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**Assessment of the 2014 national reform programme and stability programme for
GERMANY**

Accompanying the document

Recommendation for a COUNCIL RECOMMENDATION

**on Germany's 2014 national reform programme and delivering a Council opinion on
Germany's 2014 stability programme**

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EXECUTIVE SUMMARY

Germany's real GDP growth is projected to accelerate to 1.8% in 2014 with domestic demand expected to remain the key growth driver. Favourable financing conditions and dissipating uncertainty should underpin the gradual recovery in equipment investment, while the robust labour market and low interest rates should further support private consumption and housing investment. Although exports will likely regain momentum, this is expected to be outpaced by imports which are rising on the back of domestic demand. Unemployment is projected to see a further gradual decline. With energy prices falling, inflation is expected to decelerate to 1.1% in 2014, despite the upward pressure from core inflation that largely reflects increasing labour market tightness.

The new federal government is carrying out a number of reforms but overall, Germany has made limited progress in addressing the 2013 country-specific recommendations. It has maintained a sound fiscal position, but has made limited progress in enhancing the growth-friendliness of public expenditure and the tax system. The recent pension reform aims to improve pensions and early retirement conditions for certain groups, but puts an additional strain on the sustainability of the pension system and leads to increasing pension contributions and thus potentially to a higher tax wedge for the active labour force, including low-wage earners. Germany has made limited progress in improving incentives to work and the employability of workers. The government plans to introduce a general minimum wage of EUR 8.50 an hour, which could have a positive impact on wages at the low end of the distribution, and to increase the coverage of collective bargaining agreements. However, the effect of the new minimum wage on disposable income and domestic demand could be limited, especially over time, by its potential employment effects, its interactions with tax and benefit schemes, and its potential impact on prices. Moreover, the federal government has adopted a proposal for a revision of the Renewable Energy Act. If implemented in a timely and comprehensive manner, this would contribute to increase the cost-effectiveness of the support for renewable energies. The government has not taken significant measures to increase competition in the service and railway sectors.

The 2014 national reform programme announces Germany's plans to address shortcomings in relevant areas, but in some cases planned measures do not appear to address the challenges in a comprehensive way. To stimulate domestic sources of growth and increase potential growth, Germany needs to enhance the growth-friendliness of its public finances, raise labour supply and human capital, deal with the challenges posed by the transformation of the energy system (*Energiewende*), and raise investment and productivity.

- **Public finances:** Germany is in a sound fiscal position overall, but at the same time appears to have scope for enhancing the growth-friendliness of its public finances. Higher investment in public infrastructure and human capital, more cost-effective healthcare and long-term care and a more efficient tax system could contribute to raising potential growth, but new pension benefits put a strain on the sustainability of the pension system.
- **Labour market and education:** Demographic change is expected to affect Germany's potential growth and skills shortages are emerging in some regions and sectors. At the same time, unemployment in some regions remains relatively high and there is scope for increasing the work volume and education performance among certain groups.
- **Energy:** The *Energiewende* opens the door to new growth opportunities and helps reduce Germany's dependence on external energy sources, but also involves challenges in terms of potentially high economic costs and the need for additional

internal and cross-border infrastructure, and enhanced coordination with neighbouring countries.

- **Competition and productivity:** Barriers to competition persist in the service and railway sectors. Productivity growth in professional services is low. The EU-wide publication rate for public contracts is very low. Moreover, there is a need for further consolidation in the banking sector.
- **Domestic sources of growth:** The first in-depth review of Germany under the Macroeconomic Imbalances Procedure found that the country's current-account surplus is the result of an interplay of various factors and developments which resulted in muted domestic demand and a weaker growth performance than could have been attained with a more balanced growth pattern.

1. INTRODUCTION

In May 2013, the Commission proposed a set of country-specific recommendations (CSRs) for economic and structural reform policies for Germany. On the basis of these recommendations, the Council of the European Union adopted four country-specific recommendations in the form of a Council Recommendation in July 2013. These country-specific recommendations concerned public finances, the labour market, education, energy, public procurement and the service, railway and financial sectors. This staff working document (SWD) assesses the state of implementation of these recommendations in Germany.

The SWD assesses policy measures in light of the findings of the Commission's 2014 Annual Growth Survey (AGS)¹ and the third annual Alert Mechanism Report (AMR),² which were published in November 2013. The AGS sets out the Commission's proposals for building the necessary common understanding about the priorities for policy action at national and EU level in 2014. It identifies five priorities to guide Member States to renewed growth: pursuing differentiated, growth-friendly fiscal consolidation; restoring normal lending to the economy; promoting growth and competitiveness for today and tomorrow; tackling unemployment and the social consequences of the crisis; and modernising public administration. The AMR serves as an initial screening device to ascertain whether macroeconomic imbalances exist or risk emerging in Member States. The AMR found positive signs that macroeconomic imbalances in Europe are being corrected. To ensure that a complete and durable rebalancing is achieved, Germany and 15 other Member States were selected for a review of developments in the accumulation and unwinding of imbalances (Box 3).³ These in-depth reviews were published on 5 March 2014 along with a Commission Communication.⁴

Against the background of the 2013 Council Recommendation, the AGS, the AMR and the in-depth review, Germany presented a national reform programme (NRP) on 14 April 2014 and a stability programme and an updated draft budgetary plan on 8 April 2014. These programmes provide detailed information on progress made since July 2013 and on the government's plans. The information contained in these programmes provides the basis for the assessment made in this SWD.

The programmes underwent a consultation process involving the *Länder* and stakeholders, and were formally submitted to the federal parliament and the federal council.

2. ECONOMIC SITUATION AND OUTLOOK

Economic situation

Real GDP rose by 0.4 % in 2013, after a 0.7 % increase in 2012. The rise was essentially driven by private consumption, but government consumption also made a small positive contribution. Investment initially continued to show weakness, which also reflected the prevailing uncertainty caused by the debt crisis and the slowdown in global economic activity,

¹ COM(2013) 800 final.

² COM(2013) 790 final.

³ European Commission (2014), *Macroeconomic imbalances — Germany 2014*, European Economy, Occasional Papers, No 174.

⁴ Apart from the 16 Member States identified in the AMR, Ireland was also covered by an in-depth review, following the conclusion by the Council that it should be fully integrated into the normal surveillance framework after the successful completion of its financial assistance programme.

but saw a gradual expansion from the second quarter onwards. In annual terms, investment acted as a slight drag on growth, while the contribution of net external trade was neutral.

The current-account surplus remained high. According to revised balance of payments statistics, the surplus stood at 7.5 % of GDP in 2013, up from 7.4 % in 2012 and 6.8 % in 2011. The slight increase in 2013 was driven in particular by the trade balance, while the contribution of the balance on current transfers was slightly negative. While the surplus *vis-à-vis* the rest of the world remained on an upward trend, that *vis-à-vis* the euro area continued to decline.

The labour market continued to perform favourably in 2013. Employment rose by another 0.6 % and the unemployment rate dropped to a record-low average of 5.3%. These labour market developments, together with firms' consistently strong international competitiveness and favourable financing conditions, underpin the intact fundamentals of the German economy. Headline inflation fell to 1.6%, in particular owing to easing energy price pressures.

Economic outlook

According to the Commission 2014 spring forecast, some acceleration of economic growth is expected, followed by stabilisation at quite robust rates. Real GDP growth of 1.8 % in 2014 and 2.0 % in 2015 is expected, according to the forecast. Domestic demand is expected to remain the key growth driver. Notably, favourable financing conditions and dissipating uncertainty should lead to a gradual recovery in equipment investment after its weakness despite supportive conditions in 2012-13, while low interest rates and a robust labour market should further support private consumption and housing investment. Exports should regain momentum, but are expected to be outpaced by imports on the back of dynamic domestic demand, notably as regards machinery and equipment investment. This should contribute to a gradual narrowing of the significant current-account surplus over the forecast horizon, although this is still set to remain above 6 % of GDP.

Employment is forecast to rise by 0.6 % this year and by 0.3 % in 2015. However, with significant net migration and rising labour market participation continuing to buoy labour supply, only a slight further decrease in the already low unemployment rate is expected. The robust labour market developments should continue to lead to sustained wage increases in nominal and real terms. The dampening impact on headline inflation of further easing food and energy price pressure is expected to be largely offset by gradually rising core inflation on the back of a narrowing output gap and rising labour costs. Overall, consumer prices are projected to increase by 1.1 % in 2014 and 1.4 % in 2015.

Commission estimates indicate that potential output will grow at around 1½ % per year in 2014-15, followed by a gradual decline in 2016-18 to around 1 %. The negative output gap is expected to narrow significantly by 2015. The ongoing expansion takes place on the basis of sound economic fundamentals. However, Germany still has scope for improving its potential growth rate, which has seen a trend decline and remains low. Intensifying population ageing is imminent, which accentuates the key challenge of strengthening potential growth.

The NRP and the stability programme share the same macroeconomic outlook, which is broadly in line with the Commission 2014 spring forecast as regards the pace and pattern of economic growth in 2014 and 2015, as well as with the Commission's estimate of Germany's medium-term potential growth rate. Taking into account the pronounced easing of inflationary pressures in early 2014 on the back of oil price and exchange rate developments, the authorities' projections for the private consumption deflator in 2014 appear slightly on the

high side.⁵ The NRP and the stability programme do not provide estimates of the quantitative impact on economic growth of specific reform measures and do not specify whether their impact is explicitly considered in its macroeconomic outlook.

3. CHALLENGES AND ASSESSMENT OF POLICY AGENDA

3.1. Fiscal policy and taxation

Germany's current fiscal position is sound, but the level of public debt remains high and there are still inefficiencies in some spending policies and in the tax system. At about 78 % in 2013, government debt as a percentage of GDP is still well above the 60 % Treaty reference value. There is scope for improving the efficiency of healthcare and long-term care. Expenditure on education is relatively low by international standards and spending on public infrastructure has been on a downward trend for a long time, resulting in an investment backlog at municipal level in particular. The tax burden on labour is high and there appears to be potential for shifting towards more growth-friendly revenue sources.

Germany has preserved its sound fiscal position in line with the 2013 country-specific recommendation, but has made limited progress in pursuing a growth-friendly fiscal policy and implementing the constitutional balanced budget rule at subnational level. The country-specific recommendation covered the overall fiscal position and compliance with the medium-term budgetary objective, the cost-effectiveness of public spending on healthcare and long-term care, increased expenditure on education and research, the efficiency of the tax system and the implementation of the 'debt brake' at *Länder* level.

Budgetary developments and debt dynamics

Germany's 2014 stability programme aims at a balanced general government budget, complying with the medium-term budgetary objective with a margin and steadily bringing down the debt-to-GDP ratio over the programme period. The stability programme confirms the medium-term objective of a structural deficit no higher than 0.5 % of GDP, which reflects the objectives of the Stability and Growth Pact. A structural surplus of ½ % of GDP is expected throughout the programme period. The plan is to reduce the debt ratio to less than 70% of GDP by the end of 2017 and to less than 60 % within 10 years.

Germany recorded a balanced general government budget in 2013 and thus achieved a budgetary position somewhat above its deficit target of ½ % of GDP set in last year's stability programme. While growth and revenues turned out as expected, the expenditure-to-GDP ratio was somewhat lower than initially planned. The projections of last year's stability programme and draft budgetary plan have been retained with an expected balanced budget in both 2014 and 2015, which is broadly in line with the Commission spring 2014 forecast of a balanced budget for 2014 and a slight deficit of 0.1 % of GDP for 2015 (see Table III in the annex). All levels of government are expected to register balanced budgets.

The continued balanced general government budget is planned to go hand in hand with slightly falling revenue and expenditure ratios. Both the revenue and expenditure ratios are projected to decline slightly from 44½ % of GDP to 44 % in the coming years. The total tax-to-GDP ratio is planned to remain constant over the programme period, while other revenue – which includes for example profit transfers from *Deutsche Bundesbank* – is expected to grow somewhat more slowly than GDP. As regards expenditure, above-average growth is projected notably in social transfers in kind and below-average growth in interest expenditure. The

⁵ The outlook underlying the NRP and the stability programme is based on the government's February 2014 Economic Projections. The authorities published an updated forecast on 15th April, i.e. after the submission of the NRP and the stability programme.

stability programme factors in the recent pension reform and other expenditure measures of the new federal government, although it does not fully specify their budgetary impact (see Box 1). No significant one-off measures are foreseen during the programme period. Overall, the budgetary targets are broadly in line with the Commission 2014 spring forecast and appear realistic.

Box 1. Main measures

The recent pension reform can be expected to have the strongest budgetary impact of all the measures adopted and proposed by the new federal government (see subsection on long-term sustainability). However, the stability programme does not specify the impact of the reform on expenditure and revenues of the pension insurance and refers merely to an additional federal subsidy to the pension insurance of almost EUR 2 billion over the legislative period. The federal government plans additional spending on education and research over the next four years, including EUR 6 billion to be provided to support the *Länder* in financing childcare facilities, schools and higher education institutions and EUR 3 billion for the funding of non-university research institutes, the Higher Education Pact, the Pact for Research and Innovation and the Initiative for Excellence. Additional EUR 5 billion are planned from the federal budget for investment in public transport infrastructure, EUR 2 billion for official development assistance and EUR 600 million for urban development. Resources allocated for integrating jobseekers into the labour market will be increased by EUR 1.4 billion by 2017 by improving the effective transferability of budgetary resources from one fiscal year to the next. The stability programme does not further specify the allocation of the expenditure across years over the legislative period, but the measures can be expected to have overall a limited budgetary impact.⁶

Germany registered a structural surplus of 0.6% of GDP in 2013 and thus complied with its medium-term budgetary objective with a margin. According to the stability programme, the (recalculated) structural surplus⁷ will stay at 0.6% of GDP in 2014 and decrease to 0.4% of GDP in 2015, which is broadly in line with the Commission's forecast of a structural surplus of 0.5% of GDP in 2014 and 0.0% of GDP in 2015. The structural balance is planned to remain positive in the following years. Hence, Germany plans to achieve its medium-term objective throughout the programme period with a margin, which means that compliance with the expenditure benchmark is not assessed as it is intended to underpin the necessary adjustment towards the medium-term objective.

The debt-to-GDP ratio decreased by 2.6 pps. to 78.4% in 2013 and is planned to fall further throughout the programme period. The decline in 2013 was driven largely by the winding up of 'bad banks', which is expected to continue to contribute to the falling debt ratio in the years to come as well as the denominator effect of GDP growth. This is broadly in line with the Commission's forecast of a debt-to-GDP ratio of 76.0% in 2014 and 73.6% in 2015, which does not take into account potential gains from the winding up of 'bad banks' (see Table IV in the annex). Government debt is above the 60% of GDP Treaty reference value and, following the correction of the excessive deficit in 2011, Germany is in a transition period of three years as regards the debt reduction benchmark starting from 2012. Germany made sufficient progress towards compliance with the debt reduction benchmark in 2013.

⁶ The updated draft budgetary plan for 2014, submitted on 8 April 2014, includes projections of the annual budgetary impact of the pension reform and the other new expenditure measures rounded to half a percentage point of GDP. According to these projections, the measures would have a largely neutral impact on the budget balance in 2014 and a slightly expansionary effect of about ½ % of GDP thereafter.

⁷ Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

Both the stability programme and the Commission forecast indicate that Germany will meet the debt benchmark at the end of the transition period in 2014. Based on a no-policy-change scenario, the debt-to-GDP ratio is projected to decrease to close to the 60 % reference value in 2030. The implementation of the stability programme would put debt on a further decreasing path, bringing it below the reference value in 2030 (see chart in Annex).

As regards the recommendation to use available scope for increased growth-enhancing spending, Germany has made limited progress in raising expenditure on education and some progress concerning more research spending. Total public and private expenditure on education and research, which the federal and *Länder* governments agreed to increase to 10 % of GDP by 2015, is estimated to have remained stable at 9.3 % of GDP in 2011 and 2012.⁸ Public spending on education decreased from 4.4 % of GDP in 2011 to 4.3 % in 2012 and remained well below the EU-28 average of 5.3 %. In contrast, expenditure on research and development, which is mainly provided by the private sector, increased from 2.89 % of GDP in 2011 to estimated 2.98 % in 2012, and is therefore close to the Europe 2020 target of 3 % and well above the EU-28 average of 2.07 %, ⁹ although other economies in and outside the EU, such as Finland, Sweden and South Korea, are investing even more. The new federal government plans continued contributions to the financing of childcare facilities, schools, higher education and research (see Box 1). However, further efforts appear necessary at all levels of government to meet the 10 % expenditure target, and even more ambitious follow-up targets would be needed to catch up with the most innovative economies.¹⁰ Besides increasing expenditure, it remains important to improve outcomes in the education system (see Section 3.3) and to help start-up companies access venture capital (see Section 3.4).

An additional challenge stems from insufficient investment in public infrastructure. Gross public investment as a proportion of GDP has been on a downward trend for a long time in Germany and has fallen significantly below the euro-area average. Public net investment has even been negative since 2003.¹¹ The fall in public investment has taken place almost entirely at the municipal level, probably also resulting from limited funding for municipalities. Evidence suggests that transport infrastructure has been affected in particular by falling real investment, notably with respect to *Länder*, county and municipal roads and local public transport.¹² Moreover, the age structure of overall transport infrastructure and the state of federal roads, federal road bridges and rail bridges has worsened.¹³

Germany has increased infrastructure investment in recent years and plans to step it up further, but this does not appear to be enough to deal with the backlog. Investment in public infrastructure has been strengthened by the 2009 stimulus package and additional funding for federal transport infrastructure and extending childcare facilities. The stability

⁸ Statistisches Bundesamt (2014), *Bildungsausgaben: Budget für Bildung, Forschung und Wissenschaft 2011/12*.

⁹ Latest available data, Eurostat database.

¹⁰ The expert commission on research and innovation appointed by the federal government recommends increasing the expenditure targets to 8 % of GDP for education and 3.5 % for research and development by 2020 (*Expertenkommission Forschung und Innovation* (2013), *Gutachten zu Forschung, Innovation und Technologischer Leistungsfähigkeit Deutschlands*).

¹¹ Gross fixed capital formation of general government declined steadily from 2.6 % of GDP in 1992 to a low of 1.4 % of GDP in 2005 and stabilised thereafter. In 2000-12, it was on average 1.1 % of GDP below the euro-area average, excluding Germany as well as Spain and Ireland, which experienced strong construction booms (Commission services' calculations based on Ameco database).

¹² Kunert, U. and H. Link (2013), *Transport infrastructure: Higher investments needed to preserve assets*, DIW Economic Bulletin, No 10/2013.

¹³ Bundesministerium für Verkehr, Bau und Stadtentwicklung (2012), *Verkehr in Zahlen 2012/2013*; Bundesrat (2012), *Zukunft der Verkehrsinfrastrukturfinanzierung. Abschlussbericht der Kommission 'Zukunft der Verkehrsinfrastrukturfinanzierung'*.

programme includes plans for additional funds to be provided over the next four years for investment in childcare facilities, schools and universities, transport infrastructure and urban development (see Box 1). Moreover, the coalition agreement of the new federal government¹⁴ announces additional EUR 5 billion annually to partly compensate municipalities for social expenditure, which should also increase their fiscal space for investment. Public investment already gained momentum last year with gross fixed capital formation increasing by 3.5 % at the general government level and by 12 % at municipal level. However, current developments and policy plans seem to fall short 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 Germany's public infrastructure and remove specific bottlenecks.

Fiscal framework

Germany has made some progress as regards the 2013 country-specific recommendation to complete the implementation of the constitutional balanced-budget rule ('debt brake') in a consistent manner across all *Länder*. The federal constitution stipulates structurally balanced budgets for the *Länder* also as from 2020. Unlike for the federal budget, however, it does not lay down more specific implementing provisions, which are the sole responsibility of the *Länder* themselves. In 2013, Bavaria and Saxony amended their constitutions, so that to date seven *Länder* have enshrined balanced-budget rules in their constitutions and four in their budget laws.¹⁵ Baden-Württemberg and Hessen supplemented their debt brakes by laying down specific implementing rules in an administrative order and a law, respectively. The rules set decreasing annual borrowing ceilings for the transition period to 2020 and include provisions for financial transactions, the cyclical adjustment of the deficit, exemption clauses for natural disasters and other emergencies, and a control account recording deviations in budget execution from the authorised level of borrowing. Similar provisions existed before only in Rhineland-Palatinate and Schleswig-Holstein.¹⁶ On the other hand, Berlin, Brandenburg, Bremen, North Rhine-Westphalia and Saarland have not enshrined balanced budget rules in their legislation and the majority of *Länder* have not laid down detailed implementing rules.

The fiscal framework has been supplemented by a national balanced-budget rule and the establishment of an independent advisory board. The law transposing the Fiscal Compact (*Fiskalvertragsumsetzungsgesetz*), which took effect in July 2013, complements the existing balanced-budget rules for the federation, the *Länder* and social insurances with a deficit ceiling and a correction mechanism at general government level. The existing Stability Council (*Stabilitätsrat*), which consists of the federal and *Länder* ministers for finance and the federal Minister for Economic Affairs and Energy, will have a prominent role in enforcing the new rules. To comply with the Fiscal Compact, an independent advisory board (*unabhängiger Beirat*) to the Stability Council has been established. The board is expected to issue public statements on compliance with the deficit ceiling and recommendations for corrective action in the event of non-compliance.

¹⁴ CDU, CSU and SPD (2013), *Deutschlands Zukunft gestalten. Koalitionsvertrag zwischen CDU, CSU und SPD. 18. Legislaturperiode*.

¹⁵ Bavaria, Hamburg, Hessen, Mecklenburg-Western Pomerania, Rhineland-Palatinate, Saxony and Schleswig-Holstein have enshrined debt brakes in their respective constitutions and Baden-Württemberg, Lower Saxony, Saxony-Anhalt and Thuringia in their budget laws.

¹⁶ Annual ceilings for the structural deficit to 2020 and provisions for the calculation of structural balances have been laid down in administrative agreements with the *Länder* receiving consolidation assistance (Berlin, Bremen, Schleswig-Holstein, Saarland and Saxony-Anhalt).

Practical steps may be needed to ensure that budget projections are based on fully compliant macroeconomic forecasts and to adapt the schedule of the established national procedures to the new European cycle of budgetary monitoring. Germany's federal budget and fiscal projections at general government level are based on the federal government's own macroeconomic forecasts. While for the government's spring and autumn projections the independent joint economic forecast issued twice a year by leading research institutes is used as a benchmark, they are not formally endorsed by an independent body within the meaning of Regulation (EU) No 473/2013. The stability programme is based on an additional forecast, which is usually published in January as part of the government's Annual Economic Report and prepared without using an updated independent joint economic forecast as a benchmark. Moreover, the draft budgetary plan submitted in October 2013 drew on the not up-to-date spring versions of the macroeconomic and tax revenue projections, because the autumn versions of the government's macroeconomic projections, the joint economic forecast and the projections of the working party on tax revenue forecasting are usually published after the submission deadline for the draft budgetary plan.

The planned review of fiscal relations could further strengthen the framework for sustainable fiscal policies in Germany. Effective application of the debt brake will require sufficient scope for fiscal policy to adjust revenue and expenditure also at sub-national level. Moreover, existing financing mechanisms including investment-related allocations from the *Länder* and the federal budget have not prevented the emergence of an investment backlog in public infrastructure at municipal level. The current allocation of tax revenues and the design of the horizontal fiscal equalisation system (*Länderfinanzausgleich*) may also lead to disincentives regarding tax collection.¹⁷ Therefore, the review of fiscal relations announced in the coalition agreement of the new federal government is an opportunity to strengthen fiscal responsibility and accountability by improving the allocation of revenue and expenditure competences between the federation, *Länder* and municipalities and reviewing the efficiency of the fiscal equalisation system.

Long-term sustainability

Germany appears to face medium fiscal sustainability risks in the medium term. The medium-term sustainability gap,¹⁸ showing the adjustment effort up to 2020 required to bring the debt ratio to 60% of GDP in 2030, is at 0.1 % of GDP, primarily related to the high level of government debt (73.6 % of GDP in 2015) and the projected ageing costs¹⁹ (contributing

¹⁷ Empirical analyses suggest that the higher the share is of a *Land's* additional tax revenues that will be reallocated to other *Länder* through the *Finanzausgleich*, the lower are the performance and efficiency indicators of its tax administration (Altemeyer-Bartscher, M. and G. Zeddies (2013), '*Dezentrale Steuerverwaltung und interregionaler Wettbewerb im deutschen Finanzföderalismus*', IWH, *Wirtschaft im Wandel*, Vol. 19, No 5). Shortcomings have also been identified in the *Länder's* administration of joint taxes whose revenues are shared between the federation, *Länder* and municipalities (*Der Präsident des Bundesrechnungshofes* (2006), '*Probleme beim Vollzug der Steuergesetze*', *Schriftenreihe des Bundesbeauftragten für Wirtschaftlichkeit in der Verwaltung, Band 13, Verlag W. Kohlhammer*).

¹⁸ See Table V. The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance to be introduced until 2020, and then sustained for a decade, to bring debt ratios back to 60 % of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp. of GDP per year until 2020 after the last year covered by the autumn 2013 forecast (year 2015) is required (indicating an cumulated adjustment of 2.5 pps.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 pp. of GDP per year is necessary), it is assigned high risk.

¹⁹ Projected ageing costs comprise long-term projections of public age-related expenditure on pension, health care, long-term care, education and unemployment benefits (see for details European Commission (2012),

with 0.8 pp. of GDP until 2030) that are partially offset by the current structural primary balance. In the long term, Germany appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 2.5 pp. of GDP over the very long run, in particular due to the pension and health components. The long-term sustainability gap,²⁰ showing the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 2.1 % of GDP. Risks would be higher in the event of the structural primary balance reverting to lower values observed in the past, such as the average for the period 2004-2013. It is therefore appropriate for Germany to continue to implement measures that reduce government debt and further contain age-related expenditure growth to contribute to the sustainability of public finances in the medium and long term.

Germany has made limited progress as regards the 2013 country-specific recommendation to enhance the cost-effectiveness of public spending on healthcare and long-term care. At 8.4 % of GDP in 2011,²¹ the rate of public spending on healthcare in Germany is one of the highest in the EU and is likely to increase further due to demographic change and innovations in medical technology. In February 2014, a law was adopted that extends the price moratorium for pharmaceuticals to the end of 2017 and increases the standard manufacturer discount on patented medicines from 6 % to 7 %, following higher discounts of 16 % that were applied temporarily between 2010 and 2013. On the other hand, on the grounds of methodological and administrative problems, it abolishes the obligation to assess the added value of pharmaceuticals as the basis for price-setting for products already marketed before 2011. Moreover, a draft law would reduce the contribution rate for employees from 8.2 % currently to 7.3 % as of January 2015, the same rate that applies to employers. To cover future cost increases, individual health insurers would be allowed to raise extra, income-based contributions from employees. The NRP announces further initiatives to be adopted over the legislative period, including a prevention law, a number of measures aimed at enhancing the quality of inpatient and outpatient care, and more freedom of contract between health insurances and care providers. As for long-term care, the plans are to make care professions more attractive and to implement the new definition of care dependency (*Pflegebedürftigkeitsbegriff*), which will lead to an extension of care services and eligibility. To this end, the coalition agreement of the new government includes plans to increase the contribution rate for long-term care by 0.5 pp in total over the legislative term.

The recently adopted pension reform puts an additional strain on the sustainability of the pension system and affects intergenerational income distribution. The reform, aimed at improving pension benefits and early retirement conditions for certain groups, includes: (i) a pension supplement for those having raised children born before 1992 (*Mütterrente*); this already exists for those having raised children born after 1992; (ii) the possibility of retirement without pension reductions two years ahead of the statutory retirement age if contributions have been paid for 45 years, including periods of unemployment (*Rente mit*

The 2012 ageing report, European Economy, No 2/2012). The recently adopted pension reform is taken into account in the initial budgetary position, but not in the long-term projections of ageing costs.

²⁰ See Table V. The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

²¹ Latest available data, Eurostat database.

63);²² (iii) improved pension entitlements for people with reduced earning capacity for health reasons (*Erwerbsminderungsrente*); and (iv) an increased budget for rehabilitation and integration measures in view of demographic change. The underlying draft law estimated additional annual expenditure of EUR 4.4 billion in 2014 and EUR 9 billion in 2015, which would gradually increase to EUR 11 billion in 2030, with the bulk to be spent on *Mütterrente* and *Rente mit 63*.²³ The plan is to finance this mainly through a higher pension contribution rate for the active labour force, including low-wage earners, and a lower average replacement rate,²⁴ supplemented by transfers from the federal budget of around EUR 2 billion annually as of 2019. This may have potentially negative implications for employment and incomes, hence for the acquisition of future pension entitlements under both the statutory pension insurance and occupational and third pillar schemes. The reform will also reinforce the downward trend in the average replacement rate, which is already projected to be among the lowest in the OECD for future retirees.²⁵

Tax system

Germany has made overall limited progress as regards the 2013 country-specific recommendation to improve the efficiency of the tax system and to reduce the high tax burden on labour. It was recommended that the tax system be made more efficient, in particular by broadening the VAT base and reassessing the municipal real-estate tax base, that high taxes and social security contributions be reduced, especially for low-wage earners, and that disincentives for second earners be removed.

No progress has been made in improving the efficiency and growth-friendliness of the tax system in line with the AGS priorities. The NRP does not contain major measures to shift towards more growth-friendly revenue sources and reduce the strong reliance on labour taxation (22.1 % of GDP in 2012 vs. 20.0 % in the EU-28),²⁶ which also involves a shrinking revenue base in view of the projected demographic trends. The application of the reduced value-added tax (VAT) rate (currently 7 %) could be narrowed. Rather low revenues from recurrent property taxes (0.5 % of GDP in 2012 vs. 1.5 % in the EU-28) could be increased and the distribution of the tax burden made fairer by reassessing the tax base for the municipal real-estate tax (*Grundsteuer*)²⁷ and taking into account property location as well as size. The NRP confirms the need to reform the *Grundsteuer*, though it does not specify possible measures. There is also still scope for reducing inefficient tax expenditures, especially those with environmentally harmful effects, such as energy tax reductions and exemptions, the favourable taxation of company cars or the commuter income tax deduction.

Limited efforts have been made to reduce the high taxes and social security contributions for low-wage earners, and no measures have been taken to phase out disincentives for second earners. The increase in the basic income tax allowance in two steps in 2013 and 2014 slightly reduced the tax burden on labour and curbed the impact of fiscal drag only partially in the absence of a regular adjustment of the personal income-tax

²² The age limit for early retirement without pension reductions is planned to be raised gradually from 63 to 65 in line with the increase in the statutory retirement age from 65 to 67.

²³ Of the additional EUR 9 billion estimated for 2015, EUR 6.7 billion would be spent on *Mütterrente*, EUR 1.9 billion on *Rente mit 63* and EUR 0.2 billion each on improved benefits for people with reduced earning capacity and rehabilitation measures. The expenditure on *Rente mit 63* and improved benefits for people with reduced earning capacity are expected to increase further in the long term.

²⁴ The average replacement rate is projected to decline due to the effect of the ‘sustainability factor’ (*Nachhaltigkeitsfaktor*), which ensures a maximum pension contribution rate of 22 % in 2030.

²⁵ OECD (2013), *Pensions at a glance 2013: OECD and G20 indicators*, OECD Publishing.

²⁶ European Commission (2014), *Taxation trends in the European Union*.

²⁷ The municipal real-estate tax dates back to market values of 1963/64 in the western *Länder* and 1935 in the eastern *Länder*.

brackets to inflation, as applied in many other Member States. The tax wedge for low-wage earners remains among the highest in the EU.²⁸ Moreover, no measures have been taken to reduce fiscal disincentives for second earners. Together with the still insufficient availability of full-time childcare facilities and all-day schools (see Section 3.3), the joint taxation of income for married couples (*Ehegattensplitting*) and free health-insurance coverage for non-working spouses discourage women in particular from increasing the number of hours they work. This is reflected in a low proportion of women working full-time and one of the lowest numbers of hours worked on average by women in the EU, despite a relatively high female employment rate. Further promoting the option of shifting the allocation of the basic income-tax allowance between spouses (*Faktorverfahren*), as provided for in the NRP, is likely to have only a limited impact, since the annual tax burden remains unchanged. Also the exemption of mini-jobs from personal income tax and in many cases from all employee social contributions discourages workers from moving into jobs with earnings above the mini-job threshold of EUR 450 per month (see Section 3.3). This disincentive is in many cases even stronger for spouses subject to joint income taxation.²⁹

Overall, the recent pension reform and other current reform plans are likely to involve a rise in social insurance contribution rates and again to increase the tax wedge. Additional benefits and early retirement options for certain groups of pensioners financed through statutory pension insurance, as recently adopted by the new federal government, meant that the contribution rate was not reduced from 18.9 % to 18.3 % by the beginning of 2014, as initially planned, and is projected to further increase to the legal ceiling of 22 % in 2030. The planned reduction in the healthcare contribution rate for employees would have a positive impact in the short term. However, future cost increases in healthcare could again put pressure on the tax wedge, in particular for low-wage earners, as it is now planned that they will be covered by income-based contributions from employees rather than flat-rate contributions combined with compensation for low-income earners through the tax system, as provided for under the 2011 health reform. The planned increase in the contribution rate for long-term care to finance an extension of care services will also add to the tax wedge.

Conditions for investment in Germany could be further improved by reducing the corporate tax bias in favour of debt financing, reforming the local trade tax (*Gewerbesteuer*) and cutting administrative burden. Despite the ‘interest barrier’ (*Zinsschranke*) introduced under the 2008 corporate tax reform to limit the deductibility of net interest expenses on all kinds of debt financing, a corporate tax bias towards debt financing remains. Against the background of persistently high non-financial corporate savings, it would also be useful to review how the tax system affects firms’ decisions as to whether to retain earnings or pay out dividends. Inefficiencies arise from the *Gewerbesteuer* due to the inclusion of non-profit elements in the tax base. Moreover, a relatively high administrative burden associated with the tax system may discourage investment (see Section 3.5).

3.2. Financial sector

Although the German financial sector has undergone significant adjustment following the crisis and has become more resilient, ensuring sufficient loss absorption capacity and further consolidation in the banking sector remains a challenge. As in the euro area at large, German banks reduced their risk-weighted assets and strengthened their capital position. Between the end of 2008 and June 2013, German banks’ ‘As i tier 1 capital’

²⁸ According to Commission estimates based on the OECD tax and benefits model, the tax wedge in Germany for workers (single person without children) earning 50 % of the average wage was 42.5 % in 2012 vs 34.7 % in the EU-27 and for workers earning 67 % of the average wage 45.6 % vs 39.9 % in the EU-27.

²⁹ While income below the mini-job threshold is exempt from income tax, if the income is above that threshold, the full income is subject to joint income taxation.

increased from 9.6 % to 15.3 % of risk-weighted assets and is clearly above the euro-area average (12.6 %).³⁰ The loan-to-deposit ratio (82.3 %) is below the euro-area average (99.0 %), while a low ratio of non-performing loans (1.9 %) indicates solid bank assets. The level of private-sector indebtedness (101.2 % of GDP) is below the euro-area average (124.5 %) and appears moderate. New legal provisions have entered into force transposing EU capital and corporate governance requirements, separating commercial banking from risky businesses, facilitating liquidation of financial institutions and introducing criminal law rules for violations of risk management duties. Nevertheless, as pointed out in the in-depth review, it remains important to ensure sufficient loss absorption capacity in the banking sector and full implementation of the new capital requirements. Moreover, there appear still to be impediments to market-driven consolidation in the banking sector. Low interest rates may pose a challenge for institutional investors, notably insurance companies, and could also entail a risk for housing markets.

Germany has made limited progress as regards the 2013 country-specific recommendation to pursue efforts for consolidation in the banking sector, including by improving the governance framework. In recent years Commission state-aid decisions, rather than market forces, have driven the restructuring (including individual mergers) of the *Landesbanken*. Corporate governance improvements also have taken place in a number of *Landesbanken*, subject to state-aid decisions. However, the overall structure of the *Landesbanken* sector remains fragmented. Further steps to amend these banks' corporate structure and reduce political influence appear required to facilitate market-driven consolidation. Reviewing the legal framework of the savings banks could also contribute to removing possible impediments to consolidation in the public banking sector and to a clearer separation of public interest objectives and operational bank business, while safeguarding the savings banks' business model, which has proven to be so stable during the crisis.

Lending conditions remain very favourable for both corporates and households, but there appears to be scope for improving access to venture capital in line with the AGS priorities. While banks may be cautious in view of the ECB's Comprehensive Assessment, businesses (including small and medium-sized enterprises (SMEs)) still have very good access to finance and there are no indications of a significant tightening of lending conditions,³¹ although access to venture capital still remains underdeveloped (see Section 3.4). Lending conditions also remain very favourable for private households, and credit standards for both housing loans and consumer credits have hardly changed recently. Non-financial corporates, especially large ones, have asked for fewer loans and are increasingly having recourse to capital markets without bank intermediation, while SMEs remain largely dependent on the banking sector. Private household demand for housing loans and consumer credit stagnated in the second half of 2013, ending a steady rise in demand for housing loans since the second quarter of 2010.

The German housing market has gained momentum in recent years, but risks for financial stability appear still to be limited. House prices have been rising since 2009, especially in urban centres, on the back of favourable income prospects, low interest rates and a flight of investment into safe assets. Households' robust balance sheets, the moderate growth in mortgage lending, the favourable labour market and cautious lending standards limit the risks to financial stability. However, sustained low interest rates and high liquidity call for close monitoring of housing market developments. There appears to be limited

³⁰ *Deutsche Bundesbank* (2014), financial soundness indicators (FSI); European Central Bank (2014), consolidated banking data; IMF FSI.

³¹ European Central Bank (2014), *Eurosystem bank lending survey* and *Survey on the access to finance of SMEs in the euro area (SAFE)*.

over-valuation of house prices in urban areas, which is a sign of high housing demand. Policy initiatives, such as the proposed cap on rent increases for new contracts (*Mietpreisbremse*), aim at protecting tenants against strong price hikes in tight housing markets. Such measures should be designed so as to ensure that housing investment is not discouraged, as it is indispensable for matching demand and supply on the housing market.

3.3. Labour market³², education and social policies

Despite the overall favourable situation of the German labour market, increasing labour supply and enhancing human capital remains a challenge in view of demographic change and emerging skills shortages. The projected significant decline in the workforce due to demographic change is expected to affect Germany's potential growth and skills shortages are emerging in certain sectors and regions. Germany is trying to attract skilled workers from abroad, but there is also scope for activating the untapped labour and skills potential of the domestic labour pool. The Europe 2020 target of a 77 % employment rate was achieved in 2013 (77.1 %). The unemployment rate is low overall (5.3 % in 2013), but it exceeds 12 % in several *Länder* and long-term unemployment remains a concern. There are wide gender gaps in terms of full-time labour market participation, pay and pension entitlements. Intergenerational social mobility and Germany's performance as regards at-risk-of-poverty indicators and income inequality is average.

Germany has made overall limited progress as regards the 2013 country-specific recommendation aimed at supporting incentives to work and the employability of workers, also with a view to supporting domestic demand. The country-specific recommendation concerned wages, the tax wedge on labour (especially for low-wage earners), the educational achievement of disadvantaged people, activation and integration measures (especially for the long-term unemployed), the transition from non-regular employment such as mini-jobs into other forms of employment, and incentives to work for second earners.

Labour market and social policies

Wages continue to increase, thus supporting consumption and domestic demand, but progress as regards the recommendation to reduce the high tax wedge, notably for low-wage earners, has been limited (see Section 3.1). Wages have risen in recent years following a prolonged period of wage moderation, as described in the in-depth review for Germany. In 2013, real wage growth was more moderate than in 2012, but real wages are expected to accelerate in the coming years and to outstrip productivity, owing to a relatively tight labour market and to forthcoming reforms (see below). Real wages and unit labour costs are projected to grow faster in Germany than on average in the euro-area

The federal government has adopted a draft law aimed to introduce a general minimum wage at EUR 8.50 an hour and to increase the coverage of collective bargaining agreements. Some groups would be excluded from the minimum wage, notably under-18-year-olds who have not completed their professional training, apprentices and, in the first six months of employment, the previously long-term unemployed. The minimum wage would be introduced as of 2015, becoming applicable in all sectors in 2017. Thereafter, the level of the minimum wage would be adjusted by a committee of social partners' representatives. The draft law also provides for an easing of the conditions for applying

³² For further details, see the 2014 Joint Employment Report, COM(2013)801, which includes a scoreboard of key employment and social indicators.

collective bargaining agreements, which cover wages, working time and other working conditions, to all companies in a sector.³³

The minimum wage could have a positive impact on wages, but close monitoring of potential employment effects is called for. In some segments of the labour market where employees' power to negotiate wages is comparatively weak, for instance due to lack of effective organisation or representation, a minimum wage could have a positive impact on wages at the low end of the distribution without significantly affecting employment. It could also reduce the need for low-wage earners to supplement their income with means-tested social benefits (*Aufstockung*) and contribute to raising domestic demand thanks to higher propensity to consume among low-income groups. But negative employment effects may arise where cost increases due to higher wages cannot be passed on to consumers, or via reduced demand if they are passed on through higher prices. The minimum wage is expected to affect a large number of workers in particular among women, in the eastern *Länder*, in small companies, in mini-jobs and in some service sectors, where a large proportion of workers earn less than EUR 8.50 an hour.³⁴ Moreover, the predetermined level of EUR 8.50 an hour appears rather high in international comparison, as measured by estimates of the effective minimum wage or the proportion of workers for whom the minimum wage is expected to be binding.³⁵ Therefore, when adjusting the level of the minimum wage, it is important that the committee of social partners' representatives takes into account the potential impact on employment.

The interaction with the tax and benefits system and price effects could reduce the effectiveness of the minimum wage in supporting disposable income and domestic demand. The impact on real disposable incomes would be lower than the direct impact on gross wages, as the rise in wages would be partly compensated by higher taxes and lower benefits, including in some cases the withdrawal of income top-ups (*Aufstockung*). This, together with higher prices, would also tend to reduce the impact on domestic demand. By the same token, while the minimum wage could reduce wage disparities, the impact on net household income inequality and poverty may be less than expected.³⁶

Despite some progress towards appropriate activation and integration measures, long-term unemployment remains a concern. The proportion of total unemployment accounted for by long-term unemployment (45.9 % in 2013) remains higher than in other Member States with low unemployment rates, such as Sweden, Finland, Austria or Denmark.

³³ The proportion of employees covered by collective bargaining agreements decreased from 74 % to 58 % in Germany between 1998 and 2012 (Bundesregierung (2014), *Entwurf eines Gesetzes zur Stärkung der Tarifautonomie*).

³⁴ In 2012, 23 % of employees in the eastern *Länder*, 14 % in the western *Länder* and more than 30 % in companies with fewer than 10 employees earned less than EUR 8.50 an hour. 20 % of female employees earned less than EUR 8.50 an hour vs. 11 % of male employees and almost two-thirds of employees earning less than EUR 8.50 an hour were women. Overall, in 2012 15 % or 5.2 million employees earned less than EUR 8.50 an hour. Assuming further wage increases over the coming years, the proportion of workers affected by the minimum wage in 2017 would be lower (Brenke, K. (2014), *Mindestlohn: Zahl der anspruchsberechtigten Arbeitnehmer wird weit unter fünf Millionen liegen*, DIW *Wochenbericht* No 5).

³⁵ Using four estimates for the German median wage, Kluve (2013) finds that the effective minimum wage (quotient of the minimum and the median wages) in Germany is high compared with other countries (Kluve, J. (2013), *Was ist der optimale Mindestlohn? So hoch wie möglich, so niedrig wie nötig*, RWI *Position* No 53). The proportion of German employees for whom a minimum wage of EUR 8.50 an hour is expected to be binding appears high, for example compared with the proportion of employees earning less than 105 % of the minimum wage in other Member States, as shown by a Eurostat survey for 2010 (Eurostat (2010), *Structure of Earnings Survey*).

³⁶ See Brenke, K. and K. U. Müller (2013), *Gesetzlicher Mindestlohn — Kein verteilungspolitisches Allheilmittel*, DIW *Wochenbericht* No 39.

The integration of the long-term unemployed into the labour market is difficult, as many have no vocational training or are aged 50 plus. The federal government plans to increase the resources allocated for the integration of jobseekers into the labour market (see Box 1). The NRP refers to several measures, including a European Social Fund programme aimed to integrate 30 000 long-term unemployed into the labour market and some measures targeted towards young people, but further efforts may be required. In particular, it is important to assess how effective the 2011 reform of active labour market instruments has been in fostering the integration of the remaining long-term unemployed.

Limited progress has been made in taking measures to facilitate the transition from non-regular employment such as mini-jobs into more sustainable forms of employment. For certain groups (e.g. students, pensioners), mini-jobs are a source of additional income.³⁷ However, for many, the fiscal treatment of mini-jobs (see Section 3.1) provides a strong incentive to work only in such jobs. The favourable fiscal conditions of mini-jobs may also create distortions by discouraging companies from opting for other types of contract. The NRP announces measures to facilitate the transition from mini-jobs into regular employment, better inform mini-job workers about their rights, a maximum duration for temporary contracts, equal payment for temporary workers and the right to return to full-time work after a temporary shift to part-time work. These plans are, however, not further specified. Moreover, the introduction of clear criteria to determine the ‘abusiveness’ of service contracts (*Werkverträge*), as announced in the coalition agreement of the new federal government, would be welcome.

Long-term risks of increasing old-age poverty suggest additional efforts to address the root causes of low pensions and to ensure a higher take-up of occupational and private pension insurance by low-wage earners. While old-age poverty is currently not particularly pronounced in Germany, there are risks of an increase in the coming decades, notably due to the expansion of the low-wage sector.³⁸ A minimum income for retirees is currently ensured by means-tested benefits (*Grundsicherung*), which have been taken up increasingly since their introduction in 2003.³⁹ The NRP includes plans to top up low pensions as from 2017 (*Lebensleistungsrente*). According to the coalition agreement of the new federal government, these plans would be financed by the federal budget, including funds saved by reduced expenditure on the targeted means-tested benefits. However, topping up low pensions would not address the root causes of low pensions: usually fragmented employment biographies and low incomes due to disincentives to work, in particular for women, or insufficient educational achievement. Moreover, while the plan, at a later stage, is to make the new benefits conditional on taking out additional private pension insurance, this may not be sufficient to increase the low take-up of second- and third-pillar pension schemes by low-wage earners.⁴⁰ Neither would the plans address the risks of old-age poverty among the self-employed.⁴¹

³⁷ Out of the 4.9 million people working only in mini-jobs at the end of 2011, 35 % were homemakers, 22 % pensioners, 20 % students and 11 % unemployed. Almost 50 % of the employees interviewed were satisfied with their situation and 27 % were searching for more work (25 % would have liked to work more but could not for some reason). Students and pensioners in particular are unlikely to be interested in a regular job. Körner, T., Meinken, H. and Puch, K. (2013), *Wer sind die ausschließlich geringfügig Beschäftigten? Eine Analyse nach sozialer Lebenslage*. Statistisches Bundesamt, Wirtschaft und Statistik.

³⁸ Fenge, R. (2012), *Vorsorge gegen Altersarmut*, ifo Schnelldienst, Vol. 65, No 21; Goebel, J. and M.M. Grabka (2011), *Zur Entwicklung der Altersarmut in Deutschland*, DIW Wochenbericht No 25.

³⁹ The number of beneficiaries of *Grundsicherung* aged 65 and above increased by 80 % between 2003 and 2012 (Commission services’ calculation based on Destatis data).

⁴⁰ The take-up of private pension insurance is not mandatory, but subsidised in order to offset the downward trend in the replacement rate of statutory pensions. The coverage is particularly low among low-wage earners, individuals with only basic education and migrants (Promberger, M., C. Wübbecke and A. Zylowski (2012), *Private Altersvorsorge fehlt, wo sie am nötigsten ist*, IAB-Kurzbericht, No 15/2012; Geyer, J. (2012),

Education

Germany has made some progress in improving the availability of full-time early childhood education and care places in line with last year's recommendation, but there appears to be scope for improving the contribution of all-day schools to high-quality education. The legal enrolment right for one-to-three year-olds as of August 2013 sped up the expansion of childhood education and care places, but bottlenecks persist, notably in some regions and urban areas. With 29.3 % of children under three in formal childcare facilities,⁴² Germany has not reached the Barcelona and national targets (33 % and 39 % respectively). Children with a migrant background tend to participate less in early childhood education and care than others. While the quantity of childcare facilities has grown rapidly, their quality should also improve, for instance by increasing the allocation of staff per child, staff qualifications⁴³ and opening hours of the facilities. The NRP includes plans for additional funds for investment in childcare (see Section 3.1) and some specific projects aimed to improve the quality of childcare. The proportion of pupils in all-day primary schools increased in recent years from very modest levels, but penetration rates vary across regions.⁴⁴ While the NRP refers to *Länder* efforts to improve the provision of all-day schools, the schools differ widely as regards their organisation and the type of activity offered, with a high proportion providing care rather than schooling, suggesting that their potential contribution to high-quality education could improve.

Germany has made some progress in raising the educational achievement of disadvantaged people, but the link between educational achievement and socio-economic background remains strong. Social disadvantage in education has decreased in the last decade but remains significant, in particular for migrants. Competences among the young have improved in recent years, but there are significant differences among *Länder*⁴⁵ and the rate of early school leaving also varies widely across regions and is higher for people with disabilities.⁴⁶ The federal government and in particular the *Länder* are making efforts to tackle educational disadvantage according to the NRP. For instance, the Search for later starters (*Spätstarter gesucht*) programme is aimed at helping young unemployed without vocational training to obtain a degree. The Education through language and writing (*Bildung durch Sprache und Schrift*) initiative helps children to progress more effectively in improving their linguistic and reading competences throughout their formal education.

Riester-Rente und Niedrigeinkommen — Was sagen die Daten?, DIW Vierteljahreshefte zur Wirtschaftsforschung, Vol. 81, No 2).

⁴¹ See for example *Sachverständigenrat* (2013), *Gegen eine rückwärtsgewandte Wirtschaftspolitik, Jahresgutachten 2013/14*.

⁴² Federal Statistical Office.

⁴³ Only 3 % of staff in childcare centres (*Tageseinrichtungen*) have a relevant tertiary degree. Around one third of staff in day-care centres (*Tagespflege*) have followed a pedagogical training, while 41 % have had less than 160 hours of training or no training. (Data for 2011; see KMK and BMBF (2012), *Bildung in Deutschland 2012*).

⁴⁴ See *Aktionsrat Bildung* (2013), *Zwischenbilanz Ganztagsgrundschulen: Betreuung oder Rhythmisierung?*

⁴⁵ *Institut zur Qualitätsentwicklung im Bildungswesen* (2013), *Ländervergleich 2012. Mathematische und naturwissenschaftliche Kompetenzen am Ende der Sekundarstufe I*, Waxmann Publishing Co.

⁴⁶ The rate of early school leaving for people without disabilities is lower in Germany than in the EU as a whole (6.9 % as compared with 11 %), but higher for people with disabilities (20.6 % as compared with 18.9 % in 2011) (Eurostat (2014), *EU Statistics on Income and Living Conditions* (EU-SILC)).

Box 2: Potential impact of structural reforms on growth –a benchmarking exercise

Structural reforms are crucial for boosting growth. It is therefore important to know the potential benefits of these reforms. Benefits of structural reforms can be assessed with the help of economic models. The Commission uses its QUEST model to determine how structural reforms in a given Member State would affect growth if the Member State narrowed its gap vis-à-vis the average of the three best EU performers on key indicators, such as labour market participation. Improving on these indicators could raise Germany's GDP by about 2½ % over a 10-year period. Some reforms could have an effect even within a relatively short time horizon. The largest gains would likely stem from further increasing women's and older workers' participation, and shifting the tax burden towards consumption. The model simulations corroborate the analysis of Section 3 showing that there is scope for activating the untapped labour and skills potential of several groups, *inter alia* by reducing the tax burden on labour, improving the educational achievement of disadvantaged people or maintaining appropriate activation and integration measures, especially for the long-term unemployed. Reforms would have a greater impact on GDP in the long run. This is in particular the case for measures to enhance skills (see note) or reduce markups in final goods markets.

Table: Structural indicators, targets and potential GDP effects⁴⁷

Reform areas		DE	Average 3 best EU performers	GDP % relative to baseline	
				5 years	10 years
Market competition	Final goods sector markups (price-cost margin)	0.14	0.13	0.2	0.2
Market regulation	Entry costs	4.60	0.13	0.0	0.0
Tax reform	Implicit consumption tax rate	20.1	28.6	0.4	0.5
Skill enhancing reforms*	Share of high-skilled	8.9	10.7	0.0	0.1
	Share of low-skilled	13.7	7.5	0.0	0.1
Labour market reforms	Female non-participation rate (25-54ys):			0.5	0.9
	- low-skilled	37.5	26.4		
	- medium-skilled	16.2	10.5		
	- high-skilled	10.6	4.3		
	Low-skilled male non-participation rate (25-54ys)	15.7	7.7	0.0	0.1
	Elderly non-participation rate (55-64ys):			0.2	0.5
	- low-skilled	13.9	13.4		
	- medium-skilled	8.4	4.8		
	- high-skilled	4.9	3.3		
	ALMP (% of GDP over unemployment share)	14.6	37.4	0.2	0.2
	Benefit replacement rate**	60.4	52.6	0.2	0.3
Total				1.7	2.7

Source: Commission services. Note: Simulations assume that all Member States undertake reforms which close their structural gaps by half. The table shows the contribution of each reform to total GDP after five and ten years. If the country is above the benchmark for a given indicator, we do not simulate the impact of reform measures in that area; however, the Member State in question can still benefit from measures taken by other Member States.⁴⁸ * The long-run effect of increasing the share of high-skilled population would be 1.1% of GDP and of decreasing the share of low-skilled would be 1.6%. ** EU average is set as the benchmark.

⁴⁷ Final goods sector mark-ups is the difference between the selling price of a good/service and its cost. Entry cost refers to the cost of starting a business in the intermediate sector. The implicit consumption tax rate is a proxy for shifting taxation away from labour to indirect taxes. The benefit replacement rate is the % of a worker's pre-unemployment income that is paid out by the unemployment scheme. For a detailed explanation of indicators see Annex.

⁴⁸ For a detailed explanation of the transmission mechanisms of the reform scenarios see: European Commission (2013), "The growth impact of structural reforms", Chapter 2 in QREA No. 4 December 2013. Brussels; http://ec.europa.eu/economy_finance/publications/qr_euro_area/2013/pdf/qrea4_section_2_en.pdf.

3.4. Structural measures promoting sustainable growth and competitiveness

The far reaching transformation of Germany's energy system (*Energiewende*) and persisting barriers to competition in some sectors remain a challenge. The *Energiewende* involves potentially high economic costs accentuated by inefficiencies in energy policy instruments, the possibility of capacity constraints caused by delays in the deployment of the energy infrastructure, and the need for enhanced coordination with neighbouring countries to avoid negative spillover effects. Moreover, while productivity growth may be structurally lower in the service sectors than in industry, in some (notably professional services⁴⁹) it is particularly low. Competition in the railway markets remains weak, and bottlenecks for start-up companies are hindering the development of high-tech sectors. Measures aimed at raising productivity in these sectors would contribute to boosting domestic sources of growth.

In 2013, Germany received country-specific recommendations calling for reforms in the energy, railway and service sectors and in public procurement. Germany has made some progress as regards the recommendations to keep the overall costs of transforming the energy system to a minimum and to improve the coordination of the energy policy with neighbouring countries. Progress has been overall limited as regards the recommendations to increase competition in the services and railway sectors and to increase the value of public contracts open to procurement. The revised Act against Competition Restrictions came into force in 2013.

Energy

The current renewable energy support system has been successful in promoting the development of renewables, but this has been achieved at high cost. Despite measures taken in the past, the surcharge paid by electricity consumers to provide incentives for renewable energy production has increased by 18 % in 2014 as compared with 2013, on top of an increase of 47 % in 2013, and amounted to EUR 19.4 billion or 0.7 % of GDP in 2013. The level of support has not always been adjusted downwards quickly enough, leading to over-compensation in some cases and increasing the costs for those electricity consumers not benefiting from reduced surcharges. Also, the roll-out of renewable energy with close-to-zero marginal generation costs has contributed to reducing wholesale prices, thereby raising the surcharge and decreasing the profitability of existing conventional power plants. While the feed-in tariff system has been successful in increasing the share of renewables, it has been less suitable for promoting the market integration of renewables, as producers are not exposed to market price signals.

The government has adopted a proposal for a revision of the Renewable Energy Act aimed to improve the cost-effectiveness of the support system. The draft law involves introducing mandatory direct marketing of renewable electricity, except for small producers, moving from feed-in tariffs to floating market premiums which provide a limited market exposure. In order to allow for better coordination with network expansion and avoid over-compensation, the proposal defines technology-specific corridors limiting the expansion of renewables and includes plans for moving, by 2017, to a tendering system to determine the support level. The feed-in-tariffs for renewable capacity will be reduced. The federal government has also adopted a draft law reviewing the criteria for granting exemptions to energy-intensive industries in view of the Commission's ongoing in-depth investigation of the

⁴⁹ Professional services comprise professional, scientific and technical activities (section M in NACE Rev. 2). With the exception of scientific research and development, real gross value added per head or per working hour has been on a downward trend for at least a decade in those sectors (aggregates MA and MC according to the *WZ* 2008 classification of the Federal Statistical Office).

compatibility of the exemptions with European state-aid rules and the recently adopted Guidelines on State aid for environmental protection and energy 2014-2020.⁵⁰ If implemented in a timely and comprehensive manner, these proposals would contribute to more cost-effective support for renewable energies. In this regard, it is important to monitor their impact, ensure the cost-effective deployment of less-developed technologies, and take due account of cross-border effects in order to limit internal market distortions. Plans in the coalition agreement of the new federal government to develop a capacity mechanism in the medium term could result in higher costs and further internal market distortions, and thus requires a careful assessment and coordination with neighbouring countries.

Successful implementation of the *Energiewende* also requires further action as regards network expansion and coordination with neighbouring countries. Germany has made some progress in accelerating network expansion since last year's recommendation by implementing the Federal Requirements Plan (*Bundesbedarfsplan*) prioritising projects which will benefit from an accelerated approval procedure and granting the federal regulator new competences in planning and approval procedures. However, network expansion is still lagging behind and significant further efforts, including addressing public resistance, are needed on both intra-German infrastructure and cross-border interconnections to better coordinate renewables expansion with grid development and avoid unscheduled flows towards the networks of neighbouring countries. Ongoing efforts to jointly manage unscheduled flows through the installation and operation of phase shift transformers at the Czech and Polish borders are welcome, but the physical interconnection capacity needs to be expanded, further than planned so far, to allow for commercial flows. In particular, it is important to implement the projects of common interest, namely the interconnections between Germany and Poland, and to assess additional interconnection needs with the Czech Republic. As regards the gas network, further enhancements are necessary to improve interconnectivity with neighbouring countries, including reverse flows, and new transport capacity.

Increasing energy efficiency is also important to reduce the overall costs of transforming the energy system. A timely and comprehensive implementation of the Energy Efficiency Directive is therefore important, but the measures notified so far by Germany fall short of the cumulative end-use energy saving target. Residential building is the sector with the highest energy-saving potential. In 2013, legislation was adopted that established ambitious minimum efficiency levels for new buildings and the coalition agreement of the new federal government contained plans to continue providing refurbishment and ecological reconstruction loans, which have been effective in the past. Additional measures could be considered to address the existing building stock. An adequate regulatory framework and economic incentives where appropriate remain important if energy savings targets beyond 2020 are to be achieved.

Transport

Germany has not taken significant steps to improve competition in the railway markets. The *Bundesrat* rejected a draft law aimed at streamlining the principles of network access, easing market access for railway undertakings and granting greater powers to the regulator (*Eisenbahnregulierungsgesetz*). The Commission considers that Germany does not comply with EU rules on financial transparency in the rail sector and has taken Germany to the European Court of Justice. Germany is the only Member State with a system of agreements on the transfer of profits from the infrastructure subsidiaries to the holding. Under the current arrangements, public funds may be used to cross-subsidise passenger and freight train services open to competition, even in other Member States. According to the NRP, the government intends to transpose Directive 2012/34/EU (Recast of the First Railway Package) into national

⁵⁰ C(2014) 2322

law. In the stability programme, the federal government has confirmed plans to extend the use of road charging, where the net revenues would be earmarked for investment in transport infrastructure. If properly designed and in line with the EU principles of non-discrimination and proportionality, such a pricing instrument could contribute to a more efficient use of the road infrastructure in Germany.

Internal market, liberalisation and competition

Policy action has been limited as regards restrictions preventing companies and individual professionals from entering the services markets and exercising their professions. There are still barriers to entering the market and exercising professional services; these include restrictions on legal form and shareholding, and professional qualification requirements.⁵¹ In several craft sectors, there is a requirement to hold a master craftsman's certificate (*Meisterbrief*) or equivalent qualification in order to run a craft business. This may limit competition without always being justified by public interests and affect the professionals' mobility in the EU. It is important to assess the overall impact of the 2004 reform, which lifted this requirement for a number of crafts, including the effects on vocational training and competition. While Germany has undertaken isolated reforms in specific professions and regions, for instance as regards authorisations and commercial communication in the construction sector, the overall situation in the service sector has not changed significantly since last year. Germany has not launched any broader review of its services regulation to determine whether legitimate public-interest objectives such as consumer protection and public safety could be achieved with lighter regulation. Germany is, however, participating in the ongoing mutual evaluation exercise of regulated professions at European level, which provides an opportunity for such a review. The diversity of regulatory arrangements across *Länder* also suggests that there is scope for identifying the least burdensome regulatory approaches and extending them throughout the country. The postal services market continues to be dominated by the partially state-owned incumbent operator and a review of the regulatory framework, *inter alia* to give the national regulator additional powers over price and access control, has been further delayed.

The value of contracts published by the German authorities under EU procurement legislation remains low despite ongoing efforts. Germany has one of the lowest values of contracts published under EU procurement legislation (1.1 % of GDP or 5.7 % of public expenditure on works, goods and services, as compared with 3.4 % or 17.7 % on average in the EU-27 respectively).⁵² This may hinder cost reductions and affect German and European businesses in terms of foregone business opportunities. In response to the country-specific recommendation issued in 2013, the federal government initiated a review of its guidance and, in cooperation with the *Länder*, an assessment of the reasons behind its low publication rate as well as an exchange of best practices. The NRP announces the development of a nationwide database to collect statistical data on procurement procedures. These are steps in the right direction, but further efforts are needed to identify the reasons behind the low publication rate and to open public procurement to EU-wide bidding. While the availability of e-procurement systems throughout Germany is relatively good, the electronic market is highly

⁵¹ According to the OECD Product Market Regulation indicators, professional services — in particular the services of architects, engineers and lawyers — are highly regulated in Germany as compared with most other OECD countries and little progress has been made in this area since 2008 (OECD (2014), *Germany — Keeping the edge: competitiveness for inclusive growth*, OECD Better Policies Series).

⁵² The median contract value in Germany was close to the median value of all EU countries in 2011/2012 (PwC, ICF GHK and Ecorys (2014), *SMEs' access to public procurement markets and aggregation of demand in the EU*, study commissioned by the European Commission). This together with the low aggregate value suggests that the total number of contracts published in Germany under EU procurement legislation was comparatively low.

fragmented, making it difficult for economic operators to participate in public procurement procedures. A comprehensive strategy to foster the transition to a transparent e-procurement market, making full use of available technological solutions to foster interoperability, could increase competition among tenderers and ultimately reduce costs.

Despite the overall good performance of the retail sector, planning regulations in certain *Länder* continue to restrict market entry for large retail outlets. The usage of economic criteria sometimes applied in the authorisation procedures to assess the impact of large outlets on city and town centres may hamper market entries and favour certain types of retailer. No measures have been taken to address this issue and the NRP does not announce any measure. The 2013 amendments to the Federal Building Code, which were aimed at fostering the further development of city centres, did not address it. The current EU peer review on retail establishment provides an opportunity to identify best practices that could guide future reforms in Germany.

There is scope for taking greater advantage of the growth potential of information and communication technologies. Although Germany is one of the leading countries in the EU as regards fourth-generation (4G) mobile network availability, it lags behind in the share of fixed very fast broadband lines (next-generation access, Fibre/LAN subscriptions), compared with other economies such as South Korea or Japan.⁵³ The NRP has announced, in the context of the Digital Agenda 2014-2017, further development of the broadband strategy with a view to accelerating the expansion of broadband lines. In this context, it will be important to ensure a competitive and investment-friendly environment and to incentivise broadband roll-out where necessary.

Research and innovation

Germany is one of the EU's innovation leaders, but regional disparities are large. The country is the second best performer in the EU according to the new European Innovation Output Indicator.⁵⁴ Germany is close to achieving its R&D expenditure target of 3 % of GDP, but other leading innovative economies are investing even more (see Section 3.1). Significant disparities exist in innovation performance and expenditure at regional level, especially as regards private investment in R&D, with the eastern *Länder* in general lagging behind. Regional clusters aiming at smart specialisation to address disparities in R&D intensity lead in the right direction. The planned extension of the High-Tech Strategy could support innovation in future markets.

Lack of finance and skills shortages are hindering the growth of start-up companies, including in high-tech sectors. The federal government supports fast-growing, innovative start-up companies through financing instruments such as investment grants and micro mezzanine funds. As signalled in the NRP, it intends to improve the regulatory framework and review the legal and tax rules for venture capital in order to improve international competitiveness. This would be a welcome step and could contribute to stimulating private investment and entrepreneurship. Adapting the education and training system to the changing requirements of technology and innovation, and raising labour supply of skilled labour, will be crucial to avoiding shortages of qualified staff in high-tech industries. Germany is taking initiatives aimed at attracting and retaining students and academics from abroad, but more

⁵³ OECD Broadband Statistics.

⁵⁴ COM(2013) 624 final.

efforts are needed, including to encourage talented women in science and technology and to curb the increasing relocation of leading researchers abroad.⁵⁵

3.5. Modernisation of public administration

The business environment is generally favourable, but there is still room for improvement in certain areas. Despite efforts to further reduce the administrative burden, estimated compliance costs increased by EUR 1.5 billion between July 2012 and June 2013, on top of a EUR 0.7 billion increase the year before.⁵⁶ Not all measures agreed in December 2011 by the federal government have been implemented. In line with the AGS priorities, defining a new target for additional simplification measures could help stimulate this process. There may be room for further improvement with respect to the time and cost of starting a business and obtaining the necessary licences. Although the 2011 Tax Simplification Act brought about some improvement and the new federal government plans measures to increase the current low rates of electronic tax filing and pre-filing of tax returns,⁵⁷ SMEs in particular would benefit from further simplification of the tax system and reforms of tax administration, including better coordination across *Länder*.⁵⁸

Although public administration in Germany is generally efficient, the availability of online public services remains below the EU average. This could burden SMEs and put a brake on business formation, especially with regard to start-ups which cannot afford high compliance costs. Initiatives such as the E-Government Act lead in the right direction. The ‘points of single contact’ system does not exploit possible synergies with existing e-government solutions, and differences persist in terms of availability of information, the possibility of completing procedures online and functionality. This affects service providers, including those from other Member States. It is important that the federal government works with the *Länder* to ensure high standards so that service providers can benefit from the simplified administrative environment across Germany. The use of e-signatures could also be improved.

Box 3. Conclusions from the March 2014 in-depth review on Germany

The first in-depth review on Germany under the Macroeconomic Imbalances Procedure was published on 5 March 2014.⁵⁹ On the basis of this review, the Commission concluded that Germany is experiencing macroeconomic imbalances, which require monitoring and policy action. The in-depth review highlights that the economy has recorded a large current-account surplus of about 6-7 % of GDP since 2007, which is not projected to fall below 6 % over the coming years. A current-account surplus is in line with the structural characteristics of the German economy. However, the pace at which it has been accumulated

⁵⁵ *Expertenkommission Forschung und Innovation* (2014), *Gutachten zu Forschung, Innovation und Technologischer Leistungsfähigkeit Deutschlands*.

⁵⁶ *Nationaler Normenkontrollrat* (2013), *Kostentransparenz verbessert, Entlastung forcieren. Jahresbericht 2013*. Regulations in the context of the energy transition (*Energiewende*) and in the financial markets were the main drivers of the increase in compliance costs.

⁵⁷ OECD (2013), *Tax administration 2013: Comparative information on OECD and other advanced and emerging economies*.

⁵⁸ According to a ranking of tax arrangements across 189 economies in terms of the ease of paying taxes, the time required by a medium-sized case-study company in Germany to comply with tax requirements amounted to 218 hours in 2012, against an EU/EFTA average of under 180 hours. In particular, the number of hours needed to comply with labour taxes, including social security contributions, is relatively high in Germany (PwC and World Bank/IFC (2013), *Paying taxes 2014: The global picture — A comparison of tax systems in 189 economies worldwide*).

⁵⁹ European Commission (2014), *Macroeconomic imbalances — Germany 2014*, European Economy, Occasional Papers, No 174.

and its persistence even during a time of adjustment within the euro area cannot be fully explained by factors that usually drive the current account.

The surplus is the result of an interplay of various factors and developments in Germany as well as globally and among its euro-area partners, which affected saving and investment in the domestic economy. Over the course of a decade, these factors caused household savings to increase and have tamed consumption growth, while at the same time denting business investment and driving up firms' net savings. The expansion of Germany's current-account surplus can thus predominantly be traced back to the private sector. In the public sector, a persistently low and declining level of investment stands out. The result has been muted domestic demand and a weaker growth performance than could have been attained with a more balanced growth pattern.

The in-depth review therefore suggests that a key challenge is to identify and implement measures that help strengthen domestic demand and the economy's growth potential. This would involve additional measures to reduce the backlog in public investment, while keeping up efforts to support human capital formation and safeguard innovation potential in the economy. Further steps to improve the business environment and more efficient corporate taxation would support private investment. Steps to further reduce disincentives to work could support labour supply and raise workers' income. Mapping out initiatives to ensure investment and productivity growth in the service sector should also yield potential gains.

4. CONCLUSIONS

Domestic demand amid sound fundamentals remains the driver of the solid expansion of the German economy. Notably, favourable financing conditions and dissipating uncertainty support a gradual recovery in equipment investment, while the robust labour market and low interest rates support private consumption and housing investment. Amid continued robust employment growth and despite increasing participation rates and still-high net immigration, unemployment is low and decreasing. Domestic price pressures remain in place alongside increasing labour market tightness, while falling energy prices have dampened headline inflation.

The new federal government is making a number of reforms, but overall Germany has made limited progress in addressing last year's country-specific recommendations. Germany has preserved a sound fiscal position, but has made limited progress in enhancing the growth-friendliness of public expenditure and the tax system. The recent pension reform is aimed at improving pensions and early retirement conditions for certain groups, but puts an additional strain on the sustainability of the pension system and leads to increased pension contributions and thus potentially to a higher tax wedge for the active labour force, including low-wage earners. Germany has made limited progress in improving incentives to work and the employability of workers. The government plans to introduce a general minimum wage of EUR 8.50 an hour, which could have a positive impact on wages at the low end of the distribution, and to increase the coverage of collective bargaining agreements. However, potential employment effects, together with the interaction with taxation and benefits and potentially higher prices, could reduce the impact of the minimum wage in terms of supporting disposable income and domestic demand, especially over time. The federal government has adopted a proposal for a revision of the Renewable Energy Act. If implemented in a timely and comprehensive manner, this would contribute to increase the cost-effectiveness of the support for renewable energies. The government has not taken significant measures to increase competition in the service and railway sectors.

Despite the current overall favourable economic situation, challenges identified in July 2013 and reiterated in the Annual Growth Survey remain. In particular, the projected significant decline in the workforce due to demographic change is expected to affect potential growth. Moreover, the potential risks associated with the far-reaching transformation of the energy system could hinder the country's economic performance going forward. There are still inefficiencies in some spending policies and in the tax system. Barriers to competition persist in some sectors. The recently published in-depth review finds that Germany persistently accumulates large current-account surpluses as a result of an interplay of various factors and developments in all economic sectors, as well as globally and among its euro-area partners, which affect saving and investment in the domestic economy. The German economy would benefit from identifying and implementing measures that help strengthen domestic demand and the economy's growth potential.

The policy plans submitted by Germany in the national reform programme and the stability programme aim to address the challenges identified in last year's staff working document. Broad coherence between the national reform programme and the stability programme has been ensured. The national reform programme announces Germany's plans to address shortcomings in the areas of labour market and education, energy, public procurement and the service, railway and financial sectors. The stability programme confirms Germany's commitment to comply with the medium-term objective and ensure the long-run sustainability of public finances in line with the Stability and Growth Pact. Overall, however, planned measures do not address the challenges in a comprehensive way.

OVERVIEW TABLE

2013 commitments	Summary assessment ⁶⁰
Country-specific recommendations	
<p>CSR 1: Preserve a sound fiscal position as envisaged which ensures compliance with the medium-term objective over the programme horizon. Pursue a growth-friendly fiscal policy through additional efforts to enhance the cost-effectiveness of public spending on healthcare and long-term care through better integration of care delivery and a stronger focus on prevention and rehabilitation and independent living. Improve the efficiency of the tax system, in particular by broadening the VAT base and by reassessing the municipal real estate tax base; use the available scope for increased and more efficient growth-enhancing spending on education and research at all levels of government. Complete the implementation of the debt brake in a consistent manner across all <i>Länder</i>, ensuring that monitoring procedures and correction mechanisms are timely and relevant.</p>	<p>Germany has made some progress in addressing CSR 1:</p> <ul style="list-style-type: none"> • The recommendation to preserve a sound fiscal position has been fully addressed. Germany recorded a balanced budget and a structural surplus in 2013. It plans continued compliance with the medium-term budgetary objective and to steadily bring down the debt-to-GDP ratio over the programme period. • Limited progress in enhancing the cost-effectiveness of public spending on healthcare and long-term care. Measures containing price increases for pharmaceuticals have been prolonged. New measures aimed at improving the quality and cost-effectiveness of healthcare have been announced but not yet specified. • No progress in improving the efficiency of the tax system. No major measures have been taken or announced to shift towards more growth-friendly revenue sources. • Limited progress in raising expenditure on education and some progress as regards more research spending. The federal government plans continued contributions to the financing of educational infrastructure, but the share of public spending on education in GDP remains below-average. In contrast, the share of public and private expenditure on R&D in GDP has increased in recent years. • Some progress in completing the ‘debt brake’. Two more <i>Länder</i> have amended their constitutions and two further <i>Länder</i> have laid down specific implementing rules.
<p>CSR 2: Sustain conditions that enable wage growth to support domestic demand. To this purpose, reduce high taxes and social security contributions, especially for low-wage earners and raise the educational achievement</p>	<p>Germany has made limited progress in addressing CSR 2:</p> <ul style="list-style-type: none"> • Some progress in sustaining conditions that enable wage growth to support domestic

⁶⁰ The following categories are used to assess progress in implementing the 2013 country-specific recommendations:

No progress: The Member State has neither announced nor adopted any measures to address the country-specific recommendation. This category also applies if a Member State has commissioned a study group to evaluate possible measures.

Limited progress: The Member State has announced some measures to address the country-specific recommendation, but these measures appear insufficient and/or their adoption/implementation is at risk.

Some progress: The Member State has announced or adopted measures to address the country-specific recommendation. These measures are promising, but not all of them have been implemented yet and implementation is not certain in all cases.

Substantial progress: The Member State has adopted measures, most of which have been implemented. These measures go a long way in addressing the country-specific recommendation.

Fully addressed: The Member State has adopted and implemented measures that address the country-specific recommendation appropriately.

of disadvantaged people. Maintain appropriate activation and integration measures, especially for the long-term unemployed. Facilitate the transition from non-standard employment such as mini-jobs into more sustainable forms of employment. Take measures to improve incentives to work and the employability of workers, in particular for second earners and the low-skilled, also with a view to improving their income. To this end, remove disincentives for second earners and further increase the availability of full-time childcare facilities and all-day schools.

demand. Wages have increased in recent years and are expected to continue growing.

- Limited progress in reducing the high tax wedge, especially for low-wage earners. The increase in the basic income tax allowance slightly reduced the tax burden on labour and curbed the impact of fiscal drag only partially. The recent pension reform leads to increased pension contributions and thus potentially to a higher tax wedge.
- Some progress in raising the educational achievement of disadvantaged people. The NRP reports on efforts by the federal government and the *Länder* to tackle educational disadvantage.
- Limited progress in maintaining appropriate activation and integration measures. Some measures are being taken, but Germany has not assessed the effectiveness of the 2011 reform of active labour instruments.
- Limited progress in facilitating the transition from non-standard employment to more sustainable forms of employment. The NRP announces measures related to the maximum duration and payment of temporary work, the mini-jobs and the right to return from part-time to full-time work, but these measures are not further specified.
- No progress in removing disincentives for second earners. The announced further promotion of the option of shifting the allocation of the basic income-tax allowance between spouses (*Faktorverfahren*) is likely to have only a limited impact, since the annual tax burden remains unchanged.
- Some progress in further increasing the availability of full-time childcare facilities. The quantity of childcare facilities has grown rapidly and additional funds for investment in childcare are planned.
- Limited progress in increasing the availability of all-day schools. Despite *Länder* efforts to improve the provision of all-day schools, there appears to be scope for improvement.

CSR 3: Improve the coordination of the energy policy with neighbouring countries and keep the overall costs of transforming the energy system to a minimum, in particular by further reviewing the cost-effectiveness of energy policy instruments designed to achieve the renewable energy targets and by continuing efforts to accelerate the expansion of the national and cross-border electricity and gas networks.

Some progress has been made in addressing CSR 3:

- Some progress in improving the coordination of energy policy with neighbouring countries. Some measures are being taken to improve coordination with neighbouring countries, e.g. to jointly manage unscheduled flows at the Czech and Polish borders.
- Some progress in reviewing the cost-effectiveness of energy policy instruments designed to achieve the renewable energy targets. The federal government has adopted a proposal for a revision of the Renewable Energy Act that could contribute to increasing the cost-effectiveness of the support for

	<p>renewable energy.</p> <ul style="list-style-type: none"> • Some progress in accelerating the expansion of the national and cross-border electricity and gas networks. The Federal Requirements Plan (<i>Bundesbedarfsplan</i>) has been implemented and the federal regulator has been granted new competences, but network expansion is still lagging behind.
<p>CSR 4: Take measures to further stimulate competition in the services sectors, including certain crafts — in the construction sector in particular — and professional services to boost domestic sources of growth. Take urgent action to significantly increase the value of public contracts open to procurement. Adopt and implement the announced legislative reform to improve the enforcement of competition law regarding competition restrictions. Remove planning restrictions which unduly restrict new entries in the retail sector. Take further measures to eliminate the remaining barriers to competition in the railway markets. Pursue efforts for consolidation in the banking sector, including by improving the governance framework.</p>	<p>Germany has made limited progress in addressing CSR 4:</p> <ul style="list-style-type: none"> • Limited progress in taking measures to further stimulate competition in the service sector. Germany has undertaken isolated reforms in specific professions and regions. • Limited progress in increasing the value of public contracts open to procurement. Steps in the right direction, including the development of a database on procurement procedures. • Full implementation of improved enforcement of competition law as regards competition restrictions. The revised Act against Competition Restrictions came into force in 2013. • No progress in removing planning regulations that unduly restrict new entries in the retail sector. No measures have been taken. • Limited progress in taking further measures to eliminate the remaining barriers to competition in the railway markets. No significant steps to improve competition in the railway markets. The NRP announces the transposition of European legislation into national law. • Limited progress in pursuing efforts for consolidation in the banking sector, including by improving the governance framework. While Commission state-aid decisions have driven the restructuring of <i>Landesbanken</i>, no major measures have been taken to address possible impediments to market-driven consolidation in the public banking sector.
<p>Europe 2020 (national targets and progress)</p>	
<p>Policy field target</p>	<p>Progress achieved</p>
<p>Employment rate target: 77% of the population aged 20-64</p>	<p>Employment rate for population aged 20-64: 76.3 % in 2011, 76.7 % in 2012 and 77.1 % in 2013. Employment rate among women: 71.1 % in 2011, 71.5 % in 2012 and 72.3 % in 2013 (national target: 73 %). Employment rate for population aged 55-64: 59.9 % in 2011, 61.5 % in 2012 and 63.5 % in 2013 (national target: 60 %). The overall target was reached in 2013 and the trend for both subgroups is positive.</p>
<p>R&D target: 3 % of GDP</p>	<p>Gross domestic expenditure on R&D increased from 2.51 % of GDP in 2005 to 2.89 % of GDP in 2011 and estimated 2.98 % of GDP in 2012.</p>

	Germany clearly progressed in achieving the 3 % R&D target and by 2012 had almost reached it.
Greenhouse gas emissions target: -14 % (as compared with 2005 emissions; ETS emissions are not covered by this national target)	Change in non-ETS greenhouse gas emissions between 2005 and 2012 (estimated): - 6.5 %. According to the latest national projections submitted to the Commission and taking into account existing measures, non-ETS emissions will be 13 % lower in 2020 than in 2005. Hence, it is expected that the target will be missed by a margin of less than one percentage point.
Renewable energy target: 18 % Share of renewable energy in the transport sector: 10 %	Share of renewable energy in gross final energy consumption: 11.6 % in 2011 and 12.4 % in 2012 (6.1 % in transport for both 2011 and 2012). Progress towards both targets seems good for now.
Indicative national energy efficiency target: annual improvement of energy intensity (energy productivity) by 2.1 % pa on average until 2020. The absolute level of energy consumption in 2020 was determined to be at 276.6 Mtoe (primary energy consumption) respectively 194.3 Mtoe (final energy consumption).	This target is less ambitious than that established in the national Energy Concept of September 2010 (primary energy consumption to decrease by 20 % and power consumption by 10 % as compared with 2008). Germany has notified the policy measures it plans to adopt to implement Article 7 of the Energy Efficiency Directive.
Early school leaving target: < 10 %	Early leavers from education and training: 11.7 % of the population aged 18-24 in 2011, 10.6 % in 2012 and 9.9 % in 2013. Germany has already achieved the target. Male early school leaving (10.4 %) is still 1 % higher than female early school leaving, but the gap has narrowed by 0.2 %.
Tertiary education target: 42 % of the population aged 30-34	Tertiary education attainment: 30.7 % in 2011, 32 % in 2012 and 33.1 % in 2013 against EU average of 36.8 % (according to definition of headline target); 42.2 % in 2011 and 43.5 % in 2012 including ISCED 4 (according to definition of national target and the NRP). The growth path is expected to continue and might accelerate given the current enrolment numbers.
Risk-of-poverty or social exclusion target: 20 % reduction in the number of long-term unemployed by 2020 as compared with 2008 (i.e. reduction by 320 000 long-term unemployed)	Reduction in the number of long-term unemployed: 484 000 in 2011, 607 000 in 2012 and 641 000 in 2013 as compared with 2008. ⁶¹ The number of long-term unemployed decreased by around 38 % between 2008 and 2013. Germany has already fulfilled the national Europe 2020 target.

⁶¹ Commission services calculations based on annual data from the Labour Force Survey of Eurostat.

ANNEX

Standard Tables

Table I. Macroeconomic indicators

	1996-2000	2001-2005	2006-2010	2011	2012	2013	2014	2015
Core indicators								
GDP growth rate	1.9	0.6	1.4	3.3	0.7	0.4	1.8	2.0
Output gap ¹	0.0	-0.8	-0.4	0.6	-0.1	-1.1	-0.7	-0.3
HICP (annual % change)	1.1	1.6	1.6	2.5	2.1	1.6	1.1	1.4
Domestic demand (annual % change) ²	1.7	-0.4	1.2	2.8	-0.3	0.5	1.8	2.2
Unemployment rate (% of labour force) ³	8.9	9.6	8.3	5.9	5.5	5.3	5.1	5.1
Gross fixed capital formation (% of GDP)	21.3	18.2	17.9	18.1	17.6	17.2	17.7	18.0
Gross national saving (% of GDP)	20.7	20.9	24.6	24.5	24.3	24.1	24.2	24.4
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-1.8	-3.6	-1.8	-0.8	0.1	0.0	0.0	-0.1
Gross debt	60.0	63.8	71.4	80.0	81.0	78.4	76.0	73.6
Net financial assets	-33.5	-43.4	-46.7	-50.4	-50.5	n.a	n.a	n.a
Total revenue	45.9	44.0	44.1	44.3	44.8	44.7	44.6	44.3
Total expenditure	47.7	47.6	45.8	45.2	44.7	44.7	44.6	44.5
<i>of which: Interest</i>	3.3	3.0	2.7	2.5	2.4	2.2	2.0	1.8
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-2.6	0.8	2.4	1.9	1.8	2.4	2.6	2.7
Net financial assets; non-financial corporations	-54.0	-52.6	-57.8	-52.7	-54.0	n.a	n.a	n.a
Net financial assets; financial corporations	-2.7	-5.5	-1.4	7.6	8.5	n.a	n.a	n.a
Gross capital formation	11.8	10.6	10.5	10.3	9.5	9.0	8.9	9.3
Gross operating surplus	21.3	22.9	24.8	24.3	23.2	23.2	23.6	24.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	3.4	5.6	5.9	5.0	5.1	5.0	4.7	4.5
Net financial assets	91.1	105.0	119.3	121.0	126.5	n.a	n.a	n.a
Gross wages and salaries	43.5	42.6	40.9	41.4	42.3	42.4	42.4	42.5
Net property income	11.2	12.4	14.1	14.1	13.8	13.6	13.6	13.7
Current transfers received	22.6	23.2	21.7	20.9	20.8	20.7	20.5	20.3
Gross saving	10.8	11.0	11.6	11.3	11.3	11.1	11.0	10.9
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-0.9	2.7	6.5	6.1	7.0	7.4	7.3	7.0
Net financial assets	0.1	-1.7	-10.3	-20.5	-25.4	n.a	n.a	n.a
Net exports of goods and services	1.0	4.1	5.9	5.2	5.9	6.3	6.5	6.2
Net primary income from the rest of the world	-1.0	-0.3	1.9	2.3	2.4	2.4	2.4	2.4
Net capital transactions	0.1	0.0	0.0	-0.2	-0.1	0.0	0.0	0.0
Tradable sector	41.5	41.7	41.3	40.6	40.5	40.1	n.a	n.a
Non tradable sector	48.8	48.5	48.3	48.8	49.0	49.6	n.a	n.a
<i>of which: Building and construction sector</i>	5.3	4.0	3.8	4.2	4.2	4.2	n.a	n.a
Real effective exchange rate (index, 2000=100)	109.3	100.4	96.0	94.3	93.2	96.9	99.4	99.9
Terms of trade goods and services (index, 2000=100)	101.4	100.6	99.3	97.3	96.9	98.2	98.8	98.7
Market performance of exports (index, 2000=100)	91.5	97.7	107.9	116.3	120.0	120.1	122.1	122.7
Notes:								
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.								
² The indicator on domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
Source:								
<i>Commission 2014 spring forecast (COM); Stability programme (SP).</i>								

Table II. Comparison of macroeconomic developments and forecasts

	2013		2014		2015		2016	2017	2018
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	0.4	0.4	1.8	1.8	2.0	2.0	1½	1½	1½
Private consumption (% change)	0.9	0.9	1.5	1.4	1.8	1.6	1¼	1¼	1¼
Gross fixed capital formation (% change)	-0.7	-0.7	4.5	3.5	4.5	5.0	2¾	2¾	2¾
Exports of goods and services (% change)	0.8	0.8	5.0	4.1	5.6	4.8	4¾	4¾	4¾
Imports of goods and services (% change)	0.9	0.9	5.4	5.0	6.5	5.5	5¼	5¼	5¼
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	0.5	0.7	1.9	1.8	2.0	2.1	1½	1½	1½
- Change in inventories	-0.1	0.0	-0.2	0.1	0.0	0.0	0	0	0
- Net exports	0.0	-0.3	0.1	-0.1	0.0	0.0	0	0	0
Output gap ¹	-1.1	-1.0	-0.7	-0.9	-0.3	-0.6	-0.5	-0.4	-0.4
Employment (% change)	0.6	0.6	0.6	0.6	0.3	0.3	¼	¼	¼
Unemployment rate (%)	5.3	5.1	5.1	4.9	5.1	4.9	4½	4¼	4
Labour productivity (% change)	-0.1	-0.1	1.3	1.2	1.6	1.7	1¼	1¼	1¼
HICP inflation (%)	1.6	n.a.	1.1	n.a.	1.4	n.a.	n.a.	n.a.	n.a.
GDP deflator (% change)	2.2	2.2	1.6	1.7	1.6	1.7	1¾	1¾	1¾
Comp. of employees (per head, % change)	2.0	2.0	2.9	2.6	3.3	3.1	2¾	2¾	2¾
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.4	7.4	7.3	6.8	7.0	6.5	6¼	6¼	6
<p><u>Note:</u></p> <p>¹In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.</p> <p><u>Source :</u></p> <p>Commission 2014 spring forecast (COM); Stability programme (SP).</p>									

Table III. Composition of the budgetary adjustment

(% of GDP)	2013	2014		2015		2016	2017	2018	Change : 2013-2018
	COM	COM	SP	COM ¹	SP	SP	SP	SP	SP
Revenue	44.7	44.6	44½	44.3	44	44	44	44	-½
<i>of which:</i>									
- Taxes on production and imports	11.1	10.9	11	10.7	11	11	10½	10½	-½
- Current taxes on income, wealth, etc.	12.2	12.4	12½	12.5	12½	12½	12½	12½	½
- Social contributions	16.8	16.6	16½	16.5	16½	16½	17	17	0
- Other (residual)	4.7	4.7	4½	4.6	4	4	4	4	-1
Expenditure	44.7	44.6	44½	44.5	44	44	44	43½	-1
<i>of which:</i>									
- Primary expenditure	42.5	42.6	42½	42.6	42½	42	42	42	-½
<i>of which:</i>									
Compensation of employees	12.5	12.5	12½	12.5	12½	12	12	12	-1
Intermediate consumption									
Social payments	24.3	24.3	24½	24.3	24½	24½	24½	24½	0
Subsidies	0.9	0.9	1	0.9	1	1	1	1	0
Gross fixed capital formation	1.6	1.6	1½	1.6	1½	1½	1½	1½	0
Other (residual)	3.2	3.3	3	3.3	3	3	3	3	0
- Interest expenditure	2.2	2.0	2	1.8	2	2	2	2	-½
General government balance (GGB)	0.0	0.0	0	-0.1	0	0	½	½	½
Primary balance	2.2	2.0	2	1.7	2	2	2	2	0
One-off and other temporary measures	0.0	0.0	0	0.0	0	0	0	0	0
GGB excl. one-offs	0.0	0.0	0	-0.1	0	½	½	½	½
Output gap ²	-1.1	-0.7	-0.9	-0.3	-0.6	-0.5	-0.4	-0.4	0.7
Cyclically-adjusted balance ²	0.6	0.4	0.6	0.0	0.4	0.5	0.5	0.5	-0.1
Structural balance (SB)³	0.6	0.5	0.6	0.0	0.4	0.5	0.5	0.5	-0.1
<i>Change in SB</i>	<i>0.4</i>	<i>-0.2</i>	<i>0.0</i>	<i>-0.4</i>	<i>-0.2</i>	<i>0.1</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>
<i>Two year average change in SB</i>	<i>0.8</i>	<i>0.1</i>	<i>0.2</i>	<i>-0.3</i>	<i>-0.1</i>	<i>-0.1</i>	<i>0.0</i>	<i>0.0</i>	<i>-</i>
Structural primary balance ³	2.8	2.4	2.6	1.9	2.2	2.3	2.3	2.4	-0.4
<i>Change in structural primary balance</i>		<i>-0.4</i>	<i>-0.2</i>	<i>-0.6</i>	<i>-0.4</i>	<i>0.1</i>	<i>0.0</i>	<i>0.1</i>	<i>-</i>
Expenditure benchmark									
Applicable reference rate ⁴	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Deviation ⁵ (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-
Two-year average deviation (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-

Notes:

¹On a no-policy-change basis.

²Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

³Structural (primary) balance = cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

⁴Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A lower rate applies as long as the country is adjusting towards its MTO, including in year t. The reference rates applicable to 2014 onwards have been updated in 2013.

⁵Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source:

Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2008-2012	2013	2014		2015		2016	2017	2018
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio¹	77.0	78.4	76.0	76	73.6	72½	70	67½	65
Change in the ratio	3.2	-2.6	-2.4	-2½	-2.5	-3	-3	-2½	-2½
<i>Contributions² :</i>									
1. Primary balance	-1.0	-2.2	-2.0	-2.1	-1.7	-1.9	-2.0	-2.1	-2.2
2. “Snow-ball” effect	1.1	0.1	-0.6	-0.6	-0.8	-0.9	-0.4	-0.2	-0.1
<i>Of which:</i>									
Interest expenditure	2.6	2.2	2.0	1.9	1.8	1.8	1.8	1.8	1.9
Growth effect	-0.6	-0.3	-1.4	-1.4	-1.5	-1.5	-1.0	-0.9	-0.9
Inflation effect	-0.8	-1.8	-1.2	-1.2	-1.2	-1.2	-1.2	-1.1	-1.1
3. Stock-flow adjustment	3.0	-0.5	0.3	0.1	0.0	-0.3	-0.4	-0.1	0.1
<i>Of which:</i>									
Cash/accruals diff									
Acc. financial assets									
Privatisation									
Val. effect & residual									
		2013	2014		2015		2016	2017	2018
			COM	SP	COM	SP	SP	SP	SP
Gap to the debt benchmark^{3,4}		n.a.	n.a.	n.a.	-4.3	-5.8	-5.0	n.a.	n.a.
Structural adjustment⁵		0.4	-0.2	0.0	n.a.	n.a.	n.a.	n.a.	n.a.
<i>To be compared to:</i>									
Required adjustment ⁶		-1.3	-4.1	-4.4	n.a.	n.a.	n.a.	n.a.	n.a.
<i>Notes:</i>									
¹ End of period.									
² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.									
³ Not relevant for Member States that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.									
⁴ Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.									
⁵ Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.									
⁶ Defines the remaining annual structural adjustment over the transition period which ensures that - if followed - Member State will comply with the debt reduction benchmark at the end of the transition period, assuming that COM (SP/CP) budgetary projections for the previous years are achieved.									
<i>Source:</i>									
Stability programme (SP); Commission 2014 spring forecast (COM); Commission calculations.									

Table V. Sustainability indicators

	Germany			European Union		
	2013 scenario	No-policy-change scenario	Stability programme scenario	2013 scenario	No-policy-change scenario	Stability programme scenario
S2*	1.0	2.1	1.6	2.4	2.4	0.7
<i>of which:</i>						
Initial budgetary position (IBP)	-1.4	-0.5	-0.8	0.5	0.4	-1.3
Long-term cost of ageing (CoA)	2.4	2.5	2.4	1.9	2.0	2.0
<i>of which:</i>						
pensions	1.5	1.5	1.4	0.7	0.8	0.9
healthcare	1.0	0.9	0.7	0.9	0.9	0.8
long-term care	0.1	0.1	0.1	0.6	0.6	0.6
others	-0.1	0.0	0.2	-0.4	-0.4	-0.3
S1**	-1.1	0.1	-0.6	1.5	1.7	-0.2
<i>of which:</i>						
Initial budgetary position (IBP)	-2.8	-1.6	-1.7	-0.2	-0.4	-2.0
Debt requirement (DR)	1.0	0.8	0.4	1.5	1.8	1.5
Long-term cost of ageing (CoA)	0.7	0.8	0.8	0.2	0.3	0.3
S0 (risk for fiscal stress)***	0.02	:	:	:	:	:
Debt as % of GDP (2013)	78.4			88.9		
Age-related expenditure as % of GDP (2013)	24.6			25.8		

Source: Commission; 2014 stability programme.

Note: The 2013 scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2013 in line with the Commission's 2014 spring forecast. The 'no-policy-change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves until 2015 in line with the Commission's 2014 spring forecast. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented. Age-related expenditure as given in the 2012 Ageing Report.

* The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: (i) the initial budgetary position (IBP), which gives the gap vis-à-vis the debt-stabilising primary balance and (ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that, in an infinite horizon, the growth in the debt ratio is bound by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds were used for the S2 indicator: (i) if the value of S2 is lower than 2, the country is classed as low risk; (ii) if it is between 2 and 6, it is classed as medium risk; and (iii) if it is greater than 6, it is classed as high risk.

** The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady improvement in the structural primary balance in the period to 2020 and then sustained for a decade, to bring debt ratios back to 60% of GDP in 2030, including financing for any additional expenditure by the target date, arising from population ageing. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is classed as low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 pp of GDP per year until 2020 after the last year covered by the 2014 spring forecast (2015) is required (indicating a cumulated adjustment of 2.5 pp), it is classed as medium risk; and (iii) if the S1 value is greater than 2.5 (i.e. a structural adjustment of more than 0.5 pp of GDP per year is necessary), it is classed as high risk.

*** The S0 indicator reflects up-to-date evidence on the role played by fiscal and financial competitiveness variables in creating potential fiscal risks. The methodology for the S0 indicator differs fundamentally from that for the S1 and S2 indicators. Unlike S1 and S2, S0 is not a quantification of the required fiscal adjustment effort, but a composite indicator which estimates the extent to which there might be a risk of fiscal stress in the short term. The critical threshold for the S0 indicator is 0.43.

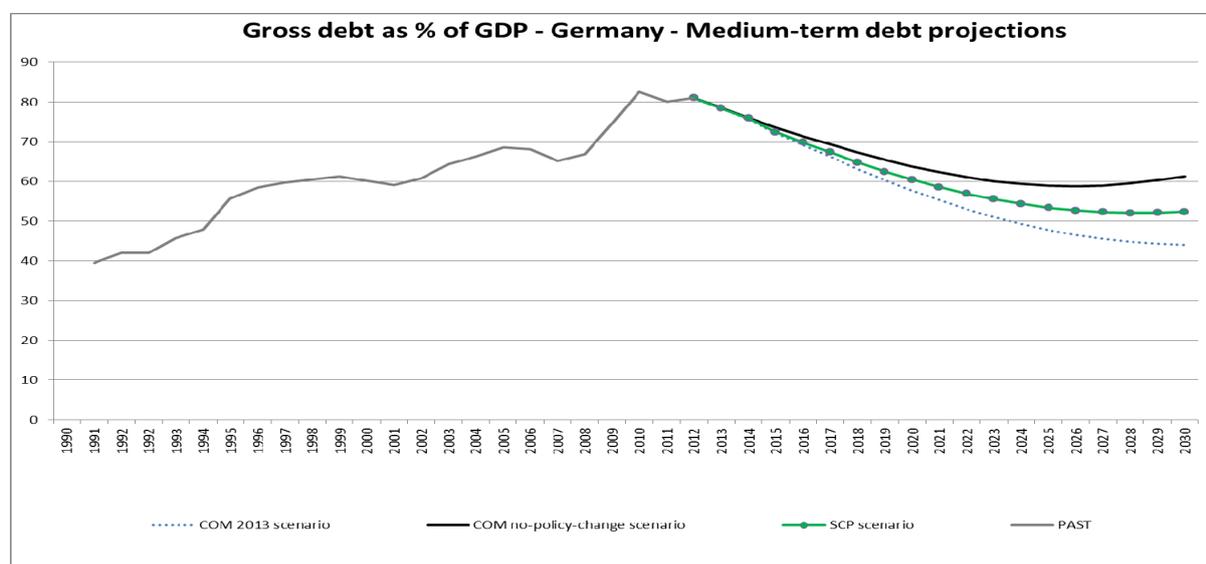


Table VI. Taxation indicators

	2002	2006	2008	2010	2011	2012
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	38.9	38.6	38.9	38.0	38.5	39.1
Breakdown by economic function (% of GDP) ¹						
Consumption	10.4	10.2	10.7	10.7	10.9	10.8
of which:						
- VAT	6.4	6.4	7.1	7.2	7.3	7.3
- excise duties on tobacco and alcohol	0.8	0.8	0.7	0.7	0.7	0.7
- energy	2.2	2.0	1.8	1.9	1.8	1.8
- other (residual)	1.0	1.0	1.1	1.0	1.1	1.1
Labour employed	20.7	19.0	19.2	18.9	18.9	19.5
Labour non-employed	2.9	2.9	2.7	2.7	2.6	2.6
Capital and business income	3.8	5.4	5.3	4.5	5.1	5.1
Stocks of capital/wealth	1.0	1.1	1.0	1.0	1.0	1.1
<i>p.m.</i> Environmental taxes ²	2.5	2.4	2.2	2.2	2.2	2.2
VAT efficiency ³						
Actual VAT revenues as % of theoretical revenues at standard rate	56.5	56.9	55.6	54.4	55.3	55.1

Note:

1. Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2014), *Taxation trends in the European Union*, for a more detailed explanation.

2. This category comprises taxes on energy, transport and pollution, and resources included in taxes on consumption and capital.

3. The VAT efficiency is measured via the VAT revenue ratio. It is defined as the ratio between the actual VAT revenue collected and the revenue that would be raised if VAT was applied at the standard rate to all final (domestic) consumption expenditures, which is an imperfect measure of the theoretical pure VAT base. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). It should be noted that the relative size of cross-border shopping compared to domestic consumption also influences the value of the ratio, notably for smaller economies. See European Commission (2012), *Tax reforms in EU Member States* and OECD (2012), *Consumption tax trends* for a more detailed discussion.

Source: Commission

Table VII. Financial market indicators

	2009	2010	2011	2012	2013
Total assets of the banking sector (% of GDP)	313.2	332.9	321.6	308.5	275.0
Share of assets of the five largest banks (% of total assets)	25.0	32.6	33.5	33.0	-
Foreign ownership of banking system (% of total assets)	10.7	10.9	11.5	12.2	-
Financial soundness indicators:					
- non-performing loans (% of total loans) ¹⁾	3.3	3.2	3.0	2.9	-
- capital adequacy ratio (%) ²⁾	14.8	16.1	16.4	17.9	19.1
- return on equity (%) ³⁾	5.0	8.8	13.0	10.8	-
Bank loans to the private sector (year-on-year % change)	0.0	0.0	2.0	1.1	0.5
Lending for house purchase (year-on-year % change)	0.2	0.7	1.2	1.9	2.0
Loan to deposit ratio	87.6	84.7	83.4	82.5	80.1
CB liquidity as % of liabilities	3.7	1.7	1.3	1.2	1.0
Banks' exposure to countries receiving official financial assistance (% of GDP) ⁴⁾	16.6	12.0	9.2	7.3	6.0
Private debt (% of GDP)	116.5	110.6	107.1	106.7	-
Gross external debt (% of GDP)					
- Public	38.7	43.5	48.5	50.6	46.0
- Private	39.8	41.5	42.3	43.1	41.7
Long term interest rates spread versus Bund (basis points)*	-	-	-	-	-
Credit default swap spreads for sovereign securities (5-year)*	37.4	32.2	44.8	32.7	14.9
Notes:					
¹⁾ Latest data December 2011. Methodological break in 2009 due to changes in the regulatory reporting framework for the audit of banks.					
²⁾ Latest data 2013Q3.					
³⁾ Latest data December 2012. Only domestically incorporated deposit-takers are included, along with their dependent domestic and foreign branches.					
⁴⁾ Covered countries are CY, EL, ES, LV, HU, IE, PT and RO.					
* Measured in basis points.					
Source:					
<i>Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt) and ECB (all other indicators).</i>					

Table VIII. Labour market and social indicators

Labour market indicators	2008	2009	2010	2011	2012	2013
Employment rate (% of population aged 20-64)	74.0	74.2	74.9	76.3	76.7	77.1
Employment growth (% change from previous year)	1.2	0.1	0.5	1.4	1.1	0.6
Employment rate of women (% of female population aged 20-64)	67.8	68.7	69.6	71.1	71.5	72.3
Employment rate of men (% of male population aged 20-64)	80.1	79.6	80.1	81.4	81.8	81.9
Employment rate of older workers (% of population aged 55-64)	53.7	56.1	57.7	59.9	61.5	63.5
Part-time employment (% of total employment, 15 years and more)	25.9	26.1	26.2	26.6	26.7	27.3
Part-time employment of women (% of women employment, 15 years and more)	45.7	45.4	45.5	45.7	45.6	46.1
Part-time employment of men (% of men employment, 15 years and more)	9.3	9.6	9.7	10.3	10.5	11.0
Fixed term employment (% of employees with a fixed term contract, 15 years and more)	14.7	14.5	14.7	14.7	13.9	13.4
Transitions from temporary to permanent employment	37.2	36.5	41.0	40.7	40.2	:
Unemployment rate ¹ (% of labour force, age group 15-74)	7.5	7.8	7.1	5.9	5.5	5.3
Long-term unemployment rate ² (% of labour force)	4.0	3.5	3.4	2.8	2.5	2.4
Youth unemployment rate (% of youth labour force aged 15-24)	10.6	11.2	9.9	8.6	8.1	7.9
Youth NEET rate (% of population aged 15-24)	8.4	8.8	8.3	7.5	7.1	6.3
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	11.8	11.1	11.9	11.7	10.6	9.9
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	27.7	29.4	29.8	30.7	32.0	33.1
Formal childcare (from 1 to 29 hours; % over the population less than 3 years)	10.0	7.0	7.0	9.0	9.0	:
Formal childcare (30 hours or over; % over the population less than 3 year)	9.0	12.0	13.0	15.0	15.0	:
Labour productivity per person employed (annual % change)	-0.1	-5.2	3.5	1.9	-0.4	-0.1
Hours worked per person employed (annual % change)	0.0	-2.8	1.6	0.1	-0.9	-0.4
Labour productivity per hour worked (annual % change; constant prices)	-0.1	-2.5	1.8	1.8	0.4	0.3
Compensation per employee (annual % change; constant prices)	1.3	-1.0	1.3	1.7	1.2	-0.3
Nominal unit labour cost growth (annual % change)	2.3	5.6	-1.1	1.0	3.1	2.1
Real unit labour cost growth (annual % change)	1.5	4.4	-2.1	-0.2	1.6	-0.1
Notes:						
¹ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed.						
² Long-term unemployed are unemployed persons for at least 12 months.						
Sources:						
Commission (EU Labour Force Survey and European National Accounts)						

Expenditure on social protection benefits (% of GDP)	2007	2008	2009	2010	2011
Sickness/Health care	8.1	8.3	9.8	9.6	9.4
Invalidity	2.1	2.2	2.3	2.3	2.2
Old age and survivors	11.4	11.4	12.2	11.8	11.4
Family/Children	2.8	2.8	3.2	3.2	3.1
Unemployment	1.5	1.4	1.9	1.7	1.3
Housing and Social exclusion n.e.c.	0.7	0.6	0.7	0.7	0.6
Total	26.8	27.0	30.2	29.4	28.3
of which: means tested benefits	3.3	3.3	3.6	3.5	3.4
Social inclusion indicators	2008	2009	2010	2011	2012
At-risk-of-poverty or social exclusion ¹ (% of total population)	20.1	20.0	19.7	19.9	19.6
At-risk-of-poverty or social exclusion of children (% of people aged 0-17)	20.1	20.4	21.7	19.9	18.4
At-risk-of-poverty or social exclusion of elderly (% of people aged 65+)	15.5	16.0	14.8	15.3	15.8
At-Risk-of-Poverty rate ² (% of total population)	15.2	15.5	15.6	15.8	16.1
Severe Material Deprivation ³ (% of total population)	5.5	5.4	4.5	5.3	4.9
Share of people living in low work intensity households ⁴ (% of people aged 0-59)	11.7	10.9	11.2	11.2	9.9
In-work at-risk-of-poverty rate (% of persons employed)	7.1	6.8	7.2	7.7	7.8
Impact of social transfers (excluding pensions) on reducing poverty	37.2	35.7	35.5	37.1	33.7
Poverty thresholds, expressed in national currency at constant prices ⁵	10 743	10 609	10 710	10 730	10 773
Gross disposable income (households)	1 653 050	1 648 650	1 697 540	1 762 560	1 805 220
Relative median poverty risk gap (60% of median equivalised income, age: total)	22.2	21.5	20.7	21.4	21.1
Notes:					
¹ People at-risk-of-poverty or social exclusion (AROPE): individuals who are at-risk-of-poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in household with zero or very low work intensity (LWI).					
² At-risk-of-poverty rate (AROP): share of people with an equivalised disposable income below 60% of the national equivalised median income.					
³ Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour tv, or ix) have a telephone.					
⁴ People living in households with very low work intensity: share of people aged 0-59 living in households where the adults (excluding dependent children) work less than 20% of their total work-time potential during the previous 12 months.					
⁵ For EE, CY, MT, SI, SK, thresholds in nominal values in Euros; HICP - index 100 in 2006 (2007 survey refers to 2006 incomes)					
Sources:					
For expenditure for social protection benefits ESSPROS; for social inclusion EU-SILC.					

Table IX. Product market performance and policy indicators

Performance indicators	2004-2008	2009	2010	2011	2012	2013
Labour productivity ¹ total economy (annual growth in %)	1.6	-5.7	3.9	1.9	-0.3	-0.1
Labour productivity ¹ in manufacturing (annual growth in %)	3.1	-18.5	22.4	7.1	-2.2	-0.2
Labour productivity ¹ in electricity, gas, water (annual growth in %)	-1.0	6.3	2.2	-23.0	2.4	n.a.
Labour productivity ¹ in the construction sector (annual growth in %)	-0.5	-5.8	8.0	2.4	-3.8	-1.2
Patent intensity in manufacturing ² (patents of the EPO divided by gross value added of the sector)	573.3	552.5	545.0	526.9	n.a.	n.a.
Policy indicators	2004-2008	2009	2010	2011	2012	2013
Enforcing contracts ³ (days)	396	394	394	394	394	394
Time to start a business ³ (days)	29.9	18	15	15	15	15
R&D expenditure (% of GDP)	2.6	2.8	2.8	2.9	2.9	n.a.
Tertiary educational attainment (% of 30-34 years old population)	26.6	29.4	29.8	30.7	32.0	33.1
Total public expenditure on education (% of GDP)	4.5	5.1	5.1	5.0	n.a.	n.a.
	2008	2009	2010	2011	2012	2013
Product market regulation ⁴ , Overall (Index; 0=not regulated; 6=most regulated)	1.3	n.a.	n.a.	n.a.	n.a.	1.2
Product market regulation ⁴ , Retail (Index; 0=not regulated; 6=most regulated)	2.9	n.a.	n.a.	n.a.	n.a.	2.7
Product market regulation ⁴ , Network Industries ⁵ (Index; 0=not regulated; 6=most regulated)	1.3	n.a.	n.a.	n.a.	n.a.	1.3
Notes:						
¹ Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.						
² Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.						
³ The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology .						
⁴ The methodologies of the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html .						
⁵ Aggregate ETCR.						
Source:						
Commission, World Bank - <i>Doing Business</i> (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).						

**Table X. Green
Growth**

		2003-2007	2008	2009	2010	2011	2012
Green Growth performance							
<i>Macroeconomic</i>							
Energy intensity	kgoe / €	0.16	0.15	0.15	0.15	0.14	0.14
Carbon intensity	kg / €	0.47	0.43	0.42	0.42	0.39	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	0.61	0.57	0.57	0.55	0.58	n.a.
Waste intensity	kg / €	n.a.	0.16	n.a.	0.16	n.a.	n.a.
Energy balance of trade	% GDP	-2.3%	-3.5%	-2.5%	-2.9%	-3.7%	-4%
Energy weight in HICP	%	10	12	12	12	12	13
Difference between change energy price and inflation	%	4.92	8.6	-2.6	-0.8	7.0	3.6
Environmental taxes over labour taxes	ratio	11.1%	10.2%	10.4%	10.2%	10.4%	n.a.
Environmental taxes over total taxes	ratio	6.4%	5.7%	5.9%	5.8%	5.8%	n.a.
<i>Sectoral</i>							
Industry energy intensity	kgoe / €	0.12	0.11	0.12	0.12	n.a.	n.a.
Share of energy-intensive industries in the economy	% GDP	10.4	10.9	3.1	n.a.	n.a.	n.a.
Electricity prices for medium-sized industrial users**	€ / kWh	n.a.	0.09	0.10	0.09	0.09	0.09
Gas prices for medium-sized industrial users***	€ / kWh	n.a.	0.04	0.03	0.03	0.04	0.04
Public R&D for energy	% GDP	n.a.	0.03%	0.04%	0.04%	0.03%	0.04%
Public R&D for the environment	% GDP	n.a.	0.02%	0.03%	0.03%	0.02%	0.03%
Recycling rate of municipal waste	ratio	64.5%	76.7%	77.2%	78.2%	79.0%	82.5%
Share of GHG emissions covered by ETS*	%	n.a.	48.3%	46.9%	48.1%	48.5%	48.2%
Transport energy intensity	kgoe / €	0.53	0.46	0.50	n.a.	n.a.	n.a.
Transport carbon intensity	kg / €	1.37	1.15	1.25	n.a.	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	60.2%	60.8%	61.0%	60.0%	61.5%	61.1%
Diversification of oil import sources	HHI	n.a.	0.12	0.13	0.13	0.14	n.a.
Diversification of energy mix	HHI	0.25	0.25	0.24	0.24	0.24	0.24
Share renewable energy in energy mix	%	5.2%	6.9%	7.7%	8.5%	9.4%	10.4%
<u>Country-specific notes:</u>							
The year 2012 is not included in the table due to lack of data.							
<u>General explanation of the table items:</u>							
Source: Eurostat unless indicated otherwise; ECFIN elaborations indicated below							
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)							
Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)							
Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)							
Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)							
Waste intensity: waste (in kg) divided by GDP (in EUR)							
Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP							
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP							
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)							
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"							
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in 2005 EUR)							
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP							
Electricity and gas prices medium industrial users: consumption band 500 - 2000MWh and 10000 - 100000 GJ; figures excl. VAT.							
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste							
Public R&D for energy or for the environment: government spending on R&D (GBA ORD) for these categories as % of GDP							
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)							
Transport energy intensity: final energy consumption of transport activity (kgoe) divided by transp industry gross value added (2005 EUR)							
Transport carbon intensity: greenhouse gas emissions in transport activity divided by gross value added of the transport sector							
Energy import dependency: net energy imports divided by gross inland energy consumption incl. energy consumption international bunkers							
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin							
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels							
Share renewable energy in energy mix: %-share in gross inland energy consumption, expressed in tonne oil equivalents							
* Commission and EEA.							
** For 2007 average of S1 & S2 for DE, HR, LU, NL, FI, SE & UK. Other countries only have S2.							
*** For 2007 average of S1 & S2 for HR, IT, NL, FI, SE & UK. Other countries only have S2.							

List of indicators used in Box 2 on the potential impact on growth of structural reforms.

Final goods sector mark-ups: Price-cost margin, i.e. the difference between the selling price of a good or service and its cost. Final goods mark-ups are proxied by the mark-ups in selected services sectors (transport and storage, post and telecommunications, electricity, gas and water supply, hotels and restaurants and financial intermediation but excluding real estate and renting of machinery and equipment and other business activities⁶²).

Source: Commission services estimation using the methodology of Roeger, W. (1995). "Can imperfect Competition explain the Difference between primal and dual Productivity?" *Journal of Political Economy* Vol. 103(2) pp. 316-30, based on EUKLEMS 1996-2007 data.

Entry costs: Cost of starting a business in the intermediate sector as a share of income per capita. The intermediate sector is proxied by the manufacturing sector in the model.

Source: World Bank, Doing Business Database. www.doingbusiness.org. 2012 data.

Implicit consumption tax rate: Defined as total taxes on consumption over the value of private consumption. In the simulations it is used as a proxy for shifting taxation away from labour to indirect taxes. The implicit consumption tax-rates are increased (halving the gap vis-à-vis the best performers) while labour tax-rates are reduced so that the combined impact is ex-ante budgetary neutral.

Source: European Commission, Taxation trends in the European Union, 2013 edition, Luxembourg, 2013. 2011 data.

Shares of high-skilled and low-skilled: The share of high skilled workers is increased, the share of low-skilled workers is reduced (halving the gap vis-à-vis the best performers). Low-skilled correspond to ISCED 0-2 categories; high-skilled correspond to scientists (in mathematics and computing, engineering, manufacturing and construction). The remainder is medium-skilled.

Source: EUROSTAT. 2012 data or latest available.

Female non-participation rate: Share of women of working age not in paid work and not looking for paid work in total female working-age population

Source: EUROSTAT. 2012 data or latest available.

Low-skilled male non-participation rates: Share of low-skilled men of working age not in paid work and not looking for paid work in total male working-age population

Source: EUROSTAT. 2012 data or latest available.

Elderly non-participation rates (55-64 years): Share of the population aged 55-64 years not in paid work and not looking for paid work in total population aged 55-64 years.

Source: EUROSTAT. 2012 data or latest available.

ALMP: Active Labour Market Policy expenditures as a share of GDP over the share of unemployed in the population.

Source: EUROSTAT. 2011 data or latest available.

⁶² The real estate sector is excluded because of statistical difficulties of estimating a mark-up in this sector. The sector renting of machinery and equipment and other business activities is conceptually part of intermediate goods sector.

Benefit replacement rate: Share of a worker's pre-unemployment income that is paid out by the unemployment insurance scheme. Average of net replacement rates over 60 months of unemployment.

Source: OECD, Benefits and Wages Statistics.

www.oecd.org/els/benefitsandwagesstatistics.htm. 2012 data.