Federal Ministry
of Finance

German Stability Programme

2022

STABI
LITÄT

German Stability Programme

2022 Update

(and updated German Draft Budgetary Plan 2022)

Contents

Tables

Tables Annex A

Tables Annex B

Figures

Preface to the German Stability Programme for 2022

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 27 April 2022. The programme follows the *Guidelines on the format and content of Stability and Convergence Programmes* (Code of Conduct). 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 also 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 2022 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 projection of budgetary trends at all levels of government contained in the Stability Programme are based on (a) the federal government's annual projection on macroeconomic trends of 26 January 2022, (b) the results of the Working Party on Tax Revenue Estimates of 11 November 2021, as subsequently updated to take account of the federal government's annual projection, (c) the second government draft of the federal budget for 2022 prepared on this basis and adopted by the federal government on 16 March 2022, and (d) the benchmark figures for the government draft of the 2023 federal budget and the fiscal plan to 2026. The planned special fund for the Bundeswehr and the governing parties' decision of 23 March on a "Package of federal government measures to manage high energy costs" were also taken into account. In December 2021, at the very start of the legislative term, the federal government allocated an additional €60bn to the special Energy and Climate Fund in the second 2021 supplementary budget to counter the pandemic-related reluctance to invest and to provide an additional economic stimulus to mitigate the effects of the pandemic. These funds also form part of the federal government's current budget and financial plan. The reference date for the projection is 31 March 2022.

In addition to the Stability Programme, this document also contains an update of the German Draft Budgetary Plan 2022 of the general government of October 2021. According to the Code of Conduct on the implementation of Regulation (EU) No 473/2013, an update of the Draft Budgetary Plan must be submitted as soon as a new government is in office, in addition to the submission each October. For this reason, the tables in the Annex also contain the Draft Budgetary Plan tables in accordance with the Code of Conduct.

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

https://www.bundesfinanzministerium.de/stabilitaetsprogramme

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[1]:

https://www.bundesfinanzministerium.de/stabilitaets-und-konvergenzprogramme-der-eu

1 This URL redirects to the website of the European Commission.

1. Summary

The spring of 2022 is overshadowed by Russia's attack on Ukraine, which is in violation of international law. Our solidarity is with the people of Ukraine, with those being forced to leave their country and their homes to save their lives, with those who are risking their lives fighting for freedom, and with those who are grieving the loss of loved ones. The consequences of Russia's war of aggression against Ukraine give rise to new political challenges that require forward-looking fiscal policies. In times of great uncertainty, it is important to maintain stability and safeguard our capacity to act.

The federal government's fiscal policies remain focused on minimising the health, social and economic impacts of the COVID-19 pandemic. Measures to support the economy are being continuously adapted to the pandemic situation and will be continued for as long as necessary. In 2021, the federal government adopted two supplementary budgets to finance immediate crisis response measures, such as the temporary aid programmes, as well as measures to mitigate the pandemic's medium- to long-term impact on aggregate investment. Given the significant rise in infection numbers in early 2022 and the associated uncertainty regarding the economic situation, the new federal government has decided to extend the ongoing grant programmes for businesses and the pandemic-related special rules governing the short-time work scheme, among other things.

According to the cabinet decision on the benchmark figures for the 2023 federal budget and the fiscal plan to 2026, Germany will return to the regular borrowing limit under the debt rule in 2023. Germany will reduce its debt ratio, which has risen as a result of the pandemic, by running lower deficits in the future while providing targeted growth stimuli. In this way, Germany will reinforce its role as an anchor of stability within the European Union. At the same time, sound budgetary policies are necessary to ensure that public finances are prepared for future crises and fiscal stability can be maintained. That is why all expenditures are being reviewed and reprioritised on the basis of the coalition agreement. The principles behind our budgetary and fiscal policies are fiscal solidity and the efficient use of taxpayer money.

This prioritisation is happening at a time of historic challenges. The invasion of Russian troops in Ukraine has fundamentally changed the security situation in Europe and made it clear how crucial it is to protect freedom and democracy and to have the necessary defensive capabilities for this purpose. This requires state-of-the-art, innovative armed forces that, in particular, possess full operational capability. We must ensure that Germany is able to fulfil its mutual defence obligations within NATO without any restrictions.

On 27 February 2022, Federal Chancellor Olaf Scholz and Finance Minister Christian Lindner therefore announced plans to set up a special fund totalling €100bn to modernise the Bundeswehr. On 16 March 2022, the federal cabinet adopted the Act Establishing a Special Fund for the Bundeswehr (*Gesetz zur Errichtung eines Sondervermögens Bundeswehr*) and the Act Amending the Basic Law (Article 87a) (*Gesetz zur Änderung des Grundgesetzes (Artikel 87a)*). The special fund provides €100bn on a one-off basis, primarily to finance complex and important multi-year Bundeswehr equipment projects. In this way, the federal government is strengthening Germany's defensive capabilities and ensuring that the Bundeswehr can meet its alliance obligations. To cover the special fund's expenditures, the Federal Ministry of Finance will be authorised to borrow up to €100bn. The amendment to the Basic Law (*Grundgesetz*) creates the constitutional basis for the special fund. The borrowing authorisation for the special fund is exempted from the borrowing limit under Germany's debt rule.

Moreover, the federal government is implementing measures aimed at mitigating the humanitarian, social and financial impact of Russia's attack on Ukraine. In particular, the targeted measures to minimise the financial impact of the higher energy costs resulting from Russia's attack on Ukraine were selected in such a way as to maintain the price incentives for energy savings and to avoid additional oil and gas price increases. At the same time, the federal government is redoubling its humanitarian efforts in connection with Russia's attack on Ukraine. It will introduce the required resources into parliamentary deliberations on the 2022 federal budget in the form of a supplementary budget.

The new federal government has set itself the task of making public finances fit for the future again over the next four years, following three exceptional years of high debt. Within the confines of the debt rule under the Basic Law, it will make important investments to support the economic recovery as well as Germany's green and digital transformations. The geopolitical situation underlines the urgency of accelerating the phase-out of fossil fuels and the expansion of renewables. Because forward-looking private-sector spending makes up the lion's share of aggregate investment and is crucial for the success of this transformation, the federal government's fiscal policies are innovation-friendly and designed to unleash private-sector potential by encouraging initiative and creativity.

Targeted public investments and simultaneous efforts to activate private-sector investments are crucial in order to create planning certainty at an early stage and maintain the competitiveness of the German economy. After all, many investments, both public and private, were neglected during the COVID-19 crisis due to pandemic-related restrictions and economic uncertainties. That is one of the reasons why, in December 2021, the federal government adopted a second draft supplementary budget for 2021. The second supplementary budget was promulgated on 25 February 2022. It includes an additional €60bn for the Energy and Climate Fund, which will be developed into the Climate and Transformation Fund, without increasing the borrowing authorisation that had already been decided by the German Bundestag. The additional allocation to the future Climate and Transformation Fund will help overcome the consequences of the pandemic by enabling the short- and medium-term financing of expenditures aimed at mitigating the economic impact of the pandemic-related emergency situation. The funds will be used for catch-up investments to tackle climate change and transform the German economy as well as for the abolition of the EEG surcharge (a levy on electricity consumers), which will boost demand among private consumers and SMEs.

Growth-friendly fiscal policies also include relief for citizens and businesses currently facing rising prices, especially for energy products. Energy price increases could also weaken the economic recovery after the COVID-19 crisis. That is why the coalition decided on 23 February 2022 to abolish the EEG surcharge as of 1 July 2022, to increase the basic personal allowance and the standard allowance for employees, and to raise the allowance for long-distance commuters. The government draft of the Fourth Coronavirus Tax Assistance Act (*Viertes Corona-Steuerhilfegesetz*) swiftly introduced tax relief measures. Among other things, this piece of legislation contains an extension of the tax allowance for working from home and an extension of the option to offset losses, extended deadlines for filing tax returns, tax-free top-ups for short-time work benefit, and a tax exemption for bonus payments of up to €3,000 for carers.

On 23 March 2022, the coalition committee adopted further measures aimed at providing relief to the broad majority of society in view of the high energy prices. They also aim to make Germany more resilient and more independent of energy imports from Russia. These measures include a €300 energy price allowance, a one-off bonus of €100 per child (child bonus) in addition to child benefit payments, an additional one-off €100 for recipients of transfer benefits, a reduction of energy duty for fuel to the European minimum amount for a limited period of three months, and the introduction of a public transport ticket for €9 per month for 90 days (“9 for 90”).

Long-term fiscal stability is a basic precondition for maintaining the capacity to take effective fiscal policy action. This stability is recorded in Germany’s Stability Programme, which documents the solid development of Germany’s public finances in a period of crisis. Due to the required scope of measures to fight the pandemic and stabilise the economy, the general government budget balance was −3.7% of GDP in 2021. Germany’s general government debt-to-GDP ratio increased to 69.3% at the end of 2021. According to the current forecast for public finances, the general government budget balance in 2022 is expected to total about −3¾% of GDP. The Federation (including social security funds) will account for almost all of the Maastricht deficit. This is because the financial impact of the measures that were taken to fight the pandemic and support the economy will be borne predominantly by the Federation in 2022 and subsequent years. The general government deficit is expected to decline significantly in 2023 and to fall continuously in the years after that. Germany expects to regain compliance with the upper limit on the structural deficit (0.5% of GDP) in 2026. The debt-to-GDP ratio is expected to fall to about 66¾% in 2022, despite the high general government budget deficit. In the subsequent years up to the end of the projection period, the debt-to-GDP ratio is expected to decline on a continuous basis to 64½%.

With its recovery programme Next Generation EU, the European Union is supporting the sustainable recovery and long-term growth of European economies by means of digital and green measures. In order to receive funds from the Recovery and Resilience Facility (RRF), member states are required to submit national plans. Following its adoption by the federal cabinet, the German Recovery and Resilience Plan (*Deutscher Aufbau- und Resilienzplan – DARP*) was positively assessed by the European Commission on 22 June 2021 and approved by the Council on 13 July 2021. Following approval by the ECOFIN Council and the conclusion of a financial agreement, the DARP has entered the implementation stage. It includes 40 measures in six priority areas: climate policy and the energy transition, digitalisation of the economy and infrastructure, digitalisation of education, strengthening of social inclusion, strengthening of a pandemic-resilient healthcare system, and modern administration and reducing barriers to investment.

Demographic change is one of the main challenges to the long-term sustainability of public finances. Over the coming years, there will be a sharp rise in the number of pensioners as the baby boomer generation (born 1955–1969) reaches retirement age. Although provision has been made through various pension reforms to share the burden across older and younger generations, age-related public spending in relation to GDP will increase. In addition to the increase in age-related public spending, demographic change affects the growth of overall potential output. According to federal government estimates (annual projection of January 2022), potential output growth is expected to decline to 1.0% in the period up to 2026.

Forward-looking and growth-oriented fiscal and economic policies can counteract the rise of demography-related public spending and the projected decline in potential output growth. Measures to promote the supply of labour, to enhance the performance potential of the working population and to boost the productivity of the economy – especially through increased public and private investment – are only one element of this facilitative fiscal and economic policy agenda. Another element are reforms and measures to strengthen our social security system financially in a sustainable way. These measures will have a positive effect on the solidity and long-term sustainability of public finances.

In order to ensure the long-term sustainability of public finances, government revenue and spending are reviewed regularly to assess their effectiveness and efficiency.

2. Aggregate economic conditions in Germany

2.1 Aggregate economic conditions in Germany in 2021

Following the pandemic-related slump in 2020 (-4.6%), real GDP in Germany increased by 2.9% on the year in 2021, as shown in Figure 1. The pandemic continued to dominate the economy over the course of 2021. After a subdued first quarter, the economy recovered noticeably in the second and third quarters, buoyed by the progress of the vaccine rollout and falling infection numbers. However, supply and material shortages increasingly emerged as obstacles to economic growth, especially in the manufacturing sector. Starting in autumn, with the fourth wave of infections, repeated increases in infection numbers and the associated containment measures once again noticeably slowed the economic recovery.

GDP growth was primarily driven by positive trends in both the manufacturing sector and the services sector. In 2021, value added in the manufacturing sector rose by 4.7%, following a 10.0% decline in 2020. Obstacles to a stronger recovery included supply shortages of intermediate products. These also explain why the steady increase in the manufacturing order backlog since June 2020 outstripped production growth. In the construction sector, value added declined slightly in 2021, by 0.5%, following a noticeable increase of 3.8% in 2020. In contrast, the service industries recorded positive trends. For example, value added in trade, transport and hospitality increased by 3.0% following a 5.2% decline in the previous year, while business services grew by 5.6% following a 7.4% drop in 2020.

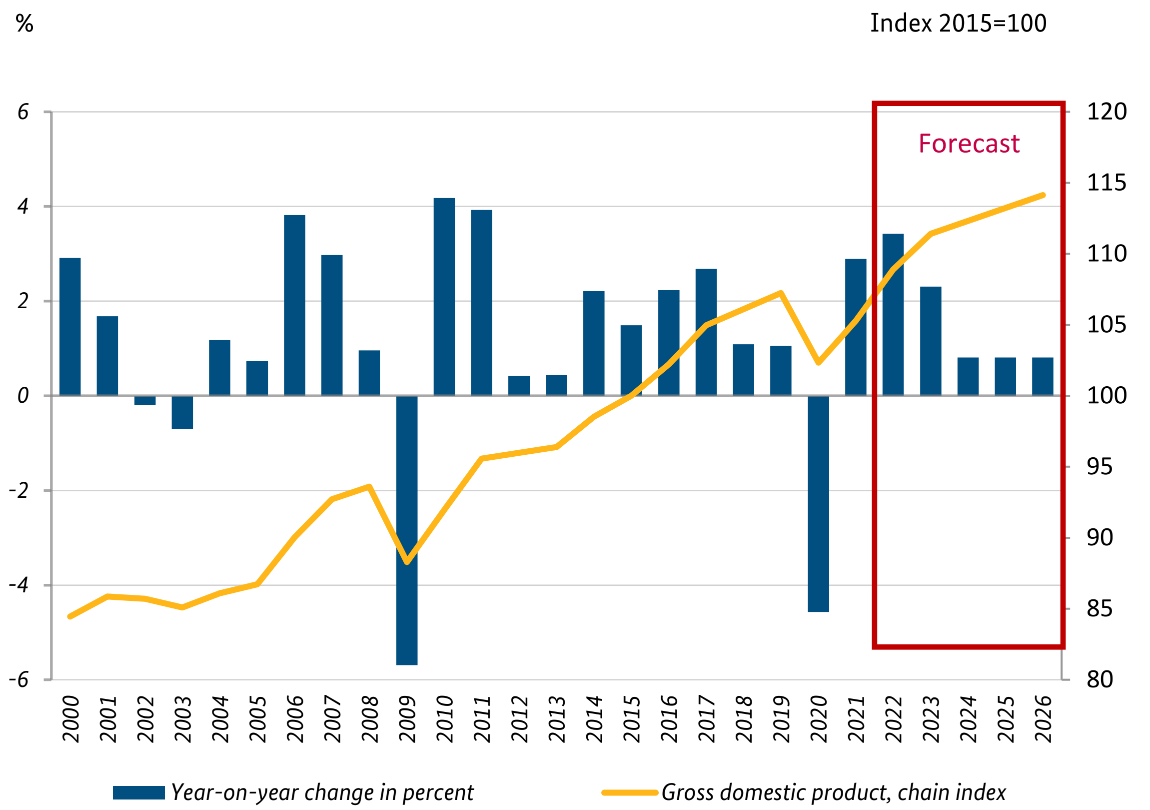
After a significant 5.9% decline in 2020, private consumption drove the economic recovery in the summer of 2021, but stagnated for the year as a whole as a result of declines towards the beginning and end of the year. Similarly, gross fixed capital formation rose by only 1.5% following the decline in 2020, with investment in plant and equipment rising by 3.4% and construction investment growing by 0.7%. In contrast, international trade recorded strong growth, largely making up for the decline experienced in 2020. At 9.9%, exports grew at a somewhat stronger rate than imports, which were up by 9.3%. Government consumption continued to support economic growth, with a rise of 3.1%.

The robust labour market recovery that began in 2020 continued, as shown in Figure 2. This was primarily reflected in the strong increase in the number of employed persons by 537,000 over the course of the year, although this was hardly noticeable in the annual average (+22,000 compared with 2020). At the same time, the number of registered unemployed persons fell by 82,000, while the unemployment rate declined by 0.2 percentage points to 5.7% compared with 2020. The continuation of special rules offering easier access to short-time work for economic reasons stabilised the labour market once again, although uptake declined strongly over the course of the year.

The inflation rate (the year-on-year increase in the consumer price index) recorded a noticeable rise to 3.1% in 2021, up from 0.5% in 2020. This was mainly driven by raw material prices, especially for energy products, which increased sharply from the very low levels seen as a result of the pandemic. Other contributing factors were supply shortages, supply-side constraints, increased transport costs and backlogs of demand for some products as a result of the pandemic. In addition, consumer prices were low in the second half of 2020 compared with the previous year as a result of the cut in VAT rates. Consequently, the inflation rate in 2021 was higher due to this low baseline during six months of 2020 (base effect).

Gross domestic product, in real terms

Figure 1



Sources: 2000-2021: Federal Statistical Office; 2022-2026: Federal government, 2022 annual projection

2.2 Short- and medium-term outlook for the aggregate economy, 2022–2026

The short- and medium-term forecast for the aggregate economy is based on the federal government's annual projection of January 2022. However, general conditions have changed fundamentally since then. The period in which the Stability Programme 2022 was drafted and coordinated was overshadowed by the Russian Federation's attack on Ukraine. It is impossible to foresee how the situation will develop and what direct and indirect effects the war will have on the German economy. The impact on the policy areas covered by the Stability Programme can also not be estimated fully at this point in time. For example, conditions for the secure supply of energy to Germany and Europe have changed considerably. General economic trends are likely to deviate from expectations at the time the annual projection was prepared in early 2022.

In its annual projection, the federal government predicts that economic output in the first quarter of 2022 will be noticeably constrained by the Omicron wave and the associated containment measures. It assumes that the pandemic will then subside over the course of the year, and economic activity will pick up significantly as a result. In particular, industry is expected to provide a clear boost as soon as the supply and material shortages are resolved. The services sector is also projected to develop momentum as soon as the pandemic-related restrictions can be lifted. In its annual forecast for 2022, the federal government anticipates real GDP growth of 3.6%. On the expenditure side, growth is expected to be driven primarily by private consumption, which is forecast to increase by an average of 6.0% on the year. As infection numbers fall, the uncertainty that is hampering investment should decrease. At 2.6%, gross fixed capital formation is expected to rise at a higher rate than in the previous year. The additional financial resources for the Energy and Climate Fund can be expected to start contributing to this in 2022. These funds are intended to boost investment as part of the transformation to an economy that is green, socially equitable and more focused on digitalisation.

Global economic output is forecast to grow in 2022, albeit at a lower rate than in 2021. In this context and in view of the high backlog of orders, exports are expected to see a significant increase of 5.5%, while imports are forecast to grow by 6.3%. Government consumption is likely to remain unchanged at the high level recorded in 2021.

The recovery of the labour market is forecast to continue, although the momentum is likely to slow over the course of the year as the labour market moves closer towards pre-crisis levels, which it will probably reach mid-year. In connection with the anticipated economic recovery, the number of people in employment is expected to increase sharply by 425,000 to an annual average of 45.3m. At the same time, the unemployment rate is forecast to continue to decline, from 5.7% to 5.1%. The positive labour market trends will mainly be driven by an increase in jobs that are subject to social security contributions. As the services sector recovers, the number of marginally employed persons is set to increase, while the number of self-employed persons is expected to fall slightly this year.

Inflation is likely to remain at a noticeably elevated level, even though the base and special effects that increased last year's inflation rate had largely ceased to have an impact by the beginning of 2022 and the EEG surcharge (a levy on electricity consumers) was reduced as of 1 January. These effects are counteracted by strong upwards pressure, especially from energy prices and, at the upstream level, from import and producer prices. The annual projection assumes annual average inflation of 3.3%. Since the projection was made, upside risks have increased considerably, especially in connection with geopolitical developments. The federal government has taken comprehensive measures to reduce the effects of high energy prices on incomes. These measures include a heating subsidy for low-income earners, full financing of the EEG surcharge from the federal budget starting in July 2022, a one-off payment for adult recipients of benefits designed to ensure a minimum standard of living, an immediate supplement for children living in poverty, an increase in the tax allowance for long-distance commuters, and further income tax relief. The federal government will keep a close eye on inflation and the main factors driving inflation, especially rising energy prices and disrupted supply chains.

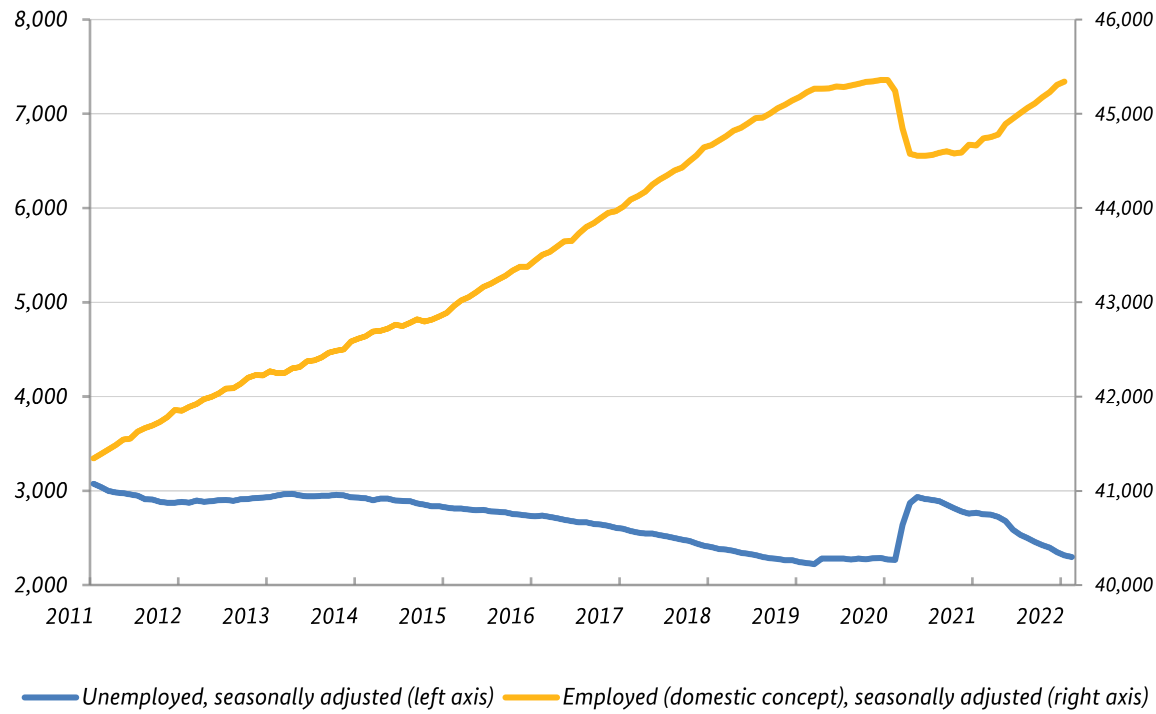
The economic recovery in 2022 will also reduce the under-utilisation of capacity in the economy as a whole. The output gap is expected to shrink noticeably in 2022 compared with 2021, although it is likely to remain negative at -0.5% of potential output. In 2023, the federal government expects real GDP to grow at a rate of 2.3%. The medium-term projection for the 2024–2026 period assumes average annual GDP growth of 0.8%. Domestic demand is expected to remain an important growth driver, sustained by robust labour market trends.

In the medium term, the moderate rate of GDP growth during the 2024–2026 period will be based largely on trends in potential output (which is expected to increase by 1.0% per year on average). This trend will be significantly influenced by labour's declining (and, in the medium term, negative) contribution to growth due to demographic change. While slightly higher contributions of capital and productivity to growth may be able to mitigate the impact of labour's declining contribution, they cannot fully compensate for this decline. For this reason, boosting

Labour market trends in Germany

Figure 2

Persons, thousands



Sources: Federal Employment Agency, Federal Statistical Office, March 2022

productivity in particular is expected to continue to play an increasingly important role in the future, alongside the immigration of skilled workers and increased labour force participation among women and older people.

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 area member state's fiscal capacity. In addition, the SGP contains rules that allow for investment as well as structural reforms which enhance growth potential and thus contribute to the sustainability of public finances. The SGP thus requires that all EU member states pursue sound fiscal policies as a precondition for ensuring strong, sustainable growth in Europe.

The COVID-19 pandemic and the need to deal with its economic consequences continue to present a huge challenge to the member states in terms of their fiscal policies. They must protect the health of their populations, protect jobs, maintain the productive capacity and competitiveness of their economies and support the economic recovery. To provide the EU member states with the fiscal space needed to resolutely combat the pandemic, the European Commission and the ECOFIN Council determined on 20 March 2020 that the conditions for activating the fiscal framework's general escape clause – a severe economic downturn of the euro area or the EU as a whole – had been met. Upon activation of the general escape clause for 2020 – and subsequently, based on the country-specific recommendations, also for 2021 and 2022 – the member states were permitted, subject to ensuring medium-term debt sustainability, to depart temporarily from the budgetary requirements that would normally apply under the European fiscal policy framework, in order to enable them to take all measures necessary to cushion the effects of the coronavirus crisis. The procedures of the Stability and Growth Pact were not suspended by the general escape clause. According to the European Commission's winter forecast of February 2022, the conditions for the general escape clause will probably no longer be met in 2023. This was also conveyed in the European Commission's Communication of 2 March 2022. However, there is a very high level of uncertainty, not least with regard to the geopolitical situation. For this reason, the European Commission also announced in its Communication that it will reassess the matter of the general escape clause in May, on the basis of the spring forecast.

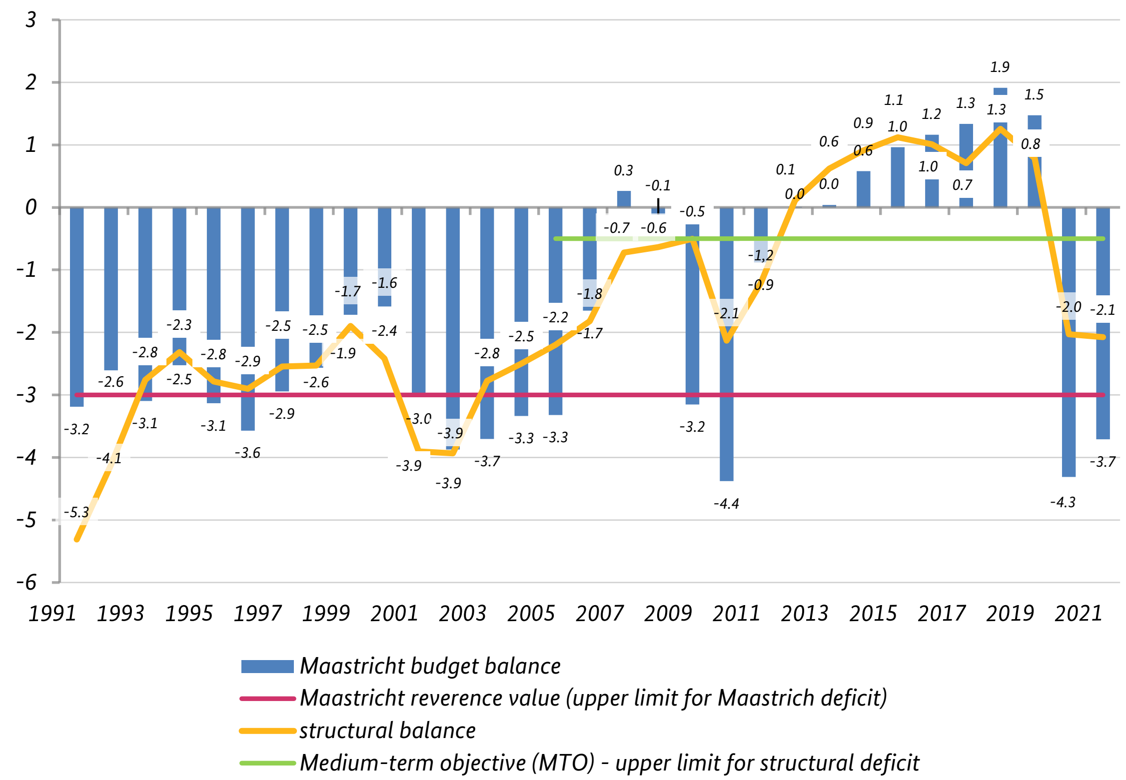
In line with the European Commission's recommendation on activation of the SGP's general escape clause, Germany's government coalition agreed, on 23 March 2020, on extensive measures to rapidly mitigate the effects of the COVID-19 pandemic. On 25 March 2020, the German Bundestag determined that the conditions had been met for applying the exception to the debt brake in unusual emergency situations, in accordance with Article 115 (2) sentence 6 of the Basic Law. The Bundestag thus approved the borrowing set out in the first supplementary budget for 2020, which exceeds the upper limit on new borrowing stipulated in Article 115 (2) sentences 2 and 3 of the Basic Law. The financial resources were used to implement "timely, targeted and temporary" assistance measures to support the German economy. On 3 June 2020, the coalition committee also agreed on a comprehensive economic stimulus package in order to counteract the economic impacts of the coronavirus pandemic and enhance

Germany's future strength. In order to finance this package of measures, the German Bundestag approved a second supplementary budget for 2020 on 2 July 2020. In its approval of the 2021 federal budget on 11 December 2020, the Bundestag extended the application of the exception for unusual emergency situations to include fiscal year 2021. The Bundestag confirmed this decision by approving the first supplementary budget for 2021 on 23 April 2021 and the second supplementary budget on 27 January 2022. Due to the budgetary impact of the pandemic and the costs resulting from the government's supportive fiscal policies, Germany once again needs to make use of the exception for unusual emergency situations in the 2022 fiscal year. The second government draft of the federal budget for 2022, which was adopted by the federal cabinet on 16 March 2022, includes draft wording setting this out.

In 2021, due to the extent of the measures necessary to stabilise the economy during this historic and exceptional situation, Germany exceeded the upper limit for the Maastricht deficit for the

Comparison of structural and actual fiscal balance **Figure 3**

in % of GDP



1995: Excludes asset transfers resulting from the assumption of debt owed by the Treuhand privatisation agency and German Democratic Republic housing construction companies. Including this effect, the general government budget balance would have been -9.4% of GDP.
Data: Federal Statistical Office, February 2022

second time in a row. The general government fiscal balance (encompassing the Federation, *Länder*, local authorities and social security funds, including their off-budget entities) stood at -3.7% of GDP in 2021. As shown in Figure 3, the general government also recorded a structural deficit of 2.1% of GDP in 2021. In view of the exceptional levels of uncertainty regarding the macroeconomic and fiscal impacts of the COVID-19 pandemic, the European Commission took no decisions to initiate excessive deficit procedures in 2021.

The debt-to-GDP ratio rose slightly, to 69.3% (up from 68.7% in 2020) and thus remains above the 60% upper limit. In 2019, Germany's debt-to-GDP ratio fell to 58.9%, its lowest level in many years. General government budget surpluses and sustained economic growth during the preceding years had contributed significantly to achieving this low level. As a result of this development, Germany had a large margin of fiscal space to fall back on in 2021 and 2020, when quick and decisive fiscal policy action was required in order to tackle the coronavirus crisis.

3.2 Fiscal situation and strategic direction

According to the conclusions of the ECOFIN Council deliberations of 18 January 2022 on the 2022 annual strategy for sustainable growth, the member states agreed upon the following priorities and recommendations:

> *"[The Council recalled] the importance of enhancing investment while bearing in mind the need to reduce divergences and of ensuring growth-friendly composition of public finances as well as robust fiscal frameworks; [emphasised] that the coordinated EU efforts in tackling the effects of the COVID-19 pandemic, both at national and at EU level, have laid the ground for a sustained recovery; [agreed] that member states with low or medium debt should pursue a supportive fiscal stance in 2022; member states with high debt should use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy; [acknowledged] the potential of the Recovery and Resilience Facility to contribute to the economic recovery and enhancing strong and sustainable EU growth, as well as its role in delivering a resilient, green and digital EU economy; [acknowledged] the expected deactivation of the general escape clause of the Stability and Growth Pact as of 2023."*

The federal government is taking these guidelines and the Communication of the European Commission to the Council of 2 March 2022 into account. The federal government's fiscal policies remain focused on minimising the health, social and economic impacts of the COVID-19 pandemic, which continues to constitute an unusual emergency situation. Measures to support the economy are being continuously adapted to the pandemic situation and will be continued for as long as necessary. The federal government must return to the regular constitutional debt brake in the 2023 budget.

The federal government wants to achieve this at a time of historic challenges. The invasion of Russian troops in Ukraine has fundamentally changed the security situation in Europe and made it clear how crucial it is to protect freedom and democracy and to have the necessary defensive capabilities for this purpose. This requires state-of-the-art, innovative armed forces that, in particular, possess full operational capability. We must ensure that Germany is able to fulfil its mutual defence obligations within NATO without any restrictions.

On 27 February 2022, Federal Chancellor Olaf Scholz and Finance Minister Christian Lindner therefore announced plans to set up a special fund to modernise the Bundeswehr. On 16 March 2022, the federal cabinet adopted the Act Establishing a Special Fund for the Bundeswehr (*Gesetz zur Errichtung eines „Sondervermögens Bundeswehr“*) and the Act Amending the Basic Law (Article 87a) (*Gesetz zur Änderung des Grundgesetzes (Artikel 87a)*). The special fund provides €100bn on a one-off basis, primarily to finance complex and important multi-year Bundeswehr equipment projects. In this way, the federal government is strengthening Germany's defensive capabilities and ensuring that the Bundeswehr can meet its alliance obligations. To cover the special fund's expenditures, the Federal Ministry of Finance will be authorised to borrow up to €100bn. The amendment to the Basic Law creates the constitutional basis for the special fund. The borrowing authorisation for the special fund is exempted from the borrowing limit under the debt rule.

Furthermore, the federal government is implementing additional measures aimed at mitigating the financial impact of the higher energy costs resulting from Russia's attack on Ukraine and strengthening its humanitarian efforts in connection with the war. It will introduce the required resources into parliamentary deliberations on the 2022 federal budget in the form of a supplementary budget.

In 2021, the federal government adopted two supplementary budgets to secure financing for the immediate crisis management measures (e.g. the immediate assistance and temporary aid programmes). At the same time, the second supplementary budget provided planning certainty at an early stage by formulating clear intended purposes and priority measures for the additional allocation to the Energy and Climate Fund. The primary objective is to catch up on investments that were neglected due to the pandemic-related restrictions and economic uncertainties, but which are crucial for maintaining the competitiveness of the German economy. The package of measures also sets out to boost demand among private consumers and companies by abolishing the EEG surcharge.

After the provisional budget closure, the 2021 federal budget recorded a deficit for the second time in a row since the beginning of the pandemic. The Budget Act (*Haushaltsgesetz*) promulgated in December 2020 initially set net borrowing at €179.8bn. Under the first supplementary budget for 2021, which was adopted by the federal government in spring and promulgated in early June following parliamentary consultations, net borrowing was increased by approximately €60.4bn to about €240.2bn. This was in response to the worsening of the pandemic at the beginning of 2021, which necessitated additional assistance and protective measures, adjustments to the vaccination and testing campaigns, and steps to maintain fiscal capacity over the further course of the year.

In December 2021, the federal government adopted a second draft supplementary budget for 2021. The second supplementary budget was promulgated on 25 February 2022. It included an additional €60bn for the Energy and Climate Fund, which will be developed into the Climate and Transformation Fund, without increasing the borrowing authorisation. The additional allocation to the Energy and Climate Fund is an effort to help overcome the consequences of the pandemic by enabling the short- and medium-term financing of expenditures aimed at mitigating the emergency situation caused by the pandemic.

The funds will be used for catch-up investments to tackle climate change and transform the German economy as well as for the budget financing of the EEG surcharge. The additional allocation supplements the resources allocated to the Energy and Climate Fund in 2020 to help overcome the impact of the pandemic.

According to the provisional budget closure, the federal budget recorded net borrowing of approximately €215.4bn in the 2021 budget year. After taking into account the balance of financial transactions and the cyclical component as adjusted for actual economic trends, the Federation's structural net borrowing totalled approximately €204.6bn, or 5.93% of GDP, according to preliminary macroeconomic data. This means that, according to preliminary data, the upper limit for structural net borrowing (0.35% of GDP recorded two years prior, in this case 2019: approximately €12.1bn) was exceeded by about €192.5bn. The amount by which the upper limit was exceeded is thus approximately €16.4bn lower than the target set out in the second supplementary budget for 2021, which put net borrowing at €208.9bn above the upper limit. Exceeding the upper limit in this way is constitutional, based on the Bundestag's decision to activate the exception pursuant to Article 115 (2) sentences 6 and 7 of the Basic Law.

Because the unusual emergency situation persists, the 2022 federal budget, which provides for net borrowing of just under €100bn, will again exceed the permissible borrowing limit stipulated under the debt rule. The net borrowing amount will exceed the debt brake limit by approximately €80.6bn.

Pursuant to Article 115 (2) sentence 7 of the Basic Law, the German Bundestag must adopt amortisation plans for borrowing that exceeds the upper limit specified in the debt rule. The Bundestag has already done this for 2020 and 2021. Similarly, an amortisation plan will need to be adopted before the 2022 federal budget takes effect.

The cabinet decision on the benchmark figures for the 2023 federal budget and the fiscal plan to 2026 envisages a return to the regular borrowing limit under Germany's debt brake in 2023, as provided for in the coalition agreement.

The most recent budget resolutions reflect the new federal government's intention to make public finances fit for the future again over the coming years, following three exceptional years of high debt. On the one hand, this involves providing important stimuli to support the economic recovery and to promote the green and digital transitions of the economy, thus ensuring Germany's capacity to take action. On the other hand, it implies a return to compliance with the regular borrowing limit under Germany's debt rule and a planned reduction of the debt-to-GDP ratio in subsequent years, in order to ensure that public finances are prepared for future crises and fiscal stability is maintained. In this way, the federal government is creating confidence in stable public finances and showing that it is using taxpayer money in a responsible way. At the same time, the federal government's approach safeguards fiscal capacity to handle future crises.

Because private investment makes up the lion's share of aggregate investment and is crucial for the success of the economy's transformation, the federal government's fiscal policies are designed to leverage potential for growth. They are innovation-friendly and place a special focus on innovative potential, initiative and creativity in the free market economy. The role of fiscal policy is to help unleash this potential in the private sector. It must be ensured that companies have the opportunity to become technological leaders in carbon-neutral production processes and climate-friendly products. In particular, the federal government considers the productivity-enhancing potential of digitalisation to be a key foundation for future growth.

Growth-friendly fiscal policy also includes relief for individuals and businesses currently facing rising prices, especially for energy products. Energy price increases could also weaken the economic recovery after the COVID-19 crisis. That is why the coalition decided on 23 February 2022 to abolish the EEG surcharge as early as July 2022, to increase the basic personal allowance and the standard allowance for employees, and to raise the allowance for long-distance commuters. The government draft of the Fourth Coronavirus Tax Assistance Act (*Viertes Corona-Steuerhilfegesetz*) swiftly introduced tax relief measures. Among other things, this piece of legislation contains an extension of the tax allowance for working from home and an extension of the option to offset losses, extended deadlines for filing tax returns, tax-free top-ups for short-time work benefit, and a tax exemption for bonus payments of up to €3,000 for carers.

When it comes to shaping Germany's role as a financial centre, stability and consumer protection remain important and publicly communicated objectives – especially in areas where there are risks to financial stability. At the same time, promoting competitiveness and innovation should become the focus of financial market policy. Germany's financial industry is digital and innovative in the areas of FinTech, InsurTech, venture capital and start-ups. The aim is for Germany's financial industry to become a driver of growth. As demonstrated by the federal government's broad range of financing instruments, including the Future Fund and the European Tech Champions Initiative (ETCI) that was initiated in cooperation with France, public funds can broaden the venture capital market with the aim of scaling up innovation and the activities of young businesses in Europe in the area of forward-looking technologies.

At the same time, sound budgetary policies are necessary to ensure that public finances are prepared for future crises and fiscal stability can be maintained. That is why all expenditures are being reviewed and reprioritised on the basis of the coalition agreement. Spending reviews are central instruments. Transformation, technology and talent promotion are priorities in the federal budget.

In 2023, after the COVID-19 crisis has been overcome, the federal government will return to compliance with the regular borrowing limit under the constitutional debt brake. Germany will reduce its debt ratio, which has risen as a result of the pandemic, by running lower deficits in the future while providing targeted growth stimuli. In this way, Germany will reinforce its role as an anchor of stability within the European Union.

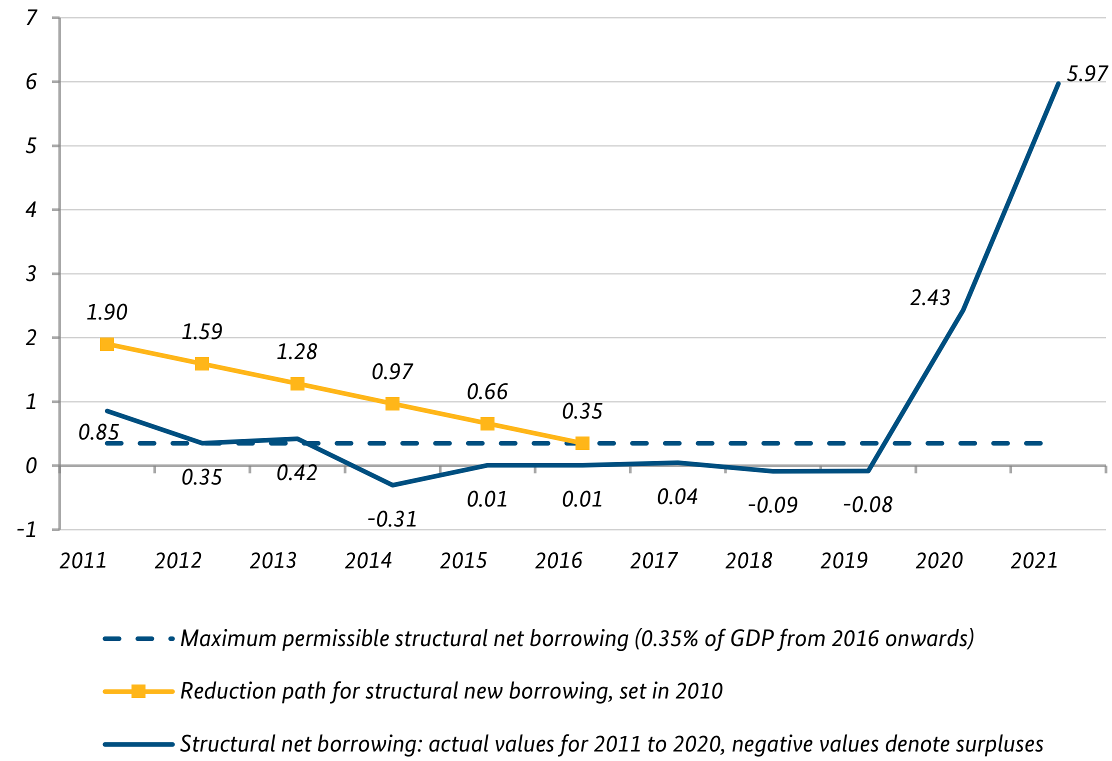
Europe needs to find a smart balance between limiting public debt in order to maintain debt sustainability on the one hand and promoting growth and transformative investments on the other hand. The further development of European fiscal rules should be based on these objectives. In addition, the rules should be made simpler and more transparent, not least in order to strengthen enforcement.

At the same time, it is vital to use the stimuli provided by the recovery instrument Next Generation EU to strengthen Europe's economic competitiveness now, not least because the instrument is not designed to be permanent.

The Federation's structural net borrowing

Figure 4

in % of GDP



Source: Federal Ministry of Finance

3.3 Fiscal policy measures in terms of expenditure and revenue

Support, stabilisation and measures to overcome the COVID-19 crisis

From the beginning of the pandemic until the end of 2021, the federal government provided budget funds totalling approximately €378bn for economic assistance, the special funds and the stimulus package alone. This amount does not include spending on short-time work benefit. In 2020 and 2021, according to the Federal Employment Agency, the federal government provided a total of €24.7bn in short-time work benefit as well as €17.6bn to reimburse employers for social security contributions during periods of short-time work (€42.3bn in total). This comprehensive assistance stabilised the economy and saved jobs.

To support and stabilise the economy, assistance totalling more than €66bn was provided, and loans totalling nearly €56bn were granted. In addition, there were recapitalisation measures and guarantees. For this purpose, a flexible system of assistance measures was developed that can swiftly be adjusted to changing requirements. In particular, the temporary aid programme is a flexible, cross-industry instrument that, in addition to reimbursing companies' fixed costs, provides additional equity injections to help maintain the structural fabric of affected companies. The fresh start assistance scheme for self-employed individuals supports self-employed people without high fixed costs. In implementing the measures, efforts are made to ensure that the pandemic-related assistance helps the companies and self-employed persons affected. Measures are taken to prevent abuse and fraud.

To support the cultural sector, the federal government and the *Länder* set up a special fund for cultural events with a volume of up to €2.5bn. It encompasses two central elements: a) financial support for events taking place between 1 July 2021 and 31 December 2022 under restricted conditions due to hygiene protocols and b) a safety net in case events have to be cancelled, which started on 1 September 2021 and will end when the fund expires on 31 December 2022. Under the leadership of the Federal Ministry for Economic Affairs and Climate Action, an instrument for trade fairs and exhibitions was launched in late October 2021. The instrument allows event-related costs totalling up to €600m to be covered in the event that trade fairs and exhibitions cannot take place due to COVID-19.

Because the pandemic situation worsened once again in early 2022, the federal government and the *Länder* agreed to extend the federal grant programmes until June 2022. The Temporary Aid Programme III Plus and the Fresh Start Assistance Plus, which originally ran from July 2021 until December 2021, have been extended in the form of the Temporary Aid Programme IV and the Fresh Start Assistance 2022, which will be funded from 1 January 2022 until 30 June 2022. The support for hardship cases, which originally expired in December 2021, has been extended until 30 June 2022. As before, businesses must prove that they sustained revenue losses of at least 30% compared with the 2019 reference month. The fresh start assistance scheme for self-employed individuals provides direct grants of up to €1,500 per month, up to €4,500 in total for the extended funding period. Applications have been accepted since the beginning of January 2022. Once again, advance payments are provided so that recipients receive assistance quickly. Material and personnel costs incurred in enforcing COVID-19-related access restrictions can be taken into account as eligible costs. The special rule on voluntary closure for businesses that were uneconomical to run as a result of access restrictions applied until the end of February 2022. The KfW special loan programme, which includes KfW Instant Loans, will run until 30 June 2022 (application deadline: 30 April 2022), with increased maximum loan amounts. Applications for KfW Investment Loans for local authority enterprises and social companies can be submitted until 30 June 2022. These loans can also cover operating costs.

Given the significant rise in infection numbers in early 2022 and the associated uncertainty regarding the economic situation, the maximum period for receiving short-time work benefit was increased to up to 28 months and extended by a further three months until 30 June 2022. Most of the associated special rules for easier access to short-time work benefit were also extended to the end of June. After 31 March 2022, employers will continue to be reimbursed for half of social security contributions if the employees receiving short-time work benefit are undergoing skills development.

In addition to the economic assistance and short-time work benefit, the measures of the stimulus programme that was adopted in 2020 as well as other economic support measures continued to stabilise the economy in 2021 (including the sector-specific reduction in VAT rates, the 2020 and 2021 child bonuses, the COVID-19 supplement for people receiving basic income support, the social guarantee for 2021, the reduction of the EEG surcharge, the accelerated depreciation options for movable assets, the increase of the maximum assessment basis for the tax research allowance, and the apprenticeship bonus).

The medium- and long-term elements of the stimulus programme that go beyond economic stabilisation are also gradually taking effect. The stimulus programme's Future Development Package creates the foundations for sustainable growth in the years after the pandemic. It includes targeted investments in areas that are crucial for the future, in order to tackle the coming structural challenges with determination and successfully shift towards an economy that is sustainable while also remaining competitive. The total volume of the Future Development Package is approximately €50bn, a large part of which is dedicated to climate action.

With its recovery programme Next Generation EU, the European Union is also supporting the sustainable recovery and long-term growth of European economies by means of digital and green measures. In order to receive funds from the Recovery and Resilience Facility (RRF), member states are required to submit national plans. Following its adoption by the federal cabinet, the German Recovery and Resilience Plan (*Deutscher Aufbau- und Resilienzplan – DARP*) was positively assessed by the European Commission on 22 June 2021 and approved by the Council on 13 July 2021. Following approval by the ECOFIN Council and the conclusion of a financial agreement (between the Federal Ministry of Finance and the European Commission), the DARP has entered the implementation stage.

The DARP includes 40 measures in six priority areas: climate policy and the energy transition (€11.3bn), digitalisation of the economy and infrastructure (€5.9bn), digitalisation of education (€1.4bn), strengthening of social inclusion (€1.3bn), strengthening of a pandemic-resilient healthcare system (€4.6bn), and modern administration and reducing barriers to investment (€3.5bn). According to the applicable allocation formula, Germany is currently entitled to €25.6bn in EU funds from the RRF. The measures (re)financed using these funds extend over the 2020–2026 period; 42% of the funds are dedicated to climate action measures and 52% will be used to support the digital transition. Moreover, the DARP contains specific measures implementing the Commission's country-specific recommendation to reduce barriers to investment. A detailed breakdown of the funds by economic category can be found in Table 23 in the Annex.

Public investment

Targeted investments are important factors for driving the growth of an economy. Public investments directly increase the performance capacity of public infrastructure and, in doing so, they also have the indirect effect of increasing overall economic productivity. This is one of the reasons why it is important to catch up on both public and private investments that were neglected due to the pandemic-related restrictions and economic uncertainties, but which are vital for maintaining the competitiveness of the German economy.

Targeted public investments and simultaneous efforts to activate private-sector investments are needed in order to start the catch-up process of expanding capacity for the digital and green transitions and creating incentives for growth in forward-looking areas. Against this background, the second supplementary budget for 2021 provides €60bn to the Energy and Climate Fund exclusively for the purpose of overcoming the impact of the pandemic. This will open up new growth opportunities and, not least, strengthen the competitiveness of the economy. It will pave the way for a long-term, sustainable economic recovery when Germany emerges from the crisis.

The Federation will further increase its investments in order to achieve its fiscal policy targets and help boost public investments. Under the second government draft of the federal budget for 2022, investment spending in 2022 will total €50.8bn. Despite the challenging fiscal situation, the federal government is maintaining the spending trajectory for investments as defined under budget law. According to the benchmark figures adopted by the federal cabinet on 16 March 2022, annual investments will exceed €50bn throughout the entire financial planning period and thus remain at a record level. Over the course of the financial planning period, they will go up to approximately €51bn per year. This represents an increase of more than €10bn per year compared with pre-crisis levels. In addition, comprehensive investments are being made under the special funds. This spending is targeted among other things towards road, rail and water transport, education and research, digital infrastructure and the climate-friendly transformation of the economy, housing and mobility. Examples include a marked increase in funding for renewable energy and energy efficiency in buildings as well as support for the expansion of the fibre-optic network.

Government gross fixed capital formation rose by 1.9% on the year in 2021, roughly in line with the long-term average. However, it is worth noting that the overwhelming share of aggregate investment (approximately 90%) can be attributed to the private sector. The government is providing targeted investment grants for these private-sector investments in order to support innovation, promote a modernisation of the economy that is rooted in intergenerational equity, and create long-term growth momentum. Spending on investment grants increased by 18.7% in 2021. Taken together, government investment expenditures (government gross fixed capital formation plus investment grants) increased by 7.3% in 2021, significantly more than the annual average of 2.1%.

Climate action

Curbing global climate change is one of the greatest challenges of our time. In enacting the Climate Action Act (*Bundes-Klimaschutzgesetz*), which came into force in late 2019 and was revised in 2021, the federal government created a legally binding framework for achieving Germany's climate targets, including becoming climate-neutral by 2045. To meet Germany's climate targets, the federal government has adopted several comprehensive climate programmes over the last three years, including the Climate Action Programme 2030 that was launched in 2019, the Future Development Package which is part of the 2020 economic stimulus package, the immediate action programme for the buildings sector that was introduced in 2021, and the Immediate Climate Action Programme for 2022 that forms part of the 2021 revision of the Climate Action Act following a decision by the Federal Constitutional Court. In total, these packages contain climate-friendly public spending totalling more than €80bn. The federal government plans to launch a further Immediate Climate Action Programme for 2022, which is currently being prepared.

A central element of the Climate Action Programme 2030 is the carbon pricing scheme, which was introduced in 2021 in the form of a national emissions trading system in the heating and transport sectors. All of the proceeds from the carbon pricing scheme are being used to reduce costs for individuals and businesses and to invest in climate action measures.

Additional funding programmes and incentive programmes to promote innovation in companies will complement the decarbonisation of industry and enhance Germany's competitiveness as a leading hub for business and industry. This includes the national decarbonisation programme, which is equipped with funding of approximately €3.5bn up to 2023. In addition, the Federation has provided for, or already implemented, tax incentives lasting until 2023 that are targeted towards the refurbishment of buildings, electric mobility, reducing train ticket prices, and increasing federal subsidies paid to the *Länder* for public transport. The EEG surcharge has been lowered in order to promote the use of renewable electricity in consumption sectors and to facilitate the redistribution of proceeds from the national emissions trading system to individuals and companies. According to current plans, the EEG surcharge will be abolished completely for end customers from 1 July 2022 onwards, having already been lowered significantly at the beginning of 2022. In future, the full amount will be financed from the Energy and Climate Fund/Climate and Transformation Fund.

To complement the measures of the Climate Action Programme 2030 that are designed to reduce the emissions generated by the burning of fossil fuels in the transport sector, the federal government is expanding and modernising public transport infrastructure and offering forward-looking support programmes in the aviation and shipping sectors. The federal government plans to spend €62bn by 2030 on maintaining and modernising the railway network in order to encourage climate-friendly mobility in the public rail and local transport systems. To achieve further emissions reductions within the rail transport sector, additional routes will be electrified. On non-electrified routes, the use of innovative, low-carbon drive systems will be increased.

The new federal government has set itself the target of getting 15m fully electric passenger vehicles on the road by 2030. To enable Germany to develop into a leading market for electric mobility, the federal government is providing funds for the expansion of charging infrastructure and the transformation of the automotive sector. In the area of charging infrastructure, a nationwide rapid charging network encompassing at least 1,000 fast charging points will be built in Germany. The automotive sector received €2bn for the 2020–2024 period as part of the economic stimulus package to incentivise forward-looking investments in the automotive industry.

Under the Immediate Action Programmes for 2022, additional funds were made available in 2021 for climate-friendly renovation and construction. The new federal government has set out to review existing funding for energy efficiency in buildings before the end of 2022 in order to put in place ambitious, comprehensive support for renovations aimed at improving energy efficiency and for more energy-efficient new buildings.

Implementing national and international climate action targets will accelerate structural change in some regions and industry sectors within Germany. The phasing out of coal-fired power generation is another key project that the federal government is pursuing to ensure that Germany achieves greenhouse gas neutrality. The new federal government has agreed that the phase-out should ideally already be completed by 2030. Under the Structural Reinforcement Act for Mining Regions (*Strukturstärkungsgesetz Kohleregionen*), the Federation will spend approximately €41bn over the period from 2020 to 2038 on investments and other measures to tackle the structural changes in the affected regions. If the coal phase-out is brought forward, the measures under the Structural Reinforcement Act will also be brought forward or accelerated. To ensure the coal phase-out is managed in a socially responsible manner, the Federation will be providing up to €5bn until 2048 (adjustment benefit).

Labour market

The federal government is making targeted efforts to increase social inclusion via the labour market. To this end, the statutory minimum wage will be increased to €12 per hour as a one-off adjustment, effective from 1 October 2022. The independent Minimum Wage Commission remains responsible for deciding on any future adjustments to the minimum wage. It is expected to make its next adjustment decision by 30 June 2023. The corresponding adjustment will then become effective on 1 January 2024. The minimum wage increase will create an incentive for taking up employment and strengthen the stability of social security systems.

At the same time, the federal government is raising the minimum income limit for mini-jobs to €520, which corresponds to 10 weekly working hours on minimum wage. This will further enhance inclusion. In future, the minimum income limit for mini-jobs will be linked to minimum wage trends and will therefore be more flexible. The midi-job limit will be increased to €1,600.

The federal government is introducing targeted continuing education incentives and intends to further improve opportunities for career changes and skills development. To this end, the National Skills Strategy will be continued and developed. At the same time, the federal government is revising its Skilled Labour Strategy. Priorities are a) increasing the labour force participation among women and older people, b) giving a fresh boost to vocational training, further training and skills development, c) promoting the immigration of workers and d) creating attractive working conditions in areas with a shortage (or foreseeable shortage) of skilled workers.

The federal government is aware of the risks of the COVID-19 pandemic to school leavers and the imbalances in the matching process on the vocational training market that already existed before the pandemic. It has taken a series of steps to address the negative impact of these changes, e.g. efforts to enhance the attractiveness of dual vocational training. The federal programme "Safeguarding apprenticeships" provides €835m over the 2020–2022 period to help small and medium-sized enterprises in particular to provide vocational training places.

Education and research

The federal government aims to give all people, regardless of their background, the best opportunities for education, inclusion and advancement. That is why the coalition agreement sets out plans to reform training assistance (federal training assistance and upgrading assistance), make it less dependent on parents, and expand it to include support for vocational further training. In addition, an Excellence Initiative for Vocational Training will further strengthen the attractiveness and innovative potential of initial and further vocational training.

To counteract the risk of the pandemic exacerbating educational inequalities, the federal government has launched a post-pandemic catch-up programme worth €2bn for children and young people. Strengthening digital learning and young people's digital skills is a further priority. The Digital Education Initiative is designed to promote digital learning at all educational stages. The Digital Pact for Schools, through which the Federation is helping the *Länder* and local authorities invest in digital learning infrastructure, has already been increased by a further €1.5bn to a total of €6.5bn. Now, the process of drawing down payments will be simplified and the flow of funds accelerated.

The provision of financial support to universities remains a key priority for the federal government. On the basis of an agreement to strengthen teaching and learning in higher education, the Federation and the *Länder* have been making improvements in the quality of teaching and learning at higher education institutions across Germany since 2021. To this end, the Federation and the *Länder* are providing a total of approximately €3.8bn each year until 2023, and then a total of €4.1bn annually from 2024 onwards.

Families and social affairs

The federal government is strengthening social cohesion with the help of targeted measures in the areas of family policy, education, and social security.

High-quality child daycare services play an important role in children's early educational advancement and in ensuring equal opportunities. They also help parents to balance family and work life. For this reason, the Federation provided total funding of approximately €5.4bn until 2021 to promote the expansion of child daycare services. The Federation is also providing €5.5bn to the *Länder* until the end of 2022 under Good Daycare Facilities Act (*Gute-KiTa-Gesetz*). According to the coalition agreement, the Good Daycare Facilities Act will be continued on the basis of monitoring and evaluation results. By the end of the legislative term, in cooperation with the *Länder*, it will be developed into a Quality Development Act (*Qualitätsentwicklungsgesetz*) featuring nationwide standards. The implementation of this measure depends on whether corresponding funds are made available under budget legislation.

To implement the phased legal entitlement for primary school children to receive all-day care from 2026 onwards, the Federation is also providing the *Länder* with financial assistance of up to €3.5bn to help them expand all-day education and childcare services for children of primary school age. The first investment programme was launched at the end of 2020. To take account of the additional burden on the *Länder* (including local authorities) resulting from this legal entitlement, a change in the vertical distribution of VAT in favour of the *Länder* is also planned, rising gradually from €135m per year in 2026 to €1.3bn per year from 2030 onwards.

Health

The pandemic has demonstrated just how important the public health service is in terms of being able to effectively manage and control a dangerous and harmful situation of this magnitude as well as its impacts on all areas of daily life.

Under the programme to future-proof hospitals, the Federation provided €3bn in funding in 2021 to help hospitals invest in modern emergency capacities and improve digital infrastructure. The *Länder* and/or the hospital operators are contributing an additional €1.3bn in investment funding. Unclaimed federal funds will be returned to the Federation by the end of 2023.

The federal government is furthermore providing financial grants to support urgent measures aimed at controlling the SARS-CoV-2 outbreak. For example, in the 2022 federal budget, substantial funds are once again dedicated to vaccine procurement.

To ensure that sufficient intensive care capacities are available during the COVID-19 pandemic, hospitals are receiving compensation payments for maintaining free bed capacity. A total of €4.6bn has been allocated to this in the 2022 federal budget. The Protection against Infection Act (*Infektionsschutzgesetz*) amended the Hospital Financing Act (*Krankenhausfinanzierungsgesetz*) to include a supplementary payment designed to prevent hospitals from suffering economic disadvantages. Hospitals receive this supplementary payment for COVID-19 patients admitted for inpatient or day patient hospital treatment between 1 November 2021 and 19 March 2022. Federal funds totalling €1.8bn are being made available for this purpose.

As in previous years, the Federation is providing federal subsidies to statutory health insurance funds. In accordance with section 221 (1) of Book V of the Social Code (*Sozialgesetzbuch V*), the Federation provides €14.5bn per year as a flat-rate payment to cover health insurance funds' expenditure on non-insurance related benefits. In 2022, the federal subsidies for statutory health insurance funds were increased by a total of €14bn to €28.5bn on a one-off basis in order to stabilise the average supplementary premium, due to the challenging financial situation faced by the statutory health insurance funds as a result of the COVID-19 pandemic. By stabilising the supplementary premium, the Federation is helping to limit social security contributions to a maximum of 40% in 2022 and thus contributing to a quicker economic recovery. The federal government is committed to ensuring stable and reliable financing of statutory health insurance over the coming years. To this end, the coalition agreement sets out plans to increase the government's flat-rate contribution to unemployment benefit II (*Arbeitslosengeld II*) and make regular dynamic adjustments to the federal subsidy.

From 2022 onwards, the Federation is providing €1bn per year to the long-term care insurance compensation fund as a flat-rate contribution to the costs of long-term care.

Since 2020, as a result of the pandemic, the healthcare system's spending has increased significantly, while its revenues have declined at the same time. However, some pandemic-related measures have already been withdrawn. As the pandemic subsides, the related healthcare expenditures can be expected to decline further. The structural challenges that already existed prior to the pandemic, such as the necessary reform of the hospital system, should be tackled in the coming years, taking demographic change into account.

International responsibility

The Federal Republic of Germany is mindful of its international responsibilities. In its foreign policy, Germany advocates a sovereign Europe, the transatlantic partnership, a commitment to peace and security, the promotion of democracy and human rights, and multilateralism. These guiding principles are also reflected in German fiscal policy.

During the course of the COVID-19 crisis, Germany has dramatically increased its international aid efforts, especially for the world's poorest and least-developed countries. For example, the federal government decided to earmark nearly €11bn in funding for international aid measures during the COVID-19 crisis in 2020 and 2021 for the purpose of fighting the pandemic and expanding humanitarian aid and preventive healthcare. One key priority here is to promote the international development of vaccines, tests and pharmaceutical products and to ensure that these also reach people in less-developed countries. With a total contribution of €2.2bn in 2020 and 2021, Germany was the second-largest donor after the U.S. to the Access to COVID-19 Tools Accelerator (ACT-A), which aims to achieve these objectives. Germany is also providing its fair share of €1.1bn in 2022. In addition, a total of €224m is being provided bilaterally to support developing countries with vaccine logistics at the local level. Germany will provide a total of 175m vaccine doses free of charge by the end of 2022 and has provided more than €530m so far to support the development of vaccine production in developing and emerging countries. As part of the "Team Europe" approach, Germany is also participating in the EU's joint efforts.

The budget of the Federal Ministry for Economic Cooperation and Development totals approximately €11.6bn in 2022, including the funds available for the ACT-A. The spending eligible as ODA (Official Development Assistance), which falls under the remit of the Federal Foreign Office, stands at approximately €3.6bn in 2022. In addition, €1bn in precautionary funding has been set aside for measures to overcome the Ukraine crisis. Thanks to the Federation's efforts, Germany is set to remain the world's second-largest donor of ODA funds in 2022. According to the OECD's calculations, Germany's ODA spending totalled US$28.4bn in 2020. Germany's ODA ratio (including eligible in-donor refugee costs) was thus 0.73% of gross national income (GNI).

Defence expenditure, according to NATO's definition, increased to a total of €53bn in 2021. This value, determined on the basis of budget targets, represents the highest level in 20 years. Net actual defence-budget spending (departmental budget 14) recorded an increase of more than €1.1bn in 2021 compared with the previous year. The increased funding has enabled the Federal Armed Forces to continue the process of improving staffing levels and upgrading equipment, which commenced during the past few years. In this way, Germany is also meeting its mutual defence obligations towards its NATO allies and supporting the EU's common foreign and security policy.

Taxes and duties

The federal government is placing a major emphasis on policies to support the transformation of German industry and to facilitate the shift towards a net-zero economy. In the coming years, Germany's economic and fiscal policies will place a central focus on making sure this transformation succeeds. To this end, the federal government intends to reduce unnecessary bureaucratic red tape and to pursue pro-growth and socially equitable tax policies. In terms of tax and budget policy, it is important to eliminate subsidies that are superfluous, ineffective, and/or detrimental to the environment and climate.

A continued focus will be placed on measures in connection with the COVID-19 pandemic, with the aim of minimising pandemic-related economic and social constraints on individuals and businesses. These measures will provide particular relief to low- and middle-income earners. The above-cited measures contained in the Fourth

Coronavirus Assistance Act send an important signal in this direction.

In order to give due recognition to the often-difficult conditions that individuals and businesses have confronted during the pandemic, the federal government has made it possible for employers to make special payments to their employees. Specifically, since 1 March 2020, employers have been permitted to pay tax-exempt bonuses (grants and aid) of up to €1,500 to their employees in addition to their regular wages. After multiple extensions, this rule expired on 31 March 2022. The federal government plans to give tax-free treatment to bonuses of up to €3,000 that employers pay to employees at certain institutions – hospitals in particular – in recognition of their exceptional performance during the COVID-19 crisis; this tax-free treatment is to be applied retroactively as of 18 November 2021 and granted until 31 December 2022.

The wages tax and income tax relief for single parents was more than doubled in 2020 and 2021 and will apply for an unlimited period from 2022 onwards.

Income up to the subsistence minimum must be tax-exempt for all taxpayers. For this reason, the basic personal allowance is integrated into the income tax schedule. In addition, higher wages and salaries should mean more money in workers' pockets. For this reason, in the income tax schedule for 2022, the basic personal allowance has been increased to €9,984, after being increased from €9,408 to €9,744 in 2021. In addition, tax bracket thresholds were raised on the basis of the autumn projection in order to offset bracket creep. The maximum deduction for maintenance payments was also increased accordingly as of 1 January 2022.

In light of sharply rising prices (especially energy prices), the 2022 Tax Relief Act (*Steuerentlastungsgesetz 2022*) contains an additional increase in the basic personal allowance for 2022, which has now been raised a further €363 from €9,984 to €10,347. The standard income tax allowance for employees has also been increased (retroactively from 1 January 2022) by €200 to €1,200. Furthermore, the temporary increase in the tax allowance for long-distance commuters to 38 cents for each kilometre above 20 kilometres was brought forward retroactively to 1 January 2022; this increase is set to expire in 2026. This increase will also be incorporated into the "mobility premium" for low-income earners who do not qualify for the commuter tax allowance.

On 23 March 2022, the coalition committee agreed on further measures to provide relief for the broad majority of taxpayers, in order to ease the burden caused by high energy prices. This includes, for example, a €300 energy price allowance and a one-off bonus of €100 per child (child bonus) in addition to child benefit payments. The federal government also agreed to find a simple, non-bureaucratic way to make direct payments to people – this will be done by developing a system that makes payments using a person's tax identification number (for example, for a "climate benefit").

Furthermore, the reduced 7% VAT rate for the catering sector was extended until 31 December 2022, and loss carrybacks for 2020 and 2021 were increased to a maximum of €10m for taxpayers who file separately and €20m for taxpayers who file jointly. The federal government intends to extend the option to offset losses until the end of 2023; it also intends to expand the loss carryback option to cover the two previous assessment periods. This will help create liquidity for investment. To provide further incentives for investment, the federal government has extended the accelerated depreciation options for movable assets until the end of 2022 and extended the investment deadlines for tax-deductible investments for an additional year.

Above and beyond the tax measures adopted during the pandemic, tax policy must play a role in tackling the major challenges that lie ahead. By implementing the tax breaks for private investment in climate action and digital technology as agreed in the coalition agreement, the federal government will offer tangible incentives for a certain period of time in order to speed up the necessary transformation process.

The Act Updating Corporate Tax Law (*Gesetz zur Modernisierung des Körperschaftsteuerrechts*) gives certain partnership types the option of being treated like a corporation for income tax purposes. This is a key measure to enhance the competitiveness of German companies, especially small and medium-sized partnerships. The federal government will evaluate both (a) the option of being treated like a corporation for tax purposes and (b) the rules on favourable treatment of retained earnings to determine whether adjustments are needed to make these measures more effective in practice.

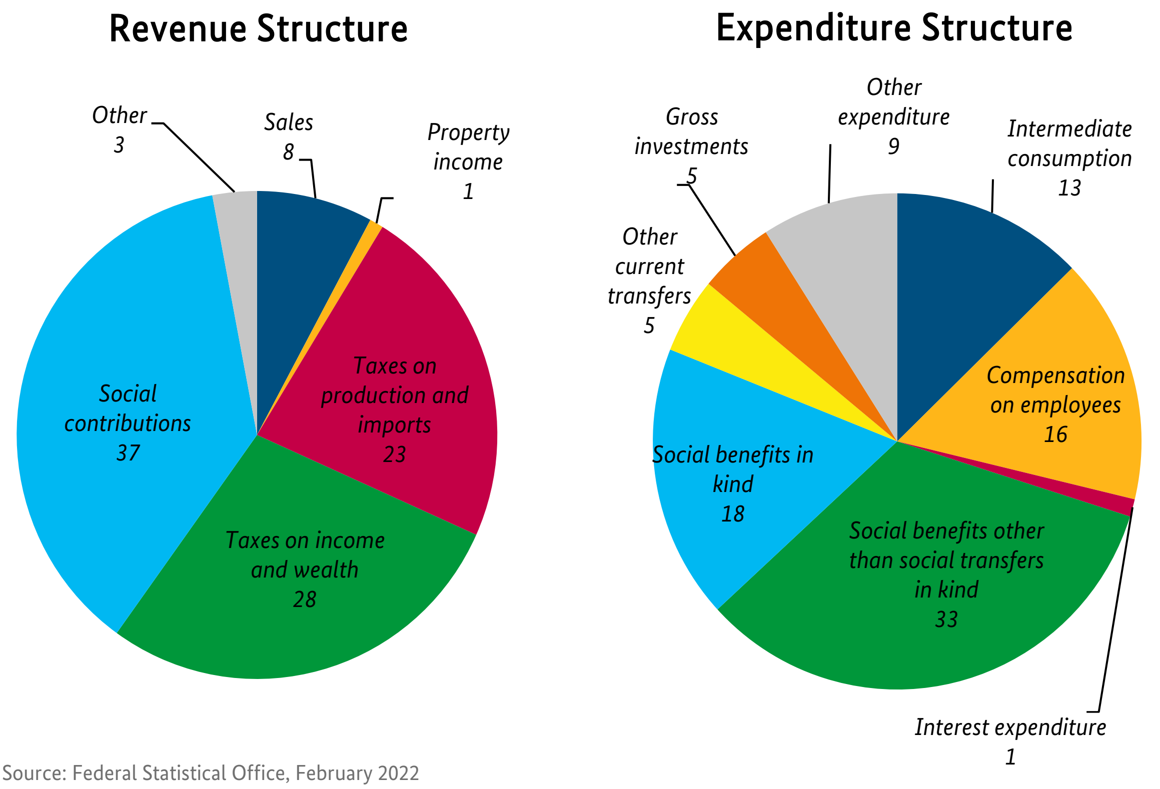
Digitalisation within a globalised economy poses major challenges to the international tax system. For the long term, the best way to meet these challenges is through a uniform, internationally coordinated approach that is implemented by all jurisdictions. In particular, a sustainable global reform of the system for taxing multinational enterprises provides the key to a fairer distribution of tax revenue. A major step towards greater international tax fairness was taken on 8 October 2021 when agreement was reached on the two-pillar plan developed by the OECD/G20 Inclusive Framework on BEPS (base erosion and profit shifting). The two reform pillars cover the reallocation of rights to collect tax from the world's largest and most profitable corporations (Pillar 1) and the introduction of a global minimum effective tax (Pillar 2). According to the implementation plan, both pillars are to enter into force in 2023. The federal government remains committed to the timely implementation of both pillars and will support the efforts by the Commission and by France's Council Presidency to adopt an EU Directive introducing a global minimum effective tax under Pillar 2 within the EU. In addition, the federal government will take a proactive approach towards ongoing steps to implement the reallocation of taxing rights (Pillar 1). This includes the formulation of the multilateral convention and the subsequent enactment of the convention in German law.

Further measures will be taken to promote tax fairness. The reporting requirements covering cross-border tax arrangements within the EU, which have already been enacted, will be extended to cover domestic tax arrangements of companies whose turnover exceeds €10m.

General government revenue and expenditure structure 2021

Figure 5

in %



Source: Federal Statistical Office, February 2022

3.4 Implementation of country-specific fiscal policy recommendations

As in 2020, the European Semester deviated from its usual format in 2021. It contained a range of temporary adjustments to take into account the time required to draw up national recovery and resilience plans (RRPs). The Commission's country reports were replaced by analyses of the national RRPs presented by the Commission in conjunction with Council implementing decisions on the approval of the assessment of the RRP in question. In addition, against the background of the RRPs, the Commission only formulated fiscal policy recommendations during the current Semester cycle and refrained from making new structural policy/reform recommendations. However, the implementation of the structural recommendations from the 2019 and 2020 Semester cycles is still being monitored. These recommendations are addressed in Germany's 2022 National Reform Programme, which contains a detailed description of measures taken by the federal government to implement them. The National Reform Programme was adopted by the federal cabinet on 6 April 2022. It also contains the reporting on the German Recovery and Resilience Plan (DARP) that is submitted every six months.

The fiscal policy strategy outlined above also addresses the country-specific fiscal policy recommendations issued by the Council on 18 June 2021. Taking into account the impulse provided by the Recovery and Resilience Facility, the Council recommends that Germany maintain a supportive fiscal stance and preserve nationally financed investment spending in 2022.

When economic conditions allow, Germany should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, it should enhance investment to boost growth potential.

Germany should pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery. It should prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition. Moreover, Germany should give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

A detailed description of measures implementing the 2021 country-specific fiscal policy recommendations can be found in Table 43 in the Annex, which forms part of the updated Draft Budgetary Plan.

4. General government budget balance and debt level projection

Medium-term objective

Germany's medium-term objective (MTO) is to ensure that its general government structural deficit does not exceed 0.5% of GDP.

4.1 Trends in general government revenue and expenditure

The projection set out below for the budgetary trends at all levels of government are based on (a) the federal government's annual projection on macroeconomic trends of 26 January 2022, (b) the results of the Working Party on Tax Revenue Estimates of 11 November 2021, as subsequently updated to take account of the federal government's annual projection, (c) the second government draft of the federal budget for 2022 prepared on this basis and adopted by the federal government on 16 March 2022, and (d) the benchmark figures for the government draft of the federal budget for 2023 and the fiscal plan until 2026. The planned special fund for the Bundeswehr and the governing parties' decision of 23 March 2022 on a "Package of federal government measures to manage high energy costs"[1] were also taken into account.

In December 2021, at the very start of the legislative term, the federal government allocated an additional €60bn to the special Energy and Climate Fund in the second 2021 supplementary budget to counter the pandemic-related reluctance to invest and to provide an additional economic stimulus to mitigate the effects of the pandemic. These funds also form part of the Federation's current budget and financial plan. The reference date for the projection is 31 March 2022.

Similarly to the first government draft for the 2022 federal budget prepared by the previous federal government, which formed the basis for the German Draft Budgetary Plan 2022 of October 2021, the second government draft also contains many measures to combat the impacts of the COVID-19 pandemic and to promote economic stabilisation and recovery within Germany. However, it compares a greater number of measures than the first government draft. By means of the second government draft for 2022, the federal government has also continued the task, which began with the second supplementary budget for 2021, of implementing the measures and targets anchored in the coalition agreement. This involves making investments in the future – first and foremost in the areas of climate action, digitalisation, education and research, as well as the creation of the infrastructure necessary for these areas. Furthermore, by way of response to Russia's attack on Ukraine, the second government draft of the federal budget for 2022 contains initial humanitarian aid and crisis management measures, as well as measures to ensure energy security in Germany and to mitigate the financial impact of higher energy costs.

As part of a supplement to the second government draft of the federal budget for 2022, which is planned for April, further funding is to be provided to mitigate the humanitarian, social and economic impact of Russia's war of aggression against Ukraine. In addition to the measures of 23 March already factored into the projection, the funding will be used in particular to address the high costs of energy and to provide for the care and integration of refugees from Ukraine as well as for humanitarian aid measures.

1 The document is available at: https://www.bundesfinanzministerium.de Content/DE/Downloads/2022-03-23-massnahmenpaket-bund-hohe-energiekosten.pdf?__blob=publicationFile&v=3

The federal government's underlying annual projection does not factor in the macroeconomic impact of Russia's attack on Ukraine and the effects arising from this and the imposed sanctions. As a result of these events, forecasting uncertainty has risen significantly. Hence, the forecast for public finances is also characterised by a high degree of uncertainty.

Revenue ratio back on growth trajectory from 2023

In 2021, government revenue increased significantly year-on-year. Following a decline during 2020, revenue rose by 8.9% during 2021, which was thus well above the long-term average (+3.1%).[2] The increase is attributable in particular to a significant rise in tax revenues of 12.9% following a fall of 6.5% in the previous year. Revenues from social security contributions rose by 4.1%, significantly more than in the previous year (+1.6%). As overall revenue increased more steeply than nominal GDP, the revenue ratio grew from 46.5% of GDP in 2020 to 47.8% in 2021 (see Table 1). In this case too, the driving factor was the tax-to-GDP ratio; this increased sharply from 23.0% of GDP in 2020 to 24.4% in 2021.

The revenue ratio is projected to fall to 45½% of GDP during 2022 and then rise steadily to reach 47¼% of GDP by the end of the projection period (see Table 1). At the same time, it is projected, based on the underlying estimates, that the tax-to-GDP ratio will initially fall to 23% of GDP in 2022; this is mainly due to the adopted tax relief measures. The tax-to-GDP ratio is then expected to increase continuously again in the subsequent years and is projected to reach 24¼% in 2026. The social security contribution ratio is also projected to decline to 17¼% in 2022, and then rise continuously to reach 18¼% of GDP by the end of the projection period.

2 Unless otherwise specified all data contained in this projection are based on the definitions laid d wn in the 2010 European system of national and regional accounts (in accordance with Regulation (EU) No 549/2013).

Table 1: Trends in the government revenue ratio
in % of GDP

	2021	2022	2023	2024	2025	2026
Taxes	24.2	23	23½	23¾	24	24¼
Social security contributions	17.7	17¼	17½	17½	18	18¼
Taxes and social security contributions	42.2	40¼	41	41¼	42	42½
Total revenue						
April 2022 update	**47.8**	**45½**	**46**	**46¼**	**47**	**47¼**
April 2021 update	45¾	46¼	47	47½	47¾	-

The tax-to-GDP ratio relates to current taxes. Differences between (a) the total tax ratio and (b) the sum of the tax ratio and the social contribution ratio are due to rounding; figures for the projection years are rounded to a quarter percentage point of GDP.

Government expenditure ratio below 50% again as of 2022

Due to the measures that remained necessary to combat the COVID-19 pandemic, government expenditure rose significantly in 2021 as well. At +7.4%, the increase was significantly higher than the long-term average (+3.1%) but was lower than during the year before (+9.6%). In particular, subsidies increased significantly once again (+ 47.3%) as a result of the expenditure on government immediate assistance and short-term aid for companies, among other things. Intermediate consumption (+10.8%) also increased sharply again; this rise reflects, inter alia, the expenditure for vaccines, testing centres and vaccination centres. There was also a considerable increase in capital transfers (+42.0%); this included reconstruction aid for victims of the flood catastrophe in July 2021, as well as investment funding to promote energy efficiency measures and renewable energies in the building sector. As expenditure increased more steeply than nominal GDP, the government expenditure ratio (government expenditure as a percentage of GDP) increased to 51.5% (see Table 2). This means that the government expenditure ratio exceeded 50% in 2021, as was also the case in the previous year.

In 2022, expenditure is expected to rise more slowly. While there is expected to be an increase in spending on measures in response to the war in Ukraine, spending for the purpose of overcoming the COVID-19 pandemic is projected to decline. In particular, subsidies are projected to decrease significantly (-28¾%); in the case of intermediate consumption, a significantly lower year-on-year increase is expected (+5%). Overall, expenditure during 2022 is expected to rise by approximately 2% year-on-year; the government expenditure ratio is projected to decline to 49¼% of GDP. In 2023, the normalisation of intermediate consumption and subsidies is expected to continue, which means that growth in expenditure, at +1¼%, is once again expected to be lower than in the previous year. In the subsequent years, growth in expenditure is forecast to rise again; the government expenditure ratio is expected to stabilise at around 47¾% of GDP.

In 2021, government gross fixed capital formation increased by 1.9% year-on-year; this was thus significantly lower than the rate of growth recorded in the previous year (+7.3%), but almost equivalent to the long-term average (+2.0%). The lower rate of growth in 2021 was due to a decline in investments in plant and equipment as well as lower growth in construction investment. It should be noted, however, that nearly 90% of the macroeconomic (government and private) investments are attributable to the private sector. The private-sector investments are supported by government investment grants; these increased by 18.7% during 2021. Government investment spending (government gross fixed capital formation + investment grants) increased by 7.3% in 2021, and was thus significantly higher than the long-term average (+2.1%).

In 2022, government gross fixed capital formation is expected to increase significantly, by 21¾%. The investments financed by means of the special fund for the Bundeswehr are expected to make a major contribution to this increase. The special fund provides €100 billion on a one-off basis, primarily to finance complex and important multi-year Bundeswehr equipment projects. This is intended to ensure and strengthen defence capabilities in order that the Bundeswehr can meet its alliance obligations. As the economic plan for the special fund was still unavailable on the reference date for the projection, it is assumed for the purposes of the projection that, during the years 2022–2026, €20 billion will be spent each year on additional investments and that borrowing will take place in parallel with the actual expenditure trends. In 2023, investments are also expected to increase significantly again at a rate of 3¾%. Over the course of the entire projection period, the gross fixed capital formation is forecast to increase by 5¾% on an annual average. During this period, the rate of growth is therefore expected to be above the medium-term nominal potential growth (on average, 3.1% per year).

Alongside the government gross fixed capital formation, government investment grants are also projected to continue increasing; particularly during 2022 (+16½%) and in 2023 (+13¾%). The measures financed by means of the Energy and Climate Fund (which will be developed into a Climate and Transformation Fund) are also expected to contribute to this. The additional funding allocated as part of the second supplementary budget for 2021 will be used primarily for the purposes of promoting private investments aimed at reducing CO_2 emissions.

Consequently, government investment spending (government gross fixed capital formation and investment grants) is forecast to record significant increases during 2022 and 2023: + 20% in 2022 and + 7¼% in 2023. The purely nationally financed government investment spending[3] is projected to increase by 20½% in 2022 and by 8¼% in 2023 and is thus expected to be higher than the nominal potential output.

The investment ratio (government gross fixed capital formation as a percentage of GDP) during the projection period is forecast to be between 2¾% and 3% and therefore significantly above the pre-pandemic level (2019: 2.4%) and the long-term average (2.4%). Government investment spending – at a rate of approximately 4½% of GDP during each year of the projection period – is also expected to be well above the pre-pandemic level (2019: 3.4%) and the long-term average (3.5%).

3 Government investment spending net of investment grants provided by European Union institutions.

Table 2: Trends in the government expenditure ratio
in % of GDP

	2021	2022	2023	2024	2025	2026
April 2022 update	**51.5**	**49¼**	**47¾**	**48**	**47¾**	**47¾**
April 2021 update	54¾	49½	48½	48¼	47¾	-

Figures for the projection period are rounded to a quarter of a percentage point of GDP.

4.2 Trends in the government budget balance

As a consequence of the COVID-19 pandemic, Germany recorded a budget deficit in 2021 too (see Table 3). At -3.7% of GDP, this was, in percentage terms, the fifth-largest deficit since reunification, (1995: -9.4%, 2010: -4.4% 2020: -4.3%, 2002: -3.9%).

Table 3: Trends in the general government budget balance
in % of GDP

	2021	2022	2023	2024	2025	2026
April 2022 update	**-3.7**	**-3 ¾**	**-2**	**- 1 ¾**	**- 1**	**- ½**
April 2021 update	-9	-3	-1 ½	- ½	0	-

Figures for the projection period are rounded to a quarter of a percentage point of GDP.

At approximately 9% of GDP, the projected deficit for 2021, as determined in April 2021, was significantly higher than the value for 2021 announced by the Federal Statistical Office on 25 February 2022. The difference was essentially the result of two factors. First, tax revenues were significantly better than projected in April 2021; second, the additional budgetary costs incurred as a result of the COVID-19 pandemic on the expenditure side were significantly lower than the level still expected in April 2021.

In 2021, the Federation's deficit was in fact slightly higher than the general government deficit (see Table 4). At -4.0% of GDP, the Federation (core budget and off-budget entities) recorded a higher deficit than the general government (-3.7%). The lower general government deficit was due to a moderately positive budget balance among the *Länder* and local authorities (approximately 0.2% collectively) as well as in the social security funds (0.1%). This trend was primarily due to the fact that the measures to combat the fallout from the COVID-19 pandemic in 2021 were largely financed by the Federation alone.

Table 4: Budget balances according to government level
in % of GDP

	2021	2022	2023	2024	2025	2026
Central government	-4.0	-3	-1½	1½	- 1	- 1
State government	0.1	-¼	0	0	¼	¼
Local authorities	0.0	0	0	0	0	¼
Social security funds	0.1	-¼	-½	-½	-¼	-¼
General government	**-3.7**	**-3 ¾**	**-2**	**- 1¾**	**- 1**	-½

Any discrepancies are due to rounding. Figures for the projection period are rounded to a quarter of a percentage point of GDP.

A general government budget deficit of approximately 3¾% of GDP is expected this year. This relatively unchanged deficit in comparison to the previous year is due to the fact that the decline in revenues (as a percentage of GDP) is expected to be compensated by a slower rise in expenditure and a resulting decrease in the government expenditure ratio. In 2023, the general government budget is expected to show a deficit of approximately 2% of GDP. The improvement relative to the previous year is mainly due to the expiry of the temporary measures in connection with combating the COVID-19 pandemic and the impacts of the war in Ukraine. Until 2026, the general government budget deficit is expected to decline by approximately ½% of GDP. As was already the case in 2021, the general government deficit is expected to be borne mainly by the Federation.

The impact of all new measures contained in the projection – compared with the projection in October 2021 for the German Draft Budgetary Plan 2022 – on the general government budget balance is presented in Table 5. In 2022, this is forecast to be -2¼% of GDP. At the same time, in comparison with the October 2021 projection (at that time, the expected deficit for 2022 was -3¼% of GDP) there are expected to be countervailing effects, particularly in the case of tax revenues; consequently, it is not expected that the total impact of these measures will result in a deterioration in the general government budget balance. In the subsequent years of the projection period, the impact of these measures is expected to decline gradually, to reach -½% of GDP in 2026. As is already the case in 2022, it is expected that the impact of these new measures on the general government budget balance will be partially compensated for by countervailing effects.

Table 5: Impact of the new measures included in the projection on the government budget balance[1]
in % of GDP

	ESVG code	2022	2023	2024	2025	2026
Total expenditure		**-1.6**	**-1.0**	**-0.8**	**-0.7**	**-0.5**
Intermediate consumption	P.2	-0.1	0.0	0.0	0.0	0.0
Subsidies	D.3	-0.5	-0.1	-0.1	-0.1	0.0
Social benefits other than social transfers in kind	D.62	-0.1	0.0	0.1	0.1	0.0
Other current transfers	D.7	-0.3	0.0	0.0	0.0	0.0
Investment grants	D.92	-0.3	-0.3	-0.3	-0.3	0.0
Gross fixed capital formation	P.51g	-0.4	-0.5	-0.5	-0.5	-0.5
Total revenue		**-0.7**	**-0.2**	**-0.2**	**-0.1**	**-0.1**
Taxes on production and imports	D.2	-0.1	0.0	0.0	0.0	0.0
Current taxes on income, wealth, etc.	D.5	-0.4	-0.2	-0.2	-0.2	-0.1
Net social contributions	D.61	-0.2	0.0	0.0	0.0	0.0
Impact on balance		**-2¼**	**-1¼**	**- 1**	**- 1**	**-½**

1 See Table 18 in Annex A concerning the content of the underlying measures.
A minus sign indicates revenue shortfalls or additional expenditure. Any discrepancies are due to rounding. Figures for the impact on balance are rounded to a quarter of a percentage point of GDP.

4.3 Trends in the general government structural balance

Fiscal policy influences the general government budget balance mainly through the channel of budget policy, i.e. the management of revenue and expenditure. At the same time, however, the general government budget balance is affected by a number of cyclical and exceptional factors that lie largely outside the direct control of governments. For this reason, EU budgetary surveillance looks at structural indicators in order to assess the fiscal policy in a manner that excludes these factors.

Structural balance: The medium-term objective will be achieved once again from 2026

The structural balance is determined by adjusting the nominal balance for cyclical effects and, in general, for one-off effects, in accordance with the EU's standardised method. However, the measures adopted in order to tackle the COVID-19 pandemic are not treated as one-off effects. This approach is based on the European Commission's recommendation that all of these measures should be dealt with in accordance with the terms of the general escape clause.[4]

On this basis, the general government structural balance in 2021 amounted to -2.1% of GDP (see Table 6). In 2022, the structural deficit is expected to increase to approximately 3½% of GDP. The increase in the structural deficit – in comparison with the almost constant actual budget balance – is the result of a significantly lower cyclical budget deficit, which stems from the decline in the negative output gap. From 2023, the structural consolidation of the general government budget is set to begin; this is mainly due to the expiry of the temporary measures to combat the COVID-19 pandemic. Between 2023 and 2026, it is expected that the structural budget deficit for 2022 will be reduced by ¾% of GDP per year on average. As of 2026, it is expected that Germany will once again be able to meet its medium-term objective of a structural deficit no higher than 0.5% of GDP.

4 European Commission (30 March 2020), "Guidelines for a streamlined format of the 2020 Stability and Convergence Programmes in light of the Covid-19 outbreak".

Table 6: Structural budget balance compared with actual budget balance and GDP trend

	2021	2022	2023	2024	2025	2026
	in % of GDP					
Structural balance	-2.1	-3½	- 2¼	-2	- 1	-½
Actual balance	-3.7	-3¾	-2	-1¾	- 1	-½
	% change yoy					
Real GDP	2.9	3.6	2.3	0.8	0.8	0.8

Budget balance figures for the projection period are rounded to a quarter of a percentage point of GDP.

Trends in government expenditure (using the expenditure benchmark definition)

In addition to the medium-term objective, the Stability and Growth Pact's preventive arm also includes an expenditure benchmark. For the purposes of the expenditure benchmark, expenditure is adjusted for various items including interest expenditure, cyclical labour market effects, fluctuations in investment spending from the average investment level, and co-financed EU programmes; it is also adjusted to take into account the effects of discretionary measures on revenue. However, the expenditure benchmark is also suspended due to the current suspension of the Stability and Growth Pact's preventive arm.

Using the expenditure benchmark definition, Germany's expenditure is projected to increase by approximately 3% in 2022 and thus at approximately the same pace as the average nominal potential output (see Table 7). This is due, among other reasons, to the fact that changes in tax revenues in connection with the relief package of 23 March are to be factored into the expenditure calculation (using the expenditure benchmark definition); the corresponding reductions in tax revenue in 2022 are expected to lead to an increase in expenditure (using the expenditure benchmark definition). In 2023, expenditure (using the expenditure benchmark definition) is projected to increase by only ¼%. By the end of the projection period, expenditure (using the expenditure benchmark definition) is forecast to grow more slowly than nominal potential output.

Table 7: Expenditure benchmark: projected expenditure and potential output
Year-on-year change, in %

	2021	2022	2023	2024	2025	2026
Expenditure (using the expenditure benchmark definition)	7.5	3	¼	2¾	2¼	2½
Nominal potential GDP growth (moving 10-year annual average)	2.6	3.2	3.2	3.1	3.1	3.1

Figures for the projection period relating to expenditure are rounded to a quarter of a percentage point of GDP.

4.4 Sensitivity of the budget balance projection

Sensitivity analyses can provide indications of how a projected trend is affected under altered conditions. The model used to analyse the budget balance's sensitivity to changes in GDP and interest rates thus takes into account the possibility that the underlying macroeconomic assumptions may change. For each sensitivity analysis, two alternative scenarios are considered. All other assumptions remain unchanged. For the purposes of the GDP sensitivity analysis, government revenue and expenditure are assumed to respond to the GDP scenarios in a manner consistent with their long-term elasticity. The budget semi-elasticity used in the European budgetary surveillance process is applied for this purpose.

Under the positive alternative scenario – that is, if actual GDP growth were to exceed the federal government's annual projection (the baseline scenario) by one-half a percentage point per year – the general government budget balance would be balanced again as early as 2025 (see Table 8). Under the negative alternative scenario – that is, if actual GDP growth were half a percentage point lower than the baseline scenario – the general government budget deficit would still be above the upper limit of -½% of GDP, even in 2026.

Table 8: GDP sensitivity of the general government budget balance projection
General government budget balance in % of GDP

	2021	2022	2023	2024	2025	2026
GDP trends according to						
Baseline scenario	**-3.7**	**-3¾**	**-2**	**-1¾**	**- 1**	**-½**
Alternative scenarios compared with the baseline scenario						
real GDP -½% p.a.		-4	-2½	-2½	-2	-1¾
real GDP+½% p.a.		-3½	-1½	- 1	0	½

Figures for the projection period are rounded to a quarter of a percentage point of GDP.

If the interest rate were to be 50 basis points p.a. higher than under the baseline scenario, the general government budget deficit during the projection period would be up to one quarter of a percentage point of GDP p.a. higher (see Table 9). Under the second alternative scenario – that is, if the interest rate were to be 50 basis points lower, the general government budget deficit during the projection period would be up to one quarter of a percentage point of GDP p.a. below the projected values in the baseline scenario.

Table 9: Interest-rate sensitivity of the general government budget balance projection
General government budget balance in % of GDP

	2021	2022	2023	2024	2025	2026
Interest rate trends according to						
Baseline scenario	**-3.7**	**-3¾**	**-2**	**-1¾**	**-1**	**-½**
Alternative scenarios compared with the baseline scenario						
Interest rate +50 basis points p.a.		-3¾	-2	-2	-1	-¾
Interest rate -50 basis points p.a.		-3¾	-1¾	-1½	-¾	-½

Figures for the projection period are rounded to a quarter of a percentage point of GDP.

4.5 Trends in debt levels

From 2013 to 2019 there was a continuous decline in Germany's debt-to-GDP ratio (debt level as a percentage of GDP). By the end of 2019, the debt ratio was at 58.9%. This means that it was below the Maastricht reference value of 60% for the first time since 2002. The decline in the debt-to-GDP ratio during the years prior to the outbreak of the COVID-19 pandemic helped put Germany in a position to deliver a strong and decisive response to the challenges presented by the pandemic, without compromising the stability of the general government budget. As a result of the measures taken to combat the pandemic, the debt-to-GDP ratio rose to 68.7% of GDP in 2020 and then reached 69.3% by the end of 2021 (see Table 10).

It is expected that the debt-to-GDP ratio will decline to around 66¾% of GDP in 2022. The fact that a decline in the debt-to-GDP ratio is still expected despite the high general government budget deficit is basically attributable to two effects: first, borrowing on the capital markets in 2021 exceeded budgetary requirements as a result of the uncertain budgetary situation, which thus led to a reduction in new borrowing levels in 2022; second, all else being equal, the expected higher level of nominal GDP growth in 2022 (+6.6%) is forecast to significantly lower the debt-to-GDP ratio. By the end of the projection period, it is expected that the debt-to-GDP ratio will have declined to 64½% of GDP.

Table 10: Trends in the general government debt-to-GDP ratio
Debt ratio in % of GDP

	2021	2022	2023	2024	2025	2026
April 2022 update	69.3	66¾	65¾	65¾	65	64½
April 2021 update	74½	74	73¼	72	69¼	-

Figures for the projection period are rounded to a quarter of a percentage point of GDP.

5. Long-term sustainability and quality of public finances

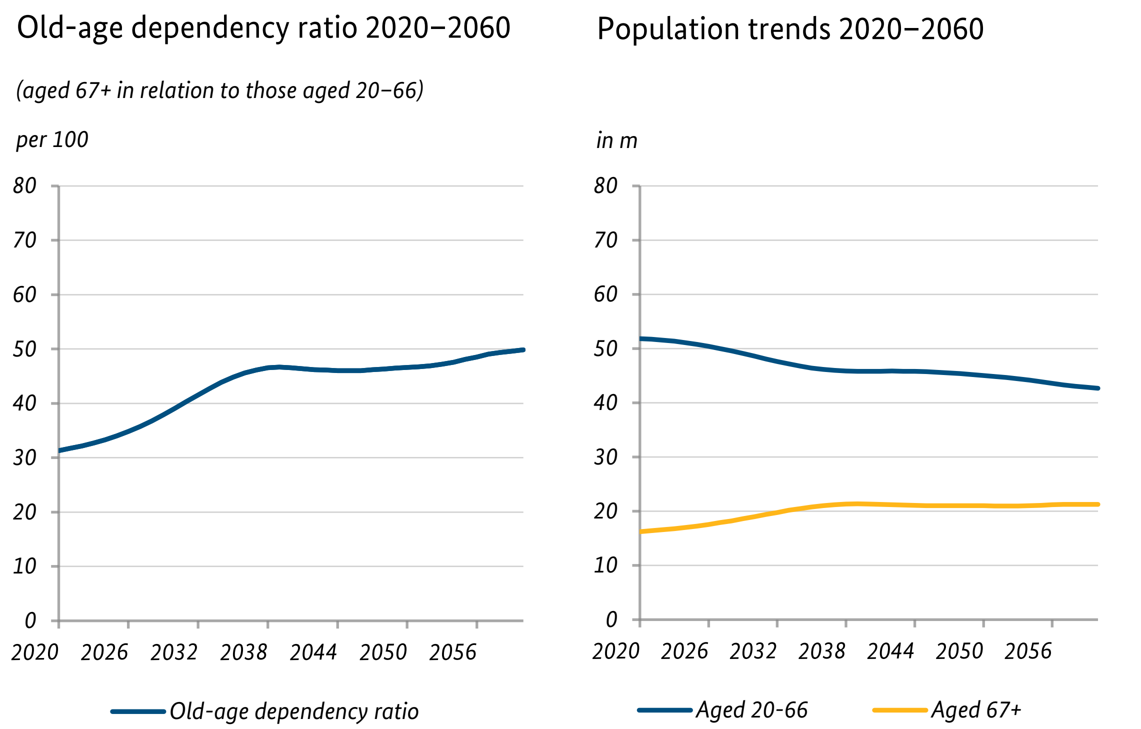
5.1 Challenges to the sustainability of public finances

Demographic change is one of the main challenges to the long-term sustainability of public finances. Over the coming years there will be a sharp rise in the number of pensioners as the baby boomer generation (born 1955–1969) reaches retirement age. Although provision has been made through various pension reforms to share the burden across older and younger generations, age-related public spending in relation to GDP will increase significantly.

The old-age dependency ratio provides an indication of the fiscal burden resulting from the ageing population. This measures the relationship between the number of people of retirement age (aged 67+) and the number of people of working age (aged 20–66). The ratio therefore shows how many pensioners those of working age need to care for in the broadest sense – for example financially through contributions to health and long-term care insurance. While in 2000 the old-age dependency ratio was still around 22 people of retirement age per 100 people of working age, by 2021 the ratio had risen to around 32 (see Figure 6).

In the coming years the old-age dependency ratio will – according to the 14th coordinated population projection – continue to rise, reaching around 47 in 2040. In the years after that, the old-age dependency ratio will increase more moderately up to around 50 in 2060. The increase in the old-age dependency ratio is due to two opposing trends in the composition of the population: a rise in the number of people of retirement age, which is partly due to increased life expectancy, and a fall in the number of people of working age, because births and immigration are not fully compensating for the number of employed people moving into retirement. Hence in its population projections, the Federal Statistical Office predicts that between 2020 and 2035, the number of people over 67 will rise by at least 22% from 16m to a projected 20m. In the decades after that, up to 2060, the number of people over the age of 67 will remain relatively stable. The number of people of working age will fall by around 12% between 2020 and 2035, from 52m to a projected 46m. This trend will continue from the mid-2040s onwards, so that the number of people of working age will fall to a projected 43m by 2060.

Demographic trends in Germany **Figure 6**



Source: Federal Statistical Office, 14th coordinated population projection (based on version 2 of the birth rate, life expectancy and migration assumptions)

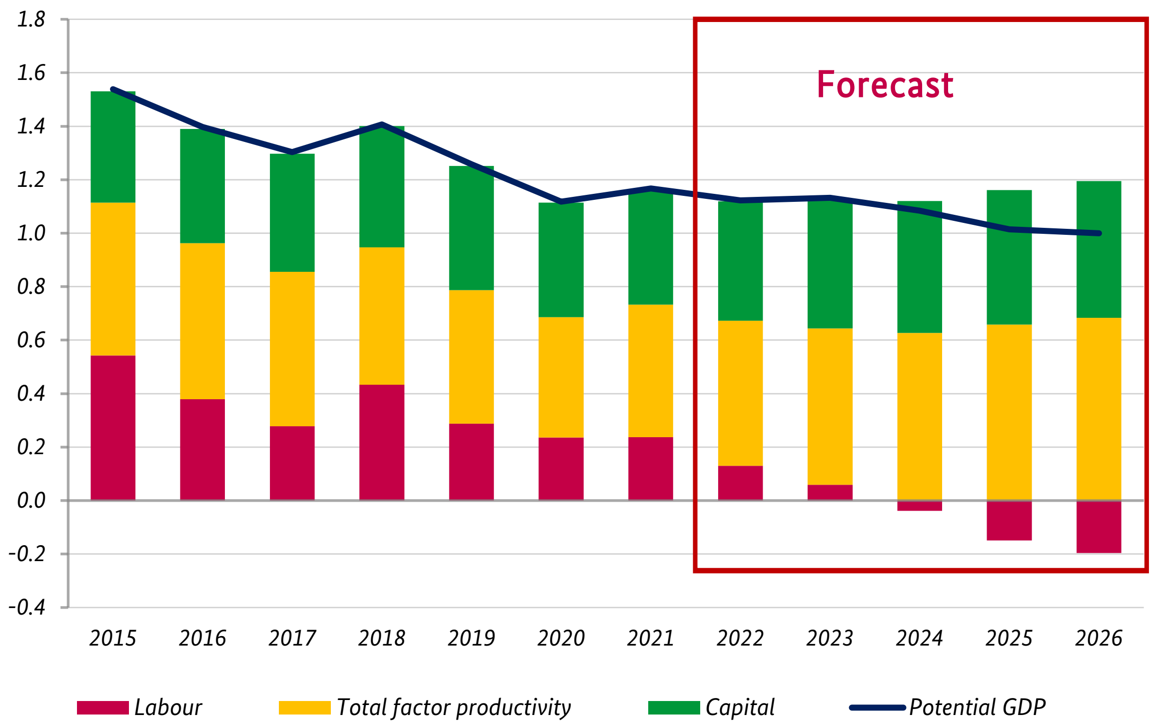
In addition to the increase in age-related public spending, demographic change also affects the growth of overall potential output. According to federal government estimates, potential output growth is expected to decline to 1.0% in the period up to 2026. The main reason for this is the decreasing (and, in the medium-term projection period, negative) contribution of labour to growth, above all due to a decline in the labour pool (see Figure 6). The consequence of this could be not only that age-related government spending in relation to GDP increases at a faster pace, but that government revenue grows more slowly in future.

Forward-looking and growth-oriented fiscal and economic policies can counteract the rise of demography-related public spending and the projected decline in potential output growth. Measures to promote the supply of labour, to enhance the performance potential of the working population and to boost the productivity of the economy – especially through increased public and private investment – are just one element of this facilitative fiscal and economic policy agenda. Another element are reforms and measures to strengthen our social security system financially in a sustainable way. These measures will have a positive effect on the solidity and long-term sustainability of public finances.

Trend in German potential output, 2015–2026

Figure 7

Percentage points



Source: Federal government, 2022 annual projection

5.2 Government revenue and expenditure from a long-term perspective

Comprehensive projections of future government revenue and expenditure are needed to assess the long-term sustainability of Germany's public finances from a fiscal policy perspective and to assess where action needs to be taken over time. The Federal Ministry of Finance last presented such projections and an assessment of the long-term sustainability of public finances in its 2020 Sustainability Report.

The revenue and expenditure projections contained in the Sustainability Report, which is published once every legislative term, are based on a range of assumptions regarding long-term demographic and macroeconomic trends, population trends and ageing, labour force participation and employment, as well as economic growth. With regard to public revenues and non-demography-related spending, it is assumed that these will develop in line with GDP growth. Under the additional assumption that during the projection period there will be no policy change in terms of expenditure and revenue, the projections regarding demography-related spending show that action may need to be taken over time.

The last Sustainability Report was drafted shortly before the outbreak of the COVID-19 pandemic and published in March 2020. The effects of the pandemic are therefore not reflected in the report's findings. However, the pandemic is not expected to have a significant impact on the basic dynamics of the demography-related spending increases described in the report.

The findings of the Sustainability Report show that in the medium and long term, expenditure on health, long-term care and old age will grow disproportionately in relation to GDP. They also show that employment trends will have a major impact on public spending and hence on the sustainability of public finances. For example, thanks in part to the positive employment trends over the past decade, contribution rates have not increased as previously projected, particularly in the case of pension insurance; in fact, they have even been reduced. At currently 18.6%, the contribution rate to the statutory pension insurance scheme is 1.3% lower than in 2010.

The findings of the Stability Report underscore the importance of facilitative fiscal and economic policies that increase the economy's potential output and create additional employment opportunities through targeted and investment-related measures and measures to drive innovation. This forms the basis for sustainable economic growth and ensures the long-term sustainability of public finances.

5.3 Measures to maintain long-term sustainability

The long-term sustainability of public finances is ensured if the state is able to meet its financial obligations over the long term. Compliance with this principle is supported by the debt rule, which is enshrined in Germany's constitution. Hence in 2023, when the COVID-19 crisis has been overcome, the federal government's stated aim is to return to compliance with the borrowing limit under the debt rule.

In 2022, with the pandemic still at large, the federal government is continuing to preserve the productive capacity of the economy through its assistance programmes and the short-term economic measures laid out in the economic stimulus programme. This provides the basis for a rapid economic recovery from the crisis and for the successful transformation of Germany's economy. Measures contained in the Future Development Package will support the implementation of the transformation processes. Ultimately this will also lay the foundation for the long-term sustainability of public finances.

Beyond the debt brake's formal set of rules, numerous other policy approaches are aimed at ensuring the long-term sustainability of public finances. These cover both government revenues and public spending and extend across a range of policy areas, from fiscal and economic policies, pension, health care and long-term care policies to family and education policies. They also include measures to strengthen the labour market and to boost the overall productivity of the economy, as well as to improve economic capacity and to expand the economy's investment capacity and potential to drive innovation.

In this regard, the federal government considers the productivity-enhancing potential of digitalisation, especially in the public administration, to be a key foundation for future growth. With the rollout of fibre networks throughout Germany and the further expansion of mobile networks, the federal government is improving conditions for the economy to thrive. The federal government's large-scale investments in other important areas that are crucial for the future – which besides digitalisation include in particular climate neutrality and education and research – are enabling long-term planning certainty and providing good conditions for companies to harness their growth potential to the full.

With regard to the social insurance system, key approaches to address sustainability risks include (a) enhancing the labour market participation of women, older people and immigrants, in particular, (b) increasing net migration over the long term and (c) building up skills in the working population. Strengthening funded pension plans to complement the pay-as-you-go pension system can contribute to safeguarding the pension level and contribution rate.

The labour market is critically important for ensuring the long-term soundness of public finances. Here, too, there are a range of challenges related to demographic ageing that need to be addressed. The federal government's stated aim is therefore to counteract the currently projected decline in labour's contribution to potential output growth.

Well-trained skilled workers are essential for the success of Germany's economy. A forward-looking approach to securing an adequate supply of skilled labour is therefore decisive for future prosperity. The combination of digitalisation, demographic change and decarbonisation is leading to a structural change in the demand for labour, with sector-specific and regional differences. Added to this, the COVID-19 pandemic continues to pose a particular challenge. In order to meet these challenges, the federal government is continuing to develop its Skilled Labour Strategy. Key priorities are a) increasing the labour force participation among women and older people, b) giving a fresh boost to vocational training, further training and skills development, c) promoting the immigration of skilled workers and d) creating attractive working conditions in areas where there is a shortage (or foreseeable shortage) of skilled workers. With the continuation of the National Skills Strategy, the federal government is also underscoring the importance of further training and skills development to maintain the employability of workers and the competitiveness of companies.

Furthermore, the federal government wants to continue supporting the autonomy of people who are unemployed or receiving basic income support for jobseekers (Book II of the Social Code). A particular priority here is to support them in pursuing a personal plan to improve their long-term employment prospects. According to plans set out in the coalition agreement, it will be possible to provide support for the acquisition of basic skills outside of the context of vocational further training measures leading to a vocational qualification, in order to improve employability. People who are unemployed or receiving basic income support will be able to receive financial support for vocational further training leading to a full qualification, regardless of how long it takes. In the case of vocational further training leading to a qualification, people entitled to benefits pursuant to Books II and III of the Social Code will receive an additional further training allowance of €150 per month; the work placement priority (*Vermittlungsvorrang*) in Book II of the Social Code is also to be abolished. In future there will also be an entitlement to at least three months' unemployment benefit following vocational further training.

Demographic trends in the coming decade pose a major challenge, particularly in the area of pensions. Sustainable financing of statutory pensions and people's confidence in their entitlement to an adequate pension in old age need to be brought in line. For example, the incremental increase of the standard retirement age to 67 by 2031 will contribute to an intergenerational balance between pensioners and those paying contributions.

The 2021 pension insurance report shows that, despite the ongoing impact of the COVID-19 pandemic on the economy, the finances of the statutory pension insurance system are currently in good shape. Short-time work schemes, in particular, have played an important role in this regard, preventing redundancies and significant pay cuts for employees. The current pension insurance report estimated that sustainability reserves at the end of 2021 amounted to €37.2bn, or 1.6 months' expenditure.

A good and reliable pension after many years' work is important for employees. This is why the coalition agreement pledges to strengthen the statutory pension system and to secure the minimum pension level of 48% (definition prior to the recent statistical revision) in the long term. The contribution rate will not rise above 20% in this legislative term. In addition, improvements will be implemented for existing pensioners with reduced income. There will be no pension cuts and no further increases to the statutory retirement age.

To ensure the sustainable financing of the statutory pension insurance system, the federal government has decided to reinstate the "catch-up factor" in pension calculations. The reinstatement of the catch-up factor ensures that the pension reduction that was not applied in 2021 is offset against the pension increase, thereby maintaining generational equity. A safeguard clause will ensure that pensions do not fall below the 48% level in the period up to 1 July 2025. Under the draft Pension Adjustment Act (*Rentenanpassungsgesetz*), pension expenditure will be lower, while the levelling out of the sustainability factor will result in fewer fluctuations in pension adjustments. In order to stabilise the pension level and contribution rate over the long term, the financing of the statutory pension insurance system will be supplemented by partial capital coverage. This is to be professionally managed as a permanent fund by an independent public body and invested globally. The coalition agreement has earmarked a capital stock of €10bn for this purpose.

The coalition parties want to strengthen occupational pensions. In the area of private pensions, they are planning a fundamental reform of the current system. First, they intend to assess the possibility of a government managed fund that offers people saving up for old age an effective and inexpensive product with an opt-out clause. Second, they will examine the possibility of giving legal recognition to private investment products with higher returns than those achieved by the existing Riester pension products, and targeting support at lower income groups. A grandfathering provision will apply to existing Riester contracts.

Awareness of the flexi-pension scheme (*Flexi-Rente*), introduced in 2017, is to be increased by providing better advice and information. In addition, the provision on additional earnings in the case of early retirement is to be extended indefinitely. Together with social partners, a social dialogue is to be initiated on how to make it easier for people to stay in employment for longer if they wish. The discussion will focus in particular on the possibility of a more flexible retirement age, based on the Scandinavian model, and on the situation of occupational groups that are especially under strain.

In order to improve old-age provision for the self-employed, it will become mandatory for the newly self-employed to pay into either a private pension plan or the statutory pension scheme. Under this new rule, self-employed people will be insured under the statutory pension scheme unless they opt out using a simple and unbureaucratic procedure and choose a private pension product instead.

The basic pension, which was introduced on 1 January 2021, gives recognition to the lifetime work efforts of people with below-average income who paid compulsory contributions into the statutory pension insurance scheme over many years, raised children or provided unpaid home nursing care. It also boosts people's confidence in the statutory pension insurance system as the key pillar of retirement planning. Pensioners with at least 33 qualifying years and whose average contributions do not exceed a specific limit are eligible, following an income check, for an individually calculated pension supplement. The federal grant to the statutory pension system was increased by €1.4bn in 2021 and then adjusted in accordance with the statutory provisions.

In order for people to feel secure about their old-age provision, it is important that they can obtain information about their accrued entitlements from statutory, occupational and private pensions. This enables people to make informed decisions about their old-age provision that suit their life circumstances. To this end, the Central Office for the Digital Pension Overview at the Deutsche Rentenversicherung Bund, which was mandated by the Pension Overview Act (*Rentenübersichtsgesetz*), has been working on implementing a digital pension overview since the Act came into force on 18 February 2021. The first pilot phase is due to start in 2022; the launch of standard operation is planned for the end of 2023 at the earliest.

In the area of occupational pensions, deferred compensation is becoming a more attractive option for employees, because in 2022 it will become mandatory for employers to make a contribution to an employee's deferred compensation amounting to 15% of the deferred salary.

With a view to long-term sustainability, reforms to the statutory health insurance system are also needed. Objectives of the coalition agreement include stable and reliable financing of the statutory health insurance system, increasing the government's flat-rate contribution to the statutory health insurance of recipients of unemployment benefit II (*Arbeitslosengeld II*) and regular dynamic adjustments to the federal grant. Reform measures on the expenditure side are also planned in order to increase efficiency and sustainability. Among other things, this includes a) the Government Commission proposed in the coalition agreement, which will work towards reforming hospital planning based on the criteria of accessibility and demographic trends, b) the funding of cross-sectoral healthcare provision and c) increasing opportunities for health insurance funds to keep pharmaceutical prices within certain limits. The coalition agreement also includes comprehensive measures to stabilise the financing of statutory long-term care insurance over the long term. Among other things, this will be achieved by moderately increasing the contribution rate to statutory long-term care insurance. Alongside other measures, services such as short-term and stand-in care will be combined into a flexible care budget (*Entlastungsbudget*) in the area of home care.

Labour migration and enabling foreign workers to remain in Germany is an important factor in dealing with the shortage of skilled workers, demographic ageing and the associated challenges for the social security systems. Besides making immigration criteria more transparent, the expansion of the Federal Employment Agency's employee placement agreements, whereby the migration of skilled workers is agreed with the countries of origin, could also have a positive effect. Companies providing vocational training as well as the care sector could benefit from this in particular. Successful and permanent migration and integration ultimately have a positive impact on the long-term sustainability of public finances.

Another important approach to stabilising the social security system and thereby reducing the risks to fiscal stability is to increase the number of women in employment. The percentage of gainfully employed women with children under the age of 18 already rose from around 66.7% in 2009 to 74.7% in 2019. Nevertheless, women with children are still less likely to be in work than men in the same family situation. The federal government has set itself the goal of removing the remaining obstacles that impede higher employment rates among women and an increase in their working hours. In the opinion of the federal government, the priority approach, which is also the most effective, is to improve basic conditions in a way that would allow for a fair balance between family and work life. This also includes, in particular, further expansion of child daycare services. In addition, a legal entitlement to all-day care for primary school children will be gradually introduced from 2026. To implement this legal entitlement, the federal government is providing the *Länder* with funding of up to €3.5bn to expand childcare infrastructure via the special fund for the expansion of all-day education and childcare for primary school-aged children. The first investment programme was launched at the end of 2020. To take account of the additional burden on the *Länder* (including their local authorities) resulting from this legal entitlement, a change in the vertical distribution of VAT in favour of the *Länder* is also planned, rising gradually from €135m in 2026 to €1.3bn a year from 2030.

Education and building up skills begins in early childhood and extends throughout a person's working life. Not least in view of the expected demographic trends and the projected decline in labour's contribution to potential output growth, further improvements in the area of school education as well as vocational training and further training are essential. Ensuring that the work force has the skills needed for the future requires a strong education system with good schools, a robust vocational training system and a competitive higher education system. One of the federal government's main aims in this respect is to increase educational equity and to ensure that the educational opportunities of children and young people are not dependent on their parents' social situation. Training assistance (federal training assistance and upgrading assistance) is also to be reformed. In addition, an Excellence Initiative for Vocational Training will further strengthen the attractiveness and innovative potential of initial and further vocational training.

5.4 Measures to increase the effectiveness and efficiency of public revenues and spending

In order to ensure the long-term sustainability of public finances, government revenue and spending are reviewed regularly to assess their effectiveness and efficiency. The primary aim is to make public budgets more target- and results-driven and thereby create additional fiscal space.

Since 2015 the federal government has been carrying out spending reviews. These revenue and expenditure-side budget analyses examine selected measures, specific issues and horizontal tasks of the public administration to determine whether the associated objectives are achieved (effectiveness) and whether this takes place economically (efficiency). Spending reviews increase transparency regarding the use of public funds, improve the efficiency and impact of their deployment, and serve the purpose of reprioritising spending and creating fiscal space for new measures on both the revenue and expenditure side. Since they were introduced in 2015, six spending-review cycles on different topics have been conducted and successfully concluded. In the 2021/2022 review cycle, the Federal Ministry of Finance is conducting a spending review on the subject of "linking sustainability goals to the federal budget" jointly with the Federal Ministry for the Environment, Nature Conservation, Nuclear Safety and Consumer Protection and the Federal Ministry for Economic Cooperation and Development.

The federal government is coordinating its subsidies policy on the basis of its subsidy policy guidelines, which are geared towards the sustainable and efficient use of public funds. Hence, new forward-looking investments and technologies are being supported primarily in the form of financial assistance. Evaluations of subsidies contribute to strengthening evidence-based and outcome-oriented fiscal and tax policies. Sustainability impact assessments enable coordinated and coherent federal government policies that are aligned with the federal government's various goals. The new federal government is committed to reducing subsidies and expenditures that are harmful to the environment and climate in order to create additional fiscal space.

The federal government reports on subsidies in its Subsidy Report, which is published every two years – most recently in August 2021. The government's subsidy policy is increasingly being shaped by climate and environmental policies, especially in the area of direct funding in the form of federal financial assistance. In 2021, 67 of the 128 financial assistance items, making up an estimated total financing volume of €16.2bn, are directly related to the environmental and climate goals anchored in the German Sustainable Development Strategy. Their share of the total volume of financial assistance in 2021 stands at 66.7%, which corresponds to 38.5% of total subsidies (financial assistance and tax expenditures).

Annex A – Stability Programme 2022 tables

Table 11: Macroeconomic prospects[1]

	ESA code	2021 Index 2015=100	2021	2022	2023	2024	2025	2026
			% change p.a.					
1. Real GDP chain index	B1g	105.3	2.9	3.6	2.3	0.8	0.8	0.8
2. GDP in respective market prices (€bn)	B1g	3,570.6	6.0	6.6	4.0	2.6	2.6	2.6
Real utilisation of GDP chain index								
3. Private consumption expenditure[2]	P.3	100.9	0.1	6.0	2.6	0.8	0.8	0.8
4. Government consumption expenditure	P.3	117.4	3.1	0.0	-0.2	0.1	0.1	0.1
5. Gross fixed capital formation	P.51	111.3	1.5	2.6	4.3	2.1	2.1	2.1
6. Changes in inventories (GDP growth contribution)[3]	P.52 + P.53	-	0.7	0.1	0.0	0.0	0.0	0.0
7. Exports	P.6	110.8	9.9	5.5	4.0	3.1	3.1	3.1
8. Imports	P.7	117.4	9.3	6.3	4.3	3.5	3.5	3.5
Contributions to real GDP growth[3]								
9. Final domestic demand		-	1.1	3.5	2.2	0.9	0.9	0.9
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	0.7	0.1	0.0	0.0	0.0	0.0
11. External balance of goods and services	B.11	-	0.9	0.0	0.1	0.0	0.0	0.0

1 2021: Federal Statistical Office: as of February 2022.
2022 and 2023: from the short-term forecast for the 2022 Annual Projection, January 2022.
2024 to 2026: from the medium-term forecast for the 2022 Annual Projection, January 2022.
2 Including private non-profit organisations serving households
3 Contribution to GDP growth rate.

Table 12: Price developments – deflators[1]

	ESA code	2021 Index (2015=100)	2021	2022	2023	2024	2025	2026
			% change p.a.					
1. GDP		112.1	3.0	2.9	1.7	1.8	1.8	1.8
2. Private consumption[2]		109.0	3.1	3.0	1.7	1.9	1.9	1.9
3. Public consumption		114.5	3.0	2.0	1.4	2.0	2.0	2.0
4. Gross fixed capital formation		117.7	7.0	4.7	1.8	1.3	1.3	1.3
5. Exports		107.7	5.4	6.4	1.5	1.7	1.7	1.7
6. Imports		107.2	8.0	7.4	1.5	1.7	1.7	1.7

1 2021: Federal Statistical Office: as of February 2022.
2022 and 2023: from the short-term forecast for the 2022 Annual Projection, January 2022.
2024 to 2026: from the medium-term forecast for the 2022 Annual Projection, January 2022.
2 Including private non-profit organisations serving households

Table 13: Labour market developments[1]

	ESA code	2021 Level	2021	2022	2023	2024	2025	2026
			% change p.a.					
1. Employment, persons (domestic)[2] (m)		44.9	0.0	0.9	0.4	-0.3	-0.3	-0.3
2. Employment, hours worked[3] (bn hours)		60.6	1.9	2.9	1.3	-0.5	-0.5	-0.5
3. Unemployment rate[4] (%)		-	3.3	3.1	3.0	3.2	3.3	3.3
4. Labour productivity[5] (2015=100)		101.1	2.8	2.7	1.9	1.1	1.1	1.1
5. Labour productivity[6] (2015=100)		104.9	0.9	0.7	1.0	1.3	1.3	1.3
6. Compensation of employees (€bn)	D.1	1,916.9	3.7	4.7	3.5	2.9	2.8	2.8
7. Compensation per employee (thousand €)		46.8	3.4	3.5	3.1	3.3	3.2	3.2

1 2021: Federal Statistical Office: as of February 2022.
2022 und 2023: from the short-term forecast for the 2022 Annual Projection, January 2022.
2024 bis 2026: from the medium-term forecast for the 2022 Annual Projection, January 2022.
2 Employed persons, domestic concept.
3 National accounts definition
4 Unemployed (ILO) / labour force.
5 Real GDP per person employed (domestic).
6 Real GDP per hour worked.

Table 14: Sectoral balances[1]

	ESA code	2021	2022	2023	2024	2025	2026
		% of GDP					
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	6.9	6.9	7.1	6.9	6.8	6.7
of which:							
Balance of goods and services		5.5	5.3	5.2	5.1	5.1	5.0
2. Net lending/borrowing of households	B.9	7.8	5.1	4.7	4.3	3.9	3.6
3. Net lending/borrowing of general government	EDP B.9	-3.7	-3¾	-2	-1¾	-1	-½
4. Statistical discrepancy		-	-	-	-	-	-

1 2021: Federal Statistical Office: as of February 2022.
2022 and 2023: from the short-term forecast for the 2022 Annual Projection, January 2022.
2024 to 2026: from the medium-term forecast for the 2022 Annual Projection, January 2022.

Table 15: General government budgetary prospects

	ESA code	2021	2021	2022	2023	2024	2025	2026
		€bn	% of GDP					
Net lending (EDP B.9) by subsector								
1. General government	S.13	-132.5	-3.7	-3¾	-2	-1¾	-1	-½
2. Central government	S.1311	-143.4	-4.0	-3	-1½	-1½	-1	-1
3. State government	S.1312	5.1	0.1	-¼	0	0	¼	¼
4. Local government	S.1313	1.4	0.0	0	0	0	0	¼
5. Social security funds	S.1314	4.4	0.1	-¼	-½	-½	-¼	-¼
General government (S.13)								
6. Total revenue	TR	1,705.8	47.8	45½	46	46¼	47	47¼
7. Total expenditure	TE[1]	1,838.2	51.5	49¼	47¾	48	47¾	47¾
8. Net lending/borrowing	B.9	-132.5	-3.7	-3¾	-2	-1¾	-1	-½
9. Interest expenditure	D.41	21.0	0.6	½	½	½	½	½
10. Primary balance[2]		-111.5	-3.1	-3¼	-1½	-1¼	-¼	0
11. One-off and other temporary measures[3]		-4.8	-0.1	0	0	0	0	0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		882.6	24.7	23¼	23¾	24	24¼	24½
12a. Taxes on production and imports	D.2	391.7	11.0	10¾	11	11	11	11
12b. Current taxes on income, wealth, etc.	D.5	481.2	13.5	12¼	12½	12¾	13	13½
12c. Capital taxes	D.91	9.8	0.3	¼	¼	¼	¼	¼
13. Social contributions	D.61	632.8	17.7	17¼	17½	17½	18	18¼
14. Property income	D.4	15.8	0.4	½	½	½	½	½
15. Other[4]		174.5	4.9	4½	4¼	4¼	4¼	4
16. = 6. Total revenue	TR	1,705.8	47.8	45½	46	46¼	47	47¼
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[5]		1,515.4	42.4	40½	41¼	41½	42¼	42¾

Table 15 (continued): General government budgetary prospects

	ESA code	2021	2021	2022	2023	2024	2025	2026
		€bn	% of GDP					
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	526.6	14.7	14½	13½	13¼	13¼	13¼
17a. Compensation of employees	D.1	294.1	8.2	8	7¾	7¾	7¾	7¾
17b Intermediate consumption	P.2	232.5	6.5	6½	5¾	5½	5½	5½
18. Social payments (18=18a+18b)		936.5	26.2	25¼	25	25¼	25½	25½
of which: unemployment benefits[6]		52.8	1.5	1¼	1¼	1¼	1¼	1¼
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	327.5	9.2	9	9	9	9¼	9¼
18b. Social transfers other than in kind	D.62	609.0	17.1	16	16	16¼	16¼	16¼
19. = 9. Interest expenditure	D.41	21.0	0.6	½	½	½	½	½
20. Subsidies	D.3	105.0	2.9	2	1½	1¾	1¾	1¾
21. Gross fixed capital formation	P.51	90.9	2.5	3	3	3	2¾	2¾
22. Capital transfers	D. 9	68.1	1.9	1¾	1¾	1¾	1¾	1¾
23. Other[7]		90.1	2.5	2½	2½	2¼	2¼	2¼
24. = 7. Total expenditure	TE[1]	1,838.2	51.5	49¼	47¾	48	47¾	47¾
p.m.: Government consumption (nominal)	P.3	801.3	22.4	22¼	21½	21¼	21¼	21½

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- educing 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.
Figures for the projection period are rounded to ¼.

Table 16: Projections under the no-policy change scenario

	2021	2021	2022	2023	2024	2025	2026
	€bn	% of GDP					
1. Total revenue at unchanged policies	1705.8	47.8	46¼	46	46½	47	47¼
2. Total expenditure at unchanged policies	1838.2	51.5	47¾	47	47¼	47	47¼

Figures for the projection period are rounded to ¼.

Table 17: Amounts to be excluded from the expenditure benchmark

	2021	2021	2022	2023	2024	2025	2026
	€bn	% of GDP					
1. Expenditure on EU programmes fully matched by EU funds revenue	10.8	0.3	¼	¼	¼	¼	¼
2. Cyclical unemployment benefit expenditure	3.8	0.1	0	0	0	0	0
3. Effect of discretionary revenue measures	-3.6	-0.1	-¾	¾	¼	¼	0
4. Revenue increases mandated by law	0.0	0.0	0	0	0	0	0

Figures for the projection period are rounded to ¼.

Table 18: Discretionary measures at the general government level (including discretionary measures at the federal level)

Effects on the general government budget (in % of GDP)

List of new actions*	Detailed description	ESA code	Adoption status / entry into force	2022	2023	2024	2025	2026
Additional climate action measures under the Energy and Climate Fund, based on the second supplementary budget for 2021[1]	Promotion of climate-friendly investment in buildings, mobility, production facilities and energy supply; abolition of the surcharge under the Renewable Energy Sources Act from 2023 onwards	D.92, D.39	Retroactively from 1 January 2021	-0.4	-0.4	-0.4	-0.4	0.0
Fourth Coronavirus Tax Assistance Act, draft dated 16 February 2022[2]	Extension of tax allowance for working from home, extension of accelerated depreciation options for movable assets, extension of option to offset losses, expansion of loss carrybacks	D.51	Currently in parliamentary deliberations	0.0	-0.1	-0.1	-0.1	0.0
1. Relief package I (“10 relief measures for Germany”), coalition committee decision of 23 February 2022[3] – here: excluding measures contained in the 2022 Tax Relief Act and the Fourth Coronavirus Tax Assistance Act	Abolition of EEG surcharge already as of 1 July 2022[4], pandemic-related grant for people in need, immediate supplement for children living in poverty, increase in minimum wage to support low-income earners[5], extension of special short-time work rules[6], heating subsidy for lower-income households and individuals[7]	D.39 / D.61 / D.62 / D.75	Entry into force on different dates for different provisions	-0.2	0.0	0.0	0.0	0.0
2022 Tax Relief Act, adoption of government draft dated 16 March 2022[8]	Increase in standard income tax allowance for employees, increase in basic personal allowance, increase in tax allowance for long-distance commuters	D.51	Currently in parliamentary deliberations	-0.1	-0.1	-0.1	-0.1	-0.1
Selected additional measures on the basis of the second government draft of the 2022 federal budget and the benchmark figures decision of 16 March 2022[9] – here: changes compared with first government draft	Payments to hospitals to compensate for extra costs caused by the pandemic (section 21 of the Hospital Financing Act)	D.75	Upon adoption of the 2022 federal budget (retroactively from 1 January 2022)	-0.1				
	Federal payments to the health fund to finance pandemic-related social security costs	D.61 / P.2		-0.4				
	Grants for the centralised procurement of vaccines to fight SARS-CoV-2	D.75		-0.1				
	Assistance to businesses affected by the fallout from the coronavirus pandemic	D.39		-0.1				
	Reimbursement of losses resulting from the guarantee for the 2020 special loan programme managed by KfW	P.2		0.1				

Table 18 (continued): Discretionary measures at the general government level (including discretionary measures at the federal level)
Effects on the general government budget (in % of GDP)

List of new actions*	Detailed description	ESA code	Adoption status / entry into force	2022	2023	2024	2025	2026
Establishment of a "Special Fund for the Bundeswehr", federal government decision of 16 March 2022	Additional defence spending	P.51g	Currently in parliamentary deliberations	-0.4	-0.5	-0.5	-0.5	-0.5
Act Adjusting Pensions for 2022 and Improving Pension Benefits or Persons with Reduced Earning Capacity, draft dated 23 March 2022		D.62	Entry into force on different dates for different provisions.	0.0	0.0	0.1	0.2	0.0
2. Relief package ("Package of federal government measures to manage high energy costs"), coalition committee decision of 23 March 2022[13]	One-off energy price allowance, one-off child benefit bonus one-off payment for recipients of transfer benefits reduction of energy duty on fuel for a period of three months, temporary reduced-price ticket for public transport	D.21 / D.51 / D.62 / D.75	Upon adoption of the 2022 federal budget (retroactively from 1 January 2022)	-0.5	0.0	0.0	0.0	0.0

1 The allocation of budgetary effects to individual years is a technical assumption.
2 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/20_Legislaturperiode/2022-02-25-Viertes-Corona-Steuerhilfegesetz/0-Gesetz.html
3 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Downloads/Oeffentliche-Finanzen/10-entlastungsschritte-fuer-unser-land.pdf?__blob=publicationFile&v=4
4 For details (in German), please see: https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2022/03/20220309-kabinett-bringt-abschaffung-der-eeg-umlage-auf-den-weg.html
5 For details (in German), please see: https://www.bmas.de/SharedDocs/Downloads/DE/Gesetze/Regierungsentwuerfe/reg-mindestlohnerhoehungsgesetz-aenderung-geringfuegige-beschaeftigung.pdf?__blob=publicationFile&v=4
6 For details (in German), please see: https://dserver.bundestag.de/btd/20/006/2000688.pdf
7 For details (in German), please see: https://www.bmi.bund.de/SharedDocs/gesetzgebungsverfahren/DE/Downloads/sonstige-downloads/formulierungshilfe-heizkostenzuschussgesetz.pdf;jsessionid=A050110CE7FBB4F02345F24448682ABC.1_cid295?__blob=publicationFile&v=2
8 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/20_Legislaturperiode/2022-03-02-StEntlastG2022/0-Gesetz.html
9 For details (in German) on the second government draft of the 2022 federal budget, please see: https://www.bundesfinanzminister - um.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Bundeshaushalt/2022/zweiter-regierungsentwurf-2022-eckwerte-2023.html
10 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Pressemitteilungen/Finanzpolitik/2022/03/2022-03-16-sondervermoegen-bundeswehr.html
11 The effects on the general government budget shown here are technical assumptions.
12 For details (in German), please see: https://www.bmas.de/SharedDocs/Downloads/DE/Gesetze/Referentenentwuerfe/ref-erwerbsminderungsrenten-bestandsverbesserungsgesetz.pdf?__blob=publicationFile&v=1
13 The Relief package II forms part of a supplementary budget for 2022 that is expected to be adopted by the federal government on 27 April 2022.
For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Downloads/2022-03-23-massnahmenpaket-bund-hohe-energiekosten.pdf?__blob=publicationFile&v=3
* Compared with the Finance Ministry forecast of October 2021.

Table 19: General government debt developments (Maastricht debt ratio)

% of GDP

	ESA code	2021	2022	2023	2024	2025	2026
1. Gross debt		69.3	66¾	65¾	65¾	65	64½
2. Change in gross debt ratio		0.6	-2½	-1	-¼	-¾	-½
Contributions to changes in the Maastricht debt ratio							
3. Primary balance		3.1	3¼	1½	1¼	¼	0
4. Interest expenditure	D.41	0.6	½	½	½	½	½
5. Stock-flow adjustments		-3.1	-6¼	-2¾	-2	-1½	-1¼
p.m.:							
Implicit interest rate on debt[1]		0.9	1	1	1	1	1

1 Proxied by interest expenditure divided by the debt level of the previous year.
Figures for the projection period are rounded to ¼.

Table 20: Cyclical developments[1]

% of GDP

	ESA code	2021	2022	2023	2024	2025	2026
1. Real GDP growth (%)		2.9	3.6	2.3	0.8	0.8	0.8
2. Net lending of general government	B.9	-3.7	-3¾	-2	-1¾	-1	-½
3. Interest expenditure	D.41	0.6	½	½	½	½	½
4. One-off and other temporary measures[1]		-0.1	0	0	0	0	0
5. Potential GDP growth (%)		1.2	1.1	1.1	1.1	1.0	1.0
contributions:							
- labour		0.2	0.1	0.1	0.0	-0.1	-0.2
- capital		0.4	0.4	0.5	0.5	0.5	0.5
- total factor productivity		0.5	0.5	0.6	0.6	0.7	0.7
6. Output gap		-2.9	-0.5	0.7	0.4	0.2	0.0
7. Cyclical budgetary component		-1.5	-¼	¼	¼	0	0
8. Cyclically adjusted balance (2-7)		-2.2	-3½	-2¼	-2	-1	-½
9. Cyclically adjusted primary balance (8+3)		-1.6	-3	-1¾	-1½	-½	0
10. Structural balance (8-4)		-2.1	-3½	-2¼	-2	-1	-½

1 A plus sign means deficit- educing one-off measures.
Figures for the projection period are rounded to ¼.
Any discrepancies in totals are due to rounding.

Table 21: Divergence from previous update

	ESA code	2021	2022	2023	2024	2025	2026
Real GDP growth (yoy in %)							
April 2021 projection		3.0	2.6	1.2	1.2	1.2	-
April 2022 projection		2.9	3.6	2.3	0.8	0.8	0.8
Difference		-0.1	1.0	1.1	-0.4	-0.4	-
General government net lending (% of GDP)	B.9						
April 2021 projection		-9	-3	-1½	-½	0	-
April 2022 projection		-3.7	-3¾	-2	-1¾	-1	-½
Difference		5¼	-½	-½	-1¼	-1	-
General government gross debt (% of GDP)							
April 2021 projection		74½	74	73¼	72	69¼	-
April 2022 projection		69.3	66¾	65¾	65¾	65	64½
Difference		-5	-7¼	-7¼	-6¼	-4¼	-

Figures for the projection period are rounded to ¼.

Table 22: Long-term trends in age-related general government expenditure

	2020 (target)	2030	2040	2050	2060
Expenditure in % of GDP(1)					
(pessimistic variant "T-" / optimistic variant "T+")					
Pension expenditure[2]	10.2	10.9 / 10.3	11.9 / 10.9	12.5 / 11.2	13.4 / 11.5
Health care expenditure[3]	8.3	8.1 / 8.0	8.4 / 8.1	8.6 / 8.0	8.5 / 7.8
Long-term care expenditure[4]	1.5	1.5 / 1.5	1.9 / 1.7	2.4 / 2.0	2.7 / 2.0
Unemployment benefits[5]	3.0	2.6 / 2.2	3.4 / 2.3	3.4 / 2.4	3.4 / 2.5
Spending on education and childcare[6]	4.3	4.2 / 4.2	4.2 / 4.4	4.0 / 4.4	4.2 / 4.6
Expenditure on the family benefits system; parental allowance [7]	1.6	1.5 / 1.5	1.5 / 1.5	1.4 / 1.5	1.5 / 1.6
Total age-related expenditure	28.8	28.6 / 27.5	31.0 / 28.8	32.0 / 29.3	33.4 / 29.8
Assumptions					
Productivity growth (%)[8; 9]	0.2	1.5 / 1.5	1.2 / 1.2	1.1 / 1.2	1.2 / 1.2
GDP growth (%)[9]	1.0	0.9 / 1.3	0.4 / 1.0	0.6 / 1.1	0.4 / 1.1
Labour force participation (%)[10]					
- Men (15 to 64)	86.4	86.8 / 87.6	86.4 / 87.6	86.3 / 87.6	86.4 / 87.5
- Women (15 to 64)	81.0	83.2 / 83.5	83.1 / 84.1	83.3 / 84.4	83.5 / 84.5
Unemployment rate (%)[10]	3.6	4.3 / 3.5	5.6 / 3.7	5.6 / 3.8	5.7 / 4.0
Old-age dependency ratio (per 100) [11]	34.2	44.0 / 42.7	50.4 / 46.4	54.1 / 46.4	59.9 / 47.8
Total population (m)	83.2	83.1 / 84.7	80.7 / 85.3	77.5 / 85.6	74.0 / 86.0
Population aged 65+ (m)	18.3	21.8 / 21.6	23.7 / 23.1	24.0 / 23.2	24.3 / 23.6

Sources: Actual values 2020: Federal Statistical Office, German Pension Insurance, Federal Ministry of Health, Federal Employment Agency, Federal Ministry of Labour and Social Affairs, Federal Ministry of Finance, Federal Ministry for Family Affairs, Senior Citizens, Women and Youth; projections (2030–2060): M. Werding et al. (2020), *Modellrechnungen für den Fünften Tragfähigkeitsbericht des BMF* (Projections for the Federal Finance Ministry's Fifth Sustainability Report), Munich 2020, updated for the base year 2020.

1 Cross-payments between sub-budgets have been consolidated.
2 Statutory pension insurance and civil servants' pensions
3 Statutory health insurance and medical assistance payments for civil servants and eligible relatives
4 Social long-term care insurance (applying the dynamic index used in the EU's 2018 Ageing Report)
5 Unemployment insurance, other Federal Employment Agency expenses and basic income support for jobseekers (including housing costs)
6 Public education spending (including childcare facilities, excluding spending on research and development at higher education institutions) according to the definition used in the ducation Finance Report
7 Child benefit tax-free allowances for children under the Income Tax Act
8 Measured by labour productivity
9 Inflation adjusted figures on productivity growth and GDP growth refer to changes compared with the previous ten-year period.
10 The number of people in employment and the number of unemployed people is determined on the basis of relevant national account strategies and therefore deviates from the microcensus data.
11 The old-age dependency ratio is based on the definition of a orking-age population aged 15-64.

Table 23: Recovery and Resilience Facility's impact on the projection – Grants

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants (in % of GDP)							
RRF grants as included in the revenue projections	0.00	0.20	0.17	0.09	0.09	0.07	0.04
Cash disbursements of RRF grants from EU	0.00	0.06	0.11	0.17	0.15	0.08	0.08
Expenditure financed by RRF grants (in % of GDP)							
Total current expenditure	0.00	0.11	0.07	0.03	0.02	0.01	0.00
Gross fixed capital formation (P.51g)	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Capital transfers (D.9)	0.00	0.07	0.10	0.06	0.07	0.05	0.04
Investment expenditure	0.02	0.08	0.10	0.06	0.07	0.06	0.04
Other costs financed by RRF grants (in % of GDP)							
Tax revenue losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue losses	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial transactions							

Discrepancies may occur due to rounding.

Table 24: Guarantees

Description	Entry into force of legislation	Guarantee framework in % of GDP	Utilisation in % of GDP
In response to the COVID-19 pandemic			
Federation: Guarantees under the Budget Act (*Haushaltsgesetz*), here: expansion of guarantee framework following entry into force of the first supplementary budget for 2020, pursuant to section 3 (1) sentence 1 no. … [1]	retroactively from 1 January 2020	**10.0**	
1. Exports (export guarantees)		0.2	
2. Loans to foreign debtors, foreign direct investment, EIB loans		0.5	
3. Financial cooperation projects		0.1	
4. Market regulation and stockpiling measures		0.0	
5. Domestic guarantees		8.4	
6. International financing institution		0.8	
7. *Treuhandanstalt successor organisations*		0.0	
8. Interest compensation guarantees		0.0	
Federation: Guarantees under other laws			
Guarantees under the Act on the Assumption of Guarantees within the Framework of the European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) (*SURE-Gewährleistungsgesetz*)[2]	10 July 2020	0.2	0.2
German contribution to the Pan-European Guarantee Fund[3a]	2020[3b]	0.1	0.0
Federation: Guarantees by special funds			
Guarantees by the Economic Stabilisation Fund under section 21 of the Stabilisation Fund Act (Stabilisierungsfondsgesetz)[4]	28 March 2020 / reduced to €100bn under the Act Amending the Stabilisation Fund Act (*Gesetz zur Änderung des Stabilisierungsfondsgesetzes) and the Economic Stabilisation Acceleration Act (Wirtschaftsstabilisierungsbeschleunigungsgesetz*) of 20 December 2021	2.8	0.0
Länder*: Expansion of guarantee framework provided by the *Länder	**tbd**	**2.2**	**0.0**

Table 24 (continued): Guarantees

Description	Entry into force of legislation	Guarantee framework in % of GDP	Utilisation in % of GDP
Other federal guarantees			
Federation: Total guarantees under the Budget Act pursuant to section 3 (1) sentence 1 no. …[5]	1 January 2020	**23.0**	**15.3**
1. Exports (export guarantees)		4.3	3.6
2. Loans to foreign debtors, foreign direct investment, EIB loans		2.1	1.0
3. Financial cooperation projects		1.0	0.8
4. Market regulation and stockpiling measures		0.0	0.0
5. Domestic guarantees		12,0	7.5
6. International financing institution		3.1	1.9
7. *Treuhandanstalt successor organisations*		0.0	0.0
8. Interest compensation guarantees		0.4	0.4
Federation: Guarantees under other laws			
Guarantees for loans to Greece under the Act on Financial Stability within the Monetary Union (*Währungsunion-Finanzstabilitäts-gesetz*)[6]	of 7 May 2010	0.6	0.6
Guarantees under the Act on the Assumption of Guarantees within the Framework of a European Stabilisation Mechanism (*Gesetz zur Übernahme von Gewährleistungen im Rahmen eines europäischen Stabilisierungsmechanismus*)[7]	Entry into force of the act: 23 May 2010 Entry into force of most recent amendment: 1 June 2012	5.9	2.5
Federation: Guarantees by special funds			
Guarantees by the Federal Railways Fund (Bundeseisenbahnver-mögen)		0.0	0.0
Guarantees by the ERP Special Fund	ERP Business Plan Act (*ERP-Wirtschaftsplangesetz*) 2021	0.1	0.1
Guarantees by the Financial Stabilisation Fund under sections 6 and 8a of the Stabilisation Fund Act[8]	Act entered into force on 18 October 2008, most recently amended on 29 December 2020	11.2	0.0

1 Utilisation levels can be shown only for total guarantees under the Budget Act (see below).
2 Utilisation level as of: 31 December 2021
3a Utilisation level as of: 15 March 2022
3b Decision by EIB Board of Directors: 26 May 2020; date of Germany's signature confirming participation in fund: 7 July 2020
4 As of 16 March 2022 (for both guarantee framework and utilisation level)
5 Including the expansion of the guarantee framework cited above; utilisation level as of: 31 December 2021
6 Utilisation level as of: 31 December 2021
7 Utilisation level as of: 31 December 2021
8 Utilisation level as of: 31 December 2021

Table 25: Technical assumptions

	2021	2022	2023	2024	2025	2026
Short-term interest rate (annual average, in %)	0.00	0.00	0.00	0.00	0.00	0.00
Long-term interest rate (annual average, in %)	-0.3	-0.1	0.0	-0.1	-0.2	-0.2
USD/€ exchange rate (annual average)	1.18	1.13	1.13	1.14	1.15	1.15
Nominal effective exchange rate	107.98	104.69	105.3	105.8	105.9	106.1
World GDP growth rate (excluding EU)	6.0	4.5	4.1	4	4	3 ½
EU GDP growth rate	5.2	4.1	2.7	1 ¾	1 ¾	1 ¼
Growth of German sales markets[1]	8.7	5.7	4.8	3 ¼	2 ½	2 ½
World imports growth rate (excluding EU)	9.4	5.4	5.1	2 ½	2 ½	5
Oil price (Brent, USD/barrel)	71	79	74	66	67	71

1 Values rounded to ¼.

Table 26: Contingent liabilities

% of GDP

	2021
Public guarantees	17.5*
Of which: linked to the financial secto	1.0

* Year 2020.

Annex B – Tables updating Germany's 2022 Draft Budgetary Plan

Table 27: Technical assumptions

	2021	2022	2023
Short-term interest rate (annual average, in %)	0.00	0.00	0.00
Long-term interest rate (annual average, in %)	-0.3	-0.1	0.0
USD/€ exchange rate (annual average)	1.18	1.13	1.13
Nominal effective exchange rate	107.98	104.69	105.30
World GDP growth rate (excluding EU)	6.0	4.5	4.1
EU GDP growth rate	5.2	4.1	2.7
Growth of German sales markets (% change yoy)	8.7	5.7	4.8
World imports growth rate (excluding EU)	9.4	5.4	5.1
Oil price (Brent, USD/barrel)	71	79	74

2022 and 2023: Federal government annual projection on macroeconomic trends, January 2022.

Table 28: Macroeconomic prospects

		2021	2021	2022	2023	2024	2025	2026
	ESA code	€bn	Year change in %					
1. Real GDP	B1*g	3186.3	2.9	3.6	2.3	0.8	0.8	0.8
2. Real potential GDP		3281.1	1.2	1.1	1.1	1.1	1.0	1.0
Contributions (percentage points):								
- labour			0.2	0.1	0.1	0.0	-0.1	-0.2
- capital			0.4	0.4	0.5	0.5	0.5	0.5
- total factor productivity			0.5	0.5	0.6	0.6	0.7	0.7
3. Nominal GDP	B1*g	3570.6	6.0	6.6	4.0	2.6	2.6	2.6
Components of real GDP								
4. Private final consumption expenditure[1]	P.3	1617.4	0.1	6.0	2.6			
5. Government final consumption expenditure	P.3	699.6	3.1	0.0	-0.2			
6. Gross fixed capital formation	P.51g	674.1	1.5	2.6	4.3			
7. Changes in inventories (% of GDP)	P.52 + P.53	-	0.7	0.1	0.0			
8. Exports	P.6	1573.5	9.9	5.5	4.0			
9. Imports	P.7	1396.5	**9.3**	6.3	4.3			
Contribution to real GDP growth			**in percentage points**					
10. Final domestic demand(excluding inventories)		-	-1	3.5	2.2			
11. Changes in inventories	P.52 + P.53	-	0.7	0.1	0.0			
12. External balance of goods and services	B.11	-	0.9	0.0	0.1			

2021: Federal Statistical Office, February 2022.
2022 and 2023: from the short-term forecast in the 2022 Annual Projection, January 2022.
2024 to 2026 and estimates of potential output: from the medium-term forecast in the 2022 Annual Projection, January 2022.
1 Including private non-profit organisations serving households

Table 29: Price developments – deflators

	2021	2021	2022	2023	2024	2025	2026
	Index (2015=100)						
1. GDP	112,1	3.0	2.9	1.7	1.8	1.8	1.8
2. Private consumption[1]	109,0	3.1	3.0	1.7			
3. Public consumption	114,5	3.0	2.0	1.4			
4. Gross fixed capital formation	117,7	7.0	4.7	1.8			
5. Exports	107,7	5.4	6.4	1.5			
6. Imports	107,2	8.0	7.4	1.5			

2020 and 2021: Federal Statistical Office, February 2022.
2022 and 2023: from the short-term forecast in the 2022 Annual Projection, January 2022.
2024 to 2026: from the medium-term forecast in the 2022 Annual Projection, January 2022.
1 Including private non-profit organisations serving households

Table 30: Labour market developments

	ESA code	2021	2021	2022	2023
		Level	Year-on-year change in %		
1. **Employment, persons** (domestic, in millions)[1]		44.9	0.0	0.9	0.4
2. **Employment, hours worked**[2] (in billions)		60.6	1.9	2.9	1.3
3. **Unemployment rate (in %)**[3]		-	3.3	3.1	3.0
4. **Labour productivity, persons**[4]		101.1	2.8	2.7	1.9
5. **Labour productivity, hours worked**[5]		104.9	0.9	0.7	1.0
6. **Compensation of employees** (€bn, domestic)	D.1	1,916.9	3.7	4.7	3.5
7. **Compensation per employee** (thousand €, domestic)		46.8	3.4	3.5	3.1

2020 and 2021: Federal Statistical Office, February 2022.
2022 and 2023: from the short-term forecast in the 2022 Annual Projection, January 2022.
1 Employed persons, domestic concept, national accounts definition
2 National accounts definition
3 Unemployed (ILO) / labour force.
4 Real GDP per person employed (domestic); 2015=100.
5 Real GDP per hour worked; 2015=100.

Table 31: Sectoral balances

% of GDP

	ESA code	2021	2022	2023
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	6.9	6.9	7.1
of which:				
- balance of goods and services		5.5	5.3	5.2
- balance of primary incomes and transfers		1.6	1.9	2.1
- capital account		-0.2	-0.3	-0.3
2. Net lending/net borrowing of households	B.9	7.8	5.1	4.7
3. Net lending/net borrowing of general government[1]	B.9	-3.7	-3¾	-2
4. Statistical discrepancy		-	-	-

2020 and 2021: Federal Statistical Office, February 2022.
2022 and 2023: from the short-term forecast in the 2022 Annual Projection, January 2022.
1 Figures for the projection period are rounded to quarter percentage points of GDP.

Table 32: General government budgetary prospects

% of GDP

	ESVG code	2021	2022	2023	2024	2025	2026
Net lending (+) / net borrowing (-) (B.9) by subsector[1]							
1. General government	S.13	-3.7	-3¾	-2	-1¾	-1	-½
2. Central government	S.1311	-4.0	-3	-1½	-1½	-1	-1
3. State government	S.1312	0.1	-¼	0	0	¼	¼
4. Local government	S.1313	0.0	0	0	0	0	¼
5. Social security funds	S.1314	0.1	-¼	-½	-½	-¼	-¼
General government (S.13)							
6. Interest expenditure	D.41	0.6	½	½	½	½	½
7. Primary balance[2]		-3.1	-3¼	-1½	-1¼	-¼	0
8. One-off and other temporary measures[3]		-0.1	0	0	0	0	0
9. Real GDP growth (yoy in %)		2.9	3.6	2.3	0.8	0.8	0.8
10. Potential GDP growth (% change yoy)		1.2	1.1	1.1	1.1	1.0	1.0
contributions (percentage points):							
- labour		0.2	0.1	0.1	0.0	-0.1	-0.2
- capital		0.4	0.4	0.5	0.5	0.5	0.5
- total factor productivity		0.5	0.5	0.6	0.6	0.7	0.7
in % of potential GDP							
11. Output gap		-2.9	-0.5	0.7	0.4	0.2	0.0
12. Cyclical budgetary component		-1.5	-¼	¼	¼	0	0
13. Cyclically adjusted balance (1-12)		-2.1	-3½	-2¼	-2	-1	-½
14. Cyclically adjusted primary balance (13+6)		-1.6	-3	-1¾	-1½	-½	0
15. Structural balance (13-8)		-2.0	-3½	-2¼	-2	-1	-½

1 TR - TE = B.9.
2 The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).
3 A plus sign means deficit-reducing one-off measures.
Figures for the projection period are rounded to quarter percentage points of GDP.
Any discrepancies in totals are due to rounding.

Table 33: General government debt developments (Maastricht debt ratio)
% of GDP

	ESA code	2021	2022	2023	2024	2025	2026
1. Gross debt		69.3	66¾	65¾	65¾	65	64½
2. Change in gross debt ratio		0.6	-2½	-1	-¼	-¾	-½
Contributions to changes in the Maastricht debt ratio							
3. Primary balance		3.1	3¼	1½	1¼	¼	0
4. Interest expenditure	D.41	0.6	½	½	½	½	½
5. Stock-flow adjustments		-3.1	-6¼	-2¾	-2	-1½	-1¼
p.m.:							
Implicit interest rate on debt[1]		0.9	1	1	1	1	1

Figures for the projection period are rounded to quarter percentage points of GDP.
Any discrepancies in totals are due to rounding.
1 Proxied by interest expenditure divided by the debt level of the previous year.

Table 34: GDP sensitivity of the general government budget balance projection
General government budget balance in % of GDP

	2021	2022	2023	2024	2025	2026
GDP trends according to						
- Baseline scenario	-3.7	-3¾	-2	-1¾	-1	-½
- Alternative scenarios						
Real GDP, rate of change –½ percentage point p.a. compared with baseline scenario		-4	-2½	-2½	-2	-1¾
Real GDP, rate of change +½ percentage point p.a. compared with baseline scenario		-3½	-1½	-1	0	½

Figures for the projection period are rounded to quarter percentage points of GDP.

Table 35: Interest rate sensitivity of the general government budget balance projection
General government budget balance in % of GDP

	2021	2022	2023	2024	2025	2026
Interest rate trends according to						
- Baseline scenario	-3.7	-3¾	-2	-1¾	-1	-½
- Alternative scenarios						
Interest rate +50 basis points p.a. compared with baseline scenario		-3¾	-2	-2	-1	-¾
Interest rate –50 basis points p.a. compared with baseline scenario		-3¾	-1¼	-1½	-¾	-½

Figures for the projection period are rounded to quarter percentage points of GDP.

Table 36: Expenditure and revenue projections under the no-policy-change scenario*

% of GDP

General government (S.13)	ESA code	2022	2023
1. Total revenue at unchanged policies	TR	46¼	46
of which:			
1.1. Taxes on production and imports 1.2.	D.2	11	11
Current taxes on income, wealth, etc. 1.3.	D.5	12¾	12¾
Capital taxes	D.91	¼	¼
1.4. Social contributions	D.61	17½	17½
1.5. Property income	D.4	½	½
1.6. Other[1]		4½	4¼
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)[2]		41¼	41½
2. Total expenditure at unchanged policies	TE[3]	47¾	47
of which:			
2.1. Compensation of employees	D.1	8	7¾
2.2. Intermediate consumption	P.2	6¼	5¾
2.3. Social payments	D.62 + D.632	25	25
of which: Unemployment benefit [4]		1¼	1¼
2.4. Interest expenditure	D.41	½	½
2.5. Subsidies	D.3	1½	1½
2.6. Gross fixed capital formation	P.51	2½	2½
2.7. Capital transfers	D.9	1½	1½
2.8. Other[5]		2	2¼

* Please note that the no-policy-change scenario involves the extrapolation of revenue and expenditure trends before adding the impact of the measures included in the forthcoming year's budget.
1 P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).
2 Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
3 TR - TE = B.9.
4 Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits
5 D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.52 + P.53 + NP + D.8.
Figures for the projection period are rounded to quarter percentage points of GDP.
Any discrepancies in totals are due to rounding.

Table 37: General government expenditure and revenue targets

% of GDP

General government (S.13)	ESA code	2022	2023
1. Total revenue	TR	45½	46
of which:			
1.1. Taxes on production and imports	D.2	10¾	11
1.2. Current taxes on income, wealth, etc.	D.5	12¼	12½
1.3. Capital taxes	D.91	¼	¼
1.4. Social contributions	D.61	17¼	17½
1.5. Property income	D.4	½	½
1.6. Other1)		4½	4¼
p.m.: Tax burden **(D.2+D.5+D.61+D.91-D.995)**[2]		40½	41¼
2. Total expenditure	TE[3]	49¼	47¾
of which:			
2.1. Compensation of employees	D.1	8	7¾
2.2. Intermediate consumption	P.2	6½	5¾
2.3. Social payments	D.62 + D.632	25¼	25
of which: Unemployment benefit[4]		1¼	1¼
2.4. Interest expenditure	D.41	½	½
2.5. Subsidies	D.3	2	1½
2.6. Gross fixed capital formation	P.51	3	3
2.7. Capital transfers	D.9	1¾	1¾
2.8. Other[5]		2½	2½

1 P.11 + P.12 + P.131 + D.39rec + D.7rec + D.9rec (other than D.91rec).
2 Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
3 TR - TE = B.9.
4 Includes social benefits other than social transfers in kind (D.62) and social transfers in kind via market producers (D.632) related to unemployment benefits
5 D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.52 + P.53 + NP + D.8.
Figures for the projection period are rounded to quarter percentage points of GDP.
Any discrepancies in totals are due to rounding.

Table 38: Amounts to be excluded from the expenditure benchmark

	2021	2021	2022	2023
	€bn	% of GDP		
1. Expenditure on EU programmes fully matched by EU funds revenue	10.8	0.3	¼	¼
2. Cyclical unemployment benefit expenditure	3.8	0.1	0	0
3. Effect of discretionary revenue measures	-3.6	-0.1	-¾	¾
4. Revenue increases mandated by law	0.0	0.0	0	0

Figures for the projection period are rounded to quarter percentage points of GDP.

Table 39: Discretionary measures at the general government level (including discretionary measures at the federal level)

Effects on the general government budget

List of new actions*	Detailed description	ESA code	Adoption status / entry into force	2022	2023	2024	2025	2026
Additional climate action measures under the Energy and Climate Fund, based on the second supplementary budget for 2021[1]	Promotion of climate-friendly investment in buildings, mobility, production facilities and energy supply; abolition of the surcharge under the Renewable Energy Sources Act (*Erneuerbare-Energien-Gesetz*) from 2023 onwards	D.92, D.39	Retroactively from 1 January 2021	-0.4	-0.4	-0.4	-0.4	0.0
Fourth Coronavirus Tax Assistance Act (*Viertes Corona-Steuerhilfegesetz*), draft dated 16 February 2022[2]	Extension of tax allowance for working from home, extension of accelerated depreciation options for movable assets, extension of option to offset losses, expansion of loss carrybacks	D.51	Currently in parliamentary deliberations	0.0	-0.1	-0.1	-0.1	0.0
1. Relief package I ("10 relief measures for Germany"), coalition committee decision of 23 February 2022[3] – here: excluding measures contained in the 2022 Tax Relief Act (*Steuerentlastungsgesetz 2022*) and the Fourth Coronavirus Tax Assistance Act	Abolition of EEG surcharge already as of 1 July 2022[4], pandemic-related grant for people in need, immediate supplement for children living in poverty, increase in minimum wage to support low-income earners[5], extension of special short-time work rules[6], heating subsidy for lower-income households and individuals[7]	D.39, D.61, D.62	Entry into force on different dates for different provisions.	-0.2	0.0	0.0	0.0	0.0
2022 Tax Relief Act, adoption of government draft dated 16 March 2022[8]	Increase in standard income tax allowance for employees, increase in basic personal allowance, increase in tax allowance for long-distance commuters	D.51	Currently in parliamentary deliberations	-0.1	-0.1	-0.1	-0.1	-0.1
Selected additional measures on the basis of the second government draft of the 2022 federal budget and the benchmark figures decision of 16 March 2022[9] – here: changes compared with first government draft	Payments to hospitals to compensate for extra costs caused by the pandemic (section 21 of the Hospital Financing Act (*Krankenhausfinanzierungsgesetz*))	D.75	Upon adoption of the 2022 federal budget (retroactively from 1 January 2022)	-0.1				
	Federal payments to the health fund to finance pandemic-related social security costs	D.61 / P.2		-0.4				
	Grants for the centralised procurement of vaccines to fight SARS CoV-2	D.75		-0.1				
	Assistance to businesses affected by the fallout from the coronavirus pandemic	D.39		-0.1				
	Reimbursement of losses resulting from the guarantee for the 2020 special loan programme managed by KfW	P.2		0.1				

Table 39 (continued): Discretionary measures at the general government level (including discretionary measures at the federal level)

Effects on the general government budget

List of new actions*	Detailed description	ESA code	Adoption status / entry into force	2022	2023	2024	2025	2026
Establishment of a "Special Fund for the Bundeswehr", federal government decision of 16 March 2022	Additional defence spending	P.51g	Currently in parliamentary deliberations	-0.4	-0.5	-0.5	-0.5	-0.5
Act Adjusting Pensions for 2022 and Improving Pension Benefits or Persons with Reduced Earning Capacity (Gesetz zur Rentenanpassung 2022 und zur Verbesserung von Leistungen für den Erwerbsminderungsrentenbestand), draft dated 23 March 2022		D.62	Entry into force on different dates for different provisions.	0.0	0.0	0.1	0.2	0.0
2. Relief package ("Package of federal government measures to manage high energy costs"), coalition committee decision of 23 March 2022[13]	One-off energy price allowance, one-off child benefit bonus one-off payment for recipients of transfer benefits reduction of energy duty on fuel for a period of three months, temporary reduced-price ticket for public transport	D.21 / D.51 / D.62 / D.75	Upon adoption of the 2022 federal budget (retroactively from 1 January 2022)	-0.5	0.0	0.0	0.0	0.0

1 The allocation of budgetary effects to individual years is a technical assumption.
2 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/20_Legislaturperiode/2022-02-25-Viertes-Corona-Steuerhilfegesetz/0-Gesetz.html
3 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Downloads/Oeffentliche-Finanzen/10-entlastungsschritte-fuer-unser-land.pdf?__blob=publicationFile&v=4
4 For details (in German), please see: https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2022/03/20220309-kabinett-bringt-abschaffung-der-eeg-umlage-auf-den-weg.html
5 For details (in German), please see: https://www.bmas.de/SharedDocs/Downloads/DE/Gesetze/Regierungsentwuerfe/reg-mindestlohnerhoehungsgesetz-aenderung-geringfuegige-beschaeftigung.pdf?__blob=publicationFile&v=4
6 For details (in German), please see: https://dserver.bundestag.de/btd/20/006/2000688.pdf
7 For details (in German), please see: https://www.bmi.bund.de/SharedDocs/gesetzgebungsverfahren/DE/Downloads/sonstige-downloads/formulierungshilfe-heizkostenzuschussgesetz.pdf;jsessionid=A050110CE7FBB4F02345F24448682ABC.1_cid295?__blob=publicationFile&v=2
8 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_IV/20_Legislaturperiode/2022-03-02-StEntlastG2022/0-Gesetz.html
9 For details (in German) on the second government draft of the 2022 federal budget, please see: https://www.bundesfinanzm - nisterium.de/Content/DE/Standardartikel/Themen/Oeffentliche_Finanzen/Bundeshaushalt/2022/zweiter-regierungsentwurf-2022-eckwerte-2023.html
10 For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Pressemitteilungen/Finanzpolitik/2022/03/2022-03-16-sondervermoegen-bundeswehr.html
11 The effects on the general government budget shown here are technical assumptions.
12 For details (in German), please see: https://www.bmas.de/SharedDocs/Downloads/DE/Gesetze/Referentenentwuerfe/ref-erwerbsminderungsrenten-bestandsverbesserungsgesetz.pdf?__blob=publicationFile&v=1
13 Relief package II forms part of a supplementary budget for 2022 that is expected to be adopted by the federal government on 27 April 2022.
For details (in German), please see: https://www.bundesfinanzministerium.de Content/DE/Downloads/2022-03-23-massnahmenpaket-bund-hohe-energiekosten.pdf?__blob=publicationFile&v=3
* Compared with the Finance Ministry forecast of October 2021.

Table 40: Divergence from April 2022 Stability Programme

	ESA code	2021	2022	2023
Target general government net lending/net borrowing (% of GDP)	B.9			
Stability Programme - April 2022		-3.7	-3¾	-2
Draft Budgetary Plan		-3.7	-3¾	-2
Difference		0.0	0	0
General government net lending/net borrowing with unchanged policies (% of GDP)				
Stability Programme - April 2022		-3.7	-1½	-¾
Draft Budgetary Plan		-	-1½	-¾
Difference		-	0	0

Figures for the projection period are rounded to quarter percentage points of GDP.
Any discrepancies in totals are due to rounding.

Table 41: Recovery and Resilience Facility's impact on the projection – Grants

% of GDP

	2020	2021	2022	2023	2024	2025	2026
Revenue from RRF grants (in % of GDP)							
RRF grants as included in the revenue projections	0.00	0.20	0.17	0.09	0.09	0.07	0.04
Cash disbursements of RRF grants from EU	*0.00*	*0.06*	*0.11*	*0.17*	*0.15*	*0.08*	*0.08*
Expenditure financed by RRF grants (in % of GDP)							
Total current expenditure	0.00	0.11	0.07	0.03	0.02	0.01	0.00
Gross fixed capital formation (P.51g)	0.01	0.00	0.00	0.00	0.00	0.00	0.00
Capital transfers (D.9)	0.00	0.07	0.10	0.06	0.07	0.05	0.04
Investment expenditure	0.02	0.08	0.10	0.06	0.07	0.06	0.04
Other costs financed by RRF grants (in % of GDP)							
Tax revenue losses	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Other revenue losses	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*
Financial transactions							

Discrepancies may occur due to rounding.

Table 42: Guarantees

Description	Entry into force of legislation	Guarantee framework (in % of GDP)	Utilisation in % of GDP
In response to the COVID-19 pandemic			
Federation: Guarantees under the Budget Act (*Haushaltsgesetz*), here: expansion of guarantee framework following entry into force of the first supplementary budget 2020, pursuant to section 3 (1) sentence 1 no ... [1]	retroactively from 1 January 2020	10.0	
1. Exports (export guarantees)		0.2	
2. Loans to foreign debtors, foreign direct investment, EIB loans		0.5	
3. Financial cooperation projects		0.1	
4. Market regulation and stockpiling measures		0.0	
5. Domestic guarantees		8.4	
6. International financing institution		0.8	
7. Treuhandanstalt successor organisations		0.0	
8. Interest compensation guarantees		0.0	
Federation: Guarantees under other laws			
Guarantees under the Act on the Assumption of Guarantees within the Framework of the European Instrument for Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE) (*SURE-Gewährleistungsgesetz*)[2]	10 July 2020	0.2	0.2
German contribution to the Pan-European Guarantee Fund[3a]	2020[3b]	0.1	0.0
Federation: Guarantees by special funds			
Guarantees by the Economic Stabilisation Fund under section 21 of the Stabilisation Fund Act (*Stabilisierungsfondsgesetz*)[4]	28 March 2020 / reduced to €100bn under the Act Amending the Stabilisation Fund Act (*Gesetz zur Änderung des Stabilisierungsfondsgesetzes*) and the Economic Stabilisation Acceleration Act (*Wirtschaftsstabilisierungsbeschleunigungsgesetz*) of 20 December 2021	2.8	0.0
Länder*: Expansion of guarantee framework provided by the *Länder	n.n.	2.2	0.0

Table 42 (continued): Guarantees

Description	Entry into force of legislation	Guarantee framework (in % of GDP)	Utilisation in % of GDP
Other federal guarantees			
Federation: Total guarantees under the Budget Act pursuant to section 3 (1) sentence 1 no ... [5]	1 January 2020	23.0	15.3
1. Exports (export guarantees)		4.3	3.6
2. Loans to foreign debtors, foreign direct investment, EIB loans		2.1	1.0
3. Financial cooperation projects		1.0	0.8
4. Market regulation and stockpiling measures		0.0	0.0
5. Domestic guarantees		12,0	7.5
6. International financing institution		3.1	1.9
7. Treuhandanstalt successor organisations		0.0	0.0
8. Interest compensation guarantees		0.4	0.4
Federation: Guarantees under other laws			
Guarantees for loans to Greece under the Act on Financial Stability within the Monetary Union (*Währungsunion-Finanzstabilitätsgesetz*)[6]	7 May 2010	0.6	0.6
Guarantees under the Act on the Assumption of Guarantees within the Framework of a European Stabilisation Mechanism (*Gesetz zur Übernahme von Gewährleistungen im Rahmen eines europäischen Stabilisierungsmechanismus*)[7]	Entry into force of the act: 23 May 2010 Entry into force of most recent amendment: 1 June 2012	5.9	2.5
Federation: Guarantees by special funds			
Guarantees by the Federal Railways Fund (*Bundeseisenbahnvermögen*)		0.0	0.0
Guarantees by the ERP Special Fund	ERP Business Plan Act (*ERP-Wirtschaftsplangesetz*) 2021	0.1	0.1
Guarantees by the Financial Market Stabilisation Fund under sections 6 and 8a of the Stabilisation Fund Act[8]	Act entered into force on 18 October 2008, most recently amended on 29 December 2020	11.2	0.0

1 Utilisation levels can be shown only for total guarantees under the Budget Act (see below).
2 Utilisation level as of: 31 December 2021.
3a Utilisation level as of: 15 March 2022.
3b Decision by EIB Board of Directors: 26 May 2020; date of Germany's signature confirming participation in fund: 7 July 2020.
4 As of 16 March 2022 (for both guarantee framework and utilisation level).
5 Including the expansion of the guarantee framework cited above; utilisation level as of: 31 December 2021.
6 Utilisation level as of: 31 December 2021.
7 Utilisation level as of: 31 December 2021.
8 Utilisation level as of: 31 December 2021.

Table 43: Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

The Council of the European Union recommends that Germany take action in 2021 and 2022 to:		Reporting period April 2021 to March 2022	
Recommendation 1: In 2022, maintain supportive fiscal stance and preserve investment	**Title of measure**	**Description and direct relevance to target**	**Status and timetable**
In **2022, maintain a supportive fiscal stance,** including the impulse provided by the Recovery and Resilience Facility, and **preserve nationally financed investment**.	Federal budget for 2021 including supplementary budgets for 2021 *The information provided on the 2021 budget, including the supplementary budgets for 2021, is deemed a suitable basis for the measures continued from the previous year in the second government draft of the federal budget for 2022 and the 2023–2026 benchmark figures, even though it does not directly relate to 2022. Reference is additionally made to the information provided under Recommendation 2 under the heading Second government draft of the federal budget for 2022 and 2023–2026 benchmark figures.*	With the 2021 federal budget, the federal government continues its resolute course of action to combat the crisis. The 2021 federal budget adopted at the end of 2020 provided the budgetary foundations for continued implementation of the measures under the Economic Stimulus and Crisis Management Package adopted on 3 June 2020 together with the supplementary Future Development Package and of further measures to combat the social and economic impacts of the COVID-19 crisis (for the individual measures, see the Draft Budgetary Plan for 2021, Table 11). The first supplementary budget for 2021, which was promulgated in June 2021, supplemented the measures already provided for in the 2021 federal budget and adjusted the fiscal headroom in line with the ongoing development of the pandemic. In particular: • Additional funding of €25.5bn in assistance for businesses was provided, taking the total up to €65bn; • Additional health spending was budgeted for, including around €6.2bn for vaccine procurement alone; • Provision was made for financial needs especially in connection with (a) the vaccination and testing campaign and (b) additional necessary assistance depending on the development of the pandemic. Provision was also made for the tax revenue shortfall of around €6bn due to the child bonus introduced under the Third Coronavirus Tax Assistance Act (Drittes Corona-Steuerhilfegesetz) (including reimbursement for the *Länder*) and for other relief to support the economy, including cyclical revenue shortfalls. In the second supplementary budget for 2021 (promulgated on 18 February 2022), a total of €60bn of already budgeted and unused borrowing authorisations to overcome the effects of the pandemic was allocated to the special Energy and Climate Fund. These funds are dedicated exclusively to promoting investment in the buildings sector, in carbon-neutral mobility and in new production facilities in industry sectors with emissions-intensive processes; expanding the infrastructure for carbon-neutral energy supply; and boosting demand by abolishing the EEG surcharge, a levy that is charged on electricity consumers. The additional financial security for investments in the future and the associated planning certainty create activating conditions and provide the macroeconomic stimuli needed to overcome the pandemic in a targeted way.	2021 Budget Act (*Haushaltsgesetz*) and Supplementary Budget Act (*Nachtragshaushaltsgesetz*) in force since 1 January 2021

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 1: In 2022, maintain supportive fiscal stance and preserve investment	Title of measure	Description and direct relevance to target	Status and timetable
		The 2021 budget was closed with total expenditure of €557.1bn. Investment spending totalled €45.8bn, significantly exceeding the pre-crisis investment spending level (2019 actual: around €38.1bn). The spending was targeted among other things towards road, rail and water transport, supporting the *Länder* in the provision of childcare, education and research, digital infrastructure and the climate-friendly transformation of the economy (for further individual measures, see the information under Recommendation 3). The economic effects of the pandemic and the extensive measures required to combat the COVID-19 crisis made new borrowing necessary once again in the 2021 budget year, totalling around €215.4bn.	
	German Recovery and Resilience Plan (DARP)	The German Recovery and Resilience Plan (*Deutscher Aufbau- und Resilienzplan* – DARP) contributes effectively to surmounting the challenges identified in the country-specific recommendations for Germany. The DARP includes total spending of around €28bn for 2020 to 2026, including around €9.6bn in 2021 (this spending is already included in the 2021 federal budget and the financial plan). The spending will help implement the key investment and reform projects set out in the DARP and will be decisive in helping Germany emerge stronger from the COVID-19 pandemic. The DARP will push ahead Germany's green and digital transformation. At least 42% of the total spending in it will go towards measures to support climate targets. For example, the plan includes measures to decarbonise industry, with a major focus on green hydrogen, investment in sustainable mobility and the refurbishment of residential buildings to improve their energy efficiency. A further 52% of the total spending is provided for measures to promote the digital transformation. Specifically, provision is made for measures to support digitalisation in public services and in particular public health services, and also in business. The plan additionally provides for measures to promote human capital and investment in advanced digital technologies, with one component headed "Digitalisation of education". Other measures aim to promote social inclusion and labour market participation while giving consistent account to gender equality. Social resilience measures also include measures for a strong public healthcare system and pandemic protection.	DARP accepted by the European Commission on 22 June 2021 Approved by the ECOFIN Council on 13 July 2021

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 1: In 2022, maintain supportive fiscal stance and preserve investment	Title of measure	Description and direct relevance to target	Status and timetable
		The plan also includes major reforms and investments to help surmount all or a significant part of the economic and social challenges referred to in the Council's 2019 and 2020 country-specific recommendations for Germany. Among other things, measures are planned to remove investment bottlenecks and reduce administrative burdens. In addition, the plan addresses the country-specific recommendations relating to digitalisation of the education system, support for disadvantaged school students, improving childcare provision, enhancing transparency with regard to pensions and curbing the rise in taxes and duties. Individual DARP measures in which substantial progress has been made since the plan was submitted are listed under Recommendation 3.	
	Measures to promote local authority investment	Many investment projects of major importance for Germany's future resilience are the responsibility of local authorities. Consequently, the Federation has for many years placed a high priority on promoting a sustained increase in local authority investment, and related support has once again been stepped up in the reporting period. In the area of education and childcare, for example, the Federation is providing additional funding to help expand child daycare and all-day care for primary school children. Local authorities in coal-mining regions that have been hit hard by structural change are receiving federal support in the form of structural assistance for the economic transformation, among other things for investment projects to expand and remodel their business infrastructure. For detailed information on these measures, please see the list under Recommendation 3. Other measures under Recommendation 3 (such as those relating to broadband) also target local authorities and thus comprise additional federal support for local authority investment.	

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 2: Fiscal sustainability, enhance investment	Title of measure	Description and direct relevance to target	Status and timetable
When economic conditions allow, pursue a fiscal policy aimed at achieving **prudent medium-term fiscal positions** and ensuring **fiscal sustainability in the medium term**. At the same time, **enhance investment** to boost growth potential.	Second government draft of the federal budget for 2022 and 2023–2026 benchmark figures	With the second government of the federal budget for 2022 and the 2023–2026 benchmark figures, the Federation is continuing its supportive fiscal policy to strengthen the macroeconomic framework in the current phase of the pandemic. By setting future-focused investment priorities, it is not only supporting the process of transforming the economy, but paving the way for sustainable and lasting economic growth. The social security system is also provided with substantial support in order to stabilise contribution rates and thus to create favourable conditions for growth and employment. Investment is once again a major focus. Investment spending in 2022 will amount to €50.8bn and increase relative to the currently budgeted figures to around €51bn per year in the years 2023 to 2026. The spending is targeted among other things towards road, rail and water transport, education and research, digital infrastructure and the climate-friendly transformation of the economy: • The draft budget and the benchmark figures will unleash a powerful medium-term stimulus (as set out in the stimulus package) totalling €7bn to promote digitalisation, artificial intelligence, quantum technology and 5G/6G communication technologies in these key growth areas. • Funding is also earmarked for the Immediate Climate Action Programme for 2022, which will provide roughly €8bn in extra federal funding for additional measures to further cut greenhouse gas emissions in order to meet national climate targets. • While the immediate measures to deal with the impacts of the COVID-19 pandemic will gradually taper off over the period covered by the financial plan the priority now – in order to be prepared if the COVID-19 pandemic continues for an extended period, if further vaccinations become necessary, and if future pandemics occur – is to secure the established production capacity for novel vaccine technologies and to enable the building of additional capacity. Further key impetus for the economy and sustainability is provided in the Federation's special funds.	Cabinet decision of 16 March 2022 Following the Bundestag elections on 26 September 2021, the new federal government adopted a second government draft of the federal budget for 2022 and forwarded it to the Bundestag for consultation.

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022			
Recommendation 2: Fiscal sustainability, enhance investment	**Title of measure**	**Description and direct relevance to target**	**Status and timetable**
		• The federal government's environment and climate policy measures from the Climate Action Programme 2030 and the Future Development Package under the stimulus programme are brought together in the Energy and Climate Fund, which will be developed into a Climate and Transformation Fund. In addition, the extra €60bn allocated under the second supplementary budget for 2021 is intended to activate private investments in areas that are crucial for our future, such as climate action, thus initiating a catch-up process to overcome the social and economic impacts of the pandemic and the reduced investment levels resulting from the pandemic. This continues and significantly expands key federal climate policy projects with programme expenditure of over €200bn in total over the period 2022 to 2026. • The Digital Infrastructure Fund provides funding for investments under the Digital Pact for Schools and for direct support to expand gigabit and mobile networks. At first this is being funded through proceeds from the award of 5G mobile spectrum licences. Since 2020, the federal budget has made additional funding available to the extent that this is needed to finance the fund's tasks. The purpose of the allocation in the 2022 federal budget is to meet the federal commitment to provide a total of €6.5bn for the Digital Pact for Schools. • To this is added investment spending under two further special funds to assist the *Länder* with the expansion of childcare: "Child daycare expansion" and "Expanded all-day care for primary school children". The pandemic-related burdens on the federal budget once again make it necessary in the 2022 fiscal year to make use of the exception for unusual emergency situations under article 115 (2) sentence 6 of the Basic Law. The second government draft of the federal budget for 2022 provides for net borrowing of around €99.7bn. From 2023 onwards, Germany expects to return to compliance with the debt rule without resorting to the exception. In its decision on the second government draft of the federal budget for 2022, the federal cabinet decided that the federal government would adopt a supplementary budget to this draft in accordance with section 32 of the Federal Budget Code (*Bundeshaushaltsordnung*), which would contain a programme of measures to mitigate the effects of Russia's illegal attack on Ukraine. The supplementary budget will be sent to the Bundesrat and presented to the German Bundestag in good time so that it can be adopted together with the 2022 Budget Act (*Haushaltsgesetz*).	

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 2: Fiscal sustainability, enhance investment	Title of measure	Description and direct relevance to target	Status and timetable
	MTO	In 2026, Germany will again comply with the upper limit on its general government structural deficit which the fiscal compact has set at 0.5% of GDP.	
	Measures to increase investment	Measures to increase investment activity are listed under Recommendation 1 (see Measures to promote local authority investment) and under Recommendation 3.2.	(see above and below)

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
3.1 Pay particular attention to the **composition of public finances**, on both the revenue and expenditure sides of the budget, and to the **quality of budgetary measures** in order to ensure a **sustainable and inclusive recovery**.	Spending reviews	To complement the top-down process for preparation of the federal budget, the federal government has conducted spending reviews since 2015. These revenue- and expenditure-side budget analyses examine selected measures, policy areas and horizontal tasks of the public administration to determine whether the associated objectives are achieved (effectiveness) and whether this takes place economically (efficiency). The conduct of spending reviews gives the budget preparation procedure sharper substantive focus and enhances the outcome-orientation of the deployed budget resources. The spending reviews improve the structure of the federal budget and can provide the basis for reprioritisation or create new fiscal space.	Spending reviews are part of the government's internal procedure for preparing the federal budget and are conducted annually.
	Measures to increase investment	Measures to increase investment activity are listed under Recommendation 1 (see Measures to promote local authority investment) and under Recommendation 3.2.	(see above)
	Future-oriented expenditure	Substantial future-oriented expenditures to ensure a sustainable and inclusive recovery have been reported under Recommendation 1 (including investment spending in the federal budget, the Energy and Climate Fund and the Immediate Climate Action Programme).	(see above)
3.2 Prioritise **sustainable and growth-enhancing investment**, in particular investment supporting **the green and digital transition**[1].	Gigabit funding programme for "grey spots"	The previous broadband funding for "white spots" was extended in April 2021 to include coverage in "grey spots". The goal is to ensure the availability of sustainable fibre networks throughout Germany (fibre to the home, FTTH).This measure thus contributes both to the sustainability of the digital transition and to economic growth and digital inclusion, particularly in more rural regions. Under the grey spot programme, local authorities or administrative districts have been eligible since April 2021 to apply for federal gigabit funding for all areas with connections with speeds of less than 100 Mbit/s. Permission under state aid rules has been granted to eliminate the upper threshold for funding eligibility for households from 1 January 2023. Socioeconomic focal points (such as schools, public agencies and SMEs) can already receive funding for fibre optic connections without any upper threshold applying. The German grey spot funding programme is the first in Europe to allow funding from 2023 without an upper eligibility threshold. Broadband funding is being developed further, based on the key elements of the gigabit strategy published on 17 March 2022. This includes graduated funding: areas where supply prospects are relatively poor will receive funding more quickly than areas with higher potential for private-sector coverage. The expansion will continue to be primarily market-driven.	The funding was launched on 26 April 2021. Elimination of the upper threshold for funding eligibility from 1 January 2023 The gigabit framework policy expires on 31 December 2025.

1 See also the 2022 NRP on measures to support investments in the green and digital transitions and generally on the implementation of the 2019 and 2020 country-specific recommendations.

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
		The Federation is currently providing around €12bn to support the roll-out of broadband.	
	Mobile communications funding	The Federation’s mobile communications funding will create the necessary incentives for the construction of additional mobile communication sites in order to close remaining gaps in 4G network coverage. A total of €1.1bn in federal funding is available for this purpose. All of the funded mobile communication sites include fibre optic links if possible in order to allow for an upgrade to 5G as required.	The funding guideline has been approved by the European Commission and was published on 21 June 2021. It expires on 31 December 2024.
	Mobile infrastructure company	The Federation’s mobile communications funding programme is implemented by the mobile infrastructure company (*Mobilfunkinfrastrukturgesellschaft*, or MIG). To ease the burden on market participants, MIG is also in charge of the complex process of site preparation (including securing suitable properties and interested mobile operators, preparing approval procedures, identifying accessible building entry points).	Since May 2021, MIG has been conducting regular market surveys. Applications for funding have been accepted since February 2022.
	5G innovation competition	The aim of the 5G innovation competition is to test 5G applications under real-world conditions. A coalition decision of 3 June 2020 releasing additional funding from the economic stimulus package cleared the way for the competition to be expanded in scale, meaning that 50 additional entries received implementation funding of up to €4m. The aim is to bring together potential users and providers of innovative 5G mobile communication solutions and to make the potential of 5G mobile communication visible on the ground.	Funding for implementation support to be increased by almost €175m by the end of 2024

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Funding guideline for rail freight transport through partial financing or approved track access charges	The existing funding to cover track access charges was supplemented with a one-time, retroactive additional grant for rail freight transport undertakings. This has made the use of rail freight transport less expensive for all undertakings. Rail transport undertakings were provided with additional relief for track access charges from 1 June 2021 until 31 December 2021, with the funding increased to around 98%. Moreover, the European Commission approved supplementary funding on 30 July 2021. The total amount available for this measure was €627m. The funding gave rail transport undertakings greater financial leeway to invest in innovations such as digitalisation and thus improve their competitive position. It further strengthened rail as an environment-friendly mode of transport.	One-time, retroactive supplementary grant approved by the European Commission and published in the Federal Gazette. The measure has been completed.
	Funding guideline for rail passenger transport through partial funding of approved track access charges to mitigate the impacts of the COVID-19 pandemic	As part of a package of measures to mitigate the impacts of the pandemic on the rail sector, funding is provided for track access charges in long-distance rail passenger transport. The funding is provided for rail services in the period from 1 March 2020 to 31 May 2022. A total of €2.105bn is available for this purpose. The funding amount was around 99% in the period from 1 March 2020 to 31 December 2021 and was reduced in 2022 (1 January 2022 to 31 May 2022); it currently stands at 42.4%. The European Commission approved the funding on 30 July 2021. The aim of the funding is to stabilise the provision of long-distance rail passenger transport services and strengthen rail as an environment-friendly mode of transport in general.	Funding approved by the European Commission and published in the Federal Gazette. Disbursement to rail transport undertakings began in November 2021 and has taken place on a monthly basis since then.
	Federal subsidies to the *Länder* for public transport	To offset pandemic-related financial shortfalls in the public transport sector, the *Länder* are receiving additional federal subsidies, with the Federation and the *Länder* each covering half of the financing burden. The amount available for this purpose in 2021 was €1bn. Pandemic-related revenue shortfalls in public transport will also be compensated in 2022.	Laws on payments for 2020 and 2021 have already been adopted; 2022: in implementation
	Funding of development projects for renewable fuels	Funding guideline for the development of renewable fuels; Funding for the establishment and operation of a development platform for power-to-liquid fuels A total of €640m is available for the two measures in the period from 2021 to 2024. This is intended to contribute to climate change mitigation in transport.	Published 11 May 2021; Published 23 August 2021

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Funding for production facilities and for the market ramp-up of renewable fuels	Funding guideline for investment in the conversion or construction of production facilities to place advanced biofuels and power-to-liquid fuels on the market; Funding guideline for the market ramp-up of power-to-liquid aviation fuel; A total of €900m is available for the two measures in the period from 2021 to 2024. This is intended to contribute to climate change mitigation in transport.	Publication expected in the second half of 2022; publication expected in the second half of 2022
	Call for tenders for 1,000 rapid charging locations (Deutschlandnetz)	To create a nationwide, needs-based and user-friendly charging infrastructure, the Federal Ministry of Transport and Digital Infrastructure is issuing calls for tenders under the Fast Charging Act (*Schnellladegesetz*) for a 'Deutschlandnetz' comprising more than 1,000 rapid charging locations that provide charging points with at least 200 kW capacity per charging point. Contracts will be awarded in two calls for tenders with a total of 23 regional lots and six national lots.	Publication of first te-der (23 regional lots): 1 October 2021 Publication of second tender (6 Autobahn lots): 20 December 2021
	Social housing	Federal financial assistance for social housing: in 2020 and 2021, the Federation provided €1bn per year in financial assistance to the *Länder* for social housing. In 2022, €2bn will be available for social housing, €1bn of which has been earmarked for climate-friendly social housing. The additional funding is to be used for the construction of energy-efficient new social housing or the energy-efficient efurbishment of social housing. This helps reconcile climate change mitigation with affordable housing – a basic precondition for maintaining social cohesion. From 2023 to 2026, funds totalling €12.5bn have been earmarked for social housing.	The necessary administrative agreements with the *Länder* for 2020 and 2021 entered into force on 21 April 2020 and 25 February 2021. The administrative agreement for 2022 has been submitted to the *Länder* for signature.
	Agricultural investment programme	Supports investment in agricultural machinery and equipment that meets future needs and complies with specific environmental, climate and resource-efficiency criteria. A total of €816m is available for this purpose in the years 2021 to 2024. Funding is provided at up to 40% of the eligible investment amount for agricultural holdings (primary producers, individually or in groups) and up to 10% (medium-sized enterprises) or 20% (small enterprises) for contractors and commercial machinery rings. The main aim is to reduce emissions and environmental pollution from agricultural machinery and equipment.	The programme was launched on 11 January 2021. End date: 31 December 2024

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Digitalisation in Agriculture programme	Among other things, establishment of 14 digital trial fields and an expertise network. These are digital test fields on farms used to investigate, among other things, how digital technologies can best be used in the interest of the environment, animal welfare, biodiversity and workload reduction. Around €50m in funding is available over three years.	The trial fields and the expertise network were selected/established between September 2019 and March 2020.
	Announcement of funding for artificial intelligence (AI) in agriculture, the food chain, healthy nutrition and rural regions	The measure aims to better tap the potential of AI for the targeted areas by transferring methods and techniques using AI tools originating from basic research into practical application. 35 research projects are being funded. Nearly €45m in funding is available for this purpose until the end of 2024.	The funding guideline was published on 11 February 2020. All 35 projects had started by the end of 2021. The duration of the measure is three years.
	Use of funding from REACT-EU recovery fund	Germany is receiving approximately €2.4bn for 2021 and 2022. The *Länder* and ministries are using these funds to create resilient education and health infrastructure, to support particularly hard-hit sectors such as tourism and culture, for green and digital investment by SMEs and start-ups, and for measures to safeguard jobs, among other things.	First *Länder* programme approved by European Commission on 28 April 2021
	Federal funding guideline for research and technology projects to produce innovative personal protective equipment	The 'Federal funding guideline for research and technology projects to produce innovative personal protective equipment' creates innovation incentives in the areas of sustainability and recyclability, functionality, development of new areas of demand, automation and digitalisation of production and services, efficiency and standardisation, and testing and certification procedures.	The application deadline was 31 December 2021.
	Support for socially-oriented SMEs and start-ups via the ESF	To help them survive the COVID-19 pandemic, socially-oriented SMEs will be provided with support via the ESF using funding from REACT-EU under the NGEU temporary recovery instrument. In the case of socially-oriented SMEs, the primary focus will be on the areas of digitalisation and the development of business knowledge and entrepreneurial skills. Socially-oriented start-ups, which are drivers of social innovation, will be supported with investment readiness measures for upscaling. This is intended to contribute to the transformation to a sustainable, green and digital economy.	Approved by European Commission on 30 July 2021 Programme to start in mid-2022, following the end of interim budget management

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Use of funding from the EU Structural Funds	Germany is receiving €10.8bn from the European Regional Development Fund (ERDF), more than 85% of which will be used to reach economic, climate and environmental policy targets. The main focus of investments will be on research and innovation; SME competitiveness; the digitalisation of companies and research institutions; measures to enhance energy efficiency, adapt to climate change and strengthen biodiversity; and sustainable, multi-modal urban mobility. Germany is receiving €6.6bn from the European Social Fund Plus. Some of these funds will be used to manage the green and digital transitions by providing targeted sup-port for self-employment, SME advisory services, initial and continuing vocational training, and skills development for employees. In addition, Germany will receive €2.5bn from the Just Transition Fund (JTF), which is supporting the transition to a carbon-neutral economy as part of the European Green Deal. These resources will be used primarily to support lignite mining regions in overcoming the social, economic and environmental impacts of the structural changes caused by climate policy.	The partnership agreement between Germany and the European Commission was submitted to the European Commission on 20 September 2021.
	General Administrative Regulation on the Procurement of Climate-friendly Services (*Allgemeine Verwaltungsvorschrift zur Beschaffung klimafreundlicher Leistungen – AVV Klima*)	In 2021, the federal government decided to recast the General Administrative Provision on the Procurement of Energy-efficient Products and Services (*AVV EnEff*) as the General Administrative Provision on the Procurement of Climate-friendly Products and Services (*AVV Klima*). It supplements energy efficiency provisions to include ambitious rules on the procurement of especially climate-relevant products and services taking CO_2 prices into account (CO_2 shadow price) as well as a negative list of products and services not to be procured.	*AVV Klima* applies to all federal government procurement since 1 January 2022.
	Revision of the Energy Industry Act (*Energiewirtschaftsgesetz*) to cover pure hydrogen grids	Among other things, the revision of the Energy Industry Act to cover pure hydrogen grids created the legal basis for hydrogen grid operators to develop a regulated hydrogen grid infrastructure, irrespective of whether they convert existing gas grids or are other market players. In addition, it includes provisions that pave the way for the regulation of hydrogen grid operation.	The revised Energy Industry Act entered into force on 27 July 2021. The Hydrogen Grid Access Charges Ordinance (*Wasserstoffnetzentgeltverordnung*) complements the revised Energy Industry Act. It entered into force on 1 December 2021.

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Amendments to the Renewable Energy Sources Act (*Erneuerbare-Energien-Gesetz*)	In order to unlock new potential, the tendering volumes for 2022 have been increased by 1.1 gigawatts (GW) to 4 GW in the case of onshore wind power and by 4.1 GW to 6 GW in the case of photovoltaic energy through special calls for tender based on amendments to the Renewable Energy Sources Act 2021 (approved by the European Commission under state aid rules on 9 December 2021; with respect to the final third of the increased volumes, the European Commission has reserved the right to await the outcomes of the first tender rounds and review the situation to ensure competitiveness). The amendments to the Renewable Energy Sources Act 2021 also concern simplified tender procedures for photovoltaic installations, a reporting obligation regarding improvements in compatibility between radio navigation systems and onshore wind installations, and local authority financial involvement in photovoltaic installations.	Entered into force on 27 July 2021
	Funding for hydrogen projects	As part of the IPCEI on hydrogen, the federal government plans to fund integrated projects along the entire hydrogen value chain. 62 German projects are to receive funding of more than €8bn and give rise to investments of around €33bn, including up to 2 GW of electrolysis capacity, up to 1700 km of H_2 pipelines, and major steel projects that could save up to 11m tonnes of CO_2 per year.	Pre-notification for the first two project waves launched with DG Competition in late August 2021. Additional project waves to follow shortly.
	Structural assistance for coal-mining regions	Under an administrative agreement on coal, €1.09bn in structural assistance is available through to 2038 for structurally weak sites of coal-fired power plants in in Lower Saxony, Mecklenburg-Western Pomerania, North Rhine-Westphalia and Saarland, partly in the form of financial assistance. Funding is provided among other things for transport projects, business-related infrastructure, education and research infrastructure, digitalisation and tourism projects.	Administrative agreement between the Federation and the *Länder* concluded on 10 August 2021

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	IPCEI on Next Generation Cloud Infrastructure and Services (IPCEI-CIS)	Cloud and edge technologies are regarded as a key to innovative data-driven business models. A particular challenge is linking the distributed edge with centralised clouds in such a way as to ensure data portability and data interoperability alongside low latency and fast communication. Twelve EU member states are cooperating in an IPCEI to make Europe a technology leader. Germany is providing a total of €750m from the DARP through to 2026.	The EU matchmaking process, in which the individual projects selected at the national level were combined into an integrated European project, ended in early February. The IPCEI is expected to involve 27 German projects. Pre-notification is to be initiated in early April. The notification process is to be completed in Q3 2022.
	Additional funding for 'Digital Now' (*Digital Jetzt*)	Funding for the investment grant programme 'Digital Now – investment promotion for SMEs' was increased by approximately €250m to a total of around €460m (budget years 2021–2024) in June 2021, as part of the federal government's economic stimulus plan. This doubled the funding available in the 2021 budget year and more than doubled it for the 2022–2024 period.	Funding increased 16 June 2021
	Future Fund (*Zukunftsfonds*)	In order to support the venture capital market, the Federation will provide €10bn by the end of 2030 for an equity fund for emerging technologies, known as the Future Fund, which is based at KfW. The fund aims to target all stages of start-ups, with a particular emphasis on growth financing and to strengthen the focus on new market segments and investor groups. The Future Fund comprises various complementary modules, some of which are already operating on the market and some of which are still being set up.	Investment period 2021-2030 Phased launch of Future Fund modules in 2021 and 2022

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Progress in implementing the Online Access Act (Onlinezugangsgesetz)	The Online Access Act of 2017 requires the Federation and the *Länder* to offer their administrative services for individuals and companies digitally via administration portals by the end of 2022. Of the services that are to be provided online, 71 have already gone live, 200 are currently in the implementation stage and 88 in the planning stage. Central infrastructure components such as the federal user account and the federal standardised company account are also already available online. Information on the various services and the implementation status can be found at https://www.onlinezugangsgesetz.de/Webs/OZG/EN/home/home-node.html.	The various projects are being progressively advanced, with the first funding for projects in cooperation with the *Länder* disbursed in June 2021.
	Funding priority on digital innovation for the improvement of patient-centric healthcare	The funding priority is divided into four modules: smart sensor technology, smart data use, smart algorithms and expert systems, and smart communication, with the aim of expanding scientific knowledge to benefit digital innovation and improve patient-centric healthcare. Funding of around €39.8m has been earmarked for the funding priority until its expiry in 2023.	22 ongoing projects with varying time frames (through to 2022 or 2023); transfer decree for the first two modules on 9 December 2019. The decree for modules 3 and 4 is dated 24 September 2020.
	Strengthening Germany as a centre for investment funds	Support for start-ups, involvement in growth areas, strengthening the liquidity of start-ups. A tax measure has been introduced to support and strengthen young growth companies by means of a limited-scope extension of the VAT exemption on fund management fees to the management of venture capital funds. The measure results in an annual tax revenue shortfall of €0.82bn.	Fund Domicile Act (*Fondsstandortgesetz*) of 3 June 2021

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
3.3 Give priority to **fiscal structural reforms** that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by **strengthening the coverage, adequacy and sustainability of health and social protection systems for all**.	Healthcare Development Act (*Gesetz zur Weiterentwicklung der Gesundheitsversorgung)*	On the basis of the Healthcare Development Act and the Federal Grant Ordinance 2022 (*Bundeszuschussverordnung 2022*), a supplementary federal grant totalling €14bn is being provided in 2022 to stabilise the average supplementary contribution rate for statutory health insurance at 1.3%. Under the Pandemic Cost Reimbursement Ordinance (*Pandemiekosten-Erstattungsverordnung*), which was issued on 22 September 2021 on the basis of section 153 of Book XI of the Social Code (*Sozialgesetzbuch XI*), a supplementary federal grant of €1bn was provided in 2021 for statutory long-term care insurance.	In force since 20 July 2021
	Measures to safeguard hospital finances during the COVID-19 pandemic	1. Compensation payments to hospitals to offset revenue losses due to postponement or cancellation of scheduled admissions, procedures or surgeries until 15 June 2021. Funding of around €6bn was provided for 2021, of which approximately €5bn was disbursed. Provision was also made for the agreement of revenue offsets for hospitals for 2021, and in this connection the provision of advance payments. 2. Supplementary payments to hospitals to compensate for special burdens arising from SARS-CoV-2 between 1 November 2021 and 19 March 2022. Reimbursement by the Federation. Spending totalled approximately €168m in 2021. To date, spending for 2022 stands at €870m (as of 15 March 2022). 3. Compensation payments to hospitals to offset revenue losses due to postponement or cancellation of scheduled admissions, procedures or surgeries from 15 November until 31 December 2021. Due to the planned reporting and disbursement procedure, the Federation's reimbursement of the compensation payments for the period from 15 November 2021 will take place in 2022. 4. Extension until 19 March 2022 of compensation payments to hospitals to offset revenue losses due to postponement or cancellation of scheduled admissions, procedures or surgeries. Reimbursement by the Federation: to date, spending for the period from 15 November 2021 stands at approximately €3.0bn (as of 15 March 2022). Provision was also made for the agreement of revenue offsets for hospitals for 2022.	1) Ordinance in force since 8 April 2021 2) Act in force since 23 November 2021 3) Ordinance in force since 12 December 2021 4) Ordinance in force since 31 December 2021

Table 43 (continued): Implementation of the country-specific recommendations (CSRs) 2021/2022 – as of 25 March 2022

Recommendation 3: Composition and quality of public finances, sustainable and growth-enhancing investment, fiscal structural reforms	Title of measure	Description and direct relevance to target	Status and timetable
	Extension of simplified access to basic income support systems	Simplified a cess to basic income support systems in the context of the COVID-19 pandemic has been extended for approved benefits that are set to begin by or before 31 December 2022. This means that the rules on simplified applications, reduced means testing, higher savings limits and the recognition of actual accommodation and heating costs as reasonable expenses have been retained. Self-employed individuals, creatives and low-wage earners in particular thus continue to be provided with an effective safety net.	The extension was enacted via the Ordinance Extending Rules under Book II of the Social Code, the Federal Training Assistance Act and other Acts in Connection with the COVID-19 Pandemic (*Verordnung zur Verlängerung von Regelungen im Zweiten Buch Sozialgesetzbuch, im Bundesausbildungsförderungsgesetz und anderen Gesetzen aus Anlass der Covid-19-Pandemie*). The Ordinance came into force on 18 March 2022.
	Corporation Tax Modernisation Act (*Gesetz zur Modernisierung des Körperschaftsteuerrechts*)	Act containing, among other things, a corporation tax option for commercial partnerships and professional partnerships, further globalisation of business transformation law, provision for profit transfer overpayments or underpayments within a tax group to be accounted for by an adjustment in the parent entity's equity interest rather than in an asset or liability side adjusting item, and the elimination of a disparity with regard to the deductibility of exchange rate losses in connection with shareholder loans. The purpose of the Act is to improve competitiveness.	Corporation Tax Modernisation Act of 25 June 2021

Table 44: Methodological aspects

Estimation technique	Relevant step of the budgetary process	Relevant features of the model/technique used	Assumptions
Macroeconomic forecast	Before each tax revenue estimate	Iterative-analytic approach: several partial models are used in the system of national accounts. Potential GDP is estimated on the basis of models developed and recommended by the Output Gaps Working Group of the European Union's Economic Policy Committee (EPC).	Technical assumptions (for oil and commodity prices, exchange rates and interest)
Tax revenue estimate	Basis for drafting and finalising budget	Estimate based on macroeconomic forecast and time series analysis	Macroeconomic forecast, estimates on the fiscal impact of discretionary tax measures
Fiscal impact of discretionary tax measures	Basis for tax revenue estimate and for drafting and finalising budget	Microsimulation models based on tax statistics; calculations based on macroeconomic assumptions	Macroeconomic forecast

Published by

Federal Ministry of Finance
Public Relations Division
Wilhelmstr. 97
10117 Berlin, Germany

April 2022

Edited by
Division I A 1

To order this publication
Publikationsversand der Bundesregierung
Postfach 48 10 09
18132 Rostock, Germany

Telephone: +49 3018 272 2721
Fax: +49 3018 10 272 2721
email: publikationen@bundesregierung.de

More information is available online at
www.bundesfinanzministerium.de

stabile-haushalte.de