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COMMISSION STAFF WORKING DOCUMENT

Analysis of the 2016 Draft Budgetary Plan of GERMANY

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of GERMANY

{C(2015) 8101 final}

EN EN

Analysis of the 2016 Draft Budgetary Plan of GERMANY

1. INTRODUCTION

Germany submitted its Draft Budgetary Plan (DBP) for 2016 on 15 October 2015 in compliance with Regulation (EU) No 473/2013. 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). As the general government gross debt ratio was 74.9% of GDP in 2014, Germany also needs to comply with the debt rule.

Section 2 of this document presents the macroeconomic outlook underlying the DBP and provides an assessment based on the Commission 2015 autumn forecast. The following section presents the recent and planned fiscal developments, according to the DBP, including an analysis of risks to their achievement based on the Commission forecast. In particular, it also includes an assessment of the measures underpinning the DBP. Section 4 assesses the recent and planned fiscal developments in 2015-2016 (also taking into account the risks to their achievement) against the obligations stemming from the Stability and Growth Pact (SGP). Section 5 provides an analysis of implementation of reforms in the area of fiscal governance in response to the latest Country-specific Recommendations (CSRs) adopted by the Council on 14 July 2015, including those to reduce the tax wedge. Section 6 concludes.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The macroeconomic scenario underlying the DBP for 2016 is based on the federal government's autumn projection published on 14 October 2015. The macroeconomic scenario underlying the DBP implies a continuation of moderate real GDP growth rates with slight acceleration from 1.6% in 2014 to 1.7% in 2015 and 1.8% in 2016. Domestic demand is expected to remain the major growth driver. In 2016, private consumption expenditure and gross fixed capital formation are forecast to increase further on the back of a robust labour market and low interest rates. Annual potential growth is projected at 1.5% in 2015 and 1.6% in 2016. The GDP deflator is assumed to increase by 2.3% in 2015 and 1.6% in 2016. The macroeconomic scenario underlying the DBP is based on more optimistic growth and employment assumptions than the scenario underlying the Stability Programme.

Overall, compared to the Commission 2015 autumn forecast, the DBP is based on a plausible macroeconomic scenario, although it assumes a slightly lower and narrowing underutilisation of production capacities over the forecast horizon. The Commission forecast assumes broadly similar GDP growth rates of 1.7% in 2015 and 1.9% in 2016, though it estimates somewhat higher potential growth and a stable negative output gap for both 2015 and 2016. The Commission forecast projects a somewhat lower increase in the GDP deflator of 1.9% in 2015, but equally 1.6% for 2016.

Table 1. Comparison of macroeconomic developments and forecasts

	2014	2015			2016		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.6	1.5	1.7	1.7	1.6	1.8	1.9
Private consumption (% change)	0.9	1.6	1.8	1.9	1.5	1.8	1.9
Gross fixed capital formation (% change)	3.5	2.1	2.7	2.6	3.0	2.9	3.1
Exports of goods and services (% change)	4.0	3.6	5.4	5.8	4.3	4.2	4.3
Imports of goods and services (% change)	3.7	4.1	5.9	6.4	4.9	5.3	5.3
Contributions to real GDP growth:							
- Final domestic demand	1.5	1.5	2.0	2.0	1.6	1.9	2.0
- Change in inventories	-0.3	0.0	-0.4	-0.5	0.0	0.0	0.0
- Net exports	0.4	0.1	0.2	0.2	0.1	-0.1	-0.1
Output gap[1]	-0.4	-0.7	-0.2	-0.4	-0.5	-0.1	-0.4
Employment (% change)	0.9	0.4	0.7	0.5	0.3	0.6	0.6
Unemployment rate (%)	5.0	4.7	4.4	4.7	4.8	4.7	4.9
Labour productivity (% change)	0.7	1.1	1.1	1.2	1.4	1.1	1.3
HICP inflation (%)	0.8	n.a.	n.a.	0.2	n.a.	n.a.	1.0
GDP deflator (% change)	1.7	2.2	2.3	1.9	1.7	1.6	1.6
Comp. of employees (per head, % change)	2.6	3.0	2.9	2.9	2.6	2.4	2.7
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.8	7.8	8.6	8.8	7.6	8.4	8.6

Note:

[1] In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:
Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

Box 1: The macro economic forecast underpinning the budget in Germany

The Commission Opinion on Germany's DBP for 2015 and the Country Report Germany 2015 pointed out that no independent body in charge of producing or endorsing macroeconomic forecasts has been put in place within the meaning of Regulation (EU) No 473/2013. This holds for the macroeconomic scenarios underlying both the DBP and the Stability Programme. The federal budget and fiscal projections at the level of general government are based on the federal government's own macroeconomic forecast, even though its preparation involves the Joint Economic Forecast *(Gemeinschaftsdiagnose)*. The Joint Economic Forecast is issued twice a year by leading research institutes shortly before the government's spring and autumn projections within the framework of research mandates awarded by the government through a call for tenders. Moreover, the Stability Programme is based on the government's January forecast published within the federal government's

Annual Economic Report, which is usually prepared without using an updated Joint Economic Forecast as a benchmark. In this context, the 2015 Stability Programme stated that the federal government was reviewing options to address this issue. The Commission Opinion on Germany's DBP for 2015 also pointed to the fact that the DBP was based on the spring issue of the government's macroeconomic forecast, published in April, and could therefore not factor in the latest macroeconomic developments. In order to make progress on this issue, the publication of the autumn 2015 issues of both the Joint Economic Forecast and the federal government's macroeconomic projections was advanced to 8 and 14 October, respectively, so that the timelier autumn projections could be used for the first time as basis for the 2016 DBP.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

3.1. Deficit developments

The DBP 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[1]. For 2016, the DBP confirms the Stability Programme's target of a balanced general government budget. The difference in the headline budget target for 2015 between the DBP and the Stability Programme is due to both higher-than-expected revenue and lower-than-expected expenditure. Total revenue has been revised up by ½% of GDP, mainly because of higher revenue from taxes on income and wealth, while total expenditure is now planned to be lower by ¼% of GDP, notably due to lower-than-expected compensation of employees in the public sector and social payments. In contrast to the Stability Programme, which projected a gradual decrease of the structural balance in 2015-2016, the DBP foresees an increase in the (recalculated) structural balance[2] from 0.8% to 1.0% of GDP in 2015, followed by a decrease to 0.1% of GDP in 2016.

The DBP's targets for 2015 are broadly in line with the Commission 2015 autumn forecast, which projects headline and structural surpluses of 0.9% of GDP, respectively. For 2016, the DBP 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. This is not due to major differences in the underlying macroeconomic scenarios or the expected impact of measures, but mainly because of slightly higher baseline projections for several expenditure categories, including notably capital transfers, subsidies, interest payments and gross fixed capital formation. This may point to upside risks to the fiscal targets. On the other hand, the estimates of refugee-related costs included in the Draft Budgetary do not yet appear to be stable (see section 3.3).

[1] According to the planned data submitted to Eurostat in the context of the October EDP notification, the budget surplus amounts to 0.9% of GDP in 2015. However, as budgetary targets in the DBP are expressed as fractions, this has been rounded to 1% of GDP.

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

Table 2. Composition of the budgetary adjustment

(% of GDP)	2014	2015			2016			Change: 2014-2016
	COM	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	**44.6**	**44¼**	**44¾**	**44.4**	**44¾**	**44¼**	**44.3**	**- 1/2**
of which:								
- Taxes on production and imports	10.8	10¾	10¾	10.7	10¾	10½	10.6	- 1/4
- Current taxes on income, wealth, etc.	11.9	12	12½	12	12	12¼	12.0	1/4
- Capital taxes	0.2	0	0	0.2	0	0	0.1	- 1/4
- Social contributions	16.5	16½	16½	16.4	16½	16½	16.4	-0
- Other (residual)	5.2	n.a.	n.a.	5.2	n.a.	n.a.	5.2	- 1/4
Expenditure	**44.3**	**44**	**43¾**	**43.5**	**43¾**	**44**	**43.8**	**- 1/4**
of which:								
- Primary expenditure	42.5	42 1/4	42 1/4	42.0	42 1/4	42 1/2	42.4	0
of which:								
Compensation of employees	7.7	7¾	7½	7.6	7½	7½	7.6	- 1/4
Intermediate consumption	4.8	4¾	4¾	4.8	4¾	4¾	4.8	0
Social payments	23.7	24	23¾	23.8	24	24	24.0	1/4
Subsidies	0.9	1	1	0.8	1	1	0.8	0
Gross fixed capital formation	2.2	2¼	2¼	2.1	2¼	2¼	2.1	0
Other (residual)	3.3	n.a.	n.a.	2.8	n.a.	n.a.	3.0	- 1/4
- Interest expenditure	1.8	1½	1½	1.5	1½	1½	1.4	- 1/4
General government balance (GGB)	**0.3**	**¼**	**1**	**0.9**	**0**	**0**	**0.5**	**- 1/4**
Primary balance	**2.1**	**2**	**2½**	**2.4**	**1½**	**1½**	**1.9**	**- 1/2**
One-off and other temporary measures	-0.3	0	0	0.2	0	0	0.0	1/4
GGB excl. one-offs	**0.6**	**1/4**	**3/4**	**0.7**	**0**	**0**	**0.5**	**- 1/2**
Output gap[1]	-0.4	-0.7	-0.2	-0.4	-0.5	-0.1	-0.4	0.1
Cyclically-adjusted balance[1]	0.5	0.7	1.1	1.1	0.4	0.1	0.7	-0.4
Structural balance (SB)[2]	**0.8**	**0.7**	**1.0**	**0.9**	**0.4**	**0.1**	**0.7**	**-0.6**
Structural primary balance[2]	2.6	2.3	2.5	2.4	1.9	1.6	2.1	-0.9

Notes:

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

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

[3]The Stability Programme (SP) and the Draft Budgetary Plan (DBP) report revenue and expenditure targets rounded to ¼ percentage point of GDP.

Source:

Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

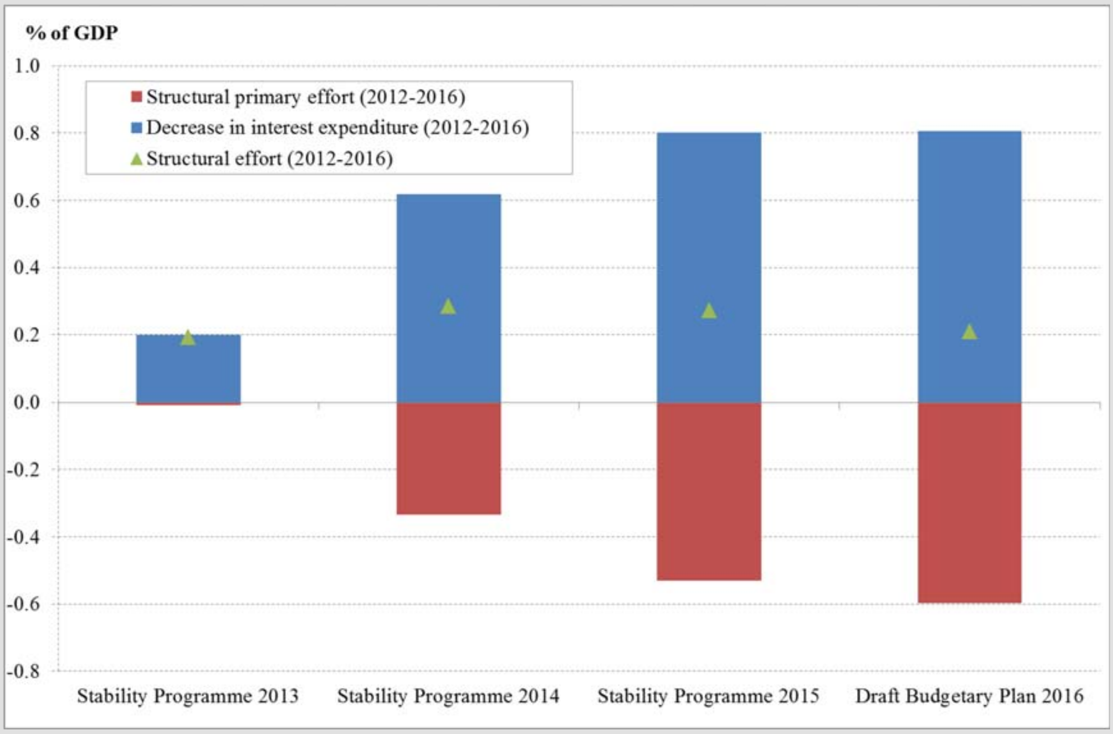
Box 2: Impact of the current low interest rate environment on compliance with the SGP

Sovereign bond yields have fallen sharply since end-2013 and reached historical lows in the first half of 2015, before increasing somewhat during the summer months. However, yields in Germany still remain well below their long-term averages of 4.0% (average over the period 2000-2010), with 10-year rates standing at 0.44% on 28 October 2015. As a result of lower interest rates, total interest payments by the general government have also decreased over the last few years. Interest expenditure in Germany is expected to fall from 2.3% of GDP in 2012 to 1½% in 2015 and 2016, based on the information provided in the DBP. This is broadly in line with the projections of the Commission 2015 autumn forecast of interest payments of 1.5% of GDP in 2015 and 1.4% in 2016. Germany could continue to benefit from the low interest rates in the medium term, given that 20% of sovereign debt issued by the federal government will mature in 2017-2018. Conversely, strongly increasing interest rates could pose a risk for public finances in the years to come.

Comparing the interest expenditure projections across different vintages of Stability and Convergence Programmes and the DBP sheds more light on the (unexpected) interest windfall savings since the fall in interest rates (see Chart)[3]. In fact, Germany has benefitted from significant unexpected interest windfall savings between 2012 and 2016. The 2013 Stability Programme, which was released in April 2013 after the mid-2012 peak in sovereign bond yields and most likely built on the assumption of interest rates returning to pre-crisis or some kind of historical levels, assumed interest expenditure to fall merely by around 0.2% of GDP between 2012 and 2016. The DBP for 2016 now projects for this period a reduction in interest expenditure by 0.8% of GDP. At the same time, the planned structural effort over 2012-2016 has remained rather stable at 0.2-0.3% of GDP. Therefore, the fiscal space resulting from the windfall savings in interest expenditure has been largely used for increasing structural primary expenditure. The increase in the (recalculated) structural surplus projected by the DBP for 2015 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. Apart from the lower interest expenditure, the low inflation environment in Germany does not appear to have had so far a significant impact on other revenue and expenditure categories.

[3] Note that, while it is likely that revisions in the interest expenditure projections across different vintages primarily reflect changes in interest rates, other factors such as debt dynamics, the maturity profile of debt and statistical reclassifications (e.g. the switchover to the ESA 2010 standard of national accounts) may also have played a role.

Structural effort and decrease in interest expenditures between 2012 and 2016 based on government plans



Source: Stability programmes, Draft Budgetary Plan 2016 and AMECO

3.2. Debt developments

The debt-to-GDP ratio decreased by 2.4% of GDP to 74.9% in 2014. The DBP projects a further diminishing debt-to-GDP ratio to 71¼% of GDP in 2015 and 68¾% in 2016 owing to the budget surplus, the denominator effect of nominal 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 DBP is also largely in line with the Commission forecast for 2015 and, given the difference in the projected budget balance, slightly higher for 2016, despite factoring in potential gains from the winding up of ‘bad banks’ unlike the Commission forecast.

Table 3. Debt developments

(% of GDP)	2014	2015			2016		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio[1]	**74.9**	**71½**	**71¼**	**71.4**	**68¾**	**68¾**	**68.5**
Change in the ratio	-2.4	-3 1/2	-3 1/2	-3.5	-2 3/4	-2 3/4	-2.9
Contributions[2] :							
1. Primary balance	**-2.1**	**-2**	**-2 1/2**	**-2.4**	**-1 1/2**	**-1 1/2**	**-1.9**
2. "Snow-ball" effect	**-0.7**	**-1.1**	**-1.4**	**-1.1**	**-0.8**	**-0.7**	**-1.0**
Of which:							
Interest expenditure	1.8	1½	1½	1.5	1½	1½	1.4
Growth effect	-1.2	-1.1	-1.2	-1.2	-1.1	-1.2	-1.3
Inflation effect	-1.3	-1.6	-1.6	-1.4	-1.1	-1.1	-1.1
3. Stock-flow adjustment	**0.4**	**- 1/2**	**0**	**0.0**	**- 1/4**	**- 1/4**	**0.0**

Notes:

[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

[3]The Stability Programme (SP) and the Draft Budgetary Plan (DBP) report debt developments rounded to ¼ percentage point of GDP.

Source:

Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

3.3. Measures underpinning the Draft Budgetary Plan

The DBP 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. Proceeds from auctioning broadband spectrum of about 0.2% of GDP in 2015 are accounted for as a transaction in government non-produced non-financial assets (a disposal) decreasing government expenditure and are qualified as a one-off measure.[4] Further measures on the expenditure side include additional funds for accommodating refugees and asylum seekers, expanding social housing and financing local public transport as well as extra means for the Climate and Energy Fund to finance energy efficiency measures for buildings, industry and municipalities. Overall, the DBP reports a neutral budgetary impact of the discretionary measures in 2015 and an expansionary effect of about ¼% of GDP in 2016.

The estimates of the budgetary impact of the measures appear plausible, although the estimated costs for hosting refugees of 0% of GDP annually, using fractions rounded to ¼% of GDP, mainly cover only basic needs of the asylum applicants and hardly include additional

[4] The exact statistical recording of the proceeds from auctioning broadband spectrum still needs to be clarified and will only be known at a later stage.

spending that can be expected for those granted asylum, including on integration measures, welfare benefits or education. Unlike the DBP, the Commission forecast has already factored in extra spending on welfare benefits and estimates slightly higher overall refugee-related costs of 0.1% of GDP in 2015 and 0.2% in 2016, although largely not considered as discretionary measures inasmuch as they result from the application of existing law.

Table 4. Main discretionary measures reported in the DBP

A. Discretionary measures taken by General Government - revenue side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2015	**2016**	**2017**
Taxes on production and imports	n.a.	n.a.	n.a.
Current taxes on income, wealth, etc.	-0	- 1/4	- 1/4
Capital taxes	n.a.	n.a.	n.a.
Social contributions	n.a.	n.a.	n.a.
Property Income	n.a.	n.a.	n.a.
Other	n.a.	n.a.	n.a.
Total	-0	- 1/4	- 1/4

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that revenue increases as a consequence of this measure. The figures are rounded to ¼ percentage point of GDP.

Source: Draft Budgetary Plan for 2016

B. Discretionary measures taken by general Government- expenditure side

Components	Budgetary impact (% GDP) (as reported by the authorities)		
	2015	**2016**	**2017**
Compensation of employees	n.a.	n.a.	n.a.
Intermediate consumption	n.a.	n.a.	n.a.
Social payments	0	0	0
Interest Expenditure	n.a.	n.a.	n.a.
Subsidies	0	0	0
Gross fixed capital formation	0	0	0
Capital transfers	n.a.	n.a.	n.a.
Other	- 1/4	0	0
Total	- 1/4	1/4	1/4

Note:

The budgetary impact in the table is the aggregated impact of measures as reported in the DBP, i.e. by the national authorities. A positive sign implies that expenditure increases as a consequence of this measure. The figures are rounded to ¼ percentage point of GDP.

Source: Draft Budgetary Plan for 2016

4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT

Germany is subject to the preventive arm of the SGP and the debt rule. Box 3 reports the latest CSRs in the area of public finances. The Council did not address country-specific recommendations related to the requirements of SGP to Germany within the European Semester 2015 as it was assessed to be fully compliant with the rules. However, recommendations were issued concerning the broader area of public finances.

Box 3. Council recommendations addressed to Germany

On 14 July 2015, the Council addressed recommendations to Germany in the context of the European Semester. In particular, in the area of public finances the Council recommended to Germany to further increase public investment in infrastructure, education and research; to foster private investment, take measures to improve the efficiency of the tax system, in particular by reviewing the local trade tax and corporate taxation and by modernising the tax administration; use the ongoing review to improve the design of fiscal relations between the federation, *Länder* and municipalities, particularly with a view to ensuring adequate public investment at all levels of government; increase incentives for later retirement; take measures to reduce high labour taxes and social security contributions, especially for low-wage earners, and address the impact of fiscal drag; revise the fiscal treatment of mini-jobs to facilitate the transition to other forms of employment.

As the debt ratio was 74.9% in 2014, Germany needs to comply with the debt rule. Based on an overall assessment of the DBP, the debt rule is expected to be met both in 2015 and 2016. The Commission 2015 autumn forecast also points to compliance with it both in 2015 and 2016.

Table 5. Compliance with the debt criterion*

	2014	2015			2016		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio*	74.9	71½	71¼	71.4	68¾	68¾	68.5
Gap to the debt benchmark [1,2]		-4.3	-5.2	-5.5	-4.2	-4.4	-5.1
Structural adjustment [3]	0.6	-0.4	0.2	0.1	-0.3	-0.9	-0.2
To be compared to:							
Required adjustment [4]	-	-	-	-	-	-	-

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] 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.

[3] Applicable only during the transition period of three years from the correction of the excessive deficit for EDP that were ongoing in November 2011.

[4] Defines the remaining minimum 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) budgetary projections for the previous years are achieved.

[*] The Stability Programme (SP) and the Draft Budgetary Plan (DBP) report debt developments rounded to ¼ percentage point of GDP.

Source:
Stability Programme 2015 (SP); Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations

* An ex-ante assessment of planned compliance with the debt criterion can be based on the DBP only for the concerned countries providing extended data series (i.e. covering years up to t+4) in the DPB on a voluntary basis, as agreed at the EFC-A on 22 September 2014 and reflected in the updated Code of Conduct of the two-pack.

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 DBP, with a (recalculated) structural surplus of 1.0% and 0.1% of GDP, respectively, Germany is expected to remain above its medium-term objective also in 2015 and 2016, which is confirmed by the Commission 2015 autumn forecast.

The projected margin to the medium-term objective provides significant 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.

Table 6: Compliance with the requirements of the preventive arm

(% of GDP)	2014	2015		2016	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	0.8	0.9		0.7	
Structural balance based on freezing (COM)	1.2	1.1		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2014**	**2015**		**2016**	
	COM	**DBP**	**COM**	**DBP**	**COM**
Structural balance pillar					
Required adjustment[4]	0.0	0.0		0.0	
Required adjustment corrected[5]	-1.3	-1.7		-1.6	
Change in structural balance[6]	0.4	0.2	0.1	-0.9	-0.2
One-year deviation from the required adjustment [7]	Compliant				
Two-year average deviation from the required adjustment [7]					
Expenditure benchmark pillar					
Applicable reference rate[8]	4.0	5.0		5.0	
One-year deviation [9]	Compliant				
Two-year average deviation [9]					
Conclusion					
Conclusion over one year	Compliance				
Conclusion over two years					

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 27.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) was carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference 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 corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. 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 :

Draft Budgetary Plan for 2016 (DBP); Commission 2015 autumn forecast (COM); Commission calculations.

5. IMPLEMENTATION OF REFORMS IN THE AREA OF FISCAL GOVERNANCE

The DBP includes measures taken in response to the country-specific recommendations issued in the broader area of public finances. In particular, the tax wedge has been slightly reduced by increasing the minimum income tax allowance and child allowances as well as offsetting the impact of fiscal drag that has occurred over the last two years (see Box 4). Moreover, additional funds are planned to be provided as from 2016 for financing local public transport, expanding social housing and financing energy-saving renovations of buildings as well as measures to improve energy efficiency in industry and municipalities. These measures will further strengthen public investment, but overall still appear unlikely to be sufficient to tackle the investment backlog in public infrastructure in Germany.

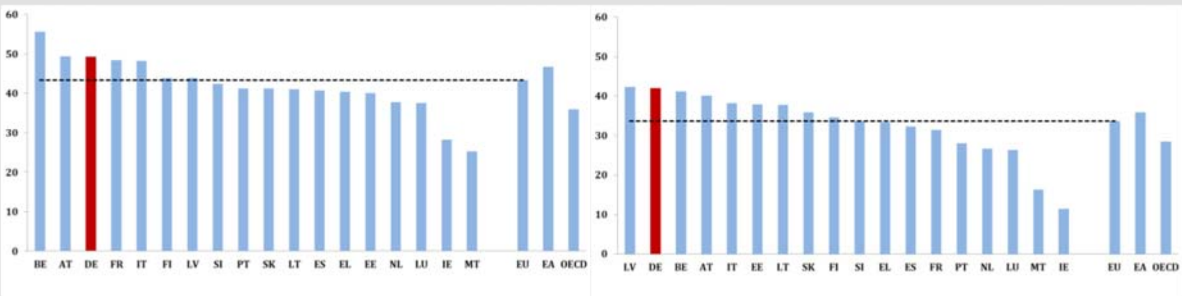
A comprehensive assessment of progress made with the implementation of the CSRs will be made in the 2016 Country Reports and in the context of the CSRs adopted by the Commission in May.

Box 4. Addressing the tax burden on labour in the euro area

The tax burden on labour in the euro area is relatively high, which weighs on economic activity and employment. Against this background, the Eurogroup has expressed a commitment to reduce the tax burden on labour. On 12 September 2015, the Eurogroup agreed to screen euro area Member States' tax burden on labour against the GDP-weighted EU average, relying in the first instance on indicators measuring the tax wedge on labour for a single worker at average wage and a single worker at low wage. It also agreed to relate these numbers to the OECD average for purposes of broader comparability. Furthermore, the Eurogroup expressed its intention to take stock of the state of play in the reduction of the tax burden on labour when discussing the DBP's of euro area Member States.

The tax wedge on labour measures the difference between the total labour costs to employ a worker and the worker's net earnings. It is made up of personal income taxes and employer and employee social security contributions. The higher the tax wedge, the higher the disincentives to take up work or hire new staff. The graphs below show the tax wedge in Germany for a single worker earning respectively the average wage and a low wage (50% of the average) compared to the EU average.

The tax burden on labour in Germany at the average wage and a low wage (2014)



Notes: Data for Latvia, Lithuania and Malta is for 2013. No recent data is available for Cyprus. EU and EA averages are GDP-weighted. The OECD average is not weighted.

Source: European Commission Tax and Benefit Indicator database based on OECD data.

This screening is only the first step in the process towards firm, country-specific policy conclusions. The tax burden on labour interacts with a wide variety of other policy elements such as the benefit system and the wage-setting system. A good employment performance indicates that the need to reduce labour taxation may be less urgent while fiscal constraints can dictate that labour tax cuts should be fully offset by other revenue-enhancing or expenditure-reducing measures. In-depth, country-specific analysis is necessary before drawing policy conclusions.

In the context of the 2015 European Semester, Germany was issued the recommendation to "(...) take measures to reduce high labour taxes and social security contributions, especially for low-wage earners, and address the impact of fiscal drag (...)."

Germany’s DBP contains an increase in the minimum income tax allowance and in child allowances in two steps in 2015 and 2016 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 that has occurred in the years 2014 and 2015 based on the first issue of a tax progression report that will be published every two years. Overall, this should slightly reduce the tax wedge, while the compensation for fiscal drag remains a discretionary measure to be decided on the basis of the tax progression reports.

6. OVERALL CONCLUSION

According to both the information provided in the DBP and the Commission 2015 autumn forecast, the structural balance will remain above the medium-term objective in 2015 and 2016. Based on both the DBP and the Commission forecast, Germany will also meet the debt rule in both 2015 and 2016. This provides 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.