Federal Ministry of Finance

German Stability Programme

2020

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German Stability Programme
2020

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Preface to the German Stability Programme for 2020

The member states of the European Union submit their medium-term fiscal plans to the European Commission and to the Economic and Financial Affairs Council (ECOFIN) by the end of April each year. To this end, in order to comply with the rules of the Stability and Growth Pact, member states of the euro area submit updated Stability Programmes, while all other EU member states submit updated Convergence Programmes.

This update of the German Stability Programme was approved by the federal cabinet on 22 April 2020. The programme follows the Guidelines on the format and content of Stability and Convergence Programmes (Code of Conduct). In addition, the content of the German Stability Programme is based on the *Guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the COVID-19 outbreak*. The federal government submits each update of the German Stability Programme to the competent expert committees of the German Bundestag as well as to the Finance Minister Conference (*Finanzministerkonferenz*) and the Stability Council (*Stabilitätsrat*). After review by the ECOFIN Council, the Council's opinion on the Stability Programme is likewise forwarded to these bodies.

By submitting this updated Stability Programme, which contains projections of budgetary trends at all government levels (Federation, *Länder*, local authorities and social security funds), the federal government is complying in full with its obligation for the year 2020 to submit national medium-term fiscal plans in accordance with Article 4 of Regulation (EU) No 473/2013 on the provisions for monitoring and assessing draft budgetary plans.

The global spread of the novel coronavirus (SARS-CoV-2/COVID-19) poses major challenges for German fiscal policy. The measures taken to contain the pandemic are causing a temporary but nevertheless severe weakening of the German economy. The federal government and the *Länder* have implemented extensive packages of fiscal measures to counter the crisis.

The present German Stability Programme was drafted and coordinated at an early stage of the coronavirus pandemic.

The projections of budgetary trends at all levels of government contained in the Stability Programme are based on all the information known up to the date of publication, in particular the federal government's annual projection on macroeconomic trends of 29 January 2020, the results of the tax estimates dated 30 October 2019, which have been updated on the basis of the annual projection, the federal government's benchmark figures decision of 18 March 2020 on the federal budget for 2021 and fiscal planning until 2024, as well as the supplementary budget for 2020 approved by the Bundestag on 25 March 2020 to finance the comprehensive package of protection measures against the effects of the COVID-19 pandemic, including an assessment of possible tax revenue shortfalls.

Due to a lack of data, it is currently difficult to quantify precisely the extent of the negative economic effects of the pandemic. The federal government will publish an initial assessment of economic performance in its spring projection at the end of April 2020.

The Federal Ministry of Finance publishes the updated Stability Programme along with the programmes for preceding years online at:

https://www.bundesfinanzministerium.de

The programmes of all EU member states as well as the corresponding European Commission analyses and ECOFIN recommendations are published on the European Commission's website at:

https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/stability-and-convergence-programmes_en

1. Introduction: decisive action and social cohesion during the crisis

Currently, the main focus of German fiscal policy is the fight against the COVID-19 pandemic and its economic consequences. The federal government has launched a historic package of measures to protect the health of citizens, support jobs and companies and preserve social cohesion. The sound fiscal policies of the past few years mean that the government is well-positioned to be able to support the German people and economy even over a longer period of time.

In view of the fast-moving situation, it was not possible to map the macroeconomic effects of the COVID-19 pandemic in the figures presented in the German Stability Programme 2020. What is clear, however, is that Germany and Europe are currently facing extraordinarily severe challenges. The global COVID-19 pandemic will cause a significant slowdown in the German economy.

At the same time, performance over the past few years shows that Germany's economy and public finances rest on a very solid foundation. Public finances were extremely robust in 2019 and immediately before the outbreak of the COVID-19 pandemic. In addition to forward-looking fiscal policies, a strong labour market with a record level of employment, high tax revenues and sustained low interest rates on government debt contributed to this trend.

Germany complied in full with the rules of the Stability and Growth Pact in 2019. Last year, the general government budget – which encompasses the budgets of the Federation, *Länder*, local authorities and social security funds – generated a surplus of 1.4% of GDP. In 2019, the general government debt-to-GDP ratio decreased by 2.1 percentage points to 59.8%. In addition, general government investment increased strongly again, by 7.5%.

From a fiscal policy perspective, the public sector is in a strong position to handle an economic crisis. The sound fiscal policies of recent years mean that the federal government is able to fund measures to combat the COVID-19 pandemic, and it will take all steps necessary in order to do so .

The federal government is implementing the largest assistance package in the history of the Federal Republic of Germany. The volume of measures affecting the general government budget will total around €453bn in 2020, while the scope of government guarantees will total around €820bn (see **Table 1** and **Table 2**). In this way, the federal government is making a decisive contribution towards ensuring that the German economy emerges from the crisis in good shape. It is also providing a powerful stimulus to stabilise the euro area. For this purpose, the federal government has adopted a supplementary budget for 2020 containing new borrowing of around €156bn. To make this possible, the German Bundestag has given the federal government permission to exceed the otherwise binding borrowing limit of 0.35% of GDP this year, based on the exception for unusual emergency situations enshrined in Article 115 (2) of the Basic Law (*Grundgesetz*). This also guarantees that automatic stabilisers can function without restrictions.

The assistance package will be used on the one hand to finance measures intended to secure the provision of healthcare in times of crisis. For example, the federal government is allocating an additional €3.5bn for protective equipment and for the development of a vaccine and new treatments. In order to be able to react flexibly and quickly to changes in the pandemic, a further €55bn is available in the federal budget for any additional requirements resulting from the COVID-19 pandemic. Of this, around €2.8bn has been earmarked to cushion the crisis-related loss of revenue and higher costs for hospitals and doctors.

On the other hand, the federal government is also mobilising massive amounts of funding to protect employees and their jobs, companies and the self-employed from the economic consequences of the COVID-19 pandemic. They need to withstand the crisis as well as possible so that they can contribute to the subsequent economic recovery. The aim is to maintain their productive potential until after the crisis.

The loan programmes of Germany's government-owned promotional bank KfW have been significantly expanded to provide liquidity for companies, the self-employed and freelancers. The government is assuming a significantly higher level of risk for these programmes. The volume of the various loan programmes is potentially unlimited. For this purpose, the guarantee framework in the 2020 federal budget has already been significantly increased under the supplementary budget. In addition, the federal government is establishing an Economic Stabilisation Fund that will provide large-scale assistance to large companies in particular, with the aim of stabilising the real economy as a whole. The fund has €100bn available for equity measures and €400bn for guarantees. In addition, it has up to €100bn at its disposal for refinancing of the KfW programmes mentioned above. The federal government is also providing up to €50bn in non-bureaucratic immediate assistance for small businesses, self-employed individuals and freelancers. Under the immediate assistance programme, one-off grants of up to €15,000 are provided to cover operating costs for three months, with the exact amount depending on the number of employees. In addition, a KfW Quick Loan Programme (*KfW-Schnellkredit*) has been launched as an important tool to provide rapid credit to small and medium-sized companies with 11 or more employees. The government will assume 100% of the credit risk on these loans.

The federal government is also strengthening the social safety net during the crisis. With retroactive effect from 1 March 2020, it has reduced the requirements for receiving short-time work benefit and expanded the short-time work scheme. Companies can now apply for access to the scheme if at least 10% of its employees are affected by work shortages. Affected companies can have wage costs and social security contributions paid by the Federal Employment Agency. Temporary and agency workers are also covered. Under the short-time work scheme, employees whose working hours are reduced generally receive 60% of the shortfall in their standardised net wages. This increases to 67% for households with at least one child.

An additional €7.5bn have been earmarked to provide easier access to basic benefits for jobseekers. The social protection package improves the social safety net, particularly for the self-employed. The temporary easing of requirements will also apply to the other basic social security systems. The federal government is also helping families by largely absorbing the loss of earnings of families resulting from the closure of schools or childcare facilities. This also applies to self-employed people and freelancers.

On the state revenue side, lower revenues are also contributing to economic stabilisation. Additional tax measures will be taken, as well. Companies of all sizes will be given tax-related assistance to improve their liquidity. For example, tax authorities are granting tax payment deferrals and adjusting tax prepayments. Enforcement measures for tax debts will be suspended for the moment.

The federal government will continue to do everything required and, if necessary, take further measures in coordination with the *Länder* and European and international partners in order to fight the COVID-19 pandemic and its economic consequences forcefully. With its supportive, responsible fiscal policies, the federal government is shoring up the country's economic foundation as a whole during the crisis, thus supporting the state's ability to act in the long term.

The fight against the COVID-19 pandemic and its economic consequences is the main focus of German fiscal policy. Nevertheless, longer-term goals are still being pursued. Germany's fiscal policies continue to meet the long-term requirements associated with advancing climate change. For example, the federal government intends to make available hundreds of billions of euros by 2030 under the Climate Action Programme 2030 alone. In addition, federal budget funds targeted towards investment will rise to a record level of €48.8bn in 2020. In this way, the Federation is contributing to a 4.8% rise in general government investment to a record €89.6bn in 2020. In addition, the federal government is providing important momentum on the revenue side by means of growth-friendly and socially equitable tax policies. This will strengthen social equity and social cohesion. A range of tax measures will benefit families and low and middle income earners in particular. In this way, the federal government's fiscal policies are enhancing the German economy's growth drivers and future viability while also strengthening social cohesion.

As a result of the strongly expansionary fiscal policy pursued in order to combat the COVID-19 pandemic and the considerable slowdown this year, the general government balance is projected to post a deficit of 7¼% of GDP by the end of 2020, based on a very preliminary assessment. The same preliminary assessment suggests that the general government debt-to-GDP ratio (Maastricht definition) will increase to 75¼% by the end of 2020. Both projections involve a high level of uncertainty and represent the state of planning on 27 March 2020.

The federal government's National Reform Programme (NRP), which was adopted on 1 April 2020 and will be submitted to the European Commission by the end of April, presents concrete measures implemented and planned by the federal government before the outbreak of the COVID-19 pandemic in Germany.

2. Aggregate economic conditions in Germany

2.1 Aggregate economic conditions in Germany in 2019

The German economy grew for the tenth successive year in 2019. However, economic momentum slowed noticeably. Real GDP was up by just 0.6% on the year, meaning that growth was significantly below that posted in previous years (2018: +1.5%). The main reason for the slower rate of growth was ongoing weakness in industry. The weakened global economy and slower global trade put a strain on export-oriented firms and also had a negative impact on suppliers and business-related services. There are also challenges resulting from structural changes in the automotive industry. However, the domestic economy acted as a driver of growth in 2019, supported by positive labour market trends and fiscal stimuli. Economic growth in 2019 was significantly below the potential output growth rate of 1.4%.

The overall expansion of the German economy was primarily driven by domestic economic forces. The sustained rise in employment as well as rising wages and salaries contributed to a stable consumer climate. In real terms, private consumption rose by 1.6% on the year. Government consumption expenditure rose by 2.6% in real terms and thus posted significantly stronger growth than in 2018. Construction investment also expanded at a higher rate than in the previous year and rose by 3.9% overall in real terms. Private construction investment was up by 3.6%, while public-sector construction investment increased by 6.2%. In contrast, investments in machinery and equipment experienced a noticeable loss of momentum as a result of the subdued global economy and slower industrial production. They grew by 0.6% in real terms. Overall, domestic demand rose by 1.0% on the year.

The labour market reacted to the decreased economic momentum in a robust way and continued to develop positively. Employment increased further and reached an annual average of 45.3m, the highest level since reunification. However, the rate of increase slowed noticeably, also as a result of the high employment level already achieved. As in previous years, employment growth was mainly driven by an increase in jobs that are subject to social security contributions. There was strong growth in the service sector, particularly in the area of qualified services and healthcare. Unemployment fell to around 2.27m in 2019. The average annual unemployment rate stood at 5.0%, 0.2 percentage points below the previous year's rate. Demand for labour remained at a high level overall, despite having weakened slightly. There are still labour supply shortages, especially in technical, construction, health and care professions.

The robust domestic economy contrasted with slower growth in export-oriented industry. Uncertainties emanating from the external economic environment (trade disputes, shaping of future relations with the UK) and global risks dampened sentiment in the manufacturing sector. The subdued pace of industrial activity was reflected in a slowdown in export growth. The overall increase of 0.9% in real exports in 2019 was significantly weaker than in the previous year. Import growth also lost momentum, although real imports were up by 1.9% and thus expanded at a considerably higher rate than exports. In purely arithmetic terms, the external balance of goods and services therefore decreased GDP growth by 0.4 percentage points.

On average, consumer prices rose by 1.4% on the year in 2019. The reason for this moderate increase was the restrained rise of 1.3% in energy prices compared with the previous year (in 2018, energy prices increased by 4.6%). Core inflation, which excludes food and energy prices, stood at 1.4% on average in 2019.

2.2 Short- and medium-term outlook for the aggregate economy, 2020 to 2024

Germany has a full decade of continuous economic growth behind it. Employment trends and GDP growth were positive overall, with stimuli from the domestic economy providing momentum. However, the global outbreak of the COVID-19 pandemic is expected to result in a drastic decline in growth for the German economy.

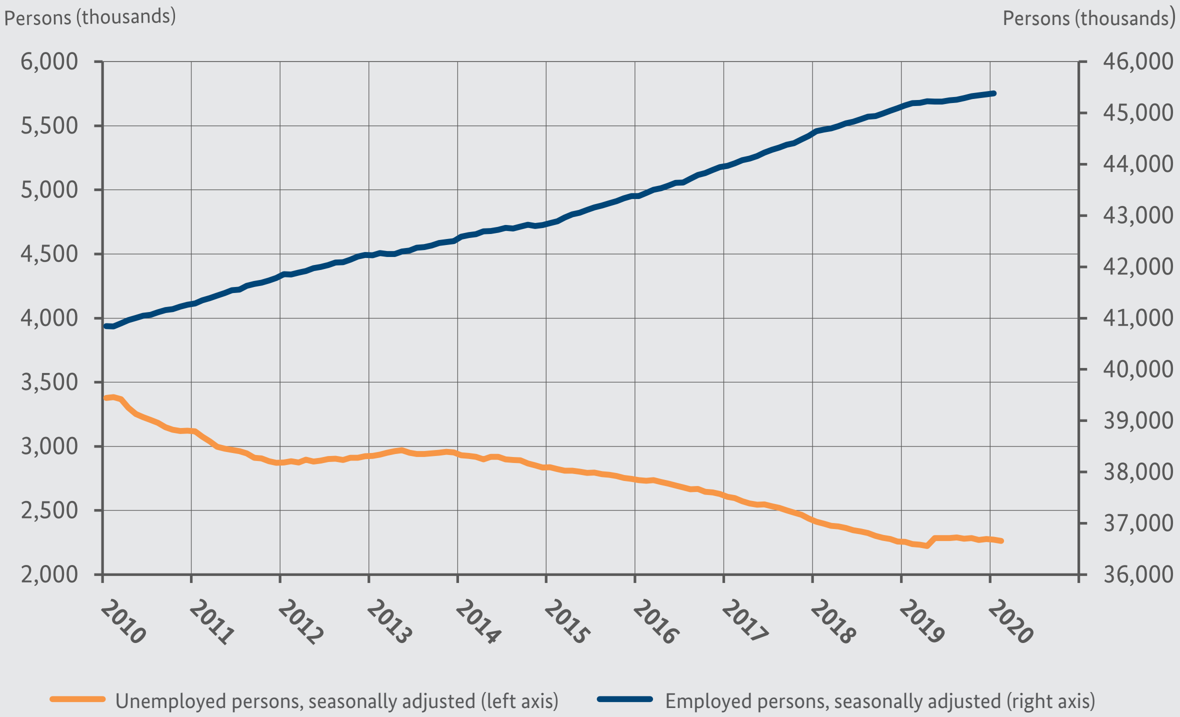
The foundations of the German economy are strong. Unemployment has been low recently, there has been a sharp rise in collectively agreed wages, and companies strengthened their equity base in the past. Public budgets have built up high reserves as a result of significant surpluses. This creates a good basis for overcoming our current challenges.

With the spread of the novel coronavirus in many parts of the world, numerous countries have taken measures to contain the pandemic. The aim is to reduce social contact in the public sphere. The measures severely restrict activity in many economic sectors.

In view of the fast-moving situation and the fact that there is still insufficient data available, it is currently practically impossible to estimate the economic impact of the pandemic. The tables in the annex therefore contain the figures stated in the annual projection published at the end of January 2020. To determine the economic basis for the supplementary budget, only the expectations regarding the overall development of the economy were updated. No projection was created for this; instead, due to the lack of data, growth assumptions were made for 2020 based on experience from the 2009 economic and financial crisis. Assumptions for 2021 have not yet been altered, because of the high level of uncertainty about the intensity and duration of the negative macroeconomic effects.

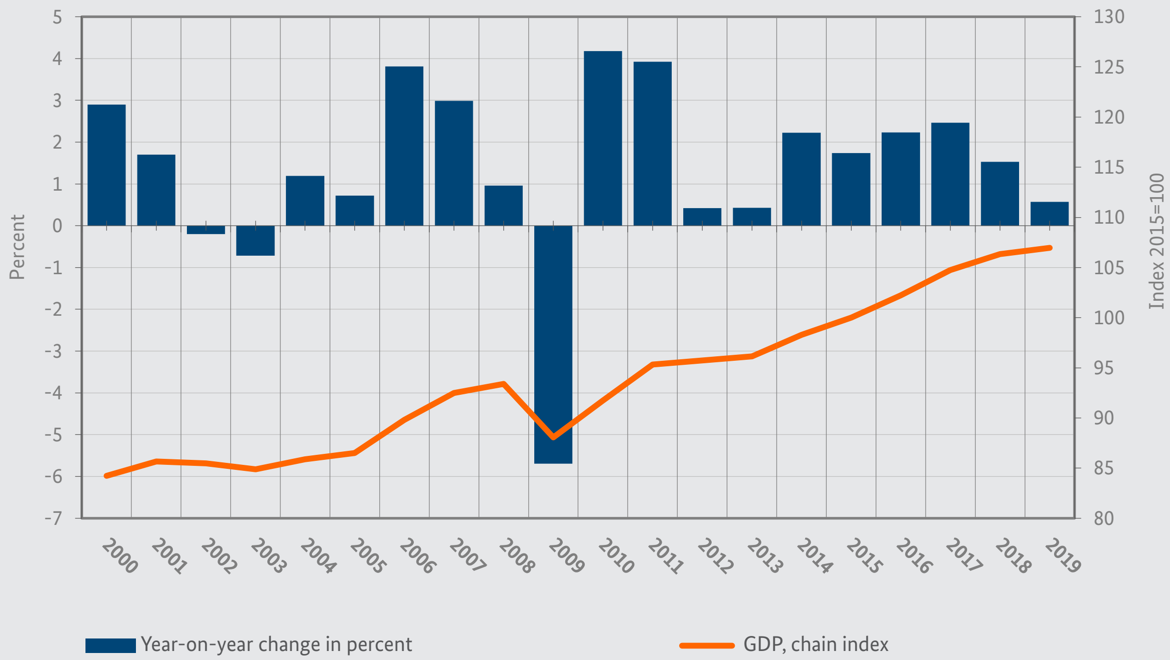
At the end of April 2020, the federal government will publish its assessment of economic situation for 2020 and 2021 in its spring projection, based on the information available up to that point.

Figure 1: Labour market trends in Germany



Sources: Federal Employment Agency, Federal Statistical Office, February 2020

Figure 2: Real GDP



Source: 2000-2019: Federal Statistical Office, January 2020

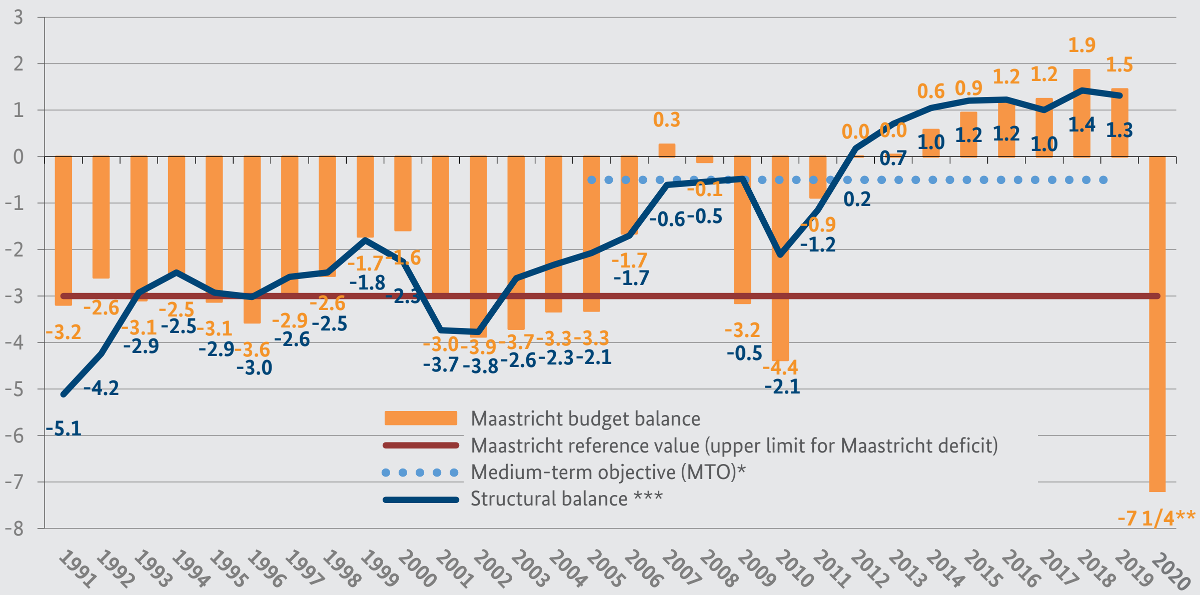
3. German fiscal policy in the European context

3.1 The rules of the Stability and Growth Pact and the Fiscal Compact and their implementation in Germany

The Stability and Growth Pact (SGP) requires member states to bring their budgets close to balance over the medium term and to set their own binding targets to this end. The SGP also sets upper limits on budget deficits and debt ratios. Compliance with these targets and limits serves to safeguard each euro member state's capacity to act. On 13 March 2020, the European Commission announced in its Communication on a coordinated economic response to the COVID-19 outbreak that it intends to make full use of the flexibility of the EU fiscal framework. On 20 March 2020, the European Commission stated in its Communication on the activation of the general escape clause of the Stability and Growth Pact that, given the expected severe economic downturn, the conditions for activating the general escape clause had been met. It also stated that the general escape clause would not suspend the procedures of the Stability and Growth Pact. On 23 March, the ECOFIN Council agreed with the European Commission that the conditions for applying the general escape clause of the EU fiscal framework – a severe economic downturn in the euro area or the Union as a whole – had been met. It added that this activation would allow member states to depart temporarily from the budgetary requirements that would normally apply, thus enabling them to tackle the economic consequences of the pandemic. It went on to say that decisive action is needed to ensure that the shock remains as short and as limited as possible and does no permanent damage to the economies and therefore to the sustainability of public finances in the medium term. The ECOFIN Council remains fully committed to compliance with the Stability and Growth Pact.

Germany once again fully complied with the rules of the Stability and Growth Pact in 2019. It kept its nominal deficit well below the upper limit of 3% of GDP. The actual general government fiscal balance of the Federation, *Länder*, local authorities and social security funds, including off-budget entities, stood at +1.4% of GDP in 2019. As shown in **Figure 3**, the general government budget recorded a structural surplus of 1.3% of GDP in 2019.

Figure 3: Comparison of structural and actual fiscal balance (in % of GDP)



* Medium-term objective according to section 51 (2) of the Budgetary Principles Act = upper limit for structural deficit.
** The projection for 2020 is extremely uncertain and reflects the status of planning on 27 March 2020 (cf. section 4.2).
*** It is not possible to calculate a structural balance for 2020 as a result of an incomplete economic basis.

Sources: Data up to 2019: Federal Statistical Office, February 2020;
2020: Federal Ministry of Finance projection, April 2020

Alongside sustained GDP growth, the general government budget surpluses of recent years have contributed significantly to reducing the debt-to-GDP ratio, which is on a sustained downward path. In 2019, the debt-to-GDP ratio fell by 2.1 percentage points to 59.8%.

3.2 Fiscal situation and strategic direction

In accordance with the results of the Eurogroup's deliberations on 4 March 2020 and 16 March 2020, the EU member states have agreed on the following approach:

"All national authorities will allow automatic stabilisers to function and in addition implement all necessary measures to ensure that the economic consequences of COVID-19 are tackled and that they do not put in danger our economic and social achievements. To the extent required by the evolving situation in each country, they will implement temporary measures such as:

- *Immediate fiscal spending targeted at containment and treatment of the disease. Adequate resources will be provided to our health sectors and civil protection systems;*
- *Liquidity support for firms facing severe disruption and liquidity shortages, especially SMEs and firms in severely affected sectors and regions, including transport and tourism – this can include tax measures, public guarantees to help companies to borrow, export guarantees and waiving of delay penalties in public procurement contracts;*
- *Support for affected workers to avoid employment and income losses, including short-term work support, extension of sick pay and unemployment benefits and deferral of income tax payments."*

The federal government is following this approach and is also using fiscal policy measures to counter the pandemic. In order to protect the health of citizens, support jobs and companies and preserve social cohesion, the federal government launched a package of measures on a historic scale.

The COVID-19 pandemic is likely to result in a significant economic slowdown. The German economy has been growing for many years. At the same time, the sound fiscal policies of recent years have steadily increased the resilience of German public finances.

The federal government is therefore able to support people and the economy both during the short-term response to the crisis and after the acute phase of the crisis is over. It is taking all necessary steps to counter the COVID-19 pandemic and to curb its economic consequences.

Under the supplementary budget for 2020, the federal government has been authorised to borrow approximately €156bn. To make this possible, the German Bundestag has given the federal government permission to exceed the otherwise binding borrowing limit of 0.35% of GDP this year, based on the exception for unusual emergency situations enshrined in Article 115 (2) of the Basic Law (see **Figure 4**). This means that automatic stabilisers can function without restrictions. The assistance package finances measures to secure the provision of healthcare in times of crisis as well as measures to protect employees, companies and the self-employed. The aim is to maintain the productive potential of the German economy until after the crisis.

The federal government is also strengthening welfare provisions during the crisis. It has ensured easier access to basic security systems and housing benefit. Access to the child supplement has also been simplified. In addition, measures have been adopted to protect employees and tenants who are facing financial difficulties. The federal government has also ensured that any wage losses resulting from a lack of childcare are compensated for at a rate of 67%. The federal government will continue to do everything required and, if necessary, will take further measures in coordination with the *Länder* and European and international partners in order to fight the COVID-19 pandemic and its economic consequences forcefully.

At the same time, the federal government's fiscal policies are enhancing the German economy's growth drivers and future viability while also strengthening social cohesion, in particular by increasing public investment in the areas of infrastructure, affordable housing, education and research, and climate action. The federal government is making an important contribution to dealing with the challenges of the future by increasing federal investment spending, thereby promoting innovation, sustainable growth and social cohesion. Investments in the federal budget are rising to a record level of €48.8bn in 2020. In this way, the government is contributing to a 4.8% rise in general government investment to a record €89.6bn in 2020.

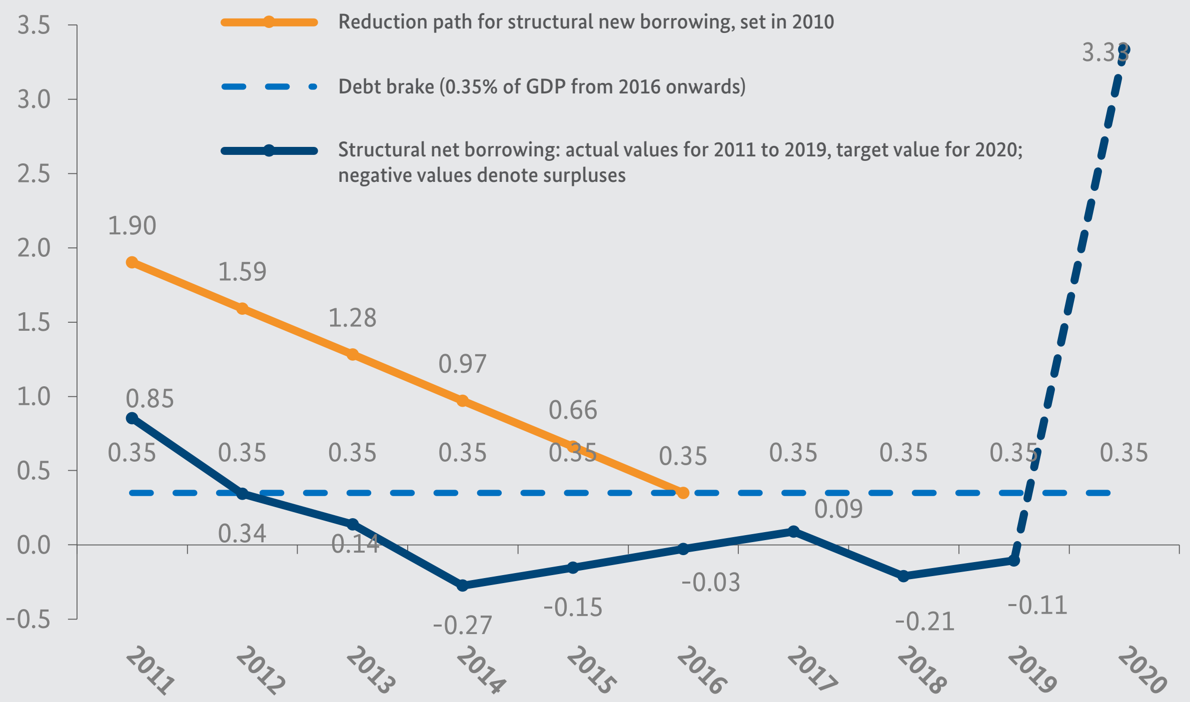
A major portion of the required investment pertains to functions that are in the remit of the *Länder* and local authorities. The federal government will continue to provide comprehensive support to the *Länder* and local authorities for their investment activities.

The federal government's fiscal policies support sustainable, eco-friendly economic and social change. They are making it possible to reach national and international climate targets while maintaining and promoting economic performance and social cohesion. To this end, the federal government intends to make available hundreds of billions of euros by 2030 under the Climate Action Programme 2030 alone.

It is the federal government's declared aim to safeguard and strengthen social equity in times of profound structural change. To this end, government support for continuing education and training is being expanded further. In addition, more funding is being provided for the integration of the long-term unemployed into the labour market, and pensions are being improved, not least through the introduction of a basic pension. With the help of tax measures totalling well over €25bn per year in the current legislative term, the federal government is increasing disposable incomes, especially for families and lower and middle income groups. This includes measures such as abolishing the solidarity surcharge for more than 90% of wages tax payers and income tax payers who were previously subject to it, as well as increasing child benefit, tax-free child allowance and the basic personal allowance.

With its supportive, responsible fiscal policies, the federal government is shoring up the country's economic foundation during the crisis. In doing so, it is also supporting the state's ability to act in the long term. In addition, the government is strengthening Germany's future viability through its contribution to maintaining steady, high public investment levels. Through this and other measures, it is working to ensure that future generations have both a functioning community and a prospering economy. Ensuring that social security systems remain viable continues to be an important aim.

Figure 4: Change in the Federation's structural net borrowing (in % of GDP)



The financial balances of the Energy and Climate Fund (2011 onwards), the Aufbauhilfefonds (a special relief fund established to remedy the damage caused by the June 2013 floods in Germany, 2013 onwards) and the Local Authority Investment Promotion Fund (Kommunalinvestitionsförderungsfonds, a special fund to promote investment at the local authority level, 2015 onwards), the Digital Infrastructure Fund (2018 onwards), and the special fund for the expansion of full-day education and childcare for primary school-aged children (2020 onwards), all of which are relevant for determining the Federation's structural deficit, are taken into account.

Source: Federal Ministry of Finance

4. General government budget balance and debt level projection

Medium-term objective

Germany's medium-term objective is an upper limit for the structural general government budget deficit of 0.5% of GDP.

4.1 Overview of the year 2019

General government surplus in 2019: 1.4% of GDP

Germany recorded a general government surplus for the eighth consecutive year in 2019, at 1.4% of GDP. This was lower than the 1.9% surplus recorded in 2018. The outcome for 2019 was driven by both expenditure and revenue trends. Expenditure increased by 4.6% in 2019 – a much higher rate than in 2018 – particularly due to an appreciable rise of 4.9% in social spending. The continued increase in gross capital formation (+8.8%) boosted the upward trend in expenditure. Revenue increased at a rate of 3.6%, significantly lower than in the previous year, in particular due to significantly lower growth in tax revenue. While the expenditure ratio climbed markedly to 45.4% (up from 44.6% in 2018), there was only a slight increase in the revenue ratio – which, in addition to revenue from taxes and social security contributions, also includes other government revenue such as revenue from business activities and fees – to 46.8% (up from 46.4% in 2018). The tax-to-GDP ratio (based on the definition used in the national accounts) remained unchanged compared with the previous year, at 24.2%.

The structural balance again recorded a surplus in 2019, at 1.3% of GDP. The structural balance is determined by adjusting the nominal balance for cyclical and one-off effects in accordance with the EU's standardised method.

Debt ratio lower than 60% of GDP

At the end of 2019, Germany's debt-to-GDP ratio stood at 59.8%. This means that it was below the Maastricht reference value of 60% for the first time since 2002. In the aftermath of the global financial crisis, the debt-to-GDP ratio rose to 82.4% in 2010. Germany has succeeded in reducing this ratio on a continuous basis since 2013. The lower debt ratio strengthens Germany's ability to react decisively to the current challenges posed by the COVID-19 pandemic without endangering the stability of public finances over the long term.

4.2 Outlook for 2020 and medium-term trends

The projection in the Stability Programme in April of each year is usually based primarily on the current year's federal budget (approved by the Bundestag in the previous year), the federal government's benchmark figures decision for the following year's federal budget, and the medium-term fiscal plan for the next three years. The benchmark figures decision is based on the federal government's annual projection on macroeconomic trends (published every January for the current year) and the tax revenue estimates that are subsequently updated to take account of the annual projection.

The current benchmark figures for the 2021 federal budget and the medium-term fiscal plan up to 2024 were adopted by the federal government on 18 March 2020. However, the benchmark figures did not include the negative effects resulting from the COVID-19 pandemic, as it was not possible to quantify the effects at that time. The federal government's annual projection published in January 2020 forecast that GDP would grow by 1.1% in real terms and 2.9% in nominal terms in 2020. On this basis, there would have been a general government surplus in 2020. However, this surplus would have been considerably smaller than the surplus posted in 2019. In the subsequent years of the fiscal planning period, the general government budget would have remained close to balance, and the debt-to-GDP ratio would have declined to approximately 51½% by 2024.

The benchmark figures decision of 18 March 2020 has largely become obsolete due to the need to adopt far-reaching fiscal measures in response to the COVID-19 pandemic. The effects of the pandemic, and the costs of measures to fight these effects, made it necessary to prepare and adopt a supplementary budget for 2020. Taking this into account, the projection shown below focuses on the year 2020.

Effects of fiscal measures taken in 2020 in response to the COVID-19 pandemic

In response to the COVID-19 pandemic, the federal cabinet adopted a supplementary budget for 2020 on 23 March 2020. After it was passed by the Bundestag on 25 March 2020, the supplementary budget entered into force with retroactive effect as of 1 January 2020. The supplementary budget provides for net borrowing of €156.0bn[1]. The supplementary budget is based on the government's updated expectations for the economy's performance (compared with the January annual projection) and draws on the experiences gained during the financial and economic crisis of 2009. The expected declines in Federation, *Länder* and local authority tax revenue were determined on this basis.

In addition to the supplementary budget, the Bundestag also passed the Economic Stabilisation Fund Act (*Wirtschaftsstabilisierungsfondsgesetz*). Furthermore, additional legislation has been adopted in response to the COVID-19 pandemic in order to expand social security and strengthen the healthcare system.

The impact that these measures to combat the COVID-19 pandemic (which are explained in detail in section 1) will have on public finances is shown in **Table 1** and **Table 2**. The tables also show the costs of measures taken by other government levels in addition to the Federation. The information provided for federal measures and for social security measures is current as of the date when the supplementary budget was adopted. The information for the *Länder* and local authorities is based on plans and drafts prepared at the same time.

1 The 2020 budget adopted by the Bundestag on 21 December 2019 provided for no net borrowing.

Table 1: Discretionary measures in response to the COVID-19 pandemic					
Measure	Volume in €bn	ESA code	Status	Effect on general government finances (in % of GDP)[1]	
				Fiscal balance	Debt ratio
Federal budget	**155.8**			**-4.6**	**4.7**
Additional expenditure based on supplementary budget, of which:	122.3		Entered into force with retroactive effect from 1 January	-3.6	3.7
Immediate assistance for small companies and self-employed individuals	50	D.39		-1.5	1.5
Other assistance	55	D.39/ D.7		-1.7	1.7
Unemployment benefit II (basic income support), housing and heating costs	7.5	D.62		-0.2	0.2
Indemnifications arising from domestic guarantees	1.6	D.9		-0.0	0.0
Indemnifications arising from foreign guarantees	4.3	F.4		-	0.1
Other	3.9	P.2, P.5, D.62, D.7		-0.1	0.1
Tax measures and other reductions in tax revenue[2]	33.5	D.2, D.5	Entered into force on 19 March	-1.0	1.0
Economic Stabilisation Fund	**200**		Entered into force on 28 March	-	**6.0**
Acquisition of capital instruments and holdings	100	F.3, F.5[3]		-	3.0
Refinancing of KfW programmes[4]	100	F.4		-	3.0
Länder	**65.2**		n. a.	**-1.6**	**2.0**
Budgetary measures, immediate assistance, liquidity support, holdings, loans, of which:	31.1			-0.6	0.9
Ongoing grants and subsidies	18.0	D.7		-0.5	0.5
Loans and holdings	12.7	F.4, F.5		-	0.4
Other	0.4	D.1, P.2, P.5, D.9		-0.0	0.0
Tax measures and other reductions in tax revenue[2]	34.1	D.2, D.5	Entered into force on 19 March	-1.0	1.0

Table 1: Continuation

Measure	Volume in €bn	ESA code	Status	Effect on general government finances (in % of GDP)[1]	
				Fiscal balance	Debt ratio
Local authorities	**17.0**			**-0.5**	**0.5**
Housing and heating costs	2.1	D.62	Entered into force on 28 March	-0.1	0.1
Tax measures and other reductions in tax revenue[2]	14.9	D.2, D.5	Entered into force on 19 March	-0.5	0.5
Social security[5]	**15.3**			**-0.5**	**-**
Compensation for short-time work	4.1	D.62	Entered into force with retroactive effect from 1 March	-0.1	-
Reimbursement of social security contributions	6.0	D.39		-0.2	-
Additional expenditures for statutory health insurance and long-term care insurance	5.2	D.1, D.61, D.63, D.7, P.2	Entered into force on 28 March	-0.2	-
Total	**453.3**			**-7.2**	**13.2**

Current as of 27 March 2020. Discrepancies may occur as a result of rounding.

1 The reference point is the 2020 supplementary budget's underlying assumption for nominal GDP in 2020.
2 Positive values indicate reductions in revenue. The reductions in tax revenue shown here are provisional interim figures that were available at the time when the supplementary budget was adopted. These reductions in revenue result in part from specific tax measures: The Federal Ministry of Finance, in agreement with the highest revenue authorities of the *Länder*, issued rules providing tax relief for taxpayers affected by the coronavirus crisis.
3 Section 14 (3) no 3 of the Economic Stabilisation Fund Act stipulates that the minimum value for takeover offers by the Economic Stabilisation Fund must be based on the weighted average domestic exchange price during the last two weeks before the intention to make a takeover offer was announced or became known. In this respect, a financial transaction can generally be assumed. Deviations may occur on the basis of case-by-case evaluations.
4 The loans will be used to refinance the special programmes assigned by the federal government to KfW in response to the coronavirus crisis.
5 In addition, the projection takes into account reduced revenue and increased expenditure caused by the economic downturn. Deficits in social security schemes will be offset by reserves and will thus have no effect on the debt ratio.

Table 2: Guarantees in response to the COVID-19 pandemic[1]

Measure	Maximum amount €bn	Maximum amount % of GDP	Status
Federation: expansion of guarantee framework, of which:	356.5	10.8	Entered into force with retroactive effect as of 1 January
Domestic guarantees including KfW special programme (€93bn), guarantee banks, high-volume guarantees, agriculture, ERP private equity programme (ERP-Beteiligungsprogramm), etc.[2]	300.0	9.1	
Other guarantee matters	56.5	1.7	
Economic Stabilisation Fund: guarantees provided to companies	400	12.2	Entered in to force on 28 March
***Länder*: expansion of guarantee framework**	63.2	1.9	n. a.
Total	819.7	24.9	

Current as of 27 March 2020.

1 The issuing of guarantees does not have an impact on the budget. An impact on the budget does not occur unless a guarantee claim is made.
2 Some of the guarantees are for loans issued by KfW.

Trends in public finances in 2020, taking into account the fiscal effects of the COVID-19 pandemic

Taking into account the fiscal effects of the COVID-19 pandemic, the general government budget will record a marked deficit this year. Based on the measures adopted to date (shown in **Table 1**) and the estimated additional effects, the federal government expects a deficit of 7¼% of GDP in 2020 (see **Figure 3**). The debt-to-GDP ratio will increase to roughly 75¼%. Projections are highly uncertain at this point in time.

Outlook for 2021 and medium-term trends

The fiscal implications of the COVID-19 pandemic for the year 2021 and for medium-term trends cannot be projected at this stage. The federal government will issue a spring projection on 29 April 2020. The results of the Working Party on Tax Revenue Estimates will be published on 14 May 2020 and will take into account the effects of the crisis for the first time. In addition to the measures detailed here, the federal government is considering further measures to support the economy.

The federal government is expected to adopt the 2021 draft budget in the second half of September[2]. To this end, the federal government plans to prepare an additional macroeconomic projection and to update its tax revenue expectations during the summer. The foreseeable effects of the COVID-19 pandemic for the year 2021 can then be included in the draft budgetary plan for 2021.

2 The cabinet decision was originally planned for 17 June 2020.

Annex

Table 3: Forecast of macroeconomic trends[1]

	ESA Code	2019 Index 2010=100	2019 Change in % p.a.	2020[2] Change in % p.a.	2021 Change in % p.a.
1. Real GDP, chain index	B1g	116.59	0.6	-6.0	n. a.
2. GDP in respective market prices (€bn)	B1g	3,436.0	2.7	-4.2	n. a.
Real utilisation of GDP, chain index					
3. Private consumption expenditure[3]	P.3	113.90	1.6	n. a.	n. a.
4. Government consumption expenditure	P.3	120.15	2.5	n. a.	n. a.
5. Gross fixed capital formation	P.51	125.28	2.5	n. a.	n. a.
6. Changes in inventories (GDP growth contribution)	P.52 + P.53	-		n. a.	n. a.
7. Exports	P.6	137.73	0.9	n. a.	n. a.
8. Imports	P.7	140.58	1.9	n. a.	n. a.
Contributions to real GDP growth[4]					
9. Final domestic demand		-		n. a.	n. a.
10. Changes in inventories	P.52 + P.53	-		n. a.	n. a.
11. External balance of goods and services	B.11	-		n. a.	n. a.

1 2019: Federal Statistical Office. Current as of February 2020.
2 Ad hoc assumptions for the Federation's 2020 supplementary budget.
3 Including private non-profit organisations serving households.
4 Contribution to GDP growth rate.

Table 4: Price trends – deflators[1]

	ESA Code	2019	2019	2020[2]	2021
		Index (2010=100)	Change in % p.a.		
1. GDP		106.02	2.2	1.8	n. a.
2. Private consumption expenditure[3]		105.03	1.3	n. a.	n. a.
3. Government consumption expenditure		106.37	2.4	n. a.	n. a.
4. Gross fixed capital formation		107.61	2.6	n. a.	n. a.
5. Exports		102.62	0.8	n. a.	n. a.
6. Imports		101.81	-0.1	n. a.	n. a.

1 2019: Federal Statistical Office. Current as of February 2020.
2 Based on ad hoc assumptions for the Federation's 2020 supplementary budget.
3 Including private non-profit organisations serving households.

Table 5: General government budgetary prospects					
	ESA Code	2019	2019	2020	2021
		in €bn	in % of GDP		
Net lending (+) / net borrowing (-) (EDP B.9) by sub-sector					
1. General government	S. 13	49.8	1.4	-7¼	n. a.
2. Central government	S. 1311	20.1	0.6	-4¾	n. a.
3. State government	S. 1312	13.6	0.4	-1¼	n. a.
4. Local government	S. 1313	6.2	0.2	-¼	n. a.
5. Social security funds	S. 1314	9.9	0.3	-¾	n. a.
General government (S.13)					
6. Total revenue	TR	1,608.6	46.8	47¼	n. a.
7. Total expenditure	TE[1]	1,558.8	45.4	54½	n. a.
8. Net lending/borrowing	B.9	49.8	1.4	-7¼	n. a.
9. Interest expenditure	D. 41	27.5	0.8	¾	n. a.
10. Primary balance[2]		77.3	2.3	-6½	n. a.
11. One-off and other temporary measures[3]		-0.2	0.0	0	n. a.
Selected components of revenue					
12. Total taxes (12=12a+12b+12c)		832.8	24.2	23½	n. a.
12a. Taxes on production and imports	D.2	368.6	10.7	10¼	n. a.
12b. Current taxes on income, wealth, etc.	D.5	457.3	13.3	12¾	n. a.
12c. Capital taxes	D.91	7.0	0.2	¼	n. a.
13. Social security contributions	D.61	597.8	17.4	18¼	n. a.
14. Property income	D.4	21.7	0.6	¾	n. a.
15. Other[4]		156.2	4.5	4¾	n. a.
16. = 6. Total revenue	TR	1,608.6	46.8	47¼	n. a.
p.m.: tax burden (D.2+D.5+D.61+D.91-D.995)[5]		1,423.7	41.4	41½	n. a.

Table 5: Continuation

	ESA Code	2019	2019	2020	2021
		in €bn	in % of GDP		
Selected components of expenditure					
17. Compensation of employees + intermediate consumption	D.1+P.2	451.5	13.1	14½	n. a.
17a. Compensation of employees (€bn)	D.1	271.7	7.9	8¾	n. a.
17b. Intermediate consumption	P.2	179.8	5.2	5¾	n. a.
18. Social payments (18=18a+18b)		845.9	24.6	27¾	n. a.
of which: unemployment benefits[6]		48.0	1.4	1½	n. a.
18a. Social transfers in kind - purchased market production	D.632	299.7	8.7	9¾	n. a.
18b. Social transfers other than in kind	D.62	546.2	15.9	18	n. a.
19. = 9. Interest expenditure	D.41	27.5	0.8	¾	n. a.
20. Subsidies	D.3	31.7	0.9	3½	n. a.
21. Gross fixed capital formation	P.51	85.5	2.5	2¾	n. a.
22. Capital transfers	D. 9	39.6	1.2	1¼	n. a.
23. Other[7]		77.1	2.2	4	n. a.
24. = 7. Total expenditure	TE[1]	1,558.8	45.4	54½	n. a.
p.m.: Government consumption (nominal)	P.3	699.4	20.4	22½	n. a.

1 Adjusted by the net amount of payments in connection with swaps, so that TR – TE = B.9.
2 The primary balance corresponds to (B.9. line 8) plus (D.41. line 9).
3 A plus sign means deficit-reducing one-off measures.
4 P.11 + P.12 + P.131 + D.39 + D.7 + D.9 (except D.91).
5 Including those collected by the EU and including an adjustment for uncollected taxes and social security contributions (D.995), if appropriate.
6 Includes cash benefits (D.621 and D.624) and in-kind benefits (D.631) related to unemployment benefits.
7 D.29 + D4 (except D.41) + D.5 + D.7 + P.52 + P.53 + K.2 + D.8.

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