



Federal Ministry
of Finance

28th Subsidy Report 2019–2022

SUB VEN TION

28th Subsidy Report

Federal government report on trends in federal financial assistance and tax benefits for the years 2019 to 2022

Summary report

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I. Introduction

The federal cabinet adopted the federal government's 28th Subsidy Report on 18 August 2021. In accordance with section 12 of the Act to Promote Economic Stability and Growth (*Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft*), the federal government submits an overview of federal financial assistance and tax expenditures to the Bundestag and Bundesrat every two years. The report is submitted in conjunction with the government draft of the federal budget.

Subsidy policy is part of the federal government's forward-looking fiscal policy. By providing targeted financial assistance from the federal budget, the government has been able to lessen the negative economic and social impact of the Covid-19 pandemic. However, the purpose of the crisis management measures is not only to maintain existing structures, but also to shape the future through investments in the green and digital transitions. This will stimulate sustainable economic growth and thus help Germany emerge from the crisis stronger than before.

Subsidies that are no longer necessary are wound down, and new subsidies are introduced in areas where they can boost competitiveness or provide temporary support for the advancement of pro-growth technologies. The German government's subsidy policy is increasingly being shaped by climate and environmental policies, especially in the area of direct funding in the form of federal financial assistance. The federal government's regular Subsidy Reports provide the German Bundestag and the federal government with the information needed to review the existing subsidies.

The federal government's 28th Subsidy Report outlines trends in federal financial assistance and tax expenditures during the period from 2019 to 2022. This English-language summary report presents the main findings of the full report. The full report is available in German on the website of the Federal Ministry of Finance, www.bundesfinanzministerium.de. In addition to the information contained in this summary, the full report includes standardised data sheets for the individual financial assistance items and tax expenditures.

II. Subsidy policy and definition of subsidies

All subsidies require specific justification and regular evaluations of their efficiency and success. This is because long-term favourable arrangements that benefit individual market participants at the expense of the general public typically have adverse effects. By altering relative prices, subsidies can distort markets as a whole and thus lead to the misallocation of resources. Subsidised companies can crowd out other, competitive companies out of markets. There is also the danger of a subsidy mentality becoming entrenched, with

the consequence that adjustments that are necessary from a business perspective are not made and/or there is a decline in motivation and initiative. Possible consequences include delayed structural change, a loss of competitiveness, and lasting impairment of economic growth and employment.

The funds used to provide subsidies are unavailable for other purposes and thus have opportunity costs. For this reason, subsidies should generally be both time-limited and degressive by

design. In addition, the federal government regularly assesses whether subsidies that make short-term sense can be replaced over the medium and long term with market-based solutions that are not dependent on government budgets.

Subsidies should also be scrutinised carefully for any negative impact on the environment. The subsidy-related consumption of resources, damage to the environment and health, and any costs incurred for the elimination of these impacts must be weighed against the subsidy's objective. The federal government is working at the national, European and international levels to reduce subsidies that have an adverse impact on the environment and the climate or to redirect them towards forward-looking, climate-friendly and socially and environmentally equitable measures, while also taking consumer and other economic interests into account. G7 and G20 initiatives to reduce

inefficient fossil fuel subsidies are contributing to these efforts. In this context, the federal government, in cooperation with the other G7 states, has reaffirmed the existing aim of phasing out inefficient fossil fuels by 2025.

2.1 The federal government's subsidy policy guidelines

The federal government follows subsidy policy guidelines that serve to enhance the subsidy system's transparency, accountability and governance (see box below). The guidelines constitute a voluntary commitment by the federal government regarding the way it handles subsidy measures under its remit. They must be taken into account every time a new subsidy is introduced or an existing subsidy is modified.

Subsidy policy guidelines

(as agreed in the federal cabinet decision of 28 January 2015)

- New subsidies should be granted only if they are the best-suited instrument and are efficient on a cost-benefit basis, compared with other measures.
- New subsidies should be granted primarily in the form of financial assistance and should be financed by savings elsewhere.
- New financial assistance should be designed to be both time-limited and, as a rule, degressive.
- The objectives of financial assistance should be formulated in a way that makes it possible to evaluate the success of such measures.
- Federal subsidy policy takes into account the impact of subsidies on growth, redistribution, competition and the environment. The federal government's Subsidy Reports show whether or not subsidies are sustainable.
- As a rule, all subsidies should be subject to regular evaluation in terms of target attainment, efficiency and transparency.
- Existing tax expenditures should be reviewed with a view to replacing them with financial assistance or other measures that place a smaller burden on public finances.
- Time limits and, in general, degression rules should be introduced for existing financial assistance measures that are not currently designed to be time-limited and degressive.

New subsidies must undergo especially rigorous scrutiny before they are introduced, because entrenchment significantly hinders subsequent change. Recipients often claim that subsidies are the only feasible solution, although in some cases the same outcome could be achieved at no cost, or far lower cost, by other means, such as regulatory measures. Against this background, and in order to ensure sustainable fiscal policies, all new subsidies – including tax expenditures – must be immediately, permanently and fully offset by savings elsewhere.

Tax expenditures¹ often have the same effect as spending programmes, but they have a number of disadvantages compared with financial assistance. They are not capped by budget appropriations and are not part of the annual budget preparation process. As a rule, the amount of forgone revenue can only be estimated. Tax expenditures can generate deadweight effects, tend to become entrenched, and run the risk of quickly ceasing to be regarded as subsidies. Tax expenditures financed from joint tax revenues are funded by the Federation, *Länder* and local authorities – in the same way as joint tasks, but in accordance with the respective formula for allocating tax revenue. In such cases, the approval of the Bundesrat is also required to amend the law. For all of these reasons, tax expenditures prove difficult to reform and control. New subsidies – to the extent that they are necessary – should therefore preferably be granted as financial assistance, and evaluations of existing tax expenditures should check whether it would be feasible to convert them into financial assistance items or regulatory measures.

The federal government generally possesses greater authority when it comes to modifying existing financial assistance items than it does in the case of tax expenditures. In many cases, financial assistance measures can be modified on the basis of federal government guidelines or

administrative agreements. Their objectives must be precisely defined and monitored on an ongoing basis. A subsidy must be discontinued without delay if the targeted objective has been attained, if the objective is no longer justified, if it cannot be attained with the type of measure in question, or if there is another, better means of attaining the objective. It is also essential to prevent individual measures from having contradictory effects or cancelling each other out.

In order to enhance accountability, the federal government expanded the subsidy policy guidelines by adding ex-post sustainability impact assessments and adopted regular evaluation cycles as a general principle. The sustainability impact assessments are based on the objectives, indicators and principles set out in the German Sustainable Development Strategy (see Annex 10) and the requirement – which has been in effect since the 16th legislative term – to conduct sustainability impact assessments as part of overall regulatory impact assessments. Sustainability impact assessments of subsidies focus on their long-term economic, environmental and social effects.

The federal government's commitment to conducting regular evaluations of subsidies underscores its intention to make public finances more outcome-oriented and to create transparency. Adverse outcomes can be mitigated or prevented by designing subsidies to be time-limited and degressive. The time limitations are the basis for conducting regular reviews of the effectiveness of financial assistance and discontinuing or redesigning it where appropriate.

2.2 Environmental and climate policy decisions relating to subsidy policy

The Climate Action Programme 2030 significantly expanded measures to promote climate action and supplemented them with new measures, starting with the 2020 federal budget. These measures include incentives to encourage climate-friendly

1 The German term "Steuervergünstigungen" was rendered as "tax benefits" in previous English translations of the Subsidy Report.

behaviour, comprehensive climate policy investments, and carbon pricing in the transport and buildings sectors. The programme also creates an obligation to review annually whether climate targets are being met. On 24 June 2021, the German Bundestag adopted an amendment to the Federal Climate Action Act (Bundes-Klimaschutzgesetz). The new legislation sets higher national reduction targets for 2030 and 2040 and the goal of achieving net greenhouse gas neutrality by 2045. On 23 June 2021, the federal cabinet adopted the immediate climate action programme for 2022, which includes additional measures to help reach the climate targets.

To improve the effectiveness of climate policy funding measures, the immediate climate action programme stipulates that climate policy funding programmes should be reviewed in terms of efficiency and outflow of funds and adjusted if necessary. A quantified estimate of the greenhouse gas reduction effect would be useful for a targeted assessment of subsidies' climate policy impact. Commissioning an external evaluation study could help to quantify the greenhouse gas reduction potential of subsidies more precisely as part of subsidy reporting. In addition, all government ministries will make electronic applications (submission, processing and approval) the standard procedure for new funding programmes.

According to the government's decision on the Climate Action Plan 2050, a review will be conducted to determine how the entire system of levies, surcharges and taxes can be fine-tuned in compliance with the government's climate targets. As part of the immediate climate action programme for 2022, the government will also be submitting a proposal for the comprehensive reform of levies, surcharges and taxes in the energy system. In addition, the German government is an advocate at the European and international level for consistent, climate-friendly taxation in the energy system. Moreover, the tax expenditures that were found in the federal government's 27th Subsidy Report to have detrimental environmental and climate policy effects will be reviewed on the basis

of available evaluation results, and a decision will be taken as to whether such tax expenditures will be continued. The effect of these tax expenditures on the German Sustainable Development Strategy's indicators will also play a role in this review. In the future, financial support for the transition to climate-friendly technologies will gradually be replaced by incentives and rules.

2.3 Definition of subsidies

The main function of the federal government's subsidy reporting is to provide the German Bundestag with information that is required for budget decisions and to inform the Bundesrat at the same time. The subject matter to be covered in Subsidy Reports is stipulated in section 12 of the Act to Promote Economic Stability and Growth (*Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft*) and includes payments and benefits for private enterprises and economic sectors. Financial assistance is defined in the Act as federal funds allocated to bodies outside the federal administration and deployed for the benefit of private businesses or economic sectors. Tax expenditures, in turn, are defined as special tax exceptions that lead to a reduction in public revenue.

Section 12 of the Act to Promote Economic Stability and Growth specifically describes financial assistance as federal funds used to support adaptation, maintenance and productivity in businesses and economic sectors. Assistance that does not fall into these categories is designated as miscellaneous financial assistance. Forms of assistance that directly reduce the prices of certain goods and services for private households, but which may indirectly benefit the private sector, are referred to as indirect subsidies. This includes, for example, assistance for residential construction.

A similar definition applies to tax expenditures, which are classified in the same way as financial assistance. A special tax arrangement is regarded as a subsidy – and hence as a tax expenditure for the purposes of Subsidy Reports – if it directly or

indirectly benefits specific sectors or subsectors of the economy. Tax expenditures also include special tax arrangements that directly benefit business and industry over the general public.

Federal expenditures on general state tasks (such as maintaining public order) do not count as subsidies, although it can be difficult to draw the line in individual cases. Federal guarantees also do not count as subsidies; the main reason for this is that the typically low risk of default makes it highly unlikely that budgetary resources will have to be spent. In any case, trends in federal and other guarantees are documented in the financial reports regularly published by the Federal Ministry of Finance. Grants and capital injections for federal enterprises are likewise not counted as subsidies. Other federal government reports provide targeted information on specific policy areas in which the federal government is active. For

example, federal enterprises are covered in the Federation's report on government holdings.

The categorisation of subsidies included in the Subsidy Report is continuously reviewed and updated based on case studies. The term "subsidy" is not conclusively defined in section 12 of the Act to Promote Economic Stability and Growth. The term is interpreted differently in academic and political circles. The Subsidy Report's general focus on assistance for private enterprises and economic sectors, as set out in section 12 of the Act to Promote Economic Stability and Growth, means that large areas of the federal budget are excluded that are classified as subsidies using other definitions. To do justice to the increased focus on climate policy, the federal government will review whether and how Subsidy Reports can be given a greater focus on environmental and climate targets in the next legislative term, and whether and how the reporting objectives can be adjusted.

III. Subsidy trends

The Subsidy Report's analysis and discussion of financial assistance focus on the use of federal funding. Tax expenditures, on the other hand, are reported on from different perspectives: first, the report shows the total size of tax revenue shortfalls resulting from tax expenditures adopted by the federal legislature; second, it shows the proportional share of the shortfall incurred at the federal level. The Subsidy Report therefore also takes into account estimates of revenue shortfalls for other levels of government. It also provides an overview of trends in *Länder*, local authority, ERP (European Recovery Programme) and EU subsidies. From a budget policy perspective, however, the focus is on federal-level revenue shortfalls and expenditures.

3.1 Trends in federal subsidies during the reporting period from 2019 to 2022

Federal subsidies are set to climb from €24.6 billion in 2019 to €47.2 billion in 2022. This €22.6 billion increase in the total volume of subsidies will be driven mainly by an increase in federal financial assistance.

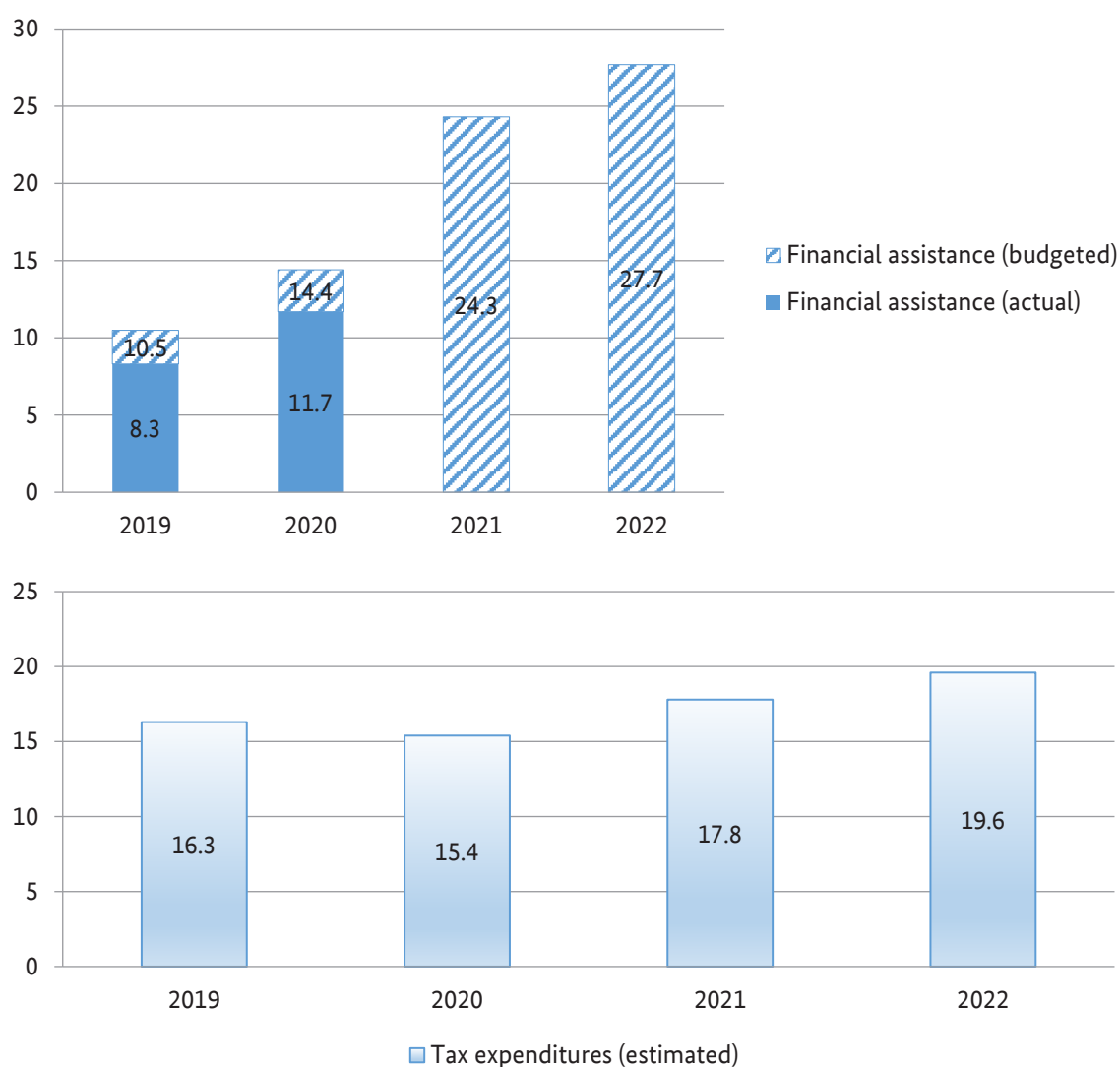
When looking at trends in subsidy volumes, it should be borne in mind that financial assistance for closed financial years are reported on the basis of actual expenditure (actual figures) and for current and budgeted financial years on the basis of budget estimates (target figures). However, in many cases projected budget resources were not drawn-down entirely in recent years. Thus, the

discrepancy between target and actual figures overstates the increase in financial assistance.

Financial assistance is set to grow by €19.3 billion during the reporting period. The increase of €12.7 billion from 2020 to 2021 is mainly due to additional spending on climate action. The increase by a further €3.3 billion in 2022 compared with 2021 is based on decisions by the federal government to make a further contribution to reaching the climate targets for 2030 within the framework of the Energy and Climate Fund and the decisions on the immediate climate action programme for 2022.

Tax expenditures incurred at the federal level are projected to rise from €16.3 billion in 2019 to €19.6 billion in 2022. This is being driven in particular by the temporary VAT reduction for restaurant and catering services until the end of 2022, which will account for €1.6 billion of this increase, the tax incentive for research and development in the form of a research allowance, which will account for €1.0 billion in 2022, and the increased uptake of tax incentives for electric and plug-in hybrid electric company cars.

Figure 1: Trends in federal financial assistance and the Federation's share of tax expenditures, 2019 to 2022



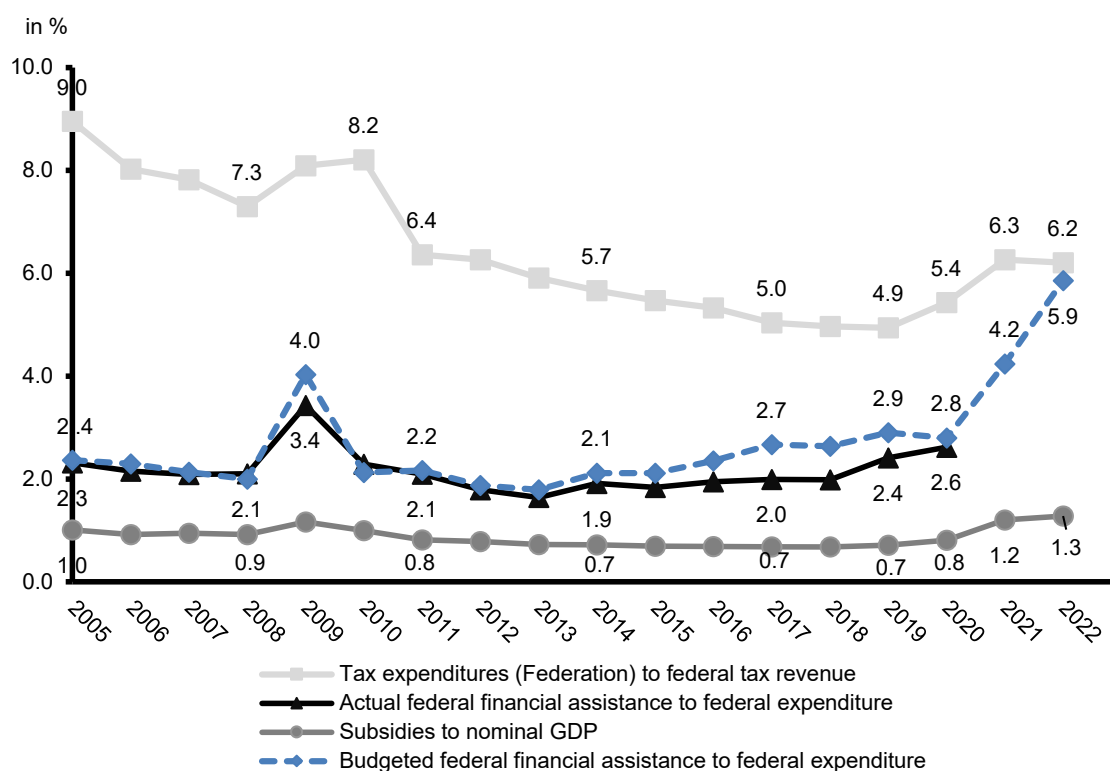
Source: Federal Ministry of Finance

Subsidies as a percentage of GDP amounted to 0.8% in 2020. This figure is expected to increase to 1.2% in the 2021 budget year and 1.3% in the 2022 budget year (see Figure 2). This is the highest level since 2009. Financial assistance as a percentage of federal public spending declined steadily from 1997 to 2008 before rising in 2009 in response to the global financial and economic crisis. During the 2019 to 2022 reporting period, financial assistance accounted for 2.4% of federal expenditures in 2019 and 2.6% in 2020. In this context, it should be borne in mind that, as a result of the economic restrictions in connection with the Covid-19

pandemic, nominal GDP declined by 3.3% in 2020. For the 2021 and 2022 budget years, estimated financial assistance will total €24.3 billion and €27.7 billion respectively (4.3% and 5.9% of budgeted expenditures).

Tax expenditures fell by approximately €1 billion in nominal terms from 2019 to 2020, but increased to 5.4% in relation to tax revenues. Some €17.8 billion in tax expenditures are expected for the 2021 federal budget, which corresponds to 6.3% of tax revenues. A total of 6.2% of tax expenditures are budgeted for the 2022 financial year.

Figure 2: Subsidy ratios



Source: Federal Ministry of Finance

3.2 Federal financial assistance

Federal financial assistance is projected to increase from an actual spending total of €8.3 billion in 2019 to an estimated total of €27.7 billion in 2022. Funding to promote energy efficiency and renewable energy measures in buildings has been increased considerably, as have grants for the purchase of electric vehicles and for the construction of charging infrastructure. Investments in the decarbonisation of industry and digitalisation are also increasing, and federal funds for the joint Federation/*Länder* task “Improvement of agricultural structures and coastal protection” have been topped up, as well. New financial assistance items are also contributing to the rise, including grants

for the purchase of commercial vehicles and buses with alternative, climate-friendly engines and grants to *Landwirtschaftliche Rentenbank*, Germany’s development agency for agribusiness, for the Agriculture Investment Programme.

There are a total of 128 federal financial assistance items; of these, the 20 largest individual items are expected to account for just under 77% of total financial assistance in 2022 (see Table 1). As was the case in the prior report, the largest individual items during the reporting period will be funding to promote energy efficiency and renewable energy measures in buildings, grants for the purchase of electric vehicles, and grants for the construction of charging infrastructure.

Table 1: The 20 largest federal financial assistance items

No	Chapter	Brief description of financial assistance item	No in Annex 1 to the 28th Subsidy Report	2022	2021
				Govt. draft	Target
				€m	€m
1	60 92	Funding to promote energy efficiency and renewable energy measures in buildings ¹	119	2,936	2,908
2	60 92	Federal funding for efficient buildings	120	2,775	975
3	60 92	Market launch programme to promote the use of renewable energy sources	29	2,112	1,900
4	60 92	Grants for the purchase of electric vehicles	81	2,100	1,600
5	60 92	Grants for the construction of filling and charging infrastructure ¹	107	1,680	770
6	60 92	Investments in the decarbonisation of industry	79	1,200	195
7	06 04	Grants under the home ownership-related child benefit (<i>Baukindergeld</i>) programme by the KfW Banking Group	126	955	896
8	10 03	Joint task “Improvement of agricultural structures and coastal protection” ¹	7	949	805
9	12 04	Funding to expand and upgrade broadband networks	82	876	920
10	60 92	Electricity price compensation	28	828	878
11	06 04	Construction of social housing	125	750	400
12	60 92	Industrial production for mobile and stationary energy storage units	36	725	350
13	60 97	Funding to expand and upgrade gigabit networks	83	560	435
14	09 02	Joint task “Improvement of regional economic structures” ¹	62	467	643
15	60 92	Federal funding for energy efficiency in industry	30	434	503

Table 1: continuation

No	Chapter	Brief description of financial assistance item	No in Annex 1 to the 28th Subsidy Report	2022	2021
				Govt. draft	Target
				€m	€m
16	60 92	Grants for the purchase of commercial vehicles and buses with alternative, climate-friendly engines	113	414	216
17	12 01	Utilisation of distance-based commercial vehicle toll	92	387	387
18	12 10	Reduction in track access charges for rail freight	96	377	950
19	60 92	Measures for the promotion of electric vehicles ¹	80	364	502
20	60 92	Transformation of heating networks	35	347	203

¹ Only part of the cost of the measure is classified as financial assistance.

3.3 The Federation's share of tax expenditures

The Federation's share of the revenue shortfall from tax expenditures is expected to increase during the reporting period, from €16.3 billion to €19.6 billion in 2022.

Like financial assistance, tax expenditures are concentrated within a small number of sectors (see Table 4). In 2022, trade and industry will account for the largest share of the Federation's tax expenditures at 43.0%, followed by miscellaneous tax expenditures (34.4%), which consist mainly of tax expenditures that directly benefit private households and that influence economic activity in key sectors. The third-largest category targets the transport sector (12.9%). Assistance for the

housing sector now accounts for 1.6% of total tax expenditures.

In 2022, the 20 largest tax expenditures listed in Annex 2 are projected to account for 81.1% of the total revenue shortfall at the federal level (see Table 3). The largest individual item from the Federation's perspective is the reduced VAT rate on restaurant and catering services (with the exception of sales of drinks), which is expected to cause a revenue shortfall of €1.6bn. The largest tax expenditure item overall is the tax concession for persons who acquire businesses or corporate shareholdings by way of gift or inheritance; in this case, revenue shortfalls are incurred in their entirety by the *Länder*.

Table 2: The 20 largest tax expenditures

No	No in Annex 2 to the 28th Subsidy Report	Brief description of tax expenditure	Revenue shortfall (€m) Revenue year 2022	
			Total	Federal government
1	43	Section 13a of the Inheritance Tax Act (<i>Erbschaftsteuergesetz</i>) Tax concession for persons who acquire businesses or corporate shareholdings by way of gift or inheritance	5,100	-
2	95	Section 3b of the Income Tax Act (<i>Einkommensteuergesetz</i>) Shift bonuses	3,355	1,426
3	99	Section 12 (2) no 15 of the VAT Act (<i>Umsatzsteuergesetz</i>) Reduced VAT rate on restaurant and catering services with the exception of sales of drinks	3,085	1,629
4	101	Section 12 (2) nos 1, 2, 12 and 13 of the VAT Act in conjunction with nos 49, 53 and 54 of Annex 2 to the VAT Act, and section 12 (2) no 7 of the VAT Act Reduced VAT rate on cultural and similar services	3,010	1,590
5	37	Section 35a (3) of the Income Tax Act Reduced tax rate for renovation costs	2,090	888
6	106	Research and Development Tax Incentives Act (<i>Forschungszulagengesetz</i>) Tax incentive for research and development by granting a tax credit in the amount of the research allowance	2,085	1,003
7	66	Section 12 (2) no 10 of the VAT Act Reduced tax rate for public transport and passenger transport by rail	1,925	1,017
8	61	Section 10 of the Electricity Duty Act (<i>Stromsteuergesetz</i>) Electricity duty relief for manufacturing companies in special cases (<i>Spitzenausgleich</i>)	1,500	1,500
9	52	Sections 37 and 53 of the Energy Duty Act (<i>Energiesteuergesetz</i>) Reduced energy duty for electricity generation	1,465	1,465
10	100	Section 12 (2) no 11 of the VAT Act Reduced VAT rate on overnight accommodation	1,360	718
11	59	Section 9 (3) of the Electricity Duty Act Electricity duty relief for manufacturing companies and agricultural and forestry businesses	1,000	1,000
12	60	Section 9a of the Electricity Duty Act Electricity duty relief for certain processes and procedures	780	780
13	63	Section 6 (1) no 4 sentences 2 and 3 and section 8 (2) sentences 2–5 of the Income Tax Act Favourable tax treatment of electric and externally rechargeable hybrid electric company cars	760	306
14	92	Section 10a of the Income Tax Act, Chapter XI (sections 79–99) of the Income Tax Act Support for fully funded private pensions (subsidy amount)	750	319
15	26	Section 7g (1)–(4) and section 6 of the Income Tax Act Profit reduction via investment deductions up to €200,000	660	166
16	29	Section 4h of the Income Tax Act and section 8a of the Corporation Tax Act (<i>Körperschaftsteuergesetz</i>)	620	183

Table 2: continuation

No	No in Annex 2 to the 28th Subsidy Report	Brief description of tax expenditure	Revenue shortfall (€m) Revenue year 2022	
			Total	Federal government
		Introduction of a tax-free amount for the interest deduction cap		
17	102	Section 12 (2) no 6 of the VAT Act Dental technicians	615	325
18	58	Section 9 (1) no 3 of the Electricity Duty Act Tax exemption for electricity from small installations with a rated electrical output of up to 2 megawatts	579	579
19	18	Section 3 no 7 of the Motor Vehicle Tax Act (<i>Kraftfahrzeug-steuergesetz</i>) Tractors and trailers	485	485
20	51	Sections 37 and 51 of the Energy Duty Act Energy duty relief for certain processes and methods	475	475
1 to 20		Total	31,699	15,854
		% of tax expenditures listed in Annex 2 of the 28th Subsidy Report	84.9%	81.1%

3.4 Federal subsidies in specific sectors

Trade and industry (including funding for the energy transition, or *Energiewende*) continues to account for the largest share of subsidies. Subsidies in this category are projected to increase from €12 billion in 2019 to €21.9 billion in 2022. The main factor driving this increase is the sharp rise in financial assistance to promote energy efficiency and renewable energy. In 2022, trade and industry are expected to account for 46.4% of all federal subsidies.

There will be a substantial increase in federal subsidies for housing during the reporting period, from €2.8 billion in 2019 to a projected €8.3 billion in 2022. This is being driven primarily by significantly increased funding for energy efficiency and renewable energy measures in the buildings sector, by grants under the home ownership-related child benefit (*Baukindergeld*) programme by the KfW Banking Group, and by federal funding for social housing. With some 17.6% of all subsidies, the residential sector is the second largest subsidy category.

Federal subsidies in the transport sector will increase during the reporting period, from nearly €3 billion in 2019 to a projected €6.9 billion in 2022. The increase in transport sector subsidies can be attributed to numerous new financial assistance items, including grants for the purchase of commercial vehicles with alternative, climate-friendly engines, funding for the purchase of buses with alternative engines, but also the significant increase in grants for the construction of filling and charging infrastructure.

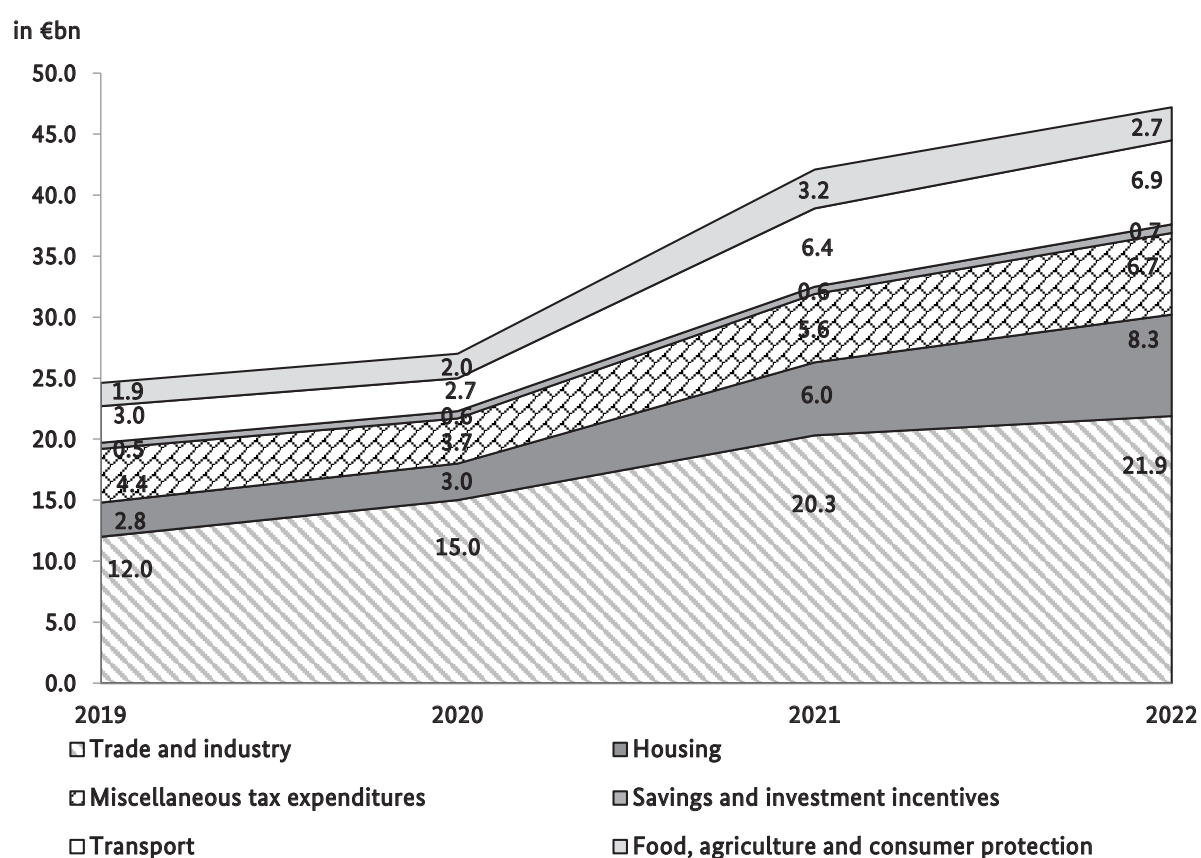
Federal subsidies in the category of food and agriculture will increase from €1.9 billion in 2019 to a projected €2.7 billion in 2022. This increase is due primarily to (a) top-ups in the budgets for the joint Federation/*Länder* task "Improvement of agricultural structures and coastal protection" and for the Forest Climate Fund and (b) grants to *Landwirtschaftliche Rentenbank* for the Agriculture Investment Programme, a new financial assistance item.

Taken together, subsidies in the category of savings and investment incentives are projected to total nearly €0.7 billion in 2022. They now make up 1.5% of the total volume of subsidies.

Miscellaneous tax expenditures will increase from €4.4 billion to €6.7 billion during the reporting

period. The items posting the largest increases in this category are the reduced VAT rate on restaurant and catering services (with the exception of sales of drinks), the reduced VAT rate on cultural and entertainment services, and tax exemptions on statutory or collectively agreed bonuses for working Sundays, holidays or nights.

Figure 3: Trends in federal financial assistance and the Federation's share of tax expenditures by economic sector, 2019 to 2022



Source: Federal Ministry of Finance

Table 3: Trends in federal financial assistance and the Federation's share of tax expenditures, 2019 to 2022 (in €m)¹

Category	2019			2020			2021			2022		
	Financial assistance	Tax expenditures	Total	Financial assistance	Tax expenditures	Total	Financial assistance	Tax expenditures	Total	Financial assistance	Tax expenditures	Total
	Actual			Actual			Budgeted			Govt. draft		
1. Food, agriculture and consumer protection	850	1,035	1,885	974	1,063	2,037	2,073	1,087	3,160	1,640	1,056	2,696
2. Trade and industry (excluding transport)												
2.1 Mining	966	-	966	1,998	-	1,998	340	-	340	318	-	318
2.2 Energy efficiency and renewable energy	941	-	941	1,769	-	1,769	4,789	-	4,789	5,396	-	5,396
2.3 Technology and innovation	711	-	711	652	-	652	954	-	954	640	-	640
2.4 Assistance for specific economics sectors	24	-	24	24	-	24	783	-	783	856	-	856
2.5 Regional structural measures	359	0	359	311	0	311	643	0	643	467	0	467
2.6 Other measures	814	8,208	9,022	1,869	8,402	10,271	4,427	8,414	12,841	5,782	8,418	14,200
Total²	3,815	8,208	12,023	6,624	8,402	15,026	11,936	8,414	20,350	13,458	8,418	21,876
3. Transport	864	2,133	2,997	1,034	1,663	2,697	4,417	2,010	6,427	4,409	2,529	6,938
4. Housing	2,654	121	2,775	2,902	125	3,027	5,777	195	5,972	8,027	322	8,349
5. Savings and investment incentives	164	382	546	161	415	576	138	498	636	148	502	650
6. Miscellaneous financial assistance and tax expenditures²	-	4,374	4,374	-	3,711	3,711		5,595	5,595	-	6,733	6,733
Total 1 to 6³	8,347	16,253	24,600	11,696	15,379	27,075	24,341	17,799	42,140	27,682	19,560	47,242

1) Any discrepancies in totals are due to rounding.

2) Mainly tax expenditures that directly benefit private households but affect business activity in important sectors of the economy.

3) Tax expenditures estimated.

3.5 Overall subsidy trends by jurisdiction and government level

In accordance with the mandate laid down in the Act to Promote Economic Stability and Growth, Subsidy Reports provide an overview of the federal-level financial assistance items and tax expenditures for each budget year. In addition to this, Table 4 outlines trends in federal, *Länder* and local authority subsidies as well as subsidies from

the European Recovery Programme (ERP) and the European Union. The estimates of financial assistance from local authorities were projected until 2022. *Länder* and local authority tax revenue shortfalls are estimated by the Federal Ministry of Finance. Figures on EU market-related expenditure and ERP financial assistance are also taken into account. As in past reports, data on *Länder* and ERP financial assistance and on EU market-related expenditure are not available for the entire reporting period.

Table 4: Reported total volume of federal, *Länder*, local authority, ERP and EU subsidies (in €bn)

	1991	1995	2000	2005	2010	2015	2018	2019	2020	2021	2022 ⁵
1. Financial assistance											
Federation	10.1	9.4	10.1	6.1	7.0	5.5	6.7	8.3	11.7	24.3	27.7
<i>Länder</i> ¹	11.5	10.7	11.2	10.3	8.9	8.4	9.2	10	17.7	13.6	
Local authorities ²	1.5	1.5	1.6	1.4	2.4	2.7	3.0	3.2	3.0	3.4	3.4
2. Tax expenditures											
Federation	9.0	9.1	13.1	17.4	18.6	15.4	16	16.3	15.4	17.8	19.6
<i>Länder, Local authorities</i>	10.9	12.9	12.0	12.5	10.5	16.7	15.7	14.4	14	16.4	17.8
3. ERP financial assistance ³	5.5	5.9	5.7	3.2	0.3	0.4	0.2	0.2	0.2	0.2	
4. EU market-related expenditure ⁴	5.4	5.4	5.6	6.3	5.7	5.2	5.0	4.9	4.9		
Total volume (total 1 to 4)	53.9	55.0	59.4	57.2	53.4	54.3	55.8	57.3	66.9	75.7	68.5

1) Source: Zentrale Datenstelle der Landesfinanzminister (ZDL)

2) Local authority data: estimates based on trends in *Länder* subsidies; source from 2010 onwards: ZDL

3) See also table 7 in the full report. From 2008: Changeover from total loan amount to interest relief granted in connection with applications approved in current year relating to total term of loan or of other funding measures.

4) Data on EU market-related expenditure is not yet available for 2021 or 2022.

5) Data on ERP financial assistance and *Länder* financial assistance is not yet available for 2022.

IV. Key general facts, findings and figures for federal subsidy reporting

4.1 Legal basis of subsidies

As a matter of principle, subsidies are based on legal provisions that provide transparency regarding the criteria according to which they are awarded. Financial assistance requires expenditure appropriations in budget legislation. The legal basis for financial assistance consists primarily of rules enacted by the executive branch. This is the

case for 116 of the 128 items of financial assistance cited in the present Subsidy Report, although it should be noted that this also includes contractual provisions concluded by the Federation (e.g. with KfW) in connection with the implementation of individual programmes. Twelve financial assistance items are granted on the basis of statutory provisions. By contrast, tax expenditures always have a statutory foundation by their very nature.

Legal basis	Primary legislation	Secondary legislation, guidelines or contract	Total
Financial assistance			
Number of items	12	116	128
in %	9.4	90.6	100
Volume (€bn, 2021)	4.9	19.4	24.3
in %	20.1	79.9	100
Tax expenditures			
Number of items	106	-	106
in %	100	-	100
Volume (€bn, 2021)	17.8	-	17.8
in %	100	-	100

A statutory basis makes the provision of financial benefits more transparent to businesses and private citizens with regard to the award criteria: the specific details of the awarding process are uniformly regulated and verifiable. This creates legal certainty for private citizens, businesses and the public administration. A range of aspects play a role in the technical and budgetary review of funding guidelines. The significance of some of these aspects (e.g. time limitation, evaluation and degression) is explained in more detail below. Further review criteria include the measurability and verifiability of the funding objective, the definition of eligible recipients, the avoidance of double and cumulative assistance, competitive awarding, traceability of the funding amount and co-payments, co-financing from third parties, the need

for funding in the light of existing statutory provisions, the presence of a market failure to be addressed, and the avoidance of precedents.

At the same time, however, providing subsidies with a statutory basis generally leads to their perpetuation. This is very clear in the case of subsidies that are based on legislation. Because of the large amount of government and parliamentary effort involved, it is relatively rare for them to be changed or revised. This applies in particular to tax expenditures, which all require a basis in primary legislation. In contrast, financial assistance items are largely based on guidelines and can therefore usually be modified more easily. The annual budget preparation process, for example, provides an impetus for revision.

Not all the subsidies included in the present report constitute state aid as defined in EU state aid rules. In all, 89 of the financial assistance items included in this report – which account for 69.5% of the total – also qualify as state aid under EU law. This shows that the definitions of state aid and subsidies are closely related, but also that the two terms cannot be used synonymously. For example, measures that apply generally – i.e. not only to certain (groups of) companies or certain industries – are not state aid, as state aid presupposes selectivity. The criteria for state aid are also not met in the case of funding with a purely local impact that has no effect on trade between the member states.

4.2 Objectives of subsidies

The federal government's subsidy policy guidelines underscore the importance of clear objectives. Clearly defined objectives make it possible to evaluate the success of each measure. The subsidy data sheets (see Annexes 7 and 8 of the full version of the 28th Subsidy Report) contain information on the objectives that each subsidy pursues.

In addition, the Act to Promote Economic Stability and Growth stipulates that subsidies are to be classified according to their objective as sectoral support, adjustment assistance or productivity/growth assistance. In addition to these three categories, there are miscellaneous financial assistance items and tax expenditures that do not always fit clearly into a specific category.

In 2022, sectoral support is expected to account for only a very small share of total financial assistance, at approximately 1.6% (see Table 6). Adjustment assistance, which is expected to account for 25.1% of all financial assistance in 2022, is centred on (a) joint Federation/*Länder* tasks to promote regional industry and agricultural structures and (b) electricity price compensation. Financial assistance for purposes such as promoting private sector innovation is classified as productivity and growth assistance. This latter category is

expected to account for 17.7% of all financial assistance in 2022. Miscellaneous financial assistance, which amounts to 30.5%, covers subsidies that do not fit clearly into a specific category. This category includes such items as funding for individual measures to promote the use of renewable energy, improve energy efficiency, expand and upgrade broadband networks, and expand and upgrade gigabit networks. Assistance for private households that indirectly benefits trade and industry is expected to account for 25.2% of all financial assistance. In particular, such assistance includes funding for energy efficiency measures and renewable energy in the buildings sector and the grants under the home ownership-related child benefit (*Baukindergeld*) programme by the KfW Banking Group.

With regard to tax expenditures, Table 5 shows only the federal share. Sectoral support will account for the largest portion of tax expenditures in 2022, at approximately 45.6%. This includes, for example, energy and electricity duty relief for manufacturing companies, which serves to maintain the international competitiveness of the manufacturing sector. Adjustment assistance, which will increase significantly during the reporting period to a projected 12.5% of tax expenditures, includes tax allowances and tax exemptions in the areas of trade, industry and agriculture. Productivity and growth assistance, which includes such items as energy duty relief for combined heat and power generation (CHP), is expected to account for 15.5% of tax expenditures. Miscellaneous tax expenditures (19.2%) include, in particular, VAT relief in various areas. Assistance for private households (7.1%) that indirectly benefits trade and industry consists mainly of (a) deductions for renovation costs and (b) savings and investment incentives.

Table 5: Federal financial assistance and tax expenditures for businesses, economic sectors and private households

Bezeichnung	2019		2020		2021		2022	
	Actual ³		Actual ³		Budgeted ³		Govt. Draft ³	
	€m ¹	%	€m ¹	%	€m ¹	%	€m ¹	%
Financial assistance								
For businesses and economic sectors	5,755	68.9	8,972	76.7	19,229	79.0	20,718	74.8
of which:								
Sectoral support	344	4.1	473	4.0	1,450	6.0	439	1.6
Adjustment assistance	2,851	34.2	4,936	42.2	6,979	28.7	6,939	25.1
Productivity/growth assistance	1,023	12.3	1,112	9.5	4,133	17.0	4,900	17.7
Miscellaneous financial assistance	1,538	18.4	2,450	21.0	6,666	27.4	8,440	30.5
For private households ²	2,592	31.1	2,724	23.3	5,112	21.0	6,964	25.2
Total financial assistance	8,347	100	11,696	100	24,341	100	27,682	100
Tax expenditures								
For businesses and economic sectors	15,046	92.6	14,105	91.7	16,429	92.3	18,165	92.9
of which:								
Sectoral support	7,548	46.4	7,225	47.0	8,377	47.1	8,914	45.6
Adjustment assistance	1,107	6.8	1,161	7.5	2,134	12.0	2,452	12.5
Productivity/growth assistance	2,566	15.8	2,787	18.1	2,881	16.2	3,034	15.5
Miscellaneous financial assistance	3,825	23.5	2,932	19.1	3,037	17.1	3,765	19.2
For private households ²	1,207	7.4	1,274	8.3	1,370	7.7	1,395	7.1
Total tax expenditures	16,253	100	15,379	100	17,799	100	19,560	100
The Federation's financial assistance and tax expenditures combined								
For businesses and economic sectors	20,801	84.6	23,077	85.2	35,658	84.6	38,883	82.3
of which:								
Sectoral support	7,892	32.1	7,698	28.4	9,827	23.3	9,353	19.8
Adjustment assistance	3,958	16.1	6,097	22.5	9,113	21.6	9,391	19.9
Productivity/growth assistance	3,589	14.6	3,899	14.4	7,014	16.6	7,934	16.8
Miscellaneous financial assistance	5,363	21.8	5,382	19.9	9,703	23.0	12,205	25.8
For private households ²	3,799	15.4	3,998	14.8	6,482	15.4	8,359	17.7
Overall total	24,600	100	27,075	100	42,140	100	47,242	100

1) Any discrepancies in totals are due to rounding.

2) Businesses and economic sectors benefit indirectly.

3) Figures for tax expenditures are mostly estimated revenue shortfalls. Actual figures are also available in some cases for 2019 and 2020.

4.3 Financial character of assistance

Financial assistance can be provided in the form of grants, loans and debt service assistance, with grants accounting for the predominant share. Loans and interest subsidies granted directly from the federal budget have long been of secondary importance.

One characteristic of tax expenditures is that their use reduces tax revenues. There is always a statutory entitlement to tax expenditures. Premiums such as the employee savings premium are paid out in a fixed amount regardless of the applicable tax rate. The premiums thus function as financial assistance for the recipients. Tax expenditures that are subject to a non-proportional rate have a different subsidy value for the beneficiary depending on the individual tax rate.

4.4 Implementation of the subsidy policy guidelines

The core priorities of the subsidy policy guidelines described in 2.1 are that subsidies must be time-limited and degressive by design and that they must be subject to evaluations and sustainability impact assessments. The specific implementation of these principles is documented for each individual subsidy in standardised data sheets (see Annexes 7 and 8 of the full version of the 28th Subsidy Report). The subsidy policy guidelines constitute a voluntary commitment by the federal government and are to be taken into account every time a financial assistance item or tax expenditure is created or modified.

The regular review of subsidies in terms of their efficiency and sustainability, along with the time-limited and degressive design of subsidies, contribute to their continuous re-evaluation and thus make an important contribution to increasing the outcome-orientation of public expenditures. Outcome-orientation promotes transparency and

offers a basis for improving the efficacy and economic efficiency of the government's actions. The principles established in the subsidy policy guidelines provide a basis for further improving outcome-orientation. In particular, the objectives of subsidies must be defined in funding guidelines and other parameters in a way that makes it possible to measure success. In addition, subsidies must be evaluated regularly. Subsidies can also be subject to revenue- and expenditure-side budget analyses, known as spending reviews.

4.4.1 Time limits

Most financial assistance measures are time-limited. Because most financial assistance is based on funding guidelines issued by the respective government ministry, there tends to be less emphasis on statutory time limits. Of the 42 new financial assistance items introduced, all but six are subject to time limits. Five measures for national climate action in agriculture and forestry and one transport project for regional airports are not subject to time limits. Accordingly, out of a total of 128 financial assistance items, 96 are time-limited, and five of these (4%) are measures where the time limitation has already taken effect but there are still funding obligations to be fulfilled. This means that 75% of all measures are time-limited (or nearly 90% in terms of funding volume).

	Total items subject to time limits	Of which: in final funding phase	Annual decision/ no time limitation	Total
Financial assistance				
Number of items	97	5	31	128
in %	75.8	3.9	24.2	100
Volume (€m, 2021)	21,811	12	2,530	24,341
in %	89.6	0.1	10.4	100
Tax expenditures				
Number of items	28	2	78	106
in %	26.4	1.9	73.6	100
Volume (€m, 2021)	6,017	-	11,782	17,799
in %	33.8	0	66.2	100

There are various reasons why measures may lack time limits. In some cases, the measures concerned pre-date the adoption of the guidelines, and the measures' conditions have not been amended since. Other measures are implemented on the basis of annual budget resolutions. A small number of measures are based on direct parliamentary mandates, and another small number receive European co-financing that is not subject to time limits.

In the case of tax expenditures, which always have a statutory basis, a comparatively small number – 28 out of 106 tax expenditures – are time-limited. The time-limited tax expenditures comprise (i) measures for which time limits were stipulated upon adoption and (ii) tax expenditures that the parliament has decided to discontinue because they have outlived their purpose or have been superseded by a follow-up arrangement.

4.4.2 Degression

Financial assistance is subject to degression in various forms. First, degression can mean that assistance granted to a certain recipient for multiple years decreases in absolute terms over time. The main aim of this form of degression is to prevent recipients from becoming habituated to and dependent upon the subsidy. Second, degression can apply for the subsidising authority. This means that the total outlay for the assistance decreases over time. This objective can also be attained

– even if the size of individual grants is held constant or even increased – by reducing the number of grants. Both forms of degression are recorded in the data sheets (see Annex 7 of the full version of the 28th Subsidy Report).

There may also be technical reasons that argue against a degressive structure for a measure, e.g. if degression would jeopardise the achievement of the subsidy's actual purpose. Many programmes also provide a one-off benefit, so that it is not possible to have individual degression for each economic entity. A degressive structure is also not useful in cases where the measure is limited to a very short funding period, e.g. if financial assistance is awarded for only one financial year.

In the case of tax expenditures, only limited control options are available when compared with financial assistance. Because the criteria for tax expenditures are fixed by law, degression can be applied through statutory limitations on individual support only in rare cases.

	Items with a degressive structure	Items with no degression	Total	Expired (for information purposes)
Financial assistance				
Number of items	21	107	128	5
in %	16.4	83.6	100.0	3.9
Volume (€m, 2021)	3,149	21,192	24,341	12
in %	12.9	87.1	100.0	0.1
Tax expenditures				
Number of items	-	106	106	2
in %	0	100	100	1.9
Volume (€m, 2021)	-	17,799	17,799	-
in %	0	100	100	0

In the period covered by this Subsidy Report, 21 of the financial assistance items not in the final funding phase feature a degressive structure. Degressive measures account for 12.9% of the total subsidy volume. These consist mostly of financial assistance items that are reduced in size by cutting the amount allocated in the budget. In these cases, the government ministries concerned decide whether to decrease the number of grants and/or their amount.

4.4.3 Evaluation

In accordance with the subsidy policy guidelines, all subsidies are subject to regular evaluation in terms of target attainment, efficiency and transparency. For the purpose of subsidy monitoring, subsidies should be reviewed repeatedly in terms of their necessity, expedience and effectiveness (including external effects) as well as their compatibility with the fiscal, economic, social and ecological objectives of the federal government's policies as well as their potential for optimisation. The intention behind regular and effective internal or external performance evaluations is, in particular, to identify the potential for reductions in subsidies in a way that is both targeted and economically sound, or to optimise the way subsidies are designed.

Performance evaluations also review whether a certain assistance item continues to be necessary and the extent to which it actually fulfils the desired objectives. To do this, it is essential to

define sufficiently clear goals at the time the subsidy is introduced and ideally support them with operational indicators. However, it is often particularly difficult to define appropriate and measurable indicators to support measures. High-quality analysis of outcomes also requires estimates of how markets and/or the sectors under review would have developed in the absence of state intervention. Generating and providing the required data is often not possible or would require disproportionate effort. Causal performance evaluations of subsidies thus face considerable methodological and practical difficulties in implementation.

The evaluations documented in the data sheets (see Annexes 7 and 8 of the full version of the 28th Subsidy Report) are based on different forms of performance evaluation, such as internal performance evaluations and evaluations by the government ministries or subordinate authorities, evaluations by the *Länder* or as part of the legislative process or spending reviews as well as reviews by the Bundesrechnungshof (Germany's supreme audit institution) or external experts.

The selection of the method to be used in conducting a performance evaluation is also the result of cost-benefit considerations. For example, an internal audit may often be chosen in the case of financially less significant measures, since a comprehensive external audit would entail disproportionately high costs. Furthermore, in the case of time-limited measures in their final funding phase, it must be considered whether any potential

findings from a performance evaluation would be worth the associated costs.

The data sheets contained in Annexes 7 and 8 of the full version of the 28th Subsidy Report include information on how each subsidy is evaluated, in particular with regard to frequency of evaluation,

methodology and evaluation results. Evaluation findings are also intended to support policy-makers when considering whether a particular subsidy should be retained without modification, modified or discontinued.

Evaluations of federal financial assistance and tax expenditures	External	Internal	No completed evaluation
Financial assistance			
Number of items	45	27	56
in %	35.2	21.1	43.7
Volume (€m, 2021)	10,870	2,379	11,092
in %	44.7	9.8	45.5
Tax expenditures			
Number of items	46	7	53
in %	43.4	6.6	50.0
Volume (€m, 2021)	12,266	189	5,344
in %	68.9	1.1	30.0

In total, 72 out of 128 financial assistance items have been evaluated internally or externally since 2019, representing 56.3% of the total. Overall, 54.5% of total financial assistance was subject to evaluation. This represents a decrease of 10.1 percentage points compared with the 27th Subsidy Report. According to the data sheets, 56 financial assistance items were not subject to evaluation. In light of the 42 new financial assistance items, the current Subsidy Report includes an especially large number of measures that need to be operating for a certain amount of time before it makes sense to evaluate them. Others are so short-term in nature that evaluations can be conducted – if at all – only after the programme expires.

For the most part, financial assistance items that involve large volumes of funding are evaluated externally. Here, as well, there has been a decrease compared with the previous report due to the large number of new financial assistance items. The share of budget funds subject to external evaluation declined from 63.5% to 44.7%.

At the time of the present report, 46 of the 106 tax expenditures in the current reporting period (43.4%) have been evaluated externally, while 7 (6.6%) have been evaluated internally. Fifty-three tax expenditures, representing 50% of the total, have not been evaluated to date. In terms of volume, the Federation's tax expenditures that have already been evaluated make up some 70% of total federal tax subsidies.

In the area of tax expenditures, one research project should be commissioned in each legislative term. Each of these projects will focus on a group of financially significant tax expenditures that have not previously been evaluated externally or not in the last ten years.

4.4.4 Sustainability impact assessment

Under the expanded subsidy policy guidelines, all subsidies are subject to a sustainability impact assessment. The relevant government ministries are in charge of these assessments. The focus of sustainability impact assessments is on weighing up the effects of the measures from an ecological, economic and social perspective, with a particular focus on conflicting objectives.

Sustainability is a guiding principle of federal government policy and is targeted towards achieving intergenerational equity, social cohesion, quality of life, and meeting Germany's international responsibilities. Economic competitiveness, protection of natural resources and social responsibility are to be combined in a way that ensures the long-term viability of future developments.

Sustainability impact assessments are based on the 2021 update of the German Sustainable Development Strategy, which was approved by the federal cabinet on 10 March 2021. The German Sustainable Development Strategy is geared towards the UN's globally-focused 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs). The updated German strategy specifies at least one indicator-based national policy goal for each of the 17 SDGs. The Sustainable Development Strategy thus provides a framework for implementing the 2030 Agenda at the national level.

By aligning its system of targets and indicators with the UN's sustainability goals, Germany is making sure that its policies place a focus on important international targets along global supply and value chains, such as promoting decent work and economic growth (SDG 8) and ensuring sustainable consumption and production patterns (SDG 12). In this way, the sustainability impact assessments undertaken by the government ministries also address the effects on the value chain of subsidies granted in Germany on the basis of guidelines and other legal provisions. The sustainability impact assessments established in Germany's

subsidy policy guidelines thus also reflect the specifications laid down in the UN's Guiding Principles on Business and Human Rights.

The function of the sustainability impact assessment is to explain which of the principles, indicators or objectives set out in the German Sustainable Development Strategy each subsidy aims to promote, and to highlight any conflicts between objectives. Subsidies may affect the Sustainable Development Strategy's diverse objectives and indicators in different ways and must therefore be assessed in a manner that takes these differences into account. Accordingly, in addition to the objectives pursued and the impacts intended by the respective measure, possible side effects must be considered as well, so that conflicts between different SDGs can be identified as part of the respective sustainability assessments.

Sustainability impact assessments are based primarily on qualitative measurements, because it is nearly impossible to make reliable statements about the quantitative impacts that subsidies have on the German Sustainable Development Strategy's complex system of targets and indicators.

Most financial assistance items and tax expenditures are related directly or indirectly to the principles of sustainable development and the German Sustainable Development Strategy's specific indicators or indicator fields. However, subsidies also tend to give rise to increased consumption of financial, material and/or natural resources and, in this respect, can lead to conflicts with other objectives enshrined in the Sustainable Development Strategy, such as resource conservation, climate action and government debt reduction. Such adverse impacts on other government objectives and the resulting conflicts are one of the reasons why subsidies always require justification.

The main information on sustainability is documented for each subsidy in the data sheets found in Annexes 7 and 8 of the full version of the 28th Subsidy Report. Overall, an evaluation of the objectives pursued presents the following picture:

many financial assistance items contribute to multiple objectives. On average, financial assistance items serve one of the six principles of sustainable development and two of the 17 SDGs of the German Sustainable Development Strategy. The majority of financial assistance items contribute primarily to the SDGs associated with the 4th principle (strengthening sustainable economic activity) and the 3rd principle (strengthening the national resource base on which life depends), mainly through climate action, fostering growth and employment, and promoting innovation.

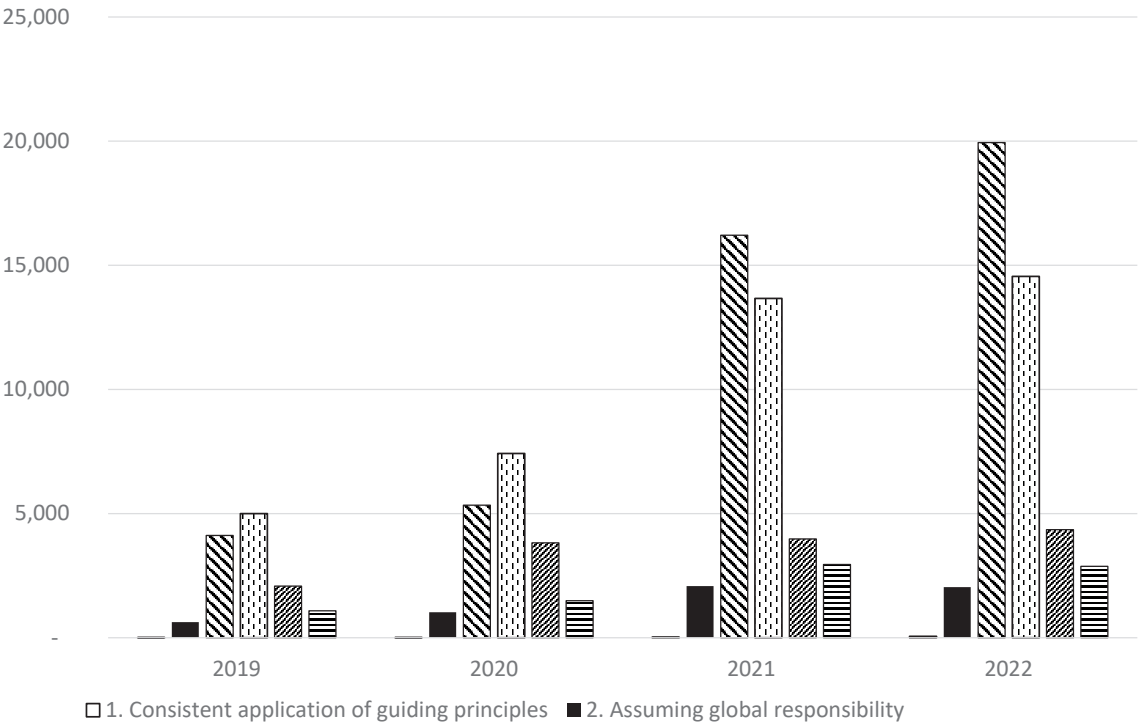
Most tax expenditures focus on strengthening sustainable economic activity (4th sustainability principle) and primarily support the achievement of SDG 8 – growth, full employment and work for all. Tax expenditures also focus more on the 5th sustainability principle (social cohesion) than financial assistance items do.

Sustainable development principles of the German Sustainable Development Strategy	Financial assistance items	Share	Tax expenditures	Share
1. Consistent application of guiding principle	1	0.8%	1	0.9%
2. Assuming global responsibility	8	6.3%	0	0.0%
3. Conserving natural resources	67	52.3%	13	12.3%
4. Strengthening sustainable economic activity	78	60.9%	92	86.8%
5. Social cohesion	17	13.3%	37	34.9%
6. Education, science and innovation	20	15.6%	1	0.9%

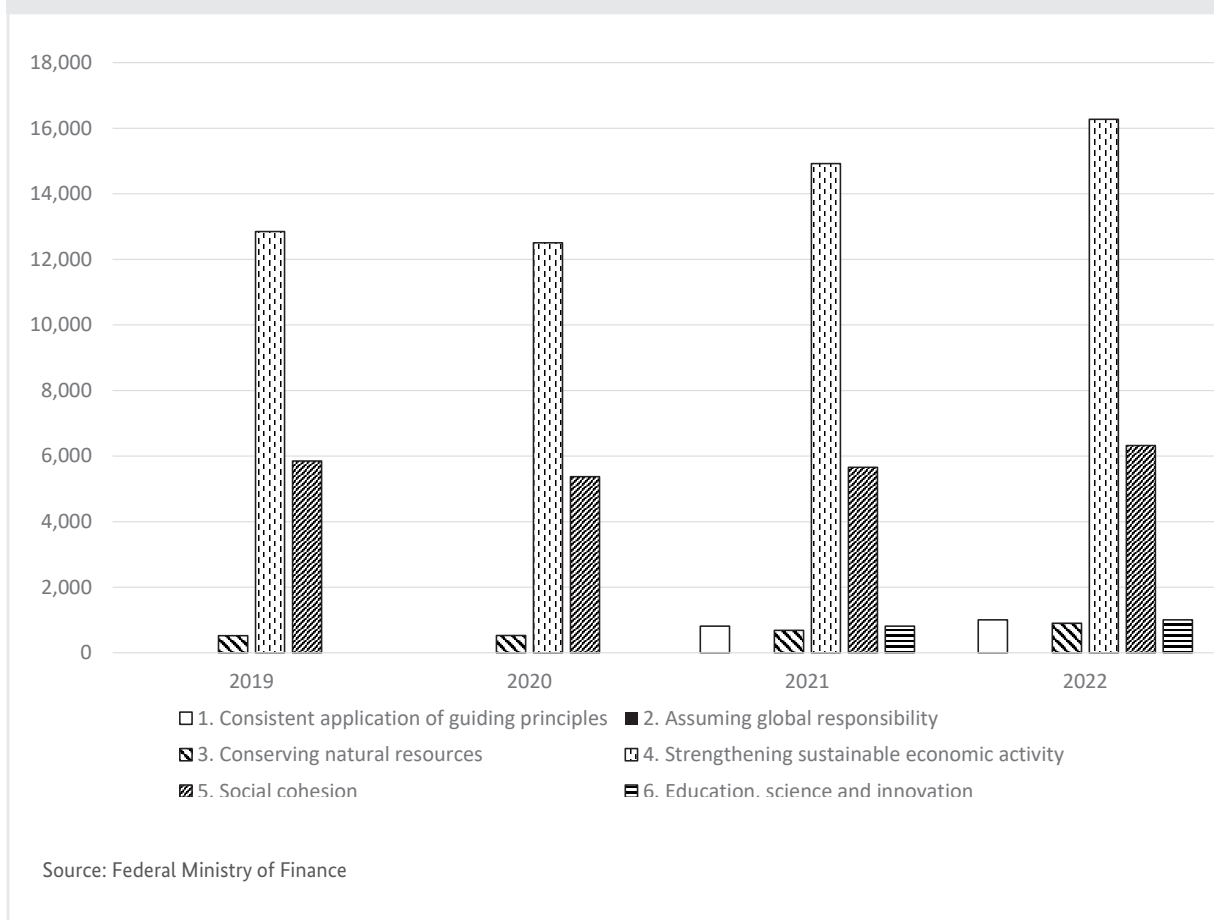
This is also reflected in the financial volume. When comparing the different years, it should be noted that the figures for 2019 and 2020 are actual expenditures, while the figures for 2021 and 2022 are projected target values. This has the effect of exaggerating the increase in financial assistance. Among the financial assistance items, measures to conserve natural resources have experienced the largest increase, but there has also been a rise in financial assistance dedicated to strengthening sustainable economic activity (see Figure 4). This trend is less pronounced for tax expenditures (see

Figure 5). Although there has also been a small increase in the diversity of sustainability principles that tax expenditures address, most tax expenditures serve the aim of strengthening sustainable economic activity or social cohesion, also in terms of the volume of associated revenue shortfalls.

Figure 4: German Sustainable Development Strategy principles, financial assistance items, financial volume (€m)



Source: Federal Ministry of Finance

Figure 5: German Sustainable Development Strategy principles, tax expenditures (Federation), revenue shortfalls (€m)

In particular, the 42 newly introduced financial assistance items that are included as subsidies in this report have a positive impact on the targets of the German Sustainable Development Strategy (see Annex 4): In total, 30 of these items are targeted towards positive environmental outcomes such as promoting climate action, conserving resources and expanding renewables. Examples include a contribution to the conservation and sustainable management of forests, the forward-looking investment programme for vehicle manufacturers, grants for the purchase of commercial vehicles and buses with alternative engines, and modular housing modernisation. Twenty-five new financial assistance items, such as support for the expansion of the mobile network, have the primary or supplementary purpose of making economic provision for the future and promoting competitiveness, innovation and employment. A total of six new financial assistance

items address the objective of promoting education, science and innovation as drivers of sustainable development. The example of the Innovation Programme for Business Models and Pioneering Solutions shows that this often goes hand-in-hand with strengthening sustainable economic activity. Two new financial assistance items promote the goal of assuming global responsibility, including the CIRR fixed-interest programme to support German exports, especially to Africa. The new financial assistance for the purchase of shares in cooperatives primarily addresses the social components of the German Sustainable Development Strategy.

Furthermore, subsidies must also be assessed within the international context. For example, a number of sectoral support measures related to energy duty do not have an immediate positive environmental impact in Germany but are

justified in economic and environmental terms, given that they prevent production from being shifted to third countries that have lower environmental and energy standards. Justification based on indirect effects related to conditions in foreign countries must be reviewed at regular intervals.

Even subsidies that have already been in place for a longer period of time should, as part of the evaluation process, be regularly reviewed in terms of their conformity with the rules of the German Sustainable Development Strategy. Against this

background, the sustainability impact assessment formed a separate part of the analysis for the first time in the research project “Evaluation of tax expenditures”, which was completed in 2019. The results of the report on sustainability impacts were taken into account in the relevant data sheets contained in Annex 8 of the full version of the 28th Subsidy Report. They have thus also contributed to a more nuanced analysis of the impacts of the subsidies under review and to a more robust examination of conflicting objectives.

V. Summary

Subsidy policy is part of the federal government’s forward-looking fiscal policy. By providing targeted financial assistance from the federal budget, the government has been able to limit the negative economic and social impact of the Covid-19 pandemic. However, the purpose of the crisis management measures is not only to maintain existing structures, but also to shape the future by investing in the green and digital transitions. This will stimulate sustainable economic growth and thus help Germany emerge from the crisis stronger than before.

The German government’s subsidy policy is increasingly being shaped by climate and environmental policies, especially in the area of direct funding in the form of federal financial assistance. In 2021, 67 of the 128 financial assistance items, making up an estimated total financing volume of €16.2 billion, are directly related to the environmental and climate goals anchored in the German Sustainable Development Strategy. Their share of the total volume of financial assistance in 2021 stands at 66.7%, which corresponds to 38.5% of total subsidies (financial assistance and tax expenditures).

In addition to climate action as a core political concern, other current funding priorities are in the areas of housing construction, digitalisation and mobility. By setting clear goals in high-priority areas, subsidy policy measures will provide important impetus to strengthen the economy’s sustainability and capacity for innovation, overcome the fallout from the pandemic in a forward-looking way, advance climate and environmental action, and promote social equity.

Federal subsidies, in the form of financial assistance and tax expenditures, are set to climb from €24.6 billion in 2019 to €47.2 billion in 2022. This €22.6 billion growth is driven primarily by an increase in financial assistance by some €19.4 billion, from €8.3 billion spent in 2019 to an appropriation of €27.7 billion in 2022. The Federation’s share of tax expenditures will rise from €16.3 billion in 2019 to €19.6 billion in 2022.

A total of 42 new financial assistance items have been introduced. The most significant new financial assistance items include federal funding for efficient buildings and grants for the purchase of commercial vehicles and buses with alternative, climate-friendly engines.

Most of the growth in subsidies is accounted for by trade and industry. During the reporting period, these are expected to increase from €12 billion spent in 2019 to a budgeted total of €21.9 billion in 2022, a rise of €9.9 billion. This corresponds to a share of approximately 46.4% of total subsidies in 2022. The main factor driving this increase is the rise in financial assistance for the purchase of electric vehicles (eco-bonus) and the investments in the decarbonisation of industry. Subsidies in the housing sector will increase from €2.8 billion to €8.3 billion during the reporting period. This is being driven by significantly increased funding for energy efficiency and renewable energy measures in the buildings sector. In the transport sector, expenditures are projected to rise from €3 billion in 2019 to €6.9 billion in 2022, especially as a result of an increase in financial assistance for the construction of filling and charging infrastructure.

The subsidy policy guidelines set the framework for the federal government's subsidy policy. They increase transparency and accountability for subsidies and enhance the ability to control subsidies so that they are as target-oriented and efficient as possible and support sustainable development.

In line with the subsidy policy guidelines, most of the new financial assistance items being introduced during the reporting period to promote priority measures targeting climate action, mobility and digitalisation are being provided on a time-limited basis.

The regular evaluation of subsidies with regard to their target accuracy and efficiency, as well as a sustainability impact assessment for subsidies, are the core elements of effective monitoring of subsidies. Such evaluations are aimed at, in particular, preventing the misallocation of resources and identifying potential for optimisation and additional options for structuring the available tools. However, placing a greater focus on future-oriented measures can only be successful if subsidies that are no longer necessary are systematically reduced.

Sustainability impact assessments focus on a holistic appraisal of subsidies by weighing the outcomes of individual measures from a variety of sustainability-related perspectives and uncovering any conflicting objectives that may exist.

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The background of the page is a high-contrast, black and white aerial photograph of a plowed agricultural field. The furrows create a series of curved, parallel lines that sweep across the landscape, giving it a rhythmic, almost abstract quality. The lighting is dramatic, with deep shadows in the furrows and bright highlights on the ridges.

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