



Monthly Report – October 2025

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Commentary

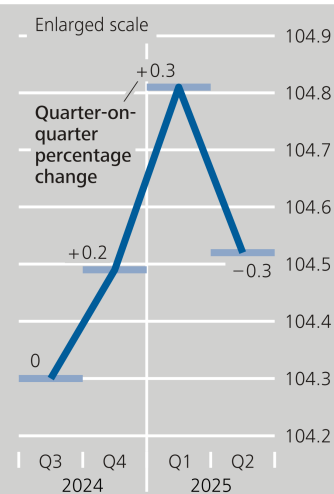
1 German economy unable to break free from economic weakness

Real gross domestic product (GDP) is likely to flatten at best in the third quarter of 2025. Industry is continuing to suffer due not only to structural problems, but also raised US tariffs. Output, real sales and real exports of goods saw a decline recently. The same is now also true for industrial new orders. Moreover, the still low level of capacity utilisation in industry and weak competitiveness probably continued to weigh on investment activity and thus on demand for capital goods. Standing somewhat in contrast to this, however, is the improvement in short-term production expectations and, above all, export expectations in September reported by the ifo Institute. A broad-based recovery is likewise still to materialise in the construction sector. Construction output rose slightly averaged across July and August. The increase was attributable solely to the finishing trades, though, whilst output in building construction and civil engineering was lower. The situation in civil engineering is still significantly better than in building construction. Private consumption is likely to have registered a slight increase at most. Activity in the services sector was likewise sluggish. Service providers' output declined slightly in July and the business situation of consumer-related service providers deteriorated in the third quarter, according to surveys conducted by the ifo Institute. However, the S&P Global Purchasing Managers' Index remained just above the expansion threshold in the services sector.

Gross domestic product in Germany

Chart 1.1

2020 = 100, adjusted for price, seasonal and calendar effects, log scale



Source of unadjusted figures: Federal Statistical Office.
Deutsche Bundesbank

2 Industrial output suffers dampening effects

German industry's surprisingly strong start to the third quarter of July was significantly stifled in August.

In August, seasonally adjusted ¹⁾ industrial output was considerably lower than its strong showing in the previous month. The decline in industrial output in August affected all sectors, but especially manufacturers of capital and consumer goods. This was partly due to the fact that car manufacturers' plant shutdowns increasingly occurred in August this year rather than in July, as is the norm.

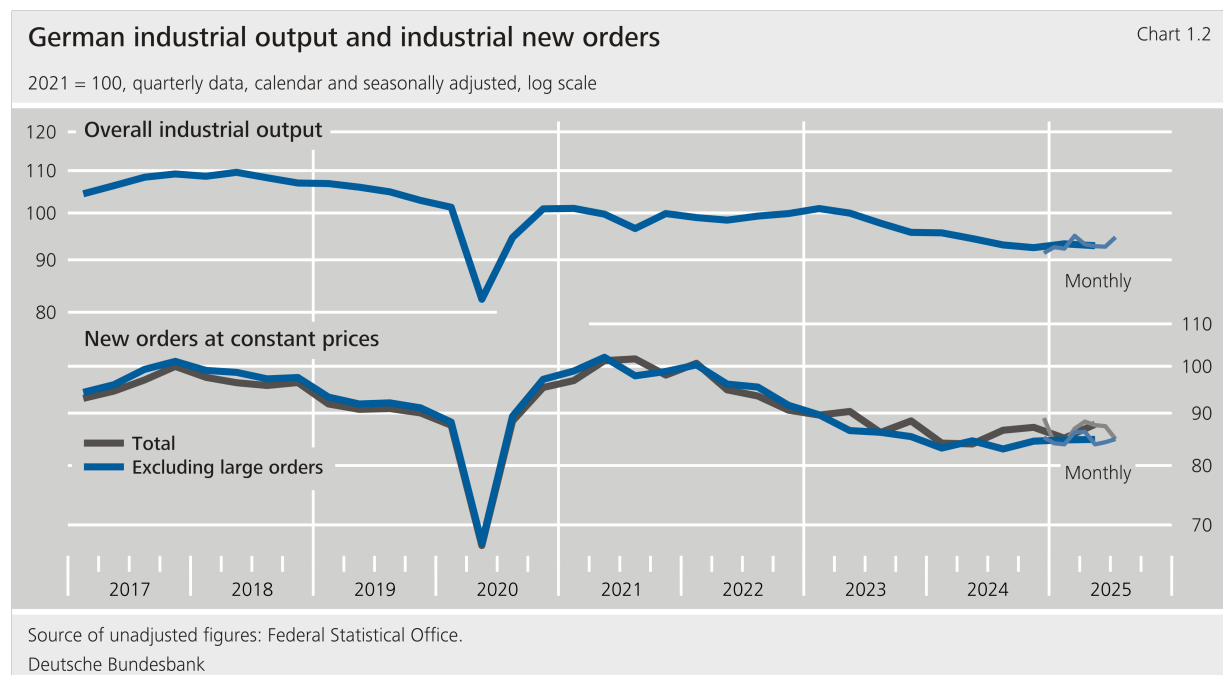
²⁾ However, industrial output also remained below the level of the previous quarter overall when averaged across both months. Alongside the automotive industry, the decline was especially pronounced in the manufacture of electrical and electronic equipment. By contrast, while mechanical engineering output normalised somewhat in August following its surprisingly strong performance in July, it remained significantly higher averaged across both months than in the previous quarter. Within the consumer goods sector, pharmaceutical product manufacturing was weak, in particular. Price-adjusted industrial sales likewise fell in August. They have also been revised downwards for July. Taking the average of July and August, they were therefore worse than in the previous quarter. Figures from the German Association of the Automotive Industry on the number of passenger cars manufactured, which are already available up to September, also point to a weak quarter for the sector. Part of the decline in output is likely to be due to weaker exports owing to the negative impact of the sharp rise in US tariffs on imports from the EU. These are placing an especially heavy strain on Germany's export-oriented economy. Price-adjusted exports were down more sharply in August than in July and are slightly below the previous quarter's level on average. Nominal exports to the United States fell particularly sharply. By contrast,

1 Seasonal adjustment here and in the remainder of this text also includes adjustment for calendar effects, provided they can be verified and quantified.

2 The calendar adjustment for manufacturing takes into account the monthly number of working days in the five-day work week. Other calendar effects, such as those caused by weather conditions or the timing of school holidays or plant shutdowns, are generally disregarded.

firms' survey data paint a somewhat friendlier picture. Although the ifo business climate index in the manufacturing sector declined again in September, the average level in the third quarter was still higher than before. The Purchasing Managers' Index for industry also remained clearly above the expansion threshold.

The previously slight upward trend in demand for German industrial products slowed significantly recently. Seasonally adjusted industrial new orders contracted somewhat in August and, taking an average of July and August, were clearly below the previous quarter's level. Even excluding the more volatile large orders, new orders in August were considerably down on July. Averaged across July and August, they were thus markedly lower than the previous quarter's level. Most notably, the trend in foreign demand, which had been pointing upward so far, suffered a significant setback. New orders from non-EU countries (including the United States), especially, recorded a sharp drop recently. The weak increase in domestic demand was unable to compensate for this decline. Demand for capital goods, in particular, fell. However, according to the ifo Institute, improved production plans as well as business and export expectations in the third quarter point to somewhat more robust industrial activity towards the end of the year.



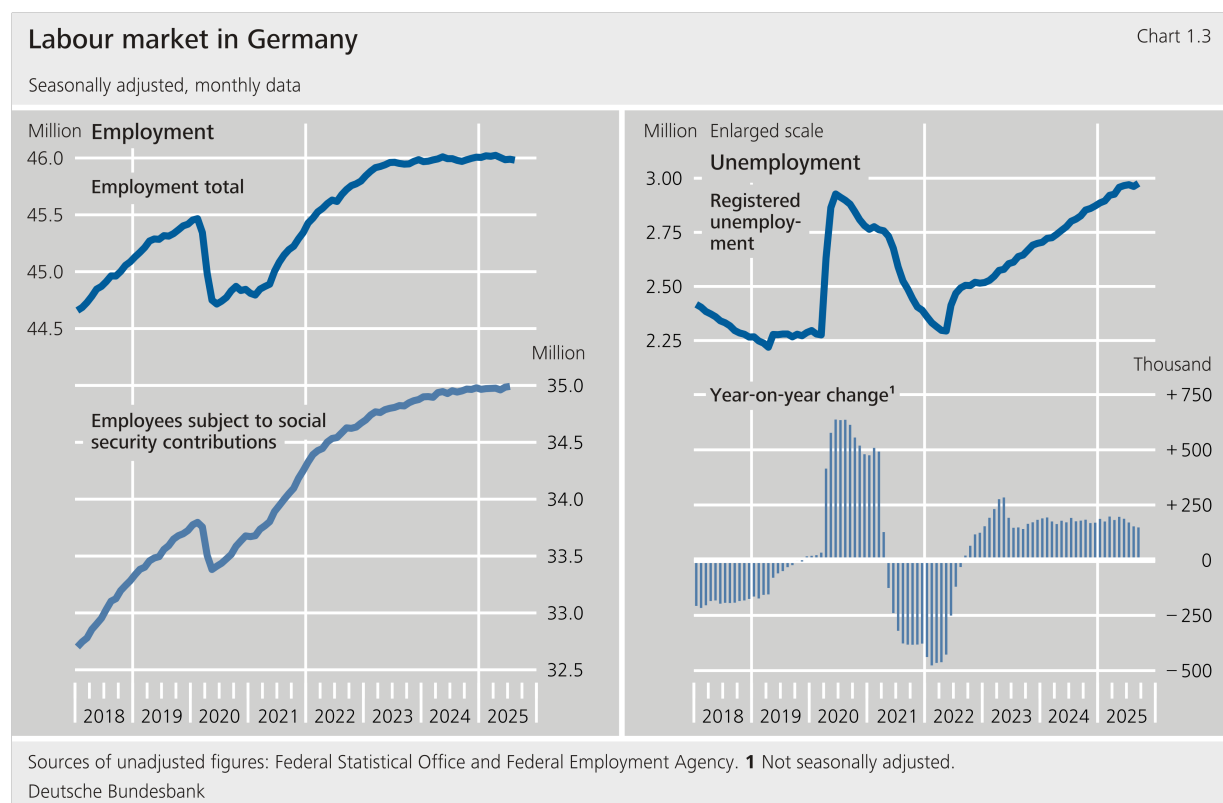
3 Private consumption still lacklustre

Private consumption is unlikely to have given much impetus to economic activity in the third quarter either. The indicators paint a mixed picture. On the one hand, according to data from the German Association of the Automotive Industry, private motor vehicle registrations rose steeply on the quarter. In addition, according to GfK surveys, consumers' income expectations improved markedly in the summer half-year, although they remained at a low level. On the other hand, consumers' propensity to purchase fell, and, mirroring this, their propensity to save increased significantly. In addition, there were economic concerns, as expectations regarding the economy declined. This restraint is also reflected in real retail sales, which fell again slightly in August and remained weak averaged across the first two months of the third quarter. According to data available up to July, price-adjusted sales in the accommodation and food services sector likewise declined on the quarter. Further evidence of weak developments in private consumption in the past quarter is provided by the ifo Institute's survey on the assessment of the business situation by retailers and consumer-related service providers, which deteriorated somewhat.

4 Little movement in labour market

Continued industrial job losses are still being offset by growth in the services sector.

Total employment in Germany fell only slightly by a seasonally adjusted 8,000 to 45.98 million persons in August. This minor decline is attributable to the downward trend in self-employment and marginal employee numbers. By contrast, employment subject to social security contributions – initial estimates are only available for July – recorded a slight month-on-month rise of 7,000 persons. In the manufacturing sector, it continued to decline significantly, but not at an accelerated pace. Conversely, employment in various areas of the services sector increased. Health and social services have been one of these for some time now, as have public administration, education and energy supply. The number of jobs in the construction sector is stable. The use of short-time work for economic reasons has declined markedly since the beginning of the year.



The leading indicators of employment paint a split picture. The ifo employment barometer, a survey of the recruitment plans of trade and industry over the next three months, dropped again significantly in September. According to this barometer, short-term staff reduction plans have been predominant in the manufacturing and retail sectors for some time now, although there appears to have been a bottoming-out in both cases. Furthermore, commercial services scaled back recruitment plans. The main construction sector remained in neutral territory. Standing in clear contrast is the IAB employment barometer, which also looks at publicly financed sectors. This remained virtually unchanged in slightly expansionary territory. According to this barometer, total employment should pick up again slightly soon. The number of vacancies reported to the Federal Employment Agency barely declined during the summer months, following substantial declines. However, newly reported job vacancies remain at a very low level.

Unemployment went up somewhat in September. In seasonally adjusted terms, the number of persons officially registered as unemployed went up by 14,000 on the month to 2.98 million. The unemployment rate remained unchanged at 6.3 % due to rounding. The first month-on-month decline in registered unemployment since 2022 recorded in July has thus not continued as things stand. The number of unemployed persons receiving the basic allowance decreased. Here, the share of immigrants is disproportionately large and their gradual integration into employment, mainly in the growing services sector, is progressing. However, unemployment in the statutory unemployment insurance scheme, which is more cyclically driven, increased. Another factor in the rising unemployment is the decline in labour market policy measures. Persons taking part in these measures are not included in the unemployment statistics, but are effectively underemployed. The total number of underemployed persons reported by the Federal Employment Agency, which includes persons in labour market policy measures in addition to the unemployed, fell in September for the fourth consecutive month. This decline is still small, though. The prospects of registered unemployment also declining again are good, however. The IAB unemployment barometer has recovered markedly in the last few months and is now in positive territory, which suggests that unemployment will go down in the coming months.

5 Little change in energy commodity prices recently

Energy commodity prices have changed little recently. Crude oil prices moved sideways in September. Price-dampening factors, such as announcements by OPEC countries about plans to expand their oil production, were offset by price-supporting factors, such as concerns about possible Russian oil supply disruptions. Overall, these opposing factors balanced each other out. In October, crude oil prices came under pressure as a result of renewed trade tensions between the United States and China, and the price of a barrel of Brent crude oil recently fell to US\$63. By contrast, European gas prices remained at the level seen in previous months. This was partly due to a rise in US liquified natural gas exports and weaker Chinese demand for gas recently. Conversely, prices were buoyed by the fact that, ahead of the heating season, European gas storage facilities were not as well stocked as last year. Similar to crude oil prices, gas prices are currently around 19% lower than a year earlier.

6 Inflation up to 2.4 % in September

Prices at the upstream stages of the economy declined in August compared with the previous month. This is true of both imports and industrial goods on the domestic market. The development was mainly driven by lower prices for energy commodities. However, domestic producer prices excluding energy also fell slightly, whilst import prices excluding energy rose moderately. In year-on-year terms, import prices fell by 1.5 % and industrial producer prices by 2.2 %. Lower energy prices and the exchange rate appreciation of the euro both played a role here.

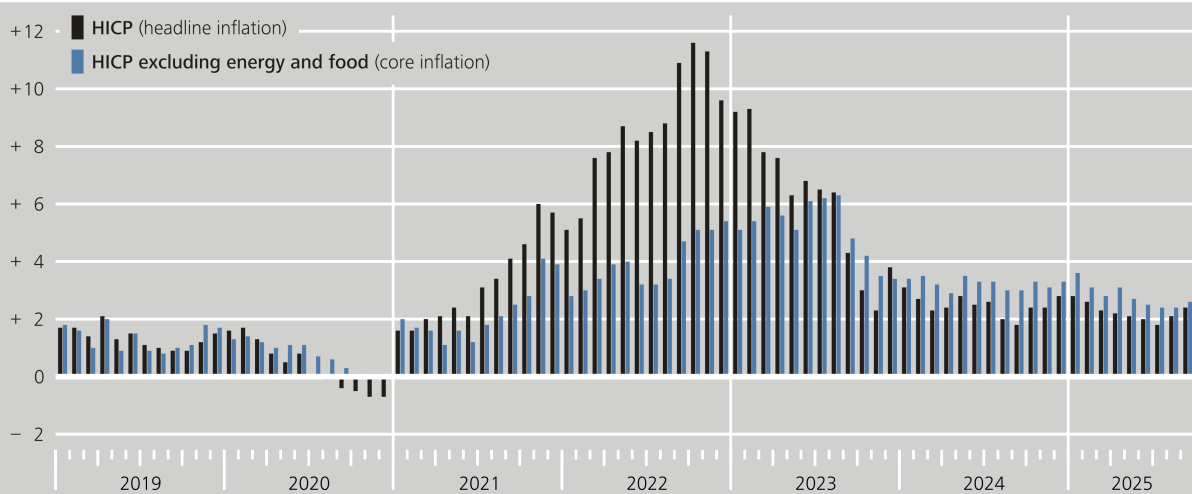
The inflation rate picked up again somewhat in September. The annual inflation rate as measured by the Harmonised Index of Consumer Prices (HICP) increased from 2.1 % in August to 2.4 % in September.³⁾ This was due, amongst other things, to the decline in energy prices in the same month of the previous year and the resulting positive base effect. However, it is likely that core inflation (rate excluding energy and food) also increased from 2.4 % to 2.6 %, with volatile components being the main driver. Excluding travel and clothing, the core rate remained at 2.9 %. The HICP went up again by a seasonally adjusted 0.2 % compared with the previous month. It was mainly services prices that continued to rise. This was primarily due to higher prices for travel, although inflation also remained noticeable for the less volatile services components. Prices of non-energy industrial goods likewise increased, driven in particular by volatile clothing prices. By contrast, food prices remained virtually unchanged on the month, while energy prices went down slightly.

3 The annual rate of inflation as measured by the national Consumer Price Index (CPI) rose from 2.2 % to 2.4 %.

Headline and core inflation in Germany

Chart 1.4

Year-on-year percentage change, monthly data



Sources: Federal Statistical Office and Eurostat.
Deutsche Bundesbank

In the coming months, the inflation rate is likely to fluctuate around the level reached most recently. This is mainly due to volatile developments in services prices towards the end of last year and the resulting base effects, especially in the travel sector. Unlike in previous quarters, energy is unlikely to have any further dampening effect on headline inflation in the fourth quarter. The reduction in transmission grid charges for electricity and the abolition of the gas storage levy in January 2026 are likely to dampen the inflation rate somewhat more strongly again, even if the reduction in electricity prices for households is considerably lower than originally planned and the national carbon price for heating and transport will rise again at the turn of the year.⁴⁾

4 From January 2026, the national carbon price in the heating and transport sector will move from the previous fixed price of €55 per tonne to an auction system. It will then lie within a price corridor of €55 to €65 per tonne.

EU finances: Member States' financial relationships with the EU in 2024 and the multiannual financial framework for 2028-34

Last year, the EU budget comprised expenditure of €146 billion, or just under 0.8 % of EU gross national income (EU GNI), down from around 1 % in 2023. Fewer funds went from the EU to the Member States, as many of them called up less cohesion funding. Instead, they primarily made use of funds from the NextGenerationEU (NGEU) off-budget entity, which are due to expire in 2026. The combined payments from both the EU budget and NGEU came to around 1.3 % of EU GNI, which was only slightly down on the previous year (- 0.1 percentage point).

Member States finance the EU budget primarily through contributions based on their respective GNI. These contributions vary relatively little, while the payments to the Member States from the EU budget and NGEU differ greatly. This results in net contributors and net recipients. Germany was among the ten net contributor countries again in 2024, at 0.4 % of its GNI (€18 billion). Of the 17 net recipient countries, Latvia received the most funds in net terms, at more than 3 %.

In July, the European Commission published an initial proposal for the new multiannual financial framework for 2028 to 2034, according to which the EU budget, as a percentage of EU GNI, would rise roughly in line with the repayments and interest burdens for NGEU. Member States' payments would be correspondingly higher. At the same time, the European Commission is proposing various new borrowing options, primarily to fund additional loans to Member States.

The European Commission wants to gear the EU budget more towards European tasks and also make financing simpler and more transparent. Both of these objectives are to be welcomed, and increased efforts could be made towards them in the upcoming negotiations. However, it makes less sense to tie EU funds to reform plans for national tasks and projects monitored by the European Commission. This poses the threat of additional bureaucracy, and the responsibilities could become increasingly blurred. The experience with NGEU is at least ambivalent in this regard.

1 Review of payment flows in 2024

Member States vote on joint spending commitments and their funding for a period of seven years. For this purpose, they set out a multiannual financial framework (MFF). The current MFF runs from 2021 to 2027. The majority of the spending goes to Member States in the form of grants, whilst a smaller share is used to fund joint expenditure, such as on border protection and humanitarian aid, for example. The annual EU budgets set out more precise spending plans for the duration of each financial framework. In the current financial framework, the EU budget amounts to around 1 % of EU GNI.¹⁾ The EU budget is financed largely through current contributions by Member States in proportion to their economic performance.

NGEU supplements the regular EU budget from 2021 to 2026. The NGEU off-budget entity was adopted by the Member States as a one-off crisis measure during the COVID-19 pandemic. It is limited to six years and comprises grants and loans to Member States. The centrepiece of NGEU is the Recovery and Resilience Facility (RRF). It accounts for all of the loans and around 80 % of the grants. The remaining 20 % of the grants is covered by existing spending programmes within the regular EU budget. The NGEU grants entail additional spending in the period from 2021 to 2026, averaging 0.5 % of EU GNI per year.²⁾

-
- 1 GNI has been defined as the benchmark for the EU budget. It differs from gross domestic product (GDP) by the balance of primary domestic and foreign income. GNI accordingly encompasses the entire income of all residents, regardless of whether it is generated domestically or abroad. The difference between the GNI and GDP of a given country is normally small; in the cases of Ireland and Luxembourg, however, GDP is significantly higher than GNI.
 - 2 Overall, NGEU comprises grants and loans totalling €830 billion (in current prices). Grants of up to €420 billion and loans of €390 billion were allocated initially. In the wake of the energy crisis, further grants of around €20 billion for REPowerEU were added and are being financed using revenue from trade in emissions allowances (see the supplementary information entitled "REPowerEU" in Deutsche Bundesbank (2024)).

Whether a country is a net contributor to or a net recipient from the EU budget is determined mainly by differing levels of grants from the EU budget. The payments contributed by Member States are roughly equivalent. However, countries with lower economic performance (measured in terms of GNI per capita) tend to receive disproportionately high grants out of the EU budget. Net contributions can be calculated for NGEU as well. However, in some cases, the Member States apply for NGEU funds in larger blocks at irregular intervals. Net contributions to NGEU therefore fluctuate more strongly from year to year than those to the EU budget (see the supplementary information entitled “Methodological information on determining net contributions”).

The EU budget redistributes financial resources from economically stronger Member States to economically weaker ones. It would be appropriate for the European Commission to report net contributions to the EU budget in a timely and transparent manner.³⁾ However, the net contributions should be interpreted with caution. The net contributions show that the financial burdens and financial relief associated with the Community budgets vary between the Member States. However, they do not reflect the costs and benefits of a country's membership in the EU.

3 In recent years, the European Commission published the file with the EU budget payment flows from the previous year at the end of each July. This year, the figures for 2024 have only been public since the end of September.

Methodological information on determining net contributions

In order to determine net contributions in a meaningful way, it is necessary to adjust the spending and revenue figures of the EU budget. The expenditure side takes account only of operating payments that go to the EU Member States. In particular, it does not include administrative expenditure, as this cannot be attributed to individual Member States in any meaningful way. The EU budget also funds grants to countries outside the EU, such as for development and humanitarian aid, for example. These payments likewise have no impact on the net contributions of Member States described here.

On the revenue side, only the current contributions of Member States are taken into account when calculating net contributions. These are determined on the basis of various national metrics: gross national income (GNI-based own resource), (standardised) value added tax revenue (VAT-based own resource), and the amount of non-recycled packaging waste (plastics own resource). The GNI-based own resources play a special role in the EU budget. They represent the largest item and are adjusted in such a way that they always balance the EU budget. Alongside the current contributions from the Member States, the EU budget is also funded by customs duties. However, these are incurred mainly at the EU's external borders and it is therefore not appropriate to attribute these to the Member States that collect them. There are other revenue items as well, such as receipts from fines for violating EU competition law or fines paid by Member States.

When calculating net contributions from the NextGenerationEU (NGEU) off-budget entity, it is assumed that Member States fund NGEU grants in accordance with their GNI shares. This is deemed appropriate because the financial contributions roughly correspond to both current and prospective future GNI shares. The net contributions calculated in this manner are the same as if the Member States funded NGEU annually via the regular EU budget.¹⁾ Debt service in the EU budget is not included in the operating expenditure taken into account here. This prevents expenditure items from being counted twice.

1 This financing key is also used for REPowerEU. For more information, see the supplementary information on REPowerEU in Deutsche Bundesbank (2024).

1.1 The EU budget for 2024 (excluding NGEU)

The EU budget for 2024 comprised expenditure of around €146 billion, which was €19 billion less than in the previous year.⁴⁾ At just over 0.8 % of EU GNI, expenditure was lower than usual (around 1 % of EU GNI). Administrative expenditure remained unchanged on the previous year at €12 billion. This corresponds to around 8 % of total expenditure. Expenditure on servicing NGEU debt came to €2 billion, or 1.5 % of total expenditure.

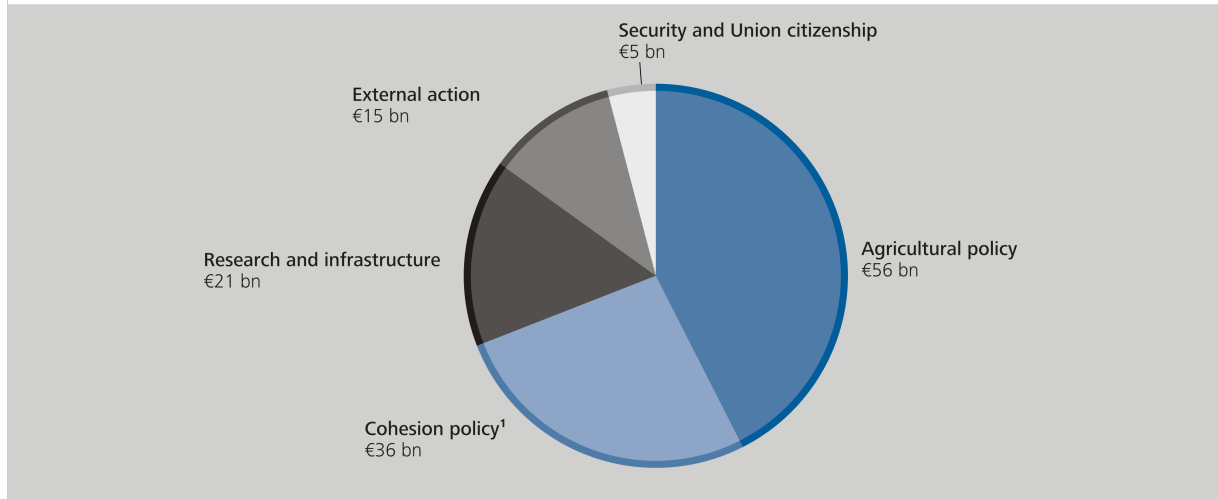
Spending on cohesion policy, which fell by almost 40 %, was the decisive factor behind the decline in expenditure. As a result, operating expenditure⁵⁾ also fell by a total of just over €20 billion to €132 billion. The share of spending on cohesion policy decreased to just 27 % (see Chart 2.1). Unlike in the preceding years, it was thus well below the share attributable to agricultural policy (42 %). The remaining 30 % of operating expenditure was distributed across the categories of research and infrastructure, external action, and security and Union citizenship. Just over €20 billion of operating expenditure went to recipients outside the EU, mainly in the area of external action (this is not included in the net contributions; see the supplementary information entitled “Methodological information on determining net contributions”).

4 See European Commission (2025a). In addition, country-specific figures are based on payment flows into the EU budget, which the European Commission publishes on its website. See commission.europa.eu. Current Eurostat data were used for GNI.

5 Expenditure excluding administrative expenditure and NGEU debt service.

Breakdown of operating expenditure in 2024

Chart 2.1



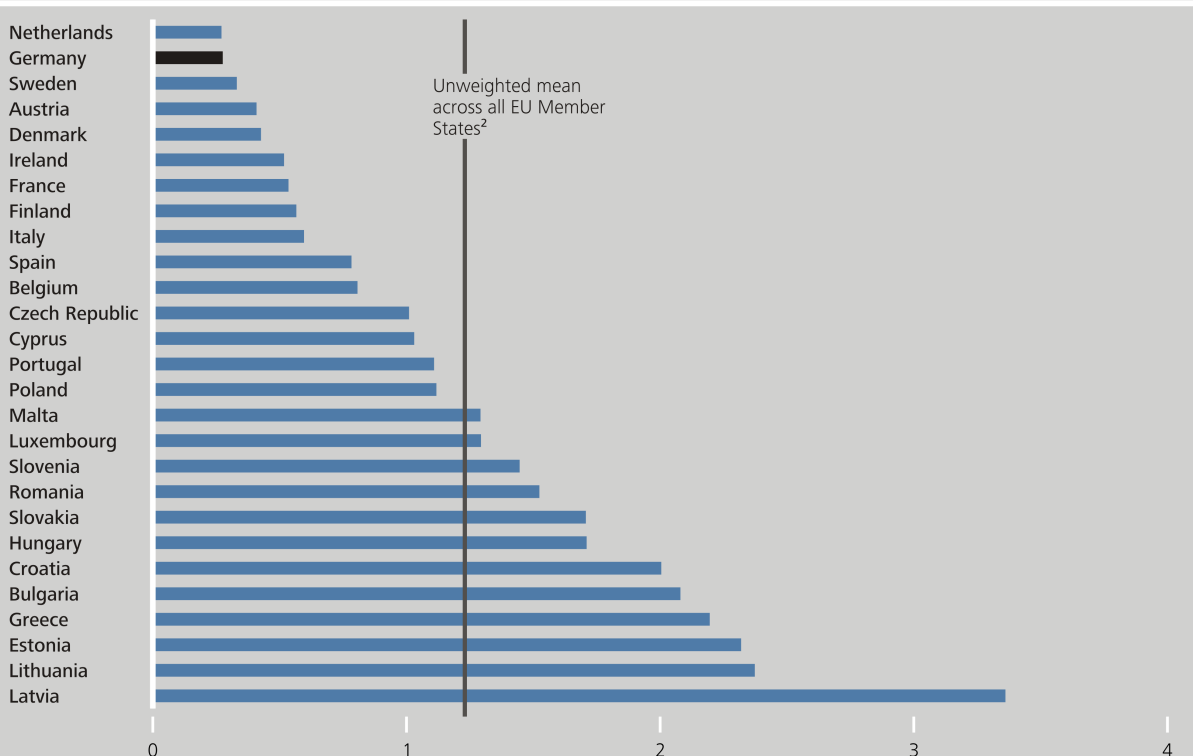
Sources: European Commission and Bundesbank calculations. ¹ Excluding expenditure on NGEU debt service.
Deutsche Bundesbank

The amounts of spending that went from the EU budget to Member States differed significantly between countries again in 2024 (see Chart 2.2). At just under 3½ % of its GNI, Latvia received the most funds. At less than ½ % of their respective GNI, the least funds went to the Netherlands, Germany, Sweden, Austria and Denmark.

Grants from the EU budget to Member States in 2024

Chart 2.2

As a percentage of each country's gross national income, operating expenditure¹

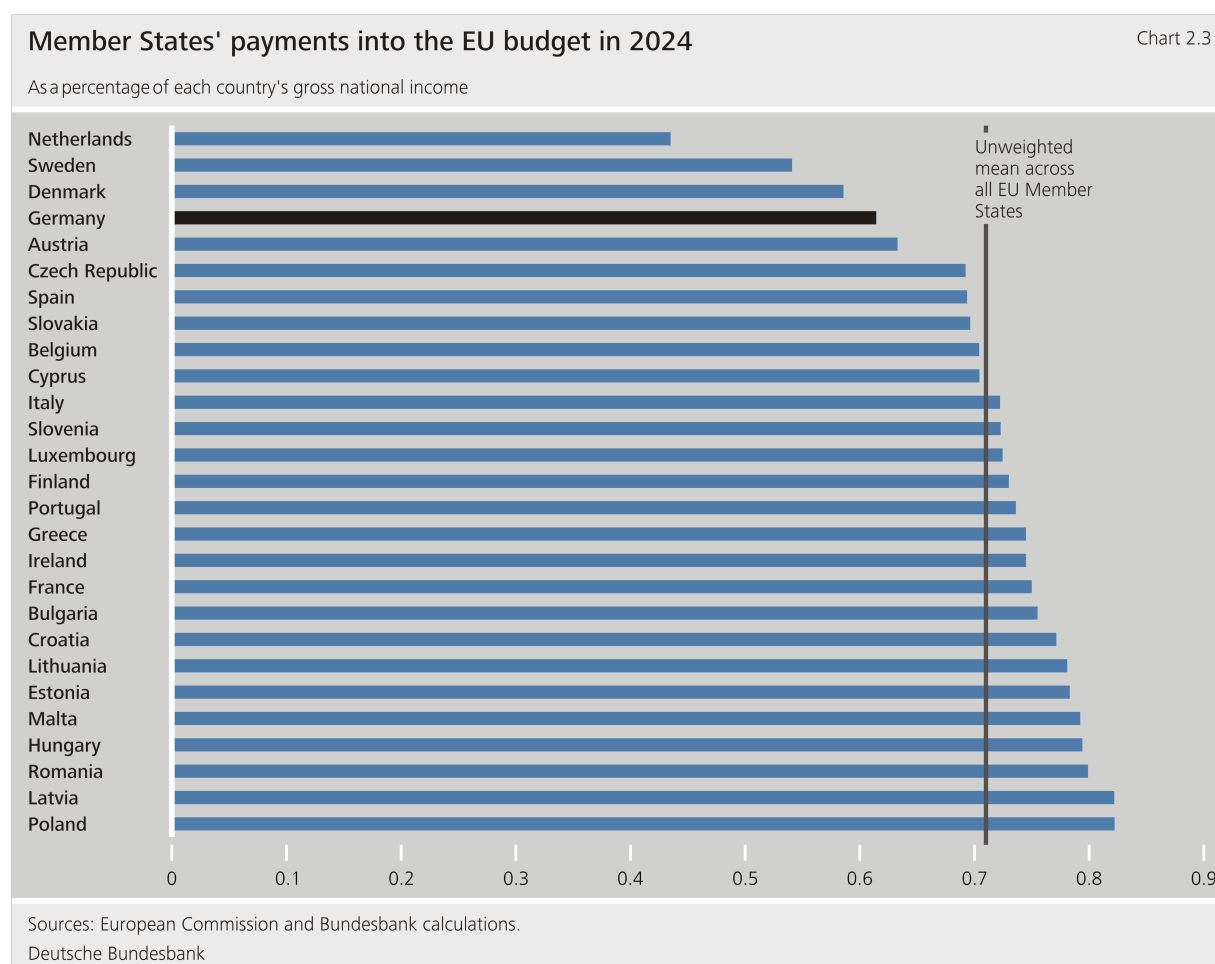


Sources: European Commission and Bundesbank calculations. ¹ Expenditure excluding administrative spending and debt service for the NextGenerationEU off-budget entity. ² Factoring in the different sizes of the Member States, the weighted mean was 0.63% of EU GNI.

Deutsche Bundesbank

All countries called up significantly less cohesion funding in relation to their GNI than in the preceding years. This is likely to be due to the fact that they primarily made use of funds from the Recovery and Resilience Facility before they expired. Overall, cohesion funding fell from 0.37 % to 0.17 % of EU GNI on average over the period from 2021 to 2023. This decline was particularly large in Hungary and Poland, at 1.7 and 1.4 percentage points, respectively. Cohesion funding in relation to national GNI also fell by more than 1 percentage point in Slovakia, Estonia, Lithuania, Croatia and Romania. In Spain, Italy, Portugal and Slovenia, cohesion funding as a proportion of GNI had already fallen significantly before this time. The aforementioned countries all received above-average amounts of RRF funds. It seems reasonable to assume that the RRF funds replaced some of the cohesion funding, as Member States are required to apply for RRF funds by the end of September 2026, when they are due to expire. Cohesion funding is likely to rise significantly from 2027 at the latest as a result of catch-up effects.

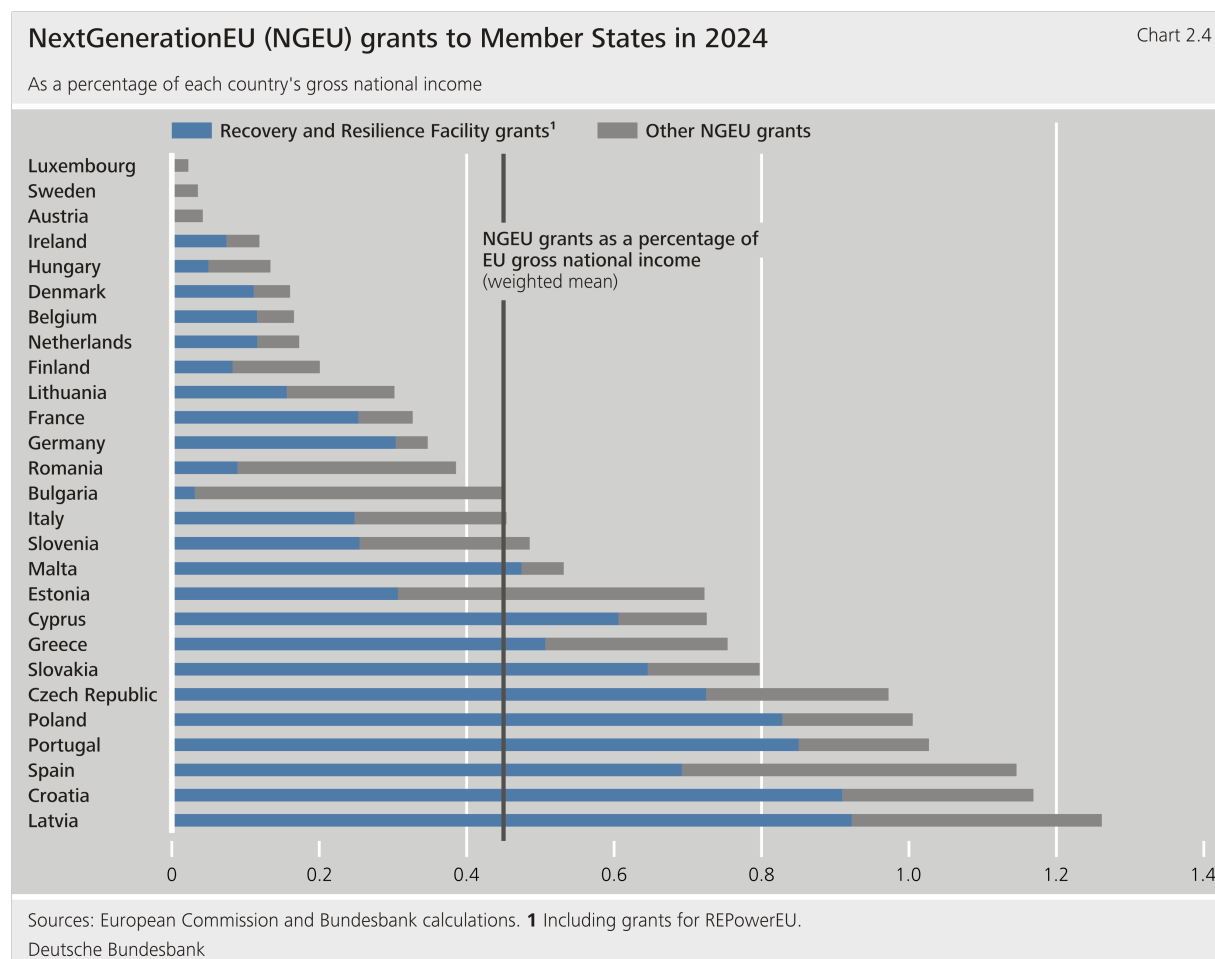
Member States' payments into the EU budget came to €128 billion in 2024. On (unweighted) average, Member States paid just over 0.7 % of their respective GNI into the EU budget (see Chart 2.3). In line with the lower expenditure, the payments into the EU budget were also somewhat down compared with the average of the previous years. The gap between the countries with the lowest and highest payments was just under 0.4 percentage point. This was thus roughly on par with other years. As usual, the largest share was attributable to GNI-based own resources (€95 billion). Customs revenue amounted to €21 billion.



1.2 NGEU in 2024

In 2024, disbursed NGEU grants totalled €80 billion, or just under 0.5 % of EU GNI (see Chart 2.4), with €56 billion of this figure attributable to the RRF (including

REPowerEU). Latvia, Croatia and Spain received the most funds in relation to their respective GNI (between 1.5 % and 1.3 %), while Luxembourg, Sweden and Austria each received less than 0.1 %. These differences are due not only to the varying levels of the allocated grants, but also to the fact that Member States apply for RRF grants in larger blocks and, in some cases, at irregular intervals (see Chart 2.5).



Overall, 16 % of the allocated RRF grants were disbursed in 2024 (see Chart 2.5). This was up somewhat on the previous years (13 % each). Again, there were significant differences between countries. Four countries did not call up any or any significant portion of their allocated funds (Sweden, Austria, Luxembourg and Bulgaria), while Germany called up the most, at 45 %. The Netherlands, Hungary and Ireland received RRF funds for the first time in 2024.

Out of the total RRF grants available, 55 % have been disbursed to Member States since 2021. Outflows will need to accelerate further to prevent the funds from expiring, because the European Commission is allowed to disburse them only up until the end of 2026. Germany had been disbursed 66 % of its allocated resources by the end of 2024. In addition, ten further countries had received more than half of their allocated funds by the end of 2024 (Czech Republic, Portugal, Estonia, Slovakia, Spain, Croatia, Denmark, Italy, Malta and France). Sweden is the only country not to have been disbursed any funds by the end of 2024. However, Sweden, too, received its first payment in July 2025.⁶⁾

6 See Recovery and Resilience Scoreboard.

Recovery and Resilience Facility grants to Member States*

Chart 2.5

%

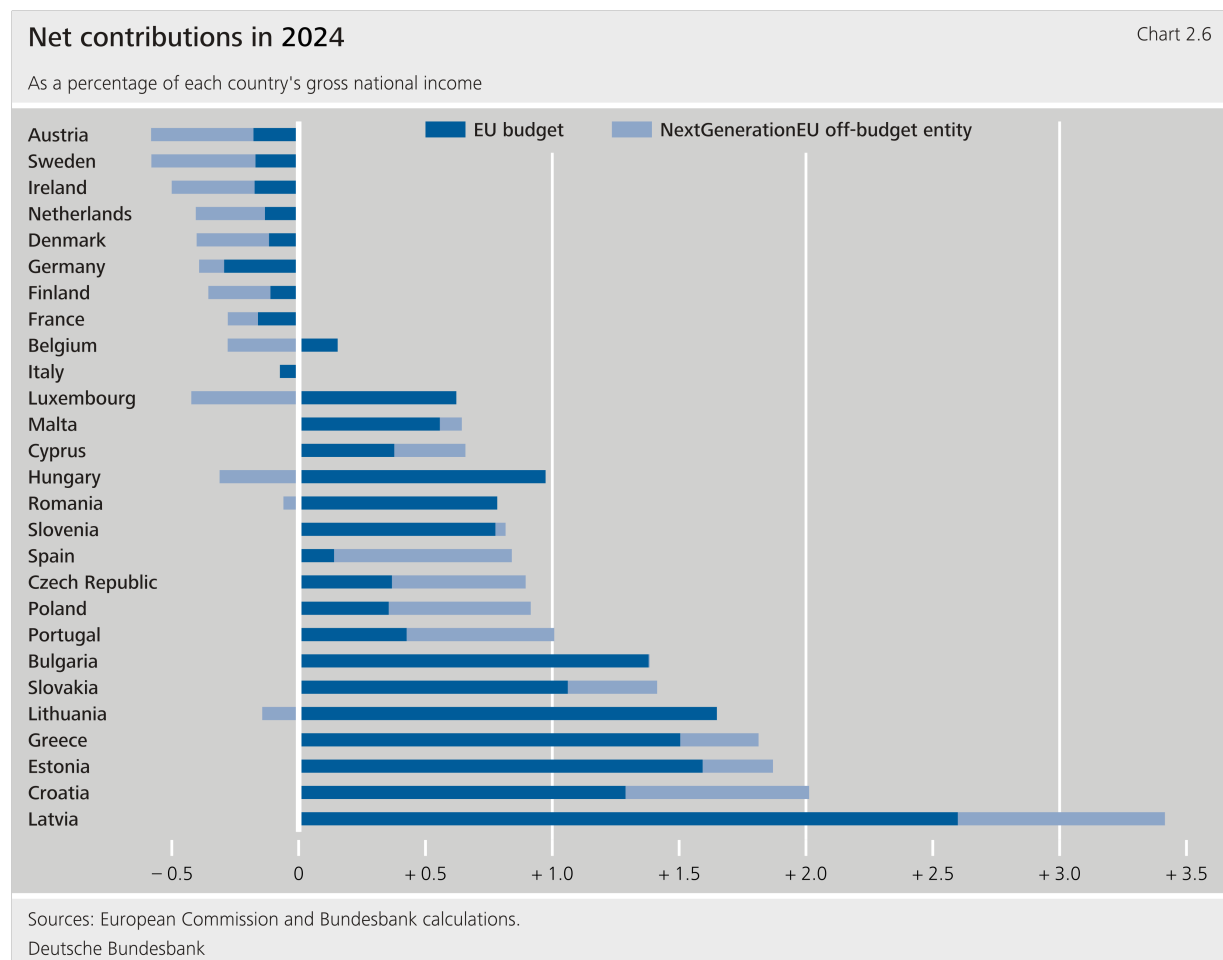


Sources: European Commission and Bundesbank calculations. * Including grants allocated and disbursed for REPowerEU.
Deutsche Bundesbank

1.3 Net contributions in 2024

Looking at the EU budget and NGEU as a whole, ten countries were net contributors in 2024 (see Chart 2.6 for the individual countries, broken down into EU budget and NGEU). The largest net contributions were from Austria, Sweden and Ireland, at more than 0.5 % of their respective GNI. Germany was also a net contributor. However, it did not rank among the frontrunners in 2024, as it received a significant portion of its RRF grants. The German net contribution to NGEU was therefore low. Seventeen countries were net recipients from the EU budget and the NGEU off-budget entity. Among these,

Latvia received the highest net grants at almost 3½ %, followed by Croatia, Estonia and Greece at around 2 %.



2 Outlook for the next multiannual financial framework

In July, the European Commission published a package of initial comprehensive proposals for the multiannual financial framework for 2028 to 2034.⁷⁾ Now, the Member States and the European Parliament must draw up a position on this. As the new financing period does not begin until 2028, an agreement is not to be expected before 2027. The European Commission's package contains detailed proposals regarding the scope and structure of future spending programmes. It also outlines how the Member States would finance these in the future. In addition, there are plans for the European Commission to be able to take on additional joint EU debt in crisis situations, for which the Member States would bear liability via the EU budget. Selected aspects of the European Commission's proposals are described below.

2.1 More funds needed to service debt for NGEU loans

The European Commission is proposing to increase the maximum scope of the EU budget from up to 1.13 % of EU GNI per year at present to 1.26 %.⁸⁾ This increase is needed mainly for servicing NGEU debt. For the period from 2028 to 2034, a total EU budget of €1,763 billion⁹⁾ is envisaged. The European Commission is budgeting €150 billion to service NGEU debt (just under 9 % of the envisaged funds).¹⁰⁾ This will be used for interest and repayments.

7 The entire package of proposals can be found on the [website of the European Commission](#).

8 See European Commission (2025b).

9 Unless stated otherwise, all figures for the European Commission's proposals are quoted in 2025 prices.

10 The European Commission is planning a fixed annual amount of €24 billion, in contemporary prices. The amount will therefore decrease over time both in 2025 prices and as a percentage of GDP.

The spending set out in the multiannual financial framework is intended to take account of greater fluctuations in inflation in future. Spending is normally set out for the entire planning period in constant prices of a given base year. This base year is 2018 for the current financial framework and 2025 for the next one. In order to take account of inflation, these figures have thus far been extrapolated at 2 % annually, irrespective of the actual rate of inflation. The European Commission wants to adjust this approach in the event of particularly high or particularly low inflation rates. It is proposing to apply the actual rate of inflation if it is above 3 % or below 1 %. ¹¹⁾ This would be likely to stabilise expenditure in relation to GNI.

11 The European Commission uses the GDP deflator as a measure of inflation.

Development of deficits and debt at the EU level

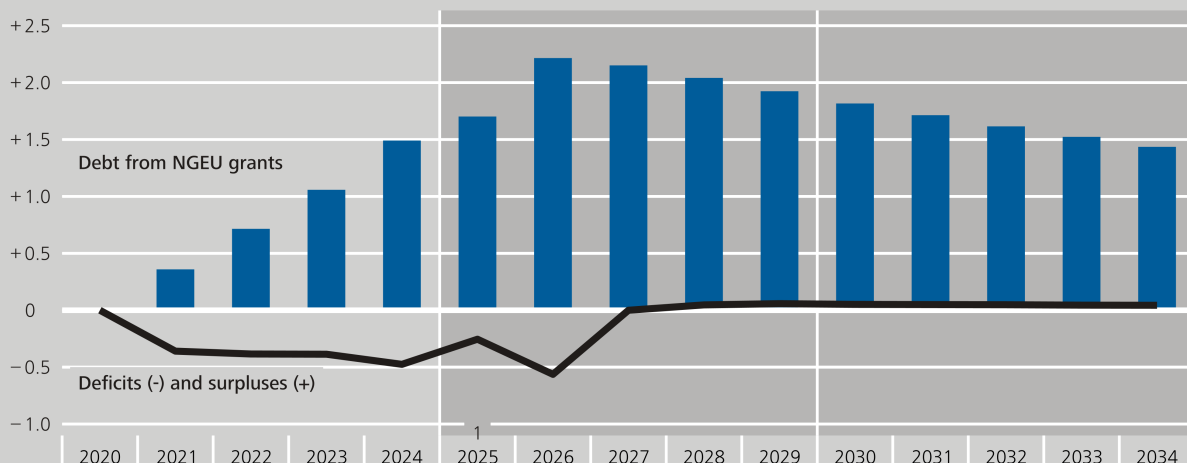
The EU budget is fundamentally balanced and posts no deficits. Due to NGEU, however, the EU level temporarily records deficits, followed later by surpluses for repayments. As an exception, NGEU grants result in deficits at the EU level in the period from 2021 to 2026 (see Chart 2.7).¹⁾ At the end of the 2026 disbursement period, the NGEU debt in question is likely to amount to around 2.2 % of EU gross national income (GNI). From 2028 onwards, the debt taken on for this purpose will be gradually repaid. To this end, the EU budget will need to achieve surpluses over a large number of years. The EU debt ratio will then fall again (partly due to rising GNI in the denominator). The interest burden arising from the accrued debt will prospectively amount to less than 0.1 % of EU GNI annually until the end of the next financial framework in 2034 (see Chart 2.8).

1 This analysis is based on a definition of “deficit” similar to the one used in the national accounts. For instance, credit-financed loan issuance is recorded under financial transactions, which does not affect the deficit, as it has no impact on a country’s net worth. Consequently, the EU deficits are solely a result of credit-financed grant payments.

EU-level* budget balance and debt from borrowing for NGEU grants

Chart 2.7

As a percentage of EU gross national income



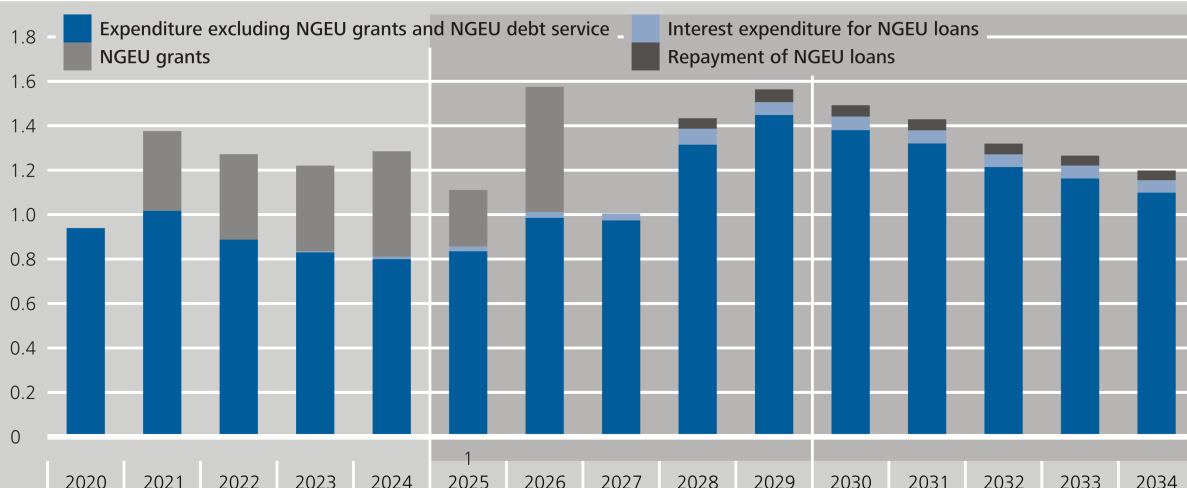
Sources: European Commission and Bundesbank calculations. * The EU level depicted here comprises the EU budget and the NGEU off-budget entity. 1 Bundesbank estimates from 2025.

Deutsche Bundesbank

EU budget expenditure and repayment of loans for NGEU grants

Chart 2.8

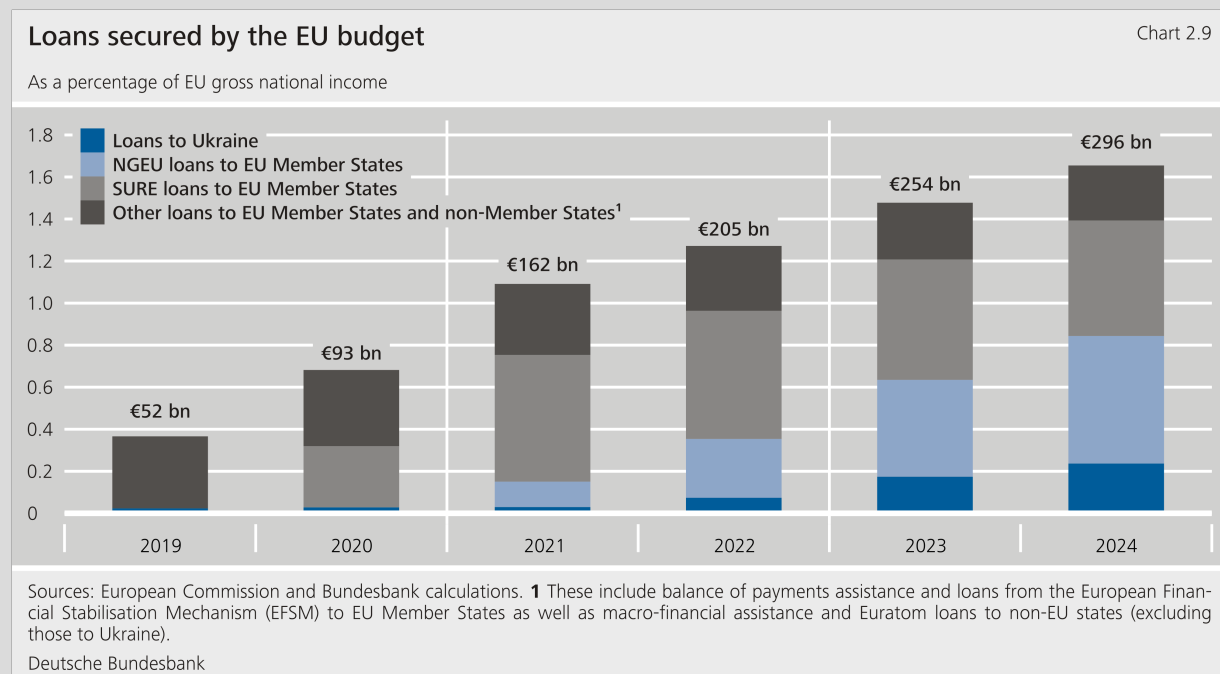
As a percentage of EU gross national income



Sources: European Commission and Bundesbank calculations. 1 Bundesbank estimates from 2025.

Deutsche Bundesbank

In addition to debt taken on for grants, the EU is increasingly borrowing for loans to Member States and Ukraine.²⁾ In this context, the greater debt is offset by the larger claims from the issued loans, meaning that it does not result in deficits. As early as 2019, these debts and claims amounted to €52 billion, or almost 0.4 % of EU GNI (see Chart 2.9). These mainly comprised loans from the European Financial Stabilisation Mechanism (EFSM) as well as macro-financial assistance to non-EU countries. The latter accounted for just under €5 billion of this figure. It also includes two lending programmes to Member States that were introduced during the coronavirus pandemic: the EU's SURE short-time work scheme from 2020 onwards and NGEU loans from 2021 onwards. By the end of 2024, these two lending programmes represented the largest share of the outstanding loans, accounting for 1.2 % of EU GNI. In addition, loans to Ukraine have been gaining significance since 2022. At the end of 2024, they totalled around €40 billion, or 0.2 % of EU GNI. Overall, by the end of 2024, the volume of loans secured by the EU budget had risen to just under €300 billion (1.7 % of EU GNI).



- 2 The Member States secure the joint debt for this purpose via a financial buffer in the EU budget (for more information, see the section entitled “New leeway for joint debt” in the main text). Some loan programmes have additional safeguards that take effect before the financial buffer is used. This applies to, amongst others, some of the loans to Ukraine, the SURE loans, and the macro-financial assistance to non-EU countries. Furthermore, the joint debt for NGEU loans and grants has an extra level of security. For these loans and grants, the own-resources ceiling has been temporarily raised by 0.6 % of EU GNI.

From 2026, there will be an additional €150 billion in loans for the EU's new Security Action for Europe (SAFE) debt instrument. SAFE is part of the "Readiness 2030" initiative adopted by the Council at the end of May 2025.³⁾ The loans earmarked for this purpose are intended to fund up to €150 billion of investment in defence capabilities. These loans, as well as those mentioned above, will not represent a burden on the EU budget if the credit claims are serviced as planned. The interest payments on own debt are offset by the interest income from credit claims.

3 See defence-industry-space.ec.europa.eu.

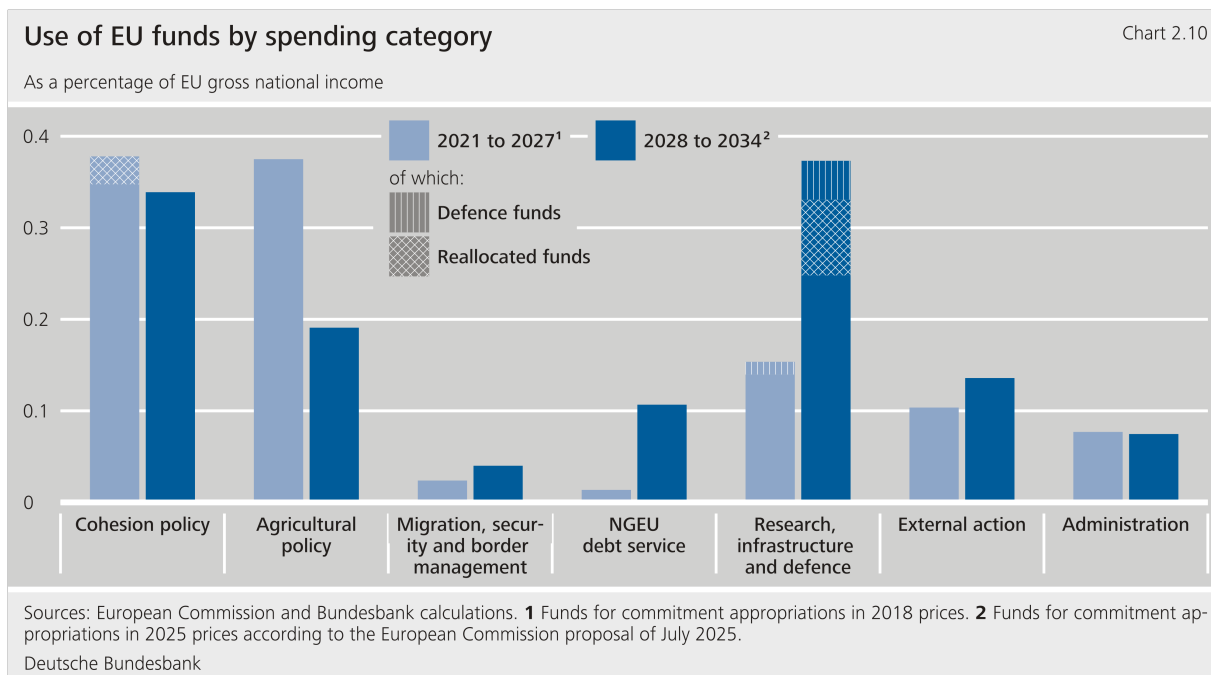
2.2 New focal points for spending

In the negotiations for the next multiannual financial framework, the Member States can adjust the focal points of spending in the EU budget towards new challenges. Thus far, a large share of expenditure has been attributable to agricultural policy and cohesion policy. The spending on agricultural policy focuses on supporting farmers' income, while cohesion policy aims to promote economic convergence within the EU. As a result, the funds for these two areas of activity go mainly to the economically weaker Member States. In the current financial framework, these areas account for two-thirds of total expenditure.

The European Commission's proposal would strengthen the areas of research, infrastructure and defence (see Chart 2.10). It envisages a larger share of funds being allocated to these areas. In addition, the European Commission wants to pool these areas under one category in future. Within an ongoing financial framework, it is easier to move spending between different areas in the same category. The European Commission is proposing to allocate 0.37 % of EU GNI to this new category.¹²⁾ This is double the amount compared with the current financial framework. The amount spent on defence would rise particularly sharply, from 0.01 % in the current financial framework to 0.08 % of EU GNI in future. In addition, the areas of external action and migration, security and border protection would also be strengthened.

By contrast, the European Commission is proposing significantly less funding for agricultural policy, while funding for cohesion policy would remain virtually unchanged. The share of funding for agricultural policy in EU GNI would be reduced by half to just under 0.2 %. However, funding for cohesion policy would remain virtually unchanged at 0.34 %. For the purposes of this comparison, the funds that are to be allocated to the area of research, infrastructure and defence in future are excluded from the current financial framework. Administrative expenditure would also remain practically unchanged at 0.08 % of EU GNI.

12 This includes funds of around 0.04 % of EU GNI that were allocated to cohesion policy in the last financial framework.



In the areas receiving greater focus, there are good reasons for implementing expenditure on a joint European basis. Undertaking major research and infrastructure projects in a centralised way offers advantages, such as through economies of scale or if they would be unfeasible at the national level. In the areas of external action and migration, a joint European approach is likely to be more effective than solo efforts by individual national governments. In the area of border protection, joint protection of the EU's external borders makes sense due to freedom of movement within the EU. Furthermore, network and external effects, in particular, speak in favour of also stepping up activity for climate protection and safeguarding the supply of energy at the European level. However, in each case, it is important to review whether this would bring benefits compared with purely national approaches. By contrast, agricultural policy and cohesion policy largely comprise grants to Member States without any particular European connection. If the primary intention here is redistribution between the Member States, this could be implemented in a more transparent way.

In defence policy, more intensive cooperation and collaboration in Europe appears urgently needed. Since Russia's invasion of Ukraine, the Member States have undertaken to increase their defence capabilities.¹³⁾ A joint approach would be essential in many areas. This is the case, for instance, with large-scale armament projects promising Europe-wide protection. It would also undoubtedly make sense to coordinate weapons systems so that Member States are able to deploy them easily and jointly should the need arise. At the same time, it is also important to involve non-EU countries that have similar security and defence interests, such as the United Kingdom. And, not least, it is necessary to find suitable decision-making and financing structures that facilitate a well-coordinated and swift approach. It remains to be determined which role the existing EU structures will play in this regard. New coordination instruments should be considered if they are better able to guarantee more efficient defence. Generally, multiple factors suggest that essential ongoing defence spending should not be funded by debt, but by current revenue.

2.3 Changes to the funding structure

The European Commission is proposing five new own resources for funding the EU budget that would yield a total of €44 billion each year (0.25 % of EU GNI).¹⁴⁾

These are:

- own resource based on the volume of uncollected electrical and electronic waste (€15 billion);
- own resource based on excise duty on tobacco (€11.2 billion);
- own resource based on the emissions trading system (30 % of national ETS1 revenues; €9.6 billion);
- a lump-sum progressive contribution based on the amount of net revenue of large companies with net annual turnover in excess of €100 million (€6.8 billion);
- own resource based on the carbon border adjustment mechanism (75 % of national CBAM revenues; €1.4 billion).

13 See Versailles Declaration of 10 and 11 March 2022.

14 See European Commission (2025c).

The European Commission also wants to adjust and, in some cases, simplify the existing own resources. It is proposing three changes to the existing own resources:

- The share of customs revenue that Member States retain as collection costs for the customs revenue that they levy is to be reduced from 25 % to 10 %. This is intended bring them more into line with the actual collection costs, which are likely to be well below 25 %. This high level of reimbursement primarily benefits the Netherlands and Belgium. These two countries, with their large international ports, regularly accrue an above-average share of the EU's customs revenue.¹⁵⁾ To this extent, the high reimbursement of collection costs represent a hidden rebate.
- In order to increase transparency in the calculation of own resources, country-specific correction mechanisms are to be abolished.
- The rate of call for the plastics own resources is to be increased in order to take account of inflation developments.

New own resources do not reduce the financing burden on the Member States. The impression is sometimes conveyed that new own resources would relieve Member States because their contributions would be lower. However, in most cases, the Member States surrender part of their national tax revenue to the EU. This would be the case with the proposed tobacco own resource, for example. In other cases, the Member States would forego their own options for taxation. For instance, while the proposed corporate resource would not be levied at the national level, it would increase the burden on domiciled companies. In any case, the financial burden would be borne by the citizens of the Member States.

¹⁵ The collection costs in some countries were above the EU average of 0.04 % of EU GNI again in 2024. They were highest in relation to respective GNI in Belgium (0.13 %), followed by Slovenia and the Netherlands (0.08 % each).

The proposed adjustments to the existing own resources would simplify the system of own resources. This is to be welcomed. However, new own resources would likely entail new rebates and reduce the transparency of the system of own resources again. The EU budget could be funded in a significantly simpler and more transparent manner via the GNI-based own resource alone. The wide range of correction mechanisms and hidden rebates mean that the system of own resources is complicated and lacks transparency overall. They are the result of political negotiations and also reduce the financial contributions of some countries at the expense of others. The proposed new own resources would also shift the financing burden between the Member States. These effects are relevant for negotiations and could, in turn, entail new demand for rebates. Otherwise, Member States that would incur higher contributions as a result of changes to the system of own resources would likely have only very limited acceptance for such changes. Ultimately, it is to be expected that Member States will continue to finance the EU budget roughly in line with their GNI shares in future, too. It therefore makes sense to switch financing to this simple and transparent benchmark entirely.

There are many arguments for allocating revenue from the ETS trading system and the carbon border adjustment mechanism to the European level as well. This is already the case for customs revenue. This revenue results from the joint European customs policy, whereby the customs revenue accrued is collected by the Member States, particularly in countries with large international seaports. To compensate costs incurred at the national level, the Member States receive a flat-rate reimbursement of their collection costs (25 % of customs revenue). A similar procedure would appear to make sense for the revenue from the ETS trading system, too. This revenue results from the joint European climate policy. At present, ETS revenue is allocated to the Member States roughly in line with their historic carbon pollution shares. However, the arguments for this allocation method do not seem very convincing, as the damage caused by carbon emissions does not stop at national borders. By contrast, allocation to the EU level is already envisaged for revenue from the carbon border adjustment mechanism. This mechanism will apply from 2027 and impose duties on imports for products that do not yet contain a carbon price component comparable to the ETS. As is already the case for customs duties, three-quarters of the revenue will go to the EU budget.

2.4 National reform plans

The European Commission wants to agree plans with the Member States bilaterally and deploy selected EU budgetary resources for these in future. ¹⁶⁾ **To this end, the Member States would present national and regional partnership plans that also contain investments and reforms.** These plans would cover all areas for which pre-agreed resources exist – agricultural policy, cohesion policy, and migration, security and border protection. ¹⁷⁾ The national plans would also contain investments and reforms. The disbursement of the funds would be tied to Member States implementing the promised reforms and achieving milestones as agreed.

Amongst other things, the European Commission expects this would enable it to deploy financial resources more closely in line with the EU's political priorities. However, it does not appear certain that this will succeed. Instead, it is expected that this would harbour significant bureaucratic burdens. This is indicated, not least, by experiences with the RRF, for which the Member States likewise negotiated plans with the Commission. The European Court of Auditors has pointed out the weaknesses of the RRF on multiple occasions: the RRF resources were not deployed sufficiently effectively for the targeted objectives in the areas of digital and green transformation. ¹⁸⁾ Funds were also able to be disbursed without the Member States having implemented the agreed objectives. In general, the European Court of Auditors takes a critical view of the fact that the European Commission reimburses costs that have not actually been incurred. Instead, the funds are disbursed as planned if the Member States achieve the agreed milestones. However, the European Court of Auditors does not consider these to be sufficient. ¹⁹⁾ Irrespective of this, a stronger, broad-based influence of the European Commission does not generally seem to make sense. There is much to be said for focusing on policy areas that actually have a strong European connection, such as the single market or joint climate policy.

¹⁶⁾ See European Commission (2025b).

¹⁷⁾ The Commission's proposal pools these areas into one category. This also includes funds for servicing NGEU debt.

¹⁸⁾ See European Court of Auditors (2024, 2025a).

¹⁹⁾ See European Court of Auditors (2025b).

2.5 New leeway for joint debt

The European Commission's proposal allows for more leeway for joint debt of up to €645 billion (3.6 % of 2024 EU GNI).²⁰⁾ The European Commission wants to include some of the joint debt as a fixed part of the budget. This would be disbursed as loans to the Member States (€150 billion) and to Ukraine (€100 billion). In addition, up to €395 billion would be made available for a precautionary crisis mechanism. This would be used to grant loans to EU Member States in the event of a crisis.²¹⁾

The own-resources ceiling would rise in order to secure the joint borrowing. This ceiling determines the extent to which Member States can be called upon to fund the EU budget each year (as a proportion of their respective GNI). Its spread against the expenditure ceilings set out in the financial framework serves as a financial buffer. This buffer can be used in the event of unforeseen developments. In addition, it also secures the servicing of EU debt used to grant loans via the EU budget. As long as this EU debt is used to fund loans to Member States and other countries, the debt is, in principle, serviced by the borrowing countries (interest and repayments). If, however, a borrower defaults, all of the Member States bear liability up to the agreed own-resources ceiling.

The own-resources ceiling would rise from a regular 1.4 % to 1.75 % of EU GNI. This would also secure additional EU borrowing of up to €250 billion (1.4 % of 2024 EU GNI). The proposed increase of the own-resources ceiling is attributable to the larger scope of the EU budget only to a limited extent. Instead, it would serve more to increase the buffer, enabling additional new joint debt to be secured. The European Commission wants to use this to finance loans – €100 billion to Ukraine and €150 billion to the Member States. The latter would feed into the new Catalyst Europe instrument, which is intended to supplement the partnership plans with a loan component. This would mean that Member States would also be able to apply for loans in addition to the grants envisaged in the bilaterally agreed plans.

20 In contemporary prices.

21 In contemporary prices.

Furthermore, in the event of a crisis, it would be possible to raise the own-resources ceiling by a further 25 percentage points on a temporary and earmarked basis.²²⁾

This is intended to secure any potential further joint borrowing in the event of a crisis, as described above. The Council would decide when to deploy this crisis measure and how it would be structured. The European Parliament would have to grant its approval. If the Council were to activate the crisis measure, it would authorise the European Commission to borrow up to €395 billion on the capital market (2.2 % of 2024 EU GNI). These funds would be available to the affected Member States in the form of loans in order to mitigate the impact of the crisis. These kinds of loans are attractive for Member States with higher financing costs. They would benefit from more favourable interest rate conditions compared to those on the market. As the funds would be disbursed exclusively as loans, the borrowing Member States would, in principle, be liable for interest and repayments. However, the other Member States would have to secure the joint borrowing in the EU budget by means of a higher own-resources ceiling earmarked for this purpose.

This kind of precautionary crisis mechanism does not appear to make sense in view of the existing crisis architecture. The European Commission wants to enable the EU to provide financial assistance to Member States more easily in the event of a crisis than has been possible thus far. However, the euro area already has the European Stability Mechanism. Additional provisions for crises in the EU budget therefore do not seem necessary.

²² The own-resources ceiling has already been raised by 0.6 percentage point on a temporary and earmarked basis for NGEU borrowing until this has been repaid in full. Unlike the proposed new crisis mechanism, this is intended to fund not just loans, but also grants to the Member States.

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Effects of global uncertainty on international portfolio flows

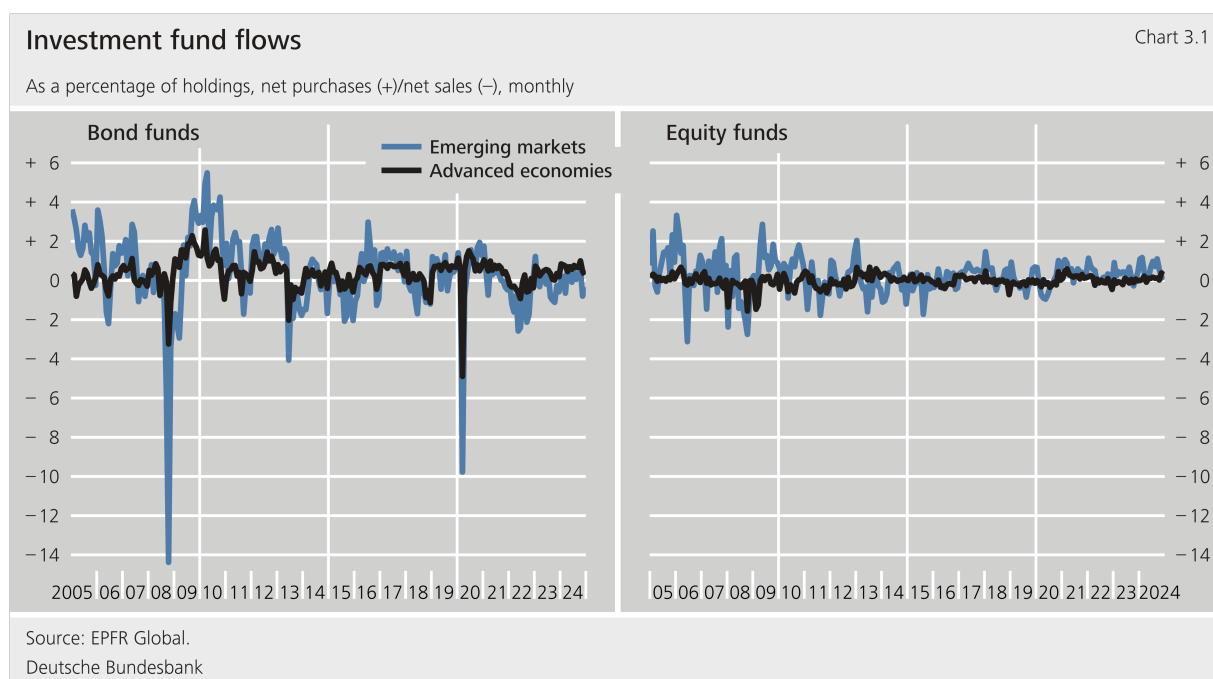
Uncertainty had a major influence on investor behaviour and capital market dynamics during past events such as the global financial crisis in 2008 and the Covid-19 pandemic. This analysis shows that heightened global uncertainty had a much greater impact on portfolio flows in emerging markets than those in advanced economies. Thus, in periods of elevated uncertainty, investors tended to disproportionately reduce their exposure to emerging market economies. This was reflected by outflows from investment funds: across all countries under review, outflows from emerging markets were around three times higher on average than those from the advanced economies. These figures highlight the fact that emerging economies were more prone to external shocks in the past than their developed market counterparts. Another striking aspect is that bond funds witnessed significantly higher outflows as a percentage of total holdings than equity funds.

In economic literature, various measures of uncertainty and different approaches are used to identify additional unease among market participants. This analysis uses a method that is based on short-term changes in the price of gold. The latter plays a particularly important role for emerging economies and has a high-frequency dataset. Gold price movements are linked to previous events that triggered uncertainty.

Emerging markets is a collective term for a wide range of economies. As countries in this group have different production landscapes, institutions and financial markets, it is worth examining the role of country-specific factors in determining how far the respective cross-border portfolio flows were impacted by past uncertainty. The results reveal significant differences within the group of countries under review: in particular, high investments in research and development, along with developed financial markets, were associated with lower outflows stemming from uncertainty shocks. These factors therefore serve as a proxy for underlying conditions that support greater stability in portfolio flows.

1 Introduction

In recent decades, the international financial markets have been shaped by events that resulted in high uncertainty. The most striking examples are the global financial crisis in 2008 and the outbreak of the Covid-19 pandemic across the world in spring 2020. Both events took most people by surprise and markedly increased the unpredictability of future developments. The high uncertainty had a pronounced impact on the dynamics of international portfolio flows. As shown in Chart 3.1, investment funds suffered significant outflows during both of the aforementioned crises. Bond funds that were invested in emerging market instruments were hit particularly hard, with international investors withdrawing more than 14 % of their holdings from these funds in October 2008. This analysis focuses on the role of uncertainty as a driving force behind these trends.



Uncertainty has a pronounced influence on cross-border investor decisions regarding investment funds, with asymmetrical global effects. This study shows that past uncertainty impacted global portfolio flows, though the intensity of the reaction varied from region to region and – in relative terms – was particularly strong in emerging markets. The results of this analysis are important not only for investors and financial institutions, but policymakers as well. The latter are responsible for taking measures to ensure stability in financial markets and cushion the economic repercussions of shocks. This analysis therefore focuses on examining how uncertainty influences investor behaviour and how the impact of uncertainty on portfolio flows can be mitigated.

2 What is uncertainty and how can it be measured?

Differentiating between uncertainty and risk is a key aspect in understanding economic decision-making processes. In economic literature, this difference was predominantly defined by the economist Frank Knight, who suggested making a distinction between the two concepts.¹⁾ According to Knight, risk denotes situations in which the outcome of an event is uncertain, though the probabilities of the possible outcomes are known. Conversely, uncertainty arises when probabilities are impossible to determine. Tossing a fair coin is a classic example of risk in which the probability of heads or tails is 0.5. In contrast, uncertainty occurs when the probabilities of possible repercussions cannot be defined precisely, such as during the pandemic of a novel and largely unexplored virus.

Risk and uncertainty are distinct concepts in theory, but are difficult to separate in practice. Due to the problem of distinguishing risk from uncertainty, both concepts are interlinked in empirical studies. This makes it harder to isolate the concept of uncertainty. Accordingly, there is no single scientific method for this purpose: instead, a variety of approaches are used in economic literature to capture specific facets of uncertainty.²⁾ These approaches can be subdivided into the following categories:

1. **News-based measures usually focus on how frequently certain key words such as “uncertainty” or “crisis” feature in the media.** These measures therefore reflect societal perceptions of uncertainty and are more or less available in real time. For example, the Economic Policy Uncertainty (EPU) index uses key words in news articles to measure policy-related uncertainty.³⁾ In addition, uncertainty regarding the Fed’s monetary policy can be gauged using measures such as the Monetary Policy Uncertainty (MPU) index.⁴⁾

1 See Knight (1921).

2 See also Deutsche Bundesbank (2018).

3 See Baker et al. (2016).

4 See Husted et al. (2020).

2. **Survey-based measures capture perceived uncertainty directly from economic agents and provide insights into specific dimensions of uncertainty.** Survey-based measures offer a direct means of recording how uncertainty is perceived among various economic agents. One prominent example is the Survey of Business Uncertainty (SBU) from the Federal Reserve Bank of Atlanta, which measures firms' uncertainty regarding their future employment and sales situation.
3. **Market-based measures use financial market data to capture uncertainty in near real time.** Market-based measures allow uncertainty to be derived directly from financial market data. They include, amongst others, the realised volatility of asset prices as a direct reflection of market fluctuations. One well-known example is the CBOE Volatility Index (VIX) for the US equity market based on option prices in the S&P 500. The VIX usually climbs in tandem with uncertainty. However, it primarily only reflects financial market uncertainty in terms of expectations for the S&P 500. Generally speaking, the volatility of financial market prices can be an appropriate tool for spotting uncertainty.⁵⁾ It is also possible to use measures of risk appetite as uncertainty indicators.⁶⁾ These measures are useful as they are available in real time and provide a reliable picture of market participants' perceptions.
4. **Econometric measures are based on statistical methods and often paint a broader picture of uncertainty.** Macroeconomic uncertainty can be measured by the extent to which variables fluctuate in ways that models fail to predict.⁷⁾ In addition, it is possible to extract uncertainty from data via models. Econometric methods can also be used to identify unexpected uncertainty shocks.

Aspects such as high-frequency gold price movements in response to specific events are also used in the literature to identify uncertainty. Gold price movements can be a useful external instrument for identifying global uncertainty shocks in isolation from country-specific effects.⁸⁾ The global aspect plays a particularly significant role in the international portfolio flows considered in our analysis.

5 See, for example, Collodel and Kunzmann (2025).

6 See Deutsche Bundesbank (2025a).

7 See Jurado et al. (2015).

8 See Piffer and Podstawski (2018) and Georgiadis et al. (2024).

3 How can uncertainty affect the economy?

Uncertainty can impact the economy via various channels. It is a pervasive phenomenon that influences the consumption and investment decisions of households and government institutions, as well as financial and non-financial firms.⁹⁾ These decisions are interlinked and also have repercussions on the international capital markets. In addition, the effectiveness of monetary policy can be impacted by uncertainty. Some of the effects are discussed below.¹⁰⁾

In times of heightened uncertainty, individuals tend to increase their propensity to save and scale back their consumption. They do so as precautionary measures to protect themselves from future economic volatility or adversity. Economic agents can mitigate the potential negative impact of uncertainty by creating financial reserves. However, this shrinks overall demand, which in turn can hamper economic activity.

Uncertainty has multi-faceted effects on companies' output that are not entirely predictable. How firms react to uncertainty shocks depends on a multitude of factors such as storage costs, production and cost structures, decision-makers' risk appetite and the overall labour market. Uncertainty often leads companies to take precautionary action, such as reducing or postponing investments, or cutting production to minimise potential losses.¹¹⁾ Yet in other scenarios, uncertainty can foster growth in production. Companies therefore respond to uncertainty in different ways, which largely depend on their individual circumstances and the prevailing economic setting.

9 See Deutsche Bundesbank (2018).

10 See Bloom (2009).

11 See Meinen and Röhe (2017, 2018) and Deutsche Bundesbank (2018, 2025b).

Governments also usually react – and are not immune – to phases of elevated uncertainty. In the long term, governments can strengthen the resilience of the economy via stability-oriented macro and fiscal policy, while ensuring a stable financial infrastructure (see also the supplementary information entitled “Empirical measurement of the impact of uncertainty on portfolio flows”). In the short term, they can counter the negative effects of unexpected events by deploying an anticyclical economic policy, as well as targeted interventions in severe cases. However, systemic shocks can even undermine governments and, in extreme cases, limit their ability to act, especially if they were already in a precarious situation beforehand.¹²⁾

Uncertainty affects not only the real economy, but also monetary policy. Operational monetary policy in the euro area factors the entire transmission process into its decision-making, including financing conditions in the capital markets. Adjustments to monetary policy are therefore particularly necessary if uncertainty impacts the transmission and effectiveness of monetary policy measures.¹³⁾

The impact of uncertainty is usually apparent on the capital markets before it is reflected in the real economy.¹⁴⁾ This is because market participants anticipate the effects on the real economy and respond accordingly. As a result, the companies concerned usually face rising financing costs, while banks rein in their lending.¹⁵⁾ This impacts both market prices and trading volumes.¹⁶⁾ In a world of globally interwoven capital markets, international portfolio flows are directly affected.

Typically, increased uncertainty leads in particular to sales of risky assets, lower securities prices and thus higher risk premia, as investors demand compensation for the risks they take. Financing costs therefore rise for companies and governments. This prompts outflows of funds from countries and markets that are considered unstable, as well as inflows to countries and assets such as gold that are deemed safe.¹⁷⁾ The theory of portfolio diversification developed by Markowitz provides a framework for understanding these adjustments.¹⁸⁾

12 For example, in the event of high government debt.

13 See also Deutsche Bundesbank (2025c).

14 See also Ludvigson et al. (2021).

15 See Gilchrist et al. (2014).

16 See also Deutsche Bundesbank (2025a).

17 See Baele et al. (2020) and Piffer and Podstawski (2018).

18 See Markowitz (1952).

4 Effects of uncertainty on portfolio flows

Econometric models can be used to identify portfolio flow reactions according to specific country groups and examine the interplay with structural factors.

Uncertainty shocks that are triggered by global events such as financial crises, geopolitical turmoil and pandemics can have a significant impact on portfolio flows, with far-reaching consequences for economic stability. Conversely, however, the macroeconomic and financial health of a particular economy can influence how the financial markets react to periods of heightened uncertainty. Both aspects can be examined using econometric analyses.

Empirical measurement of the impact of uncertainty on portfolio flows

A two-step econometric model can be used to examine how unexpected uncertainty shocks affect portfolio flows in emerging market and advanced economies and which factors could play a role in the transmission.¹⁾ We make a distinction between equity fund flows and bond fund flows in order to take account of the different characteristics of these asset classes.²⁾ The analysis covers a total of 25 emerging market economies and 21 advanced economies in the period from August 2005 to December 2023.³⁾ We place particular emphasis on the question of whether emerging market economies are more affected by uncertainty shocks than advanced economies owing to their specific economic and institutional characteristics.

1 See Beckmann and Bettendorf (2025).

2 In this context, investment fund flows serve as an indicator of portfolio flows as a whole. This is a common approach in the literature, as investment fund data are available at a high frequency (see Koepke (2019)).

3 Table 1 in Beckmann and Bettendorf (2025) provides an overview of the allocation of individual countries to the country groups.

To answer these questions, we identify uncertainty within an econometric model based on changes in the price of gold. This approach assumes that market participants view gold as a safe asset. In times of heightened uncertainty, demand for gold therefore rises, leading to an immediate increase in the price of gold. Conversely, the price of gold falls as soon as uncertainty dissipates. In statistical models, the fluctuations in the price of gold over a short period of time around events associated with uncertainty thus serve as an independent indicator of the degree of uncertainty.⁴⁾ This methodology is useful here, as gold price movements can reflect a wide spectrum of global uncertainty, which is particularly important for emerging market economies, where there are often no developed financial markets from which country-specific indices can be derived. The methodology is also empirically well documented.⁵⁾ For advanced economies, other methodologies based directly on financial market data are also useful.

In the case at hand, the gold price developments relating to 109 different transnational events are incorporated into the analysis. This allows us to investigate the effects of global uncertainty impulses on various variables – in this case, on portfolio flows.

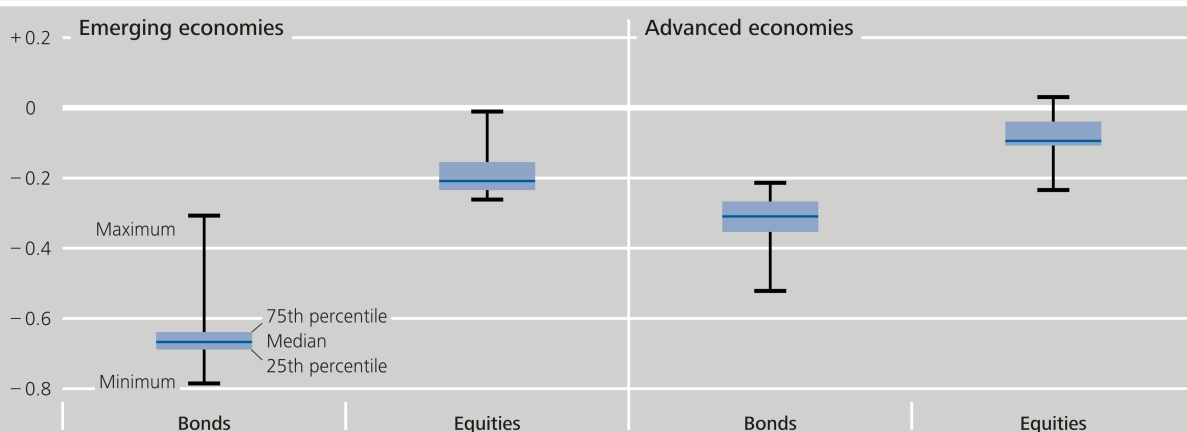
4 Within the model, changes in the price of gold are merely an indicator that uncertainty exists. There may well be individual events that do not lead to the expected response of the gold price. A cluster of responses that do not correspond to the assumption can lead to corresponding biases in identification (see also Bettendorf (2025)).

5 See Piffer and Podstawski (2018) and Georgiadis et al. (2024).

Impact of an uncertainty shock on fund flows*

Chart 3.2

Monthly change as a percentage of holdings



Sources: EPFR Global, FRED (Federal Reserve Bank of St. Louis), Bloomberg and Bundesbank calculations. * Estimated contemporaneous effects of an uncertainty shock on country-specific fund flows for individual regions (see Beckmann and Bettendorf (2025), Table 1). In the underlying SVAR model, the global uncertainty shock corresponds to one standard deviation. In terms of scale, it causes the S&P 500 stock market index to fall by 1.6%.

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In a second step, it can be shown that the extent of outflows following an uncertainty shock correlates with the macroeconomic and institutional framework conditions in the affected economies. To this end, the country-specific sensitivity of fund flows for each region and asset class is placed in relation to macroeconomic and institutional factors. The factors considered include, for example, economic growth, inflation, financial market developments and investment in research and development. The state of development of financial markets⁶⁾ and investment in research and development are shown to be variables that are strongly related to fund flows in all regions and asset classes. In countries with highly developed financial markets and high investment in research and development, the impact of an uncertainty shock on fund flows is smaller. Correlations can also be identified between infrastructural factors and bond fund flows.⁷⁾ In this context, international investors' trust in a country's structural make-up and the government's ability to overcome potential crises are likely to play a role. These factors are classic indicators of an economy's resilience.⁸⁾ In addition, equity funds that invest in advanced economies show lower sensitivity to uncertainty shocks in countries with low long-term interest rates. This relationship could be related to the risk premium in these countries, but it remains descriptive here.

6 In the study, the state of development of the financial markets is approximated by the number of ATMs in the country.

7 The number of secure internet servers and the share of the population using the internet serve as indicators of infrastructure development.

8 The regression itself does not prove a causal relationship. However, economic considerations suggest that structural factors have a stronger impact on the rather volatile capital flows than vice versa. Nevertheless, the possibility that massive capital outflows, for example, can fundamentally destabilise an economy cannot be ruled out.

Bundesbank analyses conclude that the negative effects on portfolio flows due to uncertainty shocks are greater in emerging markets than in advanced economies. ¹⁹⁾

This applies to both equity fund flows and bond fund flows. Moreover, bond fund flows are more sensitive to uncertainty shocks than equity fund flows. In the emerging economies, outflows due to uncertainty shocks are around three times as high as those in developed countries for bond and equity funds alike. However, monthly bond fund flows as a percentage of total holdings are significantly more pronounced.

These results make clear that emerging markets are more vulnerable in the event of an unexpected increase in global uncertainty. The high sensitivity of emerging market bonds is a potential indicator that, in periods of elevated uncertainty, international investors will target these assets when scaling back their positions to minimise risks. It is possible that investors expect contagion effects to be greater in emerging markets than in advanced economies. Conversely, equity flows appear less sensitive to uncertainty shocks than bond flows. Yet it is worth noting that equity prices are far more volatile than bond prices, as the latter are anchored by the nominal value that is reimbursed at maturity. Bond markets are therefore affected more by volume adjustments than equities. In contrast, price adjustments are more pronounced for equities.

The level of impact caused by uncertainty is closely linked to macroeconomic and institutional factors. In both emerging markets and advanced economies, uncertainty shocks tend to have a lower impact on portfolio flows in countries that invest heavily in research and development and have highly developed financial markets. Infrastructure variables also play a role in bond funds.

19 See Beckmann and Bettendorf (2025).

The results of this study have important implications for economic policy, especially in the emerging markets. According to the results, international investors tend to reduce their positions in emerging markets during periods of uncertainty, regardless of whether bond or equity funds are involved. That said, bond funds are more prone to outflows than equity funds. The results suggest that favourable macroeconomic and institutional conditions can mitigate the impact of uncertainty shocks and keep investors on side. Specifically, the quality of financial and real infrastructure increases a country's resilience to unforeseen adverse events. At the same time, economic policy that stimulates investment in research and development enhances a country's economic outlook and its ability to adapt.

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**State government
finances in 2024:
situation worsens, large
deficit for local
governments**

The fiscal position of state governments, and especially their local governments, worsened significantly in 2024. However, the combined deficit of €43 billion (1 % of GDP) was partly the result of one-off factors and was markedly lower in structural terms (€25 billion). The situation at the local government level is especially strained: the bulk of the overall structural deficit is here, and expenditure rose sharply across the board. There are no signs of this changing much this year.

In 2024, the financial positions of the individual state governments (including local governments) again varied greatly. Rhineland-Palatinate and Thuringia recorded surpluses. The city state of Bremen closed the year with a particularly large per capita deficit despite receiving a large amount of budgetary recovery assistance from central government. Bremen also recorded by far the highest per capita debt amongst all state governments, while Saarland, the other recipient of recovery assistance, recorded the highest per capita debt among the non-city states. The lowest per capita debt was recorded in Saxony and Bavaria. State governments have made varying use of emergency funds in recent years. Bremen was by far the biggest such borrower (in per capita terms), followed by Saarland. This means that their debt is not converging with that of the other federal states, which is the actual intended aim of budgetary recovery assistance.

Thanks to the debt brake reform, state governments have further fiscal leeway and receive investment grants from the new central government special fund. This leeway to spend is not ring-fenced, and investment grants will not be reserved exclusively for additional investment. However, the reason for reforming the Basic Law was to address the major challenges with respect to infrastructure. It is strongly recommended that state governments use this new scope primarily to further strengthen their investment activity and that of their local governments. In day-to-day running, it would make sense to review cost efficiency and, in the process, boost digitalisation. To make digitalisation work more efficiently, it is a good idea to adopt a common approach across all federal states. This could also alleviate anticipated staff shortages.

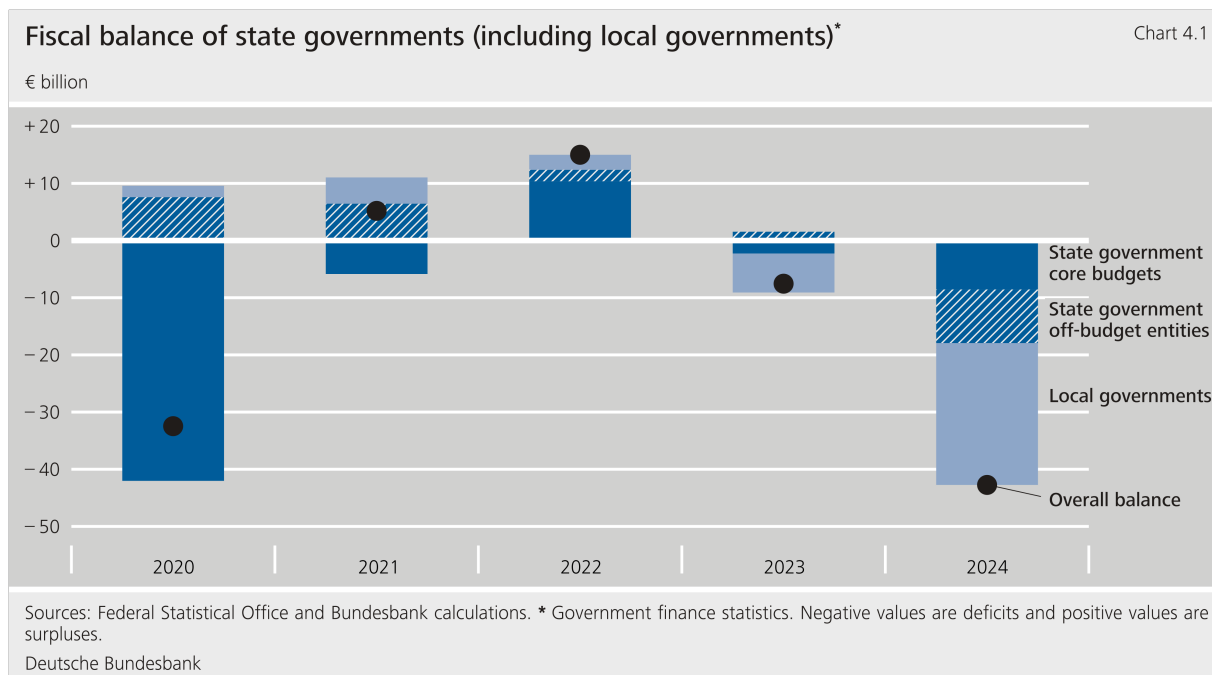
Greater scope for borrowing makes fiscal surveillance even more important. This applies especially to those federal states that are already very highly indebted. However, it is still difficult to take stock of and compare state government finances and results under state-specific debt brakes. The onus remains on the Stability Council to closely monitor budgets and increase transparency.

Local governments' fiscal positions are at risk of coming under further strain. If fundamental adjustments are not made, room for fiscal manoeuvre will shrink further and many local governments will likely find themselves back in increasingly difficult situations with sizeable cash advances. State governments bear much of the responsibility for their local governments' finances. If tougher consolidation requirements as an instrument of budgetary oversight are insufficient or do not appear workable, state governments need to allocate more funding to their local governments. It is also worth considering only allowing local governments to take out cash advances from their own state government and making sure that said state government counts those advances towards its borrowing limit. This setup would reflect the responsibility borne by state governments and provide incentives to promptly address strained local government finances.

1 Federal state aggregate: large structural deficit at local government level

The financial situation of state governments, and especially their local governments, worsened significantly in 2024. This regular report on state government finances takes a closer look at the figures. It also shines a light on the outlook for the current year and the new scope for borrowing. Two comprehensive tables provide a detailed overview of budgetary figures for 2024 ([Table 4.2](#)) and how these changed against 2023 ([Table 4.3](#)). These contain extensive information on the individual federal states. [Annex 1](#) explains how the data were prepared and what shortcomings remain. Some of the footnotes in this report contain more detailed technical notes or information on specific developments in individual federal states.

State and local governments reported a large unadjusted deficit of €43 billion (1.0 % of GDP) in 2024. The state governments accounted for €18 billion of that amount. This deficit was spread almost equally across their core budgets and off-budget entities. The local governments (of non-city states) recorded an even larger deficit of €25 billion (see [Table 4.1](#), item 1 and [Chart 4.1](#)).



The (unadjusted) deficit of state governments (including local governments) rose sharply on the year. This was ultimately due to strong expenditure growth of 8 %, spread across many expenditure categories. Personnel expenditure, a major expenditure item, went up by 8 %, bolstered mainly by pay rises but also by increased staffing levels. At 8½ %, fixed asset formation also saw strong growth, and operating expenditure's upward trajectory was only slightly weaker. However, the reclassification of numerous local transport companies to the government sector continued to have an impact in these three categories. The reason for that change was the introduction of the DeutschlandTicket in the spring of 2023. The reclassification also boosted total revenue growth (+ 3½ %) through additional fee receipts. Tax revenue grew by 3 %. A surge in receipts from withholding tax on interest income and capital gains contributed 1 percentage point. Reduced revenue shortfalls resulting from temporary crisis response measures contributed around half as much. Pressure was felt at the local government level due to the stagnation of local business tax, a major source of revenue.

Table 4.1: Budgetary figures for state governments (including local governments) as a whole
€ billion

Position	Item no	2021	2022	2023	2024
Fiscal balance	1	5.1	15.0	-7.7	-42.7
Financial transactions (net)	2	-8.5	-12.2	-6.3	-13.3
Settlement of payments under state government financial equalisation scheme	3	0.4	-0.8	0.0	0.0
Cyclical component ¹	4	0.7	5.5	9.1	1.2
One-off effects (coronavirus response and energy measures) ²	5	-9.1	-22.2	-10.6	-5.2
Structural balance	6 = 1 - 2 + 3 - 4 - 5	22.4	43.2	0.2	-25.3
Net interest burden	7	10.2	9.6	9.1	8.9
Structural primary balance	8 = 6 + 7	32.6	52.8	9.2	-16.4

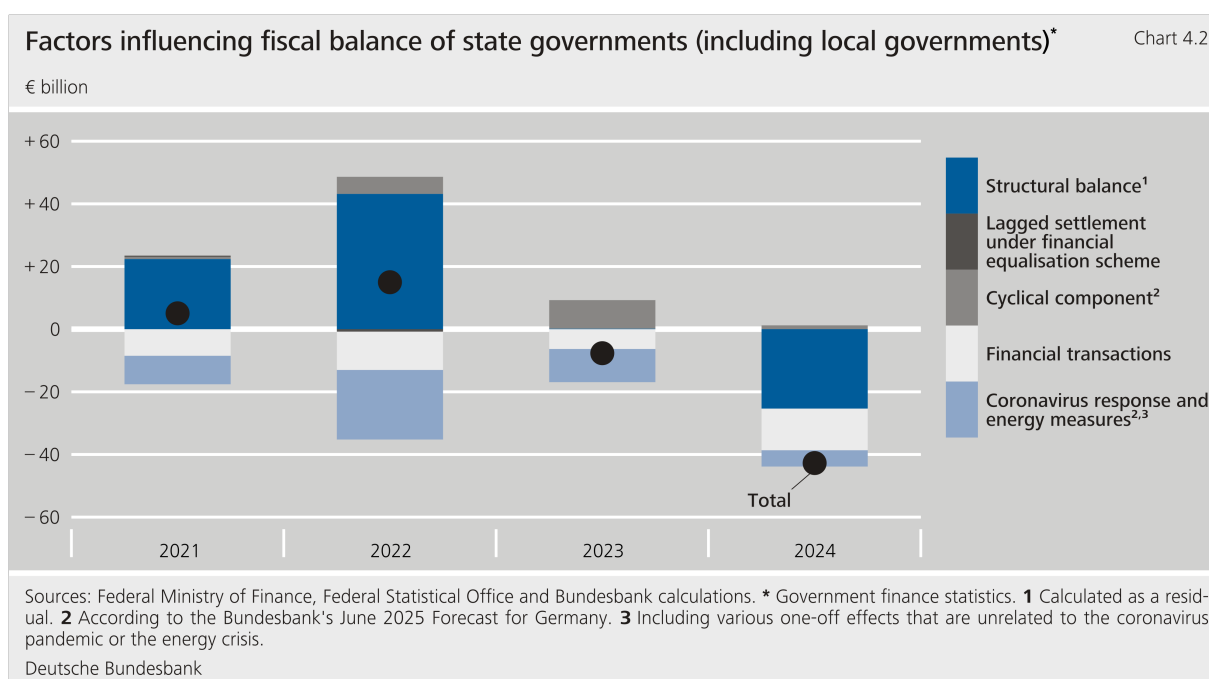
Sources: Federal Statistical Office and Bundesbank calculations. 1 Cyclical component according to the Bundesbank's June 2025 Forecast for Germany.

2 Including various minor one-off effects that are unrelated to coronavirus response or energy measures.

State and local governments also recorded a structural deficit of just over €25 billion. However, this was significantly lower than the unadjusted deficit, and the year-on-year increase was also smaller¹⁾ (see Table 4.1 above, items 2 to 6). Temporary burdens were higher in 2024 than in the year before. As these are factored out when calculating the structural deficit, this rose by less than the unadjusted deficit. The following factors explain why, in net terms, the structural deficit was lower than the unadjusted deficit:

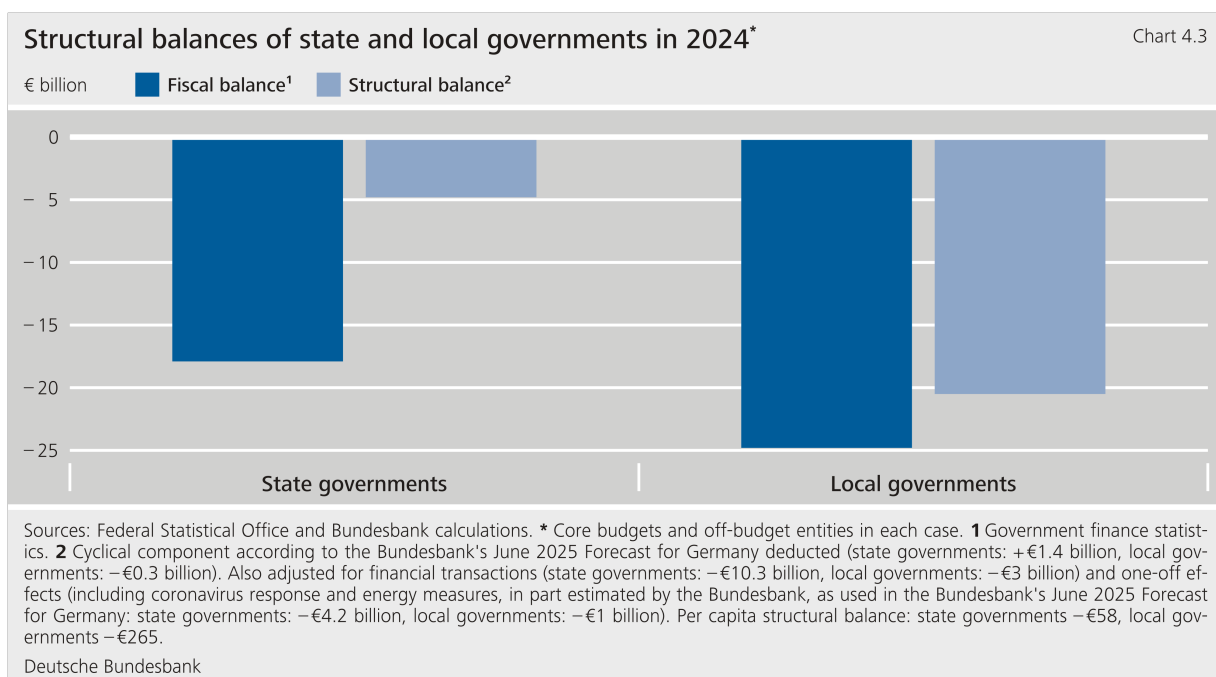
1 Last year, the structural result calculated by the Bundesbank for 2023 was still a surplus. This structural result is now estimated to be broadly balanced. The reason for this is that the cyclical component, with its easing effects, was revised upwards compared with last year's estimate.

- Financial transactions increased the unadjusted deficit by €13 billion.²⁾
Temporary measures in response to the energy price crisis contributed a further €5 billion (of which, based on a Bundesbank estimate, just over two-thirds stems from the tax exemption of inflation compensation bonuses).
- Meanwhile, economic activity still had a slightly positive impact on state and local government budgets last year (€1 billion). No major state-specific, one-off effects were identified, meaning that no adjustment took place. The lagged settlement of payments under the state government financial equalisation scheme (including supplementary central government grants that are dependent on financial capacity) had a marked impact on certain federal states, but not on the aggregate (see Chart 4.2 below for a breakdown of the effects).



² Financial transactions are again attributable in large part to special pension funds, which make investments. In addition, Hesse's capital contribution to its Landesbank and the purchase of a utility company in Berlin had accounted for quite a sizeable share last year.

The lion's share of the structural deficit was attributable to local governments (€21 billion). Their financial situation is particularly strained. The structural deficit at the state government level was relatively small (€4½ billion; see Chart 4.3).³⁾ A structural deficit at the local government level is not necessarily indicative of any particular budget strains. Budgetary rules for local governments do permit high-performing local governments⁴⁾ to run debt-financed deficits for net investment. However, developments in 2024 show that investment expenditure was not the primary cause of rising deficits. These were mainly due to higher spending on social benefits and personnel. At the same time, tax revenue growth remained moderate.⁵⁾



- 3 State governments differ in how they calculate the structural results of their debt brakes. For a makeshift calculation by the Bundesbank that draws on the differing state data on cyclical effects and financial transactions, see the supplementary information entitled "[Development of emergency borrowing in individual states in the 2024 financial year](#)".
- 4 Simply put, local governments are considered to be performing well financially if they can bear the additional burdens that go along with an investment without jeopardising their balanced budget. Besides interest, write-downs are considered additional burdens in the case of double-entry bookkeeping, and repayment burdens are considered such in the case of single-entry bookkeeping.
- 5 Unlike with state governments' debt brakes, it is not possible to simply calculate the extent to which the local government level meets or fails to meet the balanced budget requirement using the official cash statistics. For local governments, most of which use a double-entry accounting system, such a calculation would have to be based on their (in some cases state-specific) income statements.

The strained state of local government finances is clearly reflected in rising cash advances.⁶⁾ Cash advances indicate that budgets are not regularly financed, and they are actually intended only as a temporary source of funding. Cash advances not repaid by the end of the year are therefore a good indicator of budget strains. The volume of cash advances did, in fact, rise markedly throughout Germany in 2024 (after declining or remaining stable between end-2016 and end-2023). Adjusted for Rhineland-Palatinate's partial debt relief programme, they grew by €5 billion. While that is less than the significantly larger structural deficit, one big reason for this is probably the fact that, alongside still relatively large regular borrowing authorisations, reserves were also available. However, that source of funding will soon dry up due to budgets remaining tight, and the scope for borrowing is likely to narrow. It should be noted that the situation varies from state to state. However, local governments as a whole are unlikely to be able to rebalance their budgets on their own. State governments are jointly responsible for solving financial problems at the local government level (see Chapter 4.4).

6 To read more about local government fiscal rules and the problem of cash advances, see Deutsche Bundesbank (2016), p. 18.

2 The situation from state to state: big differences in financial situation ⁷⁾

2.1 Unadjusted deficits

With the exception of three, all state governments recorded an unadjusted deficit in 2024 (including local governments in each case). The range in per capita results was very wide, at just over €2,100. Saxony recorded the highest per capita surplus (€170), closely followed by Rhineland-Palatinate. Thuringia also recorded a per capita surplus. In Rhineland-Palatinate and Thuringia, per capita expenditure was almost €1,000 lower than the average of the non-city states (€9,200). Of these, Hesse recorded the highest per capita deficit (€1,010). By far the highest in Germany was recorded by Bremen, coming in at €1,940. Like Saarland, it has been receiving extensive budgetary recovery assistance of €400 million per year since 2020. This amounted to €570 per capita in Bremen, of which one-fifth is supposed to be used to repay its high legacy debt. However, in view of Bremen having proclaimed an emergency, the Federal Ministry of Finance once again refrained from cutting back on recovery assistance.

2.2 Partially adjusted structural deficits

In structural (partially adjusted ⁸⁾) terms, the deficit in most federal states (in each case, state governments including local governments) was lower than in unadjusted terms, and the disparity between the states was considerably lower (see [Table 4.2](#), item 6). This was mainly due to the adjustment factoring out very large equity acquisitions, particularly in federal states with very large deficits (see [Table 4.2](#), item 2).

⁷ See the detailed [Tables 4.2 and 4.3](#).

⁸ For the calculation of the partially adjusted balances, see [Annex 1](#).

This applies especially to the three city states (over €820 in Hamburg and Bremen, and as high as €1,090 in Berlin). Among the non-city states, equity acquisitions were a particularly significant factor in Hesse and Saarland (over €370). Equity acquisitions are factored out when calculating the structural balance because the expenditure is accompanied by an increase in financial assets. In some cases, however, the value of that increase appears questionable, though it is not possible to examine this more closely in this report.⁹⁾

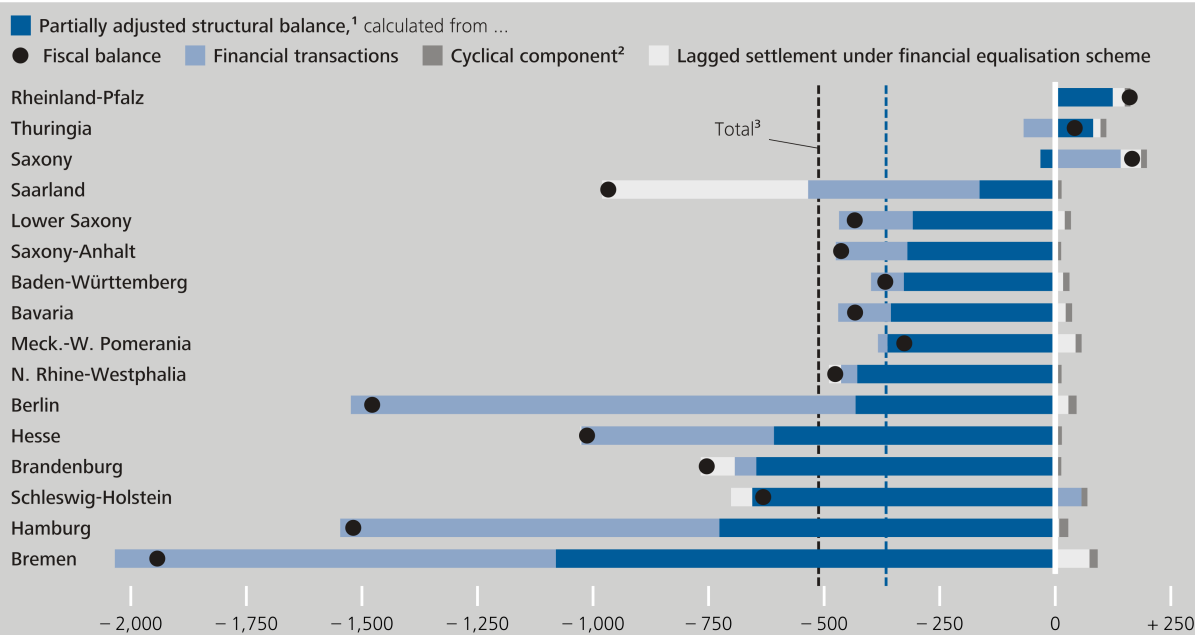
Year on year, the structural (partially adjusted) result worsened in 14 federal states. The two exceptions were also the only federal states with a positive balance: Rhineland-Palatinate recorded a surplus of €120 per capita, followed by Thuringia. The structural (partially adjusted) deficit averaged across all federal states amounted to €370. Among the non-city states, Schleswig-Holstein recorded the highest such deficit (€660), closely followed by Brandenburg and Hesse. As in the two previous years, Bremen had the highest such deficit in Germany. At €1,080, it was not only well above the figures recorded by the other federal states but also higher than its prior-year figure (+ €610).

9 In this respect, the partially adjusted structural deficit calculated here is probably too low in some cases. Saarland consistently factors out only a small portion of the financial transactions reported in the government finance statistics under its debt brake. Bremen, by contrast, is using financial transactions to create extensive additional scope for borrowing. It injected €300 million in equity capital into two new companies, respectively – one for urban development, the other for constructing schools. It appears that there are plans to use this equity capital to fund the building of schools, which would otherwise be subject to debt brake requirements. Market-competitive rental income should ensure cost efficiency, which could justify debt financing. However, rents to be paid out of the core budget in this context would, in turn, give rise to additional burdens further down the road. See State Parliament of Bremen (2024a), pp. 11-15. In this respect, Bremen is deferring burdens to a later date, as is the case with conventional net borrowing, which makes budget restructuring more difficult. In addition, a capital injection of €70 million to a transport company was announced. In view of losses in this area, it does not appear that the market-competitive interest rate on the capital contribution that should actually be demanded is to be applied. To read about emergency response measures and capital contributions, see Free Hanseatic City of Bremen, Senate Press Office (2024).

Fiscal balances of individual state governments (including local governments) in 2024*

Chart 4.4

€ per capita



Sources: Federal Ministry of Finance, Federal Statistical Office and Bundesbank calculations. * Government finance statistics. Negative values are deficits and positive values are surpluses. ¹ Fiscal balance less financial transactions, lagged settlement of payments under the financial equalisation scheme and cyclical component. ² According to the Bundesbank's June 2025 Forecast for Germany. ³ Population-weighted mean of all state and local governments: fiscal balance: -€512; partially adjusted structural balance: -€366.

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2.3 Revenue¹⁰⁾

The per capita tax revenue of state governments (including local governments) continues to vary significantly. ¹¹⁾ The difference from highest to lowest was €800 for the non-city states. ¹²⁾ Frontrunner Hesse (just under €6,600) outperformed last-placed Saxony-Anhalt by 14 % (see also [Table 4.2](#), item 19). It should be noted here that Hesse has already transferred €600 per capita under the state government financial equalisation scheme and Saxony-Anhalt has received €1,330 per capita (including supplementary central government grants that are dependent on financial capacity). The remaining deviation is largely due to the fact that the financial equalisation scheme does not fully redistribute funds and only partially takes into account local government revenue. However, the fact that higher tax rates were in place in Hesse (real estate acquisition tax rates and the state-average multipliers for real estate taxes and local business tax) also plays a role, explaining 21 % of the difference.

2.4 Debt and interest burdens

The debt of state and local governments stood at €850 billion (around €10,200 per capita) across Germany. Per capita debt levels continue to differ very widely between state governments (including their local governments). ¹³⁾ Bremen had by far the highest per capita figure, at €36,700, followed by Saarland with €20,300 and Hamburg with €20,200. Bavaria reported the lowest figure, at just under €3,200, closely followed by Saxony. Per capita debt rose particularly sharply in Bremen (+ €3,000). Far behind this, the next highest rises were in Berlin (+ €1,500), Hesse and Hamburg. Bremen recorded a very large deficit. Its debt level also rose further because of the market value of its extensive interest rate hedges moving negatively. ¹⁴⁾

10 The extent to which individual expenditure categories can be compared across federal states is limited. For this reason, state-specific expenditure developments are not reported (see [Annex 1](#)).

11 Tax revenue accounted for almost 70 % of total revenue. In this report, it is recorded on an accruals basis for each state government (including provisional settlement of payments under the state government financial equalisation scheme) and fully includes the receipts from local government taxes.

12 The city states are excluded due to the higher weighting of their populations in the state government financial equalisation scheme.

13 See [Table 4.2](#), item 23.

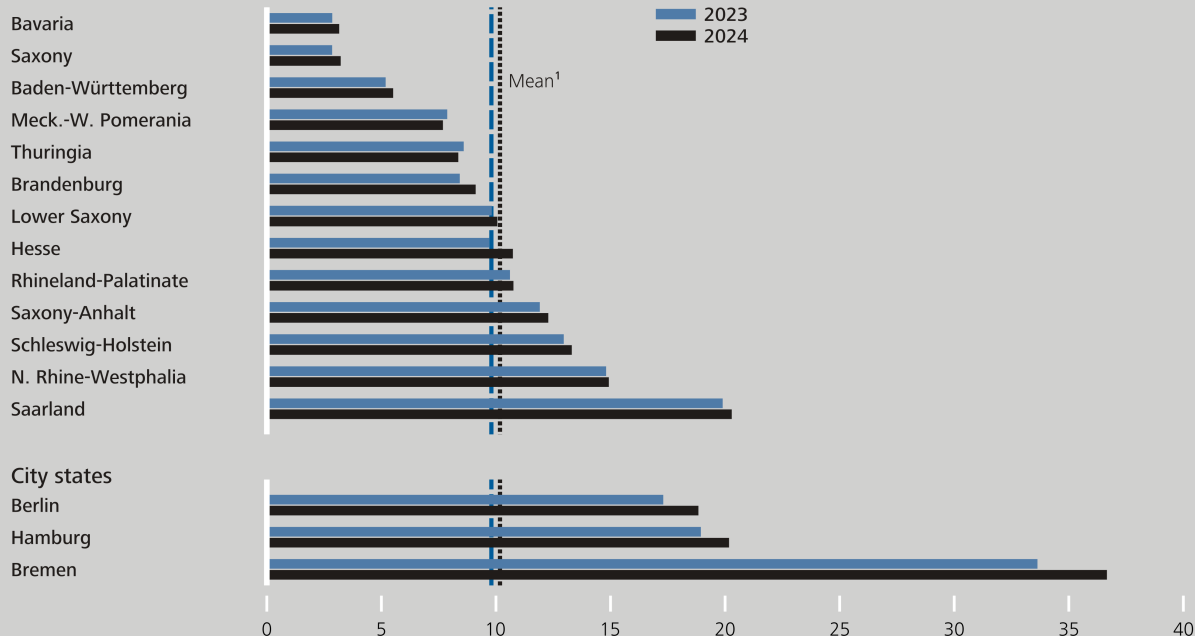
14 Due to lower interest rates, this was around €850 more negative in per capita terms. As a result, the total amount of cash collateral to be provided rose again and, correspondingly, the debt level in the form of cash advances also rose. Bremen's debt level is particularly volatile owing to its extensive derivatives transactions, even though Bremen is aiming to limit these fluctuations more closely. To read about the market values of interest rate hedges and their impact on the debt level, see State Parliament of Bremen (2024b, 2025) and Deutsche Bundesbank (2021b), p. 24.

Debt of individual state governments*

Chart 4.5

€ thousand per capita

Non-city states (including local governments)



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics. Debt to the non-public and public sectors (non-consolidated). ¹ Population-weighted mean of all state and local governments (2023: €9,765; 2024: €10,176).

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The average interest rate payable on state and local government debt rose on the year across Germany. It went up by 0.2 percentage point to 1.9 % (see [Tables 4.2 and 4.3](#), item 24 in each). Although individual state governments can borrow at similar conditions in the capital market, differences in factors such as borrowing dates, interest rate fixation periods and interest rate hedges result in average interest rates varying.

The highest average interest rate in 2024 was recorded for Bremen. At just under 2.7 %, however, it barely changed on the year. Interest rate hedges lead to relatively high interest costs but prevent a substantial increase. Average interest rates fell particularly sharply in Baden-Württemberg and Mecklenburg-West Pomerania (by 0.6 percentage point in each case).¹⁵⁾ The lowest average interest rates were calculated for Berlin (just over 1.2 %).

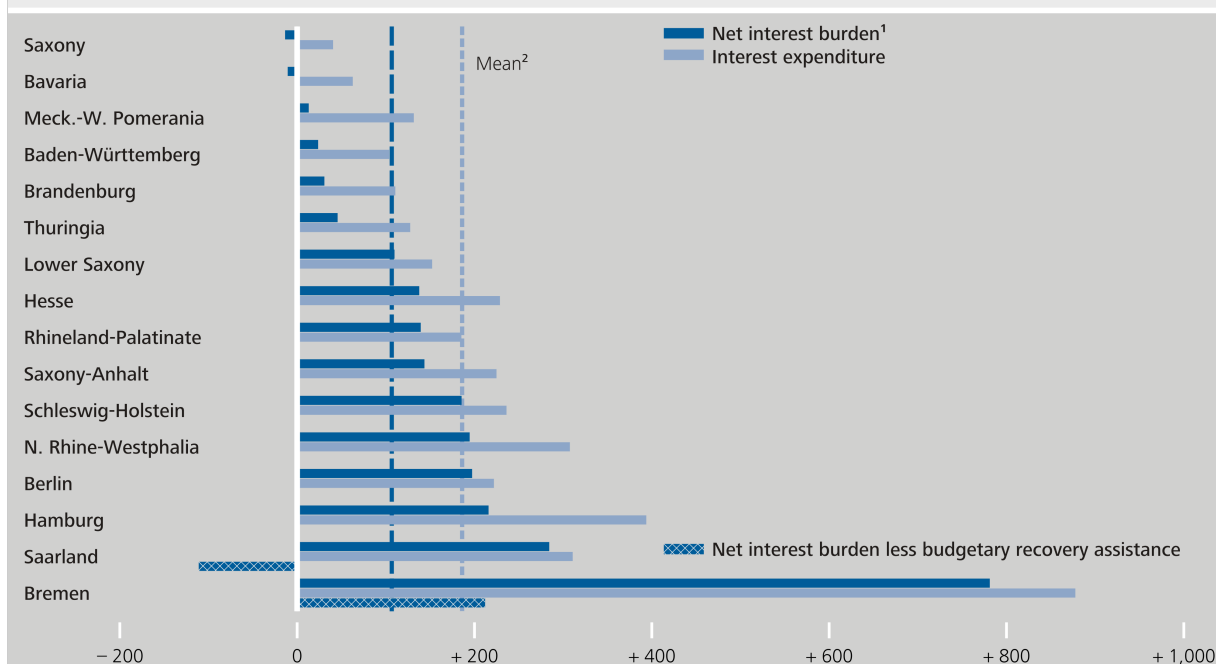
Interest expenditure of state governments (including local governments) continued to rise overall. However, the rise in interest income was slightly stronger still (as in the year before). Net interest burdens (where interest income is deducted from interest expenditure) thus declined. This was mainly due to Baden-Württemberg, which was able to boost its interest income as interest expenditure fell. It was a similar story in Mecklenburg-West Pomerania (net interest burdens of – €60 per capita). By contrast, the largest increase in net interest burdens was recorded in North Rhine-Westphalia. At €30 per capita, however, this figure was still moderate. Bremen recorded by far the highest net interest burdens per capita (€780), followed by Saarland (€280; see Table 4.2 , item 7).

15 In Mecklenburg-West Pomerania, this could be due to the fact that the state reduced debt to its own pension pots, which had been remunerated at a relatively high rate of 4 %. For 2025, the state announced in its budget planning that it would increasingly redeploy these funds to the capital market. However, interest payments to special funds had already fallen by just over two-fifths in 2024. Lower burdens in connection with interest rate hedges appear to have played a role in Baden-Württemberg (see Meyer (2025), p. 108).

Interest burden of individual state governments (including local governments) in 2024*

Chart 4.6

€ per capita



Sources: Federal Statistical Office and Bundesbank calculations. * Government finance statistics. 1 Interest expenditure less interest income. 2 Population-weighted mean of all state and local governments for interest expenditure and net interest burden (without deducting budgetary recovery assistance).

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The extent to which state governments are constrained by their net interest burden is illustrated by the burden's relation to tax revenue. Across Germany, the figure stood at just over 1½ %. Bremen recorded by far the highest figure (just under 10 %), followed by Saarland (just under 5 %). However, the effective interest burden of these two states is much lower than signalled by the standard indicator because budgetary recovery assistance is provided by central government: deducting this assistance from the interest burden, Bremen's net interest burden was 2½ %. This corresponds to the level in Hamburg and Berlin. In Saarland, the adjusted ratio is even negative (almost – 2 %). Central government assistance thus exceeds Saarland's net interest burdens.

3 State government debt brakes

3.1 Significant differences in cyclical adjustment

There is significant variation between states when it comes to how they factor cyclical effects out of debt brake calculations. Most federal states use a similar method to central government to determine cyclical influences when drawing up the budget.¹⁶⁾ By contrast, some determine the cyclical component completely differently. In some cases, they calculate it as a deviation of tax revenue from a long-term trend. In other cases, meanwhile, they derive a reference level from the recent past and calculate the cyclical component as a deviation from that level.¹⁷⁾ Bavaria is the only state that still completely refrains from cyclical adjustment. North Rhine-Westphalia, by contrast, made use of cyclical adjustment for the first time in 2024, thereby creating additional scope for borrowing.

16 When drawing up the accounts for a financial year, they supplement these with deviations of tax revenue from the budgeted figure, provided that these are not based on legislative changes. Central government, on the other hand, calculates the deviation of nominal GDP growth from budget plan expectations at the end of the fiscal year. The cyclical component is then adjusted for the associated arithmetical deviations from expected revenue.

17 For more information on different approaches, see Deutsche Bundesbank (2017).

Taken together, the federal states factored out cyclical burdens totalling €7½ billion for 2024. However, the different procedures used mean that the cyclical influences taken into account differ considerably in each case. This is in spite of the state government financial equalisation scheme, which was intended to largely offset cyclical differences – such as discrepancies in financial strength. Several federal states reported relieving cyclical effects (Rhineland-Palatinate, Hamburg and Bremen).¹⁸⁾ In addition to Bavaria, Mecklenburg-West Pomerania, Saxony and Thuringia also applied no cyclical effects.¹⁹⁾ By contrast, most federal states reported extensive adverse cyclical effects. Higher net borrowing by these states was thus possible within the scope of their debt brakes.

Selected results of state government cyclical adjustment

- The peak cyclical burden in Saarland is due to the fact that the state government financial equalisation scheme had settled a one-off effect from 2023. In this respect, the high figure does not represent a cyclical fluctuation; rather, it offsets strong fluctuations in revenue. It is well justified for the purposes of counteracting such fluctuations.²⁰⁾
- This special case aside, Saxony-Anhalt reported the largest cyclical burden per capita (€370). This goes back to the fact that the state had already determined its starting figure for the cyclical burden in May 2023. Tax revenue developed much more weakly than expected thereafter, which increased the cyclical burden calculated in this way at budget outturn.
- Baden-Württemberg did not make full use of the calculated negative cyclical effects for borrowing. The budget thus closed the year more favourably than the debt brake would have allowed for. This was not the case in previous years.²¹⁾

18 Rhineland-Palatinate uses a tax trend procedure with adjustments designed to keep the reported cyclical effects symmetrical. Hamburg supplements the result of its tax trend procedure with adjustments to equity capital (equity-increasing or -decreasing, if the (planned) tax revenue lies above or below the trend). Bremen uses a similar procedure to central government, but apparently experienced a positive census effect: the increase in the population generated additional revenue relative to the budget estimates, which are considered to be cyclical in budget accounting as they are not caused by changes in tax law.

19 The tax level procedures used by these three federal states only grant scope for cyclical borrowing during periods of pronounced economic weakness.

20 As in previous years, the Bundesbank figures for the partially adjusted fiscal balances and tax revenue in [Table 4.2](#) are adjusted for delayed settlement.

21 This resulted in a negative balance on the control account, which was reduced in 2024. For information on how a control account works, see Deutsche Bundesbank (2011), pp. 19 ff.

The various and, in some cases, complex procedures for cyclical adjustment make it considerably more difficult to analyse state government finances with regard to the debt brakes. Consistently large deviations between the calculated cyclical effects of individual federal states are difficult to justify economically amid cyclical developments that typically run broadly in parallel. It is therefore not possible to make a meaningful comparison of cyclically adjusted results based on state government data. Furthermore, arithmetically different cyclical effects between the federal states also imply different requirements imposed by the debt brakes. This, too, is not easily justifiable in economic terms. Notwithstanding, it is generally recommended that cyclical burdens and relief be factored in symmetrically and in the full amount. This is the best way to ensure the desired steady fiscal policy.

3.2 Emergency borrowing repaid in spite of deficits

In 2024, most state governments were well able to absorb the overall deficit in the borrowing limits of their debt brakes and even managed to repay emergency borrowing.²²⁾ However, the results of the individual federal states differed strongly here, too – in some cases far beyond the state-specific cyclical effects described above.

On balance, state governments repaid emergency borrowing of €7 billion. To this end, it appears that they largely used reserves that they had previously built up from emergency borrowing (see the supplementary information entitled “Development of emergency borrowing in individual states in the 2024 financial year”). Bremen was alone in recording increased levels of emergency borrowing (up by just over €½ billion). Saarland also made recourse to emergency borrowing of €½ billion, but had already reported this amount as having been taken out in the previous year. Saxony-Anhalt borrowed new funds in a smaller amount, but overall, repayments were significantly predominant there.²³⁾

22 Until the introduction of the new scope for borrowing (see Chapter 4.2), the Basic Law stipulated that the federal states were prohibited from taking on new debt. They had to have a balanced budget in structural terms. Only in the event of natural disasters or exceptional occurrences out of the federal states' control with a significant impact on government finances were they permitted to deviate from this ban on new borrowing and take out “emergency funds”. When engaging in emergency borrowing, state governments were (and are) required to adopt a repayment schedule.

23 Last year, other federal states were still using funds from emergency borrowing to cover crisis-related interest burdens. However, the loans had already been taken out under budget law and were therefore not reflected in the accounts. This applies, for example, to North Rhine-Westphalia, which financed interest burdens of €½ billion from its coronavirus special fund.

At the end of 2024, state governments reported outstanding emergency borrowing totalling around €60½ billion, or just over €700 per capita²⁴⁾ (see also [Table 4.4](#)).

Upon approval of emergency borrowing, the federal states are required to adopt a repayment schedule. The repayment obligations accrued from such borrowing vary greatly from one federal state to the next.²⁵⁾ Rhineland-Palatinate had already repaid its emergency borrowing in 2021, and Hamburg did so in 2023. The reported outstanding per capita commitments remain highest in Bremen and Saarland (€4,000 and €3,000, respectively). Both federal states receive extensive budgetary recovery assistance from central government. In return, they have committed to reducing their debt levels. However, extensive emergency borrowing will increase this debt for a prolonged period, thus widening the gap between these and the other federal states.

24 As in previous years, the Bundesbank asked the federal states about their debt brake settlement results. Information was also requested on total accumulated emergency borrowing and corresponding repayment schedules.

25 In addition, the federal states have considerably differing amounts of reserves at their disposal that they could use to alleviate repayment burdens (see [Annex 2](#) for more on this).

Development of emergency borrowing in individual states in the 2024 financial year

For this article, the Bundesbank has performed its own simple calculation of federal states' financing needs and scope for repayment. Although this calculation uses state governments' own specifications on excluded cyclical effects and financial transactions, the fiscal balance taken as its starting point differs from the starting point in the state governments' debt brake accounting (see Table 4.4).¹⁾

The Bundesbank's simple calculation suggests that federal states primarily made their repayments using reserves. For state governments as a whole, the calculation does not indicate any net repayment scope for 2024 from the budget outturn; it shows a structural deficit of €4½ billion in the 2024 budgets.²⁾ Reserves appear to have been pivotal in enabling states to repay emergency borrowing in spite of this deficit.

North Rhine-Westphalia, for example, repaid emergency borrowing of €3 billion when it fell due. It appears that the state did not spend the funds originally raised on the capital market on crisis measures, but invested them instead.

Schleswig-Holstein had actually intended to use emergency borrowing to meet its financing needs, but this was prohibited by a ruling from its state constitutional court. The state's own accounting thus shows a marked decline in outstanding emergency borrowing due to repayments from reserves.³⁾

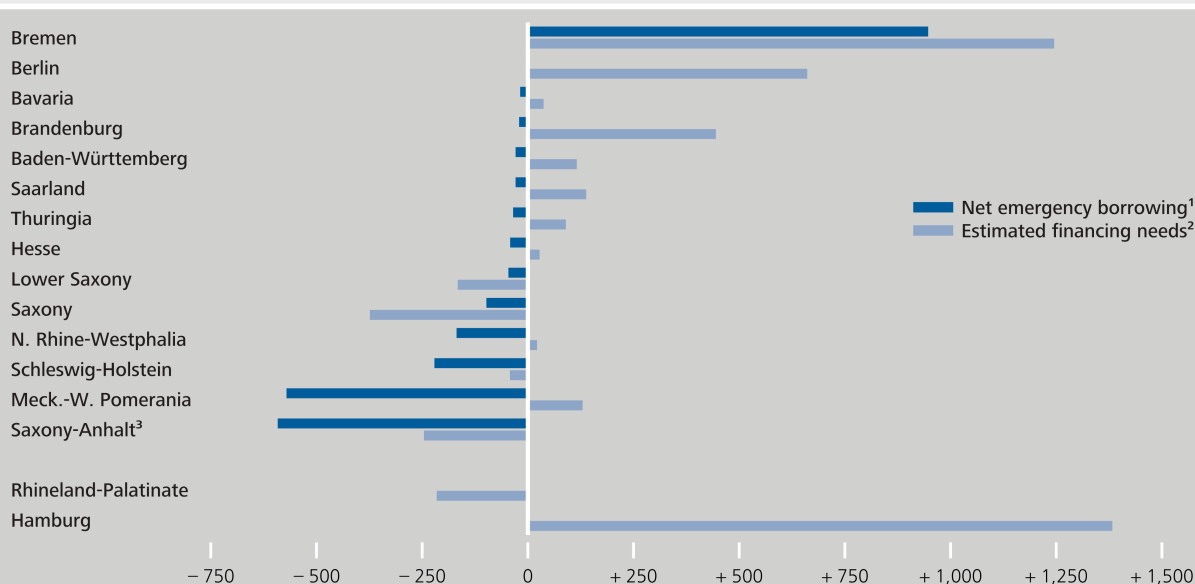
-
- 1 The Bundesbank calculates the financing needs or repayment scope for emergency borrowing from the results including all off-budget entities (whose deficits also have to be financed). The result is compared with the change in the volume of emergency borrowing. Differences indicate that reserves were built up, or used for repayment. For details on the exact calculation method, see Deutsche Bundesbank (2023a), p. 49.
 - 2 The deficit of €5 billion stemming from financial transactions and the negative cyclical impact of €7½ billion (as reported by the federal states) were deducted from the balance for state government including its off-budget entities (– €18 billion).
 - 3 The Bundesbank's calculation includes the emergency borrowing that was deemed invalid; this is because it was taken out to finance the budget, and repayment obligations exist. On balance, the result is still a marked decline, however.

Mecklenburg-West Pomerania even repaid a substantial amount of its emergency borrowing despite having structural financing needs. In Saxony-Anhalt, repayments exceeded the calculated structural surplus.

Federal states' net emergency borrowing/repayment and estimated financing needs in 2024 according to a simple calculation by the Bundesbank

Chart 4.7

€ per capita



Sources: Federal Statistical Office, data from federal states' finance ministries and Bundesbank calculations. **1** Annual change in the total outstanding repayment obligation from emergency borrowing. Positive values indicate emergency borrowing, negative values indicate repayment of emergency borrowing. **2** Fiscal balance of core budgets and off-budget entities according to government finance statistics, adjusted for financial transactions and cyclical effects according to federal states' specifications. Positive values indicate financing needs, negative values indicate financing scope. **3** Gross repayments of almost €700 were partly offset by new emergency borrowing of just over €100 (per capita figures).

Deutsche Bundesbank

The federal states plan to repay outstanding emergency borrowing over varying periods. Federal states that have borrowed more tend to have longer repayment periods. That of Saxony is the shortest, ending in 2030. North Rhine-Westphalia has a particularly long repayment period, spanning 50 years up to 2070. Its annual burdens are therefore relatively low. In almost all federal states, repayment schedules had already started in 2024 – notwithstanding some decisions to defer these repayments. Some federal states repaid more than would have been expected, looking at their repayment plans. Mecklenburg-West Pomerania repaid €900 million, with repayments under its schedule set to begin in 2028. Bremen was the only federal state not to have made net repayments in 2024, instead taking out additional emergency borrowing. However, Saarland, too, expanded its effective repayment burdens further by using up emergency borrowing that it had previously taken out. Saarland's repayment process is scheduled to begin in 2025, whereas in Bremen it will not begin until 2028.

However, taken in isolation, repayment obligations stemming from emergency borrowing are not a good indicator of how burdened future budgets will be. In addition, existing contingency funds or reserves must be taken into account. State governments reserve a large part of their reserves for special tasks. However, they may, in part, disregard this earmarking if particular needs for funds exist in other areas. In this respect, contingency funds can alleviate the burdens caused by repayment obligations arising from emergency borrowing. That being said, a comprehensive overview of such funds is still lacking. A new Bundesbank survey continues to point to very different levels of holdings across federal states (see [Annex 2](#)).

4 Outlook: Make targeted use of new state government fiscal leeway, increase transparency

4.1 Deficit developments in 2025

Taken together, the overall deficit of state and local governments might change only slightly compared with the previous year. The expected subdued macroeconomic developments imply only a moderate increase in tax revenue. At the federal state level, however, the acquisition of financial assets could decline. Conversely, other state government spending, particularly on personnel, could see continued substantial growth. Local government tax revenue is likely to increase at a somewhat slower pace than that of state governments. At the same time, there are set to be significant and broader-based spending hikes at the local government level in areas such as social benefits, personnel and other operating expenditure.

Local government finances in the first half of 2025

Local governments (core budgets and off-budget entities) closed the first half of 2025 with a very large deficit. According to the quarterly cash statistics, it came to €20 billion, which was €2½ billion higher than it had been a year earlier. The fact that general purpose grants were brought forward in Baden-Württemberg ¹⁾ had reduced this deficit by just over €2 billion.

Revenue saw year-on-year growth of just over 6 % in the first half of 2025, of which around 1 percentage point was due to the Baden-Württemberg grants being brought forward. Revenue from fees grew briskly, probably also because local governments increased their cost coverage rate by raising fees in order to reduce budget gaps. Tax receipts grew moderately overall, by just under 3 %, with stagnation in the major revenue item local business tax.

Expenditure continued to rise quite steeply (by 7 %, or €13 billion), with all major areas recording significant growth. Growth in interest expenditure was far above average (+ 21 %), although this item still had only a minor impact overall, at 1 % of total expenditure. Of the social benefits, benefits for integration assistance rose particularly sharply. However, this contrasted with weaker growth, not least, in accommodation costs for recipients of the basic allowance, and a fall in benefits for asylum seekers.

Local government debt rose significantly in the first half of the year compared with the level recorded at the end of 2024, with cash advances also seeing accelerated growth. Local government debt to the non-public sector rose by around €9½ billion (+ 5 %) in the first half of the year. At €6 billion, around two-thirds of this was attributable to cash advances.

1 See Ministry of Finance for Baden-Württemberg (2025).

It remains unclear how the March 2025 amendments to the Basic Law will impact on the financial performance of state governments (including local governments) this year.²⁶⁾ From the current perspective, however, they are unlikely to dominate the underlying trends described above.

- According to central government plans, the federal states are still set to receive €8½ billion from the Infrastructure and Climate Neutrality Fund this year. However, the actual inflows could be lower, as the requirements for drawing upon these funds still need to be determined. In line with the wishes of the federal states, it looks as though there will be no need to demonstrate additional investment expenditure. If, therefore, substantial funds were still to flow in from central government this year, this would likely curb the deficits of state governments – and potentially the deficits of local governments, too, if the state governments were to pass on a part of these funds.
- With the additional scope for borrowing of 0.35 % of GDP per year (€15 billion at present), the federal states could already expand their deficit significantly in 2025. However, it is questionable whether more extensive additional deficit-increasing measures will take effect by the end of the year. In any case, the deficit of state and local governments taken together will not change if state governments direct funds to the local level and use them to close funding gaps there (with the result that deficits then rise for state government and fall for local government). If state governments put funds aside in off-budget entities, this will not influence the deficit considered here, either.

4.2 Use new scope for borrowing cautiously amid high debt levels

The expanded scope for borrowing creates room for manoeuvre. However, higher debt increases future interest burdens. The new leeway must be used with due care, especially in the case of federal states that are already highly indebted. State governments will be given greater leeway and can also continue to include state-specific cyclical effects and the balance of financial transactions in their scope for

26 For more details on the reform concerning the federal states in particular, see Deutsche Bundesbank (2025), supplementary information entitled “Stability-oriented adaptation of relaxed debt brake”, Chapter 1 “Overview”.

borrowing. Among the federal states, the scope of 0.35 % of GDP is based on the “Königsteiner Schlüssel” financing key and is thus primarily divided according to the states’ tax potential.²⁷⁾ This seems sensible. However, in addition to tax potential, the burdens arising from existing and new debt must also be taken into account. Bremen and Saarland are currently receiving budgetary recovery assistance transfers from central government so that they can bear their high interest burdens and reduce their high debt levels. As long as they remain reliant on such assistance, extensive new borrowing is hard to justify. However, the other federal states also need to ensure that the additional lending rates remain permanently affordable. Here, too, interest burdens are already likely to increase as average interest rates continue to rise.

4.3 Use funds from the Infrastructure and Climate Neutrality Fund in a targeted manner

Scope for borrowing for additional infrastructure investment was enshrined in the Basic Law. The Infrastructure and Climate Neutrality Fund is intended to provide the federal states with a sum of €108 billion.²⁸⁾ State governments, and in particular local governments, are responsible for the majority of public infrastructure. Accordingly, it falls to them to address the growing deficiencies. In this respect, it makes sense for extensive funds from the special fund to be channelled to the federal states, and for the latter to transfer sizeable amounts to their local governments.

27 See Deutscher Bundestag (2025).

28 The €100 billion enshrined in the Basic Law is earmarked for fixed asset formation in various areas: transport and education, sport and culture and internal security. In accordance with a decision issued by a joint central government-federal government working group on 23 June 2025, dual funding will also become possible. It will not be necessary to provide evidence that additional investments are being made. The federal states will only have to report to central government about the measures they have taken once a year. Central government will carry out spot checks for monitoring purposes. Further to this, €8 billion will be provided for investment programmes to compensate state governments for tax shortfalls resulting from depreciation allowances.

However, the planned additionality of the projects appears to have been abandoned for the state government funds, putting the necessary modernisation of infrastructure in jeopardy. For example, the planned statutory provisions do not ensure that state and local governments only use the Infrastructure and Climate Neutrality Fund to finance additional projects. The federal states had explicitly attached importance to this design, apparently in order to be able to use the funds to finance projects that had already been planned. One important reason for this is likely to be the large budget gaps, especially at the local government level. However, it would be a setback if the infrastructure modernisation were to fail as a result of the new central government debt largely being used to plug budget gaps.

This can be prevented by tying funds from the Infrastructure and Climate Neutrality Fund to additional spending on infrastructure. In practical terms, central government could grant funds for a given year only if a federal state is planning to up fixed asset formation as a percentage of GDP compared with 2024 and then provides evidence of this in the annual accounts. This approach was suggested by the Bundesbank in its debt brake reform proposal in March. In its latest fiscal estimate up to 2029, the Federal Ministry of Finance is indeed expecting only more or less stable nominal expenditure on fixed asset formation for the core budgets of state and local governments, despite the extensive grants. If central government truly wishes to modernise state and local government infrastructure, it would be logical to make some amendments in line with the suggestions outlined.

The Infrastructure and Climate Neutrality Fund could also represent an opportunity to promote digitalisation uniformly across the federal states. To this end, a part of the funds could be used for joint digitalisation projects that improve the quality of public services.²⁹⁾ An efficient digital administration across federal states is likely to be better achieved with a highly coordinated approach. Digitalisation is also likely to help address the foreseeable shortage of staff.

29 Cooperation between federal states has great potential. A common AI strategy for central and state government is intended to include, amongst other things, a federal “justice cloud”. This means that, from 2026 onwards, all members of the judiciary will be able to access the AI applications of the federal states. See Federal Ministry of Justice and Consumer Protection (2025).

4.4 State governments bear responsibility for local government finances; financial reform advisable

State governments bear a great responsibility for local government finances. They play a key role in assigning financial resources and tasks to their local governments. On the financing side, they provide extensive funds and limit discrepancies in financial power. They are also responsible for local financial supervision. This is intended to prevent budgetary imbalances. If stricter supervisory requirements are insufficient to achieve sound public finances, larger transfers of funds from state government are warranted.

Against this backdrop, it is to be welcomed that state governments with high local government cash advances have changed their course and initiated a reduction in these loans in recent years. Cash advances indicate unfavourable developments in local government finances (see also [Chapter 1](#)). After decades of unfavourable developments, cash advances fell from €46 billion at the end of 2016 to €27 billion at the end of 2023. Key contributions were made by central government-funded financial assistance and state-specific debt relief programmes. Towards the end of the last decade, the “Hessenkasse” fund was particularly comprehensive. Saarland and Rhineland-Palatinate have also taken on a large part of the accumulated debt from cash advances in recent years. In return for the state government relief programmes, the local governments receiving support will have to limit their cash advances to such an extent that they will not require assistance again. North Rhine-Westphalia was the last federal state with high local government cash advances to pass a law on partial debt relief, doing so in the summer of 2025.³⁰⁾

However, local government finances had begun deteriorating again in 2024, and cash advances rose once more, in some cases significantly. It appears that reserves were also deployed in order to prevent an even faster increase. Without countermeasures, more and more local governments are likely to use up the reserves they have formed in recent years. To prevent cash advances from rising further and at an accelerated pace, local government finances need to improve sustainably throughout Germany. This in turn requires further steps to be taken.

30 In principle, the law provides that the federal state may take on one-half of the excessive cash advances. If cash advances exceed a threshold of €1,500 per capita, the state may assume them in full. See Ministry of Regional Identity, Local Government, Building and Digitalization of the State of North Rhine-Westphalia (2025).

State governments are called upon to prevent financial distress at the local government level in good time. This entails, first of all, consistent supervision of financially distressed local governments with the aim of ensuring that funds are used prudently and efficiently. Local tax increases should also be considered, although setting high multipliers for local business tax will weigh on the place concerned in terms of its status as a business location. Once the scope for expenditure and contributions has been exhausted, state governments must increase the financial resources available to their local governments. Some federal states have already stepped up transfers within their local government financial equalisation schemes.³¹⁾ However, it also appears that the federal states might be reckoning with central government funds from the Infrastructure and Climate Neutrality Fund being used to plug gaps in local government budgets. If these funds are not channelled into additional investment, though, this runs the risk of preventing any progress being made in the necessary modernisation of local government infrastructure.

In order to stabilise revenue in the long term, reduce large cash advances and prevent structural budgetary imbalances, a fundamental reform of local government finances is recommended.³²⁾ Local government revenue from local business tax (which is currently a major source of revenue) and, in part, revenue from transfers from state government is highly volatile. A reform could stabilise this revenue. This would help local governments to optimise their planning and management processes. As a short-term source of assistance, it would be worth considering increasing the local government share of VAT. In order to better take account of state governments' responsibility for local government finances, it could be stipulated that local governments only be permitted to take out cash advances from their own state. It would also be logical for state governments to count such loans towards their own credit limits under their debt brakes.³³⁾ Were they to do so, growing financial distress at local government level would be directly reflected in the state government budget. This would incentivise prompt action to address such distress.

31 As part of a Bundesbank survey of the federal states' finance ministries, Bavaria, Mecklenburg-West Pomerania, North Rhine-Westphalia and Saxony reported measures taken to ease the burden on local government budgets in 2025.

32 See Deutsche Bundesbank (2020), pp. 10-11, and Deutsche Bundesbank (2021a), pp. 53-58.

33 See Deutsche Bundesbank (2021a), p. 57.

4.5 Increase transparency of state government finances

State government finances remain very opaque. The federal states do not seem to be making much effort to publish meaningful, comparable key figures. This applies to both the results and the budgeted figures. The latter are often outdated and of only limited informative value – for the Stability Council’s fiscal surveillance, for instance. State governments should at least report the need to adjust their planned tax revenue following changes to tax legislation or new official tax estimates. Without better data on state government finances, it is also difficult to assess and compare degrees of budgetary leeway. Last year’s report included detailed recommendations to improve statistical reporting and harmonise the debt brakes. These recommendations still apply.³⁴⁾

In addition, the individual federal states should submit their preliminary financial results under their debt brake rules in the spring of the following year, meaning that they can be interpreted in good time and thus also have political relevance. This would be in line with central government’s approach of publishing preliminary results in the second quarter of the year before presenting the final figures in September. To date, state government debt brake figures have only been available by the autumn of the following year, when the Stability Council releases its analyses on the topic. However, by then, the focus is mostly on budget planning for the subsequent year.

34 See Deutsche Bundesbank (2024).

Annex 1: How the state government figures were prepared for this report and where problems still exist

In order to compare the finances of the individual federal states, this article looks at the core budgets of both state governments and local governments, as well as all off-budget entities at both levels (based on the cash statistics). This prevents tasks and financing burdens that are shifted between these entities from distorting the results. For city states, the state government data already include the local government level.

In addition, structural balances are calculated so that the underlying developments can be more properly assessed. These balances are produced by factoring out financial transactions (such as loan issuance and repayments),³⁵⁾ temporary cyclical influences, temporary crisis measures³⁶⁾ and major known one-off effects (such as special dividend pay-outs). In addition, financial equalisation and supplementary central government grants are included in accordance with the first settlement in the following year in order to record revenue on an accruals basis. Cyclical influences are calculated using the Bundesbank's methodology on the basis of its June 2025 Forecast for Germany.³⁷⁾ Temporary influences from the last measures taken in the wake of the energy price crisis (2024: tax-free inflation compensation bonuses and VAT reduction on gas and district heating up to the end of March) are only adjusted for in the result for Germany as a whole (consolidated across all federal states). Given that the correction is incomplete in this regard, the adjusted balances of the individual federal states are marked as partially adjusted structural balances.

35 The calculation of structural balances is based on the expenditure and revenue recorded by the state governments in the types of payment defined by the Stability Council as "financial transactions". However, there are some doubts as to whether the new financial assets are recoverable, especially for the transactions reported as acquisitions of equity. As a result, European fiscal surveillance sets additional requirements such as a market return on capital contributions. It is not possible to check in this report whether these conditions are met. As a result, caution should be exercised with regard to the adjustments in this report. Adjusted appropriately from an economic perspective, the deficit may therefore be significantly higher than the figure posted.

36 As in previous years, state-specific measures financed under the escape clause in the event of an emergency are not deducted as temporary. According to the ruling of the Federal Constitutional Court, emergency borrowing is actually only permitted to finance measures to address the emergency in the financial year in question. This would be one argument for deducting these funds. However, other federal states continue to incur expenses related to coronavirus measures or the energy price crisis without resorting to emergency borrowing. This is partly because state constitutional courts have declared recourse to emergency borrowing to be invalid. Correcting the results based on proclaimed emergencies would therefore tend to distort comparisons among federal states.

37 The Bundesbank's estimation method derives the cyclical influences on the various types of tax from the trend deviations of the key macroeconomic reference variables. See Deutsche Bundesbank (2006).

When interpreting the state government figures, it should be borne in mind that a federal state's financial relationships with its off-budget entities may distort the reported fiscal balance. However, in contrast to previous years, it appears that there were no notable effects in the reporting year. It cannot be assured in all cases that payment flows between the core budget and the off-budget entity are recorded in a corresponding manner on both sides in the financial statistics. For example, revenue from intra-government transfers may be recorded at a different point in time than the corresponding expenditure. However, it should not generally be assumed that a statistical error has been made if, for example, the revenue of a state government's core budget from off-budget entities is not equal to the corresponding expenditure of the state government's off-budget entities. This is because, to a limited extent, both core budgets and off-budget entities can also maintain payment relationships with off-budget entities of another state or of central government (although intra-government cash flows are not broken down in more detail in this regard). The very large discrepancies in Bremen (deficit in intra-government payments: €850 per capita) are due to a different reason. Note that the budget system does not recognise the category "off-budget entities". The state governments therefore also record payments to public enterprises and institutions under the budget system categories of the same name – regardless of whether the recipients are off-budget entities or not. The financial statistics reclassify such data, but possibly too extensively in the recent case of Bremen. In this respect, the financing deficit is not distorted because only expenditure categories are exchanged and revenue is not corrected. Because no updated information from the subsequent annual accounting statistics points to an error in the deficit mentioned here, the figure remains unchanged (unlike last year for Bremen and Schleswig-Holstein).

Key categories of expenditure delineated by the individual states are comparable to only a limited extent in some cases. For example, state and local governments can provide services using their own staff in the core budget or ensure that similar services are provided by subsidising non-government entities to do so. This is then reflected, for instance, in statistically different levels of personnel expenditure despite largely identical overall expenditure. However, similar services can also lead to different total expenditure if services are no longer provided in the core budget but rather in off-budget entities that receive a service fee from the core budget. The cash statistics consolidate cash flows within the government sector only if they are classified as transfers, but not if a state government pays service fees instead.

Figures for the individual state governments are generally shown in relation to the respective population size. This ensures better comparability between federal states. Particularly in the state government financial equalisation scheme, population size is a key measure of funding needs and the basis on which resources are redistributed among the federal states.³⁸⁾

As outlined above, temporary crisis measures cannot be factored out on a state-by-state basis. This is why the partially adjusted structural balances are less favourable than fully adjusted structural balances. According to the Bundesbank's estimate, the difference across Germany amounts to just over €5 billion or slightly more than €60 per capita.

Tables 4.2 to 4.4 provide a more detailed picture of the annual results on the one hand and the year-on-year changes on the other. Results are presented by federal state. They show the steps taken to derive the partially adjusted structural balance from the official cash statistics. Moreover, they contain additional key metrics. These comprise tax revenue, including the state government financial equalisation scheme (based on provisional settlement figures), debt and interest burdens. Alongside major expenditure categories, the tables contain additional data such as state average multipliers for real estate and local business tax, state-specific real estate acquisition tax rates and benchmark figures for state governments' civil servant salaries.

38 In previous years, the report was based on extrapolated population figures from the 2011 census. From 2024 onwards, the results of the 2022 census will be incorporated. These indicate that the total population has fallen by around 1 million. For individual federal states, the revisions deviate significantly from the nationwide decline of 1 % (see [Federal Statistical Office \(2024\)](#)). In the per-capita figures, the rebasing of the population size is barely perceptible in the context of tax revenue owing to the financial equalisation scheme; however, it is more obvious on the expenditure side and in terms of borrowing. However, the effects remain limited overall for these metrics, too, as the deviation between population development at the state level and across Germany remains within a range of around 2 percentage points.

Annex 2: Reserves

Types of reserves and data availability

Reserves provide room for manoeuvre in the event of budget shortfalls. As a rule, the state-specific debt brakes set limits on (structural) net borrowing. Using reserves can reduce (structural) net borrowing (while forming reserves increases it).³⁹⁾ State governments often establish reserves in the core budget and special funds. In many cases, the legislator ties them to specific purposes but can change this if necessary. Reserves are not usually liquid funds (such as bank deposits), but rather borrowing authorisations that have only been used formally (for the purposes of the budget).

A complete overview of federal states' reserves is still lacking.⁴⁰⁾ **The Stability Council should increase transparency here.** The transparent disclosure of reserves would make it much easier to assess and compare state government finances. The reserves and special funds are part of the state governments' budget accounts. However, most federal states' budget accounts are not made available until well after the end of the year⁴¹⁾ and fail to clearly summarise what are often very different types of reserves. This information gap makes it difficult to gauge budgetary leeway.

39 Although forming and reducing reserves causes changes in a state government's net borrowing, it does not alter its (structural) deficit. The deficit therefore provides a better indication of the underlying fiscal position.

40 An overview at the central government level is also difficult; see Deutsche Bundesbank (2023b), pp. 71 ff.

41 By contrast, central government regularly publishes its budget and balance sheet in the middle of the following year.

For this Monthly Report, the Bundesbank surveyed the state governments about their reserve holdings as at the end of 2024. As in previous years, the picture remained incomplete. For example, some federal states close the year with target appropriations still in their budgets and thus transfer unused borrowing authorisations to subsequent years. In addition, self-management funds are recorded as disbursed at the end of the fiscal year, but this is not always associated with an outflow of cash. This mainly applies to one federal state where, as revenue to balance the budget, such reversals take on the character of reserves.⁴²⁾ This article therefore allocates these self-management funds to reserves.

The size of reserves based on a Bundesbank survey

The various types of funds set aside are grouped together here as reserves. All in all, the state governments reported a decline of €8 billion, which reduced the holdings in core budgets and in special funds to a still very large €135 billion. In most cases, it is not known what portion of the reserves is already scheduled to be ring-fenced for subsequent years. The reserves include, in particular, general reserves and reserves for civil servants' pensions.

42 In the reporting year, North Rhine-Westphalia recorded revenue of €1 billion in the state government budget from self-management funds. The reported total holdings of these funds declined by roughly this amount to €7 billion. The 2025 budget plan envisages a reverse posting of €2½ billion in revenue and the draft budget for 2026 envisages another in the same amount. Other state governments also reported holdings of self-management funds, but these were negligible. For more information, see the supplementary information on self management funds in Deutsche Bundesbank (2024).

General reserves

The figure reported for general reserves came to €35 billion (€415 per capita) at the end of 2024. They thus fell by €2½ billion on the year. The general reserves per capita are highest in Hamburg (€3,840 in total and €1,520 in the core budget), followed by Mecklenburg-West Pomerania (€1,270). Berlin, Schleswig-Holstein and Saarland did not report any general reserves; in North Rhine-Westphalia and Bremen, only a small residual amount was left over. Lower Saxony saw significant increases compared with the end of last year. Lower Saxony generated surpluses in its core budget that were only partially channelled into repayments. By contrast, general reserves fell particularly sharply in Brandenburg and Mecklenburg-West Pomerania. In Brandenburg, a 2024 ruling by the State Constitutional Court plays a major role in this. The state government had not met the conditions for recourse to emergency borrowing in its 2024 budget plan. The government felt unable to make legally sound improvements and therefore decided to use reserves instead of emergency borrowing.⁴³⁾

43 See Ministry of Finance and European Affairs of the State of Brandenburg (2024).

Reserves for civil servants' pensions

Civil servants' pensions represent a growing burden on state government budgets; the federal states have expanded their overall provisioning in this area by €6 billion to €63 billion. Pension provisions are by far the largest group of reserves.⁴⁴⁾ Saxony has the highest level of funds set aside for pensions, at almost €3,200 per capita, although the western German states have far higher pension obligations relative to the size of their populations. Saxony is aiming to fully fund pension burdens from its reserves in future.⁴⁵⁾ The next highest funds are those of Baden-Württemberg and Saxony-Anhalt (at around €1,000 per capita). Thuringia and Saarland have (almost) no pension reserves. Several years ago, Thuringia made adjustments to its pension funding and, since then, has repaid fixed amounts of its legacy debt in order to cover new civil servants' pensions. This took place in the reporting year, too, albeit to a much lesser extent than the increase in reserves in Saxony. Saarland still has particularly high pension obligations. To ease the tightness in its budget, it has discontinued transfers to its pension reserves. Hamburg reports its prospective total pension obligations in its annual report at a discounted rate. Including the local government level and the beneficiaries in off-budget entities, the burden came to almost €22,000 per capita at the end of 2024 – more than Hamburg's outstanding debt. Compared to this, however, the reserves set aside for pensions by Hamburg in a special fund are relatively minor in scale.

Cyclical offset reserves

The figure reported for cyclical offset reserves (in other words, the cyclical item) remained virtually unchanged at €8½ billion. Cyclical effects must be recorded symmetrically under the debt brake. The reserves then fill during upturns and empty during downturns, ebbing and flowing in time with the economic cycle. No overview of the cyclically induced loans taken out in total is available. At €6½ billion, the majority of the reserves were attributable to Hamburg, which in the reporting year effected a transfer matching the amount of the moderate cyclical relief calculated for its budget.⁴⁶⁾

44 A special feature of pension funding is that the federal states do not usually set aside any borrowing authorisations for this purpose, but rather invest pension funds in profit yielding instruments – not least in their own state's debt instruments, but also in shares in some cases.

45 Allocating pension reserves on an accruals basis makes the actual costs of employing civil servants tangible. Otherwise, current budgetary burdens arising from awarding civil servant status can be alleviated at the expense of future budgets.

46 Hamburg uses a double-entry bookkeeping system, which is why it reports no reserves under the single-entry system. However, the cyclical item on Hamburg's balance sheet is similar in nature and has therefore been used here.

Coronavirus-related reserves

Coronavirus-related reserves were reported only in North Rhine-Westphalia. In this case, holdings fell by €3½ billion owing to repayments and interest payments (which the state government thus effectively continues to finance via emergency borrowing). At the end of 2024, the coronavirus special fund still contained just under €2½ billion. Saxony-Anhalt, in particular, reported the repayment of the outstanding amount of €1½ billion. Berlin, Mecklenburg-West Pomerania and Schleswig-Holstein had not previously reported the holdings released in the reporting year as coronavirus-related reserves.

Reserves in off-budget entities for investment purposes

For the federal states as an aggregate, reserves in pre-financed off-budget entities for investment purposes fell by just over €2 billion to €6½ billion. Only six state governments reported such reserves (Berlin, Brandenburg, Lower Saxony, Saxony, Schleswig-Holstein and Thuringia).

Energy reserves and other reserves

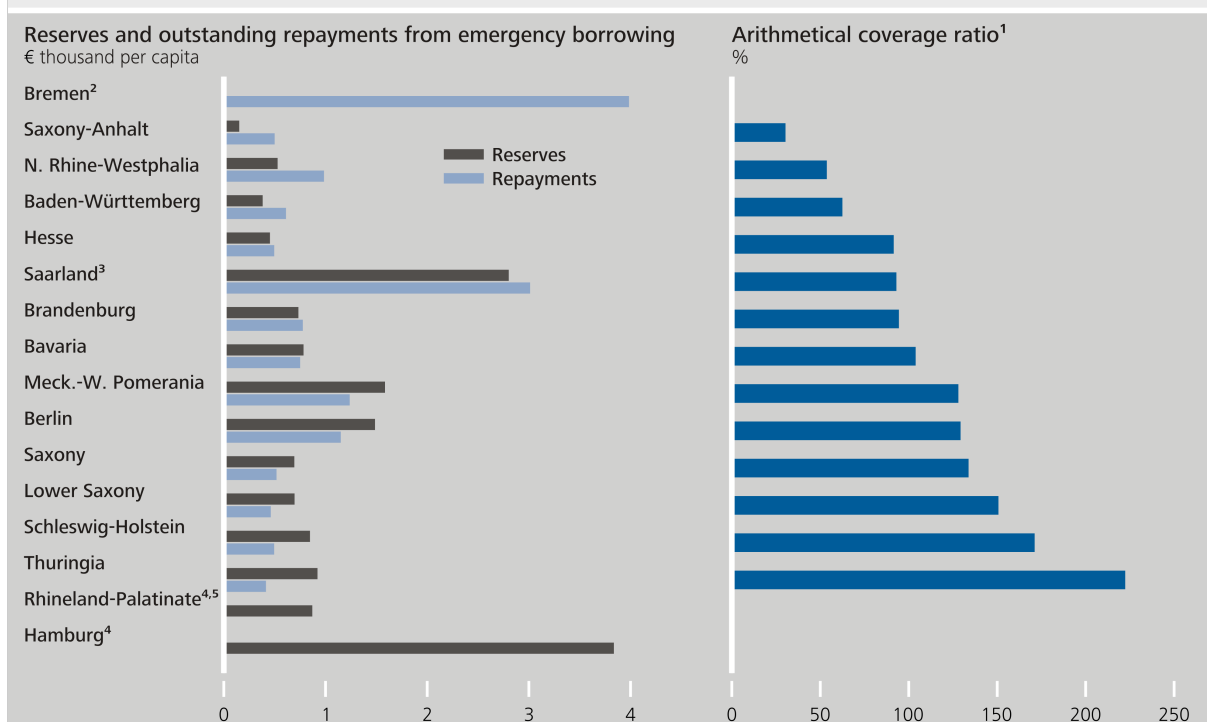
Taken together, the energy reserves and other reserves of the federal states (including self-management funds) fell by €3 billion to €21 billion. In addition to the use of self-management funds in North Rhine-Westphalia, this was due not least to the fact that Saarland used resources from its transformation fund, but had already reported these loan holdings as having been taken out in a prior year.

Comparison of reserves and outstanding emergency borrowing

While some reserves are earmarked for specific tasks, they could, in theory, be mobilised to repay emergency borrowing. State governments would then no longer need to stay below their structural borrowing limits by making savings in the amount of the principal payments. Disregarding the often extensive funds for civil servants' pensions as well as cyclical offset reserves, the reserves as a whole are slightly higher than emergency borrowing. The picture for the individual federal states is very mixed. Reserves predominated to a significant degree in Thuringia and Lower Saxony, with moderate levels of emergency borrowing. By contrast, Bremen, in particular, had relatively small reserves with very high emergency borrowing. To put the relatively low arithmetical coverage ratio in Baden-Württemberg into perspective, alongside the reserves, the state has put extensive additional funds aside, not least in the form of surpluses from previous years.

Ratio of reserves* to outstanding repayments from emergency borrowing at end-2024

Chart 4.8



Sources: Federal states' finance ministries and Bundesbank calculations. * Reserves including coronavirus-related reserves and excluding pension funds and cyclical offset reserves. **1** Ratio of reserves to outstanding repayments from emergency borrowing at the end of 2024. **2** No coverage ratio given as no reserves are present as defined here. **3** Holdings in the state's transformation fund are allocated to reserves. **4** No coverage ratio given as all emergency borrowing has already been repaid. **5** Reserves: Figures from the 2023 budget accounts.

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(This article reflects data up to 15 October 2025.)

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