Stabilitätsrat
Unabhängiger Beirat

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Eleventh Statement

regarding compliance with the upper limit to the structural general government deficit

pursuant to Section 51 (2) of the Budgetary Principles Act (HGrG)

Contents

1. Summary and assessment

The federal government's spring projection on macroeconomic development is plausible on the whole and largely in accordance with the projections made by outer institutions. Risks relating to the projection arise in particular from the international environment. For instance, the most recent and possible further escalations of trade conflicts, of problems in connection with Brexit or Italian fiscal policy represent downside risks. In contrast, possible relaxations could have positive impacts. A further risk is perceived in the current weakness of the automotive industry becoming more pronounced, possibly heralding more substantial structural shifts. In contrast, the domestic economy appears to be rather robust. **The assessment of potential output is likewise within the spectrum of calculations by other institutions.**

The Advisory Board considers the update by the Federal Ministry of Finance (BMF) for the general government budget balance (hereinafter the 'budget balance') to be acceptable. Other institutions expect the development to be slightly more favourable for the current year. For the subsequent years, the expectations of the BMF are essentially confirmed by other estimates. The states partly expect lower surpluses for their core budgets as of the coming year. As these include neither their special funds nor local governments, it is not clear to the Advisory Board how this will impact on the budget balance in the national accounts.

From the Advisory Board's perspective, the development of the budget balance is subject to considerable uncertainty up to the year 2023. In the case of **central, regional and local governments**, on the one hand the outflow of funds could once again turn out weaker than planned. On the other, there are signs of additional budget strains during the period as a whole. For instance, expenditure on personnel and intermediate consumption in the later forecast years are expected to grow considerably less than gross domestic product (GDP). At first glance, however, this is not perceived to be compatible with efforts to reinforce spending on personnel and other expenditure in key state-related fields of activity in the coming years.

Fiscal policy risks also apply to tax revenues collected. For instance, additional tax cuts may be adopted in order to further compensate for the cold progression after the year 2020. Additional tax relief is under discussion, and so far no consensus has been reached on the need to secure the revenue necessary to finance the property tax reform. Moreover, legal risks exist with regard to the (partial) continuation of the solidarity surcharge.

Additional burdens are expected in the field of social insurance. For instance, there are signs that benefits under the social care insurance will be extended. Moreover, a discussion is under way on introducing a basic pension that would be associated with significantly higher expenditure than predicted in the German Stability Programme. Besides, in view of the ongoing good situation of the federal employment agency (BA), the level of free reserves is likely to rise without any further measures being necessary. This increases the pressure to adopt new measures (such as lowering contribution rates or additional spending).

Apart from fiscal policy risks, the **uncertainties of macroeconomic development** are another factor to bear in mind. If downside risks were to materialise, the development of government budgets would turn out more negative. In the event of fundamentally less favourable growth prospects, the influence in this context would not be purely cyclical. As the macroeconomic risks at present prevail above all in the external sector and as the domestic economy appears to be rather robust, public finance could be less impacted by a possible deterioration in the short term. This will be the case if gross wages and salaries, which are a particularly rich source of public-sector funding, remain relatively unimpaired for the time being. Nevertheless, downside risks will apply with regard to volatile, profit-dependent taxes.

On the whole, the Advisory Board considers the fiscal projection submitted to the Stability Council and macroeconomic development assumed for the period until the year 2023 to be acceptable. The upper limit for the structural deficit equivalent to 0.5% of gross domestic product (GDP) will thus be met by a safety margin. Nevertheless, the Advisory Board points out the risks involved in the development of future structural balances.

In recent years revenue trends have reflected very positive developments, frequently resulting in surprises to the upside. This was due to expanded gainful employment and an unusually sharp rise in profit-dependent taxes. It is understandable that both developments were not continued in the projections by the BMF. In the medium to long term, a substantial decline in potential output is anticipated, resulting from demographic change. **Against this backdrop, policymakers should adopt a forward-looking**

stance and already lay the foundations today for funding of additional and sustainable financial burdens in the future.

As of January 2020 the Stability Council will be additionally tasked with reviewing the debt brake pursuant to Article 109 (3) of the German constitution. The Stability Council has meanwhile defined its approach along with a harmonised analysis system. For the audit mandate of the Stability Council and the Advisory Board concerning compliance with the upper limit of the structural budget deficit and with the European rules and regulations, disclosures in such a harmonised analysis system can be very helpful. If additional plausible information is made available on a regular basis, this is generally to be endorsed. **However, from the perspective of the Advisory Board, the progress anticipated with the system that has been adopted in concrete terms on the basis of information for budget monitoring is unsatisfactory.**

For reasons of transparency alone, it is recommended that the figures provided within the harmonised analysis system should always be published. Yet the method selected by the Stability Council to monitor the debt brake provides for publication only if the respective government agrees. This is problematic because the process of informing parliaments and the public at large is a key prerequisite for the binding effect of budgetary rules and for effective budgetary monitoring by the Stability Council. The fact that the Stability Council in its role as the German fiscal council now makes it possible for the debt brake to be monitored **largely under exclusion of the public** does not correspond to objectives of the Fiscal Compact.

2. Preliminary notes

The Advisory Board supports the Stability Council in monitoring compliance with the upper limit of the structural general government budget deficit pursuant to Section 51 (2) of the Budgetary Principles Act (HGrG). To this end, the Advisory Board issues a statement on the question of compliance with this upper limit prior to the relevant resolution being adopted by the Stability Council. The statements by the Advisory Board are published and intended to contribute towards identifying budgetary risks at an early stage.

The present statement extends to include the following public information, among other sources:

- the fiscal projection by the Federal Ministry of Finance (BMF) for the 2019 German Stability Programme based on the annual projection by the federal government of January 2019 as well as the 2019 Draft Budgetary Plan (DBP) of October 2018;
- the spring projection by the federal government on macroeconomic development of 17 April 2019 and the assessment by the Working Group on Tax Forecast of 7 to 9 May 2019;
- the projections by the European Commission (May 2019), the Joint Economic Forecast (April 2019), the German Council of Economic Experts (SVR, March 2019), Deutsche Bundesbank (June 2019), the International Monetary Fund (IMF, April 2019) and the Organisation for Economic Co-operation and Development (OECD, May 2019);
- the public-sector budgetary outcomes according to the national accounts (VGR) and as defined by the Maastricht Treaty and according to the financial statistics as of May 2019.

Additional background information was provided by the BMF and the central data office of the state finance ministers (ZDL) for internal use by the Advisory Board, which was taken into account in the qualitative analysis.

The Stability Council Working Group submitted a consultancy document to the Stability Council. In its assessment, the Advisory Board refers – unless otherwise indicated – to this document and, in particular, to the spring projection on macroeconomic development and to the updated fiscal projection contained in the Stability Programme. *Unless otherwise mentioned, the statement refers to developments in delineation from the European System of Accounts (ESA 2010) and the key Maastricht ratios.*

3. Budget outcomes in 2018

In 2018, Germany met the requirements laid down by the Stability and Growth Pact and the Fiscal Compact. According to the latest calculation by the European Commission, the structural budget balance for the year 2018, adjusted for cyclical effects and temporary measures, amounted to +1.6% of GDP (cf. Table 1). The BMF reported a value of +1.4% of GDP, based on its spring projection. Based on its own calculations the value determined by the Advisory Board is 1.3% of GDP. The surplus therefore turned out higher than that of the forecast submitted to the Stability Council in November 2017 (+¾% of BIP) and slightly lower than in November 2018 (+1¾% of GDP). One of the main reasons for the more favourable development compared to expectations of 2017 was the sharp rise in revenues generated in the form of taxes, social security contributions and public-sector sales. The upper limit for the structural deficit of no more than 0.5% of GDP (equivalent to a structural budget balance of at least -0.5% of GDP) was met by a substantial margin.

Table 1: Forecast/actual comparison for the structural budget balance[1)]

In % of GDP, for 2018	Forecast	Forecast	Actual	Actual
	(autumn 2017) BMF	(autumn 2018) BMF	(spring 2019) BMF[2)]	(spring 2019) European Commission[3)]
1. Budget balance	1	1¾	1.7	1.7
2. Cyclical component	0.4	0.3	0.5	0.3
3. Cyclically adjusted balance	½	1½	1.2	1.4
4. Temporary measures / effects	-0	0	-0.1	-0.2
5. Structural budget balance	**¾**	**1¾**	**1.3**	**1.6**
6. Cyclically adj. primary balance[4)]	1½	2½	2.1	2.3
7. Output gap[5)]	0.7	0.5	1.0	0.7

1) The figures for the BMF forecasts were derived from the 8th and 10th statement by the Advisory Board to the Stability Council. **2)** The figures presented are based on the calculatory update in the draft resolution for the meeting of the Stability Council on 18 June 2019, on the spring projection on macroeconomic development of 17 April 2019, a calculatory update to the national accounts budget balance by the BMF as well as on calculation by the Advisory Board. – **3)** The values indicated refer to data based on the spring projection by the European Commission of May 2019. **4)** The primary balance reflects the balance without taking account of interest expenditure. **5)** In % of potential output.

At the end of 2018, the net debt ratio according to the Maastricht delineation came to 60.9%, still exceeding the upper limit of 60.0 % defined in the European fiscal rules. Last year the ratio declined substantially, by 3.6 percentage points. The general government surplus and, in particular, the positive macroeconomic development, increasing nominal GDP as a reference value in the denominator, made a significant contribution in this regard. However, the surpluses were partly not used for debt redemption but to build up reserves and provisions (in particular for social security institutions, which reflect no debts).[1] The so-called bad banks reduced their debts by € 16 billion. Due to a revision carried out on local government debt, the debt balance turned out higher (also for previous years). Accordingly, liabilities of legally dependent own operations were now included, raising the debt GDP ratio in 2018 by approx. 0.7 percentage points.

4. On the macroeconomic projection by the federal government of April 2019

a) On macroeconomic development

Brief description of the projection by the federal government[2]

In its spring projection, the federal government assumes that the macroeconomic dynamic is poor in the current year. In the further course of the year the government projects stronger momentum and a relatively steady growth path. Due to the cyclical weakness price-adjusted GDP in the current year, at 0.5%, is rising at a significantly lower rate than in the previous year (1.4%, cf. Table 2). In the year 2020, according to the projection, economic output will see a sharper rise by approx. 1.5%. One of the decisive factors is the comparatively large influence of additional working days (calendar day effect) equivalent to 0.4 percentage points (see box on page 10). In the medium term, a stable growth rate of 1.2% is anticipated, equivalent to the federal government's estimated potential growth in tandem with a largely closed output gap.

According to the spring projection, macroeconomic expansion in 2019 will be supported by domestic absorption. The expansion rate of public and private consumption as well as investment in building construction is rising year-on-year, whereas the dynamic trend regarding investment in plant and equipment is witnessing a slight decline. A contributory factor to lower growth is a substantial decline in inventories, the accumulation of which had still made an appreciable positive impact last year. The external sector's contribution is negative: amid accelerated growth in imports, the expansion of exports is similarly weak as last year. For the year 2020, fairly robust private consumption and the return to more dynamic export trends are expected.

For consumer prices (deflator of private consumption), an increase of 1.4% and 1.7% is forecast for 2019 and 2020, respectively. The GDP deflator will undergo a sharper rise in these years. Contributory effects include a sharp rise in building construction costs and a noticeable terms-of-trade impact.

[1] To the extent that such reserves are invested in German treasury bonds, they are consolidated as part of the Maastricht debt balance and thus act as a debt redemption.

[2] Cf. Project Group Joint Economic Forecast (2019): Statement by the Project Group Joint Economic Forecast on the 2019 spring projection by the federal government, Halle (Saale).

In the medium-term projection, an increase of 1.8% p.a. is expected for the years 2021 to 2023. According to the projection of price-adjusted GDP and the GDP deflator, nominal GDP is expected to rise by 2.8% in 2019 and 3.5% in the year 2020. Growth rates of 3.0% are expected for the subsequent years.

According to the assessment by the federal government, employment growth will weaken slightly in the projection period and will dip into slightly negative territory as of the year 2021. On the whole, according to the current data available, labour market momentum will remain fairly high in the short run despite signs of bleaker cyclical activity. The unemployment rate will decline until the year 2020 but will grow again in the further course of time. According to the spring projection, labour productivity will decline considerably in 2019: Amid a moderate level of dynamism, employment will continue to be increased. In subsequent years, the level of employment will stagnate or even decline slightly. For effective wages (gross wages and salaries per employee), growth rates in the order of 3.0% are anticipated across the projection period. Growth in gross wages and salaries will weaken slightly in the course of time in tandem with lower employment figures.

Assessment

The federal government's spring projection as a whole appears to be plausible and is largely in accordance with projections by other institutions (cf. Table 2). GDP growth rates are lower than in previous projections as it was possible to take account of more recent outcomes of a number of cyclical indicators (such as in the manufacturing industry), which had turned out less favourable. This had an impact in particular on projected investments and on exports. The indicators published after completion of the federal government's projection turned out fairly mixed. While output was surprisingly favourable in the first quarter, the sentiment indicators exhibited a declining tendency.

Risks to the projection arise in particular from the international environment. For instance, an escalation of trade conflicts, of problems in connection with Brexit or Italian fiscal policy represent downside risks. In contrast, a relaxation could have positive implications. A further risk consists in the current weakness of the automotive industry becoming more pronounced, which might herald major structural shifts. In contrast, the domestic economy appears to be rather robust.

Table 2: Current[1)] projections of macroeconomic development

Year-on-year percentage change (unless otherwise stated)	2018	2019	2020	2021	2022	2023
1. Federal Government (spring projection, April 2019)						
1aa. GDP, price-adjusted	1.4	0.5	1.5	1.2	1.2	1.2
1ab. GDP deflator	1.9	2.3	2.0	1.8	1.8	1.8
1ba. Private consumption, price-adjusted	1.0	1.2	1.6	1.3	1.3	1.3
1bb. Private consumption, deflator	1.6	1.4	1.7	1.6	1.6	1.6
1c. Gross wages and salaries per employee	3.2	3.1	3.0	3.0	3.0	3.0
1d. Employees	1.6	1.3	0.9	-0.2	-0.2	-0.2
1e. Unemployment rate % (acc. to ILO[2)])	3.2	2.9	2.7	3.2	3.3	3.3
1f. Short-term interest rates in % (technical assumption)	0.00	0.00	0.00	0.00	0.00	0.00
2. European Commission (May 2019)						
2aa. GDP, price-adjusted	1.4	0.5	1.5			
2ab. GDP deflator	1.9	2.1	2.1			
2ba. Private consumption, price-adjusted	1.0	1.1	1.6			
2bb. Private consumption, deflator	1.6	1.5	1.5			
2c. Compensation of employees, per employee	3.0	3.2	2.9			
2d. Employment	1.3	0.8	0.5			
2e. Unemployment rate	3.4	3.1	2.7			
3. Joint Economic Forecast (April 2019)						
3aa. GDP, price-adjusted	1.4	0.8	1.8			
3ab. GDP deflator	1.9	2.4	2.2			
4. Council of Economic Experts (March 2019)						
4aa. GDP, price-adjusted	1.4	0.8	1.7			
4ab. GDP deflator	1.9	2.0	2.0			
5. Deutsche Bundesbank (June 2019)						
5aa. GDP, price-adjusted	1.4	0.6	1.6	1.3		
5ab. GDP deflator	1.9	2.1	2.2	2.2		
6. IMF (April 2019)						
6aa. GDP, price-adjusted	1.4	0.8	1.7	1.5	1.4	1.3
6ab. GDP deflator	1.8	1.6	2.3	2.2	2.3	2.4
7. OECD (May 2019)						
7aa. GDP, price-adjusted	1.4	0.7	1.6			
7ab. GDP deflator	1.9	1.9	2.1			

1) The projections published in the past three months are reflected in this statement. – **2)** International Labour Organization.

b) On potential output and the output gap

Brief description of the projection by the federal government

The fiscal rules are aimed at structural budget balances. In order to determine these, the balances are adjusted for cyclical and other temporary effects. Cyclical influences are determined by comparing the actual GDP figures with the potential output. If, for example, GDP outperforms its potential, this indicates over-utilisation, giving the cyclical situation a positive interpretation. In order to arrive at the structural budget balance, the (unadjusted) budget balance is adjusted for positive cyclical effects. In this situation, the structural balance turns out to be less favourable than the unadjusted balance because the latter benefits from positive cyclical effects.

Until 2021, the federal government expects potential output to grow by 1.4% p.a. each year (cf. Table 3). **In the further course of time after 2021 slightly lower growth amounting to 1.1% is forecast.** A decisive factor in this regard is that the dynamism of the labour force potential will decline substantially in the next years. This is primarily due to demographic trends. Due to the expected decline in the labour supply, the labour force potential even declines towards the end of the projection period. The long-term natural population trend thus predominates in relation to other influential determinants of labour supply, such as migration or participation. This must be seen against the backdrop of slightly lower productivity growth on the whole.

The federal government has moderately revised the growth rates of potential output downward compared to the status presented to the Stability Council in December 2018. This can largely be explained by a substantially lower growth rate in total factor productivity (TFP).

The bottom line is that the federal government expects the substantial positive output gap in 2018 (+1.0%) to almost close in the current year. In the further course of time, it is expected to remain more or less closed. Following a positive cyclical situation last year, therefore a normal cyclical situation is forecast across the entire projection horizon.

Assessment

On the whole, growth rates of potential output and output gaps are within the spectrum of calculations by other institutions (cf. Table 3). For instance, the European Commission and the Joint Economic Forecast use similar methods and arrive at similar results. It noteworthy that for the years 2019 and 2020, the European Commission is the only institution listed here to predict (slightly) negative output gaps. The deviation in relation to the federal government for last year (2018) amounts to a respectable 0.3 percentage points, even though both the Commission as well as the federal government use the same procedures laid down in the European rules and regulations. The assessment of the productivity gaps by the Council of Economic Experts, Deutsche Bundesbank, the IMF and the OECD is slightly more positive. For the years 2019 and 2020, their predictions range from +½% to +1%.

Table 3: Current estimates of growth of potential output[1)] and of the output gap

Year-on-year percentage change (unless otherwise stated)	2018	2019	2020	2021	2022	2023
1. Federal Government (spring projection, April 2019)						
1a. Potential output	1.5	1.4	1.4	1.4	1.2	1.1
1b. Output gap (in % of the potential)	1.0	0.1	0.2	0.0	0.0	0.0
1bb. Output gap (in € billion)[2)]	32.9	3.4	6.3	-0.4	-1.8	0.0
2. European Commission (May 2019)						
2a. Potential output	1.6	1.5	1.4			
2b. Output gap (in % of the potential)	0.7	-0.2	-0.1			
3. Joint Economic Forecast (April 2019)						
3a. Potential output	1.7	1.5	1.5	1.4	1.2	1.1
3b. Output gap (in % of the potential)	0.6	-0.2	0.1	0.0	0.0	0.0
3c. Potential output according to MODEM	1.7	1.6	1.6	1.4	1.1	1.0
4. Council of Economic Experts (March 2019)						
4a. Potential output	1.5	1.5	1.5	1.3	1.2	1.1
4b. Output gap (in % of the potential)	1.2	0.5	0.7			
5. Deutsche Bundesbank (June 2019)						
5a. Potential output	1.5	1.4	1.4	1.3		
5b. Output gap (in % of potential)[3)]	1.7	0.8	1.1	1.0		
6. IMF (April 2019)						
6a. Potential output	1.4	1.0	1.6	1.5	1.6	1.5
6b. Output gap (in % of the potential)	1.1	0.8	1.0	1.0	0.5	0.6
7. OECD (May 2019)						
7a. Potential output	1.7	1.5	1.5			
7b. Output gap (in % of potential)[4)]	1.3	0.5	0.7			

1) price-adjusted. – 2) In relation to nominal GDP. **– 3)** As the values stated are not calendar-adjusted, they differ from those reported by Deutsche Bundesbank. **– 4)** Own calculations based on the series forecast by the OECD for GDP (volume, country-specific, for growth rates, cf. Table 2, item 7.aa) and potential output.

On the influence of calendar effects on the output gap

The output gap is determined by comparing (real) GDP and the potential output. In this process, the outcomes can be influenced by what is known as a calendar effect. This means that the respective years can have different numbers of working days. For instance, leap years or public holidays falling either on weekends or working days may have an impact in this regard. Whereas this effect generally is rather small, in specific years it can certainly be of relevance to the results obtained. For instance, according to the Federal Statistical Office, additional working days in the year 2020 (compared to 2019) can lead to GDP growth rising by 0.4 percentage points. Accordingly, the calendar effect on growth for the year 2020 amounts to +0.4 percentage points.[3] While calendar effects exhibit erratic fluctuations, they tend to even out in the course of time. The influence on GDP thus is only temporary.

In determining the output gap, the calendar effects are taken into account differently by individual institutions in terms of their methodology used. As regards the potential output and the growth rate thereof, the calendar effect is adjusted by the institutions considered in this regard. Accordingly, the different number of working days has no influence on the potential. In contrast, for GDP, which is then used to calculate the output gap, partly calendar-adjusted and partly calendar-unadjusted values are drawn on.

For the cyclical analysis, it appears to be reasonable to use calendar-adjusted values for GDP: an increase in GDP due to an additional working day due to a leap year, for instance, ultimately is not to be interpreted as a positive cyclical effect. Accordingly, the IMF, the OECD, Deutsche Bundesbank and the Council of Economic Experts invariable report the output gap on a calendar-adjusted basis. The Joint Economic Forecast reports both a calendar-adjusted as well as an unadjusted output gap.

In contrast, when determining structural budget balances it makes sense to use calendar-unadjusted GDP. If the output gap is then determined in comparison with the potential output, within the scope of adjustments for cyclical factors, the adjustment for calendar effects is automatically carried out at the same time. This makes it possible to ensure that the calendar effects have no influence on the structural budget balances.[4]

The federal government and the European Commission calculate the output gap on the basis of calendar-unadjusted GDP. In its comparative tables on the output gap (Table 3), the Advisory Board likewise refers to outcomes based on calendar-unadjusted GDP for all institutions – to the extent that this is possible. This ensures comparability with the figures by the federal government, on which the discussion on the Stability Council are based, to the best possible degree. However, this may lead to deviations from the values reported by the other institutions. With regard to the structural balances (Table 6), the Advisory Board refers to the values used by the respective institutions. In addition to different cyclical adjustment measures, these values might also reflect the various approaches of other temporary influences.

[3] The calendar effect on the level of GDP amounts to -0.2% in 2019, and to +0.2% in the year 2020. This reflects the value of 0.4 percentage points for the growth rate.

[4] If the calendar effects were not included in the adjustment for cyclical factors, they would actually need to be deducted from the structural balances as other temporary effects.

5. On the fiscal estimate by the Federal Ministry of Finance

a) On the fiscal estimate (excl. adjustment for temporary and cyclical effects)

Description of the estimate by the Federal Ministry of Finance

In accordance with the Stability Programme of April 2019, the BMF expected the budget surplus (2018: 1.7% of GDP) to decline considerably – especially in the current year. In the years 2019 to 2023, it was therefore expected to turn out somewhere between ¾% and ½% of GDP (cf. Table 4 and Fig. 1). The projection for the Stability Programme is based on the macroeconomic benchmark figures of the federal government of January 2019. Items taken into account include the priority measures stipulated in the coalition agreement as part of the benchmark figures of March 2019 on the federal budget for the year 2020 and for financial planning until 2023 as well as further measures in the field of family, children and social matters (lowering the tax burden, boosting personnel expenditure, monetary social benefits and other ongoing transfers) by the Family Relief Act as well as the Qualification Opportunities Act in the context of unemployment insurance.

The revision that has meanwhile taken place of macroeconomic benchmark figures and the tax forecast has only had a slightly adverse effect on the public-sector budget in relation to the Stability Programme. In April, the federal government adopted the new macroeconomic spring projection (at the same time as the Stability Programme which is, however, based on the previous projection). This turned out slightly less favourable than the benchmark figures early in the year. It was taken into account in the official tax forecast of May 2019 which, on the whole, reflects only minor need for correction in relation to the Stability Programme. The social security funds are also likely to be hardly influenced by the macroeconomic revisions as they hardly impact the labour market as well as wages and salaries. The BMF, in its calculatory update to the fiscal forecast, shows little changes compared to the Stability Programme. The national accounts data revised most recently for the year 2018 does not indicate any major additional needs for correction.

According to the Stability Programme, the revenue ratio declines slightly (from 45.6% in 2018 to 45¼% in 2023) (cf. Table 5). **Tax revenue** is largely rising in tandem with GDP. The tax cuts planned will more or less compensate for the effects of the tax progression. Tax cuts include rising exemption limits and tariff adjustments for income tax intended to offset the effects of the cold progression in 2018 and 2019, amongst other goals. Moreover, the solidarity surcharge is to be partly abolished in 2021. **Social security contributions** are rising slightly faster than GDP. A probable contribution in this regard is attributable to relatively robust growth in gross wages and salaries. Moreover, the contribution rate to the federal employment agency will return to 2.6% again in 2023 (currently: 2.5%). The changes to the contribution rates at the beginning of 2019 more or less cancel each other out. The contribution rate to the social care insurance was raised by 0.5 percentage points and the contribution rate to unemployment insurance was lowered to the same extent. However, on balance this leads to a slight rise in revenues from contributions because the assessment basis of social care insurance (SPV) is slightly larger than that of unemployment insurance: in particular, pensioners are liable to pay contributions to care insurance. In contrast, slightly lower revenue from contributions is registered in the case of statutory health insurance (GKV) as the funds have lowered their additional contribution rates slightly on average. In contrast, the fact that statutory health insurance returned to financing at parity has not exerted an influence on revenue levels as such: Initially, this merely leads to a shift in contribution payments by members to companies, central, regional and local governments and to the statutory pension fund (GRV). According to the BMF, **other revenue** reflects comparatively poor development. This is due above all to sales (in particular, fee revenues). While these grew largely at the same rate as GDP in recent years, only a small plus has been assumed in the projection years (considerably lower than GDP growth). It was taken into account in this regard that the motorway toll for trucks was extended to include all federal motorways in the summer of 2018, that toll rates increased appreciably at the beginning of 2019 and that a toll for passenger cars is to be introduced in October 2020.[5] The **latest tax forecast** indicates slightly poorer developments in comparison with the revenue projection described above under the Stability Programme.

According to the Stability Programme, the expenditure ratio increases by ¾ percentage points in the current year, to 44½%, and will then remain unchanged. The figures indicate that social security benefits will rise sharply: in relation to GDP they will rise from 23.8% in 2018 to 25.0% in 2023. This growth is broadly based and concerns both monetary social security benefits (in particular, pensions as well as unemployment, sick and care money) as well as social non-cash benefits (in particular, non-cash health and care benefits). A major impact in the case of pension expenditure, in addition to an increased number of new pensioners, was caused in particular by the "mothers' pensions" increased at the beginning of the year as well as the "stop lines" that took effect as the year progressed regarding the level of benefits received. Moreover, benefits for health, care and active labour market policy were increased. Care benefits are likely to rise sharply as well in 2021 because the time will then come for them to be adjusted to price developments of the preceding three years. The volume of payments to the European Union (EU) is growing faster than GDP. For the time being, the primary factor probably is that higher outflows of funds are anticipated in the last several years of the medium-term planning period. In the further course of time, an increased burden imposed in connection with Brexit is likely to have been assumed. Higher growth rates are anticipated in terms of investments. In contrast, interest expenditure will bring some relief as the level will continue to fall in 2019 and 2020. In the subsequent years, interest expenditure will stabilise at approx. ¾% of GDP. Another forecast is that intermediate input purchases and employee remuneration will reflect a weak medium-term development in spending by central, regional and local governments. However, federal, state and municipal government bodies have announced plans to increase employment in such fields as schools, child care, police, judiciary and the federal armed forces. Evidently the planned personnel reinforcements are to be realised without any major pressure with regard to spending. Asset transfers in the medium term are growing more slowly than GDP. This includes bank support measures – in 2018, HSH Nordbank received transfers, Nord/LB is to be assisted in 2019 – which are planned to decline. On the other hand, investment subsidies have meanwhile risen substantially (e.g. for German rail).

At present, all levels of government reflect appreciable surpluses. The BMF expects these to be reduced. Accordingly, the federal government (in the national accounts delineation) is to have a more

[5] Whereas the toll will also be imposed on domestic vehicles, in terms of their nature the national accounts assigns these to taxes (direct taxes of private households and production levies paid by enterprises). The additional revenue generated by tolls imposed more or less corresponds to the shortfall in revenue due to the motor vehicle tax being lowered at the same time. Accordingly, from the tax revenues under the national accounts, the conversion is hardly noticeable at all.

or less balanced budget until 2022. In the last year of the projection period, the federal government is to generate a slight surplus again. For the federal states, the BMF anticipates surpluses of +¼% to +½% of GDP. For local government bodies and social security funds, the budget is expected to balance more or less. The **projection for the core budgets of the federal states in financial statistical delineation** will turn out slightly more positive for 2019 than the projection by the BMF. From the coming year, substantially higher surpluses will be reported. The reasons for the differences and their role for the budget balance in delineation from the national accounts cannot be estimated owing to a lack of information. The current tax forecast does not seem to provide an explanation.

The current update by the BMF does not differ materially from that for the Stability Council of December 2018 (cf. Table 4). One of the reasons for this is that public finances will only be subject to a comparatively moderate burden due to the less favourable assessment of economic development. This is because the downward revision concerns rather macroeconomic factors of lesser weight for public finances – wages and salaries are less impacted, for instance. If it is assumed that public revenue and expenditure will react as usual to the revised macroeconomic assessment basis, the less favourable macro-projection would lower the surplus in the individual years by about ¼% of GDP.

According to the Stability Programme, at 58¾% of GDP the debt level in the current year will be below the reference value of 60.0% for the first time since 2002. A further decline is then anticipated to 51¼% in the year 2023. Above all, this decline is due to the primary surpluses of central, regional and local government bodies. Moreover, a contribution is expected to be made by the portfolio reduction of the “bad banks”. A key role will once again be played by the substantially negative interest-growth differential (difference between average interest rates and nominal GDP growth).

Table 4: Current projections of the budget balance[1)]

in % of GDP	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
1. Calculatory update (May 2019)	1,7	1	¾	¼	¼	½
1a. Stability Programme (April 2019)	*1,7*	*¾*	*¾*	*½*	*½*	*½*
1b. Stability Council (December 2018)	*1¾*	*1*	*¾*	*½*	*½*	
1c. Draft Budgetary Plan (October 2018)	*1½*	*1*	*½*	*½*	*½*	
1d. Update (September 2018)	*1½*	*1*	*½*	*½*	*½*	
1e. Stability Council (May 2018)	*1¼*	*1*	*1*	*¾*	*¾*	
2. European Commission (May 2019)	1.7	1.0	0.8			
3. Joint Economic Forecast (April 2019)	1.7	1.2	1.0			
4. Council of Economic Experts (March 2019)	1.7	1.2	1.0			
5. Deutsche Bundesbank (June 2019)	1.7	1	¾	½		
6. IMF (April 2019)	1.7	1.1	1.1	0.8	0.8	0.7
7. OECD (May 2019)	1.7	0.9	0.8			

1) The values for the projection years (from 2019 for 1, 1.a and 5. as well as from 2018 for 1.b – 1.e) are rounded to a quarter per cent.

Assessment

While the Advisory Board considers the BMF's current projection for the budget balance to be acceptable, it does perceive some risks. Other institutions expect a slightly more favourable development for the current year. For the coming years, the BMF's expectations are essentially confirmed. The states are reporting partly lower surpluses for their core budgets as of the coming year. It is not clear to the Advisory Board, however, how this will affect the budget balance in the national accounts. No information was made available to the Advisory Board on the situation of extra-budgetary funds and reserves taken into consideration in the national accounts and on the development of reserves.

Table 5: Projection by the Federal Ministry of Finance (Stability Programme, April 2019)[1)]

in % of GDP	2018	2019	2020	2021	2022	2023
1. General government budget balance	**1.7**	¾	¾	½	½	½
of which:						
1a. Federal government	0.5	0	0	0	0	¼
1b. State governments	0.3	½	½	¼	¼	¼
1c. Local governments	0.4	¼	¼	0	0	0
1d. Social security funds	0.4	¼	¼	0	0	0
2. Interest expenditure	**0.9**	¾	¾	¾	¾	¾
3. Primary balance[2)]	**2.6**	**1¾**	**1½**	**1¼**	**1¼**	**1¼**
4. Income	**45.6**	**45½**	**45¼**	**45**	**45**	**45¼**
of which:						
4a. Taxes	23.7	23¾	23¾	23½	23½	23¾
4b. Social security contributions	16.9	17	17	17	17	17¼
4c. Asset income received	0.5	½	½	½	½	½
4d. Other[3)]	4.5	4¼	4¼	4	4	4
5. Primary expenditure[2)]	**43.0**	**43¾**	**43¾**	**43¾**	**43¾**	**43¾**
of which:						
5a. Social benefits	23.8	24¼	24¼	24½	24¾	25
5aa. of which: non-cash social benefits	8.5	8½	8½	8¾	8¾	9
5ab. of which: monetary social benefits	15.4	15¾	15¾	15¾	16	16
5b. Employee remuneration	7.6	7½	7½	7½	7½	7½
5c. Intermediate consumption	4.8	5	5	4¾	4¾	4¾
5d. Subsidies	0.9	¾	¾	¾	¾	¾
5e. Gross investments	2.3	2½	2½	2½	2½	2½
5f. Asset transfers	1.2	1¼	1¼	1¼	1	1
5g. Other[4)]	2.4	2½	2½	2½	2½	2½
6. Debt-to-GDP ratio	**60.9**	**58¾**	**56½**	**54¾**	**53**	**51¼**

1) As the calculatory update by the Federal Ministry of Finance does not provide for a breakdown into individual expenditure and income categories, the projections derived from the 2019 Stability Programme are used in this table. The differences in relation to calculatory updates are limited and predominantly affect tax income and social security funds. The values are rounded to a quarter per cent as reported by the Federal Ministry of Finance for the projection years 2019-2023. – **2)** The primary balance and primary expenditure represent the budget balance or emplspending to the exclusion of interest expenditure. **– 3)** Sales, other current income and asset transfers received. – **4)** Net receipts of other non-financial assets; other current expenditure.

From the Advisory Board's perspective, the projected development until the year 2023 is subject to some uncertainty. On the one hand, the trend relating to a weaker outflow of funds than planned might continue. This could apply e.g. to infrastructure investments or spending on defence or digitalisation. On the other hand, there are indications of additional budget strains. In accordance with the Stability Programme, the robust increases in social expenditure are to be offset in the medium term by weaker development of other expenditure components. However, at first glance this is incompatible with efforts to be made in the coming years to reinforce the level of spending on schools, child care, police, the judiciary and the federal armed forces. Moreover, it appears to be evident for social care insurance that benefits will expand more sharply. In connection with the reduction of coal mining and electrification, higher financial auxiliary and compensation benefits by the state have been promised than has been taken into account in current planning activities. In addition, a discussion is under way concerning the introduction of a **general basic pension** that would be associated with substantial additional spending in relation to the Stability Programme. In view of the ongoing good situation of the federal employment agency, the level of free reserves is likely to rise, increasing the pressure to adopt additional measures (reduction in the contribution rate in relation to the status quo or additional expenditure). Additional tax cuts will be necessary if the cold progression is to continue to be compensated beyond the year 2020. Other aspects under discussion include stronger tax-related promotion of research or other tax benefits for companies. **Moreover, legal and fiscal risks exist with regard to the property tax and the solidarity surcharge.** The **property tax** was declared to be unconstitutional and can only be continued if a new legislative regulation has been adopted by the end of 2019. This still remains a bone of contention between the federal and state government bodies as well as among state governments. For the period from 2020 to 2023, the revenue estimated in the tax forecast of May amounts to approx. 0.4% of GDP (just under 15 billion euros) per annum. In the case of the **solidarity surcharge**, constitutional risks exist regarding the lawfulness of this tax as of the year 2020 as well as in respect of the planned (partial) continuation. The German supreme audit institution assesses the income risk in relation to the projection in the year 2020 at just under 0.6% of GDP (20 billion euros) and at roughly 0.3% of GDP (11 billion euros) in each of the years 2021 to 2023.[6]

In addition to fiscal policy risks, uncertainties arise in terms of macroeconomic development (cf. Section 4a). Should downward risks materialise, this would lead to a more negative development of public-sector budgets. In the event of fundamentally more unfavourable prospects of growth, the impact would not be merely cyclical (i.e. not only temporary) in nature. As the macroeconomic risks at present are to be found above all in the external sector and as the domestic economy appears to be rather robust at present, public finances might be less impacted by a possible slowdown in the short run. This will apply above all if gross wages and salaries, which are a particularly rich source of tax revenues, remain relatively unimpaired – but, if anything, this could only be assumed to be temporary. Additional risks beyond those outlined above concern revenue derived from profit-dependent taxes. These appeared to be highly volatile in past business cycles. An abrupt downward correction could not be ruled out in the event of a major downturn. On the other hand, generally speaking, a more favourable development would certainly be conceivable if the external sector risks should dissipate and if the domestic economy remains robust.

[6] Cf. expert opinion of the Federal Performance Officer of 4 June 2019.

Table 6: Current projections of the structural balance[1)]

In % of GDP or potential output	2018	2019	2020	2021	2022	2023
1. Calculatory update (May 2019)	1.3[2)]	¾	½	¼	¼	½
1a. Stability Programme (April 2019)	*1.4*	¾	½	½	¼	½
1b. Stability Council (December 2018)	*1¾*	½	½	¼	½	
1c. Draft Budgetary Plan (October 2018)	*1½*	½	¼	¼	½	
1d. Update (September 2018)	*1½*	½	¼	¼	½	
1e. Stability Council (May 2018)	*1*	½	½	¾	¾	
2. European Commission (May 2019)	1.6	1.1	0.8			
3. Joint Economic Forecast (April 2019)	1.3	1.1	0.8			
4. Council of Economic Experts (March 2019)	1.2	0.7	0.4			
5. Deutsche Bundesbank (June 2019)[3)]	1.4	1	¾	½		
6. IMF (April 2019)	1.3	0.7	0.6	0.4	0.5	0.6
7. OECD (May 2019)[4]	1.2	0.6	0.5			

1) The values for the projection years (from 2019 for 1, 1.a and 5 as well as from 2018 for 1.b – 1.e) were rounded to a quarter per cent. **– 2)** Unlike the report by the BMF, which is based on an older annual projection, the output gap from the spring projection was taken into account. **– 3)** The disaggregated approach of Deutsche Bundesbank is used to make adjustments for cyclical effects. **– 4)** The OECD refers to the budget balances adjusted according to its method for cyclical and one-off effects as “underlying balances”.

b) On the derivation of the structural budget balance

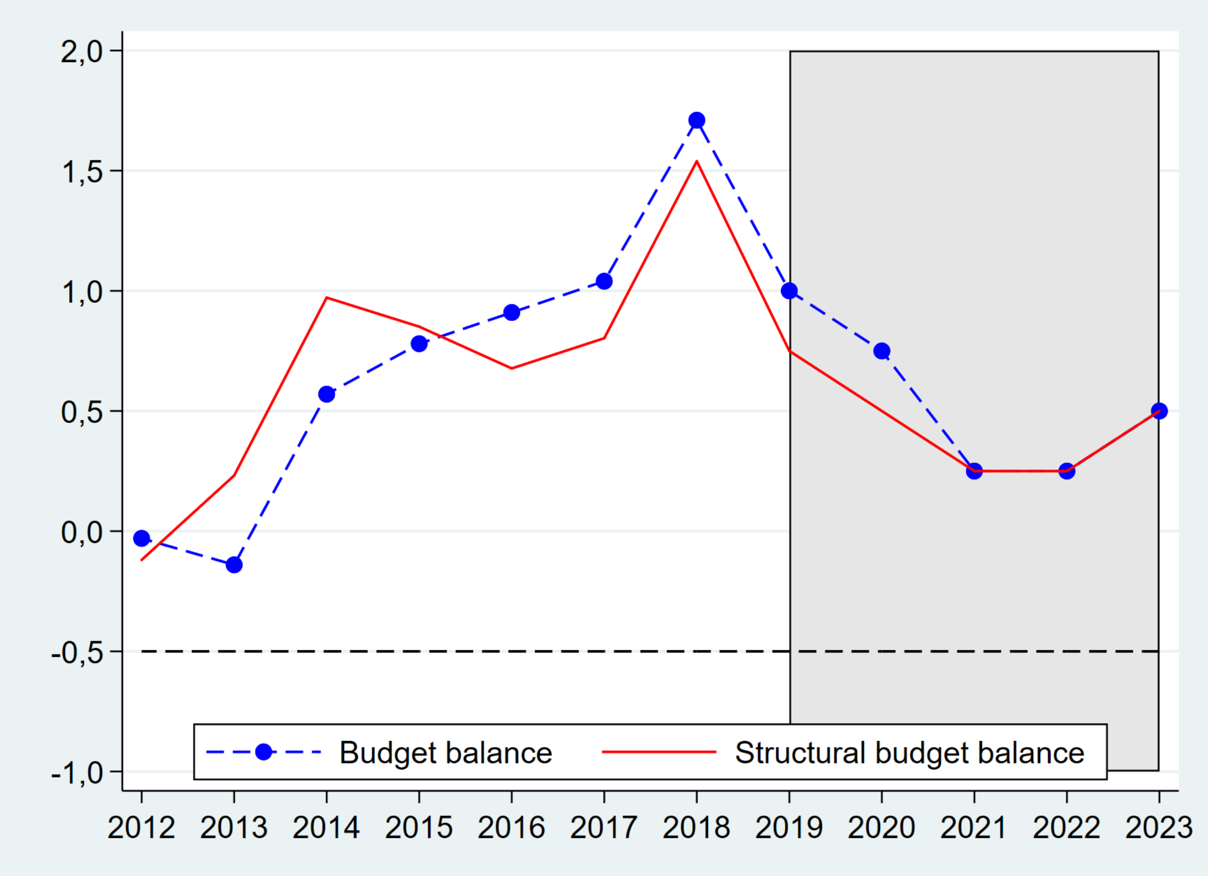
Description of the estimate by the Federal Ministry of Finance

According to the calculatory update by the BMF, the structural surplus in the current year will decline considerably (from 1.3% in 2018 to ¾% of GDP). In the subsequent years, a value between ¼% and ½% of GDP is anticipated (cf. Table 6 and Fig. 1). What is decisive for this development is fiscal policy easing: the primary surplus adjusted for cyclical factors (i.e. the balance excluding interest expenditure) will decline in a similar magnitude (cf. Table 7). **The fiscal stance expected thus supports macroeconomic growth to a substantial degree.** Behind these factors are dynamic increases in expenditure dealt with in greater detail in the previous section. The structural levy rate will probably remain more or less unchanged.

According to the spring projection, the cyclical impact in 2018 was appreciably positive and is practically vanishing completely in the current year. In contrast, the annual results for 2018 were impacted by temporary effects (e.g. the support of HSH Nordbank) but did not play a substantial part in the further course of time. The structural surplus adjusted for these two effects was moderately below the unadjusted balance. The gap is negligible in the projection period.

In comparison with the estimate for the Stability Council in December 2018, the forecasts for the structural budget balance were hardly revised. The outcome in 2018 turned out to less favourable by ¼% of GDP than the estimate made in December 2018. One third of this is accounted for by a lower unadjusted balance and two third of it by an upward revision of the cyclical component. In the projection years, the structural surplus is now declining more evenly and less strong.

Fig. 1: Development of budget balance and structural budget balance



The solid line reflects the development of the structural budget balance in % of GDP (cf. Table 6, 1.). The dashed line shows the (unadjusted) budget balance in % of GDP. For the years until 2018, the values reflect the current figures of the European Commission. The figures as of 2019 are taken from the current calculatory update by the BMF.

Assessment

The Advisory Board considers the updated figures from the BMF on the structural budget balance acceptable. Accordingly, in terms of the currently implemented fiscal policy the upper limit for the structural deficit of 0.5% of GDP (a structural balance of -0.5% of GDP) will be met in the medium term by a safety margin. The calculatory update by the BMF shows that the structural balance in the current and next year will be within the scope of the estimates by other institutions. The few comparative estimates for the subsequent years essentially do not differ from the figures by the BMF.

Since autumn, the estimates for cyclical components have been significantly revised. The estimate by the federal government now is more within the range of other institutions. The downward revision of the output gaps partly reflect the meanwhile bleaker cyclical prospects. To some extent, the path for potential output used is somewhat flatter. The previous significant tendency in the government assessment of underestimating the cyclical impact along with the overestimating the structural budget situation now is no longer discernible. It must be taken into account in this context that the federal government projects a comparatively low GDP growth, which translates ceteris paribus into lower output gaps in the projection period.

The Advisory Board points out risks in the development of future structural budget balances. While the approved structural deficit limit amounting to 0.5% of GDP will be met by a safety margin in each year of the projection period, substantial uncertainties need to be taken into account. For one thing, these are due to future macroeconomic prospects – in particular, the development of the external sector is extremely uncertain (also cf. Section 4) – and the resulting downward risks relating to the very volatile profit-dependent taxes. For another, risks are inherent in fiscal policy itself, in terms of which numerous additional fiscal easing is under discussion that has not yet been included in the BMF estimates (also cf. Section 5a). Moreover, there are risks concerning the reform of the property tax and the planned (partial) continuation of the solidarity surcharge.

In the past several years, revenue trends have been very positive and surprising to the upside. This was due to expanded gainful employment and an unusually sharp rise in profit-dependent taxes. It is understandable that both developments have not been updated in the projections by the BMF. Moreover, in the longer term a further substantial decline in the growth of potential output is to be expected, resulting from demographic change. Against this backdrop, fiscal policy should be forward-looking and already provide ideas today as to how additional long-term budget burdens are to be financed in the more difficult future environment.

Table 7: Components of the structural budget balance[1)]

in % of GDP	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
1. Budget balance	1.7	1	¾	¼	¼	½
2. Cyclical component	0.5	0	0	0	0	0
2.a in € billion[2)]	16.6	1.7	3.2	-0.2	-0.9	0.0
3. Cyclically adjusted balance[3)]	1.2	¾	½	¼	¼	½
4. One-off and temporary measures	-0.1	0	0	0	0	0
5. Structural budget balance[4)]	1.3	¾	½	¼	¼	½
6. Cyclically adjusted primary balance[5)]	2.1	1¾	1½	1	1	1¼
7. Output gap	*1.0*	*0.1*	*0.2*	*0.0*	*0.0*	*0.0*

1) The figures presented are based on the calculatory update in the draft resolution for the meeting of the Stability Council on 18 June 2019, on the spring projection on macroeconomic development of 17 April 2019, a calculatory update to the national accounts budget balance by the BMF as well as on calculation by the Advisory Board. The values under 1., 2., 3., 4., 5 and 6. are rounded to a quarter per cent for the projection years 2019 to 2023. **– 2)** The cyclical component is calculated by multiplying the output gap (in € billion, spring projection 2019) with the budget semi-elasticity for the public sector as a whole (rounded 0.504). **– 3)** Difference arising from the budget balance and the cyclical component. **– 4)** Balance adjusted for cyclical factors less temporary measures / effects – **5)** Balance adjusted for cyclical factors plus interest expenditures provided in % of GDP.

6. On the adoption of a harmonised analysis system for monitoring the debt brake

In its statements submitted in the past, the Advisory Board has referred on a number of occasions to the necessity to improve the data situation on assessing the future structural budget balance. Review of compliance with the federal debt brake and those applicable under the respective laws of the German states is primarily the task of the competent parliaments, audit and possibly constitutional courts. **From January 2020, the Stability Council will additionally be tasked with monitoring the debt brake according to Article 109 (3) of the German constitution.** The statutory mandate provides for the inspection to be carried out in accordance with the parameters laid down in European budgetary rules and regulations and to apply a uniform cyclical adjustment method. Accordingly, the data situation should improve for purposes of assessing compliance with the upper limit for the budget deficit. The Stability Council has meanwhile defined how the process of monitoring the debt brakes is to take place.[7] In doing so, it discusses the results of a harmonised analysis system (see box, page 21).

For the **audit mandate of the Stability Council and the Advisory Board** concerning compliance with the upper limit of the general government budget deficit, information as part of such a harmonised analysis system could be very helpful. In particular, a report of detailed forecast data for the individual states in the delineation of relevance to the EU rules and regulations would be suitable to increase the accuracy of predictions for compliance with the upper limit for the structural (general government) budget balance. At present, only aggregated forecast values of the BMF are available for the sum total of states. An in-depth analysis of the data of the individual states within the relevant frameworks of the national accounts does not take place. As a result, precise predictions concerning the contribution by the states on the development of the general government budget balance are hardly possible at present, and the Stability Council may need to call for a higher safety margin in relation to the upper limit from the states. An improved information status could be helpful in this regard.

Against this backdrop, in principle the Advisory Board endorses systematic processing of the relevant data by the federal and state governments. A closer inspection shows, however, that the currently planned **additional information derived from the harmonised analysis system is quite limited**.[8] The mandate for orientation according to the EU rules and the use of a harmonised method to adjust for cyclical effects had not convincingly been met in the opinion of the Advisory Board. For instance, the time horizon used in the harmonised analysis system does not extend beyond the following year and, in the process, potentially outdated budget planning figures can be used as a basis instead of current estimates. Moreover, extra-budgetary funds are largely excluded. Budget balances close to the national accounts can thus not be derived. Moreover, the adjustment of the states' budgets for cyclical factors can lead to substantially different results than the EU method used. Evidently, no projections are to be included for the municipalities to be assigned to the relevant states. A positive element is, however, that reserve movements are taken into account in the entity recorded and adjusted for key financial transactions. Nevertheless, considerable deviations from EU budgetary monitoring remain.

[7] Cf. compendium of the Stability Council to monitor compliance with the debt brake pursuant to Article 109a (2) of the German constitution in accordance with the resolution adopted by the Stability Council on 6 December 2018. The Advisory Board was not engaged in the preparation of the compendium.

[8] See also Deutsche Bundesbank (2019), Monthly Report, April 2019, pp.95-102.

The planned **compensatory component equivalent to 0.15% of GDP for the states,** up to which their exploitation of structural budget gaps are to be regarded as acceptable implies an easing of the budgetary target. As a reason for the compensatory component, the Stability Council refers to the difficulties of recording the municipal financial equalisation systems (*kommunale Finanzausgleichssysteme – KFA*). In particular, the (delayed) point in time of the KFA settlement is perceived to be problematic because it is believed to render the precise application of the KFA in the cyclical adjustment process more difficult. Delayed settlements are actually not assigned to the cyclical component as part of the usual cyclical adjustment process and could therefore lead to structural deficits being reported. On the other hand, delayed settlements can be neutralised as loan transactions. Moreover, the lack of time-related parallelity of KFA settlements and cyclical adjustments are likely not only to lead to burdens but sometimes also to instances of relief. Against this backdrop, additional scope for action regarding the structural deficit basically does not appear to be convincing.

In terms of concrete design and organisation, the planned **special treatment of city states** is hardly understandable. Since no municipal equalisation systems exist in these cases, with the exception of Bremen, it could be assumed that the city states are excepted from the rule described above. This is not the case, however: instead, additional easing has been agreed for the city states, particularly depending on the development of population figures and tax revenues. With a structural deficit limit of 0.35% of GDP for the federal government and 0.15% of GDP for the federal states, the general government parameter amounting to 0.5% of GDP would be fully exploited. In view of the general government upper limit, such additional leeway would be unproblematic if the structural deficits of social security funds were taken into account in the scope of the federal government and those of the municipalities were taken into account in the scope of the states – which has probably not been provided for. **On the whole, the progress expected with the planned harmonised analysis system based on the information available on budgetary monitoring therefore is unsatisfactory.**

Irrespective of the specific formulation of the analysis system, for transparency reasons and in the interests of more readily understandable budgetary policy the available information should be made public for all states. Yet the method selected by the Stability Council to monitor the debt brake provides for publication only if the respective state agrees to this step. This is problematic as the process of providing information to parliaments and the public at large constitutes a key prerequisite for the binding effect of the budgetary rules and effective monitoring by the Stability Council. Moreover, the general consensus to dispense with the need for regular publication is problematic under fundamental considerations. Germany in particular has decisively urged the need to set up binding and transparent debt brakes in Europe and has committed itself to this under the Fiscal Compact. The fact that the Stability Council, as the German fiscal council, now plans to set up a system that opens up the possibility to monitor the debt brake **largely under exclusion of the public** conflicts with the objectives of the Fiscal Compact.

Harmonised analysis system for monitoring compliance with the debt brake by the Stability Council

The harmonised analysis system adopted by the Stability Council is aimed at structural net borrowing (*Nettokreditaufnahme – NKA*) adjusted for financial transactions. This item differs from the budgetary balance according to the financial statistics in terms of special financing transactions (in particular, reserve movements), transactions involving loans and holding of equity interests as well as the cyclical effects calculated.

For the harmonised analysis system, as of the year 2020, data will be supplied each autumn to the Secretariat of the Stability Council in accordance with the derivation plan contained in the compendium. The following will be taken into account: the year ended ("actual year), the current year ("target year") and the coming year ("budget year").

The reference is to the core budget and individual extra-budgetary funds, but only those with newly set up credit authorisation since the year 2011. Individual additional details such as the debt status (core and extra-budgetary funds pursuant to ESA 2010) are reported for information purposes only. On the whole, it is therefore not possible to determine data close to the national accounts according to the parameters of European budgetary monitoring. The municipal level is not part of the reporting system. Social security funds are likewise excluded.

Different methods are available to the federal states – irrespective of the requirement relating to uniform cyclical adjustment – as regards adjustments for cyclical factors, which determine the cyclical effects very differently and can lead to sharply diverging results for a particular year under review. By disclosing a special control (borrowing) account without an increase in debt since the debt brake took effect, a state can *de facto* opt for dispensing with the need for cyclical adjustment. There is an optional right regarding the adjustment to the control account for financial transactions.

A "compensation component" amounting to 0.15% of GDP is provided for all federal states as a whole. The relevant assignment is made according to population figures. For the city states in particular, there are additional components in the event of stronger population growth and in cases of increased municipal debt in the other states.

An evaluation is to be made no later than 5 years, without any specific criteria being mentioned.

The publication of the results of the harmonised analysis system is optional. The data sourced according to the derivation plan mentioned above is only disclosed for states that agree to publication in general terms.

The Advisory Board of the Stability Council on 7 June 2019

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