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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	11697/24
Subject:	COUNCIL RECOMMENDATION on economic, budgetary, employment and structural policies of Germany

Delegations will find attached the above-mentioned draft Council Recommendation, as approved by the Council and revised by legal-linguistic experts, based on the Commission Recommendation COM(2024) 605 final.

COUNCIL RECOMMENDATION

of ...

on economic, budgetary, employment and structural policies of Germany

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2], and in particular Article 6(1) thereof,

[1] OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.
[2] OJ L 306, 23.11.2011, p. 25, ELI: http://data.europa.eu/eli/reg/2011/1176/oj.

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee, Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the Facility helps achieve the economic and social recovery and implement sustainable reforms and investments, in particular reforms and investments to promote the green and digital transitions and to make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(2) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] ('the REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil-fuel imports. This would help achieve energy security and diversify the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency.

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[3] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj.).

[4] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1, ELI: http://data.europa.eu/eli/reg/2023/435/oj).

(3) On 16 March 2023, the Commission issued a communication entitled ‘Long-term competitiveness of the EU: looking beyond 2030’, in order to inform policy decisions and create the framework conditions for increasing growth. The communication frames competitiveness in terms of nine mutually reinforcing drivers. Among those drivers, access to private capital, research and innovation, education and skills, and a functioning single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the Union and its Member States. On 14 February 2024, the Commission issued a communication entitled ‘The 2024 Annual Single Market and Competitiveness Report’. That communication details the competitive strengths and challenges of the European single market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey, marking the start of the 2024 European Semester for economic policy coordination. On 22 March 2024, the European Council endorsed the priorities of the 2024 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 Alert Mechanism Report, in which it identified Germany as one of the Member States that may be affected, or may be at risk of being affected, by imbalances and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2024 draft budgetary plan of Germany. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2024 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[5] (‘the 2024 Recommendation on the euro area’) on 12 April 2024 and the Joint Employment Report on 11 March 2024.

[5] Council Recommendation of 12 April 2024 on the economic policy of the euro area (OJ C, C/2024/2807, 23.4.2024, ELI: http://data.europa.eu/eli/C/2024/2807/oj).

(5) On 30 April 2024, the Union's new economic governance framework entered into force. The framework includes the new Regulation (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance, the amended Council Regulation (EC) No 1467/97[6] on speeding up and clarifying the implementation of the excessive deficit procedure, and the amended Council Directive 2011/85/EU[7] on requirements for the budgetary frameworks of Member States. The objectives of the new economic governance framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent excessive government deficits. The new economic governance framework also promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State has to submit to the Council and to the Commission a national medium-term fiscal-structural plan. A national medium-term fiscal-structural plan contains the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 or 5 years, depending on the regular length of the national legislative term. The net expenditure[8] path in the national medium-term fiscal-structural plans has to comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60 % of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3 %-of-GDP Treaty reference value over the medium term. Where a Member State commits to a relevant set of

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6 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L 209, 2.8.1997, p. 6, ELI: http://data.europa.eu/eli/reg/1997/1467/oj).

7 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L 306, 23.11.2011, p. 41, ELI: http://data.europa.eu/eli/dir/2011/85/oj).

8 Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: ‘net expenditure’ means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period can be extended by up to 3 years. For the purpose of supporting the preparation of those national medium-term fiscal-structural plans, on 21 June 2024, the Commission published guidance on the information to be provided by Member States in their national medium-term fiscal-structural plans and in their annual progress reports. In accordance with Articles 5 and 36 of Regulation (EU) 2024/1263, the Commission transmitted to the Member States reference trajectories and technical information, where applicable. Member States have to submit their national medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. In accordance with their national legal frameworks, Member States may debate their draft medium-term plans with their national parliaments, may ask the independent fiscal institutions to issue an opinion, and may conduct a consultation of social partners and other national stakeholders.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant for the recovery and resilience plans which have been revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) On 28 April 2021, Germany submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Germany[9], which was amended on 8 December 2023 pursuant to Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support[10]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Germany has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) On 17 April 2024, Germany submitted its 2024 National Reform Programme and, on 24 April 2024, its 2024 Stability Programme, in line with Article 4(1) of Council Regulation (EC) No 1466/97[11]. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Germany's biannual reporting on the progress made in achieving its recovery and resilience plan.

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9 ST 10158/21 INIT; ST 10158/21 ADD 1.

10 Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Germany (ST 15572/23 INIT).

11 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209, 2.8.1997, p. 1, ELI: http://data.europa.eu/eli/reg/1997/1466/oj).

(9) On 19 June 2024, the Commission published the 2024 country report for Germany. It assessed Germany's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Germany's implementation of the recovery and resilience plan. On the basis of that analysis, the country report identified gaps with regard to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Germany's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(10) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Germany. The main findings of the Commission staff's assessment of macroeconomic vulnerabilities for Germany for the purposes of that Regulation were published in April 2024. On 19 June 2024, the Commission concluded that Germany is experiencing macroeconomic imbalances. In particular, Germany faces vulnerabilities related to the large current account surplus. Those vulnerabilities remain relevant, despite some reduction in the large current account surplus over the years, as the underlying issue of weak domestic demand and subdued investment, which has cross-border relevance, persists while the policy response has been limited. With lower energy prices, weak domestic demand and sluggish world trade, the current account surplus bounced back to 5,9 % of GDP in 2023 from 4,2 % of GDP in 2022. It is forecast to edge up somewhat more this year and next while remaining well below its pre-pandemic levels. Given the size of the German economy and its trade integration in the euro area, this has cross-border relevance. Falling house prices have considerably reduced the extent of house price overvaluation, with a limited impact on the financial system so far, but commercial real estate continues to require monitoring. Declining housing investment could lead to the re-emergence of price pressures and subsequent risks of overvaluation in the near future. Going forward, a mild deterioration of cost competitiveness is expected, and households are beginning to regain some purchasing power as wages are forecast to grow in real terms. The recovery of private investment is taking time and the Commission expects that fiscal consolidation will weigh on domestic demand, with potential implications for public investment. The overall underlying vulnerabilities in terms of a significant savings-investment gap have not changed fundamentally: investment needs have been increasing over the years, mainly linked to public investment at regional level and corporate investment in general, which would support economic growth in the future. Whereas the government has taken some action to support investment, and Germany's recovery and resilience plan includes important measures to promote investment, the size of the policy response has not so far led to substantial progress, nor has it been sufficient to meet the overall challenge of higher private and public investment.

(11) According to data validated by Eurostat, Germany's general government deficit remained unchanged at 2,5 % of GDP in 2023 compared to 2022, while the general government debt fell from 66,1 % of GDP at the end of 2022 to 63,6 % at the end of 2023.

(12) On 12 July 2022, the Council recommended[12] that Germany take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral fiscal policy stance[13], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Germany was recommended to stand ready to adjust current spending to the evolving situation. Germany was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Facility and other Union funds. In 2023, according to the Commission's estimates, the fiscal stance[14] was contractionary, by 0,3 % of GDP. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a contractionary contribution to the fiscal stance of 0,5 % of GDP and was in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds amounted to 0,2 % of GDP in 2023. Nationally financed investment amounted to 2,6 % of GDP in 2023, with an annual increase of 0,1 percentage points from 2022. Germany financed additional investment through the Facility and other Union funds. Germany financed public investment for the green and digital transitions and for energy security, such as the energy renovation of buildings, the improvement of the charging infrastructure for electric cars and the equipping of schools for the digital age. That public investment is partly funded by the Facility and other Union funds.

[12] Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Germany and delivering a Council opinion on the 2022 Stability Programme of Germany (OJ C 334, 1.9.2022, p. 35).

[13] On the basis of the Commission's 2024 spring forecast, the medium-term potential output growth of Germany in 2023, which is used to measure the fiscal stance, is estimated at 7,5 % in nominal terms, on the basis of the 10-year average real potential growth rate and the 2023 GDP deflator.

[14] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the Union budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) under the Facility and other Union funds.

(13) In the 2024 Stability Programme, the macroeconomic scenario underpinning the budgetary projections projects real GDP to grow by 0,2 % in 2024 and 1,0 % in 2025. The general government deficit is expected to decrease to 1¾ % of GDP in 2024 and 1 % of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 64 % by the end of 2024 and, subsequently, decrease to 63¼ % by the end of 2025. After 2025, the general government deficit is projected to increase to 1¼ % of GDP in 2026 and 1½ % in 2027 before decreasing to 1 % in 2028. Therefore, the general government balance is planned to remain below the 3 %-of-GDP Treaty deficit reference value over the programme horizon. In turn, after 2025, the general government debt-to-GDP ratio is projected to decrease gradually to 63¼ % in 2026, 63 % in 2027 and 62 % in 2028.

(14) The Commission's 2024 spring forecast projects real GDP to grow by 0,1 % in 2024 and 1,0 % in 2025, and inflation measured by the harmonised index of consumer prices (HICP) to stand at 2,4 % in 2024 and 2,0 % in 2025.

(15) The Commission's 2024 spring forecast projects a government deficit of 1,6 % of GDP in 2024, while the general government debt-to-GDP ratio is set to decrease to 62,9 % by the end of 2024. The decrease of the deficit in 2024 mainly reflects the phasing-out of energy-related emergency support measures with a similar impact on the debt-to-GDP ratio. According to the Commission's estimates, the fiscal stance is projected to be contractionary by 0,8 % of GDP in 2024.

(16) Expenditure amounting to 0,1 % of GDP is expected to be financed by non-repayable support (‘grants’) under the Facility in 2024, the same amount as in 2023, according to the Commission's 2024 spring forecast. Expenditure financed by grants under the Facility will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance or debt of Germany.

(17) On 14 July 2023, the Council recommended[15] that Germany ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[16] in 2024 to not more than 2,5 %. When executing their 2023 budgets and preparing their draft budgetary plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of the deficit-based excessive deficit procedures on the basis of the outturn data for 2023. According to the Commission's 2024 spring forecast, Germany's net nationally financed primary expenditure is projected to increase by 2,6 % in 2024, which is above the recommended maximum growth rate. However, the projected growth rate of net expenditure in 2024 included in the Commission’s 2024 spring forecast is impacted by a reclassification of public transport entities into the general government sector in the course of 2023[17], which created a break in the time series. Without the impact of that reclassification, net nationally financed primary expenditure would be projected to increase by 2,4 % in 2024, which is below the recommended maximum growth rate. This is in line with what was recommended by the Council.

[15] Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Germany and delivering a Council opinion on the 2023 Stability Programme of Germany (OJ C 312, 1.9.2023, p. 38).

[16] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) one-offs and other temporary measures.

[17] The impact of that reclassification is captured by the expenditure growth indicator while having a negligible effect on the government deficit through a similar increase in revenues.

(18) Moreover, the Council recommended that Germany take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further recommended that, if renewed energy price increases necessitate new or continued support measures, Germany ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable, and preserve incentives for energy savings. According to the Commission's 2024 spring forecast, the net budgetary cost[18] of emergency energy support measures is estimated at 1,2 % of GDP in 2023 and projected at 0,1 % in 2024, and 0,0 % in 2025. In particular, the reduced value added tax rate on gas is assumed to remain in force in 2024, albeit with a minor impact. If the related savings were used to reduce the government deficit, as recommended by the Council, those projections would imply a fiscal adjustment of 1,1 % of GDP in 2024, whereas net nationally financed primary expenditure[19] provides a contractionary contribution to the fiscal stance of 0,8 % of GDP in that year. The emergency energy support measures have been wound down in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. There is a risk that this will not be in line with the Council recommendation.

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[18] The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

[19] This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) under the Facility and other Union funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

(19) In addition, the Council also recommended that Germany preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions. According to the Commission's 2024 spring forecast, nationally financed public investment is projected to increase from 2,6 % of GDP in 2023 to 2,7 % of GDP in 2024. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from Union funds, including grants under the Facility, is expected to remain stable at 0,2 % of GDP in 2024.

(20) On the basis of the policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission's 2024 spring forecast projects a government deficit of 1,2 % of GDP in 2025. The general government debt-to-GDP ratio is set to decrease to 62,2 % by the end of 2025. The decrease in the deficit and in the debt-to-GDP ratio in 2025 mainly reflect the expected rebound in GDP growth.

(21) In spite of a slight increase of public investment as a percentage of GDP in recent years, public investment has not kept pace with the investment needs in infrastructure, education, training, and the green and digital transitions. Federal-level investment has fallen below depreciation levels in the past year, while net investment at the municipal level has been negative for the last two decades, leading to an overall decline in the capital stock. Obstacles to investment persist. Private investment in 2023 was still below pre-pandemic levels. In particular, the administrative burden for the roll-out of private investments remains high, specifically due to requirements for extensive documentation and licences as well as a lack of digitalisation. Demanding regulatory standards, regulatory differences across regions and lengthy permitting procedures hinder the expansion of production and innovation capacities, especially in the energy and construction sectors. While the number of completed dwellings in 2023 was at the previous year's level, investment in residential buildings has fallen for the last three years, despite housing shortages. Alternative forms of financing, particularly for scale-ups, are limited. Spending on research and development by small and medium-sized enterprises (SMEs) remains low and the diffusion of technology is limited.

(22) Ageing is reducing the working age population, putting upward pressure on the old-age dependency ratio. As a result, overall pension expenditure is expected to increase. This creates a significant financing need. Over the years, an increasing portion of pension expenditures have been financed through federal subsidies. Since 2020, this constituted over EUR 100 billion yearly, approximately 23 % of the total federal expenditure. Under unchanged policies, this is expected to increase further, putting a strain on the scope for productive spending. Company pensions as well as the capital-based private pension schemes have remained underused. Despite efforts to increase the use of company pensions (second pillar), coverage remains at about 54 %. The planned building up of 'generation capital', adding a capital-based element in the statutory pension system, will be financed through government debt and therefore offers limited potential for improving pension sustainability. While the employment rate of workers aged 55–64 is among the highest in the Union, the increase in the effective retirement age has slowed somewhat in recent years, and employment in the 65-and-over age group lags behind those Member States with the highest employment rates. This is also due to early retirement options, adding further pressure on the sustainability of the pension system.

(23) An optimal tax mix is key for more inclusive and sustainable growth as well as stronger competitiveness. Workers in Germany face the second highest tax wedge in the Union. High taxes in conjunction with benefit rules reduce incentives to increase the number of hours worked, especially for low-wage and second earners, who are often women, as also indicated by the very high part-time share of employed women. This weighs on labour supply and aggravates existing labour shortages. Furthermore, Germany's share of environmental taxes is below the Union average and decreasing. In contrast, Germany has one of the highest corporate income tax rates in the Union, including the local trade tax (*Gewerbesteuer*). Their combination forms a complex and opaque tax system. Recent initiatives to review depreciation rules and enhancements of tax credits for research and development are cost-effective ways of expanding investment incentives. At the same time, there is potential for simplifying the corporate taxation system by reducing the scope for exemptions.

(24) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Those reforms and investments are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the recovery and resilience plan, including the REPowerEU chapter once adopted, is essential to boost Germany's long-term competitiveness through the green and digital transitions, while ensuring social fairness. To deliver on the commitments of the recovery and resilience plan by August 2026, it is essential for Germany to significantly accelerate the implementation of reforms and investments, including by allocating sufficient resources to its management. The rapid inclusion of a REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Germany's and the Union's strategic objectives in the field of energy and the green transition. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(25) As part of the mid-term review of the cohesion policy programmmes, in accordance with Article 18 of Regulation (EU) 2021/1060 of the European Parliament and of the Council[20], Germany is required to review each programme supported by the European Regional Development Fund (ERDF), the European Social Fund Plus (ESF+), the Cohesion Fund and the Just Transition Fund (JTF) by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. That review forms the basis for the definitive allocation of the Union funding included in each programme. Germany has made progress in implementing cohesion policy programmes and the European Pillar of Social Rights, but challenges remain. Significant regional disparities in employment and labour productivity persist, although the less developed regions have gradually been catching up as regards labour productivity. Accelerating the implementation of cohesion policy programmes is crucial and the priorities agreed in the programmes remain relevant. As part of the objective of enhancing administrative capacity, it is important to allocate sufficient resources to the implementation of the cohesion policy programmes, and to promote the modernisation and digitalisation of the public authorities in charge of their implementation. Increasing research, development and innovation in all regions, especially eastern regions, as well as supporting education and training to address the challenges posed by the green and digital transitions are key to further narrowing disparities in regional competitiveness and employment. This also requires the implementation of cohesion policy programmes for the green and digital transitions to continue in regions with high-performing sectors. It is also necessary to continue green investments in energy efficiency and renewable energy, climate change adaptation and carbon footprint. Business development and support for businesses,

[20] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159, ELI: http://data.europa.eu/eli/reg/2021/1060/oj).

particularly SMEs, remain pertinent. Quality and inclusiveness of education, training and lifelong learning, particularly for disadvantaged groups, are priorities, as are active inclusion and improving employability. Germany could also make use of the Strategic Technologies for Europe Platform, established by Regulation (EU) 2024/795 of the European Parliament and of the Council[21], to support the development or manufacturing of critical technologies in digital technologies, clean and resource-efficient technologies, and biotechnologies, as well as to address shortages of labour and skills in those sectors.

(26) Beyond the economic and social challenges addressed by the recovery and resilience plan and other Union funds, Germany faces several additional challenges related to addressing the high shortage of skilled workers, digitalisation and the green transition. Further investments in the green and digital transitions would also help narrow the investment-savings gap.

[21] Regulation (EU) 2024/795 of the European Parliament and of the Council of 29 February 2024 establishing the Strategic Technologies for Europe Platform (STEP), and amending Directive 2003/87/EC and Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241 (OJ L, 2024/795, 29.2.2024, ELI: http://data.europa.eu/eli/reg/2024/795/oj.).

(27) Shortages of skilled labour hamper growth, investment and the green and digital transitions. Approximately half of companies in Germany struggle to fill vacancies, even in the long term. There is a risk that skills shortages could be further exacerbated due to deteriorating education outcomes, especially for disadvantaged groups, a significant number of early school leavers and weak basic digital skills. According to the OECD Programme for International Student Assessment, the share of underachievers almost doubled over the last decade: around three out of 10 young students in Germany lack a minimum level of proficiency in mathematics, and one in four in reading and science. The influence of socio-economic and migrant backgrounds on education outcomes increased further. Germany also has one of the highest shares of early school leavers in the Union and has particularly elevated numbers for foreign-born students. The new 10-year federal and state programme '*Startchancen*' targeting mainly disadvantaged students is a step in the right direction, but it covers up to 10 % of German schools. Proficiency in the German language is key for effective learning and inclusion, which underlines the importance of intensified German language support, particularly for students where languages other than German are spoken at home. With 52,2 % in 2023, Germany is below the Union average of 55,6 % of adults with at least basic digital skills, and especially young people are lagging behind. There is a need to improve provision of basic skills and upskilling of people with lower-level qualifications and people with a migrant background with low labour market attainment in order to address shortages of labour, especially in the health and long-term care sector, construction, crafts and services. Skills outcomes could be improved through stepping up collaboration between employers and training institutions both within and across sectors, and further reliance on modular/short cycle qualifications. Further efforts to improve education outcomes, in particular for disadvantaged groups, and strengthening digital skills are key to addressing the high shortage of skilled workers.

(28) While Germany has made efforts to improve the digitalisation of public services, implementation remains slow, particularly in rolling out uniform, fully digital services across municipalities and federal states (*Länder*). Germany did not reach its goal of digitalising all administrative services for the public and businesses by its national legal deadline (end-2022, Online Access Act (*Onlinezugangsgesetz*)). The National Regulatory Control Council (*Normenkontrollrat*) considers the implementation of the Online Access Act to be inadequate and has identified projected labour shortages as a key risk in the absence of efficiency gains through digitalisation. Despite recent progress, coordination and cooperation across all administrative levels is insufficient and ownership of delivering digitalised processes seems limited. The Commission's eGovernment Benchmark shows that Germany is also underperforming on digitalising the back office of its administration, which goes beyond the scope of the Online Access Act. Modernising and connecting over 11 000 registers, beyond the first steps under Germany's recovery and resilience plan, is a key enabler of digital public administration. However, little progress has been made to date, and spending for digital public administration measures has been reduced.

(29) While Germany has made good progress in deploying fibre broadband connections, the country's overall coverage (29,8 %) is still the second lowest rate in the Union. The lack of fibre (25,6 % coverage of households) and very-high-capacity network (37,6 %) connections is particularly pronounced in rural areas. Coverage gaps have a negative impact on competitiveness and hamper productivity growth, especially for SMEs. Improving framework conditions for network deployment, for example by increasing planning and implementation capacity in the public sector, is crucial to accelerate fibre coverage. Meeting the network targets will also require improvements to the administrative procedures involved in applying for and granting permits and the standardisation of alternative, less time-consuming installation methods. Continued implementation of Germany's Gigabit Strategy could remedy those issues and provide for further improvements. However, attention could be paid to planning public interventions in a way that does not crowd out commercial investments, for example by increasing demand for the scarce engineering resources.

(30) Reaching climate targets requires further efforts in sectoral decarbonisation for the transport sector. Transport has failed to reach annual national sector-specific emission targets since their inception, including in 2023. Furthermore, cutting carbon emissions in road transport would substantially help achieve Germany's Effort Sharing Target to cut emissions by 50 % by 2030, compared to 2005 levels. The transport sector increased its final energy consumption by 6,3 % in 2023. Improving the reliability and quality of rail operations and addressing investment gaps and delays in renovation, particularly for freight, would help stimulate demand for public transport and ease road congestion. Creating sufficient capacity on the rail network to accommodate new traffic will require substantial investment.

(31) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2024 the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to implement the 2024 Recommendation on the euro area. For Germany, recommendations (1), (2) and (3) help implement the first, second, third and fourth recommendations set out in the 2024 Recommendation on the euro area.

(32) In light of the Commission's in-depth review and conclusions on the existence of imbalances, recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendation (1). Policies referred to in recommendation (1) help to address vulnerabilities linked to the persistent large current account surplus. Recommendations (2), (3) and (4) contribute to addressing recommendation (1) in as much as higher investment is concerned. Policies referred to in recommendation (1) contribute to both addressing imbalances and implementing the recommendations set out in the 2024 Recommendation on the euro area, in line with recital 31,

HEREBY RECOMMENDS that Germany take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[22] in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and maintaining the general government deficit below the 3 %-of-GDP Treaty reference value. Strengthen public investment and remove obstacles to private investment to boost competitiveness. Enhance the fiscal space for productive spending, including by reforming the financing side of the first-pillar pension system. Improve the tax mix for more inclusive growth and sustainable competitiveness, including by reducing disincentives to increase hours worked, in particular for second earners.

2. Significantly accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter once adopted, ensuring the completion of reforms and investments by August 2026, and speed up the implementation of cohesion policy programmes, including by allocating sufficient resources to the management of the recovery and resilience plan and cohesion policy programmes. In the context of the mid-term review of cohesion policy programmes, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Address the shortage of skilled workers, particularly by strengthening basic and digital skills, and improving education outcomes, including by enhancing the provision of targeted support to disadvantaged groups. Speed up the digitalisation of public administration, including by increasing the geographic coverage of digital public services. Further boost the deployment of very-high-capacity digital communication networks, including by facilitating the necessary implementation of private investment projects and mobilising public resources where needed.

[22] According to Article 2, point (2), of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

4. Accelerate the decarbonisation of the transport sector, including by upgrading the rail network.

Done at Brussels,

For the Council

The President