**COUNCIL OF
THE EUROPEAN UNION**

Brussels, 17 June 2013

10636/13

**UEM 196
ECOFIN 504
SOC 434
COMPET 417
ENV 518
EDUC 209
RECH 242
ENER 263**

NOTE

from:	The General Secretariat
to:	Permanent Representatives Committee/Council
No. Cion prop.:	10072/13 UEM 119 ECOFIN 409 SOC 377 COMPET 363 ENV 463 EDUC 176 RECH 206 ENER 227 - COM(2013) 355 final
Subject:	Recommendation for a COUNCIL RECOMMENDATION on Germany's 2013 national reform programme and delivering a Council opinion on Germany's stability programme for 2012-2017

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2013) 355 final.

ANNEX

Recommendation for a

COUNCIL RECOMMENDATION
on Germany's 2013 national reform programme

and delivering a Council opinion on Germany's 2013 stability programme for 2012-2017

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the resolutions of the European Parliament[3],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee

After consulting the Economic Policy Committee,

After consulting the Social Protection Committee,

Whereas:

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1 OJ L 209, 2.8.1997, p. 1.
2 COM(2013)355 final.
3 P7_TA(2013)0052 and P7_TA(2013)0053.

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation on Germany's national reform programme for 2012 and delivered its opinion on Germany's updated stability programme for 2011-2016.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[5], marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the second Alert Mechanism Report[6], in which it did not identify Germany as one of the Member States for which an in-depth review would be carried out.

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[4] Council Decision2013/208/EU of 22 April 2013.
[5] COM(2012) 750 final.
[6] COM(2012) 751 final.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 17 April 2013, Germany submitted its 2013 stability programme covering the period 2012-2017 and, on 12 April 2013, its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2013 stability programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that public finances in Germany have been overall sound and the medium-term budgetary objective (MTO) has been achieved. The macroeconomic scenario underpinning the budgetary projections in the programme is plausible. The stability programme's macroeconomic projections are broadly in line with the Commission's 2013 spring forecast as regards the pace and pattern of economic growth in 2013 and 2014 as well as with the Commission's estimate of Germany's medium-term potential growth rate. The objective of the budgetary strategy outlined in the programme is to ensure continued achievement of the medium-term budgetary objective (MTO).
The programme confirms the previous MTO of -0.5 % of GDP. The MTO is in line with the requirements of the Stability and Growth Pact. Germany achieved a structural budgetary surplus and hence the MTO in 2012. According to the stability programme, the (recalculated)[7] structural balance will remain positive in 2013 and 2014, which is broadly in line with the Commission's forecast, and hence created space for automatic stabilisers to play freely. Germany also complied with the expenditure benchmark in 2012.

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

According to the information provided in the stability programme, the growth rate of government expenditure, net of discretionary revenue measures, would exceed the expenditure benchmark in 2013, while respecting it in 2014. The programme plans gross debt to fall to 80½ % of GDP in 2013 and to remain on a downward path thereafter. Following the correction of the excessive deficit in 2011, Germany is in a transition period regarding compliance with the debt criterion and made sufficient progress towards compliance with the debt criterion in 2012. If the programme is implemented as planned, it is also making sufficient progress towards compliance with the debt criterion in 2013 and the debt benchmark will be met at the end of the transition period in 2014. Overall, the deficit and debt targets appear realistic.

(9) Germany has made only limited efforts to improve the efficiency of public spending on healthcare and long-term care. Past reform efforts in the health sector as well as this year's reform of long-term care appear insufficient to contain expected future cost increases. Germany appears on track with respect to the national target on education and research expenditure but should envisage even more ambitious follow-up targets with a view to catching up with the most innovative economies.

(10) Germany is not sufficiently tapping growth-friendly revenue sources. The application of the reduced VAT rate (of currently 7 %) to what is now quite a wide range of goods and services could be narrowed and VAT administration reviewed in an effort to increase efficiency, improve tax collection and fight fraud. Revenues from recurrent property taxes are particularly low in Germany (0.5 % of GDP in 2011 vs 1.3 % in the EU-27), which may leave room for increasing revenues from the municipal real estate tax (Grundsteuer), in particular by reassessing the tax base.

(11) There has been some progress in the implementation of the constitutional balanced-budget rule ("debt brake") since last year's recommendation, However, specific implementing rules appear still to be required in most *Länder* so as to ensure the effective application of the debt brake in the annual budgetary procedure.

(12) The financial sector has undergone significant adjustment and the regulatory and supervisory framework has been strengthened. Commission state aid decisions have continued to drive the restructuring of *Landesbanken.* However, there still appear to be governance obstacles to market-driven consolidation in the banking sector, which affect the overall efficiency of the financial sector.

(13) Germany has taken only limited action to remove significant disincentives faced by second earners and the availability of full-time childcare facilities and all-day schools should be further increased. Germany has made some progress in raising the educational achievement of disadvantaged people, but all Länder should continue ambitious efforts to create a school system that provides equal opportunities for all. Policy action to reduce the high tax wedge for low-wage earners has been limited so far. Measures to integrate the long-term unemployed into the labour market should be enhanced. Germany should do more to reduce the high taxes and social security contributions that they levy on low wages. Further efforts are needed to improve transition from certain types of contracts, like mini-jobs, into more sustainable forms of contracts, thus avoiding labour market segmentation. While real wages are still below their level in the year 2000, which contributed to the structural reduction in the unemployment rate from 8% to 5.5%, they have started to grow dynamically since then without adversely affecting competitiveness. At the same time wage disparities have increased.

(14) Germany is aiming to minimise the overall economic costs of transforming the energy system. This has led to some first results but overall costs have continued to increase and major risks and potential inefficiencies remain. Germany is making significant efforts to accelerate the expansion of energy networks. Coordination of its national energy policy with the policies of neighbouring countries is insufficient.

(15) The situation in the services sectors has not changed significantly since last year and there are still restrictions on entering and exercising certain professions. Germany should do more to open up their services sector by removing unjustified restrictions and barriers to entry, thereby leading to lower price levels, making services more affordable for lower income groups. In many craft sectors, including in the construction sector, there is still a requirement to hold a master craftsman's certificate (*Meisterbrief*) or an equivalent qualification in order to run a business. Reason: The construction sector also faces restrictions as regards commercial communication and authorisation procedures. Many professional services are also subject to legal form and shareholding requirements. Germany could assess whether the same public interest objectives could not be reached with lighter regulation. The diversity of regulatory regimes across Länder also suggests there is scope for further efforts to identify the least burdensome regulatory approaches and extend them throughout the country, thus cutting red tape for businesses. The level of effective competition in the railway sector remains low. Regarding public procurement, the value of the contracts published by German authorities under EU procurement legislation is significantly low. The legislative process involving the revision of the Act against competition restrictions has not yet been concluded. In the retail sector, planning regulations significantly restrict new entries in the market.

(16) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Germany's economic policy. It has assessed the stability programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Germany but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (4) below.

(17) In the light of this assessment, the Council has examined Germany's stability programme, and its opinion[8] is reflected in particular in recommendation (1) below,

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8 Under Article 5(2) of Council Regulation (EC) No 1466/97.

(18) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the countries that are part of the euro area Member States whose currency is the euro. As a country that has adopted the euro as its currency Germany should also ensure the full and timely implementation of these recommendations.

HEREBY RECOMMENDS that Germany should take action within the period 2013-2014 to:

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 *Länder*, ensuring that monitoring procedures and correction mechanisms are timely and relevant.

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 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 low-skilled, also with a view to improving their income. To this end, remove disincentives for second earners and further increase the availability of fulltime childcare facilities and all-day schools.

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.

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.

Done at Brussels,

For the Council
The President