

Municipal Finance in Germany – Caught between Investment Needs and Transformation Pressures

Speaker:

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Land Acknowledgement

We wish to acknowledge this land on which the University of Toronto operates. For thousands of years it has been the traditional lands of the Huron-Wendat, the Seneca, and most recently, the Mississaugas of the Credit. Today, this meeting place is still the home to many Indigenous people from across Turtle Island and we are grateful to have the opportunity to work on this land.

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Institute on Municipal Finance and Governance
University of Toronto

November 4th, 2025

Deutsches Institut für Urbanistik

Dr. Henrik Scheller

Agenda

- German Institute on Urban Affairs (Difu)
- Financial situation of German municipalities
- Financial needs for the transition (energy transition, climate mitigation and adaptation, etc.)
- Challenges and instruments for financing the transition
- Difu's contribution in supporting the municipal transition
- Conclusion and outlook

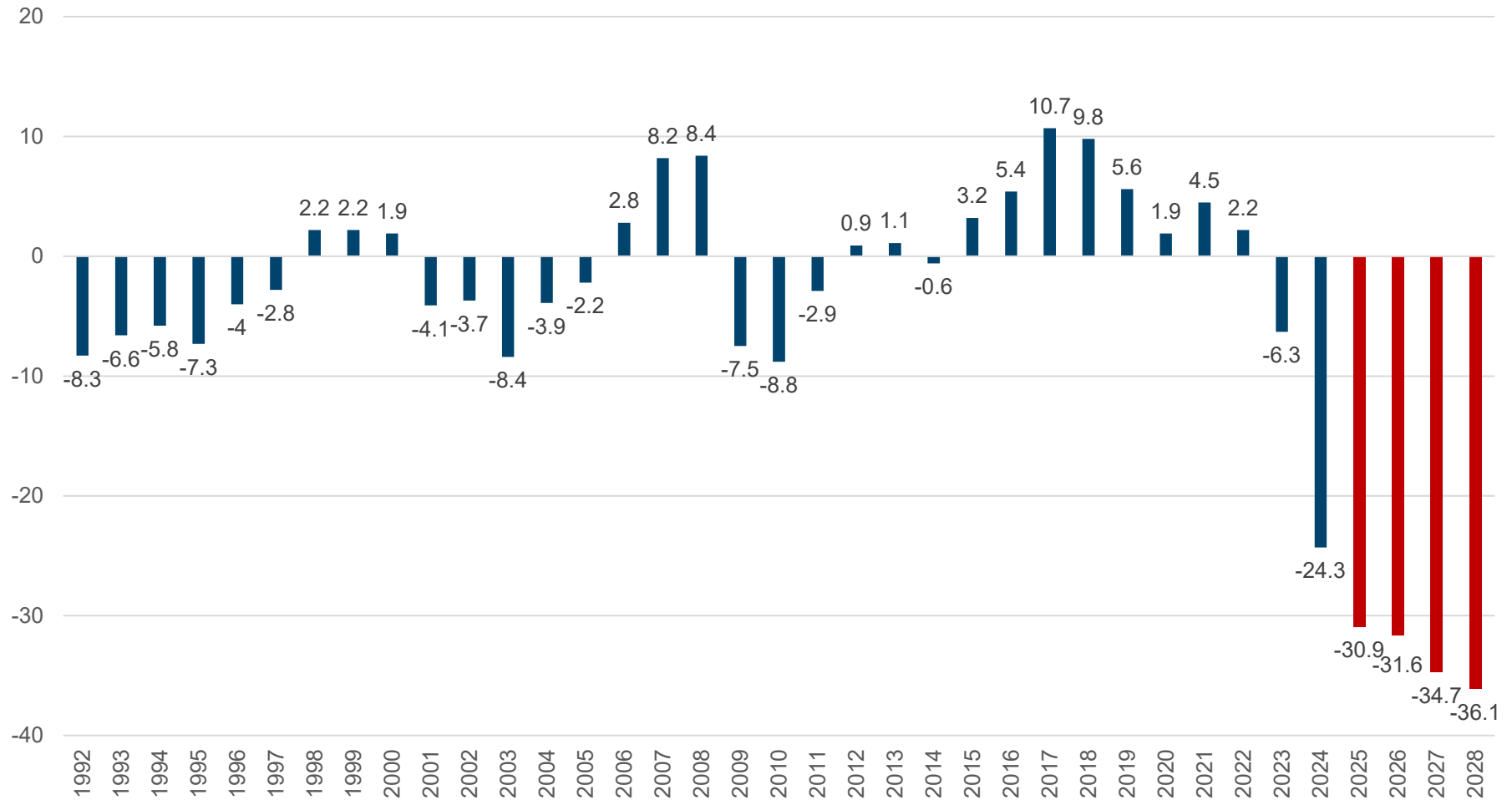
Fact Sheet: German Institute on Urban Affairs (Difu)

- Founded in 1973 by the *Association of German Cities*
- 75% third-party funded (federal and state ministries, foundations, NGOs)
- 100+ contributing cities
- 4 research departments + seminar division
- around 200 employees
- Application-oriented research for urban development
- politically neutral
- Mission: *Sustainable and cooperative cities*



Financial distress: Budget balances of municipalities

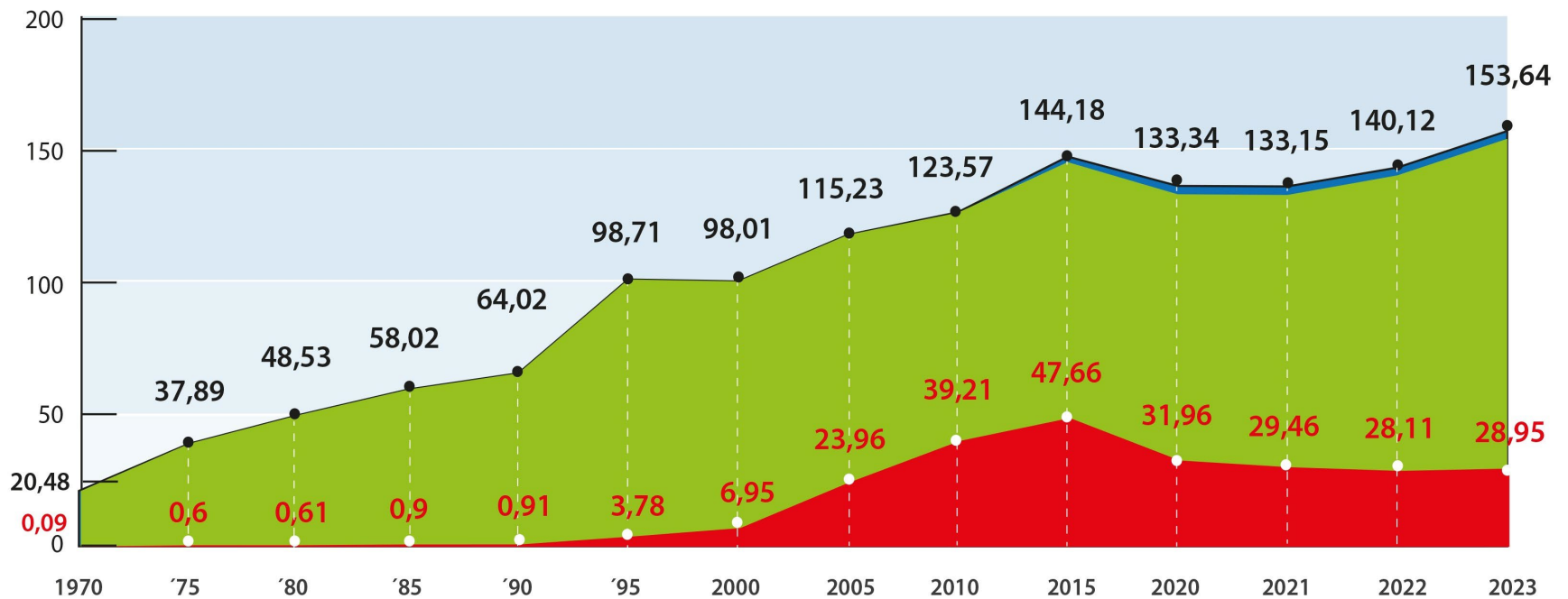
Core budgets, 1992–2028



Trends in municipal debt 1970–2023

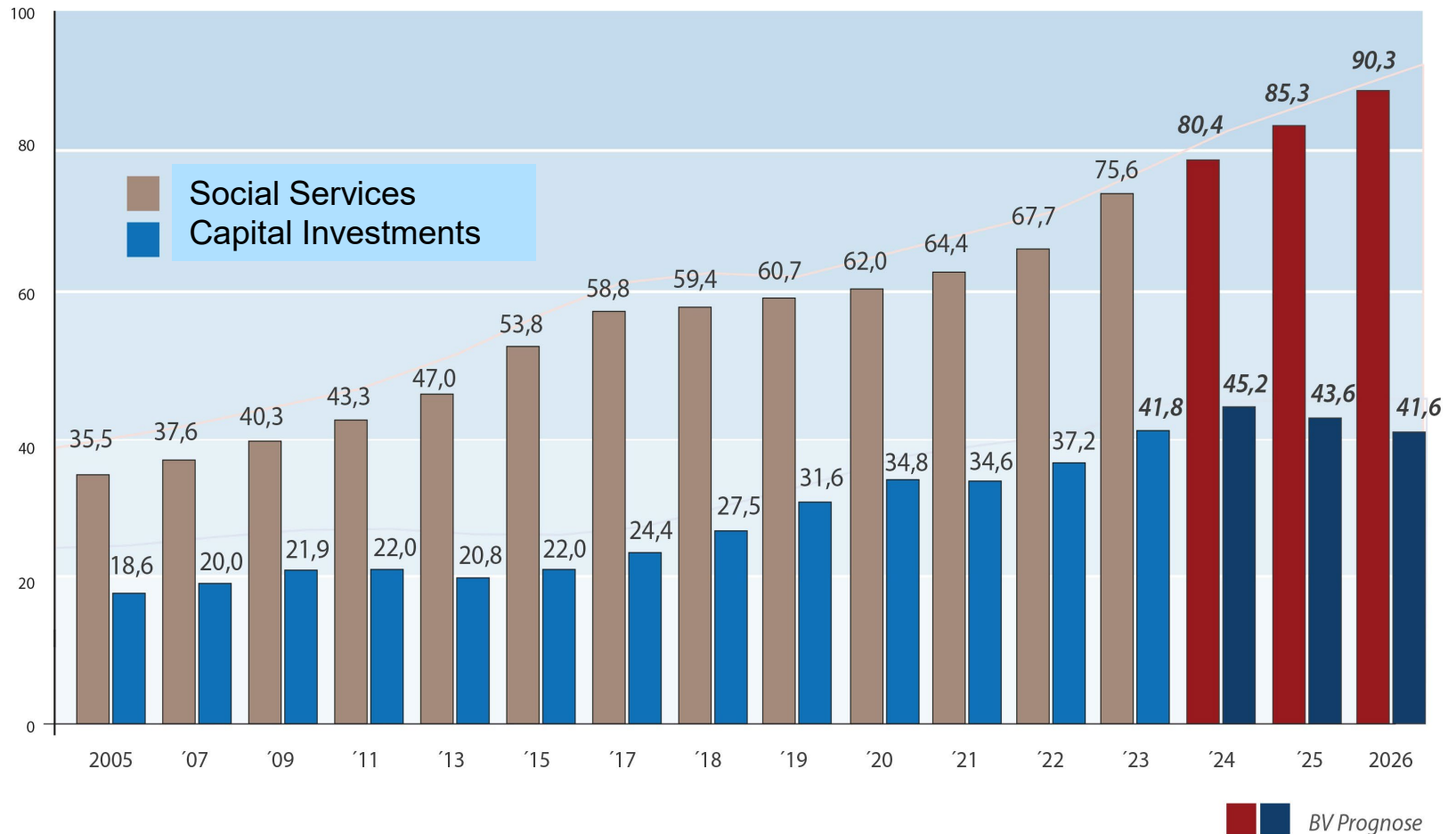
- Total
- Debt securities
- Investment loans
- Short-term liquidity loans

* Kern- & Extrahaushalte



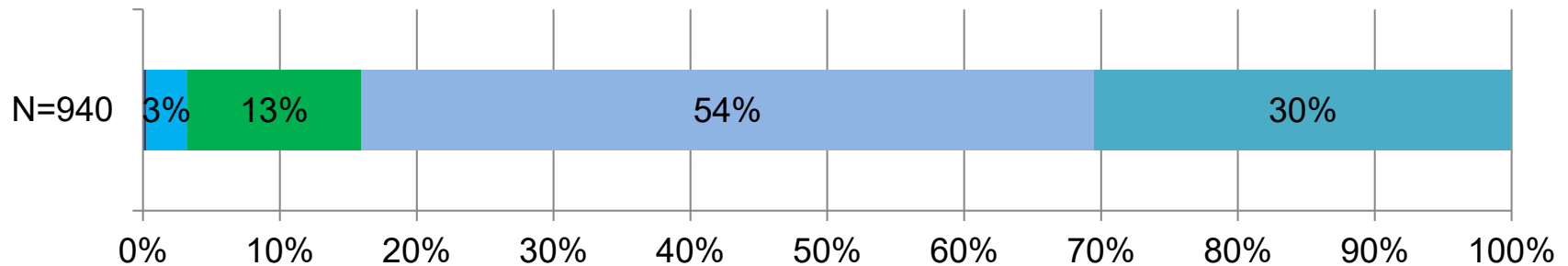
Quelle: Statistisches Bundesamt; Grafik: DStGB 2024

Municipal spending on social welfare and investments 2005–2026

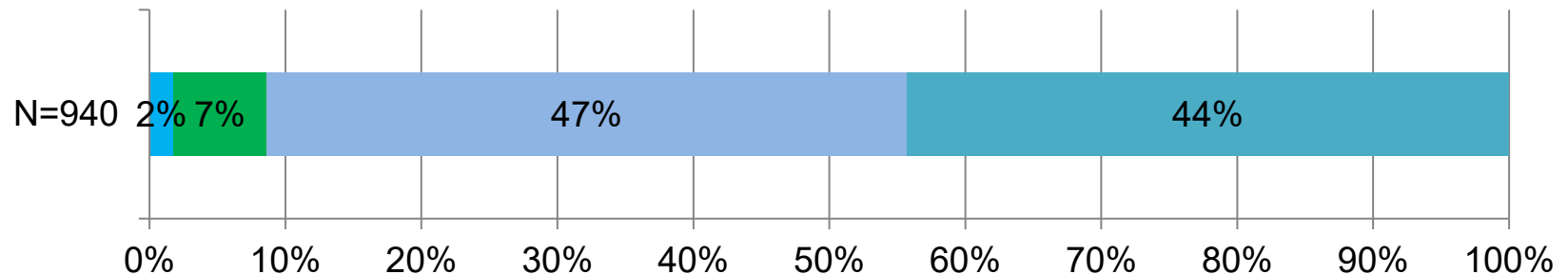


Assessment of the future financial situation

...in the coming fiscal year (2025)



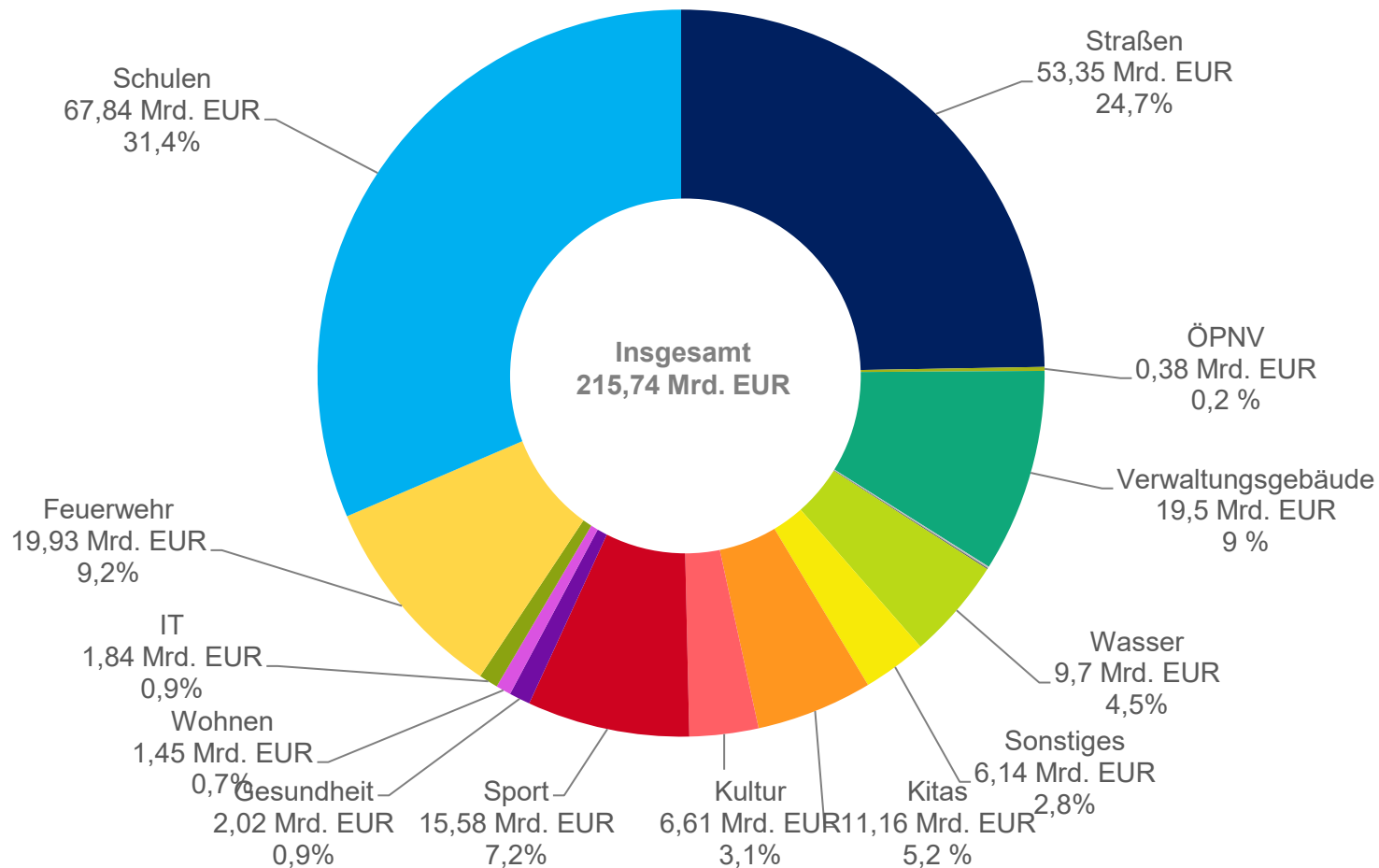
...in the next five years



Very beneficial – Somewhat beneficial – Neutral – Somewhat detrimental – Very detrimental

Perceived investment backlog

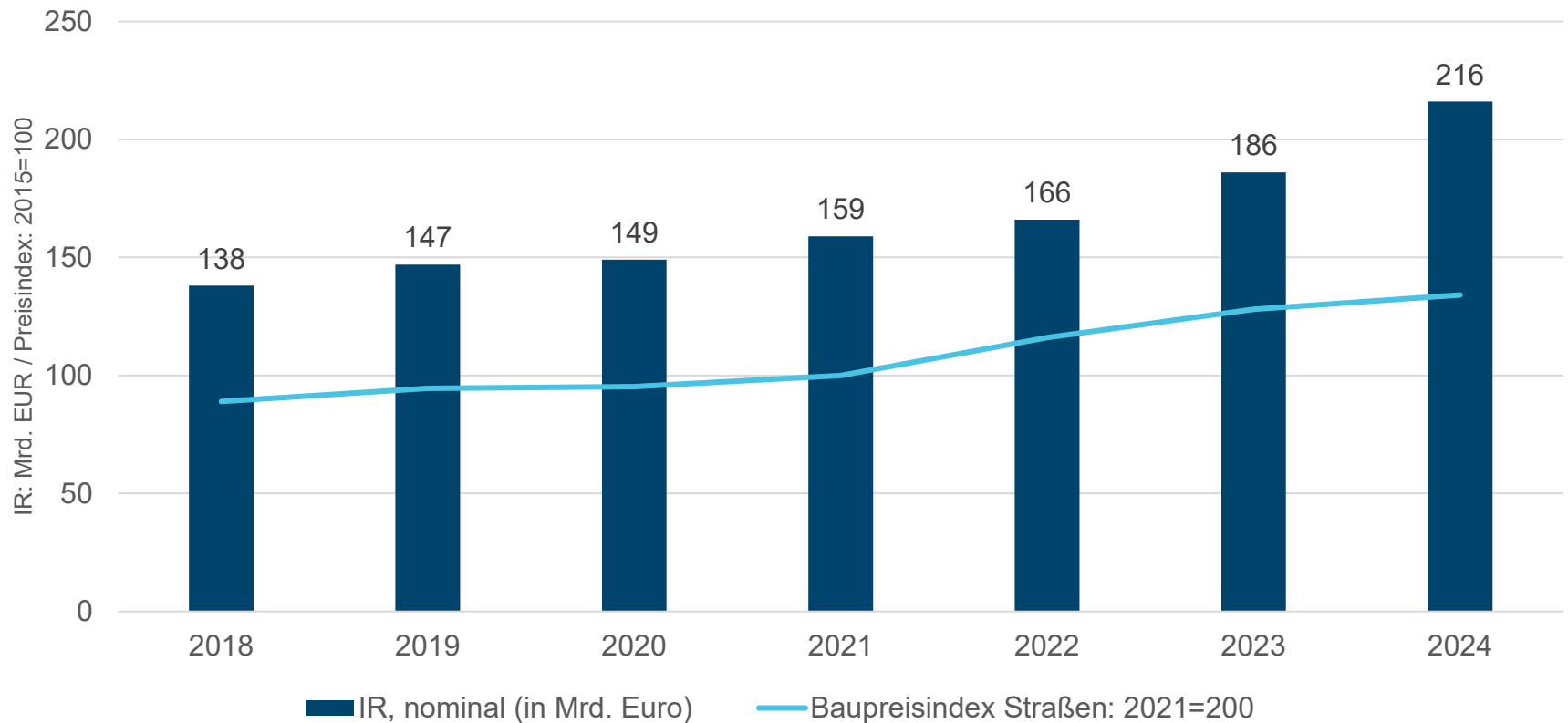
Total: €215.7 billion (increase of €29.6 billion or 15.9% compared to the previous year)



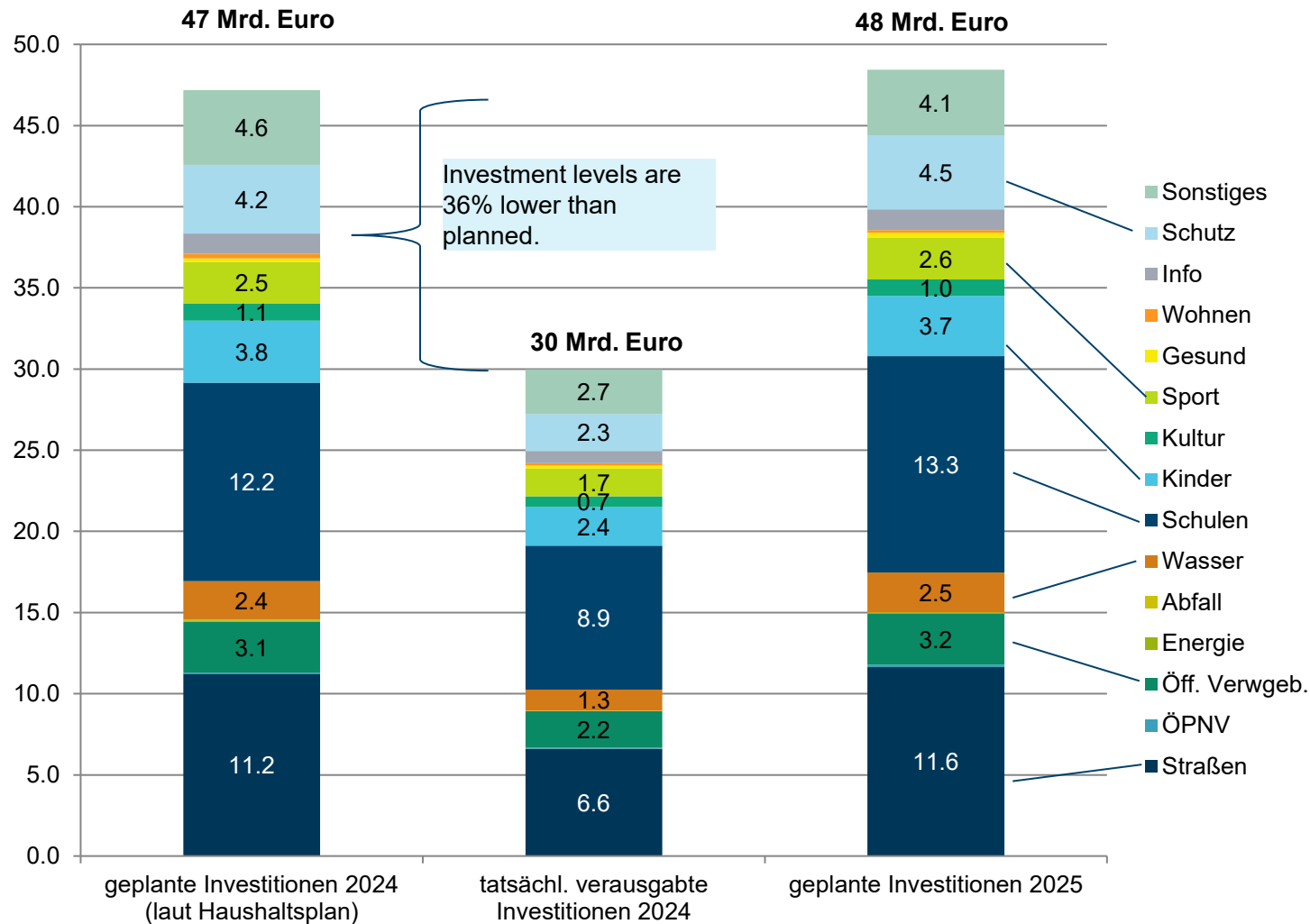
Quelle: KfW-Kommunalpanel 2025, durchgeführt vom Difu Jan. bis März 2025.

Perceived investment backlog over time since 2009 (nominal and real)

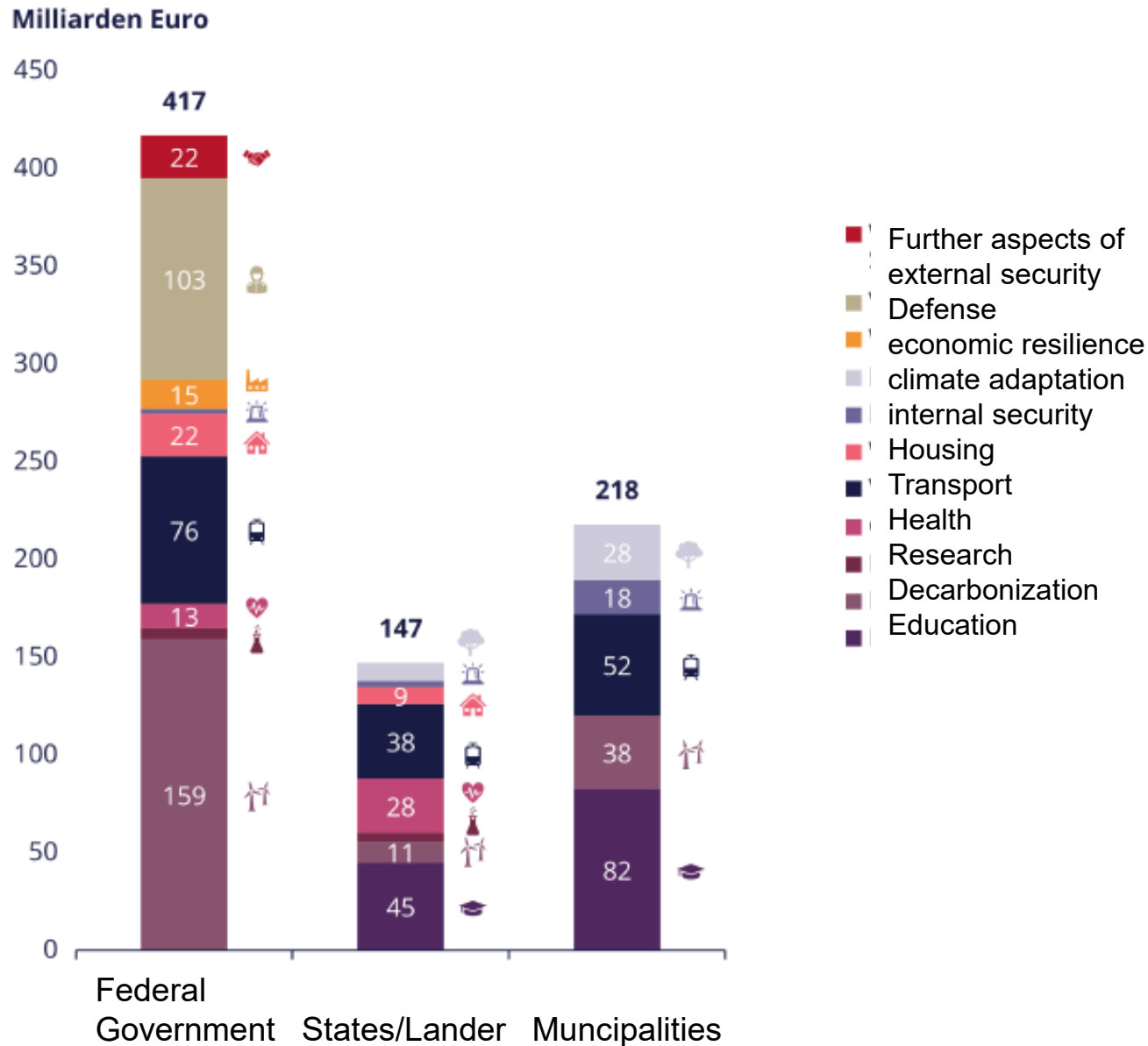
Comparing this to the rise in construction costs (specifically for roads) indicates that the nominal increase in the perceived investment backlog has tracked construction cost developments fairly closely since 2018.



Planned and actual investments: Projection



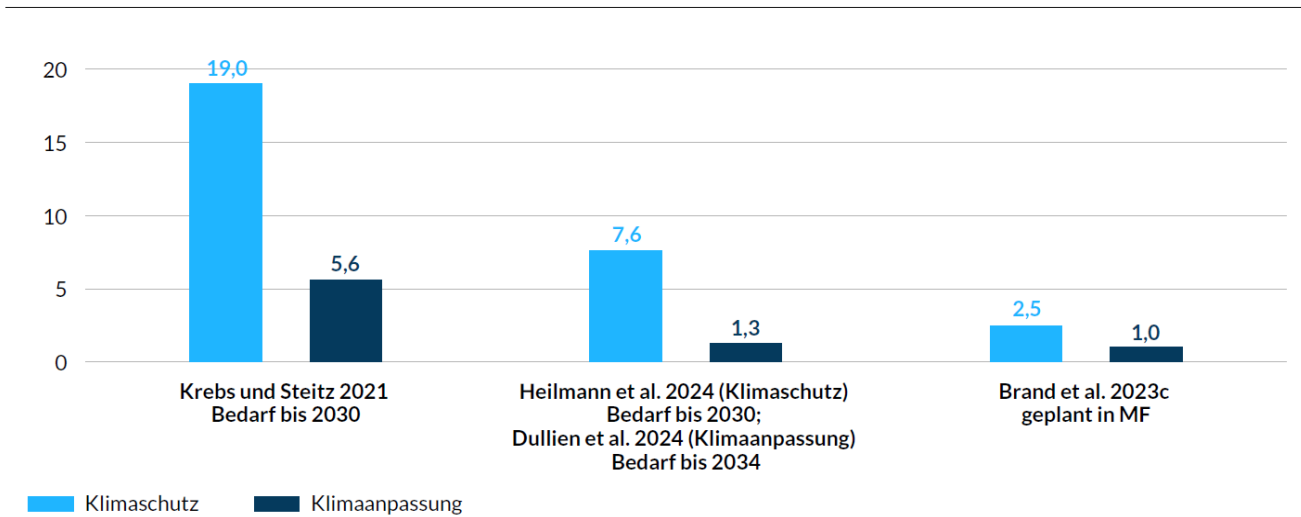
Future investment needs for the transition until 2030



Local investment needs for climate mitigation and adaptation

Core Budget of the Municipalities

Abbildung 34 | Jährliche kommunale Investitionsbedarfe in Klimaanpassung und Klimaschutz auf Basis vorliegender Studien, in Mrd. Euro



Quelle: Eigene Darstellung.

| BertelsmannStiftung

Publicly owned companies

Energy transition: According to associations of the municipal economy, transforming the energy and heating infrastructure will require investments of around **€721 billion by 2030** and **€1.2 trillion by 2035**.

Current challenges of municipal finance

Challenge 1: Municipalities and public enterprises are unable to meet existing investment needs through their own funds.

Challenge 2: Debt financing is also limited because...

- **on the side of banks**, regulatory and balance sheet constraints limit their ability to issue traditional loans at the required scale.
- **on the side of municipalities**, borrowing is subject to regulatory restrictions — particularly for municipalities under budgetary supervision (“Haushaltssicherung”).
- **on the side of public enterprises**, high levels of debt financing would reduce equity ratios, impairing debt sustainability.

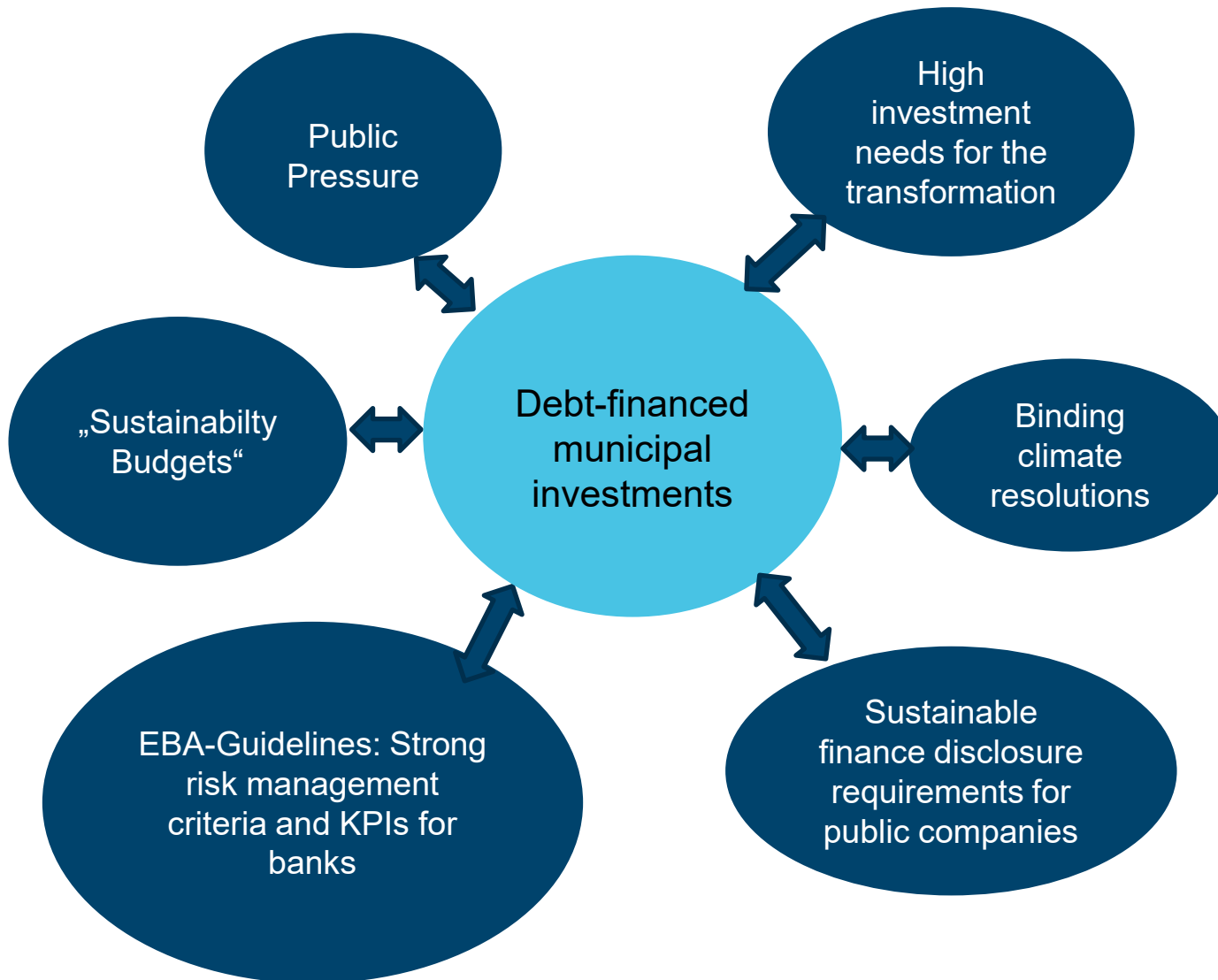
Challenge 3: As a result, financing models that mobilize private capital will gain in importance in the future.

At the same time, sustainability disclosure requirements of debt-financed municipal investments is becoming increasingly relevant.

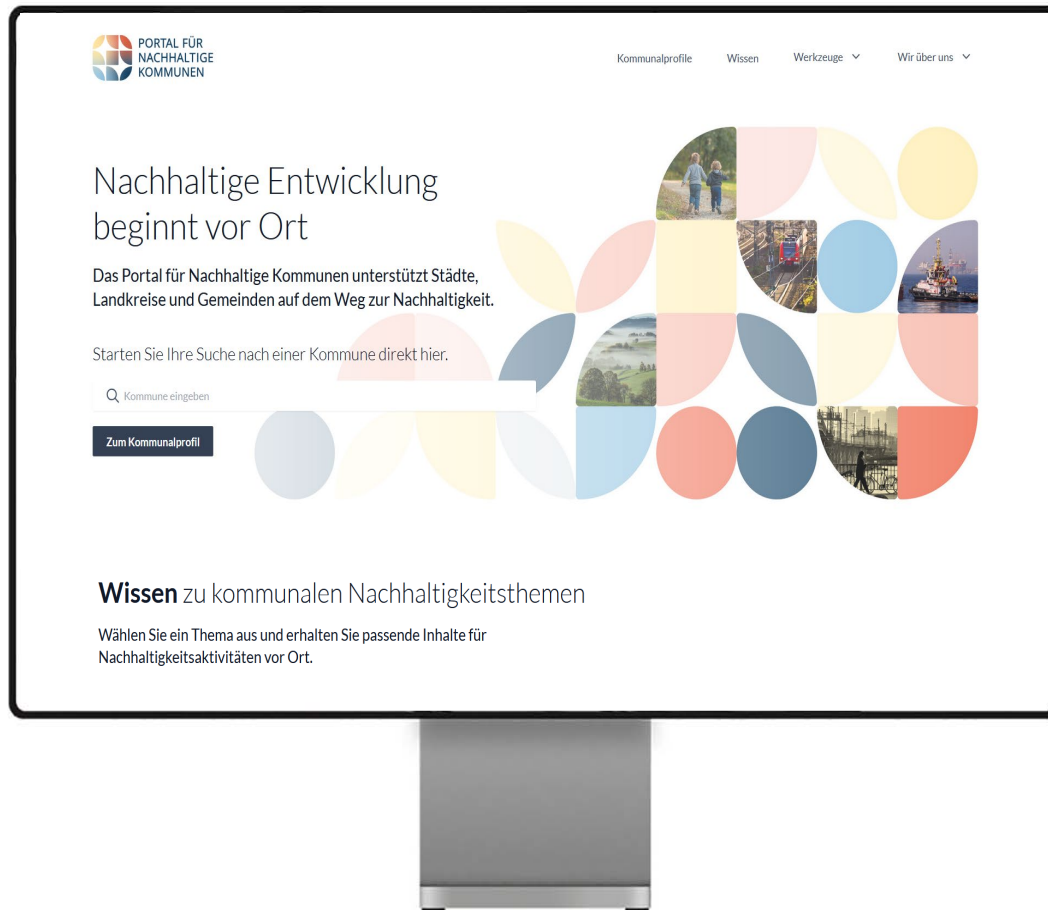
Examples of financing approaches for the transition

- **Green bonds** issued by (development) banks to refinance green promotional loans
- **Equity financing** of public enterprises (e.g., through fund-based models)
- **Citizen participation models** (e.g., energy cooperatives)
- **Capital market instruments** (e.g., municipal bonds)

New sustainability disclosure requirements for the financial management within the 'Municipal Group'



Digital platform for sustainable municipalities



- Provision of various digital tools (sustainability budgeting, sustainability reporting, sustainability check, etc.)
- Integration with a digital platform for loan facilitation (?)
- Preparation of sustainability certifications for debt-financed investment projects
- Provision of dashboards to monitor long-term progress on the SDGs
- Provision of tools for projecting climate impacts

Conclusion and outlook

- German municipalities are facing a substantial investment backlog
- Growing financial needs for social-ecological transformation
→ increasing demands for sustainability disclosure
- Sustainability expectations remain strong despite general backlash (driven by EU Sustainable Finance regulations & EBA guidelines)
- Legal framework for municipal financing needs flexibility to enable innovative approaches.

Thanks for your Attention!

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