State government finances in 2022: high surplus overall, some states still making extensive recourse to emergency borrowing

The finances of the state governments and their local governments fared very well in 2022. Their surplus rose considerably to €15 billion. Although the fallout from the coronavirus pandemic and the energy crisis put a strain on budgets, tax revenue grew robustly, not least on account of inflation. By contrast, inflation still had a significantly smaller impact on expenditure.

This year, the finances of the state governments and their local governments are deteriorating. A deficit appears possible, with temporary burdens still being incurred, however. Overall, the underlying dynamics in tax revenue are losing pace, and tax cuts are leading to noticeable revenue shortfalls. By contrast, expenditure is rising considerably, in part because inflation is now having a stronger impact. In addition, funds originally set aside by state governments as part of their crisis management strategy are likely to be spent.

The financial situation of the different state governments varies, in some cases widely. Budgets are particularly strained in Bremen and Saarland, which both have debt levels that far exceed the average. They are receiving extensive budgetary recovery assistance from central government to enable them to shoulder and reduce their exceptionally high current debt burdens. Nevertheless, both states are using the debt brake escape clause to form large debt-financed reserves.

The repayment obligations accumulated thus far from emergency borrowing diverge greatly between the federal states. At the end of 2022, Saarland had the highest obligations, at €3,640 per capita. By contrast, Rhineland-Palatinate had already repaid its emergency borrowing, making it the first state government to do so. The pandemic is no longer playing a major role from a fiscal perspective. The logical next step would therefore be for the state governments to stop spending reserves formed from coronavirus emergency borrowing. This means that existing or new structural challenges should be financed within the regular budget limits. Otherwise, the binding effect of the debt brake will be considerably weakened. A binding and effective debt brake is important as it guards against sharply rising interest burdens and ensures that fiscal policy remains able to act in the long term. This does not preclude a stability-oriented reform of the debt brake.

State government finances are still lacking in transparency and very difficult to analyse with precision. This is true, first of all, of the varying requirements arising from the state-specific debt brakes. Greater harmonisation of these rules would make analyses easier and would also reduce the variation in the fiscal requirements resulting from the debt brakes. Moreover, key budgetary data only become available with a lag, and their comparability is limited. The latter is especially true of budget plans with very different data vintages. It is also extremely difficult to maintain an overview of the many special pots. Better data would make it easier to identify the need for fiscal policy action at an early stage. The onus remains on the Stability Council, as the centrepiece of Germany's fiscal surveillance, to make progress in this area.

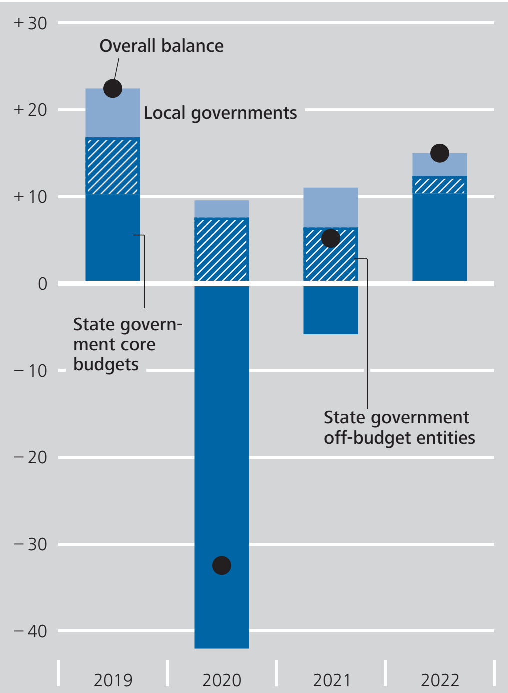
Overview

Content and structure of this article

State government finances were in very good shape last year. State and local governments combined posted a large surplus, which was higher still than that recorded for 2021. The first section of this article describes the lines of development and the differences between the individual federal states. The second section analyses the settlement results for the state-specific debt brakes. It looks at which state governments made use of emergency borrowing, and then, for comparison, investigates the extent to which the financial results indicate a need for this or suggest that reserves were built up. The analysis is supplemented by an overview of the state governments' reported reserves. The final comments put the results into context and provide an outlook on future developments. The article also highlights the difficulties still facing such analyses: missing or inconsistent data make it more difficult to track and classify developments in areas that are certainly important.

Fiscal balance of state governments (including local governments)*

€ billion



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics.
Deutsche Bundesbank

Financial performance of state and local governments in 2022

High surplus overall due to strong tax increases

State and local governments, including off-budget entities, had a high surplus in 2022

In 2022, state governments (including off-budget entities and local governments) recorded a high unadjusted surplus of €15 billion (0.4% of gross domestic product (GDP)).[1] By far the largest surplus was in the state governments' core budgets (€10 billion). However, their off-budget entities and local governments also each posted a surplus in aggregate terms (see the adjacent chart and the table on p. 42, item 1).[2]

Sharp rise in tax revenue – not least due to inflation

The result, which was a further improvement on 2021, is founded on strong revenue growth (+5½%). Taxes were the main factor in this: the tax revenue of state and local governments climbed sharply, by 9% on the year. This was due, not least, to the marked rise in prices. By contrast, revenue shortfalls, particularly from the energy price allowance, dampened the increase. All in all, tax revenue was €37 billion (1% of GDP) higher than the Working Party on Tax Revenue Estimates had expected in its pre-pandemic projection for 2022 (in autumn 2019).

Expenditure grew by 4%. The main contribution to this increase was made by the major expenditure items personnel and other operat-

1 Without adjustment for the distorted Saarland result, see p. 41.
2 The monthly cash statistics of the state governments' core budgets still showed a surplus of €14 billion (see, for example, Deutsche Bundesbank (2023a), p. 75). However, this statistic is already finalised at the turn of the year. Subsequent closing entries worsened the result of the core budgets. The main reason for this was that some state governments retroactively booked transfers from their core budgets to individual off-budget entities, including an allocation of €2 billion in North Rhine-Westphalia.

Preparation of state government data and data gaps[1]

The Bundesbank prepares the cash statistics for the purpose of presenting results for both the federal states as a whole and for individual state governments:

– Off-budget entities and local governments are included to ensure that the picture of the fiscal situation is complete and comparable across federal states. This means that data are no longer distorted if federal states shift tasks and funding burdens between these entities. It also makes it easier to compare city states and non-city states.

– Structural balances are calculated to allow for an assessment of the underlying situation. To this end, financial transactions (e.g. loans issued), cyclical influences and known one-off effects are stripped from the unadjusted fiscal balance. In addition, amounts arising from the financial equalisation scheme and supplementary central government grants are allocated on an accruals basis (according to provisional settlement figures). The data are adjusted for cyclical influences using the Bundesbank's procedure, with its spring macroeconomic forecast serving as the basis.

Weaknesses in the dataset

There are still some weaknesses that impair comparability between the federal states. Specifically:

– The structural balance for the federal states as an aggregate is adjusted for the one-off effects stemming from coronavirus and energy price measures. However, these cannot be fully attributed to the individual federal states. Given this, the balances of the individual states are not adjusted for these measures. Hence, the balances are only partially adjusted.

– State governments do not all record, say, coronavirus aid for firms provided by central government in the same way. Instead of treating them uniformly as current transfers to enterprises, some states record such flows as other operating expenditure or as non-investment capital transfers. In addition, central government-funded aid changes the balance in some cases: revenue from and expenditure on assistance channelled through from central government do not always match up in a single reporting year. This does not just apply to coronavirus aid for businesses. The reason for this is the accounting approach employed, which is not coordinated between central government and the state governments.

– Payments to enterprises are sometimes booked as acquisitions of participating interests, despite the fact that they are offsetting losses. There is not enough information available to quantify such loss compensation payments (and to record them as deficit-increasing). The structural outturn is then cast in too favourable a light. If the federal states take this approach in the context of their debt brakes, they carve out scope for borrowing.

– Selected categories of expenditure delineated by the individual states are comparable to only a limited extent. Payments between the core budget and its off-budget entities are consolidated for aggregates rather than for the specific categories.[2]

– The data for Saarland were particularly skewed in the reporting year. In the cash statistics, off-budget entities recorded loans of €3½ billion granted to the core budget. No corresponding revenue is recorded in the cash statistics for the core budget, however. The cash statistics (as usual) consolidate the core budget with the off-budget entities. This involves deducting off-budget entity loan outflows from the figure for loans received by the core budget. As a result, this capital revenue is heavily negative. This causes very low overall revenue and a high deficit.

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1 For greater depth, see Deutsche Bundesbank (2021a), pp. 17 ff.
2 For other distorting factors, see Deutsche Bundesbank (2022a), pp. 15 f.

Budgetary figures for state governments (including local governments) as a whole

€ billion

Item	Item No	2020	2021	2022
Fiscal balance	1	− 32.2	5.1	15.0
Financial transactions (net)	2	− 7.7	− 8.5	− 12.2
Lagged settlement of payments under state government financial equalisation scheme	3	0.7	0.4	− 0.8
Adjusted balance	4=1−2+3	− 23.9	14.0	26.4
Cyclical component	5	− 8.0	0.5	1.7
One-off effects	6	− 7.8	− 9.1	− 22.1
Coronavirus response measures[1]	6a	− 14.2	− 9.1	− 12.9
Offsetting relief provided by central government funds[2]	6b	6.4	–	–
Energy measures[1]	6c	–	–	− 9.3
Partially adjusted structural balance	7=4−5−6b	− 22.3	13.5	24.7
Adjusted structural balance; temporary coronavirus response and energy measures removed	8=4−5−6	− 8.1	22.5	46.9
Net interest burden	9	10.1	10.2	9.6
Adjusted structural primary balance	10=8+9	2.1	32.8	56.4

Sources: Federal Statistical Office, legislative texts and Bundesbank calculations. **1** Excluding financial transactions. **2** Central government funds to compensate for local governments' lower revenue from local business tax and lagged residual payments of consolidation assistance for 2019.

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Large increase in personnel expenditure and other operating expenditure

ing expenditure, which went up by 5% and 6½%, respectively. One factor in this rise was the considerable growth in the number of staff.[3] The high inflation rate is likely to have had only a limited impact last year, at least in the case of personnel expenditure – wage adjustments, for example, remained largely unaffected by it. Pandemic-related expenditure fell significantly. This was particularly true for current transfers to enterprises. For the state governments, these costs are mostly a transit item, as they are largely borne by central government.

Structural surplus substantially larger than unadjusted surplus

Here, the structural surplus is estimated at €47 billion. It improved significantly more strongly than the unadjusted balance (see the table above, items 1 and 8).

(a) In comparison with the unadjusted cash figure, the structural balance was improved by the following factors, which are excluded:

– burdens of €12 billion due to financial transactions (at the state government level, these were primarily the loans issued in Saarland[4]);

– temporary burdens of €13 billion due to coronavirus response measures (based on draft legislation and Bundesbank surveys, primarily temporary tax relief, expenditure on coronavirus tests in schools and costs of vaccination centres);

– temporary burdens of €9½ billion due to measures taken in response to the energy crisis (Bundesbank estimate based on draft legislation, primarily revenue shortfalls resulting from the energy price allowance).

(b) In comparison with the unadjusted cash figure, the structural balance was worsened by the following factors, which are excluded:

– relief of just over €1½ billion due to the favourable economic situation (Bundesbank estimate);

– relief of almost €1 billion due to the non-accruals-based accounting of financial equalisation (central government grants).

One-off effects difficult to capture and likely to overstate the structural surplus in 2022

However, the structural budgetary situation should be interpreted with caution. On the whole, it is probably depicted too favourably

3 The Federal Statistical Office put the year-on-year increase in staff across the entire public sector at 2.1% in mid-2022. Key segments of state and local governments, such as education and childcare, saw even higher growth. See Federal Statistical Office (2023a).
4 As a consequence, the lending, which was not fully recorded in the government finance statistics (see p. 41), did not worsen the structural balance.

here. The one-off effects on the budget results are difficult to capture. They could be overestimated, say, because it is sometimes difficult to separate out temporary one-off effects.

High inflation causes earlier rise in revenue than in expenditure, providing only temporary easing in structural terms

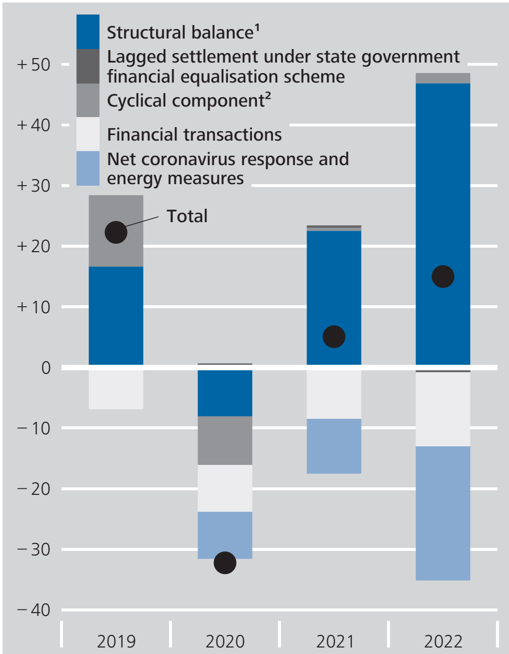
The favourable structural situation also reflects the fact that the sharp rise in inflation considerably eased the burden on budgets at first, leading to rapid growth in tax revenue. By contrast, expenditure is slower to reflect higher inflation – for instance, in the state governments' personnel expenditure, a major spending item. Cyclical adjustment only refers to real developments. Inflation effects are still included.

Effects of real cyclical fluctuations uncertain

Moreover, the estimated cyclical effects on the budget balances are uncertain, especially at the current end. They were recently revised for the previous years.[5] According to the current assessment, the cyclical effects in the reporting years of 2022 and 2021 were small.

Factors influencing fiscal balance of state governments (incl. local governments)*

€ billion



Sources: Federal Ministry of Finance, Federal Statistical Office and Bundesbank calculations. * Government finance statistics. **1** Calculated as a residual. **2** According to Bundesbank estimate of June 2023.

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A comparison of individual federal states

State-specific balances only partially adjusted

Partially adjusted balances of individual federal states still include temporary crisis measures

This article reports cash data and partially adjusted balances for the individual federal states (including off-budget entities and local governments); see the detailed table on pp. 60 f. These figures are usually shown in relation to the respective population size, making them more comparable between states. However, temporary crisis measures cannot be factored out individually, as the data for some states are incomplete (temporary crisis burdens of €260 per capita are deducted from the state government aggregate). Accordingly, the actual structural results of the individual state governments are more favourable than those shown here in the partially adjusted balances (see p. 41 for information on the preparation of state government data).

Balances vary considerably from state to state

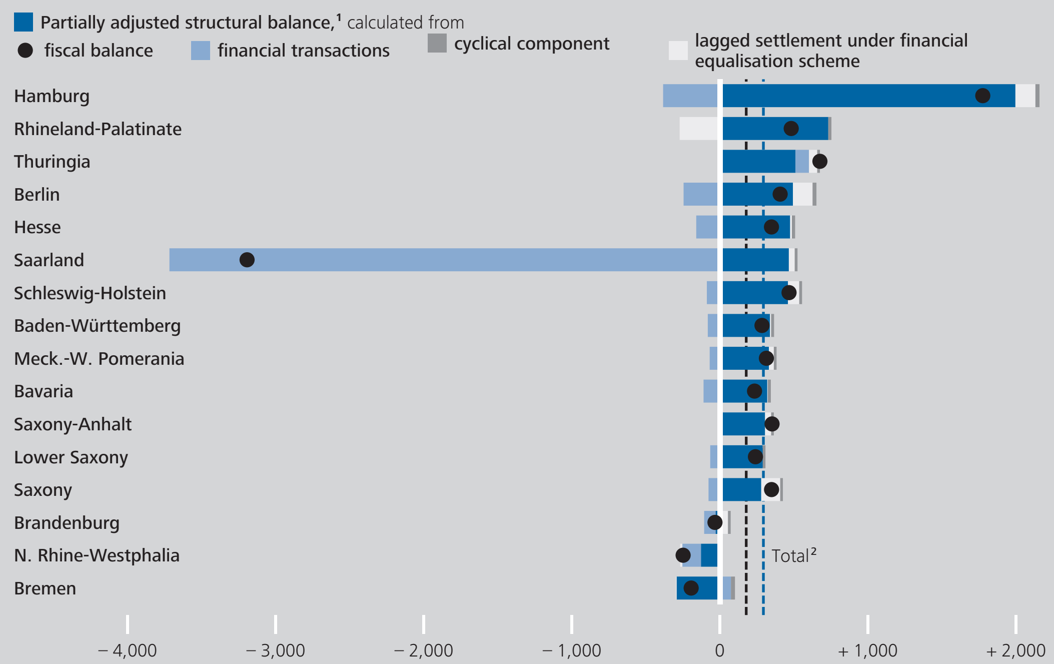
Unadjusted: three-quarters of state governments in surplus

Based on unadjusted figures, three-quarters of state governments reported a surplus for 2022. For state governments as an aggregate, it stood at €180 per capita (2021: €60). At just under €5,000 per capita, the range between the highest and lowest balance was very wide. This is mainly due to the high deficit in Saarland resulting from the inconsistent booking of an intra-state loan (see p. 41). The very high surplus in Hamburg was also attributable to a one-off effect: large profit distributions by a local logistics company made a considerable contribution to the balance.[6] Excluding Saarland and Hamburg, the results of the federal states were up to €920 per capita apart.

5 In the previous year's report, a significant cyclical burden on budgets was still estimated for 2021.
6 The one-off effect could amount to approximately €400 per capita.

Fiscal balances of individual state governments (including local governments) in 2022*

€ per capita



Sources: Federal Ministry of Finance, Federal Statistical Office and Bundesbank calculations. * Government finance statistics. **1** Fiscal balance less financial transactions, lagged settlement of payments under the state government financial equalisation scheme and cyclical component. The one-off effects comprised coronavirus response measures and energy measures. The amounts could not be attributed to individual states. **2** Population-weighted mean of all state and local governments: fiscal balance: €178; partially adjusted structural balance: €294.

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Partially adjusted: surpluses, except in Bremen, North Rhine-Westphalia and Brandenburg

For state governments as an aggregate, the partially adjusted surplus stood at €290 (2021: €160). Among the city states, Hamburg again posted the highest surplus, at a very large €2,000 per capita (2021: €250). Once more, Rhineland-Palatinate recorded the highest surplus of the non-city states, at €730 per capita (2021: €500). Its relatively high tax revenue, apparently not least from a vaccine manufacturer, played a role in this.[7] In both federal states, one-off factors contributed to the very favourable balance (profit distribution, exceptionally high tax revenue). As in the previous year, Bremen recorded the highest per capita deficit. The city state increased its partially adjusted deficit significantly to €290 (2021: €150). This is also noteworthy because Bremen is receiving budgetary recovery assistance from central government, which is actually conditional on surpluses for minimum repayments.[8] In North Rhine-Westphalia, the partially adjusted deficit amounted to €130 (2021: surplus of €70). This year-on-year deterioration was driven by the fact that, first, central government funds for coronavirus-related business aid from 2021 were disbursed with a delay. Second, there were temporary burdens arising from the resolution of the Landesbank.

Considerable differences in per capita revenue remain. Looking at tax revenue,[9] the spread

7 For the partially adjusted balance, financial equalisation is allocated according to the lagged provisional settlement. This is particularly significant for Rhineland-Palatinate, which, at the beginning of 2022, made large payments to state governments as an aggregate for 2021. However, after adjustment for the lagged settlement, the state received payments from the financial equalisation scheme in 2022. On balance, the accruals-based allocation of payments contributed just over one-third to the surplus in Rhineland-Palatinate.
8 By contrast, Saarland, which is also receiving budgetary recovery assistance, recorded a surplus after partial adjustment. Even without the recovery assistance, moreover, it still would have been slightly in surplus.
9 Tax revenue accounted for around 70% of total revenue. Here, it is recorded for the individual federal states on an accruals basis (based on the provisional settlement under the state government financial equalisation scheme, but with the subsequent full inclusion of local government taxes collected).

Tax revenue up sharply, with considerable differences between states even after financial equalisation

between the non-city states stood at €780. Frontrunner Hesse (just over €6,200) outperformed last-place Brandenburg by 14% (see also the table on pp. 60 f., item 19). The state government financial equalisation scheme (including supplementary central government grants that are dependent on financial capacity) does not aim to completely eliminate differences. In addition, state governments including their local governments sometimes have varying real estate acquisition tax rates as well as different multipliers for real estate and local business tax. The financial equalisation scheme is not designed to minimise any resulting revenue differences. Higher multipliers for local government tax rates thus explain roughly one-third of Hesse's revenue advantage over Brandenburg.

Central government transfers still high, but considerably lower owing to declining transfers in response to pandemic

In 2022, central government transfers were high, at €890 per capita across the federal states. However, they fell considerably on the year (-€140 per capita; see the table on pp. 62 f., item 21). The main reason for this was that central government provided significantly lower funds for transfers to enterprises in response to the coronavirus pandemic.[10] This decrease does not actually put any strain on the state governments as they are merely a conduit for the funds. However, this relaying of funds was lagged to some extent in previous years and also in 2022, affecting the balance either positively or negatively for the reporting year. All in all, however, these effects seem to be limited.

Comparability of expenditure data among federal states negatively affected for reasons including identical types of expenditure being recorded in different ways

On the expenditure side, state government budgets can be compared to only a limited extent. One reason for this is that the federal states do not record certain transactions in a uniform manner. One major example is coronavirus aid for businesses provided by central government. For instance, North Rhine-Westphalia, rather than classifying it as grants to enterprises, recorded a large part of it as other operating expenditure (under "other grants"). Bavaria and Lower Saxony, in particular, classified some of the aid as non-investment capital transfers. Saxony-Anhalt and Saarland, meanwhile, recorded the expenditure as transfers to persons. The central and state government budgetary planning system to be used throughout Germany is supposed to guarantee the comparability of figures. Even in the wake of the pandemic, action is still needed to ensure that identical forms of expenditure are also identically categorised (for the differentiation of financial transactions from transfers to loss compensation, see the box on p. 41).

Differences can also be seen in debt and interest burden

Highest per capita debt in Bremen and Saarland

The debt of state and local governments stood at just over €820 billion, or almost €9,800 per capita, across Germany.[11] Bremen had by far the highest per capita figure (almost €34,400), followed by Saarland. The lowest figure was recorded in Saxony (just over €2,700), followed by Bavaria.

Debt fell overall amid large surplus

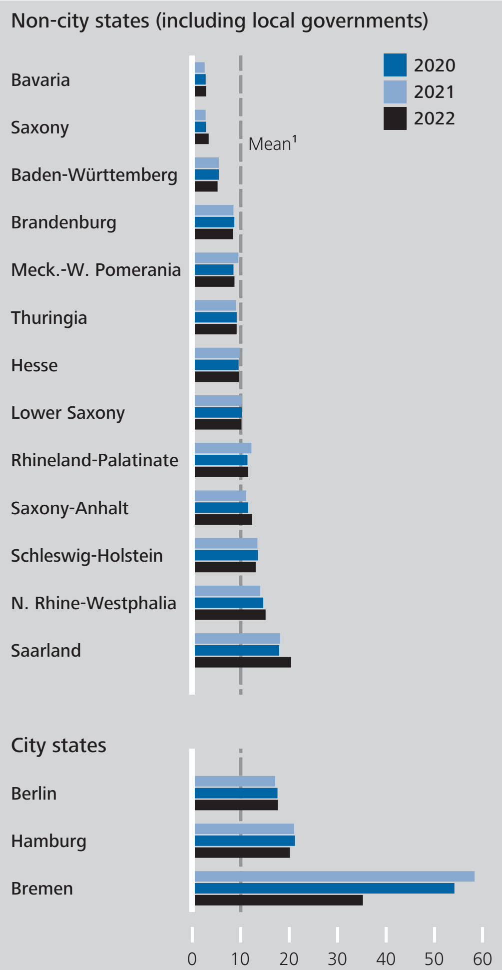
Together with the large surplus, debt fell on aggregate by close to €19 billion (coupled with the alleviating population growth: almost €340 per capita; see the table on pp. 62 f., item 23). There were declines in almost all federal states. This was especially clear to see in the highly indebted state of Bremen (-€19,800 per capita, or -€13 billion). However, this was not due to budgetary developments (which were actually in the opposite direction), but rather to revalu-

10 According to central government data, transfers to enterprises in response to the coronavirus pandemic decreased by €35 billion (around €400 per capita) to €13 billion in 2022. In some cases, however, state governments recorded revenue with a time lag, with the result that the pattern of central government figures is reflected somewhat differently in these instances. This may also negatively affect comparability among federal states.

11 The figures presented are taken from the debt statistics of the Federal Statistical Office. They comprise debt to the non-public sector (the capital market, here and in the remainder of the article including the credit market) and to the public sector. By contrast, debt as defined under budgetary rules can additionally include borrowing authorisations not used to make payments. These are then available as reserves (in core budgets or off-budget entities). However, no funds have yet been raised on the capital market.

Debt of individual state governments*

€ thousand per capita



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics. Debt to the non-public and public sectors (non-consolidated). 1 Population-weighted mean of all state and local governments (2020: €9,983; 2021: €10,095; 2022: €9,759).

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ations of derivatives amid rising interest rates.[12] By contrast, per capita debt grew particularly sharply in Saarland (+€2,500). While debt to the non-public sector declined, this was heavily outweighed by the increase in debt to the public sector (as shown on p. 41, excluding the revenue effect). It appears that the state government budget not only allocated budgetary resources to its new Transformation Fund (like when central government prefinanced the Climate Fund) but also handed over debt instruments at its expense. Thus Saarland did not take out any forward loans on the capital market (to secure favourable interest rates, for example). Any interest rates associated with this play no role in overall state government finances, as they are contained within the federal state. Funding via the capital market and the associated interest burden are still outstanding. Meanwhile, Saxony-Anhalt's debt rose despite a fiscal surplus because the state wanted to secure favourable financing conditions in the capital market.[13]

Interest rate reversal not yet visible in interest burden

The interest rate reversal is particularly significant for federal states with comparatively high per capita debt and poor structural budget balances. In 2022, the interest rate increases were not yet reflected in the interest burden on federal states as an aggregate. However, as refinancing becomes increasingly necessary, the interest rate hikes will be felt unless lower interest rates have been hedged using derivatives.

Very different average interest rates despite similar conditions for new borrowing

The average rate of interest on debt[14] varies from state to state, in some cases greatly. While the federal states are often able to take out new loans at fairly similar conditions, interest rate fixation periods, shares of loans from the low interest rate period and interest rate hedges differ. Premia or discounts on bond issues can also have an impact if federal states record these immediately rather than allocating them over the term of the bonds.[15] Information on the above-mentioned factors is incomplete, however.

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12 The federal state holds a large volume of interest rate derivatives that safeguard interest rate conditions in the long term. Market interest rates have risen over time. As a result, the market value of derivatives improved by almost €11 billion compared with the end of 2021 (to be more precise, the negative market value fell to €1½ billion). Bremen was required to provide a correspondingly lower amount of cash collateral for the derivatives and was able to repay the loans it took out for this purpose. See Deutsche Bundesbank (2021a), p. 24, for information on the impact of derivatives on debt and discrepancies between the fiscal balance and changes in debt levels. For information specific to Bremen, see Bremen Parliament (2023) and Bremen Parliament (2022).
13 See Federal Statistical Office (2023b).
14 Calculated from interest expenditure as reported in the government finance statistics and debt according to the debt statistics as at the end of the previous year.
15 Central government does not allocate premia and discounts over a debt instrument's term either. See Deutsche Bundesbank (2021b).

Average interest rate down

The average rate of interest on debt fell slightly on the year across Germany, declining by 0.1 percentage point to 1.4% (see the tables on pp. 60 f. and pp. 62 f., item 24 in both cases). Last year, the highest average interest rates were again calculated for Baden-Württemberg (2.5%) and the lowest once more for Saxony (0.7%). In Baden-Württemberg, average interest rates fell particularly sharply due to one interest-bearing debt instrument falling due in the previous year.[16] Lower Saxony recorded the strongest increase (+0.3 percentage point), to which the absence of premia appears to have made a major contribution. Still, the level thus achieved remained just short of the national average.

Highly varied net interest burdens, attributable in part to interest rate hedges

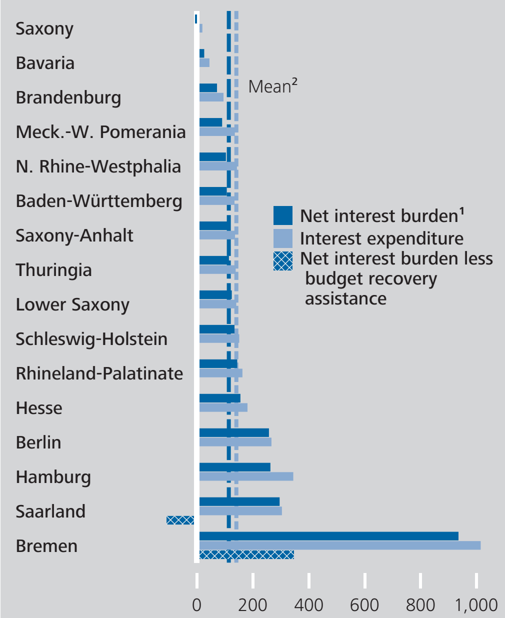
In some cases, debt is offset by interest-bearing assets. Interest payments between core budgets and off-budget entities play a role here. These are sometimes significant – such as payments from the core budget to pension pots in Mecklenburg-West Pomerania. In the government finance statistics, interest payments between core budgets and off-budget entities within a federal state are not consolidated. The interest burden therefore appears too high. Looking at the net interest burden, where interest income is deducted from interest expenditure, is helpful in this regard. The largest net interest burden per capita was recorded by the city states and Saarland (see the table on pp. 60 f., item 8, and the adjacent chart). In Bremen, it accounted for just over 12% of tax revenue. Payments for derivatives and interest on collateral made a significant contribution to this according to the state government's budget plan.[17] The ratio was slightly above 3% in Hamburg and Berlin, and a little over 5% in Saarland.

Central government helps Saarland and Bremen shoulder interest burdens

Saarland and Bremen are receiving budgetary recovery assistance from central government to help them pay the interest burdens stemming from their high debt. This assistance is deducted to reveal the remaining interest burden. For example, the ratio in Bremen is only 4½%. In Saarland, it is even negative (-2%). Thus, the assistance provided to Saarland exceeds its unadjusted net interest burden.

Interest burden of individual state governments (including local governments) in 2022*

€ per capita



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics. 1 Interest expenditure less interest income. 2 Population-weighted mean of all state and local governments.

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State government debt brakes in 2022

Difficult to obtain overview of debt brakes: rules vary widely

The federal states have designed their debt brakes very differently in some cases.[18] As a result, their accounts can be compared to a limited extent only. Moreover, there is no agreement in place to present these accounts

16 See Ministry of Finance for Baden-Württemberg (2022), p. 30.
17 Unlike many other federal states, Bremen records expenditure on interest rate hedges separately, thus making its budget more transparent.
18 For an overview, see Deutsche Bundesbank (2021a), pp. 40-42. There has been a change in Saxony-Anhalt, where financial transactions have been excluded from the debt brake since 2022.

in a timely manner after year's end.[19] In line with state government debt brake rules, this article excludes the local government level for non-city states in the section on debt brakes.

Budget preparation still shaped by crises

In 2022, too, most federal states activated escape clauses in their debt brakes

How the COVID-19 crisis would continue to unfold was still uncertain when state governments drew up their budget plans for 2022. Against this backdrop, the majority of state governments (much like central government) once again activated the escape clauses in their debt brakes. Once the year had started, the energy crisis stemming from the Russian war of aggression against Ukraine followed. Some federal states then also explicitly cited the energy crisis as grounds for emergency borrowing. By contrast, other federal states (such as Baden-Württemberg, Berlin, Mecklenburg-West Pomerania, Rhineland-Palatinate and Thuringia) planned to use available reserves instead of emergency borrowing to balance their budgets. In fact, Lower Saxony's budget plan already provided for a small surplus to meet the requirements of its debt brake.

Reserves from emergency borrowing increased in some cases; hardly any repayments despite surpluses

Large surplus overall, but emergency borrowing up by just over €3½ billion on balance

Some federal states actually resorted to emergency borrowing in the course of implementing their plans for 2022. As a result, outstanding emergency borrowing for the federal states as an aggregate rose by just over €3½ billion on balance. How this can be reconciled with the large unadjusted surplus is analysed below by means of a rough calculation (for information on the method, see the box on p. 49).

For the federal states as an aggregate in 2022, the starting point for the rough calculation is the surplus, including off-budget entities, of €16 billion. Deducted from this are a high level of cyclical relief (i.e. a positive cyclical effect) of €9½ billion[20] and a deficit of just over €1 billion from financial transactions (according to state government data in each case). This yields a debt brake-approximated surplus of €7½ billion. Emergency borrowing could have been repaid with this calculated financial scope resulting from the 2022 surplus. However, on balance, the federal states actually resorted to new emergency borrowing to the tune of just over €3½ billion. This means that, instead of possible repayments of emergency borrowing, a build-up of reserves in the amount of €11 billion can be calculated. This was much more limited than in previous years, though.

Bundesbank calculations show scope for repayment, but new emergency borrowing predominated overall

Saarland and Bremen with biggest volume of emergency borrowing – seemingly, to a large extent, to build up reserves

Six federal states made recourse to emergency borrowing totalling €8½ billion. In per capita terms, Saarland is the frontrunner on the new emergency borrowing front (just over €3,000), which it used to build up very large reserves. An acute need for financing that could justify making recourse to emergency borrowing can be identified to only a very limited extent. Instead, the funds were used mainly to provide advance financing for the new Transformation Fund. At €1,500 per capita, the city state of Bremen has the second highest level of net emergency borrowing.[21] Whilst its structural financing needs are considerable, which is partly due to the relatively high cyclical relief that has been factored in (see the table on

19 The Stability Council does not look at the previous year's accounts until its December meeting. Central government, on the other hand, publishes data in a timely manner: provisional settlement figures are available on 1 March of the following year already, with the final figures being published on 1 September.
20 According to state government data, cyclical relief is much greater than had been estimated by the Bundesbank. This is because many federal states regard tax revenue deviating from expectations in the budget plan as cyclical (deviations caused by legislative changes were previously deemed not cyclical and deducted). Overall, actual tax revenue exceeded the key expectations from the budget plan considerably in 2022.
21 Like the increases in previous years, the decrease in debt related to derivatives described on p. 45 is not recorded in the budget plans or accounts.

How the Bundesbank approximates the need for emergency borrowing and the scope for it to be repaid

For analytical purposes, the Bundesbank first calculates fiscal balances for the federal states that are approximated to their debt brakes. The results provide a rough indication of the extent to which there were structural financing needs over and above regular revenue.

– The starting point for the rough calculation is the balance of the core budgets and off-budget entities of the individual federal states (see the table on p. 51, column 1). By contrast, almost all state governments target net borrowing in their debt brakes. Many also disregard the balances of their off-budget entities. The Bundesbank takes a different approach in order to obtain an approximation of the federal states' actual budgetary situation. This can, in fact, be obscured if borrowing is used to prefinance special funds or, ultimately, to build reserves in the core budget. The rough calculation is conducted based on data that have been adjusted for such operations.[1] In order to fulfil this function, the consolidation of revenue in Saarland (see p. 41) was also corrected for in the reporting year. This raised the balance here by €3½ billion as compared to the budgetary statistics.

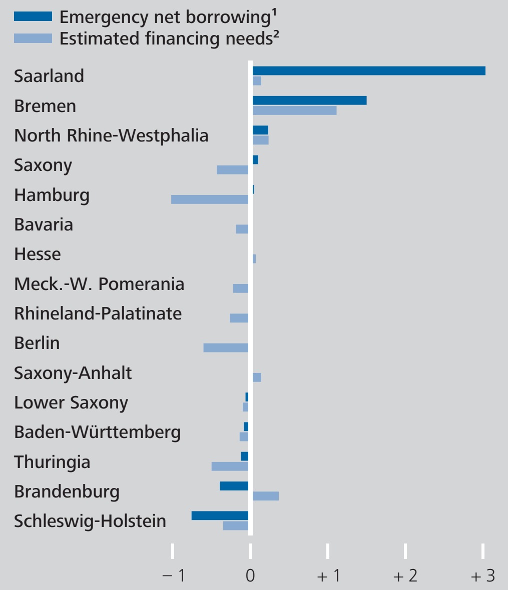
– In addition, cyclical influences and financial transactions are adjusted for, in each case based on the data provided by the state governments (see the table on p. 51, columns 2 and 3). The adjustment of the balance thus takes into account the state-specific design of the debt brakes. The Bundesbank consequently calculates the balance for a state government, including its off-budget entities, in a demarcation approximated to its respective debt brake. If this balance is negative, the federal state has positive financing needs (a deficit).

The debt brake-approximated financing needs calculated using this method are then compared, in a second step, with the reported net borrowing via emergency borrowing (see the table on p. 51, columns 4 and 5). The difference between these two figures provides an indication of the extent to which reserves were formed from emergency borrowing in the reporting year. If, for example, a federal state builds reserves in its core budget or prefinances special funds, the emergency borrowing exceeds its financing needs. The difference also indicates whether reserves were used to limit or repay emergency borrowing. This is the case, say, if the repayment amount exceeds the debt brake-approximated surplus.

1 As a result, this figure also does not reflect transfers to precautionary government funds to cover new expenses in connection with civil servants' pensions or from guarantees. Such transfers can reflect expenses in these fields on an accruals basis, ultimately making them meaningful.

Federal states' emergency net borrowing and estimated financing needs in 2022

€ per capita



Sources: Federal Statistical Office, data from federal states' finance ministries and Bundesbank calculations. **1** Annual change in the total outstanding repayment obligation from emergency borrowing. **2** Fiscal balance of core budgets and off-budget entities according to government finance statistics (supplementary data for Saarland), adjusted for financial transactions and cyclical effects according to federal states' specifications.

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p. 51, column 3),[22] the comparison suggests that Bremen, too, substantially topped up its reserves.[23]

Bremen and Saarland are receiving budgetary recovery assistance and forming particularly large debt-financed reserves from emergency borrowing

Saarland and Bremen are receiving extensive budgetary recovery assistance from central government. The aim of this is to enable them to shoulder their high debt and comply with debt brake requirements. The recipient states had committed themselves to using one-fifth of their annual recovery assistance of €400 million each to reduce their debt levels. In the crisis setting last year, they resorted to emergency borrowing on a particularly large scale to build up reserves. The Stability Council had already recognised that there was a looming budgetary emergency in Bremen at the end of last year and therefore called for a recovery programme. In the spring of 2023, Bremen decided to scale up its emergency borrowing significantly in the absence of any immediate financial need.

Four other federal states made use of additional emergency borrowing

North Rhine-Westphalia, too, made use of emergency borrowing on a large scale (owing to its size, it accounts for almost half of the borrowing in Germany). This was roughly in line with the level of financing needs calculated. Saxony, Hamburg and Bavaria increased their emergency borrowing slightly. For these three federal states, by contrast, the back-of-the-envelope calculation suggests that this was not to cover financing needs but rather a means to repay borrowing.

Other federal states repaid emergency borrowing …

Despite having activated the escape clause, Brandenburg and Schleswig-Holstein repaid a rather large volume of emergency borrowing, predominantly using reserves which they had previously financed from emergency borrowing. Saxony-Anhalt, which had also activated the escape clause, repaid loans in its cyclical offset reserve in the amount of the positive cyclical component and topped it up with additional funds. On balance, it reduced emergency borrowing to a small extent, too, by releasing reserves that were freed up in the coronavirus special fund as a result of some previously planned measures not being implemented. Baden-Württemberg, Lower Saxony and Thuringia likewise repaid emergency borrowing. In arithmetical terms, their budget outturns enabled them to make repayments without having to draw on reserves on balance. Together, repayments of emergency borrowing in the six federal states named above amounted to €5 billion. However, arithmetically speaking, significantly larger repayments would have been possible, in particular in Thuringia. Instead, this federal state appears to have topped up reserves.

Berlin, Hesse, Mecklenburg-West Pomerania and Rhineland-Palatinate left their respective

22 It seems expedient to look into harmonising the various cyclical adjustment procedures practised by state governments. See Deutsche Bundesbank (2022a), p. 27.
23 However, Bremen's data on the reserves indicated a smaller increase. Bremen is ultimately using emergency borrowing to formally cover repayment obligations in the context of budgetary recovery assistance. This only goes some way towards explaining the discrepancy.

Federal states' financing needs according to Bundesbank calculations and emergency borrowing in 2022

€ per capita

Federal state	1 Fiscal balance, total[1]	1a of which: core budgets	1b of which: off-budget entities	2 Financial transactions[2]	3 Cyclical component[2]	4 Structural financing needs[3] = -1+2+3	5 Emergency borrowing[4]	6 Amount estimated for building reserves[5] = 5-4	7 Repayment volume from outstanding emergency borrowing between 2020 and 2022[2]	8 Estimated annual repayment burden from emergency borrowing[6]
Baden-Württemberg	181	252	– 71	2	40	– 139	– 84	55	641	29
Bavaria	186	198	– 12	–	–	– 186	5	191	769	38
Brandenburg	1	76	– 75	– 66	433	367	– 394	– 761	613	20
Hesse	326	218	108	21	374	69	–	– 69	559	31
Meck.-W. Pomerania	224	246	– 22	–	–	– 224	–	224	1,751	88
Lower Saxony	258	311	– 53	6	153	– 99	– 63	36	765	31
N. Rhine-Westphalia	– 234	– 245	10	–	–	234	229	– 5	1,104	22
Rhineland-Palatinate	254	286	– 33	10	– 21	– 265	–	265	–	–
Saarland	[7] 699	– 2,416	– 565	0	838	139	3,033	2,894	3,639	121
Saxony	433	426	7	–	–	– 433	100	532	683	114
Saxony-Anhalt	363	430	– 67	0	503	139	– 12	– 151	1,043	47
Schleswig-Holstein	379	– 146	525	– 14	41	– 352	– 759	– 407	987	26
Thuringia	501	319	182	–	–	– 501	– 122	379	206	29
Berlin	406	201	205	– 174	– 25	– 605	–	605	[8] 1,959	73
Bremen	– 194	– 230	35	19	899	1,112	1,500	388	2,964	99
Hamburg	1,775	1,333	442	– 317	1,071	– 1,021	47	1,068	763	38

1 Source: Federal Statistical Office, quarterly results including phasing-out period. **2** Source: Federal states' finance ministries. **3** Without adjustment for one-off effects, i.e. including coronavirus response and energy measures, and excluding the provisional settlement of payments under the state government financial equalisation scheme. **4** Year-on-year change in outstanding repayment volume from emergency borrowing from 2021 to 2022. A negative value indicates net repayment. **5** If net emergency borrowing is zero or negative, a positive value indicates that reserves have been built from surpluses. **6** Bundesbank calculations based on repayment deadlines as reported by federal states. **7** Balance adjusted for intra-state lending without an offsetting entry. **8** Berlin's repayment burden from emergency borrowing also includes cyclical burdens. For more information, see Deutsche Bundesbank (2022a), p. 26.

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… or did not make any further recourse to emergency borrowing

volumes of emergency borrowing unchanged from the previous year. Hesse had likewise activated the debt brake escape clause. It reported that it had more than fulfilled the obligations for repaying cyclical debt by paying off cyclical loans and transferring funds to the cyclical offset reserve.[24] Rhineland-Palatinate had already repaid all of its emergency borrowing in 2021. Surpluses were channelled into reserves.

Large volume of emergency borrowing pending future repayment

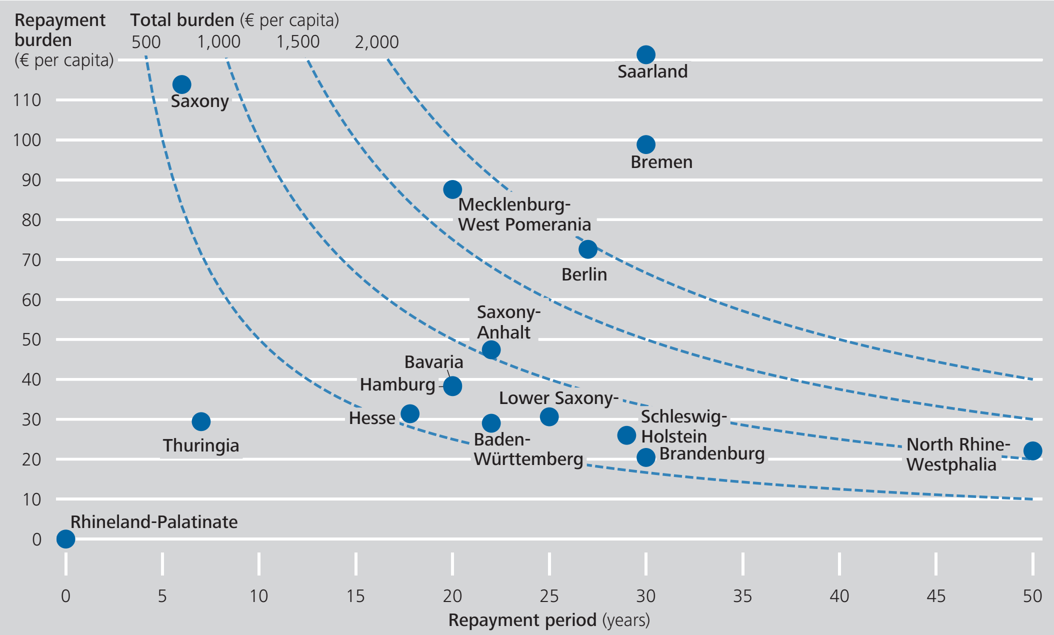
Emergency borrowing of €74 billion outstanding at end-2022 – Bremen and Berlin plan to significantly expand emergency borrowing

The debt brake requires the federal states to adopt repayment schedules for their emergency borrowing. At the end of 2022, the federal states reported total pending repayments of €74 billion (€880 per capita). The repayment obligations accumulated so far vary considerably from state to state. Rhineland-Palatinate no longer has any outstanding emergency borrowing. Meanwhile, the highest levels are recorded in Saarland (€3,640) and Bremen (€2,960). Bremen and Berlin are planning to resort to further emergency borrowing this year in connection with the energy crisis.[25] This would push up the per capita repayment amounts considerably, by around €4,400 (in Bremen) and €1,300 (in Berlin), respectively. The federal states' repayment periods are also very different. Saxony plans to repay its emergency borrowing in six steps by 2028. North Rhine-Westphalia's planned repayment period, by contrast, extends into 2070 (see the chart on p. 52).

During the crisis years, the federal states largely did not use emergency borrowing to finance acute needs. Instead, they built up reserves

24 Hesse credited the relatively small difference to the control account.
25 See Deutsche Bundesbank (2023a, 2023b). North Rhine-Westphalia's state budget also includes a sizeable crisis-related credit authorisation (€5 billion).

Future annual repayment obligations from activating escape clauses between 2020 and 2022



Sources: Federal states' finance ministries and Bundesbank calculations. Note: Higher annual repayment amounts enable federal states to repay emergency borrowing faster. Alternatively, they can opt for lower annual repayment amounts and a longer repayment period. Saxony-Anhalt has distributed its total repayment volume of around €1,000 per capita over 22 years, repaying just short of €50 per capita each year. North Rhine-Westphalia has spread a similar total repayment volume over 50 years, repaying only around €20 per capita each year.

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However, high reserves have so far mitigated acute repayment burdens

– to a large extent in some cases – that ease the repayment burdens. The reserves can now be used for repayment, rendering it unnecessary to find funds for repayment from elsewhere in the budget. Overall, the total volume of all reported reserves significantly exceeds the outstanding amount that the federal states as a whole have to repay for emergency borrowing. However, the extent to which these reserves have already been designated for specific expenditure items is not clear. Reserves earmarked for pension funds and cyclical reserves are considered designated. Excluding these amounts already set aside, reserves would fully or broadly cover repayment obligations in most federal states (see the chart on p. 55). If federal states use reserves from emergency borrowing to fill gaps in their budgets, they will shift funding burdens into the future. Instead of doing this, it would seem logical to use reserves from emergency borrowing to bring forward repayment, as Brandenburg and Schleswig-Holstein, in particular, have done in the reporting year.

Conclusion

Outlook: address fiscal policy challenges

Finances deteriorating sharply this year

State government finances are deteriorating sharply this year – though from a very favourable level. A deficit appears possible, albeit with temporary burdens still being incurred. Revenue has declined so far, whilst expenditure has risen markedly. Growth in revenue is likely to remain weak for the year as a whole due, not least, to long-term tax relief. Expenditure growth is expected to barely abate, shored up, inter alia, by the use of reserves.

Outlook for federal states also fraught with considerable challenges

The federal states are facing fiscal challenges. By next year at the latest, the higher prices are also likely to have a stronger impact on spending on personnel, a particularly large expenditure item. In addition, growth in potential output is set to remain subdued. Demographic developments and the energy transition, too,

State government reserves as at the end of 2022

In almost all federal states, the debt brake targets and places tight limits on net borrowing. Cyclical factors and financial transactions can be taken into account. Outside of this, higher net borrowing is only an option in emergency situations. To ensure additional room for manoeuvre beyond such emergency situations, it is necessary to set aside funds. State governments have a number of options for building up such reserves. They make particularly widespread use of reserves in the core budget and in special funds.[1] They generally do not build up cash balances, but instead make only formal use of borrowing authorisations when implementing the budget. In this way, state governments maintain longer-term scope for borrowing in the capital market (whereas formally unused borrowing authorisations lapse relatively quickly). While there are restrictive provisions for the use of reserves in most cases, it is likely also possible to mobilise the funds put aside on an ad hoc basis if necessary, potentially by changing the legislation. Thuringia, for example, withdrew the entire remaining balance of its pension fund at the end of 2022.[2]

There is still no complete overview of these reserves. The large number of reserve pots makes it impossible to evaluate budget accounts, for example, in this report. Gathering data on reserve stocks is important in order to better gauge what shape state government finances are in. Consequently, the Stability Council is advised to ensure the availability of clear data.

For this Monthly Report, the Bundesbank asked the state governments about their reserve stocks as at the end of 2022. They provided comparable information about their stocks of pre-financed special funds and reserves. Where gaps remained was in their data on other forms of transferring borrowing authorisations to later years. Such reserves therefore could not be included in the comparison.

The state governments reported €128 billion in reserves in their core budgets and in special funds. However, there is no information on what percentage of these stocks are tied up by specific measures. Prior-year figures are included in isolated cases.

- The figure reported for general reserves came to €33 billion (€400 per capita) at the end of 2022. These reserves thus remained unchanged on balance from the previous year, not least as a result of reclassifications of funds from general reserves to special-purpose reserves. The general reserves per capita are especially high in Hamburg (€1,960) and Mecklenburg-West Pomerania (€1,460). Saarland, Saxony-Anhalt and Schleswig-Holstein did not have any general reserves, possibly because of tight legal provisions relating to credit financing.

- The cyclical offset reserves increased very strongly to €11 billion. This growth was mainly due to higher balances in Hamburg and Hesse. Bremen also made sig-

1 For other forms of the longer-term transfer of borrowing authorisations to later years, see Deutsche Bundesbank (2022a), p. 25.
2 This meant that Thuringia's state budget benefited from one-off relief of €70 per capita. North Rhine-Westphalia recently drafted a law that puts an end to the present transfers from the core budget to the pension fund. Interest income from the fund is intended to ease the strain on the core budget. It is envisaged that this will provide relief of €30 per capita in the state budget. See State Parliament of North Rhine-Westphalia (2023).

nificant additions to its reserve. Insofar as these reserves are based on symmetrical cyclical adjustment over the cycle, they do not provide any room for manoeuvre. All they can do is offset cyclical budgetary burdens in the future.

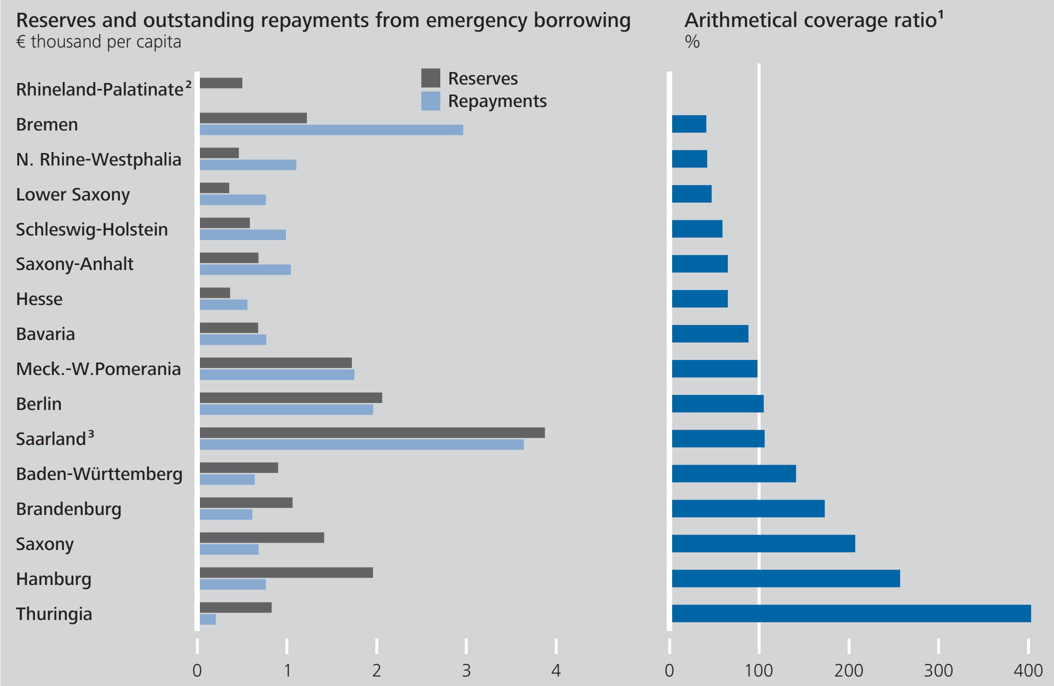
- Reserves relating to COVID-19 grew to €17 billion, apparently mainly due to reclassifications. Berlin had the highest per capita figure (€920; previous year: part of the general reserve), followed by Saxony-Anhalt (€680). The latter had only filled its coronavirus special fund with loans from the core budget at the end of 2021. In 2022, the state government had used up one-quarter of the balance.

- Reserves in pre-financed off-budget entities for investment purposes remained unchanged on aggregate, at around €7 billion. In Saxony, funds were withdrawn from a reserve of this kind. Schleswig-Holstein added funds of a similar amount.

- Civil servant pensions place a considerable strain on state government budgets, especially in the western German states. Many states are continuing to increase their reserves for this purpose, which have been built up over many years. Pension pots are thus the largest item among the reserves. The reported amount (€50 billion) changed only slightly, however. Unlike central government, some state governments have already dipped into their civil servant pension reserves. In addition, as was the case for central government, price losses on bonds due to rising interest rates are likely to have put a considerable strain on these pension reserves. Saxony has the largest amount by far, at €2,510 per capita.

- The other reserves reported by state governments increased to €8 billion. The Bundesbank included the non-consolidated lending of €3½ billion from off-budget entities in Saarland (see p. 41) in this figure. The decisive factor was that these bookings chiefly served to fill the Transformation Fund. Schleswig-Holstein used €2½ billion from these other reserves to repay emergency loans. Roughly that amount again has now been allocated for specific purposes and thus was no longer contained in other reserves.

Ratio of reserves* to outstanding repayments from emergency borrowing



Sources: Federal states' finance ministries and Bundesbank calculations. * Reserves including coronavirus reserves but excluding pension fund and cyclical offset reserves. **1** Ratio of reserves to total outstanding repayments from emergency borrowing at the end of 2022. **2** No coverage ratio given as Rhineland-Palatinate has already repaid all emergency borrowing. **3** Loans granted by off-budget entities without an offsetting entry are added to reserve formation.

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entail a need for adjustment.[26] At the same time, there are plans to expand and improve education and childcare. The federal states also want to speed up approval procedures considerably. These projects require additional funds and, in some cases, more own staff as well.

Strengthen cost-effectiveness of services

Ultimately, it is crucial for central, state and local government to increase the cost-effectiveness of their services. Digitalisation can make an important contribution in this context. Ensuring that specific tasks as well as the financial responsibility for them are both clearly assigned to one level of government would also go a long way towards improving cost-effectiveness. This government level would then have a stronger incentive to offer the public the services they require at a cost-effective rate. The federal system could thus be utilised to a greater extent in the development of "best practices". For this purpose, it would be expedient to obtain a better comparison of how much the various federal states spend on and earn from specific public services. The aim should be to identify and consistently make use of potential efficiency gains. In other areas, by contrast, it may be advantageous to follow a centralised approach throughout Germany. If, as with digitalisation, for instance, the aim is to speed up decision-making and avoid costly duplication of work, much speaks in favour of giving central government more power.

Emergency borrowing should be clearly bound to a crisis

Binding fiscal rules not an end in themselves, but ensure fiscal policymakers can take action

The debt brakes allow, for good reason, additional borrowing if required in an emergency. It is therefore understandable that the federal states activated the escape clauses in the wake of the coronavirus pandemic. However, the escape clauses should not be used to cover foreseeable longer-term structural financing needs.

26 See Deutsche Bundesbank (2023c).

Strictly limiting credit financing is not an end in itself. Such a limitation instead helps individual entities to maintain their autonomous fiscal capacity – even in the event of rising interest rates. That is why it is important to use emergency borrowing only as a targeted response to a specific crisis. A binding and effective debt brake is important. It protects against sharply rising interest burdens and ensures fiscal policymakers can take action in the long term. This does not preclude a stability-oriented reform of the debt brake.[27]

Use emergency borrowing to cover acute financing needs related to crisis resolution measures

It is often impossible to predict how emergencies will develop, and it is essential to ensure that fiscal policy countermeasures can be implemented swiftly. Therefore, a broad framework of action sometimes seems appropriate to stand ready should the situation take a turn for the worse. As a result, it may transpire that authorisations for emergency borrowing prove to have been too generous. Nevertheless, it seems inappropriate to retain any remaining scope from emergency borrowing as reserves for future years. Should an emergency persist, Parliament can then, if necessary, activate the escape clause for a further year and, at the same time, establish the specific crisis resolution measures for that year.

To date, however, broader application of emergency funds often planned

In actual fact, many federal states have built up reserves from emergency borrowing. These are apparently intended to fund structural projects, even after the crisis has been overcome. While some federal states have now depleted their reserves, others continue to top them up.

Particularly extensive emergency borrowing in Saarland and Bremen on top of budgetary recovery assistance to partially reduce very high legacy debt

Saarland and Bremen receive central government assistance to comply with their debt brake. Given their high level of debt, it scarcely seemed possible that they would be able to do so independently. The assistance is partly tied to the condition that the two federal states reduce their debt levels. Of late, they have made use of emergency borrowing, not only as an acute crisis aversion measure. This further borrowing instead has served to build up particularly extensive reserves to finance expenditure in future years. A state receiving budgetary recovery assistance can claim a special need for new debt owing to an emergency situation. It is then up to the Federal Ministry of Finance, in particular, to examine the extent to which this is compatible with the administrative agreements on budgetary recovery assistance.[28] In addition, the Stability Council is tasked with requesting a suitable recovery programme in the event that the debt burden should risk being too high.[29]

Three guiding principles for targeted use of emergency borrowing

Three guiding principles would – in the sense of a stringent debt brake – limit the subsequent burdens stemming from interest on and repayments of emergency borrowing. First, reserves still available from coronavirus emergency borrowing should be released directly for repayment, as the pandemic no longer plays a major role from a fiscal perspective. Second, in the acute energy crisis, central government took broad support measures. The need for additional action on the part of the federal states should be examined thoroughly and sufficiently justified. By contrast, foreseeable longer-term structural needs, such as those arising in connection with the energy transition, should be financed within the regular framework. Third, reserves for unforeseen circumstances should be built up in the regular budgetary process – i.e. without debt in excess of the debt brake limit.

Improve data availability

Stability Council should ensure meaningful and timely data are available

The data situation has not improved over the past few years.[30] Despite the high level of effort invested in analysing the published data for the purpose of drawing up this report, significant gaps still exist. These cannot even be filled

27 See Deutsche Bundesbank (2022b).
28 See, for example, for Bremen: Bremen Parliament (2019).
29 A review of the early warning system generally appears to be warranted. See Deutsche Bundesbank (2011).
30 For more details on the weaknesses of the data used, see Deutsche Bundesbank (2019) and Independent Advisory Board to the Stability Council (2019), pp. 19-21.

with the additional knowledge provided by state finance ministries and statistical offices. Action is required here. It should be possible to provide meaningful data for individual government tasks as well. This could make it easier to identify efficiency reserves and put a tighter lid on the cost of government services.[31] However, transparency is also hampered by the fact that federal states are neither consistent nor stringent in their application of harmonised accounting rules. In addition, it would be useful if the federal states were to regularly update their plans in a standardised manner. Accordingly, the Stability Council remains tasked with ensuring the states provide meaningful information and making such information publicly available in good time.

31 For more information on the advantages of meaningful data on government services, see Deutsche Bundesbank (2020), p. 90.

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The tables accompanying this article are printed on pp. 60 ff.

Budgetary figures for state governments (including local governments) in 2022*

Item	BW	BY	BB	HE	MV	NI	NW	RP	SL
Derivation of partially adjusted structural balances	€ per capita								
Fiscal balance (1)	284	234	– 33	348	314	240	– 248	482	– 3,192
Memo item: € million	3,197	3,120	– 84	2,220	511	1,948	– 4,484	2,000	– 3,158
Financial transactions (net) (2)	– 81	– 110	– 77	– 160	– 69	– 66	– 125	– 14	– 3,716
Settlement of payments under the state government financial equalisation scheme (3)	– 7	– 3	– 55	– 12	– 33	1	15	258	– 40
Adjusted balance (4)=(1)–(2)+(3)	359	341	– 11	496	350	308	– 108	753	484
Cyclical component[1] (5)	20	21	18	22	18	19	20	21	19
One-off effects (6)	0	0	0	0	0	0	0	0	0
Partially adjusted structural balance (7)=(4)–(5)–(6)	339	320	– 29	475	331	289	– 128	732	466
Memo item: Coronavirus response and energy price measures	.	.	.	.	.	.	.	.	.
Adjusted structural balance; temporary coronavirus and energy price measures removed	.	.	.	.	.	.	.	.	.
Net interest burden[2] (8)	107	26	72	155	90	125	104	144	296
Partially adjusted structural primary balance (9)=(7)+(8)	445	346	43	630	421	414	– 24	876	761
Memo item: Adjusted structural balance; temporary coronavirus and energy price measures removed	.	.	.	.	.	.	.	.	.
Expenditure, revenue and debt	€ per capita								
Total expenditure (10)	7,765	8,071	8,312	8,624	8,517	7,698	9,024	7,357	7,944
of which:									
Personnel expenditure[3] (11)	3,289	3,030	3,088	3,314	2,861	3,069	3,140	3,091	3,266
Expenditure on current staff (11a)	2,401	2,289	2,635	2,589	2,414	2,335	2,365	2,320	2,419
Civil service pension benefits[4] (11b)	888	741	452	726	447	734	774	771	846
Other operating expenditure (12)	1,374	1,403	1,638	1,787	1,577	1,434	2,269	1,599	1,828
Interest expenditure (13)	134	45	95	181	135	141	143	163	304
Transfers to households (14)	762	883	989	1,126	970	1,156	1,195	936	781
Current transfers to enterprises (15)	628	365	511	542	528	243	246	175	616
Fixed asset formation (16)	767	970	605	596	848	594	552	594	455
Adjusted total expenditure[5] (17)	7,585	7,869	8,078	8,332	8,404	7,539	8,697	7,307	4,074
Less interest expenditure (17a)	7,451	7,824	7,983	8,151	8,269	7,399	8,554	7,144	3,770
Less interest expenditure and fees (17b)	6,961	7,303	7,282	7,338	7,701	6,869	7,531	6,573	3,319
Total revenue (18)	8,048	8,305	8,276	8,974	8,831	7,938	8,776	7,838	4,783
of which:									
Tax revenue[6] (19)	5,982	6,038	5,443	6,220	5,715	5,698	5,887	5,838	5,726
Fees (20)	490	521	701	813	568	530	1,023	571	451
Transfers from central government[7] (21)	698	752	1,005	880	1,265	753	879	644	1,268
Adjusted total revenue[5] (22)	7,923	8,189	8,030	8,808	8,602	7,822	8,566	8,039	4,500
Less fees (22a)	7,433	7,668	7,328	7,995	8,034	7,292	7,543	7,468	4,050
Debt at year-end (23)	5,198	2,805	8,150	9,267	7,817	10,087	14,618	11,178	20,380
Calculated average rate of interest (%)[8] (24)	2.47	1.63	1.11	1.91	1.61	1.39	0.98	1.44	1.70
Tax rates and multipliers									
Real estate acquisition tax (%) (25)	5.0	3.5	6.5	6.0	6.0	5.0	6.5	5.0	6.5
Real estate tax B (%)[9] (26)	411	397	415	514	438	445	588	431	474
Local business tax (%)[9] (27)	377	376	334	412	390	407	452	350	448
Other figures									
Staff (FTEs per 1,000 inhabitants)[10] (28)	36.9	33.4	38.1	37.3	33.8	34.3	35.3	35.3	33.9
Recipients of pension benefits (per 1,000 inhabitants)[11] (29)	14.6	13.6	6.4	14.8	5.7	14.9	14.7	14.5	17.6
A 13 annual gross civil servant pay (in €1,000)[12] (30)	69.4	72.7	69.0	69.2	68.6	69.3	67.4	69.9	67.6

Sources: Federal Statistical Office, quarterly cash statistics (including post-bookings); Bundesbank calculations. * Core budgets and off-budget entities. Abbreviations: BW – Baden-Württemberg, BY – Bavaria, BB – Brandenburg, HE – Hesse, MV – Mecklenburg-West Pomerania, NI – Lower Saxony, NW – North Rhine-Westphalia, RP – Rhineland-Palatinate, SL – Saarland, SN – Saxony, ST – Saxony-Anhalt, SH – Schleswig-Holstein, TH – Thuringia, BE – Berlin, HB – Bremen, HH – Hamburg. **1** Data pursuant to the Bundesbank's cyclical adjustment procedure based on figures from the spring 2023 macroeconomic forecast. **2** Interest expenditure less interest income. **3** Including refunds to central government for legacy claims for pension benefits in eastern Germany (under the Entitlement Transfer Act *(Anspruchs- und Anwartschaftsüberführungsgesetz* – AAÜG)). **4** Including healthcare subsidies and AAÜG payments. **5** Excluding financial transactions. Payments under the state government financial equalisation scheme are settled on the revenue side. **6** Taxes and compensation for motor vehicle tax; state government

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SN	ST	SH	TH	BE	HB	HH	Total	Total	Item
							€ per capita	€ million	**Derivation of partially adjusted structural balances**
349	352	467	676	407	– 194	1,775	178	.	Fiscal balance (1)
1,424	771	1,376	1,434	1,517	– 132	3,329	.	14,987	Memo item: € million
– 77	– 12	– 88	91	– 245	75	– 383	– 145	– 12,232	Financial transactions (net) (2)
– 128	– 41	– 76	– 56	– 133	4	– 135	– 9	– 786	Settlement of payments under the state government financial equalisation scheme (3)
297	323	479	529	519	– 265	2,023	314	26,434	Adjusted balance (4)=(1)–(2)+(3)
18	18	19	18	26	27	28	20	1,710	Cyclical component[1] (5)
0	0	0	0	0	0	0	0	0	One-off effects (6)
279	305	460	511	493	– 292	1,995	294	24,724	Partially adjusted structural balance (7)=(4)–(5)–(6)
.	.	.	.	.	.	.	– 263	– 22,132	Memo item: Coronavirus response and energy price measures
.	.	.	.	.	.	.	557	46,856	Adjusted structural balance; temporary coronavirus and energy price measures removed
– 6	111	134	114	257	935	263	114	9,587	Net interest burden[2] (8)
273	416	594	625	751	643	2,258	408	34,311	Partially adjusted structural primary balance (9)=(7)+(8)
.	.	.	.	.	.	.	671	56,443	Memo item: Adjusted structural balance; temporary coronavirus and energy price measures removed
							€ per capita		**Expenditure, revenue and debt**
7,673	8,297	8,188	7,339	10,422	12,187	12,401	8,412	.	Total expenditure (10)
									of which:
3,014	2,997	2,900	2,997	3,641	4,025	4,106	3,170	.	Personnel expenditure[3] (11)
2,628	2,538	2,202	2,540	2,828	3,024	2,997	2,435	.	Expenditure on current staff (11a)
386	459	698	456	812	1,001	1,109	734	.	Civil service pension benefits[4] (11b)
1,414	1,791	1,388	1,431	3,593	2,964	4,179	1,825	.	Other operating expenditure (12)
19	136	151	139	266	1,015	344	141	.	Interest expenditure (13)
895	794	1,062	841	886	1,305	1,043	996	.	Transfers to households (14)
558	813	637	408	690	614	1,371	448	.	Current transfers to enterprises (15)
746	810	802	678	481	590	586	689	.	Fixed asset formation (16)
7,458	8,252	7,998	7,285	10,127	12,152	11,842	8,145	.	Adjusted total expenditure[5] (17)
7,438	8,116	7,847	7,147	9,860	11,137	11,498	8,004	.	Less interest expenditure (17a)
6,949	7,599	7,235	6,712	9,118	10,102	9,227	7,296	.	Less interest expenditure and fees (17b)
8,022	8,650	8,655	8,015	10,828	11,992	14,176	8,590	.	Total revenue (18)
									of which:
5,545	5,726	5,776	5,675	7,704	7,589	8,468	6,031	.	Tax revenue[6] (19)
489	516	612	434	742	1,035	2,270	708	.	Fees (20)
1,021	1,238	1,022	951	1,293	1,858	1,343	887	.	Transfers from central government[7] (21)
7,622	8,389	8,450	7,638	10,619	11,859	13,837	8,439	.	Adjusted total revenue[5] (22)
7,133	7,873	7,838	7,203	9,877	10,825	11,567	7,731	.	Less fees (22a)
2,733	12,143	13,079	8,849	17,211	34,352	19,680	9,759	.	Debt at year-end (23)
0.69	1.19	1.13	1.51	1.54	1.89	1.65	1.41	.	Calculated average rate of interest (%)[8] (24)
									Tax rates and multipliers
5.5	5.0	6.5	6.5	6.0	5.0	5.5	5.6	.	Real estate acquisition tax (%) (25)
502	426	411	439	810	687	540	486	.	Real estate tax B (%)[9] (26)
423	386	385	410	410	460	470	403	.	Local business tax (%)[9] (27)
									Other figures
37.0	37.8	34.2	36.5	43.0	46.8	40.9	36.0	.	Staff (FTEs per 1,000 inhabitants)[10] (28)
3.9	6.4	14.3	7.4	17.9	22.9	20.2	13.5	.	Recipients of pension benefits (per 1,000 inhabitants)[11] (29)
71.1	69.3	66.9	71.5	69.4	67.9	69.5	69.3		A 13 annual gross civil servant pay (in €1,000)[12] (30)

financial equalisation scheme and financial capacity-dependent supplementary central government grants according to provisional settlement figures. **7** Excluding financial capacity-dependent supplementary central government grants and compensation for motor vehicle tax. **8** Interest expenditure as a percentage of debt at the end of the previous year. **9** Revenue-weighted average local government multipliers for 2022. **10** Public sector staff working in state and local governments as at 30 June 2021. Areas in which non-public sector enterprises normally operate (such as university and other hospitals, nutrition, utilities, transport, finance) are not included. **11** Recipients of state and local governments' civil service pension benefits as at 1 January 2022. **12** Total of annual basic salary at the final level of the pay grade, general job-based allowance or structural allowance, special payment(s), assuming a 40-hour week. Total column shows the unweighted mean here. The A 13 pay grade applies in particular to many school teachers. Source: DGB Besoldungsreport 2023.

Budgetary figures for state governments (including local governments) in 2022: change against 2021*

Item	BW	BY	BB	HE	MV	NI	NW	RP	SL
Derivation of partially adjusted structural balances	€ per capita								
Fiscal balance (1)	– 38	321	85	158	276	131	– 279	– 226	– 2,987
Memo item: € million	– 387	4,266	213	1,022	450	1,073	– 5,040	– 905	– 2,956
Financial transactions (net) (2)	– 21	– 11	– 4	– 39	– 3	21	– 90	– 16	– 3,616
Settlement of payments under the state government financial equalisation scheme (3)	– 45	– 8	– 72	60	– 60	– 88	6	458	– 170
Adjusted balance (4)=(1)–(2)+(3)	– 62	324	17	256	220	22	– 183	247	459
Cyclical component[1] (5)	14	15	13	16	13	13	14	16	13
One-off effects (6)									
Partially adjusted structural balance (7)=(4)–(5)–(6)	– 76	309	4	241	207	9	– 197	231	446
Memo item: Coronavirus response and energy price measures	.	.	.	.	.	.	.	.	.
Adjusted structural balance; temporary coronavirus response and energy price measures removed	.	.	.	.	.	.	.	.	.
Net interest burden[2] (8)	– 26	0	– 27	– 24	– 16	30	– 10	8	– 8
Partially adjusted structural primary balance (9)=(7)+(8)	– 102	309	– 23	217	192	39	– 208	239	438
Memo item: Adjusted structural primary balance; temporary coronavirus response and energy price measures removed	.	.	.	.	.	.	.	.	.
Expenditure, revenue and debt	€ per capita								
Total expenditure (10)	279	– 43	264	2	496	345	764	205	– 41
of which:									
Personnel expenditure[3] (11)	219	81	124	106	106	113	141	56	97
Expenditure on current staff (11a)	96	68	105	101	94	95	122	56	82
Civil service pension benefits[4] (11b)	123	13	19	5	12	18	19	0	15
Other operating expenditure (12)	67	13	100	36	223	135	90	137	241
Interest expenditure (13)	– 36	– 2	– 21	– 22	2	27	– 11	7	– 7
Transfers to households (14)	34	21	87	55	67	67	40	44	– 251
Current transfers to enterprises (15)	– 171	24	– 136	– 224	35	0	20	5	81
Fixed asset formation (16)	37	13	41	24	– 1	24	57	45	23
Adjusted total expenditure[5] (17)	248	– 77	370	– 34	511	340	616	185	– 3,798
Less interest expenditure (17a)	284	– 74	391	– 13	509	313	627	178	– 3,791
Less interest expenditure and fees (17b)	264	– 108	351	– 40	412	281	565	126	– 3,832
Total revenue (18)	240	278	348	162	772	476	485	– 21	– 3,144
of which:									
Tax revenue[6] (19)	467	349	306	316	517	450	412	355	464
Fees (20)	20	34	40	28	97	32	62	52	42
Transfers from central government[7] (21)	– 240	– 187	21	– 166	12	– 136	– 86	– 220	– 181
Adjusted total revenue[5] (22)	171	233	357	209	585	343	416	416	– 3,538
Less fees (22a)	151	199	317	181	488	311	354	364	– 3,580
Debt at year-end (23)	– 310	22	– 552	– 319	– 709	– 163	– 59	– 236	2,408
Calculated average rate of interest (percentage points)[8] (24)	– 0.64	– 0.20	– 0.26	– 0.15	0.20	0.28	– 0.11	0.16	– 0.01
Tax rates and multipliers									
Real estate acquisition tax (percentage points) (25)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real estate tax B (percentage points)[9] (26)	6.5	1.6	2.8	10.8	4.2	1.7	8.3	18.5	5.4
Local business tax (percentage points)[9] (27)	6.7	– 0.9	12.4	1.3	1.8	0.3	3.7	–44.9	3.1

Sources: Federal Statistical Office, quarterly cash statistics (including post-bookings); Bundesbank calculations. * Core budgets and off-budget entities. Abbreviations: BW – Baden-Württemberg, BY – Bavaria, BB – Brandenburg, HE – Hesse, MV – Mecklenburg-West Pomerania, NI – Lower Saxony, NW – North Rhine-Westphalia, RP – Rhineland-Palatinate, SL – Saarland, SN – Saxony, ST – Saxony-Anhalt, SH – Schleswig-Holstein, TH – Thuringia, BE – Berlin, HB – Bremen, HH – Hamburg. **1** Data pursuant to the Bundesbank's cyclical adjustment procedure based on figures from the spring 2023 macroeconomic forecast. **2** Interest expenditure less interest income. **3** Including healthcare subsidies and refunds to central government for legacy claims for pension benefits in eastern Germany (under the

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SN	ST	SH	TH	BE	HB	HH	Total	Total	Item
							€ per capita	€ million	**Derivation of partially adjusted structural balances**
310	368	487	623	977	– 168	2,068	117	.	Fiscal balance (1)
1,267	804	1,433	1,324	3,606	– 114	3,870	.	9,924	Memo item: € million
– 16	– 10	– 44	46	489	– 3	220	– 44	– 3,755	Financial transactions (net) (2)
– 193	– 80	– 67	– 125	– 71	37	– 80	– 14	– 1,200	Settlement of payments under the state government financial equalisation scheme (3)
134	297	463	453	417	– 127	1,768	147	12,478	Adjusted balance (4)=(1)–(2)+(3)
12	12	13	12	19	20	20	14	1,224	Cyclical component[1] (5)
									One-off effects (6)
121	285	450	441	399	– 147	1,748	132	11,254	Partially adjusted structural balance (7)=(4)–(5)–(6)
.	.	.	.	.	.	.	– 156	– 13,077	Memo item: Coronavirus response and energy price measures
.	.	.	.	.	.	.	289	24,333	Adjusted structural balance; temporary coronavirus response and energy price measures removed
– 5	– 32	10	– 17	– 34	– 10	– 37	– 9	– 1	Net interest burden[2] (8)
117	253	459	424	365	– 156	1,710	123	10,606	Partially adjusted structural primary balance (9)=(7)+(8)
.	.	.	.	.	.	.	282	23,684	Memo item: Adjusted structural primary balance; temporary coronavirus response and energy price measures removed
							€ per capita		**Expenditure, revenue and debt**
200	476	209	– 67	– 680	125	– 922	234	.	Total expenditure (10)
									of which:
106	41	103	106	63	121	130	120	.	Personnel expenditure[3] (11)
98	26	92	88	44	113	119	92	.	Expenditure on current staff (11a)
8	15	12	18	19	8	11	29	.	Civil service pension benefits[4] (11b)
91	70	128	95	168	80	217	90	.	Other operating expenditure (12)
– 6	– 27	1	– 16	– 34	– 22	– 58	– 11	.	Interest expenditure (13)
76	– 59	35	52	13	69	35	37	.	Transfers to households (14)
– 135	123	– 98	10	– 355	– 332	– 823	– 77	.	Current transfers to enterprises (15)
55	109	64	– 13	– 50	55	– 132	30	.	Fixed asset formation (16)
178	467	154	– 52	– 151	181	– 619	175	.	Adjusted total expenditure[5] (17)
183	494	154	– 36	– 116	203	– 561	186	.	Less interest expenditure (17a)
115	460	138	– 66	– 160	119	– 577	145	.	Less interest expenditure and fees (17b)
510	844	696	556	297	– 40	1,147	350	.	Total revenue (18)
									of which:
289	582	522	460	527	276	826	420	.	Tax revenue[6] (19)
68	34	16	30	44	83	16	41	.	Fees (20)
187	96	– 25	– 13	– 315	– 380	– 491	– 136	.	Transfers from central government[7] (21)
184	584	597	231	247	36	1,130	306	.	Adjusted total revenue[5] (22)
116	550	581	201	203	– 47	1,114	264	.	Less fees (22a)
– 96	580	– 503	– 342	– 404	– 19,794	– 1,538	– 335	.	Debt at year-end (23)
– 0.21	– 0.27	0.01	– 0.18	– 0.22	0.12	– 0.27	– 0.11	.	Calculated average rate of interest (percentage points)[8] (24)
									Tax rates and multipliers
2.0	0.0	0.0	0.0	0.0	0.0	1.0	0.2	.	Real estate acquisition tax (percentage points) (25)
1.2	1.6	3.0	1.8	0.0	0.0	0.0	5.5	.	Real estate tax B (percentage points)[9] (26)
0.5	– 3.0	3.3	0.0	0.0	0.0	0.0	– 0.4	.	Local business tax (percentage points)[9] (27)

Entitlement Transfer Act (*Anspruchs- und Anwartschaftsüberführungsgesetz* – AAÜG)). **4** Including healthcare subsidies and AAÜG payments. **5** Excluding financial transactions. Payments under the state government financial equalisation scheme are settled on the revenue side. **6** Taxes and compensation for motor vehicle tax; state government financial equalisation scheme and financial capacity-dependent supplementary central government grants according to provisional settlement figures. **7** Excluding financial capacity-dependent supplementary central government grants and compensation for motor vehicle tax. **8** Interest expenditure as a percentage of debt at the end of the previous year. **9** Revenue-weighted average local government multipliers.