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COMMISSION OPINION

of 20.11.2019

on the Draft Budgetary Plan of Germany

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact 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 15 October 2019, Germany submitted the Draft Budgetary Plan for 2020. On that basis, 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 Stability and Growth Pact and should preserve a sound fiscal position which ensures compliance with its medium-term budgetary objective of -0.5% of GDP.

5. According to the Commission 2019 autumn forecast, the German economy is expected to grow by 0.4% in 2019 and 1.0% in 2020. The Draft Budgetary Plan projects real GDP to grow by 0.5% in 2019 and 1.5% in 2020, reflecting a slightly more optimistic view about the evolution of world trade and exports. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in 2019 and favourable in 2020. Germany complies 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 1¼ % of GDP for 2019 and ¾% of GDP in 2020. The structural balance[1] remains in 2019 unchanged compared to 2018 at 1.4% of GDP before declining in 2020 to 0.8% of GDP. The Commission 2019 autumn forecast expects a similar headline surplus of 1.2% of GDP in 2019 and 0.6% of GDP in 2020. The structural balance is slightly lower at 1.1% of GDP in 2019 and 0.7% of GDP in 2020. The differences can be explained by the slightly less favourable macroeconomic outlook of the Commission 2019 autumn forecast and the slightly higher expectations as regards the increase in overall government expenditure for social payments and compensation of employees.

7. The fiscal stance is expansionary in 2020, as many of the planned government measures of the March 2018 coalition agreement show their effect. According to the Draft Budgetary Plan, the structural surplus is planned to be reduced by 0.6% of GDP in 2020. The Commission 2019 autumn forecast expects the fiscal expansion to

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

be more evenly distributed between 2019 and 2020, with the structural surplus decreasing by 0.3% of GDP in 2019 and by 0.4% in 2020, reaching 0.7% of GDP in 2020. This decline in the structural balance is mainly driven by previously agreed measures to lower income taxation and increase social benefits for families as well as in general slowing growth in tax revenues.

The fiscal-structural part of the Country-Specific Recommendations issued by the Council on 9 July 2019[2] call on Germany to, while respecting the medium-term budgetary objective, use fiscal and structural policies to achieve a sustained upward trend in private and public investment, in particular at regional and municipal level and to focus investment-related economic policy on education; research and innovation; digitalisation and very-high capacity broadband; sustainable transport as well as energy networks and affordable housing, taking into account regional disparities. With respect to these Recommendations the Draft Budgetary Plan shows increasing investment expenditure for digital and transport infrastructure as well as additional funds for education, research and innovation. Those measures are expected to be beneficial for supporting inclusive and sustainable growth as well as domestic demand.

Measures to reduce the tax wedge, especially for families as well as low- and medium-income earners will benefit private consumption and further increase domestic demand, by increasing the basic personal tax-free allowance, the child benefit and tax-free child allowance as well as by offsetting the 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 support the lowering of the tax wedge from the side of social security contributions, but are counterbalanced by an increase in contributions to long-term care insurance by 0.5 percentage point.

Based on the Draft Budgetary Plan, public investment is expected to attain 2½% of GDP in 2019 and 2020, slightly above the long-term average since 2000 of 2¼% of GDP. This compares to an average of 2¾% of GDP in 2018 in the rest of the euro area without Germany. Likewise the Commission 2019 autumn forecast projects public investment to grow by 7.7% in 2019 and 6.7% in 2020. However, due to limited capacities in the construction and public works sector, this additional spending might contribute more to rising prices than to volumes. Further efforts to improve capacities are needed, which should allow to reap full benefit of the available funds and to increase public investment in a sustained manner and 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 those measures.

The Draft Budgetary Plan lists as new government measures the Climate Action Programme 2030 that will have an expansionary fiscal impact in 2020 of around 0.1% of GDP, contributing to the overall fiscal expansion of 0.6% of GDP in that year. This climate programme incorporates already existing initiatives and new measures. These new measures comprise the introduction of a CO_2 pricing for the sectors not covered by the EU Emission Trading System and various subsidies and support programmes to encourage environmentally friendly behaviour. Such measures include cheaper railway ticket prices, subsidies for electric mobility and

[2] Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Germany and delivering a Council opinion on the 2019 Stability Programme of Germany, OJ C 301, 5.9.2019, p. 24.

support for renewable energies. As the objective of the Climate Action Programme 2030 is to be financed as far as possible in a budgetary neutral way, the overall budgetary effect on the fiscal stance after 2020 is expected to be small.

8. According to the information provided in the Draft Budgetary Plan, Germany is expected to remain above its medium-term budgetary objective of a structural deficit of 0.5% of GDP with a (recalculated) structural surplus of 1.4% and 0.8% of GDP in 2019 and 2020 respectively, which is confirmed by the Commission 2019 autumn forecast. Thus, the assessment points to compliance with the requirements of the preventive arm of the Stability and Growth Pact.

9. Germany is projected to achieve a debt-to-GDP-ratio below the 60% Treaty reference value in 2019 with a further decline in 2020, implying compliance with the provisions of the Stability and Growth Pact with regard to the debt criterion. This is in line with the Commission 2019 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 2020 budget.

    Given Germany's favourable budgetary situation, the Commission invites the authorities to undertake additional expenditure for achieving a sustained upward trend in private and public investment, in particular at regional and municipal level and to focus investment-related economic policy on education; research and innovation; digitalisation and very-high capacity broadband; sustainable transport as well as energy networks and affordable housing, taking into account regional disparities, 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 9 July 2019 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 2020 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2020.

Done at Brussels, 20.11.2019

For the Commission
Pierre MOSCOVICI
Member of the Commission