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COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	15 November 2013
To:	Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2013) 8001 final
Subject:	COMMISSION OPINION of 15.11.2013 on the Draft Budgetary Plan of GERMANY

Delegations will find attached document C(2013) 8001 final.

This document is aimed for discussion in the **Eurogroup**.

Encl.: C(2013) 8001 final



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COMMISSION OPINION

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on the Draft Budgetary Plan of GERMANY

{SWD(2013) 601 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 2014 submitted on 15 October by Germany, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Germany is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with the medium-term objective. As the debt ratio exceeded 60% of GDP and stood at 80% of GDP in 2011 (the year in which Germany corrected its excessive deficit), during the three years following the correction of the excessive deficit Germany is subject to the transitional arrangements as regards compliance with the debt criterion. In this period it should ensure sufficient progress towards compliance.
5. The macroeconomic scenario underlying the Draft Budgetary Plan is plausible and broadly in line with the Stability Programme's macroeconomic scenario. It is also broadly in line with the Commission 2013 Autumn Forecast as regards the pace and pattern of economic growth in 2013 and 2014, as well as with the Commission estimate of Germany's potential growth rate.
6. Germany's federal budget and fiscal projections at the level of general government are based on the federal government's own macroeconomic forecast which, based on the information available to the Commission at this stage, is not formally endorsed by an independent body as defined in Regulation (EU) No 473/2013. However, the preparation of the government's projections involves the independent Joint Economic Forecast issued twice a year by leading research institutes and used as a benchmark for the government forecast. The Draft Budgetary Plan for 2014 is based on the spring issue of the government's macroeconomic forecast, which was published already in April.

7. The Draft Budgetary Plan was submitted by the outgoing federal government and does not include new measures. It projects a balanced general government budget for 2013, which is a slight improvement compared to the Stability Programme's deficit target of ½% of GDP, also reflecting more favourable outcomes in the first half of the year. The Stability Programme's target of a balanced budget in 2014 remains unchanged.
8. The budgetary targets are broadly in line with the Commission 2013 Autumn Forecast and appear overall realistic. However, changes to the budgetary plans for 2014 may arise from the on-going formation of a new federal government.
9. The Draft Budgetary Plan projects a diminishing debt-to-GDP ratio in 2013 and 2014 thanks to the balanced budget, the denominator effect of GDP growth and the on-going winding up of 'bad banks'. This is broadly in line with the Stability Programme and also with the Commission Autumn 2013 Forecast.
10. Based on the Commission 2013 Autumn Forecast, Germany's debt ratio is declining appropriately, which will ensure compliance with the debt rule at the end of the transition period in 2014.
11. According to the information provided in the Draft Budgetary Plan, Germany is expected to continue to comply with its medium-term objective, which is confirmed by the Commission 2013 Autumn Forecast.
12. The Draft Budgetary Plan does not address the Council recommendations issued to Germany in the context of the 2013 European Semester with respect to enhancing the cost-effectiveness of public spending on healthcare and long-term care, improving the efficiency of the tax system, using the available scope for increased and more efficient spending on education and research, completing the implementation of the constitutional balanced-budget rule at *Länder* level, reducing high taxes and social security contributions, especially for low-wage earners; and removing disincentives for second earners.
13. Overall, based on the 2013 Autumn Forecast, the Commission is of the opinion that the Draft Budgetary Plan of Germany submitted on 15 October 2013 is compliant with the rules of the SGP. The Commission is also of the opinion that Germany has made no progress with regard to the structural part of the fiscal recommendations issued by the Council in the context of the 2013 European Semester and thus invites the authorities to accelerate progress.
14. As soon as a new government takes office, national authorities are encouraged to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan taking into account the present Opinion.

Done at Brussels, 15.11.2013

For the Commission
Olli REHN
Vice-President