Federal Ministry
of Finance

German
Stability Programme

2015 Update

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to the German Stability Programme for 2015

The member states of the European Union submit their medium-term fiscal plans to the European Commission and the Council of Economics and Finance Ministers (ECOFIN Council) by April of each year. Euro area member states prepare updated Stability Programmes in compliance with the provisions of the Stability and Growth Pact. All other European Union member states are required to submit updated Convergence Programmes in accordance with the terms of the Stability and Growth Pact.

The Federal Cabinet approved this update to the German Stability Programme on 15 April 2015. The programme follows the "Guidelines on the format and content of Stability and Convergence Programmes" (Code of Conduct). The federal government has submitted this update to the German Stability Programme to the competent expert committees of the German Bundestag as well as to the Finance Minister Conference (the body that represents the finance ministers of the *Länder*) and the Stability Council. After review by the ECOFIN Council, the respective Council Recommendation will likewise be submitted to these bodies.

In the past, the European Commission has viewed the federal government's financial plan as medium-term fiscal planning within the meaning of Article 4 of Regulation (EU) No 473/2013 on common provisions for monitoring and assessing draft budgetary plans. In addition, the Stability Programme includes the financial plans of all levels of government (federal government, *Länder*, local authorities and social security funds): this means that, by submitting the updated Stability Programme for 2015, the federal government is complying with its obligation to submit national medium-term fiscal plans in accordance with the above mentioned Regulation.

The Federal Ministry of Finance publishes the updated Stability Programme along the programmes for preceding years at:
http://www.bundesfinanzministerium.de

The programmes of all EU member states as well as the corresponding European Commission analyses and ECOFIN recommendations are published on the European Commission's website at:
http://ec.europa.eu/economy_finance/economic_governance/sgp/convergence/index_en.htm

1. Summary

The German Stability Programme for 2015 makes clear that the federal government, through its decisive policy action, has succeeded in placing the public finances back on the right track. The general government budget, comprised of the Federation, *Länder*, local authorities and social security funds, generated a small surplus for the third year in a row in the year 2014. This made it possible to significantly reduce total government debt from its high in the year 2010. The debt still amounted to 74.7% of gross domestic product (GDP) at the end of the year 2014 and is expected to decline to 71½% during the current year. Based on current plans, the debt ratio is expected to decline consistently and should fall below the Maastricht upper limit of 60% of GDP by the year 2023 at the latest. The ratio is already expected to fall below the 70% mark in the year 2016. Germany has already completely achieved all additional fiscal policy goals established in the prior year's Stability Programme.

The federal government had been successful in balancing the federal budget without new borrowing in the year 2014, doing so one year earlier than planned. The Bundestag adopted a balanced budget for the current year on 28 November 2014 that is likewise intended not to require additional borrowing. This applies to the draft supplementary budget for the year 2015. The federal government intends to hold fast to its goal of "zero new borrowing" for the federal budget over the long term: It renewed this commitment for the years from the year 2016 onwards when it adopted its fiscal policy benchmarks on 18 March 2015.

Germany is determined to continue to satisfy all national and European fiscal requirements. The medium-term objective (MTO) of a general government structural deficit no higher than 0.5% of GDP will be maintained with an adequate safety margin. Germany's economy is strong – economic growth is above the growth trend and employment will once again set a new record this year, with more than 42.8 million. In addition, continued low interest rates have made the budgetary consolidation process easier in Germany, as is likewise the case for other euro area member states. Germany intends to take advantage of the exceptionally favourable conditions in a targeted manner and will continue its fiscal policy reform efforts in order to be well positioned for the normalisation of the global economic and financial environment. This is an important guiding principle of Germany's fiscal policy strategy.

An additional objective is to successfully institutionalise the approach of growth-friendly consolidation. By following this strategy, the federal government is creating financial leeway so as to be able to create forward-looking public budgets. For example, the federal government decided to once again significantly increase the share of investments, and thus the focus on growth, in the federal budget. In addition, the federal government is providing relief to the *Länder* and local authorities so that they are able to contribute their respective shares to the future-oriented sectors of education, research and infrastructure.

Specific measures to stimulate growth are presented in detail in the 2015 National Reform Programme (NRP). The NRP was adopted by the federal government on 1 April 2015 and will be presented to the European Commission and the ECOFIN Council in the month of April. The Programme likewise discusses Germany's progress in the context of the Europe 2020 strategy for growth as well as its progress in implementing the country-specific recommendations made by the European Council in the year 2014. In addition, the NRP reports on the implementation of the Action Programme 2014 for the Euro Plus Pact. Measures included in the NRP that have a fiscal impact are part of the Stability Programme's fiscal strategy and public budget projection.

2. Macroeconomic environment in Germany

Short- and medium-term outlook for the overall economy, 2015-2019

In the year 2014, the German economy was able to post positive results despite a difficult economic environment. Economic indicators support the expectation that growth in overall economic activity will continue during the first months of the current year. The economic environment likewise remains favourable for companies (favourable financing conditions, strong prospects for business profits). Low prices for crude oil are also likely to support growth as they represent a direct cost reduction for companies on the one hand and strengthen the purchasing power of consumers on the other. Low euro exchange rates are also stimulating exports. In its annual forecast for the current year, the federal government expects real GDP to grow by 1.5%. Economic growth is thus slightly higher than growth of potential output.

In the year 2015, domestic demand will be – in arithmetic terms – the main pillar for economic growth. Private consumption is projected to increase by 1.6% in real terms, which will once again make it a key driver of growth. This development represents the result of continued gains in employment as well as positive income trends. Gross wages and salaries per employee are expected to expand slightly stronger than the year before (+2.7%) by 3.2%. Total gross wages and salaries will increase by 3.7% accompanied by continued expansion in employment levels. Net wages and salaries per employee will increase at a somewhat slower rate than the corresponding gross wages (+2.6%). Due to this development as well as the increase of social benefits other than social transfers in kind and rising income from self-employment and property households' disposable income is likely to increase at an accelerated rate of 2.7%. In conjunction with the moderate rate of inflation, this will boost consumer purchasing power. Government consumption is also likely to support growth this year.

Despite favourable financing conditions, companies are expected to increase gross fixed capital at only moderate rates as the export market is recovering only gradually. Uncertainties related to geo-political crises remain a restraining factor. In addition, production capacity within the German economy remains slightly underutilised so that investments in order to expand capacity will remain at low levels. Construction investment is also expected to grow only at moderate levels for the year 2015. Residential construction is expected to provide a boost in this respect – bolstered by a strong employment market, increases in household income and low interest rates. This sector is expected to expand at a faster pace than non-residential construction.

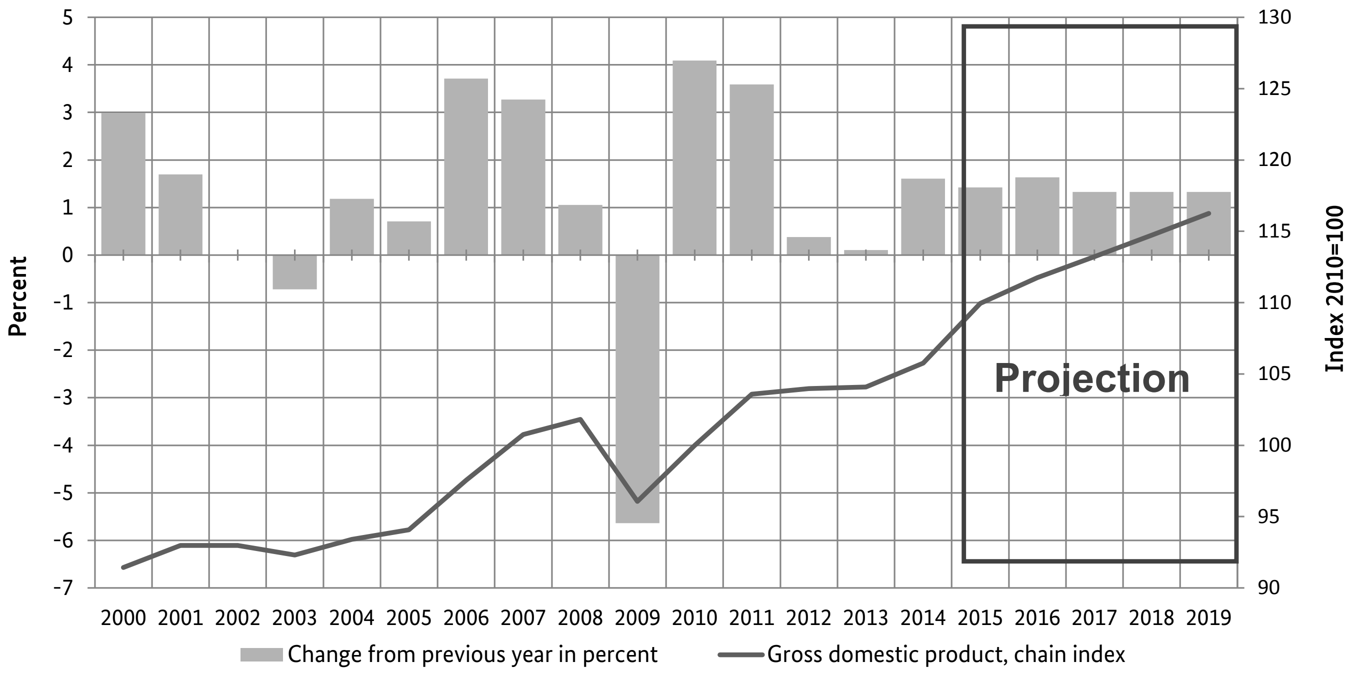
International organisations expect the global economy to grow at slightly higher rates than in the year 2014. In the light of moderate growth levels and continued geopolitical risks, real exports are expected to rise at a rate of 3.6% this year. This presumes slightly positive stimulus from the recovery in the euro area. The euro / dollar exchange rate will also likely benefit exports to some extent. Growth in imports will be bolstered by rising exports and the marked expansion in domestic demand, in particular on the consumer side. In arithmetic terms, the contribution of net exports to growth is forecasted to be very low.

The labour market continued to develop well during the past year. Employment expanded further (annual average for 2014: +371,000; +0.9%), whereas unemployment declined (-52,000). This year, unemployment is expected to decrease slightly (2015: -40,000). Employment is expected to rise by 0.4% (+170,000).

Inflation is at moderate levels in Germany. The consumer price index rose only slightly during the past year (+0.9%). Inflation was moderated in particular by declining energy prices. A slight increase is expected for the current year. At 1.4%, the core inflation rate is expected to be slightly above the long-term average. Deflationary trends are thus not to be expected.

GDP grew at a slightly faster rate than overall the potential output for the year 2014. Accordingly, the negative output gap has narrowed only slightly compared with the year 2013. The output gap is expected to decline only slightly once again in the current year due to the expected growth rates during the short and medium term. For the year 2016, the federal government projects aggregate economic activity to expand by 1.6%. The medium-term forecast for the period 2017-2019 assumes average growth in GDP of just above 1¼% as well as positive trends in the labour market on average. Employment levels are expected to rise accordingly to some 43.1 million by the year 2019. Potential growth is forecasted to be around 1¼% for the medium term period 2017–2019. The negative output gap is accordingly expected to close by the end of the medium-term forecast period.

Figure 1: Gross domestic product, in real terms



3. German fiscal policy in the European context

3.1 Requirements of the Stability and Growth Pact, Fiscal Compact and ECOFIN Council Conclusion

The Stability and Growth Pact establishes upper limits for budget deficits and debt ratios. Compliance with these limits, and thus healthy public finances, create the conditions for price stability and strong, sustainable growth in Europe. Germany is subject to the "preventive arm" of the Stability and Growth Pact, as its key fiscal benchmarks comply with the guidelines of the Stability and Growth Pact. In particular, this means: Deficit levels are safely below the upper limit for a nominal budget deficit of 3% of GDP and sufficient progress is being made toward attaining the debt ratio reference value of 60%.

The preventive arm of the Stability and Growth Pact defines its MTO of a budget close to balance or in surplus. According to the provisions of the preventive arm, each of the member states of the Economic and Monetary Union sets a MTO for its structural general government balance. The structural government balance is determined by adjusting actual net borrowing to account for cyclical effects and one-off effects. The country-specific MTO represents a binding minimum target and, pursuant to the "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union" (Fiscal Compact), may not exceed a structural deficit of 0.5% of GDP for member states with a debt ratio above 60% and which are exposed to risks to the long-term sustainability of their public finances. Germany sets this upper limit in its Stability Programme.

The requirements of the preventive arm of the Stability and Growth Pact are supplemented by an expenditure rule. This rule limits growth in expenditures for member states that are making progress with respect to adjustments needed for their MTO or have just achieved this objective. The expenditure rule is not binding if the MTO has been (over)achieved and compliance is not at risk throughout the entire programme period.

The so-called "corrective arm" of the Stability and Growth Pact establishes limits on deficits and debt ratios. It requires not only a deficit of less than 3% of GDP but also consistent reduction in debt ratios to the Maastricht reference value of 60% of GDP (1/20 rule).

Germany met the quantitative requirements set in the Stability and Growth Pact in their entirety last year. Nonetheless, in its response to the 2014 Stability Programme the ECOFIN Council requested that Germany make institutional adjustments. These adjustments are based on the new requirements set out in the Two-Pack Regulation and the implementation of the Fiscal Compact. Germany has established an independent advisory board to the Stability Council in order to increase the independence of the Stability Council. The independent advisory board supports the Stability Council in monitoring compliance with the upper limit on the general government structural deficit. The European Commission notes in its 2015 Country Report on Germany that Germany has not established an independent institution that prepares or assists in preparing macroeconomic forecasts (p. 59). The European Commission did not criticise the quality of the federal government's macroeconomic forecasts, but rather the formal implementation of Regulation (EU) No 473/2013. The federal government is currently reviewing options to address this shortcoming as well as suitable changes.

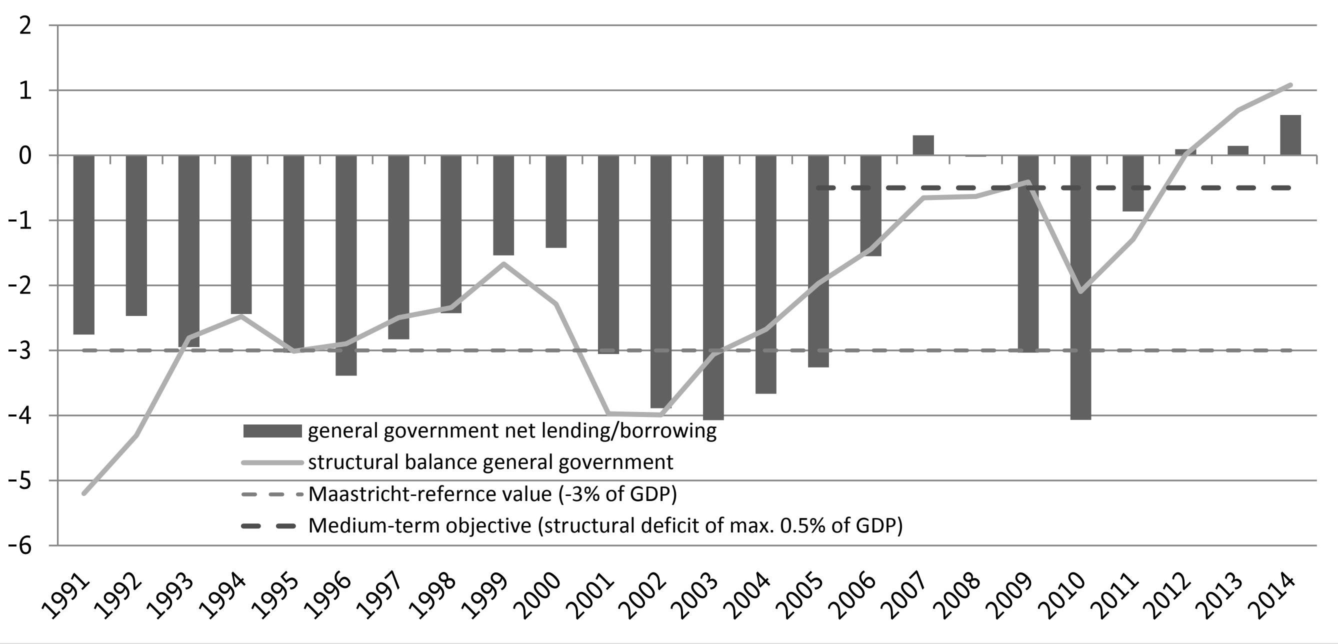
In its February 2015 conclusion, the ECOFIN Council confirmed that differentiated growth-friendly consolidation and ensuring long-term sustainability of public finances represent priorities for the European Union and its member states. The Council welcomed the considerable progress made with fiscal consolidation by many member states. Aggregate debt ratios in the European Union and the euro area are likely to decline starting next year. At the same time, the ECOFIN Council emphasized member states' obligation to comply with the provisions of the Stability and Growth Pact and to anchor these policies in effective national governance frameworks to enhance confidence. In addition, the ECOFIN Council called for greater emphasis to be placed on the quality and composition of fiscal adjustments as well as on the influence that fiscal policy has on growth. In March 2015, the European Council confirmed that the member states should design their reform plans to reflect the three priorities of growth-friendly consolidation, structural reforms and investment.

3.2 Fiscal situation and strategic direction in Germany

Germany is in full compliance with European guidelines on fiscal policy. Nominal and structural net borrowing both fall within permitted limits and the debt ratio is being reduced in accordance with applicable guidelines. Germany's fiscal policy serves as a stabilising factor not only for the domestic economy but also for Europe in general in light of its focus on pro-growth consolidation. Germany's economy is strong – economic growth is above the growth rate of potential output and employment will once again set a new record this year, with an active workforce of more than 42.8 million. In addition, continued low interest rates have made the budgetary consolidation process easier in Germany as is likewise the case for other euro area member states. Germany intends to take advantage of the exceptionally favourable conditions in a targeted manner and will continue its fiscal policy reform efforts in order to be well positioned for the normalisation of the global economic and financial environment. This is an important guiding principle for the fiscal policy strategy laid out in this Stability Programme.

For the third year in a row, Germany achieved a general government budget balance (Federation, *Länder*, local authorities and social security funds, including their extra budgetary units) without a deficit in the year 2014. The nominal net lending in the year 2014 comprises +0.6% of GDP. From a structural standpoint, the general government budget showed a surplus as well, it amounts to 1.1% of GDP for the year 2014. Budget surpluses are a prerequisite for the long-term reduction of the debt ratio to levels below the Maastricht upper limit of 60% of GDP.

Figure 2: Actual and structural general government balance (in % of GDP)



1995: Excluding asset transfers associated with the assumption of the liabilities of the Treuhandanstalt, an agency charged with liquidating assets formerly owned by the East German government, and of the residential construction enterprises of the former East Germany. Inclusive of these effects, the total government deficit amounted to 9.3% of GDP.
2000: Excluding UMTS revenue. Inclusive of these effects, the government budget showed a surplus equal to 1.0% of GDP.

At 74.7% of GDP, the debt ratio indeed remained significantly above the Maastricht upper limit at the end of the year 2014; however a comparison with the crisis years shows that the consolidation strategy is working and the ratio has already been reduced significantly. The ratio sank markedly during the past year – declining by 2.4 percentage points. Accordingly, the ratio has fallen by more than 6 percentage points in total from its high in the year 2010. As a result, Germany is in compliance with the 1/20 rule that has been in effect since the the year 2011 revisions to the Stability Pact. This rule provides that debt levels must be reduced by at least one twentieth of the current excess debt ratio measured against the Maastricht upper limit of 60% of GDP on an average annual basis. During the current three-year period (2012–2014), this goal was achieved on an annual average basis, albeit with temporary deviations due to provisions established in light of the sovereign debt crisis in Europe: specifically the debt ratio has declined since the year 2013 following a slight increase in the year 2012. Nonetheless, it is still significantly above the figure for the year 2008, i.e. at the start of the financial crisis (when the debt ratio stood at 65.1% of GDP).

At the start of the 2013 legislative period, the governing coalition agreed to reduce the debt ratio to below 60% of GDP within ten years at most and to less than 70% by the end of the year 2017. Germany has already committed itself to reduce its general government debt ratio to below 70% by the year 2016 in the context of the Euro Plus Pact.

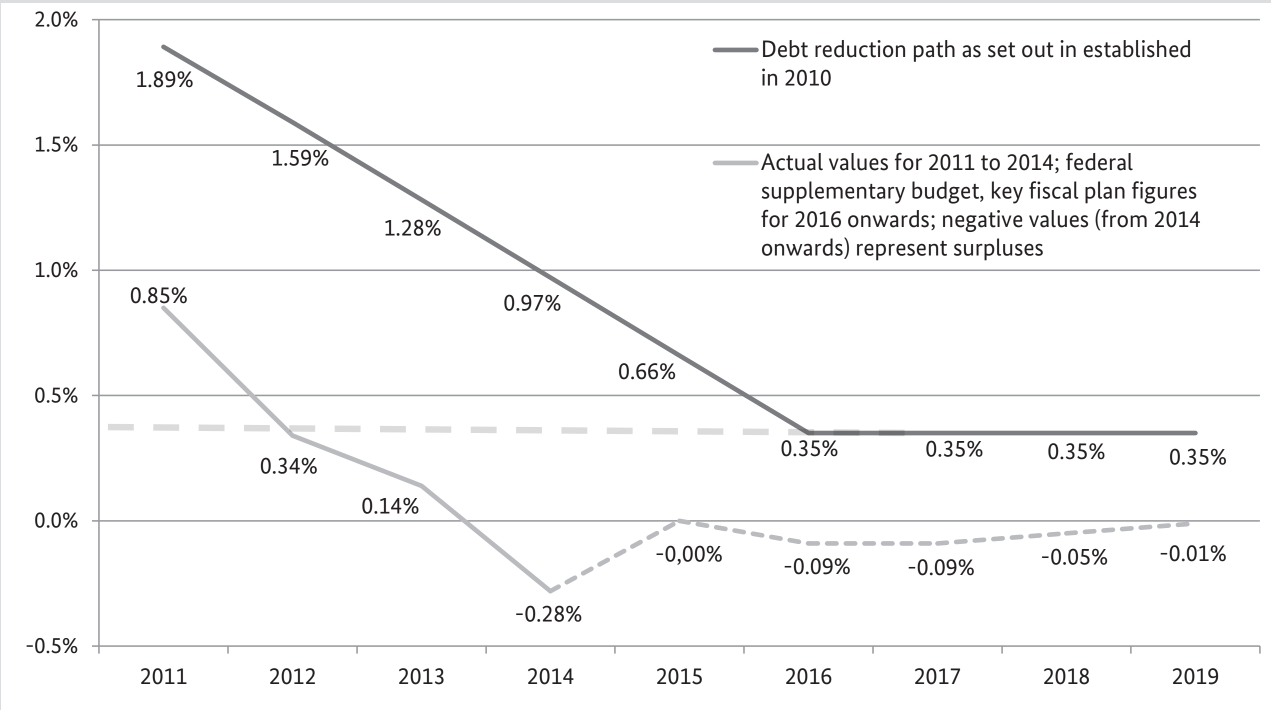
This policy satisfies both the requirements of the Stability and Growth Pact and the country-specific recommendations of the ECOFIN Council, which call for general government debt levels to be on a sustained downward trajectory. By slightly overachieving the MTO, the federal government is complying with the imperative of accelerating the obligatory reduction in debt levels during favourable economic periods. On the one hand, budget surpluses also comply with the goals of the Stability and Growth Pact and, on the other, significant expansive fiscal policies in Germany would be pro-cyclical in light of historically low unemployment levels and the near closure of the output gap. This is the case because the MTO and the provisions of the 1/20 rule comprise minimum requirements. They are not guidelines that define a range that shall be exploited. Significant reductions in debt levels are of great importance to Germany not in the least in light of demographic change. Demographic change brings with it significant medium and long-term challenges for the sustainability of public finances. Accordingly, the federal government is addressing these challenges at an early stage. Sound public finances are the foundation for a state's ability to act effectively over the long term and the basis for private investment decisions.

The federal government has set for itself the goal of halting new borrowing on a permanent basis and thereby to make a decisive contribution towards reducing the debt ratio. Already in the 2014 fiscal year, the federal government succeeded in executing a budget without new borrowing for the first time since the year 1969: this key target was achieved one year ahead of schedule. The 2015 federal budget adopted by the Bundestag on 28 November 2014 is likewise balanced without new borrowing, as is the draft supplemental budget for the year 2015. The federal government has also undertaken to do without new borrowing in subsequent years as well.

The Federal Cabinet confirmed this commitment once more on 15 March 2015 when it adopted the benchmark figures for the 2016 federal budget and the financial plan for the fiscal years through 2019.

In this way, the Federation is making a significant contribution to the positive developments on all levels of government. The federal government has reduced the Federation's structural debt consistently and permanently. The guidelines for the debt brake applicable to the Federation are thus being complied with by a wide margin. The federal budget has even realised a slight structural surplus since the year 2014 (see Figure 3). This development has set the course for long-term, sustainable public finances. At the same time, the Federation is using fiscal leeway it has gained in order to set priorities for future-oriented expenditures on education and research as well as pro-growth public infrastructure projects.

Figure 3: Federation's structural deficit (in % of GDP)



The funding balance of the "*Aufbauhilfefonds*" (special relief fund established to deal with damage caused by floods in May and June 2013) and that of the "*Kommunalinvestitionsförderungsfonds*" (special fund to promote investment at the local authority level), both of which are relevant for determining the Federation's structural deficit, are not reflected in the 2015-2019 projection period. It cannot currently be predicted when and to what extent the funds' remaining resources will be disbursed.

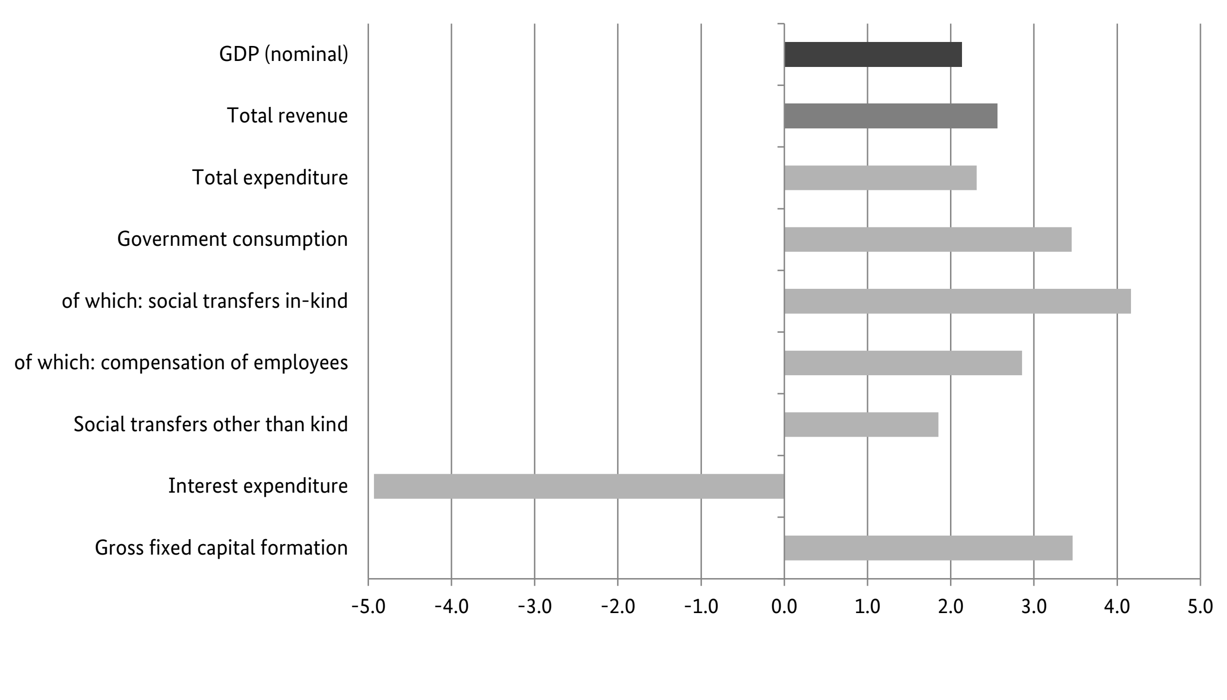
3.3 Fiscal policy measures on the expenditure and revenue side

Growth-friendly consolidation has paid off for Germany. Over the course of the past several years, Germany's progress in consolidating public finances has been accompanied by a robust upward trend in the economy. This trend has been reflected in particular in significant gains in employment. Germany has therefore given itself scope to combine its consolidation goals, which are both necessary and realistic, with targeted investments. By focusing on the future in this manner, Germany has improved the quality of its public expenditures and provides support for growth drivers in the German economy. In doing so, Germany is complying with the country-specific fiscal policy recommendations from the European Council of July 2014 that it retains its pro-growth fiscal policies and its sound budgetary position.

Existing latitude will continue to be exploited in the interest of pro-growth consolidation in order to increase expenditures in growth-related areas on a targeted basis. However, decisions are not made centrally in Germany regarding the use of the funds. Budgetary autonomy on the part of the Federation and the *Länder* is constitutive for the structure of the German federal state. Thus the decisive factor, for both the development as well as the structure of expenditures, is to set budget priorities at all levels of government.

A long-term analysis reveals the positive relationship between budget consolidation and increased investment activity. During the years from 2008 to 2014, gross government investment rose by 3.5% on average and thus significantly more than public expenditures as a whole (which rose by 2.3%, see Figure 4). Accordingly, consolidation was not achieved to the detriment of investment. On the contrary, successful efforts at consolidation first created new room for investment.

Figure 4: Average annual trends in general government revenue/expenditure and GDP trends from 2008 to 2014 (in %)



The federal government has decided to place an even greater focus on future-oriented expenditures in the federal budget. Through the year 2017, the federal government will make an additional total of €5 billion available for transportation infrastructure. For the years 2016 to 2018, the Federation will once more make significant additional funds available for public investments totalling €10 billion. Of this amount, €7 billion is intended for increased investments in public transportation infrastructure, for efforts to increase energy efficiency, promoting digital infrastructure, climate protection and programmes to promote urban development. An additional €3 billion will be provided to all line ministries dedicated for future-oriented expenditures. In line with the recommendations of the European Council, Germany is thus using leeway at its disposal for higher and more efficient public investments.

In addition, the federal government provides support to the *Länder* and local authorities in creating additional leeway to make additional public investments in the form of comprehensive and targeted financial relief. The Federation has already provided significant relief to the *Länder* and local authorities, for example in the form of the complete takeover of subsistence income for the elderly and in the case of reduced earning capacity. During the current legislative period, the Federation will provide relief to the *Länder* and local authorities totalling €6 billion so that they are better able to address challenges in providing funding for pre-school childcare facilities, schools and higher education institutions. Furthermore, the Federation will make funds totalling €3 billion available for non-university research institutes, the Higher Education Pact, the Pact for Research and Innovation and the Initiative for Excellence. Additionally, local authorities will receive a supplemental €1 billion annually for the years 2015 to 2017 prior to the planned enactment of the Federal Act on Benefits for Persons with Disabilities *(Bundesleistungsgesetzes für Menschen mit Behinderungen – Bundesteilhabegesetz).* In addition, the Federation will provide the local authorities with a further €5 billion in coming years. Of this sum, €1.5 billion is intended to provide the local authorities with additional latitude to make investments. The remaining €3.5 billion will flow into a special fund, the funds of which are intended to promote investments in financially weak localities. These measures likewise satisfy country-specific recommendations for Germany from 2014. These include, inter alia, measures to increase investments in education and research as well as ensuring appropriate public investments at all levels of government.

According to the country-specific recommendation of the European Council, the government revenue side continues to make a contribution to pro-growth fiscal policy. A reliable tax system and targeted relief ensure that businesses are competitive and strengthen the purchasing power of the population.

In the income tax context, the federal government will increase the basic personal allowance and the child allowance in accordance with the tenth report on the subsistence minimum. Child benefits will be increased by a like amount during the years 2015 and 2016 to support families to which the tax exemption for children does not yet apply. In addition, the supplementary child benefits for low-income families will be increased starting July 2016. The coalition partners comprising the federal government have additionally included a commitment in the coalition agreement to increase the relief allowance for single parents and to include tiers based on the number of children. An increase in the relief amount for single parents is currently under review.

Furthermore, the federal government is working on gradually increasing the efficiency of the tax authorities. New technical and economic parameters, a changed global environment, demographic trends in society and available staffing levels at the tax authorities increasingly have an influence on the system of taxation. The federal government sees a need to re-design and modernise procedures at the tax authorities. This view is shared by the *Länder*. All parties to the process should benefit from the ability to utilise resources on a more targeted basis. Legal, technical and organisational adjustments are needed in order to implement the “Modernisation of the Taxation Procedure” package. These will be gradually implemented starting in the year 2015.

It remains the case that inheritance and gift taxes may not be permitted to endanger business succession, also in light of a ruling from the Federal Constitutional Court on this issue. The federal government has set as its goal creating rules that are constitutionally sound and at the same time are friendly to medium-size enterprises without, however, attempting to implement a fundamental change in tax model. This is intended to ensure a smooth transition between generations within companies and to preserve jobs.

The federal government likewise views the enactment of measures to combat transnational profit shifting on the part of international companies as a central tax policy objective for the current legislative period. Accordingly, it is actively working with its partners in the G20 on the continued development of international standards as part of the OECD initiative on “base erosion and profit shifting” (BEPS). A focal point of this initiative is better coordination amongst national tax systems in order to close tax loopholes and to prevent harmful tax competition between countries.

Furthermore, Germany is supporting the development of a global standard on automatic exchange of information on financial accounts. Fifty-one countries signed a binding treaty on this topic in October 2014. The automatic exchange of information starts in the year 2017 and is intended to be established as an international standard in order to contain tax flight and evasion through the elimination of banking secrecy. Within the European Union, the new standard is to be implemented via Council Directive 2011/16/EU on administrative assistance that was subject to revision in December 2014.

3.4 Germany's voluntary fiscal policy commitments within the Euro Plus Pact

Germany satisfied two core voluntary fiscal policy commitments from the 2014 Action Programme for the Euro Plus Pact in the form of its successful budget consolidation and additional public investments. The 2015 Action Programme is codified in Germany's 2015 NRP. The federal government adopted the NRP on 1 April 2015. The German Action Programme includes the following voluntary fiscal policy commitments:

- Germany will continue its pro-growth consolidation policies. The overall debt ratio should be reduced to below 70% of GDP in the year 2016, and thereby one year earlier than originally planned.

- The federal government will increase its expenditures for public investments in the federal budget, with the objective of improving conditions for private investments as well. As part of a €5 billion investment package for the current legislative period, it will invest an additional €1 billion in the year 2015 for the maintenance and expansion of efficient transportation infrastructure. In this context, €300 million are allocated to the rail segment, €600 million to the road segment and €100 million to waterways. Between the years 2016 and 2018, the federal government make available additional funds totalling €10 billion for investments compared with financial budgeting prepared in July 2014. The funds are intended for investments in public infrastructure and energy efficiency in particular. In addition, it will establish a local capital investment programme comprising some €3.5 billion. These increases in investment expenditures will be made without new borrowing.

- The federal government will use the whole of the Federation's share of the revenue generated by the allocation of frequencies in the 700 MHz band in the second quarter of the year 2015 for a separate development programme to provide targeted support for the expansion of broadband coverage to currently underserved rural areas.

- By the end of the current year, Germany will fill regulatory gaps in the "grey capital market". The objective is to further increase transparency related to financial products and investments so that investors receive complete and current information regarding their investment and may be in a better position to evaluate seriousness and chances of success. Supervisory mechanisms are intended to be expanded in conjunction with these efforts.

4. Projection of general government budget balance and debt level

Germany has set a structural balance[1] of -0.5% of GDP as its MTO. This minimum target should be consistently fulfilled throughout the forecast period up until the year 2019. The debt ratio, which increased considerably in the wake of the financial crisis and the European sovereign debt crisis, will be reduced continually up until the end of the forecast period.

4.1 Trends in general government revenue and expenditure

Revenue ratio will remain stable

Revenue continued to be subject to robust growth during the past year, rising by 3.6%. This reflected favourable employment levels in particular. However various one-time effects were included as well: Bundesbank profits were significantly higher year-on-year. In addition, equalisation payments from the European Union based on changes to the calculation base for contributions to gross national income own resources were already included for statistical purposes in the year 2014 even though payments were not received until the year 2015.

As was the case for 2013, the tax ratio for the year 2014 amounted to 22.7% of GDP. Tax revenue (+3.5%) rose only slightly faster than nominal GDP (+3.4%). At around 51%, tax revenues represent the largest share of general governmental income, followed by social security contributions, which comprise the second largest component at 37%.

During the forecast period upto the year 2019, tax revenue is expected to continue to grow (more than 3.5% p.a.) at a somewhat faster rate than growth in nominal GDP (3.4%). The tax ratio will accordingly rise to around 23% of GDP by the year 2019. This is due both to rising incomes as well as to the fact that domestic demand, which is more tax-intensive, will make a larger contribution to overall economic activity than net exports. The year 2016 will represent an exception as increases in tax revenue will be below average due to changes in tax laws (in particular, draft legislation to raise the basic personal income tax allowance, the tax-free child allowance, child benefit and supplementary child allowance).

In line with the trend for the tax ratio, revenue from social security contributions likewise stabilised at a level of 16.6% of GDP for the year 2014 when compared with the prior year. The contribution rate

1. Where not otherwise specified, all data are based on the 2010 European System of National Accounts definition (Maastricht definition). The individual levels cover the core budget and off-budget entities.

for statutory pension insurance was reduced from 18.9% to 18.7% as of the start of the year 2015 and the contribution rate for long-term care insurance was raised by 0.3 percentage points. In addition to further increases in the contribution rate for long-term care insurance in the year 2017, the MTO projection of the general budget likewise reflects adjustments to contribution rates that will be required, inter alia, once existing reserves have been exhausted.

The revenue ratio – which also includes other government revenue such as fees and revenue from business activities (e.g. profit transfers from the Deutsche Bundesbank) – is projected to become stable at around 44% because other revenue is expected to grow somewhat slower than GDP in the coming years.

Expenditures will increase on average at a lower rate than nominal GDP in the 2014–2019 period

In the year 2014, government expenditures rose by 2.5% and thus considerably more slowly than government revenue. This trend was once more driven in large part by social benefits in kind which grew by 5.5%. Interest expenditure had a strong dampening effect on expenditure trends, falling by 10.2% compared with the previous year in light of exceptionally low interest rates in the capital markets.

General government expenditure is expected to rise by an average of around 3% per year during the projection period. Government consumption is expected to rise more than average, by 3½% per annum. The projected increase is mainly driven by the continuing increase in benefits in kind, which will average almost 4½% per annum.

Table 1: Trends in the government revenue ratio

	2014	2015	2016	2017	2018	2019
			- in % of GDP -			
Taxes	22.7	22 ¾	22 ¾	22 ¾	22 ¾	23
Social contributions	16.6	16 ½	16 ½	16 ½	16 ½	16 ¾
Taxes & social contributions	39.3	39 ¼	39 ¼	39 ¼	39 ½	39 ¾
Total revenue						
April 2015 Update	**44.6**	**44 ¼**	**43 ¾**	**44**	**44**	**44**
April 2014 Update	44 ½	44	44	44	44	-

Any differences between the “tax and social contribution ratio” and the sum of the “tax ratio” and the “social contribution ratio” are due to rounding; projection figures are rounded to 1/4 percentage points of GDP.

Gross capital formation will also expand by more than average during the projection period, by about 4½% per year. This is the result of federal government resolutions aimed at strengthening investment activity. In contrast, expenditures for employee compensation are projected to rise at a below-average rate of about 2% per year. Trends in expenditure continue to benefit from the availability of favourable financing terms, whereby normalisation of the conditions prevailing on the international financial markets will, however, cause interest rates on sovereign debt instruments to rise once more.

In the medium term, a projected increase in expenditure at a lower rate than nominal GDP will cause the government expenditure ratio to decline: By the end of the projection period, government spending as a share of GDP is expected to be around 43½%. Only then the government expenditure ratio would have been reduced to its 2008 level again (i.e. the level at the onset of the financial crisis).

Figure 5: Average annual trends in general government revenue and expenditure and GDP trends from 2014 to 2019 (in %)

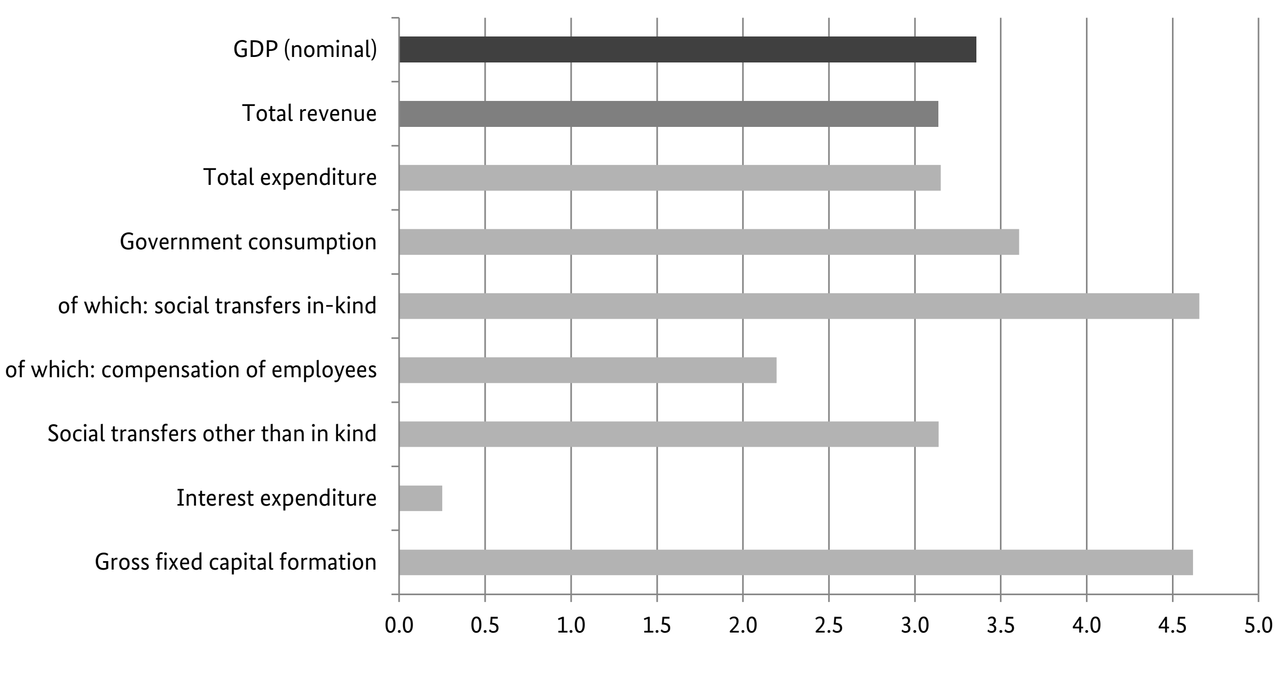


Table 2: Trends in the government expenditure ratio

	2014	2015	2016	2017	2018	2019
			- in % of GDP -			
April 2015 Update	**43.9**	**44**	**43 ¾**	**43 ¾**	**43 ½**	**43 ½**
April 2014 Update	44 ½	44	44	44	43 ½	-

Figures for the projection period are rounded to 1/4 percentage points of GDP.

4.2 Trends in the general government fiscal balance

General government fiscal surplus set to decline

In the year 2014, Germany achieved a budget without a deficit for the third year in a row. Following a general government fiscal surplus of 0.1% in both years 2012 and 2013, the balance was +0.6% of GDP in the year 2014. There is an ample safety margin in place in relation to the Maastricht limit of a maximum deficit ratio of 3% of GDP.

According to the projection, the fiscal surplus will decline in the years 2015 and 2016. The primary cause for this downward trend – also in comparison with the 2014 Stability Programme – is the financial situation of the social security funds. The systemic-based reduction in existing reserves – especially for the statutory pension insurance – exerts strong downward pressure on the surplus in the general government fiscal balance. The surplus for the year 2014 was likewise shaped by extraordinary factors that had either no effect or a contrary effect on the current year. For example, profit transfers from the Deutsche Bundesbank were significantly lower in the year 2015 than was the case in the year 2014. In addition, equalisation payments from the European Union based on changes to the calculation base for contributions to gross national income own resources were already reflected in the balance of accounts in the year 2014 according to the origination principle even though payments were not received until the year 2015. For the year 2016, the surplus is expected to decline further, approaching a nearly balanced budget as expenditures and deficits relevant to general government expenditure are to be expected in relation to special-purpose funds of the Federation (inter alia, local investment development funds (*Kommunalinvestitionsförderungsfond*), special fund for final payments on inflation-indexed federal securities (*Vorsorgefonds für die Schlusszahlungen für inflationsindexierte Bundeswertpapiere*) and reconstruction development funds (*Aufbauhilfefond*), whereas no significant additional progress in the area of budgetary consolidation is expected at the territorial authorities. In the following years of the projection period, a gradual improvement in the fiscal balance is expected, provided favourable economic and fiscal policy conditions continue to apply.

Table 3: Trends in the general government balance

	2014	2015	2016	2017	2018	2019
			-in % of GDP-			
April 2015 Update	**0.6**	**¼**	**0**	**¼**	**¼**	**½**
April 2014 Update	0	0	0	½	½	-

Figures for the projection period are rounded to 1/4 percentage points of GDP.

No deficits at all government levels in 2014

In the year 2014, all government levels were able to contribute to the general government fiscal surplus, posting positive balances in each case; this had already been projected in the update to the 2014 Stability Programme. To date, this is the only time this has occurred since German reunification.

At 0.4% of GDP, the Federation posted the highest surplus of all government levels in the year 2014. For the Federation, this also represents the first positive fiscal balance since the year 2000. However, in the year 2000 this was only realised due to one-time revenue from the sale of UMTS licenses.

On the *Länder* level too, a fiscal surplus was realized in the year 2014 for the first time since the year 2007, even if, at 0.1% of GDP, it was lower than that of the Federation. Local authorities, in total, were able to generate a surplus for the fourth year in a row. However, in the year 2014, the surplus at the local level was somewhat weaker in year-over-year terms; this was also the result of the significant expansion of investments which rose by 5.6%. The social security funds were even able to generate a surplus in the year 2014 for the fifth year in a row.

Projections from the federal government anticipate that the Federation, *Länder* and local authorities will be able to solidify their success in consolidation by the year 2019. At the federal level, the key figures for fiscal planning up until the year 2019 adopted by the cabinet on 18 March 2015 envisage a budget without new net borrowing at all (from a fiscal statistical perspective). In the coming years, a slight surplus is expected at the federal level (including statistically-attributed extra budgets), supported by the sustainable consolidation of the Federation's core budget and buoyed by the declining interest burden. Nonetheless, the surplus is expected to decline markedly in the years 2015 and 2016 due to the special factors referred to above. The *Länder* and local authorities will be able to retain the surpluses they achieved in the year 2014, albeit to greatly varying degrees.

The social security funds will report small deficits for the years 2015 to 2018 probably. The expansion of benefits provided by the statutory pension insurance programme as of 1 July 2014 adopted as part of the federal government's pension packet are making themselves felt. The surpluses from past years, in particular in the statutory pension and health insurance, resulted in the creation of large reserves. Increases in contribution rates will not be necessary for as long as deficits in the pension insurance programme can be funded by reducing the reserves.

Table 4: Budget balances by government level

	2014	2015	2016	2017	2018	2019
			- in % of GDP -			
Central government	0.4	¼	0	¼	¼	¼
State government	0.1	¼	¼	¼	¼	¼
Local government	0.0	0	0	0	0	0
Social security funds	0.1	-¼	-¼	-¼	-¼	0
General government	**0.6**	**¼**	**0**	**¼**	**¼**	**½**

Figures for the projection period are rounded to 1/4 percentage points of GDP.

4.3 Trends in the general government structural balance

Medium-term budgetary objective will be met on a sustained basis

Germany has complied with the MTO of a general government structural deficit of a maximum of 0.5% of GDP since the year 2012. Last year, the structural balance for the Federation, *Länder*, local authorities and social security funds was 1.1% of GDP. In order to determine the structural balance, the nominal balance is adjusted for cyclical influences pursuant to the common EU method. In addition, one-time effects are not considered in the structural balance. In the year 2014, the one-time effect related to the second adjustment programme for Greece, approved in November 2012, continued to have an impact.

Germany's structural fiscal balance will continue to show a surplus over the whole projection period. Germany will meet its medium-term budgetary objectives in the 2015–2019 period. The perceptible decline in the structural fiscal balance in the years 2015 and 2016 to ¼% of GDP shows that fiscal policy is exerting a slightly expansive effect. Only in the medium term, a structural surplus of ½% of GDP is to be expected again. Given that Germany will continue to more than fulfil its MTO, the expenditure rule of Article 5 of Council Regulation (EC) No 1466/97, in accordance with the "Specifications on the implementation of the Stability and Growth Pact" is not binding

Table 5: Structural balance compared with actual balance and GDP trend

	2014	2015	2016	2017	2018	2019
Structural balance (% of GDP)	1.1	¾	¼	½	½	½
Actual balance (% of GDP)	0.6	¼	0	¼	¼	½
Real GDP (% change yoy)	1.6	1.5	1.6	1.3	1.3	1.3

Figures for the projection period are rounded to 1/4 percentage points of GDP.

4.4 Sensitivity of projection of fiscal balance

Sensitivity analyses may provide indicators of how a projected fiscal balance could develop in the event of deviations from the macroeconomic assumptions. In this context, the model-based analyse of the development the fiscal balance considers that the underlying macroeconomic assumptions may change. The sensitivity analysis looks at two alternative scenarios which result from a reduction and an increase in the annual real GDP growth rate of half a percentage point, respectively, from the year 2015 to the year 2019. All other assumptions remain the same, e.g. it is assumed that the GDP deflator and GDP composition remain constant vis-à-vis the baseline scenario. In addition, it is assumed that government revenue and expenditures will continue to react to GDP correspondingly to their long-term elasticity. Thereby, the budget semi-elasticity, as used in the context of European budget monitoring, is applied.

The decrease in the fiscal balance by the year 2016 would be avoided if growth in GDP were to be half a percentage point higher than assumed in the federal government's annual projection (baseline scenario). In the alternate scenario assuming a one-half percentage point lower growth in GDP compared with the baseline scenario, in purely arithmetic terms, there would be fiscal deficits again from the year 2016 onwards, which however would still retain a significant safety margin compared with the reference value. The sensitivity analysis shows that Germany's general government budget is in good shape to continue to comply with the guidelines of the Stability and Growth Pact.

Table 6: Sensitivity of projection of the general government budget balance

	2014	2015	2016	2017	2018	2019
GDP trends according to	**- general government budget balance in % of GDP -**					
- baseline scenario	0.6	¼	0	¼	¼	½
- alternative scenarios						
• -½ pp p.a. compared to baseline		0	-½	-½	-¾	-¾
• +½ pp p.a. compared to baseline		½	¾	1	1 ¼	2

Figures for the projection period are rounded to 1/4 percentage points of GDP.

4.5 Trends in debt levels

2014 general revisions to system of national accounts

In August 2014, the Federal Statistical Office published the results of the 2014 general revision to the system of national accounts. This revision was also necessary in order to implement the European System of National Accounts (ESA 2010), which had become legally-binding in September 2014 within the German system of national accounts. The revision resulted in an increase in the level of nominal GDP. As a result, the debt levels declined for the entire time series from 1991. In addition, the sectorial allocation of economic units was reviewed and adjusted as part of the revision. This had the effect of raising the debt level because additional institutional units are now allocated to the government. Overall, Germany's debt ratio is around two percentage points lower over the past years, in relation to prior results under ESA 1995. By contrast, the quantitative effects of the revision to the ESA to the government fiscal balance are – in % of GDP - very limited.

After decades of rising debt ratios, the successes in consolidation have contributed to a reversal of this trend: The debt ratio (Maastricht definition) has declined consistently since the year 2013. In the year 2013, it fell by 2.2 percentage points to 77.1% of GDP and by some 2.4 percentage points to 74.7% in the year 2014. Nonetheless, the debt ratio remains considerably higher than the Maastricht reference value of 60% and furthermore is still above the 2008 level – i.e. the level at the start of the financial crisis – of 65.1% of GDP.

One factor driving the reduction in the debt ratio in the year 2014 is the positive trend in public budgets. A second factor was the continued reduction of the portfolios of the wind-down agencies that were established to deal with the consequences of the financial crisis, namely *FMS Wertmanagement* and the *Erste Abwicklungsanstalt (EAA)*. The share of the Maastricht debt ratio that is attributable to measures taken to address the financial crisis declined by 0.9 percentage points to 8.2% in the year 2014. By contrast, debts in connection with measures to address the European sovereign debt crisis (in particular based on the payment of the fifth tranche for the European Stability Mechanism (ESM) as well as loans from the European Financial Stability Facility (EFSF) to Greece and Portugal) rose slightly in the year 2014 (in total by 0.1 percentage points to 3.1% of GDP.

The continued reduction in the portfolios of the wind-down agencies and the favourable developments of public budgets will foster a continuation of the positive trend in the debt ratio. The ratio is expected to continue its decline in the year 2015, falling by 3¼ percentage points to 71½% of GDP. Whereas the effect of measures taken to combat the European sovereign debt crises stabilises, a further decrease in the effect of the financial crisis by around ¾ percentage points can be expected. The positive budgetary trend at the Federation, *Länder* and local levels, as well as continued portfolio reductions by the wind-down agencies, likewise result in a constant reduction in the debt ratio over the medium term to some 61½% of GDP in the year 2019 (Table 7).

As a result, the objective provided by the coalition agreement of reducing the debt ratio to less than 60% by the end of the year 2023 at the latest is assured. The objective of a reduction to less than 70% of GDP will already be reached in the year 2016, in accordance with Germany's commitment as part of the 2015 Action Plan for the Euro Plus Pact, one year earlier than is stipulated in the coalition agreement.

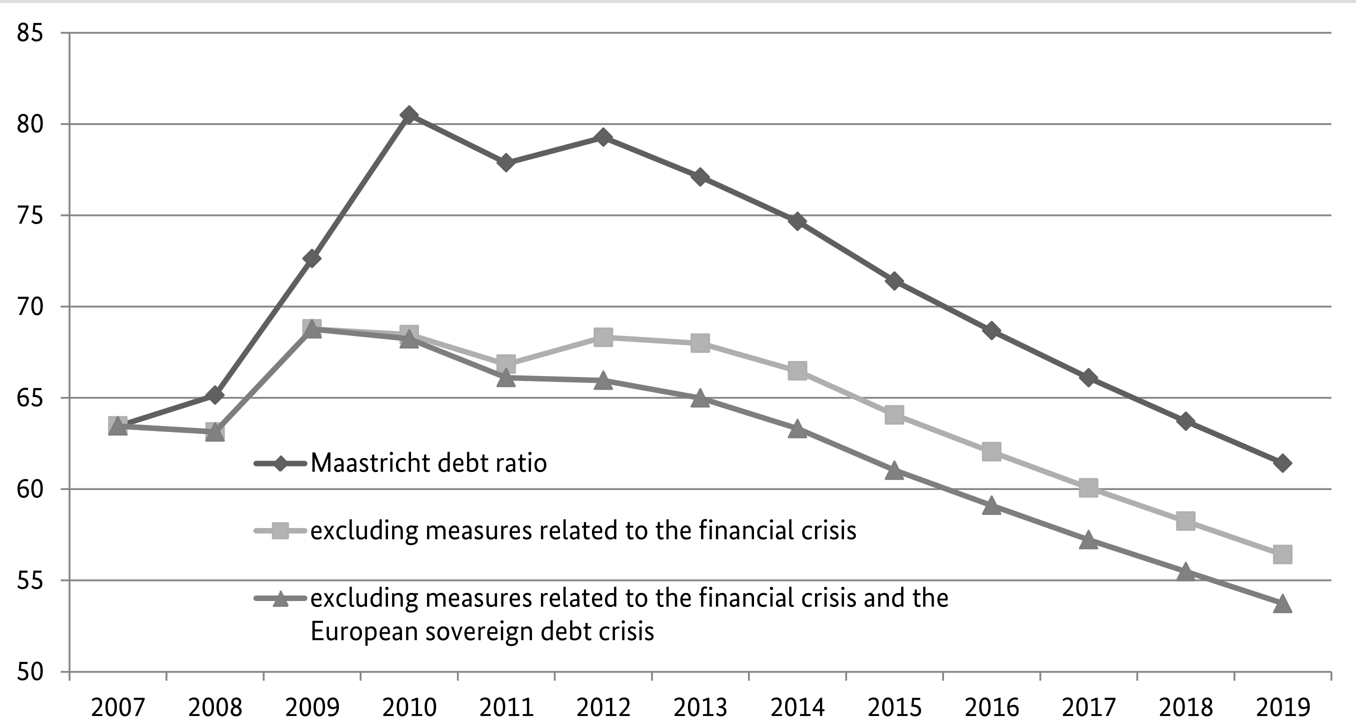
Table 7: Trends in the debt-to-GDP ratio

	2014	2015	2016	2017	2018	2019
	- Debt ratio in % of GDP -					
April 2015 Update (ESA 2010)	**74.7**	**71 ½**	**68 ¾**	**66**	**63 ¾**	**61 ½**
April 2014 Update (ESA 1995)	76	72 ½	70	67 ½	65	-

Figures for the projection period are rounded to 1/4 percentage points of GDP.

Figure 6 illustrates the impact of measures in connection with the financial crisis and the European sovereign debt crisis on the development of Germany's debt ratio. Since the year 2008, the debt ratio has increased considerably as a result of measures to cope with the financial crisis. The winding down plays a key role in reducing the debt ratio. Furthermore, the measures related to the European sovereign debt crisis have resulted in a significant increase in the debt levels since the year 2012. Due to the consolidation strategy that has been pursued, as well as generally favourable economic trends, the debt ratio (adjusted for crisis-related effects) has shown a clear downward trend since the year 2010 and will already fall below the 60% reference value in the year 2016.

Figure 6: Effects on debt of stabilisation measures implemented in the context of the financial market crisis and the European sovereign debt crisis (in % of GDP)



5. Long-term sustainability and quality of public finances

5.1 Challenges to the sustainability of public finances

Ongoing demographic change in Germany poses significant risks to the sustainability of public finances, especially from the year 2025 onwards. According to the 12th coordinated population projection of the Federation and *Länder*, Germany's resident population will have shrunk significantly by the year 2060. The proportion of people of working age will decline considerably and the proportion of people aged 65 or older will increase significantly. Assuming that other variables remain the same, the ageing population will cause an increase in age-related expenditure in relation to GDP. At the same time, this development will lead to a slower increase in public revenues. The federal government is addressing these challenges in a focused manner by continuing work on a demographic strategy launched in the year 2012.

Four core goals are key in this respect:

- Strengthening economic growth potential;
- Promoting social and societal solidarity;
- Ensuring the parity of living standards across regions; and
- Ensuring the state's ability to take effective action.

The updated strategy and the results of the ten demography working groups[2] will be presented at the next demography summit to be held in September 2015.

2. The working groups consist of representatives of the *Länder*, local authorities, social partners, associations, industry, academia and civil society.

5.2 Government revenue and expenditure from a long-term perspective

Once in every legislative period, the Federal Ministry of Finance reports on the sustainability of public finances in order to recognise long-term fiscal risks at an early stage. The results of an interim update are currently available[3], publication of the next full-fledged sustainability report is envisaged for autumn 2015. The age-related public spending which is considered in the long-term projections (pensions, healthcare, long-term care, unemployment payments, education and family support) amounts to 25.9% of GDP in the base year 2012, it comprises around 58% of all public spending. According to these projections, age-related spending will rise to between 28.7% and 32.0% of GDP by 2060, representing an increase of between 2.8 and 6.1 percentage points (cf. Table 18 in the Annex).[4] Explicit government debt in relation to economic output would increase significantly in the long term if policies do not change. The corresponding sustainability gap would then be in a range between 0.6% and 3.1% of GDP. Sensitivity analyses indicate that lower unemployment, rising labour force participation on the part of older workers and women but also an increased immigration of qualified workers could mitigate the impact of demographic change on public finances. The analyses also reveal that the consolidation course taken to date has had positive effects on long-term sustainability.

5.3 Measures to maintain long-term sustainability

A solid fiscal foundation, sustaining social security systems, securing skilled personnel, balancing work and family obligations, investments in education and research, a modern infrastructure and, practically speaking, a sustainable economic growth ensures long-term fiscal sustainability. Germany has a permanent fiscal framework in the form of the debt brake and the fiscal rules enacted on the European level. Structural reforms, on the other hand support in offsetting the effects of the ageing population.

In the area of statutory pension insurance, Germany implemented important reforms in the past, including the gradual increase of the statutory retirement age to 67 by the year 2029, the introduction of a sustainability factor in the pension adjustment formula and support for supplementary fully-funded pensions. By doing so, Germany was able to ensure the long-term sustainability of the statutory pension system as directed in the country-specific recommendations from the year 2014. In order distribute fiscal and economic consequences of demographic change fairly between younger and older generations, German pension law provides for upper limits on contribution rates and for guaranteed minimum pension levels. The federal government is fulfilling social policy obliga-

3. The projection of trends in government revenues and expenditures against demographic change is based on legal environment in place at the beginning of the year 2013 as the basis. The results are not directly comparable with the similar projections on the European level (EU Ageing Report).
4. Projections are developed with two basic variants. The "T-" basic variant is based throughout on slightly pessimistic assumptions about future demographic, labour market and macroeconomic trends. The "T+" basic variant is based throughout on slightly optimistic assumptions.
5. The S2 sustainability indicator shows the amount by which the general government primary balance would have to be reduced starting from the year 2015 in order to make sure that all explicit and implicit obligations can be met in the long run.

tions set out in the coalition agreement in the form of the Pension Insurance Benefits Improvement Act (*Rentenversicherungsleistungsverbesserungsgesetz*) – especially the "Pension at 63" provisions and the make-up pension benefits for mothers (*Mütterrente*). With regard to funding, consideration was given to the circumstance that the statutory pension insurance system is on a solid fiscal footing at present, while that those making contributions cannot be over-burdened over the long term. The Federation will also contribute additional funds as of the year 2019. These funds will be increased gradually from €0.5 billion to some €2 billion annually by the year 2022. This allows for maintaining the statutorily prescribed upper limits on contribution rates and guaranteed minimum pension levels.

The increase in the elderly population will result in a greater need for health and long-term care benefits. The federal government has addressed these challenges in its recent reforms to the health care system. A sustainable funding for the provision of health care was emphasised in particular as part of this process. The general contribution rate was lowered from 15.5% to 14.6%. Concurrently, the health insurance funds are allowed to set fund-specific, income-based contribution rates. This expands autonomy in terms of setting contribution rates and promotes competition related to efficiency and quality. At the same time, setting the employer share of contributions at 7.3% ensures that financial resources to be organised in an employment promoting manner. Additional funds from the Federation will be increased from €11.5 billion (2015) to €14 billion as of the year 2016 and again to €14.5 million annually as of the year 2017.

Among the provisions of the First Long-Term Care Support Act (*Pflegestärkungsgesetz*), being in effect since 1 January 2015, is the expansion of benefits for those requiring care and members of their family. In addition, the care provider ratio at in-patient care facilities was increased. As of the year 2015, revenue in the amount of 0.1 contribution-rate percentage points flow into the long-term care fund for a period of 20 years in order to increase the sustainability of the system. Funds will be withdrawn from the year 2035 onwards again in order to stabilise contributions (the contribution rate was increased by 0.3 percentage points in total).

The federal government's economic policy measures aim at strengthening potential growth, and thereby enhancing the long-term sustainability of public finances. A core component in this context is securing the long-term labour supply. Contributing factors include equal opportunities for men and women followed by achieving a higher proportion of women in leadership positions.

The Skilled Labour Strategy is designed specifically to secure a sufficient long-term supply of skilled workers. In order to provide additional momentum the federal government has initiated the "Partnership for Skilled Labour in Germany" together with social partners and business representatives. The National Occupational Training Pact was transformed into the "Alliance for Training and Retraining" in cooperation with social partners, the *Länder* and the Federal Employment Agency. In addition the federal government is providing targeted support to help persons with a migrant background and young people to reach adequate qualifications. In addition, the Federation and the *Länder* have developed strategic approaches with the aim to secure subsistence and sustainable integration for the long-term unemployed.

The federal government supports family-friendly working conditions. Making it easier for employees to reconcile work and family obligations encourages the labour participation of parents and enhances the economic stability of families. To this end, provisions on parental leave and parental allowance were liberalised. The federal government is supporting part-time employment via the "parental allowance plus" (*Elterngeld Plus*). It encourages parents to return to work earlier. In addition, the federal government is providing greater financial support to the *Länder* and local authorities for current expenditures related to child day-care (€845 million annually as of the year 2015).

At the same time the federal budget's focus on growth will be significantly expanded, thus strengthening the economic growth potential (see Section 3.3 for a list of measures).

5.4 Measures to increase the effectiveness and efficiency of public revenues and spending

Raising the effectiveness and efficiency of public finances will become increasingly important along with utilising scarce resources to promote growth. A mandatory "demography check" of all draft legislation and guidelines, introduced in the year 2014, is intended to ensure that all political decisions take demographic trends into account. In accordance with the federal government's subsidy guidelines, subsidies are already subject to continuous review. In the summer of the year 2015 a first sustainability review on a regular basis will be conducted in the context of the 25th Subsidy Report. This underscores the intent to place greater importance on principles of sustainability in its subsidy policies.

Various measures were initiated to increase the cost-effectiveness of public spending in the healthcare segment, likewise in response to the country-specific recommendations from the year 2014. A stronger focus on competition with the statutory health insurance system promotes a high quality health care accompanied by the efficient use of resources by health insurer and service providers. Starting in the year 2015, the federal government expanded the autonomy of the health insurance funds by allowing supplemental contributions to be set at different rates. This new refunding structure creates important incentives for price- and quality-based competition amongst the health insurance funds. A complete income equalisation provision for the supplemental contributions was also introduced between the health insurance funds so that individuals with higher incomes would not be given preferential treatment in the competition for members. The conditions for consistent focus on quality amongst service-providers were created by forming the "Quality Institute" at the start of the year 2015 thus intensifying quality-based competition in the statutory health insurance funds.

The draft of a care provision improvement law provides for the promotion of innovative and transsectoral forms of care provision. Health insurance funds will receive more latitude to conclude contracts that provide for competitive incentives. In the outpatient healthcare segment, waiting times for medical appointments for patients insured via the statutory health insurance system are intended to be reduced.

Representatives of the Federation and the *Länder* have agreed to the outline for structural reforms to the hospital segment that provides for across-the-board improvements in efficiency for in-patient healthcare, ranging from nationwide coverage to advanced medicine. In future, quality will play a more prominent role in capacity requirements planning and remuneration.

The Digital Agenda adopted by the federal government will likewise assist in opening up savings potential in the expenditure side of the health and long-term care segments as well.

Further information on individual measures can be found in the NRP.

Annex

Table 8: Forecast of macroeconomic trends

	ESA Code	2014 Index 2010=100	2014	2015	2016	2017 to 2019 (3)
			% change p.a.			
1. Real GDP, chain index	B1g	105.76	1.6	1.5	1.6	1 ¼
2. GDP in respective market prices (€bn)	B1g	2903.8	3.4	3.8	3.3	3 ¼
Real utilisation of GDP, chain index						
3. Private consumption expenditure (1)	P.3	105.01	1.2	1.6	1.5	1 ¼
4. Government consumption expenditure	P.3	103.83	1.1	1.2	1.2	1 ¼
5. Gross fixed capital formation	P.51	109.50	3.4	2.1	3.0	2
6. Changes in inventories (GDP growth contribution) (2)	P.52 + P.53	-	-0.4	0.0	0.0	-0
7. Exports	P.6	117.15	3.9	3.6	4.3	4 ½
8. Imports	P.7	114.19	3.4	4.1	4.9	5 ¼
Contributions to real GDP growth (2)						
9. Final domestic demand		-	1.2	1.5	1.6	1 ½
10. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-0.4	0.0	0.0	-0
11. External balance of goods and services	B.11	-	0.4	0.1	0.1	-0

2014: Federal Statistical Office: As of: February 2015
2015 and 2016: results of the short-term forecast for the 2015 Annual Projection, January 2015
2017 to 2019: results of the medium-term forecast for the 2015 Annual Projection, January 2015

(1) Including private non-profit organisations without a commercial purpose
(2) Contribution to GDP growth rate
(3) Values rounded to 1/4

Table 9: Price developments – Deflators

	ESA Code	2014	2014	2015	2016	2017 to 2019 (3)
		Index 2010=100	% change p.a.			
1. GDP		106.58	1.7	2.2	1.7	2
2. Private consumption expenditure (1)		105.70	0.9	1.0	1.4	1 ¾
3. Public consumption		109.49	2.6	4.3	2.6	2 ¾
4. Gross capital formation		107.39	1.1	1.7	1.7	1 ½
5. Exports		103.89	-0.2	-0.2	0.8	1 ¼
6. Imports		104.12	-1.5	-1.5	0.8	1 ¼

2014: Federal Statistical Office: As of: February 2015
2015 and 2016: results of the short-term forecast for the 2015 Annual Projection, January 2015
2017 to 2019: results of the medium-term forecast for the 2015 Annual Projection, January 2015

(1) Including private non-profit organisations without a commercial purpose
(2) Values rounded to ¼

Table 10: Labour market trends (1)

	ESA Code	2014	2014	2015	2016	2017 to 2019 (6)
		Level	% change p.a.			
1. Employment, persons (domestic) (1) (m)		42.7	0.9	0.4	0.3	¼
2. Employment, hours worked (2) (bn hours)		58.5	1.5	0.6	0.4	0
3. Unemployment rate (3) (%)		-	4.7	4.7	4.8	4
4. Labour productivity (4) (2010=100)		101.7	0.7	1.1	1.4	1 ¼
5. Labour productivity (5) (2010=100)		103.1	0.1	1.0	1.2	1 ¼
6. Compensation of employees (€bn)	D.1	1478.8	3.7	3.5	2.9	3
7. Compensation per employee (thousand €)		38.7	2.5	3.0	2.6	2 ¾

2014: Federal Statistical Office: As of: February 2015
2015 and 2016: results of the short-term forecast for the 2015 Annual Projection, January 2015
2017 to 2019: results of the medium-term forecast for the 2015 Annual Projection, January 2015

(1) Employed persons, domestic concept
(2) National accounts definition
(3) Unemployed (ILO) / labour force
(4) Real GDP per person employed (domestic)
(5) Real GDP per hour worked
(6) Values rounded to ¼; unemployment rate: value displayed is value for last year of forecast (2019)

Table 11: Sectoral balances (1)

	ESA Code	2014	2015	2016	2017 to 2019 (1)
		% of GDP			
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	7.6	7.8	7.6	7
of which:					
- Balance on goods and services		6.5	6.8	6.7	6 ¼
2. Net lending/borrowing of households	B.9	4.8	4.6	4.5	4 ¼
3. Net lending/borrowing of general government	EDP B.9	0.6	¼	0	¼
4. Statistical discrepancy		-	-	-	-

2014: Federal Statistical Office: As of: February 2015
2015 and 2016: results of the short-term forecast for the 2015 Annual Projection, January 2015
2017 to 2019: results of the medium-term forecast for the 2015 Annual Projection, January 2015

(1) Values rounded to ¼; value for last year of forecast (2019)

Table 12: General government budgetary prospects

	ESA Code	2014	2014	2015	2016	2017	2018	2019
		€ bn	% of GDP					
Net lending (EDP B.9) by sub-sector								
1. General government	S. 13	18.0	0.6	¼	0	¼	¼	½
2. Central government	S. 1311	11.4	0.4	¼	0	¼	¼	¼
3. State government	S. 1312	1.9	0.1	¼	¼	¼	¼	¼
4. Local government	S. 1313	1.3	0.0	0	0	0	0	0
5. Social security funds	S. 1314	3.4	0.1	- ¼	- ¼	- ¼	- ¼	0
General government (S.13)								
6. Total revenue	TR	1,293.8	44.6	44 ¼	43 ¾	44	44	44
7. Total expenditure	TE (1)	1,275.8	43.9	44	43 ¾	43 ¾	43 ½	43 ½
8. Net lending/borrowing	EDP B.9	18.0	0.6	¼	0	¼	¼	½
9. Interest expenditure	EDP D. 41	50.6	1.7	1 ½	1 ½	1 ½	1 ½	1 ½
10. Primary balance (2)		68.6	2.4	2	1 ½	1 ½	1 ¾	2
11. One-off and other temporary measures (3)		-0.7	0.0	-0	-0	-0	-0	-0
Selected components of revenue								
12. Total taxes (12=12a+12b+12c)		660.4	22.7	22 ¾	22 ¾	22 ¾	22 ¾	23
12a. Taxes on production and imports	D.2	313.7	10.8	10 ¾	10 ¾	10 ½	10 ½	10 ½
12b. Current taxes on income, wealth, etc	D.5	346.8	11.9	12	12	12	12 ¼	12 ½
12c. Capital taxes	D.91	0.0	0.0	0	0	0	0	0
13. Social contributions	D.61	481.6	16.6	16 ½	16 ½	16 ½	16 ½	16 ¾
14. Property income	D.4	23.5	0.8	¾	½	½	½	½
15. Other (4)		128.3	4.4	4 ¼	4	4	4	3 ¾
16. = 6. Total revenue	TR	1,293.8	44.6	44 ¼	43 ¾	44	44	44
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995) (5)		1,142.1	39.3	39 ¼	39 ¼	39 ¼	39 ½	39 ¾

	ESA Code	2014	2014	2015	2016	2017	2018	2019
		€ bn	% of GDP					
Selected components of expenditure								
17. Compensation of employees + intermediate consumption	D.1+P.2	358.8	12.4	12 ¼	12 ¼	12	12	11 ¾
17a. Compensation of employees	D.1	223.9	7.7	7 ¾	7 ½	7 ½	7 ½	7 ¼
17b. Intermediate consumption	P.2	134.9	4.6	4 ¾	4 ¾	4 ½	4 ½	4 ½
18. Social payments (18=18a+18b)		691.6	23.8	24	24	24 ¼	24 ¼	24 ¼
of which: unemployment benefits (6)		48.9	1.7	1 ¾	1 ½	1 ½	1 ½	1 ½
18a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	239.4	8.2	8 ½	8 ½	8 ½	8 ¾	8 ¾
18b. Social transfers other than in kind	D.62	452.2	15.6	15 ½	15 ½	15 ½	15 ½	15 ½
19. = 9. Interest expenditure	EDP D.41	50.6	1.7	1 ½	1 ½	1 ½	1 ½	1 ½
20. Subsidies	D.3	26.5	0.9	1	1	1	1	1
21. Gross fixed capital formation	P.51	63.0	2.2	2 ¼	2 ¼	2 ¼	2 ¼	2 ¼
22. Capital transfers	D. 9	22.4	0.8	¾	¾	¾	¾	¾
23. Other (7)		85.2	2.9	3	3	2 ¾	2 ¾	2 ¾
24. = 7. Total expenditure	TE (1)	1,275.8	43.9	44	43 ¾	43 ¾	43 ½	43 ½
p.m.: Government consumption (nominal)	P.3	561.5	19.3	19 ½	19 ½	19 ½	19 ½	19 ½

(1) Adjusted by the net amount of payments in connection with swaps, so that TR - TE = B.9.
(2) The primary balance corresponds to (B.9, line 8) plus (D.41, line 9).
(3) A plus sign means deficit-reducing one-off measures.
(4) P.11+P.12+P.131+D.39+D.7+D.9 (except D.91)
(5) Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
(6) Includes cash benefits (D.621 and D.624) and in-kind benefits (D.631) related to unemployment benefits.
(7) D.29+D4 (except D.41)+ D.5+D.7+P.52+P.53+K.2+D.8

Figures for the forecast are rounded to one-quarter.

Table 13: No-policy change projections

	2014 €bn	2014 % of GDP	2015	2016	2017	2018	2019
1. Total revenue at unchanged policies	1,293.8	44.6	44 ¼	43 ¾	44	44	44
2. Total expenditure at unchanged policies	1,275.8	43.9	44	43 ¾	43 ¾	43 ½	43 ½

Figures for the forecast are rounded to one-quarter.

Table 14: Amounts to be excluded from the expenditure benchmark

	2014 €bn	2014 % of GDP	2015	2016	2017	2018	2019
1. Expenditure on EU programmes fully matched by EU funds revenue	3.0	0.1	0	0	0	0	0
2. Cyclical unemployment benefit expenditure	-2.8	-0.1	0	¼	¼	0	-0
3. Effect of discretionary revenue measures	4.4	0.2	0	-0	0	0	0
4. Revenue increases mandated by law	-6.0	-0.2	-0	-0	-0	-0	¼

Figures for the forecast are rounded to one-quarter.

Table 15: General government debt developments

	ESA Code	2014	2015	2016	2017	2018	2019
		% of GDP					
1. Gross debt		74.7	71 ½	68 ¾	66	63 ¾	61 ½
2. Change in gross debt ratio		-2.4	-3 ¼	-2 ¾	-2 ½	-2 ¼	-2 ¼
Contribution to changes in the Maastricht debt ratio							
3. Primary balance		2.4	2	1 ½	1 ½	1 ¾	2
4. Interest expenditure	D.41	1.7	1 ½	1 ½	1 ½	1 ½	1 ½
5. Stock-flow adjustment		0.7	- ¼	- ¼	- ¼	0	¼
p.m.: Implicit interest rate on debt (1)		2.3	2 ¼	2 ¼	2	2 ¼	2 ½

(1) Proxied by interest expenditure divided by the debt level of the previous year.
Figures for the forecast years are rounded to half a percentage point of GDP.

Table 16: Cyclical developments

	ESA Code	2014	2015	2016	2017	2018	2019
		% of GDP					
1. Real GDP growth (%)		1.6	1.5	1.6	1.3	1.3	1.3
2. Net lending of general government	B.9	0.6	¼	0	¼	¼	½
3. Interest expenditure	D.41	1.7	1 ½	1 ½	1 ½	1 ½	1 ½
4. One-off and other temporary measures (1)		0.0	0	0	0	0	0
5. Potential GDP growth (%)		1.4	1.4	1.4	1.3	1.2	1.1
contributions:							
- labour		0.5	½	¼	¼	0	0
- capital		0.3	¼	¼	½	½	½
- total factor productivity		0.5	½	¾	¾	¾	¾
6. Output gap		-0.8	- ¾	- ½	- ¼	- ¼	0
7. Cyclical budgetary component		-0.4	- ¼	- ¼	- ¼	0	0
8. Cyclically-adjusted balance (2 - 7)		1.1	¾	¼	½	½	½
9. Cyclically-adjusted primary balance (8 + 3)		2.8	2 ¼	1 ¾	1 ¾	1 ¾	2
10. Structural balance (8 - 4)		1.1	¾	¼	½	½	½

1. A plus sign means deficit-reducing one-off measures.
Figures for the forecast related to government accounts are rounded to one-quarter.

Table 17: Divergence from previous update

	ESA Code	2014	2015	2016	2017	2018	2019
				% of GDP			
Real GDP growth (%)							
Previous update		1.8	2.0	1.4	1.4	1.4	-
Current update		1.6	1.5	1.6	1.3	1.3	1.3
Difference		-0.2	-0.5	0.2	-0.1	-0.1	-
General government net lending (% of GDP)	B.9						
Previous update		0	0	0	½	½	-
Current update		0.6	¼	0	¼	¼	½
Difference		0.5	¼	- ¼	-0	0	-
General government gross debt (% of GDP)							
Previous update	ESA 95	76	72 ½	70	67 ½	65	-
Current update	ESA 10	74.7	71 ½	68 ¾	66	63 ¾	61 ½
Difference		-	-	-	-	-	-

Figures for the forecast related to government accounts are rounded to one-quarter.

Table 18: Long-term trends in age-related general government expenditure

	2010	2020	2030	2040	2050	2060
	Expenditure in % of GDP (pessimistic basic variant "T-" / optimistic basic variant "T+")					
Pension expenditure (1)	10.3	10.0/9.9	11.2/10.5	12.4/11.7	13.4/12.3	14.5/13.0
Healthcare expenditure (2) on statutory health insurance and medical assistance payments for civil servants	7.3	7.8/7.8	8.2/8.0	8.7/8.3	8.9/8.3	8.9/8.2
Long-term care expenditure (3)	0.9	0.9/0.9	1.0/0.9	1.1/0.9	1.2/0.9	1.1/0.8
Unemployment benefits (4)	3.5	2.2/2.0	2.7/1.6	2.7/1.6	2.7/1.6	2.7/1.6
Spending on education and childcare (5)	3.7	3.3/3.3	3.4/3.5	3.4/3.7	3.3/3.6	3.3/3.6
Expenditure on the family benefits system (6)	1.9	1.4/1.4	1.5/1.5	1.5/1.6	1.4/1.5	1.5/1.6
Total age-related expenditure	27.6	25.7/25.4	27.9/26.0	29.7/27.7	30.9/28.2	32.0/28.7
	Assumptions					
Productivity growth (%) (7)	0.5	1.5/1.5	1.9/2.1	1.7/2.0	1.6/1.8	1.6/1.9
GDP growth (%)	1.3	1.3/1.6	0.9/1.6	1.1/1.6	0.9/1.6	0.8/1.5
Labour force participation rates (%)						
- Men (15 to 64)	84.1	86.0/85.4	86.9/86.8	87.2/86.5	87.0/86.4	87.2/86.8
- Women (15 to 64)	73.9	79.4/78.1	81.5/80.7	82.1/80.7	81.9/80.5	82.3/80.9
Unemployment rate (%)	6.8	4.4/4.0	5.8/3.4	5.8/3.4	5.8/3.4	5.8/3.4
Old-age dependency ratio	31.1	36.1/35.4	48.9/46.4	57.1/51.5	60.4/51.6	64.9/53.3
Total population (m)	81.7	79.6/80.5	77.5/80.0	74.6/78.8	70.9/76.9	66.8/75.1
Population aged 65+ (m)	16.8	18.5/18.3	22.3/21.8	24.0/23.2	23.7/22.8	23.3/22.6

Table 18: Continuation

The values shown have been consolidated to take into account cross-payments between individual sub-budgets. Last update of the (provisional) actual values for 2010: February 2014. Last update of the projections (2020–2060): 2012 base year, data and legal situation as of 1 January 2013.

Sources: (provisional) actual values for 2010: Federal Statistical Office, German Pension Insurance, Federal Ministry of Health, Federal Employment Agency, Federal Ministry of Labour and Social Affairs, Federal Ministry of Finance, Federal Ministry for Family Affairs, Senior Citizens, Women and Youth; projections (2020–2060): Professor Martin Werding in cooperation with the ifo Institute (2014), interim update on behalf of the Federal Ministry of Finance.
(1) Statutory pension insurance and civil servants' pensions
(2) Statutory health insurance and medical assistance payments for civil servants and eligible relatives
(3) Long-term care insurance
(4) Unemployment insurance, other expenses of the Federal Employment Agency and basic provision for jobseekers (including accommodation costs)
(5) Public education spending (including childcare facilities) according to the definition used in the Education Finance Report (without considering funds for research and development at higher education institutions)
(6) Child benefit, tax-free allowances for children under the Income Tax Act, parental benefit
(7) Measured by labour productivity
Comments: The figures shown reflect two variants: "T-", which is based throughout on slightly pessimistic assumptions, and "T+", which is based throughout on slightly optimistic assumptions. Figures on productivity growth and GDP growth refer to changes compared with the previous year. The old-age dependency ratio is based on the definition of a working-age population as aged 15-64.

Table 19: Technical assumptions

	2014	2015	2016	2017 to 2019
Short-term interest rate (annual average in %)	0.16	0.05	0.05	0.05
USD/€ exchange rate (annual average)	1.33	1.22	1.22	1.22
Growth of German sales markets (in %) (1)	3.2	3 ¼	4 ½	4 ¾
Oil price (Brent, USD/barrel)	99	59	59	59

1. Values rounded to 1/4

Table 20: Contingent liabilities

% of GDP	2014
Public guarantees	18.2*
Of which: linked to the financial	0.8

* Year 2013

Glossary of German legislation mentioned in the text

English name	German name
Act on the Appointment of a Council of Experts on Economic Development	Gesetz über die Bildung eines Sachverständigenrates zur Begutachtung der gesamtwirtschaftlichen Entwicklung
Act to Promote Economic Stability and Growth	Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft
Fiscal Compact Implementation Act	Gesetz zur innerstaatlichen Umsetzung des Fiskalvertrags
Act on Protection against Risks and on Planning the Reorganisation and Liquidation of Credit Institutions and Financial Groups	Gesetz zur Abschirmung von Risiken und zur Planung der Sanierung und Abwicklung von Kreditinstituten und Finanzgruppen
Basic Law	Grundgesetz
Budgetary Principles Act	Haushaltsgrundsätzegesetz
Renewable Energy Sources Act	Erneuerbare-Energien-Gesetz
Act on the Improvement of the Financial Structure and Quality of Statutory Health Insurance	Gesetz zur Weiterentwicklung der Finanzstruktur und Qualität in der gesetzlichen Krankenversicherung
Income Tax Act	Einkommensteuergesetz

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