EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, 23 May 2018

Assessment of the 2018 Stability Programme for

Germany

(Note prepared by DG ECFIN staff)

CONTENTS

1. INTRODUCTION 3
2. MACROECONOMIC DEVELOPMENTS 3
3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS 5
3.1. DEFICIT DEVELOPMENTS IN 2017 AND 2018 5
3.2. MEDIUM-TERM STRATEGY AND TARGETS 5
3.3. MEASURES UNDERPINNING THE PROGRAMME 7
3.4. DEBT DEVELOPMENTS 7
3.5. RISK ASSESSMENT 9
4. COMPLIANCE WITH THE PROVISIONS OF THE STABILITY AND GROWTH PACT 10
5. FISCAL SUSTAINABILITY 12
6. FISCAL FRAMEWORK 14
7. SUMMARY 15
8. ANNEXES 16

1. INTRODUCTION

On 19 April 2018, Germany submitted its 2018 Stability Programme (hereafter called Stability Programme), covering the period 2018-2021. The government approved the programme on 18 April 2018.

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 budgetary objective (MTO). Germany is also subject to the debt reduction benchmark, as the public 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.

This document complements the Country Report published on 7 March 2018 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 2018 spring forecast. The following section presents the recent and planned budgetary developments, according to the Stability Programme. In particular, it includes an overview on the medium term budgetary plans, an assessment of the measures underpinning the Stability Programme and a risk analysis of the budgetary plans based on Commission forecast. Section 4 assesses compliance with the rules of the SGP, including on the basis of the Commission forecast. Section 5 provides an overview on long term sustainability risks and Section 6 on recent developments and plans regarding the fiscal framework. Section 7 provides a summary.

2. MACROECONOMIC DEVELOPMENTS

According to the macroeconomic scenario underlying the Stability Programme, the German economy is in an upswing with strong world trade, vigorous business investment and a dynamic but increasingly tight labour market with rising wages stimulating private consumption while inflation remains below 2%. GDP growth is projected to reach 2.4% in 2018, 1.9% in 2019, and to slow down to around 1¼% over 2020-2022, as output slowly returns to its potential.

Compared to the macroeconomic scenario of the no-policy-change DBP for 2018, the growth forecast for 2018 has been revised up by 0.5 pps. All domestic demand components are projected to grow stronger and a positive, instead of neutral, contribution of net foreign trade is projected. These revisions partly reflect the better-than-projected outcome for 2017 and the improved assessment of the macroeconomic outlook and the external environment compared to last autumn. For 2019, the scenario of the Stability Programme expects less of a slowdown, while the growth projections for the outer years remain unchanged compared to that of the no-policy-change DBP for 2018 submitted in autumn.

Table 1: Comparison of macroeconomic developments and forecasts

	2017		2018		2019		2020	2021	2022
	COM	SP	COM	SP	COM	SP	SP	SP	SP
Real GDP (% change)	2.2	2.2	2.3	2.4	2.1	1.9	1 ¼	1 ¼	1 ¼
Private consumption (% change)	1.9	1.9	1.8	1.9	1.9	1.7	1	1	1
Gross fixed capital formation (% change)	3.3	3.3	3.2	3.8	3.1	3.2	2 ¾	2 ¾	2 ¾
Exports of goods and services (% change)	4.7	4.7	5.9	5.3	4.1	4.0	4	4	4
Imports of goods and services (% change)	5.1	5.1	6.1	5.8	4.6	4.8	4 ¾	4 ¾	4 ¾
Contributions to real GDP growth:									
- Final domestic demand	2.0	2.0	1.9	2.2	2.0	1.9	1 ¼	1 ¼	1 ¼
- Change in inventories	0.1	0.1	0.0	0.0	0.0	0.0	0	0	0
- Net exports	0.2	0.2	0.4	0.2	0.1	0.0	0	0	0
Output gap[1]	0.0	0.2	0.4	0.6	0.6	0.7	0.3	0.0	-0.2
Employment (% change)	1.5	1.5	1.0	1.1	0.7	0.8	¼	¼	¼
Unemployment rate (%)	3.8	3.6	3.6	3.2	3.5	3.0	3 ¼	3 ¼	3 ¼
Labour productivity (% change)	0.7	0.7	1.3	1.2	1.4	1.0	1	1	1
HICP inflation (%)	1.7		1.6		1.8				
GDP deflator (% change)	1.5	1.5	1.7	1.8	1.8	1.9	2	2	2
Comp. of employees (per head, % change)	2.6	2.6	3.1	2.7	3.1	3.0	3	3	3
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	7.9	7.9	7.8	7.9	7.5	7.7	7	7	7

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 2018 spring forecast (COM); Stability Programme (SP).

The Stability Programme macro scenario is broadly in line with the Commission 2018 spring forecast. The Commission forecast is somewhat more favourable regarding 2019, assuming higher households' income linked to stronger wage growth, and a slightly stronger response of consumer demand. However, the Commission expects a slower decline in the unemployment rate than the Stability Programme over 2018 and 2019.

The output gaps, as recalculated by the Commission based on the information in the Stability Programme following the commonly agreed methodology, point to a slight overutilisation of productive capacity (i.e. positive output gap), which peaks in 2019 and gradually closes by 2021, broadly in line with the Commission 2018 spring forecast.

All in all, the 2018 Stability Programme for Germany is based on plausible macroeconomic assumptions.

3. RECENT AND PLANNED BUDGETARY DEVELOPMENTS

3.1. DEFICIT DEVELOPMENTS IN 2017 AND 2018

Germany recorded a general government budget surplus of 1.3% of GDP in 2017,[1] compared to projections of ½% of GDP in the 2017 Stability Programme and of ¾% of GDP in the 2018 no-policy-change DBP. The improved budget outcome was largely due to lower than expected expenditure, especially for social payments. The general government structural surplus in 2017 amounted to 1.5% of GDP, somewhat higher than in the projections of the 2018 no-policy-change DBP and of the 2017 Stability Programme, also due to statistical changes in the recording of interest expenditure.

For 2018, the Stability Programme plans a general government budget surplus of 1% of GDP, compared to ¼% of GDP in the 2017 Stability Programme and ½% of GDP in the 2018 no-policy-change DBP. The revision is largely due to lower projected expenditure for social payments, with lower unemployment benefits and interest payments, overcompensating for slightly lower projected revenues. The (recalculated) structural surplus is projected to decrease to 0.7% of GDP in 2018, broadly consistent with the Commission 2018 spring forecast, also taking into account the changed statistical recording of interest expenditure.

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 2019 and beyond are somewhat bigger than the projections of the 2017 Stability Programme, on account of lower projected expenditure not yet containing additional planned measures of the March 2018 coalition agreement. 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 2018 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 0.9% of GDP and 1.6% of GDP over 2019-2021, thus well above the medium-term objective. The projected structural surpluses are largely in line with the Commission 2018 spring forecast and somewhat higher than foreseen in the 2017 Stability Programme.

[1] For 2017 the Stability Programme shows a lower general government budget surplus of 1.1% of GDP, as a revision by the Eurostat notification was not yet included when published. A statistical change in the recording of interest expenditure led to an increase of about 0.2% of GDP in the general government balance, affecting also preceeding and subsequent years. This change consequently also affects the structural government balance, so that the Stability Programme shows equally a lower general government structural surplus of 1.3% of GDP for 2017.

Table 2: Composition of the budgetary adjustment

(% of GDP)	2017	2018		2019		2020	2021	Change: 2017-2021
	COM	COM	SP	COM	SP	SP	SP	SP
Revenue	**45.2**	**45.0**	**44 ¾**	**44.9**	**44 ¾**	**44 ¾**	**44 ¾**	**-¼**
of which:								
- Taxes on production and imports	10.6	10.5	10 ½	10.4	10 ½	10 ½	10 ¼	-¼
- Current taxes on income, wealth, etc.	12.9	13.0	13	13.0	13	13 ¼	13 ½	½
- Social contributions	16.8	16.7	16 ¾	16.6	16 ¾	16 ¾	16 ¾	0
- Other (residual)	4.9	4.9	4 ¾	4.8	4 ½	4 ½	4 ½	-½
Expenditure	**43.9**	**43.8**	**44**	**43.5**	**43 ½**	**43 ½**	**43 ¼**	**-½**
of which:								
- Primary expenditure	42.9	42.8	43	42.5	42 ½	42 ½	42 ½	-½
of which:								
Compensation of employees	7.6	7.6	7 ½	7.6	7 ½	7 ¼	7 ¼	-¼
Intermediate consumption	4.8	4.7	4 ¾	4.7	4 ¾	4 ½	4 ½	-¼
Social payments	24.0	24.0	23 ¾	24.0	23 ¾	24	24	0
Subsidies	0.8	0.8	1	0.8	1	1	1	0
Gross fixed capital formation	2.2	2.2	2 ¼	2.3	2 ¼	2 ¼	2 ¼	0
Other (residual)	3.5	3.4	3 ½	3.2	3 ½	3 ¼	3 ¼	-¼
- Interest expenditure	1.1	1.0	1	1.0	1	1	1	-¼
General government balance (GGB)	**1.3**	**1.2**	**1**	**1.4**	**1 ¼**	**1 ½**	**1 ½**	**½**
Primary balance	**2.3**	**2.2**	**2**	**2.3**	**2 ¼**	**2 ½**	**2 ½**	**¼**
One-off and other temporary	-0.2	-0.2	-¼	0.0	0	0	0	¼
GGB excl. one-offs	**1.5**	**1.4**	**1**	**1.4**	**1 ¼**	**1 ½**	**1 ½**	**0**
Output gap[1]	0.0	0.4	0.6	0.6	0.7	0.3	0.0	-0.2
Cyclically-adjusted balance[1]	1.3	1.0	0.6	1.0	0.9	1.2	1.6	0.4
Structural balance[2]	**1.5**	**1.2**	**0.7**	**1.0**	**0.9**	**1.2**	**1.6**	**0.2**
Structural primary balance[2]	2.5	2.2	1.8	2.0	1.9	2.2	2.5	0.1

Notes:

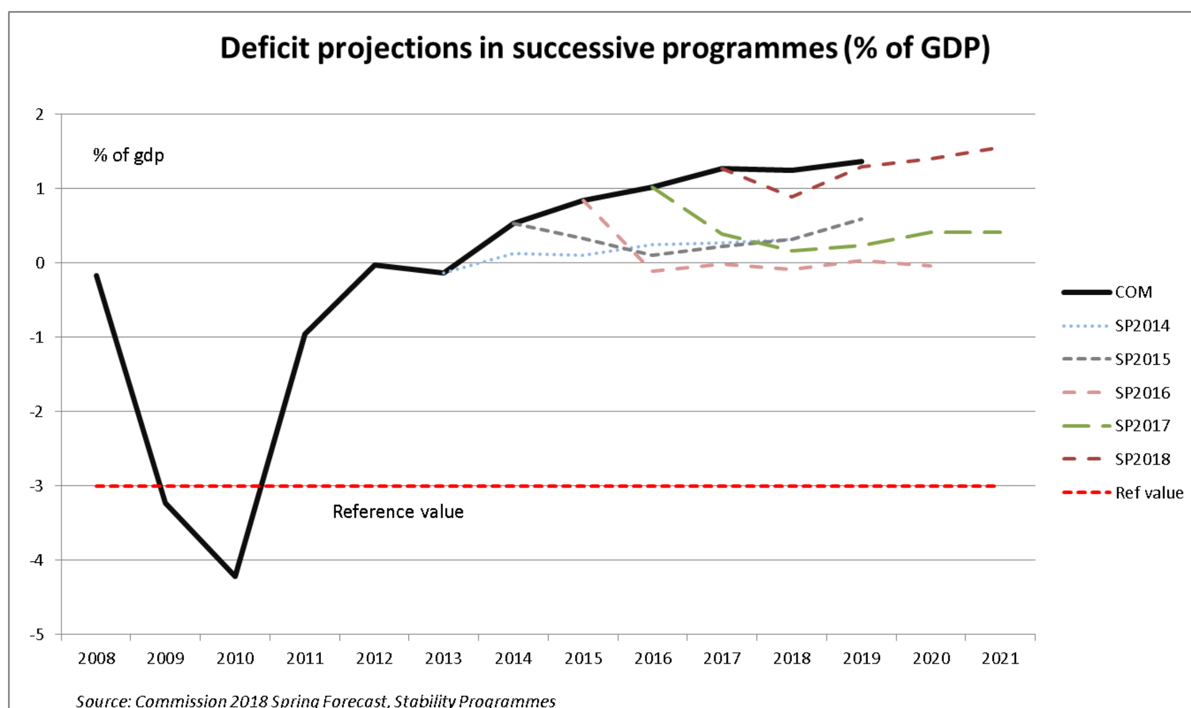
[1]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by Commission on the basis of the programme scenario using the commonly agreed methodology.

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

Source:

Stability Programme (SP); Commission 2018 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 measures in addition to those that were specified in the 2017 Stability Programme and in the 2018 no-policy-change DBP. However, the Stability Programme lists and describes several planned measures of the March 2018 coalition agreement amounting to around EUR 46 billion or roughly 1½% of GDP over the period 2018-2021, without including them in the projections. These measures concern a variety of policy fields like investment in education, research and digitalisation as well as support for families, children and social housing, infrastructure improvements and tax reliefs regarding the solidarity levy. They are yet to be adopted and the Stability Programme estimates their average annual impact on the general government balance at around ¼% to ½% of GDP. With these measures the government continues its overall long-term investment policy by letting investment grow in line with GDP, while putting more emphasis on social spending for children and long-term unemployed.

3.4. DEBT DEVELOPMENTS

The debt-to-GDP ratio decreased by 4.1 pps to 64.1% in 2017, driven by the headline surplus and favourable macroeconomic developments. Based on projected budget and the denominator effect of GDP growth, the Stability Programme projects the debt-to-GDP ratio to fall to 61% of GDP in 2018 and 58¼% of GDP in 2019 and to continue diminishing thereafter. This is broadly in line with the Commission 2018 spring forecast. Figure 2 shows that the debt projections of the Stability Programme decrease faster than in previous programmes.

Table 3: Debt developments

(% of GDP)	Average 2012-2016	2017	2018		2019		2020	2021
			COM	SP	COM	SP	SP	SP
Gross debt ratio[1]	**74.3**	**64.1**	**60.2**	**61**	**56.3**	**58 ¼**	**55 ¾**	**53**
Change in the ratio	-2.1	-4.1	-4.0	-3	-3.9	-2 ¾	-2 ½	-2 ¾
Contributions[2] *:*								
1. Primary balance	**-2.1**	**-2.3**	**-2.2**	**-2**	**-2.3**	**-2 ¼**	**-2 ½**	**-2 ½**
2. "Snow-ball" effect	**-0.6**	**-1.4**	**-1.5**	**-1 ½**	**-1.3**	**-1**	**-¾**	**-¾**
Of which:								
Interest expenditure	1.6	1.1	1.0	1	1.0	1	1	1
Growth effect	-1.0	-1.5	-1.4	-1.4	-1.2	-1.1	-0.7	-0.7
Inflation effect	-1.3	-1.0	-1.0	-1.1	-1.1	-1.1	-1.1	-1.0
3. Stock-flow adjustment	**0.6**	**-0.4**	**-0.2**	½	**-0.2**	¾	¾	½
Of which:								
Cash/accruals diff.								
Acc. financial assets								
Privatisation								
Val. effect & residual								

Notes:

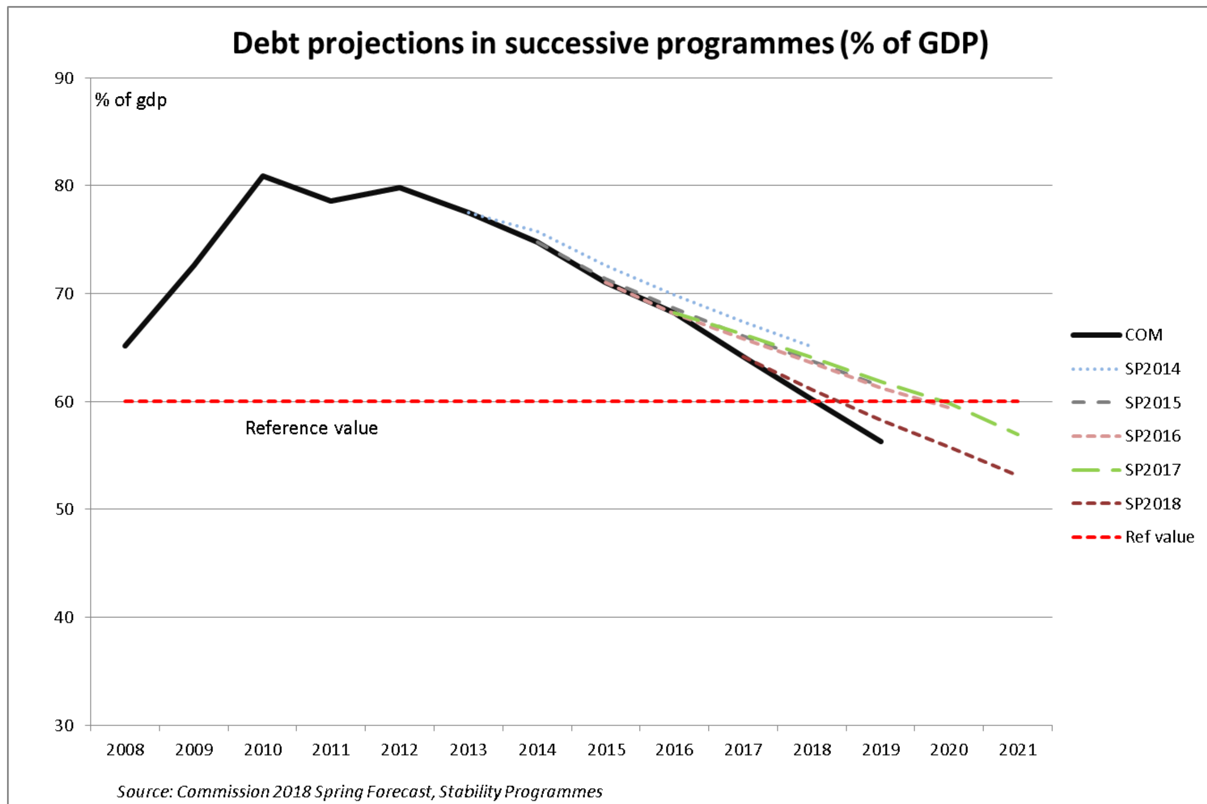
[1] End of period.

[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 2018 spring forecast (COM); Stability Programme (SP), Commission 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 2018 spring forecast and appear realistic. The Stability Programme projects higher employment growth and a lower unemployment rate, leading to partly lower expenditure for social payments but nevertheless to less positive fiscal developments than the Commission forecast, partly also due to changes in the statistical recording of interest expenditure. Risks to the current projections may arise from macroeconomic developments, when a slowdown of the economy may weigh on profit related tax revenue. The already low unemployment and high capacity utilisation may restrain the possibilities of the economy to keep up the current growth rates. With its high export orientation Germany is highly affected by a possible slowdown in world trade and possible protective trade measures.

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 11 July 2017, 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 2017, and is planned to remain so over the programme horizon. According to the Stability Programme and the Commission 2018 spring forecast, Germany is expected to remain above its medium-term objective in 2018 and 2019. The (recalculated) structural surplus is forecast to reach 0.7% (2018) and 0.9% (2019) of GDP, broadly in line with the Commission 2018 spring forecast. According to the Stability Programme as well as the Commission 2018 spring forecast, the debt-to-GDP ratio is expected to be below the debt reduction benchmark in 2017 and 2018, pointing to compliance with the debt rule. As of 2019, the debt-to-GDP ratio is projected to fall below the 60% reference value. 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

	2017	**2018**		**2019**	
		SP	**COM**	**SP**	**COM**
Gross debt ratio	**64.1**	**61**	**60.2**	**58 ¼**	**56.3**
Gap to the debt benchmark [1,2]	-7.3	-5.8	-6.9	n.r.	n.r.

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 2018 spring forecast (COM); Stability Programme (SP), Commission calculations.

Table 5: Compliance with the requirements under the preventive arm

(% of GDP)	2017	2018		2019	
Initial position[1]					
Medium-term objective (MTO)	-0.5	-0.5		-0.5	
Structural balance[2] (COM)	1.5	1.2		1.0	
Structural balance based on freezing (COM)	0.9	1.2		-	
Position vis-a -vis the MTO[3]	At or above the MTO	At or above the MTO		At or above the MTO	
(% of GDP)	**2017**	**2018**		**2019**	
	COM	**SP**	**COM**	**SP**	**COM**
Structural balance pillar					
Required adjustment[4]	Compliance				
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]					

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 2017) is carried out on the basis of Commission 2018 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 2018 spring forecast (COM); Commission calculations.

5. FISCAL SUSTAINABILITY

Germany does not appear to face fiscal sustainability risks in the short run.[2]

Based on Commission 2018 spring forecasts and a no-fiscal policy change scenario beyond the forecast horizon, government debt, at 64.1% of GDP in 2017, is expected to decrease to 37.9% in 2028), thus falling below the 60% of GDP Treaty threshold. Over this horizon, government debt has its highest level in 2017 and then declines steadily. Sensitivity analysis shows similar low risks.[3] Overall, this highlights low risks for Germany from debt sustainability analysis in the medium term. The full implementation of the Stability Programme would put debt on a similarly decreasing path by 2028, remaining below the 60% of GDP reference value as of 2019.

The medium-term fiscal sustainability risk indicator S1[4] is at -2.0 percentage points of GDP, thanks to the initial budgetary position contributing with -2.8 percentage points 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 -2.8 percentage points of GDP, leading to 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 is at 1.6 percentage points of GDP. In the long term, Germany therefore appears to face low fiscal sustainability risks, due to the initial budgetary position contributing with -1.3 percentage points of GDP, which counterbalances the risks associated with the costs of ageing contributing with 2.9 percentage points of GDP. Full implementation of the programme would put the S2 indicator at 1.2 percentage points of GDP, corresponding to a lower long-term risk.[5]

[2] This conclusion is based on the short-term fiscal sustainability risk indicator S0. See the note to Table 5 for a definition of the indicator.

[3] Sensitivity analysis includes several deterministic debt projections, as well as stochastic projections (see Debt Sustainability Monitor 2017 for more details).

[4] See the note to Table 5 for a definition of the indicator.

[5] The projected costs of ageing used to compute the debt projections and the fiscal sustainability indicators S1 and S2 are based on the updated projections, endorsed by the EPC on 30 January 2018, and to be published in the forthcoming Ageing Report 2018.

Table 6: Sustainability indicators

Time horizon			Commission Scenario		Stability / Convergence Programme Scenario	
Short Term			**LOW risk**			
S0 indicator [1]			0.0			
Fiscal subindex			0.0	LOW risk		
Financial & competitiveness subindex			0.0	LOW risk		
Medium Term			**LOW risk**			
DSA [2]			LOW risk			
S1 indicator [3]			-2.0	LOW risk	-2.8	LOW risk
of which						
	Initial Budgetary Position		-2.8		-3.2	
	Debt Requirement		-0.3		-0.6	
	Cost of Ageing		1.0		1.0	
	of which					
		Pensions	0.6		0.6	
		Health-care	0.2		0.1	
		Long-term care	0.1		0.1	
		Other	0.1		0.2	
Long Term			**LOW risk**		**LOW risk**	
S2 indicator [4]			1.6		1.2	
of which						
	Initial Budgetary Position		-1.3		-1.7	
	Cost of Ageing		2.9		2.9	
	of which					
		Pensions	1.5		1.4	
		Health-care	0.5		0.5	
		Long-term care	0.4		0.3	
		Other	0.5		0.6	

Source: Commission services; 2018 stability/convergence programme.

Note: the 'Commission' scenario depicts the sustainability gap under the assumption that the structural primary balance position evolves according to the Commissions' spring 2018 forecast covering until 2019 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 2018 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 2032. This adjustment effort corresponds to a cumulated improvement in the structural primary balance over the 5 years following the forecast horizon (i.e. from 2020 for Commission 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 2017.

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.[6]

At its 16th meeting on 11 December 2017 the fiscal council (Stabilitätsrat) concluded that the federal government adhered to the national fiscal rules in the years 2015, 2016 and expectedly in 2017.[7]

As pointed out in the Commission Opinion on the 2018 no-policy-change 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 2018. To address this shortcoming, the federal government has enacted a law on the drafting of the federal government's macroeconomic forecasts (Vorausschätzungsgesetz) together with a related ordinance (Vorausschätzungsverordnung). This law codifies the current procedure of producing forecasts from autumn 2018 on, designating the Joint Economic Forecast Project Team, comprising leading economic research institutions, as the independent body for endorsing the government's forecast, including the macroeconomic benchmark figures of the Stability Programme.

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 and regular subsidy reports to the budget planning process. On 23 August 2017, the 26th subsidy report of the the federal government was adopted by the federal cabinet.

[6] 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.

[7] For the national stability report see:
http://www.stabilitaetsrat.de/SharedDocs/Downloads/DE/Haushaltsueberwachung/Kennziffern-und-Berichte/2017/Haushaltskennziffern_und_Stabilitaetsbericht_2017__Bund.pdf?__blob=publicationFile

7. SUMMARY

In 2017, 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 2018 spring forecast, Germany is expected to continue to remain above its medium-term objective in 2018 and 2019. Moreover, Germany is expected to meet the debt benchmark both in 2018 and 2019.

8. ANNEXES

Table I. Macroeconomic indicators

	2000-2004	2005-2009	2010-2014	2015	2016	2017	2018	2019
Core indicators								
GDP growth rate	1.0	0.6	2.1	1.7	1.9	2.2	2.3	2.1
Output gap [1]	0.0	-0.7	-0.5	-0.5	-0.2	0.0	0.4	0.6
HICP (annual % change)	1.5	1.8	1.6	0.1	0.4	1.7	1.6	1.8
Domestic demand (annual % change) [2]	0.0	0.5	1.5	1.6	2.4	2.2	2.1	2.1
Unemployment rate (% of labour force) [3]	8.9	9.0	5.7	4.6	4.1	3.8	3.6	3.5
Gross fixed capital formation (% of GDP)	20.7	19.7	19.9	19.9	20.0	20.3	20.6	20.9
Gross national saving (% of GDP)	22.1	25.4	26.5	27.8	27.7	27.7	27.9	27.9
General Government (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.8**	**-1.7**	**-1.0**	**0.8**	**1.0**	**1.3**	**1.2**	**1.4**
Gross debt	**60.8**	**67.0**	**78.3**	**71.0**	**68.2**	**64.1**	**60.2**	**56.3**
Net financial assets	**-37.0**	**-43.4**	**-47.3**	**-41.9**	**-39.7**	**n.a**	**n.a**	**n.a**
Total revenue	43.8	43.3	44.0	44.5	45.0	45.2	45.0	44.9
Total expenditure	46.6	45.0	45.0	43.7	44.0	43.9	43.8	43.5
of which: Interest	3.0	2.7	2.2	1.3	1.1	1.1	1.0	1.0
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-0.8**	**1.6**	**2.7**	**2.7**	**2.6**	**1.7**	**1.4**	**1.1**
Net financial assets; non-financial corporations	**-54.3**	**-59.7**	**-59.6**	**-56.3**	**-56.0**	**n.a**	**n.a**	**n.a**
Net financial assets; financial corporations	**-6.7**	**-0.1**	**12.8**	**12.2**	**14.1**	**n.a**	**n.a**	**n.a**
Gross capital formation	12.4	11.8	11.4	11.1	11.1	11.3	11.6	11.9
Gross operating surplus	24.2	26.8	25.4	25.2	25.0	24.8	24.9	25.1
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**4.8**	**5.8**	**5.0**	**5.2**	**5.1**	**5.1**	**5.1**	**5.1**
Net financial assets	**96.9**	**111.2**	**118.5**	**127.1**	**129.7**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	41.7	39.7	40.9	41.4	41.7	42.0	42.0	42.0
Net property income	12.4	14.6	13.0	11.7	11.4	11.5	11.4	11.4
Current transfers received	22.5	21.5	20.9	20.8	20.8	20.7	20.6	20.5
Gross saving	10.8	11.3	11.0	11.0	11.0	11.1	11.2	11.1
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**1.2**	**5.7**	**6.6**	**8.6**	**8.5**	**7.9**	**7.8**	**7.5**
Net financial assets	**2.7**	**-5.3**	**-20.2**	**-37.7**	**-44.4**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	3.0	5.6	5.8	8.0	8.0	7.6	7.6	7.4
Net primary income from the rest of the world	-0.6	1.5	2.2	1.8	1.7	1.8	1.8	1.8
Net capital transactions	0.0	-0.1	-0.1	0.0	0.0	-0.1	-0.1	-0.1
Tradable sector	42.8	43.0	42.5	42.7	42.4	42.5	n.a	n.a
Non tradable sector	47.6	47.1	47.5	47.4	47.6	47.6	n.a	n.a
of which: Building and construction sector	4.1	3.5	4.0	4.1	4.3	4.4	n.a	n.a
Real effective exchange rate (index, 2000=100)	106.3	102.9	101.1	101.3	102.5	105.1	108.0	108.1
Terms of trade goods and services (index, 2000=100)	101.1	100.0	98.4	102.1	103.7	102.7	102.4	102.1
Market performance of exports (index, 2000=100)	89.7	96.1	104.2	105.8	104.4	104.3	105.2	104.8

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 2018 spring forecast