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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(2017) 8013 final.



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COMMISSION OPINION

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on the Draft Budgetary Plan of Germany

{SWD(2017) 513 final}

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on the Draft Budgetary Plan of Germany

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 2018 submitted on 16 October 2017 by Germany, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.
4. Following the general elections on 24 September 2017, the Draft Budgetary Plan was submitted by the outgoing government on the basis of unchanged policies.
5. Germany is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with its medium term budgetary objective (MTO) of -0.5% of GDP. As its public debt exceeds the 60% of GDP reference value of the Treaty, 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 increase from 1.9% in 2016 to 2.0% in 2017 and a slight deceleration again to 1.9% in 2019, compared to the Commission 2017 autumn forecast of 2.2% in 2017 and 2.1% in 2018. The DBP is based on more optimistic growth and 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 has to be based on independently endorsed or produced macroeconomic forecasts. Germany does not yet have an independent body in charge of producing or endorsing the macroeconomic forecasts. Germany should consider the establishment of such an independent body as a matter of urgency. Currently the government is reviewing options for making a suitable adjustment.
8. The Draft Budgetary Plan projects a headline general government budget surplus of $\frac{3}{4}\%$ of GDP for 2017 and $\frac{1}{2}\%$ of GDP in 2018. This is slightly above the projection from the Stability Programme, respectively $\frac{1}{2}\%$ and $\frac{1}{4}\%$ of GDP. The difference is mainly due to lower-than-expected expenditure. Total revenue broadly remained stable, while total expenditure in the DBP is planned to be lower by $\frac{1}{2}\%$ of GDP,

notably due to lower-than-expected social payments. In contrast to the Stability Programme, which projected a decrease of the structural balance¹ from 0.9% of GDP in 2016 to 0.5% in 2017 and 0.2% in 2018, the Draft Budgetary Plan forecasts an increase of the (recalculated) structural balance to 1.0% of GDP in 2017 before decreasing to 0.5% in 2018. The Draft Budgetary Plan projects the debt-to-GDP ratio to decline further to 65¼% of GDP in 2017 and 63¼% in 2018, largely in line with the Stability Programme and the Commission 2017 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 1.3% of GDP in 2016 to 1¼% in 2017 and is projected to decrease further next year, to 1% of GDP.

9. The Draft Budgetary Plan only includes discretionary measures on the expenditure side that are still to be reassessed by the incoming government. These measures include increased funding for humanitarian assistance measures abroad and support for peace-keeping/crisis prevention measures, increased funding in internal and external security as well as for investment in the digital infrastructure. For 2017 no budgetary impact is planned and in 2018 all the mentioned measures have a minor impact below ¼% of GDP. Because of the still uncertain nature and the relatively minor impact of these measures, they have not been considered in the Commission autumn forecast.
10. The Draft Budgetary Plan's projections for 2017 are broadly in line with the Commission 2017 autumn forecast, which projects headline and structural surpluses of 0.9% of GDP, respectively. The Draft Budgetary Plan projections for 2018 are also in line with the Commission 2017 autumn forecast, which projects headline surplus at 1.0% of GDP and structural surplus at 0.9% of GDP. 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 2017 autumn forecast for 2017 and 2018.
11. The information provided in the Draft Budgetary Plan points to compliance with the debt reduction benchmark both in 2017 and 2018. This is in line with the Commission 2017 autumn forecast.
12. Germany registered a structural surplus of 0.9% of GDP in 2016, well above its medium-term objective. According to the information provided in the Draft Budgetary Plan, with a (recalculated) structural surplus of 1.0% and 0.5% of GDP, respectively, Germany is expected to remain above its medium-term objective also in 2017 and 2018, which is in line with the Commission 2017 autumn forecast.
13. The country-specific recommendations adopted by the Council on 11 July 2017² call on Germany to use fiscal and structural policies to support potential growth and domestic demand by strengthening public investment. The Draft Budgetary Plan shows increasing investment expenditure in 2017 and 2018 for transport infrastructure together with improvements in planning capacities as well as additional funds for education and modernizing school buildings, including digital

¹ Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology.

² OJ C 261, 9.8.2017.

equipment. These measures are expected to be growth enhancing and go in the right direction to improve the overall situation of public investment. However, further efforts are needed to clear the investment backlog, especially at municipal level. With the planned stable development of revenues and expenditures, the positive balance of public finances would allow for financing these measures.

Concerning the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017, 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 tax-free allowance, child allowance, child benefit and supplementary child allowance in 2017 and 2018. It was also decided to adapt the income tax brackets to take into account the effect of inflation. Overall, these measures will slightly reduce the tax wedge and thus contribute positively to growth and employment.

14. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany, which is currently under the preventive arm and subject to the debt reduction benchmark, is compliant with the provisions of the Stability and Growth Pact. Germany's favourable budgetary situation provides scope to cover additional expenditure for stimulating potential growth, including through public investment and addressing capacity and planning constraints in infrastructure, education, research and innovation, as recommended by the Council in the context of the European Semester, and to reduce the accumulated investment backlog, especially at municipal level.

The Commission is also of the opinion that Germany has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 11 July 2017 in the context of the 2017 European Semester and thus invites the authorities to accelerate progress. A comprehensive assessment of progress made with the implementation of the country-specific recommendations will be made in the 2018 Country Reports and in the context of the country-specific recommendations to be proposed by the Commission in May 2018.

The authorities are invited to submit to the Commission and the Eurogroup an updated Draft Budgetary Plan, as soon as a new government takes office and as a rule at least one month before the draft budget law is planned to be adopted by the national parliament.

Done at Brussels, 22.11.2017

*For the Commission
Pierre MOSCOVICI
Member of the Commission*