Federal Ministry
of Finance

2018 Draft Budgetary Plan Germany

according to Regulation (EU) No 473/2013

October 2017

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Public finances in Germany in 2017–2018

Information on the draft budgetary plan in accordance with Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013

Germany's 2018 draft budgetary plan presents the fiscal projections for the budgets of the Federation, the *Länder*, the local authorities and the social security funds on the basis of current trends and planning. One of the sources used as a basis for making these fiscal projections is the draft federal budget for 2018, which was approved by the Federal Government on 28 June 2017. When the German Bundestag's 19th legislative period begins in October 2017, the process of preparing the federal budget will start over again, which means that the incoming Federal Government will submit a new draft federal budget for 2018. Thus the draft budgetary plan presented here is provisional and assumes a no-policy-change scenario in line with the rules set out in Regulation (EU) 473/2013. After the incoming government drafts a new federal budget, Germany will submit a revised Draft Budgetary Plan for 2018.

Germany is in compliance with the requirements of the Stability and Growth Pact. Its debt-to-GDP ratio is still over 60% but is being steadily reduced. Germany is thus in full compliance with EU rules with a view to ensuring sustainable fiscal policies that also address the challenges of demographic change.

Forecast for public finances

The general government budget encompassing the Federation, *Länder*, local authorities and social security funds will remain stable and continue to run a surplus: The general government budget is projected to achieve a surplus of ¾% of GDP in 2017. The positive effects of current economic trends and reduced spending due to the low interest rate environment continue to have a favourable impact on public finances, which remain in a healthy state. The surplus is expected to decline slightly in the coming year as a result of plans to increase spending: the draft federal budget for 2018 relies on the use of available funding set aside in previous years and foresees yet-to-be-determined measures to achieve a balanced budget without recourse to borrowing. In addition, the pension insurance system – as part of the social security funds – will also be financed in part using reserves set aside in previous years.

Compliance with medium-term budgetary objective, with a smaller structural surplus: The structural balance, i.e. the budget balance adjusted for cyclical and one-off effects, will maintain a safety margin in 2017 and 2018 that ensures compliance with EU rules. Germany will meet its medium-term budgetary objective, i.e. a structural deficit no greater than 0.5% of GDP. Germany therefore remains in compliance with the targets of the Stability and Growth Pact, which stipulates that the general government budget should be close-to-balance or in surplus.

Steady reduction of the debt-to-GDP ratio: Thanks to the general government budget surplus and the robust performance of the economy, Germany's debt-to-GDP ratio will fall to 65¼% in the current year. The continued healthy state of public finances and the ongoing winding down of resolution authority portfolios are helping to further reduce the debt ratio. This puts Germany in a position to bring its debt ratio below the 60% threshold in 2020. This would ensure the sustainability of public finances and make Germany's fiscal position more resilient to risks, shocks and the budgetary consequences of demographic change.

Table 1: General government budget balance and debt

	2016	2017	2018
		- % of GDP -	
Budget balance	0.8	¾	½
Structural balance	0.8	¾	¼
Maastricht debt-to-GDP ratio	68.1	65 ¼	63 ¼

Figures for the forecast period are rounded to quarter percentage points of GDP.

Implementation of the country-specific recommendations

Germany's draft budgetary plan for 2018 includes key measures that aim to implement the Council's country-specific recommendations of 11 July 2017. The measures will have effect in 2017 and the years that follow; they were not yet included in the 2017 National Reform Programme or have been updated in the meantime. The Federal Government will report further on the implementation of the country-specific recommendations over the course of the coming European semester.

Basis for the 2018 draft budgetary plan

The 2018 draft budgetary plan is based on the following information:

- Act Adopting the Federal Budget for the 2017 Fiscal Year *(Gesetz über die Feststellung des Bundeshaushaltsplans für das Haushaltsjahr 2017)* of 20 December 2016
- Government draft of the 2018 federal budget and the financial plan to 2021, dated 28 June 2017
- Federal Ministry of Finance summer forecast for the aggregate public sector budgets of the Federation, *Länder* and local authorities up to 2021, dated 13 July 2017 and published in the Federal Ministry of Finance's August 2017 monthly report
- Results for the general government budget in the national accounts for the first half of 2017, published 25 August 2017
- Autumn 2017 Joint Economic Forecast, published 28 September 2017
- Federal Government autumn projection on macroeconomic trends, dated 11 October 2017

Table 2: Technical assumptions

	2016	2017	2018
Short-term interest rate (annual average in %)	0.01	0.00	0.00
USD/€ exchange rate (annual average)	1.11	1.13	1.19
Growth of German sales markets (in %)[1]	3.2	5	3 ¾
Oil price (Brent, USD/barrel)	43.6	53	56

1) Figures for forecast years are rounded to quarter percentage points.

Table 3a: Forecast of macroeconomic trends

	ESA Code	2016 Index 2010=100	2016	2017	2018	2019	2020	2021
			rate of change in %					
1. Real GDP. chain index	B1*g	110.67	1.9	2.0	1.9	1.7	1.3	1.3
2. Potential GDP (€bn)		3,139.5	1.7	1.8	1.6	1.6	1.6	1.5
contributions:								
- labour			0.7	0.7	0.5			
- capital			0.4	0.4	0.4			
- total factor productivity			0.6	0.6	0.6			
3. Nominal GDP (€bn)	B1*g	3,144.1	3.3	3.5	3.6			
Components of real GDP. chain index	P.3							
4. Private consumption expenditure[1)]	P.3	108.31	2.1	1.8	1.6			
5. Government consumption expenditure	P.3	111.94	3.7	1.6	1.7			
6. Gross fixed capital formation	P.51	114.13	3.1	3.5	3.6			
7. Changes in inventories (GDP growth contributions)	P.52 + P.53	-	-0.2	0.0	0.0			
8. Exports	P.6	127.98	2.6	3.5	4.0			
9. Imports	P.7	125.18	3.9	4.4	4.7			
			contributions to GDP growth in %					
10. Domestic demand (excluding stocks)		-	2.3	2.0	1.9			
11. Changes in inventories	P.52 + P.53	-	-0.2	0.0	0.0			
12. External balance of goods and services	B.11	-	-0.3	0.0	0.0			

2016: Federal Statistical Office, August 2017
2017 to 2018: results of the short-term forecast for the 2017 autumn projection, October 2017.

1) Including private non-profit organisations serving households.

Table 3b: Price developments - deflators

	2016	2016	2017	2018	2019	2020	2021
	Index (2010=100)	rate of change in %					
1. GDP	110.11	1.3	1.5	1.7	1.7	1.8	1.8
2. Private consumption expenditure[1]	106.89	0.6	1.7	1.5			
3. HICP	-	-	-	-			
4. Government consumption expenditure	111.44	1.1	2.8	1.9			
5. Gross capital formation	112.04	1.4	2.0	1.8			
6. Exports	103.94	-1.0	1.6	0.3			
7. Imports	100.22	-2.5	2.7	0.2			

2016: Federal Statistical Office, August 2017
2017 to 2018: results of the short-term forecast for the 2017 autumn projection, October 2017.

1) Including private non-profit organisations serving households

Table 3c: Labour market trends

	ESA Code	2016	2016	2017	2018
		level	rate of change in %		
1. Employment - persons[1]		43.64	1.3	1.5	1.1
2. Employment - hours worked[2] (bn hours)		59.29	0.6	1.5	1.2
3. Unemployment rate (%)[3]		-	3.9	3.5	3.2
4. Labour productivity - persons[4]		104.0	0.6	0.4	0.8
5. Labour productivity - hours worked[5]		106.4	1.3	0.5	0.8
6. Compensation of employees (€bn)	D.1	1,598.2	3.8	4.3	3.9
7. Compensation per employee (thousand €)		40.7	2.2	2.5	2.7

2016: Federal Statistical Office, August 2017
2017 to 2018: results of the short-term forecast for the 2017 autumn projection, October 2017.

1) Employed persons, domestic concept national accounts definition.
2) National accounts definition.
3) Harmonised definition, Eurostat; levels.
4) Real GDP per person employed; (2010=100).
5) Real GDP per hour worked; (2010=100).

Table 3d: Sectoral balances

	ESA Code	2016	2017	2018
			- in % of GDP -	
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	8.5	7.5	7.4
of which:				
- Balance on goods and services		8.0	7.4	7.2
- Balance of primary incomes and transfers		0.5	0.2	0.2
2. Net lending/net borrowing of households	B.9	5.1	4.9	4.7
3. Net lending/net borrowing of general government[1)]	B.9	0.8	¾	½
4. Statistical discrepancy			-	-

2016: Federal Statistical Office, August 2017
2017 to 2018: results of the short-term forecast for the 2017 autumn projection, October 2017.

1) Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 4a: General government budgetary targets broken down by subsector

	ESA Code	2017	2018	2019	2020	2021
		- in % of GDP -				
Net lending (+)/net borrowing (-) (B.9) by subsector[1]						
1. General government	S.13	¾	½	½	¾	¾
2. Central government	S.1311	0	0			
3. State government	S.1312	¼	¼			
4. Local government	S.1313	¼	¼			
5. Social security funds	S.1314	¼	0			
General government (S.13)						
6. Interest expenditure	D.41	1 ¼	1	1	1	1
7. Primary balance[2]		2	1 ¾	1 ½	1 ¾	1 ¾
8. One-off and other temporary measures[3]		- ¼	0	0	0	0
9. Real GDP growth (%)		2.0	1.9	1.7	1.3	1.3
10. Potential GDP growth (%)		1.8	1.6	1.6	1.6	1.5
contributions (percentage points):						
-labour		0.7	0.5	0.5	0.4	0.3
-capital		0.4	0.4	0.5	0.5	0.5
-total factor productivity		0.6	0.6	0.7	0.7	0.7
- in % of potential GDP -						
11. Output gap		0.3	0.7	0.7	0.4	0.2
12. Cyclical budgetary component		¼	¼	½	¼	0
13. Cyclically-adjusted balance (1 - 12)		¾	¼	¼	½	¾
14. Cyclically-adjusted primary balance (13 + 6)		1 ¾	1 ¼	1 ¼	1 ½	1 ¾
15. Structural balance (13 - 8)		¾	¼	¼	½	¾

1) TR - TE = B.9.
2) The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).
3) A plus sign means deficit-reducing one-off measures.

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 4b: General government debt developments ("Maastricht"-debt)

	ESA Code	2017	2018	2019	2020	2021
		- in % of GDP -				
1. Gross debt		65 ¼	63 ¼	60 ½	58 ½	55 ½
2. Change in gross debt ratio		-2 ¾	-2			
Contributions to changes in gross debt						
3. Primary balance		2	1 ¾			
4. Interest expenditure	D.41	1 ¼	1			
5. Stock-flow adjustment		¼	¾	½	¾	¾
p.m.: **Implicit interest rate on debt**[1]		1 ¾	1 ¾			

1) Proxied by interest expenditure divided by the debt level of the previous year.

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 5: Expenditure and revenue projections under the no-policy change scenario*

General government (S. 13)	ESA Code	2017	2018
		- in % of GDP -	
1. Total revenue at unchanged policies	TR	45	45
of which			
1.1. Taxes on production and imports	D.2	10 ½	10 ½
1.2. Current taxes on income, wealth, etc.	D.5	12 ¾	13
1.3. Capital taxes	D.91	0	0
1.4. Social contributions	D.61	16 ¾	16 ¾
1.5. Property income	D.4	½	½
1.6. Other		4 ¼	4
p.m.: **Tax burden** (D.2+D.5+D.61+D.91-D.995)		40 ¼	40 ¼
2. Total expenditure at unchanged policies	TE	44 ¼	44 ¼
of which			
2.1. Compensation of employees	D.1	7 ½	7 ½
2.2. Intermediate consumption	P.2	4 ¾	4 ¾
2.3. Social payments	D.62 D.632	24 ¼	24 ¼
of which **Unemployment benefits**		1 ½	1 ¼
2.4. Interest expenditure	D.41	1 ¼	1
2.5. Subsidies	D.3	¾	1
2.6. Gross fixed capital formation	P.51	2 ¼	2 ¼
2.7. Capital transfers	D.91	1 ¼	1 ¼
2.8. Other		2 ¼	2 ½

* Please note that the no-policy change scenario involves the extrapolation of revenue and expenditure trends before adding the impact of the measures included in the forthcoming year's budget.

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 6a: General government expenditure and revenue targets

General government (S. 13)	ESA Code	2017	2018
		- in % of GDP -	
1. Total revenue	TR	45	45
of which			
1.1. Taxes on production and imports	D.2	10 ½	10 ½
1.2. Current taxes on income, wealth, etc	D.5	12 ¾	13
1.3. Capital taxes	D.91	0	0
1.4. Social contributions	D.61	16 ¾	16 ¾
1.5. Property income	D.4	½	½
1.6. Other[1]		4 ¼	4
p.m.: **Tax burden** (D.2+D.5+D.61+D.91-D.995)[2]		40 ¼	40 ¼
2. Total expenditure	TE[3]	44 ¼	44 ¼
of which:			
2.1. Compensation of employees	D.1	7 ½	7 ½
2.2. Intermediate consumption	P.2	4 ¾	4 ¾
2.3. Social payments	D.62 D.632	24 ¼	24 ¼
of which **Unemployment benefits**[4]		1 ½	1 ¼
2.4. Interest expenditure	D.41	1 ¼	1
2.5. Subsidies	D.3	¾	1
2.6. Gross fixed capital formation	P.51	2 ¼	2 ¼
2.7. Capital transfers	D.91	1 ¼	1 ¼
2.8. Other[5]		2 ¼	2 ½

1) P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec).
2) Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
3) TR - TE= B.9.
4) Includes D.62 and D.632.
5) D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.52 + P.53 + K.2 + D.8.

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 6b: Amounts to be excluded from the expenditure benchmark

	2016	2016	2017	2018
	bn €	- in % of GDP -		
1. Expenditure on EU programmes fully matched by EU funds revenue	5.0	0.2	¼	¼
2. Cyclical unemployment benefit expenditure	-1.6	-0.1	- ¼	- ¼
3. Effect of discretionary revenue measures	-1.2	0.0	0	0
4. Revenue changes mandated by law	-0.2	0.0	0	0

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 7: Discretionary measures at the general government and federal level

List of actions	Detailed description	ESA code	Accounting method	Adoption status	Budgetary impact 2017	2018	2019	2020	2021
					- % of GDP -				
Development cooperation	Increased funding for humanitarian assistance measures abroad and support for peace-keeping/ crisis prevention measures and budgets	D.74	Cash	Draft budget to be reassessed by incoming government	**0**	**0**	**0**	**0**	**0**
Internal security	Increased funding	D.1/P.2	Cash	Draft budget to be reassessed by incoming government	**0**	**0**	**0**	**0**	**0**
Digital infrastructure	Increased funding for microelectronics investment	D.3/D.92	Cash	Draft budget to be reassessed by incoming government	**0**	**0**	**0**	**0**	**0**
External security	Increase in the defence budget	P.2/D.92	Cash	Draft budget to be reassessed by incoming government	**0**	**0**	**0**	**0**	**0**

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 8: Divergence from April 2017 Stability Programme

	ESA Code	2016	2017	2018
Target general government net lending/net borrowing (% of GDP)	B.9			
Stability Programme - April 2017		0.8	½	¼
Draft Budgetary Plan - October 2017		0.8	¾	½
Difference		0.1	½	½
General government net lending/net borrowing projection at unchanged policies (% of GDP)				
Stability Programme - April 2017		0.8	½	¼
Draft Budgetary Plan - October 2017		-	¾	¾
Difference		-	½	½

Figures for the forecast years are rounded to quarter percentage points of GDP.

Table 9: 2017 country-specific recommendations

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: **Recommendation 1: Public investment and competition**	Name of measure	Description and expected impact of measure	Status and timetable
While respecting the medium-term objective, use fiscal and structural policies to support potential growth and domestic demand as well as to achieve a sustained upward trend in investment. Accelerate public investment at all levels of government, especially in education, research and innovation, and	2017 federal budget	The planned investment expenditure has risen by 3.1% compared with the target of 2016. Investment in transport, for example, has increased by approx. €0.5 billion to €12.8 billion. Expenditure on education and research has gone up by approx. 8.3%.	2017 Budget Act has been in effect since 1 January 2017
	2018 federal budget	Federal investment expenditure will be expanded to €36.4 billion. Transport investment in 2018 will grow by €1.4 billion to €14.2 billion compared with 2017 (2014: around €10 billion).	Cabinet decision of 28 June 2017
	Act to Promote Investment by Municipalities with Inadequate Financial Resources	The volume of the Municipal Investment Promotion Fund has been doubled to €7 billion and the Municipal Investment Promotion Act has been amended to include a new funding chapter. With this, the Federal Government is providing from 1 July 2017 until the end of 2022 €3.5 billion in funding for the modernisation, modification and expansion of school buildings in financially weak municipalities. In this context, the equipment required for proper functioning of these buildings and necessary complementary infrastructure measures, including measures designed to ensure that digital requirements for school buildings are met, are also eligible for funding support. The first funding programme worth €3.5 billion, which was launched back in mid-2015, will still be available to financially weak municipalities until the end of 2020 to allow them to invest in infrastructure measures, for example in areas such as noise control, hospitals and urban development. According to the reports submitted by the *Länder* on 30 June 2017, approx. 87% of the funding provided by the Federal Government for this programme has already been earmarked for individual investment measures. The *Länder's* share of the public funding provided for in section 6 (1) of the Act to Promote Investment by Municipalities with Inadequate Financial Resources may not be replaced by EU funds. The funds made available by the Federal Government may not be used for co-financing programmes that are supported by EU funds.	Amendment to the Act establishing a Municipal Investment Promotion Fund and the amendment of the Municipal Investment Promotion Act in force since 18 August 2017 (Articles 6 and 7 of the Act on the Restructuring of the national fiscal equalisation system as from 2020 and on the modification of budgetary provisions)

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: **Recommendation 1: Public investment and competition**	**Name of measure**	**Description and expected impact of measure**	**Status and timetable**
	Restructuring of fiscal relationships between the Federation and the *Länder*	Restructuring the Federal-*Länder* fiscal relations will bring fiscal relief totalling slightly more than €9.7bn annually to the *Länder*. The reform will also serve to modernise the fulfilment of responsibilities in key areas in the state as a whole and to strengthen the role of the Federation. The restructuring of the Federal-*Länder* fiscal relations will put the conditions in place for permanently sound budgets at Federal and *Länder* level and for permanent compliance with the debt caps. This safeguards the ability of the federal levels to act and strengthens the self-responsibility of the territorial authorities. Not least, this creates the framework for sustainable investment, which in a federally structured state is the responsibility of the specifically competent territorial authorities.	Act amending the Basic Law (promulgated on 19 July 2017); Act on the restructuring of the national fiscal equalisation system as from 2020 and on the modification of budgetary provisions (promulgated on 17 August 2017)
	Complying with the medium-term budgetary objective (MTO)	Since 2012, Germany has complied with its medium-term budgetary objective of a general government structural deficit no higher than 0.5% of GDP and will also be able to meet this objective in the coming years (projection period up to 2021). Public-sector investment is expected to increase by an annual average of 5% (in nominal terms) during the projection period.	
address capacity and planning constraints for infrastructure investments.	Infrastructure Company for Transport • Act amending the Basic Law • Act on the restructuring of the national fiscal equalisation system as from 2020 and on the modification of budgetary provisions	The Federal Government assigns the responsibility for managing the planning, construction, operation, maintenance, financing and for conducting the financial management of the federal motorways (and, if applicable, federal trunk roads) to a private company ("infrastructure company"). Both the roads and the company are the inalienable property of the Federal Government. The restructuring scheme that has been agreed aims to resolve issues related to the way in which orders are currently managed, for example by the pooling of competences. Investments to expand and maintain the federal motorways are to be implemented faster and more efficiently.	Laws entered into force on 20 July 2017 and 18 August 2017 respectively. Infrastructure company (in the form of a limited liability company) to be established in the summer / autumn of 2018 (no later than two months after the 2018 Budget Act has been promulgated)

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: **Recommendation 1: Public investment and competition**	Name of measure	Description and expected impact of measure	Status and timetable
	Partnerschaft Deutschland – Berater der öffentlichen Hand GmbH	"Partnerschaft Deutschland – Berater der öffentlichen Hand GmbH" (PD) will give neutral advice to public-sector contracting authorities regarding the implementation of investment projects. This should enable investments to be implemented on schedule and in a faster and more cost-effective manner. PD has set up a special advisory programme for municipalities which addresses capacity and project planning bottlenecks.	Company form modified as of 7 December 2016, new advisory programme currently being implemented
Further improve the efficiency and investmentfriendliness of the tax system.	Act on the Modernisation of the Taxation Procedures	The Act on the Modernisation of the Taxation Procedures allows for a greater use of IT and better allocation of resources in tax collection, which renders the system more economical and efficient. This ensures fair and equal tax enforcement and strengthens Germany as a centre for business and investment. Collecting taxes will become easier, faster and more efficient.	Most provisions of the Act became effective on 1 January 2017 (Federal Law Gazette I 2016 no. 35, p. 1679)
Stimulate competition in business services and regulated professions.	Transparency Initiative	Following the evaluation of the regulations in the various Member States, the Federal Government submitted an action plan to the European Commission in January 2016. The plan focuses specifically on business-related professions. The action plan includes a range of measures which will be taken or are being considered, such as modifying the provisions for the professions listed below (some modifications have already been implemented): Lawyers and patent attorneys (inter-professional cooperation, modifications scheduled to be implemented in the next legislative period). Tax advisers (abolition of fixed fees entered into effect in summer 2016), clarification provided in Article 3a of the Tax Consultancy Act on the authority of foreign service providers to provide temporary and occasional assistance in tax matters without physical border-crossing/implications of the judgement of the ECJ of 17 December 2015: This issue has been resolved by passing the Act for Combating Tax Avoidance and Amending Other Tax Provisions (Anti-Tax Avoidance Act) of 23 June 2017). Auditors (particularly the opening of EU legal forms for all audit firms through the implementation of the EU statutory auditor reform (Directive 2014/56/EU) in summer 2016; currently there are no plans for additional measures). In each case, the planned modifications concern the rules for practising the profession (not the access to the profession).	Action plan to conclude the Transparency Initiative was submitted in January 2016

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: **Recommendation 1: Public investment and competition**	**Name of measure**	**Description and expected impact of measure**	**Status and timetable**
	Fee scale ordinance for tax advisers (StBVV) and the statutory fee schedule for architects and engineers (HOAI)	The Federal Government is also taking into account the fact that the European Commission opened an infringement procedure against Germany on 18 June 2015 over the binding minimum fees set by the fee scale ordinance for tax advisers (StBVV) and the statutory fee schedule for architects and engineers (HOAI). The provisions laid down in the fee scale ordinance for tax advisers have since been adapted accordingly. With regard to the statutory fee schedule for architects and engineers (HOAI), which is currently only applicable to domestic service providers, the European Commission has brought legal actions before the European Court of Justice. The application was serviced to Germany on 28 June 2017. On 7 September 2017, the Federal Government stated in its defence that it cannot recognize that the freedom of establishment has been violated and that it is legitimate to fix fees for reasons such as consumer protection and quality assurance.	The provisions of the ordinance on fees for tax advisers were amended by Article 9 of the Third Ordinance Amending Tax Regulations of 18 July 2016 (Federal Law Gazette I, p. 1722).

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: **Recommendation 2: Labour participation and labour market**	Name of measure	Description and expected impact of measure	Status and timetable
Reduce disincentives to work for second earners and	Act for Combating Tax Avoidance of 23 June 2017	In the area of taxation, further work is being done to raise awareness of the factor-based method used in tax bracket IV. By distributing the tax relief between both earners, the factor-based method helps to expand the supply of labour. From 2018, the IV/IV tax bracket combination will become the standard tax bracket for married couples and it will be possible to change from the optional III/V tax bracket combination to the IV/IV tax bracket combination at the request of only one spouse.	Effective as from 1 January 2018 (Federal Law Gazette I p. 1682).
	Transparency of Remuneration Act	Introduction of the individual right to be informed and of reporting requirements for large companies to allow for greater transparency on gender-specific remuneration structures. The aim is to help enforce the principle of equal pay for equal or equivalent work.	Entry into force on 6 July 2017
facilitate transitions to standard employment.		In this legislative term, the Federal Government has already taken various measures to strengthen regular employment contracts. For example, in Article 611a of the Civil Code it has been defined what constitutes a contract of employment. This creates more legal certainty when it comes to distinguishing between employment and self-employment. The temporary employment system has been reoriented more to its core function again by especially setting a maximum period for temporary employment to normally 18 months. The introduction of the statutory minimum wage has also helped to support the conversion of marginal employment into employment requiring compulsory social insurance payments. The overall development in Germany in recent years reflects a positive trend: Between June 2010 and June 2016, employment subject to social insurance contributions increased by roughly 10%, while the number of exclusively marginally employed ("mini-jobs") fell by 4.8%.	

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: **Recommendation 2: Labour participation and labour market**	**Name of measure**	**Description and expected impact of measure**	**Status and timetable**
Reduce the high tax wedge for low-wage earners.	Act to implement the changes in the EU Mutual Assistance Directive and to implement further measures to combat the reduction of profits and profit shifting of 20 December 2016	For 2017 and 2018, the Federal Government has adopted further steps to increase the tax-free basic and child allowance, child benefit, supplementary child allowance and to combat fiscal drag (change in the income tax rate to offset the preceding year's inflation rate). The act introduces further relief totalling more than €6 billion. The measures relating to income tax provide further incentives to work and boost purchasing power. In total, the relief introduced in the course of this legislative term amounts to more than €11 billion a year. With regard to the procedure to reduce fiscal drag in particular, the tax measures go beyond what was required to make the system comply with constitutional law.	Entry into force: 1 January 2017 and 1 January 2018 (Federal Law Gazette I. p. 3000)
		Calls for a reduction of the burden of social security charges must bear in mind that contributions to social insurance funds are counterbalanced by corresponding services, some of which are equivalent to the contributions, from the social security systems (equivalence principle), and that it is necessary to avoid reduced entitlements for low earners in particular. Irrespective of this, limiting the burden of taxes and charges on labour in a pro-growth and pro-employment manner remains an important overall policy goal for the Federal Government.	
Create conditions to promote higher real wage growth, respecting the role of the social partners.		Germany has a system of free collective bargaining, i.e. the parties to free collective bargaining are responsible for stipulating wages and salaries. In principle, the state does not influence this. Regarding the development of real wages in Germany: The real wage index of the Federal Statistical Office indicates an annual average increase of 1.3% for the 2010-2016 period, based on gross monthly wages; in 2015, the low inflation rate meant that the growth in real wages was as high as 2.4%; the 2016 figure was 1.8%.	

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2017 and 2018 to: Recommendation 2: Labour participation and labour market	Name of measure	Description and expected impact of measure	Status and timetable
	Third Ordinance on a minimum wage for temporary workers	The ordinance was enacted on the basis of a proposal by the parties to free collective bargaining in the field of temporary workers in accordance with Section 3a of the Act on Temporary Employment. The minimum wages stipulated in the ordinance apply to all employers and temporary workers covered by the ordinance	The ordinance entered into force on 1 June 2017 (expires: 31 December 2019)
	Act Amending the Act on Temporary Employment and Other Acts	This Act reorients the temporary employment system more to its core function. The key element is a new provision on equal pay with comparable in-house employees after nine months. Longer deviations from equal pay are only permissible if a supplementary sectoral collective agreement has been agreed by the social partners. In particular, such a supplementary sectoral collective agreement must lead after 15 months to a pay rate which is equivalent to that in the collective agreement, and a gradual increase in the pay rate must commence after just six weeks.	The Act entered into force on 1 April 2017.
	Third Ordinance on working conditions in long-term care (Long-term care minimum wage ordinance)	The ordinance was enacted on the basis of a proposal by the long-term care minimum wage commission, consisting of trade unions, employers' associations and representatives of providers and recipients of social services provided by the Churches. The new Long-term care minimum wage ordinance defines a lowest wage level in a sector in which, due to special structural features, the working conditions are in many cases not covered by collective agreements; this lowest wage level applies to all providers of long-term care and may not be undercut in any circumstances.	The ordinance enters into force on 1 November 2017 (expires: 30 April 2020)

Table 10: Targets set by the EU's strategy for growth and employment

National headline targets for 2020	List of measures*	Description of the direct relevance on the target
Employment rate among people aged 20–64: 77%** Employment rate among older people aged between 55 and 64: 60%** Employment rate among women: 73%**	No significant changes compared with the 2017 NRP.	
R&D expenditure: 3% of GDP (two-thirds from the private sector and one-third from the public sector)	On 16 June 2016, the heads of the federal and *Länder* governments approved the "Administrative agreement between the federal and *Länder* governments to promote the research-based transfer of ideas, knowledge and technology" ("Innovative Universities"). From 2018 onwards, the Federation and *Länder* will allocate €550 million over a period of ten years to the Innovative Universities funding programme, subject to the provision of funds by the relevant legislative bodies. The funding will be granted within the framework of two selection rounds. Funding will be granted using the following formula: 90% from the Federation, and 10% from the respective *Länder* where the selected higher educations institution are located.	The funding programme aims to establish and expand alliances, networks and innovative forms of cooperation between (a) higher education institutions and (b) businesses and other key stakeholders in society. In addition, it aims to deepen the ties between higher education institutions and their surrounding regions and to expedite reciprocal transfers of knowledge and ideas among higher education institutions, society and business, thereby spurring technological and social innovation.
	On 16 June 2016, the heads of the federal and *Länder* governments approved the "Administrative agreement between the federal and *Länder* governments in accordance with Article 91b paragraph 1 of the Basic Law to promote top-level research at universities" ("Excellence Strategy"), as a follow-up programme to the Excellence Initiative. The agreement covers two funding lines: Clusters of Excellence and Universities of Excellence. From 2018 onwards, the Federation and *Länder* will allocate a total of €533 million per year for the entire programme, subject to the provision of funds by the relevant legislative bodies. Funding will be granted using the following formula: 75% from the Federation, and 25% from the respective *Länder* where the selected higher educations institution are located.	The Excellence Strategy's objective is to maintain and advance (a) scientific excellence, (b) the development of institutional profiles and (c) cooperative arrangements within academic and research systems. This long-term support will provide longer-term prospects for conducting top-level, internationally competitive research at universities.
Reduce greenhouse gas emissions by at least 40% by 2020 and by 80–95% by 2050, compared with 1990 levels	The new funding initiative "Heating networks 4.0: pilot project" was launched on 1 July 2017 and is set to run until 31 December 2020.	The objective is to provide incentives for larger model projects that can build a bridge between energy research and actual practice in order to facilitate the market entry of

Table 10: continuation

National headline targets for 2020	List of measures*	Description of the direct relevance on the target
Increase share of renewable energy to 18% of gross final energy consumption by 2020, to 60% by 2050 and to at least 80% in the electricity sector National energy efficiency goals according to the federal government's energy strategy of 28 September 2010: reduce primary energy consumption by 20% by 2020 and by 50% by 2050, compared with 2008 levels	This programme is the first time that a systemic approach is being taken in the provision of funding for heating infrastructure. This means that support is being provided not only for individual technologies and components but also for fourth-generation, low-temperature heating networks, i.e. for entire systems. The initiative will provide funding for innovative and multivalent fourth-generation heating networks, on the condition that such networks meet standards for ensuring the highly efficient, environment-friendly supply of heating and cooling. The programme covers the planning and construction of new systems as well as the transformation of existing systems.	fourth-generation heating networks. The long-term intention is to foster the development of climate-friendly heating systems (with high shares of renewable energy and waste heat) that are as cost-effective as conventional systems run on fossil fuels. Projects that receive funding are expected to contribute towards the fulfilment of the federal government's energy policy targets by increasing the share of renewables in the heating and cooling sector and by improving energy efficiency.
	The funding programme "Energy-efficient construction and refurbishment: grants for fuel cell systems" was launched in August 2016. The programme provides financial support for the installation of stationary fuel cell heating systems in refurbished and newly constructed buildings. The objective is to expedite the market entry of fuel cell heating systems. In July 2017, the programme was expanded to cover non-residential buildings, and eligibility was extended to additional types of applicants (including small and medium-sized businesses, contractors, non-profit organisations and municipal governments). The programme is financed through the Federation's Energy Efficiency Incentive Programme.	Fuel cell heating is an innovative and highly efficient technology that combines both heat and power (cogeneration or CHP). Fuel cell systems convert fuels – usually natural gas or biogas – into electricity using electrochemical methods. The power generated through this process can be used for both heating and hot water. Compared with oil- or gas-based heating systems or with conventional CHP systems, fuel cell heating systems are more efficient and generate less carbon dioxide.
	The Landlord-to-Tenant Electricity Act, which entered into force on 25 July 2017, introduces new financial support (in the form of an allowance) for landlord-to-tenant power supply systems. This will enable people living in rental housing to play a greater role in Germany's clean energy transition. It will also provide new incentives for expanding the use of solar energy systems.	Landlord-to-tenant electricity is power that is generated by a photovoltaic system installed on the roof of a residential building and that is supplied directly – i.e. no grid transmission – to final consumers (mainly tenants) in that building or in residential buildings/auxiliary facilities in the immediate proximity of that building. This new form of financial support aims to help make landlord-to-tenant power supply systems more economically viable than has so far been the case. This will create incentives to install landlord-to-tenant power supply systems and thereby to increase the amount of solar-generated clean power.

Table 10: continuation

National headline targets for 2020	List of measures*	Description of the direct relevance on the target
	The Act Amending the Combined Heat and Power Act entered into force at the beginning of 2017. Based on this act, the CHP Auction Ordinance entered into force in summer 2017. This ordinance sets the rules for auctions that will determine funding for a broad segment of CHP installations. The first auction is scheduled for 1 December 2017. The auctions will help regulate the quantity of power produced, thereby ensuring the continued construction of efficient, climate-friendly CHP systems.	
Increase the share of persons aged 30–34 who have completed tertiary education or equivalent to 42%**	The full effects of revisions to the Federal Education and Training Assistance Act (in particular, the significant increase in assistance rates and income allowances) that took effect at the start of the 2016 academic year and at the beginning of the 2016/2017 winter semester will not start to kick in until the current budget year and will continue in the 2018 budget year.	
Reduce the number of long-term unemployed persons by 20% by 2020 compared with 2008 levels**	Strategy to reduce the number of long-term unemployed persons: "Creating opportunities – safeguarding social participation". The strategy includes a broad-based package of measures with different emphases, target groups and approaches. • More intensive job centre support for the long-term unemployed using networks to activate, advise and create opportunities for clients • ESF/federal government programme to integrate long-term unemployed benefit claimants (as defined in Book II of the Social Code) into the general labour market • Federal programme "Social Participation in the Labour Market" • Better connection with health promotion and rehabilitation measures	The overall strategy tackles the central challenges of integrating the long-term unemployed into the labour market. Measures include: intensification of support provided by job centres; bundling of the necessary support payments; finding employers willing to employ the long-term unemployed; ensuring lasting stabilisation of these employment arrangements; creating opportunities to participate in the labour market for long-term unemployed individuals who lack marketable skills. The ESF programme aims to reach a total of roughly 23,000 benefit claimants. Funding for the federal programme "Social Participation in the Labour Market" was topped up in 2017. The programme now aims to provide approximately 20,000 places by the time the programme ends in 2018.

* The 2017 NRP, which was sent to the European Commission in April 2017, includes a comprehensive overview of the state of play regarding the implementation of the Europe 2020 strategy in Germany, including a detailed table of actions (including description of action, anticipated impact, status and schedule), p. 61 et seqq. The overview in this table is limited to new actions (planned, adopted, in force), especially actions affecting public finances, which will take effect in 2018 and the following years.

** Target already met.

Table 11: Methodological aspects

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/ technique used	Assumptions
Macroeconomic forecast	Before each tax estimation	Iterative-analytic approach: several partial models are used in the system of national accounts. Potential GDP estimation is done on the basis of the models developed and suggested by the Output Gap Working Group of the Economic Policy Committee (EPC) of the European Union.	Technical assumptions (for oil and commodity prices, foreign exchange rates and interest rates)
Tax estimation	Basis for drafting and finalising budgeting	Estimation on the basis of macroeconomic forecast and time series analysis.	Macroeconomic forecast, estimations on the fiscal impact of discretionary tax measures
Fiscal impact of discretionary tax measures	Basis for tax estimation and drafting and finalising budgeting	Microsimulation models on the basis of tax statistics and macroeconomic forecast	Macroeconomic forecast

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