



EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 26 May 2016

**Assessment of the 2016 Stability Programme for
Germany**

(Note prepared by DG ECFIN staff)

CONTENTS

1.	INTRODUCTION.....	3
2.	MACROECONOMIC DEVELOPMENTS	3
3.	RECENT AND PLANNED BUDGETARY DEVELOPMENTS.....	5
3.1	Deficit developments in 2015.....	5
3.2	Medium-term strategy and targets.....	5
3.3	Measures underpinning the programme	7
3.4	Debt developments	7
3.5	Risk assessment.....	9
4.	COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT	9
5.	FISCAL SUSTAINABILITY	11
6.	FISCAL FRAMEWORK	13
7.	CONCLUSIONS	13
8.	ANNEX.....	14

1. INTRODUCTION

This document assesses Germany's April 2016 Stability Programme (hereafter called Stability Programme), which was submitted to the Commission on 15 April 2016 and covers the period 2015-2020. Germany is subject to the preventive arm of the the Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with the medium-term budgetary objective (MTO). As the debt ratio was 78.4% of GDP in 2011 (the year in which Germany corrected its excessive deficit), exceeding the 60% of GDP reference value, Germany was also subject transitional arrangements as regards compliance with the debt reduction benchmark during the three years following the correction of the excessive deficit. After the transition period, as of 2015, Germany is expected to comply with the debt reduction benchmark.

This document complements the Country Report published on 26 February 2015 and updates it with the information included in the Stability Programme. Section 2 presents the macroeconomic outlook underlying the Stability Programme and provides an assessment based on the Commission 2016 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission 2016 spring forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Real GDP saw a moderate steady expansion throughout 2015, resulting in an average annual growth rate of 1.7 %. Growth was mostly driven by private and public consumption with only a modest increase in investment. Net exports made a small positive contribution to growth.

The macroeconomic scenario underlying the Stability Programme is based on the federal government's macroeconomic forecast published on 27 January 2016. It therefore does not take into account the updated data for 2015 from National Accounts statistics published in February 2016, although these are reported in the Stability Programme.

The macroeconomic scenario underlying the Stability Programme projects real GDP to increase by 1.7% in 2016 and 1.5% in 2017. Growth is expected to be driven notably by private consumption, supported by the robust labour market, noticeable real wage growth, low interest rates, and the decline in oil prices, and by higher government consumption, inter alia to accommodate the high inflow of asylum seekers. With continuing geopolitical uncertainty, a relatively weak expansion in corporate investment is projected, supported by the gradual improvement in the external environment. Moreover, some acceleration in consumer prices in 2016 is expected. Annual potential growth as recalculated by Commission based on the information in the programme, following the commonly agreed methodology, is estimated to average 1.9% over the period 2015 to 2017¹ and to then decelerate gradually to 1.4% in 2019.

The Stability Programme's macroeconomic outlook is in line with the macroeconomic scenario underlying the 2016 Draft Budgetary Plan (DBP) submitted in October 2015 as

¹ This is 0.3pp higher than the average reported in the programme itself.

regards the projected pace of expansion in 2016, while there are some differences regarding the growth drivers. Notably, even stronger domestic demand growth is now projected, with higher growth rates for private and notably public consumption offsetting slightly weaker investment dynamics, whereas the expected growth contribution of net exports is more negative than projected earlier.

Compared to the Commission 2016 spring forecast the macroeconomic scenario underlying the Stability Programme uses plausible growth assumptions for 2015 and 2016. The Commission forecast projects on average a similar pace of consumption-driven GDP growth in both years but slightly higher employment growth especially in 2016, also reflecting favourable developments in the first quarter. This also translates into slightly higher growth in compensation of employees in both years. While headline GDP deflators are broadly in line between the two sets of forecasts, the Stability Programme's private consumption deflator and inflation projection for 2016 appear to be slightly on the high side.² In contrast, the output gaps, as recalculated by the Commission based on the information in the Stability Programme following the commonly agreed methodology, are broadly in line with the Commission estimate, which projects a slight underutilisation of production capacities in 2016 and 2017.

Table 1: Comparison of macroeconomic developments and forecasts

	2015		2016		2017		2018	2019	2020
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1.7	1.7	1.6	1.7	1.6	1.5	1 ¾	1 ¾	1 ¾
Private consumption (% change)	1.9	1.9	2.0	1.9	1.4	1.5	1 ¾	1 ¾	1 ¾
Gross fixed capital formation (% change)	2.2	2.2	2.5	2.3	2.7	2.6	1 ¾	1 ¾	1 ¾
Exports of goods and services (% change)	5.4	5.4	2.3	3.2	4.8	4.3	4 ½	4 ½	4 ½
Imports of goods and services (% change)	5.8	5.8	4.4	4.8	6.1	5.7	5 ¼	5 ¼	5 ¼
<i>Contributions to real GDP growth:</i>									
- Final domestic demand	2.0	1.5	2.1	2.1	1.8	1.8	1 ½	1 ½	1 ½
- Change in inventories	-0.5	-0.4	0.1	0.0	0.0	0.0	0.0	0.0	0.0
- Net exports	0.2	0.2	-0.6	-0.4	-0.2	-0.2	0.0	0.0	0.0
Output gap ¹	-0.3	-0.4	-0.6	-0.6	-0.6	-0.8	-0.6	-0.2	0.0
Employment (% change)	0.8	0.8	1.1	0.9	0.8	0.7	¼	¼	¼
Unemployment rate (%)	4.6	4.3	4.6	4.5	4.7	5.0	5 ¼	5 ¼	5 ¼
Labour productivity (% change)	0.9	0.9	0.6	0.8	0.8	0.8	1 ½	1 ½	1 ½
HICP inflation (%)	0.1	n.a.	0.3	n.a.	1.5	n.a.	n.a.	n.a.	n.a.
GDP deflator (% change)	2.1	2.1	1.8	1.7	1.7	1.8	1 ¾	1 ¾	1 ¾
Comp. of employees (per head, % change)	2.7	2.7	2.5	2.4	3.0	2.6	2 ¾	2 ¾	2 ¾
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	8.7	8.6	8.5	8.5	8.2	8.1	7 ½	7 ½	7 ½
Note:									
¹ In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.									
Source:									
Commission 2016 spring forecast (COM); Stability Programme (SP).									

² This is likely to be related to negative surprises to inflation developments in the first months of the year, which were partly driven by the renewed decline in oil prices, although the stability programme's oil price assumptions are actually somewhat below those of the Spring forecast.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1 Deficit developments in 2015

Germany recorded a general government budget surplus of 0.7% of GDP in 2015. This compares to projections for 2015 of ¼% of GDP in the 2015 Stability Programme and of 1% of GDP in the 2016 DBP. This budget outcome was largely due to slightly higher revenue than expected in the 2015 Stability programme and slightly lower revenue than projected in the 2016 DBP.

The structural surplus in 2015 was broadly in line with what was projected by both the 2015 Stability Programme and the 2016 DBP. Moreover, the federal budget showed a structural surplus of 0.1% of GDP in 2015 and therefore complied with the national balanced-budget rule ('debt brake') with a margin and also overachieved already the deficit ceiling of 0.35% of GDP that will apply only in 2016 when the 'debt brake' will be fully phased in.³

3.2 Medium-term strategy and targets

Germany's 2016 Stability Programme aims at complying with the medium-term objective with a margin and steadily bringing down the debt-to-GDP ratio over the programme period. The general government budget is planned to be balanced in 2016 and 2017. While for 2016, this is in line with the projections of the 2015 Stability Programme and the 2016 DBP, for 2017 the latter foresaw a headline surplus of ¼% of GDP.

For 2016, the 2016 Stability Programme plans the revenue-to-GDP ratio to be slightly higher than the 2016 DBP and the 2015 Programme, largely driven by higher-than-previously projected social contributions. Total expenditure is projected to be marginally higher compared to the DBP, driven by somewhat higher compensation of employees and intermediate consumption and accounting for the influx of asylum seekers.

Moreover, the 2016 Stability Programme foresees a fall in the (recalculated) structural balance by 0.6ppps of GDP to 0.2% in 2016, compared to a balance of 0.1% projected in the 2016 DBP, in line with developments in the headline balance. It also plans a structural deficit of 0.2% of GDP at federal level and hence compliance with the national 'debt brake' in 2016. All levels of government are expected to show balanced budgets except central government, which is projected to register a deficit of ¼% of GDP.

The Stability Programme's targets for 2016 are broadly in line with the Commission 2016 spring forecast, although the latter projects a somewhat higher headline budget surplus of 0.2% of GDP (see also Figure 1). This is also reflected in a somewhat higher structural surplus of 0.4% of GDP projected by the Commission forecast.

The targeted balanced budgets in 2017 and beyond are slightly lower than the projections of the 2015 Stability Programme on account of higher projected revenue, which is however overcompensated by an increase in projected expenditure. The projections at general government level are aimed to be underpinned by continued small surpluses or balanced budgets at *Länder*, municipal and social insurance level, while central government is expected to run small deficits in 2016 and 2018 and a balanced budget in 2017.

³ The constitutional 'debt brake' stipulates that as of 2016 the structural balance of the federal budget must not exceed a deficit of 0.35 % of GDP, with a gradually decreasing ceiling along an agreed transition path in the preceding years. The *Länder* must have structurally balanced budgets as of 2020.

The Stability Programme confirms the medium-term objective of a structural deficit not higher than 0.5% of GDP, in line with the requirements of the Stability and Growth Pact. A balanced budget in structural terms is foreseen throughout the programme period, thus well above the medium-term objective. The (recalculated) structural surplus is projected to increase to 0.3% of GDP in 2017, broadly in line with the Commission 2016 spring forecast. From 2018 onwards, the structural balance is projected to decline, to balance in 2020.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2015	2016		2017		2018	2019	2020	Change: 2015-2020
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	44.6	44.5	44 ½	44.6	44 ½	44 ½	44 ½	44 ½	- 1/4
<i>of which:</i>									
- Taxes on production and imports	10.8	10.6	10 ¾	10.6	10 ½	10 ½	10 ½	10 ½	- 1/2
- Current taxes on income, wealth, etc.	12.0	12.0	12.0	12.2	12 ¼	12 ½	12 ½	12 ¾	1/2
- Social contributions	16.6	16.6	16 ¾	16.8	16 ¾	17.0	17.0	17.0	1/2
- Other (residual)	5.2	5.1	4 ¾	5.1	4 ¾	4 ½	4 ½	4 ¾	-1.0
Expenditure	43.9	44.3	44 ½	44.5	44 ½	44 ½	44 ½	44 ½	1/2
<i>of which:</i>									
- Primary expenditure	42.3	42.8	43.0	43.2	43 ¼	43 ¼	43 ¼	43.0	1.0
<i>of which:</i>									
Compensation of employees	7.6	7.6	7 ¾	7.6	7 ½	7 ½	7 ¾	7 ¾	- 1/2
Intermediate consumption	4.7	4.9	5.0	5.0	5.0	5.0	5.0	5.0	0.0
Social payments	23.8	24.2	24 ¼	24.6	24 ½	24 ½	24 ¾	24 ¾	1.0
Subsidies	0.9	0.9	1.0	0.8	1.0	1.0	1.0	1.0	0.0
Gross fixed capital formation	2.2	2.2	2 ¼	2.3	2 ¼	2 ¼	2 ¼	2 ¼	1/4
Other (residual)	3.0	3.0	4.0	2.9	3 ¾	4.0	4.0	4.0	0.0
- Interest expenditure	1.6	1.4	1 ½	1.3	1 ¼	1 ¼	1 ¼	1 ¼	- 1/2
General government balance (GGB)	0.7	0.2	0.0	0.1	0.0	0.0	0.0	0.0	- 3/4
Primary balance	2.3	1.6	1 ¼	1.5	1 ¼	1 ¼	1 ¼	1 ¼	-1.0
One-off and other temporary measures	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0
GGB excl. one-offs	0.7	0.1	-0.1	0.0	-0.1	-0.1	0.0	0.0	- 3/4
Output gap ¹	-0.3	-0.6	-0.6	-0.6	-0.8	-0.6	-0.2	0.0	0.3
Cyclically-adjusted balance ¹	0.9	0.5	0.2	0.5	0.4	0.2	0.2	0.0	-0.9
Structural balance²	0.8	0.4	0.2	0.4	0.3	0.2	0.1	0.0	-0.9
Structural primary balance ²	2.4	1.9	1.6	1.7	1.6	1.5	1.4	1.3	-1.2

Notes:

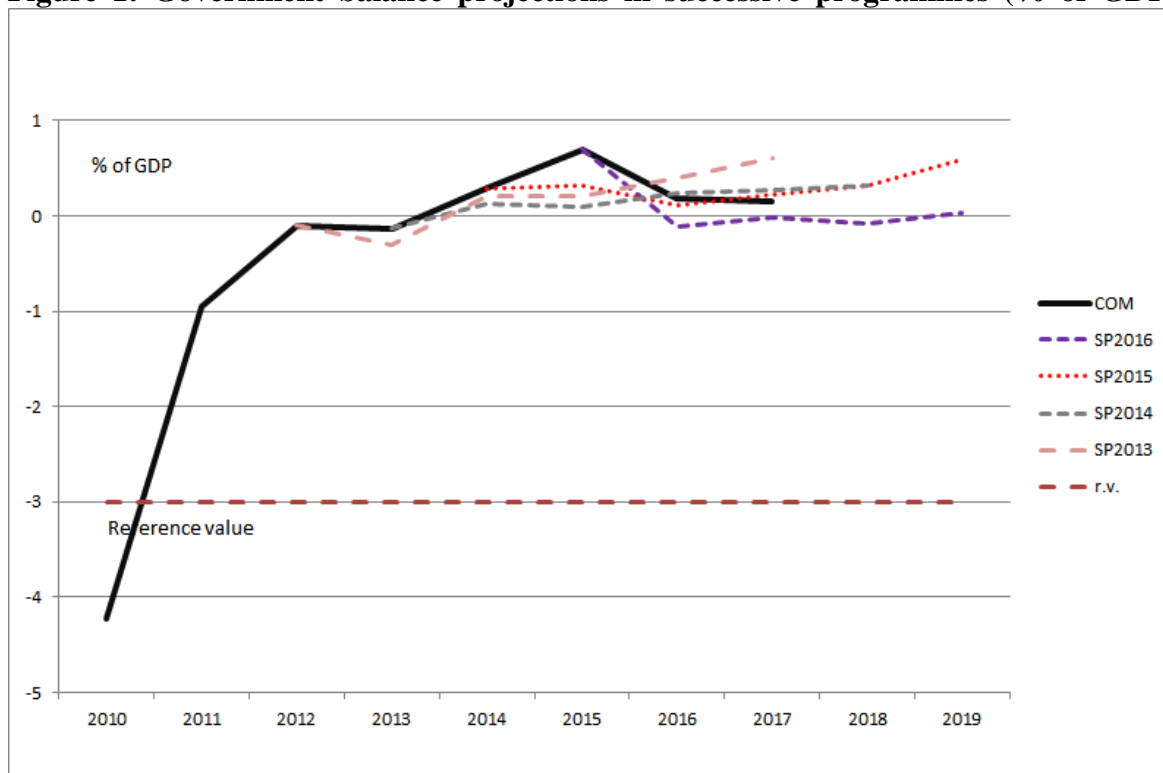
¹Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source:

Stability Programme (SP); Commission 2016 spring forecasts (COM); Commission calculations.

Figure 1: Government balance projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast; Stability Programmes

3.3 Measures underpinning the programme

The Stability Programme does not factor in additional revenue and expenditure-related measures in addition to those that were specified in the 2015 Stability Programme and 2016 DBP. However, it lays out the plan for restructuring the agency for public-private partnerships with a view to pooling expertise for supporting local authorities in the planning of investment projects. The Programme also indicates the expectation of the authorities that budget-wide savings of EUR 6.3bn will be needed in 2018 to ensure a balanced budget.

3.4 Debt developments

The debt-to-GDP ratio decreased by 3.5pps to 71.2% in 2015, driven by the headline surplus and the denominator effect of GDP growth. Based on the projected continued budget surplus, further falling interest expenditure and the denominator effect of GDP growth, the Stability Programme projects the debt-to-GDP ratio to fall to 68¼% of GDP in 2016 and 65¾% in 2017 and to steadily diminish thereafter. This is broadly in line with the Commission 2016 spring forecast. Figure 2 shows that the debt dynamics largely correspond to projections of previous programmes.

Table 3: Debt developments

(% of GDP)	Average 2010-2014	2015	2016		2017		2018	2019	2020
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio¹	78.2	71.2	68.6	68 ¼	66.3	65 ¾	63 ½	61 ¼	59 ½
Change in the ratio	0.5	-3.5	-2.6	-3	-2.3	-2 ½	-2 ¼	-2 ¼	-1¾
<i>Contributions² :</i>									
1. Primary balance	-1.2	-2.3	-1.6	-1 ¼	-1.5	-1 ¼	-1 ¼	-1 ¼	-1 ¼
2. “Snow-ball” effect	-0.4	-1.1	-0.9	-1	-0.8	-1	-¾	-¾	-½
<i>Of which:</i>									
Interest expenditure	2.2	1.6	1.4	1 ½	1.3	1 ¼	1 ¼	1 ¼	1 ¼
Growth effect	-1.5	-1.2	-1.1	-1 ¼	-1.0	-1	-1	-1	-1
Inflation effect	-1.1	-1.5	-1.2	-1 ¼	-1.1	-1 ¼	-1	-1	-1
3. Stock-flow adjustment	2.0	-0.1	0.0	-¾	0.0	-¾	-¾	-¾	0

Notes:

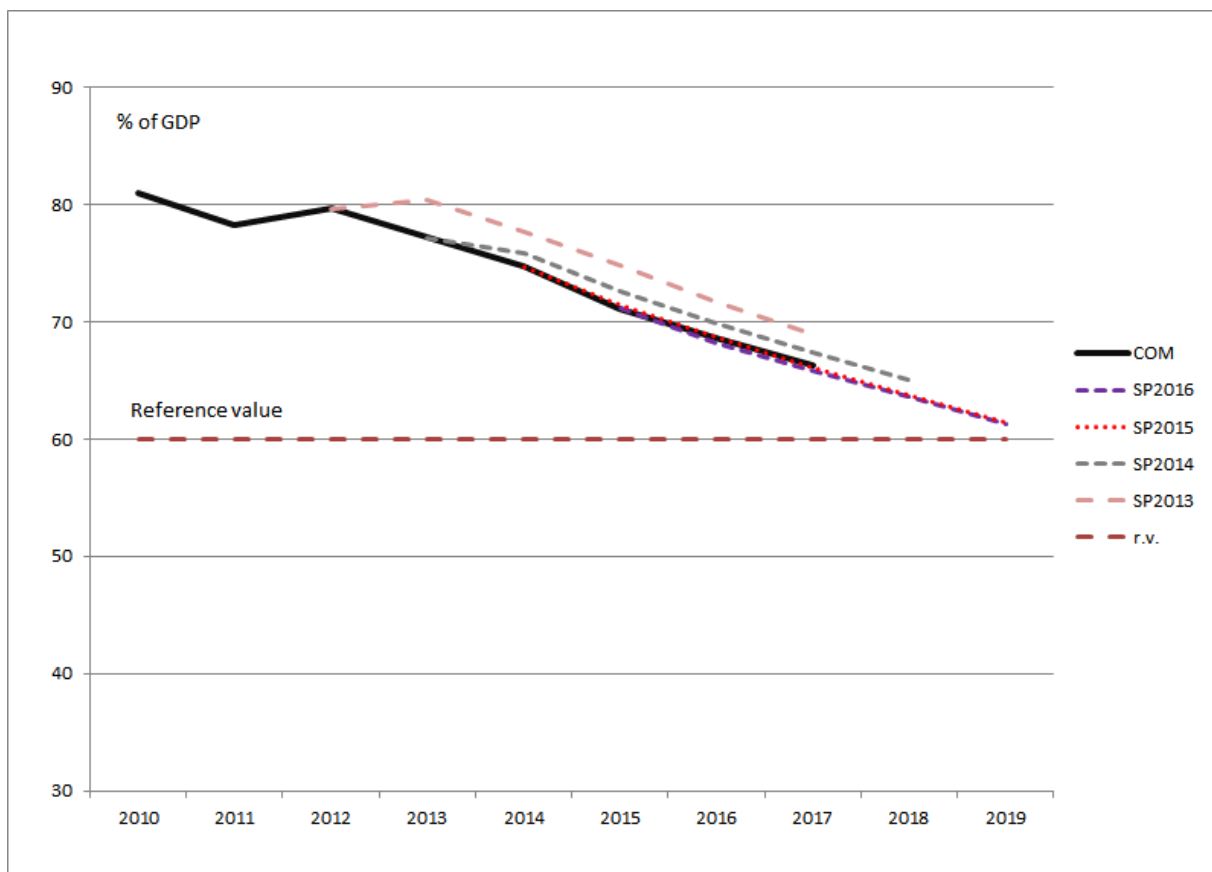
¹End of period.

²The 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 effects.

Source:

Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.

Figure 2: Government debt projections in successive programmes (% of GDP)



Source: Commission 2015 spring forecast; Stability Programmes

3.5 Risk assessment

Overall, the Stability Programme's targets in terms of headline balance, structural balance and debt are broadly in line with the Commission 2016 spring forecast and appear realistic, although somewhat cautious. In fact, the Stability Programme projects lower employment growth and partly due to this, foresees lower headline surpluses for 2016 and 2017 and a lower structural surplus for 2016 than the Commission forecast.

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

Germany is subject to the preventive arm of the Stability and Growth Pact. The general government budget deficit was below 3% of GDP in 2015 and is planned to remain so over the programme horizon. According to the Stability Programme, with a (recalculated) structural surplus of 0.2% and 0.3% of GDP, respectively, Germany is expected to remain above its medium-term objective also in 2016 and 2017, which is confirmed by the Commission 2016 spring forecast. According to the Stability Programme as well as the Commission 2016 spring forecast, the debt-to-GDP ratio is expected to be below the debt reduction benchmark in 2015, 2016 and 2017 (and according to the 2016 Stability Programme also in 2018), pointing to compliance with the debt rule.

Table 4: Compliance with the debt criterion

	2015	2016		2017		2018
		SP	COM	SP	COM	SP
Gross debt ratio	71.2	68 ¼	68.6	65 ¾	66.3	63 ½
Gap to the debt benchmark ^{1,2}	-5.4	-5.5	-5.0	-5.7	-5.0	-5.1

Notes:
¹ Not relevant for Member States 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.

Source:
Commission 2016 spring forecast (COM); Stability Programme (SP), Commission calculations.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2015	2016		2017	
Initial position¹					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance ² (COM)	0.8	0.4		0.4	
Structural balance based on freezing (COM)	1.0	0.4		-	
Position vis-a-vis the MTO³	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	2015	2016		2017	
	COM	SP	COM	SP	COM
Structural balance pillar					
Required adjustment ⁴	0.0	0.0		0.0	
Required adjustment corrected ⁵	-1.7	-1.5		-0.9	
Change in structural balance ⁶	0.1	-0.7	-0.4	0.1	-0.1
<i>One-year deviation from the required adjustment⁷</i>	Compliant				
<i>Two-year average deviation from the required adjustment⁷</i>					
Expenditure benchmark pillar					
Applicable reference rate ⁸	5.0	4.8		3.5	
<i>One-year deviation⁹</i>	Compliant				
<i>Two-year average deviation⁹</i>					
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 38.).					
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) is 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.					
<i>Source :</i> <i>Stability Programme (SP); Commission 2016 spring forecast (COM); Commission calculations.</i>					

5. FISCAL SUSTAINABILITY

Government debt stood at 71.2% of GDP in 2015. It is expected to fall below the 60% of GDP Treaty threshold by 2026 both in a no-policy-change scenario based on Commission forecasts (to 52.8%) and in a scenario based on the full implementation of the Stability Programme (to 55.0%).

The medium-term sustainability gap S1 is at -0.6 pps. of GDP and indicates low fiscal sustainability risks in the medium-term. The full implementation of the stability programme would put the sustainability risk indicator S1 at -0.3 pps. of GDP, confirming the low medium-term risk.

Based on the no-policy-change scenario, Germany also appears to face low fiscal sustainability risks in the long-term, despite the projected ageing costs (contributing with 2.5 pps of GDP) over the very long run. Indeed, the long-term sustainability gap, which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path, is at 1.8 pps. of GDP. The Stability Programme scenario however indicates medium fiscal sustainability risks, with the long-term sustainability gap slightly exceeding the lower threshold of 2.0 pps. of GDP.

Table 6: Sustainability indicators

<i>Time horizon</i>	No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term	LOW risk			
S0 indicator ^[1]	0.1			
Fiscal subindex (2015)	0.1	LOW risk		
Financial & competitiveness subindex (2015)	0.1	LOW risk		
Medium Term	LOW risk			
DSA ^[2]	LOW risk			
S1 indicator ^[3]	-0.6	LOW risk	-0.3	LOW risk
<i>of which</i>				
IBP	-1.9		-1.1	
Debt Requirement	0.5		-0.1	
CoA	0.9		0.8	
Long Term	LOW risk		MEDIUM risk	
S2 indicator ^[4]	1.8		2.2	
<i>of which</i>				
IBP	-0.6		-0.2	
CoA	2.5		2.3	
<i> of which</i>				
Pensions	1.7		1.5	
HC	0.4		0.3	
LTC	0.0		0.0	
Other	0.5		0.5	

Source: Commission services; 2016 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2016 forecast until 2017. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator reflects up to date evidence on the role played by fiscal and financial-competitiveness variables in creating potential fiscal risks. It should be stressed that the methodology for the S0 indicator is fundamentally different from the S1 and S2 indicators. S0 is not a quantification of the required fiscal adjustment effort like the S1 and S2 indicators, but a composite indicator which estimates the extent to which there might be a risk for fiscal stress in the short-term. The critical threshold for the overall S0 indicator is 0.43. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.35 and 0.45.

[2] Debt Sustainability Analysis (DSA) is performed around the no fiscal policy change scenario in a manner that tests the response of this scenario to different shocks presented as sensitivity tests and stochastic projections. See Fiscal Sustainability Report 2015.

[3] The medium-term sustainability gap (S1) indicator shows the upfront adjustment effort required, in terms of a steady adjustment in the structural primary balance to be introduced over the five years after the forecast horizon, and then sustained, to bring debt ratios to 60% of GDP in 2030, including financing for any additional expenditure until the target date, arising from an ageing population. The following thresholds were used to assess the scale of the sustainability challenge: (i) if the S1 value is less than zero, the country is assigned low risk; (ii) if a structural adjustment in the primary balance of up to 0.5 p.p. of GDP per year for five years after the last year covered by the spring 2015 forecast (year 2017) is required (indicating a cumulated adjustment of 2.5 pp.), it is assigned medium risk; and, (iii) if it is greater than 2.5 (meaning a structural adjustment of more than 0.5 p.p. of GDP per year is necessary), it is assigned high risk.

[4] The long-term sustainability gap (S2) indicator shows the immediate and permanent adjustment required to satisfy an inter-temporal budgetary constraint, including the costs of ageing. The S2 indicator has two components: i) the initial budgetary position (IBP) which gives the gap to the debt stabilising primary balance; and ii) the additional adjustment required due to the costs of ageing. The main assumption used in the derivation of S2 is that in an infinite horizon, the growth in the debt ratio is bounded by the interest rate differential (i.e. the difference between the nominal interest and the real growth rates); thereby not necessarily implying that the debt ratio will fall below the EU Treaty 60% debt threshold. The following thresholds for the S2 indicator were used: (i) if the value of S2 is lower than 2, the country is assigned low risk; (ii) if it is between 2 and 6, it is assigned medium risk; and, (iii) if it is greater than 6, it is assigned high risk.

6. FISCAL FRAMEWORK

As has been analysed in Section 3.2, based on the Stability Programme, Germany plans to comply with the requirements of the applicable national numerical fiscal rules.

As pointed out in the Commission Opinion on Germany's DBP for 2016, there is neither an independent body in charge of producing or endorsing macroeconomic forecasts, nor is there an endorsement procedure of forecasts involving an independent body within the meaning of Regulation (EU) No 473/2013. This also holds for the macroeconomic scenario underlying the Stability Programme, which is based on the federal government's macroeconomic forecast published in January 2016. The 2016 Stability Programme states that the federal government is currently reviewing options to address this shortcoming.

Moreover, the 2016 Stability Programme states that by its submission the federal government also complies with the obligation to make public national medium-term fiscal plans in accordance with Regulation (EU) No 473/2013. The Stability Programme does not include indications on the expected economic returns on non-defence public investment projects that have a significant budgetary impact.

The Stability Programme briefly refers to the government's plans to improve the effectiveness of the federal budget by incorporating the results of spending reviews to the budget planning process. The spending review will analyse the revenue and expenditure side in terms of effectiveness of budget resources vis-à-vis policy objectives and with their conformity with sound financial management practices.

In the area of healthcare, the government is continuing reforms with a view to improving quality and effectiveness. In that regard, the E-health Act entered into force in 2016, promoting digital networks in the health care system. In addition, the Hospital Structure Act aims at facilitating efficient and high-quality health care structures. A EUR 1bn structural fund is being set-up with a view to reducing excess capacity in hospitals and facilitating hospital specialisation.

The Second Act to Enhance Long-Term Care aims at ensuring the effectiveness of long-term care insurance expenditure through improved assessments of long-term care needs.

7. CONCLUSIONS

In 2015, Germany recorded headline and structural budget surpluses. Therefore, Germany's structural balance was above its medium-term objective. According to both the information provided in the Stability Programme and the Commission 2016 spring forecast Germany will continue to remain above its medium-term objective in 2016 and 2017. Moreover, according to the Stability Programme and the Commission 2016 spring forecast, Germany is also expected to meet the debt benchmark both in 2016 and 2017.

8. ANNEX

	1998-2002	2003-2007	2008-2012	2013	2014	2015	2016	2017
Core indicators								
GDP growth rate	1.7	1.6	0.7	0.3	1.6	1.7	1.6	1.6
Output gap ¹	0.7	-0.8	-0.6	-0.3	-0.2	-0.3	-0.6	-0.6
HICP (annual % change)	1.2	1.8	1.8	1.6	0.8	0.1	0.3	1.5
Domestic demand (annual % change) ²	1.1	0.9	0.6	0.8	1.3	1.6	2.5	1.9
Unemployment rate (% of labour force) ³	8.5	10.0	6.6	5.2	5.0	4.6	4.6	4.7
Gross fixed capital formation (% of GDP)	22.0	19.5	19.9	19.8	20.1	20.0	20.1	20.3
Gross national saving (% of GDP)	22.1	24.3	25.9	26.0	27.1	27.6	27.6	27.5
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	-2.1	-2.6	-1.7	-0.1	0.3	0.7	0.2	0.1
Gross debt	59.0	64.9	75.3	77.2	74.7	71.2	68.6	66.3
Net financial assets	-35.4	-45.3	-47.5	-45.2	-46.0	n.a	n.a	n.a
Total revenue	44.8	43.0	43.8	44.4	44.6	44.6	44.5	44.6
Total expenditure	46.9	45.6	45.5	44.5	44.3	43.9	44.3	44.5
<i>of which: Interest</i>	3.1	2.8	2.5	2.0	1.8	1.6	1.4	1.3
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	-2.3	1.4	2.4	2.2	2.8	3.2	3.6	3.6
Net financial assets; non-financial corporations	-53.6	-55.8	-51.3	-56.8	-57.1	n.a	n.a	n.a
Net financial assets; financial corporations	-5.3	-4.0	9.1	11.4	18.6	n.a	n.a	n.a
Gross capital formation	13.1	11.8	11.5	10.8	10.8	10.4	10.6	10.7
Gross operating surplus	23.5	26.4	25.8	24.7	24.6	24.6	24.8	24.7
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	3.9	5.8	5.4	4.6	4.7	4.8	4.7	4.5
Net financial assets	92.8	108.1	113.4	121.9	124.5	n.a	n.a	n.a
Gross wages and salaries	42.0	40.0	40.4	41.3	41.5	41.6	41.7	41.9
Net property income	11.8	13.9	14.0	13.0	12.3	11.7	11.4	11.1
Current transfers received	22.2	22.1	21.1	20.5	20.4	20.4	20.5	20.6
Gross saving	10.6	11.1	11.2	10.9	11.1	11.1	11.0	10.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	-0.5	4.6	6.1	6.7	7.8	8.7	8.5	8.2
Net financial assets	2.5	-0.9	-19.6	-27.9	-36.3	n.a	n.a	n.a
Net exports of goods and services	1.7	5.1	5.4	6.0	6.7	7.8	7.6	7.3
Net primary income from the rest of the world	-0.8	0.8	2.0	2.2	2.3	2.2	2.2	2.2
Net capital transactions	0.0	0.0	-0.1	0.0	0.1	-0.1	0.0	0.0
Tradable sector	42.7	43.1	42.5	42.4	42.1	42.0	n.a	n.a
Non tradable sector	47.7	47.3	47.4	47.6	47.9	48.0	n.a	n.a
<i>of which: Building and construction sector</i>	4.6	3.6	3.8	4.0	4.1	4.2	n.a	n.a
Real effective exchange rate (index, 2010=100)	107.9	105.0	100.8	103.2	105.1	102.0	103.8	104.6
Terms of trade goods and services (index, 2010=100)	101.4	101.1	98.9	98.3	99.7	102.4	104.2	104.4
Market performance of exports (index, 2010=100)	87.4	93.3	101.0	105.6	106.0	106.4	104.3	104.5
Notes:								
¹ The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.								
² The indicator on domestic demand includes stocks.								
³ Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.								
Source:								
AMECO data, Commission 2016 spring forecast								