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COMMISSION OPINION

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on the Draft Budgetary Plan of GERMANY

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.

2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING GERMANY

3. On the basis of the Draft Budgetary Plan for 2015 submitted on 10 October 2014 by Germany, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Germany is subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium-term objective. As the debt-to-GDP ratio was 77.6% in 2011 (the year in which Germany corrected its excessive deficit), exceeding the 60% reference value, during the three years following the correction of the excessive deficit, Germany is subject to the transitional arrangements as regards compliance with the debt reduction benchmark. In this period, it should ensure sufficient progress towards compliance until the end of 2014. Following the transitional period, Germany needs to comply with the debt reduction benchmark as of 2015.

5. The macroeconomic scenario underlying the Draft Budgetary Plan, which is based on the spring issue of the federal government's forecast published already in April, is broadly in line with the Stability Programme's macroeconomic scenario. However, given that further official statistics and worsened business cycle indicators became available after its publication, it describes a significantly more optimistic outlook for economic activity in 2014 and 2015 than the Commission 2014 autumn forecast, while differences in labour market projections are markedly less pronounced. Along with moderately higher potential growth estimates, the still negative but narrowing output gap estimate for 2015 underlying the Draft Budgetary Plan also diverges from the Commission output gap estimate, which further widens in 2015.

6. Regulation (EU) No 473/2013 requires the draft budget to be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic projections underlying the Draft Budgetary Plan are based on the federal government's own forecast, which has not been formally endorsed by an independent body. However, the federal government considers the independent Joint Economic Forecast issued twice a year by leading research institutes as a benchmark for its own forecasts.

7. The Draft Budgetary Plan confirms the target of a balanced general government budget in both 2014 and 2015 as projected in the Stability Programme. No significant changes in relation to the Stability Programme are planned in terms of overall revenue and expenditure ratios in 2015.

8. The budgetary targets for 2014 and 2015 are broadly in line with the Commission 2014 autumn forecast and appear overall realistic, also in view of broadly similar projections of a robust labour market that limits the adverse impact of the more pessimistic macroeconomic scenario of the Commission 2014 autumn forecast on revenue and expenditure.

9. The Draft Budgetary Plan projects a diminishing debt-to-GDP ratio in 2014 and 2015 thanks to the balanced budget, the denominator effect of GDP growth and the on-going winding up of ‘bad banks’. The debt level is now expected to be 2% of GDP lower in both years than planned in the Stability Programme, resulting in particular from statistical revisions due to the new accounting standard ESA 2010. The Commission 2014 autumn forecast projects the debt ratio to fall somewhat less strongly than the Draft Budgetary Plan as it does not factor in potential gains from the winding up of ‘bad banks’.

10. Compared to the Stability Programme, the Draft Budgetary Plan includes only the Act to enhance long-term care as additional fiscal measure for 2015. This is planned to have no major impact on overall revenue, expenditure and the budget balance.

11. The Draft Budgetary Plan does not include sufficient information to assess compliance with the transitional arrangements of the debt reduction benchmark. However, based on the Commission 2014 autumn forecast, the debt reduction benchmark is expected to be met at the end of the transition period in 2014, and it is also expected to be respected in 2015.

12. Germany registered a structural surplus of 0.6% of GDP in 2013, compared with its medium-term objective of a structural deficit not exceeding 0.5% of GDP, and thus overachieved the medium term objective. According to the information provided in the Draft Budgetary Plan, with a structural surplus of 0.6% and 0.5% of GDP, respectively, Germany is expected to continue to overachieve its medium-term budgetary objective in 2014 and 2015, which is confirmed by the Commission 2014 autumn forecast.

13. The Draft Budgetary Plan specifies reforms of long-term care and of the financing structure of the healthcare insurance, which aim to address the country-specific recommendation to increase the cost-effectiveness of public spending in these areas, but these measures could also further increase the tax wedge. This has been complemented by plans to foster investment in public infrastructure, such as by using funds more flexibly and further developing public private partnerships, and to enhance cooperation between the federation and the *Länder* in the area of science and research. However, these plans do not appear at this stage to be sufficiently specified and ambitious in view of the additional annual investment of ½ to 1% of GDP for the public sector as a whole over the coming years that the in-depth review of the German economy identified as necessary to maintain and modernise public infrastructure and remove specific bottlenecks.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany, which is currently under the preventive arm of the Stability and Growth Pact and subject to the transitional debt rule, is compliant with the provisions of the Stability

and Growth Pact. However, the sizeable fiscal space, the investment needs and the very low interest rates, which imply that the social returns largely outweigh the borrowing costs, leave scope to boost public investment.

Furthermore, Germany should ensure that an independent body in charge of producing or endorsing macroeconomic forecasts is in place.

The Commission is also of the opinion that Germany has made limited progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the 2014 European Semester and thus invites the authorities to accelerate implementation.

Done at Brussels, 28.11.2014

For the Commission
Pierre MOSCOVICI
Member of the Commission