

Germany : Report on Observance of Standards and Codes—Fiscal Transparency

This Report on the Observance of Standards and Codes on Fiscal Transparency for the **Germany** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **August 27, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Germany** or the Executive Board of the IMF.

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**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

GERMANY

**Report on the Observance of Standards and Codes (ROSC)
Fiscal Transparency Module**

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August 27, 2003

EXECUTIVE SUMMARY

This report provides an assessment of fiscal transparency practices in the Germany in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency*, based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Germany has achieved a high level of fiscal transparency. Fiscal management is carried out in accordance with a comprehensive, precise, and carefully respected body of laws and regulations. While Germany's fiscal system is highly decentralized and different levels of government enjoy significant autonomy, a common legal framework clearly assigns roles and responsibilities. Sound standards for budgeting, accounting, and reporting apply to all levels of government, multiyear budget preparation is an integral part of the process, and fiscal reporting includes contingent liabilities, guarantees, tax expenditures, and equity holdings.

Transparency, however, should be improved in several areas, notably:

- The federal budget documents should provide more in-depth information on the macrofiscal strategy, a careful analysis of risks and structural trends, and a presentation of the budget by policy objectives in a program structure. Regular within-year budget evaluation should be introduced.
- Planning, budgeting, and reporting of the general government fiscal position (as defined by *ESA 95*) must be strengthened. Budget documents need to be presented so that an assessment of the obligations under the Maastricht Treaty is possible; annual and medium term budget planning of the different levels of government needs to be better integrated, and responsibility for the achievement of agreed fiscal targets needs to be assigned.
- The system of horizontal and vertical revenue sharing, transfers, and joint expenditure responsibilities among *Bund*, *Länder* and *Gemeinden* should be simplified.
- The very complex tax system should be simplified, and assurances should be provided that tax enforcement and compliance is uniform throughout the country.

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Abbreviations and Acronyms

EMU	European Monetary Union
ESA 95	<i>European System of Accounts, 1995</i>
EU	European Union
FBC	<i>Federal Budget Code (Bundeshaushaltsordnung)</i>
GDR	German Democratic Republic (<i>Deutsche Demokratische Republik</i>)
GFS	<i>Manual of Government Finance Statistics</i>
ROSC	Report on the Observance of Standards and Codes
SDDS	Special Data Dissemination Standard
SGP	European Union Stability and Growth Pact
SNA 93	<i>System of National Accounts, 1993</i>
KfW	Bank for Reconstruction (<i>Kreditanstalt für Wiederaufbau</i>)

GERMAN INSTITUTIONS REFERENCED BY THEIR GERMAN NAME

<i>Bundesbank</i>	Central bank
<i>Bund</i>	Federal government
<i>Bundestag</i>	First chamber of the federal parliament
<i>Deutsche Telekom</i>	German Telecommunications Company
<i>Gemeinde(n)</i>	Municipality(-ies)
<i>Deutsche Post AG</i>	German Postal Service, Inc.
<i>Sparkasse(n)</i>	Savings bank(s)
<i>Sparkassen- Finanzgruppe</i>	Savings bank group
<i>Bundesrat</i>	Second chamber of the federal parliament, representing the <i>Länder</i>
<i>Land, Länder</i>	State, states (of the Germany)
<i>Landesbank(en)</i>	State bank(s)
<i>Treuhandanstalt</i>	Institution that administered and privatized the government property of the GDR

I. INTRODUCTION

1. **This report¹ provides an assessment of fiscal transparency in Germany against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*.** The assessment has two parts. The first is a description of practices, prepared by the IMF staff on the basis of discussions with the authorities, their comprehensive responses to the fiscal transparency questionnaire, and other available information. The second part is an IMF staff commentary on fiscal transparency in Germany.

2. **Germany's highly decentralized fiscal system gives rise to a range of special issues relevant to fiscal transparency.** The fiscal management structure is best described as a cooperative federalist system with a tradition of autonomy and self-governance. Each unit in the three levels of government (*Bund*, *Länder*, and *Gemeinden*) is legally autonomous and, in principle, independently fulfills its constitutionally defined tasks. The executive branch of government is always controlled by an elected body—a parliament with legislative powers for the *Bund* and the *Länder*, or an elected council at the *Gemeinde* level. The compulsory social insurance system (pension insurance, unemployment insurance, accident insurance, and health insurance) is regulated by federal law, but mainly organized as self-governing or autonomous agencies and associations. Coordination between these different parts of government takes place through a number of formal and informal cooperation and approval processes, including rule-based allocations, negotiated contracts, and nonbinding consultations at all levels of government. The system is further complicated by Germany's membership in the European Union (EU), which in effect constitutes a fourth level of government, imposing additional obligations and constraints on fiscal management.

3. **This assessment focuses on the information that the federal government and its agencies provide about the general government.** However, while the *Code* is pitched at that level, this report does not comprehensively assess the subnational levels of government nor the social insurance system. Nevertheless, since the fiscal management systems of the *Bund*, *Länder* and *Gemeinden* are similar, many of the comments in this report apply to all; in addition, the report describes fiscal management and reporting of *Länder* and *Gemeinden* for those aspects that are particularly relevant in assessing the fiscal position of general government.

¹ This report was prepared by a staff team consisting of J. Seade (mission chief), C. Dieterich, C. Roehler, S. Symansky and M. Gretemann (staff assistant), all members of the Fiscal Affairs Department. The team visited Germany—Berlin, Frankfurt, Bonn, and Wiesbaden—September 2–12, 2002. It met with numerous officials in the Ministry of Finance as well as from the Ministry of the Interior, the Federal Audit Office, the Federal Statistics Office, the *Bundesbank*, the *Länder Hesse*, *Thüringen*, and Berlin, and the cities of Wiesbaden and Frankfurt. The team also met representatives of the German Finance Agency, the *Kreditanstalt für Wiederaufbau*, the *Landesbank of Hessen-Thüringen*, the Association of the *Sparkassen*, the Taxpayers' Association, the Chamber of Tax Consultants, and Transparency International. The mission would especially like to acknowledge the extensive support provided by the Ministry of Finance.

II. DESCRIPTION OF PRACTICES

A. Clarity of Roles and Responsibilities

Government and the Public Sector

4. **General government is defined in accordance with international standards.** General government includes the *Bund* (federal government)² and its special funds, the 16 *Länder* (states),³ the approximately 15,000 *Gemeinden* (municipalities) and associations of *Gemeinden* (*Gemeindeverbände*),⁴ the approximately 3,500 special-purpose districts (*Zweckverbände*),⁵ and the approximately 720 institutions of the social insurance system.⁶ Reports on general government are prepared according to two standards:

- The German official statistical definition (*finanzstatistische Abgrenzung*): This is the primary standard used in fiscal reporting on general government (*Gesamthaushalt*) for example in the federal budget documents and in reports of the Federal Statistical Agency (*Statistisches Bundesamt*). Coverage and reporting standards are laid out in administrative regulations.⁷ General government includes all institutions that follow cash-based government accounting principles, but excludes institutions and enterprises that are legally independent and use commercial accounting.⁸ Coverage also includes the German share of financing

² The *Bund* comprises the president and his office, <http://www.bundespraesident.de/portal.html> ; the two chambers of parliament, *Bundestag*, <http://www.bundestag.de/>, and *Bundesrat*, <http://www.bundesrat.de/>; the chancellor and his office; currently 13 ministries; the Federal Constitutional Court (*Bundesverfassungsgericht*), <http://www.bverfg.de/>; the Federal Audit Office (*Bundesrechnungshof*), <http://www.bundesrechnungshof.de/>; and approximately 550 agencies and authorities subordinated to the ministries. The main web page of the executive branch of government (*Bundesregierung*) is <http://www.bundesregierung.de/>, and for access to government services, <http://www.bund.de/>. Each ministry has its own web page. Many web pages have sections in English, some also in French and Spanish.

³ All *Länder* have official web pages; <http://www.bundesrat.de/> provides a list. The main laws regulating the activities of the *Länder* are summarized at <http://www.web-gesetze.de/Landesrecht.htm>.

⁴ The site <http://www.kommon.de/> provides a gateway to web pages of local governments and their organizations.

⁵ Special-purpose districts, which are cofounded by *Gemeinden*, provide public services for a region, typically transportation or utility services. For further information, see the web page of the Association of Local Government Enterprises, <http://www.vku.de/>.

⁶ For a definition of the social insurance system, see <http://www-zr.destatis.de/def/def1086.htm>.

⁷ A description of the definition is contained, for example, in the administrative regulations on the budget classification of the *Bund* (*Verwaltungsvorschriften zur Haushaltssystematik des Bundes, Allgemeine Hinweise zum Gruppierungsplan und zum Funktionenplan*, paragraph 3.8.1). An institution table is published in *Statistisches Bundesamt, Fachserie 14, Reihe 3.1*, 1999, p. 276.

⁸ For example, at the *Gemeinde* level, the collection of household trash is reported as a government activity if it is carried out by a government agency, but not reported if it is carried out by a publicly owned company under private law.

(continued

...)

of the EU. Some reports on general government omit the social insurance system and the special purpose districts.

- The European System of Accounts (*ESA 95*): This standard is used for reporting to the EU, and to the IMF under the Special Data Dissemination Standard to which Germany subscribes. The coverage of *ESA 95* is wider than the German official statistical definition, since it includes universities and a few other institutions that use commercial accounting.

4. Government activities are generally well distinguished from those of public financial and nonfinancial institutions. The constituting documents or charters of public enterprises clearly define the purpose of the institution and scope of operations, including potential areas of noncommercial activities, and tasks carried out on behalf of government. They also determine the management and supervisory structure, but in practice, management is not always independent from the government. Public enterprises are subject to strict reporting requirements. They must file annual reports that are subject to audit by the federal or state audit court. If public enterprises are established under private law they are subject to the same reporting requirements as privately owned companies. Public enterprises can be and are owned by all levels of government, but regulations for example for the *Bund*⁹ stipulate that ownership in public enterprises should be limited to cases where “an important interest of the federal government cannot be achieved better or more economically in any other way.” The identification of noncommercial activities of public enterprises and their costs was recently strengthened when Germany implemented the EU transparency directive, which requires separate cost accounting for commercial and noncommercial activities.

5. Public ownership in nonfinancial public enterprises overall is not extensive. While the *Bund* and many *Länder* in recent years have privatized a number of nonfinancial public enterprises, *Gemeinden* have increasingly outsourced some of their activities to private law companies, in particular as “limited liability companies” (*Gesellschaften mit beschränkter Haftung*). The *Bund* now owns shares in fewer than 400 companies (direct and indirect participation), and has limited new equity holdings mainly to nonprofit activities. It partially owns a number of recently incorporated former monopolies such as the *Deutsche Post AG* (German Postal Service, Inc.), *Deutsche Telekom* (German Telecommunications Company), and the federal railway system. *Länder* ownership includes electricity generation and distribution enterprises. Many *Gemeinden* provide water, sewerage and trash removal services through public companies, and many public hospitals are established under private law.

6. Public ownership of financial institutions is extensive at all levels of government, and these usually conduct some quasi-fiscal activities (see Box 1). While the subsidy components of loan programs with an explicit subsidy are usually financed

⁹ General Administrative Regulations for the Federal Budget Code (*Allgemeine Verwaltungsvorschriften zur Bundeshaushaltsordnung*), paragraph 65.

from government budgets, quasi-fiscal activities arise from several sources. First, control of public financial institutions is often vested in public officials. Although there is no evidence that directed lending is widespread, in some cases loans apparently are not strictly screened on the basis of creditworthiness. Second, many public financial institutions still enjoy a government guarantee on all of their liabilities (*Anstaltslast und Gewährträgerhaftung*), which contributes to very good credit ratings (for example, the KfW—see Box 1 below—is rated AAA). The resulting low refinancing costs can be passed on in the lending programs without adversely affecting the balance sheet, and possibly without full regard for the risk of the individual borrower. However, two international initiatives should reduce quasi-fiscal activities in the near future. First, the Basle Accords require that lending rates should reflect the creditworthiness of the borrower and not simply of the class of borrowers. Once enacted into law, this should help ensure that lending decisions (including interest rates) reflect the borrower's level of risk. Second, according to a recent agreement between the EU and Germany—The Understanding on *Anstaltslast* and *Gewährträgerhaftung* of February 2002—the commercial and public activities of public banks must be split by 2005. Although banks can continue to be publicly owned, the commercial activities can be guaranteed only up to the statutory capital.

7. Government equity holdings are clearly reported. The *Bund* publishes an annual report listing all direct and indirect government equity holdings and extrabudgetary funds—the *Bundesbeteiligungsbericht*¹⁰—which describes the purpose of each public equity holding, gives a short analysis of major business developments, and shows key economic indicators from the companies' financial statements. The federal government is under no legal obligation to prepare this report, but has presented it regularly. Some (but not all) *Länder* and *Gemeinden* voluntarily prepare similar reports. In addition to the reports provided by government units, the Federal Statistics Office (*Statistisches Bundesamt*) provides a report on all majority equity holdings of *Bund*, *Länder*, and *Gemeinden* as well as the social and health insurance agencies—but this report is prepared with lags of up to three years.

¹⁰ For the text of the report, see <http://www.bundesfinanzministerium.de/Bundesliegenschaften-und-Bundesbeteiligungen/Bundesbeteiligungen-500.htm#z1>.

Box 1. Public Financial Institutions in Germany

Several different types of public financial institutions exist in Germany. Most institutions are under public law, but some are companies under private law (for example, the *WestLB AG*, a joint stock company), as are most subsidiaries.

At the federal level (jointly owned with the *Länder*), the most important public bank is the Bank for Reconstruction (*Kreditanstalt für Wiederaufbau—KfW*),¹ which was established through its own law in 1948 to administer the Marshall Plan funds. Today, it finances most of its activities from capital markets. It carries out programs with a public policy objective, and commercial activities in direct competition with the rest of the banking system. In addition it carries out tasks on behalf of the government (for example, privatization). The main programs are as follows; figures in brackets show the volume of new loans and grants for 2002.

- Subsidized and nonsubsidized lending programs (€25.95b) for small and medium enterprises, infrastructure projects of the *Gemeinden*, housing, and environment. In these programs the KfW cooperates with retail institutions that identify suitable borrowers.
- Development aid, both loans and grants (€1.29b). The KfW carries out assessments and feasibility studies for countries identified by the government as potentially eligible for aid. After agreement is reached with the country, the KfW implements and monitors the project as the government's agent.
- Other commercial activities include export financing (€5.6b).

The KfW is accorded a full guarantee by the *Bund* on its borrowing, its options, and on guarantees extended. It is not subject to taxation or banking regulations, but is obliged to produce annual reports; it also publishes quarterly reports. A recent agreement between the EU and Germany requires that any commercial activity of the KfW be separated into a distinct operation that does not have a government guarantee.

At the subnational level, most public banks are member of the *Sparkassen-Finanzgruppe*, which includes the 12 *Landesbanken* (state banks), and the approximately 540 *Sparkassen* (savings banks) that serve as fiscal agents for the *Länder* and the *Gemeinden*, respectively. These banks have a market share of 36 percent. *Sparkassen* are owned by the *Gemeinden* (individually or in groups) and their purpose is to guarantee a source of financing for citizens. Their liabilities are mainly deposits, and their own lending is mostly on commercial terms. The savings banks are subject to tax, and they transfer their profit to the *Gemeinden*. The *Landesbanken* are owned by *Länder* (usually individually) and by savings banks, and engage in both commercial and noncommercial activities. They raise a substantial amount of their funds in capital markets. A common task on behalf of government is the channeling of subsidized loans from lower levels of government, often through specialized subsidiaries. The savings bank laws of each *Land* generally require that the (public) owners of a *Landesbank* or savings bank “fully guarantee the balance sheet and provide whatever funds are necessary to ensure its obligations.”

The Understanding on *Anstaltslast and Gewährträgerhaftung* (see paragraph 7) is not expected to have a major influence on the behavior of savings banks, because most of their operations are of a commercial nature. In contrast, the *Landesbanken* have to undergo a significant restructuring, as each will have to split into at least two distinct institutions (similar to the KfW).

There are also about 150 nonbank public financial members of the *Sparkassen-Finanzgruppe*. These include mortgage banks, public insurance companies, leasing companies, and financial services companies.

¹ The KfW web site is (<http://www.kfw.de/DE/>). Other federal public banks are being merged with the KfW. In 2001, the *Deutsche Investitions- und Entwicklungsgesellschaft*, which financed private sector projects in developing countries, was merged as an independent subsidiary. A decision has been reached also to merge the *Deutsche Ausgleichsbank* (<http://www.dta.de/dtaportal/index.jsp>), which provides loans to small and medium businesses.

8. **Privatization processes are reasonably transparent.** The decision to privatize and the privatization process are generally directed by the government, but parliamentary approval is necessary in particularly relevant cases. The Ministry of Finance, in coordination with the line ministries, prepares an annual report on equity participation for the Cabinet.¹¹ If the Cabinet decides that there is no longer any public interest in a particular equity holding,¹² the Ministry of Finance, again in coordination with the line ministry and usually assisted by consultants, prepares the company for privatization and decides on the privatization method and timing. The *Federal Budget Code (FBC)*¹³ only sets general principles for the privatization process; while it requires that the “full value” of the company be secured, the government interprets this requirement more broadly than the maximization of privatization proceeds. Other common criteria are the quality of the investor’s business plan and the number of future jobs. The companies to be privatized, projections for privatization proceeds, and realized revenue are reported, for example, in the budget documents.¹⁴ In the past, some privatization proceeds were used to finance the general budget deficit, but starting in 2004, the government is committed to using privatization proceeds exclusively for the reduction of the debt stock (that is, classify them as financing items).¹⁵ The privatization of the state-owned companies of the former GDR, which has now been largely finalized, followed special rules due to the enormous size and complexity of the process.¹⁶

9. **The Bundesbank (central bank) is independent and does not carry out quasi-fiscal activities.** Responsibility for the conduct of monetary policy was transferred by the Maastricht Treaty to the European Central Bank and the European System of Central Banks (ESCB), of which the Bundesbank is an integral part. The Bundesbank law (*Bundesbankgesetz*) and the Maastricht Treaty both commit the Bundesbank to the primary objective of price stability, and to the objective of supporting the general economic policy of the EU and the *Bund* only if it is possible without prejudice to the former. The

¹¹ The report to the Cabinet is not publicly available. Usually, the government provides a press release.

¹² As stipulated in the *Federal Budget Code*, paragraph 65 (see paragraph 5).

¹³ Paragraph 63.

¹⁴ If no buyer is found, the government does not necessarily liquidate the company but may postpone the privatization.

¹⁵ The classification of privatization proceeds as “above the line” and thus deficit impacting, or “below the line” in financing, changes the measurement of the deficit, but does not change net financing or the debt stock. Alternating treatments, however, make the interpretation of the fiscal position more difficult. Similarly, accounting for privatization proceeds in an extrabudgetary fund can be intransparent. For example, the proceeds from privatizing the *Deutsche Post AG* were earmarked for an extrabudgetary pension fund to cover future pension obligations of the employees. In the event, only *current* pension obligations were covered, and the rest was paid into the federal budget. As the extrabudgetary fund is part of the overall budget, the economic implications are the same, but this presentation is less clear than including the transactions either totally with the budget or totally in an extrabudgetary fund for future use—as has been done in other contexts (for example the Pension Reserve Fund of the Bund—*Versorgungsrücklage des Bundes*).

¹⁶ Most of the restructuring of state-owned companies and privatization was carried by a special agency, the *Treuhandanstalt*. Today, at the federal level primarily two agencies are charged with following up on issues of German unification: the Federal Agency for Special Tasks Related to Unification (*Bundesanstalt für vereinigungsbedingte Sonderaufgaben*) and the KfW with its subsidiary the *Finanzierungs- und Beratungsgesellschaft mbH*.

Bundesbank is independent from instructions of the government, as is clearly established in the Bundesbank law (Article 12). The legal framework severely restricts the scope for quasi-fiscal activities: The Maastricht Treaty (Article 101) prohibits the ECB and ESCB from providing overdrafts or other types of credit facilities, or from purchasing debt instruments directly from government bodies, and the Bundesbank law (Part 5) enumerates the set of permissible business transactions. The Bundesbank is the fiscal agent of the *Bund* and manages the payment function.

10. The regulatory framework of the nonbank private sector is complex, but self-regulation rather than direct government regulation prevails for a wide range of activities. In some areas regulation is directly contained in laws (for example, labor laws); in others, laws assign regulatory powers to specific institutions and determine their extent. The regulation of markets, and of activities that are of particular public concern, is usually carried out by designated agencies at the federal level. For example, the Cartel Office (*Bundeskartellamt*)¹⁷ is in charge of competition issues; a specialized agency regulates telecommunications and postal services (the *Regulierungsbehörde für Telekommunikation und Post*); and agencies like the Federal Institute for Pharmaceuticals and Medical Products (*Bundesinstitut für Arzneimittel und Medizinprodukte*) are charged with safeguarding public health and safety. Beyond these, regulatory power for many activities and sectors is assigned to industry organizations, and therefore many of the regulatory systems have been developed not by government but by industry, in a firmly rooted tradition of self-regulation. Government usually does not interfere with self-regulation, but it can remove industry regulations when they fail to serve a public purpose. While it is possible to show a public interest for most regulations, critics often argue that regulations have become excessively burdensome. There has been no systematic effort to identify or benchmark the extent of regulations.¹⁸

11. The government has initiated measures to reduce regulation, and streamline government administration.¹⁹ An important factor in the government's program has been the various competition and regulatory guidelines issued by the EU. The government has issued a *Manual on Regulatory Impact Analysis*, which gives detailed guidelines to be used in assessing the consequences of legal provisions. The recommendations in the manual have been tested on seven existing laws and each ministry is obliged under the amendment to the joint rules of procedure of the federal ministries (*Gemeinsame Verfahrensregeln der Bundesministerien*) to assess the consequences of every new law using the manual as a guide. Moreover, the federal ministry in charge of the economy has initiated the "Reducing Bureaucracy" project in cooperation with industry.²⁰ And finally, the widespread use of the Internet by government agencies increases the understanding of administrative procedures

¹⁷ For details, see www.bundeskartellamt.de.

¹⁸ The only numerical estimates that the Ministry of Finance was aware of, and which have been supplied to parliament, were prepared by a research institute and published in *Schriften zur Mittelstandsforschung*, No. 66, 1995.

¹⁹ See <http://www.staat-modern>, especially the report "Modern State—Modern Administration—Progress Report 2002."

²⁰ See <http://www.bmwi.de/Homepage/download/mittelstand/Buerokratieabbau.pdf>.

and enhances access. Nonexperts now have the opportunity to participate in areas such as government procurement and VAT registration.

Intergovernmental Fiscal Relations

12. **The system of intergovernmental fiscal relations is very complex, but in most areas defined in detail, and understood by experts in government and academia.**²¹ The government bodies of the *Bund*, *Länder*, and *Gemeinden*²² autonomously carry out their assigned tasks within the framework of the relevant constitutional, federal, and state legislation. In particular, they have the right to plan and execute their budgets independently.²³ The federal constitution (*Grundgesetz*)²⁴ establishes the federal system and the institutions through which the *Länder* participate in the federal legislature, states the principles that guide fiscal policy by all government bodies, allocates responsibilities for government functions among *Bund* and *Länder*, allocates revenues and financial responsibilities, and authorizes the delegation of sovereign rights to the EU. Federal legislation includes laws that lay out common principles for all levels of government (for example, the Law on Budget Principles, *Haushaltsgrundsätze-gesetz*), set up coordinating institutions (for example, the Finance Council, *Finanzplanungsrat*), or determine in more detail the constitutional prescriptions (for example, tax laws, or the Law on Equalization, *Finanzausgleichsgesetz*). State constitutions and legislation regulate the affairs of each *Land*, and all those legislative and government policy functions not assigned to the *Bund*. The rights, tasks, and obligations of *Gemeinden* are also mainly regulated in state legislation.

13. **Germany has assigned through treaties certain sovereign rights to the EU, making the EU in effect a fourth level of government.** Germany is obliged to abide by EU regulations and decisions in areas where it has relinquished sovereign rights (for example, on customs or monetary policy), and to implement EU directives into national law in others. The EU has its own revenue sources (customs duties and a turnover tax levy), which the *Bund* collects. The Maastricht Treaty commits Germany to fiscal targets.

14. **The allocation of responsibilities among different levels of government is clearly defined. In practice, federal law regulates the majority of government functions, while most administrative responsibilities rest with the *Länder*.** The government functions for which the *Bund* has legislative powers, either exclusively or concurrently with the *Länder*, are enumerated in the Constitution (Articles 73–75). For numerous functions originally under concurrent legislation, the *Bund* has exercised its right of precedence and established federal law. The administration of most federal laws is the responsibility of the *Länder* (Constitution, Articles 83, 84), and the *Bund*, with the agreement of the Bundesrat, may

²¹ The intergovernmental fiscal system is described in several publications, including the *Finance Report (Finanzbericht)* and a brochure available on the web site of the Ministry of Finance at <http://www.bundesfinanzministerium.de/Finanz-und-Wirtschaftspolitik/Grundlagen-der-Foederalen-Finanzbeziehungen-.432.htm>.

²² While according to the Constitution (Article 28) the *Gemeiden* have the right to administer themselves, the *Gemeinden* are dependent parts of the *Länder*. This dependency provides the legal basis for the controls that the *Länder* can exercise over the affairs of the *Gemeinden*.

²³ Constitution, Article 109 for the *Bund* and the *Länder*, Article 28 for the *Gemeinden*

²⁴ The literal translation of the title of the German constitution is “Basic Law.”

specify only general administrative regulations (*Allgemeine Verwaltungsvorschriften*). Government functions not listed in the Constitution are the legislative and administrative responsibility of the *Länder*. In practice this is limited to a few areas, such as primary and secondary education. The Constitution (in particular Article 91a) defines government functions for which *Bund* and *Länder* are jointly responsible (*Gemeinschaftsaufgaben*), and federal legislation (with the agreement of the Bundesrat) is permitted to define general principles and establish coordinating institutions.

15. The coordination of decisions on fiscal policies takes place through many institutions, often implying far-reaching rights for subnational governments.

Therefore most changes to fiscal policy, including adjustment to external events, require extensive consultation and negotiation. At the federal level, the *Länder* participate in the legislative process as specified in the Constitution through their delegates to the **Bundesrat**, the second chamber of the parliament. The *Bundesrat* must agree to all laws passed by the *Bundestag*, the first chamber of the parliament. If it does not agree, a mediation process is initiated. For many laws the *Bundestag* can ultimately overrule a rejection by the *Bundesrat* by special majority. However, for laws that directly affect the *Länder*, in particular laws with financial implications, agreement by the *Bundesrat* is required. Other institutions are established by federal law. **Consultative institutions** like the Finance Council (see paragraph 21) provide a forum for detailed technical discussions, but because of the autonomy of subnational governments, agreements are only politically but not legally binding. **Joint planning commissions** coordinate government policies in areas where *Bund* and *Länder* have joint responsibility, and *Länder* have certain veto rights. *Länder* among themselves or with the *Bund* sometimes regulate their affairs through **intergovernmental contracts** (*Staatsverträge*), which require agreement by all parties. And last, **technical committees and working groups** at the administrative level develop common rules and regulations that are required by federal legislation.

16. Financial relations among *Bund*, *Länder*, and *Gemeinden* are highly complex.

Both on the revenue and expenditure sides, resources are shifted among government bodies in multiple ways, according to often-complicated rules and formulas. Regarding the distribution of revenues, the Constitution mandates the equalization of living conditions across the country, and of the financial strength of the *Länder*. While some taxes are assigned to one level of government exclusively, revenues from all major taxes are shared among the *Bund*, *Länder*, and *Gemeinden*. The resulting revenue allocation is redistributed horizontally among *Länder* by equalization transfers (*Finanzausgleich*), and vertically by general or special add-on transfers (*Bundesergänzungszuweisungen*) from the *Bund* to the financially weaker *Länder*. Furthermore, the *Bund* makes general transfers according to specific purposes—for example, public transportation (Constitution, Article 106a), and it can compensate *Länder* or *Gemeinden* for special burdens imposed on them (Constitution, Article 106 (8)). Regarding expenditures, the Constitution stipulates that, in principle, each level of government should independently finance the tasks it is obliged to perform, in order to ensure efficient and effective performance. However, the *Bund* pays the *Länder* for tasks executed by the *Länder* either on behalf of the *Bund*, or for which the *Bund* has a legal cofinancing responsibility (Constitution, in particular Articles 91a, 91b, 104a). Importantly, many investment projects are jointly financed by *Bund*, *Länder*, and/or *Gemeinden*. However, aside from the general principles on revenue allocation and expenditure responsibilities, there are no specific rules that link the reallocation of expenditure responsibilities to a reallocation of revenues.

17. **The constitutional mandate on the equalization of living conditions results in an implicit bail-out guarantee.** If a *Land* finds itself unable to provide its public with a similar level of services as other *Länder*,²⁵ the *Bund* and the other *Länder* are expected to increase the financial resources assigned to that *Land*. This important principle has been formally reaffirmed by the constitutional court.

18. **The Constitution and the Law to Promote Stability and Growth (*Stabilitäts- und Wachstumsgesetz*) commit all levels of government to responsible fiscal management in support of macrofiscal targets.** *Bund* and *Länder* must plan their budgets taking into account overall economic equilibrium (Constitution, Article 109). Borrowing by the *Bund* is limited to the amount of the investment budget (Golden Rule), and many *Länder* have similar provisions, but otherwise *Bund* and *Länder* autonomously decide on borrowing. The *Bund* has some limited authority to legislate borrowing ceilings if the overall economic equilibrium is threatened. In turn, the financial affairs of *Gemeinden* are subject to oversight by the respective *Land* which must approve their budgets and borrowing. Without approval a *Gemeinde* can spend only for legally binding obligations. *Gemeinden* also must report regularly, both within the year and on the final accounts. In case of fiscal mismanagement, the *Land* is entitled to assign an administrator for the *Gemeinde*.

19. **Agreements with the EU—the Maastricht Treaty and the related Stability and Growth Pact (SGP)—commit Germany to quantified fiscal targets on general government.** Ceilings limit the annual deficit to 3 percent of GDP, and the debt stock to 60 percent of GDP. Under the SGP, governments are generally expected to run a balanced budget, and to prepare annual stability and growth plans that show the achievements of these targets. No single government entity has been vested with the authority to control fiscal policy or the achievement of fiscal policy targets at the general government level in Germany; the *Bund* itself has only limited control, because its share of general government expenditures is only about 30 percent (net of transfers), and much of its spending is nondiscretionary.

20. **Budget developments at the general government level are coordinated in the Finance Council (*Finanzplanungsrat*), but because of the budget autonomy of *Bund*, *Länder*, and *Gemeinden* agreements are only politically and not legally binding.** The Finance Council has been established by the Law on Budget Principles (paragraph 51), and its role was recently strengthened by an amendment (paragraph 51A). The Council is composed of the finance ministers of the *Bund* and the *Länder*, and representatives of the *Gemeinden*. Recently, agreement in the Finance Council was reached on adjustments to the expenditure paths for each level of government that are believed to be consistent with the fiscal ceilings of the Maastricht Treaty, and the medium-term goal of a balanced budget. However, no detailed breakdown of the expenditure targets among the *Länder* was provided, nor did the Finance Council publish supporting documentation linking the expenditure targets to deficits.

²⁵ Locally higher taxes would not be a legal option.

21. **The social security system (pension, health, unemployment, and accident insurance) for employees and workers is regulated by federal law and operates on a pay-as-you-go basis.** The system is largely financed from contributions related to labor income, which are adjusted so that, individually, the independent institutions that make up the system operate, on a balanced budget over time. The pension system and the unemployment system receive general transfers from the *Bund*, partly to compensate for tasks that are outside of their direct mandates. The institutions of the health system are required to participate in a transfer scheme that redistributes resources according to the differing risk structures. Civil servants are not covered by the social security system: they receive tax-funded social benefits.

Fiscal Management

22. **At all government levels, the roles of the executive, legislative, and judicial branches in fiscal policy and management are clearly defined in the constitutions and other laws.** The legislative branch exercises the sovereign rights of the people, within the limits and mandates of the (federal and state) constitutions. Laws and parliamentary authorizations limit the actions of the executive branch. The constitutions of the *Bund* and of the *Länder* contain detailed prescriptions on the budget process and fiscal management, and on the roles of the legislative and executive branch. The judiciary is legally independent, and procedural rules (for example, on appointments) ensure this independence in practice. The constitutional court (*Bundesverfassungsgericht*) adjudicates questions of compliance of laws, regulations, and administrative rulings with constitutional mandates. The finance courts (*Finanzgerichte*) adjudicate tax matters; the administrative courts (*Verwaltungsgerichte*) adjudicate disputes on decisions and actions by the administration; and the general courts adjudicate matters on the extent of liability of the state.

23. **All aspects of fiscal management are defined by a clear and comprehensive, but complex, legal and administrative framework.** A hierarchy of laws regulates the practices of fiscal management, which include (1) the Constitution, (2) the Law on Budget Principles for *Bund* and *Länder* (*Haushaltsgrundzügegesetz*), (3) the Federal Budget Code and the Budget Code for each *Land*, (4) the annual budget laws plus their annexes with detailed appropriations, (5) administrative regulations, and (6) budget and accounting circulars.²⁶ The laws mandate numerous reporting and accountability requirements designed to assure financial compliance, and in addition, require the efficient and economical use of resources. Many laws establish the financial rights and obligations of the government. These include the laws that regulate intergovernmental fiscal relations, laws that regulate the administration itself (for example, civil servants' laws or procurement laws), tax laws, social benefit laws, and other laws providing benefits to citizens.

24. **Budget preparation and execution is the prerogative of the executive branch of government, but subject to tight authorization and supervision by the legislature.** At the federal level, the Ministry of Finance has the primary responsibility for drafting the budget. However, in the execution phase, each government ministry is responsible for the execution of its own budget, whilst the Ministry of Finance retains overall responsibility.

²⁶ The principles of budgetary law are detailed in the brochure *The Budget System of the Federal Republic of Germany* which is available at www.bundesfinanzministerium.de/Finanz- und Wirtschaftspolitik/Haushaltsrecht und Haushaltssystematik.

Many fiscal management functions are assigned to specialized agencies.²⁷ The Ministry of Finance has the authority to block expenditures if necessary to achieve a deficit target. Parliament exercises full control over government finances (revenue, expenditure, borrowing, and future commitments) through the budget approval process, within-year notification and approval requirements, and the acquittal of the final accounts. The independent external audit offices, the Federal Audit Office (*Bundesrechnungshof*) and the Audit Offices of each *Land*, have far-reaching rights. The independent statistical offices of the *Bund* and *Länder* report on the finances of government at all levels. A multi-tiered system of training institutes educates civil servants in all aspects of administration and the laws.²⁸

25. The mechanisms for the coordination and management of budgeted and extrabudgetary activities are well defined. There are 16 extrabudgetary funds at the federal level, with about €13 billion in assets and €142 billion in liabilities.²⁹ The *Länder* have 26 extrabudgetary funds. Paragraphs 26 and 113 of the *FBC* define rules for the management of these funds. In particular, each fund must have a business plan, and the budget must identify all flows between the budget and extrabudgetary funds. The only exception is the Marshal Plan Resources Fund (*ERP-Sondervermögen*), whose budget is approved separately by the parliament, including an entitlement for debt. Debt stocks and changes in the debt of extrabudgetary funds are fully consolidated with the budget, both at the federal and the *Länder* levels.

²⁷ Asset and liability management at the federal level is mostly assigned to agencies under the supervision of the Ministry of Finance: The Federal Asset Management Agency (*Bundesvermögensverwaltung*) is in charge of asset and real estate management; the Federal Securities Administration (*Bundeswertpapierverwaltung*) is in charge of debt registration; and the German Finance Agency issues and manages the government debt. However, the appropriate line ministry typically monitors equity holdings.

²⁸ The top tier is formed by university-level institutions like the University for Administration in Speyer (*Hochschule für Verwaltung*).

²⁹ As reported in the *Finance Report 2003* these are the following: Marshal Plan Resources Fund (*ERP-Sondervermögen*); Compensation Fund (*Ausgleichsfonds*); Federal Railroad Fund (*Bundeseisenbahnvermögen*); Revenue from Closure of the “Ufi” Film Fund (*Ufi-Abwicklungserlös*); “Black Coal” Compensation Fund (*Ausgleichsfonds zur Sicherung des Steinkohleneinsatzes*); Compensation Fund for Supra-regional Activities to Provide Jobs for the Handicapped (*Ausgleichsfonds für überregionale Vorhaben zur Teilhabe schwerbehinderter Menschen am Arbeitsplatz*); “German Unity” Fund (*Fonds “Deutsche Einheit”*); Fund to Cover Inherited Debts (*Erblastentilgungsfonds*); Reimbursement Fund (*Entschädigungsfonds*); Fund According to Art. 5 of the Law on Real Estate Bordering the “Wall” (*Fonds nach Mauergrundstücksgesetz*); Special Purpose Fund at the Deutsche Postbank AG (*Zweckvermögen bei der Deutschen Postbank AG*); Special Purpose Fund at the Agricultural Pension Bank (*Zweckvermögen bei der Landwirtschaftlichen Rentenbank*); Trust Fund for Miners’ Housing Construction (*Treuhandvermögen für den Bergarbeiterwohnungsbau*); Fund for Miners’ Housing (*Bergmannssiedlungsvermögen*); “West” Real Estate Fund (*Westvermögen*); and Pension Reserve Fund of the *Bund* (*Versorgungsrücklage des Bundes*).

26. Mechanisms for the coordination of the budget with the Bundesbank and public financial institutions are well defined, but there are some areas that need clarification:

- **The profit transfer by the Bundesbank that is recorded as revenue is fixed in the budget** and has remained unchanged for several years. However, the actual transfers are usually different, because they are determined by the actual Bundesbank profits as calculated by the Bundesbank and published by the Statistical Office. The treatment of these profits in the government accounts also differs from EU reporting, and in fact the differences can be substantial.³⁰
- There are no direct current transfers from public financial institutions to the federal budget; profits are retained to increase their capital.
- **The budget contains provisions for the subsidy component of subsidized loan programs** and other public policy programs that are carried out by public financial institutions at the request of the government, and normal budgetary procedures apply. The government also pays public financial institutions for tasks they carry out on behalf of government.
- **The debt stock of public financial institutions that enjoy a full government guarantee is not included in government reports** on guaranteed debt for the reason that the guarantee is not given on individual debt issues but is institutional. There is no direct control on the amount of debt that these fully guaranteed institutions may issue, although by 2005 the institutions must separate out their commercial activities, and the institutional guarantee will only apply on debt issued in relation to activities with a public policy purpose.
- **Public financial institutions are required to provide an audited annual report**, but do not need to submit a separate report to the government or to the parliament. The extent of government support for these institutions cannot be identified in the annual reports. On a voluntary basis, the key institutions such as the KfW meet with the Ministry of Finance, various ministries, and the parliamentary Budget Committee. The relations of the Landesbanken with their *Länder* are similar to the KfW's with the *Bund*.

³⁰ The government accounts treat all profits above the budgeted amount as a financing transaction, which is earmarked to retire debt (of the Fund to Cover Inherited Debt). For EU reporting, the Federal Statistics Office distributes the profit between capital and current revenue, depending upon the information provided in the profit statement of the *Bundesbank*.

27. **The legislative bases for taxation and administrative procedures are complex to a degree that limits clarity and hinders uniform application in practice.** Most taxes are regulated by federal law. In addition to tax laws, numerous other laws contain rules relevant for determining tax liability.³¹ The complexity of these laws makes it difficult both to the tax administration and taxpayer to decide how to treat given economic actions under the law. Anecdotal evidence provided by the Chamber of Tax Consultants suggests that 20–30 percent of tax returns are not correct on account of the complexity of the law. As the government has never conducted a comprehensive analysis of whether the law is consistently and uniformly applied or what the problems might be, no verification of this estimate exists.

28. **While the *Bund* is responsible for most areas of tax policy, tax administration is mostly a responsibility of the *Länder* possibly resulting in uneven enforcement across the country** (Appendix I). In addition, the system of equalization transfers among the *Länder*, in effect compensates for underperformance in revenue collection, because *Länder* do not individually retain most of the revenues that they collect above the average per capita revenue for all the *Länder*. This split among policy decisions, collection efforts, and the final accrual of revenues, could lead to differing tax administration efforts. However, no comprehensive review of tax compliance in the country is being carried out, which would be necessary for a final judgment. The major legal framework for tax administration is the General Fiscal Code (*Abgabenordnung*), which has the status of a federal law. Although the federal government has the right to issue general guidelines on administrative procedures, there is no clear sense of the extent to which it is entitled to go into detail. To resolve this issue, federal and state governments have established informal consultative groups to coordinate on the interpretation of the law and discuss controversial administrative issues. This informal coordination seems to work well.

29. **Public servants are subject to a code of behavior.** Government tasks are carried out by civil servants (*Beamte*), as well as government employees and workers. Civil servants have a special status that requires an acceptance of particular loyalty to the state in exchange for lifetime employment and benefits. Government employees and workers are employed under contracts similar to the private sector. The code of behavior for all

³¹ These are the major tax laws: General Fiscal Code (*Abgabenordnung*), Law for Investments in Foreign Countries (*Auslandsinvestitionsgesetz*), Law on External Tax (*Aussensteuergesetz*), Law on Pensions in Enterprises (*Betriebsrentengesetz*), Law on Changes on Evaluations (*Bewertungsänderungsgesetz*), Law on Evaluations (*Bewertungsgesetz*), Law on Principles for the Evaluation of Ground (*Bodenschätzungsgesetz*), Federal Law on Children's Allowance (*Bundeskindergeldgesetz*), Federal Law on Education Subsidies (*Bundeserziehungsgeldgesetz*), Law on Subsidies for Residential Property (*Eigenheimzulagengesetz*), Law on Exemption from Import Tax (*Einfuhrumsatzsteuer-Befreiungsverordnung*), Income Tax Law (*Einkommensteuergesetz*), Law on Inheritance and Gift Tax (*Erbschaftsteuer- und Schenkungsteuergesetz*), EU Guidelines on the Harmonization of the Turnover Tax (*EWG-Harmonisierungsrichtlinien zur Umsatzsteuer*), Law on the Promotion of Special Regions (*Fördergebietsgesetz*), Law on the Promotion of Creating Wealth (*Förderung der Vermögensbildung*), Law on Municipal Tax on Business Profits (*Gewerbesteuergesetz*), Law on Taxes on the Purchase of Land (*Grunderwerbsteuergesetz*), Law on Real Estate Taxes (*Grundsteuergesetz*), Law on Investment Subsidies (*Investitionszulagengesetz*), Corporate Income Tax Law (*Körperschaftsteuergesetz*), Law on Taxes on Motor Vehicles (*Kraftfahrzeugsteuergesetz*), Subsidiary Guidelines (*Mutter-Tochter Richtlinien*), Law on Betting and Lotteries (*Rennweit- und Lotteriegesetz*), Law on the Solidarity Surcharge (*Solidaritätszuschlaggesetz*), Law on Turnover Tax (*Umsatzsteuergesetz*), Law on Property Tax (*Vermögensteuergesetz*), Law on Insurance Tax (*Versicherungsteuergesetz*), and Law on Premiums for Construction of Residential Property (*Wohnungsbau-Prämiengesetz*).

employees is specified in the Civil Service Code (*Dienstrecht*),³² which provides for penalties in case of noncompliance. In addition, regular penalties from criminal law apply. Guidelines issued by the Ministry of Interior summarize measures to prevent corruption. These include an analysis of high-risk areas in each ministry, and provide for the assignment of an anticorruption officer by each ministry. Attempts by the *Bund* to sanction companies convicted of corruption by excluding them from all public procurement for several years have failed so far. The relevant information on existing anticorruption programs is widely available on the Internet.

B. Public Availability of Information

30. **The budget documents of the *Bund* cover all central government fiscal activities and provide summary information on general government fiscal activity.**³³ The budget documents submitted to the parliament consist of the *Finance Report*, the draft budget law, a summary of the budgets of the line ministries (*Gesamtplan*) and the budgets of the line ministries (*Einzelpläne*). The *Finance Report*, which the government presents to parliament, provides extensive relevant information for an assessment of the budget proposal: summary tables and explanations on the budget; the medium-term finance plan for the *Bund*; a description of the macroeconomic context and tax policy; a description of the financial interrelationship of *Bund*, *Länder*, and *Gemeinden*; financial relations with the EU; debt, commitments, and obligations of the *Bund*; status of the federal special purpose funds; and an overview of government assets and privatization activities. Detailed tables summarize the budget by principal group and function and show detailed time series. The budget law specifies in particular the borrowing limits by category. A financing plan (*Finanzierungsübersicht*) and a borrowing plan (*Kreditübersicht*) are mandatory parts of the budget documents. The budgets of the line ministries, which are annexed to the annual budget law, contain the detailed budget appropriations by title for the ministries and agencies under direct control of the government. While all the budget documents are publicly available, including on the Internet,³⁴ the Ministry of Finance's publication *Finance Plan* summarizes the key features of the budget proposal and the medium-term plan.

31. **The federal budget documents allow no easy assessment of obligations under the SGP.** Information is presented according to the German official statistical definitions, and no separate calculations are given on the *Bund's* deficit or debt contributions to the consolidated deficit or debt of the general government in the *ESA 95* definition. While the federal budget documents provide projections for total tax revenue and its likely distribution among the levels of government for the upcoming budget year, information on

³² The code for civil servants is defined in the Law on Principles regarding Civil Servants for *Bund*, *Länder*, and *Gemeinden* (*Beamtenrahmengesetz für Bund, Länder, and Gemeinden*) and implemented in specific laws that include salary structure and allowances.

³³ General and specific information relating to government that is not required to be published by law is not publicly available. For example, procurement decisions are not published. However, information provided to the parliament is generally publicly available. The possibility of developing a freedom of information law that addresses this issue has been considered, but this has so far resulted in the initiative "Modern State" (see footnote 19) only.

³⁴ See the Ministry of Finance web page at <http://www.bundesfinanzministerium.de/Finanz-und-Wirtschaftspolitik/Bundeshaushalt-437.htm>

the deficit targets of general government³⁵ for the budget year and the medium term are provided only in the text of the *Finance Report*, and no information on the planned expenditure programs of general government is given.

32. The Federal Statistics Office and the Statistics Offices of the *Länder* prepare detailed historic information on consolidated general government and all its components. The Federal Statistics Office prepares information both in the official statistical definition and in the *ESA 95* definition. The first estimates for the annual outturn of consolidated general government are now available in February; these are then updated in the second quarter of the year, and in August. Final revisions to the national accounts are made only after a number of years, when data collected on a multiyear cycle are incorporated. The *Bundesbank* also publishes information on consolidated general government, for example in its monthly reports.³⁶

33. Only very limited information is available on the budget and finance plan for consolidated general government. The consolidated government budget and medium-term plans are only analyzed in the Finance Council. Only limited information on discussions and agreements reached therein is released in press statements, and in the federal budget documents. It appears that no consolidated general government budget or medium-term plan is compiled from the approved detailed budgets and medium-term plans of the *Bund*, *Länder*, and *Gemeinden*.

34. Defense expenditures are comprehensively reported in the federal budget; they are budgeted and reported as for any other agency. For sensitive titles, secret notes accessible only to parliament contain additional information and explanations. The Federal Audit Office can audit all defense expenditures, as well as any secret fund. Special parliamentary procedures for the reporting of confidential information and monitoring of special funds are in place (see *FBC* Articles 10a and 97(4)).

35. The budget document discloses the amount of each title for two years prior to the budget year and the main aggregates for three years beyond the budget year. The budget is presented to parliament at the level of title, of which there are about 10,000 in the federal budget (see Box 3). Parliament authorizes each expenditure title for the budget year, and (if applicable) specific commitments for future years. Parliament also approves borrowing ceilings, guarantee ceilings, and the detailed plan of public service positions—because the hiring of public employees entails significant financial obligations beyond the budget year. At the federal level, spending is approved for only one year, but as mandated for *Bund* and *Länder*,³⁷ the budget is planned in the context of a five-year plan, the first year being the current one.

³⁵ These are deficits for general government excluding the social insurance system but including transfers to the social security system. Agencies of the social insurance system must in principle run a balanced budget.

³⁶ The definition of consolidated general government used by the *Bundesbank* differs somewhat from both the official statistical definition, and the *ESA 95* definition.

³⁷ Law on Budget Principles (paragraph 50).

36. Statements on most contingent liabilities are included in the budget document and are available to the public. Public guarantees require budget authorization by the parliament by amount (ceiling) and purpose. Expected payments arising from called guarantees during the budget year are appropriated. The Federal Securities Administration records and notarizes any guarantee issued, by type and amount guaranteed. The annual debt report provides a detailed breakdown of outstanding guarantees, while summary information is included in the budget documents and regular updates are available on the Web. There is no formal analysis of the expected value of the guarantee portfolio. The monitoring of guarantees is carried out by the institutions operating guarantee programs and in the Ministry of Finance. The institutional guarantees (*Anstaltslast und Gewährträgerhaftung*) for institutions of public law, in particular for public financial institutions, are not covered by the standard guarantee procedures. There have been cases in the past where significant obligations fell to state and municipal governments from the activities of their public financial institutions.³⁸

37. Estimates of all tax expenditures are reported to the public every two years. The Law to Promote Economic Stability and Growth (*Stabilitäts- und Wachstumsgesetz*) obliges the federal government to provide a comprehensive report on subsidies every two years, including tax expenditures.³⁹ This reports all incentive schemes granted to businesses as well as to targeted groups of society in cases where the volume is macroeconomically relevant (for example, incentives for selected sectors, allowances for consumer protection, housing and private savings incentives). The methodology for defining incentive schemes is described in the report, which also presents time series for the different incentive schemes of the *Bund* and *Länder* governments, differentiated by sector and including the rationale for the incentive. For selected incentive programs, the government presents an efficiency analysis, often based on the results of external research institutes. Subsidies in the form of cheap loans provided by financial institutions with government guarantees (especially the KfW) are not included in the report. Some *Länder* prepare separate reports, but they are not legally obliged to do so.

38. Quasi-fiscal activities do not appear to be extensive. But they exist, and their cost is not estimated by the authorities nor included in the budget documents. Quasi-fiscal activities take place mainly through public financial institutions (see paragraph 7). With no estimation of the size of this activity, it is difficult to gauge its importance. The scope for quasi-fiscal activities carried out through public enterprises is being reduced at the *Bund* and *Länder* levels because of ongoing privatization and recent EU directives. However, numerous publicly owned private law companies, which are not considered to be part of general government, exist at the *Gemeinde* level (for example, for the provision of services and utilities). Consequently, any noncommercial behavior on their part needs to be considered quasi-fiscal, but the extent of this kind of behavior is unknown.

39. Information on gross public debt of the federal government is published in detail (see Box 2). The Federal Securities Administration registers all federal debt and publishes detailed information. The budget documents and final accounts also include debt

³⁸ A recent case in point is the Bank of Berlin (*Berliner Bankgesellschaft*), with its real estate losses and apparent mismanagement.

³⁹ For the full text of the report, see <http://www.bundesfinanzministerium.de/Finanz-und-Wirtschaftspolitik/Subventionspolitik-669.htm>.

statements. The budget documents contain tables detailing the status of debts and guarantees, as well as mandatory tables on the structure of financing and planned borrowing, because any borrowing must be authorized by the parliament. The net increase in debt that is authorized for the purpose of budget financing constitutes the binding constraint for the executive during budget execution. Additional authorizations are given to manage liquidity for payment purposes, and the market for government securities. In addition, there are reports by the federal government on outstanding commitments for future years (for example, briefly, in the *Finance Report* and in the final accounts), as any commitment also requires legal authorization. Moreover, the *Finance Report* contains an overview of private advance financing of public construction projects. While the obligations arising from such projects are counted against the “authorizations to commit,” separating this information allows a better understanding of the total value of these projects, because interest costs arising during the financing phase are incorporated into the payments to the contractor.

40. Estimates of gross public debt of the general government are calculated by the Federal Statistics Office. The consolidated general government debt in the official definition excludes debt of the social insurance system.⁴⁰ Data on the *Bund* and most *Länder* are received directly from the respective ministries of finance, whereas data on *Gemeinden* and city-states are received from the statistical offices of the *Länder*. Year-end data are published six months after the end of the year, and within-the-year data based on the cash statistics are available with a lag of three months. The Federal Statistics Office also monitors debt-like contracts such as mortgages or leases. Definitions of such debt-like contracts and details on their valuation are regulated by each *Land* in the credit regulations (*Krediterlasse*), which are not easily accessible. Regulations on debt-like contracts differ widely among *Länder*. The calculation and reporting of the debt stock according to *ESA 95* definitions (including the debt of the social insurance system) is carried out by the *Bundesbank*. Adjustments are required, for example, for zero-coupon securities, or loans taken out for liquidity-management purposes.

Information on government financial assets is available to the public. The federal government voluntarily publishes an annual report on its equity holdings (*Beteiligungsbericht*) and many *Länder* publish similar reports. The asset accounts (*Vermögensrechnung*)—a mandatory component of the final accounts for *Bund* and *Länder*—report on financial assets, equity holdings, and claims that arise from lending operations or called guarantees. Real estate assets are not reported.⁴¹

⁴⁰ Debt of the social insurance system refers to loans or overdrafts and similar instruments. It does not include future pension obligations, as the pension system is operated on an unfunded basis.

⁴¹ There are still disputes on the assignment of some real estate property rights previously held by the GDR government in the new *Länder*, including some government property. While there is no comprehensive reporting on government real estate ownership, public ownership of any particular piece of real estate can be verified in the real estate registries (*Grundbücher*), because registration of real estate property rights is mandatory.

Box 2. Borrowing Limits and Debt Reporting Requirements 1/

1. REGULATIONS APPLICABLE TO *BUND* AND *LÄNDER*

Law on Budget Principles for *Bund* and *Länder*

The key provisions limiting borrowing are contained in paragraphs 10 and 13:

- The budget law determines ceilings on net borrowing. Separate ceilings are specified in particular for the purposes of general budget financing (*Nettokreditaufnahme*) and for liquidity management (*Kassenverstärkungskredite*). Debt for liquidity management purposes must fall due at the latest six months after the end of the budget year.
- It is possible to link borrowing to expenditures for specific budget items.
- The budget summary plan must contain a financing plan (*Finanzierungsübersicht*), and a summary of planned borrowing and amortization, a borrowing plan (*Kreditübersicht*).

Constitution

To counteract macroeconomic disturbances, a federal law that requires consent of the Bundesrat can regulate the amount, conditions, and timing of borrowing by the *Bund*, *Länder*, *Gemeinden*, and special purpose districts. (Article 109)

Agreements with the EU

The general government budget is expected to be balanced. Ceilings on the annual deficit (in the definition of *ESA 95*) of three percent of GDP, and on the debt stock of 60 percent of GDP should be observed.

2. REGULATIONS APPLICABLE TO THE *BUND*

Constitution

Any borrowing and guarantee requires authorization by law (Article 115). The Minister of Finance has to account for debt in the year following the budget year (Article 114). Borrowing for financing purposes is limited by total investment (golden rule), except to counteract a disturbance to macroeconomic equilibrium. The budget finance report provides a breakdown of investment appropriated in the budget and compares it to planned net borrowing. The definition of investment currently applied includes gross purchases of fixed assets but also transfers and subsidies in support of investment.

Annual budget law

The following authorizations are currently specified in the annual budget law:

- Net borrowing to finance the budget (net borrowing ceiling, which is equal to the planned overall balance). Most of this appropriation is blocked, and for a release requires the consent of the parliamentary budget committee.
- Unsecured borrowing for liquidity management purposes, currently 10 percent of expenditures.
- Secured borrowing for liquidity management purposes, currently 10 percent of expenditure.
- Swaps.
- Borrowing for the purpose of building up a portfolio of government securities with the intention to use these securities to manage the market for government securities.

3. *LÄNDER*

Länder are autonomous in their borrowing decision. Many states have constitutional rules on credit limits similar to the golden rule in the federal constitution.

4. *GEMEINDEN*

The constitutions of the *Länder* typically specify credit limits similar to a golden rule on borrowing by *Gemeinden*. Any borrowing or granting of guarantees by *Gemeinden* is subject to authorization by the respective *Land*.

1/ Legal provisions are not quoted literally but stated descriptively.

41. **Formal commitments for regular publication of fiscal data have been made and advance release-date calendars are announced.** The monthly reports of the Ministry of Finance originate from monthly information that used to be provided only to the parliament. The Federal Statistical Agency publishes its statistics according to an announced calendar. The German Finance Agency issues government securities on the basis of an annual calendar related to anticipated financing needs; this calendar is refined quarterly, and then monthly when closer to the date of issue. Germany regularly reports to the EU. As noted in paragraph 4, Germany has subscribed to the SDDS standard since 1996; the calendar for publication under the SDDS standard is available on the IMF website. The Bundesbank reports also include fiscal analyses. For publication cycles of other regular fiscal reports, see Appendix II.

C. Open Budget Preparation, Execution, and Reporting

42. **Budget planning is open, and it follows a regular timetable.** The *Bund* plans its budget according to a well-established, but not legally binding, budget calendar (see Appendix III), whose timing is determined by the mandate to pass the budget before the beginning of the fiscal year, and the time requirements for parliamentary procedures. The budget is planned in a consultative manner with the economic research institutes and advisory councils, taking into account economic developments, position in the cycle, and tax estimates. Consultations in the Finance Council coordinate the federal budget framework with the *Länder* in order to achieve the desired general government targets. Ministries present their budget proposals with supporting documents to the Ministry of Finance, and negotiate until agreement is reached. The budget is typically presented to the parliament by midyear. The parliament's Budget Committee discusses the draft budget again in detail with the ministries. The Ministry of Finance technical staff incorporates changes to the draft made by the Budget Committee. The computerized budget system supports the multiple stages of the planning process at the most detailed level of the budget classification.

43. **The budget classification meets international standards.** The budget classification by administrative, economic, and functional criteria (see Box 3) is uniform across all levels of government (with some amendments at the *Gemeinde* level). A joint *Bund-Länder* working group continuously updates the budget classification system, but a fundamental revision took place in 2001. The German budget is not classified by (policy) programs. Therefore, government policies and programs discussed in the text of the budget documents cannot easily be derived from the budget tables. At the federal level, the amounts spent on particular government programs are determined by the Ministry of Finance with the help of a supplementary budget reporting software (the *Finanz- und Volkswirtschaftliches Rechnungsprogramm*) which allows easy analysis of the full budget.

44. **The annual budget presentation focuses on financial compliance.** The precepts of the Law on Budget Principles, which are binding for all levels of government, ensure a high level of transparency and accountability, establishing the requirement for annual appropriations, the detailed level of appropriation, and the cash base of the budget. Appropriations lapse at the end of the fiscal year, with the exception of investments. Strict procedures for carryover (*Ausgabenreste*) exist, and expenditures for carryovers must be saved somewhere else in the budget. Under the recently introduced Flexible Budget Management Procedures (*Flexible Haushaltsführung*), virement and carryover have been eased for about 6 percent of budget expenditures, in order to encourage efficiency and realize savings. The authorizations for commitment for future years included in the budget always reflect the total amount of permissible commitments.

Box 3. The Budget Format

There is a uniform budget classification (*Haushaltssystematik*) for the *Bund*, *Länder*, and *Gemeinden*.¹ The current classification has been in effect since the 2001 budget, when the first fundamental revision since 1969 took place. Revenue and expenditure are classified by groups (economic classification) and functions; there is no program classification.

All appropriations for a ministry and its subordinate units and agencies are contained in a ministerial budget (*Einzelplan*). Each appropriation is defined by administrative and economic criteria, and cross-classified by function in a 13 digit code according to the following scheme:

Description of coding structure

Ministry (2 digits)	The running number of the ministerial budget (<i>Einzelplan</i>)
Chapter (2 digits)	Indicates the organizational unit within the ministry (For example, “01” usually is the ministry itself)
Indicator F (1 digit)	Indicates titles to which flexible budget management applies
Title (5 digits)	Code for the economic classification. It is subdivided into: Group The 1 st digit indicates the principal group, the 2 nd digit the main group, and the 3 rd digit the group
Serial number	2 digits are available to subdivide groups as required
Function (3 digits)	The 1 st digit indicates the principal function, the 2 nd digit the main function and the 3 rd digit the function

Example

In the budget document the code is presented at the left hand side of each page in three lines.

0801	Administrative: The plan for the Ministry of Finance, the ministry itself
F 525 55	Economic: F flexible budget management applies, Training (525), under title group 55, which is “expenditures for information technology”
-011	Functional: General public services, executive and legislative organs

Each ministerial budget and most chapters are preceded by a summary of the tasks of the unit, its organizational structure, remarks on the rationale for the budget, and budget notes (*Haushaltsvermerk*) on virements and similar. Individual titles also can be succeeded by budget notes and by explanations that may provide a further breakdown of the appropriation or comments on the amount of the appropriation. Budget notes can specify binding restrictions on the use of the appropriation, e.g. release only with consent of the parliamentary budget committee. For comparison, the budgeted amount for the current year, and the outturn for the previous year are given for each appropriation.

Budget appropriations are specified for the budget year. In addition and if applicable, authorizations for commitments are specified for years beyond the budget, year by year. The last section of each ministerial budget specifies the civil service positions by grade and status of employee.

¹ There are some modifications for *Gemeinden*. A correspondence table for statistical reporting is available in the Federal Statistics Office.

45. **The use of some netting operations between revenues and expenditures leads to an underestimation of budget aggregates. Although earmarking occurs, it does not appear to be quantitatively important.** The use of netting operations for major expenditure programs⁴² requires explicit permission in the budget (paragraph 14, *FBC*). The amounts netted from revenues are reported in the detailed revenue and expenditure sections of the budget, making it possible to extract the data necessary to calculate gross revenue and expenditure data. However, this requires a separate analysis and detailed knowledge of the law, and therefore hinders understanding of the budget. Although earmarking for special purposes is allowed (for example, assigning the ecological tax to the pension agency), fungibility makes this earmarking largely irrelevant.

46. **The overall balance of central government is the main indicator of the fiscal position in the federal budget. Another important indicator is the balance of general government in the official statistical definition, excluding the social insurance system.** Neither the fiscal balance nor the debt in the definition of *ESA 95*,⁴³ which forms the base for the assessment of the SGP, is calculated or presented in the budget documents. Within-the-year monitoring of *federal-budget* execution by the Ministry of Finance appears to be carried out in a fairly ad hoc manner through the monitoring of line ministries' activities by "mirror divisions" in the Ministry of Finance, and not against a well-developed monthly or even quarterly budget plan. A summary of the budget classification (the "*100 Punkte Program*") is used for continuous monitoring. Tax projections are updated twice yearly. The main focus of within-the-year monitoring is the projection of the year-end position, not any intermediate targets. Updated projections of the year-end position are not published. The primary information base is monthly cash payment statistics, which are published. Information on commitments against allocations is recorded in the computerized budget execution system but is not used in aggregate reporting or monitoring. Monitoring of the *general government balance* is carried out primarily through the Federal Statistical Agency. The timeliest information is provided by the cash payment statistics, which exclude special-purpose districts. Reporting lags for the *Gemeinden* and the social insurance system are usually about three months.

47. **The budget documents clearly present budget forecasts and disclose to the public all macroeconomic assumptions. But no formal discussion or analysis of the links among the assumptions, the fiscal forecast, and the outturn is provided.** There are well-documented procedures (see Appendix IV) to develop the macroeconomic parameters for the budget. Relevant ministries in the government, several research institutes and the *Bundesbank* regularly meet formally, and there are informal contacts with experts as well. However, the ultimate decision is made by the government: the Chancellor, Ministry of Finance, Ministry of Labor, and Ministry of Economics. The forecast is immediately followed by a press statement and discussed openly in the press and is discussed by parliament as part of the budget process. The government does not depend

⁴² Deductions from the income tax occur for the children's allowance (*Kindergeld*), a program for the promotion of residential construction (*Wohnungsbauförderungsprogramm*), and an investment program (*Investitionszulagezuweisungen*). Exemption for public transportation reduce the excise tax on petroleum products. The volume of netting operations is significant.

⁴³ The *ESA 95* differs both in coverage and in the accounting base from the official financial statistical definition.

upon a model for its forecast, but rather tends to rely on experts. The forecast is made three times a year: once early in the year for the Annual Economic Report and in the spring and fall for the Tax Estimation Working Group (*Arbeitskreis Steuerschätzung*). The Annual Economic Report of the Government (*Jahreswirtschaftsbericht*)—required by the Law to Promote Economic Stability and Growth—includes detailed forecasts of the demand and supply components and a significant discussion of the government’s forecast.

48. The macroeconomic forecast provides the basis for the revenue estimates of the Tax Estimation Working Group, but the relation of macroeconomic assumptions to revenue items is not examined for subsequent use nor is a sensitivity analysis provided. This limits the usefulness of the forecast when macroeconomic conditions change. The intergovernmental Tax Estimation Working Group includes representatives from the *Bund*, all 16 *Länder*, *Gemeinden*, the *Bundesbank*, the Federal Statistics Office, the Council of Economic Experts, and research institutes. The group is responsible for providing the official government forecasts for individual revenue items. Working group members distribute their individual forecasts to each other about two weeks before meeting. Although participants may use models, the ultimate publicly released forecast represents the group consensus. Through various publications such as the stability and growth programs, aggregate forecasts of general government are made public, and detailed fiscal forecasts of general government are available through the official medium-term Finance Plan.

49. *Bund*, *Länder*, and *Gemeinden* are required to plan their budgets in a five-year framework and present these medium-term budgets in finance plans. The finance plans cover the current year, the budget year, and a period of three years beyond the latter. Estimates for important aggregates are planned for a 10-year horizon or even longer. In the federal budget, the finance plan articulates the medium-term deficit objectives of the government and its plans for main budget categories. The future years of the finance plan are developed internally for each budget item, but information is released only for aggregates—the principal groups and functions. The finance plan, for future years, is considered to be the policy statement of the government, and thus does not require parliamentary approval. The federal budget describes expected medium-term developments in the main spending categories by referencing relevant laws and other critical factors, but there is little information on the policies required to achieve the medium-term deficit targets. The medium-term plan does not allow for contingencies, and at times has relied on unspecified global savings requirements to achieve the deficit target.⁴⁴ Moreover, the Federal Audit Office has noted⁴⁵ systematic planning errors in the medium-term projections: tax estimates are typically overly optimistic and some costs, particularly social benefits, are too low, while interest costs are too high. This results in systematic, extensive revisions of the budget framework and of required financing.

⁴⁴ For example, global savings requirements were shown in the *Finance Plan 2001–05* for 2004 and 2005, and in the *Finance Plan 2002–06* for 2004–06.

⁴⁵ Federal Audit Office: *Report on the 2000 Budget (Bemerkungen 2000 zur Haushalts- und Wirtschaftsführung des Bundes)*.

50. **A statement on medium-term fiscal policy objectives for general government is included in the federal budget documents.** The Constitution and the Law to Promote Stability and Growth mandate a budget that achieves macroeconomic equilibrium, but restrict the budget framework by limiting borrowing to only the investment amount. Thus, the more stringent commitments under the Maastricht Treaty have now become the primary objective of aggregate fiscal policy. The federal budget documents briefly summarize the fiscal policy agreement negotiated in the Finance Council between *Bund* and *Länder/Gemeinden*. While the Maastricht Treaty objectives are specified as quantitative deficit and debt ceilings and targets, the agreement between *Bund* and *Länder/Gemeinden* is specified in terms of growth rates of expenditures. Although five-year plans should be available for all levels of government, the federal budget documents do not include a consolidated general government finance plan.

51. **Estimates of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.** They are only described in the text of the *Finance Report*. Comments on the budget title may explain unexpected developments. However, there is no systematic analysis of the trend costs of ongoing policies. Changes to the tax law and tax policy issues are discussed in detail in the text of the *Finance Report*.

52. **While some fiscal risks are disclosed with the budget, their coverage is not comprehensive. Some limited sensitivity analysis of the budget estimates to changes in economic variables is published.** There is no legal requirement to present a risk assessment, nor does the budget include a detailed risk analysis. The budget and its accompanying documents include the individual guarantees granted by the government, and a quantitative limit to the new guarantees that can be granted. It also includes a budgetary appropriation for guarantees that are likely to be called during the current year. The expected aggregate value of outstanding guarantees is not estimated. Furthermore—while this would be difficult to *quantify*—the extent of the comprehensive guarantees provided to financial public institutions is not shown (see paragraph 7). The authorities believe the quantitative importance of these risks is small. The government provides some budget sensitivity estimates in published government documents, but the basis of those estimates is either not made explicit or tends to be rather general (for example, expenditures grow faster than expected).⁴⁶ Revenue and expenditure implications of uncertain demographics or costs of future programs are not included.

53. **Objectives of major programs are announced, but actual progress is not reported against these objectives in a standardized manner.** At the federal level, the *Finance Report* describes the main policy initiatives, and reports selectively on the status of ongoing initiatives. The analysis by function provides further information on the inputs for key government tasks. However, the budget classification system does not provide the option of systematically following the progress of programs. Some pilot programs are underway in the federal administration to introduce output-oriented cost-benefit accounting, with reporting supplementary to the traditional input-oriented accounting. A

⁴⁶ For example, because the revenue forecast is reached by consensus, it is impossible to examine whether deviations of the revenue outturn from the forecast are the result of changes in policy or macroassumptions, or are simply unexplained deviations.

cost-benefit accounting handbook outlining a standardized concept was published by the Ministry of Finance in 1997, but little further development has been made since then.

54. Internal control procedures of the *Bund* are effective. The accounting system would be capable of reporting on arrears if they were to occur. Procedural arrangements and internal controls ensure strict adherence to budget appropriations. The unified computerized budget system records all commitments of the government against appropriations or future-year authorizations for commitment. Ministries execute the budget autonomously up to the payment-request stage. Federal cash offices (*Kassen*) and payment offices (*Zahlstellen*), which operate on a strict two-signature principle,⁴⁷ handle payments and cash. Taxes are paid through the banking system. Instructions on cash and payment procedures require the agreement of the Federal Audit Office. Germany does not face a binding cash constraint, as its short-term cash requirements can be absorbed by the Euro money market. The *Bund* is committed to paying its bills on time. Liquidity planning (which is dominated by debt payments) is based on annual, quarterly, and monthly plans and refined for weekly and daily cash management. Ministries are requested to indicate their quarterly cash requirements six weeks before the beginning of a quarter. The Ministry of Interior is responsible for regulating the federal administration, including procurement and the civil service. Procurement procedures are regulated in detail and are differentiated by the amount of the contract.⁴⁸ The Federal Audit Office, however, has commented at times that procedures are not always followed. Civil service pay regulations are clearly specified by law. Hiring can take place only into a position authorized in the Budget Law, and procedures are regulated by laws and regulations.

55. The accounting system is capable of producing complete and accurate in-year reports on the central government budget outturn. Cash payment statistics can be generated daily, but there is little within-year monitoring. Commitment information, which is used for internal control by the administrator in charge, is available. The government does not appear to compare commitment and cash data as an input into cash-flow forecasting. Budgeting and accounting by *Länder* and *Gemeinden* is carried out autonomously, and they also choose their own accounting systems. Reporting on general government is carried out by the Federal Statistics Office and in-year reporting is based on cash payment statistics (see paragraph 48).

56. The tax administration has legal protection from political interference. The institutional setup for tax administration seeks to minimize the influence of the federal or state finance ministries by establishing, in every *Land*, a separate supervisory agency for tax administration (*Oberfinanzdirektion*). The Ministry of Finance is not entitled to interact directly with the tax offices, and must instead go through the headquarters agency. Any attempt to pressure a tax officer for political reasons would therefore require cooperation of the senior officials of the headquarters agency. However, some small *Länder* have abolished this headquarters agency to reduce administrative costs. Overall, there do not appear to be many cases of political interference in tax administration.

⁴⁷ Computerized processing of large volumes of small payments is an exception, where sampling is used to verify the validity of the payment authorization.

⁴⁸ For the procurement law, see <http://www.vergabetip.de/gestexte/3000-2-2.html>.

57. **The legislature does not undertake a midyear review of budget execution, but receives monthly reports and has the right to request additional information from the government on topics of interest.** In addition to the monthly budget execution data provided by the Ministry of Finance, members of both chambers of the parliament have the right to request reports or information from the government on specific topics at any time. Moreover, budget appropriations of particular significance may be blocked, and can only be utilized with the approval of the parliamentary Budget Committee. This applies in particular to the borrowing authorization.

58. **The audited final accounts of the *Bund* are available within nine months after the end of the fiscal year.** The Federal Audit Office informs the parliament of the findings of its financial and performance audits and the economic analysis of government activities for the budget year. The report is publicly available on the Federal Audit Office's website.

D. Assurances of Integrity

59. **Budget data are reliable, and the variance between the budget and the actual outturn is publicly disclosed, both for the main aggregates and the detailed budget items.** Budget appropriations are taken seriously, and are not violated. Although there are no detailed studies regarding reliability, the general view is that the fiscal targets are adhered to, and the authorities tend to refrain from relying on supplementary budgets. The Ministry of Finance has broad powers to control discretionary expenditures, and this has been used when needed to achieve a target. Even though there has been pressure to let automatic stabilizers work in the face of a downturn, several studies have shown that, historically, the government tends to adjust expenditures to realize its deficit targets.⁴⁹ However, the statutory requirement that an increase in debt cannot be greater than investment (the Golden Rule) is not assessed, and several studies have shown that the Golden Rule is often violated in practice.⁵⁰ The Final Accounts allow an easy assessment of deviations of revenue and expenditure estimates against outturns for the federal government. A comprehensive and detailed analysis of the fiscal outturn compared to the forecast, especially for general government, is not presented, except at a very aggregate level in the *Annual Economic Report* and the government's report on progress related to the SGP.

60. **A short statement of accounting policy is included in the final account documents.** The accounting statement refers to the requirements of the Constitution and the regulations in the *FBC*. Books for the *Bund*, *Länder*, and *Gemeinden* are kept in the cash-based system of government accounting (*kameralistische Buchführung*). For debt, asset, and guarantee reports, valuation is carried out at nominal or book values rather than market values. Real estate is not included in the asset accounts. Some initiatives are underway to utilize commercial style, double-entry accounting: At the federal level, some

⁴⁹ Jaeger, A., 1998, "Fiscal Stabilization Policy Under EMU," IMF (SM/98/209), Chapter I.

⁵⁰ Wendorff, K., 2001, "Remarks on the Discussion Concerning a National Stability Pact in Germany," Third Workshop on Public Finance, February, Perugia. The rule has been violated because it is only applied ex ante; it does not need to hold if there is no economic equilibrium; and there have been differences over the definition of investment. In particular, the use of *gross* rather than the more appropriate *net* investment tends to bias the assessment of compliance.

pilot projects already provide supplementary information on the budgets of some agencies. The state of Hessen is introducing commercial-style double-entry accrual accounting as its primary accounting standard by 2008, but is also required to provide information on a cash basis, as this is used by all other government entities.⁵¹ *Gemeinden*, which are responsible for a large share of government investment, in many cases also employ commercial accounting for their internal use.

61. The processes of account reconciliation and fiscal reporting are effective. The federal government final accounts and the accounts on assets, debt, and notarized guarantees are finalized by the administration about three months after the end of the fiscal year and then audited by the Federal Audit Office. With regard to budget execution, two calculations are presented: the budget accounting against the appropriations (*Haushaltsrechnung*), and the cash accounting (*Kassenrechnung*). The accounting against the budget appropriations is carried out in detail. For each title, the estimate or appropriation, the actual revenue or expenditure, and the difference between the two are shown. Explanations are given on over- and extra-budgetary expenditures, advances against next year's budget appropriation, carryover, virement, and unauthorized expenditures. Summary tables on the deviations from the budget allow easy assessment. Other tables report on the use of commitment authorizations for future years and pass-through positions. The accounts of all federal special funds as well as of federal enterprises directly operated by ministries are shown. The asset report details the values and valuation changes of financial assets, equity holdings, and claims (including, for example, from lending operations). A distinction is made between valuation changes arising from payments, and other changes. Reconciliation of accounts is not shown explicitly.

62. The external audit is independent of the executive branch. Art. 114 of the Constitution establishes the Federal Audit Office (*Bundesrechnungshof*). Details are defined in a separate law.⁵² In parallel, the *Länder* constitutions establish state audit offices. Audit offices are not dependent on instructions from government or parliament. The president of each audit office is elected by (the relevant) parliament. The president, its deputy and the heads of departments have legal independence comparable to the status of judges. The following are subject to audit: the government, including the activities of its extrabudgetary funds; public corporations and social security institutions established by law; the activities of private-law enterprises in which the government is a shareholder; and other third parties that receive or handle funding from the budget. The auditors' access to information is not limited to financial results but includes all phases of the planning, execution, and reporting of government activities. The right of access to sensitive information is limited to senior auditors, and the corresponding reports are made available only to special parliamentary committees. In addition to the financial audits, the regular audit report includes a discussion of general developments in the medium-term budget

⁵¹ This project is described in detail on the web page of Hesse (<http://www.hmdf.hessen.de/infothek/nvs/media/pdf/mppaper.pdf>).

⁵² Law on the Federal Audit Office (*Bundesrechnungshofgesetz*).

plan, an economic analysis of budget risks, and an ex post evaluation of projections.⁵³ The audit plan of the Audit Office is reported to the government. The audit manual is not available to the public.

63. **Internal audit capacities are limited.** Until 1997, the Federal Audit Office was also in charge of internal audit, through offices in each ministry. While the Federal Audit Office was responsible for program-related issues, personnel responsibility was with the ministry. This structure was not very efficient and the internal audit became the responsibility of the ministries, while the Federal Audit Office established regional offices whose responsibilities were focused on external financial audit. The line ministries' internal audit divisions are quite small. Some ministries have started pilot programs setting up modern control systems to define tasks and evaluate results.

64. **The legislature does follow up on external audit reports.** The interaction between the Federal Audit Office and parliament is an integral part of all stages of budget preparation, execution, and reporting. External auditors participate in the discussion between the government and the parliamentary Budget Committee during the preparation phase of the budget. The reports of the Federal Audit Office are discussed in detail by the Budget Committee. Finally, the Federal Audit Office provides a regular report on the implementation of audit results by the government, which is also subject to discussion in the parliamentary Budget Committee.

65. **External scrutiny of macroeconomic assumptions is widespread, but since the government does not rely on a quantitative tool for its forecast, the assessment is limited to the forecasting record; it is impossible to attribute forecast deviations to either macroeconomic or policy changes.**⁵⁴ The German Council of Economic Experts (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*)⁵⁵ provides an annual report to the government (discussed in the government's *Annual Economic Report*), which includes comments on the government's forecast. Additionally, there are several economic research institutes and major banks, as well as the IMF and the OECD, which regularly produce their own forecasts as a point of comparison. The Ministry of Finance prepares an internal assessment of its macroeconomic forecasting record. A superficial evaluation indicates that the authorities' forecast has no discernible bias and is no worse than other institutions.

⁵³ The regular reports to the parliament are *Comments of the Federal Budget Council on Budget Execution and Economic Performance*, and *Report on the Results*, with an analysis of the extent to which the government modified its procedures in light of the previous year's comments by the Federal Audit Office. These reports are available on the Internet (<http://www.bundesrechnungshof.de/>). In addition, the Federal Audit Office provides reports to the parliament on selected topics, either at the request of the parliament or initiated by the Federal Audit Office itself. Not all of these reports are published.

⁵⁴ An example of this type of analysis is carried out by the United States and presented, for example, in the "Analytical Perspective" section of the *Budget*, or in the "Mid-Session Review." Several other countries (for example, Australia and the United Kingdom) provide similar analysis.

⁵⁵ The Council, created by law and comprised of academic experts, provides independent advice to the government on economic issues. The Federal Statistics Office serves as its secretariat

66. **The Federal Statistics Office has legislative assurance of independence.**⁵⁶ In accordance with the federal structure of government and administration in Germany, official statistics for the Federal Republic are prepared in collaboration between the Federal Statistics Office and the statistics offices of the 16 *Länder*. The independence at the federal level is established in the Law on Statistics for Federal Purposes (*Gesetz über die Statistik für Bundeszwecke*), and the statistical data collected and statistics produced are specified in the Law on Financial and Personnel Statistics (*Finanz- und Personenstatistikgesetz*).

III. IMF STAFF COMMENTARY

A. General Comments

67. **Germany has achieved a high level of fiscal transparency.** Fiscal management is carried out in accordance with a comprehensive, precise, and carefully respected body of laws and regulations. High standards of accountability for the use of government resources prevail, both in the sense of accountability to the parliament and the public through the budget process, and in the form of high ethical standards for government employees. While Germany's fiscal system is highly decentralized and different levels of government enjoy significant autonomy, a common legal framework or consistent standards apply to all. These include the constitutional provisions on the purpose of fiscal policy and on responsible fiscal management, the assignment of revenues and expenditure responsibilities, the principles of budgeting and accounting, the tax legislation for all major taxes, and civil service legislation. Coordination in such a decentralized system is essential and fosters consultation and open debate. By the nature of the issues at hand, coordination takes place in different forms and forums, but transparency in the sense of clearly stipulated processes and procedures, and appropriate involvement of the public, is usually observed.

68. **Germany meets the IMF's standards on fiscal transparency very well in many respects.** Particularly noteworthy are

- The preparation and approval of the budget follow well-established procedures, and are based on a highly consultative process that includes all ministries and agencies of government, the parliament, and even external auditors.
- Multiyear budget preparation is an integral component of the budget process and mandatory for the *Bund*, *Länder*, and *Gemeinden*.
- Budget coverage is comprehensive and well defined.
- Budget execution is strictly and effectively controlled, including expenditure commitments for outer years.
- The budget documents, final accounts, and reports on public debt are timely, detailed, and publicly available.
- Reporting reaches areas that are ignored by many countries, including contingent liabilities, guarantees, and tax expenditures.

⁵⁶ The website is (<http://www.destatis.de/>).

- Information is generally widely disseminated and good use is made of the Internet by all levels of government.
- External audit is independent and effective, covering both accountability and performance aspects. Auditors have broad access including to decision processes.
- The systems of budgeting and accounting are well coordinated among all levels of government. Common principles of budgeting and accounting are legally binding, and a uniform budget classification and accounting standard allows reliable reporting on general government.

69. **However, some of the features of the German system that lead to high scores on most measures of fiscal transparency also give rise to weaknesses.** First, the strong focus on legal obligations, accountability, and detail of information obscures the lack of fiscal information and reports with an analytical orientation—for example on trends and long-term fiscal sustainability, risk analysis, and a clear and quantified link between government spending and policy priorities. Second, the consultative process of intergovernmental coordination results in insufficient overall planning for the general government, and leads to intransparencies in the decision processes and in the ultimate allocations of resources and responsibilities among different levels of government. Third, the extensive body of laws and regulations ensures that the obligations and rights of officials, politicians, and citizens are spelled out in detail, but at the same time makes the fiscal system highly complex, therefore difficult to navigate, and ultimately unclear. These themes and related recommendations are elaborated in the paragraphs below.

B. Analytical Fiscal Information

70. **The federal budget and reports should provide more in-depth information on the macrofiscal strategy, developments, and constraints, as well as the priorities of public policy as implemented and realized through the budget.** While the *Annual Economic Report* of the government lays out the overall macroeconomic situation and the intentions of fiscal policy, the precise fiscal response to these macroeconomic conditions needs to be spelled out in the budget document. The strict cash basis of the German budget imposes some limits on available information. However, given the high degree of computerization of the budget process and the level of detail of budget information, the reforms suggested in the paragraphs below should be readily achievable—and would be very valuable:

71. **The budget documents should include a careful analysis of medium-term structural trends, and an analysis of the level of de facto committed resources.** The tight appropriation and authorization requirements provide an excellent basis for such an analysis. This information on commitments for future budget years should be supplemented by regular and careful projections of other legal and contractual commitments, including the requirements of the social insurance systems and possibly the fiscal developments in other general government bodies. Medium-term projections should be regularly evaluated, and should identify possibly systematic biases. The medium-term plan should not rely on unidentified global savings to achieve a deficit target.

72. **A comprehensive risk analysis should be regularly prepared, and presented in the budget documents.** The risk analysis should be based on revenue and expenditure scenarios projected under alternative but plausible macroeconomic conditions.

73. **The expected value of government guarantees should be assessed and monitored.** The assessment should include the recorded guarantees, but also a better ex ante assessment of risks from comprehensive guarantees for financial institutions, the financial position of public enterprises, and other forms of contingent liabilities.

74. **The presentation of the budget by policy objectives and changes in policy priorities should be improved.** All expenditures should be identified by programs that are clearly linked to policy objectives. New spending initiatives should be clearly identified and costed. A program budget would help to communicate policy objectives and priorities, and allow the monitoring of these policies over time. The comprehensive definition of programs could also be a first step in developing output-oriented budgeting and accounting systems.

75. **The government should regularly evaluate the budget outturn within the year, and update the budget forecasts.** The government should also consider providing a formal midyear budget report to the parliament prior to the presentation of the new budget. We recognize that high-frequency information can be misleading, a possibility which has been a major concern of the authorities. However, budget planning takes place with long lags (in Germany the budget is presented to the parliament about five months before the beginning of the fiscal year) and in times of rapid change early indications of unexpected budget trends allow time for policy adjustments.

76. **The government should identify and quantify the quasi-fiscal activities of public enterprises and report on the costs of such activities.** The government could build on recent initiatives aimed at clearly separating commercial and government activities undertaken by financial and nonfinancial public enterprises, as well as breaking up monopolies that serve no clear public purpose. In addition, consideration should be given to extending the coverage of statistical reporting. Public enterprises that by the nature of their activity should be considered part of general government (even though they report according to private sector accounting standards) should be included in the German official statistical definition of general government.⁵⁷

C. Intergovernmental Relations and Planning for General Government

77. **The high degree of decentralization and autonomy of all levels of government creates enormous challenges for transparent fiscal management.** Intergovernmental fiscal relations are dominated by two issues: the need to manage the general government fiscal position (as mandated under the constitutional provisions on macroeconomic management, and the obligations under the SGP), and the constitutional mandate to equalize standards of living across the country. In the past, generally responsible fiscal management and small deficits by all government bodies, combined with a comprehensive system of redistribution of resources, have resulted in acceptable general government deficits. However, the current difficult economic and demographic conditions, combined with the binding quantitative obligations under the SGP, have highlighted the limits of this negotiation approach. There is no binding commitment mechanism that ensures the

⁵⁷ Government ownership of public enterprises that could potentially be part of general government by the nature or their activities is particularly prevalent at the *Gemeinde* level. The Federal Statistics Office is already working on this issue.

achievement of general government deficit and debt targets, and spreads the adjustment burden. Similarly, the system of revenue sharing, transfers, assignment of expenditure responsibilities, and joint financing of expenditures has grown highly complex over time, so that the redistributive implications and the political responsibilities can only be understood by experts. These issues are well known and it is increasingly acknowledged that changes to intergovernmental relations are necessary. While any change to intergovernmental relations has implications for the distribution of power, incentives, and hence policy making, these issues are outside the purview of this report. The following recommendations should be read solely in regard to their implications for fiscal transparency. The recommendations in the following six paragraphs concern budgeting and reporting issues at the level of general government, while those in paragraphs 86–88 refer to the transparency of intergovernmental relations:

78. **Plan the fiscal position of the general government—as defined by *ESA 95***—since it is subject to binding fiscal targets. Responsibility for this task should be clearly assigned to an appropriate body, perhaps a permanent secretariat of the Finance Council. The annual and medium-term plan should be fully coordinated with the medium-term planning of all government bodies, and clearly related to the approved budgets and medium-term plans of the *Bund, Länder* and *Gemeinden*, as well as the social insurance systems. Government obligations under current legislation (for example, social benefits) should be clearly identified.

79. **Publish the agreements reached in the Finance Council, and provide more comprehensive information on the proceedings.** In particular, a general government medium-term plan and the constituent plans for major government entities or subsectors should be published. Sufficient detail should be provided to allow an assessment of policy objectives and priorities and give assurances that obligations from existing commitments (for example, the Maastricht Treaty) and current or planned legislation can be fulfilled.

80. **Find a mechanism to allocate responsibility for the deficit outcome to different parts of general government.** Options could include the adoption of an internal stability pact between *Bund* and *Länder* similar to the SGP that clearly specifies the obligations of each government entity. Targets could be specified on expenditures (as is currently done in the discussions of the Finance Council) rather than deficits, but it should be understood that expenditure targets do not guarantee the achievement of an aggregate deficit.

81. **Increase the prominence of planning in accordance with the targets under the SGP (and the standards of *ESA 95*) in the federal budget and medium-term plan (as well as in the *Länder* budgets).** While it is believed that the fiscal deficit measures under *ESA 95* and under the German official statistical definition, respectively, do not differ much, an effective assessment of the fiscal stance by the parliament and the public requires this information.

82. **Clearly describe the methodology used for reporting according to *ESA 95*, and publish it with regular updates as necessary.** Define reporting standards and possibly a work program on reforms to budget classification and accounting standards that allows easy reporting consistent with *ESA 95*.

83. **Shorten the lags for reporting on subnational governments and the social insurance system.** Publish detailed annual and within-year reports on consolidated general government (in *ESA 95*) regularly and in a timely manner. Develop a presentation that is consistent with the annual and medium-term plans.

84. **Simplify the system of horizontal and vertical revenue sharing, transfers, and joint expenditure responsibilities among *Bund* and *Länder*.** Establish clear principles of revenue sharing, limit the number and use of transfer schemes and preferably base them on clearly stated policy objectives. While the Law on Principles of Equalization of 2001 clarified the different regimes, it still allows for a very complex system. Limit the areas of joint expenditure financing to those that clearly have both regional and external effects.

85. **Consider assigning one second-round rule-based redistribution scheme to the policy objective of equalizing conditions of living across the country.** This could be a scheme that redistributes revenues among *Länder*, a scheme that provides transfers from the *Bund* to individual *Länder*, or a scheme that adjusts revenue shares from a major tax.

86. **Improve correspondence between expenditure responsibilities and revenues.** While expenditure responsibilities as well as revenue rights are established clearly (albeit by a complex system of revenue sharing), there is no close correspondence between the two. It would be desirable to establish clearly a link between any shift in responsibilities and adjustments to revenue sharing, particularly at the margin. Such a link should be designed on the basis of a commitment to adjust existing sharing agreements, rather than adding new redistribution or transfer programs to an already complex system.

D. Complexity of the Legal and Regulatory System

87. **The complexity of the legal and regulatory system makes it costly to navigate and thus reduces transparency.** The tax system is highly complex, to the extent that the correct application of the law is hindered. It is very difficult to keep up with ever-changing laws, transitional provisions, associated regulations, administrative rules, and legal decisions. Furthermore, the decentralization of the tax administration raises questions of equal administrative enforcement and compliance across the country. Last, the regulation of the economy is extensive and complex. While the complexity issues discussed here clearly go well beyond the realm of transparency and affect efficiency and flexibility considerations that are outside the purview of this report, they do impinge on the public's ability to comprehend the system.

88. **Simplify the tax system and keep it stable.** While this recommendation is highly desirable from a transparency perspective, it is not intended to preempt the authorities' prerogative to conduct tax policy.

89. **Develop a centralized evaluation system of tax enforcement and compliance.** While the authorities have argued that compliance is substantially equal across the country, a system of cross-*Länder* evaluation or benchmarking could substantiate this view and provide useful pointers for the even-handed application of the tax laws also within each tax administration.

90. **Review and if necessary improve schemes of cooperation among the tax authorities of the *Länder*.** A formalized system of peer reviews could form the basis for a regular exchange of experience with procedures, allow input from the concerned public, and provide a transmission mechanism for good practices in tax administration.

91. **An evaluation of the necessity and impact of a regulation should become an integral part of the drafting process; existing regulations should be reviewed and inessential regulations removed.** Recent programs in this area should be continued (see paragraph 12). A program to evaluate the regulatory processes of self-regulating bodies and sectors (possibly in the manner of a peer review) could be instituted.

TAXES IN GERMANY—DISTRIBUTION OF COMPETENCIES

	Type of tax	Legislative authority 1/	Entitlement to proceeds	Administrative authority
1.	Turnover tax	<i>Bund</i>	<i>Bund/Länder</i>	<i>Länder*</i>
2.	Import turnover tax	<i>Bund</i>	<i>Bund/Länder</i>	<i>Bund</i> (customs)
3.	Customs duties	EU/ <i>Bund</i> (exclusive)	EU	<i>Bund</i> (customs)
4.	Export taxes	EU/ <i>Bund</i>	EU	<i>Bund</i> (customs)
5.	Income tax (partly collected through withholding on wages, interest, and other capital income)	<i>Bund</i>	<i>Bund/Länder</i> (with share for <i>Gemeinden</i>)	<i>Länder*</i>
6.	Corporate income tax	<i>Bund</i>	<i>Bund/Länder</i>	<i>Länder*</i>
7.	Solidarity tax (on income)	<i>Bund</i>	<i>Bund</i>	<i>Länder*</i>
8.	Municipal Tax on Business Profits	<i>Bund</i>	<i>Gemeinden</i> (with share for <i>Bund</i> and <i>Länder</i>)	<i>Länder/Gemeinden</i>
9.	Property tax	<i>Bund</i>	<i>Gemeinden</i>	<i>Länder/Gemeinden</i>
10.	Inheritance and gift tax	<i>Bund</i>	<i>Länder</i>	<i>Länder</i>
11.	Tax on the Purchase of Land	<i>Bund</i>	<i>Länder**</i>	<i>Länder</i>
12.	Vehicle tax	<i>Bund</i>	<i>Länder</i>	<i>Länder*</i>
13.	Second home tax	<i>Länder</i>	<i>Gemeinden</i>	<i>Gemeinden</i>
14.	Petroleum tax	<i>Bund</i>	<i>Bund</i>	<i>Bund</i> (customs)
15.	Tobacco tax	<i>Bund</i>	<i>Bund</i>	<i>Bund</i> (customs)
16.	Electricity tax	<i>Bund</i>	<i>Bund</i>	<i>Bund</i> (customs)
17.	Beer tax	<i>Bund</i>	<i>Länder</i>	<i>Bund</i> (customs)
18.	Wine and liquor tax	<i>Bund</i> (exclusive)	<i>Bund</i>	<i>Bund</i> (customs)
19.	Champagne tax	<i>Bund</i>	<i>Bund</i>	<i>Bund</i> (customs)
20.	Drinks tax	<i>Länder</i>	<i>Gemeinden</i>	<i>Gemeinden</i>
21.	Liquor license tax	<i>Länder</i>	Districts/ <i>Gemeinden</i>	Districts/ <i>Gemeinden</i>
22.	Coffee tax	<i>Bund</i>	<i>Bund</i>	<i>Bund</i> (customs)
23.	Sugar production tax	EU/ <i>Bund</i>	EU	<i>Bund</i> (customs)
24.	Agricultural taxes	EU/ <i>Bund</i>	EU	<i>Bund</i> (customs)
25.	Dog tax	<i>Länder</i>	<i>Gemeinden</i>	<i>Gemeinden</i>
26.	Hunting and fishing tax	<i>Länder</i>	Districts/ <i>Gemeinden</i>	Districts/ <i>Gemeinden</i>
27.	Betting and lottery tax	<i>Bund</i>	<i>Länder</i>	<i>Länder</i>
28.	Casino tax	<i>Bund/Länder</i>	<i>Länder</i>	<i>Länder</i>
29.	Entertainment tax	<i>Länder</i>	<i>Gemeinden</i>	<i>Gemeinden</i>
30.	Fire safety tax	<i>Bund</i>	<i>Länder</i>	<i>Länder</i>
31.	Insurance tax	<i>Bund</i>	<i>Bund</i>	<i>Länder*</i>
32.	Church tax (on income)	<i>Länder</i>	Churches	<i>Länder/Churches</i>

Source: German Ministry of Finance, "Steuern von A bis Z" (August 2002)

* By order of the federal government.

** *Gemeinden* can also be entitled to proceeds on the basis of state legislation.

1/ See Constitution, Article 105. Most tax laws of the *Bund* require the consent of the *Bundesrat*.

BUND—OFFICIAL DOCUMENTS ON THE BUDGET AND THE ACCOUNTS

Budget Background

The Annual Economic Report of the Government

The Budget

Finance Report (*Finanzbericht*) which includes the medium-term finance plan (*Finanzplan*)

The draft law and the summary of the budget (*Gesamtplan*)

The ministerial budgets (*Einzelpläne*)

Within-Year Reports

Monthly reports of the Bundesministerium der Finanzen, which include reporting on the monthly *accounts* statistic (usually one month lag), the quarterly accounts statistic (usually two month lag), and the draft budget (August)

Monthly publication of *cash* account statistics in ESA 95/ SDDS format

Monthly reports of the Bundesbank

Monthly, quarterly, and annual reports of the Federal Statistics Office

The Final Accounts

Final accounts, consisting of the budget accounts (*Haushaltsrechnung*), the cash payment accounts (*Kassenrechnung*), and the asset accounts (*Vermögensrechnung*)

Audit report of the Federal Audit Office (*Bemerkungen*)

Results report of the Federal Audit Office (*Ergebnisbericht*)

Debt and assets

Federal Securities Administration—regular information on the internet

Annual Debt Report (*Schuldbericht*), includes guarantees

Annual Report on Government Equity Holdings (*Beteiligungsbericht*)

Reports to the EU

Annual Stability and Growth Program

Other reports

Bi-annual Report on Subsidies (*Subventionsbericht*), includes tax exemptions

Annual Report on the Pension System (*Rentenbericht*)

THE BUDGET CALENDAR

Month	Macroeconomic Forecasts	Tax Forecasts	Coordination of Bund, Länder, and Gemeinden	The Federal Budget Process
November	Council of Economic Experts			Budget Planning circular, mainly based on finance plan plus special known effects
December				
January	Yearly economic report of the government			Suggestions from the ministries for the budget of the coming year
February				
March	Consensus projection of economic research institutes			
April	Medium-term macroeconomic forecast			
May		Medium-term tax forecast	Finance Council	
June				Cabinet decision on draft budget and finance plan
July				
August				Submission to Bundesrat and Bundestag
September				First reading at the Bundestag
October	Consensus projection of economic research institutes Short-term macroeconomic forecast			First review at the Bundesrat
November	Council of Economic Experts	Short-term tax forecast	Finance Council	Second and third reading at the Bundestag. Approval by Bundestag.
December				Second review at the Bundesrat Usually the Bundesrat approves at this stage, and the budget is signed into law. If not, the mediation process between Bundesrat and Bundestag starts, but the Bundestag ultimately can pass the budget with special majority.

Source: Ministry of Finance.

Germany: Procedures for Macroeconomic Projections

