

Public finances*

General government budget

Public finances strongly supporting economy during coronavirus crisis

German public finances have been playing a significant stabilising role during the coronavirus crisis. Fiscal policy is supporting the healthcare system, businesses and households as well as providing economic stimuli. In addition, Germany is heavily involved in the EU's assistance and recovery programmes. The outlook for public finances remains strongly dependent on the pandemic and how it unfolds both nationally and internationally. Uncertainty surrounds not just the budgetary burdens caused by the economic slump but also the extent to which government assistance is being taken up. Additional fiscal policy measures could also be taken.

High deficit and rising debt: automatic and active stabilisation

However, there are clear signs that the general government surplus (2019: 1½% of gross domestic product (GDP)) will swing into a high deficit this year. This deficit could be as high as around 7% of nominal GDP. Its drivers are the economic downturn (i.e. the automatic stabilisers) and the government's expansionary fiscal stance. The latter mainly reflects the fiscal response to the crisis and explains around two-thirds of the increase in the deficit. The debt ratio is likely to move towards 75% this year (end-2019: 60%). Alongside the deficit, this increase is due to the fact that loans and capital assistance to enterprises are being financed by additional government debt. This new debt involves a higher level of government financial assets (rising credit claims and government equity investment). Therefore, the deficit as defined in the national accounts is not affected by this (for more on the contribution of public finances to stabilisation, see pp. 92 ff.). Moreover, the debt ratio is also rising because nominal GDP (and hence the denominator of the ratio) is declining.

Next year will probably see the deficit shrink again, as a large number of stabilisation meas-

ures are currently expected to come to an end. That said, public finances will continue to provide considerable support for economic activity and incomes. Although the measures that are due to come to an end (such as aid for businesses and lower VAT rates) are the main sources of this support, new – less extensive – expansionary measures are also envisaged. The solidarity surcharge is to be partly abolished, child benefits and the child tax allowance increased and a basic pension introduced. In order to support the economy, the government will pay a higher grant to stabilise the renewable energy (EEG) levy than was agreed in the climate package. Another deficit-increasing factor is the fact that payments to the European Union are set to rise significantly. Brexit is a major reason behind this, as it pushes up Germany's financing share. The new EU off-budget entity could result in additional revenue (see p. 81). Compared with the current year, economic activity is likely to ease the burden on public finances only slightly (i.e. the automatic stabilisers will largely continue to work; see p. 94). Amongst other things, wages and private consumption – key reference variables of public finances – are expected to recover only slowly.

The current fiscal stance is appropriate. In a downturn, the automatic stabilisers should be allowed to operate freely – and fiscal policy that provides additional support is important given the severity of the current crisis. The European and national budget rules contain escape clauses for this purpose. The economic costs associated with the pandemic and the need for countermeasures are likely to persist

Public finances to remain supportive in 2021, too

Expansionary public finances appropriate

* 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 second quarter of 2020 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 upcoming issues of the Monthly Report.

EU budget: Agreement on multi-annual financial framework for 2021 to 2027 and one-off “Next Generation EU” instrument in response to the coronavirus pandemic

On 21 July 2020, the European Council of Heads of State or Government agreed on two things: first, the main features of the new multi-annual financial framework (MFF) for the EU budget from 2021 to 2027, and second, a one-off, debt-financed off-budget entity (Next Generation EU – NGEU) to help manage the impact of the coronavirus crisis.¹

The MFF for 2021 to 2027: under strain due to Brexit

According to the MFF for 2021 to 2027, the maximum total figure for expenditure in the regular EU budget is set at €1.074 trillion in the years ahead.² At 1.06% of the EU’s GNI, this is somewhat larger than the current MFF (1% of the GNI of the EU-28), but only because the latter still includes the United Kingdom as an EU Member State. Excluding the United Kingdom, however, the current MFF equates to 1.13% of the correspondingly adjusted figure for EU GNI. The expenditure structure of the EU budget has not been fundamentally changed from that of the current MFF. Spending areas with a clear European focus will only see moderate reinforcement.³ However, in addition to the regular budget, the new NGEU special fund should also be taken into consideration. It will provide a distinct boost to regular EU programmes, too, with the allocation criteria for the funding geared more to EU structural policy than to the current crisis. Funding is also distributed through SURE, the EU programme designed to support short-time work schemes, which is more closely linked to the crisis.⁴

On the revenue side, the own resources ceiling is to be raised to 1.4% of EU GNI. This limit specifies the maximum amount of funds that the EU can request annually from Member States to fund the EU budget.⁵ Amongst other things, the considerable gap between this limit and the expenditure ceiling provides a buffer for unexpected events and secures the loans taken up from the EU – but excluding those for the new NGEU, which is subject to separate arrangements.

Germany’s payments to the regular EU budget are set to increase in the next seven years. According to media reports, the Federal Ministry of Finance expects its average annual payments to be €10 billion higher than under the current financial framework. The United Kingdom’s withdrawal from the EU plays a key role in this. The lack of contributions from the United Kingdom will markedly increase the share of financing provided by all of the other Member States – including Germany. This will only partially be offset by lower spending.

¹ What happens next: The agreement reached by the European Council covers the policy guidelines for the MFF. Looking ahead, the MFF regulation will need to be drafted. Furthermore, it must still be approved by the European Parliament and the ruling on own funds must still be ratified by the Member States (in Germany, for example, this requires parliamentary approval).

² Technical background information: Unless stated otherwise, the EU-27 countries are meant. All euro figures are expressed using constant 2018 prices. For the annual budget plans, the appropriations are adjusted for the real change in EU gross national income (EU GNI) plus a fixed price component of 2%.

³ For more information about the reform debate in this area, see Deutsche Bundesbank, Monthly Report, April 2020, p. 57.

⁴ For more details on SURE, see Deutsche Bundesbank, Monthly Report, May 2020, p. 87 f.

⁵ For more details on the own resources ceiling, see Deutsche Bundesbank, Monthly Report, April 2020, p. 46.

Next Generation EU one-off instrument: debt-financed transfers and loans

The regular budget plan is accompanied by the one-off NGEU crisis package comprising assistance loans and transfers, which are to be committed by 2023 and disbursed by the end of 2026. While the regular budget is continuously balanced using own resources (i.e. mainly through transfers by the Member States), NGEU is intended to be initially financed through debt. A total of €750 billion (5.4% of EU GNI in 2019) is earmarked for this purpose. The debt will be repaid through the debt service payments of the Member States that receive NGEU loans, and by tapping into future EU budgets. In order to cover the borrowing for NGEU, the own resources ceiling will be raised by 0.6% of EU GNI annually until 2058.⁶ In this context, individual Member States may, in some years, be requested to temporarily make payments that are higher than their share of financing in the EU budget. This is intended to create scope for debt service payments. The comprehensive coverage overall and, not least, the potentially greater recourse to individual countries with high credit ratings should ensure that the newly issued EU debt achieves a good rating in the capital markets.⁷

Under NGEU, €360 billion will be granted to Member States as loans and €390 billion as non-repayable transfers. The EU treaties do not actually provide for the credit financing of the EU budget. Although the EU has also incurred capital market debt in the past, it did so at relatively small volumes and only so that it could, in turn, issue loans.⁸ The EU's debt was thus balanced by claims of the same amount, and the EU budget showed no (national accounts) deficits or surpluses. Extensive deficits will now emerge at the EU level when the debt-financed NGEU transfers are disbursed.

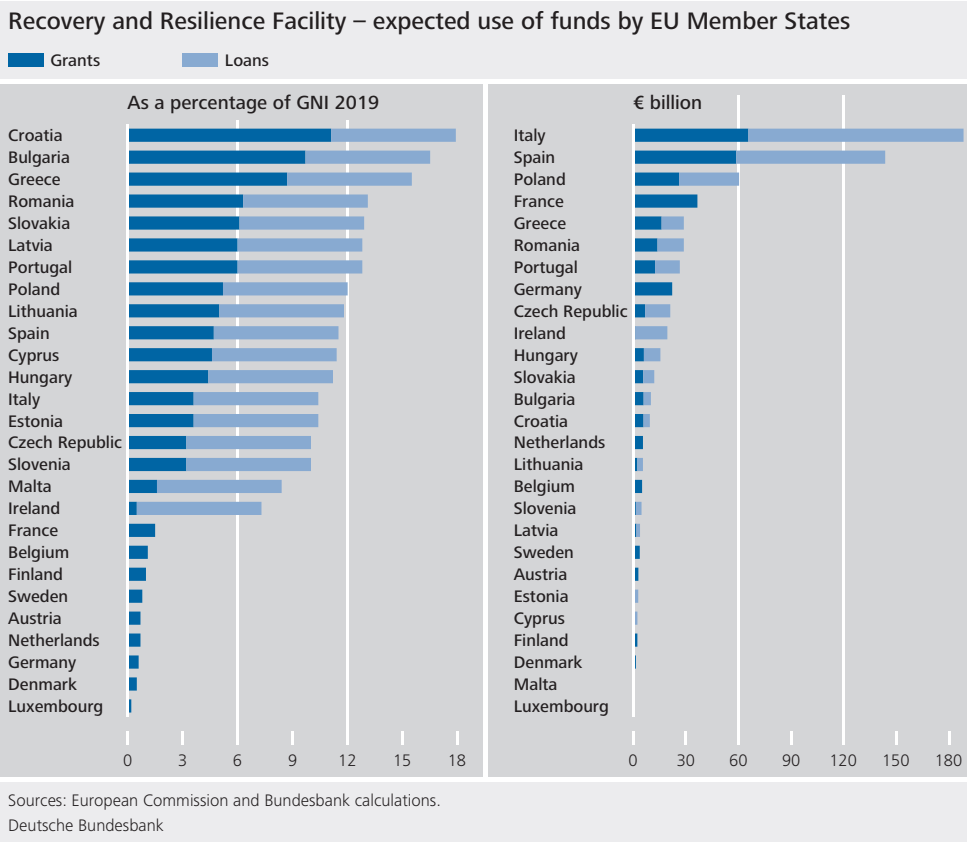
When the loans taken up by the EU for this purpose mature, future EU budgets will need to exhibit corresponding surpluses. Repayment is scheduled to start in 2028 at the latest and extend until 2058. The large-scale borrowing under NGEU and the planned deficits in this off-budget item are justified on the basis of the exceptional circumstances presented by the coronavirus crisis.

Formally, NGEU consists of two parts: first, the Recovery and Resilience Facility (RRF), which is directly related to the crisis, and second, additional funds for regular EU programmes. The RRF comprises transfers of €312.5 billion (2.2% of EU GNI in 2019) and loans totalling €360 billion (2.6% of EU GNI in 2019). Disbursement is conditional on reform and investment plans, which are to be submitted by the Member States, assessed by the European Commission, and approved by the Council of Ministers. One or more Member States can object, thus delaying the payments. The allocation key for the RRF transfers to the Member States is to be determined in advance. It is intended that 70% of the RRF transfers (just under €219 billion) will have been committed by the end of 2022. Allocation to the various countries will be based on population figures for 2019 (the larger the population, the more funds), economic strength in 2019 (the lower the per capita GDP, the more funds) and the unemployment rate from 2015 to 2019 (the higher the rate, the more funds). The remaining 30% of transfers (just

⁶ The statement explains that the own resources ceiling will be raised to cover loans taken up as a result of the coronavirus crisis. This may therefore also cover the borrowing already agreed for the SURE scheme.

⁷ For more information about the approach taken by rating agencies, see Fitch, EU MFF Proposal Consistent with 'AAA' Debt Coverage Metric, June 2020.

⁸ As at mid-2020, this figure stood at €66½ billion, or ½% of the EU's GDP in 2019. The SURE loans, which were agreed in April, may increase the debt by up to €100 billion.



under €94 billion) are to be committed by the end of 2023. By replacing the unemployment rate indicator with an indicator for the slump in GDP in 2020 and 2021, crisis-related developments will then have a certain bearing on how these are distributed. Overall, however, the allocation of transfers is largely not geared to how severely a Member State has been affected by the coronavirus crisis.

While allocated transfers will benefit each Member State that receives them, countries are only likely to take up loans if their own financing costs are higher, because it is planned that the interest rates of the loan programmes will be based on the EU's credit conditions. By contrast, countries with equally good or even better interest rate conditions are likely to forego the loan option. As a rule, the maximum volume of the loans for each EU Member State will not exceed 6.8% of its GNI. If all EU coun-

tries with financing conditions that are less favourable than those of the EU were to take up the maximum volume in loans, the total credit limit of €360 billion would be almost completely exhausted.

Taking into account the aforementioned allocation key for the transfers, if only the specified group of countries uses the loans in full, the funds will be distributed among the countries as follows: in relation to its GNI, Croatia benefits the most, followed by Bulgaria and Greece (see the chart above). Overall, central and eastern European EU countries, with their comparatively low per capita GDP, will benefit relatively strongly (see also the box on pp. 22ff. of this Report), as will southern European Member States, where unemployment rates have been stubbornly high for a while now. Austria, Denmark, Finland, Germany, Luxembourg, the Netherlands and Sweden will receive funding of less than 1% of their GNI. Under

these assumptions, just under half of the total volume of funding is allocated to Italy and Spain.

Member States are responsible for EU debt via the EU budget. The loan programmes will only burden the EU budget if the countries that have taken out loans default on their interest or principal repayments. In any case, however, the joint debt for transfer payments must be serviced by tapping into future EU budgets, with the EU Member States ultimately contributing in line with their future shares of funding. To finance the EU budget, the European Council has also floated the idea of creating a number of additional sources of income (tax on plastic waste, digital levy, carbon border adjustment mechanism, financial transaction tax). These could flow directly into the EU budget or via the Member States' public finances. Although they lessen the need for existing own resources, it is ultimately still up to European taxpayers to fund the EU budget and the expenditure items it contains for NGEU.

Following the United Kingdom's withdrawal from the EU, Germany's share of funding for the EU budget amounts to around one-quarter. Accordingly, around €190 billion of the additional EU debt (€750 billion) can be assigned to Germany. The planned transfers of €390 billion will lead to EU deficits. In line with Germany's financing share, its cumulative share of the deficit over the years will come to around €100 billion, or roughly 3% of its 2019 GDP figure. That said, a Member State's specific share will also depend on its future GDP levels and its relevant share of financing in the EU budget at the time. The annual contributions may also rise, if, for example, the option of temporarily calling for more own resources from individual Member States is used. On the other hand, according to the current allocation

key, transfers amounting to €22 billion are set to flow to Germany.

Solidarity is welcome, but long-term joint debt is worrying

EU Member States will use NGEU to provide mutual support in the form of transfers and loans, thus tackling the fallout from the coronavirus pandemic together. The additional transfers between the EU countries will be distributed via the EU budget. Redistributions of this kind have always been common practice – in the area of cohesion policy, for example. Ultimately, their scope and design must be decided at the political level and still need to be fleshed out. Final agreement is therefore still pending.

The assistance measures agreed by the European Council are aimed less at stabilising economic activity or addressing the specific burdens presented by the crisis, and more towards funding forward-looking reform programmes. The allocation procedures are intended to ensure that the funds are used appropriately. The more successful the reforms, the faster the EU – and above all the individual Member States receiving particular support – will be able to overcome the coronavirus crisis. However, it must also be said that the growth-enhancing impact of EU funds has had a mixed track record to date.⁹

By contrast, the large-scale debt financing, especially for transfers, breaks worrying new ground. Borrowing at the EU level is not actually provided for in the EU treaties. The large-scale EU debt is therefore being justified as an exceptional and temporary crisis management tool. From an economic

⁹ For more information on the effectiveness of cohesion policy, see, for example, Deutsche Bundesbank, Monthly Report, April 2020, p. 57.

perspective, the absence of substantial EU debt so far has been a pivotal aspect of a regulatory framework that is organised in a decentralised manner, with Member States largely owning their financial affairs. Conversely, significantly closer integration would be needed to maintain the balance between liability and control for permanently large-scale Community debt. This would first necessitate considerable transfers of national sovereignty to the EU level.

Matters would become critical if, amongst other things, the notion were to arise that new EU borrowing would not entail any costs for the Member States. This is not the case. EU debt will be a burden on future European taxpayers, even if the debt does not show up in the national statistics. The Member States must still make the interest and principal repayments. That is why the new obligations under the joint EU debt

need to be taken on board when assessing national public finances. And with regard to fiscal rules, it is all the more important, going forward, that these rules ensure the reduction of high debt ratios and sustainability of public finances in all Member States.

beyond 2020, so it would seem premature to return to the standard rules as early as next year and attempt to comply with the limits they set. On the contrary: it might actually make sense to roll out further stabilisation measures if the economic situation shows no major signs of improving over time. If additional measures are introduced, though, these would need to be of a temporary nature, since this would ensure that the resulting deficits are also temporary and that (much like the automatic stabilisers) they recede automatically with time.

German government debt has been growing considerably during the crisis. This is justified by the need to effectively combat the pandemic and its consequences and to counteract lasting economic damage. Fiscal policy has been sound in recent years, not least thanks to the debt brake. This is why public finances are not in a critical position and enjoy a high level of confidence, despite the extensive burdens that the crisis has placed on the budget, as seen not

least in interest rates for German debt, which are negative all the way up to long maturities. Nonetheless, fiscal policymakers should not count on interest rates being this low indefinitely. And if the pandemic pushes the economy onto a lower growth path, this would place a structural strain on public finances and limit fiscal room for manoeuvre. Demographic change is likely to pose challenges as well, and it is also important to keep an eye on and service the joint debt that has now been agreed upon at the European level (see pp. 78 ff.). If the economic recovery does take hold, it will in any case be crucial to restore a sound fiscal position. Budget rules would then need to be reinstated, not least in order to uphold confidence in public finances. This applies not just to Germany, but to other euro area Member States as well.

Return to standard budget rules if recovery takes hold

Budgetary development of central, state and local government

Tax revenue

Slump in tax revenue in Q2

The coronavirus crisis and government support measures took a heavy toll on tax revenue in the second quarter of 2020 (-21%; see the adjacent chart and the table on p. 84). Tax revenue had still grown in the first quarter, by 3.5%. Tax revenue thus fell by 9% overall in the first half of the year.

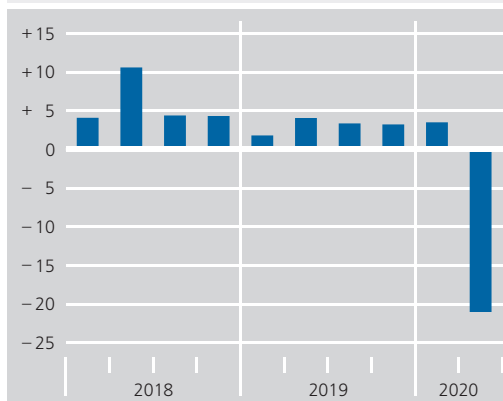
Economic crisis and support measures a heavy strain in some cases

In the second quarter, wage tax fell by 7% on the year. The sharp rise in short-time work, in particular, is likely to have played an important part in this.¹ In addition, child benefits increased significantly. In mid-2019, they had been raised by €10 per child. Since they are deducted from wage tax revenue, this depresses the growth rate. Profit-related taxes fell by a total of 46%. One element of coronavirus aid is providing swift tax relief to businesses. Corporation tax was particularly affected, and assessed income tax somewhat less so. This was mainly due to lower advance payments in each case. Additionally, enterprises were reimbursed for earlier advance payments and were able to defer taxes due. There was also a steep drop in non-assessed taxes on earnings – chiefly investment income tax on dividends – which is likely to be attributable in part to reduced dividends. Moreover, some shareholders' meetings are probably taking place later on, either as normal or because of COVID-19, delaying dividend payouts. The annual growth rates could therefore return to a somewhat more favourable level as the year progresses. VAT revenue fell sharply by 25%. Private consumption was down considerably, but coronavirus assistance is likely to have contributed to this, in particular. Enterprises were able to defer tax payments and receive reimbursements of a special advance payment made in February.

The official tax estimate from May projects a 10% drop in tax revenue for 2020 as a whole.

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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This is mainly because of the economic crisis, which is seeing wages, profits and private consumption plummet. In the case of income tax, shrinking economic output means that progressive taxation, by way of exception, is having a negative impact and pushing revenue down further. In addition, measures leading to tax shortfalls were taken before and during the coronavirus crisis, including, for example, the Family Relief Act (*Familienentlastungsgesetz*) of 2018 and the options to defer income tax, corporation tax and VAT granted in March 2020, plus the second Coronavirus Tax Assistance Act (*Corona-Steuerhilfegesetz*) passed in June. The latter is expected to cause further shortfalls of €23½ billion this year. This is chiefly due to the temporary VAT cut, the one-off child bonus² and expanded tax loss carryback options. Factoring in the new tax package, tax revenue is estimated to decline by 13% this year.

Strongly declining revenue for year as a whole

According to the official tax estimate, a rapid recovery is not expected in subsequent years.

¹ Short-time work reduces wages, and short-time working benefits are not taxed. For the purposes of income tax assessment, however, 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.
² The child bonus is deducted from cash revenue. In the national accounts, however, it is recorded – like child benefits – as a monetary transfer, which partly increases expenditure and partly reduces revenue.

Tax revenue

Type of tax	H1				Estimate for 2020 ¹	Q2			
	2019	2020	Year-on-year change			2019	2020	Year-on-year change	
	€ billion	€ billion	€ billion	%	%	€ billion	€ billion	€ billion	%
Tax revenue, total ²	360.5	327.7	- 32.8	- 9.1	- 9.8	185.3	146.4	- 39.0	- 21.0
of which:									
Wage tax	105.4	104.1	- 1.2	- 1.1	- 3.4	54.4	50.8	- 3.7	- 6.8
Profit-related taxes	67.8	53.8	- 14.0	- 20.6	- 24.7	35.7	19.2	- 16.5	- 46.3
Assessed income tax ³	33.5	29.3	- 4.2	- 12.5	- 25.3	16.1	10.6	- 5.4	- 33.8
Corporation tax	17.3	10.8	- 6.4	- 37.2	- 41.3	8.1	2.3	- 5.7	- 71.0
Non-assessed taxes on earnings	14.3	9.9	- 4.3	- 30.3	- 10.6	10.3	5.0	- 5.3	- 51.4
Withholding tax on interest income and capital gains	2.7	3.7	+ 1.0	+ 35.7	+ 22.4	1.3	1.2	- 0.1	- 5.3
VAT ⁴	119.5	104.3	- 15.2	- 12.7	- 9.1	59.1	44.3	- 14.8	- 25.1
Other consumption-related taxes ⁵	42.3	40.4	- 1.9	- 4.5	- 5.1	22.1	19.9	- 2.2	- 10.1

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 VAT and import VAT. 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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Tax estimate will be updated in September

New measures will place an added strain on revenue. Above and beyond the June tax package, there are plans to raise child benefits and the child tax allowance again next year. Furthermore, the income tax scale is to be adjusted in 2021 and 2022 in order to raise the basic income tax allowance up to the minimum subsistence level and offset bracket creep. Owing to the extremely high level of uncertainty prevailing when the tax estimate was prepared in May, an unscheduled update will take place in September. The draft central government budget for 2021 and the medium-term fiscal plan up to 2024 should then be based on this.

Central government budget

Central government recorded a high deficit of €44 billion³ in the second quarter, compared with a surplus of €7 billion in the second quarter of 2019. Revenue fell by 28% (€27 billion),

mainly because of a 24% drop in tax revenue (€22 billion). In addition, revenue from entrepreneurial activity was negative: €3½ billion of the Bundesbank's profit received in the previous quarter was derecognised and transferred to the Investment and Repayment Fund (negative revenue). Expenditure rose sharply, by 27% (€24½ billion). Crisis assistance for small businesses accounted for a large share of this (€15 billion). According to the health fund, compensation payments to hospitals for unoccupied beds also came to nearly €6 billion. By contrast, expenditure on the basic allowance grew by a fairly muted €½ billion.

The economic stimulus package agreed at the beginning of June has now been reflected in a second supplementary budget for this year. It envisages a €62 billion increase in net borrowing, for a new total of €218 billion. To this end,

Second supplementary budget, for economic stimulus package

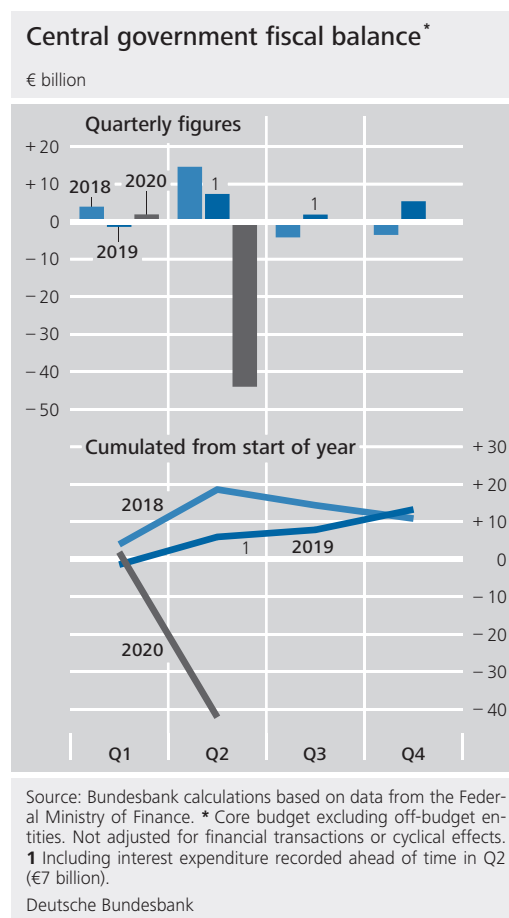
High deficit in Q2 due to pandemic

³ As in the previous year, interest payments from the beginning of July were recorded ahead of time.

the debt brake escape clause was activated again. Further tax shortfalls of €27 billion are to be covered. Of this amount, €20 billion is attributable to measures included in the economic stimulus package, such as the temporary lowering of VAT rates. It also takes into account the May tax estimate, which had produced revenue shortfalls of €7 billion compared with the first supplementary budget. Substantial additional expenditure was also included, in particular €28 billion for central government's off-budget entities, €24½ billion for transfers to smaller enterprises, €14½ billion for loans and grants to the social security funds, €11½ billion for additional payments to hospitals (particularly for keeping beds unoccupied), and €5 billion to strengthen Deutsche Bahn's equity capital. On balance, however, spending authorisations are only €24 billion higher because buffers from the first supplementary budget were eliminated. This concerned the appropriation for transfers to microenterprises (-€32 billion), on the one hand, and the elimination of the extensive global additional spending item of €55 billion, on the other.

Reserve spared, borrowing correspondingly higher

Moreover, the reserve (formerly the refugee reserve) is now being spared. While previous plans had envisaged a withdrawal of €10½ billion this year, additional borrowing (under the escape clause) will now take its place. There is criticism of this approach⁴ as reserves are usually established to weather difficult times. What would in fact be questionable is if the funds were to be used to finance new measures after the current exceptional period. However, given the extreme uncertainty extending into the medium term, it seems understandable in economic terms to retain the existing reserve as a safety buffer for the period after use has been made of the escape clause. If, after this exceptional situation has ended, there is still a major structural deficit and macroeconomic developments have not yet fully firmed up, having this buffer could make the continuing adjustment process milder. The resultant extended consolidation process would probably also be in line with the European budget rules.⁵ Any funds



left over in the reserve even after this could be used to cushion unanticipated negative developments in the future:⁶ in other words, unexpected shocks that do not yet justify activating the escape clause, but which are already weighing heavily on economic developments and thus on public finances.

In this context, it should also be noted that while the escape clause allows the standard thresholds of the debt brake to be exceeded for a time, the amount exceeding those thresholds needs to be repaid at some point in the future. The standard threshold for structural net borrowing is 0.35% of GDP. The amount by which this is planned to be additionally exceeded can be derived from the higher net bor-

Additional structural borrowing under the debt brake ...

⁴ See, for example, Research and Documentation Services of the German Bundestag (2020).
⁵ See Deutsche Bundesbank (2017a), p. 32.
⁶ For more details, see Deutsche Bundesbank (2019), pp. 82 f.

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

€ billion

Item	2019	2020		
	Provisional actual	Budget	Supplementary budget	Second supplementary budget
1. Fiscal balance	13.3	- 11.0	- 167.0	- 218.1
2. Coin seigniorage	0.2	0.3	0.3	0.3
3. Transfer to (-)/withdrawal from (+) reserves	- 13.5	10.6	10.6	-
4. Net borrowing (1.+2.+3.)	-	-	- 156.0	- 217.8
5. Balance of financial transactions	0.0	- 0.3	- 0.3	- 14.6
6. Cyclical component in the budget procedure ¹	- 2.9	- 0.5	- 50.1	- 53.6
7. Balance of incorporated off-budget entities	0.7	- 5.9	- 5.9	19.1
Digitalisation Fund (as of 2018)	0.3	- 1.0	- 1.0	- 1.0
Energy and Climate Fund	1.8	- 3.8	- 3.8	20.4
Flood Assistance Fund	- 0.6	- 0.5	- 0.7	- 0.7
All-day schools (as of 2020)	-	1.0	1.0	1.8
Fund to Promote Municipal Investment	- 0.9	- 1.6	- 1.3	- 1.3
8. Structural net borrowing (4.-5.-6.+7.) (repayment: +; borrowing: -)	3.5	- 5.1	- 111.5	- 130.4
9. Structural balance (8.-2.-3.)	16.8	- 16.1	- 122.4	- 130.8
10. Structural balance adjusted for updated estimate of potential output ²	0.8	20.7	- 135.2	- 147.1
11. Debt brake ceiling (-0.35% of GDP ³)	- 11.5	- 11.7	- 11.7	- 11.7
12. Amount credited to the control account (8.-11.)	15.0	6.6	-	-
13. Credit balance on the control account	52.2	43.7	52.2	52.2
14. Amount exceeding ceiling (11.-8.)	-	-	99.8	118.7
15. Outstanding repayment amount	-	-	99.8	118.7
16. Size of refugee reserve	48.2	18.7	37.6	48.2

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, the 2020 supplementary budget adjusted to the Federal Government's March 2020 expectations, and the second supplementary budget adjusted to the Federal Government's 2020 spring projection. 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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rowing entitlement in several steps (see the table above):

- The second supplementary budget is based on another downward revision of nominal GDP. A further €3½ billion, which is regarded as a cyclical burden, is thus excluded from the debt brake (structural limit) (see point 6 in the table).
- Financial transactions, which are likewise excluded from the structural limit, account for additional expenditure of €14½ billion (loans to the Federal Employment Agency and capital injection for Deutsche Bahn; see point 5 in the table).
- Also to be excluded are payments of €25 billion to off-budget entities (after deducting their moderate additional expenditure); these will go to special funds which are included in the debt brake, i.e. consolidated with the central government core budget

under this rule. The funds transferred by central government are simultaneously recorded as revenue for these entities and are not disbursed by them in the current year (see point 7 in the table). Compared with the first supplementary budget, the higher net borrowing in the core budget for transfers to these off-budget entities and the improvement of their balances thus level out in the (consolidated) structural result. This will only be diminished once funds from the special funds are disbursed in subsequent years (which, incidentally, is when the economic stimuli will first take effect). The prefunding of the special funds' expenditure therefore has no effect on the debt brake. However, it limits the transparency of central government budgeting.

All in all, planned structural net borrowing (see point 8 in the table) under the second supplementary budget is up by €19 billion compared with the first supplementary budget. The debt

... will increase repayments required later

brake escape clause had to be activated a second time for this purpose. The debt permitted by way of exception is still to be repaid over 20 years starting in 2023. As a result, the annual repayment amount is going up by €1 billion to €6 billion.

*2020 budget
 outturn still difficult to forecast*

However, it is still very difficult to estimate how much central government will actually borrow this year. At present, the economy looks to be brightening somewhat, if anything, but less favourable developments or the need for additional measures cannot be ruled out.

Central government budget will continue to be shaped by pandemic next year

The draft central government budget for next year is set to be approved by the Federal Cabinet in the second half of September 2020. The benchmark figures of mid-March did not yet consider the consequences of the coronavirus pandemic for the central government budget and thus did not envisage any net borrowing. This means that severe burdens now have to be taken into account. According to the tax estimate from May 2020 and factoring in the tax relief provided by the economic stimulus package, central government will see revenue shortfalls of around €27 billion. The planned second Family Relief Act will be accompanied by further tax revenue losses of €3 billion. High additional expenditure will also be incurred, with investment programmes and the planned increase in central government's contribution to accommodation costs for persons able to work who receive the basic allowance accounting for around €10 billion altogether, deserving special mention in this context. An additional factor is the guarantee that social contribution rates will be kept below 40% overall, which could result in additional expenditure of well over €20 billion. Return flows in subsequent years, which would then put pressure on contribution rates, do not appear likely.⁷ In addition to the core budget, the debt brake also includes some off-budget entities; their (consolidated) balances therefore influence adherence to its upper limit. A large deficit is expected here, particularly for the Energy and Climate Fund (around €10 billion). Deducting

the cyclical burden of €11 billion shown in the spring projection, the structural balance shrinks by approximately €60 billion compared with the benchmark figures from March. If the economic situation does not improve significantly more quickly than expected by many, use of the escape clause once again in 2021 would be understandable.

Compared with the benchmark figures, the May estimate forecasts tax revenue shortfalls of just over €20 billion for central government in 2022. Furthermore, burdens arising from the new tax package and the planned second Family Relief Act will total €6½ billion. Additional expenditure on investment programmes and central government's contribution to accommodation costs, coupled with additional spending by the Energy and Climate Fund, will also play a role here. Given all the uncertainty, adhering to the debt brake will likely still pose a significant challenge.

Central government's off-budget entities posted a surplus of €4½ billion in the second quarter,⁸ compared with a figure of €1½ billion one year earlier. This increase was ultimately driven by inflows of €3½ billion to the Investment and Repayment Fund from the Bundesbank's profit distribution. Outflows from the Economic Stabilisation Fund to finance special coronavirus loans from the Kreditanstalt für Wiederaufbau (KfW) and for capital injections to Lufthansa were not yet recorded.

However, the Economic Stabilisation Fund's expenditure is likely to play a decisive role in developments over the remainder of the year. The

Burdens foreseeable for 2022, too

Surplus from Bundesbank profit for central government's off-budget entities in Q2

Coronavirus aid to dominate as 2020 progresses

⁷ If instead of loans, grants – which do not involve return flows – are envisaged, it would make sense not to record a financial transaction. It would then be unnecessary to factor such transactions out of the structural deficit under the debt brake.

⁸ 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 attributable to central government, is also factored out.

fund can provide loans and capital injections to larger enterprises to support them in the event of liquidity or solvency problems caused by the coronavirus crisis. In addition, it refinances the KfW's coronavirus loans. However, it is currently not expected to fully tap its credit facility of €200 billion.

Broader support for enterprises worth considering

As a general rule, it would seem important, in order to stabilise the economy, to support enterprises that are at risk of insolvency due to the coronavirus but which have an otherwise sustainable business model – although this assessment is uncertain and may be prone to error. It cannot be ruled out that the measures taken so far will be insufficient. Additionally, therefore, the options for loss carrybacks during the crisis could be further expanded for affected enterprises (for example, by raising the ceilings and factoring in more years as well as local business tax).⁹ Smaller enterprises are receiving support in the form of bridging aid. However, the Economic Stabilisation Fund's standardised government capital injections globally authorised under state aid law are only available to larger enterprises. Consideration could be given to granting access to smaller and medium-sized enterprises if the existing central and state government instruments prove insufficient. This would then, not least, entail restrictions on dividend payouts and remuneration, as has been the case so far for larger enterprises. However, extensive interventions in corporate policy seem both difficult to implement and rather implausible.

State government budgets¹⁰

In the second quarter of 2020, the impact of the coronavirus crisis was clearly reflected in the federal states' core budgets. Following a surplus of €4 billion a year earlier, they now recorded a significant deficit of €26 billion. However, the picture that this paints of the current overall situation of the state government budgets is limited. Some federal states have set up new pandemic-related off-budget entities,

Significant core budget deficits in Q2; new special funds severely impair transparency

and the financial ties and budgetary developments in connection with this are not readily apparent in this context. The interlinkages between the core budgets and these off-budget entities are rather complex and varied across federal states. Relief owing, for example, to transfers from the special funds and burdens arising from the prefunding of these funds through the core budgets both appear to be reflected in the quarterly figures.¹¹

Revenue in the state governments' core budgets grew by a significant 6½%; however, their expenditure rose much more sharply, by 39%. Although tax revenue slumped on the revenue side (-21%), receipts from public administrations, by contrast, were more than twice as high as in the previous year. This was due, not least, to central government's assistance programme for microenterprises, which was administered via the federal states. On the expenditure side, payments to public authorities rose significantly (+65%). Part of this increase was attributable to state-specific assistance programmes for local governments, whilst another part was due to transfers to special funds providing coronavirus-related support. Furthermore, other operating expenditure, in particular, rose very sharply (+91%). It appears that significant coronavirus-related payments to enterprises and hospitals were recorded under this expenditure item.

Revenue and expenditure also driven by inter-governmental cash flows

In the current year, the updated state government budget plans anticipate a very high deficit, potentially exceeding €50 billion, in their core budgets. Off-budget entities are also likely to see deficits, following significant surpluses in

Very high deficit for year as a whole ...

⁹ Local governments would have to be compensated for lower revenue from local business tax, as some could lose substantial parts of their revenue.

¹⁰ The data on state government budgets are based on the monthly cash statistics for the core budgets.

¹¹ Comprehensive overviews are not available, even though the effects of such interconnectedness could be significant. For North Rhine-Westphalia, for example, a €7½ billion burden on the core budget was reported for the second quarter in connection with the prefunding of a coronavirus special fund (transfer of €10 billion to the special fund; return flows of €2½ billion to the core budget to finance approved state government measures).

previous years. Various new special funds in Bavaria and Hesse, for example, have their own multi-year credit authorisations. Some special funds receive extensive transfers from the core budgets, such as in North Rhine-Westphalia. In total, such off-budget entities are likely to be able to access funds of around €75 billion. These funds are intended to finance crisis-related budgetary burdens and economic stabilisation programmes.

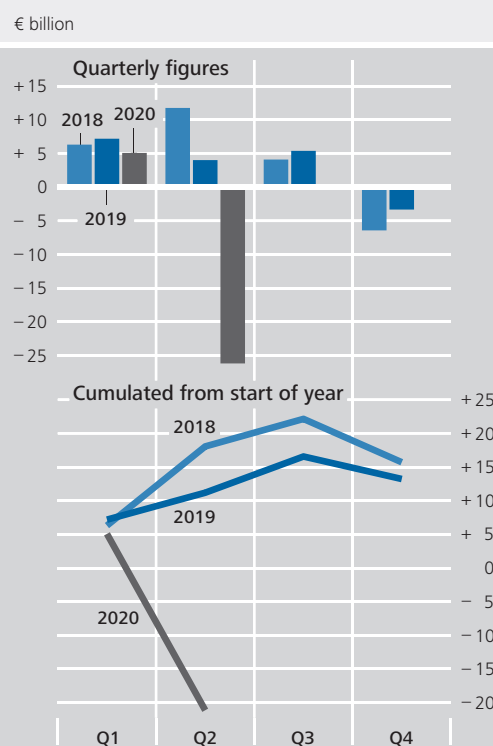
... due to sharply rising expenditure amid waning tax revenue

In consolidated terms, the expenditure of core and off-budget entities is likely to rise sharply this year. Central government assistance for enterprises, for example, is being channelled through state government budgets and is often supplemented by state-specific immediate assistance programmes. On top of this are, in particular, compensation payments for the loss of earnings owing to the closure of childcare facilities under the Protection against Infection Act (*Infektionsschutzgesetz*) and other operating expenditure intended to contain the pandemic. In addition, as stipulated in the economic stimulus package, the state governments and central government are each expected to offset half of the estimated local business tax shortfalls incurred at the local government level (€12 billion). Many non-city states are supporting their local governments further by sharing costs linked to the crisis (e.g. lost fees for day care facilities for small children). Moreover, state government finances are being burdened by considerable tax shortfalls. The latest tax estimate gives a figure of €37 billion for these (comparison of the May 2020 tax estimate with that of October 2019, plus the economic stimulus package).

Pandemic will continue to put severe strain on federal states next year

The pandemic is likely to continue putting severe strain on the federal states next year. According to current expectations, business aid and payments made under the Protection against Infection Act will come to an end. However, tax revenue is still likely to be significantly subdued. Based on the tax estimate, revenue is set to decline to the tune of €17 billion (again comparing the May 2020 tax estimate

State government fiscal balance*

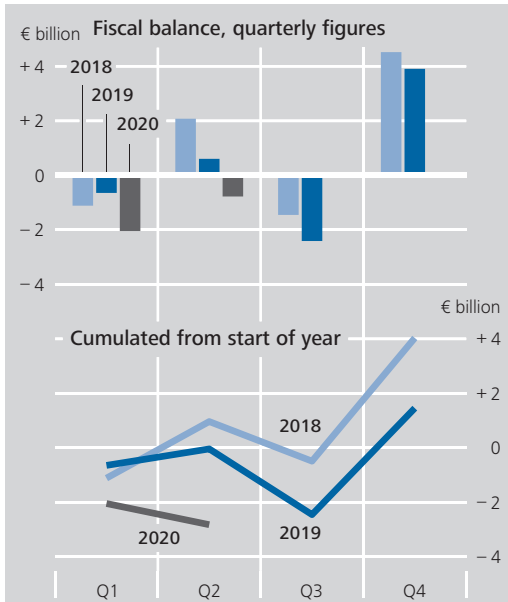
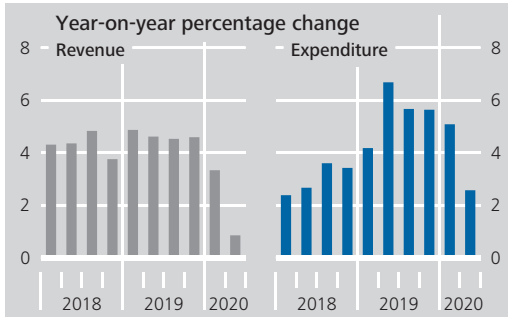


Source: Bundesbank calculations based on monthly data from the Federal Ministry of Finance. * Federal states' core budgets excluding off-budget entities.
 Deutsche Bundesbank

with that of October 2019, plus the economic stimulus package). In addition, tax revenue will fall by €3 billion as a result of the planned second Family Relief Act. As the provision in Germany's Basic Law (*Grundgesetz*) for central government's contribution to the local business tax compensation scheme for local government is planned to be limited to the current year, the federal states would be required to provide comparable funds alone next year. In order to stabilise local government finances, it would also seem worth considering preventing federal states from passing on their own corresponding shortfalls in local government financial equalisation schemes. On the whole, it would be in the interest of the federal states to tackle the existing problems caused, not least, by highly volatile local business tax revenue by implementing a fundamental reform of local government finances.¹²

¹² See Deutsche Bundesbank (2020a).

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.
 Deutsche Bundesbank

Germany in the middle of last year, this also reflected a somewhat higher number of pensions. A one-off effect was the main factor behind the subdued growth in expenditure – in the second quarter of the previous year, mothers’ pensions were paid out retroactively after being raised at the beginning of the year.

With an average increase of just over 3½% across Germany, pensions were raised to a slightly greater extent at mid-year than they had been one year earlier. Expenditure growth in the second half of the year is expected to accelerate correspondingly slightly. On the revenue side, despite all the uncertainty, it seems plausible that revenue will develop somewhat more favourably again in the latter half of the year than in the second quarter. However, a deficit is also likely to be recorded in the latter half of the year, following a shortfall of €3 billion in the first half. Owing to its high starting level, the sustainability reserve will nevertheless probably remain close to its upper limit of 1.5 times the scheme’s monthly expenditure.

Clear deficit for year as a whole, but high reserves remain

Growth in contribution receipts is expected to be very slow in the coming year. The labour market is likely to follow the overall economic recovery with a lag, and the weakness in the economy is likely to dampen wage adjustments. This and the sluggish development of VAT will also curb the central government transfers linked to them. By contrast, changes in VAT rates will not play a role here. On the expenditure side, the high pension adjustment in July will initially continue to have an impact. It will thus be the next adjustment in mid-2021 that reflects the unfavourable development of per capita wages this year. In addition, the number of pension recipients is likely to increase somewhat more strongly owing to demographic changes. The finances of the pension insurance scheme are thus likely to deteriorate further.¹³

Further sharp deterioration in finances next year ...

Social security funds

Pension insurance scheme

Significantly worse result in Q2 amid subdued revenue

The statutory pension insurance scheme recorded a deficit of just under €1 billion in the second quarter. At the same time last year, it had posted a surplus of €½ billion. Contribution receipts declined slightly overall as a result of the coronavirus pandemic. However, total revenue (including transfers from central government) still rose by 1%. Expenditure increased by only 2½%. In addition to the pension adjustment of just under 3½% on average across

¹³ The basic pension, which will be introduced next year, is to be financed with increased central government funds.

... and contribution rate rise over time with initially higher-than-guaranteed replacement rate

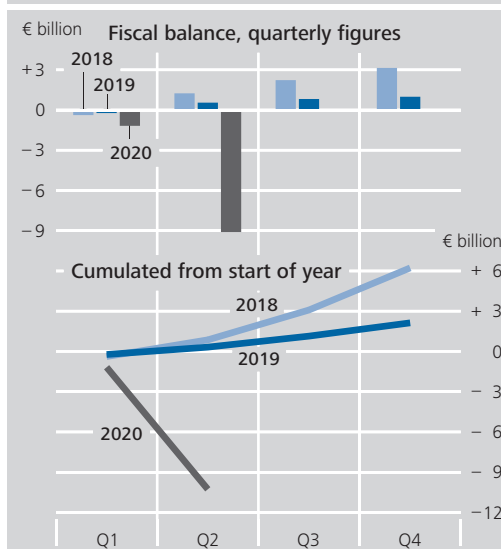
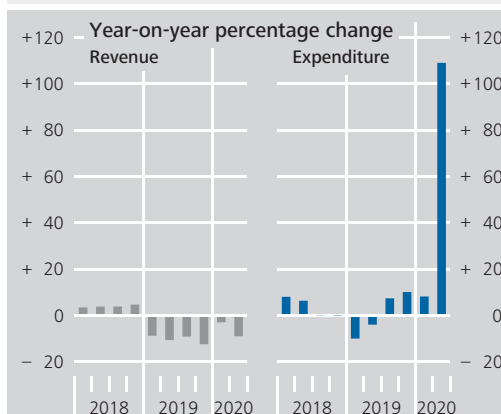
Going forward, the sustainability reserve is likely to reach its lower limit of 0.2 times the scheme's monthly expenditure much more quickly than previously expected. According to the Federal Government's pension insurance report published in autumn 2019, the contribution rate would have remained unchanged until 2024 (at 18.6%). In 2025, it would have had to rise in order to comply with the lower limit. This is now likely to be necessary much sooner. If the contribution rate reaches the upper threshold of 20% (valid until 2025), the remaining funding gaps will have to be closed by central government. The replacement rate is likely to rise strongly and to significantly exceed the guaranteed level of 48%; as the pension increase will be high, actual earnings may fall. The fact that pensions are rising more strongly than wages this year will continue to have an impact in the future. The pension formula would, in principle, provide for a corresponding amount of compensation in the coming year. However, it does not allow for pension cuts. In addition, a catch-up factor for subsequent years conceived for this eventuality was temporarily suspended until mid-2026 under the 2018 pension benefits package.

Federal Employment Agency

High deficit in Q2 due to steep rise in expenditure

The Federal Employment Agency was substantially affected by the coronavirus crisis in the second quarter, recording a core budget deficit¹⁴ of €9 billion following a surplus of €½ billion in the previous year. Revenue fell by a significant 9%. This was mainly due to increased short-time working and rising unemployment. However, the contribution rate cut from 2.5% to 2.4% also played a major role, coming in at just under 4 percentage points. On the revenue side, the reduced volume of work placed a greater strain on the Federal Employment Agency than on other social security fund institutions, as its contribution shortfalls are not offset by another government budget. Expenditure more than doubled compared with the previous year. Spending on unemployment

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

benefits rose by 33% to €5 billion. Payments for short-time working benefits even multiplied to €8 billion (previous year: €200 million). This sum also includes the social contributions of around €3½ billion currently being paid by the Federal Employment Agency. At the height of the lockdown, it appears that around one-fifth of employees subject to social security contributions were in short-time work. However, since enterprises prefinance short-time work, a large share of the burdens from the second

¹⁴ Excluding the civil servants' pension fund. Transfers to the fund are thus recorded as expenditure here, worsening the core budget balance.

quarter are unlikely to be reflected in the Federal Employment Agency's balance sheets until the current quarter.

Significant deficit for year as a whole

Overall, a very high Federal Employment Agency deficit is expected for the current year. Expenditure will rise sharply on the year. The Federal Employment Agency is thus making a major contribution to economic stabilisation. Short-time working benefits account for the largest share of this spending, not least due to the temporary assumption of social contributions. In addition, expenditure on unemployment benefits is rising sharply. Special rules in place are also contributing to this: persons whose entitlement to unemployment benefits expires no later than the end of the year can continue receiving these benefits for up to an additional three months. On the revenue side, significantly lower contribution receipts are expected. This is primarily due to the lower contribution rate, but the declining number of employees and lower wages as a result of short-time work are also factors. In order to finance the deficit, the Federal Employment Agency can initially draw on its large reserves (end-2019: €25½ billion). In addition, the second supplementary budget to the central government budget envisages a multi-year loan of €9½ billion. This will probably serve primarily to bridge the gap until the reserves are fully liquid. However, it is also likely to be needed to cover a shortfall that exceeds the reserves.

Extensive central government assistance next year; subsequent stabilisation possible

For the years 2020 and 2021, the coalition government intends to prevent increases in social contribution rates through central government transfers, if necessary. Next year, the Federal Employment Agency will probably require extensive funds for this purpose. In the years that follow, the labour market is likely to recover again, and financial pressure at the Federal Employment Agency is expected to ease accordingly. All in all, it seems possible that the Federal Employment Agency will then be able to proceed with its day-to-day operations without major contribution rate changes or further central government assistance.

Excursus: How the coronavirus pandemic is affecting Germany's public finances: automatic stabilisers and measures

Germany's public finances have been playing a major stabilising role during the coronavirus crisis. However, the effect that this contribution is having on public finances is complex, as evidenced by the sometimes wide variation in figures being discussed. Figures cited may refer to public finances overall or just those at the central government level. Cyclical effects on the general government budget (the automatic stabilisers) may have been factored in, or the focus may rest solely on active measures. Furthermore, figures may include measures at different stages: already implemented, planned, anticipated or generally approved. The extensive authorisations for government loan guarantees and capital assistance to enterprises are an example of this last category. They sometimes make Germany stand out in international comparisons as having high volumes of aid. As things stand today, however, it looks unlikely that the authorised volumes will be fully utilised. Lastly, there are differences in the way measures are reflected in public finances. In some cases, they lead to a higher deficit and debt level, whilst in others they have no impact on the deficit and can only be seen in the debt level. Sometimes, though, they affect neither the deficit nor the debt level.

Impact of coronavirus pandemic and fiscal stabilisation on public finances complex

The following takes a closer look at how the coronavirus crisis is manifesting in Germany's public finances. It is based on the Bundesbank's latest fiscal estimate for the current and com-

Picture painted by the Bundesbank's fiscal estimate

ing year.¹⁵ The detailed quantification of the pandemic's impact on public finances presented below is for illustrative purposes and ultimately shows only a snapshot. Uncertainty is still very high, in terms of both macroeconomic and fiscal developments as well as with respect to any further measures that may be taken.

Impact of automatic stabilisers and active fiscal policy on deficit and debt

Overview

Deficits predominantly financed by government debt

The coronavirus crisis is leading to a significant decline in general government (national accounts) fiscal balances, which are the focus of this section. The surplus of 2019 is veering into a high deficit this year. General government deficits are predominantly being financed through additional government debt and the (Maastricht) debt level is rising. Only a relatively small portion of the deficits are not affecting the debt level since they are financed from financial assets (e.g. by using cash reserves).¹⁶

Automatic cyclical effects and active stabilisation measures ...

The general government balance is being affected, for one, by the cyclical effects of the crisis. These automatic stabilisers cushion some of the economic downturn without the government actively taking steps, through – for instance – reduced tax receipts or the existing unemployment insurance scheme. However, active fiscal stabilisation measures have also been implemented (with the period between mid-March and the end of June 2020 being covered here).

... leading to a high deficit in the current year

Of the effects dealt with here, two-thirds are accounted for by active stabilisation measures and one-third by automatic stabilisers in the current year. According to the Bundesbank's estimate, taken together they squeeze the general government budget by 7¾% of (nominal) GDP.¹⁷ Overall, the decline in the fiscal balance is actually slightly stronger still due to the al-

ready expansionary fiscal stance prior to the coronavirus pandemic.

The overall impact of coronavirus-related effects on the general government budget will then subside by more than half in 2021. This is mainly owing to the fact that the measures are largely temporary and focused on the current year. By contrast, the automatic stabilisers will, in large part, continue to operate, even though economic output will be climbing significantly again. This is mainly due to some of the macroeconomic reference variables relevant for the general government budget exhibiting a time lag during the crisis. For example, annual average unemployment will continue to rise in 2021, while growth in wages and private consumption will still be muted.

Automatic stabilisers

The cyclical impact on public finances can be estimated in various ways. The disaggregated approach applied here is based on the individual macroeconomic reference variables, such as wages, private consumption or unemployment. For those variables, a trend is estimated, and deviations from that trend are then logged as

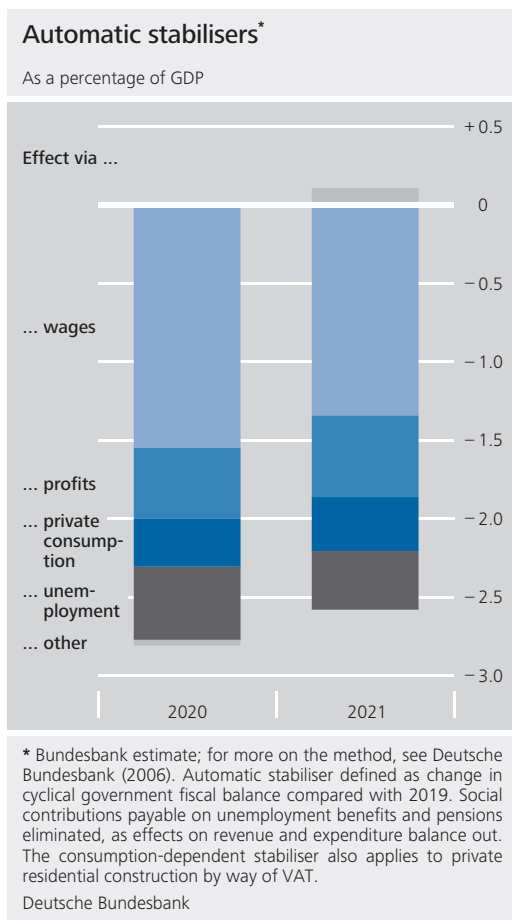
Deficit to fall in 2021 as measures come to an end

Cyclical effects call for differentiated estimation using disaggregated procedure

¹⁵ Background information on the Bundesbank projection: It is based on national accounts data and the Maastricht debt level along with the forecast from the end of May, updated to include the economic stimulus package agreed in June; see Deutsche Bundesbank (2020b). Model simulations are used to estimate the feedback effects of the economic package on the general government budget via the automatic stabilisers. Non-fiscal arrangements are not covered. These include adjustments to insolvency law (e.g. suspension of the obligation to file for insolvency until the end of September, limitation of management liability in the event of insolvency caused by the coronavirus pandemic) or the possibility of deferring payments such as rent or loan instalments.

¹⁶ A detailed account of the relationship between the fiscal balance and changes in the Maastricht debt level can be found in Deutsche Bundesbank (2018), pp. 65 ff.

¹⁷ Technical background information: Estimates for measures may differ from official figures, such as those contained in budget plans or draft legislation. The automatic stabilisers covered here correspond to the change in the cyclical component of the general government fiscal balance compared with 2019. The cyclical components are estimated using the Bundesbank's disaggregated cyclical adjustment procedure; see Deutsche Bundesbank (2006). This has been slightly modified over time (for example, a smoothing parameter of 100 is now used in the Hodrick-Prescott filter).



by expectations concerning macroeconomic developments over the medium term and assessments of the potential impact of the coronavirus crisis (e.g. in relation to insolvencies and structural unemployment). However, it is primarily the level of cyclical effects in a given year that is uncertain and liable to revision and not so much the extent of change, which is the focus of the present analysis (in our case, the changes compared with 2019).

The calculations using the Bundesbank procedure indicate that the deficit will increase by 2¾% of nominal GDP this year owing to automatic stabilisers. The wage-dependent stabilisers exert the strongest effect, most notably because wage tax and social contributions account for by far the largest volume among the cyclically sensitive budget categories. The consumption-dependent stabiliser carries the second highest budgetary weight. Its effect is relatively minor because private consumption and private residential construction (which is subject to VAT) are less affected by the economic downturn than, for example, profits.

Automatic stabilisers a major support in 2020 ...

cyclical influences. From there, the respective cyclical impact on the general government budget is derived: where the wage bill exhibits a negative trend deviation, this leads to a negative cyclical effect on taxes, for example. This allows for a more differentiated picture of cyclical effects, compared with aggregated estimation methods which generally draw on GDP (rather than the individual macroeconomic reference variables). It is likely that private consumption, wages and labour volumes are taking a relatively harder hit in the coronavirus crisis than has been observed in the past. As a result, wage tax, VAT, social contributions and labour market-related expenditure are responding unusually strongly to the present downturn in GDP.

The negative cyclical effects will abate only slightly in the coming year, even though economic growth will pick up again. This is due to wages, private consumption and the labour market – which are particularly important factors for the general government budget – exhibiting a time lag during the crisis. As a result, some aspects of the crisis year of 2020 will not be reflected in the general government budget until 2021. Labour market-related spending will see a shift: cyclical short-time work, which is very sensitive, will fall sharply while cyclical unemployment will experience another increase.

... and set to recede only minimally in 2021

Heightened estimation uncertainty during the crisis

A considerable degree of uncertainty is involved in estimating the cyclical impact on the general government budget, regardless of which method is used.¹⁸ It is especially high in the current situation: the results are influenced

¹⁸ For detailed information on the different features of cyclical adjustment procedures, see Deutsche Bundesbank (2017b).

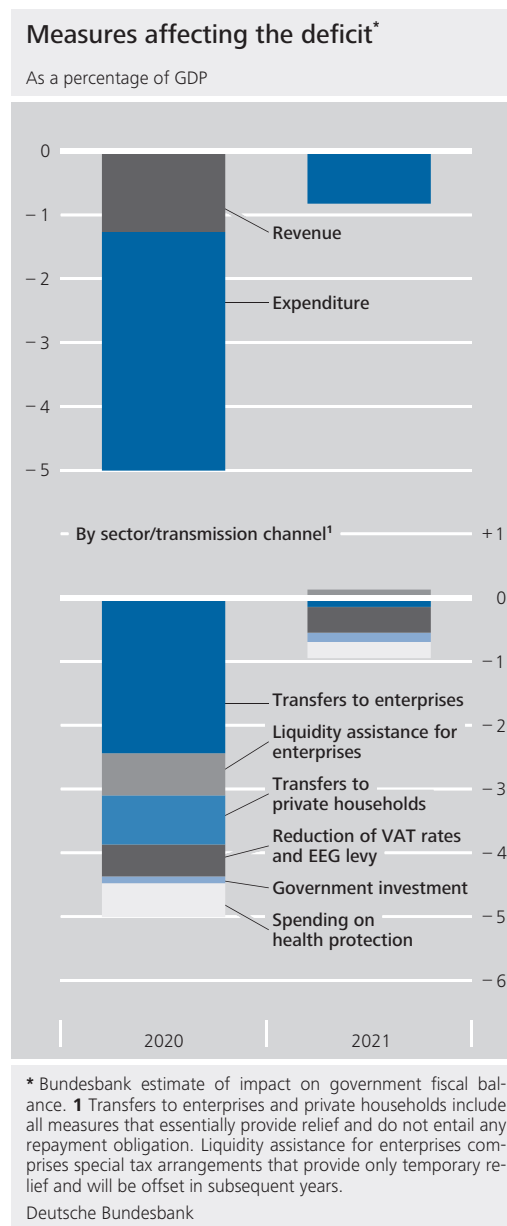
Fiscal policy measures¹⁹

Extensive fiscal policy measures cushioning the effects of the coronavirus pandemic

The government initially introduced extensive fiscal measures to support the healthcare system and mitigate the economic repercussions of the coronavirus pandemic for enterprises and private households. This was followed in June by an additional comprehensive package designed, inter alia, to stimulate demand. According to the Bundesbank's estimate, in combination with each other, the measures will push the general government deficit up by 5% of GDP in 2020. Spending, in particular, was scaled up, while the contribution made by the revenue side (e.g. tax cuts) is small, in relative terms. Come 2021, the impact of the measures in the budget will amount to just 1% of GDP.

Support measures for enterprises and ...

Overall, special support measures for enterprises carry the most weight in quantitative terms, with the immediate assistance for enterprises, the self-employed and freelancers playing the most consequential role. Short-time working benefits were also expanded, with a key factor being that the Federal Employment Agency is paying the associated social contributions this year. As with unemployment benefit I, pre-existing short-time working benefits are counted among the automatic stabilisers. The capital transfers to Deutsche Bahn, local public transport companies and cultural institutions are also significant in terms of support for enterprises. In addition, enterprises can take advantage of investment grants and various special tax arrangements. The core purpose of the special tax arrangements is to enhance liquidity. Enterprises are once more able, on a temporary basis, to apply the declining balance method of depreciation when handling movable assets and can make use of expanded tax loss carryback options. In addition, enterprises can be reimbursed special advance VAT payments and it has been made easier to have prepayments of taxes on earnings reduced. Furthermore, import VAT will fall due one month later from next year onwards. These measures, which are largely geared towards liquidity, essentially shift the collection of gen-



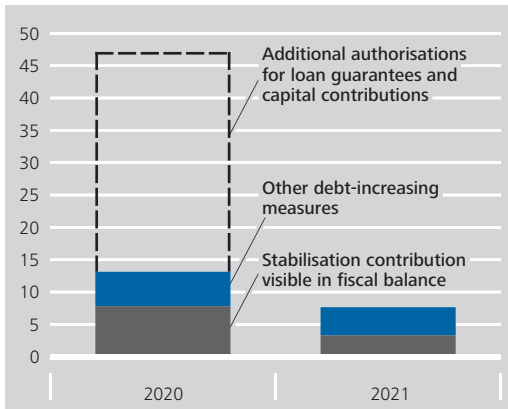
eral government tax revenue to a later point in time: receipts will be lower to begin with and will later be commensurately higher.²⁰

¹⁹ For further information, see Deutsche Bundesbank (2020b), pp. 28 f., and Deutsche Bundesbank (2020c), pp. 73 ff.

²⁰ Statistical background information: Tax deferrals, which also have a liquidity-boosting effect, are not included here. Although they bring about a shift in tax revenue in terms of actual cash inflow, they are captured in the national accounts on an accruals basis: since deferral has no effect on the point of booking, the national accounts balance is unaffected. The accrual accounting method is generally applied for the national accounts. However, in Germany the prevailing approach taken with taxes in the national accounts sees cash receipts recorded on a time-adjusted basis (phase shift), following an optional methodology available.

Fiscal policy measures during the coronavirus pandemic*

As a percentage of GDP



* Bundesbank estimate.
 Deutsche Bundesbank

... private households, plus ...

Private households are being supported primarily through easier access to the basic allowance (unemployment benefit II), partial replacement of lost earnings due to the absence of child-care, and provision of a child bonus.

... broader stimuli for demand

The reduced VAT rates and the higher grant to stabilise the renewable energy (EEG) levy from 2021 alleviate some of the pressure on enterprises and private households. In addition, increased general government spending is exerting a direct impact on domestic demand.

Health protection

Health protection measures visible in the fiscal balance, include, in particular, additional expenditure on personal protective equipment, intensive care beds, promoting the development of a vaccine and providing information to the general public. Moreover, the government is compensating the healthcare sector for much of the revenue shortfalls resulting from the restrictions on operations and procedures unrelated to the coronavirus that this year has brought.

Measures only visible in debt²¹

The measures described above increase the national accounts deficit and, for the most part, debt as well. In addition to these, there are

other government support measures, which (at least initially) only show up in the debt level and not in the national accounts deficit. This is the case when the government engages in borrowing and uses that debt to form financial assets, which it does when it issues loans or acquires equity shares. This also includes situations where public promotional banks borrow in order to grant loans on the government's behalf and with extensive government guarantees. In many cases, central government programmes are being run through the KfW. And some federal states are calling on their promotional banks, too. In these cases, the debt and the corresponding credit claim are assigned to the government. Maastricht debt rises, while the national accounts deficit remains unchanged. Deferred corporate taxes are another case in point. Here, again, the additional government debt is offset by a financial asset (tax claim).

Only visible in the debt level: government-guaranteed loans, equity investments, tax deferrals ...

It is particularly difficult to predict the extent to which government assistance loans will ultimately be granted and capital injections will be provided. The Bundesbank's estimate reckons with a figure of around 5% of GDP. The associated debt will fall again in the future when the financial assets are realised, that is to say when enterprises repay the loans to the government or the government sells its equity.

... which are potentially high in volume and ...

Going forward, the government will also generate income through its loans, guarantees and equity investments. This income will improve the fiscal balance, but will be relatively modest.

... carry risks

²¹ This is a simplified presentation. The refinancing of the KfW's coronavirus programmes through the Economic Stabilisation Fund is not discussed any further, for example. An in-depth description of how the general government sector and Maastricht debt are defined is provided in Deutsche Bundesbank (2018), pp. 59 ff. The article explains in more detail, for instance, when non-government units/transactions are transferred to the government sector for statistical purposes (rerouting) and how claims and liabilities are consolidated within the government sector. It also explains when government-guaranteed liabilities or equity investments are recorded as transactions with an impact on the deficit and what it looks like when assets default or guarantees are called.

There is risk involved in that the financial assets could lose value or default.

Authorised volumes for support measures

Authorised scope for loans and equity investments probably far from being fully utilised

So far, this excursus has dealt with describing the projected impact of the coronavirus crisis on public finances. The authorised budgetary envelopes for government-guaranteed loans and equity investments, in particular, are set far higher, however. In addition to the funds that are assumed to have been called in the Bundesbank's estimate, central and state government are endowed with budgetary authorisations amounting to almost 35% of GDP. If these were to be utilised to the full, the debt ratio would rise well above 100%. That looks unlikely as things stand today, though. Also, the macroeconomic projection underlying the fiscal estimate disregards the part of the authorised volumes which the Bundesbank assumes will remain untapped. For this reason, the amount of the authorised volumes expected to be unused is only shown separately here and not as part of the core fiscal stabilisation contribution amount.

International comparisons of government stabilisation measures

By contrast, some international comparisons do not draw such a distinction and factor in the total value of amounts authorised under the budget when quantifying stabilisation meas-

ures. This kind of approach leaves Germany potentially sticking out with figures that are far above average.²² If the particular nature of the stabilisation contributions described fails to be made transparent, there is a risk that the different volumes will not be properly classified.

International comparisons: transparent presentation needed for an accurate picture

Another aspect that can make international comparisons more difficult concerns government-guaranteed loans to enterprises: assistance measures which are economically comparable can show up in public finances in very different ways – specifically in the general government debt level. In Germany, as described above, they are elevating general government debt: since the loans are being granted through state-owned promotional banks on the government's behalf and with a comprehensive government guarantee attached, they are recorded in the government sector. The associated borrowing and lending by the KfW are thus attributed to central government, for example. In some other countries, such government credit guarantees are not granted through state-owned promotional banks. The relevant transactions (and guarantees) therefore have no or only a very limited impact on general government debt. Depending on the probability of default, however, they may even entail a greater risk for public finances.

Representation of credit guarantees in public finances sometimes subject to international differences

²² This can be seen in some international comparisons of fiscal policy measures taken in response to coronavirus (see, amongst others, Anderson et al. (2020a), International Monetary Fund (2020)). Anderson et al. (2020b) point out that there are sizeable discrepancies between assistance available and assistance take-up, mentioning Germany specifically.

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