



CRISIS, CONSOLIDATION AND FISCAL FEDERALISM IN GERMANY

IMPLEMENTATION OF THE DEBT BRAKE AND THE STABILITY COUNCIL

8th Meeting of the
Network of public finance economists in public administration

Jürgen Schneider
Brussels, 11 February 2014

Levels of government as defined by the German constitution: Bund (federation) and Länder (States)



- Bund (Federation)
- 16 Länder (States)
 - 3 Stadtstaaten (City States)
 - 13 Flächenländer (Area States)
- 12 000 Gemeinden (Municipalities)



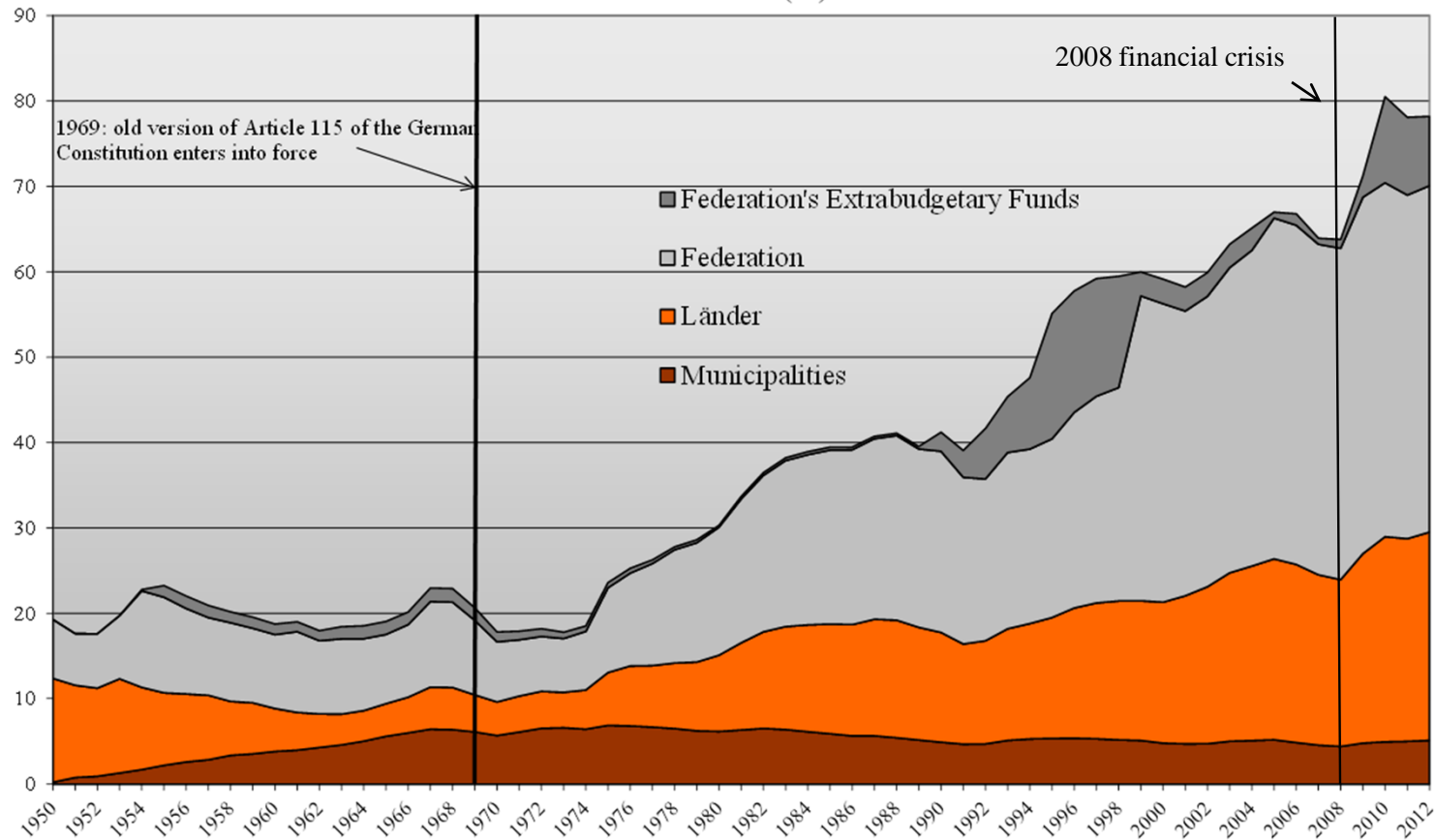
The German Basic Law establishes the budget sovereignty of Federation and Länder

“The Federation and the Länder shall be autonomous and independent of one another in the management of their respective budgets”

Art. 109 I of the Basic Law

Debt brake and Stability Council: Reaction to increasing levels of government debt

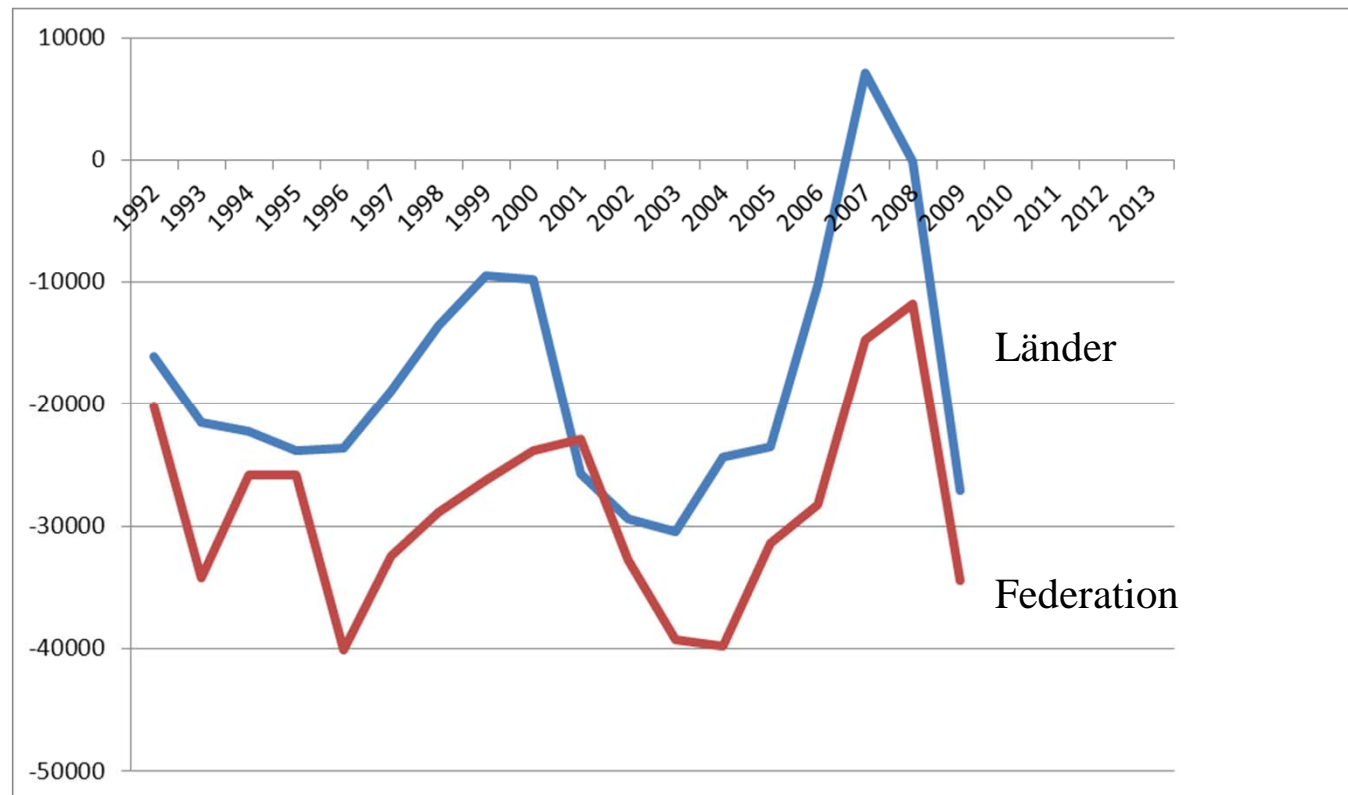
General Government Debt
in relation to GDP (%)



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Financial crisis triggered the final decision on the 2009 reform of fiscal rules and institutions ...

Fiscal balance of federal and Länder level of government (mln. €)*



*w/o special funds

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... that established debt brake and Stability Council

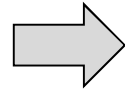
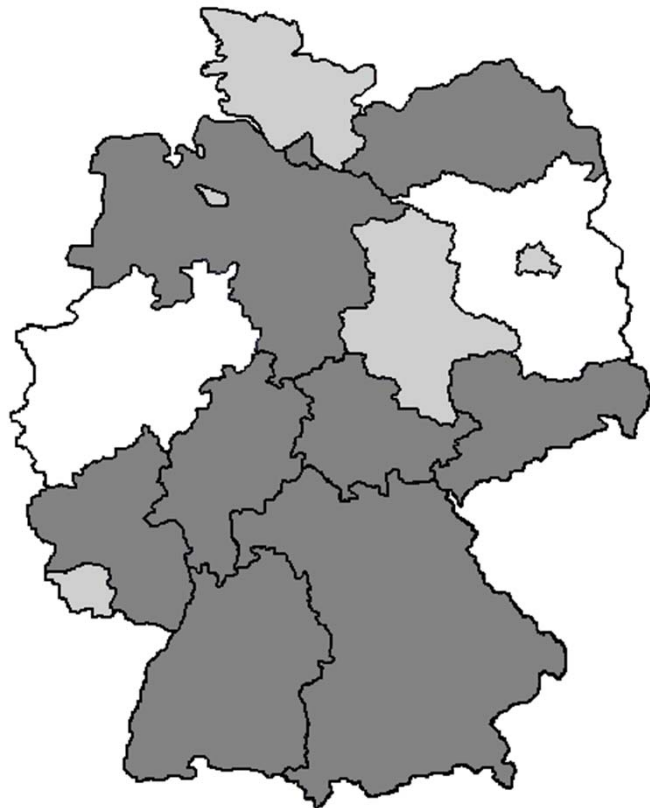
	Main Rules	Institution
Federal Level (Bund)	Basic Law Art. 109; Art. 109a; Art. 110; Art. 114; Art. 115, Budgetary Principles Act, Federal Budget Code	<p>Newly established Stability Council replaces the Financial Planning Council</p> <p>Stability Council (joint institution of Bund and Länder)</p> <p>Basic Law Art. 109a</p>
State Level (Länder)	Basic Law Art. 109, Land constitution, Budgetary Principles Act, Land Budget Code	

Newly established instrument in form of budget rule aka „debt brake“

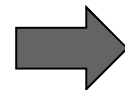
The Debt Brake applies to both Federation and Länder

- Common principles laid down in Article 109 of the Basic Law
 - Principle of (structurally) balanced budgets
 - Federation: structural deficit max. 0.35 % of GDP
 - Länder: (structural) deficits 0.0 % of GDP
 - Optional cyclical component: symmetrical stabilization over the business cycle
 - Optional: exceptions for natural disasters and extraordinary emergency situations (binding amortisation plan!)
 - Transitional period for the Federation until 2015 and for the Länder until 2019
- Article 109 BL is directly binding on the Länder
- Länder are responsible for the implementation of their budget rules

Implementation of the debt brake at Länder level



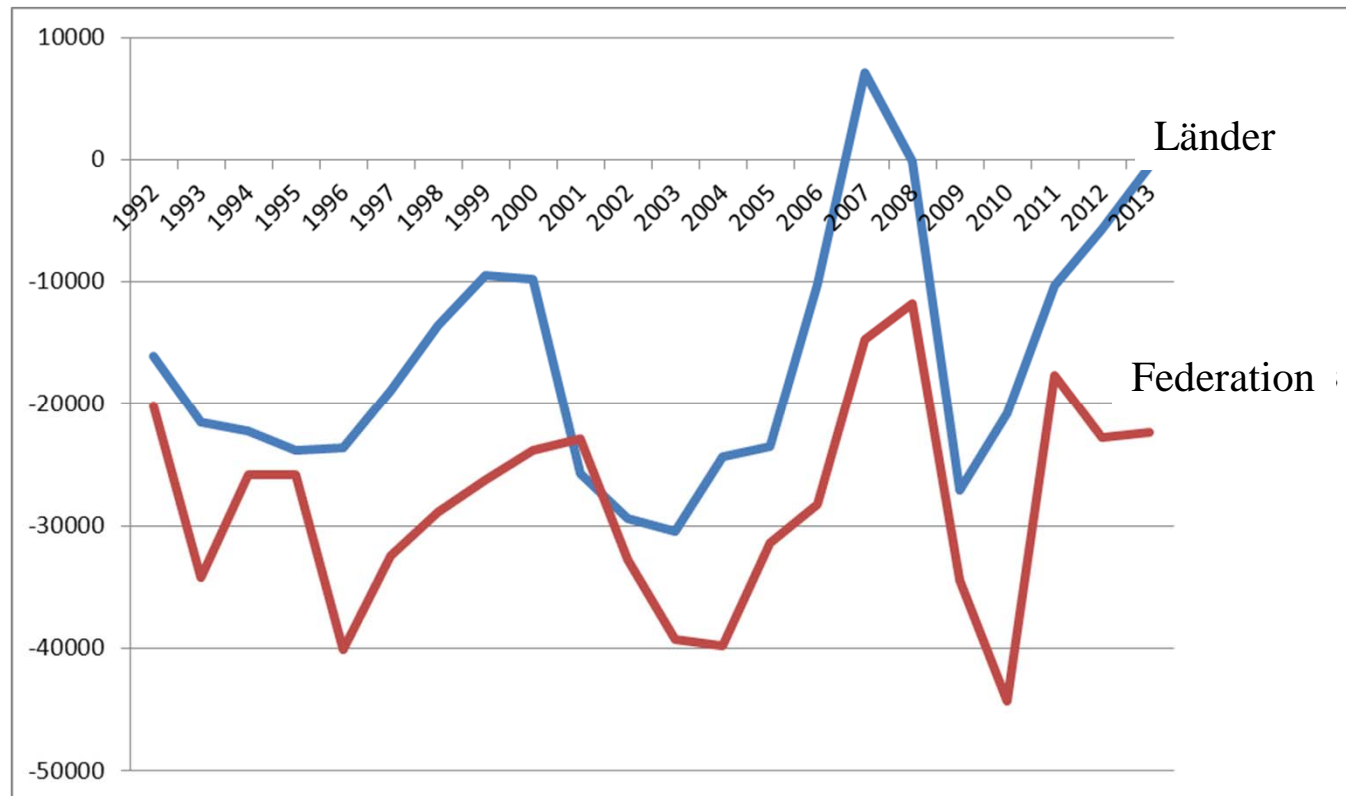
Länder that receive consolidation grants conditional on compliance with an agreed consolidation path



Länder that have already implemented budget rules that comply with Art 109 BL into their constitutional or secondary law

After one-third of the transitional period the budgetary position of the Länder level is already close to balance

Fiscal balance of federal and Länder level of government (mln. €)*

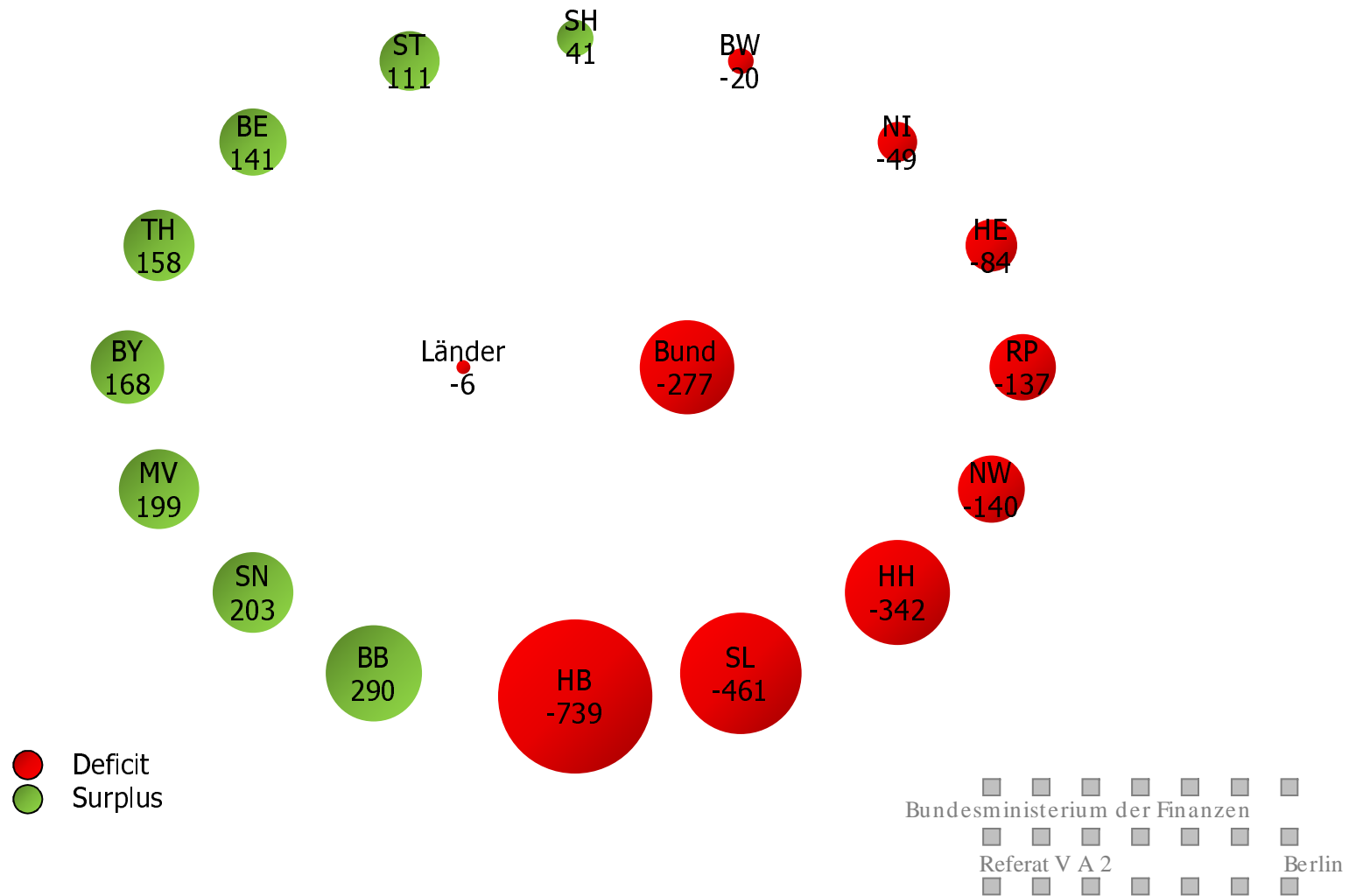


*w/o special funds; 2013: provisional figures

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Fiscal balance of Federation and Länder

- 2013 (provisional figures); in € per capita; w/o special funds -



Monitoring tasks of the Stability Council

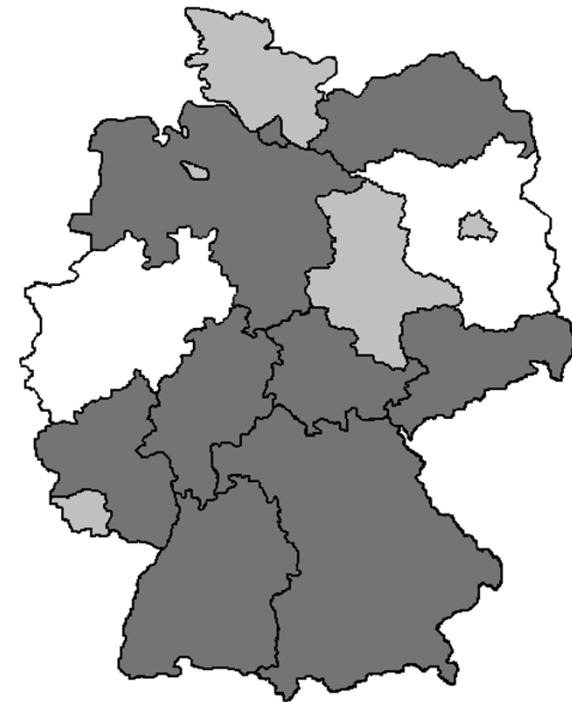
Stabilitätsrat


- federal minister of finance
- federal minister of economics and energy
- ministers of finance of all 16 Länder


... controls compliance with German MTO supported by an independent advisory board




...monitors the finances of the Bund and all 16 Länder according to a system of early warning indicators

...oversees consolidation procedures in Länder that receive consolidation grants and of Länder that are subject to a budget rehabilitation programs



 Länder that receive consolidation grants

 Länder that have implemented own debt brakes


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Stability Council and the transposition of the Fiscal Compact (I)

- Fiscal Compact requires independent monitoring of compliance with the MTO
- According to the common principles on national fiscal correction mechanisms the design of independent bodies shall take into account the already existing institutional setting.
- Already existing: comprehensive system of independent monitoring institutions and fiscal councils

Transposition of the Fiscal Compact (II)

	Fiscal Rules	Independent Monitoring Institutions and Fiscal Councils
Federal Level (Bund)	<p>„Debt Brake“(Art. 109, 115 of the Basic Law; „Art.115-Law“)</p> <p>Fiscal Rules of the Social Security Funds (Social Code)</p>	<p>Federal Court of Audit</p> <p>Federal Constitutional Court</p> <p>Deutsche Bundesbank</p> <p>Council of Economic Experts</p> <p>WP on Tax Revenue Forecasting</p> <p>Joint Economic Forecast</p> <p>Stability Council Art. 109a BL</p> <p>Independent Advisory Board to the Stability Council</p>
State Level (Länder)	<p>German MTO incorporated in § 51 Budgetary Principles Act</p> <p>„Debt Brake“ Art. 109 BL; Constitutions and Budget Codes of the Länder</p> <p>Fiscal Rules of the Municipalities (municipal codes and other legal provisions of the Länder)</p>	<p>Länder Courts of Audit</p> <p>Länder Constitutional Courts</p> <p>+ 6 independent experts appointed by Federal Gov. (2), Länder (2) head associations of local authorities (1) and head organisations of the social security funds (1)</p>

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Stability Council and the transposition of the Fiscal Compact (III)

- The Stability Council twice annually reviews compliance with the upper limit for the structural general-government deficit for the years t to $t+4$ and recommends suitable measures for eliminating excessive deficits.
- In this process it must take into account Ecofin Council's recommendations under Regulation 1466/97.
- The Stability Council's recommendations will be forwarded by the Federal and Länder governments to their respective parliaments.
- Stability Council's decisions have to be published together with the materials they are based on.

Stability Council and the transposition of the Fiscal Compact (IV)

- The independent advisory board shall issue a statement on compliance with the upper limit for the structural general-government and recommend suitable measures for eliminating excessive deficits.
- The chair of the advisory council shall attend the Stability Council's consultations in this respect.
- The advisory council's opinions and recommendations shall be published.
- In making recommendations, the Stability Council shall issue an opinion on the advisory board's assessments and recommendations and shall explain recommendations that diverge.



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