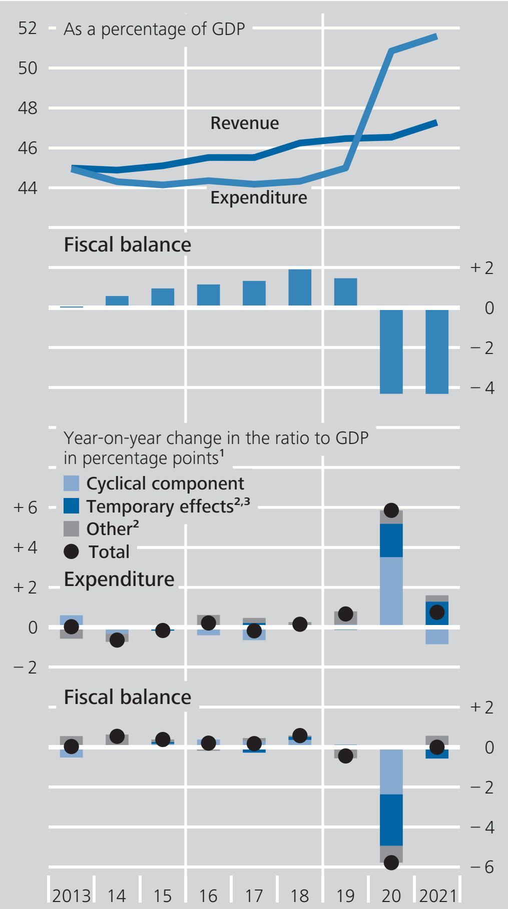
Public finances*

General government budget

Government finances provided strong support to economy in 2021, too; large deficit again

Last year, government finances continued to make a considerable contribution to supporting the economy during the coronavirus crisis. This was reflected primarily in high expenditure. The transfers to enterprises to compensate for lost revenue were especially sizeable, followed by wage replacement benefits (mainly short-time working benefits). Money was also spent on health protection, notably on coronavirus testing and vaccinations. Looking at government revenue, VAT measures, in particular, continued to play a role. On the whole, however, revenue recovered well, with taxes even surpassing the level that had been expected for 2021 prior to the crisis, after factoring out legislative changes implemented in the meantime. According to initial data, the deficit amounted to 4.3% of gross domestic product (GDP), meaning there was no year-on-year change (see the box on pp. 63 ff.). More recent data, including on tax revenue, suggest that the deficit is ultimately likely to have been markedly lower in 2021.

General government fiscal ratios and main components affecting developments*



* General government budget as defined in the national accounts. **1** For information on the breakdown, see pp. 63 ff. **2** Change in the ratio to trend GDP. **3** In 2020, these largely concern the fiscal policy measures implemented in response to the coronavirus crisis.

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Lower deficit in 2022 due to economic recovery and expiring coronavirus response measures

The deficit looks set to shrink considerably this year. The reason for this is that, in the absence of any more unpleasant surprises, the economy should continue to recover following a setback in the fourth quarter of 2021 and first quarter of 2022. Government assistance in response to the coronavirus crisis and the automatic stabilisers will therefore probably put significantly less pressure on the budget compared with 2021. What remains unclear is the extent to which new government measures will already impact the budget in 2022. As things currently stand, additional expenditure is likely to be limited.

Government budget looks set to weather crisis well

Based on current assessments, the government budget will weather the coronavirus crisis well. While deficits were high for a time, these primarily reflected the automatic effects of the economic downturn on the budget as well as the temporary coronavirus response measures. Disregarding these temporary effects, i.e. in structural terms, there are signs that the deficit

* 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 are yet available for local government or the statutory health and public long-term care insurance schemes for the reporting quarter. These will be analysed in the short commentaries in upcoming issues of the Monthly Report.

German government budget still heavily shaped by coronavirus pandemic in 2021*

The German government budget closed with another high deficit in 2021. According to first reports, that deficit amounted to 4.3% of gross domestic product (GDP) – as in 2020. This box will separate temporary influences (for the most part due to the coronavirus crisis) from structural developments. A large portion of the data is still estimated and liable to revision due to elevated uncertainty in the coronavirus crisis.[1] It is unlikely that this will make for any substantive changes in the overall picture, however.

High deficit due to temporary encumbrances during coronavirus crisis

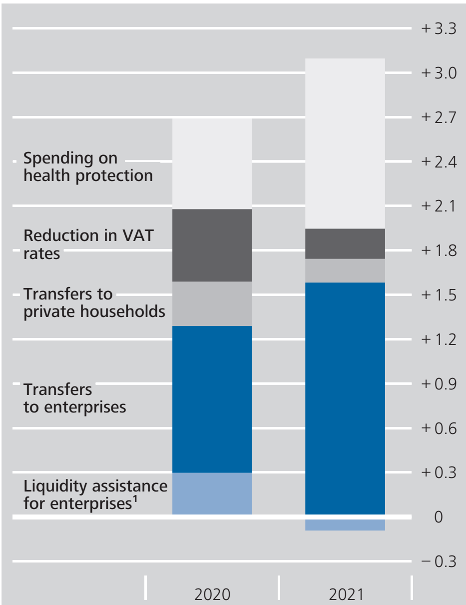
The underutilisation of macroeconomic production factors was one element contributing to the government deficit. Domestic constraints relating to coronavirus as well as supply bottlenecks affecting intermediate goods and raw materials persisted. Through the automatic stabilisers, this resulted in an estimated cyclical burden amounting to 1¼% of GDP, which was the same as the previous year.

Temporary coronavirus response measures and other special temporary effects also had an impact, exerting a distinctly higher strain than last year, amounting to 3¼% of GDP.

Quantitatively speaking, support measures for enterprises accounted for the biggest dent, with bridging aid schemes playing by far the greatest role. This was aid for which enterprises of a slightly larger nature that had suffered severe declines in sales were also eligible to apply. Alongside this, the Federal Employment Agency alleviated some of the burden on firms by continuing to assume responsibility for payment of social security contributions in the event of short-time work.[2] The government also offset some of the losses sustained by passen-

Temporary coronavirus response measures*

As a percentage of GDP



* Bundesbank estimates. Transfers to enterprises and private households comprise all measures that provide comprehensive relief and do not entail any repayment obligation. **1** Special tax rules that shift enterprises' tax payments along the time axis.

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* See Deutsche Bundesbank (2006) for notes on the analytical approach used here. The analysis refers to data from the national accounts.
1 Revisions to the first round of national accounts figures are expected for taxes, for instance: cash inflows from tax revenue in 2021 are significantly higher than expected in November 2021's official tax estimate. The November estimate is usually based on the first national accounts figures. Another point is that estimating the structural values necessarily involves making assumptions about how the economy will develop, an exercise made considerably more difficult by the coronavirus crisis. Furthermore, it is not possible to precisely pinpoint all of the temporary coronavirus response measures and effects.
2 Expenditure on short-time working benefits is largely included in the category of cyclical influences (similarly to employment benefit I). By contrast, relief for enterprises from having to pay social security contributions for short-time workers is counted as part of the special temporary coronavirus response measures.

Structural development of the government budget*

Year-on-year change in the ratio to trend GDP in percentage points

Item	2014	2015	2016	2017	2018	2019	2020	2021	Pre-COVID: 2019 in relation to 2013	COVID: 2021 in relation to 2019
1 Unadjusted fiscal balance[1]	0.5	0.4	0.2	0.2	0.6	− 0.4	− 5.8	0.0	1.4	− 5.8
2 Cyclical component[1]	0.0	0.2	0.4	0.3	0.4	− 0.1	− 2.2	0.0	1.2	− 2.2
3 Special temporary effects[1]	− 0.1	0.1	0.0	− 0.3	0.2	0.1	− 2.7	− 0.7	0.0	− 3.4
4 Fiscal balance	0.6	0.1	− 0.2	0.1	0.1	− 0.5	− 0.8	0.6	0.2	− 0.2
5 Interest payable	− 0.2	− 0.2	− 0.2	− 0.1	− 0.1	− 0.1	− 0.2	0.0	− 1.0	− 0.2
6 Primary balance	0.4	− 0.1	− 0.4	0.0	− 0.1	− 0.7	− 1.0	0.6	− 0.8	− 0.4
7 Revenue	0.2	0.1	0.4	0.4	0.3	0.1	− 0.2	0.8	1.5	0.6
8 Taxes and social contributions	0.0	0.3	0.4	0.5	0.1	0.2	0.0	0.7	1.5	0.8
9 Fiscal drag[2]	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.6	0.2
10 Decoupling of macroeconomic reference variables from GDP	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.2	0.0
11 Legislative changes	0.0	0.0	0.0	− 0.1	− 0.1	− 0.2	− 0.2	− 0.3	− 0.4	− 0.5
12 Residual	− 0.1	0.2	0.2	0.3	0.1	0.2	0.2	0.9	1.1	1.1
13 Other revenue[3]	0.2	− 0.2	− 0.1	− 0.1	0.2	0.0	− 0.2	0.1	0.0	− 0.2
14 Primary expenditure	− 0.2	0.2	0.7	0.4	0.4	0.8	0.9	0.2	2.3	1.1
15 Social payments	0.0	0.3	0.4	0.3	− 0.1	0.3	0.1	− 0.1	1.4	0.1
16 Subsidies	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.0	0.5
17 Compensation of employees	0.0	− 0.1	0.0	0.1	0.0	0.1	0.1	− 0.1	0.2	0.0
18 Intermediate consumption	0.0	0.0	0.2	0.1	0.0	0.1	0.1	− 0.1	0.4	0.1
19 Gross fixed capital formation	− 0.1	0.0	0.1	0.1	0.1	0.0	0.1	− 0.1	0.3	0.0
20 Other expenditure[4]	− 0.2	− 0.1	0.0	− 0.1	0.2	0.2	0.2	0.3	0.0	0.5

* The structural figures are derived by adjusting for cyclical influences and special temporary effects. **1** Change in the ratio to GDP compared with previous year. **2** The term "fiscal drag" encompasses the positive revenue effect of bracket creep in income taxation and the negative impact of the fact that specific excise duties are largely independent of prices. **3** Other current transfers receivable, sales and total capital revenue. **4** Other current transfers payable, other net acquisitions of non-financial assets and capital transfers payable.

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ger transport companies. In addition, VAT on restaurant meals remained at its reduced rate. There was a material increase in healthcare spending on measures to protect against coronavirus, most notably vaccinations and testing. Spending on personal protective equipment and medicines also continued. Central government again made compensation payments to hospitals for keeping beds unoccupied, though these were somewhat lower than they had been in the previous year. In terms of the pandemic, private households received support primarily in the form of compensation for loss of earnings related to the virus but not directly due to illness; they were also aided through provision of a bonus child benefit payment, one-off payments for recipients of the basic allowance and increased benefits from the Federal Employment Agency.

Independent of the coronavirus crisis, other transitory effects weighed on the government budget. These included compensation to energy companies related to the move away from nuclear power (just under 0.1% of GDP). In addition, the Federal Constitutional Court ruled the application of the established high rate of interest on tax debts from 2018 onwards to be unconstitutional. The government is now required to repay any overpayments.[3]

3 Payments on the basis of court rulings of this kind are recorded in the national accounts as government capital transfers. They increase the deficit as soon as the decision enters into legal force and it is possible to gauge the reimbursements.

Moderate improvement in structural balance

The structural balance is obtained by deducting the cyclical and temporary influences described above from the unadjusted balance. Overall, there was a moderate improvement in the structural situation of government finances compared to the previous year, amounting to ½% of GDP (see the table on p. 64, item 4).[4]

The improvement was chiefly attributable to robust growth in the tax ratio. Profit-related taxes and VAT both increased strongly, their growth significantly outstripping trend growth in the macroeconomic reference variables (see item 12). Countervailing tax cuts, such as the partial abolition of the solidarity surcharge, were more than offset. Furthermore, additional contribution rates to health insurance institutions rose, which pushed up the social security contributions ratio slightly. Further revenues came from the national carbon pricing regime. These are recorded in the national accounts as taxes. Grants from the EU's NextGenerationEU programme increased the ratio for other revenue (see item 13).

On the expenditure side, the structurally higher revenues came up against increased expenditure on climate action in particular. This pushed up the ratios for subsidies (see item 16) and other expenditure (see item 20) in particular. The investment ratio decreased slightly, meanwhile (see item 19). Supply and implementation bottlenecks likely played a part here. It is also possible that local governments held back on investment due to uncertainty surrounding the budgetary outlook. Overall, the structural expenditure ratio held more or less steady around the level of the previous year.

Government budget broadly balanced in structural terms

The current assessment is that, in structural terms, the government budget closed 2021 broadly in balance. The unadjusted deficit is explained, for the most part, by the underutilisation of aggregate capacity and the temporary coronavirus response measures. The structural balance ratio was barely changed against the pre-crisis year of 2019, though both the structural revenue ratio and structural expenditure ratio rose substantially.

The increase in the structural revenue ratio was in large part driven by the tax ratio. Despite hefty tax cuts, this was already back up above its 2019 pre-crisis level, exhibiting stronger growth than can be explained by legislative changes, the effects of tax progression and macroeconomic developments. It is hard to predict how permanent these increased receipts will prove against the backdrop of the determinants discussed – even if taxes are likely to work out even higher in the national accounts on the back of favourable developments at the end of the year. There is therefore a certain risk of drawing too optimistic an assessment of the structural situation of public finances at present.

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4 When comparing with figures from the Federal Government or the European Commission, it is important to note that the temporary coronavirus response measures are part of the structural balance in those cases. This means there can be significant differences between the levels and changes seen there.

will be no more than moderate this year. This is a deterioration compared with the pre-crisis year of 2019, when a moderate structural surplus was recorded. Compared with 2019, expenditure on pensions, healthcare, long-term care and transfers to finance climate action will increase significantly. On the revenue side, legislative changes will put pressure on the government budget. For example, the solidarity surcharge was partially abolished in 2021. But the overall uncertainty stemming from the crisis also extends to the structural situation for government finances. In particular, projecting trends in tax developments is difficult in a crisis setting. Such developments depend not least on the extent to which the pandemic causes lasting harm to potential output. Based on current assessments, however, the damage to potential output is so far moderate at most.[1]

Debt ratio up significantly for a time

The pandemic is also having a major bearing on the debt ratio: standing at 59% in 2019, it is likely to have increased to around 70% by the end of 2021. From 2022 onwards, however, it stands to reason that the ratio will shrink back down on account of a return to lower deficits and nominal GDP growth in the denominator. Furthermore, the debt effects of the coronavirus crisis not reflected in the deficit will probably decrease. Specifically, it is likely that debt-financed assistance loans, equity injections and higher cash reserves will be repaid or scaled back.

Do not undermine debt brake with excessive flexibility

It goes without saying that future fiscal developments will depend in part on how the governing coalition at the Federal level implements its plans. One significant factor in how government finances develop will be how the coalition applies the debt brake. If sound government finances are to be assured, fiscal rules need to be used to reliably keep government deficits in check. To this end, spending needs to be prioritised and, if necessary, revenue needs to be raised. The latest decisions on the central government budget have put off these decisions and are ultimately aimed at debt financing on a larger scale. To wit, emergency loans taken out in 2020 and 2021 and not needed are to be used to finance future government projects after the pandemic emergency has ended. All in all, the way the debt brake is being used does not appear to be in the spirit of its intention (for more details, see pp. 70 ff.). Its binding effect could be adversely affected. There may be arguments for modifying the debt brake's design. Indeed, moderate deficits certainly pose no threat to the soundness of government finances, and the requirements of the debt brake are also sometimes stricter than what is prescribed under the EU budget rules. If a new design were to take account of these factors, a transparent and stability-oriented reform of the debt brake would be the more suitable path to take.

Debate on reforming European fiscal rules

In the interest of a stable monetary union, too, it is important to safeguard sound government finances. This means that effective fiscal rules are also important at the European level. They need to have the effect of reliably lowering high debt ratios. While the European rules set appropriate limits for fiscal policy in principle, they often fail to fulfil their task as they are frequently applied overly flexibly and the rules often appear to be subject to political negotiations. This means there is certainly room for improvement here. In particular, the quantitative requirements for the medium-term budgetary objective should be clearer and more binding. Even then, it would still be possible to have a fiscal policy that is both future-oriented and more heavily geared towards stabilisation. Improvements in this regard would include, for example, national bad weather funds that are built up when times are good and a capped golden rule that protects government investment expenditure to an extent that it is consistent with stability.[2]

1 See Deutsche Bundesbank (2021a).
2 See Deutsche Bundesbank (2021b).

Budgetary development of central, state and local government

Tax revenue

Tax revenue recovered to large extent in 2021 from slump caused by pandemic

Year-on-year growth in tax revenue[3] was strong in 2021, at 11½% (see the adjacent chart and the table on p. 68). It therefore already managed to surpass its pre-crisis level from 2019, by 3½%. While tax revenue still fell short (-2%, or -€16 billion) of the level projected in the last pre-COVID-19 estimate for 2021, this is due to legislative changes implemented in the meantime that led to lower tax revenue. Some of these were support measures adopted in response to the coronavirus crisis. That said, measures that were not connected to the coronavirus response also had a major impact (e.g. lowering the solidarity surcharge and income tax). Adjusted for all legislative changes implemented in the intervening period, tax revenue was 3% higher than estimated prior to the pandemic for 2021.

November tax estimate significantly exceeded – profit-related taxes better than expected

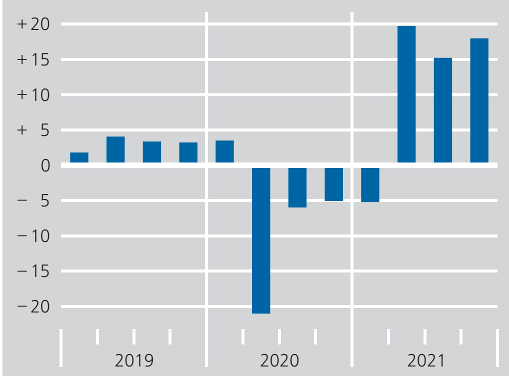
Revenue was considerably higher than projected in the official tax estimate of November 2021 (+€16 billion, or a revision of +2½ percentage points in the rate of change). Profit-related taxes, in particular, surprised on the upside. The more favourable level is likely to have an impact in later years, too, at least to some extent. However, uncertainty is very high, especially given the crisis setting.

Revenue rebound driven primarily by profit-related taxes and …

Profit-related taxes saw steep year-on-year growth (+36%). They thus accounted for half of the increase in total revenue, despite their share in revenue only amounting to around one-fifth. In 2020, however, profit-related taxes had also decreased at an above average rate. Multiple factors are likely to have been responsible for the steep growth. First, corporate profits jumped back up sharply.[4] Second, a role may have been played by the fact that enterprises could immediately offset expected losses from 2020 against profits from 2019 up to an upper limit. The tax loss carryforwards for 2021 were thus lower than they might otherwise have been. Third, there were additional payments and fewer refunds for 2020. Ultimately, profit performance seems to have been more favourable than initially expected.

Tax revenue*

Year-on-year percentage change, quarterly figures



Source: Federal Ministry of Finance. * Comprises joint taxes as well as central government taxes and state government taxes. Including EU shares in German tax revenue, including customs duties, but excluding receipts from local government taxes.
Deutsche Bundesbank

… VAT

VAT also made a considerable contribution to the rise in revenue. Growth in the nominal macroeconomic reference variables of private consumption, residential investment and government consumption was dynamic. In addition, the majority of tax payments deferred in 2020 are now likely to have been made. Legislative changes continued to cause large shortfalls, in all probability on a similar scale to those of the previous year.[5]

Wage tax rose by 4½%. Revenue growth was curbed due to the basic income tax allowance and child tax allowance being raised and the other income tax brackets being shifted to the

3 Including EU shares in German tax revenue but excluding receipts from local government taxes, which are not yet known for the year.
4 The fact that, according to initial figures, non-financial groups' return on sales recovered well in 2021 is one indication of strong corporate profits. See Deutsche Bundesbank (2021c), p. 57.
5 The financial impact of the temporary VAT cut in the second half of 2020 also made itself felt in January and February 2021. This is due to enterprises paying VAT with a lag of two months in most cases. The collection of import VAT was also deferred by six weeks in January 2021. In addition, the VAT rate cut on restaurant meals still applies.

Tax revenue

Type of tax	Year as a whole 2020 € billion	2021 € billion	2021 Year-on-year change € billion	2021 Year-on-year change %	Estimate for 2021[1] Year-on-year change %	Q4 2020 € billion	2021 € billion	2021 Year-on-year change € billion	2021 Year-on-year change %
Tax revenue, total[2]	682.4	761.0	+ 78.6	+ 11.5	+ 9.1	186.3	219.8	+ 33.5	+ 18.0
of which:									
Wage tax[3]	209.3	218.4	+ 9.1	+ 4.4	+ 4.1	57.7	62.9	+ 5.2	+ 9.1
Profit-related taxes	111.5	151.9	+ 40.4	+ 36.2	+ 27.0	31.4	45.9	+ 14.5	+ 46.0
Assessed income tax[4]	59.0	72.3	+ 13.4	+ 22.7	+ 17.5	16.1	22.2	+ 6.1	+ 37.5
Corporation tax[5]	24.3	42.1	+ 17.9	+ 73.6	+ 60.3	8.0	13.2	+ 5.2	+ 64.8
Non-assessed taxes on earnings	21.5	27.4	+ 5.9	+ 27.4	+ 11.4	5.6	7.9	+ 2.3	+ 40.4
Withholding tax on interest income and capital gains	6.8	10.0	+ 3.3	+ 48.3	+ 40.5	1.6	2.6	+ 0.9	+ 56.6
VAT[6]	219.5	250.8	+ 31.3	+ 14.3	+ 12.3	55.3	68.8	+ 13.5	+ 24.4
Other consumption-related taxes[7]	90.1	90.6	+ 0.5	+ 0.6	+ 0.1	27.3	27.8	+ 0.4	+ 1.5

Sources: Federal Ministry of Finance, Working Party on Tax Revenue Estimates and Bundesbank calculations. **1** According to official tax estimate of November 2021. **2** Comprises joint taxes as well as central government taxes and state government taxes. Including EU shares in German tax revenue, including customs duties, but excluding receipts from local government taxes. **3** Child benefits and subsidies for supplementary private pension plans deducted from revenue. **4** Employee refunds and research grants deducted from revenue. **5** Research grants deducted from revenue. **6** VAT and import VAT. **7** 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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Wage tax made moderate contribution to growth; bracket creep since 2014 offset overall

right. Legislators have been shifting the income tax scale on a regular basis since 2014. The idea behind this is to prevent progressive taxation from increasing as taxpayers move into higher tax brackets due to inflation. In the absence of such adjustments, taxation of real income would continually rise in line with inflation. When the scale is shifted gradually to the right, the individual tax rates that it contains then apply as of ever higher (nominal) income brackets. Shifts in the income tax scale are based on estimated inflation rates. Inflation was unexpectedly high in 2021, and the bracket creep in 2021 will therefore be offset to only a relatively minor extent. However, the reverse had generally been the case in previous years. In 2018, 2019 and 2020, in particular, inflation turned out to be markedly lower than projected. Overall, the shifts in the scale since 2014 have been high enough to prevent bracket creep.

2022 and later years: tax outlook favourable overall, but relief measures likely to curb growth slightly

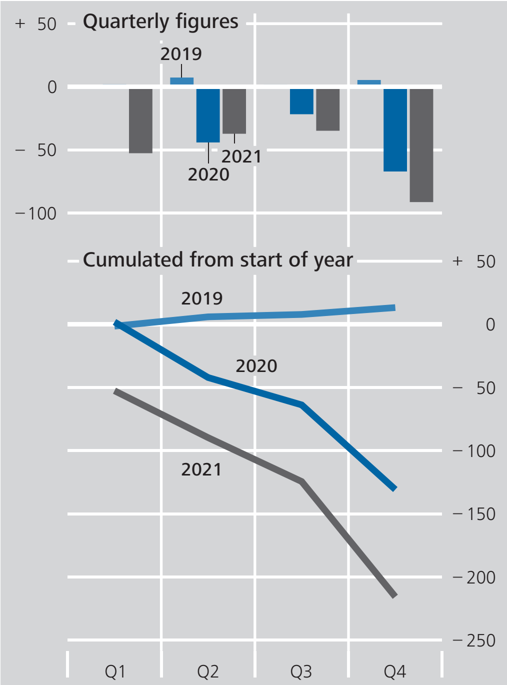
The latest official tax estimate of November 2021 assumes favourable revenue prospects for 2022 and beyond.[6] In view of last year's highly favourable result, it stands to reason that the tax estimate will be even higher, with at least a portion of the additional revenue probably being carried forward as a base effect. However, revenue-reducing legislative changes that had not yet been taken into account in the tax estimate are looming on the horizon. For example, the Federal Government held out the prospect of continuing to compensate for additional, inflation-related burdens stemming from bracket creep. In addition, the changeover to deferred taxation of pensions is to be adjusted, a move made necessary following a ruling by the Federal Fiscal Court. There appear to be plans for contributions to the pension insurance scheme to be fully deductible as spe-

6 For more details on the official tax estimate, see Deutsche Bundesbank (2021d), pp. 65 ff., which also includes a comparison with the November 2019 estimate.

cial expenses from next year already (instead of from 2025). From 2023, the taxable share of pensions upon retirement is also set to increase more slowly than currently planned.[7] In the period covered by the tax estimate, the annual tax shortfalls from this package are expected to make themselves felt in 2023 especially, before decreasing again. In addition, various coronavirus support measures are to be extended. One major factor contributing to the shortfalls is that firms will be able to accelerate their write-offs of capital equipment for a longer period – this will then also be possible for the 2022 acquisition year. Furthermore, the coalition agreement sets out accelerated write-off provisions for investments in climate and information technology. The resulting loss of revenue will depend on what form these provisions take. Risks exist in connection with the solidarity surcharge: there are questions as to whether it is still sufficiently justified given that special-purpose grants to the eastern German states have since been discontinued.

Central government fiscal balance*

€ billion



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.

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Central government budget

2021 budget result: deficit up even more and very large due to coronavirus pandemic and pre-funding of off-budget entities

The central government budget recorded a very large deficit in the second pandemic year of 2021. Provisional figures from the Federal Ministry of Finance put it at €216 billion (2020: €131 billion). Thanks to higher tax receipts, revenue returned to steep growth, rising by 8½% (+€29 billion). However, expenditure rose far more sharply still, by 24% (+€114 billion). Transfers to central government's off-budget entities alone increased by €48 billion, with inflows into the new Flood Relief Fund (€16 billion) and the Energy and Climate Fund (€62 billion, and thus €35 billion more than in 2020). Grants from central government to the social security funds went up by €38 billion. For example, central government provided significantly greater compensation for pandemic-related healthcare spending. Transfers to the Federal Employment Agency were slightly higher still (+€17 billion; see the box on pp. 73f.). Transfers to enterprises in response to the coronavirus pandemic increased by €30 billion and reached €49 billion. Since the application and approval processes take a certain amount of time, this figure also included extensive aid to compensate for lost revenue in the previous year. Insofar as the federal states involved settled already foreseeable payments at the end of 2021, it also reflects burdens from the current year.[8] Interest expenditure saw a renewed decrease, by €2½ billion. Sizeable premia were again collected, which are deducted from the interest

7 In the course of changing over to deferred taxation, the taxable share of pensions has been gradually increasing since 2005, starting at 50% and currently expected to reach the final value of 100% by 2040. The tax-free pension amount, which is usually determined on a one-time basis upon retirement, applies for the entire period over which the pension is drawn. Regular pension adjustments will thus be fully subject to taxation; see also Federal Ministry of Finance (2020).

8 Central government expenditure was around €4 billion higher than the payments recorded in the application statistics. For the current year, the rules for interim management of the budget set a narrow limit for such business aid from central government: 45% of the budget estimate from last summer's draft is principally available, i.e. only just over €3 billion.

expenditure. At €11 billion, though, these premia were around €1 billion lower than in 2020.

Second supplementary budget for 2021 does not take into account more favourable budget outturn figures already available

Prior to the approval of the second supplementary budget for 2021 in the Bundestag, there was an initial report on the provisional outturn for the 2021 budget.[9] However, these figures were not factored into the second supplementary budget. Instead, the expected result from the first supplementary budget was adopted as it stood. This budgeted value was €25 billion less favourable than the provisional budget result. Estimated revenue was €9 billion lower than in the budget outturn, with tax revenue especially affected. On the expenditure side, the transfers to the Flood Relief Fund totalling €16 billion were not taken into account in the second supplementary budget. Additionally, the grant to the Federal Employment Agency was underestimated by almost €14 billion. These two factors resulted in unplanned expenditure of €30 billion. In addition, a global expenditure cut of €7½ billion on balance was budgeted.[10] Nevertheless, the planned expenditure volume was €16 billion higher than actual expenditure. The main reason for this was that the estimates for business aid and other coronavirus-related spending were too high. Interest expenditure was also lower, with the estimates for premia remaining well below the provisional actual figures.

Exceptional borrowing to fund future projects – intention to lodge constitutional complaint announced

In autumn 2020, the Bundestag activated the debt brake escape clause for the 2021 budget year. Borrowing authorisations were very generous both when the budget was adopted and then again in spring 2021 for the first supplementary budget. As uncertainty was high during the crisis, the large precautionary buffers were comprehensible from an economic perspective. However, developments in the central government budget proved to be much more favourable, and a large part of the authorisations were not actually required last year. €60 billion was nevertheless used recently to prefund government climate protection projects in future years. To this end, the Energy and Climate Fund received transfers from the second 2021 supplementary budget. At the same time, the Bundestag decided that the debt brake would no longer apply to special funds with no borrowing authorisation of their own. This rule entered into force with retroactive effect. As a result, all reserves of these special funds can now be used without corresponding payments being limited by the debt brake (see the box on p. 71). Concerns as to whether this change is compatible with constitutional law were voiced, inter alia, at a hearing of the Budget Committee of the German Bundestag. Opponents criticised that emergency loans taken out had been set aside and repurposed.[11] Reference was also made to a ruling by the Constitutional Court of Hesse from 27 October 2021.[12] The opposition announced their intention to lodge a constitutional complaint.

Additional scope …

These changes to the debt brake will mean far greater budgetary scope in the next few years. Based on the special funds' reserves, this scope amounts to €112 billion and will primarily affect the current legislative period.

… of €69 billion from 2021 …

– Of this figure, €69 billion comes from 2021. This corresponds to the off-budget entities' surpluses stemming from debt-financed transfers from the core budget, with the Energy and Climate Fund, in particular, and the new Flood Relief Fund making the biggest contributions. Net borrowing therefore breached the standard limit under the debt brake by a correspondingly larger amount in 2021 (see the boxes on p. 71 and pp. 73 f.). This means that recourse to the escape clause was greater.

– A further €43 billion originates from special funds' reserves that were built up from

9 See Federal Ministry of Finance (2022a). As a planning tool, the budget plan is commonly prepared before the outturn. Information that is already available is also usually included.
10 A global expenditure cut in budget plans has to be achieved in the course of implementing the budget by making savings in individual budget items in order to meet the planned expenditure total.
11 See Deutscher Bundestag (2022).
12 See also Deutsche Bundesbank (2021d), p. 72.

Central government special funds now outside the debt brake

On 27 January 2022, the Bundestag decided that, going forward, special funds with no borrowing authorisation of their own would be treated differently under the debt brake. This applies to all special funds with no borrowing authorisation of their own and which were created after 2010.

Previously, these special funds were counted towards the debt brake: their balances (surplus or deficit) were deducted from borrowing in the core budget. As a result, it made no difference for the debt brake if a payment from the central government budget flowed to one of these special funds: this created a deficit in the core budget and an offsetting surplus in the special fund.[1] The issue for the debt brake was rather the amount that the special fund paid to third parties: this created a deficit when viewing the core budget and its special funds as a consolidated entity.[2] Using borrowing authorisations to provide advance financing for the Energy and Climate Fund in 2020 thus had no effect on the debt brake.

The change means that the annual borrowing limit imposed by the debt brake now applies only to the core budget (and not to the special funds). As a result, a transfer from the core budget to a special fund will have an immediate effect on the debt brake in the shape of higher net borrowing. Borrowing authorisations granted by way of exception to overcome emergencies can thus be set aside for subsequent years. Actual outflows from the special fund at a later date no longer play a role for the debt brake.

The new accounting method for special funds does not apply only as of the 2021 fiscal year – it also applies to reserves from previous years. Thus, the debt brake figures were settled again with retroactive effect. Earlier transfers to the relevant special funds therefore represent a burden in previous accounting for the debt brake. This meant that the balance on the control account also had to be recalculated: this balance consists of amounts credited for fiscal years prior to 2020. These amounts are now smaller because the transfers to special funds are now accounted for as burdens. In this respect, budget accounts that had already been closed were effectively reopened. As legally required, these budgets had previously been settled for the last time on 1 September of the following year.

The European fiscal rules include the special funds: the medium-term budgetary objective applies to the general government structural deficit. Central government therefore still needs to limit the deficits of its special funds in such a way that general government requirements are met. Additionally, the onus is on the Stability Council to work towards ensuring that the European fiscal limits are not breached.

1 The result under the debt brake would only have been affected by payments between the core budget reserves (without being counted towards borrowing relevant to the debt brake) and a special fund. No such payments were made, however.
2 When a special fund generated income from third parties, this accordingly increased the room for manoeuvre under the debt brake.

… and €43 billion from previous years

transfers in previous years. This includes prefunding, particularly of the Energy and Climate Fund, in 2020 when the escape clause was also activated (€28 billion). The remainder comes from years further back when the escape clause was not activated. For the years back to 2016, the change in rules means that special funds' surpluses, which previously counted towards the debt brake, are no longer included. This reduced the balance on the control account, which shows a cumulated undershooting of the regular borrowing limit under the debt brake, by €4½ billion.[13]

Higher repayment obligations under debt brake, but deferral of repayments also announced

The largest chunk of this future budgetary scope (€97 billion, or 2½% of GDP) was therefore accumulated via higher emergency loans taken out in 2020 and 2021. This lowers the scope for borrowing in the repayment years. To date, repayment of the emergency loans taken out in 2020 is due between 2023 and 2042, and those taken out in 2021, between 2026 and 2042. The new accounting rules for special funds mean an annual repayment burden of €3½ billion as of 2023, rising to €15 billion as of 2026. However, the Federal Government has announced that it will revise the repayment schedules with the 2022 budget. According to the coalition agreement, the schedules are to be brought into line with the repayment deadlines for the EU's NextGenerationEU crisis fund. All repayments would then not start until 2028 and would be spread over 30 years (as opposed to the 20 years envisaged to date). The annual repayment amount for all emergency loans taken out so far would then total €8½ billion. Of these annual amounts, just over €3½ billion would be due to changing the rules for the special funds. Additional interest payments would inflate the burdens further.

Approach appears incompatible with intention of debt brake

All in all, the way the debt brake is being used does not appear to be in the spirit of its intention. This applies to the use of the escape clause, in particular. Activation of the escape clause is predicated on a particular crisis situation, one that is beyond the government's control and impacts significantly on the state's financial position. For 2020 and 2021, this was indeed the case. However, the exceptional borrowing authorisations set aside for future expenditure are not closely related to the coronavirus pandemic. They are instead being used to release future climate policy measures from the annual debt brake limits. A stimulus in demand from abolishing the renewable energy (EEG) levy is set to be financed in this way using the escape clause, too.

As things stand today, acute phase of crisis overcome

However, the majority of forecasts available predict that the economy as a whole will be more or less back to normal as early as 2022 or even in a more favourable condition. According to the government's projection from last autumn, employment will be higher as of 2023 and unemployment will be lower than expected prior to the outbreak of the crisis. There is no indication that macroeconomic demand requires an additional stimulus. The draft budget states that private investment dropped away in the crisis years and that measures to promote it are now necessary. However, total capital stock in the coming years is now expected to be only slightly lower than levels forecast before the crisis and a catch-up process already appears to be under way. No economic justification was presented stating that a moderate undershooting of previous expectations constitutes a real crisis situation that can only be overcome with emergency borrowing. The simple fact that certain measures appear essential is not sufficient to justify funding them with stockpiled emergency loans. The aim of the debt brake is rather to make sure priorities are set – irrespective of whether on the revenue or the expenditure side.

Question retroactive adjustment of agreed repayment schedules

Under the debt brake, even before an emergency loan can be taken out, a repayment schedule must be agreed. This is to prevent a situation whereby the escape clause is used to

13 For the years prior to 2016 (before the borrowing limit of 0.35% of GDP came into force), the credit balance on the control account was cancelled. The remainder was not offset.

Provisional accounting for central government's debt brake for 2021

In the initial accounting for last year,[1] the Federal Ministry of Finance took into account the new rule for special funds. The results for previous years were also adjusted accordingly.

In 2021, the standard limit was exceeded by a total of €193 billion. This limit stood at €12 billion (0.35% of gross domestic product in 2019). Net borrowing came to €215 billion. To compute the key structural figure, the calculated cyclical burden of €14 billion was deducted from this and the balance of financial transactions, which stood at +€3

1 See Federal Ministry of Finance (2022b).

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

€ billion

Item		Actual 2020	2nd supplement 2021	Provisional actual 2021
1.	Expenditure[1]	441.8	572.7	556.6
	of which:			
1.a	Investment	50.3	59.3	45.8
1.b	Global spending increases/cuts	–	– 7.7	–
2.	Revenue[1,2]	311.1	332.3	341.0
	of which:			
2.a	Tax revenue[1]	283.3	284.0	313.5
2.b	Global revenue increases/shortfalls	–	22.0	–
3.	Fiscal balance (2.-1.)	– 130.7	– 240.4	– 215.6
4.	Coin seigniorage	0.2	0.2	0.2
5.	Transfer to (–)/withdrawal from (+) reserves	–	–	–
6.	Net borrowing (–)/repayment (+) (3.+4.+5.)	– 130.5	– 240.2	– 215.4
7.	Cyclical component in the budget procedure	– 42.6	– 13.9	– 13.9
8.	Balance of financial transactions	– 6.6	– 5.4	3.0
9.	Structural net borrowing (–)/repayment (+) (6.-7.-8.)	– 81.3	– 220.9	– 204.5
10.	Amount exceeding limit (12.-9.)	69.6	208.9	192.5
11.	Memo item: Amount exceeding limit incl. special funds (10.-14.)	41.9	150.5	123.5
12.	Standard upper limit: structural net borrowing (0.35% of GDP)[3]	– 11.7	– 12.1	– 12.1
13.	Structural balance (3.-7.-8.)	– 81.5	– 221.2	– 204.7
13.a	As before, with estimate of potential output acc. to 2022 Annual Economic Report	– 93.1	– 213.5	– 197.1
14.	Memo item: Balance of relevant off-budget entities to date[4]	27.7	58.4	69.0
	of which:			
14.a	Energy and Climate Fund	25.3	46.2	53.9
14.b	Relief Fund (2013 flood)	– 0.4	– 0.5	– 0.2
14.c	Fund to Promote Municipal Investment	– 1.0	– 1.5	– 1.0
14.d	Digitalisation Fund	1.3	– 1.8	0.2
14.e	Fund for Primary School-Age Childcare Provision	2.5	0.0	0.5
14.f	Flood Relief Fund (2021 flood)	–	16.0	15.6
15.	Reserves of special funds for 14.	43.2	101.6	112.2
16.	Level of general reserves	48.2	48.2	48.2
17.	Balance on control account	47.7	47.7	47.7
18.	Total outstanding repayment amount (from 10.)	69.6	278.4	262.0

* Sources: Federal Ministry of Finance and Bundesbank calculations. For methodological notes, see Deutsche Bundesbank (2016). **1** After deduction of supplementary central government transfers, shares of energy tax revenue, compensation under the 2009 reform of motor vehicle tax and consolidation/budgetary recovery assistance to federal states, excluding transfers to/withdrawals from reserves. **2** Excluding coin seigniorage. **3** Based on gross domestic product in the year before the (comprehensive) budget is prepared. **4** Budgeted figure for second supplementary budget in 2021: 14.a and 14.f plus central government transfers planned (14.a) and made (14.f).

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billion, was added. The calculation of financial transactions for the 2021 accounting is consistent with the spirit of the debt brake: the deficit-offsetting payments to the Federal Employment Agency, which were counted as loans only during the year, were reclassified as grants before the books were closed. Thus, loans amounting to €17 billion that were granted and reported as financial transactions during the year were not included here. The surplus from financial transactions, which has a negative impact on the structural balance, is based on the counting of a Federal Employment Agency debt of €7 billion which central government forgave. The agency had received this loan in 2020 to offset its deficit. Previously, the rulebook on central government's debt brake stipulated that financial transactions are to be counted in accordance with budget accounting.[2] Debt forgiveness represents a burden on central government finances without a payment transaction, however. Thus, the counting of forgiven debt is consistent with the spirit of the debt brake.

2 See Federal Ministry of Finance (2021), p. 18. For recording options then possible for central government transactions to offset deficits of the Federal Employment Agency, see Deutsche Bundesbank (2021d), p. 69.

build up additional debt on a permanent basis. The repayment schedule is there to ensure a reliable commitment to scaling back debt. Early repayment is not actually required from an economic perspective, as the debt ratio is set to come down and the interest burden is low. However, removing repayment from the upcoming medium-term planning to generate scope for new projects in non-crisis situations could potentially weaken the binding effect of the debt brake. This binding effect is crucial if the debt brake is to reliably ensure sound government finances. Moreover, it is essential to not lose sight of the fact that future government budgets will also have to bear the strain of demographic change. Burdens are thus not being shifted to years where the fiscal situation is likely to be relaxed. As of 2028, repayments of European debt from the NextGenerationEU programme will also weigh on the budget.

Underlying trend for 2022 central government budget much more favourable, but additional costs from new projects

The new Federal Government is planning on presenting a revised draft budget for 2022 on 9 March. Net borrowing is not expected to exceed the €100 billion originally planned. On the one hand, the underlying more favourable budgetary development suggests relief compared to previous plans for 2022 as well. On the other hand, the additional costs from the coalition agreements need to be taken into account.

Renewed recourse to escape clause requires extensive justification

If the government wants to exceed the regular ceiling for net borrowing, it will again have to take recourse to the escape clause. This requires presenting justification that the crisis situation persists and continues to place a significant strain on government finances. However, despite the ongoing presence of the coronavirus, the projections available do not indicate that the economy as a whole is still in a state of crisis. Some coronavirus response measures remain in place. However, central government has a general reserve of €48 billion. This reserve was topped up prior to the crisis with surpluses recorded in the 2015 to 2019 budget years. Coronavirus-related budgetary burdens could be financed from the reserve without having to activate the escape clause. Extensive justification – detailing why emergency loans are needed and for which concrete measures specifically – would therefore be required before more of these loans could be taken out.

Central government's off-budget entities post very high surplus due to pre-funding

Central government's off-budget entities (excluding the Financial Market Stabilisation Fund (SoFFin), bad banks and other entities that use commercial double-entry bookkeeping) closed 2021 with a very high surplus.[14] Large transfers from the core budget were the major driving force, pushing the surplus up to €76 billion, after a deficit of €6 billion the year before. The Energy and Climate Fund made the largest contribution (surplus of €54 billion) to the result for the year. Outflows from this fund were still much lower than planned, but not by as much as in the previous year. The new Flood Relief Fund disbursed only just under €½ billion, putting its surplus at almost €16 billion. Despite paying out €6½ billion in new coronavirus assistance loans, the Economic Stabilisation Fund still posted a surplus of just under €2 billion, stemming primarily from repayments of loans and capital assistance for enterprises such as Lufthansa. This surplus came after a deficit of €40 billion last year, resulting chiefly from refinancing the KfW's coronavirus assistance loans.

Surplus possible in 2022 due to repayments to Economic Stabilisation Fund

The Energy and Climate Fund could achieve a roughly balanced budget for 2022 as a whole. While the Federal Government is striving to make greater use of this fund, current plans to abolish the renewable energy (EEG) levy on the electricity price before 2023 might only have a minor impact on it. In the four months since the EEG levy for 2022 was calculated, the balance on the EEG account has risen by €8 billion, and high electricity prices are expected to continue to significantly rein in the need for grants for eligible electricity producers. The new Flood Relief Fund is likely to have much higher outflows than last year, and no additional injection of funds is planned at present. Regarding the Economic Stabilisation Fund, by contrast, the application period for aid measures ends in mid-2022 and the credit facility for loans has been cut back extensively. Due to a favourable outlook for macroeconomic development, take-up of new aid measures could be rather low. Given that financing conditions for enterprises are still attractive, repayments may considerably outweigh outpayments. Under these circumstances, it is even possible that central government's off-budget entities will again close the year in surplus.

State government budgets[15]

State government core budgets post slight surplus in 2021

State government core budgets posted a slight surplus of €1 billion for 2021, compared with a very high deficit of €39 billion one year previously. Data for state government off-budget entities are not yet available. Based on figures for the first three quarters, a slight deficit is emerging.[16] Including their off-budget entities, the federal states are likely to have attained a roughly balanced budget in 2021.

Revenue in the core budgets rose by 10% over the year as a whole. This was primarily due to

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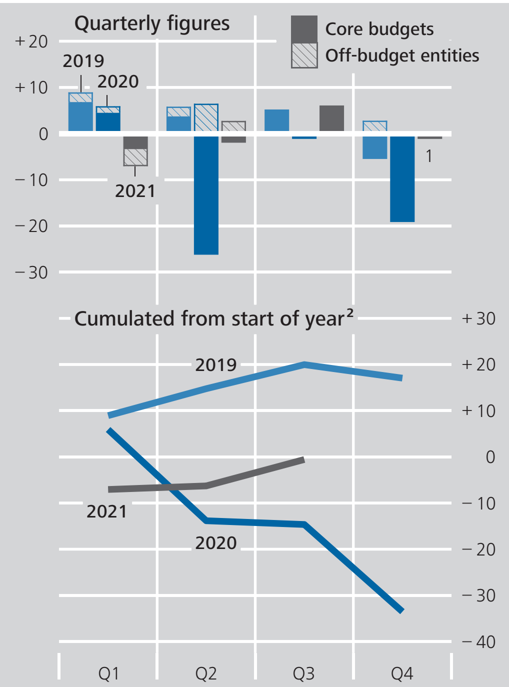
14 According to figures from the Federal Ministry of Finance. The Ministry does not publish quarterly data for off-budget entities that keep commercial accounts, such as the bad bank FMS Wertmanagement. The deficit generated by SoFFin, which uses a single-entry accounting system, has also been excluded. Since 2019, SoFFin has been taking out loans and lending these funds to FMS Wertmanagement, which uses them to refinance legacy debt. Overall, therefore, SoFFin's deficit does not increase central government's consolidated debt level.
15 The data on state government core budgets in the reporting quarter are based on the Federal Ministry of Finance's monthly cash statistics.
16 According to the quarterly figures, a consolidated deficit of €½ billion was recorded after three quarters (with advance payments of staff costs recorded using the accruals method). The surplus in the core budgets was countered by the deficit in the off-budget entities. According to the monthly statistics, data on core budgets in the fourth quarter do not reveal any notable payment flows between the core budgets and the off-budget entities. It is therefore possible that the off-budget entities' balances were largely stable. However, the data do not yet include €2 billion to pre-fund Saxony-Anhalt's coronavirus special fund, which was set up at the end of 2021, for instance. More comprehensive data are likely to be available at the end of the current quarter.

State government fiscal balance

€ billion



Sources: Federal Statistical Office and Bundesbank calculations. **1** Figure based on monthly data from the Federal Ministry of Finance; quarterly data are not yet available. **2** Core budgets and off-budget entities together.

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Strong growth in tax revenue and moderate rise in expenditure

the strong growth in tax revenue (+13%), which was 3% above the revenue level projected in the pre-crisis official tax estimate for 2021. This means that tax revenue was no longer suffering the effects of the crisis. Receipts from public administrations, a large revenue item, continued to increase (+4%) despite the substantially elevated prior-year basis. Total expenditure rose only slightly (+1½%). Although there was perceptible additional spending on the running of vaccination centres and coronavirus testing at schools, reduced inflows to state government coronavirus special funds appear to have had a dampening effect.

State government budgets probably largely unchanged this year

After improving greatly in 2021, state government finances are likely to remain largely unchanged this year. Following last year's strong recovery, tax revenue will probably grow only moderately. Transfers from central government are likely to see a significant reduction due to the expiry of pandemic response measures funded by central government. Fundamentally, this does not place a net financial burden on the state governments, as they are also spending less on such measures. However, the funds received from central government appear to have exceeded the corresponding state government expenditure at the end of 2021. If some of the central government funds received in 2021 have been spent with a delay, this will have a negative impact on the balance for 2022. In addition, personnel expenditure is likely to rise markedly. While the state governments will probably discontinue most of the special coronavirus aid accruing to their local governments, regular payments made under local government financial equalisation schemes could increase. Although pandemic-related administrative expenses (primarily coronavirus tests at schools) will probably continue to rise significantly at first, they should decline as the pandemic ebbs.

No longer appropriate for state governments to activate escape clauses in 2022

All in all, the remaining coronavirus-related burdens are likely to be of a manageable size. It would therefore seem inappropriate for state governments to activate their debt brake escape clauses or tap reserves built up using prior emergency loans. Rhineland-Palatinate, for example, has been back in compliance with its regular debt limit since last year. Other federal states have also already announced that they will revert to their normal rules and begin making repayments in 2022. Lower Saxony, for instance, intends to repay debt from loans it took out on the basis of cyclical developments. Thuringia, meanwhile, is starting to pay off its emergency loans this year. Some state governments probably took out more emergency loans than they need to tackle the pandemic. In that case, it would seem appropriate for these governments to promptly repay loans used to build reserves. Using these funds for other purposes would not comply with the spirit of the debt brake.[17]

17 See Deutsche Bundesbank (2021e), pp. 38 f.

Social security funds

Pension insurance scheme

Surplus in 2021 due to central government funds for as yet unpaid basic pension benefits

According to preliminary data, the statutory pension insurance scheme recorded a surplus of almost €1 billion in 2021. This constituted a substantial improvement on 2020, when the scheme posted a deficit of almost €4½ billion. The surplus is ultimately due to a one-off effect relating to the basic pension: central government already transferred its full grant of €1½ billion last year. This grant is intended, initially, to broadly offset the annual additional benefits paid out by the scheme. However, only a small portion of the entitlements arising in 2021 have yet been disbursed.[18] As a result of the surplus, the sustainability reserve swelled to €39 billion at the end of 2021 (just over 1.6 times the scheme's monthly expenditure), leaving it around €34 billion above the statutory minimum of 0.2 times the scheme's monthly expenditure.

Revenue increased significantly, spending dynamics subdued

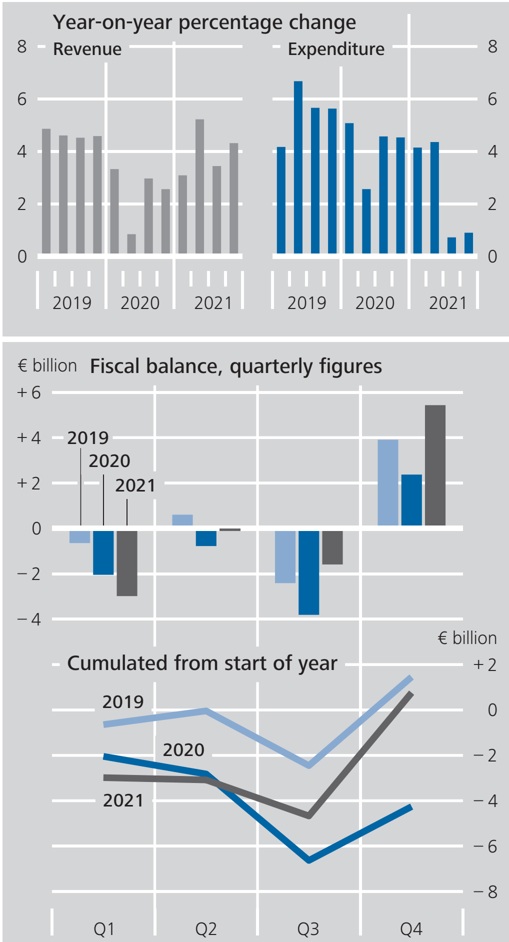
On the revenue side, contribution receipts rose by 4%. At 4½%, the increase in central government funds was somewhat larger, with 1½ percentage points being attributable to the additional central government funds for the basic pension. Expenditure growth was much weaker, at 2½%. This was primarily because pensions were not raised in western Germany in mid-2021 (eastern Germany: +0.7%). On average across the year, pensions increased by a total of 2%. By contrast, the number of pensions again saw only moderate growth.

Significant deficit on the cards for 2022

This year, expenditure will rise more rapidly than revenue, meaning that a significant deficit is on the cards. Growth in central government funds will be subdued, as they are rules-based and tied to the weak wage developments of 2020. The fact that pensions barely rose in 2021 will continue to have a dampening effect on expenditure in the first half of the year. However, the pension increase in mid-2022 is likely to be very high. Alongside the current basic pension top-ups, moreover, the scheme will also have to make back-payments for 2021. That alone will probably worsen the annual result by around €2½ billion given that benefits for 2021 are being paid out with a delay.

In spring, the Ministry of Labour calculates how high the pension adjustment will be at mid-year. In the pension insurance report of autumn 2021, the Ministry still assumed that the in-

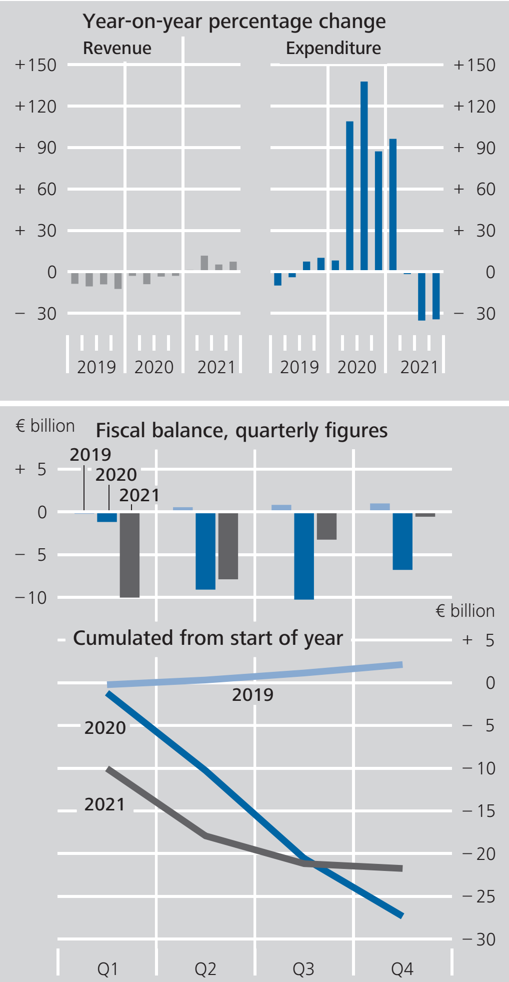
Finances of the German statutory pension insurance scheme*



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

18 The pension insurance scheme expects that the last basic pensions from 2021 will only be paid out by the end of 2022.

Finances of the Federal Employment Agency*



Source: Federal Employment Agency. * Including transfers to the civil servants' pension fund and before payment of central government grants.
Deutsche Bundesbank

Planned reactivation of the catch-up factor will only slightly dampen pension increase

crease would come to an average of 5½%.[19] However, the new Federal Government is planning to reactivate the catch-up factor in the pension adjustment. As things stand, this factor is deactivated up to and including 2025. Once the factor is reactivated, the pension cut that was waived in 2021 on account of the safeguard clause will be recouped. The waived cut will be offset against the annual pension increases, meaning that pensions will not fall but will merely rise somewhat more slowly. According to the coalition agreement, however, the statutory pension level is to be redefined at the same time. This currently stands at 49.4%; the planned change would bring it down to 48.3%.[20] The redefinition will not change pensions initially. The lower statutory pension level will affect the pension adjustment, however. As the pension level is not permitted to fall below 48%, the catch-up factor will have only a minor impact. Pensions thus remain likely to rise steeply in mid-2022.

Stabilisation of the statutory pension level would intensify financial pressures already on the horizon

Last year's pension insurance report outlines the upcoming financial pressures – which will not be substantially eased by the changes described above. According to the report, the contribution rate will leap from the current figure of 18.6% to 19.5% in 2024, before climbing to 19.7% in 2025. The pension level in 2025 will be almost unchanged, at 49.2% (48% following the redefinition of the statutory pension level and reactivation of the catch-up factor). The growing financial pressures will continue to make their presence felt after 2025: up to 2035, the contribution rate will rise continuously to almost 22½%. The statutory pension level will fall to just under 46% (45% under the new definition). The new Federal Government now intends to ensure a statutory pension level of 48% beyond 2025, too. This would subject the pension insurance scheme to significant additional financial pressures. Consequently, contribution rates would be likely to increase even further. As the bulk of the central government transfers to the scheme rise along with the contribution rate, the central government budget would also come under greater strain. This strain will grow even further if central government caps the rise in the contribution rate through additional grants.

19 The report puts the pension adjustment for western Germany at just over 5% and that for eastern Germany at 6%. This strong increase is due primarily to the wage growth seen in 2021, which was intensified by the decline in short-time working. In addition, there will be a retroactive upward correction for developments in 2020: the relevant earnings subject to compulsory contributions probably increased significantly more strongly than the wages that the 2021 pension adjustment was based on. For more detailed information, see Deutsche Bundesbank (2020).
20 A statistical one-off effect involving earnings subject to compulsory contributions increased the statutory pension level in 2021 by around 1 percentage point. With the planned change, this effect will be eliminated again.

Federal Employment Agency

Another very large deficit due to the crisis

In 2021, the Federal Employment Agency again played a significant role in stabilising the economy: due to the crisis, it posted a deficit of €22 billion (compared with €27 billion in 2020) before receipt of the central government grants.[21] Excluding the surpluses from insolvency benefit contributions and winter employment compensation contributions, the deficit came to €23 billion. The Federal Employment Agency partly offset the deficit with its reserves of €6 billion.[22] In addition, central government issued intrayear loans of €17 billion. At the end of the year, it converted these loans into a grant.

Robust revenue growth due to increased contribution receipts and higher contributions for insolvency benefit payments

The Federal Employment Agency's revenue (excluding the central government grant to offset the deficit) grew robustly by 6½%. Contribution receipts increased by just over 4½%. This was connected, not least, to the renewed rise in employment. A year earlier, the contribution base had declined by 1½% due to the crisis. Growth in revenue from insolvency benefit contributions was exceptionally strong given that the contribution rate had doubled to 0.12%.[23]

Lower expenditure due to reduced short-time working and improved labour market situation

Expenditure fell by 5½%, though was still 75% above the pre-crisis level of 2019. Given the improved labour market situation, spending on unemployment benefits declined (-5½%). The Federal Employment Agency's expenditure on short-time working was down by 7½% on the year, although it still amounted to €21 billion. €8 billion of this was spent on social security contributions, via which the Federal Employment Agency is providing enterprises with pandemic-related relief. Insolvency benefit dropped by 60% from the elevated level recorded a year earlier. Despite exemptions from the obligation to file for insolvency having expired at the end of April 2021, insolvency benefit hit its lowest level in more than 20 years.

Small deficit planned for 2022 – offset by central government grant

The Federal Employment Agency's finances should improve significantly this year. Its budget plan, approved in December, envisages a deficit of €1½ billion in the core budget. This deficit is to be offset by a central government grant. On the revenue side, contribution receipts are projected to increase by a considerable 4%. The insolvency benefit contribution rate was lowered to 0.09%. On the expenditure side, the budget plan envisages a sharp decline in spending on unemployment benefits and short-time working benefits. However, coronavirus infection rates have gone back up since the budget plan was put together. This means that pandemic-related burdens will probably ease off more slowly than projected. The Federal Government has since partially extended the pandemic-related special arrangements until the end of June 2022. All in all, the agency's finances are likely to develop somewhat less favourably than planned.

21 In the core budget, i.e. excluding the civil servants' pension fund. Transfers to the fund are recorded as expenditure, lowering the core budget balance. These transfers were suspended in 2021 (as previously during 2020) because of the coronavirus crisis. As a result, the fund posted a deficit of €½ billion. Its reserves declined to €8½ billion at the end of the year.
22 Consequently, the Federal Employment Agency no longer has any reserves available to it in the contribution-funded unemployment insurance scheme. The insolvency benefit and winter employment compensation reserves, which are funded by specific levies, came to a combined total of just over €2½ billion at the end of 2021 (up €1 billion on the year).
23 This brought the contribution rate up to its 2010-2020 average.

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