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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Delegations will find attached document C(2016) 8003 final.



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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact (SGP) and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan presenting by 15 October the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

CONSIDERATIONS CONCERNING GERMANY

3. On the basis of the Draft Budgetary Plan for 2017 submitted on 17 October 2016 by Germany, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. The Commission opinion is to be seen in light of the latest economic and budgetary data. In this context, as indicated in the Commission recommendation for a Council Recommendation on the economic policy of the euro area as well as in the Commission Communication 'Towards a positive fiscal stance for the euro area', it is important that the aggregate fiscal stance of the euro area is positive and supports the ongoing recovery, while ensuring the long-term sustainability of national public finances.
5. Germany is subject to the preventive arm of the SGP and should preserve a sound fiscal position, which ensures compliance with the medium-term budgetary objective (MTO) of a structural deficit not exceeding 0.5% of GDP. As the debt ratio was 71.2% of GDP in 2015, Germany also needs to comply with the debt reduction benchmark.
6. The Draft Budgetary Plan is based on plausible macroeconomic projections. The macroeconomic scenario underlying the Draft Budgetary Plan implies a continuation of moderate real GDP growth rates with a slight uptick from 1.7% in 2015 to 1.8% in 2016 and a deceleration to 1.4% in 2017, compared to the Commission 2016 autumn forecast of 1.9% in 2016 and 1.5% in 2017. It is based on less optimistic growth but more optimistic employment projections than the scenario underlying the Stability Programme.
7. Germany does not comply with the requirement of Regulation (EU) No 473/2013 that the draft budget must be based on independently endorsed or produced macroeconomic forecasts. The macroeconomic forecasts underlying the Draft

Budgetary Plan have not been endorsed or produced by an independent body. The federal government is currently reviewing options for making a suitable adjustment. Germany should ensure that an independent body in charge of producing or endorsing macroeconomic forecasts is in place as a matter of urgency.

8. The Draft Budgetary Plan projects a general government budget surplus of ½% of GDP for 2016, compared to a balanced budget planned in the Stability Programme. For 2017, this translates into a planned budget surplus for the general government of ¼% of GDP, compared to the Stability Programme's target of a balanced budget. The difference in the headline budget target for 2016 between the Draft Budgetary Plan and the Stability Programme is due to both higher-than-expected revenue from taxes on income and wealth and lower-than-expected expenditure on compensation of employees, intermediate consumption and interest payments. In contrast to the Stability Programme, which projected a decrease of the (recalculated) structural balance in 2016-2017 from 0.8 to 0.3% of GDP in 2017, the Draft Budgetary Plan foresees a more gradual decrease in the structural balance from 0.8% to 0.7% of GDP in 2016, followed by a further decrease to 0.5% of GDP in 2017. The Draft Budgetary Plan projects a diminishing debt-to-GDP ratio to 68¼% of GDP in 2016 and 66% in 2017, largely in line with the Stability Programme and the Commission 2016 autumn forecast.

Germany has benefitted from windfall savings in interest expenditure in recent years, which have been largely used for a structural increase in primary expenditure. Based on the information included in the Draft Budgetary Plan, interest expenditure in Germany is expected to fall from 1.6% of GDP in 2015 to 1¼% in 2016 and 2017, well below the 2.3% recorded back in 2012 at the peak of the euro area sovereign debt crisis. Against the background of falling interest expenditure, the projected deterioration in the structural balance in 2016-17 (0.1% and 0.2% of GDP, respectively) is accompanied by a more pronounced deterioration in the structural primary balance (0.3% of GDP in both years).

9. The Draft Budgetary Plan includes on the revenue side increases in the basic personal allowance, the child exemption, child benefits, child complement and an adjustment of the personal income tax tariff, aiming at safeguarding the minimum subsistence income and compensating for fiscal drag. On the expenditure side, the Draft Budgetary Plan includes additional measures for accommodating refugees and asylum seekers, promoting social housing and expanding pre-school child care. Overall, the Draft Budgetary Plan reports a neutral budgetary impact of the discretionary measures in 2016 and a slightly expansionary effect in 2017. The estimates of the budgetary impact of the measures appear plausible.
10. The Draft Budgetary Plan's projections for 2016 are broadly in line with the Commission 2016 autumn forecast, which projects headline and structural surpluses of 0.6% of GDP, respectively. The Draft Budgetary Plan projections for 2017 are also in line with the Commission 2016 autumn forecast, which projects headline and structural surpluses of 0.4% of GDP, respectively. The debt projections underlying the Draft Budgetary Plan largely confirm the debt level planned in the Stability Programme and are also largely in line with the Commission 2016 autumn forecast for 2016 and 2017.

11. As the debt ratio was 71.2% of GDP in 2015, Germany needs to comply with the debt rule. The information provided in the Draft Budgetary Plan points to compliance with the debt rule both in 2016 and 2017. This is in line with the Commission 2016 autumn forecast.
12. Germany registered a structural surplus of 0.8% of GDP in 2015, well above its MTO of a structural deficit not exceeding 0.5% of GDP. According to the information provided in the Draft Budgetary Plan, with a (recalculated) structural surplus of 0.7% and 0.5% of GDP, respectively, Germany is expected to remain above its MTO also in 2016 and 2017, which is confirmed by the Commission 2016 autumn forecast.
13. Concerning the country specific recommendations directly linked to structural fiscal measures, Germany's Draft Budgetary Plan reports measures in relation to the reform of federal fiscal relations, the reduction of inefficiencies in the tax system, and the modernisation of the tax administration. The Draft Budgetary Plan further contains an increase in the basic personal allowance, the child tax exemption, the child benefit and the child supplement in 2017 and 2018 with a view to aligning the allowances with the adjusted subsistence level in line with existing law. At the same time, it was decided to adjust the income tax brackets to offset the impact of fiscal drag based on the tax progression report that is published every two years. Overall, this could slightly reduce the tax wedge.
14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany, which is currently under the preventive arm of the SGP and subject to the debt rule, is compliant with the provisions of the SGP. In line with the Commission Communication 'Towards a positive fiscal stance for the euro area', Germany's favourable budgetary situation should provide scope to cover additional expenditure that may result from the strong inflow of asylum seekers as well as to further increase public investment in infrastructure, education, research and innovation, as recommended by the Council in the context of the European Semester.

The Commission is also of the opinion that Germany has made limited progress with regard to the structural part of the fiscal country-specific recommendations issued by the Council in the context of the 2016 European Semester and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made in the implementation of the country-specific recommendations will be made in the 2017 Country Reports and in the context of the country-specific recommendations to be adopted by the Council in 2017.

Done at Brussels, 16.11.2016

*For the Commission
Pierre MOSCOVICI
Member of the Commission*