

FINANCIAL SITUATION OF THE LÄNDER BUDGETS

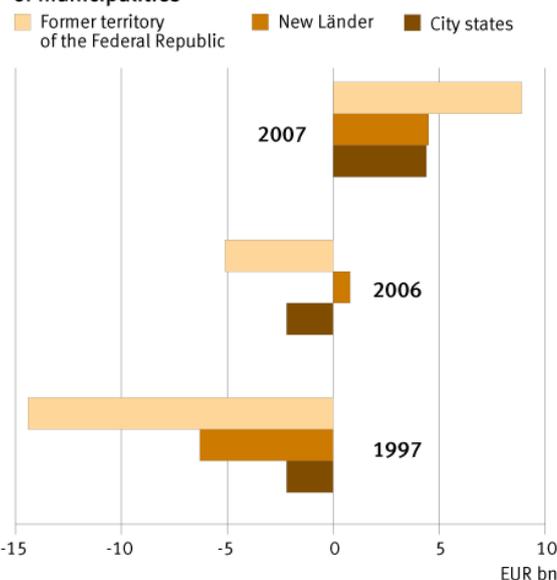
Destatis, 9. October 2008

The fitness for the future and scope for action of the Länder depend on the development of public finance. Using indicators of public finance statistics, the current situation, the structure as well as the trend and prospects of the public budgets of a Land can be assessed. Among the many indicators used to assess the financial situation of the Länder, this article examines the current budgetary situation of the Länder by means of the indicator “financial balance” and, using the indicator “per capita debt”, shows the extent to which the Länder have to bear previous burdens. In the calculations examined here, the Land and municipality data are combined to compensate for the differences between the various Länder regarding the work-sharing between Land and municipality levels.

Financial balance

In 2007, the total of the Länder and their municipalities/associations of municipalities achieved a financial surplus of EUR 17.9 billion for the first time since 1969. In 2006, a financial deficit of EUR 6.5 billion was recorded. When examined more in detail, the financial deficit of the Länder in the former territory of the Federal Republic decreased by some EUR 14 billion from the previous year to a surplus of EUR 8.9 billion. The city states, too, achieved a financial surplus of EUR 4.4 billion in 2007, following a deficit of EUR 2.2 billion in the same period of the previous year. Only the new Länder recorded a financial surplus already in the fiscal year of 2006 (EUR 0.8 billion), which they increased to EUR 4.5 billion in 2007.

Financial balance of the Länder and municipalities / associations of municipalities¹



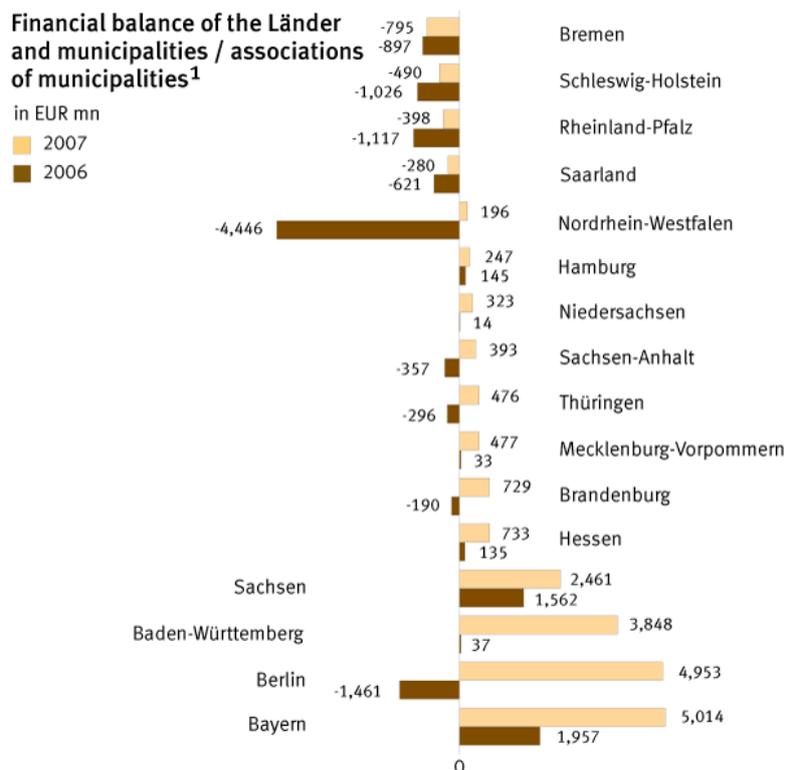
¹ 2006 and 2007: Quarterly cash results incl. extra budgets.
1997: Accounting results (incl. hospitals and university hospitals with commercial accounting systems).

© Statistisches Bundesamt, Wiesbaden 2008

The improved financial situation is due to rising revenue and nearly unchanged expenditure. Revenue increased 8.1% on a year earlier, reaching EUR 383.8 billion, whereas expenditure was up by just 1.2% to EUR 365.8 billion. Factors contributing to the positive trend of tax revenue are the raising of the standard rate of turnover tax on 1 January 2007 from 16% to 19% and the good economic development. The rising business profits and the resulting increase in receipts had a positive effect on profit-related taxes. Thanks to the improved labour market situation, revenue from wage tax was up, too. As regards the sale of share holdings, the increase in receipts resulted especially from the sale of the shares in the *Landesbank Berlin* by the Land of Berlin (EUR 4.6 billion).

The positive development of financial balances of the Länder is illustrated particularly by a ten-year comparison. In 1997, the Länder and municipalities recorded a total financial deficit of EUR 22.9 billion. The non-city Länder in the former territory of the Federal Republic alone had a negative balance of EUR 14.4 billion. In the meantime, they have reduced their deficits and achieved even a large surplus in 2007.

A comparison between the various Länder shows a heterogeneous picture. While Bremen, Schleswig-Holstein and Rheinland-Pfalz recorded financial deficits of between EUR 795 million and EUR 398 million in 2007, Bayern, Berlin and Baden-Württemberg achieved financial surpluses of between EUR 3.8 billion and EUR 5 billion approximately. As mentioned earlier, the financial balance of Berlin strongly overstates the actual situation as it includes the receipts from the sale of *Landesbank Berlin* shares (EUR 4.6 billion). In 2006, Berlin ranked second among the Länder, with a financial deficit of nearly EUR 1.5 billion. Nordrhein-Westfalen ranked first with a deficit of over EUR 4.4 billion. Among the Länder with the highest financial surpluses, Bayern and Sachsen ranked first in 2006 - Bayern held that top rank also in 2007.



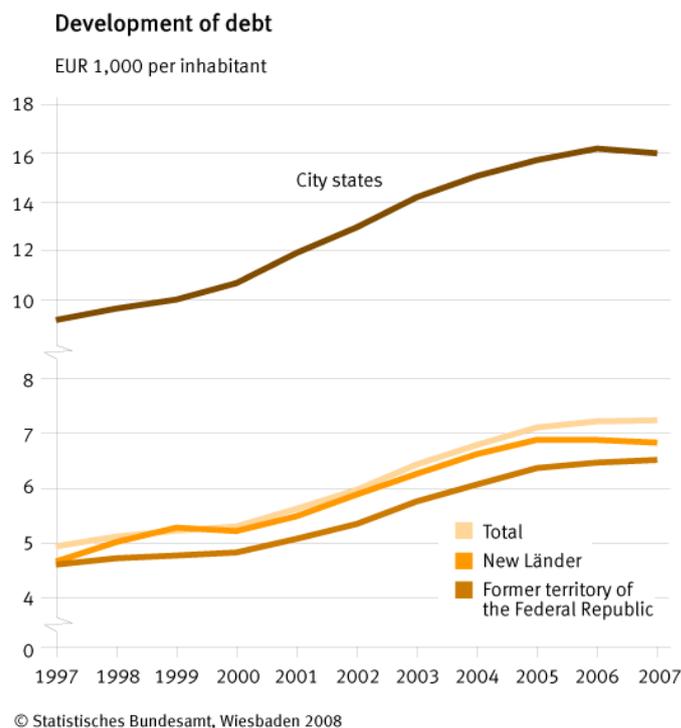
¹ Quarterly cash results incl. extra budgets.
© Statistisches Bundesamt, Wiesbaden 2008

Per capita debt

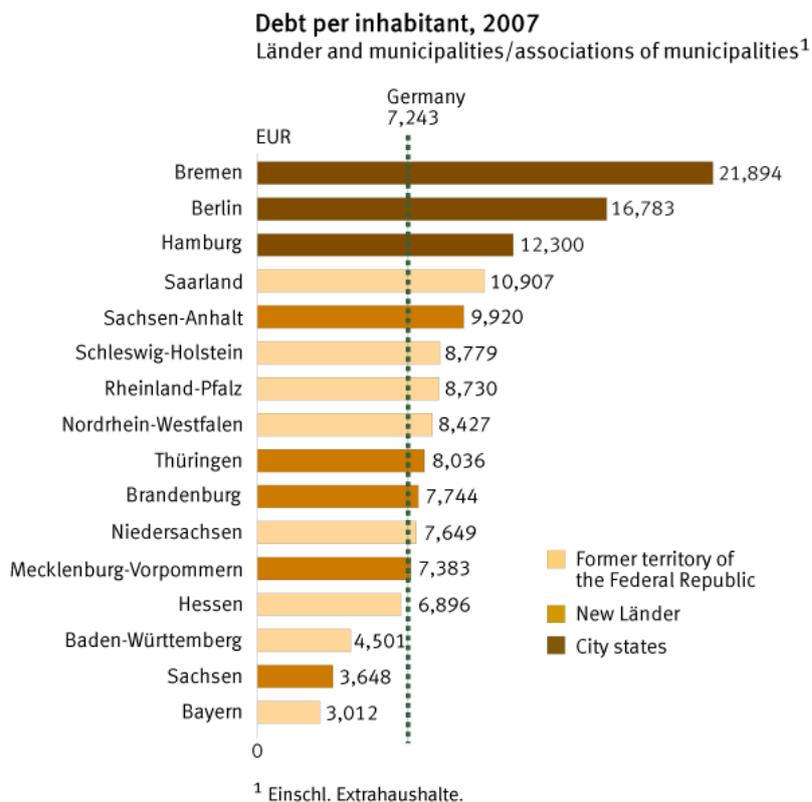
Debt per inhabitant allows comparing debt between Länder. A distinction is made between credit market debt (securities debt, direct loans and equalisation claims) and short-term loans for strengthening cash resources. Frequently, only credit market debt is included in the calculation. As loans for strengthening cash resources are used more and more frequently especially by municipalities to finance current expenditure, such loans have been included in the debt figures in this article.

At the end of 2007, credit market debt and loans for strengthening cash resources of the Länder and municipalities totalled EUR 7,243 per inhabitant, which was EUR 19 more than at the end of 2006. Debt of the Länder budgets accounted for EUR 5,898 of that total amount and debt of the municipal budgets accounted for EUR 1,447. In 1997, per capita debt was EUR 4,943 – so it rose by a factor of almost 1.5 within the last 10 years.

The highest debt was always recorded by the city states. In 1997, their per capita debt was EUR 9,164. By 2006, it rose to EUR 16,203 before it decreased slightly to EUR 16,010 by the end of 2007. The new Länder remained roughly at the average level of all Länder over the last 10 years, whereas per capita debt of the former territory of the Federal Republic was slightly below.



The high debt of the city states is particularly well illustrated by a comparison between individual Länder. In 2007, Bremen, Berlin and Hamburg were the Länder with the highest per capita debt, recording figures between EUR 21,894 (Bremen) and EUR 12,300 (Hamburg). The lowest debt per inhabitant was recorded by Bayern (EUR 3,012) and Sachsen (EUR 3,648), which were also among the Länder achieving the highest financial surpluses in 2006 and 2007.



© Statistisches Bundesamt, Wiesbaden 2008