BWV

Der Bundesbeauftragte für Wirtschaftlichkeit in der Verwaltung

FEDERAL BUDGET.

FISCAL RELATIONS BETWEEN THE FEDERAL GOVERNMENT AND THE FEDERAL STATES.

REVENUE.

GERMANY'S ARMED FORCES.

TRANSPORT.

DIGITAL TRANSFORMATION.

CYBER SECURITY.

RESILIENCE.

LABOUR.

PENSION.

HEALTH AND CARE SYSTEM.

CLIMATE ACTION.

impulses25

for Parliament and Government for the 21st electoral term

Contents

Preface

Do what is necessary!

On 23 February 2025, the day of early elections, the citizens have decided on the composition of the 21st German Parliament. The Members of Parliament and the new Federal Government face enormous tasks, many of which can no longer be postponed. Created by global political conditions that are shaped by egoism have increased significantly since the previous elections. The adverse impact of global warming has also intensified, with sometimes catastrophic consequences not only in distant parts of the world, but also in Germany and our neighbouring countries. Additionally, we still have painful memories of the challenges caused by a pandemic for our community.

However, none of this should hide the fact that many of the causes of the current backlog as related to reforms and modernisation are due to a lack of willingness in politics and society to change the status quo. Many shortcomings have existed for a long time. They are structural in nature. The Federal Government's ability to act has been seriously diminished in many areas and the citizens' trust in the government has been noticeably shaken. Policy-makers and government bodies are spending more and more money to compensate for structural problems, avoid undesired reforms and react to external shocks. It is, in contrast, necessary to use the taxpayers' money – as well as borrowed funds – within better structures in an efficient and targeted manner. Otherwise, the problems for future generations will deteriorate.

The impulses presented herein identify weaknesses and possible solutions for twelve key areas of action – and add to my earlier recommendations as related to the 20th electoral term. They are based on our diverse, independent and fact-based audit and advisory activities.

In line with my advisory function as Federal Performance Commissioner, I wish to use these impulses to make an objective contribution to the specific work of the Federal Government and Parliament in the 21st electoral term. They are not a patent remedy. They can, however, help to clearly focus on the facts, without which effective and efficient reform and modernisation efforts, and thus a sustainable strengthening of the government's ability to act, will not be successful.

Kay Scheller
Federal Performance Commissioner
Bonn, June 2025

The Federal Performance Commissioner

The Federal Government needs to better manage its financial resources. Sound financial management first of all means that key government functions are performed in an effective and efficient manner. Focus needs to be placed on achieving this objective. Today more than ever. The time to act is now.

Kay Scheller, Federal Performance Commissioner

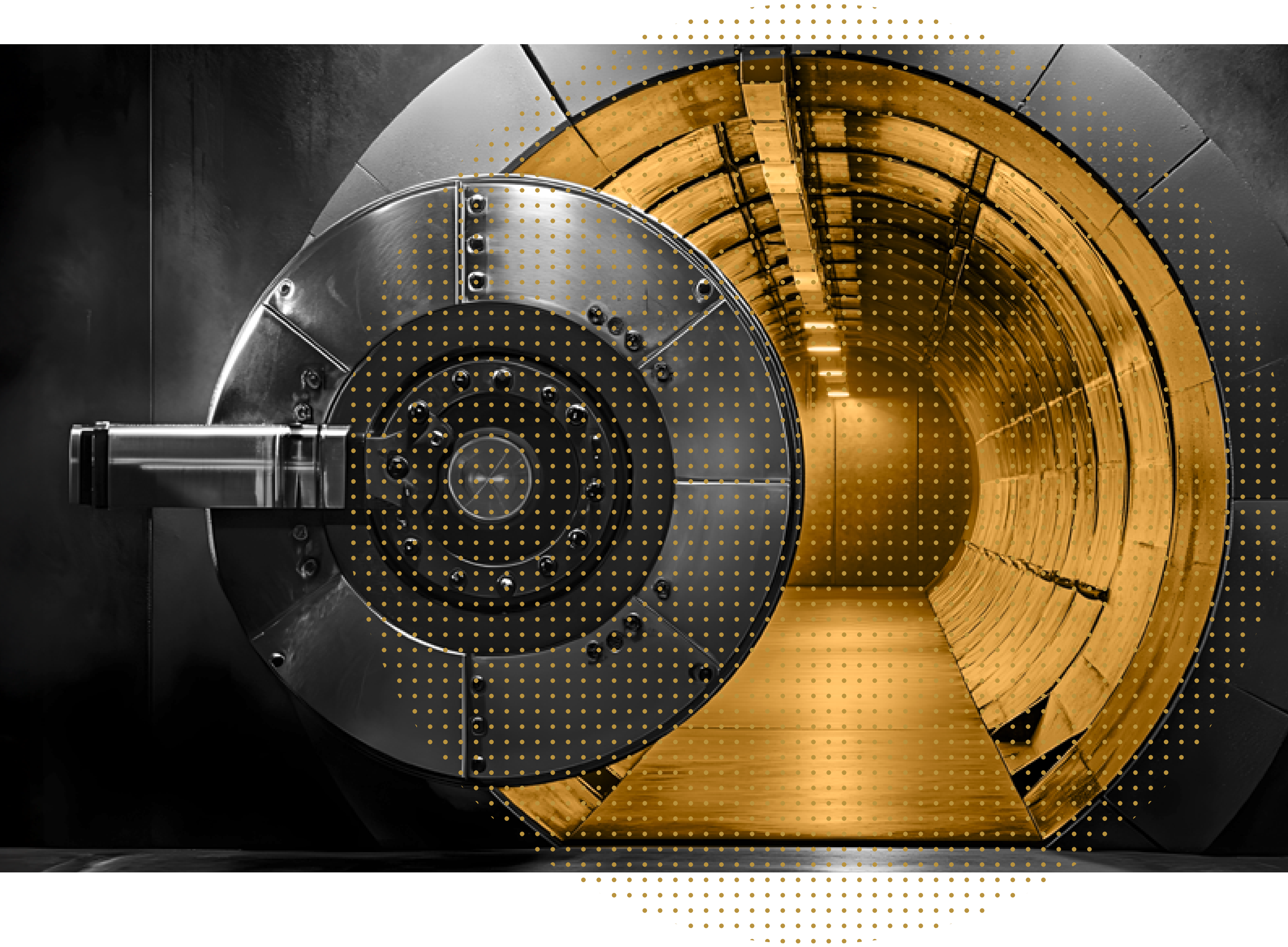
The Federal Performance Commissioner puts forward proposals, reports and opinions in order to enhance the efficiency of and accordingly organise the federal administration including its off-budget funds and trading funds. At the request of the Federal Government, individual ministries and Parliament, the Federal Performance Commissioner may provide advice. He can also do so at his own initiative. In addition, the Federal Performance Commissioner has to be involved in editing the drafts for federal legislation, ordinances and administrative regulations at an early stage. According to tradition, the office of the Federal Performance Commissioner is held by the President of the Bundesrechnungshof.

The Federal Performance Commissioner has neither staff nor budget funds of his own but relies on the findings of the Bundesrechnungshof. However, he is not bound by the decisions of the Bundesrechnungshof. He is exclusively responsible for the decisions taken.

The Federal Performance Commissioner is designated by the Federal Government that has laid down the Commissioner's duties and powers in a guideline.

The tradition of the Federal Performance Commissioner dates back to the days of the Weimar Republic. At that time, the office of the *Reich Commissioner for Public Economy* was created. His task was to scrutinise the entire budget for potential savings and he did so frequently. In the course of time, the current role of the Federal Performance Commissioner has evolved.

Find new financial strength



The challenges for federal finances are huge. New problems add to structural shortcomings of the past. They reach unprecedented financial dimensions. The simplest solution is to make new debts. As in the past. However, those who permanently live beyond their means have no future. Even after amending the constitutional rules governing the debt ceiling, the consolidation of federal finances must no longer be postponed. The time has come for urgent corrections.

Avoid living beyond means

Between 2020 and 2024, the federal debt surged from approximately €1 trillion to some €1.7 trillion. The amendment of the debt rule for the federal and state governments and the launch of a new special fund worth billions of euros for public infrastructure and the achievement of climate goals open up considerable new leeway for borrowing. However, it remains true that not financing core government tasks from revenues in the long term means living beyond one's means. New debt can be a short-term solution, but they do not eliminate the structural causes of existing problems. Ultimately, they are an instrument to avoid taking actually necessary action. Structural problems worsen the longer their solution is postponed. The financial price of high debt is high interest expenses in the long term.

Use borrowing options reasonably

The new borrowing options must now be used wisely, moderately and only for measures that are clearly additional in nature. There must not be the effect that debt is used instead of ordinary budget funds. The new borrowing options must not be used either directly or indirectly for consumptive purposes. Every euro must go beyond the current status quo and clearly achieve effectiveness in the relevant areas. The principle of efficiency must not be neglected despite the “credit overflow“. All measures must be effective and efficient. The bodies responsible must get rid of unnecessary bureaucratic ballast. Planning, authorisation and procurement processes must be accelerated, unnecessary requirements be eliminated.

Protect future generations

Sustainability must also apply to the public financial sector. The new borrowing options can lead to a doubling of the Federal Government's interest payments within just a few years. As the Federal Government only restructures debt once they have been incurred and does not actually repay it, future generations will be faced with an ever-increasing perpetual burden of permanent interest payments. At least the new special fund for infrastructure and climate mitigation should therefore be linked to repayments within a reasonable period of time.

Set the course now

The new borrowing options must not undermine the increasingly urgent need for structural consolidation in the federal budget. Germany must be made fit fast – also in the public financial sector. The setting of priorities and posteriorities must guide budgetary policy action. In doing so, the Federal Government should focus on its constitutional core tasks. The solidification of the federal budget which is driven by statutory obligations must also be broken up. The Federal Government should only make voluntary expenditures if their effectiveness is proven. Every form of subsidisation must be questioned. Investments must take precedence over consumptive spending with little impact on the future. Social spending, which dominates the federal budget, should be better targeted. Enhancing the level of revenues can be achieved through economic growth and taxation.

> *“If all society groups participate, Germany can also regain its financial strength. The current challenges show that financial strength is the key to everything.*

Whoever is responsible for the task must bear the costs

The increasing financial interdependencies between the federal and state governments must be stopped. They contradict the principle of individual responsibility and are inappropriate.

Strengthen individual responsibility of Federal Government and federal states

Germany is a federal state. It consists of the Federal Government and the federal states. The principle of federalism was chosen deliberately. The German Constitution (Basic Law) assigns own competences to both the Federal Government and the federal states. The number of exceptions to this rule increases. As a result, voters have more and more difficulties to identify the various government levels' responsibility. This is because they are unable to attribute the change or continuation of political developments, expressed through their vote, to the various levels of government.

Investment backlog despite a wide range of federal funding

The Federal Government supports the federal states in their original areas of responsibility and competence in more and more sectors and with ever-increasing amounts, for example via investments in the digitisation of schools, social housing and local public transport. In 2023, the Federal Government provided some €26 billion to the federal states and municipalities for these and other fields of action. And the trend is rising. Nevertheless, the investment backlog persists. The Federal Government currently expands its financial support and provides the federal states with a further €100 billion over 12 years to invest in their infrastructure (new Article 143h (2) of the Basic Law).

Co-funding is inefficient

Pursuant to the principle of concomitant financing, which is enshrined in the Basic Law, the federal and state governments each bear the costs of their respective tasks separately. Therefore, the Federal Government may only finance federal state expenditure in the exceptions explicitly authorised by the Basic Law. Incentives for economic and goal-orientated action and effective control can best be achieved if each government level has to use and manage carefully its own resources. Germany can no longer afford inappropriate and expensive co-funding from the federal and state governments. The financial interdependencies lead to false management incentives, as the Federal Government has only limited capability to shape decisions that place a financial burden on it. Additionally, the federal states have no incentive to eliminate deficits. For this reason, federal and state tasks should be generally separated. The principle of individual responsibility applies to the relationship between the Federal Government and the federal states.

Use federal funding swiftly and effectively

Federal funding to date has also lacked impact. Generally, funding was used too slowly and sometimes not in a targeted manner. Effectiveness was often low. Since the Federal Government already co-finances state tasks, it has the duty, together with the federal states, to create conditions for a rapid and effective implementation. It must also clearly define objectives and ensure that relevant funding requirements are met.

New paths for federal state spending only on the basis of “additionality“

With its funding, the Federal Government limits its own leeway, releases the federal states from their responsibility and, in some cases, bears a considerable portion of their burden. With the amendment of Article 109 (3) of the Basic Law, the federal states' leeway for new borrowing has been extended. It is time for the federal states to assume financial responsibility for their own tasks. If the Federal Government nevertheless continues to provide funding to the federal states, “additionality“ must be a precondition. This means that the federal states must maintain current investment efforts. Federal funding must come on top of their investments. This is the only way to realise more investments “on the bottom line“ and to reduce the investment backlog. The federal states should also contribute to the repayment of the special fund for infrastructure in proportion to their share.

Fundamentally strengthen the Federal Government's revenue base

The levers for strengthening the revenue base have been known for a long time. Nevertheless, structural deficits and implementation weaknesses persist and necessary reforms are still pending. Far-reaching measures are needed. Billions of euros are at stake.

Leeway not used

So far, the federal and state governments hardly used the current revenue potential. Known shortcomings have not been addressed. The goal must be a better revenue base. There are many different approaches.

Demonstrate willingness to reform tax subsidies

Tax benefits having insufficient impact or adverse effects should be scrutinised. If a tax benefit does not achieve the intended effects, it must be adjusted or terminated. This is the only way to prevent ineffective and inefficient benefits from becoming permanent instruments and financial resources from being lost. There is a need for reform, for example, as to the tax benefit for craftsmen's services and the reduced VAT rate.

Combat tax fraud decisively

According to estimates, Germany loses billions in revenue every year due to tax evasion and tax avoidance. Nevertheless, the fight against fraud is not making decisive progress. IT systems are outdated, the competent authorities lack the necessary resources, and information on tax havens and tax leak data is not comprehensively analysed. The tax authorities must be made more effective and tax fraud must be combated more consistently than before.

Make more progress in digitising revenue administration

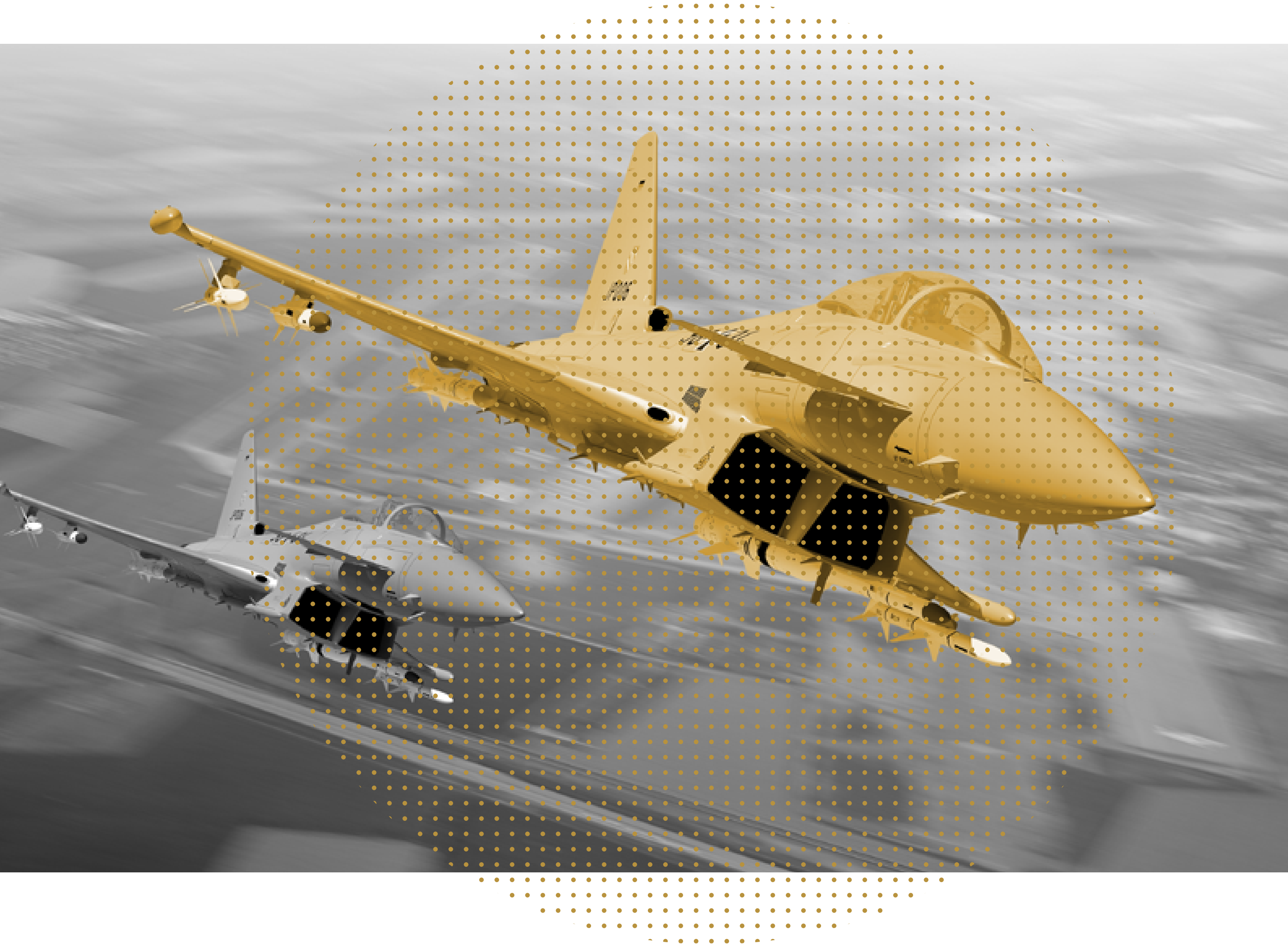
The administration of tax revenues totalling almost €1 trillion annually requires forward-looking tax IT. The digital transformation is therefore of paramount importance for securing tax revenue. Nevertheless, Germany still falls far short of its own standards. Important digitisation projects such as the KONSENS project (coordinated software development of German tax authorities) must finally make progress.

Solve problems in tax enforcement

Last but not least, the revenue base should be supported by sound revenue administration. However, the bodies responsible often do not fulfil their tasks adequately. Shortcomings in tax enforcement reduce tax revenue, for example in the area of e-commerce or trading in crypto assets. The same applies to the inadequate assessment of internationally exchanged tax data and insufficient action against double funding in the same area. Joint efforts by the federal and state governments are needed to solve the problems.

> *When consolidating the federal budget, the bodies responsible must not ignore current revenues.*

Money alone cannot ensure defence capabilities



The war in Ukraine has dramatically changed the security situation in Europe. In addition, the European security architecture is in a state of upheaval. The legislator has reacted to this development. The financial leeway for ensuring the Armed Forces' defence capabilities is greater than ever before. However, in addition to sufficient material resources, the Armed Forces also need fundamental personnel and structural changes in order to be fully capable of defence.

Prioritise core mission

Until recently, the size and structure of the Armed Forces have not matched their core mission. They were not designed to provide large combat units for alliance defence on an ad-hoc basis and also to perform national defence tasks. The structural reform that has been initiated is a step in the right direction, but must be continued consistently. In relation to fighting troops, too many personnel are still engaged in administrative activities. The Armed Forces must clearly focus their personnel and organisation on national and alliance defence. This includes eliminating unnecessary tasks and further digitising processes.

Use funding responsibly

The legislator has adapted the debt rule of the Basic Law and opened up considerable financial leeway for defence. The legislator thus continues the strengthening of the Armed Forces which was initiated with the recent turnaround. However, the additional financial resources must be used responsibly, i.e. in a targeted and effective manner. “Whatever it takes” must not become “money doesn’t matter”. This is why the Armed Forces need planning and management that is focussed on their core mission. Despite higher budgets, the Armed Forces must ensure appropriate prices in procurement projects. Effective controls in procurement and operations can ensure that financial resources are not wasted.

Make processes more efficient and flexible

Armament projects regularly take several years. One of the main reasons for this is the cumbersome and inflexible planning and procurement processes. These do not match the innovation cycles of modern technologies. The war in Ukraine shows that drones, for example, are developed further in a very short period of time. In addition to traditional armaments such as tanks and aircraft, the Armed Forces must also invest in new technologies. They must not stop making processes more efficient and flexible in order to remain responsive and bring new technologies to the troops more quickly.

Strengthen the defence industry

The German and European defence industry was often unable to supply weapons systems at short notice. As a result, Germany’s Armed Forces also purchased combat aircraft, helicopters and air defence systems outside of Europe. This increases the dependency on non-European suppliers and inhibits the creation of own capacities. The German and European defence industry is also dependent on international supply chains, in some cases located in insecure regions of the world. The Federal Government should strengthen the German and European defence industry by creating reliable planning frameworks, promoting national competencies in a targeted manner and also making procurements together with European partners.

Dilapidated transport infrastructure: plan honestly, ensure funding, take responsibility

Rails, roads, waterways: These are the lifelines of a modern country with a strong economy. The Federal Government needs to make these lifelines fit for the future and set clear priorities in doing so. The Federal Government needs to determine: How much infrastructure does it intend to provide – and how can it fund the infrastructure in the long term?

Transport infrastructure ensures prosperity

Dilapidated bridges, outdated locks, rail refurbishment backlogs: The list of shortcomings is long – and that ironically in transport infrastructure which is the basis for growth and prosperity in our country. Furthermore, transport infrastructure is expected to ensure mobility – even in internal and external emergency situations. "The more, the better" does not apply indefinitely: Who temporarily pumps more money into the system through special funds can only ensure a modern and efficient transport infrastructure by means of further reform steps. Even if the funding is adequate in the medium term, the primary goal is to act efficiently. The Federal Government needs to set priorities and determine how many transport routes it intends to maintain and build at what price. There is the risk of massively increasing construction costs, and consequential costs also should be taken into consideration at an early stage, e.g. for future maintenance.

Not only manage what is strictly necessary but shape the substance

The Ministry of Transport needs to take responsibility for its key tasks. Deutsche Bahn AG and Autobahn GmbH belong to the Federal Government. The Federal Government also has a share in three airport operators. The operators are expected to serve the country, perform its key tasks. The Federal Government must closely manage and actively steer them. It has made mistakes in the rail sector because it was too passive as owner and needs to take corrective action. The Federal Government must not repeat these mistakes in the road sector. The following is important in doing so: Autobahn GmbH has to maintain its infrastructure – such as bridges. The Federal Government needs to ensure that Autobahn GmbH is in the position to do so in terms of human, financial and organisational resources.

Be open-minded to structures – focus on public welfare

Again and again, the Federal Government committed to adhering to the huge structure of the Deutsche Bahn AG group covering transport and infrastructure. However, this economically unstable group fails to reliably operate the railway. Furthermore, the group is strenuously against transparency. As long as Germany has own railway undertakings, competition is hampered. In the case of InfraGO AG, an infrastructure company, only the name indicates public welfare. The Federal Government provides more and more money – it should finally also set the tone. The interests of the passengers need to be in the focus. The legislator has to ensure that the Federal Government gets access to its rail sector. The Federal Government needs to fundamentally realign the group. This means: The Federal Government needs to take responsibility for the railway infrastructure and create a framework for fair competition of transport operators.

> *"In terms of transport, it is no option to turn a blind eye and keep going. The Federal Government must have the courage to establish new structures, to dismiss unrealistic projects and to put its cards on the table in terms of long-term funding which ensures intergenerational equity.*

Make Germany fit for the digital age

The digital transformation in the German public sector makes faltering progress. Instead of a clear vision, there have so far been random individual activities. The new Federal Government will have to break new ground if it intends to succeed in the digital transformation.

Clear vision instead of random individual activities

So far, the Federal Government has not developed a clear vision of the public sector's digital transformation. Its digital strategies described existing projects without specifying targets and priorities. Again and again, the government departments developed uncoordinated individual activities which did not interact. Digital transformation can only succeed if the government departments align their activities with common and measurable goals. The new Federal Government should specify a target for the digital transformation of public authorities to ensure that all act in concert. This is the only way that the activities of the government departments act together to achieve the target.

New management structures instead of further silo thinking

Ambitious targets alone, however, are not enough. The information technology of the Federal Government needs to be set up in such a way that the targets can be achieved. The previous structures did not enable the Government to do so: Each government department can, in principle, decide on its own how it intends to set up its information technology. Silo thinking and lengthy coordination procedures in interdepartmental steering committees often get in the way of good solutions. Furthermore, the principle of unanimity was applied for the shared federal information technology. This too often impeded fast and appropriate decisions. By establishing the Federal Ministry for Digital Transformation and Government Modernisation, the new Federal Government needs to fundamentally rethink IT management. In particular cases, technical requirements of individual government departments need to be waived in favour of a consolidated solution. In return, these solutions need to be efficient and work reliably. In doing so, the new Federal Government needs to focus on the overarching objectives such as information security and digital sovereignty.

Central digital and IT budget instead of double and excess expenditure

Germany cannot afford that each federal authority digitises everything on its own and sometimes at the same time. This leads to a hotchpotch of IT solutions which do not match. The new Federal Government must no longer ask the taxpayers to bear the costs for interlinking these solutions. Therefore, the Federal Government should establish a central digital and IT budget. In doing so, central IT solutions can be funded and unnecessary stand-alone solutions in the government departments can be avoided. Digitising the public sector and keeping its information technology up to date remains a permanent task. To that end, a central budget is required which is established on a lasting basis.

Cyber, but secure!

A digital Germany needs to protect itself against the dangers of the cyberspace. Germany cannot afford to lose billions of euros every year as a consequence of cyber attacks, espionage, sabotage and fraud. The new Federal Government has to highly prioritise, coordinate and finance cyber security in line with actual needs.

Controlling and monitoring cyber security under one roof

Germany needs a new cyber security strategy. Its implementation has to be funded, controlled and monitored under one roof by the Federal Government which should also be able to react to deviations promptly. So far, the government departments have not bundled their activities and act separately.

In addition, the Federal Government needs to create a legal and regulatory framework to protect critical infrastructures more effectively. The Government has to ensure that the competent supervisory authorities are able to fulfil their duties immediately.

Establish an effective cyber security architecture

Germany needs a robust cyber security architecture with a central authority as control and monitoring instance to respond to severe cyber incidents. The Federal Government has to critically question the role of the National Cyber Response Centre with regard to cyber defence. Germany cannot afford duplication and redundant structures in view of intensive threats and tightly limited resources.

Securing data centres and networks

For many years, the federal data centres have been showing severe security weaknesses. If the data centres fail or are interrupted in the long run due to cyber attacks, this is a heavy blow for the functionality of state and government.

It is also vital that the Federal Government assumes responsibility beyond its own IT: The data infrastructure is an essential prerequisite for a well-functioning society and economy and a guarantee for prosperity. The Federal Government has to ensure that data lines, transmitter masts and distributors are permanently available and efficient. In case of an internal and external emergency, the Federal Government must be able to secure and defend this infrastructure .

“Cyber security protects the increasingly interconnected world we live in – that is why the economy, government and society need a secure cyber space.

Crisis as a permanent challenge: Make the state more resilient

Health, security, environment and public infrastructure are increasingly jeopardised by natural disasters and hybrid dangers. Therefore, the existing tools for preventing and managing crises need to be scrutinised. If need be, the Federal Government must be able to act without being restrained by the federal system.

The Federal Government needs to be better prepared for hybrid dangers and natural disasters …

Natural disasters like floods or pandemics, cyber attacks on hospitals or the destruction of submarine cables: Government and society are increasingly exposed to a wide range of challenges. Hence, the Government has to become more resilient so that it is able to fulfil its public core functions also in case of "emergency".

The protection of critical infrastructures is of utmost urgency. Suppliers and providers of essential goods and services as for example in the areas of energy, water, food, health, communication and transport should know the risks in their sectors and protect themselves as best as possible. There is still no legal and regulatory framework that stipulates physical protection. So far, Germany has not been able to implement the provisions of European Union law on the protection of critical infrastructures. This must be done quickly.

… and be clear and able to act also in the federal structures

The funding of civil protection measures has been facilitated by the debt rule exception decided in March 2025, but more money alone does not help. It is particularly important to create structures that effectively meet the increased need for information and coordination in crisis prevention and management.

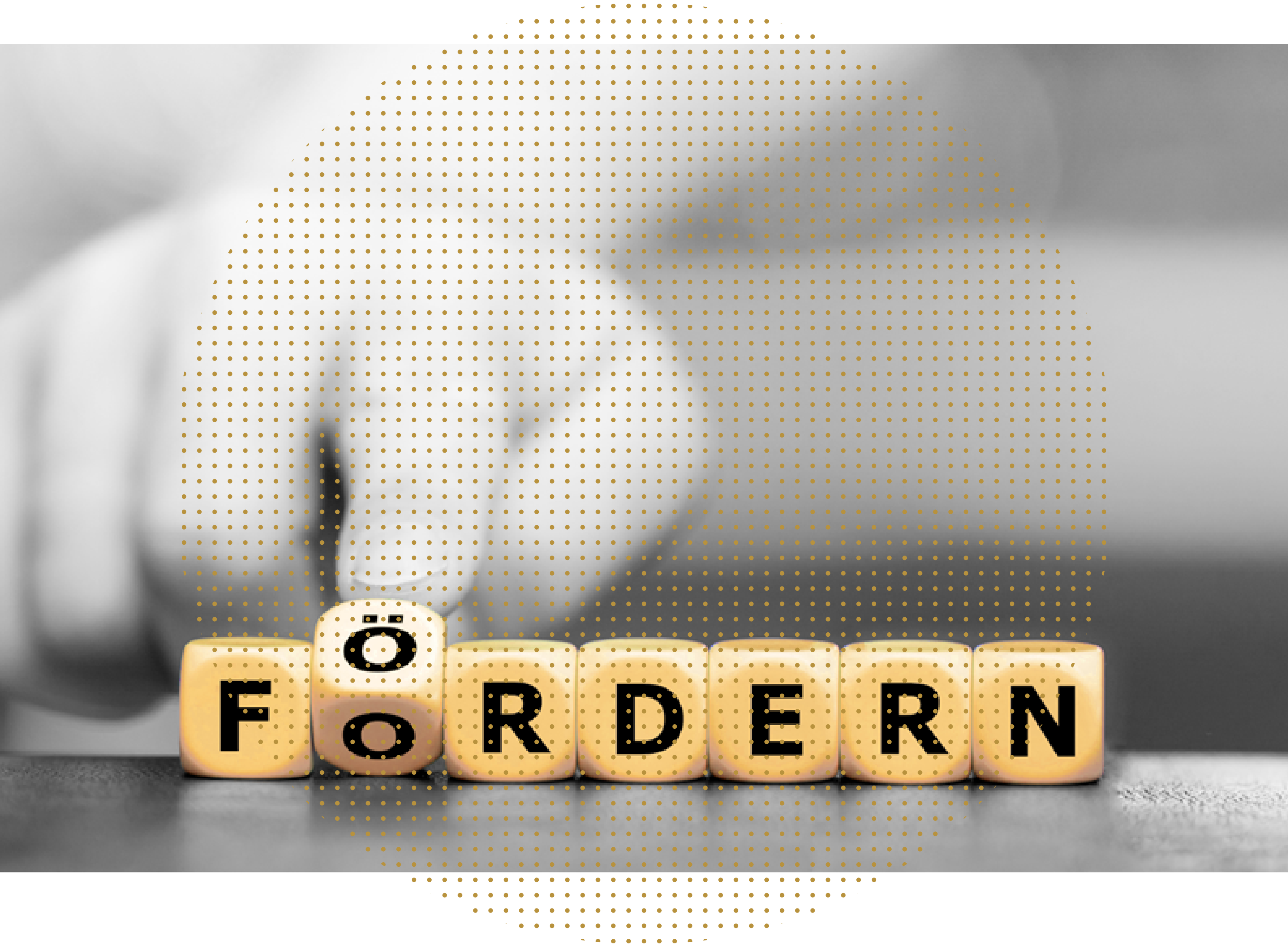
The Federal Government is often lacking an overall view – despite its national responsibility. The absence of reporting obligations, for example, leads to an incomplete overview of the supply situation of medicines. Preventive action should avoid a fragmentation of knowledge and a patchwork of different information systems (isolated solutions).

A national crisis mechanism is necessary to ensure consistent decisions of crisis management and its rapid implementation at all levels

The COVID-19 pandemic, the energy crisis and numerous natural disasters have shown a lack of cross-governmental decision-making structures that ensure an overarching coordination. But it is characteristic for crises that all government levels (Federation, federal states and municipalities) as well as private relief organisations have to be involved smoothly without delays.

Together with the federal states, the Federal Government should lay the constitutional and non-constitutional foundations to establish a flexible, adaptive national crisis mechanism that allows for an effective and consistent crisis management. In the end, it does not matter who or what caused the crisis or where it hits the hardest, but that all government actors and relief organisations manage the crisis as quickly and effectively as possible with joint forces.

Recognise opportunities of change, use labour market potentials, better plan and steer allocation of funds



On the labour market, especially demography, digital transformation and decreasing industrial value creation lead to pressure for change. Furthermore, the economic and budget situation is tense. Supporting services have to advance this change effectively and on the basis of efficient approaches.

Better reconcile labour market needs with employment potentials

Qualified specialists are essential for sustainable enterprises. However, supply and demand on the labour market often do not fit together. Too little use is made of the potential of older people, women and immigrants, for example. In the area of labour migration, enterprises complain about too many actors and protracted processes. In this context, interfaces need to be reduced, processes need to be enhanced and opportunities of the digital transformation need to be used consistently.

Make realistic plans and act efficiently

The basic income support for jobseekers commits a considerable amount of federal funds. Most recently, they were significantly higher than budgeted. In order to still achieve consolidation goals for the federal budget, the Federal Government transferred important employment promotion tasks from the job centres to the Federal Employment Agency. The Federal Employment Agency has to use more contributions for this purpose than the Federal Government saves taxpayers' money. The Federal Employment Agency has low reserves after the pandemic. It lacks financial leeway to assume further tasks. In the future, the Federal Government needs to make realistic plans and ensure efficient solutions.

Balance between supporting and demanding

In order for jobseekers to find employment and to overcome the dependency on government benefits, targeted support is often required. At the same time, jobseekers are demanded to actively contribute to this objective. Audits conducted by the Bundesrechnungshof show: The balance between the two aspects has shifted. It is now not always clear which own efforts can be expected from citizen's benefit recipients. It must be ensured that supporting and demanding provide the best synergy. If not, there is the risk of inappropriate incentives and the taxpayers' money used is ineffective.

Reshape government control

The Federal Government funds the majority of the local government tasks in the basic income support for jobseekers. In doing so, the Federal Government cannot always steer and monitor. This leads to inappropriate incentives, e.g. for accommodation costs. In this case, the federal states sometimes settled the costs to the detriment of the Federal Government. Furthermore, in a quarter of the job centres (authorised local agencies), the Federal Government does not have any rights to issue instructions and to exercise oversight. Instead, the Federal Government relies on cooperative behaviour. For example, the authorised local agencies did not fully implement the federal "job turbo" initiative. Who pays also needs to (be able to) steer and monitor to ensure that the funds are used efficiently and effectively.

The time is pressing. The pay-as-you-go pension system reaches its limits. The financial problems of the pension system need to be solved.

The pension insurance system faces considerable financial problems because of the demographic change. The benefit extensions of the last years aggravate the financial difficulties substantially. The new Federal Government finally needs to take action: The burden needs to be shared in a fair and sustainable manner among pensioners, contributors and the Federal Government, that is the taxpayers.

Imbalance in the system

On the one hand, the demographic development in Germany leads to more pensioners and longer periods during which retirees receive pension benefits. On the other hand, there will be fewer contributors. The expected strong increase in financial needs, while revenue will not rise in the same amount, can only be managed when the burden is evenly distributed among everyone.

Benefit extensions at the expense of younger generations

Despite being fully aware of these problems, the legislator has extended pension benefits on a large scale since 2014: Mothers' pension I and II, extension of the supplementary period I, II and III, retirement at the age of 63, double backstop and contribution rate guarantee, harmonisation of the pension systems of Germany's eastern and western states and basic pension. These benefit extensions place an additional burden on the already strained system.

Inactivity aggravates the situation

The problem will not solve itself. Government and Parliament have so far not taken sustainable approaches for the statutory pension insurance system. On the contrary: By means of the retirement income package II, the last Federal Government tried to implement further benefit extensions. The Federal Government intended to extend the effect of the backstop of 48 per cent for the pension level until the middle of 2040. This would have been done at the expense of the contributors and the Federal Government as well as younger and future generations.

Solutions are on the table

The time has come to create a stable basis for the finances of the pension system in the long term since some solutions have already been on the table for years. It is imperative to make moderate adjustments to the pension insurance system already in place and thus create a sustainable reform package.

However, more and more federal grants – and higher amounts – to close the funding gap cannot be a lasting solution. This would not only contradict the concept of a pay-as-you-go pension system but would simply be too much for the federal budget.

Parliament and Government need to make the long overdue decisions for a sustainable and stable pension insurance system during the current legislative term which has just started. It comes the phase with a considerably increasing contribution rate! It is already clear: Pre-election promises for older generations at the expense of younger generations such as the constant pension level of 48 per cent until 2040 will not solve the problems but aggravate them.

Exploding expenditure and health care problems – this situation must change

Expenditure increases considerably, revenue can hardly keep up, reserves are exhausted, medical care is stuck in rigid structures – Germany's health and long-term care insurance system needs sustainable reforms. The goal must be to provide efficient and high-quality health care to the insured persons.

Sustainably consolidate the financial situation

The finances of the statutory health and long-term care insurance system are under huge pressure. Germany affords one of the most expensive health care systems in the world. Last year, benefit payments increased by 8.2 per cent compared to the previous year, especially payments for pharmaceuticals and hospital treatments. The additional contribution for insured persons with which health insurance funds cover the growing gap between revenue and expenditure was almost doubled in the last three years. The long-term care insurance fund is not doing any better. Its contribution rate has had to be increased twice since 2023. The next increase should follow soon.

Germany has accepted fundamental weaknesses of its health insurance system for too long. The Government addressed rises in expenditure by means of increased contributions and reserves. During the COVID-19 pandemic, the Federal Government concealed structural problems which fell within the remit of the federal states by providing tens of billions of euros of federal and contribution funds.

Tackle reforms

The politics of plenty are over. Radical reforms which are strictly oriented towards the medical care of insured persons are required. It is no solution to abolish expenditure control instruments such as fee limitations for physicians without clearly improving the medical care of insured persons. It will not be enough to just broaden the revenue base as long as there are no reforms on the spending side. Our health care system requires solutions for future challenges which go beyond the next legislative term. The long-awaited care reform needs to be addressed at last.

Focus on the insured persons

The insured persons take centre stage. It remains a permanent task to provide the best medical care while ensuring affordable contributions. The problems of an ageing society, of the rapid medical advances and of the growing shortage of physicians and care workers need to be addressed resolutely.

Therefore, the agreed hospital reform needs to be implemented systematically. Its quality-driven approach pursues the goal of reducing excess capacity and mere profit orientation. This deserves support. Cross-sector care needs to be strengthened further. The separation of the out-patient and in-patient sectors in Germany is an inefficient vestige of the past that encourages inappropriate treatment and needs to be overcome. In doing so, opportunities arising from the digital transformation are to be used.

It is high time for effective climate action

With 1.6 degree Celsius above the pre-industrial reference period, 2024 was worldwide the warmest year since the start of temperature recording. It was thus above the 1.5-degree target of the Paris Agreement. The time for effective climate action is pressing. Germany intends and needs to make its contribution by taking ambitious action.

Germany cannot keep pace with its climate targets

From today's perspective, Germany will significantly miss its target of greenhouse gas neutrality until 2045 – also its European climate targets for 2030. Germany is likely to considerably exceed the greenhouse gas reduction targets in the transport and building sectors. This does not only damage people and nature but also means fines of billions of euros for the Federal Government.

Effectively and efficiently steer climate action measures

Since 2021, the Bundesrechnungshof has provided numerous recommendations on how the Federal Government may enhance its performance in terms of climate action and energy transition. However, the Federal Government has so far not taken up key recommendations.

For example, the Federal Government still lacks key information to effectively and efficiently steer climate action: Even today, the Federal Government does still not know how much money the Government spends on climate action in total and what funds it requires to achieve Germany's climate targets. The Federal Government does not have a comprehensive overview of its climate-friendly, climate-damaging and climate-neutral expenditure and revenue as a climate budget would give. In most of the measures, the benefit for the climate is not clear. At the same time, the Federal Government only rarely knows what the costs are to save a tonne of greenhouse gas emissions and therefore is not aware of the greenhouse gas funding efficiency of many measures.

Make energy supply secure, affordable and environmentally sustainable

Energy transition as a key element of greenhouse gas neutrality faces enormous challenges: Electricity is already expensive in Germany today, security of supply is jeopardised in the medium term and the Federal Government does not record the environmental impact of the energy system.

Even though the increase in renewable energies gathers momentum, it is still unclear whether the statutory expansion targets will be achieved. At the same time, the Federal Government needs to effectively address enormous challenges: How does the Federal Government ensure the synchronous expansion of grids, storage facilities and secured power plant capacity to make the coal phaseout a success? Which role can hydrogen realistically play in the energy system of the future? The Federal Government also needs to finally assess the energy transition's impact on the landscape, nature and environment. Furthermore, it is crucial to the business location and the acceptance of the energy transition that the transformation costs are clearly stated and allocated in a socially acceptable way.

Implement effective measures now

In order to make best use of the remaining years until 2030, climate action and energy transition need to be steered in a clear and effective way. To that end, the Federal Government needs an overall approach as to how and when which measures take effect for more climate action and the implementation of the energy transition.

Photo credits | Imprint

Federal budget: “Geöffneter Tresorraum”,
Photo by john, AdobeStock

Fiscal relations between the Federal Government and the federal states: “Scenic evening view Weidendammer bridge street and yellow tram train bridge in Berlin Mitte”,
Photo by Kirill Gorlov, AdobeStock

Revenue: “Finanzamt – historisches Gebäude”,
Photo by BlackForest70, Adobe Stock

Germany’s Armed Forces: “Jagdjets im Einsatz”,
Photo by Mathias Weil, AdobeStock

Transport: “Viadukt spanning over Ruhr river valley near Essen-Kettwig and Mülheim”,
Photo by ON-Photography, AdobeStock

Digital transformation: “Woman typing on laptop, glowing electronic document files and digital signature”,
Photo by Image Flow, AdobeStock

Cyber security: “Male IT engineer works on a laptop at the end of a corridor in a Big Data center”,
Photo by Gorodenkoff, AdobeStock

Resilience: “Frau im Hochwasser”,
Photo by Jürgen Fälchle, AdobeStock

Labour: “Fordern und fördern”,
Photo by Frank H., AdobeStock

Pension: “Lake, nature and grandfather fishing with a child”,
Photo by Allistair/peopleimages.com, AdobeStock

Health and care system: “Ein medizinisches Stethoskop liegt auf vielen Euro Banknoten”,
Photo by Wolfilser, AdobeStock

Climate action: “Earth at night and the light of cities. Middle East”,
Photo by Anton Balazh, AdobeStock

All photos edited by the Bundesrechnungshof.

Published by:

The President of the Bundesrechnungshof in his ex officio capacity as Federal Performance Commissioner, 53113 Bonn

Editorial deadline: 25 June 2025

Layout, graphics:
Bundesrechnungshof

Results of the audit and advisory work on all impulses can be found on the **website of the Bundesrechnungshof**.