

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft recommendation for a COUNCIL RECOMMENDATION on Germany's 2012 national reform programme and delivering a Council opinion on Germany's stability programme for 2012-2016.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 18 April 2012, **Germany** submitted its stability programme for the period 2012- 2016 and, on 12 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

The general government deficit in 2011 was below the 3% of GDP reference value of the Treaty. Moreover, the Commission's 2012 spring forecast projects the general government deficit to stay below the reference value of the Treaty and to further decline over the forecast period.

As a result, and in line with the provisions of the Stability and Growth Pact, on 30 May the Commission adopted a recommendation for a Council decision abrogating the decision on the existence of an excessive deficit under Article 126(12) of the Treaty.

Based on the assessment of the stability programme, **the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible.** The programme's projections for 2012-13 are broadly in line with the Commission's 2012 spring forecast as regards the pace and pattern of economic growth as well as labour market developments.

According to the programme, the objective of the budgetary strategy outlined in the programme is to meet **the medium-term budgetary objective (MTO) already in 2012 and to reach virtually balanced nominal budgets as from 2014**, starting from a nominal deficit of 1.0% of GDP in 2011, thus below the 3% of GDP reference value of the Treaty significantly ahead of the 2013 deadline. Gross debt is planned to increase by 0.8 pp. to 82.0% of GDP in 2012, before falling to 80% of GDP in 2013 and remaining on a downward path thereafter.

According to the Commission, the **main policy challenges** for the country are as follows:

- Additional efforts to improve efficiency in health care are necessary to contain expected further expenditure increases. The proposed reform of long-term care is also insufficient to cope with expected future cost increases. There is scope for improving the efficiency of the tax system.
- The federal government is well on track to meet its commitment to increase growth-enhancing spending on education and research. However, it remains important that also the Länder and municipalities, which bear the bulk of expenditure on education and research, ensure adequate and efficient spending in these areas.
- The introduction of the new constitutional debt brake has further strengthened the German fiscal framework. However, there has been no significant progress in the implementation of the budgetary rule at Länder level.
- Despite the overall relatively stable financial sector and the absence of a credit crunch, there remain weaknesses, in particular, the structural problems of some Landesbanken, notably the lack of a viable business model, weak governance structures and vulnerabilities due to a high degree of dependence on wholesale funding.
- The good performance of the German labour market, with increasing employment and moderate unemployment, has not benefited all participants to the same extent and wages have not always increased in line with productivity.
- Fiscal disincentives arising from the high tax wedge, in particular due to the high social security contributions, continue to hinder the integration of low-wage earners in particular into the labour market. Extensive use of mini-jobs leads to low acquisition of pension rights. Therefore, there is a need to improve the transition from mini-jobs to more stable forms of contracts. The low full-time participation of women in the labour force is a concern.
- Germany is pursuing a major reform of the energy system. The overall economic costs of transforming the energy system should be minimised.
- Competition in the passenger and freight rail markets remains very low, mainly due to the lack of effective separation between the infrastructure manager and the railway holding. Despite progress made in recent years, *inter alia* through the implementation of the Services Directive, there is scope to further stimulate competition and productivity growth in some services sectors (e.g. construction).

Recommendations proposed for Denmark for the period 2012-2013:

Budgetary measures:

- continue with sound fiscal policies to achieve the medium-term budgetary objective by 2012;
- implement the budgetary strategy as envisaged, ensuring compliance with the expenditure benchmark as well as sufficient progress towards compliance with the debt reduction benchmark;
- continue the growth-friendly consolidation course through additional efforts to enhance the efficiency of public spending on health care and long-term care, and by using untapped potential to improve the efficiency of the tax system;
- use available scope for increased and more efficient growth-enhancing spending on education and research at all levels of government. Complete the implementation of the debt brake in a consistent manner across all *Länder*, ensuring timely and relevant monitoring procedures and correction mechanisms;
- address the remaining structural weaknesses in the financial sector, *inter alia* by further restructuring of those *Landesbanken* which are in need of an adequately funded viable business model while avoiding excessive deleveraging.

Employment:

- reduce the high tax wedge in a budgetary neutral way, in particular for low-wage earners, and maintain appropriate activation and integration measures, notably for the long-term unemployed;
- create the conditions for wages to grow in line with productivity;

- take measures to raise the educational achievement of disadvantaged groups, notably through ensuring equal opportunities in the education and training system;
- phase out the fiscal disincentives for second earners, and increase the availability of fulltime child-care facilities and all-day schools.

Energy, markets:

- continue efforts to keep the overall economic costs of transforming the energy system to a minimum, including by accelerating the expansion of the national and cross-border electricity and gas networks;
- ensure that the institutional set-up guarantees effective competition in railway markets;
- take measures to further stimulate competition in the services sectors, including professional services and certain crafts, in particular in the construction sector.

These recommendations should be endorsed by the European Council on 28-29 June and formally adopted by the Council in July 2012.