

GERMANY

FEDERAL COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 357 580 km²**Population:** 82.657 million inhabitants (2017), an increase of 0.2 % per year (2010-2015)**Density:** 231 inhabitants / km²**Urban population:** 77.3% of national population**Urban population growth:** 0.5% (2017 vs 2016)**Capital city:** Berlin (4.3% of national population)

ECONOMIC DATA

GDP: 4 187.6 billion (current PPP international dollars), i.e. 50 662 dollars per inhabitant (2017)**Real GDP growth:** 2.2% (2017 vs 2016)**Unemployment rate:** 3.8% (2017)**Foreign direct investment, net inflows (FDI):** 77 983 (BoP, current USD millions, 2017)**Gross Fixed Capital Formation (GFCF):** 20.3% of GDP (2017)**HDI:** 0.936 (very high), rank 5 (2017)

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Germany is a federal parliamentary republic with a federal government and 16 state governments (*Länder*). Its constitution was adopted on 8 May 1949 and revised in 1990 with the Unification Treaty. The Basic Law of the Federal Republic of Germany (*Grundgesetz*) was further amended, in particular in 2006 and 2009. These two federalism reforms (*Föderalismusreform I* and *II*) aimed to improve the assignments of responsibilities (2006) and intergovernmental finance (2009) between the federal and *Länder* levels. Intergovernmental relations are based on a constitutional principle (*Bundestreue*). The federation-*Länder* relationship is grounded on the principle of co-operative federalism and loyalty to the federation.

At federal level, the executive branch consists of a Federal President as head of state and the Federal Chancellor, the head of government. Legislative power is composed of two collegiate bodies: The *Bundestag* and the *Bundesrat*. The latter reflects Germany's federal structure as it is composed of 69 representatives of the *Länder* governments, and seat allocation depends on the population of each *Land*. At subnational level, Germany has a three-tier subnational government system composed of states, districts and municipalities.

Pursuant to the preamble of the Basic Law, the states are the basic political units at subnational level. Accordingly, they have their own constitution, which must comply with the principles of the Basic Law, as well as autonomous legislative, executive and judicial bodies. Each *Land* has a parliament (*Landtag*), elected by direct universal suffrage for a four-year mandate. This legislative body elects the minister-president of the region, who chairs the government. The system differs in the city-states of Berlin, Bremen and Hamburg.

Districts and municipalities are also enshrined in the Basic Law and their status is constitutionally guaranteed (Art. 28). However, each *Land* determines the status, territorial structure, responsibilities and fiscal framework of local governments in its jurisdiction. At the district level, district councils are elected by direct universal suffrage for four to six years, depending on the *Land*. The president of the district council is either elected directly by the citizens or elected by the assembly with the approval of the interior minister of the relevant *Land*. Municipalities in all *Länder*, except for that of Hessen, are governed according to the "council system", with a local council elected by direct universal suffrage for a mandate from four to six years depending on the *Land*. The mayor (*Bürgermeister*), also elected by direct universal suffrage from four to nine years, chairs the local council and heads the municipal administration. In the *Land* of Hessen, municipalities are governed according to the "magistrate system".

TERRITORIAL ORGANISATION

2017	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	11 054 municipalities (<i>Gemeinden</i>)	401 districts (<i>Kreise</i>)	16 states (<i>Länder</i>)	
	Average municipal size: 7 450 inhabitants			
	11 054	401	16	11 471

OVERALL DESCRIPTION. The three-tier system of subnational governments includes a regional level (*Länder*), an intermediate level (*Kreise*) and municipalities (*Gemeinden*) at the lower level.

REGIONAL LEVEL. The 16 states differ significantly in terms of area, population size and wealth. There are three city-states (*Stadtstaaten*) which cover the territory of Berlin, Hamburg and Bremen and combine the functions of states and municipalities. Other *Länder* are defined as *Flächenländer* (regions with a larger geographic size). While the average state population is around 5.2 million inhabitants, the largest (North-Rhine Westphalia) has 26 times more inhabitants than the smallest (Bremen). The 5 *Länder* of former East Germany have the lowest GDP per capita of the 16 states (less than EUR 30 000 per inhabitant in 2016 while the national average is around 38 000). Differences between German regions in terms of GDP per capita have decreased over the last 16 years. However, regional economic disparities in Germany remain above the median of OECD countries, with Hamburg having 60% higher GDP per capita than Mecklenburg-Vorpommern.

INTERMEDIATE LEVEL. The 401 districts comprise 294 rural districts (*Land-kreise*) and 107 "urban districts" or "district-free cities" (*Kreisfreie Städte* or *Stadtkreise*). Urban districts are cities with generally more than 100 000 inhabitants. As of 2016, approximately 26 million people live in urban districts.

MUNICIPALITIES. There are 11 054 municipalities in 2017-2018, including 2 061 urban municipalities (towns or cities called *Städte* that have either historic town rights or significant population). The number of municipalities has decreased regularly in recent decades, as a result of municipal amalgamation policies. Mergers were carried out by several *Länder* in the 1970s (Baden-Württemberg, Hessen, North Rhine-Westphalia), after 1990 in the former East Germany (e.g. in Brandenburg in 2003) and, more recently, in the *Land* of Saxony-Anhalt (from 1 015 municipalities in 2008 to 222 in 2012). Overall, the number of German municipalities has decreased from 16 216 in 1990 to the current number (i.e. a drop of one-third). Today, the average municipal size conceals wide disparities between *Länder*. In four *Länder* that have numerous municipalities, the average municipal size is under 2 600 inhabitants. Overall, the median municipal size in Germany was around 1 700 inhabitants in 2016-2017 and 54% of German municipalities have less than 2 000 inhabitants.

INTER-MUNICIPAL CO-OPERATION is strongly encouraged by the *Länder*, which decide independently on the rules of establishing such bodies. There are around 4 530 municipal associations (*Gemeindeverband*), which have different forms and status: offices, joint municipalities, association of communities and syndicates. Syndicates (*Zweckverbände*) in particular are special-purpose associations created to deliver standard local services such as waste management, water and wastewater or transport. They are widespread throughout Germany and are one of the most common and oldest forms of inter-municipal co-operation in the country.

AT METROPOLITAN LEVEL. Germany does not have a systematic nation-wide approach but has various spatial scales and governance arrangements. This has been the case since the 1990s, in particular, when municipalities based in metropolitan areas were encouraged to co-operate in the areas of economic development, infrastructure planning, spatial planning or waste management. The German Ministerial Conference on Spatial Planning officially recognises 11 European metropolitan regions in Germany. These regions have worked together since 2001 through the Network of European Metropolitan Regions in Germany (IKM).

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

According to the Basic Law, all legislative and administrative functions are assigned to the *Länder*, except for those under the exclusive competency of the federal government. *Länder's* responsibilities are very broad, covering all main areas. Joint federal-*Länder* tasks were introduced in 1969, and there is some overlap in several areas (e.g. vocational education and training). The 2006 constitutional reform clarified responsibilities by reducing the legislative areas subject to Bundesrat veto and the number of areas in the field of concurrent legislation to 31. As compensation, the reform transferred new exclusive responsibilities to the *Länder*, in particular for secondary education and paying the wages of public employees. All *Länder* enjoy the same degree of legislative power and the same responsibilities but the 2006 reform also introduced opt-outs in six policy areas (e.g. higher education, environmental protection). This right to stray from federal legislation is an innovative new instrument for the *Länder*, introducing a degree of asymmetry into German federalism. A current reform entails the redistribution of some key competencies between the Federal Government and the *Länder* especially in the transport sector.

Functions of local authorities are defined by each *Land* and vary considerably from one *Land* to another. As a result, the degree of decentralisation at local level also differs greatly among the *Länder*. Responsibilities usually include both mandatory and discretionary functions. In recent years, local governments have been empowered with new responsibilities, in particular in the social sector (e.g. the payment of basic security money for pensioners and disabled people, 2005 Hartz IV reform, and the legal right to municipal childcare for children under the age of three). Towns or cities called *Städte* have some additional powers, in particular in administrative matters devolved by the state.

Over 800 local public companies, partly or wholly owned by the municipalities, cover activities such as electricity, gas and water services. During the New Public Management era, some local public services have also been privatised (e.g., housing, water and sanitation, energy). Today, many municipalities are trying to regain control over important local services and utilities, especially in the field of energy supply.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	STATE LEVEL	INTERMEDIATE LEVEL	MUNICIPAL LEVEL
1. General public services	Internal administration, including salaries and benefits of all public employees (exclusive); Justice (concurrent); Local government (exclusive)	Internal administration	Internal administration including staff management; Some administrative duties devolved by the state to Städte
2. Public order and safety	Police (exclusive)	Fire protection; Disaster control service; Rescue services	Local security
3. Economic affairs / transports	Regional economic development; Labour and economic law (concurrent)	Secondary roads; Public transport; Promotion of economic activity and tourism, pedestrian areas and cycle lanes	Local roads, local public transport; Waterways; Local economic development; Local tourism; Energy supply utilities; Waterways
4. Environmental protection	Environment (concurrent)	Nature and landscape protection; Maintenance of nature parks Household waste collection and treatment	Waste water management; Local green areas
5. Housing and community amenities	Housing and community amenities (concurrent)	Spatial planning at district level; Building permits and inspection	Urban development planning (Land use and building plans); Urban development and regeneration; Water supply and sewerage; Housing incentives
6. Health	Health (concurrent)	District hospitals (construction and maintenance)	Health care and veterinary affairs
7. Recreation, culture & religion	Culture (exclusive power)	Public libraries (construction and maintenance); Support for cultural activities	Culture; Sports; Recreational areas and leisure
8. Education	Education including universities (construction and maintenance); Adult education colleges; Support for pupil exchanges	Secondary schools and technical schools (construction and maintenance)	Primary schools
9. Social protection	Social welfare (concurrent)	Social welfare and youth welfare; Social welfare infrastructure	Social aid and youth; Child care

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SUBNATIONAL, STATE AND LOCAL GOVERNMENT FINANCE

Scope of fiscal data: state governments, districts and municipalities; municipal associations including special purpose associations; non-market producers and non-profit institutions controlled by states and local governments.

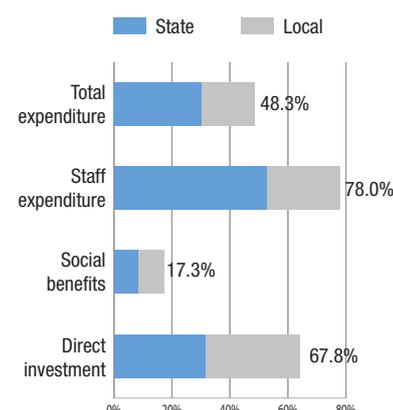
SNA 2008

Availability of fiscal data:
HighQuality/reliability of fiscal data :
High

GENERAL INTRODUCTION. The Basic Law sets out detailed fiscal provisions relating to revenues and expenditures, in particular the assignment of intergovernmental transfers, exclusive and shared taxes as well as equalisation principles between the federal government and the *Länder*. It also includes specific arrangements regarding municipalities, although local government financing is established by each *Land*. The 2009 Federalism reform II on financial arrangements was supposed to address the system of intergovernmental finances. However, it did not result in a comprehensive restructuring of the system of fiscal federalism focusing mainly on agreeing on the phasing out in 2019 of transfers (*Solidarpakt II* and existing horizontal system) and introducing the “debt brake” to reduce future public debts (see below). Financial relations between the Federation and the *Länder* were recently reorganised to strengthen the role of the federal government, under an act of July 2017 amending the Basic Law and an act of August 2017 concerning the reorganisation of the federal financial equalisation scheme from 2020 and amending the budgetary law.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.			% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT EXPENDITURE			% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	State	Local	Total
Total expenditure	10 377	6 484	3 893	21.2%	13.3%	8.0%	100%	100%	100%			48.3%
Inc. current expenditure	9 208	5 758	3 450	18.8%	11.8%	7.1%	88.7%	88.8%	88.6%			78.0%
Staff expenditure	2 864	1 935	929	5.9%	4.0%	1.9%	27.6%	29.9%	23.8%			
Intermediate consumption	1 624	748	875	3.3%	1.5%	1.8%	15.6%	11.5%	22.5%			
Social expenditure	2 032	958	1 074	4.2%	2.0%	2.2%	19.6%	14.8%	27.6%			
Subsidies and current transfers	2 420	1 905	514	5.0%	3.9%	1.1%	23.3%	29.4%	13.2%			
Financial charges	267	211	56	0.5%	0.4%	0.1%	2.6%	3.2%	1.4%			
Others	2	1	1	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Incl. capital expenditure	1 169	726	443	2.4%	1.5%	0.9%	11.3%	11.2%	11.4%			67.8%
Capital transfers	488	382	106	1.0%	0.8%	0.2%	4.7%	5.9%	2.7%			
Direct investment (or GFCF)	681	344	337	1.4%	0.7%	0.7%	6.6%	5.3%	8.7%			

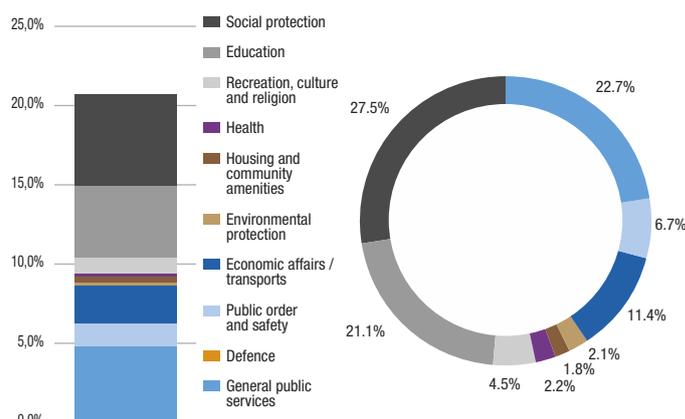


EXPENDITURE. German SNGs are key economic and social actors, responsible for almost half of public spending, ranking 8th in the OECD. However, Germany ranks 7th among the nine OECD federal countries. SNGs are key public employers, accounting for more than three-quarters of total public staff spending. The *Länder* account for 63% of SNG spending and 68% of SNG staff spending. Within the local sector, municipalities and municipal associations account for the lion's share of local spending. Compared to the average for OECD unitary countries (9.2% of GDP and 28.7% of public expenditure), spending responsibilities of local governments in Germany are significantly lower.

DIRECT INVESTMENT. Public investment is lower in Germany than in other OECD countries (2.1% of GDP vs 3.0% in the OECD in 2016) and has increased at a slower rate than the OECD average. The share of SNGs in public investment is higher than the average of OECD federal countries (62.3%) but it remains low in relation to GDP (1.4% vs 1.8% in the 9 federations). *Länder* and local governments each accounted for half of SNG investment in 2016; in the past, however, municipalities played a bigger role. In fact, in 2010, they carried out 58% of public investment vs 33% today. The share of direct investment in SNG expenditure is lower compared to the OECD (10.7% in 2016 in the OECD). Cities and municipalities with few economic resources have substantially reduced their investments in recent years, although SNG investment has appeared to be rebounding since 2015. Areas with the biggest shortfall are roads and transport infrastructure, administration and schools. In response to this challenge, the federal government has taken a comprehensive approach to stimulating the rate of investment by providing financial relief for municipalities during the 2013-2018 period. This support included a revision of the Basic Law in October 2016 to allow the Federal Government to provide financial support - through the Municipal Investment Promotion Fund - to financially weak municipalities for investments in schools and vocational schools. The federal government also increased funding to the *Länder* and municipalities for urban development, housing construction and integration of refugees, and to support capacity-building at local level through a new service agency, which has been operational since 2017.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

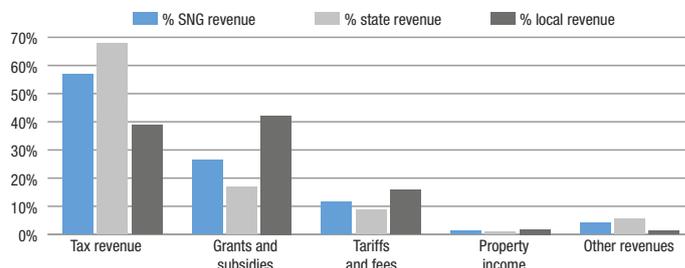
2016	% GDP			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT			SNG EXPENDITURE AS A % GDP	% OF TOTAL SNG EXPENDITURE
	SNG	State	Local	SNG	State	Local		
Total expenditure	21.2%	13.3%	8.0%	100%	100%	100%		
1. General public services	4.8%	3.4%	1.4%	22.7%	25.9%	17.2%		
2. Defence	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
3. Security and public order	1.4%	1.2%	0.3%	6.7%	8.7%	3.2%		
4. Economic affairs / transports	2.4%	1.4%	1.1%	11.4%	10.3%	13.4%		
5. Environmental protection	0.4%	0.1%	0.3%	2.1%	0.9%	4.0%		
6. Housing and community amenities	0.4%	0.1%	0.3%	1.8%	0.9%	3.3%		
7. Health	0.5%	0.3%	0.2%	2.2%	2.3%	2.1%		
8. Recreation, culture and religion	1.0%	0.5%	0.4%	4.5%	3.9%	5.6%		
9. Education	4.5%	3.2%	1.2%	21.1%	24.3%	15.6%		
10. Social protection	5.8%	3.0%	2.8%	27.5%	22.7%	35.6%		



Social protection, general public services and education are the three main areas of SNG spending, weighing between 21% and 28% of SNG expenditure. German SNGs are responsible for the large majority of overall public spending in the areas of education, recreation and culture, security and public order and housing and community amenities (more than 80%). Health is a notable exception, as it is mostly a federal competence in Germany. The primary areas of *Länder* spending are general public services, education and social protection. Local government spending goes primarily to social protection, general public services, education and economic affairs/transport. Social protection expenditure has increased significantly in recent years as a result of new responsibilities transferred to municipalities (e.g. childcare and youth services but also services related to the Asylum Seekers Benefits Act).

SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	% GDP			% GENERAL GOVERNMENT (SAME REVENUE CATEGORY)			% SUBNATIONAL, STATE AND LOCAL GOVERNMENT REVENUE		
	SNG	State	Local	SNG	State	Local	% SNG revenue	% state revenue	% local revenue
Total revenue	21.6%	13.4%	8.1%	47.9%	29.8%	18.1%			
Tax revenue	12.3%	9.1%	3.2%	52.2%	38.8%	13.4%			
Grants and subsidies	5.7%	2.3%	3.4%						
Tariffs and fees	2.5%	1.2%	1.3%						
Property income	0.3%	0.1%	0.1%						
Other revenues	0.9%	0.7%	0.1%						



OVERALL DESCRIPTION. Intergovernmental finances are characterised by strong horizontal and vertical interdependences. Public revenue legislation is designed to ensure that the responsibilities of the different levels of government are properly financed. *Länder* account for 62% of total SNG revenue vs 38% for the local level. Tax revenues are the main source of revenue of SNGs, followed by grants and subsidies, then tariffs and fees. The shares of tax revenues in SNG revenue and GDP are significantly higher than in the OECD on average (7.1% of GDP and 44.6% of SNG revenue) as well as in OECD federations (8.8% of GDP and 47.5% of SNG revenue). The share of tax revenues is significantly higher at state level than at local level where the weight of taxes and grants is more balanced while tariffs and fees account for a significant part of local government revenue.

TAX REVENUE. The Constitution (Art. 106.3) allocates several particularly important taxes to the Federation, *Länder* and, to a certain degree, the municipalities. The taxes and their distribution are determined by the federal government and Bundestag, and subjected to the approval of the Bundesrat. SNG tax revenues encompass both shared and own-source taxes. Shared taxes include the PIT (tax on wages and salaries, assessed income tax, withholding taxes on interest and dividends), the corporate income tax (CIT), the value-added tax (VAT) and the motor vehicle tax (since 2009). The PIT, CIT and VAT account for 74% of SNG tax revenue (i.e. 9.0% of GDP). The PIT is the most important source, representing 41% of SNG tax revenue and 23.5% of SNG total revenue. It is followed by the VAT (29% of SNG tax revenue and 16% of SNG total revenue). The CIT is well behind with 3.6% of SNG tax revenue and 2.0% of SNG total revenue.

Länder have little real influence on their revenues as most of their tax revenue comes from shared PIT, CIT and VAT (84%). According to tax sharing arrangements, they receive 43.5% of the tax on wages and salaries collected nationally and 50% of the two withholding taxes on dividends and interest. Overall, the *Länder* received 77% of the subnational PIT and the local level the remaining 23%. *Länder* received around 48% of VAT collected nationally and most of the SNG VAT (95.5%). One-quarter of VAT receipts are allocated to financially weaker *Länder*, as a supplementary portion through the equalisation scheme, while the remaining 75% are distributed to each *Land* according to its population. *Länder* receive 50% of the CIT collected nationally, equivalent to all SNG CIT (because municipalities do not benefit from this tax). PIT and CIT revenues are distributed among each *Land* based on the revenue collected within their territory (principle of fair return). *Länder* also collect own-source taxes, the most important being the real property transfer tax (4.3% of *Länder* tax revenue), the inheritance tax (2.2%), the betting and lottery tax, the beer tax and a fire protection tax.

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At local level, only municipalities are funded through taxes. The districts (*Kreis*) have no municipal taxes. Municipalities benefit from a share of PIT (14%) and VAT (2.3%). PIT represented 37% of local tax revenue and 14% of total local revenue in 2016 while VAT accounted for respectively 5% and 2%. Other municipal tax revenues are own-source taxes including primarily the local business tax (*Gewerbesteuer*) and the recurrent property tax (*Grundsteuer*) as well as some minor taxes such as the trade tax, the local tax on entertainment and the dog tax.

The local business tax is the most important municipal tax, representing 44% of municipal tax revenue, 17% of total municipal revenue and 1.4% of GDP in 2016. It is important to note that the total local business tax collected in Germany is more significant (1.6% of GDP) but municipalities only retain a share of the receipts that they collect (84% in 2016) and transfer the difference to the federal government (4% of total receipts) and the States (12%) as part of the equalisation mechanisms. Levied on all industrial and commercial companies, the rate of the local business tax is a combination of a uniform tax rate of 3.5% (base rate) and a municipal tax rate set by municipalities (*Hebesatz* or multiplier).

The recurrent property tax amounted to 0.4% of GDP in 2016, among the lowest among the OECD countries (1.1% of GDP on average in the OECD), accounting for 14% of local tax revenue and 5% of local revenue. Paid by property owners, it is levied on real property used for agriculture and forestry (category A) and constructible real property or real property with buildings (category B). It is calculated by multiplying the assessed value of the real property, the real property tax rate (depending on the type of property) and the municipal multiplier. The property tax is currently being reformed, as its valuations date back to 1964 (Western Germany) and even 1935 (Eastern Germany). The Constitutional Court has recently ruled that valuations must be updated by 2024 in an effort to make the tax system more efficient. The Constitutional Court has given the federal government until the end of 2019 to come up with a new method of calculating the tax.

GRANTS AND SUBSIDIES. Article 107 of the Constitution outlines the Principle whereby all Germans throughout the Federation should be on equal footing when it comes to living conditions. It also addresses equalisation and the Law on Fiscal Equalisation (*Finanzausgleichsgesetz*). Arrangements are complex and involve vertical and horizontal mechanisms, equalising mainly for revenue (only small adjustments for expenditure needs based on population dispersion for example). These arrangements are being revised (see below). At *Länder* level, there are currently three main categories of grants and equalisation mechanisms:

- Vertical equalisation from the federal level to the regional level to correct vertical fiscal imbalances, through VAT sharing among the *Länder* according to a redistribution formula (see above).
- Horizontal equalisation between the poor and rich *Länder* aiming to ensure public services are delivered in all regions. This is a mechanism for equalising the fiscal capacities of the *Länder*, and is funded entirely by the *Länder* through an inter-state revenue pool to which richer *Länder* pay and from which *Länder* with lower-than-average fiscal capacity draw according to a formula. Fiscal capacity refers to the per capita tax revenue of the *Länder* and the municipalities.
- Vertical equalisation through additional transfer payments to supplement fiscal equalisation for poorer states, notably from the former East Germany. Starting in 2019, *Länder* in the former East Germany and Berlin will no longer receive “supplementary grants for special needs” to compensate for their lack of infrastructure and municipal structure (Solidarity Pact II).

At the local level, there is no direct federal grant to local governments, only grants from their respective *Land*. Grants represent a significant source of revenue and comprise general, compensation, investment and specific grants. The principle of municipal equalisation is also enshrined in the Constitution and each *Land* is in charge of defining and implementing its own equalisation mechanism. Overall, current grants accounted for 88% of total grants and subsidies, the remaining 12% being capital grants.

A reform of the equalisation system is to be introduced in 2020. It will abolish explicit equalisation transfers among *Länder* and increase the role of the federal level. The *Länder* will receive a higher share of VAT revenue and more compensation via vertical transfers from the federal government, thus contributing to greater fiscal equalisation.

OTHER REVENUES. They represent a significant source for SNGs, accounting for almost 17% of SNG revenues (19% for the local level and 15.3% for states). User charges and fees paid by local citizens and corporations as users of local public services make up the bulk of “other revenues”, especially for local governments. Revenues from assets are not an important part of SNG revenue.

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.			% GDP			% GENERAL GOVERNMENT DEBT			% SNG DEBT		
	SNG	State	Local	SNG	State	Local	SNG	State	Local	SNG	State	Local
Total outstanding debt	13 247	10 793	2 453	27.1%	22.1%	5.0%	35.5%	28.9%	6.6%	100%	100%	100%
Financial debt*	13 145	10 754	2 390	26.9%	22.0%	4.9%	35.8%	29.3%	6.5%	99%	99.6%	97%

* Currency and deposits, loans and bonds

FISCAL RULES. The 2009 federalism reform (Article 109a Basic Law) set up a Stability Council (*Stabilitätsrat*), which is a joint body representing the federal and state governments. Its purpose is to monitor budgetary developments, negotiate budgetary consolidation programmes and assess compliance with structural deficit targets contained in the Fiscal Compact. Balanced structural budget provisions and a “debt brake rule” were introduced in 2011. It imposes, from 2020 onwards, a structural deficit limit of 0.35% of GDP to the federal government, as well as structurally balanced budgets for the *Länder*. *Länder* are allowed to run a temporary deficit and the rule can also be suspended in the event of a natural disaster, an economic crisis or other one-off circumstances. The consolidation phase spans from 2011 to 2019. *Länder* encountering financial problems receive financial aid on an extraordinary basis from 2011 to 2019. *Länder* also need to adopt similar rules for including the “debt brake” in their regional constitution or in a fiscal framework law. Local governments must balance their budgets.

DEBT. According to the Constitution, *Länder*'s public debt must not exceed the amount of planned investments. Local government borrowing restrictions are determined by each state. SNGs may borrow - with the approval of the supervisory authority - to fund capital investment only (“Golden Rule”). In the aftermath of the financial crisis, overall government debt has fallen significantly. SNG debt, as a percentage of GDP and public debt, remains, however, above OECD averages (20.7% of GDP and 24.5% of public debt in 2016). Financial debt accounts for almost the entire outstanding debt, meaning that the share of other accounts payable is very limited (1%). Bonds accounted for 51% of public debt and loans for 49% in 2016. In 2016, *Länder* held 81.5% of the debt stock and the local level, 18.5%. *Länder* financial debt is composed of bonds (62%) and loans (38%) while local debt is made up almost entirely of loans (98%). German states are by far the largest bond issuer among European regions. Total bonds outstanding in December 2016 represented more than seven times as much as the second largest group of regional issuers, the Spanish regions.



Lead responsible: OECD
Last update: 02/ 2019

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Socio-economic indicators: OECD statistics // Eurostat // World Bank // UNDP // UN Desa // ILO // Federal Statistical Office (Destatis).

Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // Federal Statistical Office (Destatis) // Deutsche Bundesbank.

Other sources of information: European Commission (2018) Country report Germany 2018 // Federal Ministry of Finance, German Stability Program 2018 // OECD (2018), OECD Economic Survey: Germany 2018 // Franzke J. (2018) Traditions, Problems and Challenges of Inter-municipal Cooperation in the German Federal State of Brandenburg in “Inter-Municipal Cooperation in Europe” // OECD (2018) Regions and cities at a Glance // Zimmermann K. (2017) Re-Scaling of Metropolitan Governance in Germany // // Scope Ratings (2017), German Länder: Credit quality driven by strong institutional framework, Bloomberg, Berlin // Uni-Credit (2016) Handbook of German States // European Committee of Regions (2016) Division of Powers // OECD (2015), “Frankfurt, Germany”, in Governing the City, OECD Publishing, Paris. Aluel K. A. (2014) Intergovernmental relations in German federalism: Cooperative federalism, party politics and territorial conflicts, in Comparative European Politics 12(4-5).