

Ordinance on the Procedure for Determining the Cyclical Component under Section 5 of the Article 115 Act (Article 115 Ordinance)¹

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Full citation:

Article 115 Ordinance of 9 June 2010 (Federal Law Gazette I, p. 790)

Section 1 – Purpose of this Ordinance

This Ordinance shall govern determination of the cyclical component in the case of preparing the federal budget under section 2 subsection (2) of the Act,² in the case of supplements to the Budget Act³ under section 8, third sentence, of the Act, and following the end of the fiscal year under section 7 subsection (1), first sentence, of the Act.

Section 2 – Determining the cyclical component in the case of preparing the budget

(1) The cyclical component for preparation of the budget (section 2 subsection (2) of the Act in conjunction with section 5 of the Act) shall be calculated by multiplying the output gap determined under subsection (2) below with the budget sensitivity determined under subsection (3) below.

(2) To determine the output gap as the difference between GDP and potential output (section 5 subsection (2) of the Act), the potential output which corresponds to the gross domestic product achievable when production factors are utilised at normal capacity shall be estimated. The estimate shall be made in conformity with the method applied within the framework of budgetary surveillance under the European Stability and Growth Pact using a Cobb-Douglas aggregate production function. The production function yields the potential output as a

¹ This working translation of the *Verordnung über das Verfahren zur Bestimmung der Konjunkturkomponente nach § 5 des Artikel 115-Gesetzes (Artikel 115-Verordnung – Art115V)* is provided by the Language Service of the Federal Ministry of Finance. Only the German text of this Ordinance is authentic.

² Translator's note: the term "Act" refers to the "Article 115 Act" in the title of the Ordinance

³ *Haushaltsgesetz*

combination of labour and capital stock production factors utilised at normal capacity, multiplied by the total-factor productivity trend as a measure of the technological progress under normal capacity utilisation.

(3) The budget sensitivity (section 5 subsection (3) of the Act) shall cover the cyclically induced change in the Federation's financial balance in relation to gross domestic product if gross domestic product deviates from the potential output by one percent. Budget sensitivity shall be calculated as the sum, weighted with the federal shares of the cyclically dependent general-government budget revenues and expenditures, of the partial elasticities of the general-government budget sensitivity which is also used in the budgetary surveillance method under the European Stability and Growth Pact.

(4) The base of data for determining the cyclical component shall be the national account figures from the Federal Statistical Office as well as the current overall economic forecast from the Federal Government for the short and medium term.

Section 3 – Determining the cyclical component after closing the budget

When determining the deviation to be booked to the control account under section 7 of the Act, the economic trend's effect on the budget shall be taken as the basis for calculating permissible borrowing (cyclical component after closing the budget). For this purpose, the cyclical component determined at the time of preparing the budget under section 2 shall be adjusted to the actual economic trend by correcting, for the respective fiscal year, the output gap which was determined at the time of preparing the budget. The correction shall be made on the basis of the difference between the change in gross domestic product established by the Federal Statistical Office at the time of booking the entry on the control account and the change in gross domestic product expected at the time of preparing the budget.

Section 4 – Determining the cyclical component in the case of supplements to the Budget

Act

In the case of supplements to the Budget Act under section 8, third sentence, of the Act, the cyclical component determined under section 2 at the time of preparing the budget shall be adjusted to the assessment, which has meanwhile been amended, of the overall economic trend in the fiscal year by correcting the output gap determined at the time of preparing the budget by the amount of the difference between the change in gross domestic product in the

fiscal year expected at the time of preparing the supplementary budget and the change in the gross domestic product in the fiscal year expected at the time of preparing the budget.

Section 5 – Entry into force

This Ordinance shall enter into force on the day after its promulgation.