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GERMANY – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This report is the second specific monitoring report under the Macroeconomic Imbalance Procedure (MIP) for Germany, reflecting the strengthened monitoring of all Member States with imbalances[1]. Germany had been found to experience imbalances already in the previous years. The imbalances relate in particular to the large and persistent current account surplus, reflecting excess savings and weak private and public investment. This report reviews the latest developments and policy initiatives to address imbalances identified in the 2018 Country Report, which were addressed by the 2018 country-specific recommendations. The cut-off date for this report is 15 November 2018.

The German economy is expected to maintain a solid growth momentum driven by domestic demand, which will help to reduce the high external surplus. Germany's quarter-on-quarter real GDP growth rate came out at a -0.2% in the third quarter preceded by 0.4% in the first and 0.5% in the second quarter. Growth was driven by domestic demand, namely robust private consumption and housing investment and a normalisation of public consumption. Growth in the third quarter was hindered temporarily by the introduction of a new passenger car testing standard (WLTP) and delays in obtaining compliance certificates, hence production and deliveries of new cars. Overall, real GDP is expected to increase at an average pace of around 1.7% per year over 2018-2020 according to the Commission's autumn forecast. The risks to the forecast have intensified, in particular with regard to the export outlook and equipment investment.

Some important policy measures were taken in 2018. The federal government is intensifying efforts to support investment at regional and municipal levels. As a result, public investment is increasing faster than GDP in 2018, which represents a noticeable increase compared to past years and the long-term average. However, net investment at municipal level is still negative and a significant investment backlog persists. Although some measures are expected to lead to improvements regarding the efficiency and investment-friendliness of the tax system, the most important distortions are not yet fully addressed, the tax system overall remains complex and the tax burden on new investments could be reduced to better incentivise them. Announcements to improve the nationwide broadband infrastructure are encouraging, but so far only small steps have been taken regarding their implementation. Despite efforts taken, important disincentives to work more hours remain in place, especially for second earners. Although nominal wage growth accelerated, real wage growth has not yet picked up. Furthermore, major policy actions to stimulate competition in business services and regulated professions are still missing and there are no signs that current pension policy decisions will promote longer working lives.

Overall, Germany has taken important policy steps to address its imbalances, but more efforts are needed in the coming years. There have been policy advances in the area of public investment**,** though municipal level investment is still lagging behind. Smaller steps forward were also recorded with regard to investing into Germany's digital infrastructure, reducing disincentives to work and promoting wage growth, though it remains to be seen if policy action has been decisive enough to result in the desired outcomes. More action is needed in the areas of strengthening municipal public investment, improving the tax system, stimulating competition in business services and regulated professions as well as introducing

[1] COM(2016)95 final, 8.3.2016.

measures to promote longer working lives. Finally, the reform announcements of the coalition treaty of spring 2018 are encouraging and will, if fully implemented, contribute to addressing macroeconomic imbalances of the German economy.

Table 1: Key findings on the implementation of policy reforms[2]

On track	Wait-and-see	Action wanted
• Public investment is increasing faster than GDP in 2018.	• Announcements to improve the nationwide broadband infrastructure are encouraging, but so far only small steps have been taken regarding their implementation. • A number of measures were taken to reduce disincentives to work more hours, yet major disincentives remain in place. • Although nominal wage growth accelerated, real wage growth has not yet picked up.	• Efforts to further increase public investment at the municipal level to clear the investment backlog. • Efforts to improve the efficiency and investment-friendliness of the tax system. • Policy actions to stimulate competition in business services and regulated professions. • Measures to promote longer working lives.

[2] The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and their level of detail. "On track" are measures for which the legislative or implementation process has been completed or is progressing well according to the foreseen timeline, and which are expected to be sufficiently effective. "Wait and see" are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. "Action wanted" are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1. Introduction

On 22 November 2017, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its seventh alert mechanism report[3] to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent in-depth review in the country report – published on 7 March 2018[4] – examined the nature, origin and severity of macroeconomic imbalances and risks in Germany. In the accompanying Communication[5], the Commission concluded that 'Germany is identified with imbalances reflected in its large current account surplus'.

In April 2018, Germany submitted its Stability Programme[6] and National Reform Programme (NRP)[7], respectively outlining the fiscal targets and the policy measures to improve its economic performance and to unwind imbalances. On the basis of an assessment of these plans, the Commission proposed two country-specific recommendations (CSRs)[8], which were adopted by the Council on 13 July 2018[9]. These recommendations include MIP relevant policy action concerning increasing public and private investment, improving the availability of very high-capacity broadband infrastructure, increasing the efficiency of the tax system as well as the competition in business services and regulated professions, improving incentives to work and work longer and creating conditions for higher wage growth.

A specific MIP monitoring mission to Germany was conducted on 16-18 October 2018, in combination with the fact-finding mission in the context of the European Semester. The present report assesses key policy initiatives[10] undertaken by the German authorities also in the light of the findings of the monitoring mission. This report does not reflect the content of Germany's 2018 Draft Budgetary Plan. The Commission published its opinion on the Draft Budgetary Plan on 15 November 2018, taking into account the outcome of the Commission's 2018 Autumn Forecast.

[3] https://ec.europa.eu/info/sites/info/files/economy-finance/com-2017-771-en.pdf
[4] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-germany-en.pdf
[5] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-reports-comm-en.pdf
[6] https://ec.europa.eu/info/sites/info/files/2018-european-semester-stability-programme-germany-en.pdf
[7] https://ec.europa.eu/info/sites/info/files/2018-european-semester-national-reform-programme-germany-en.pdf
[8] https://ec.europa.eu/info/sites/info/files/file_import/2018-european-semester-country-specific-recommendation-commission-recommendation-germany-en.pdf
[9] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2018:320:FULL&from=E
[10] Details on the policy measures taken can be found in the overview table in the Annex.

2. Outlook and recent developments on imbalances

Recent economic developments and outlook

The German economy is expected to maintain a solid growth momentum over the forecast horizon driven by domestic demand amid increasingly challenging external environment. Germany's quarter-on-quarter real GDP growth rate came out at a -0.2 % in the third quarter preceded by 0.4 % in the first and 0.5 % in the second quarter. Growth was driven by domestic demand, namely robust private consumption and housing investment and a normalisation of public consumption. Economic sentiment, in particular in manufacturing, has cooled down and October and November survey data suggest a downward revision of order inflows and the export outlook. High capacity utilisation and order book levels are expected to help the economy rebound and sustain growth in the short run, but the external environment is becoming less favourable due to trade conflicts and rising financing costs in some emerging economies. The strong labour market and ample fiscal space are expected to support the further expansion of domestic demand. Overall, real GDP is expected to increase at an average pace of around 1.7 % per year over 2018-2020. The steady domestic demand growth and the muted export outlook are expected to contribute to a further gradual reduction of the high external surplus.

Public investment has increased against a backdrop of a significant investment backlog, and is likely to increase further with the 2019 budgets. Total public investment increased by around 6 % in 2015 and 2016 and by 7.5 % in 2017 in nominal terms and close to 5 % on average in real terms. In 2017 and 2018 total government net investment has turned positive for the first time since 2012. In 2018, this development has been driven by municipal investment, where, however, net investment is still negative and needs to catch up with depreciation.

Private investment is expected to expand as a result of high capacity utilisation and replacement needs. Consistently increasing capacity utilisation and changing consumer preferences are expected to prompt renewal and expansion of the capital stock. Housing investment posted strong growth in the first two quarters of 2018 and is expected to continue increasing, even if at a moderating rate, given ample order book backlogs and an increase in new building permits.

Core inflation is expected to average 1.5 % this year and to increase to 1.8 % by 2020, in the context of robust domestic demand and higher nominal wage growth. Overall inflation is projected to rise to 1.8 % in 2018 and 1.9 % in 2019 and then slow down to 1.6 % driven by energy prices. All in all, this moderate inflation should not exert a major drag on households' purchasing power.

The favourable macroeconomic outlook supports the positive trend in the budget balance. The budget balance is expected to peak in 2018 at 1.6 % of GDP and to stay above 1 % of GDP thereafter. The above-average increase in tax revenues, backed by rising wages and private consumption, is driving government revenues up in 2018. At the same time, the budget for 2018 was only adopted in the middle of the year, resulting in restrained government expenditure. Nevertheless, public investment is expected to increase strongly in 2018, helped by the good financial situation of some municipalities. The budget surplus is expected to decrease in 2019 as measures outlined in the March 2018 Coalition agreement start to have effect. The reductions in personal income taxes together with higher family benefits are set to dampen government revenues, while additional spending for pensions and security are projected to increase expenditure. Government debt is projected to fall to the

60 % Treaty reference value at the end of 2018 and to continue decreasing to about 57 % of GDP by 2019 and 54 % of GDP by 2020.

Developments as regards imbalances

In February 2018, the Commission concluded that Germany was experiencing macroeconomic imbalances, reflected in its large current account surplus. The following section provides an update of the situation with regard to the imbalances.

<u>The external surplus</u>

The current account surplus has been gradually declining since 2015. The current account surplus for the 12 months ending in September 2018 stood at 7.8 % of GDP, suggesting a further decline compared to 2015 (8.9 %), 2016 (8.5 %) and 2017 (8.0 %). Compared to 2017, the trade balance for the 12 months ending in September 2018 deteriorated by 0.6 pps of GDP while the secondary income balance and the services balance improved by a total of 0.4 pps. Apart from the components of the current account balance, it is also useful to analyse the role played by the terms-of trade effects over time. These effects drove the widening of the current account surplus to its peak in 2015 (especially oil price decrease) and were still present in 2016 but the surplus nevertheless narrowed thanks to strong domestic demand. In 2017, with rebounding energy prices, deteriorating terms of trade narrowed the surplus further despite a positive growth contribution of foreign trade. In 2018 terms of trade effects continue to exert a downward pressure on the surplus. Corporate investment has been increasing consistently since 2016 in response to high capacity utilisation, despite corporate savings declining somewhat as a share of GDP. As a result, corporations, contributed to reducing the savings surplus in 2017 and 2018, in contrast to earlier years. The household savings rate further increased to 17.3 % in 2017, propped up by rising incomes, and is expected to stay high also in 2018, the highest in the euro area (average at 11.9 %). Meanwhile the household investment kept increasing and households' net lending position came down further. In contrast to the corporate and households sectors, public sector has strengthened its net lending position since the peak of the current account surplus. The strong cyclical position has favoured public savings, while the public investment ratio has been slow to keep up.

The adjustment of the current account surplus has been limited so far, but a gradual downward adjustment is forecasted until 2020. With the external environment becoming increasingly uncertain, growth is expected to be driven primarily by domestic demand in 2018-2020. According to the draft budgetary plan, the implementation of measures to increase public investment is set to continue. Private investment is also expected to remain robust amid strong housing demand, but more also due to the need to adopt new technologies. The strong labour market and rising wages should support private consumption.

3. Progress with policy implementation

3.1. Supporting domestic demand and increasing public investment

This section describes the fiscal policy measures taken in 2018 to achieve a sustained upward trend in public and private investment (especially on education, research and innovation) at all levels of government, in particular at regional ('Länder') and municipal levels.

Public investment is increasing faster than GDP, but still more efforts are needed to clear the investment backlog. Public investment in 2017 grew by around 7.5 % nominally and 4.7 % in real terms. This represents a noticeable increase compared to past years and the long-term average. However, given the backlog especially at municipal level, public investment still needs greater efforts to maintain the capital stock. As in the years before, net investment at municipal level was also negative in 2017, resulting from a faster depreciation of existing infrastructure than new replacements.

The federal government is intensifying efforts to support investment at regional and municipal levels. With the creation of the Local Authority Investment Promotion Fund and the setting-up of a consultancy service agency "Partnerschaft Deutschland" the government had taken measures to support investment at lower administrative levels. By further relieving financial burden from Länder and municipal levels, the federal government intends to create room for additional investment at these levels especially in education and research.

Further financial relief for the Länder levels and additional room for investment can be expected from the Act on restructuring the fiscal federal relations *(Neuregelung der Bund-Länder-Finanzbeziehungen).* From 2020 onwards, the reforms on the national fiscal equalisation system will take effect, thereby further relieving the budgets of the Länder by shifting more funding responsibilities to the federal level. This will not only strengthen the self-responsibility and financial autonomy of the regions, but also increase their margin for increasing investment.

Overall, the investment situation shows signs of improvement, but further action is still needed. The policy of the federal government reflects the effort to increase public investment and tackle the backlog and identified shortcomings. The intentions to support public investment by allocating additional time-limited financial resources and also the emphasis on promoting investment at regional and municipal levels by providing financial relief for additional investment are promising developments. Nevertheless, efforts need to be intensified to achieve a sustained upward trend in public investment, especially for the municipalities, while ensuring quality and cost-effectiveness. This could be achieved, in particular by addressing planning constraints as well as the high regional differences of public investment, which suggest that the current fiscal set up does not yet provide all municipalities with sufficient financial resources and staff to significantly step up their investment levels.

3.2. Efficiency of the tax system

This section describes the policy measures taken in 2018 to improve the efficiency and investment-friendliness of Germany's tax system.

Rendering the taxation system simpler and fairer could be beneficial to investment, and could also contribute to (re)balancing the economy. The German tax system remains overly complex, with a high and often distortive tax burden on investments, which also creates incentives to engage in tax avoidance strategies. A simpler, less distortive taxation system could be beneficial to investment, including through contributing positively to stronger employment and overall growth.

After some improvements in recent years, relatively little progress has been made in this area over the past year. Germany adopted a reform to modernise and automatize tax administration procedures already in 2017, but it is still in the implementation process. With effect of 2018, Germany simplified the tax treatment of mutual investment funds and their investors. At the same time, Germany removed some restrictions to the offset of losses when loss-making companies are bought by new investors. It remains to be seen if these two new measures can actually trigger additional real investment.

Reducing disincentives to work more hours, including the high tax wedge, in particular for low wage and second earners is also relevant to enhance the efficiency of the tax system (see subsection 3.6). Further reductions in the tax burden such as the announced phasing out of the solidarity surcharge could also benefit wider parts of the economy. The draft budgetary plan of Germany for 2019 includes the abolition of the solidarity surcharge for 90 % of taxpayers as of 2021.

Overall, there is still more action needed to improve the efficiency and investment-friendliness of the tax system. Although some measures are expected to lead to improvements, the most important distortions are not fully addressed, the tax system overall remains complex and the marginal tax burden on new investments or for taking up (additional) work is still high.

3.3. Availability of very high-capacity broadband infrastructure

This section describes policy measures taken in 2018 to ensure the availability of very high-capacity broadband infrastructure.

Germany is lagging behind in the deployment of very high capacity broadband on a national level, and particularly in rural areas. The market share of fibre optics connections was still at a very low level of only 2.1 % in July 2017, compared to a significantly higher EU average of almost 12.9 %. Concerning take-up rates for ultrafast connections (DAE target III), 11.1 % of German households subscribe to 100 Mbps or more. This is way below the EU average of 15.4 %.

The Federal Government has acknowledged the problem and has taken first steps to address it. As a first implementation step, the special fund "Digital Infrastructure" (for broadband expansion / digitally equipped schools) was announced by the Federal Government and EUR 2.4 bn have been allocated from the 2018 federal budget[11]. In addition, the state income from the upcoming 5G auction shall be fully routed to this fund. The establishment act for this special fund was adopted by the Bundestag in October 2018.

Moreover, the Federal Ministry of Transport and Digital Infrastructure has relaunched a funding program to support broadband infrastructure. The procedures have been streamlined and simplified in a new funding directive[12], which is in force since 1 August 2018. The subsidy schemes have been updated to allow for more funding of fibre optic

[11] https://www.bundesfinanzministerium.de/Content/DE/Gesetzestexte/Gesetze_Gesetzesvorhaben/Abteilungen/Abteilung_II/19_Legislaturperiode/Digitalinfrastruckturgesetz-DIFG/0-Gesetz.html
[12] https://www.bmvi.de/SharedDocs/DE/Artikel/DG/relaunch-des-breitbandfoerderprogramms.html

technology and municipalities will be able to change their existing copper-based projects to fibre optics technology until the end of 2018. Moreover, there are preparations for a new gigabit program with a view to cover also so-called grey spots (areas with at least 30 Mbps) to ensure better coverage with gigabit networks until 2025.

There was only minor policy action to improve mobile broadband networks, but the coalition agreement envisages an improvement of mobile internet coverage and ensuring a timely roll out of the latest mobile technology. The federal government has been discussing further steps with mobile network operators, Länder and municipalities to ensure that remaining deadlocks are closed quickly and that Germany has a more modern mobile phone network to prepare for the economy of the future also in less densely populated areas. The upcoming frequency auction in 2019 of the 5G frequencies will be an important starting point for the roll-out of 5G networks.

Overall, there are encouraging announcements to improve the nationwide broadband infrastructure, but so far only small steps have been taken regarding their implementation. A Gigabit Investment Fund of EUR 10-12 billion was included in the coalition agreement[13] of the parties forming the federal government, to be spent by 2021 (i.e. in the next four years) in order to roll out gigabit infrastructure. If implemented, this could be a big step towards a more future proof digital infrastructure in Germany.

3.4. Strengthen competition in business services and regulated professions

This section describes the policy measures taken in 2018 to stimulate competition in the services sector, in particular in business services and regulated professions.

Barriers to competition in business services remain high in comparison with other EU Member States. Data on business dynamics and profitability are suggesting lower competitive pressures in key business services sectors such as legal, accounting, architectural and engineering activities, which lead to higher mark-ups. Professional services are still overregulated, where exclusive rights, compulsory chamber membership, and regulation on prices and fees stifle competition. This is problematic given the high share of services inputs in the German manufacturing industry. Changes in the regulation of services could boost economic activity and investment in Germany.

Policy actions to stimulate competition in business services and regulated professions have not been recorded for 2018, with the exception of minor measures as a follow-up to individual court decisions concerning the professions of lawyers and tax advisors.

3.5. Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners

This section describes the policy measures taken in 2018 to reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.

Reducing disincentives to work more hours is key both for tackling short term labour demand and the longer-term challenge of ageing. With the good labour market situation, labour shortages increased in 2018. The number of vacancies registered at the public

[13] https://www.bundesregierung.de/breg-de/themen/koalitionsvertrag-zwischen-cdu-csu-und-spd-195906

employment service exceeded 833 000 by September 2018, and about 1/3 of companies in the service sector and ¼ of companies in the manufacturing sector considered that lack of labour was limiting their production. This highlights the need to improve work incentives in order to reinforce labour inputs and reduce underemployment. Furthermore, even if the cooling off of the business cycle will later reduce imminent short-term pressure, the longer-run challenge of ageing requires full mobilisation of the existing labour force inter alia through further reduction of disincentives to work.

A number of measures were taken to reduce disincentives to work more hours. From 2019, the midijob earning threshold will be raised from EUR 850 to EUR 1300, resulting in a more gradual phase-in of social-security contributions. This will reduce marginal tax rates for certain groups of low wage earners. Developments nevertheless merit monitoring as microsimulations suggest that for some of these workers there may be adverse incentives for staying in part-time employment or reducing hours worked. From 2019, the social security burden for self-employed will be cut, as their monthly minimum health insurance contribution will be reduced from EUR 360 to EUR 160. The family benefit supplement (*Familienzuschlag*), responsible for high marginal effective tax rates for certain family types such as single earners with children, will be tapered out more gradually when earned income increases, instead of full withdrawal at the cut-off point. Some further measures, such as the right to return to full time employment may also contribute to higher employment of women. Nevertheless, important disincentives for working more hours remain in place. These include a persistent supply gap in the provision of full time quality childhood and care, and the high marginal tax rates on take home pay for the second earner due to the current setup of the joint income taxation for married couples (*Ehegattensplitting*), despite some efforts to promote the use of the alternative factor method (*Faktorverfahren*).

Some measures are not reducing disincentives as they are mitigated by other measures going in the opposite direction. Unemployment contributions will be reduced by 0.5 pp from 2019; however this will be counterbalanced by a 0.5 pp increase of long term care contribution rate. The reintroduction of the rule requiring employers and employees to pay equal contributions to statutory health insurance will result in an average reduction of 0.5 pp in contributions for employees and pensioners, thereby increasing take-home pay and unit labour costs. Yet, as this is counterbalanced by an increase for employers' contributions, the effect on the tax wedge is neutral. The increase in the basic personal allowance in 2019 appears to roughly match inflation, thus not leading to an effective reduction of taxation.

Despite efforts, important disincentives to work remain in place. While a number of measures were taken to reduce disincentives to work more hours, as described above, there remains a potential for doing more. Germany is expected to remain among the EU countries with the highest tax wedge, and where disincentives to work more hours are high in particular for second earners.

3.6. Take measures to promote longer working lives

This section describes the policy measures taken in 2018 to promote longer working lives.

There are no signs that current pension policy measures will promote longer working lives. The increases in pension entitlements for women with children born before 1992 (*Mütterrente II*) and for people with disability pensions (*Erwerbsminderungsrente*) are expected to improve pension adequacy for these groups. Yet neither these measures, nor the double pension stopline (*Doppelte Haltelinie*) - setting a minimum benefit rate and maximum contribution rate until 2025 - are expected to promote longer working lives. There is no official assessment yet of the impact of the flexible retirement (*Flexirente*) reform, which entered into force in 2017, and the Pension Commission's proposals for increasing pension system sustainability and adequacy are awaited only by March 2020.

Measures to promote adult learning and training can theoretically contribute to longer working lives. Companies will receive higher subsidies from 2019 for providing adult education and training, especially for older and less skilled workers (*Qualifizierungschancengesetz*).

3.7. Create conditions to promote higher wage growth, while respecting the role of the social partners

This section describes the policy measures taken in 2018 to create conditions for higher real wage growth.

Although nominal wage growth accelerated, real wage growth has not yet picked up. While nominal wage growth slightly increased (2.6 % in the first half of 2018 after 2.5 % in 2017), real earnings growth remained at 0.8 % according to Destatis.

Limited further measures were taken to support real wage growth, while the effect of earlier measures has been dissipating. Earlier policy measures, such as the introduction of the general statutory minimum wage in 2015, had a substantial impact on wage growth. However, by now, low wages have largely adjusted and the increase of the minimum wage currently sends limited price impulses, which is also reflected in the reduction of the wage drift. The Minimum Wage Commission (*Mindestlohnkommission*) has an internal procedural rule to propose minimum wage increases based on past development of negotiated wages – which does not take directly into account inflation developments in the meantime.[14] Collective bargaining coverage continued to decline also in 2017.

A collective agreement was reached for public employees at the federal and the municipal level, affecting about 2.3 million workers directly and 300 thousand workers indirectly. The agreement runs for 30 months from March 2018, and stipulates wage increases and lump-sum payments, altogether yielding about 3.0% of annualised nominal wage increase. This is about 0.6 pp higher annualised than the previous wage agreement for the sector – which is somewhat below the increase in inflation since the previous agreement was reached in early 2016.

[14] The Minimum Wage Commission proposed to increase the general statutory minimum wage from EUR 8.84 to to EUR 9.19 , as of 2019 – representing an increase of 3.96% from the level set for 2017. The Commission also proposed that the minimum wage would increase to EUR 9.35 in 2020, an increase of 1.74% - considerably below recently observed nominal wage dynamics.

Annex: Table 2: Overview table of MIP-relevant reforms

MIP objective: Increasing public and private investment			
Public investment			
Use fiscal and structural policies to achieve a sustained upward trend in public and private investment			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
July 2018: The government presented its draft federal budget for 2019 showing plans for increasing overall investment spending to EUR 37.9 billion (EUR +0.5 billion) in digital and transport infrastructure, but also social housing, education and research (EUR +0.8 billion).		**Since January 2018:** Implementation of the 2018 Budget Act, including measures to increasing investment spending to EUR 37.4 billion (EUR +3.4 billion) in education, science, research (EUR +1.1 billion), digital and transport infrastructure.	CSR 1 – 2018: While respecting the medium-term 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.
Focus on higher public investments on regional and municipal levels			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
July 2018: The government presented its draft federal budget for 2019, including relief measures for regions and municipalities to free up their resources for additional investment, notably in education and research.			CSR 1 – 2018: While respecting the medium-term 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.
Step up efforts to ensure the availability of very high-capacity broadband infrastructure nationwide			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
1 August 2018: The special fund	**1 August 2018:** Update of the ongoing	**By end 2018:** Within the ongoing	CSR 1 – 2018: Step up efforts to ensure

"Digital Infrastructure" was announced and EUR 2.4 bn from the federal budget 2018 has been earmarked. The preparation of a new gigabit program with a view to develop so-called grey spots (areas with at least 30 Mbps) was announced in order to achieve coverage with gigabit networks until 2025.	funding scheme "Digital Infrastructure" to allow better funding of fibre optic technology; The procedures have been streamlined and simplified.	funding scheme "Digital Infrastructure", municipalities are able to change their copper-based projects to fibre until the end of 2018.	the availability of very high-capacity broadband infrastructure nationwide.
MIP objective: Efficiency of the tax system			
Improve the efficiency of the tax administration			
Efficiency and investment-friendliness of the tax system			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
June 2018: The federal government decided to reduce personal income tax particularly for families as well as low and medium income earners amounting to around EUR 9.8 billion per year. **October 2018:** The abolition of the solidarity surcharge for 90% of taxpayers as of 2021 is included in the draft budgetary plan of the government.		**January 2018:** Implementation of essential elements of the Act to Reform Investment Taxation to reduce tax avoidance and aggressive tax planning as well as to reduce the overall administrative burden for taxation of investment funds.	CSR 1 – 2018: Improve the efficiency and investment-friendliness of the tax system.
MIP objective: Improving competition in services markets			
Product market			
Strengthen competition in business services and regulated professions			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*

Legal amendments to comply with the rulings of the Constitutional Court on shareholding requirements for companies of lawyers and tax advisors and on the interdisciplinary cooperation by lawyers with other professions.			CSR (1) – 2018: strengthen competition in business services and regulated professions.
MIP objective: Improving incentives to work			
Labour market			
Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	November 2018: The basic allowance, child allowance and child benefit are increased and bracket creep is offset, through measures taking effect in January 2019 and January 2020 (increase of basic allowance and child allowance) and July 2019 (increase of child benefit).		CSR (2) - 2018: Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.
		January 2018: The contribution rate to the statutory pension insurance system was cut by 0.1 percentage points to 18.6%.	CSR (2) - 2018: Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.
	October 2018: From 2019, employers and employees will be required again to pay equal contributions to statutory health insurance. This results in an average reduction of 0.5 percentage points in contributions for employees and pensioners, thereby increasing take-home pay and unit labour costs.		CSR (2) - 2018: Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.

August 2018: Cabinet decision that low-income earners are granted greater reductions in social security contributions/granted reductions for the first time. From January 2019, the existing sliding scale will be expanded to include wages from €450 to €1,300 (previously €850) and act as a transitional scale for employment subject to social security contributions.			CSR (2) - 2018: Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.
September 2018: Cabinet decision reducing the contribution rate to unemployment insurance by 0.5 percentage points as of January 2019.			CSR (2) - 2018: Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.
October 2018: Cabinet decision increasing the contribution rate to long-term care insurance by 0.5 percentage points as of January 2019.			CSR (2) - 2018: Reduce disincentives to work more hours, including the high tax wedge, in particular for low-wage and second earners.
Take measures to promote longer working lives			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
September 2018: Cabinet decision on increased subsidies from 2019 for companies that provide advanced education and training for their employees, especially for older and less skilled workers.			CSR (2) – 2018: Take measures to promote longer working lives
MIP objective: Higher real wage growth			
Wages & wage setting			
Create conditions to promote higher wage growth, while respecting the role of the social partners			

Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
		April 2018: A collective agreement was reached for public employees at the federal and the municipal level, affecting directly about 2.3 million workers. The agreement runs for 30 months, and stipulates i. 3.19% increase from 1 March 2018, ii. 3.09% increase from 1 April 2019, iii. 1.06% increase from 1 March 2020, iv. a lump-sum of EUR 250 for the lower wage groups (essentially unskilled, low-skilled, part of workers up to three years of VET), v. EUR 50 increase for apprentices in both 2018 and 2019.	CSR (2) – 2018: Create conditions to promote higher wage growth, while respecting the role of the social partners
June 2018: The Minimum Wage Commission (Mindestlohnkommission) proposed to increase the general statutory minimum wage from EUR 8.84 to EUR 9.19, as of 2019 and to EUR 9.35 as of 2020. The federal government can either legislate the proposal or leave the minimum wage unchanged.			CSR (2) – 2018: Create conditions to promote higher wage growth, while respecting the role of the social partners