



Federal Ministry
of Finance

Draft budgetary plan 2014

according to Regulation (EU) No 473/2013

Update April 2014



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Public Finances in Germany 2014

Information on the Draft Budgetary Plan in accordance with Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013

Background

Germany submitted its Draft Budgetary Plan (DBP) within the framework of European budgetary surveillance in accordance with Regulation (EU) No 473/2013 of the European Parliament and of the Council (Two-Pack) for the first time on 15 October 2013. Subsequently, on 15 November 2013, the European Commission encouraged Member States to submit an updated Draft Budgetary Plan as soon as a new government takes office. On 22 November 2013 the Euro Group – the finance ministers of the euro area – expressed the expectation that Member States that are in the process of forming a new government should update their budget planning. The regulation's aim is to strengthen the mechanisms of European budgetary surveillance of Member States' public finances in the euro area during budget preparation. Germany's DBP update based on the second government draft of the federal budget of 12 March 2014 complies fully with all national and European fiscal rules.

Main results

The public finances of the Federation, *Länder*, municipalities and social security funds, including their extrabudgetary units, are maintaining their sound fiscal position. In comparison with the Draft Budgetary Plan figures of October 2013, only minor changes have occurred. Germany remains the stability anchor in the euro area and a guarantor of sustainable economic development:

- **Balanced budget in 2012, 2013 and 2014:** Germany's general-government budget was balanced in 2013 for the second year in a row. A balanced budget is expected again this year. The individual levels of government are contributing to the positive overall result: The Federation and *Länder* are continuing with fiscal consolidation and reducing their deficits. The municipalities are maintaining their overall surplus and the social insurance funds' budgets are broadly balanced within the projection period.

- Permanent compliance with medium-term budgetary objective:** The 2013 cyclically-adjusted budget balance, net of one-off and temporary measures, is in surplus (0.7% of GDP). This sound position will persist in 2014. Germany is permanently complying with its medium-term budgetary objective, a structural deficit of maximum 0.5% of GDP.
- Declining debt ratio:** The debt-to-GDP-ratio (Maastricht definition) declined to 78.4% in 2013. The debt ratio will continue to decrease by 2½ percentage points to 76% in 2014. The decrease is driven by the continued winding-down of the portfolios of Germany's resolution institutions together with the positive development of the budget balances of the Federation, *Länder* and municipalities.

Table 1: General government balance and debt

	2012	2013	2014
	% of GDP		
Net lending (+)/net borrowing (-)	0.1	0.0	0
Structural budget balance	0.2	0.7	½
Debt ratio	81.0	78.4	76

Rounded to half percentage points for the projection year.

Implementation of the country-specific recommendations

The National Reform Programme adopted by the Federal Cabinet on 8 April 2014 together with the Stability Programme contains a comprehensive description of the status of the implementation of the 2013 country-specific recommendations and the EU 2020 strategy in Germany. The upcoming October 2014 DBP presenting the general-government budget projection for 2015 will include intermediate results on the implementation of the country-specific recommendations.

Projection basis

The DBP projection is based on the fiscal medium-term projection prepared for the Stability Programme – Update 2014 – and on the second draft of the federal budgetary plan of 12 March 2014. Projections of general government sub-sectors are based on the key parameters for the *Länder* and municipalities projected for the meeting of the Stability Council on 5 December 2013 and updated with the budget results for 2013 and the annual projections from the 12 February 2014 Annual Economic Report of the Federal Government.

Table 2: Technical assumptions

	2012	2013	2014
Short-term interest rate (annual average in %)	0.9	0.50	0.25
USD/€ exchange rate (annual average)	1.29	1.33	1.36
Growth of German sales markets (in %)¹	2 ¼	1 ½	3 ½
Oil price (Brent, USD/barrel)	112	109	108

1) Rounded to quarters.

Table 3a: Forecast of macroeconomic trends

	ESA Code	2012 Index (2005=100)	2012	2013	2014
			rate of change		
1. Real GDP, chain index	B1*g	111.12	0.7	0.4	1.8
2. Potential GDP (€bn)		2473.1	1.4	1.5	1.5
contributions:					
- labour			0.5	0.5	0.5
- capital			0.4	0.4	0.4
- total factor productivity			0.5	0.5	0.6
3. Nominal GDP (€bn)	B1*g	2666.4	2.2	2.6	3.4
Components of real GDP, chain index					
4. Private consumption expenditure¹	P.3	106.53	0.8	0.9	1.4
5. Government consumption expenditure	P.3	112.34	1.0	0.7	1.9
6. Gross fixed capital formation	P.51	112.19	-2.1	-1.1	3.5
7. Changes in inventories (GDP growth contributions)	P.52 + P.53	-	-0.5	-0.1	0.1
8. Exports	P.6	140.30	3.2	0.8	4.1
9. Imports	P.7	137.77	1.4	0.9	5.0
contributions to GDP growth in %					
10. Domestic demand (excluding stocks)		-	0.3	0.5	2.0
11. Changes in inventories	P.52 + P.53	-	-0.5	-0.1	0.1
12. External balance of goods and services	B.11	-	0.9	0.0	-0.1

2012: Federal Statistical Office, February 2014

2013 and 2014: results of the short-term forecast for the 2014 spring projection, February 2014.

1) Including private non-profit organisations serving households

Table 3b: Price developments - deflators

	2012 Index (2005=100)	2012	2013 rate of change	2014
1. GDP	107.87	1.5	2.2	1.7
2. Private consumption expenditure¹	110.17	1.6	1.6	1.5
3. HICP	113.50	2.1	1.6	-
4. Government consumption expenditure	109.72	2.0	2.9	2.0
5. Gross capital formation	107.20	1.6	0.8	1.4
6. Exports	107.10	1.3	-0.5	1.0
7. Imports	110.55	1.7	-1.8	1.1

2012 and 2013: Federal Statistical Office, February 2014

2014: results of the short-term forecast for the 2014 yearly projection, February 2014.

1) Including private non-profit organisations serving households.

Table 3c: Labour market trends

	ESA Code	2012 Index (2005=100)	2012 rate of change	2013 rate of change	2014 rate of change
1. Employment - persons¹		41.6	1.1	0.6	0.6
2. Employment - hours worked ² (bn hours)		58.0	0.2	0.2	0.5
3. Unemployment rate (%)³		-	5.5	5.1	4.9
4. Labour productivity - persons⁴		104.1	-0.4	-0.1	1.2
5. Labour productivity - hours worked ⁵		106.9	0.5	0.3	1.3
6. Compensation of employees (€bn)	D.1	1375.9	3.9	2.8	3.2
7. Compensation per employee (thousand €)		37.1	2.6	2.0	2.6

2012 and 2013: Federal Statistical Office, February 2014

2014: results of the short-term forecast for the 2014 yearly projection, February 2014.

1) Employed persons, domestic concept national accounts definition.

2) National accounts definition.

3) Harmonised definition, Eurostat; levels.

4) Real GDP per person employed; (2005=100).

5) Real GDP per hour worked; (2005=100).

Table 3d: Sectoral balances

	ESA Code	2012	2013	2014
		% of GDP		
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	7.0	6.9	6.7
of which:				
- Balance on goods and services		5.9	6.1	5.9
- Balance of primary incomes and transfers		1.1	0.9	0.8
- Capital account		-0.1	0.0	0.0
2. Net lending/net borrowing of households	B.9	5.1	5.0	4.9
3. Net lending/net borrowing of general government ¹	B.9	0.1	0.0	0
4. Statistical discrepancy		-	-	-

2012 and 2013: Federal Statistical Office, January 2014

2014: results of the short-term forecast for the 2014 yearly projection, February 2014.

1) Figures for the forecast year are rounded to half a percentage point of GDP.

Table 4a: General government budgetary targets broken down by subsector

	ESA Code	2013	2014
		% of GDP	
Net lending (+)/net borrowing (-) (B.9) by subsector¹			
1. General government	S. 13	0.0	0
2. Central government	S. 1311	-0.2	0
3. State government	S. 1312	-0.1	-0
4. Local government	S. 1313	0.1	0
5. Social security funds	S. 1314	0.2	-0
General government (S.13)			
6. Interest expenditure	D.41	2.2	2
7. Primary balance²		2.2	2
8. One-off and other temporary measures³		0.0	-0
9. Real GDP growth (%)		0.4	1.8
10. Potential GDP growth (%)		1.5	1.5
contributions (percentage points):			
- labour		0.5	0.5
- capital		0.4	0.4
- total factor productivity		0.5	0.6
		% of potential GDP	
11. Output gap		-1.2	-0.9
12. Cyclical budgetary component		-0.7	-½
13. Cyclically-adjusted balance (1 - 12)		0.7	½
14. Cyclically-adjusted primary balance (13 + 6)		2.8	2 ½
15. Structural balance (13 - 8)		0.7	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 forecast year are rounded to half a percentage point.



Table 4b: General government debt developments
("Maastricht"-debt)

	ESA Code	2013	2014
		% of GDP	
1. Gross debt		78.4	76
2. Change in gross debt ratio		-2.6	-2 ½
Contributions to changes in gross debt			
3. Primary balance		2.2	2
4. Interest expenditure	D.41	2.2	2
5. Stock-flow adjustment		-0.5	0
p.m.: Implicit interest rate on debt¹		2.7	2 ½

1) Proxied by interest expenditure divided by the debt level of the previous year.

Figures for the forecast year are rounded to half a percentage point of GDP.

Table 5: Expenditure and revenue projections under the no-policy change scenario*

General government (S. 13)	ESA Code	2013	2014
		% of GDP	
1. Total revenue at unchanged policies	TR	44.7	44
of which			
1.1. Taxes on production and imports	D.2	11.1	11
1.2. Current taxes on income, wealth, etc	D.5	12.2	12 ½
1.3. Capital taxes	D.91	0.0	0
1.4. Social contributions	D.61	16.8	16 ½
1.5. Property income	D.4	0.8	1
1.6. Other¹		3.9	3 ½
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ²		40.0	40
2. Total expenditure at unchanged policies	TE ³	44.7	44
of which:			
2.1. Compensation of employees	D.1	7.6	7 ½
2.2. Intermediate consumption	P.2	4.9	5
2.3. Social payments	D.62 ⁶ D.632	24.3	24
of which: Unemployment benefits⁴		1.7	1 ½
2.4. Interest expenditure	D.41	2.2	2
2.5. Subsidies	D.3	0.9	1
2.6. Gross fixed capital formation	P.51	1.6	1 ½
2.7. Capital transfers	D.91	0.9	1
2.8. Other⁵		2.4	2 ½

* 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) Under ESA95: D6311_D63121_D63131pay; in ESA2010 D632pay.

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 cash benefits (D.621 und D.624) and in kind benefits (D.631, nach ESVG: D.632) related to unemployment benefits.

5) D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay +P.52+P.53+K.2+D.8.

6) Under ESA95: D6311_D63121_D63131pay; in ESA 2010: D632pay.

Figures for the forecast year are rounded to half a percentage point of GDP.

Table 6a: General government expenditure and revenue targets

General government (S. 13)	ESA Code	2013	2014
		% of GDP	
1. Total revenue	TR	44.7	44 ½
of which			
1.1. Taxes on production and imports	D.2	11.1	11
1.2. Current taxes on income, wealth, etc	D.5	12.2	12 ½
1.3. Capital taxes	D.91	0.0	0
1.4. Social contributions	D.61	16.8	16 ½
1.5. Property income	D.4	0.8	1
1.6. Other¹		3.9	3 ½
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) ²		40.0	40
2. Total expenditure	TE ³	44.7	44 ½
of which:			
2.1. Compensation of employees	D.1	7.6	7½
2.2. Intermediate consumption	P.2	4.9	5
2.3. Social payments	D.62 ⁶ D.632	24.3	24 ½
of which: Unemployment benefits⁴		1.7	1 ½
2.4. Interest expenditure	D.41	2.2	2
2.5. Subsidies	D.3	0.9	1
2.6. Gross fixed capital formation	P.51	1.6	1½
2.7. Capital transfers	D.91	0.9	1
2.8.. Other⁵		2.4	2 ½

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 cash benefits (D.621 und D.624) and in kind benefits (D.631, nach ESVG: D.632) related to unemployment benefits.

5) D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay +P.52+P.53+K.2+D.8.

6) Under ESA95: D6311_D63121_D63131pay; in ESA 2010: D632pay.

Figures for the forecast year are rounded to half a percentage point of GDP.

Table 6b: Amounts to be excluded from the expenditure benchmark

	2012	2012	2013	2014
	bn €		% of GDP	
1. Expenditure on EU programmes fully matched by EU funds revenue	0.0	0.0	0.0	0
2. Cyclical unemployment benefit expenditure	-7.0	-0.3	-0.1	-0
3. Effect of discretionary revenue measures	2.5	0.1	0.0	0
4. Revenue changes mandated by law	-2.8	-0.1	-0.2	-0

Figures for the forecast year are rounded to half a percentage point of GDP.

Table 7a: Discretionary measures on the level of general government

List of measures	Detailed description	ESA Code	Accounting principle	Adoption status	Budgetary impact				
					2014	2015	2016	2017	2018
					% of GDP				
Pension package	Measures in pension insurance scheme: increase allowable child-raising time, financial security for persons with a partially reduced earnings capacity, special arrangements for long-term insured, adjustment of rehabilitation budget	D.62	accrual	Cabinet decision 29 January 2014; probable entry into force: 1 July 2014	-0	-1/2	-1/2	-1/2	-1/2
Pension contribution rates	Stabilization of contribution rate at 18,9%	D.61	accrual	1 January 2014	0	0	0	0	0
Investment in the transport infrastructure	Gross fixed capital formation in public traffic and transport infrastructure (roads, rail, waterways, combined transport)	P.51	accrual	Enter into force with federal budget expected July 2014	-0	-0	-0	-0	-0
Research funding	Support of non-university federal research institutions	P.51/P.2	accrual	Enter into force with federal budget expected July 2014	-	-0	-0	-0	-0
Funding for urban development		P.51	accrual	Enter into force with federal budget expected July 2014	-	-0	-0	-0	-0
Funding for official development assistance	Stabilization of ODA ratio	D.74	accrual	Enter into force with federal budget expected July 2014	-0	-0	-0	-0	-0
Financial transaction tax	Revenue budgeting adjustment	D.2	accrual	Enter into force with federal financial planning expected June 2014	-	-0	-0	-0	-0

Figures for the forecast years are rounded to half a percentage point of GDP.

Table 7b: Discretionary measures of the federal government

List of measures	Detailed description	ESA Code	Accounting principle	Adoption status	Budgetary impact				
					2014	2015	2016	2017	2018
					% of GDP				
Investment in the transport infrastructure	Gross fixed capital formation in public traffic and transport infrastructure (roads, rail, waterways, combined transport)	P.51	accrual	Enter into force with federal budget expected July 2014	-0	-0	-0	-0	-0
Research funding	Support of non-university federal research institutions	P.51/P.2	accrual	Enter into force with federal budget expected July 2014	-	-0	-0	-0	-0
Funding for urban development		P.51	accrual	Enter into force with federal budget expected July 2014	-	-0	-0	-0	-0
Funding for official development assistance	Stabilization of ODA ratio	D.74	accrual	Enter into force with federal budget expected July 2014	-0	-0	-0	-0	-0
Financial transaction tax	Revenue budgeting adjustment	D.2	accrual	Enter into force with federal financial planning expected June 2014	-	-0	-0	-0	-0
Federal subsidy for the statutory pension system	Increase federal subsidy	D.7	accrual	Cabinet decision 29 January 2014; probable entry into force: 1 July 2014	-0	-0	-0	-0	0
Federal subsidy for the statutory health insurance	Adjustment of federal subsidy	D.7	accrual	Enter into force with federal budget expected July 2014	-	0	-	-0	-0
Relief of Länder public finances	Funding for day nurseries, day care centres, schools and universities	P.2/D.7	accrual	Enter into force with federal budget expected July 2014	-0	-0	-0	-0	-
Relief of municipalities' public finances	Temporarily higher share of value added tax for municipalities / Relief in financing of rehabilitation of challenged persons	D.21/D.62	accrual	2015-2017/2018	-	-0	-0	-0	-0

Figures for the forecast years are rounded to half a percentage point of GDP.

Table 8: Divergence from October 2013 DBP

	ESA Code	2012	2013	2014
Target general government net lending/net borrowing (% of GDP)	B.9			
Draft Budgetary Plan - October 2013		0.1	-0	0
Draft Budgetary Plan - Update April 2014		0.1	0.0	0
Difference		0.0	0	-0
General government net lending/net borrowing projection at unchanged policies (% of GDP)				
Draft Budgetary Plan - October 2013		0.1	-0	1/2
Draft Budgetary Plan - Update April 2014		0.1	0.0	0
Difference		0.0	0	-0

This difference can refer to both deviations stemming from changes in the macroeconomic scenario and those stemming from the effect of policy measures taken between the submission of the DBP in October 2013 and the submission of this DBP. Figures for the forecast year are rounded to half a percentage point of GDP.

Table 9: Methodological aspects

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/technique used	Assumptions
Macroeconomic forecast	Before each tax estimation	Iterative-analytic approach: several partial models are used in the system of national accounts. Potential GDP estimation is done on the basis of the models developed and suggested by the Output Gap Working Group of the Economic Policy Committee (EPC) of the European Union.	Technical assumptions (for oil and commodity prices, foreign exchange rates and interest rates)
Tax estimation	Basis for drafting and finalising budgeting	Estimation on the basis of macroeconomic forecast and time series analysis.	Macroeconomic forecast, estimations on the fiscal impact of discretionary tax measures
Fiscal impact of discretionary tax measures	Basis for tax estimation and drafting and finalising budgeting	Microsimulation models on the basis of tax statistics and macroeconomic forecast	Macroeconomic forecast

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