



Landesrechnungshof
Sachsen-Anhalt

Wir prüfen und beraten!

Risk of **HIDDEN DEBT**

How hidden debts
stress the state budget of Saxony-Anhalt!

Speaker: Britta Mohs, Head of the Presidential Office,
Court of Audit in Saxony-Anhalt

EURORAI Seminar in Warsaw
May, 17th, 2019



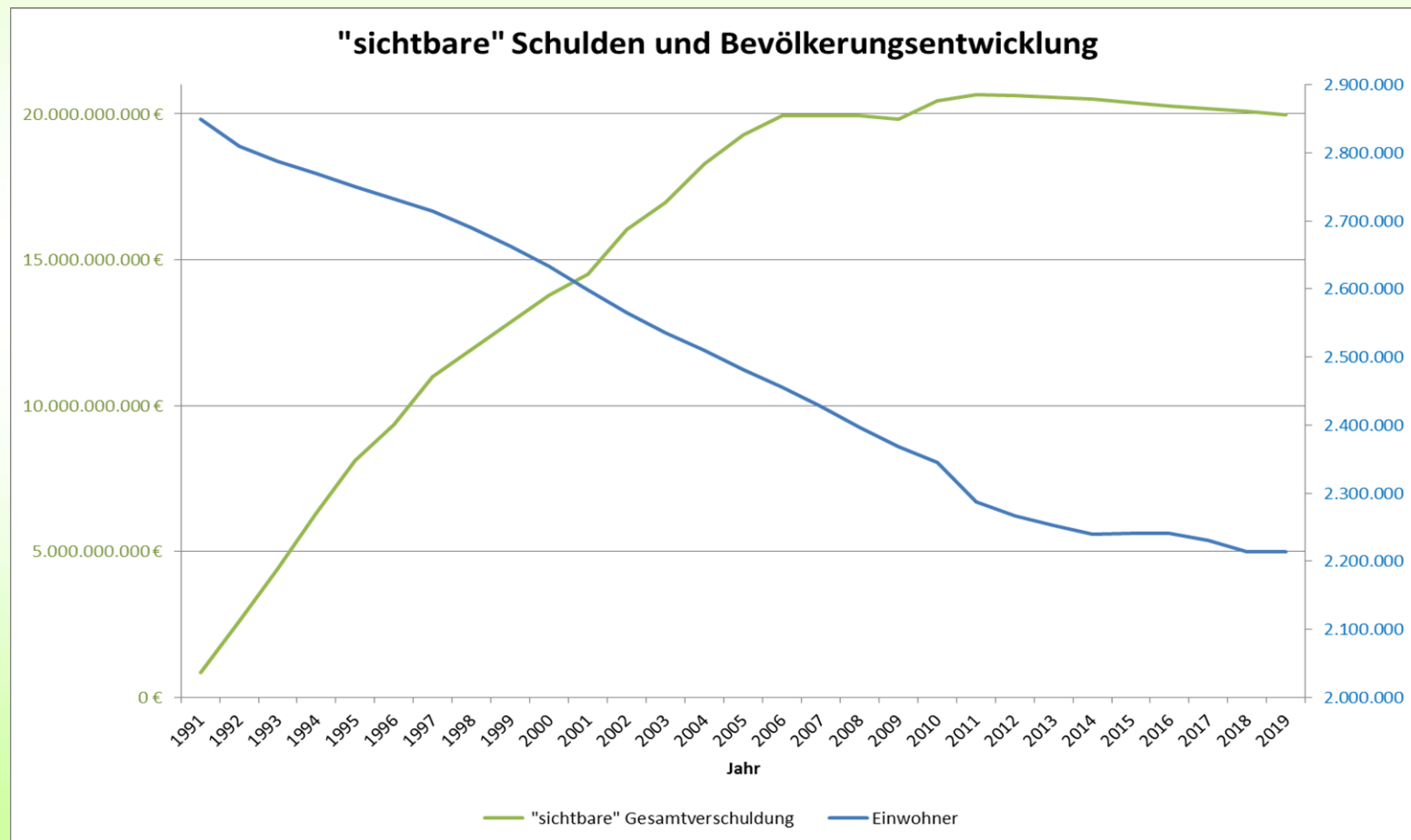
Federal state Saxony-Anhalt

Since reunification, October, 3rd, 1991

- population on June, 31st 2018
2,214 mill.
- budget 2019 11,5 bn. €
- „visible“ debts on December, 31st 2018
20,1 bn. €
- staff at public administration 2019
57.504 posts



Debts of credits and securities and demographic development





Burden from „visible“ debts

- ▶ Interest payments are a structural problem and place a burden upon the Land budget, as long as there are debts.
- ▶ Saxony-Anhalt has not used properly the historically low interest rates to redeem debts.

	2011	2012	2013	2014	2015	2016	2017	2018	2019/Plan
	million €								
interest issue	776	713	632	594	551	510	455	366	374
tax redemption		25	50	100	125	100	100	100	100
new indebtedness	209								
debt level december, 31 st	20.650	20.625	20.575	20.500	20.400	20.275	20.175	20.075	19.975



Revenue situation in Saxony-Anhalt

- ▶ Exemplary for the years 2016, 2017 and 2018– the trend of development still continues!
- ▶ Tax revenue, „Financial Equalisation Scheme between the German Länder”, global federal allocation

year	tax estimate	plan	actual	difference actual - tax- estimate
	<i>million €</i>			
2016	7.128	7.025	7.393	265
2017	7.110	7.227	7.488	378
2018	7.627	7.604	7.967	340
2019	7.849	8.222		



Concept **HIDDEN DEBT**

Effect

- ▶ Real debts of the federal state.

Characteristics

- ▶ Part of public debts,
- ▶ Non-bonded debts,
- ▶ Not recorded in the official debt statistic,
- ▶ Only as estimates.

Synonym

- ▶ Implicit debts,
- ▶ „Non-visible“ debts.





Examples of **HIDDEN DEBT**

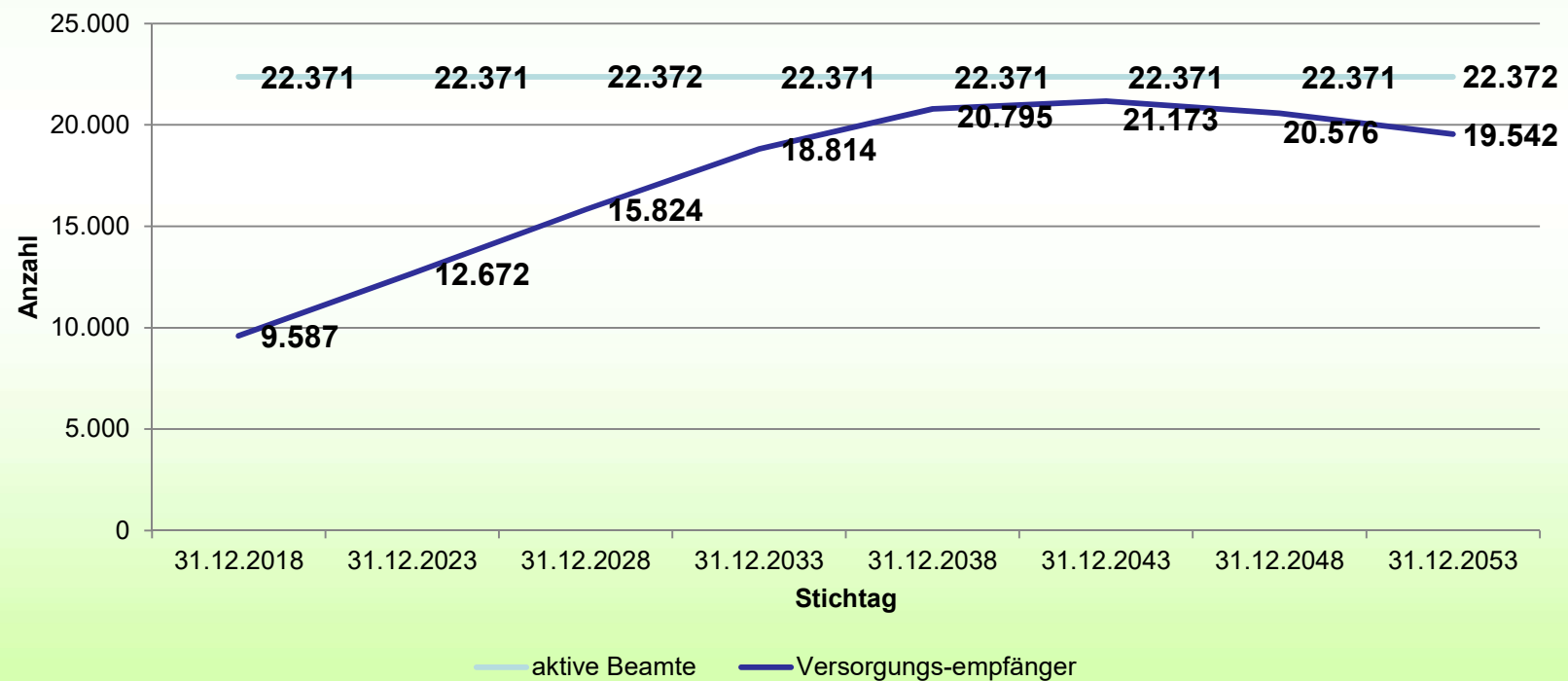
- ▶ **Pension liabilities,**
- ▶ **Defaulted investments,**
- ▶ Private Public Partnership – PPP,
- ▶ Interest-change risk („visible“ debt).



HIDDEN DEBT

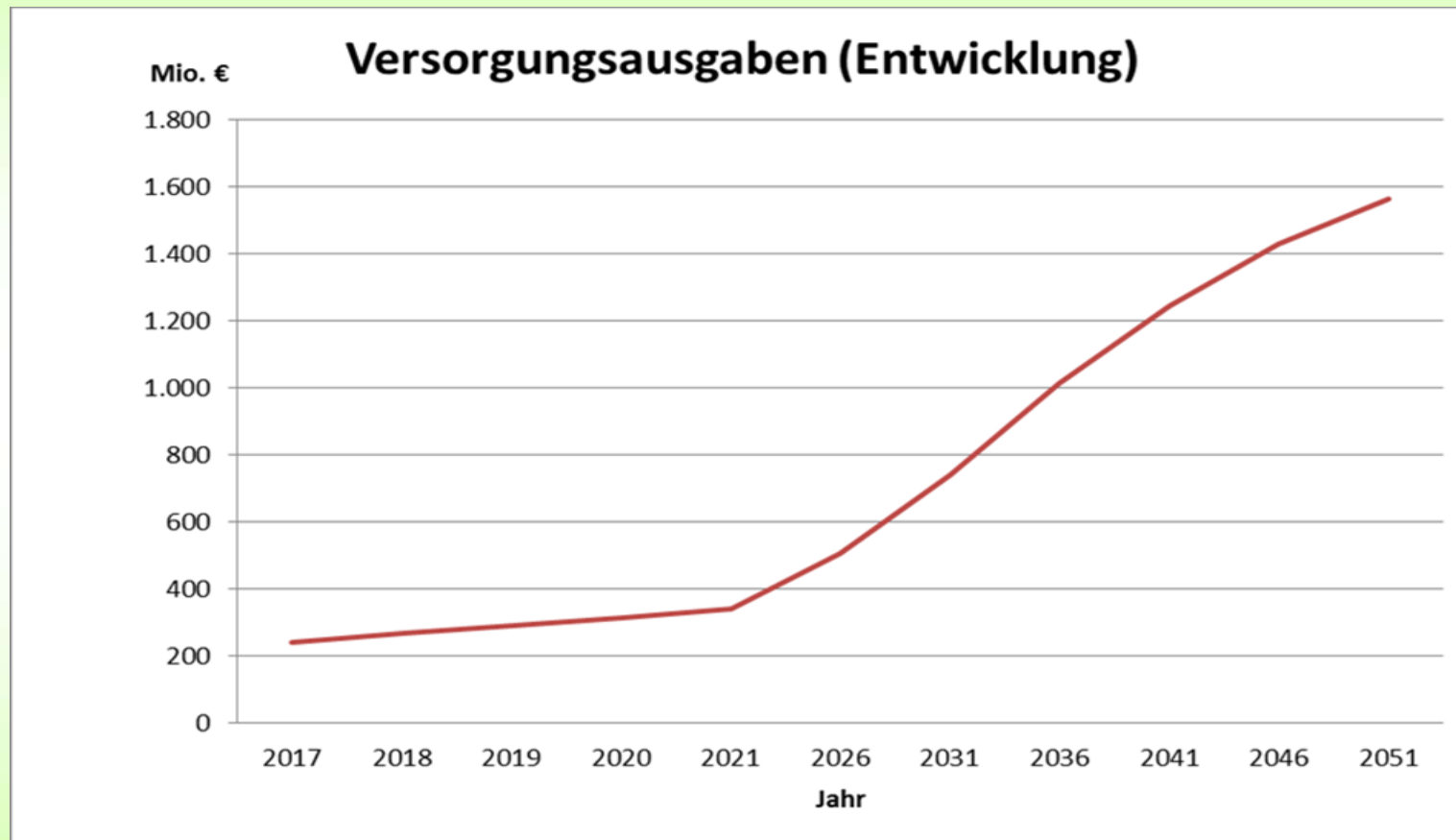
Pension liabilities

Number of working officials and pensioners
(development)





Pension liabilities - development





Financing of pensions

- ▶ Regularly funding rate in compliance with the law
 - ▶ Regulation on allocation of pension funds (Pensionsfondszuführungsverordnung)
- ▶ Last amendment to this law end of 2018:
 - ▶ Discontinuation of a funding rate in the amount of 27 mill. € p.a.
- ▶ Capital Stock on January 1st 2019: 1,03 bn. €

	capital stock December, 31st	annually Ø- return	dynamic of salary	inflation rate
2013	395.097.385,50 €	4,03%	2,65%	1,50%
2014	494.425.730,43 €	8,26%	2,95%	0,90%
2015	690.098.705,61 €	1,98%	2,10%	0,30%
2016	799.183.578,04 €	1,89%	2,30%	0,50%
2017	945.619.022,67 €	4,29%	2,00%	1,80%
2018	1.026.484.054,75 €		2,35%	



Recommendations to the federate state government

- ▶ Regularly funding rate must be put into practice to be able to finance pensions in their entirety,
- ▶ Funding from regular budget is complicated!

The federate state government has not taken any steps to date.

The budgetary risk continues to exist!



HIDDEN DEBT **Defaulted investments**

- bn. € -	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
investments/ act.	1.135,8	1.240,3	938,6	1.039,4	1.100,2
investments/PI.	1.287,0	1.276,6	1.363,1	1.402,9	1.549,5
variation	-151,2	-36,4	-424,5	-363,5	-449,3
rate of investment/act.	11,3 %	11,6 %	8,7 %	9,6 %	10,0 %
rate of investment/PI.	12,0 %	11,5 %	12,5 %	12,5 %	13,7 %



Investment cost per resident in Saxony-Anhalt





Audit results - road bridges

- ▶ Result of a review, 262 road bridges, presented in the 2017 annual report of the court of audit,
 - ▶ In the last 10 years: No improvement of the condition of these road bridges, but:
 - ▶ More than a half of these bridges (63 %) changed for worse.

The investment backlog continues to exist!





Financing needs for road bridges

- ▶ 2016 to 2023 - overall rounded 141 million €:
 - ▶ In a budget year 17,6 million € are necessary!
 - ▶ Only 11 million € are budgeted per year (on average).
 - ▶ That means: 53 million € less than necessary.

- ▶ Implementation of the measures 2016, 2017 and 2018 :
 - ▶ Less than around 17,5 million € for investments, as budgeted!





Recommendations made by the Court of Audit

- ▶ Budgeted budgetary funds have to be used completely for conservation of road bridges.
- ▶ The Road Administration Department has to develop a building-management system and
- ▶ a conservation strategy.





HIDDEN DEBT

- ▶ ...is a problem for future budgets.
- ▶ ...goes against a budget policy that meets the needs of every generation.
- ▶ ...needs political will to provide for existing risks.



The Court auf Audit will remain vigilant!



Landesrechnungshof
Sachsen-Anhalt

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Thank you for your attention

www.lrh.sachsen-anhalt.de



Office building in Dessau-Roßlau