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Assessment of the 2017 stability programme for

Germany

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION

On 12 April 2017, Germany submitted its stability programme covering the period 2016-2021.

Germany is currently subject to the preventive arm of the the Stability and Growth Pact (SGP) and should preserve a sound fiscal position which ensures compliance with the medium term objective. As the debt ratio was 78.3% of GDP in 2011 (the year in which Germany corrected its excessive deficit), exceeding the 60% of GDP reference value, Germany is also subject to the debt reduction benchmark.

This document complements the Country Report published on 22 February 2017 and updates it with the information included in the stability programme.

Section 2 presents the macroeconomic outlook underlying the stability programme and provides an assessment based on the Commission 2017 spring forecast. The following section presents the recent and planned budgetary developments, according to the stability programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the stability programme and a risk analysis of the budgetary plans based on the Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework and the quality of public finances. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

Real GDP growth strengthened further in 2016, reaching 1.9% after 1.7% in 2015. Private and public consumption were the key drivers. Investment dynamics improved somewhat on the back of picking up construction activity. Net exports made a small negative contribution to growth.

The macroeconomic scenario underlying the stability programme is based on the federal government’s macroeconomic forecast published on 27 January 2017. It therefore does not take into account the updated data for 2016 from National Accounts statistics published in February 2016, although these are reported in the stability programme.

The macroeconomic scenario underlying the stability programme projects real GDP to increase by 1.4% in 2017 and 1.6% in 2018. Growth is expected to be driven notably by private consumption, supported by the robust labour market, noticeable real wage growth, low interest rates, adjustment of pensions and social transfers to refugees. With continuing geopolitical uncertainty, a moderate expansion in corporate investment is projected, supported by the gradual improvement in the external environment. Moreover, an acceleration in consumer prices in 2017 is expected. Annual potential growth as recalculated by Commission based on the information provided in the stability programme and applying the commonly agreed methodology, is estimated to reach 1.7% in 2016 and 2017[1] and then to average 1.5% in 2018-2021.

The stability programme’s macroeconomic outlook is in line with the macroeconomic scenario underlying the 2017 Draft Budgetary Plan (DBP) submitted in October 2016 as regards the projected pace of expansion in 2017, while there are only slight differences

[1] This is respectively 0.4 and 0.1 pps higher than the estimate in the stability programme itself.

regarding the growth drivers. Notably, slightly higher growth rates for private consumption offset somewhat weaker investment dynamics; the expected growth contribution of net exports remains unchanged. However, both exports and imports are projected to grow more strongly in light of the improved foreign trade outlook.

Compared to the Commission 2017 spring forecast, the macroeconomic scenario underlying the stability programme uses plausible, though conservative growth assumptions for 2017 and 2018. The Commission forecast projects a faster pace of domestic-demand-driven GDP growth and somewhat higher employment growth in both years. This also translates into higher growth in compensation of employees. Headline GDP deflators and the deflators of domestic demand components are broadly in line between the two sets of forecasts. The output gaps, as recalculated by the Commission based on the information in the stability programme following the commonly agreed methodology, are broadly in line with the Commission estimate.

Table 1: Comparison of macroeconomic developments and forecasts

	2016		2017		2018		2019	2020	2021
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	1.9	1.9	1.6	1.4	1.9	1.6	1 ½	1 ½	1 ½
Private consumption (% change)	2.0	2.0	1.3	1.4	1.7	1.4	1 ½	1 ½	1 ½
Gross fixed capital formation (% change)	2.3	2.3	1.9	1.7	2.7	2.8	2 ½	2 ½	2 ½
Exports of goods and services (% change)	2.6	2.6	3.7	2.8	3.9	3.6	4 ¼	4 ¼	4 ¼
Imports of goods and services (% change)	3.7	3.7	4.8	3.8	5.0	4.3	5	5	5
Contributions to real GDP growth:									
- Final domestic demand	2.3	2.0	1.7	1.5	2.0	1.6	1 ½	1 ½	1 ½
- Change in inventories	-0.2	-0.4	0.0	0.0	0.0	0.0	0	0	0
- Net exports	-0.2	-0.1	-0.1	-0.1	-0.2	0.0	0	0	0
Output gap[1]	-0.1	0.1	-0.2	-0.2	0.1	-0.1	0.0	0.0	-0.1
Employment (% change)	1.2	1.0	1.0	0.7	1.0	0.7	¼	¼	¼
Unemployment rate (%)	4.1	3.9	4.0	3.8	3.9	3.8	3 ¼	3 ¼	3 ¼
Labour productivity (% change)	0.6	0.9	0.6	0.6	0.9	0.9	1 ¼	1 ¼	1 ¼
HICP inflation (%)	0.4		1.7		1.4				
GDP deflator (% change)	1.4	1.4	1.4	1.4	1.6	1.6	1 ¾	1 ¾	1 ¾
Comp. of employees (per head, % change)	2.3	2.3	2.5	2.4	2.6	2.5	3	3	3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	8.5	8.5	8.0	8.1	7.5	7.9	7 ¼	7 ¼	7 ¼

Note:

[1]In % of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Commission 2017 spring forecast (COM); Stability Programme (SP).

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2016 AND 2017

Germany recorded a general government budget surplus of 0.8% of GDP in 2016, compared to projections of 0% of GDP in the 2016 stability programme and of ½% of GDP in the 2017

DBP. The budget outcome was largely due to better than expected revenue developments. The structural surplus in 2016 amounted to 0.8% of GDP, broadly in line with the projections in the 2017 DBP, but higher than the 2016 stability programme projections. The federal budget showed a structural surplus of 0.03% of GDP in 2016 and therefore complied with the national balanced-budget rule ('debt brake') with a margin.[2]

For 2017, the stability programme plans a general government budget surplus of ½% of GDP, compared to 0% of GDP in the 2016 stability programme and ¼% of GDP in the 2017 DBP. The revision is largely due to higher projected revenue from current taxes on income and wealth, which overcompensates higher projected expenditure broadly driven by a change in the statistical treatment of proceeds from auctioned broadband sprectrum licences. The (recalculated) structural surplus is projected to decrease to 0.5% of GDP in 2017, broadly consistent with the Commission 2017 spring forecast. The federal budget is planned to show a structural surplus of 0.02% of GDP, thus continuing to comply with the national balanced-budget rule ('debt brake').

3.2. MEDIUM-TERM STRATEGY AND TARGETS

The stability programme aims at complying with the medium-term objective with a margin and steadily bringing down the debt-to-GDP ratio over the programme period. The targeted budget surpluses in 2018 and beyond are slightly bigger than the projections of the 2016 stability programme, on account of higher projected revenue overcompensating higher projected expenditure. The projections at general government level are aimed to be underpinned by balanced budgets or small surpluses at all levels of government. The stability programme's targets are broadly in line with the Commission 2017 spring forecast (see also Figure 1).

The stability programme confirms the medium-term objective of a structural deficit not higher than 0.5% of GDP. The medium-term objective reflects the objectives of the Stability and Growth Pact. In line with the developments in the headline balance, the stability programme foresees (recalculated) structural surpluses of between 0.2% of GDP and 0.4% of GDP over 2018-2021, thus well above the medium-term objective. The projected structural surpluses are largely in line with the Commission 2017 spring forecast and slightly higher than foreseen in the 2016 stability programme. At federal level, the stability programme plans slight structural deficits in 2018-2021, whilst remaining in complicance with the national 'debt brake'.

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

Table 2: Composition of the budgetary adjustment

(% of GDP)	2016	2017		2018		2019	2020	2021	Change: 2016-2021
	COM	COM	SP	COM	SP	SP	SP	SP	SP
Revenue	**45.1**	**45.1**	**45 ¼**	**45.0**	**45 ¼**	**45 ¼**	**45 ¼**	**45 ¼**	0
of which:									
- Taxes on production and imports	10.7	10.7	10 ¾	10.6	10 ¾	10 ¾	10 ½	10 ½	0
- Current taxes on income, wealth, etc.	12.7	12.8	12 ¾	12.9	12 ¾	12 ¾	13	13	½
- Social contributions	16.7	16.8	17	16.9	17	17	17	17 ¼	½
- Other (residual)	5.0	4.8	4 ¾	4.7	4 ¾	4 ¾	4 ¾	4 ½	½
Expenditure	**44.3**	**44.6**	**44 ¾**	**44.7**	**45**	**45**	**44 ¾**	**44 ¾**	½
of which:									
- Primary expenditure	42.9	43.4	43 ½	43.6	43 ¾	43 ¾	43 ½	43 ½	¾
of which:									
Compensation of employees	7.5	7.5	7 ½	7.5	7 ½	7 ½	7 ½	7 ¼	- ¼
Intermediate consumption	4.8	5.0	5	4.9	5	4 ¾	4 ¾	4 ¾	0
Social payments	24.1	24.5	24 ½	24.5	24 ½	24 ¾	24 ¾	25	¾
Subsidies	0.9	0.8	¾	0.9	¾	1	1	1	0
Gross fixed capital formation	2.1	2.2	2 ¼	2.3	2 ¼	2 ¼	2 ¼	2 ¼	¼
Other (residual)	3.4	3.5	3 ½	3.5	3 ¾	3 ½	3 ¼	3 ¼	0
- Interest expenditure	1.4	1.2	1 ¼	1.1	1 ¼	1 ¼	1 ¼	1 ¼	-¼
General government balance (GGB)	**0.8**	**0.5**	**½**	**0.3**	**¼**	**¼**	**½**	**½**	-¼
Primary balance	**2.1**	**1.7**	**1 ¾**	**1.4**	**1 ¼**	**1 ½**	**1 ½**	**1 ½**	-½
One-off and other temporary measures	0.0	0.0	0	0.0	0	0	0	0	0
GGB excl. one-offs	**0.7**	**0.5**	**½**	**0.3**	**¼**	**¼**	**½**	**½**	-¼
Output gap[1]	-0.1	-0.2	-0.2	0.1	-0.1	0.0	0.0	-0.1	0.1
Cyclically-adjusted balance[1]	0.8	0.6	0.5	0.3	0.2	0.2	0.4	0.4	-0.4
Structural balance[2]	**0.8**	**0.6**	**0.5**	**0.3**	**0.2**	**0.2**	**0.4**	**0.4**	**-0.4**
Structural primary balance[2]	2.2	1.8	1.8	1.3	1.4	1.4	1.6	1.6	**-0.6**

Notes:

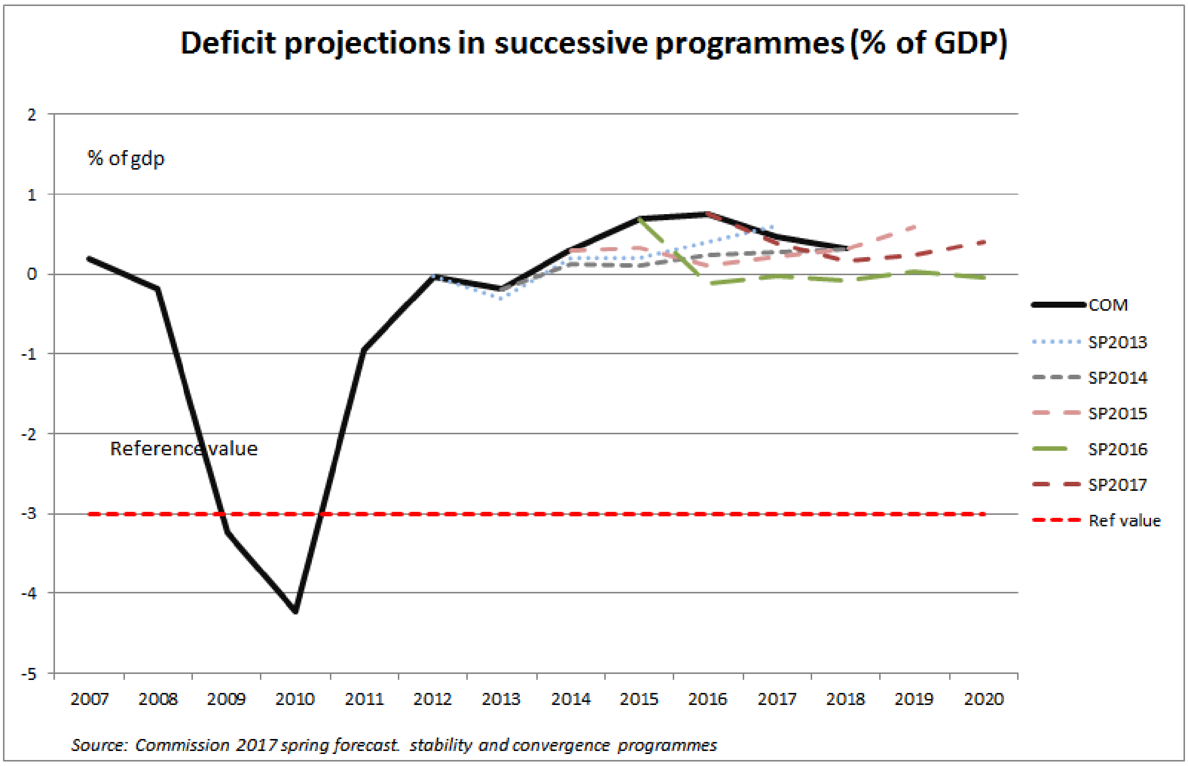
[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source:

Stability Programme (SP); Commission 2017 spring forecasts (COM); Commission calculations.

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



3.3. MEASURES UNDERPINNING THE PROGRAMME

The stability programme does not factor in major revenue- and expenditure-related measures in addition to those that were specified in the 2016 stability programme and 2017 DBP. However, the stability programme emphasises the aim to place growth– and job-friendly limits on the burden from taxes and social contributions, while at the same time monitoring basic spending trends to ensure that appropriate funds remain available to support areas that are identified as crucial for future growth. The stability programme also reports on progress regarding the fight against tax flight and evasion and improvements to the efficiency of the tax administration.

3.4. DEBT DEVELOPMENTS

The debt-to-GDP ratio decreased by 2.9 pps to 68.3% between 2015 and 2016, driven by the primary surplus, lower interest expenditure and favourable macroeconomic conditions. Based on projected budget surpluses and the denominator effect of GDP growth, the stability programme projects the debt-to-GDP ratio to fall to 66¼% of GDP in 2017 and 64% of GDP in 2018 and to continue diminishing thereafter. This is broadly in line with the Commission 2017 spring forecast. Figure 2 shows that the debt dynamics largely correspond to projections of previous programmes.

Table 3: Debt developments

(% of GDP)	Average 2011-2015	2016	2017		2018		2019	2020	2021
			COM	SP	COM	SP	SP	SP	SP
Gross debt ratio[1]	**76.4**	**68.3**	**65.8**	**66 ¼**	**63.3**	**64**	**61 ¾**	**59 ¾**	**57**
Change in the ratio	-2.0	-2.9	-2.5	-2	-2.5	-2 ¼	-2 ¼	-2	-2 ¾
Contributions[2] *:*									
1. Primary balance	**-2.0**	**-2.1**	**-1.7**	**-1 ¾**	**-1.4**	**-1 ¼**	**-1 ½**	**-1 ½**	**-1 ½**
2. "Snow-ball" effect	**-0.5**	**-0.9**	**-0.8**	**-½**	**-1.1**	**-¾**	**-¾**	**-¾**	**-¾**
Of which:									
Interest expenditure	2.0	1.4	1.2	1 ¼	1.1	1 ¼	1 ¼	1 ¼	1 ¼
Growth effect	-1.2	-1.3	-1.1	-0.9	-1.2	-1	-1	-1	-1
Inflation effect	-1.3	-1.0	-0.9	-0.9	-1.0	-1	-1	-1	-1
3. Stock-flow adjustment	**0.5**	**0.2**	**0.0**	**¼**	**0.0**	**0**	**0**	**¼**	**-½**

Notes:

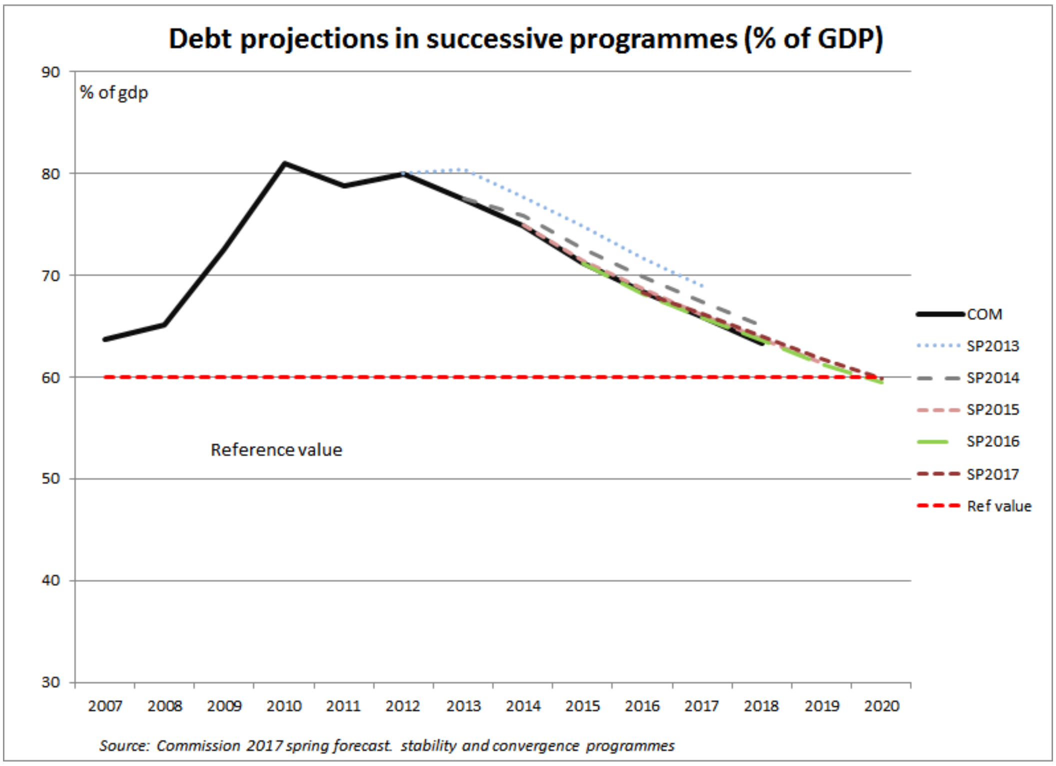
[1] End of period.

[2] The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

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



3.5. RISK ASSESSMENT

Overall, the stability programme's targets in terms of headline balance, structural balance and debt are broadly in line with the Commission 2017 spring forecast and appear realistic, although somewhat cautious. In fact, the stability programme projects lower domestic-demand-driven GDP growth and lower employment growth, contributing to less positive fiscal developments compared with the Commission forecast.

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

Germany is subject to the preventive arm of the Stability and Growth Pact. On 12 July 2016, the Council did not address a recommendation to Germany in the context of fiscal compliance under the European Semester since the Council was of the opinion that Germany complies with the Stability and Growth Pact. The general government budget was in surplus in 2016, and is planned to remain so over the programme horizon. According to the stability programme and the Commission 2017 spring forecast, Germany is expected to remain above its medium-term objective in 2017 and 2018. The (recalculated) structural surplus is forecast to reach 0.5% (2017) and 0.2% of GDP (2018), broadly in line with the Commission 2017 spring forecast. According to the stability programme as well as the Commission 2017 spring forecast, the debt-to-GDP ratio is expected to be below the debt reduction benchmark in 2016, 2017 and 2018, pointing to compliance with the debt rule. All in all, the budgetary position indicates available fiscal space for tax reductions and public investment increases at all levels of government, in full compliance with the provisions of the Stability and Growth Pact.

Table 4. Compliance with the debt criterion

	2016	2017		2018	
		SP	COM	SP	COM
Gross debt ratio	**68**	**66 ¼**	**65.8**	**64**	**63.3**
Gap to the debt benchmark [1,2]	-4.8	-4.1	-4.6	-3.8	-4.2

Notes:

[1] Not relevant for Member Sates that were subject to an EDP procedure in November 2011 and for a period of three years following the correction of the excessive deficit.

[2] Shows the difference between the debt-to-GDP ratio and the debt benchmark. If positive, projected gross debt-to-GDP ratio does not comply with the debt reduction benchmark.

Source :

Commission 2017 spring forecast (COM); Stability Programme (SP), Comission calculations.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2016	2017		2018	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	0.8	0.6		0.3	
Structural balance based on freezing (COM)	0.8	0.6		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2016**	**2017**		**2018**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	Compliant				
Required adjustment corrected[5]					
Change in structural balance[6]					
One-year deviation from the required adjustment[7]					
Two-year average deviation from the required adjustment[7]					
Expenditure benchmark pillar					
Applicable reference rate[8]					
One-year deviation adjusted for one-offs[9]					
Two-year deviation adjusted for one-offs[9]					
PER MEMORIAM: One-year deviation[10]					
PER MEMORIAM: Two-year average deviation[10]					
Conclusion					
Conclusion over one year					
Conclusion over two years					

Notes

[1] The most favourable level of the structural balance, measured as a percentage of GDP reached at the end of year t-1, between spring forecast (t-1) and the latest forecast, determines whether there is a need to adjust towards the MTO or not in year t. A margin of 0.25 percentage points (p.p.) is allowed in order to be evaluated as having reached the MTO.

[2] Structural balance = cyclically-adjusted government balance excluding one-off measures.

[3] Based on the relevant structural balance at year t-1.

[4] Based on the position vis-à-vis the MTO, the cyclical position and the debt level (See European Commission: Vade mecum on the Stability and Growth Pact, page 38.).

[5] Required adjustment corrected for the clauses, the possible margin to the MTO and the allowed deviation in case of overachievers.

[6] Change in the structural balance compared to year t-1. Ex post assessment (for 2014) is carried out on the basis of Commission 2015 spring forecast.

[7] The difference of the change in the structural balance and the corrected required adjustment.

[8] Reference medium-term rate of potential GDP growth. The (standard) reference rate applies from year t+1, if the country has reached its MTO in year t. A corrected rate applies as long as the country is adjusting towards its MTO, including in year t.

[9] Deviation of the growth rate of public expenditure net of discretionary revenue measures, revenue increases mandated by law and one-offs from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

[10] Deviation of the growth rate of public expenditure net of discretionary revenue measures and revenue increases mandated by law from the applicable reference rate in terms of the effect on the structural balance. The expenditure aggregate used for the expenditure benchmark is obtained following the commonly agreed methodology. A negative sign implies that expenditure growth exceeds the applicable reference rate.

Source:

Stability Programme (SP); Commission 2017 spring forecast (COM); Commission calculations.

5. LONG-TERM SUSTAINABILITY

Germany does not appear to face fiscal sustainability risks in the short run according to the S0 indicator, which captures the short-term risks of fiscal stress stemming from the fiscal, as well as the macro-financial and competitiveness sides of the economy.

Based on Commission forecasts and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at .68.3% of GDP in 2016, is expected to constantly decrease to 52.8% in 2027, thus falling below the 60% of GDP Treaty threshold. This highlights low risks for the country from debt sustainability analysis in the medium term. The full implementation of the stability programme would lead to a slightly faster decline in government debt.

The medium-term fiscal sustainability risk indicator S1 is at -0.4 pps. of GDP, primarily related to the initial budgetary position contributing with -1.6 pps. of GDP, thus indicating low risks in the medium term. The full implementation of the stability programme would put the sustainability risk indicator S1 at -1.4 pps. of GDP, leading to a lower medium-term risk. Overall, risks to fiscal sustainability over the medium-term are, therefore, low. Fully implementing the fiscal plans in the stability programme would decrease those risks.

The long-term fiscal sustainability risk indicator S2 (which shows the adjustment effort needed to ensure that the debt-to-GDP ratio is not on an ever-increasing path) is at 2.1pps. of GDP. In the long-term, Germany therefore appears to face medium fiscal sustainability risks, primarily related to the projected ageing costs contributing with 2.5 pps. of GDP. Full implementation of the programme would put the S2 indicator at 1.7 pps. of GDP, leading to a lower long-term risk.

Table 6: Sustainability indicators

Time horizon				No-policy Change Scenario		Stability / Convergence Programme Scenario	
Short Term				**LOW risk**			
	S0 indicator [1]			0.1			
	Fiscal subindex			0.0	LOW risk		
	Financial & competitiveness subindex			0.1	LOW risk		
Medium Term				**LOW risk**			
	DSA [2]			LOW risk			
	S1 indicator [3]			-0.4	LOW risk	-1.4	LOW risk
	of which						
		Initial Budgetary Position		-1.6		-2.0	
		Debt Requirement		0.2		-0.3	
		Cost of Ageing		1.0		0.9	
		of which					
			Pensions	0.6		0.6	
			Health-care	0.1		0.1	
			Long-term care	0.0		0.0	
			Other	0.2		0.2	
Long Term				**MEDIUM risk**		**LOW risk**	
	S2 indicator [4]			2.1		1.7	
	of which						
		Initial Budgetary Position		-0.4		-0.6	
		Cost of Ageing		2.5		2.2	
		of which					
			Pensions	1.6		1.5	
			Health-care	0.3		0.3	
			Long-term care	0.0		0.0	
			Other	0.5		0.5	

Source: Commission services; 2017 stability/convergence programme.

Note: the 'no-policy-change' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2017 forecast covering until 2018 included. The 'stability/convergence programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented over the period covered by the programme. Age-related expenditure as given in the 2015 Ageing Report.

[1] The S0 indicator of short term fiscal challenges informs the early detection of fiscal stress associated to fiscal risks within a one-year horizon. To estimate these risks S0 uses a set of fiscal, financial and competitiveness indicators selected and weighted according to their signalling power. S0 is therefore a composite indicator whose methodology is fundamentally different from the S1 and S2 indicators, which quantify fiscal adjustment efforts. The critical threshold for the overall S0 indicator is 0.46. For the fiscal and the financial-competitiveness sub-indexes, thresholds are respectively at 0.36 and 0.49*.

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

[3] The S1 indicator is a medium-term sustainability gap; it measures the upfront fiscal adjustment effort required to bring the debt-to-GDP ratio to 60 % by 2031. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2019 for No-policy Change scenario and from last available year for the SCP scenario); it must be then sustained, including financing for any additional expenditure until the target date, arising from an ageing population. The critical thresholds for S1 are 0 and 2.5, between which S1 indicates medium risk. If S1 is below 0 or above 2.5, it indicates low or high risk, respectively*.

[4] The S2 indicator is a long-term sustainability gap; it shows the upfront and permanent fiscal adjustment required to stabilise the debt-to-GDP ratio over the infinite horizon, including the costs of ageing. The critical thresholds for S2 are 2 and 6, between which S2 indicates medium risk. If S2 is below 2 or above 6, it indicates low or high risk, respectively*.

* For more information see Fiscal Sustainability Report 2015 and Debt Sustainability Monitor 2016.

6. FISCAL FRAMEWORK

Based on the stability programme, Germany plans to comply with the requirements of the applicable national numerical fiscal rules, in particular with the constitutional 'debt brake' which stipulates that the federal budget as of 2016 must not exceed a deficit of 0.35% of GDP.

As pointed out in the Commission Opinion on the 2017 DBP, there is neither an independent body in charge of producing or endorsing macroeconomic forecasts, nor is there an endorsement procedure of forecasts involving an independent body within the meaning of Regulation (EU) No 473/2013. This also holds for the macroeconomic scenario underlying the stability programme, which is based on the federal government's macroeconomic forecast published in January 2017. To address this shortcoming, the federal government has presented a law to parliament, which requires the federal government's annual spring and autumn projections to be reviewed and endorsed by an independent body yet to be determined. The macroeconomic benchmark figures of the stability programme should be included in this review. According to the stability programme, a parliamentary decision on the law is aimed at before the end of the current legislative term.

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

The stability programme briefly reports on progress on the government's efforts to improve the effectiveness of the federal budget by incorporating the results of spending reviews to the budget planning process. The second review cycle, focusing on the policy areas of housing and climate and energy, was concluded in March 2017, and the resulting measures are gradually being implemented by the various government ministries. At the same time, a new cycle was initiated, focussing on the procurement of standardised bulk goods and humanitarian aid and transition assistance including interfaces with crisis prevention, crisis response, stabilisation and development assistance.

7. SUMMARY

In 2016, Germany recorded headline and structural budget surpluses in full compliance with the provisions of the Stability and Growth Pact. In addition, Germany complied with the debt benchmark.

According to both the information provided in the stability programme and the Commission 2017 spring forecast, Germany will continue to remain above its medium-term objective in 2017 and 2018. Moreover, Germany is expected to meet the debt benchmark both in 2017 and 2018.

The budgetary position indicates available fiscal space to support domestic demand, including tax reductions and public investment increases at all levels of government in full compliance with the provisions of the Stability and Growth Pact and, to a more limited extent, with national fiscal rules. Furthermore, this would also be in line with the Council recommendation on the economic policy of the euro area of 21 March 2017, which invited Member States that have outperformed their medium-term objectives to continue to prioritise investments to boost potential growth while preserving the long-term sustainability of public finances.

8. ANNEX

Table I. Macroeconomic indicators

	1999-2003	2004-2008	2009-2013	2014	2015	2016	2017	2018
Core indicators								
GDP growth rate	1.2	2.0	0.6	1.6	1.7	1.9	1.6	1.9
Output gap [1]	0.4	-0.1	-1.3	-0.3	-0.2	-0.1	-0.2	0.1
HICP (annual % change)	1.3	2.1	1.5	0.8	0.1	0.4	1.7	1.4
Domestic demand (annual % change) [2]	0.7	1.1	0.6	1.4	1.6	2.3	1.9	2.2
Unemployment rate (% of labour force) [3]	8.5	9.5	6.2	5.0	4.6	4.1	4.0	3.9
Gross fixed capital formation (% of GDP)	21.4	19.7	19.7	20.0	19.9	20.0	20.1	20.3
Gross national saving (% of GDP)	21.8	25.3	25.9	27.3	27.7	27.6	27.3	27.1
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.4**	**-1.8**	**-1.7**	**0.3**	**0.7**	**0.8**	**0.5**	**0.3**
Gross debt	**59.8**	**65.4**	**77.9**	**74.9**	**71.2**	**68.3**	**65.8**	**63.3**
Net financial assets	**-36.4**	**-45.2**	**-48.7**	**-46.1**	**-42.7**	**n.a**	**n.a**	**n.a**
Total revenue	44.5	42.9	44.0	44.7	44.7	45.1	45.1	45.0
Total expenditure	46.9	44.7	45.7	44.4	44.0	44.3	44.6	44.7
of which: Interest	3.0	2.7	2.4	1.8	1.6	1.4	1.2	1.1
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-1.9**	**1.4**	**2.8**	**2.3**	**2.7**	**2.7**	**2.6**	**2.3**
Net financial assets; non-financial corporations	**-53.8**	**-57.8**	**-57.3**	**-61.4**	**-55.9**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-5.9**	**-1.7**	**10.3**	**17.4**	**13.7**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.8	12.1	11.2	11.4	11.0	10.8	10.9	11.1
Gross operating surplus	23.7	26.9	25.4	25.0	25.0	24.8	24.5	24.3
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.3**	**5.7**	**5.3**	**4.9**	**5.0**	**5.1**	**5.0**	**4.9**
Net financial assets	**95.0**	**109.0**	**116.8**	**124.7**	**127.4**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	41.9	39.6	40.8	41.5	41.6	41.8	42.0	42.1
Net property income	12.1	14.2	13.6	12.4	12.0	11.9	11.6	11.4
Current transfers received	22.4	21.6	21.2	20.8	20.7	20.7	20.7	20.5
Gross saving	10.6	11.2	11.1	11.0	11.1	11.2	11.1	11.0
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**0.0**	**5.4**	**6.3**	**7.5**	**8.4**	**8.5**	**8.0**	**7.5**
Net financial assets	**2.6**	**-2.2**	**-16.9**	**-31.0**	**-39.0**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	2.2	5.6	5.4	6.5	7.6	7.6	7.1	6.8
Net primary income from the rest of the world	-0.9	1.1	2.3	2.2	2.2	2.1	2.0	1.9
Net capital transactions	0.0	-0.1	-0.1	0.0	-0.1	0.0	-0.1	-0.1
Tradable sector	42.6	43.3	42.2	42.6	42.4	42.2	n.a	n.a
Non tradable sector	47.7	47.0	47.7	47.4	47.6	47.9	n.a	n.a
of which: Building and construction sector	4.3	3.5	3.9	4.0	4.1	4.3	n.a	n.a
Real effective exchange rate (index, 2000=100)	107.0	103.6	101.1	104.7	101.6	103.0	103.1	103.1
Terms of trade goods and services (index, 2000=100)	101.3	100.1	99.0	99.5	102.0	103.6	102.7	102.8
Market performance of exports (index, 2000=100)	88.2	95.3	102.2	105.7	105.4	104.6	104.4	104.1

Notes:

[1] The output gap constitutes the gap between the actual and potential gross domestic product at 2005 market prices.

[2] The indicator on domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source:
AMECO data, Commission 2017 spring forecast