EUROPEAN
COMMISSION

Brussels, 21.11.2018
C(2018) 8013 final

# COMMISSION OPINION

## of 21.11.2018

## on the Draft Budgetary Plan of Germany

{SWD(2018) 513 final}

**COMMISSION OPINION**

**of 21.11.2018**

**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 2019 submitted on 15 October 2018 by Germany, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

4. Germany is subject to the preventive arm of the SGP and should preserve a sound fiscal position which ensures compliance with its medium-term budgetary objective (MTO) of -0.5% of GDP. As its public debt, at 63.9% of GDP in 2017, exceeds the 60% of GDP reference value of the Treaty, Germany also needs to comply with the debt reduction benchmark.

5. According to the Commission 2018 autumn forecast, the German economy is expected to grow by 1.7% in 2018 and 1.8% in 2019, after 2.2% in 2017. The Draft Budgetary Plan projects real GDP to grow by 1.8% in both 2018 and 2019, reflecting a slightly more optimistic view about the evolution of world trade and exports. Overall, the Draft Budgetary Plan is based on plausible macroeconomic projections. Following the adoption of a Regulation and a Law on Economic Projections, Germany complies for the first time with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently endorsed macroeconomic forecasts.

6. The Draft Budgetary Plan projects a general government headline budget surplus of 1½% of GDP for 2018 and 1% of GDP in 2019. The structural balance[1] shows a widening of the surplus from 0.8% of GDP in 2017 to 1.3% of GDP in 2018 before narrowing to 0.7% of GDP in 2019. The Commission 2018 autumn forecast expects a slightly higher headline surplus at 1.6% of GDP in 2018 and 1.2% of GDP in 2019. The structural balance is also slightly higher at 1.4% of GDP in 2018 and 1.0% of GDP in 2019. The differences in 2019 can be explained by slightly lower expectations of the Commission 2018 autumn forecast as regards the increase in overall government expenditure for social payments and subsidies.

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

7. In 2018 the government's fiscal stance is contractionary, with the structural surplus improving considerably due to better-than-expected tax revenue but also the delayed implementation of policy measures following the lengthy process of forming a government. In 2019 many of the already adopted government measures of the March 2018 coalition agreement show their effect and the fiscal stance becomes noticeably expansionary. The surplus-decreasing negative fiscal impact of those measures is projected at 0.1% of GDP in 2018 and at 0.7% of GDP in 2019.

With respect to the fiscal-structural elements of the Recommendations of 13 July 2018[2] addressed by the Council to Germany to, while respecting the medium-term budgetary objective, use fiscal and structural policies to achieve a sustained upward trend in public and private investment, and in particular on education, research and innovation at all levels of government, in particular at regional and municipal levels, the Draft Budgetary Plan shows increasing investment expenditure for digital and transport infrastructure as well as additional funds for education, research and universities. Those measures are expected to be beneficial for supporting potential growth and domestic demand. Based on the Draft Budgetary Plan, public investment is expected to increase from 2¼% of GDP in 2018 to 2½% of GDP in 2019. Further efforts are needed to increase public investment in a sustained manner and clear the investment backlog, especially at municipal level. Due to limited capacities in the construction sector however, some of the beneficial effects of additional public investment spending may be partly eroded by a substantial price effect. With the planned stable development of revenues and expenditures, the positive balance of public finances would allow for those measures to be financed. Public sector wages are expected to grow by 2.6% in 2018 and 3.0% in 2019 based on the Commission 2018 autumn forecast.

The Draft Budgetary Plan further contains measures to reduce the tax wedge on labour especially for families as well as low- and medium-income earners by increasing the basic personal tax-free allowance, the child benefit and tax-free child allowance as well as by the offsetting of tax bracket creep. The reduction of the contributions to the unemployment insurance by 0.5 percentage point, as well as the return to the equal funding of the health insurance system by employers and employees and other relief measures, supports the lowering of the tax wedge from the side of social security contributions.

8. According to the information provided in the Draft Budgetary Plan, Germany is expected to remain above its MTO with a (recalculated) structural surplus of 1.3% and 0.7% of GDP in 2018 and 2019 respectively, which is confirmed by the Commission 2018 autumn forecast. Thus, the assessment points to compliance with the requirements of the preventive arm of the SGP.

9. The Draft Budgetary Plan indicates that government debt-to-GDP ratio will decline from 61% in 2018 to 58% in 2019, slightly above the Commission's projection for 2019 of 56.7%. The information provided in the Draft Budgetary Plan points to compliance with the debt reduction benchmark in 2018. In 2019, Germany is projected to achieve a debt-to-GDP-ratio below the 60% Treaty reference value, implying compliance with the provisions of the Stability and Growth Pact with

---

[2] Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Germany and delivering a Council opinion on the 2018 Stability Programme of Germany, OJ C 320, 10.9.2018, p. 19-23.

regard to the debt criterion. This is in line with the Commission 2018 autumn forecast.

10. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Germany is compliant with the provisions of the Stability and Growth Pact. The Commission invites the authorities to implement the 2019 budget. Germany's favourable budgetary situation provides scope to undertake additional expenditure for achieving a sustained upward trend in public and private investment, and in particular on education, research and innovation at all levels of government, in particular at regional and municipal levels, as recommended by the Council in the context of the European Semester.

    The Commission is also of the opinion that Germany has made some progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 13 July 2018 in the context of the European Semester and invites the authorities to make further progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2019 Country Reports and assessed in the context of the country-specific recommendations to be proposed by the Commission in May 2019.

Done at Brussels, 21.11.2018

*For the Commission*
*Pierre MOSCOVICI*
*Member of the Commission*