State government finances in 2020: deficit due to temporary effects of pandemic, escape clauses also used to build reserves

The coronavirus crisis left a major dent in government finances last year, hitting central government in particular. State and local government budgets, too, went from a surplus (€22 billion combined) to a high deficit (€32 billion). This deficit stems from negative cyclical effects, temporary coronavirus response measures as well as financial transactions. Adjusted for these factors, state and local governments actually still managed to record a slight surplus.

In 2020, all federal states activated the escape clause in their debt brakes. However, they chose to use them in very different ways. Bremen and Saarland, for instance, both received large-scale budgetary recovery assistance and did not use their escape clause during budget implementation. Other federal states used it not just to finance current deficits but also to build up reserves – sizeable ones in some cases (in particular, Schleswig-Holstein, Berlin and Mecklenburg-West Pomerania). In addition, scope for borrowing is still available in part.

Thanks to the vaccination campaign, the coronavirus crisis has been easing since the second quarter of 2021. Next year, crisis-related budgetary burdens are likely to more or less peter out. Hence, there no longer seems to be a plausible case for activating escape clauses in 2022.

Once these clauses cease to apply, the federal states will have to comply with their debt brakes again. There are major differences across the federal states as regards the action required. For some federal states, the fact that there will no longer be temporary burdens from the coronavirus crisis will likely be sufficient. Other federal states will probably have to make adjustments. The requirements depend, not least, on the state-specific debt brake rules – for instance on cyclical effects or repayment periods. In addition, the reserves available to ease the return to a balanced budget with no net borrowing also vary. However, using the escape clause to build reserves and thus create financial scope for purposes not related to the crisis would undermine the intention of the debt brake. This is true not just for state governments, but for central government, too.

The transparency problem when analysing state government finances has yet to be resolved. This applies, inter alia, to information on state-specific debt brakes. As a result, it is difficult to see just how much action will be required in some federal states once the emergency situation subsides. The extent to which provisions have been made – possibly also on the basis of the escape clauses – is also unclear. In order for fiscal surveillance to be effective, as a minimum budget outturns as defined under the respective debt brake rules should be available in a timely manner. Moreover, the degree to which state government finances can be compared remains very restricted, as the government finance statistics data available for this purpose are of limited informative value. The essential task of securing suitable data would be conferred upon the Stability Council. Without comparable data, it is not possible for informative comparisons to be drawn between the federal states. Nor can the advantages of the federal system be fully exploited.

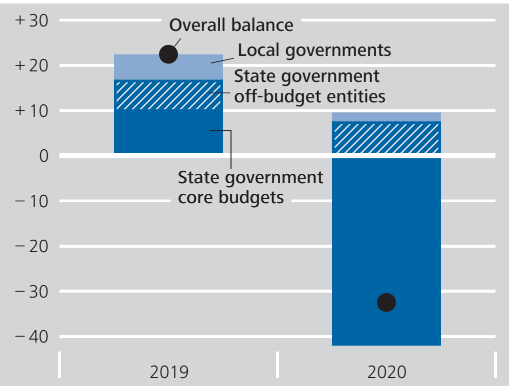
Overview

Coronavirus crisis caused high deficit in 2020 after high surplus in 2019

The coronavirus crisis weighed on state and local government budgets in 2020. The high budget surpluses recorded in 2019 shifted to high deficits. This was chiefly driven by cyclically induced tax revenue shortfalls and, to a lesser extent, by temporary crisis aid. By contrast, the strain on state and local governments was eased by payments from central government. Headway made in combating the pandemic means that a sweeping macroeconomic recovery can be expected. This should allow the high budget deficits to be reduced again relatively rapidly going forward.

Fiscal balance of state and local governments*

€ billion



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics.
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Budgetary figures for state governments (including local governments) as a whole

€ billion

Item	Item No	2019	2020
Fiscal balance	1	22.3	− 32.2
Financial transactions (net)	2	− 6.5	− 7.7
Settlement of payments under the state government financial equalisation scheme	3	− 0.4	0.7
Adjusted balance	4=1−2+3	28.4	− 23.9
Cyclical component	5	5.7	− 20.2
One-off effects	6=6a+6b	0.0	− 4.4
Relief provided by central government funds1	6a	.	6.4
Temporary coronavirus response measures2	6b	.	− 10.8
Partially adjusted structural balance	7=4−5−6a	.	− 10.1
Adjusted structural balance adjusted for temporary coronavirus response measures	8=4−5−6	22.7	0.7
Net interest burden	9	10.6	10.1
Adjusted structural primary balance	10=8+9	33.3	10.8
Memo item: Estimated further temporary coronavirus effects3	11	.	− 15

1 Central government funds to compensate for local governments' lower revenue from local business tax and lagged residual payments of consolidation assistance for 2019. 2 Excluding financial transactions. 3 Rough estimate of budgetary burdens caused by the coronavirus crisis, above all from shortfalls in revenue from fees and business activity. This is based on a simple comparison of the figures for 2020 with the extrapolated trend from earlier figures.
Deutsche Bundesbank

Structure of report

This article presents the financial results for 2020 – the box on pp. 17 ff. explains how the data were prepared and the data gaps. The article opens with an overview of the federal states as a whole before going on to describe selected aspects of specific federal states. It also contains an analysis of the various designs of the debt brake and how they were implemented in 2020. The conclusion puts developments and available data into perspective.

State government budget outturns in 2020

Federal states as a whole: temporary crisis-related burdens and looser fiscal stance

High deficit of €32 billion in state and local government core budgets and off-budget entities in 2020 …

In 2020, state government budgets, including their off-budget entities and local governments, recorded a high deficit of €32 billion (1% of gross domestic product (GDP)) after having posted a surplus of €22 billion in 2019 (see the adjacent table, item 1, and the chart above it). The deficit in state government core budgets amounted to €42 billion (2019: surplus of €10 billion). Both in 2020 and in 2019, extensive funds were transferred from the core budgets to special funds, where revenue then exceeded outflows. As a result, off-budget entities reported a surplus of €7½ billion on bal-

Preparing state government data and data gaps

The Bundesbank routinely produces a more detailed report on state government finances in the fourth quarter of the year. This presents the state government budget outturns, including their off-budget entities and the local government level, for the previous year. Outturns are presented in aggregate and on a state-by-state basis. The data are based on the quarterly figures from the government finance statistics. They are not available for a given year in this degree of detail and including closing entries until the third quarter of the following year.

National accounts data are the data used for European fiscal surveillance. However, these cover the federal states as a whole, not individually. This box explains how the government finance statistics data are prepared for evaluation. The aim of this process is to bring the data closer into line with the national accounts and to make comparisons between the federal states more meaningful. Nevertheless, the data remain to some extent difficult to interpret.

Off-budget entities and local government level are included

- Off-budget entities belong to the government sector in the national accounts and are included to provide a full picture of the federal states’ fiscal situation. A number of new off-budget entities were set up in connection with the coronavirus pandemic. On the one hand, looking at the core budgets on their own can cause the burden on state government finances to be understated, as some of these off-budget entities take out their own loans. On the other hand, the burden is temporarily overstated if loans are taken out in the core budget in order to prefinance coronavirus off-budget entities. The latter was more of an issue in 2020.
- Municipalities are subdivisions of the federal states under constitutional law, with the latter sharing responsibility for the finances of the former. In addition, the way in which tasks are distributed between the state government and local government levels varies from state to state. Budget outturns are more meaningful and easier to compare when the local government level is factored in. In addition, this allows the non-city states to be compared more effectively with the city states, as the latter always include the local government level in their outturns. Nevertheless, since the city states are afforded significantly higher financing requirements under the new financial equalisation scheme as well, they can still only be compared with the non-city states to a limited extent.

Structural balance is determined

A structural balance is determined to give a better idea of a federal state’s underlying budgetary situation: financial transactions, the cyclical component and one-off effects are deducted from the fiscal balance. In addition, state government financial equalisation is recorded on an accruals basis.

- Financial transactions reallocate financial assets, affecting the balance in the government finance statistics (deficit or surplus). For example, when a loan is granted, expenditure in the government finance statistics increases (and the balance declines). However, the state’s claims against third parties rise by the same amount (which is ignored in the government finance statistics balance). Overall, financial assets remain unchanged in net terms. In the national accounts, therefore, financial transactions have no effect on the balance. Like the Federal Government, the majority of federal states do not count these towards the limits imposed by their debt brakes.

- State government financial equalisation is accounted for on an accruals basis.[1] To this end, the distribution of VAT among the federal states as well as supplementary central government grants are adjusted to include lagged settlement payments.

- In a further step, the data are adjusted for cyclical effects. Most debt brakes allow for this in principle. In this report, cyclical effects are determined not in accordance with state-specific rules but rather uniformly using the Bundesbank's procedure (except in the case of individual annual results to approximate the requirements of the debt brakes). This is done on the basis of the spring 2021 macroeconomic forecast.[2] The cyclical component calculated for Germany as a whole was distributed across the individual federal states based on their respective tax share, making the cyclically adjusted data better suited for comparisons between states and with prior-year figures.

- More pronounced and easily identifiable one-off effects are factored out of the data. Accordingly, the structural balance was adjusted for the fact that central government made a one-off contribution compensating for shortfalls in local government business tax revenue. As a result, the federal states and their municipalities were afforded temporary relief in net terms. In the structural balance, tax revenue shortfalls at the local government level are already cancelled out for the most part via the cyclical component. For the federal states as an aggregate, the cost of temporary coronavirus-related measures has also been factored out in this report.

- However, it was not possible to properly distribute these cost-increasing one-off effects across the individual federal states, so they are not taken into account in the state-specific figures. This is indicated by the classification "partially adjusted".

There remain shortcomings in the dataset and areas for improvement

- The data are difficult to interpret to some extent as the federal states record identical types of expenditure in different ways. One major example is coronavirus aid for businesses, provided by central government: most federal states classified this as transfers to enterprises in line with classification in the government budgetary planning system. In North Rhine-Westphalia, by contrast, it was recorded as operating expenditure. Here, as in other cases, it would be helpful to have effectively binding requirements for assigning items to certain revenue and expenditure categories. This would also make it easier to meet European requirements for data provision.

- Sizeable payments are made between individual government units (including federal states and their off-budget entities). However, these are, in some cases, only collectively adjusted in the government finance statistics – for example, based on total current revenue and expenditure. For the purposes of the analysis, it is essential to cancel out these payments between government units on a disaggregated basis as well, i.e. by type of revenue and expenditure.[3] In addition to transfers between government units, fee payments between these units also distort budget data. As a rule, the receiving

1 The cash figures for the 2020 reporting year have been adjusted to include the provisional settlement payments for 2019 and 2020.
2 See Deutsche Bundesbank (2021a).
3 See Deutsche Bundesbank (2019a).

unit does not distinguish between fees from a government unit and from a third party. Accordingly, consolidated receipts from fees are too high overall – as is, on the other side of the balance sheet, spending on service purchases. This distortion becomes greater when services that are used by the core budget are outsourced to off-budget entities.

– In some cases, government tasks are performed by institutions outside the government sector. These frequently have their own sources of revenue. In this case, the revenue and expenditure reported in the government finance statistics understate the activities commissioned by general government. If these institutions' own revenue is insufficient, supplementary government grants are usually paid. These then increase government expenditure, but the structure of this spending differs from the structure seen when services are directly provided: instead of being recorded as own personnel and other operating expenditure, transfer payments are reported in the government finance statistics. Timely data for core budgets and off-budget entities on revenue and expenditure categories broken down by area of activity could provide much-needed information in this context. This applies in particular to comparisons between the federal states, as they make varying use of outsourcing of this kind.[4]

4 These data are published by the Federal Statistical Office in its accounting figures for the general government budget. This is with a considerable lag, however: at present, data do not extend beyond 2013.

ance (2019: €7 billion).[1] In 2020, it was primarily the off-budget entities for coronavirus-related purposes that posted surpluses; in 2019, the focus had been on making provisions for investment, amongst other things. Local governments also reported a surplus again. At €2 billion, this was €4 billion lower than in 2019. Local government finances were buoyed by extensive assistance from central government and state governments.

… but major impact stemming from cyclical effects, acquisition of financial assets and temporary measures

However, given the situation in 2020 in particular, the unadjusted balances are not especially meaningful. They are heavily tilted by major cyclical effects and temporary coronavirus response measures. To better grasp the structural situation, financial transactions as well as temporary cyclical effects and one-off factors are deducted from the balance:

– In 2020, a deficit of €20 billion can be traced back to cyclical effects as a result of the economic downturn (see the tables on p. 16 and p. 23, item 5 in both cases).

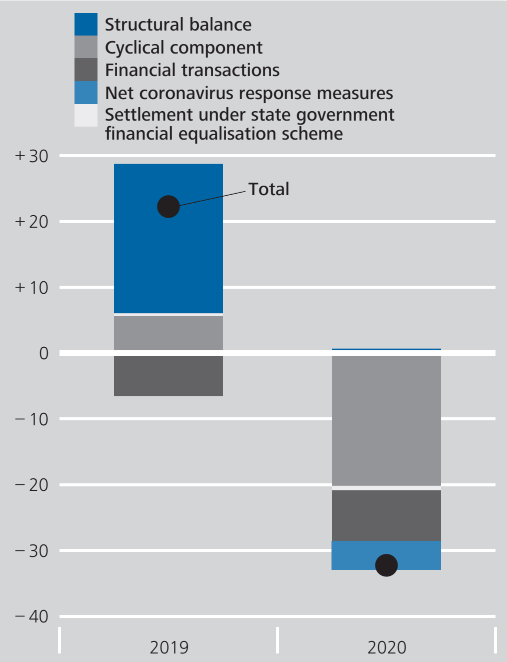
– A further €8 billion can be attributed to financial transactions (see the tables on p. 16 and p. 23, item 2 in both cases). These chiefly concern loans granted by the federal states and their municipalities.

– Temporary coronavirus response measures that can be reasonably well defined and quantified contributed €5 billion on balance to the deterioration in the result. Support for enterprises and households was factored in

1 Items have been added to off-budget entities here in comparison with data in the government finance statistics. For instance, the transfer of €½ billion from the IMPULS special fund to the core budget in Schleswig-Holstein was included as an expenditure item. The figures for 2019 include an additional off-budget entity each for Brandenburg and Lower Saxony (they are not included in the government finance statistics until 2020). This means that in both 2019 and 2020, the off-budget entities' surplus reported here is €½ billion lower than in the government finance statistics.

Factors influencing fiscal balance of state governments (including local governments)*

€ billion



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

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as having a negative impact. This was offset by central government's contribution of €6 billion to compensate for expected lower revenue from local business tax. Deducting the lagged residual payments of consolidation assistance for 2019 (cumulative total of almost €½ billion) also provided temporary relief.

Slight surplus in structural terms

Looking at the budgetary situation in these structural terms shows that conditions last year were heavily influenced by temporary factors. State and local governments reaped the benefits of starting out on a solid fiscal footing overall following a high structural surplus in 2019. While the figures may have fallen considerably on the previous year (by €22 billion),[2] it was still possible to post a small structural surplus (€½ billion).

Structural situation probably better than reported here

The structural deterioration reported here is even likely to be overstated. The balance contains additional coronavirus-related temporary effects that could only be roughly estimated and were therefore not deducted in the above calculations. Receipts from fees and revenue from business activity, in particular, lagged considerably behind their estimated trend. In addition, on the expenditure side, other operating expenditure appears to have increased significantly even after factoring out coronavirus response measures booked under this item. It is likely that additional coronavirus effects (such as procuring personal protective equipment) had a sizeable role to play here. Overall, these additional temporary effects stemming from the coronavirus pandemic could run up to €15 billion (see the table on p. 16, memo item, item 11). Therefore, as the coronavirus crisis comes to an end, a large part of the structural deterioration reported here may be reduced again. Meanwhile, in tax revenue estimates to date, a somewhat lower path is expected in the medium term – but this is also due, not least, to changes in legislation adopted in the meantime.

Overall, 2020 outturn for federal states does not point to need for structural consolidation

All in all, the state and local government budgetary position was not at all unfavourable last year if the temporary effects of the coronavirus crisis are disregarded. The 2020 budget outturn for the federal states as a whole thus does not point to a need for structural consolidation. However, looking at the individual federal states, with their varying financial situations and debt brake designs, it is a mixed picture.[3]

Individual federal states

Balances[4]

The individual federal states' partially adjusted structural balances varied widely last year. As

2 The positive cyclical influence for 2019 is now estimated to be €6 billion lower than expected in last year's report on state government finances. This means that a larger part of the 2019 surplus is deemed structural.
3 See Deutsche Bundesbank (2020a).
4 To improve comparability, figures are given relative to population size in each federal state.

Partially adjusted structural balances vary relatively widely across federal states

outlined above (see the overview on p. 18), it was not possible to assign the cost of temporary coronavirus response measures to the individual federal states in structural terms. The structural balances reported for the individual federal states are thus termed "partially adjusted". The structural situation is therefore more favourable. For the federal states as a whole, the partially adjusted structural deficit amounted to €120 per capita. In Bremen, this figure exceeded €430, even though this state – like Saarland – received extensive budgetary recovery assistance from central government (€590 per capita in Bremen). At the other end of the scale, Mecklenburg-West Pomerania and Rhineland-Palatinate even managed to record rather high partially adjusted structural surpluses of well over €100 per capita (for information on figures for the individual federal states, see the table on pp. 22 f., item 7).

Lower interest burdens associated with less ambitious partially adjusted structural primary balances

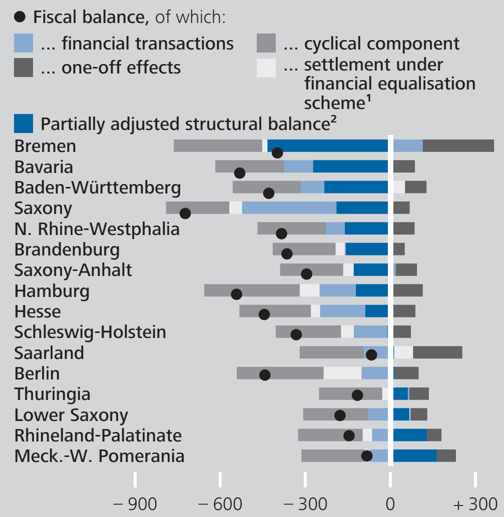
The net interest burden – that is, the pre-existing burden on any (net) debt – is also deducted from the partially adjusted structural primary balance (see the table on pp. 22 f., item 9). This primary balance was balanced for the federal states as a whole. Bavaria and Saxony recorded the highest primary deficits calculated this way. These states have less legacy debt and have continued to take a looser stance than other federal states when drawing up their budgets. Bremen is at the other end of the spectrum with the highest surplus, followed by Saarland. Without the extensive budgetary recovery assistance they received, however, these states would have come in somewhat below the correspondingly adjusted figure for the federal states as a whole. There was therefore no indication that these two states had made savings elsewhere in order to offset higher legacy debt.

Developments also divergent in year-on-year terms

On a per capita basis, the partially adjusted structural budgetary position was down on the previous year in all federal states (for the federal states as a whole, by almost €400; for more information on changes in the individual federal states' figures, see the table on pp. 26 f., item 7). The largest deterioration – €970 – was recorded in Hamburg, where the structural surplus was also still the highest in 2019. Saarland and Mecklenburg-West Pomerania were at the other end of the scale, reporting drops of less than €100 per capita. The situation in Saarland was eased not least by the state receiving higher budgetary recovery assistance. In 2019, Saarland also recorded the most unfavourable structural balance.

Fiscal balances of individual state governments (including local governments) in 2020*

€ per inhabitant



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics. **1** Settlement of payments under the state government financial equalisation scheme. **2** Fiscal balance adjusted for financial transactions, settlement of payments under the state government financial equalisation scheme, cyclical component and one-off effects (here only temporary relief from central government; burdens caused by coronavirus response measures could not be attributed to individual states).

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Falling tax revenue places particular strain on fiscal balances

The main factor driving the deterioration in the unadjusted balances was falling tax revenue. The extent to which this revenue developed varied widely across the federal states (see the table on pp. 26 f., item 19). It was in the federal states with high financial capacity that tax revenue declined most noticeably. Hamburg posted the largest amount, a decline of €660 per capita. Particularly sharp drops were also recorded in Hesse and Baden-Württemberg. By contrast, federal states with lower financial capacity generally reported much smaller de-

Budgetary figures for state governments (including local governments) in 2020*

Item	BW	BY	BB	HE	MV	NI	NW	RP	SL
Derivation of partially adjusted structural balances	€ per inhabitant								
Fiscal balance (1)	– 429	– 531	– 365	– 445	– 83	– 178	– 384	– 146	– 67
Memo item: € million	– 4,762	– 6,971	– 921	– 2,796	– 133	– 1,422	– 6,883	– 597	– 66
Financial transactions (net) (2)	– 82	– 101	– 4	– 159	– 73	– 77	– 67	– 65	– 94
Settlement of payments under the state government financial equalisation scheme (3)	– 51	– 6	32	32	18	– 3	– 8	33	– 67
Adjusted balance (4)=(1)–(2)+(3)	– 398	– 436	– 328	– 253	8	– 104	– 325	– 48	– 39
Cyclical component[1] (5)	– 240	– 243	– 222	– 252	– 223	– 230	– 241	– 228	– 226
One-off effects (6)	76	80	50	88	67	60	77	51	173
Partially adjusted structural balance (7)=(4)–(5)–(6)	– 234	– 273	– 157	– 89	164	67	– 161	129	13
Memo item: Coronavirus response measures									
Adjusted structural balance adjusted for temporary coronavirus response measures									
Net interest burden[2] (8)	115	35	81	189	113	104	110	144	345
Partially adjusted structural primary balance (9)=(7)+(8)	– 119	– 238	– 77	100	276	171	– 51	272	358
Memo item: Adjusted structural balance adjusted for temporary coronavirus response measures									
Expenditure, revenue and debt	€ per inhabitant								
Total expenditure (10)	7,309	7,602	7,537	8,042	7,599	7,088	8,013	6,773	7,684
of which:									
Personnel expenditure[3] (11)	2,983	2,859	2,899	3,071	2,703	2,864	2,913	2,909	3,083
Expenditure on current staff (11a)	2,245	2,152	2,462	2,383	2,262	2,172	2,173	2,175	2,272
Civil service pension benefits[4] (11b)	739	707	436	688	441	692	740	733	811
Other operating expenditure (12)	1,187	1,238	1,340	1,599	1,303	1,176	2,054	1,378	1,582
Interest expenditure (13)	132	56	97	211	152	120	153	169	353
Transfers to households (14)	692	833	872	1,011	865	1,062	1,108	854	742
Current transfers to enterprises (15)	615	349	694	533	394	322	176	128	544
Fixed asset formation (16)	839	982	509	583	840	529	495	503	395
Adjusted total expenditure[5] (17)	7,118	7,427	7,354	7,792	7,470	6,964	7,814	6,646	7,553
Less interest expenditure (17a)	6,985	7,371	7,257	7,581	7,318	6,844	7,661	6,477	7,200
Less interest expenditure and fees (17b)	6,567	6,925	6,644	6,878	6,840	6,399	6,723	5,986	6,804
Total revenue (18)	6,880	7,070	7,178	7,597	7,516	6,910	7,629	6,627	7,625
of which:									
Tax revenue[6] (19)	4,896	4,981	4,560	5,116	4,761	4,684	4,879	4,688	4,747
Fees (20)	419	447	613	703	478	445	938	491	396
Transfers from central government[7] (21)	674	706	1,023	832	1,130	717	875	656	1,520
Adjusted total revenue[5] (22)	6,883	7,154	7,203	7,703	7,633	7,032	7,653	6,775	7,573
Less fees (22a)	6,464	6,708	6,589	6,999	7,156	6,586	6,715	6,284	7,177
Debt at year-end (23)	5,519	2,578	8,525	9,784	9,540	10,208	14,026	12,234	18,149
Calculated average rate of interest (%)[8] (24)	2.59	2.57	1.26	2.34	2.04	1.28	1.19	1.42	1.95
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)	400	394	410	500	432	439	577	407	456
Local business tax (%)[9] (27)	368	367	324	411	384	405	450	382	449
Other figures									
Staff (FTEs per 1,000 inhabitants)[10] (28)	35.3	32.2	36.5	35.8	31.9	33.7	33.9	34.1	33.3
Recipients of pension benefits (per 1,000 inhabitants)[11] (29)	14.2	13.2	5.4	14.5	5.0	14.5	14.3	14.1	17.4
A 13 annual gross civil servant pay (in €1,000)[12] (30)	66.6	69.8	66.2	64.6	65.9	65.9	64.6	66.4	63.8

Sources: Federal Statistical Office, Federal Ministry of Finance and 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 2021 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 financial equalisation

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SN	ST	SH	TH	BE	HB	HH	Total	Total	Item
							€ per inhabitant	€ million	**Derivation of partially adjusted structural balances**
– 723	– 296	– 332	– 116	– 442	– 399	– 543	– 388		Fiscal balance (1)
– 2,939	– 646	– 965	– 247	– 1,621	– 271	– 1,001		– 32,242	Memo item: € million
– 333	19	– 118	5	– 102	113	– 128	– 93	– 7,725	Financial transactions (net) (2)
45	37	45	29	133	18	70	8	656	Settlement of payments under the state government financial equalisation scheme (3)
– 346	– 277	– 169	– 92	– 207	– 494	– 345	– 287	– 23,862	Adjusted balance (4)=(1)–(2)+(3)
– 223	– 222	– 230	– 222	– 306	– 312	– 336	– 242	– 20,152	Cyclical component[1] (5)
68	75	72	69	84	252	114	77	6,401	One-off effects (6)
– 190	– 130	– 11	61	15	– 434	– 122	– 122	– 10,110	Partially adjusted structural balance (7)=(4)–(5)–(6)
							– 130	– 10,804	Memo item: Coronavirus response measures
							8	694	Adjusted structural balance adjusted for temporary coronavirus response measures
– 10	145	127	138	260	928	309	122	10,124	Net interest burden[2] (8)
– 201	15	116	199	275	494	186	0	14	Partially adjusted structural primary balance (9)=(7)+(8)
							130	10,818	Memo item: Adjusted structural balance adjusted for temporary coronavirus response measures
							€ per inhabitant		**Expenditure, revenue and debt**
7,593	7,504	7,793	6,891	9,683	10,816	11,611	7,767		Total expenditure (10)
									of which:
2,835	2,845	2,698	2,767	3,388	3,738	3,843	2,950		Personnel expenditure[3] (11)
2,447	2,393	2,028	2,330	2,613	2,767	2,773	2,263		Expenditure on current staff (11a)
388	452	670	437	775	971	1,070	687		Civil service pension benefits[4] (11b)
1,237	1,623	1,176	1,227	3,090	2,518	3,653	1,597		Other operating expenditure (12)
18	161	149	163	269	1,019	414	149		Interest expenditure (13)
781	769	999	752	858	1,143	976	917		Transfers to households (14)
628	618	643	377	906	545	1,581	446		Current transfers to enterprises (15)
709	627	723	684	406	522	633	660		Fixed asset formation (16)
7,152	7,495	7,621	6,833	9,512	10,756	11,299	7,583		Adjusted total expenditure[5] (17)
7,135	7,334	7,472	6,670	9,244	9,737	10,885	7,434		Less interest expenditure (17a)
6,747	6,881	6,942	6,302	8,602	8,879	8,734	6,811		Less interest expenditure and fees (17b)
6,870	7,209	7,458	6,774	9,240	10,416	11,068	7,379		Total revenue (18)
									of which:
4,579	4,625	4,817	4,657	6,273	6,252	6,462	4,952		Tax revenue[6] (19)
388	452	530	368	641	858	2,152	623		Fees (20)
900	988	929	838	1,420	1,894	1,268	856		Transfers from central government[7] (21)
6,962	7,365	7,608	6,894	9,527	10,321	11,177	7,462		Adjusted total revenue[5] (22)
6,574	6,913	7,077	6,526	8,885	9,463	9,025	6,838		Less fees (22a)
2,776	11,145	13,474	9,045	17,141	61,588	21,045	10,010		Debt at year-end (23)
0.76	1.45	1.16	1.88	1.71	2.09	2.01	1.63		Calculated average rate of interest (%)[8] (24)
									Tax rates and multipliers
3.5	5.0	6.5	6.5	6.0	5.0	4.5	5.4		Real estate acquisition tax (%) (25)
499	423	404	437	810	687	540	478		Real estate tax B (%)[9] (26)
421	382	380	409	410	460	470	400		Local business tax (%)[9] (27)
									Other figures
36.4	36.7	32.0	35.7	41.9	44.5	39.2	34.7		Staff (FTEs per 1,000 inhabitants)[10] (28)
3.4	5.7	14.0	6.2	17.5	22.8	20.0	13.1		Recipients of pension benefits (per 1,000 inhabitants)[11] (29)
68.2	66.5	63.6	66.4	65.7	65.1	65.6	65.9		A 13 annual gross civil servant pay (in €1,000)[12] (30)

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 2020. **10** Public sector staff working in state and local governments as at 30 June 2020, expressed in full-time equivalents (FTEs). 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 2020. **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, October 2021.

clines. Mecklenburg-West Pomerania benefited from the new state government financial equalisation scheme – as did the other eastern German federal states – and was even able to post slight growth in tax revenue.[5] However, the variation in tax developments is likely to be notably overstated overall by the fact that the state government financial equalisation scheme only uses estimates of revenue from local government business tax, an item that is especially volatile.[6]

New financial equalisation scheme: more tax revenue but central government's other transfers come to an end

In structurally adjusted terms, the reform of the financial equalisation scheme resulted in structural tax revenue rising in all federal states with the exception of Hamburg. However, this was partly offset by the fact that a number of payments previously made by central government and that had not counted as tax revenue came to an end.[7]

Higher central government transfers overall, but heterogeneous distribution across federal states

Despite this, almost all federal states recorded growth in central government transfers – significant growth in some cases (see the table on pp. 26 f., item 21). This was chiefly driven by central government funds for coronavirus response measures that were channelled via state government budgets. In terms of transfers unrelated to the pandemic, Saarland and Bremen reaped the greatest benefits: the new budgetary recovery assistance (of €400 million per year for each state) significantly exceeds the expiring consolidation assistance. In 2020, the final payment of consolidation assistance (one-third of the annual amount) was also made.

Debt and interest burdens

Debt up in all federal states, especially Bremen

Debt was up in all federal states, in most cases by a sizeable amount (see the table on pp. 26 f., item 23, and the chart on p. 25). Although Bremen did not take out any loans on the basis of the escape clause, its debt still rose by the largest amount by far, by well over €10,000 per capita. Bremen had already recorded the highest per capita debt level in 2019. As in the previous year, Bremen's cash advances rose sharply. These were used to finance additional collateral that the state had to provide in connection with large forward transactions in the previous year.[8] While this additional collateral also expanded Bremen's holdings of financial assets (claims from collateral provided), this was offset by the lower present value of the derivatives portfolio amid falling interest rates. It is not easy to estimate the precise impact of these derivatives transactions, including the impact on interest payments. This makes it difficult to assess the debt structure and interest burdens. More transparency in this area would be extremely welcome – and that applies not just to Bremen, but to other federal states, too.

5 Mecklenburg-West Pomerania and the other eastern German federal states benefited particularly from the new supplementary central government grants for municipalities with low financial capacity. Central government's special-purpose grants for reconstruction in eastern Germany, which have now come to an end, were previously not counted as tax revenue in these calculations.
6 For instance, Hamburg's capacity to raise local business tax revenue fell by almost twice as much as that of the federal states as a whole. The procedure used to date to settle payments under the financial equalisation scheme assumes uniform developments throughout Germany.
7 These include central government's special-purpose grants for reconstruction in eastern Germany as well as annual funds of around €2½ billion that central government had been paying since 2007 by way of compensation for phasing out joint tasks – such as university construction.
8 See Federal Statistical Office (2021). Collateral in connection with forward transactions can decouple debt development from the budget deficit. With forward transactions, counterparty claims are generally to be secured by providing collateral. If a federal state provides or receives collateral for this purpose, it is usually not reported as expenditure or revenue that would affect the budget (the balance does not change). However, in most cases, the state's debt level does change as a result. (First, the collateral received pushes up the state's cash balances. The counterparty usually has a claim for repayment in the amount of the collateral that it provided – just as with a loan. This claim is therefore recorded in the relevant amount on the liabilities side as a cash advance. Second, collateral to be provided is often financed using cash advances. Cash advances increase debt. This is offset by a claim on the collateral taker in the amount of the collateral provided.) As a rule, the volume of collateral gives a rough indication of the amount that the collateral provider would have to pay if the derivative were redeemed at this time. The volume of collateral rises or falls if, for instance, interest rate changes cause the market value of the derivative to shift. If, for example, a debtor's long-term fixed interest rate is secured by a payer swap, the debtor has to provide more collateral if the interest rate falls (the derivative becomes less favourable for the debtor). The market value of the liability portfolio therefore has a greater impact on the debt level reported in the statistics than in cases where no derivatives are used. Loans and bonds in and of themselves are reported in the statistics at face value.

Closing entries after year-end do not appear in debt statistics until later

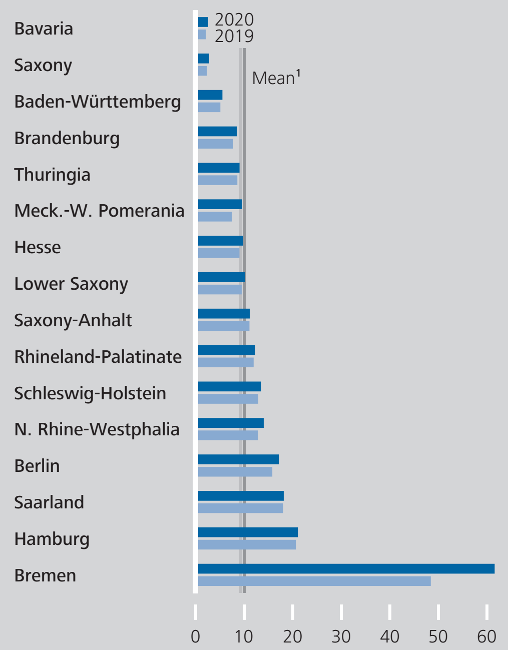
The debt levels in Mecklenburg-West Pomerania and Berlin also rose sharply. Saxony-Anhalt and Saarland recorded the lowest debt growth. The debt level is calculated as at 31 December, and the debt growth figure is for the calendar year. After year-end, loans can still be taken out for the budget outturn, for example. However, this does not increase the debt level retroactively; instead, this borrowing only becomes visible in the figures for the following year. In the latest figures, this applies to a large proportion of the high borrowing incurred by Schleswig-Holstein in order to top up its reserves.

Debt levels vary very widely

Excluding Bremen, the range of per capita debt remained unchanged at €18,500. The figure for Bremen at the end of 2020 was five times higher than that of the federal states as a whole (see the table on pp. 22 f., item 23).[9] Hamburg, Saarland and Berlin were also far above average. Bavaria and Saxony were at the lower end of per capita debt, with their levels each amounting to only one-quarter of the figure for the federal states as a whole.

Debt of individual state governments (including local governments)*

€ thousand per inhabitant



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics. Debt in the non-public and public sectors (non-consolidated). **1** Population-weighted mean of all state and local governments.

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Average interest rate down in all states

The calculated average rate of interest on debt continued to fall significantly on the year across Germany, declining by 0.3 percentage point to 1.6% (see the tables on pp. 22 f. and pp. 26 f., item 24 in both cases). Generally speaking, the capital markets assume that the federal states' creditworthiness is high and that, in extreme circumstances, they would probably receive assistance from the German state as a whole. However, the calculated average rates of interest that state governments pay on their debt vary. This is due chiefly to the debt structure. For instance, there are differences in interest rate fixation periods and the percentage of loans that were taken out during years when interest rates were higher. Derivatives transactions or high premia on bond issues probably also contribute to the variance.[10]

Interest expenditure partly offset by interest income

As interest expenditure is partly offset by interest income (which, in some cases, is received from other entities within a federal state), the netted total of interest expenditure and interest income more accurately reflects the interest burden. To obtain this figure, interest expenditure on debt is netted with interest income from financial assets (net interest). As interest rates remained low last year, interest burdens declined despite rising debt. Excluding the high interest burdens in the city states and in Saarland, the amount by which the federal states'

9 Factoring out cash advances for collateral purposes, Bremen's debt was still almost three times the level for the federal states as a whole.
10 The booking of premia and discounts can also play a substantial role in annual comparisons of the calculated average rates of interest. Premia reduce and discounts increase the underlying interest expenditure. For more information, see Deutsche Bundesbank (2021b). The sharp decline in the average rate of interest in Saxony reflects, in particular, its coronavirus response fund's negative interest expenditure stemming from premia (amount payable in 2020: -€34 million). This results in an average interest rate of 0.8%, which is not very meaningful. In addition, the interest expenditure largely flowed into two civil servant pension funds belonging to Saxony. In Bremen, the calculated average rate of interest fell particularly sharply because a large amount of collateral was financed through additional cash advances. Cash advances and posted collateral are likely to be subject to similar, very low interest rates.

Budgetary figures for state governments (including local governments) in 2020: change against 2019*

Item	BW	BY	BB	HE	MV	NI	NW	RP	SL
Derivation of partially adjusted structural balances	€ per inhabitant								
Fiscal balance (1)	– 782	– 616	– 469	– 746	– 251	– 414	– 767	– 527	– 157
Memo item: € million	– 8,678	– 8,081	– 1,183	– 4,685	– 403	– 3,311	– 13,761	– 2,155	– 155
Financial transactions (net) (2)	– 31	58	60	– 35	89	12	– 78	– 75	– 44
Settlement of payments under the state government financial equalisation scheme (3)	– 62	– 17	– 18	42	34	33	8	83	– 83
Adjusted balance (4)=(1)–(2)+(3)	– 813	– 691	– 547	– 669	– 305	– 393	– 682	– 369	– 196
Cyclical component[1] (5)	– 308	– 312	– 284	– 322	– 285	– 294	– 308	– 290	– 290
One-off effects (6)	– 59	80	50	88	67	241	77	51	173
Partially adjusted structural balance (7)=(4)–(5)–(6)	– 446	– 460	– 313	– 435	– 88	– 340	– 451	– 130	– 79
Net interest burden[2] (8)	– 5	51	– 33	– 6	3	– 16	– 32	– 38	– 36
Partially adjusted structural primary balance (9)=(7)+(8)	– 451	– 409	– 346	– 440	– 84	– 355	– 483	– 168	– 115
Expenditure, revenue and debt	€ per inhabitant								
Total expenditure (10)	581	– 20	572	499	856	654	976	665	984
of which:									
Personnel expenditure[3] (11)	99	133	127	134	63	114	139	135	134
Expenditure on current staff (11a)	66	102	94	109	74	91	107	92	96
Civil service pension benefits[4] (11b)	33	31	32	25	– 10	23	32	43	38
Other operating expenditure (12)	51	– 3	45	61	– 24	76	493	133	96
Interest expenditure (13)	– 7	– 6	– 33	– 11	– 4	– 54	– 50	– 33	– 39
Transfers to households (14)	29	49	55	16	– 22	99	37	52	138
Current transfers to enterprises (15)	344	141	333	314	57	142	20	0	128
Fixed asset formation (16)	115	58	4	62	152	67	94	52	7
Adjusted total expenditure[5] (17)	709	691	624	775	1,340	655	951	580	950
Less interest expenditure (17a)	715	697	656	786	1,343	709	1,001	613	989
Less interest expenditure and fees (17b)	879	725	680	865	1,415	702	1,035	631	1,044
Total revenue (18)	– 198	– 636	111	– 249	605	242	208	138	835
of which:									
Tax revenue[6] (19)	– 227	– 196	– 215	– 245	33	– 197	– 219	– 135	– 89
Fees (20)	– 164	– 28	– 24	– 79	– 72	7	– 34	– 18	– 55
Transfers from central government[7] (21)	288	300	174	308	194	253	400	212	763
Adjusted total revenue[5] (22)	266	231	318	338	1,252	318	500	450	878
Less fees (22a)	429	259	342	417	1,324	311	534	468	934
Debt at year-end (23)	401	386	782	757	2,094	899	1,187	284	127
Calculated average rate of interest (%)[8] (24)	– 0.10	– 0.26	– 0.48	– 0.04	– 0.10	– 0.53	– 0.41	– 0.19	– 0.23
Tax rates and multipliers									
Real estate acquisition tax (%) (25)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real estate tax B (%)[9] (26)	8.7	– 0.8	0.9	9.7	4.5	4.1	0.0	4.1	12.1
Local business tax (%)[9] (27)	1.8	– 8.7	7.6	– 3.1	2.0	– 3.1	– 2.8	0.3	3.2

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 2021 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 Entitlement Transfer Act (*Anspruchs- und Anwartschaftsüberführungsgesetz* –

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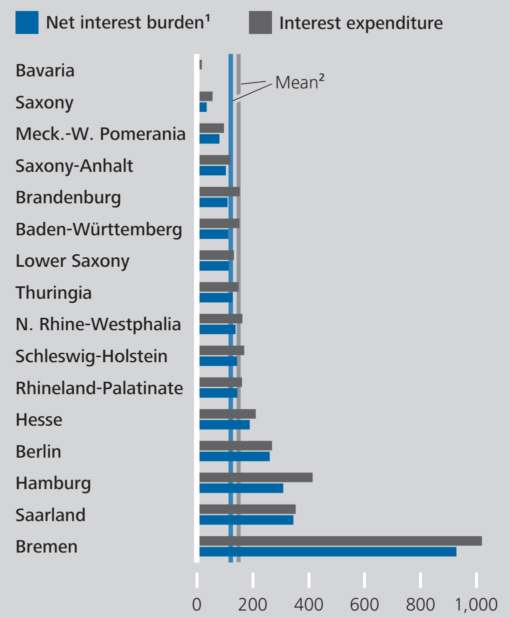
SN	ST	SH	TH	BE	HB	HH	Total	Total	Item
							€ per inhabitant	€ million	**Derivation of partially adjusted structural balances**
– 928	– 598	– 469	– 507	– 657	– 721	– 908	– 656		Fiscal balance (1)
– 3,774	– 1,313	– 1,363	– 1,082	– 2,406	– 491	– 1,675		– 54,519	Memo item: € million
– 219	99	– 23	0	– 58	184	429	– 14	– 1,199	Financial transactions (net) (2)
47	55	64	21	111	– 17	47	13	1,045	Settlement of payments under the state government financial equalisation scheme (3)
– 662	– 642	– 382	– 485	– 488	– 922	– 1,290	– 629	– 52,275	Adjusted balance (4)=(1)–(2)+(3)
– 284	– 284	– 294	– 285	– 394	– 400	– 432	– 310	– 25,804	Cyclical component[1] (5)
68	75	72	69	84	252	114	76		One-off effects (6)
– 445	– 433	– 161	– 269	– 179	– 774	– 972	– 395	– 32,829	Partially adjusted structural balance (7)=(4)–(5)–(6)
3	34	– 28	11	– 43	126	– 33	– 6	– 488	Net interest burden[2] (8)
– 442	– 398	– 188	– 258	– 222	– 648	– 1,005	– 401	– 33,317	Partially adjusted structural primary balance (9)=(7)+(8)
							€ per inhabitant		**Expenditure, revenue and debt**
967	486	852	567	1,142	1,115	531	769		Total expenditure (10)
									of which:
108	130	110	116	195	202	148	128		Personnel expenditure[3] (11)
88	103	88	85	157	165	114	98		Expenditure on current staff (11a)
20	28	22	31	38	37	34	30		Civil service pension benefits[4] (11b)
27	– 12	63	125	500	139	118	166		Other operating expenditure (12)
– 26	– 12	– 40	– 10	– 45	– 23	– 33	– 28		Interest expenditure (13)
37	157	70	25	42	41	130	50		Transfers to households (14)
316	80	340	29	553	392	778	198		Current transfers to enterprises (15)
12	72	91	70	– 46	152	– 30	68		Fixed asset formation (16)
736	589	838	544	1,116	1,241	975	789		Adjusted total expenditure[5] (17)
761	601	878	555	1,161	1,264	1,008	817		Less interest expenditure (17a)
846	667	869	630	1,130	1,267	1,100	868		Less interest expenditure and fees (17b)
39	– 113	380	60	485	394	– 377	114		Total revenue (18)
									of which:
– 103	– 73	– 86	– 59	– 215	– 309	– 660	– 197		Tax revenue[6] (19)
– 84	– 65	9	– 76	31	– 4	– 92	– 51		Fees (20)
200	– 164	304	85	537	703	540	308		Transfers from central government[7] (21)
290	156	675	275	937	467	3	395		Adjusted total revenue[5] (22)
374	222	666	351	906	471	95	445		Less fees (22a)
455	55	571	450	1,346	13,151	403	822		Debt at year-end (23)
– 0.92	– 0.21	– 0.28	– 0.14	– 0.21	– 0.89	– 0.11	– 0.31		Calculated average rate of interest (%)[8] (24)
									Tax rates and multipliers
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		Real estate acquisition tax (%) (25)
0.5	3.6	4.6	1.4	0.0	0.0	0.0	3.1		Real estate tax B (%)[9] (26)
– 0.9	6.4	2.3	2.0	0.0	– 9.0	0.0	– 2.8		Local business tax (%)[9] (27)

AAÜG)). **4** Including healthcare subsidies and AAÜG payments. **5** Excluding financial transactions and payments under the state government financial equalisation scheme made by states providing contributions. 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 general supplementary central government grants according to provisional settlement figures. **7** Excluding general 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.

Interest burden of individual state governments (including local governments) in 2020*

€ per inhabitant



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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interest burdens ranged remained limited at €200 per capita (see the table on pp. 22 f., item 8). In these non-city states, net interest expenditure as a percentage of total spending ranged from a small expenditure-reducing effect in Saxony up to 2½% of total expenditure in Hesse.

Selected expenditure and revenue categories

Transfers to enterprises saw very large increase due to coronavirus aid, but booking inconsistent across states

The current transfers made by state and local governments to enterprises rose by €200 per capita for the federal states as a whole (see the table on pp. 26 f., item 15). This was due primarily to central government-funded coronavirus aid, which was channelled to enterprises via the state government budgets. This also includes payments to hospitals for empty beds due to the pandemic. Most of the federal states recorded a relatively strong increase in these transfers. By far the highest per capita transfers to enterprises were in Hamburg, followed by Berlin and Brandenburg. The lowest figures were reported by Rhineland-Palatinate and North Rhine-Westphalia. However, these and other very low figures elsewhere were due to differences in how pass-through coronavirus aid was posted. For example, this category stagnated in Rhineland-Palatinate because it classified central government-funded aid of €150 per capita as capital transfers not tied to investment and of just over €110 per capita as transfers to social facilities. In North Rhine-Westphalia, too, transfers to enterprises saw only a relatively small rise. There, the central government-funded coronavirus aid of €360 per capita was recorded as operating expenditure. As a result, North Rhine-Westphalia also posted the highest per capita operating expenditure among the non-city states. These differences in the booking of coronavirus aid are questionable given the uniform classification in the government budgetary planning system for Germany, and make the data less meaningful.

Transfers to households vary widely but partly refunded by central government

Social benefits are the prime component of transfers to households (see the table on pp. 22 f., item 14). They increased significantly for the federal states as a whole but also varied widely from one state to the next. The lowest per capita spending was in Baden-Württemberg and Saarland, the highest in Bremen and North Rhine-Westphalia. However, the data do not reflect the states' net burden. Central government partly compensates state and local governments for a number of social benefits, e.g. accommodation costs for recipients of unemployment benefit II. As part of the government stimulus package in summer 2020, central government permanently increased the share of accommodation costs it covers from 49% to 74%. In the case of the basic allowance for the elderly and for persons with reduced earning capacity, central government even reimburses the transfers in full. The net burden of a state government thus also depends on the weight of these subsidised social benefits in relation to its total social benefits.

Declining revenue from fees due to closures of public institutions

Revenue from fees fell across Germany by €50 per capita (see the table on pp. 26 f., item 19). One important reason for this was that numerous fee-charging public institutions were closed over the course of the year and monthly contributions were waived.

State government financial equalisation scheme in 2020

New financial equalisation scheme …

Last year, the new financial equalisation scheme based on financial capacity replaced the state government financial equalisation scheme in the narrower sense.[11] Here, central government provided the state governments with a degree of compensation by raising its compensation payments and ceding VAT funds to the federal states. However, the special supplementary central government grants for the eastern German states and the transfers compensating for joint tasks phased out in 2006 were both discontinued.

… continues to substantially reduce differences in financial capacity …

The varying financial capacity of the federal states is evened out in the new scheme via surcharges and discounts in the distribution of VAT (and no longer via direct payments by the state governments among themselves).[12] In 2020, this horizontal equalisation of financial capacity had a volume of just under €15 billion. The range of financial capacity[13] thus narrowed by almost two-thirds from 50 percentage points to around 20 percentage points. States still considered to have low financial capacity after this equalisation receive further supplementary central government grants dependent on financial capacity. Last year, these came to a combined figure of €8 billion. This further reduced the range of financial capacity by almost one-half to 10 percentage points. To some extent, the federal states' rankings in terms of financial capacity also changed, e.g. via the supplementary central government grants for municipalities with particularly low financial capacity.

… but differences remain

Ultimately, however, the tax revenue generated in 2020 still varied significantly among the federal states (range of €560 among the non-city states and €1,900 including the city states; see also the table on pp. 22 f., item 19). Given the rules, this is because, first, financial capacity is not fully equalised. Second, the fact that local government taxes are not fully included in the financial equalisation scheme also plays a role. Third, the financial equalisation scheme takes account of special requirements, especially for the city states. Fourth, the rates for some of the state and local government taxes vary.

Range of around 10% in financial capacity

Hesse was the state whose financial capacity most clearly exceeded the reference figure for the non-city states (by 5½%). However, this was partly due to its above average real estate acquisition tax and relatively high multipliers for local government taxes. After adjustment for these factors,[14] Bavaria exceeded Hesse's financial capacity by 2½ percentage points. In Brandenburg, actual tax revenue was 6% lower than the reference figure for the non-city states. This was attributable, not least, to the state's relatively low multipliers for local government non-personal taxes. Adjusted for this factor, though, it was only 1% lower. Defined in this way, the range among the states spanned from 97.7% in Bremen to 108% in Bavaria.[15]

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11 See Federal Ministry of Finance (2021a).

12 To calculate financial capacity, three-quarters of the tax revenue at the local government level is factored in (previously 64%). Adjustment is made for differences in the multipliers for real estate and local business tax, as well as for varying real estate acquisition tax rates among the federal states. As previously, the city states benefit from the practice of upgrading their numbers of inhabitants. See Federal Ministry of Finance (2021b) for the state government financial equalisation scheme data.

13 Financial capacity as defined in the financial equalisation scheme is measured as a financial capacity index in relation to the respective equalisation benchmark. The latter gives the per capita tax-raising capacity, with higher population weighting factored in primarily in the calculation of city states' financial capacity.

14 Including the provisional settlement figures. See Federal Ministry of Finance (2021b).

15 Defined in this way, tax revenue and the financial capacity index include all supplementary central government grants with the exception of the special supplementary central government grants for structural unemployment in eastern Germany and for smaller states. The figures adjusted for divergent tax rates are given in relation to the equalisation benchmark (required value). The general supplementary central government grants are factored out of the denominator.

State government debt brakes in 2020

Design of state government debt brakes varies

Implemented in state law in all federal states but not in all state constitutions

With effect from 2020, the federal states are obliged to fully comply with the requirements set out in Germany's Basic Law (*Grundgesetz*) regarding the debt brake. Prior to this, all 16 federal states had transposed the requirements into state law. Twelve of them enshrined the debt brakes in their constitutions. Berlin, North Rhine-Westphalia, Saarland and Thuringia decided not to write the debt brake rules into their constitutions. Non-constitutional legislation is easier to amend than the constitution of a federal state.[16]

Basic Law places very tight constraints on state government borrowing

The debt brake enshrined in the Basic Law places very tight constraints on net borrowing in the core budgets and off-budget entities of the state governments (excluding local governments). However, loans can be permitted in order to acquire financial assets (financial transactions) and to bridge cyclical budgetary burdens. In addition, an escape clause provides leeway for emergency borrowing. If it is invoked, a repayment schedule for the emergency loans with an appropriate timeframe has to be adopted at the same time.

State-specific rules on cyclical adjustment

The federal states each passed their own specific rules for their debt brakes (see the overview on pp. 40 ff.). They differ, in particular, in the area of cyclical adjustment, with the federal states taking various approaches. In some cases, like central government, they employ a macroeconomic potential output method. In others, the methods are based on the tax trend or the tax level of the previous few years.[17] Only Bavaria's rules generally do not envisage any cyclical adjustment.

Varying treatment of financial transactions

The states' treatment of financial transactions also varies. Most of the states factor them out of their debt brake. This means that they are allowed to fund financial asset purchases through borrowing. Financial assets include, for example, profit-yielding capital contributions in public undertakings. In some cases, however, loss compensation payments, e.g. for transport companies, are booked as capital contributions. The latter is not in the spirit of the debt brake. Bavaria and North Rhine-Westphalia, along with most of the eastern German federal states, do not give financial transactions special treatment. On the one hand, this means that they cannot acquire financial assets through borrowing. On the other, they can plug budgetary gaps by selling financial assets: this revenue is then not factored out of the debt brake.

Escape clauses similar, repayment schedules different

The federal states all take a fairly similar approach to emergencies; they all have an escape clause built into their debt brakes. These clauses are based fairly closely on the requirements set out in the Basic Law. However, there are differences in the parliamentary majorities required to invoke the clauses and in the repayment schedules for emergency loans. In some states, repayment is required within a few years, whilst in others it can be stretched over a very long period.

The debt brakes in 2020

Data requested from states on budget outturns and debt brakes

In 2020, central government and all of the state governments activated their debt brake escape clauses. Nonetheless, how they used the clauses varied widely. This was due, in particular, to differences in the debt brakes, the states' initial financial position, their fiscal responses to the pandemic and their formation of reserves for the years ahead. However, a comprehensive overview of this information does not yet exist. To plug this gap, at least in part, the federal states were asked to provide various budgetary data for this article.

16 Moreover, the state constitutional courts cannot therefore be consulted on the matter of whether a budget act complies with the debt brake.
17 See Deutsche Bundesbank (2017) for details on the different cyclical adjustment methods employed by the federal states.

State government budgets in 2020 against the backdrop of the debt brakes: from the fiscal balance to emergency borrowing*

Item	1 Fiscal balance, core budgets and off-budget entities[1]	2 Financial transactions, core budgets and off-budget entities[1]	3 Cyclical component (Bundesbank/budget procedure)[2]	4 Structural balance approximate to debt brake[3] = 1-2-3	5 Emergency loans[2]	6 Memo item: Structural balance approximate to debt brake less emergency loans	7 Repayment period for 2020 emergency loans, in years[5]
	€ billion						
Bundesbank reference scenario	– 34.2	– 3.9	– 11.7	– 18.6	– 48.8	30.2	.
	€ per inhabitant						
Bundesbank reference scenario	– 412	– 47	– 141	– 224	– 587	363	
Reference scenario[4]	– 412	– 27	– 152	– 233	– 587	354	[5] 31
Included in calculations:							
Baden-Württemberg	– 397	– 10	– 322	– 65	– 649	583	25
Bavaria	– 509	–	–	– 509	– 549	40	20
Brandenburg	– 531	5	[6] – 382	– 154	[6] – 244	90	30
Hesse	– 465	– 119	– 200	– 146	– 437	291	30
Meck.-W. Pomerania	– 293	–	–	– 293	– 1,771	1,477	20
Lower Saxony	– 163	– 40	– 178	55	– 455	510	25
N. Rhine-Westphalia		–	–	– 433	– 626	193	50
Rhineland-Palatinate	– 197	– 43	– 294	139	– 41	181	20
Saarland	91	– 86	– 202	379	–	–	–
Saxony	– 757	–	–	– 757	– 432	– 325	6
Saxony-Anhalt	– 367	–	– 319	– 48	– 37	– 11	1
Schleswig-Holstein	– 403	– 99	– 243	– 61	– 1,770	1,709	38
Thuringia	– 317	–	– 239	– 78	– 327	249	8
Berlin	– 443	– 102	– 618	277	[7] – 1,375	1,652	27
Bremen	– 400	113	– 544	31	–	–	–
Hamburg	– 543	– 128	304	– 719	– 233	– 485	20

* Makeshift calculation by the Bundesbank. **1** Source: Quarterly results from the Federal Statistical Office, figures supplemented by the Bundesbank. **2** Source: Finance ministries of the federal states, emergency loans supplemented in some cases with borrowing by or for coronavirus special funds. **3** Without adjustment for one-off effects. **4** Fiscal balance of the state governments' core budgets and off-budget entities, adjusted for financial transactions in accordance with government finance statistics (provided that the respective state government does not opt out of performing adjustment) and cyclical effects according to the respective state government. **5** The total figure for the repayment period is weighted by the respective debt shares of the state governments. **6** Source: 2022 draft budget for Brandenburg. **7** Provisional figure. Based on the Budget Act, the figure is €1,990 per inhabitant.

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Notional reference scenario of a debt brake for federal states as a whole

Below, the available information is put further into context. To achieve this, a notional reference scenario of sorts for the federal states as a whole is first presented. This scenario does not yet take account of any state-specific arrangements but is instead based on a stylised, uniform debt brake for federal states as a whole.

Reference scenario: aggregate deficit of €34 billion for state governments and their off-budget entities

The reference scenario is based uniformly on the deficit for the core budgets and off-budget entities of the federal states as a whole (€34 billion, including a surplus of €7½ billion for the off-budget entities). It makes sense to include all off-budget entities with their deficits in the debt brake; this means that the debt brake applies to the entire finances of the respective unit and maintains the principle of budgets operating on an annual basis.[18] In actual fact, however, the state governments' debt brakes do not uniformly include their off-budget entities. Above all, prefinanced off-budget entities are often factored out.

Reference scenario: structural deficit approximate to debt brake amounts to €19 billion

Under the debt brake, state government budgets must normally be balanced or in surplus, although they are allowed to factor out financial transactions and cyclical effects. Therefore, in the notional scenario, the total net burdens from financial transactions reported in the government finance statistics (€4 billion) and the negative cyclical influence calculated for the federal states as a whole under the Bundesbank procedure (€12 billion) are deducted from the deficit. This results in a notional structural deficit approximate to the debt brake in the reference scenario (€19 billion). Based on the reference scenario, this would also give the rough volume of emergency borrowing expected to be taken up

18 It would go against the spirit of the debt brake to exclude off-budget entities with their own borrowing authorisations from the debt brake. The same would be true of using core budget emergency loans to form reserves in off-budget entities and then use these for purposes other than crisis management. The local governments are factored out of this analysis because they are subject to their own debt rules.

The reserves held by individual federal states

Last year, borrowing by the federal states as a whole exceeded current financing requirements resulting from deficits. It would appear that, rather than being depleted, reserves were topped up on balance. However, budget accounts for 2020 that provide more precise information on this topic are currently only available for a few federal states. For this report, the federal states were therefore also asked about their reserve stocks as at the end of 2020. Rather than focusing simply on new reserves that were built up in the course of the coronavirus crisis, they were also asked about various reserves that pre-existed the pandemic and were possibly used only in part during the emergency period in 2020. The overview does not provide a full picture as some reports are missing. The ideal scenario would be for all federal states to report on their reserves in a prompt, standardised and comprehensive manner. The task of calling for such reports and preparing overviews would be conferred upon the Stability Council as the central fiscal surveillance body.

The responses provided by the federal states paint the following picture:

– The figure reported for general reserves or funds that can be mobilised from prior-year surpluses amounts to €16 billion. However, this figure does not factor in data from the states of Bavaria and Baden-Württemberg, which traditionally hold ample reserves. Particularly large relative to population size is the reserve in Berlin, where it appears that, in 2020, the entire reported reserve amount of €5½ billion was newly set aside in that year and financed on credit.

– Furthermore, credit-financed surpluses of €11 billion were reported for coronavirus special funds (principally in Mecklenburg-West Pomerania, Lower Saxony and North Rhine-Westphalia). These funds are intended for spending on further coronavirus crisis-related tasks (e.g. to compensate for tax revenue shortfalls).

– Prefinanced off-budget entities for investment purposes account for further reserves of almost €9 billion. However, there was no response from Brandenburg, which had set up a €1 billion reserve of this kind in 2019.

– Provisioning for civil servant pensions is extensive (and not connected to the coronavirus crisis). Reserves are built up to cover burdens related to civil servant pensions, and they are very large, especially in the western German federal states. The total provisioning amount reached €45 billion, with major differences across federal states. It was topped up by €2½ billion last year.

According to budget documents, some federal states also increased other reserves (for example, Schleswig-Holstein alone did so to the tune of €5½ billion).

under the escape clause – provided that state governments do not draw on reserves from the pre-crisis period.

Reported emergency loans far higher, at €49 billion

The volume of emergency loans was in fact significantly higher than the structural deficit approximate to the debt brake of €19 billion calculated using this method. In response to the Bundesbank's queries or in budget documents, the federal states reported that they had taken out emergency loans of €49 billion (including the loans of coronavirus off-budget entities that have to be repaid). There are various possible reasons for this much higher figure.

Large discrepancies on aggregate cannot be explained either by cyclical adjustment …

Differences may result from cyclical adjustment. However, this cannot explain the clear overshooting by the federal states as an aggregate. Although the cyclical components reported by the individual states for their debt brakes vary widely (in per capita terms), the aggregate figure from state government reports, at €13 billion, was very close to the Bundesbank estimate for all state governments (€12 billion).

… or by financial transactions

For financial transactions, the state-specific rules also differ from the reference scenario. It is almost impossible to replicate the details of the rules using the government finance statistics data. If the financial transactions reported in the government finance statistics were adjusted only for those states that generally neutralise financial transactions, it still would not be possible to explain why net emergency borrowing is so far above the structural deficit approximate to the debt brake. All in all, this would result in burdens of €2 billion stemming from financial transactions being factored out. In the reference scenario, a figure of €4 billion was deducted.

Higher emergency loans driven by reserve-building

Overall, then, differing rules on cyclical adjustment and financial transactions do not explain why so many more emergency loans were taken out than roughly derived from the reference scenario. This development was driven mainly by the fact that federal states used emergency loans not only to finance their ongoing deficits but also to build up sizeable reserves. For instance, reserves in the core budget were topped up and off-budget entities that are not included in the debt brake were prefinanced through borrowing.

State-by-state analysis reveals significant differences

In order to shed greater light on this on a state-by-state basis, similar comparisons are now made for the individual federal states. The emergency loans actually taken out are compared with state-specific structural deficits approximate to the debt brake (see the table on p. 31, columns 4 and 5). As in the reference scenario above, the deficits in the core budgets and off-budget entities of the individual federal states form the basis of these calculations.[19] In order to obtain the values approximate to the debt brake, however, the specific cyclical components reported by the respective federal states are now deducted. Financial transactions according to the government finance statistics data of the Federal Statistical Office are corrected to only a limited extent: for federal states that do not generally omit these transactions, no adjustment takes place at all. Deviations resulting from different approaches in these categories thus remain within a relatively narrow range.

Differences in cyclical components

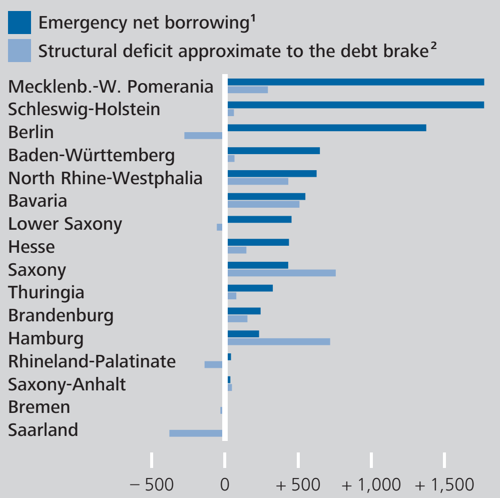
In terms of cyclical components, the federal states recorded an average burden of €150 per capita.[20] Looked at individually, however, the figures differ considerably:

– The procedure employed in Hamburg yielded a rather high positive cyclical effect of €300

19 As described above, off-budget entities can be included to differing degrees in the actual debt brakes. Nevertheless, they have been taken into account here. On the one hand, there is not enough differentiated information available. On the other hand, however, the building of reserves in off-budget entities, in particular, can be better captured this way.
20 The reference value based on the Bundesbank's estimation method also produces a cyclical burden of €140 per capita. If, by contrast, the central government procedure (output gap estimate from the second quarter combined with the budgetary semi-elasticity of the states receiving consolidation assistance) were used as a basis, this would be €260 per capita.

Federal states' emergency net borrowing and structural deficits approximate to the debt brake in 2020

€ per inhabitant



Sources: Federal Statistical Office, data from federal states' finance ministries and Bundesbank calculations. **1** Amount by which standard limit under state-specific debt brake exceeded according to federal states' data, possibly supplemented by further non-cyclical borrowing with a repayment schedule. **2** Fiscal balance adjusted for financial transactions in the core budget and off-budget entities according to government finance statistics (provided that the respective federal state does not opt out of performing adjustment) and cyclical effects as specified in federal states' data.

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per capita. Here, the key factor was that, in line with Hamburg's commercial double-entry bookkeeping, transactions with no effect on the cash balance were also included in the cyclical component. Hamburg reversed substantial provisions, which was recorded as cyclical relief under its procedure.[21]

– Bavaria dispensed with cyclical adjustment, as it generally does. So did North Rhine-Westphalia, as an exception. The need for emergency loans was thus greater in both federal states.[22]

– The restrictive tax level methods applied by Saxony and Mecklenburg-West Pomerania did not produce a creditworthy cyclical burden, either.[23]

– Lower Saxony capped its cyclical burden at €180 per capita in line with its legal requirements.

– Out of the all non-city states, Brandenburg recorded the highest burden, at €380 per capita.

– At €620 per capita, the figure was significantly higher still in the city state of Berlin. The fact that Berlin's population is weighted 35% higher in the financial equalisation scheme and that cyclical effects at the local government level are included for city states also had an impact here.

Differences in financial transactions

The burdens from financial transactions taken into account differ less substantially across federal states than cyclical effects (see the table on p. 31, column 2).

Indication of extensive reserve-building

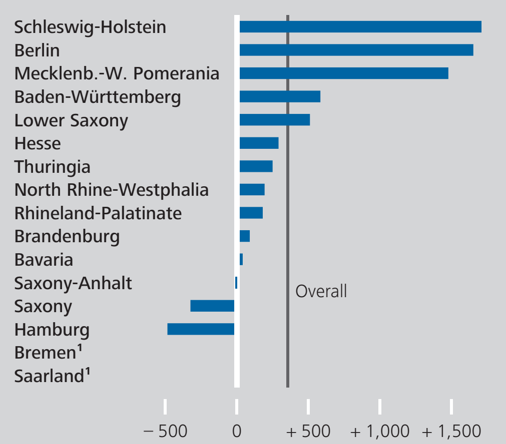
On the whole, it can be seen that the actual emergency loans taken out by many states significantly exceed their notional deficits approximate to the debt brake (see the adjacent chart and the table on p. 31, column 6). This is – as described above – an indication that reserves have been built from emergency loans. Conversely, if the deficit approximate to the debt brake exceeds emergency loans, this implies that deficits have been covered by reserves previously built up. Looking at this difference between federal states' emergency borrowing and deficits approximate to the debt brake, too, the picture is very mixed:

– In Bremen, the cyclical component factored in was deep into negative territory. As a result, the structural balance approximate to

21 Provisions in Hamburg had been set aside in previous years for estimated reimbursement claims for advance payments of profit-related taxes. However, advance payments decreased due to the coronavirus pandemic, which reduced the need for such provisions. Subsequently, it was possible to significantly scale back the reserves.
22 This means that cyclical surpluses do not have to be generated during later upswings, with the result that greater room for manoeuvre remains.
23 Thuringia's tax level procedure had a less restrictive effect last year: the reference value is derived on the basis of fewer preceding years and excludes supplementary central government grants that are dependent on financial capacity. The latter were increased considerably in 2020. Furthermore, no minimum undershooting of the reference value is required in order to be able to take out cyclically induced loans.

Difference between federal states' emergency net borrowing* and structural balances approximate to the debt brake in 2020**

€ per inhabitant



Sources: Federal Statistical Office, data from federal states' finance ministries and Bundesbank calculations. ***** Amount by which standard limit under state-specific debt brake exceeded according to federal states' data, possibly supplemented by further non-cyclical borrowing with a repayment schedule. ****** Fiscal balance adjusted for financial transactions in the core budget and off-budget entities according to government finance statistics (provided that the respective federal state does not opt out of performing adjustment) and cyclical effects as specified in federal states' data. **1** No data, as no emergency loans were taken out.

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the debt brake is in surplus. In Saarland, this surplus was considerably higher still. In line with this, neither federal state took out any emergency loans during budget implementation.

- Saxony-Anhalt and Rhineland-Palatinate reported only small emergency loans. In these states, too, the estimated cyclical burdens were above average. In Rhineland-Palatinate, the unadjusted deficit was also relatively small. In Saxony-Anhalt, the difference calculation does not suggest that reserves were built up with emergency loans. In the case of Rhineland-Palatinate, this ultimately affected off-budget entities – albeit to a relatively moderate degree.

- Bavaria and North Rhine-Westphalia did not factor out cyclical burdens. This in itself explains the greater need for emergency loans. Bavaria's uptake of emergency loans remained more or less limited to covering these burdens, and therefore does not indicate reserve-building. North Rhine-Westphalia, by contrast, also partially prefinanced its coronavirus off-budget entity; consistent with this, the difference calculation performed here indicates a limited additional reserve.

- Saxony's restrictive cyclical adjustment procedure resulted in an increased need for emergency loans, too. In order to mitigate this, the federal state appears to have deployed the reserves it built up in previous years. In Hamburg, too, emergency loans were considerably smaller than the structural deficit approximate to the debt brake.

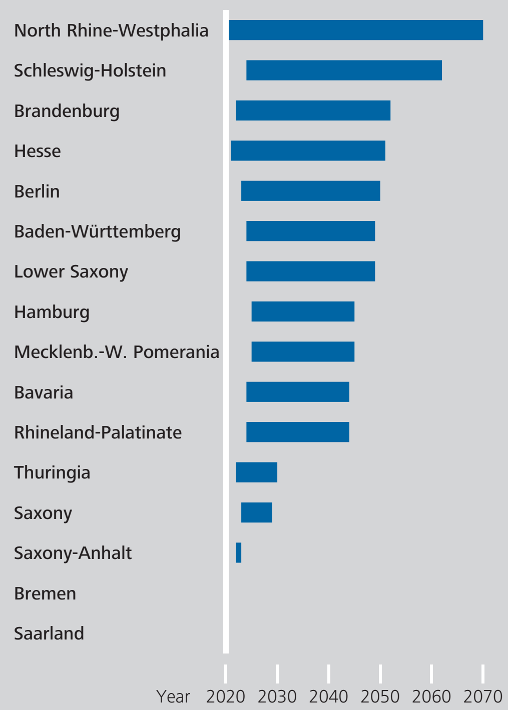
- The largest emergency loans were reported by Schleswig-Holstein, Mecklenburg-West Pomerania (€1,770 per capita in both states) and Berlin (€1,375 per capita). Berlin could have financed its deficit, including that of its off-budget entities, without emergency loans. The structural balance approximate to the debt brake, at least, is positive (on account of ex post cyclical burdens). It therefore appears, on balance, that the escape clause was used for provisioning purposes only.[24] Not least due to its restrictive cyclical adjustment procedure, Mecklenburg-West Pomerania recorded a structural deficit approximate to the debt brake. However, its emergency loans were significantly higher (by €1,480 per capita). In Schleswig-Holstein, this difference was greater still (by €1,710 per capita), which points to particularly extensive reserve-building.

Limit emergency credit authorisations to crisis-related burdens

It is understandable and in no way controversial that the federal states made recourse to their escape clauses last year. However, they appear to have used a substantial portion of their emergency loans to build up their reserves. This does not seem consistent with the

24 Under Berlin's Budget Act, loan funds that were not required for the 2020 budget year had to be set aside to build up a reserve to cover pandemic-related costs in subsequent years.

Repayment periods for emergency loans from 2020



Source: Federal states' finance ministries.
Deutsche Bundesbank

debt brake, at least to the extent that the federal states are ultimately using emergency loans to finance measures that do not serve to combat the crisis. It would thus be logical for ongoing authorisations for emergency loans to be phased out once the crisis ends.

Wide range of repayment paths

Reliable estimation of actual repayment burdens not yet possible

The debt brake requires the federal states to draw up repayment schedules for the emergency loans they take out. The funds to repay these loans are to be generated in due course within the regular limits imposed by the debt brakes. As, in many cases, it is expected that further additional emergency loans will be taken out, the total repayment obligation remains unknown. The apparently substantial level of provisioning from escape clause borrowing makes it even more difficult to estimate the ultimate burden.

Repayment schedules differ significantly from state to state

The repayment schedules presented to date differ significantly from one federal state to the next. For instance, the repayment periods range from currently one year in Saxony-Anhalt to 50 years in North Rhine-Westphalia (see the table on p. 31, column 7 and the adjacent chart). Both very short and very long repayment periods are questionable. Given short repayment deadlines, the annual repayment burdens could be high. However, these would not be too ambitious if the federal states were able to deploy their reserves to cover them. With very long repayment deadlines, it becomes increasingly likely that the next crisis will occur before the debt is fully repaid. Debt could then keep on accumulating – which is what the debt brake is supposed to prevent.

Concluding remarks

Central government shoulders greatest coronavirus burdens, but state governments also make contributions

Since last year, fiscal policy has chiefly focused on responding to the coronavirus crisis and its consequences. Central government assumed the lion's share of the financial burden. However, the state governments did contribute to various tax relief measures and made their own transfers to enterprises, amongst other things. They also administered central government measures. Central government's substantial business aid, inter alia, passed through state government budgets. In addition, state governments stabilised the budgets of their local governments by working with central government to jointly compensate them for expected lower revenue from local business tax. Above and beyond this, they provided additional assistance, e.g. to compensate for local governments' lower receipts from fees. Overall, state governments made a significant contribution to the stabilisation of the macroeconomic situation last year.

Both central government and state governments face the challenge of stabilising the economy during times of nationwide crisis. However, in such situations, the central level of government is the one that is initially on the

Fine-tune burden-sharing between central government and federal states where necessary and make local government finances crisis-proof

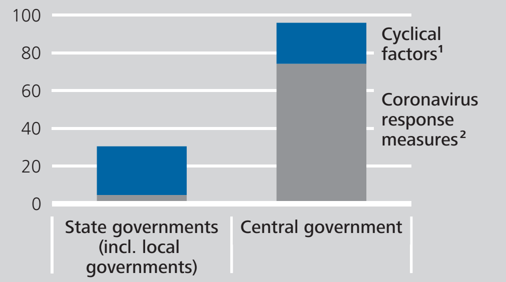
front line. This ensures that the effect of measures carries beyond the individual federal states. There is much to be said for uniform solutions put forward by central government. Furthermore, central government is best placed to obtain even high volumes of funding on the capital market at short notice, cheaply and without friction. It therefore seems logical for central government to pay for the majority of coronavirus measures passed at the federal level, at least initially. Going forward, it should be assessed whether various levels have sufficient financial resources or whether they have experienced imbalances. If the distribution of funds between the central government and state government levels then had to be adjusted, shares in VAT revenue would be the lever intended for this purpose in the Basic Law. To the extent that the existing financial framework is deemed insufficient, central government and state governments could adjust their joint taxes together. Alternatively, in special circumstances, central government has the option of levying a nationwide surtax such as the solidarity surcharge. The federal states' approval in the Bundesrat (the legislative body representing the federal states) is not required for this. Federal states' autonomy over their taxes is restricted to real estate acquisition tax, which is a smaller revenue item. At the same time, the federal states are fundamentally responsible for their municipalities. During the crisis, central government helped the federal states to support their municipalities on an ad hoc basis. However, the coronavirus crisis has demonstrated once again that local government financing is in need of reform.[25] A fundamental overhaul appears necessary in order to make local government budgets more resilient.

State and local governments together record high deficit for 2020, but still record surplus if temporary coronavirus burdens are excluded

The debt brake enshrined in the Basic Law makes it possible to service cyclical burdens with debt. In addition, use can be made of escape clauses in times of crisis. All of the federal states made use of such clauses in their budget acts or off-budget entities last year, as did central government. This meant they were also able to finance non-cyclical burdens resulting

Burden placed on central, state and local governments by the coronavirus crisis in 2020

€ billion



1 Change in the cyclical component pursuant to the Bundesbank's cyclical adjustment procedure based on figures from the spring 2021 macroeconomic forecast. **2** Not included here are other coronavirus effects that could not be attributed to larger-scale coronavirus response measures.

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from the pandemic by taking on new debt – particularly their own discretionary support measures. On balance, the state governments, including their local governments, registered a high deficit of €32 billion for 2020. Adjusted for financial transactions, cyclical burdens and temporary crisis measures, however, they still recorded a small structural surplus on aggregate. The underlying situation is probably more favourable still, in fact, as coronavirus effects are likely to have had an additional temporary burdening impact. These were not factored out here and will tail off in due course. State and local government budgets were therefore still prepared in such a way in 2020 that considerable surpluses would still have been recorded overall if temporary coronavirus burdens had been excluded.

Caution warranted when making decisions that place further structural strain on budgets

However, the situation still differs vastly from one federal state to the next. There may also be structural budget gaps in places. In particular, the underlying fiscal stance is likely to have been loosened further this year already. It must equally be taken into account that the emergency loans result in repayment obligations. In light of the fact that the outlook remains uncertain, caution is advised, particularly with re-

25 See Deutsche Bundesbank (2020b).

gard to decisions that will put structural strain on budgets.

Do not undermine debt brake with reserves financed by escape clause

Another reason for which multiple federal states used their escape clauses in 2020 was to establish sizeable reserves. Generally speaking, this is not especially compatible with an annual borrowing limit. In any case, such reserves should only be used to cover crisis-related expenditure rather than creating any other form of budgetary leeway. The debt brake would otherwise fail in its key task of shielding future budgets from the burdens of excessive borrowing. This also applies to central government.

Expectation that crisis will subside is an argument against use of escape clause in 2022

There is a general expectation that the crisis will subside next year and that the economy will return to at least roughly its normal level of capacity utilisation. The current Joint Economic Forecast, from which the Federal Government's upcoming projection generally deviates only moderately, confirms this picture. It would therefore make sense to stop using escape clauses as early as next year. This is made easier by the fact that reserves had already been built up from budgetary surpluses prior to the crisis – within the regular debt brake limit and with no escape clause activated. In many cases, these will make it possible to stretch the necessary budgetary adjustments over a certain period of time.

Stability Council should ensure greater transparency

It is still very difficult to obtain an overview of the need for action in the individual federal states. Even a retrospective analysis for the year 2020 is challenging, be it with respect to budget developments, structural budgetary positions, reserve stocks or repayment obligations. The speed at which consolidation has to happen after the crisis depends on the specific design of each state's debt brake – the respective level of cyclical adjustment, for instance. Appropriate overviews are required for effective fiscal surveillance. To this end, data on respective state government budget outturns and budgetary planning as well as on the need for action would need to be more meaningful. Here, a special role would be conferred upon the Stability Council, as Germany's central institution for fiscal surveillance: it would be important to ensure that a rigorous and informative set of data is made publicly available in good time.[26]

Strengthen benefits of federalism

It appears that the federal states are not attempting to make their fiscal policies comparable by means of standardised data reporting. However, the Basic Law explicitly grants the federal states a strong position within the federal system. They can set their own policy agenda, make decisions regarding its implementation and independently devise good solutions working in tandem with their municipalities. This applies, for example, to education policy, a shift towards green local public transport or digitalisation. To also make use of the benefits offered by a decentralised approach and thus play to the advantages of the federal system, it is important that the budget outturns of and public services rendered by the individual federal states can be compared on the basis of a robust set of data.

26 See also Deutsche Bundesbank (2019b) and Independent Advisory Board to the Stability Council (2019).

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The tables accompanying this article are printed on pp. 40 ff.

Implementation of the debt brake pursuant to Article 109(3) of the German Basic Law in the federal states*

Federal state	Legal basis	Limited budget size	Deviation from debt ban for:			Inclusion of off-budget entities	Control account in budget implementation
			Cyclical factors	Financial transactions	Emergencies		
BW	Article 84 SC, Section 18 SBA	–	Yes Federal Government's procedure	Yes	Yes	Yes, provided that the resulting debt is serviced by the state government budget or will be in future.	Yes Balance as at 31 December 2020 not yet definitely determined
BY	Article 82 SC and Article 18(1) pp. 1-2 SBA	Net borrowing in the budget	No No use made of cyclical adjustment option	No	Yes	Yes	No
BE	Act for the State-Specific Implementation of the Debt Brake (BerlSchuldenbremseG) of 25 November 2019 in conjunction with Section 18 SBA	Structural net borrowing pursuant to definition in Section 3 BerlSchuldenbremseG	Yes Federal Government's procedure	Yes Loan repayment waiver treated as revenue from loan repayment; warranties are not financial transactions.	Yes Required majority: simple parliamentary majority	No	Yes €0 as at 31 December 2020
BB[1]	Article 103 SC; Sections 18, 18a and 18b SBA	Net borrowing	Yes In line with Federal Government's procedure with cyclical control account	Yes	Yes – Required majority: simple majority – Repayment schedule: within an appropriate timeframe	Yes	Yes
HB	Articles 131a and 146 SC; Sections 18, 18a to 18c and 118 SBA; Cyclical Adjustment Procedure Regulation	Structural net borrowing	Yes Consolidation assistance procedure	Yes	Yes	Yes, provided that they have their own credit authorisation. This is currently not the case.	Yes €82 million as at 31 December 2020
HH	Articles 72 and 72a SC; Section 27 SBA; Act on the Strategic Realignment of the Budgetary Framework of the Free and Hanseatic City of Hamburg	Net borrowing	Yes Tax trend method	Yes Loans only where repayment is assured; no securities carried as current assets	Yes – Required majority: two-thirds – Repayment schedule: within an appropriate timeframe	Yes All state corporations, special funds and public higher education institutions	Yes As at 31 December 2020: +€4,812.8 million (cyclical component), -€877.4 million (prior budget burden due to emergency situation) Change from end-2019: +€560.1 million (cyclical component)

* Abbreviations: SC – state constitution, SBA – state budgetary act, IA – implementing act. BW – Baden-Württemberg, BY – Bavaria, BE – Berlin, BB – Brandenburg, HB – Bremen, HH – Hamburg. **1** Own evaluation.

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cont'd: Implementation of the debt brake pursuant to Article 109(3) of the German Basic Law in the federal states*

Federal state	Legal basis	Limited budget size	Deviation from debt ban for: Cyclical factors	Financial transactions	Emergencies	Inclusion of off-budget entities	Control account in budget implementation
HE	Article 141 SC; IA for Article 141	Structural net borrowing	Yes In line with Federal Government's procedure with control account	Yes Also: Loan repayment waiver treated as revenue from loan repayment	Yes	No	Yes €1,938.3 million as at 31 December 2020 Change from end-2019: €437.4 million
MV	Article 65 SC; Section 18 SBA; Act on the Establishment of a Special Fund: "Cyclical Adjustment Reserve of the Federal State of Mecklenburg-West Pomerania"	Net borrowing	Yes Tax level method	No	Yes	No	No
NI	Article 71 SC; Section 18 letters a-f SBA	Net borrowing	Yes In line with consolidation procedure	Yes Excluding expenditure and receipts from lending and loan repayments	Yes Required majority: – Borrowing of up to 0.5% of the budget volume: simple majority – Over 0.5% of the budget volume: two-thirds majority – Repayment within an appropriate timeframe	Yes, provided that they have their own credit authorisation. This is currently not the case. Also provided that the resulting debt is serviced by the state government budget or will be in future.	Yes €0 as at 31 December 2020 Change from end-2019: €0
NW	Sections 18 to 18h SBA	Borrowing	Yes Stability Council procedure	No	Yes	No Borrowing through the federal state's special fund is prohibited. This does not apply to existing credit authorisations for special funds already established that were in place on 31 December 2010.	Yes €0 as at 31 December 2020 Change from end-2019: €0
RP	Article 117 SC; IA for Article 117 SC; State Regulation on the Method Used to Determine the Cyclical Component; Section 18 SBA	Structural net borrowing	Yes Tax trend method	Yes, excluding revenue from claims under warranties and excluding claims under warranties	Yes – Required majority: simple majority – State government reports amount repaid and amount still to be repaid at regular intervals; repayments made in a cyclically appropriate manner	No In principle, no borrowing is possible in the special fund	Yes €0 as at 31 December 2020 Change from end-2019: €0

* Abbreviations: SC – state constitution, SBA – state budgetary act, IA – implementing act. HE – Hesse, MV – Mecklenburg-West Pomerania, NI – Lower Saxony, NW – North Rhine-Westphalia, RP – Rhineland-Palatinate.

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cont'd: Implementation of the debt brake pursuant to Article 109(3) of the German Basic Law in the federal states*

Federal state	Legal basis	Limited budget size	Deviation from debt ban for: Cyclical factors	Financial transactions	Emergencies	Inclusion of off-budget entities	Control account in budget implementation
SL	Act No 1961 on the Implementation of the Debt Brake and Budget Stabilisation (HStabG) of 10 April 2019	Fiscal balance	Yes Stability Council procedure; Regulation on the Process of Cyclical Adjustment in the Context of the State-Specific Debt Brake (with the approval of the state parliament)	Yes Governed by Section 1(2) number 2 and Section 1(3) number 2 HStabG	Yes Required majority: simple state parliament majority Repayment schedule: reports to state parliament pursuant to Section 8 HStabG	Yes Structural balance of dependent off-budget entities with own credit authorisation included	Yes Various control accounts pursuant to Section 6 HStabG
SN	Article 95 SC; Section 18 SBA	Net borrowing	Yes Tax level method (maximum repayment period: 8 years)	No	Yes – Required majority: two-thirds (absolute) – Repayment schedule: repayment within 8 years	Yes All legally dependent special funds, particularly coronavirus fund with own credit authorisation	No But potential settlement according to budget year; deviations are to be offset no later than in the next budget plan
ST	Article 99 SC; Section 18 SBA	Net borrowing	Yes Consolidation assistance procedure in line with Stability Council's compendium	No	Yes	Yes Off-budget entities with own credit authorisation included	No But deviations are to be offset in the next Budget Act pursuant to Section 18 SBA
SH	Article 61 SC; IA for 61 SC in conjunction with State Regulation on Cyclical Adjustment	Net borrowing	Yes Consolidation assistance procedure of the Stability Council, taking account of expenditure for local government financial equalisation	Yes Pursuant to Section 4 IA for Article 61 SC	Yes	No	Yes €0 as at 31 December 2020 Change from end-2019: €0
TH	Section 18 SBA; no IA	Net borrowing	Yes Tax level method; repayment in 8 years insofar as budget is to be balanced without revenue from loans pursuant to Article 18 SBA (may be postponed in the event of new borrowing)	No	Yes – Required majority: simple majority – Repayment reports to state parliament; repayment in 8 years insofar as budget is to be balanced without revenue from loans pursuant to Section 18 SBA (may be postponed in the event of new borrowing)	In principle, yes, pursuant to Sections 105 and 113 SBA; coronavirus special fund without own credit authorisation	No But adjustment of level of cyclical borrowing actually required to actual development of relevant tax revenue

* Abbreviations: SC – state constitution, SBA – state budgetary act, IA – implementing act. SL – Saarland, SN – Saxony, ST – Saxony-Anhalt, SH – Schleswig-Holstein, TH – Rhineland-Palatinate.

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