

Public finances*

General government budget

Government finances less affected by coronavirus crisis, but increasingly shaped by energy crisis

Crises continue to shape government finances. Whilst expenditure on coronavirus measures is tapering off, the government is providing new financial assistance in response to the energy crisis and high price pressures. Macroeconomic developments coupled with high inflation will bring temporary budget relief on balance, with revenue initially rising more steeply than expenditure. Overall, the outlook with regard to the development of government finances is very uncertain.

2022 as a whole

Deficit likely to decline markedly in the current year in spite of new measures

In spite of new fiscal measures, the government deficit ratio is expected to decline markedly in the current year (2021: 3.7%).

- Macroeconomic developments will have a positive impact on government finances. This is because taxes and social contributions are mostly calculated on the basis of nominal variables such as nominal private consumption and wages. Strong nominal economic development will generate considerable growth in revenue accordingly (see pp. 62 ff. for information on the new official tax estimate). Government expenditure will only reflect the higher prices and interest rates (excluding ad hoc government measures) to a comparatively moderate extent initially.¹
- In terms of fiscal measures, coronavirus-related measures (such as transfers for enterprises) are elapsing. On the other hand, however, new fiscal policy measures in response to the energy crisis and high inflation are having a burdening effect. Lump-sum transfers in connection with high gas and energy costs as well as support given to gas trading companies (especially Uniper) are

particularly weighty in financial terms. Ad hoc transfers have also been increased and taxes reduced on account of the steep rise in prices. Examples of such measures include the one-off payments for persons receiving the basic allowance and the retroactive increase in the basic income tax allowance.

Outlook for 2023

The government deficit is likely to rise again in 2023. The scale of this increase depends, for one thing, on decisions concerning the gas and electricity price brake that have yet to be made.²

Deficit likely to rise again in 2023

- Price-related and real macroeconomic developments may have only a minor influence on government deficits on balance (excluding associated ad hoc measures). In the wake of high inflation, the nominal macroeconomic reference variables for general government revenue will probably continue growing significantly, in spite of weak real economic developments. However, price increases are also likely to impact on government spending to an increasing extent. Government purchases of tangible goods or other purchases, for instance, are set to become more expensive.

* The section entitled "General government budget" relates to data from the national accounts and the Maas-tricht 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.

¹ For more information, see Deutsche Bundesbank (2022a). It is significant for interest expenditure, in particular, that the national accounts record this spending on an accruals basis. In the accounts, it is then less prone to fluctuation due to discounts and premia when securities are issued than it is in the central government budget; see p. 64.

² At the cut-off date, the Federal Cabinet had not yet decided on price brakes. The concrete measures planned were therefore still unknown.

- In terms of fiscal measures, the government deficit will continue to be influenced by opposing effects in 2023: on the one hand, coronavirus transfers to enterprises will no longer be a factor compared with the previous year, especially the first half. Moreover, coronavirus-related healthcare expenditure is likely to fall sharply. On the other hand, the funding volume of measures connected to the energy crisis and inflation is set to rise substantially compared with 2022. Sharp increases in the deficit due to gas and electricity price-related measures are to be expected (see p. 69). The envisaged shift in the income tax rate is likely to eliminate bracket creep on income tax.

Government should preserve energy-saving incentives

Government measures should impede signals of scarcity as little as possible

The gas price brake and the bailing out of gas trading companies is placing a particularly heavy burden on the government budget. With regard to the former, the Federal Government has announced its intention to follow the gas commission's proposals.³ The benefit of the proposals adopted by the majority of commission members is that these preserve price incentives to save gas. However, other key elements of the proposals are also convincing, such as applying the gas price brake only to significantly reduced consumption (where this reduction would – according to current estimates – prevent a gas shortage). In addition, the gas commission recommends basing the price brake on medium-term price expectations. These are significantly higher than pre-crisis prices; consumers and enterprises alike will have to make the necessary changes for this. By contrast, the government is compensating for large losses at gas trading companies (especially Uniper), electing not to take advantage of the potential for price adjustments in the contracts of gas company customers outlined in the German Energy Security Act (*Energiesicherungsgesetz*); for more on this, see p. 70. This dampens incentives to save energy.

With the planned measures, the government will share a major part of higher energy costs. It is also assuming cost risks, rendering public finances volatile with regard to price changes. At the same time, however, price uncertainty will diminish for households and energy-consuming enterprises.

Government to assume risks and decrease uncertainty

In order to overcome the energy shortage and therefore the high market prices, it is also crucial that energy supplies are expanded. To this end, the Federal Government is striving, not least, to accelerate the expansion of renewable energy sources. However, there appear to be some hurdles on its part that still need to be overcome. For instance, potential locations are scarce and approval procedures, including judicial reviews, are lengthy. Moreover, bottlenecks will arise if supply networks are not expanded quickly enough.

Expand energy supply

Fiscal policy should not increase price pressures

There are supply bottlenecks at present and inflation is high. Monetary policy must respond appropriately to the high inflation rates, with raising policy rates in particular being one way of fulfilling its tasks. In the current situation, government finances should not increase price pressures.

Fiscal policy should not increase price pressures

Given the above, there is an argument to be made for not expanding government deficits, at least not significantly. As illustrated, a decline is on the cards this year, but next year, the deficit will probably rise again. In order to keep this growth in check, a strong case can be made for counterfinancing new measures. The intention to use counterfinancing has been announced, for example, in the case of electricity price-related measures, but has not yet been implemented in the draft economic plan of the Economic Stabilisation Fund (ESF). Counterfinancing generally reduces price pressures and,

Limit government deficits

³ See Expert Commission for Gas and Heating (2022).

taken in isolation, eases the burden on monetary policy.

Restrict credit financing in the interests of strictly applying the debt brake

It would also be in the interests of strictly applying the debt brake to restrict credit financing. Here, it should be borne in mind that the government can only spread higher energy costs out over a longer period, or redistribute financing costs. Sooner or later, it will need to fund the measures by increasing revenue or reducing expenditure elsewhere. It is also important not to disable the fiscal rules, as credible rules are a key anchor of trust and strengthen the ability of government finances to withstand crises.

Improve EU fiscal rules

EU rules should be reformed to ensure that high debt ratios fall swiftly, ...

Improving EU fiscal rules is vital if the resilience of government finances in the euro area is to be ensured. Pre-quantified and sufficiently ambitious limits should be enshrined in these rules. To this end, reforms could be based on the existing budgetary objective: a structural budgetary position close to balance and the annual adjustment path towards this could be reinforced by limiting discretionary powers. For countries with a high debt ratio, the quantitative requirements should be backed by sanctions in order to insist more strongly on debt ratios being swiftly lowered.⁴

... but Commission proposal makes this unlikely

However, the European Commission's reform proposal is not convincing. The Commission intends to negotiate country-specific fiscal targets for the coming years with each individual Member State. Numerous different factors are to be taken into account here, including economic policy objectives. The Commission seems to be striving for considerable discretion in this regard. Furthermore, it is reliant on long-term calculations, which are known to be strongly assumption-driven. There is a danger that fiscal limits will eventually be softened, and that the process of determining them will become almost entirely opaque. The reduction of high debt ratios could thus be considerably delayed in line with the rules. The debate surrounding

the reform of EU rules is set to continue over the months to come. Here, it is crucial that the Member States ultimately agree on rules that are conducive to sound public finances – including a reliable reduction of high debt ratios.

Budgetary development of central, state and local government

Tax revenue

Q3 2022

Although tax revenue fell by 4½% on the year,⁵ this was solely due to the temporary effect of tax-reducing measures, which are intended to mitigate high energy prices and the generally high level of inflation. In the absence of these measures, revenue would have continued rising significantly.

Q3 2022: measures temporarily reduce revenue, underlying trend stable

Wage tax, in particular, fell sharply (-19%) as a result of measures taken. For example, the energy price allowance of €300 per employed person was largely paid out at the expense of wage tax. Aside from this, persons entitled to child benefits received a €100 bonus per child, which also drove down revenue. Furthermore, the basic income tax allowance and the standard allowance for employees were raised retroactively at the start of the year. Adjusted for these measures, revenue would have risen significantly.

Wage tax revenue fell sharply due to temporary burdens

The fuel tax rebate weighed heavily on energy tax revenue (-25% overall). From June to August, energy tax rates on fuel were lowered to the European minimum rate. This reduced energy tax revenue from August to October, as this flows into the government coffers with a time lag. Adjusted for the fuel tax rebate, this revenue would have fallen only slightly.

Fuel tax rebate led to steep decline in energy tax

⁴ See also Deutsche Bundesbank (2021a), p. 10.

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

Tax revenue

Type of tax	Q1 to Q3				Estimate for 2022 ¹	Q3			
	2021		2022			2021		2022	
	€ billion		Year-on-year change € billion	%	Year-on-year change %	€ billion		Year-on-year change € billion	%
Tax revenue, total ²	541.1	593.4	+ 52.3	+ 9.7	+ 6.4	193.9	185.6	- 8.4	- 4.3
of which:									
Wage tax ³	155.5	160.0	+ 4.5	+ 2.9	+ 3.4	53.9	43.4	- 10.4	- 19.4
Profit-related taxes	106.0	120.5	+ 14.4	+ 13.6	+ 5.1	36.8	39.0	+ 2.2	+ 6.0
Assessed income tax ⁴	50.1	55.7	+ 5.6	+ 11.1	+ 4.5	18.0	17.6	- 0.4	- 2.1
Corporation tax ⁵	28.9	33.1	+ 4.2	+ 14.6	+ 5.2	9.9	10.7	+ 0.9	+ 8.8
Non-assessed taxes on earnings	19.5	26.2	+ 6.7	+ 34.2	+ 19.4	6.8	9.4	+ 2.7	+ 39.2
Withholding tax on interest income and capital gains	7.5	5.4	- 2.0	- 26.9	- 30.2	2.2	1.2	- 1.0	- 44.0
VAT ⁶	182.0	212.5	+ 30.6	+ 16.8	+ 13.0	69.5	71.2	+ 1.6	+ 2.4
Other consumption-related taxes ⁷	62.8	62.3	- 0.5	- 0.9	- 1.8	21.9	20.0	- 2.0	- 8.9

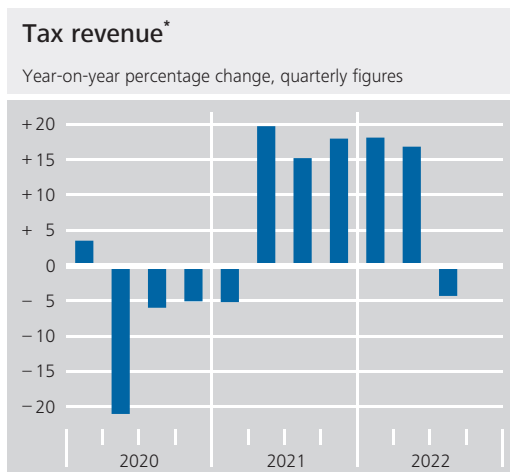
Sources: Federal Ministry of Finance, Working Party on Tax Revenue Estimates and Bundesbank calculations. **1** According to official tax estimate of October 2022. **2** Comprises joint taxes as well as central government taxes and state government taxes. Including EU shares in German tax revenue, including 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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New tax estimate for 2022 to 2027

Tax revenue sees dynamic growth of 6½% in 2022

The most recent tax estimate (autumn 2022) suggests that tax revenue will rise by 6½% year-on-year in 2022. Nominal macroeconomic growth is the main factor behind this increase:



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.

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the reference variables for tax revenue are growing dynamically as prices rise sharply. This affects nominal private consumption, above all. Nominal income is also climbing significantly – mostly due to the phasing-out of short-time work. By contrast, it is not only the tax measures mentioned for the reporting quarter that are significantly dampening revenue. These are coupled with faster write-offs, meaning that earnings from profit-related taxes are temporarily lower (and then higher once more). At the beginning of the year, legislators also reduced income tax rates by the price increase expected at the end of 2020 for 2021. Finally, since October, the VAT rate on natural gas and district heating has stood at only 7% rather than 19%. Excluding tax cuts, estimated revenue would, in fact, increase by as much as 9%.

In 2023, revenue is estimated to rise by 5½%. This is again chiefly due to nominal macroeconomic growth, which is projected to be lower than in 2022 but still considerable. While real

Significant surplus for 2023 in forecast, ...

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

Item	2022	2023	2024	2025	2026	2027
Tax revenue ¹						
€ billion	887.7	937.3	993.0	1,041.9	1,078.5	1,114.8
% of GDP	23.0	23.1	23.4	23.9	24.1	24.2
Year-on-year change (%)	6.5	5.6	5.9	4.9	3.5	3.4
Revision of previous tax estimate (€ billion)	-1.7	8.9	28.3	44.1	46.8	.
Memo item: Revenue shortfalls due to planned tax relief measures (€ billion)						
Imminent changes to tax legislation ²	.	-24.2	-36.3	-37.6	-38.6	-39.7
Revenue shortfalls if, as of 2025, bracket creep is compensated for as previously ³	.	.	.	-4.1	-8.6	-13.2
Real GDP growth (%)						
Autumn projection (October 2022)	1.4	-0.4	2.3	0.8	0.8	0.8
Spring projection (April 2022)	2.2	2.5	0.8	0.8	0.8	.
Nominal GDP growth (%)						
Autumn projection (October 2022)	7.0	5.3	4.7	2.7	2.7	2.7
Spring projection (April 2022)	6.3	5.2	2.6	2.6	2.6	.

Sources: Working Party on Tax Revenue Estimates and Federal Ministry for Economic Affairs and Climate Action. **1** Including EU shares in German tax revenue, including customs duties, including receipts from local government taxes. **2** Inflation Compensation Act, Annual Tax Act 2022, the act prolonging the tax cap for the most energy-intensive users and the tax implications of the increase in the supplementary contribution to the statutory health insurance scheme to 1.6% on 1 January 2023. **3** Since 2014, the income tax scale has shifted year after year, usually in line with the estimated inflation rate of the previous year. The figures shown here are the revenue shortfalls that will result if this practice is continued. The calculations are roughly estimated; they are based on the Federal Government's current autumn projection and wage tax receipts according to current tax estimates as defined in the national accounts. The basic income tax allowance also shifts in line with the inflation rate of the previous year.

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private consumption and real gross domestic product (GDP) are set to decline, nominal variables will increase substantially on account of price increases. Legislative changes, by contrast, weigh only slightly on growth in tax revenue in the estimate. While major support measures with a tax-reducing effect (energy price allowance and fuel tax rebate, above all) from the year before will have come to an end, the full effect of the latest VAT rate cut on natural gas and district heating will only be felt in 2023, as it will then apply for the whole year.

However, substantial tax cuts that were not included in the tax estimate are on the cards. These had already largely been prepared at that time, but not yet passed. Taking them into account, tax revenue for 2023 would rise by only 3%, with the planned measures resulting in shortfalls of around €24 billion (½% of GDP). In particular, the considerable bracket creep from 2022 is intended to be largely compensated in the income tax scale of 2023.⁶ The basic tax al-

lowance was already retroactively increased by a substantial amount in mid-2022 for this purpose, but the bulk of this relief is yet to come. In addition, the date as of which contributions to the pension insurance scheme are set to be fully deductible has been brought forward to 2023. This is in response to a ruling by the Federal Fiscal Court. The Court foresaw a double taxation of future pensions in certain circumstances (under current legal regulations).

The potential indirect effects of the announced gas and electricity price brakes (see also p. 69) on the tax estimate cannot be quantified here, not least because these measures have not yet been fully specified. Their exact impact on, first and foremost, corporate profits, and therefore on profit-related taxes, is thus unclear. In the wake of the electricity price brake, particularly high earnings from electricity production are set to be drawn off and redistributed amongst

Indirect revenue effects from gas and electricity price brakes

... but substantial tax cuts planned and thus markedly lower growth expected

⁶ See also Deutsche Bundesbank (2022b).

other enterprises and households. If this reduces taxable profits vis-à-vis the assumptions in the forecast, income from profit-related taxes will be lower. In addition, the degree to which corporate subsidies resulting from the gas price brake will increase earnings or will be passed on via lower prices is uncertain.

Dynamic growth expected for 2024, but substantial additional tax cuts planned

In 2024, revenue is estimated to increase by 6%. While nominal macroeconomic growth is to remain a key factor, 2024 will see real growth, as opposed to price increases, driving this development again. Revenue is also set to rise, as burdens generated by legislative changes come to an end: for instance, the (lagged) revenue shortfalls once the temporary VAT cuts expire in the second quarter of 2024 for natural gas and district heating, and at the start of 2024 for restaurant meals. Moreover, following accelerated write-offs in the preceding years, enterprises will no longer be able to write off expenditure to the same extent. However, exhaustive legislative changes are also planned for 2024 and have not yet been included in the estimate. In line with these changes, revenue would be around 1% of GDP lower, increasing by only 5%.

Solid growth estimated for medium term, too, but future legislative changes spell burdens

According to the tax estimate, revenue is projected to rise by an average of 4% in the subsequent years up to 2027. In 2025, additional receipts will be generated as the financial impact of tax measures elapses; in this vein, enterprises will deduct lower expenditure amounts following higher write-offs in previous years. In addition, the above-mentioned VAT cuts will fall away entirely. In subsequent years, legislative changes will not play a major role in net terms. The estimate is therefore a fairly direct reflection of the assumptions regarding macroeconomic developments and progressive taxation. The tax cuts currently planned will continue to apply, but will increase only slightly more in terms of volume. However, legislators can be expected to raise the basic income tax allowance further after 2024 in order to keep the minimum subsistence level tax-free. If they continue to compensate for bracket creep be-

yond 2025, this too will create revenue shortfalls. Risks also exist in connection with the solidarity surcharge, the constitutionality of which has been called into question for various reasons.

Revision of the tax estimate compared with previous forecasts

On balance, the estimate for the current year has hardly changed compared with that of May. Without new legislative changes, however, the latest projection would have been significantly higher: the Working Party on Tax Revenue Estimates raised their estimates of profit-related taxes by a considerable amount due to the favourable cash developments in 2022. Another factor contributing to the upwards revision was larger nominal reference variables for taxes, reflecting higher prices. These positive effects offset substantial tax cuts that came into effect after the May tax estimate was finalised.

Approach for 2022 broadly confirmed – despite considerable revenue shortfalls from legislative changes

By contrast, the estimate for 2023 is significantly higher than it was in May (+0.2% of GDP). This is partly due to the fact that the working group has extrapolated the positive developments in profit-related taxes from 2022. The upward revisions for subsequent years are set to increase further vis-à-vis 2023 (by 2026: upwards revision of 1% of GDP). The macroeconomic assumptions will result in climbing additional revenue while profit-related taxes make a stable contribution to the upward revision. Revenue shortfalls due to legislative changes, by comparison, are anticipated to decline over time: some of the new tax cuts taken into account are of a merely temporary nature.

Marked upward revisions for 2023 and subsequent years

Central government budget

Q3 2022

Central government recorded a high deficit of €39 billion in the third quarter (+€4 billion on the previous year). Numerous special factors

High deficit in Q3: tax revenue fell significantly ...

contributed to this. Revenue declined by 5% (-€5 billion), primarily on account of falling tax receipts (-6½%). This was due to the relief packages from spring and an additional €3½ billion being transferred to the EU budget (recorded with a tax-reducing effect in the central government budget).

... and expenditure including special factors down slightly on balance

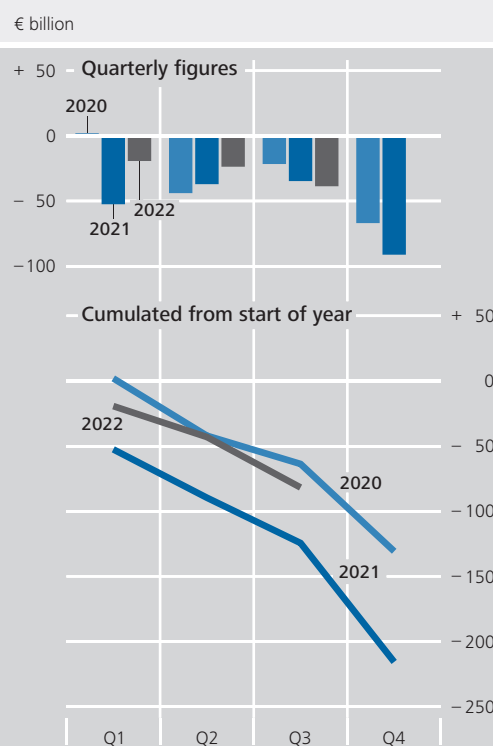
Expenditure was down slightly on the year. On the one hand, the fact that last year's advance payments to the Flood Relief Fund were of a one-off nature (-€16 billion), the decline in coronavirus-related transfers for enterprises (-€5 billion) and the absence of deficit compensation payments to the Federal Employment Agency (-€3½ billion) eased the situation. On the other hand, however, higher interest payments (+€11 billion), above all, strained central government coffers. Declining premia on issued Federal securities accounted for just over €4½ billion of this.⁷ An even more significant factor was that interest payments due at the beginning of July were shifted from the second quarter to the third quarter once again. Furthermore, central government contributed an additional €6 billion to the Climate and Transformation Fund.

2022 as a whole

Core budget deficit for year as a whole lower than planned, but burdens off-loaded to off-budget entities

For the year as a whole, the central government deficit will probably be significantly below the budget estimate of €140 billion – unless extensive cost-intensive measures are additionally introduced. According to the latest tax estimate, additional revenue of €10 billion appears likely. Moreover, numerous expenditure appropriations, e.g. for transfers for enterprises, are unlikely to be exhausted. Emergency borrowing of €116 billion had been planned in the core budget. As a result of the more favourable developments, less than €100 billion may be needed. However, both new expenditure and additional emergency borrowing are no longer being booked in the core budget, and are instead being shifted to special funds (see pp. 69 ff.).

Central government fiscal balance*



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. Deutsche Bundesbank

Budget planning for 2023

It is envisaged that the central government's core budget will formally comply with the debt brake ceiling again in 2023. Following the Budget Committee's adjustment meeting, net borrowing of almost €46 billion is planned. This comprises, first, the structurally permitted net borrowing of nearly €13 billion (0.35% of GDP in 2021) and, second, cyclically-induced net borrowing of just over €15 billion. The latter reflects the unfavourable economic situation projected by the Federal Government on the basis of the expected slightly negative real GDP growth. Third, financial transactions of €18 billion are planned; it is permitted to fund these by borrowing beyond the regular limit.

Net borrowing of €46 billion envisaged

⁷ When accounted for in the budget on a cash basis, premia and discounts are recorded fully at outflow rather than over the term of the relevant security. Interest expenditure fluctuates very sharply in some cases as a result. For a proposal on recording premia on an accruals basis, see Deutsche Bundesbank (2021b).

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

€ billion

Item	Actual 2021	Target 2022 with ESF ¹	Draft 2023	
			As of July	As at 18 Nov.
1. Expenditure ²	556.6	495.8	445.2	476.3
of which:				
1.a Investment	45.8	51.5	58.4	71.5
1.b Global spending increases/cuts	-	- 6.5	- 3.7	- 6.9
2. Revenue ^{2,3}	341.0	356.2	387.2	389.9
of which:				
2.a Tax revenue ⁴	313.5	328.4	362.3	358.1
2.b Global revenue increases/shortfalls	-	- 1.0	- 9.1	- 4.9
3. Fiscal balance (2.-1.)	- 215.6	- 139.6	- 58.0	- 86.4
4. Coin seigniorage	0.2	0.2	0.2	0.2
5. Withdrawal from reserves (+)	.	0.5	40.5	40.5
6. Net borrowing (-) (3.+4.+5.)	- 215.4	- 138.9	- 17.2	- 45.6
7. Cyclical component in the budget procedure ⁵	- 14.3	- 7.9	2.9	- 15.3
8. Balance of financial transactions	3.0	- 2.8	- 7.7	- 17.7
9. Structural net borrowing (-) (6.-7.-8.)	- 204.1	- 128.2	- 12.5	- 12.6
10. Amount exceeding limit in core budget (13.-9.)	192.0	115.7	-	-
11. Amount exceeding limit incl. ESF (10.-15.)	192.0	315.7	-	-
12. Memo item: Amount exceeding limit with balance of off-budget entities (10.-16.-17.)	123.0	162.9	17.1	142.5
13. Standard upper limit: Structural net borrowing (0.35% of GDP) ⁶	- 12.1	- 12.5	- 12.5	- 12.6
14. Structural balance (3.-7.-8.)	- 204.3	- 128.9	- 53.2	- 53.3
14.a As before, with estimate of potential output acc. to autumn 2022 economic forecast	- 209.9	- 132.2	- 35.0	- 53.3
15. Structural net borrowing of ESF due to energy crisis	.	- 200.0	.	.
16. Deficit of ESF due to energy crisis	.	- 35.1	.	- 121.2
16.a ESF funds remaining thereafter	.	164.9	.	43.7
17. Memo item: Balance of off-budget entities previously relevant to the debt brake ⁷	69.0	- 12.0	- 17.1	- 21.4
17.a Climate and Transformation Fund	53.9	- 6.5	- 9.9	- 14.1
17.b Relief Fund (2013 flood)	- 0.2	- 0.5	- 0.2	- 0.2
17.c Fund to Promote Municipal Investment	- 1.0	- 1.2	- 0.9	- 1.0
17.d Digitalisation Fund	0.2	- 0.2	- 2.7	- 2.7
17.e Fund for Primary School-Age Childcare Provision	0.5	- 0.4	- 0.4	- 0.4
17.f Relief Fund (2021 flood)	15.6	- 3.2	- 3.0	- 3.0
18. Memo item: Balance of Armed Forces Special Fund	.	- 0.1	- 8.5	- 8.4
18.a Borrowing authorisation remaining thereafter	.	99.9	91.4	91.5
19. Memo item: Balance of central government budget and special funds (3.+16.+17.+18.)	- 146.6	- 186.8	- 83.6	- 237.3
20. Reserves of special funds for 16. and 17.	112.2	265.1	83.0	122.5
21. Central government assets in civil servants' pension reserve and civil servants' pension fund ⁸	28.1	.	.	.
22. Level of general reserves	48.2	48.2	7.7	7.7
23. Balance on control account	47.7	47.7	47.7	47.7
24. Total outstanding repayment amount including Armed Forces Special Fund (from 11. and 18.)	261.6	577.4	585.9	585.8
25. Total outstanding repayment amount from NGEU transfers ⁹	14	36	54	54

* Sources: Federal Ministry of Finance and Bundesbank calculations. For methodological notes, see Deutsche Bundesbank (2016). **1** Deficit and reserves of Economic Stabilisation Fund updated in line with reserves figures in ESF draft budget plan for 2023. **2** Excluding transfers to/withdrawals from reserves and including net tax revenue (see footnote 4). **3** Excluding coin seigniorage. **4** After deduction of supplementary central government transfers, shares of energy tax revenue, compensation under the 2009 reform of motor vehicle tax and budgetary recovery assistance to federal states. **5** For 2021 final settlement, for 2022 according to budget plan, for 2023 according to specific state of planning. **6** Based on gross domestic product in the year before the (comprehensive) budget is prepared. **7** Budgeted figures for 2022 from borrowing plan, for 2023 from Bundestag-Drucksache 20/3100 as well as 20/3525 and 20/3527. **8** Market values according to central government balance sheet for 2021. Continuous inflows; withdrawals from the fund planned from 2030, from reserves from 2032. **9** Actual NGEU figure for 2021 as well as budgeted figures and estimates, each multiplied by Germany's share of 25½% in EU gross national income.

The most significant financial transaction is a €10 billion loan that central government plans to grant to an entity outside the core budget in order to build up a capital stock, particularly from equity investments. Its earnings are intended to dampen future contribution rates to the statutory pension insurance scheme. On balance, net borrowing is €28 billion above the level planned in July. This is primarily due to higher cyclically-induced borrowing and the loan to build up a capital stock.

In comparison, the recent adjustments to the 2023 budget are of minor importance. The budget deficit now planned is nevertheless large, at €86 billion. It is to be funded from the borrowing of almost €46 billion outlined above, the withdrawal of close to €41 billion from the reserves and moderate coin seigniorage.

Central government's off-budget entities

Off-budget entities used to create scope for deficits

Central government had already considerably expanded its scope for deficits in connection with off-budget entities at the beginning of 2022. To achieve this, it had revised the debt brake provisions regarding off-budget entities. In the autumn of last year, off-budget entities had financial reserves of around €50 billion. Their use would have been taken into account in the debt brake and therefore would not have increased the scope for deficits. This was changed at the beginning of this year. Since then, the expenditure of special funds that are not permitted to borrow has been factored out of the debt brake.⁸

Revised rules provide scope for deficits

In addition to the new regulation, central government set up the Armed Forces Special Fund⁹ and topped up existing special funds. In the meantime, the Armed Forces Special Fund, the Climate and Transformation Fund and the Flood Relief Fund taken together have scope for deficits of around €200 billion in future years (beyond the standard debt brake limit for central government). This corresponds to almost half of the 2023 central government budget. Half of the deficit scope stems from emergency borrowing under the escape clause.

Even before increase in ESF's funds, €200 billion deficit scope beyond the debt brake

On balance, revenue estimates changed only slightly compared with July

On the revenue side, the new tax estimate envisaged additional revenue of €13 billion compared with its May figure if the impact of legislative changes is disregarded. In the July draft budget, precautionary items totalling €12 billion were set aside for tax cuts. However, the tax cuts that have now been adopted or are currently under discussion in Parliament amount to €20 billion. As a result, the volume of untapped precautionary items (global revenue shortfalls) fell to €5 billion. Furthermore, the €2½ billion Bundesbank profit distribution that was included in the July draft budget was eliminated from budget estimates. On balance, higher receipts from Next Generation EU resulted in additional revenue (+€4 billion); here, it seems that funds previously earmarked for 2022 are to be collected at a later date. The planned withdrawal of almost €41 billion from the reserves remained unchanged.

Additional expenditure on pension capital stock, interest payments and transfers

Alongside the capital stock loan, higher interest payments (+€10 billion) are the main drivers of change on the expenditure side compared with the July draft budget. Additional expenditure of €3 billion is planned on the civic allowance (basic income scheme), and just over €2 billion on the expanded housing allowance. Assistance to other countries was also significantly increased, apparently not least for Ukraine.

Deficit still high despite off-loaded burdens

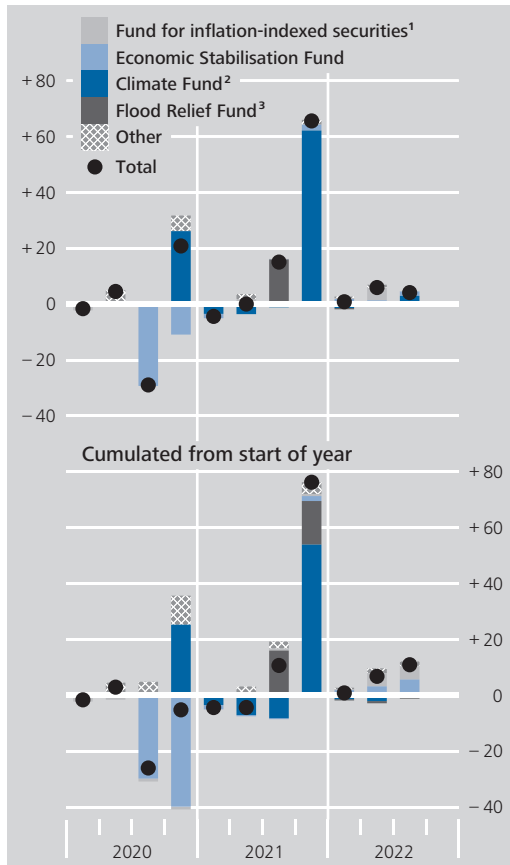
Owing to the intensive use of special funds, however, the central government budget reflects only part of central government's fiscal policy activities. Extensive expenditure and borrowing were offloaded from the core budget.

⁸ See Deutsche Bundesbank (2022c).

⁹ This special fund, with its own borrowing authorisation of €100 billion, is enshrined in Germany's Basic Law (*Grundgesetz*) and is not subject to the debt brake rules. However, its loans must also be repaid.

Fiscal balances of central government's off-budget entities*

€ billion, quarterly figures



Source: Bundesbank calculations based on data from the Federal Ministry of Finance. * Only entities using a single-entry accounting system, i.e. excluding, in particular, the bad bank FMS Wertmanagement and also SoFFin, which uses a single-entry accounting system and which refinances FMS Wertmanagement. **1** Precautionary fund for final payments of inflation-indexed Federal securities. **2** Climate and Transformation Fund; up to 2022, Energy and Climate Fund. **3** Relief fund for 2021 flood.

Deutsche Bundesbank

This scope was created, not least, by the second supplementary budget for 2021, which transferred emergency borrowing from 2021 to the Climate and Transformation Fund for longer-term use. The CDU/CSU parliamentary group has brought judicial review proceedings against this supplementary budget. The Federal Constitutional Court's ruling is still pending. Central government is planning to repay the debts arising from the emergency borrowing and from the Armed Forces Special Fund, beginning in 2028 and 2031, respectively. The repayments will then impact on the central government budget for more than three decades.

Furthermore, there will also be repayment obligations arising from borrowing by the EU.

To address the energy crisis in the years from 2022 to 2024, it was recently decided to increase the ESF's funds by €200 billion using emergency borrowing. In view of the current crisis, use of the escape clause is understandable. There is justification for taking government measures, say, to prevent hard-hit households and enterprises from becoming overburdened. It would be constructive to preserve incentives to save energy within the aid schemes. However, the associated borrowing would be lower if the measures were to be less broadly based and more extensively counterfinanced. If counterfinancing does not hamper supply and dampens the current high inflation, it will be beneficial for the economy as a whole. That aside, some aspects of this approach are unsatisfactory with regard to budget principles, and central government finances are becoming increasingly less transparent (see the box on pp. 69 ff.).

Extensive increase in ESF's funds

Developments in the third quarter and the year as a whole

Central government's off-budget entities posted a surplus of €4 billion in the third quarter of 2022.¹⁰ In the summer of last year, they were €15 billion in surplus, as the Flood Relief Fund had received large transfers of €16 billion from central government following the floods in July 2021. This summer, the annual central government grant to the Climate and Transformation Fund in particular had a notable impact, causing it to post a surplus of €3 billion. The ESF recorded a surplus of €1½ billion as a result of the return flows from coronavirus assistance loans. The newly established Armed Forces Special Fund did not yet register any expenditure.

Central government's off-budget entities posted surplus in Q3 stemming from central government funds for Climate and Transformation Fund, ...

¹⁰ According to data from the Federal Ministry of Finance, i.e. excluding bad banks and other entities that use commercial double-entry bookkeeping. SoFFin's deficit is also factored out. It is based on funds transferred to refinance the bad bank FMSW. In return, the direct debt of FMSW, which is also attributable to central government, is omitted accordingly.

New tasks assigned to the Economic Stabilisation Fund

Fund's new tasks

By mid-2024, the Economic Stabilisation Fund (ESF) is set to finance measures to curb the impact of high energy prices. These include, in particular:

- Gas supply: the ESF is to provide support to essential gas importers – especially Uniper, which is sustaining large losses following the suspension of Russian deliveries. The costs of procuring replacement gas far exceed the revenue Uniper stands to make on the basis of existing customer contracts. This support will thus shield customers from an otherwise sharper rise in energy prices. Uniper recently put its anticipated losses at €40 billion.¹ The Federal Government had previously committed to launching a rescue package comprising adequate capital injections. The ESF draft economic plan includes capital injections of €15 billion for 2023 alone.
- Regarding the gas price brake (herein after referred to as gas price transfers), the ESF is to finance transfers for households and enterprises. At the time the gas commission's interim report was presented, its proposals were forecast to be in the order of €90 billion. However, the volume of funds required for gas price transfers is uncertain, as it depends on suppliers' gas prices. In addition, gas price transfers may also continue for longer than announced so far (end-April 2024). The ESF draft economic plan foresees expenditure of €40 billion for 2023. The Federal Government now appears to be expecting gas prices to be significantly lower than anticipated by the gas commission.
- Electricity price brake: the ESF is to step in to close the funding gaps that are not

covered by drawing on electricity suppliers' profits. The ESF draft economic plan envisages central government transfer expenditure of €43 billion for 2023. While this budget item is also earmarked for liquidity assistance, no repayments appear to have been factored in.

- The ESF is also to finance aid for enterprises if they continue to struggle as a result of high energy prices. This aid is to complement existing assistance, such as the Federal budget's energy cost-containment programme.² Under the ESF draft economic plan for 2023, this also covers transfers – for hospitals, for instance. A total of €18 billion is set aside for supplementary assistance.

Using escape clause to secure credit financing

In order to finance these new tasks, the ESF received its own borrowing authorisation of €200 billion. To this end, the Bundestag again activated the debt brake escape clause for 2022. From 2031 onwards, the debt incurred is to be repaid in a maximum of 31 annual instalments (as with the Federal Armed Forces Fund).

The Federal Government and the Bundestag justify this borrowing as being necessary to counter the danger of a self-reinforcing downward spiral for the German economy. Without assistance, unconstrained energy prices would lead to production stoppages and consumption cutbacks building up further and further throughout the economy. Any attempt to

¹ See Uniper (2022), p. 2.

² Outflows for this item have so far remained very limited. However, many enterprises appear to have not yet been hard hit by higher energy prices. Recourse to transfers therefore looks set to be greater going forward.

limit losses in purchasing power through higher wages and thus stabilise consumption would harbour the risk of a wage-price spiral with even higher inflation.

Government measures in the energy crisis broadly based

In the energy crisis, the government is tasked with supporting those who can barely cope with price surges in the short term. This means low-income households as well as enterprises that have a sustainable business model. Measures to be financed by the ESF make an important contribution to fulfilling that task.

However, these measures are targeted at a wide group of beneficiaries and shield them from price risks across the board. For example, households and enterprises that have a better financial standing are also set to receive transfers. A link to a party's financial performance results from the tax liability and this applies to households, too. This liability is set to become effective as of the income limit for the solidarity surcharge, which affects around 10% of those subject to income tax.

Gas commission's proposals preserve incentives to save energy

To overcome the crisis caused by energy shortages in the short term, consumption has to be lowered. It is therefore important that incentives to reduce energy consumption remain in place despite assistance. This would be the case if the gas commission's proposals for gas price transfers, which were adopted by a majority, were to be implemented. Under these proposals, consumers receive transfers calculated based on their previous consumption levels and their supplier's selling price.³ With such a set-up, they consistently save the full high price charged by their supplier if they reduce their current consumption levels.

In addition, central government is to support gas trading companies that are key for aggregate energy supply, especially Uniper. Counting on contracts that secured low-cost deliveries from Russia, Uniper concluded long-term sales contracts with its customers. After these deliveries failed to materialise as a result of the war, it had to procure replacement gas at very high prices. Section 24 of the German Energy Security Act (*Energiesicherungsgesetz*) allows energy suppliers to pass on price increases resulting from reduced gas imports to their customers. Price adjustments are conditional on the Federal Ministry for Economic Affairs sounding the alert level and the Federal Network Agency declaring a "considerable reduction" in gas imports. The Ministry for Economic Affairs did the former on 23 June 2022, but sought a different arrangement. It ruled that all gas consumers should pay more, not just those directly affected by the supply chain. As of October, additional costs were to be financed by a gas price levy. However, the levy was abandoned without the Federal Network Agency approving price adjustments.

Without these price adjustments, central government's financing needs increased significantly. Keeping sales prices down for customers also means that short-term incentives to save energy are lower.

Debt brake rules and budgetary principles

As a basic principle, the debt brake is to set a narrow framework for net borrowing. It includes, for good reason, an escape clause which can be activated in times of crisis. It is then permitted to combat the crisis using emergency borrowing, which is to be repaid at a later date.

³ Only 80% (mainly for households and smaller enterprises) and 70% (especially for enterprises with high annual consumption) of previous consumption is taken into account.

This year, the ESF has been given a very high borrowing authorisation under the escape clause. The announced gas price transfers are broadly based. This also seems to apply to the electricity price brake – the design of these transfers is also not yet final. The funds required can be reduced by limiting transfers to individuals and enterprises that would face excessive burdens without assistance. If policymakers opt for a broader approach, stronger counterfinancing would seem appropriate. This does not appear to pose any problems from a macroeconomic perspective either and could actually be beneficial. In any case, given the current high rate of inflation, borrowing to fund the measures should be kept as low as possible.

The chosen approach does not always follow budgetary principles. For instance, the Federal Government did not derive the extensive borrowing authorisation of €200 billion for 2022 from the estimated need for

measures. The ESF economic plan for 2022 does not contain any specific expenditure estimates for these measures. Furthermore, the decision to grant all authorisations in 2022 does not comply with the principle of annuality. This principle stipulates that expenditure and borrowing be approved on an annual basis and not as a package for several years. The escape clause would then have to be activated for every additional year in which emergency borrowing is to be used. Finally, the growing number of special funds is obscuring central government's financial situation. As a result, the actual central government core budget is becoming more and more incomplete regarding central government's activities – and shows only a fraction of central government deficits.

... but marked deficit foreseeable for 2022 as a whole owing to new tasks of ESF

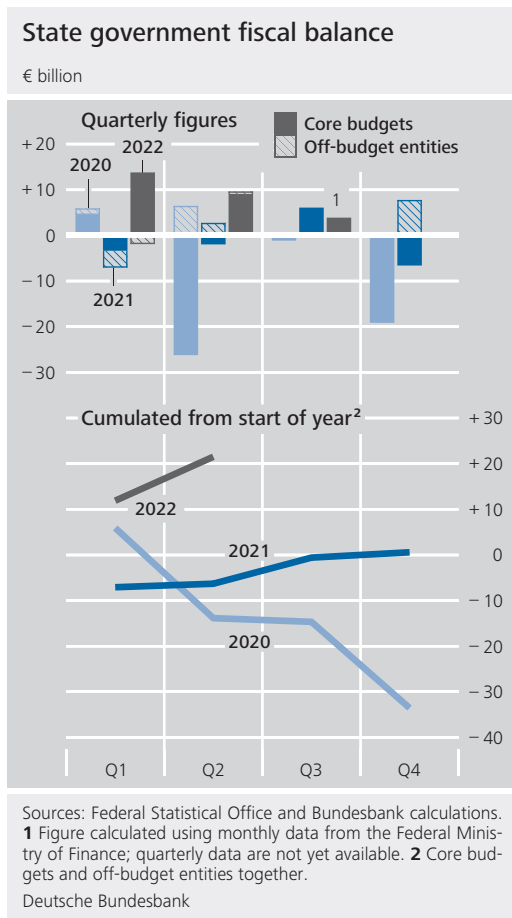
Larger outflows from the ESF are already likely to have an impact in the final quarter of this year. In addition to support for energy companies, it is planned that the ESF will pay one month's instalment of most consumers' gas and district heating bills. According to the draft economic plan for 2023, the Federal Government projects a deficit of €35 billion for the outflows associated with the support for energy companies and consumer bills. Overall, this is likely to lead to a significant deficit in central government's off-budget entities. By contrast, the Armed Forces Special Fund and the Climate and Transformation Fund, which have very ample scope for financing, are still likely to record a roughly balanced result for this year.

Outlook for 2023

Next year, the deficits in central government's off-budget entities will increase strongly. In the ESF's draft economic plan for 2023, the Federal

Government envisages a deficit of €121 billion to cushion the impact of high energy prices. However, this amount is subject to great uncertainty, as the related expenditure depends heavily on gas and electricity prices and the profit levy for the electricity price brake. The Federal Government is planning a deficit of €14 billion for the Climate and Transformation Fund. Compared with the summer draft budget, the main change is lower revenue from emission allowances. This is primarily due to the one-year postponement of the price increase for national certificates, which was decided in the wake of the energy crisis. An additional revenue item of €6 billion, for which the details are yet to be specified, is still taken into account as a counterweight. Spending on energy-efficient buildings, in particular, is to rise sharply. A deficit of €8½ billion is envisaged for the Armed Forces Special Fund. In order to achieve the defence spending target of 2% of GDP agreed within NATO, outlays would additionally need to increase by around €15 billion.

Very high deficit in ESF next year, and significant deficits in Armed Forces Special Fund and Climate and Transformation Fund



The fiscal balances of the other off-budget entities play only a minor role in comparison. Surpluses in pre-funded pension pots could largely offset burdens, not least in the special funds for flood assistance and digitalisation.

State government budgets¹¹

Core budgets in Q3 2022

State government core budgets had a surplus of €4 billion in the third quarter of 2022. This was €2½ billion lower than the surplus recorded a year earlier. Revenue was down slightly on the year (-1%). While the tax revenue accruing to the federal states remained stable, revenue from public administrations declined (-6%) because fewer funds from central government were channelled through state government budgets for coronavirus-related transfers for enterprises. By contrast, expenditure rose slightly overall (+1%). This was due,

Surplus down markedly on the year

in particular, to significantly higher transfers to local government, probably as a result of central government funds being passed on with a lag. By contrast, other operating expenditure fell sharply, probably not least because spending on coronavirus tests in schools was lower.

Core budgets and off-budget entities in 2022

Viewed together, the core budgets and off-budget entities of the state governments improved considerably in the first half of 2022, posting a surplus of just under €22 billion and thus exceeding the previous year's result by €28 billion. Following the positive developments seen over the course of the year so far, the result for 2022 as a whole is set to be much better than in the previous year (2021: +€½ billion). The state governments are also benefiting from strong tax revenue: according to the tax estimate, for example, the additional revenue compared with the last pre-crisis estimate for 2022 is €21 billion (5½% of the state governments' total tax revenue in 2022). On the expenditure side, it is central government that is bearing the brunt of the remaining coronavirus-related burdens.

Result of core budgets and off-budget entities likely improved significantly for the year as a whole

Debt brake escape clauses

The favourable budgetary situation and sizeable reserves indicate that the state governments will not need to engage in any more emergency borrowing in 2022.¹² Beyond that, the outlook is highly uncertain in view of the war in Ukraine and the associated energy crisis. According to the current assessment, however, the nominal macroeconomic reference variables for tax revenue are continuing to grow considerably. The effect of the sharp price increases on expenditure shows more of a lag. The state governments will be starting 2023 in

Very positive developments to date indicate that additional emergency borrowing is inappropriate

¹¹ The quarterly data on state government budgets are based on the monthly cash statistics for the core budgets. Information on the off-budget entities is only available at the end of the following quarter.

¹² See Deutsche Bundesbank (2022d).

a structurally sound position and can therefore also shoulder part of the burden of tax relief measures.

■ Social security funds

Pension insurance scheme

Q3 2022

Higher deficit in Q3 due to large pension adjustment

The statutory pension insurance scheme recorded a deficit of €3½ billion in the third quarter of 2022. It was thus just over €1½ billion higher than it had been a year earlier. This is due to the large pension adjustment at mid-year.

Pensions rose by 5½% on average in Germany

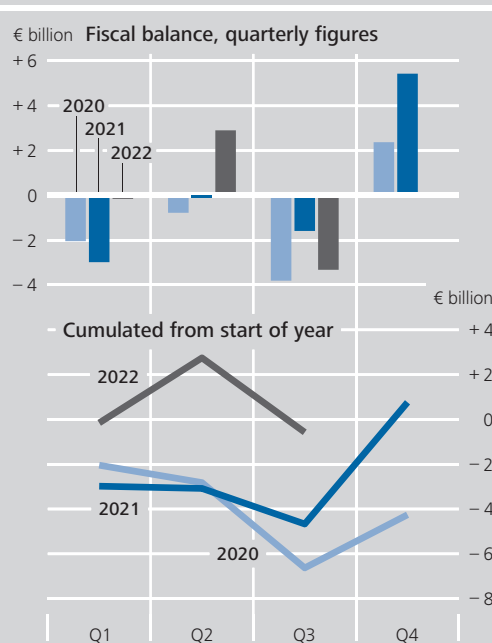
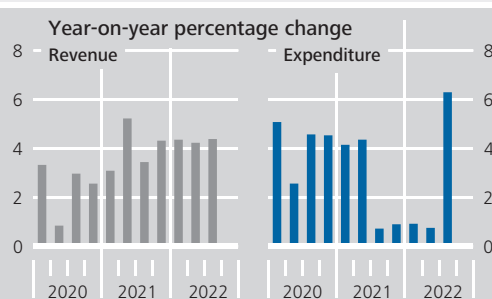
Total revenue rose by 4½%, ½ percentage point of which was attributable to back-payments from central government.¹³ Expenditure grew more steeply, by almost 6½%. At mid-year, pensions increased by 5½%, averaged across Germany (5.35% in western Germany and 6.12% in eastern Germany). This reflected the high wage growth experienced in 2021, driven, amongst other things, by the rising volume of work due to the decline in short-time work. By contrast, the reactivated catch-up factor dampened the pension adjustment by just over 1 percentage point. It is intended to compensate for the fact that the safeguard clause prevented a pension cut in 2021, but is limited by the guaranteed pension level. The number of pensions continued to change only moderately. However, it appears that basic pension top-ups have now been paid to a notable degree, both for 2022 and back-payments for 2021. The total volume is likely to be around €½ billion. This corresponds to one-fifth of the estimated claims accumulated to date.

2022 as a whole

Marked surplus a possibility for year as a whole

For 2022 as a whole, the pension insurance scheme could once again finish with a marked surplus (in 2021, it amounted to almost €1 billion). The pension insurance scheme recorded a

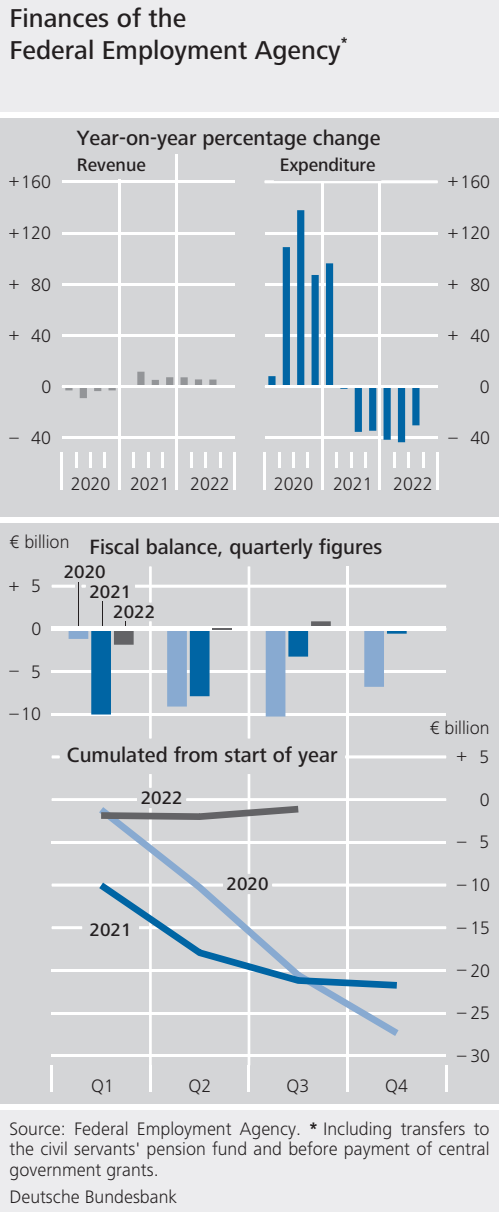
Finances of the German statutory pension insurance scheme*



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

cumulative deficit of €½ billion over the first three quarters. However, a significant surplus is likely to emerge in the fourth quarter as, in the final quarter, contributions are likely to rise considerably in line with seasonal patterns. This is not altered by the fact that expenditure momentum will probably accelerate further temporarily at the end of the year: basic pension top-ups of just over €1½ billion for 2021 and 2022 are still outstanding. The result for the

¹³ The central government budget for 2022 was not adopted until June. The grants to the pension insurance scheme are somewhat higher than in the draft budget of summer 2021, which formed the basis for payments up to the middle of the year.



year as a whole would thus be considerably better than the Federal Government had expected in its pension insurance report of autumn 2021 (deficit of €6½ billion). This is because contribution receipts, in particular, grew more strongly. In addition, the number of pensions saw a weaker rise. The free reserves (sustainability reserve) are therefore likely to amount to around €41 billion at the end of the year. This corresponds to around 1.6 times the scheme's monthly expenditure and is thus well above the minimum value of 0.2 times the scheme's monthly expenditure.

Outlook for the coming years

Based on the Federal Government's autumn projection, the financial situation is unlikely to change significantly next year. On the expenditure side, higher pension payments constitute a burden: the large adjustment from this year will continue to take effect until the middle of 2023. Thereafter, pensions will follow this year's wage trend, which is also strong. However, the retroactive basic pension top-ups from 2021 (just under €1½ billion) will have come to an end. In addition, there will be a substantial rise in revenue (according to the Federal Government's key figures).

Financial situation in 2023 largely unchanged – based on Federal Government's key figures

In the medium to long term, demographic trends will put growing pressure on pension finances: more and more baby boomers are reaching retirement age. In this context, the Federal Government's plans would further increase funding pressure in the longer term: from 2026, it intends to stabilise the pension level at 48% on a permanent basis. The retirement age is not to be raised any further after 2031. The contribution rate and central government grants would thus have to rise more sharply than already envisaged in the legal status quo.¹⁴ Details of the plan to build-up a capital stock in order to stabilise contribution rates in the future (see p. 67) have not yet been specified. Extensive assets would be needed in order to have any chance of significant stabilisation.

In medium to long term, demographic developments will put pressure on pension finances

Federal Employment Agency

Q3 2022

The Federal Employment Agency ended the third quarter of 2022 with a moderate surplus of €1 billion.¹⁵ Owing to the coronavirus crisis,

Surplus in Q3: significantly better result

¹⁴ For more information on longer-term developments and reform options, see Deutsche Bundesbank (2022e).

¹⁵ In the core budget, i.e. excluding the civil servants' pension fund. Transfers to the fund have been suspended since spring 2020 due to the coronavirus crisis.

it had recorded a deficit of almost €3½ billion in the previous year.

Revenue from contributions up significantly, expenditure still sharply declining

Total revenue rose by 5½%. By contrast, expenditure continued to decline very sharply on the year (-30%). It thus fell to around the level it was at before the coronavirus crisis, taking into account wage growth in the meantime. Although the fall in unemployment benefits continued to weaken, expenditure still fell steeply on the year, by 9% (-€½ billion). Expenditure on short-time work continued to drop very sharply (by 90%, or €3 billion). The ongoing recovery of the labour market from the effects of the coronavirus pandemic had an easing effect. So far, the energy crisis did not have a marked impact in this area.

2022 as a whole

Distinct surplus on horizon for 2022

Overall, a distinct surplus appears likely for the year as a whole. At the end of the third quarter, the Federal Employment Agency still had a deficit of €1 billion. However, the result is likely to improve markedly by the end of the year: owing to contributions on special payments

and the relatively low expenditure usually expected at that time of year, the fourth quarter usually has the most favourable result. A distinct surplus is thus likely overall for 2022 as a whole.

Outlook for 2023

Based on the Federal Government's autumn projection, the Federal Employment Agency's surplus will rise significantly next year. The contribution base will thus see a strong increase. Furthermore, the contribution rate is scheduled to rise by 0.2 percentage point to 2.6%. Based on the autumn projection, growth in expenditure will be weaker than that in revenue, as it predicts only a moderate rise in unemployment. Moreover, no extensive support measures by the Federal Employment Agency are planned. A possible weakening of macroeconomic developments entailing higher unemployment and/or short-time work would hit the Federal Employment Agency both on the revenue side and, to a far greater extent, the expenditure side.

2023: further significant improvement in finances

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