Eurogroup

Brussels, 17 November 2015
(OR. en)

EG 25/15

ECOFIN 866
UEM 409
EUROGROUP 24

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	17 November 2015
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2015) 8101 final
Subject:	COMMISSION OPINION of 16.11.2015 on the Draft Budgetary Plan of GERMANY
Enclosed:	C(2015) 8101 final

Delegations will find attached document C(2015) 8101 final.

EUROPEAN
COMMISSION

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COMMISSION OPINION

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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 2016 submitted on 15 October 2015 by Germany, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Germany is subject to the preventive arm of the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective (MTO). As the debt ratio was 74.9% of GDP in 2014 Germany also needs to comply with the debt rule.

5. The macroeconomic scenario underlying the Draft Budgetary Plan, which is based on the autumn issue of the federal government's forecast published in October, implies a continuation of moderate real GDP growth rates of 1.7% in 2015 and 1.8% in 2016. It is based on more optimistic growth and employment assumptions than the scenario underlying the Stability Programme. The Commission 2015 autumn forecast assumes broadly similar GDP growth rates of 1.7% in 2015 and 1.9% in 2016. The macroeconomic scenario underlying the Draft Budgetary Plan assumes the GDP deflator to increase by 2.3% in 2015 and 1.6% in 2016, compared to 1.9% and 1.6%, respectively, in the Commission 2015 autumn forecast. Overall, the Draft Budgetary Plan is based on plausible macroeconomic assumptions.

6. Regulation (EU) No 473/2013 requires the draft budget to 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. Germany should ensure that an independent body in charge of producing or endorsing macroeconomic forecasts is in place as a matter of urgency.

7. The Draft Budgetary Plan projects a general government budget surplus of 1% of GDP for 2015, compared to a surplus of ¼% of GDP planned in the Stability Programme, while it confirms the Stability Programme's target of a balanced budget

for 2016. The difference in the headline budget target for 2015 between the Draft Budgetary Plan and the Stability Programme is mainly due to higher-than-expected revenue from taxes on income and wealth as well as lower expenditure on compensation of employees and social payments. This may also result from the more favourable growth and employment assumptions of the macroeconomic scenario underlying the Draft Budgetary Plan. In contrast to the Stability Programme, which projected a gradual decrease of the structural balance in 2015-2016, the Draft Budgetary Plan foresees an increase in the (recalculated) structural balance from 0.8% to 1.0% of GDP in 2015, followed by a decrease to 0.1% of GDP in 2016.

Germany has benefitted from significant windfall savings in interest expenditure in recent years, which have been largely used for a structural increase in primary expenditure. While the 2013 Stability Programme assumed interest expenditure to fall by around 0.2% of GDP between 2012 and 2016, the Draft Budgetary Plan for 2016 now projects for this period a reduction by 0.8% of GDP. At the same time, the planned structural effort over 2012-2016 has hovered around 0.2-0.3% of GDP. The increase in the structural surplus in 2015 projected by the Draft Budgetary Plan is largely due to further savings in interest expenditure, while the structural surplus is planned to diminish in 2016, despite another expected fall in interest expenditure.

8. The Draft Budgetary Plan's targets for 2015 are broadly in line with the Commission 2015 autumn forecast, which projects both the headline and the structural surplus at 0.9% of GDP. For 2016, the Draft Budgetary Plan projects a stronger reduction in the headline balance and hence also in the structural balance than the Commission forecast, which projects headline and structural surpluses of 0.5% and 0.7% of GDP, respectively. The difference results mainly from slightly higher baseline projections in the Draft Budgetary Plan for several expenditure categories, despite similar underlying macroeconomic scenarios, which may point to upside risks to the fiscal targets. The Draft Budgetary Plan includes estimates of the additional refugee-related costs, but these do not yet appear to be stable. Moreover, medium-term budgetary risks could arise from a trend reversal in the interest rates for government bonds.

9. The Draft Budgetary Plan projects a further diminishing debt-to-GDP ratio from 74.9% of GDP in 2014 to 71¼% in 2015 and 68¾% in 2016 owing to the budget surplus, the denominator effect of GDP growth and the on-going winding up of 'bad banks'. These projections largely confirm the debt level planned in the Stability Programme. The debt ratio planned by the Draft Budgetary Plan for 2015 is also largely in line with the Commission 2015 autumn forecast, while it is slightly higher for 2016 due to the difference in the projected budget balance.

10. The Draft Budgetary Plan includes, on the revenue side, an increase in the minimum income tax allowance and of child allowances in two steps in 2015 and 2016 as well as an adjustment of tax brackets to offset the impact of fiscal drag that has occurred over the last two years. Measures on the expenditure side include, for 2015, one-off proceeds from auctioning broadband spectrum licences that are accounted for as a transaction in government assets (a disposal) decreasing government expenditure, and, for 2016, additional funds for accommodating asylum seekers, expanding social housing and funding local public transport as well as extra funds to finance energy efficiency measures for buildings, industry and municipalities. Overall, the estimated neutral budgetary impact of the measures in 2015 and expansionary effect of about ¼% of GDP in 2016 appear plausible. However, the estimated costs for hosting

refugees mainly cover only basic needs of the asylum applicants, though additional spending can be expected for those granted asylum.

11. Based on an overall assessment of the Draft Budgetary Plan, the debt rule is expected to be met in both 2015 and 2016. The Commission 2015 autumn forecast also points to compliance with the debt rule in both years.

12. Germany registered a structural surplus of 0.8% of GDP in 2014, well above its medium-term objective 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 1.0% and 0.1% of GDP, respectively, Germany is expected to remain well above its medium-term objective also in 2015 and 2016 and therefore compliant with the requirements under the preventive arm of the Stability and Growth Pact. This is confirmed by the Commission 2015 autumn forecast. The projected margin to the medium-term objective provides scope to cover additional expenditure that may result in 2016 from the strong inflow of asylum seekers as well as to further increase public investment in infrastructure, education and research as recommended by the Council in the context of the European Semester.

13. The Draft Budgetary plan contains measures that slightly reduce the tax burden on labour, including an increase in the minimum income tax allowance and in child allowances and an adjustment of the income tax brackets to offset the impact of fiscal drag that has occurred over the last two years. Moreover, additional funds are planned to be provided for local public transport and social housing as well as to finance energy-efficiency measures in buildings, industry and municipalities, which would to a limited extent increase public investment but overall still appear unlikely to be sufficient to tackle the investment backlog in public infrastructure in Germany.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany, which is currently under the preventive arm of the Stability and Growth Pact and subject to the debt rule, is compliant with the provisions of the Stability and Growth Pact. Germany’s favourable budgetary situation should also provide scope to further increase public investment in infrastructure, education and research as recommended by the Council in the context of the European Semester, as well as to cover additional expenditure that may result from the strong inflow of asylum seekers but could not yet be fully factored into the budget plans.

The Commission is also of the opinion that Germany has made limited progress with regard to the country-specific recommendations issued by the Council in the context of the 2015 European Semester relating to fiscal governance and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the Country Specific Recommendations adopted by the Commission in May.

Done at Brussels, 16.11.2015

For the Commission
Pierre MOSCOVICI
Member of the Commission

CERTIFIED COPY
For the Secretary-General,

Jordi AYET PUIGARNAU
Director of the Registry
EUROPEAN COMMISSION