reform of local government financing to be considered

On the whole, there is much to suggest that local governments should be shielded from the financial burdens caused by the pandemic. This is largely a task for the federal states. Such support could also be combined with a fundamental reform of local government financing. The current situation once again demonstrates a need for action. For instance, there is a lot to

13 In the tax estimate, the local government taxes of city states come under local government tax revenue rather than state government tax revenue.

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 subsequently revised.
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be said for substantially stabilising local government tax revenue while preserving local government tax autonomy.[14]

Social security funds

Pension insurance scheme

Significant deficit expected this year

In the first quarter, the statutory pension insurance scheme recorded a deficit of €2 billion. Two-thirds of the €1½ billion increase in the deficit compared with the previous year was attributable to higher mothers' pensions. Following a delay, these were not paid out until the second quarter of 2019. A significant deficit is likely to be recorded for the year as a whole after the previous year's surplus, although this is easily covered by the fluctuation reserve. In mid-2020, pensions will be raised nationwide by an average of 3½%. The adjustment is due mainly to the favourable per capita wage developments of the past year. The sustainability factor will also have an adjustment-boosting effect, as the ratio of persons subject to compulsory contributions to pension recipients that is applicable here rose once again. The number of pensions is likely to continue growing only relatively moderately. Owing to the coronavirus crisis, revenue growth is expected to weaken significantly. However, shortfalls in contribution receipts due to lower wages will be mitigated primarily by short-time working and unemployment benefit contributions. In addition, central government funds will rise markedly in line with adjustment rules.

Pensions Commission recommends dual thresholds even after 2026, but does not explore central government funds needed in further detail

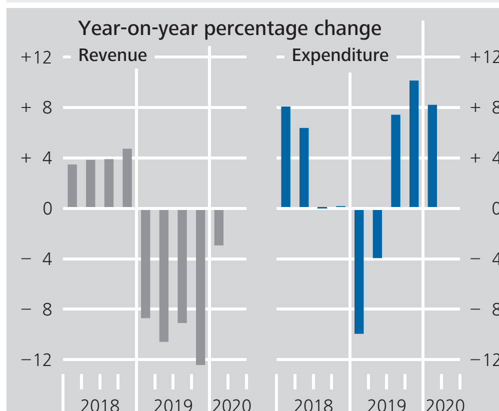
In March, the Commission for a Reliable Intergenerational Contract *(Kommission verlässlicher Generationenvertrag)* set up by the Federal Government submitted its report. It was appointed to put forward recommendations on the reform of the pension insurance scheme from 2026 onwards. The majority of the Commission's members support a continuation of statutory upper limits for the contribution rate and pension level, each for a period of seven years. They propose a threshold of between 20% and 24% for the contribution rate and of between 44% and 49% for the pension level. Until 2030, the pension level should continue to be calculated on the basis of 45 contribution years. It will not be until 2031 that longer periods of employment are included, as also intended in combination with the higher statutory retirement age. The pension level will then be higher due to these longer periods of employment. The presumed significant increase in central government funds and thus tax burdens in this context is not explored in any further detail in the Commission's report.

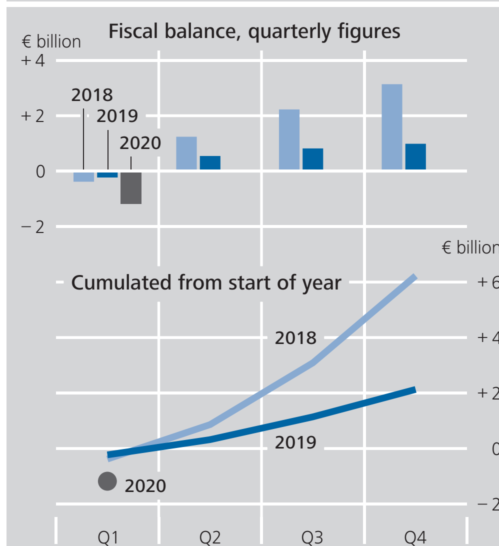
14 See Deutsche Bundesbank (2020b) for more details.

Decision regarding possible adjustment of statutory retirement age to be made in 2026

With regard to the statutory retirement age, the Commission was unable to agree on a recommendation to link the statutory retirement age to life expectancy. Instead, it proposes that this issue be left until 2026 to be dealt with by another expert panel. In addition to the pension level, the contribution rate and central government funds, the retirement age is a key variable within the pension insurance scheme. Life expectancy is expected to rise after 2030 as well. If this is not taken into account by raising the retirement age, the pension-drawing period will keep growing longer while the contribution period remains unchanged. As a result, the pressure to adjust the remaining variables will increase considerably.[15] All in all, therefore, a number of questions remain unanswered, notably with regard to the central government grant and the statutory retirement age, which are of crucial importance for the long-term outlook of the pension insurance scheme, in particular. The impact of the coronavirus crisis will also need to be examined in greater detail.

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

Federal Employment Agency

Deficit in Q1

The Federal Employment Agency was scarcely affected by the coronavirus crisis in the first quarter. It recorded a core budget deficit[16] of €1 billion. Its budget was broadly balanced a year earlier. Revenue fell by 3% as a result of a contribution rate cut, whereas expenditure continued to rise steeply (by 8½%). While spending on unemployment benefits rose sharply, as in the previous quarters, expenditure on short-time working benefits was still at a low level.

Very large deficit expected this year

Overall, the Federal Employment Agency's financial situation is set to deteriorate considerably over the remainder of the year in the wake of the coronavirus crisis. A very large deficit is expected. The Federal Employment Agency is making a strong contribution to stabilisation, especially on the expenditure front – with one particular example being short-time working benefits. As in the crisis of 2009, special rules governing these benefits have been adopted. For example, the Federal Employment Agency is reimbursing the social contributions normally payable by enterprises on short-time working benefits. In addition, benefits are being granted more readily and for a longer period of time. Spending on unemployment benefits will also increase at an accelerated pace. This is partly due to the fact that, until the end of the year,

15 For various simulations of the long-term outlook for the statutory pension insurance scheme, see Deutsche Bundesbank (2019).
16 Excluding the civil servants' pension fund. Transfers to the fund are thus recorded as expenditure, reducing the core budget balance.

the base period has been extended by three months. On the revenue side, contribution receipts will decrease significantly. The number of employees will decline and pay will be lower due to short-time work. Contribution receipts for short-time working and unemployment benefits will not have the same dampening effect here as on the other branches of the social security funds. The Federal Employment Agency's very high reserve (end-2019: €25½ billion) sets it in good stead for the time being to bear the burdens that lie ahead. Should additional funds be required, central government can grant an interest-free loan.

Statutory health insurance scheme

Coronavirus crisis weighing on health insurance scheme

The finances of the statutory health insurance scheme are also being affected by the coronavirus crisis this year.[17] It is being hit particularly hard on the revenue side. Contribution receipts will be subdued in the wake of the economic downturn. Nevertheless, they are likely to continue to grow. The contribution payments borne by the Federal Employment Agency will stabilise revenue, but so will pension contributions – which will rise significantly in the middle of the year. The unexpectedly weak revenue growth will weigh solely on the health fund, which is making payments to the health insurance institutions that were determined on the basis of revenue expectations from last autumn. From today's perspective, health insurance institutions' expenditure is characterised by a high degree of uncertainty. Provided that significantly fewer regular benefits (i.e. those not related to the coronavirus) are paid out and the health insurance institutions are not burdened by safeguard clauses for individual service providers, it is possible that expenditure will also increase only marginally.

Health fund to record very clear deficit; result for health insurance institutions subject to major uncertainty

On balance, the health fund is likely to record a large deficit for the year as a whole. It should be able to plug the gap using its reserves. However, its intra-year liquidity could take more of a hit due to the deferral of social contribution payments and the pre-funded compensation of hospitals for empty beds. Central government should then prevent any bottlenecks by providing liquidity assistance or by bringing forward transfers. By contrast, the health insurance institutions could close the year quite favourably, especially if there is a significant reduction in the number of regular hospital operations and procedures taking place. Next year, however, the health insurance institutions are likely to come under considerable financing pressure. A sharp rise in expenditure, partly due to catch-up spending on postponed hospital or medical treatments, is likely to be combined with a level of revenue that is still low as a result of the pandemic. However, the health insurance institutions as a whole have very extensive reserves, which should initially limit supplementary contribution rate increases on average. The Federal Government also announced that it may make additional central government funds available to stabilise contribution rates.

17 Data for the first quarter are not yet available; developments in this period will be discussed in the July Monthly Report.

List of references

Deutsche Bundesbank (2020a), The EU budget and its financing: looking back and ahead, Monthly Report, April 2020, pp. 45-65.

Deutsche Bundesbank (2020b), Commentaries, Monthly Report, April 2020, pp. 10-12.

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Current fiscal developments in the euro area

2019: Deficit ratio barely changed despite looser fiscal stance

The government deficit ratio in the euro area remained almost unchanged last year at 0.6%. According to the European Commission, the fiscal stance was expansionary.[1] However, this was largely offset by shrinking interest expenditure. Cyclical developments had virtually no impact. The debt ratio fell by 1.8 percentage points (pps) to 86%.[2]

Coronavirus sending deficit and debt ratios sharply higher this year

The European Commission's latest forecast highlights the current particularly high level of uncertainty,[3] especially surrounding the further spread of the pandemic, the action being taken to contain it, and the fiscal measures which are still in flux. In this respect, a cautious interpretation is warranted. The European Commission is expecting the euro area deficit ratio to rise by 8 pps this year (to 8.5%). Part of this increase – equivalent to 3¼% of gross domestic product (GDP) – is due to the fiscal measures taken to combat the effects of COVID-19, while the remaining larger share is attributable to the severe economic downturn and the strong impact of the automatic stabilisers. The European Commission expects the euro area economy to rebound strongly a year later, in 2021. Since the temporary expansionary measures will then no longer be in place and the economy will have recovered fairly quickly, the deficit ratio is projected to fall by 5 pps to 3.5%. The debt ratio is expected to climb by 17 pps this year to reach almost 103%. In addition to the factors mentioned above, there is also the effect of fiscal measures, which are reflected in the debt level but not in the deficit (2¼ pps). These include, for example, government or government-mandated assistance loans to enterprises. The debt ratio will then recede by 4 pps in 2021 to just under 100%, mainly as a result of significantly lower deficits and recovering, strongly expanding economic growth (in the denominator).

The European Commission is expecting the deficit ratios to rise considerably in all euro area countries this year. The increase will be weakest in Ireland (6 pps) and strongest in Italy (9½ pps), followed by Cyprus (8¾ pps) and Germany (8½ pps). As at the aggregate level, in most cases the larger share of this increase can be put down to the adverse macroeconomic developments. European Commission data indicate that eight euro area countries have taken or are planning measures which affect the fiscal balance by 4% of GDP or more. The figures are highest for Germany (4¾%), followed by Italy (4½%) and Cyprus (4¼%),[4] and lowest in France, Finland and Belgium (around 2%). Note, however, that a great many assumptions have to be made in order to estimate what fiscal effect the measures will have. All of the countries will see the deficit ratio

1 The fiscal stance is measured by the change in the cyclically adjusted primary balance. The primary balance is the general government fiscal balance net of interest expenditure.
2 The European Commission does not consolidate lending between euro area countries here.
3 In addition to the baseline scenario for its macroeconomic forecast, the Commission prepared two further scenarios based on less favourable assumptions.
4 This volume is generally roughly equivalent to the change in the cyclically adjusted primary balance. If it is not, this means that fiscal policy measures or structural developments will have an impact without being seen in the context of the pandemic. Overall, it is difficult to identify structural and cyclical drivers at the present time. The results may differ significantly depending on the method used and expectations regarding future developments. For Spain and Luxembourg, the European Commission does not specify the scope of the measures in its forecast report.

Public finances in euro area countries

European Commission Spring Economic Forecast, May 2020

Country	General government balance as a percentage of GDP			General government gross debt as a percentage of GDP			Cyclically adjusted budget balance as a percentage of potential GDP		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Austria	0.7	− 6.2	− 1.9	70.4	78.8	75.8	− 0.3	− 3.4	− 1.1
Belgium	− 1.9	− 8.9	− 4.2	98.6	113.9	110.0	− 2.5	− 4.5	− 2.9
Cyprus	1.7	− 7.0	− 1.8	95.5	115.7	105.0	− 1.2	− 5.3	− 2.1
Estonia	− 0.3	− 8.3	− 3.4	8.4	20.7	22.6	− 2.4	− 5.8	− 1.9
Finland	− 1.1	− 7.4	− 3.4	59.4	69.5	69.6	− 1.7	− 4.2	− 1.6
France	− 3.0	− 9.9	− 4.0	98.1	116.5	111.9	− 3.7	− 4.9	− 2.6
Germany	1.4	− 7.0	− 1.5	59.8	75.7	71.8	0.9	− 3.8	− 0.5
Greece	1.5	− 6.4	− 2.1	176.6	196.4	182.6	3.8	0.4	1.0
Ireland	0.4	− 5.6	− 2.9	58.8	66.4	66.7	− 0.7	− 1.5	− 0.5
Italy	− 1.6	− 11.1	− 5.6	134.8	158.9	153.6	− 1.5	− 6.1	− 3.5
Latvia	− 0.2	− 7.3	− 4.5	36.9	43.1	43.7	− 1.5	− 5.2	− 3.9
Lithuania	0.3	− 6.9	− 2.7	36.3	48.5	48.4	− 1.6	− 4.4	− 1.6
Luxembourg	2.2	− 4.8	0.1	22.1	26.4	25.7	1.2	− 2.6	0.7
Malta	0.5	− 6.7	− 2.5	43.1	50.7	50.8	− 1.3	− 4.2	− 1.3
Netherlands	1.7	− 6.3	− 3.5	48.6	62.1	57.6	0.8	− 2.4	− 1.6
Portugal	0.2	− 6.5	− 1.8	117.8	131.6	124.4	− 1.1	− 3.6	− 0.9
Slovakia	− 1.3	− 8.5	− 4.2	48.0	59.5	59.9	− 2.3	− 6.6	− 4.0
Slovenia	0.5	− 7.2	− 2.1	66.1	83.8	79.9	− 0.9	− 4.5	− 1.2
Spain	− 2.8	− 10.1	− 6.7	95.5	115.6	113.7	− 4.2	− 5.8	− 5.2
Euro area	− 0.7	− 8.5	− 3.5	86.0	102.7	98.8	− 1.3	− 4.4	− 2.1

Sources: European Commission, AMECO.
Deutsche Bundesbank

decline again sharply in 2021. It will persist well above 3% in Belgium, Spain, France, Italy, Latvia and Slovakia. In 2021, the debt ratio will be highest in Greece (182.6%), followed by Italy (153.6%) and Portugal (124.4%). Unlike in 2019, Belgium, Spain, France and Cyprus will then also have debt ratios of well over 100%. By contrast, the debt ratios in Estonia, Latvia, Lithuania, Luxembourg, Malta, the Netherlands and Slovakia will still be below 60% in 2021, just like they were in 2019 (see the above table).

General escape clause under the European fiscal framework activated

Government measures are a major factor in addressing this exceptional crisis. To eliminate any barriers which might hinder government action, it was swiftly decided to relax the rules of the Stability and Growth Pact. The first move came in March, when it was agreed that coronavirus-related measures should not count in the assessment of a country's fiscal performance. Shortly after that, when the sharp economic downturn came more clearly into view, the European Commission and the European Council activated the general escape clause. This means that, until further notice, the usual provisions under the European fiscal framework will now no longer apply.

The general escape clause opens up the fiscal framework to give Member States the leeway they need, allowing them to adopt discretionary crisis-response measures, no matter what state their public finances are in. The general escape clause also allows the automatic stabilisers to work freely. Countries are affected in different ways by the pandemic, and containment measures vary from one Member State to the next. Furthermore, how COVID-19 affects a country depends on the way that country's economy is structured. Therefore, it might make sense to use different fiscal policy approaches in different countries. In addition, each country's national public finances started out from very different positions. The current crisis is showing how important sound public finances are as a matter of

principle for mounting an effective fiscal response to a challenge of this kind. They allow governments to introduce extensive stabilisation measures without running the risk of losing confidence in the capital markets.

Emergency assistance measures rolled out at the European level

Some countries currently have limited financial leeway, and action is being taken at the European level to alleviate this. The idea is to shield countries in part from the consequences of a loss of confidence so that they need not fear a negative market response to important and sound measures. This is why the European Council has approved a raft of joint fiscal measures ensuring favourable financing conditions and thus facilitating efforts to combat the crisis. The European Commission estimates that these European initiatives will be able to mobilise a total of more than €½ trillion in emergency assistance.[5]

First, financial support is to be provided for short-time work schemes in the EU Member States (SURE[6]). This exceptional and temporary initiative will allow the European Commission to borrow up to €100 billion on behalf of the European Union. Market conditions are likely to be favourable, given that all the EU countries are liable for the debt – via guarantees and via the EU budget. This enables low-interest assistance loans to be granted at the European level. To access these loans, Member States will need to take or have taken measures to promote short-time working. The requirements were not specified in greater detail, and no other conditions need to be met. The borrowing countries – like all countries – are simply requested to take into account the European Commission's economic and fiscal policy recommendations from the European Semester.

Second, the European Investment Bank (EIB) is to be given €25 billion in additional guarantees by the EU Member States as a way of facilitating lending by commercial banks or national promotional banks to small and medium-sized enterprises. The European Commission expects this to enable an additional €200 billion in loans to be granted in the European Union.

Third, the European Stability Mechanism (ESM) is to provide euro area countries with precautionary pandemic credit lines upon request. The ESM was established as an international institution in 2012 by means of an international treaty to close a gap that had come to light in the last financial and economic crisis. Since then, it has provided a safety net for euro area countries that are experiencing or facing the prospect of severe financing problems. The ESM can provide assistance via various financing instruments to alleviate these difficulties. It therefore made sense to activate the ESM during the current crisis. The new pandemic credit lines are to be based on existing provisions governing precautionary credit lines. For example, the risks to financial stability must be significant, and fiscal sustainability and a sustainable external position must be ensured. According to the European Commission's preliminary assessment, in consultation with the ECB and in cooperation with the ESM (from early May 2020), these conditions have been met in all countries. In a departure from earlier ESM programmes, no further conditions are attached. The special coronavirus-related assistance only needs to be used to cover unspecified direct and indirect costs in the health system.

5 Exemptions have also been granted under the EU competition rules, in particular with regard to state aid. The accommodative monetary policy measures also have a supporting effect here. See pp. 30 f. of this report for more on the latest monetary policy decisions.
6 SURE stands for Support to mitigate Unemployment Risk in an Emergency.

Countries can be granted credit lines of up to 2% of their GDP in 2019. In mathematical terms, this would allow for loans totalling around €240 billion to be provided in the euro area. The ESM does not need to be topped up for this purpose. The existing guarantees provided by the euro area countries currently secure additional ESM debt of as much as €410 billion with a very good credit rating.[7]

The pandemic assistance provided through the SURE scheme and the ESM have one thing in common: both are financed by public sector debt. In addition, the assistance is provided in the form of low-interest loans which have to be repaid.[8] Depending on the assistance in question, either the euro area countries or the EU Member States are jointly liable for the debt taken out at the European level. However, the scope of liability is limited for each country, roughly depending on its GDP weight.[9] In Germany, the Bundestag has to approve the assumption of liability and the specific volume in question. A direct financial burden will only materialise if recipient countries default on their repayments.[10] From an economic point of view, it is the sub-market interest rates on these loans which give them their character as financial assistance or transfers.

Borrowing drives up the debt level of the EU and the ESM.[11] Debt levels rise for the borrowing Member States as well, but not for the other countries that provide guarantees or fund the EU budget.[12]

In addition to possible assistance loans, direct transfers at the European level have also been mobilised. To this end, all the available funds from the current EU budget have been activated to combat the crisis. This means that just under €40 billion will be channelled to the EU countries in an effort to tackle the coronavirus pandemic and its economic fallout.

More European measures in the pipeline

The European Council has agreed to provide additional funds for Community assistance. The European Commission has been invited to submit proposals on this matter. Topics under discussion include an increase in the EU budget and a substantial volume of additional common debt.

For joint action in this exceptional crisis, it would be logical to temporarily expand the EU budget and increase the financial contributions made by the Member States accordingly. That way, financial assistance could be made available as transfers (and in some cases also as assistance loans) and their uses could be determined jointly. Given the exceptional circumstances, it would make sense to significantly increase the EU budget for a time. Needless to say, it would be up to politicians to decide on the specific scope of joint projects or transfers.

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7 Non-euro area countries are not eligible for ESM assistance. They would receive assistance loans (as hitherto) via the EU balance of payments facility. Since the funding of these loans is likewise subject to joint liability, it is possible to grant favourable lending rates.
8 By contrast, the EIB is not set to increase its debt. Rather, it will use the additional guarantees to facilitate a higher level of private sector debt via various instruments. This, however, entails the risk of debt being shifted to the public sector, though by no more than the guarantees promised.
9 In the ESM, the limits on liability for euro area countries are based on the ECB capital key, which is based on both GDP and population data. Contributions to the EU budget, by contrast, depend on a country's share of the Community's gross national income. Some countries make different contributions owing to (complex) rebate schemes.
10 A financial burden would also materialise if the interest rates on assistance loans were lower than those on joint debt raised in the capital market.
11 These are not subject to budgetary surveillance and the constraints of the Stability and Growth Pact.
12 It does, however, seem appropriate for countries that decide to jointly raise debt for a specific purpose and are explicitly liable for it to report it (pro rata) in their national accounts.

The criteria for granting assistance would also need to determined. For instance, the impact of lockdown measures on different economic indicators might be relevant.[13] There is also the possibility of taking relative economic strength into account, as has been the case hitherto with cohesion funds. One decision that would need to be made concerns the extent to which countries with weaker economies should support those which are stronger economically but harder hit by the coronavirus crisis.

The issuance of additional common debt for the purpose of granting low-interest assistance loans or transfers is another topic of debate.[14] Considerations at present mainly revolve around the idea of the EU issuing additional debt.[15] The proposal is for the debt to be secured primarily through future EU budgets, much like the SURE programme outlined above. In the case of assistance loans, risk provisions would need to be set aside in future EU budgets. To this end, safety margins would need to be planned between the payment appropriations and the own resources ceiling[16] (possibly supplemented by guarantees). These buffers would have to be sufficiently large to be able to absorb any defaults on the loans granted. Provided the safeguards are sufficient, the European Commission (on behalf of the European Union) would be able to issue and pass on debt at very favourable terms. Assuming the assistance loans are serviced as agreed, there is no recourse to the EU budget or the guarantors. The debt of the EU increases, and the debt of the borrowing Member States increases as well.

The situation is different when debt secured jointly is used to fund not just loans but transfers (or other final expenditure) as well. In this case, there is not just a possibility of the EU budget being charged (as in the case of possible loan losses) – it is a certainty. Future expenditure for debt servicing (i.e. for interest and redemption payments) has to be budgeted for. These outlays need to be covered by (additional) national contributions.[17] In economic terms, the EU budget would show deficits at the time of the expenditure outflows (the expenditure would not be offset by credit claims, unlike in the case of loans), and its debt level would increase. Taken in isolation, the transfers do not increase the debt level of the recipient countries. However, these countries, like all the Member States, will participate in the resulting debt service in subsequent years, i.e. in the interest and redemption burdens.

It is currently unclear when governments will agree on further European assistance and how it will be structured. Views diverge on key aspects, such as size, form (loans or transfers), distribution criteria and use decisions (joint or national decisions). Furthermore, it is still highly uncertain how COVID-19 will develop from here and what impact it will have, which makes it difficult to decide on suitable funding and programmes. There would also need to be an assessment of whether and to what extent large-scale debt financing, if planned, is legally permissible at the European level.[18] In any case, an established instrument for assistance loans

13 It would have to be decided whether national measures already taken and their effects are taken into account.
14 Here again, a joint decision would be required on the terms or conditions attached to the granting of the assistance.
15 In addition to the existing ESM, this might lead to the creation of another instrument for general credit assistance.
16 The own resources ceiling determines the maximum contribution to be paid by the Member States.
17 An EU tax has also been proposed as an alternative source of funding. This new tax would also have to be paid by EU taxpayers. This would diminish Member States' scope to raise tax revenue accordingly: assuming a Member State does not wish to increase the overall tax burden, it would have to reduce its own national taxes.
18 It would be appropriate, though, to allocate the debt to the EU Member States which have a say and are liable (see above).

is already in place, in the shape of the ESM. It is sometimes suggested that European debt is a way of avoiding burdens for Member States, given that it does not increase national debt ratios. This is only a statistical effect, however, and does not reflect economic reality, because European debt also needs to be serviced by national taxpayers – even if the distribution of the burden may be less clear initially. Viewed in terms of the fiscal framework, it would in any case impair transparency and cause other problems if those rules were at risk of becoming ineffective because of national debt being replaced by European debt.

All in all, fiscal policy can play a key role in overcoming the COVID-19 crisis. While this is chiefly a national task, the European level can also make an important contribution in the spirit of solidarity. Assistance loans granted at favourable interest rates can take the pressure off Member States which are having – or are afraid of encountering – temporary difficulties accessing the capital markets. This is what the ESM is for, in principle. Transfers can also be made in order to support those Member States hit especially hard by the crisis. The EU budget would be a suitable tool for this purpose and could also be expanded considerably depending on the political consensus reached. As has been the case up to now, the measures could be transparently and directly funded by contributions from Member States. In order to maintain a balance between liability and responsibility, a new extensive and, in particular, more permanent debt instrument at the European level should logically be accompanied by more comprehensive integration steps.