Federal Ministry
of Finance

2017 Draft Budgetary Plan Germany

according to Regulation (EU) No 473/2013

October 2016

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Public finances in Germany in 2016–2017

Information on the draft budgetary plan in accordance with Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013

Germany's 2017 draft budgetary plan presents the fiscal projections for the budgets of the Federation, the *Länder*, the local authorities and the social security funds on the basis of current trends and planning. It is published in October of every year and supports the monitoring of budgets by the EU during the budget preparation stage.

Germany is in compliance with the requirements of the Stability and Growth Pact. However, the debt ratio is higher than 60% of GDP, but it is being continuously reduced. Therefore Germany is complying with EU rules with a view to ensuring sustainable fiscal policies which also address the challenges of demographic change. In 2016, for the first time in eight years, the debt ratio will be brought under 70% again, down from its peak of 81.0% of GDP in 2010.

Projection of public finances

Compliance with medium-term budgetary objective – general government budget is resilient to current challenges: The general government budget will achieve a surplus of ½ % of GDP in 2016. The financial burdens of dealing with refugee movements are being balanced out by the positive effects of current economic trends and lower than expected expenditure due to the low interest rate environment. A slight reduction in the budget balance is expected in 2017. The structural balance, i.e. the budget balance adjusted for cyclical and one-off effects, maintains a durable safety margin with a view to complying with EU rules. Germany is meeting its medium-term budgetary objective, a structural deficit no greater than 0.5% of GDP. Germany therefore continues to be in compliance with the goals of the Stability and Growth Pact, which stipulates that the general government budget should be close-to-balance or in surplus.

Debt-to-GDP ratio under 70% for the first time in 8 years: Germany's debt-to-GDP ratio (Maastricht definition) will fall to 68¼ % in the current year. The last time the debt ratio was so low was in 2008, before the financial and economic crisis. The successful reduction of the debt ratio from its peak of 81.0% in 2010 is being fostered by surpluses in the public budgets of the Federation, *Länder* and local authorities and the ongoing winding-down of the portfolios of Germany's resolution agencies. If the success in balancing the budget continues, then it will be possible to bring the debt-to-GDP ratio below 60% by 2020. This would guarantee the sustainability of public finances, and Germany's fiscal position would be more resilient to risks and shocks, not to mention demographic change.

Table 1: General government budget balance and debt

	2015	2016	2017
		- % of GDP -	
Budget balance	0.7	½	¼
Structural balance	0.9	¾	½
Maastricht debt-to-GDP ratio	71.2	68 ¼	66

Figures for the projection period are rounded to a quarter of a percentage point of GDP.

Implementation of the country-specific recommendations

The Federal Government has taken various steps which demonstrate the progress that has been made with implementing the Council's country-specific recommendations of 12 July 2016. The draft budgetary plan for 2017 includes details of key measures to implement the recommendations that are effective in 2016 and following years and that were not included in the 2016 National Reform Programme or that have been updated. The Federal Government will report further on the implementation of the country-specific recommendations over the course of the coming European semester.

Basis for the 2017 draft budgetary plan

The 2017 draft budgetary plan is mainly based on the following information:

- Act Adopting the Federal Budget for the 2016 Fiscal Year (*Gesetz über die Feststellung des Bundeshaushaltsplans für das Haushaltsjahr 2015*) of 21 December 2015
- Government draft for the 2017 federal budget and the financial plan to 2020, dated 6 July 2016
- The Federal Ministry of Finance's summer forecast for the aggregate public-sector budgets of the Federation, *Länder* and local authorities up to 2020, dated 12 July 2016
- Results for the general government budget in the national accounts for the first half of 2016, published 24 August 2016
- Autumn 2016 Joint Economic Forecast, published 29 September 2016
- The Federal Government's autumn projection on macroeconomic trends, dated 7 October 2016

Table 2: Technical assumptions

	2015	2016	2017
Short-term interest rate (annual average in %)	0.05	0.01	0.00
USD/€ exchange rate (annual average)	1.11	1.12	1.12
Growth of German sales markets (in %)[1]	4	2 ½	3 ½
Oil price (Brent, USD/barrel)	52	43	52

1) Figures for projection years are rounded to a quarter percent.

Table 3a: Forecast of macroeconomic trends

	ESA Code	2015 Index 2010=100	2015	2016	2017	2018	2019	2020
			rate of change in %					
1. Real GDP. chain index	B1*g	108.18	1.7	1.8	1.4	1.6	1.4	1.4
2. Potential GDP (€bn)		3,143.4	1.7	1.7	1.4	1.3	1.3	1.4
contributions:								
- labour			0.8	0.8	0.4			
- capital			0.4	0.4	0.4			
- total factor productivity			0.5	0.5	0.6			
3. Nominal GDP (€bn)	B1*g	3,032.8	3.7	3.4	3.1			
Components of real GDP. chain index	P.3							
4. Private consumption expenditure[1)]	P.3	106.49	2.0	1.7	1.3			
5. Government consumption expenditure	P.3	107.35	2.7	3.7	2.3			
6. Gross fixed capital formation	P.51	110.71	1.7	2.5	2.0			
7. Changes in inventories (GDP growth contributions)	P.52 + P.53	-	-0.5	-0.4	0.0			
8. Exports	P.6	124.12	5.2	2.3	2.1			
9. Imports	P.7	121.04	5.5	2.5	3.0			
				contributions to GDP growth in %				
10. Domestic demand (excluding stocks)		-	2.0	2.1	1.5			
11. Changes in inventories	P.52 + P.53	-	-0.5	-0.4	0.0			
12. External balance of goods and services	B.11	-	0.2	0.1	-0.1			

2015: Federal Statistical Office, August 2016
2016 to 2018: results of the short-term forecast for the 2015 autumn projection, October 2016.
Estimation of potential output as a result of the autumn projection, 7 October 2016

1) Including private non-profit organisations serving households.

Table 3b: Price developments - deflators

	2015	2015	2016	2017	2018	2019	2020
	Index (2010=100)	rate of change in %					
1. GDP	108.66	2.0	1.5	1.7	1.6	1.7	1.7
2. Private consumption expenditure[1]	106.23	0.6	0.7	1.6			
3. HICP	-	-	-	-			
4. Government consumption expenditure	110.22	1.3	1.8	2.4			
5. Gross capital formation	110.68	1.6	1.2	1.7			
6. Exports	104.86	1.1	-0.9	1.1			
7. Imports	102.78	-1.4	-2.5	1.1			

2015: Federal Statistical Office, August 2016
2016 to 2018: results of the short-term forecast for the 2016 autumn projection, October 2016.

1) Including private non-profit organisations serving households

Table 3c: Labour market trends

	ESA Code	2015	2015	2016	2017
		level	rate of change in %		
1. Employment - persons[1]		43.10	0.9	1.2	1.0
2. Employment - hours worked[2] (bn hours)		58.90	0.9	1.6	0.7
3. Unemployment rate (%)[3]			4.3	4.0	4.0
4. Labour productivity - persons[4]		103.1	0.8	0.6	0.4
5. Labour productivity - hours worked[5]		104.7	0.8	0.2	0.6
6. Compensation of employees (€bn)	D.1	1537.0	3.7	3.7	3.5
7. Compensation per employee (thousand €)		39.7	2.4	2.2	2.4

2015: Federal Statistical Office, September 2016
2016 to 2017: results of the short-term forecast for the 2016 autumn projection, October 2016.

1) Employed persons, domestic concept national accounts definition.
2) National accounts definition.
3) Harmonised definition, Eurostat; levels.
4) Real GDP per person employed; (2010=100).
5) Real GDP per hour worked; (2010=100).

Table 3d: Sectoral balances

	ESA Code	2015	2016	2017
			- in % of GDP -	
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	8.4	9.2	8.8
of which:				
- Balance on goods and services		7.6	8.0	7.7
- Balance of primary incomes and transfers			0.8	0.8
- Capital account				
2. Net lending/net borrowing of households	B.9	5	4.8	4.6
3. Net lending/net borrowing of general government[1)]	B.9		½	¼
4. Statistical discrepancy		-	-	-

2015: Federal Statistical Office, August 2016
2016 to 2017: results of the short-term forecast for the 2015 autumn projection, 7 October 2016.

1) Figures for the forecast years are rounded to quarters of GDP.

Table 4a: General government budgetary targets broken down by subsector

	ESA Code	2016	2017	2018	2019	2020
		- in % of GDP -				
Net lending (+)/net borrowing (-) (B.9) by subsector[1]						
1. General government	S.13	½	¼	¼	½	½
2. Central government	S.1311	¼	¼			
3. State government	S.1312	0	¼			
4. Local government	S.1313	0	0			
5. Social security funds	S.1314	¼	0			
General government (S.13)						
6. Interest expenditure	D.41	1 ¼	1 ¼	1 ¼	1 ¼	1 ¼
7. Primary balance[2]		2	1 ½	1 ½	1 ½	1 ¾
8. One-off and other temporary measures[3]		0	0	0	0	0
9. Real GDP growth (%)		1.8	1.4	1.6	1.4	1.4
10. Potential GDP growth (%)		1.7	1.4	1.3	1.3	1.4
contributions (percentage points):						
-labour		0.8	0.4			
-capital		0.4	0.4			
-total factor productivity		0.5	0.6			
- in % of potential GDP -						
11. Output gap		-0.2	-0.3	0.0	0.0	0.0
12. Cyclical budgetary component		- ¼	- ¼	0	0	0
13. Cyclically-adjusted balance (1 - 12)		¾	½	¼	½	½
14. Cyclically-adjusted primary balance (13 + 6)		2	1 ¾	1 ½	1 ½	1 ¾
15. Structural balance (13 - 8)		¾	½	¼	¼	½

1) TR - TE = B.9.
2) The primary balance is calculated as (B.9, item 1) plus (D.41, item 6).
3) A plus sign means deficit-reducing one-off measures.

Figures for the forecast years are rounded to quarters of GDP.

Table 4b: General government debt developments ("Maastricht"-debt)

	ESA Code	2016	2017	2018	2019	2020
		- in % of GDP -				
1. Gross debt		68 ¼	66	63 ½	61 ¼	59 ½
2. Change in gross debt ratio		-2 ¾	-2 ½			
		Contributions to changes in gross debt				
3. Primary balance		2	1 ½			
4. Interest expenditure	D.41	1 ¼	1 ¼			
5. Stock-flow adjustment		¼	0	¼	½	½
p.m.: Implicit interest rate on debt[1]		2	1 ¾			

1) Proxied by interest expenditure divided by the debt level of the previous year.

Figures for the forecast years are rounded to quarters of GDP.

Table 5: Expenditure and Revenue Projections under the no-policy change scenario*

General government (S. 13)	ESA Code	2016	2017
		- in % of GDP -	
1. Total revenue at unchanged policies	TR	44 ¾	45
of which			
1.1. Taxes on production and imports	D.2	10 ¾	10 ¾
1.2. Current taxes on income, wealth, etc.	D.5	12 ½	12 ½
1.3. Capital taxes	D.91	0	0
1.4. Social contributions	D.61	16 ¾	17
1.5. Property income	D.4	½	½
1.6. Other		4 ¼	4 ¼
p.m.: **Tax burden** (D.2+D.5+D.61+D.91-D.995)		40	40
2. Total expenditure at unchanged policies	TE	44 ¼	44 ¼
of which			
2.1. Compensation of employees	D.1	7 ½	7 ½
2.2. Intermediate consumption	P.2	4 ¾	4 ¾
2.3. Social payments	D.62 D.632	24 ¼	24 ½
of which **Unemployment benefits**		1 ½	1 ¾
2.4. Interest expenditure	D.41	1 ¼	1 ¼
2.5. Subsidies	D.3	¾	¾
2.6. Gross fixed capital formation	P.51	2 ¼	2 ¼
2.7. Capital transfers	D.91	1	1
2.8. Other		2 ¼	2

* Please note that the no-policy change scenario involves the extrapolation of revenue and expenditure trends before adding the impact of the measures included in the forthcoming year's budget.

Figures for the forecast years are rounded to quarters of GDP.

Table 6a: General government expenditure and revenue targets

General government (S. 13)	ESA Code	2016	2017
		- in % of GDP -	
1. Total revenue	TR	44 ¾	44 ¾
of which			
1.1. Taxes on production and imports	D.2	10 ¾	10 ¾
1.2. Current taxes on income, wealth, etc	D.5	12 ½	12 ½
1.3. Capital taxes	D.91	0	0
1.4. Social contributions	D.61	16 ¾	17
1.5. Property income	D.4	½	½
1.6. Other[1]		4 ¼	4 ¼
p.m.: **Tax burden** (D.2+D.5+D.61+D.91-D.995)[2]		40	40
2. Total expenditure	TE[3]	44 ¼	44 ½
of which:			
2.1. Compensation of employees	D.1	7 ½	7 ½
2.2. Intermediate consumption	P.2	4 ¾	5
2.3. Social payments	D.62 D.632	24 ¼	24 ½
of which **Unemployment benefits**[4]		1 ½	1 ¾
2.4. Interest expenditure	D.41	1 ¼	1 ¼
2.5. Subsidies	D.3	¾	¾
2.6. Gross fixed capital formation	P.51	2 ¼	2 ¼
2.7. Capital transfers	D.91	1	1
2.8. Other[5]		2 ¼	2 ¼

1) P.11+P.12+P.131+D.39rec+D.7rec+D.9rec (other than D.91rec).
2) Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D.995), if appropriate.
3) TR - TE= B.9.
4) Includes D.62 and D.632.
5) D.29pay + D.4pay (other than D.41pay) + D.5pay + D.7pay + P.52 + P.53 + K.2 + D.8.

Figures for the forecast years are rounded to quarters of GDP.

Table 6b: Amounts to be excluded from the expenditure benchmark

	2015	2015	2016	2017
	bn €	- in % of GDP -		
1. Expenditure on EU programmes fully matched by EU funds revenue	4.7	0.2	¼	¼
2. Cyclical unemployment benefit expenditure	-0.3	0.0	0	0
3. Effect of discretionary revenue measures	3.4	0.1	0	0
4. Revenue changes mandated by law	-2.8	-0.1	0	0

Figures for the forecast years are rounded to quarters of GDP.

Table 7: Discretionary measures at the general-government and federal level

List of actions	Detailed description	ESA code	Accounting principle	Adoption status	Budgetary impact 2016	2017	2018	2019	2020
					- % of GDP -				
Security package		D.1/ P.2/P.51	accrual	in the parliamentary legislative process	0	0	0	0	0
Measures to deal with refugee movements	Integration of refugees and language training	D.1/P.2	accrual	in the parliamentary process	0	0	0	0	0
Expansion of HGV tolls	Toll system expanded to include federal roads	P.1	accrual	in the parliamentary process	0	0	0	0	0
Defence – external security	Increasing the defence budget	D.1/P.51	accrual	in the parliamentary process	0	0	0	0	0
Solidarity package	Promotion of social housing, “Social City” programme, residential housing programme for socially deprived areas	P.51/D.92	accrual	in the parliamentary process	0	0	0	0	0
Child care	Increase in resources for special fund for the expansion of pre-school child care and the “*Sprach-Kitas*” initiative to promote language learning in pre-school child care facilities	P.51/P.2	accrual	in the parliamentary process	0	0	0	0	0
Energy and Climate Fund	Increase in resources for, inter alia, the promotion of electric vehicles	D.3/D.92	accrual	in the parliamentary process	0	0	0	0	0
Digital infrastructure	Expansion of the broadband network	D.3/D.92	accrual	in the parliamentary process	0	0	0	0	0
Tax relief to safeguard the minimum subsistence income and to compensate for fiscal drag	Increase in the basic personal allowance, the child tax exemption, child benefit, and the child supplement and compensation for fiscal drag	D.5/D.69	accrual	in the parliamentary legislative process	0	0	-¼	-¼	-¼

Figures for the projection years are rounded to one-quarter of a percent of GDP.

Table 8: Divergence from April 2016 Stability Programme

	ESA Code	2015	2016	2017
Target general government net lending/net borrowing (% of GDP)	B.9			
Stability Programme - April 2016		0,7	0	0
Draft Budgetary Plan - October 2016		0,7	½	¼
Difference		0,0	¾	½
General government net lending/net borrowing projection at unchanged policies (% of GDP)				
Stability Programme - April 2016		0,7	0	0
Draft Budgetary Plan - October 2016		-	½	½
Difference		-	¾	¾

Figures for the forecast years are rounded to quarters of GDP.

Table 9: 2016 country-specific recommendations

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: **Recommendation 1: Public investment and federal fiscal relations**	Name of measure	Description and expected impact of measure	Status and timetable
Achieve a sustained upward trend in public investment, especially in infrastructure, education, research and innovation, while respecting the medium term objective;.	2016 federal budget	Clear priorities continue to be set on the expenditure side in the 2016 Budget Act and investment in education, research and infrastructure is strengthened. Federal spending on investment increases by 6.4% compared with 2015 (2015: +0.9% on 2014). Spending on education and research increases by 8.4% in 2016 compared with 2015 (2015: +7.7% on 2014). Roughly €12.3bn are available in 2016 for investment in transport infrastructure.	2016 Budget Act in force since 1 January 2016.
	2017 federal budget	The 2017 Budget Act and the financial plan through to 2020 foresee a balanced budget without any net borrowing for each of the years and provide additional incentive through forward-looking investment. In addition, the *Länder* and municipalities will receive significant financial relief, giving them scope for additional investment measures and allowing the education and research sector, inter alia, to be strengthened. Envisaged spending on investment will increase by 5.7% compared against the 2016 target. For example, investment in transport will increase by roughly €0.5bn to €12.8bn. Spending on education and research will increase by approx. 7.4%. Funds of €2.7bn earmarked in the federal budget for broadband expansion will be increased to roughly €4bn in total through to 2020.	2017 Budget Act will enter into force on 1 January 2017.
	Act to Promote Investment by Municipalities with Inadequate Financial Resources	Establishment of a municipal investment promotion fund as a special fund to promote investment in municipalities and associations of municipalities with inadequate financial resources; volume €3.5bn; initial duration from 2015 to 2018; extended to 2020 due to bottlenecks in administrative capacities in the municipalities as a result of the influx of refugees.	Act adopted on 24 June 2015 (Federal Law Gazette I P. 974, 975). Draft bill to extend duration: Cabinet decision on 18 May 2016.

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: **Recommendation 1: Public investment and federal fiscal relations**	**Name of measure**	**Description and expected impact of measure**	**Status and timetable**
	Act on the Contribution of the Federal Government towards the Costs of Integration and on the Further Easing of the Burden on the *Länder* and Municipalities	Under the provisions of the bill, the Federal Government will fully reimburse the housing and heating costs for persons recognised as entitled to asylum or beneficiaries of protection in the basic allowance for job-seekers for 2016 to 2018. This will provide financial relief of €400 million to the municipalities in 2016, and anticipated relief of €900 million in 2017 and €1,300 million in 2018. In addition, the Federal Government is also contributing towards the cost of integration by providing the *Länder* with an annual integration lump sum amount of €2bn for the 2016-2018 period. Further to this, the Federal Government will grant the *Länder* compensatory funding of €500 million each year in 2017 and 2018 for residential construction. In addition, the transfer path is defined for the provision of €5bn in financial relief to the municipalities from 2018 onwards as set out in the Coalition Agreement. The relief will also increase financial scope for investment.	Cabinet decision and draft bill on 14 September 2016
	Compliance with medium-term budgetary objective (MTO)	Since 2012, Germany has been complying with its medium-term budgetary objective of having a structural national deficit no greater than 0.5 % of GDP. Germany will further be able to consistently comply with its medium-term budgetary objective. At the same time, state investment is expected to increase by an average of 5 % per annum.	
Improve the design of federal fiscal relations with a view to increasing public investment, especially at municipal level;	Restructuring of fiscal relations between the Federation and the *Länder*	In the Coalition Agreement it was agreed that the policies should be put in place during this legislative term for a restructuring of the fiscal relations between the Federation and the *Länder*, including the fiscal equalisation between the *Länder*. The restructuring of the Federal-*Länder* fiscal relations aims to put the framework in place for permanently sound budgets at Federal and *Länder* level and for permanent compliance with the debt caps. This ensures that the different federal levels are able to function and increases the self-responsibility of the territorial authorities. Not least, this creates the framework for sustainable investment, which in a federally structured state is in the responsibility of the specifically competent territorial authorities.	Is being monitored, ongoing talks between the Federation and the *Länder*.

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: **Recommendation 2: Taxes and competition**	Name of measure	Description and expected impact of measure	Status and timetable
Reduce inefficiencies in the tax system, in particular by reviewing corporate taxation and the local trade tax, modernise the tax administration and review the regulatory framework for venture capital;	a) Act to Implement the Amendments to the EU Directive on Mutual Administrative Assistance and other Measures to Prevent Base Erosion and Profit Shifting b) Act on the Multilateral Agreement of 27 January 2016 between the Competent Authorities on the Exchange of Country-specific Reports	The Federal Government fully advocates the global implementation of the recommendations drawn up by the OECD on behalf of the G20 to tackle harmful tax competition and undesired tax planning and is currently examining the national need for implementation. In recent years, Germany has already put a variety of legislative measures in place to tackle undesired tax planning so there is only limited need for implementation in Germany on the whole. a) There is a national need for action primarily with regard to implementing standards of transparency, specifically with regard to the exchange of information on tax rulings (BEPS Action 5) and on country-by-country reportsing (BEPS Action 13), particularly as specifications under EU law (amendments to the Directive on Mutual Administrative Assistance – "DAC3" and "DAC4") must also be respected in this context. The Federal Government has introduced legislative measures in this regard. b) With the multilateral agreement on a common standard for the communication of country-by-country reports, which was developed jointly by the OECD and the G20, Germany has pledged under international law to implement this standard and exchange country-by-country reports. As a result of the annual exchange of data, tax authorities receive information about the global distribution of revenues and the taxes paid and about additional indicators of the economic activity of the largest multinational enterprises. This agreement will receive the approval of the legislative bodies through the law enacting the agreement.	a) Bundestag, 2nd/3rd reading; 2 December 2016; Bundesrat, 2nd plenary consultation; 16 December 2016; b) Bundesrat, 2nd consultation; 14 October 2016.
	Modernisation of taxation procedure (Act to Modernise the Taxation Procedure)	The main fields of action to modernise procedures are: a more service-oriented tax administration, greater support from IT for its work, and in particular electronic communication with the tax authorities, expansion of the pre-completed tax declaration service, and increase in computerised case processing in mass tax procedures and structural changes to procedures.	Act adopted on 18 July 2016 (Federal Law Gazette I P. 1679).

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: **Recommendation 2: Taxes and competition**	Name of measure	Description and expected impact of measure	Status and timetable
	Draft Bill for the Continued Development of Loss Offsetting Rules for Corporations	The Act aims to continue to develop the rules for the offsetting of losses for corporations through the new rule defined in Section 8d of the Corporation Tax Act (Draft). The new rule seeks to allow corporations - upon application - to continue to utilise loss carry forwards despite a qualified change of shareholder provided the business operations of the corporation continue and other use of the loss is ruled out. The new rule aims to reduce fiscal obstacles in raising capital which businesses face where the financing requires to change shareholder or accept new shareholders often.	Cabinet decision on 14 September 2016.
Step up measures to stimulate competition in the services sector, in particular in business services and regulated professions;	Transparency Initiative	Following the evaluation of the regulations in the various Member States, the Federal Government submitted an action plan to the European Commission in January 2016. The plan focuses specifically on commerce-related professions. Inter alia, modifications to the regulations surrounding the following professions are announced or considered (some have already been implemented): • Lawyers and patent attorneys (inter-professional cooperation; roll-out planed for the next legislative term), • Tax advisers (abolition of fixed fees entered into force in summer 2016; clarification in Section 3a of the Tax Consultancy Act on the authority of foreign service providers to provide temporary and occasional assistance in tax matters without physical border-crossing/implications of the judgement of the ECJ of 17 December 2015: implementation envisaged in the next legislative term), • Auditors (particularly the opening of EU legal forms for all audit firms through the implementation of the EU statutory auditor reform (Directive 2014/56/EU) in summer 2016; currently there are no plans for additional measures). In each case, the planned modifications concern the rules for practising the profession (not the access to the profession).	Action plan to conclude the Transparency Initiative was submitted in January 2016; European Commission has announced the final report for March 2017.

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: Recommendation 2: Taxes and competition	Name of measure	Description and expected impact of measure	Status and timetable
	Statutory fee schedule for architects and engineers (HOAI) and fee scale ordinance for tax advisers	The Federal Government is also mindful of the fact that the European Commission opened an infringement procedure against Germany on 18 June 2015 over the binding minimum fees set by the fee scale ordinance for tax advisers and the statutory fee schedule for architects and engineers (HOAI). With regard to the fee scale ordinance for tax advisers, the Federal Government has since been able to reach a solution with the European Commission to the effect that the fees stated in the ordinance will only apply in future in the absence of any other agreement. Binding minimum fees will be abolished. Therefore the European Commission is referring exclusively to the statutory fee schedule for architects and engineers in the second stage of this infringement procedure. The European Commission calls on Germany to rectify the alleged infringement of the EU Services Directive and the freedom of establishment within two months. Germany submitted its view in a statement dated 13 May 2016 and once again defended the applicability of the statutory fee schedule for architects and engineers. On the basis of this response, the European Commission will now decide whether to refer the case to the ECJ. With regard to veterinary practices, at this stage all the *Länder* have abolished the ban on operating veterinary practices in the legal form of a legal person.	The rules of the fee scale ordinance for tax advisers were amended by Article 9 of the Third Ordinance to Amend Fiscal Regulations of 18 July 2016 (Federal Law Gazette I P. 1722).

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: **Recommendation 3: Labour market and labour force participation**	**Name of measure**	**Description and expected impact of measure**	**Status and timetable**
Increase incentives for later retirement and reduce disincentives to work for second earners;	Act to Adjust the Retirement Age under the Pension Insurance System	The general retirement age is gradually being increased to 67.	In force: Act of 20 April 2007 (Federal Law Gazette I No. 16 P. 554)
	Act to Improve Benefits under the Pension Insurance System	Parties to employment contracts can reach agreement on postponing - even repeatedly - the termination of the employment contract beyond the date the individual reaches the normal retirement age.	In force: Act of 23 June 2014 (Federal Law Gazette I No. 27 P. 787)
	Legal framework for the more flexible transition from working life to retirement	A coalition working group has developed additional steps towards a better legal framework for the more flexible transition from working life to retirement. These include improvements in the area of rehabilitation and prevention, and proposals to create more attractive and flexible conditions for people to work up to and beyond the general retirement age.	Cabinet decision on formulation guidelines for draft bill on 14 September 2016. Act is due to be adopted by the end of 2016.
Reduce the high tax wedge for low wage earners and facilitate the transition from mini-jobs to standard employment.		The best approach to reducing the number of mini-jobs in favour of standard employment is to create good labour market conditions so that people can take up employment that matches their skills and market needs. Developments in Germany in the past five years are testament to this: while employment in jobs subject to compulsory social security contributions has increased by around 10%, the numbers of people exclusively in mini-jobs has dropped by 3.5%. The Federal Government will continue to pursue this approach. Furthermore, in the job placement practice of employment services, greater attention is being given to moving people out of marginal employment relationships (mini-jobs). The findings of regional pilot projects which have already been concluded are applied in this context.	

Table 9: continuation

The Council of the European Union recommends that Germany take action in 2016 and 2017 to: **Recommendation 3: Labour market and labour force participation**	**Name of measure**	**Description and expected impact of measure**	**Status and timetable**
	Act to Raise the Basic Personal Allowance, the Child Allowance, the Child Benefit and the Child Supplement	The taxation measures under the Act to Raise the Basic Personal Allowance, the Child Allowance, the Child Benefit and the Child Supplement result in total relief of roughly €5bn from 2016 onwards. Low-earners, in particular, benefit from the increase in the basic personal allowance. The effects of fiscal drag are being fully offset in terms of the thresholds for all the taxpayers.	In force: Act of 16 July 2015 (Federal Law Gazette I, P. 1202)
	Formulation guidelines to raise the child allowance, the child benefit, the basic personal allowance, the child supplement and the maximum maintenance amount and to offset fiscal drag.	The Federal Government has adopted additional steps for 2017 and 2018 to increase the basic personal allowance, the child allowance the child benefit, the child supplement and to offset fiscal drag (change to the income tax rate to offset the rate of inflation of the previous year). The formulation guidelines will set in motion additional relief totalling over €6bn. The tax measures therefore make another key contribution to strengthening work incentives and purchasing power.	Cabinet decision on 12 October 2016

Table 10: Targets set by the EU's strategy for growth and employment

National headline targets for 2020	List of measures*	Description of the direct relevance on the target
Employment rate among people aged 20–64: 77%** Employment rate among older people aged between 55 and 64: 60%** Employment rate among women: 73%**	No significant changes compared with the 2016 NRP.	
R&D expenditure: 3% of GDP (two-thirds from the private sector and one-third from the public sector)	On 16 June 2016, the heads of government of the Federation and the *Länder* approved the Administrative Agreement between the Federal and State Governments in Accordance with Article 91b Paragraph 1 of the Basic Law on the Funding of Top-Level Research at Universities (Excellence Strategy), as a follow-up programme to the Excellence Initiative. It consists of two funding lines, Clusters of Excellence and Universities of Excellence. The Federation and the *Länder* are providing for the whole programme, subject to the resources being made available by the legislative bodies, €80 million in 2017 and a total of €533 million per year as of 2018. The funds will be provided by the Federation and the respective Land where the institution is based, in a ratio of 75:25.	With the agreement, the Federation and *Länder* are continuing efforts to promote German universities and Germany's position as a research location in the international context that were begun with the Excellence Initiative.

* The 2016 NRP, which was sent to the European Commission in April 2016, includes a comprehensive overview of the state of play regarding the implementation of the Europe 2020 strategy in Germany, including a detailed table of actions (including description, anticipated impact, status and schedule), p. 55 et seqq. The overview here is limited to new actions (planned, adopted, in force), and in particular actions that are relevant for fiscal policy, which will take effect in 2017 and the following years.

** Target already met.

Table 10: continuation

National headline targets for 2020	List of measures*	Description of the direct relevance on the target
	On 16 June 2016, the heads of government of the Federation and the *Länder* also approved the Administrative Agreement between the Federal and State Governments in Accordance with Article 91b Paragraph 1 of the Basic Law on the Funding of Young Researchers. To fund the programmes, the Federation is providing, subject to the resources being made available by the legislative bodies, beginning in 2017 a total of up to €1 billion for the entire programme period up until 2032.	The focus of the programme is to secure tenure track professorships as a separate career path at German universities, in addition to the traditional appointment procedure for professorships, and to permanently establish the tenure track system in Germany.
Reduce greenhouse gas emissions by at least 40% by 2020 compared with 1990 levels and by 80–95% by 2050 Increase share of renewable energy to 18% of gross final energy consumption by 2020, to 60% by 2050 and to at least 80% in the electricity sector National energy efficiency goals according to the Federal Government's energy strategy of 28 September 2010: Reduce primary energy consumption by 20% by 2020 and by 50% by 2050, compared with 2008 levels	No significant changes compared with the 2016 NRP, with the exception of the Combined Heat and Power Act (*Kraft-Wärme-Kopplungs-Gesetz*). The Combined Heat and Power Act provides for a pay-as-you-go funding system for combined heat and power (CHP) plants. It entered into force on 1 January 2016, initially without approval under state aid rules having been granted by the European Commission. The aim of the Act is to increase net electricity production from CHP plants to 110 terawatt hours (TWh) by 2020 and to 120 TWh by 2025. An amendment to the Combined Heat and Power Act is intended to make it possible for approval under state aid rules to be granted before the end of 2016. Among other things, the draft amendment provides for the electricity feed-in tariff for a broad segment of CHP plants to be set in future by tendering procedure.	CHP is a low-carbon power plant technology that enables electricity and heat to be produced at the same time. Increasing the proportion of CHP in net electricity production is intended to reduce CO2 emissions by 4 million tonnes by 2020. CHP plants therefore help Germany to reach its climate targets.

* The 2016 NRP, which was sent to the European Commission in April 2016, includes a comprehensive overview of the state of play regarding the implementation of the Europe 2020 strategy in Germany, including a detailed table of actions (including description, anticipated impact, status and schedule), p. 55 et seqq. The overview here is limited to new actions (planned, adopted, in force), and in particular actions that are relevant for fiscal policy, which will take effect in 2017 and the following years.
** Target already met.

Table 10: continuation

National headline targets for 2020	List of measures*	Description of the direct relevance on the target
Increase proportion of 30–34 year-olds who have completed tertiary education or equivalent to 42%**	The amendment to the Federal Education Assistance Act (BAföG) and the Advanced Further Training Assistance Act (Aufstiegs-BAföG) expands the range of potential applicants and gives more people the opportunity to obtain a tertiary qualification, in addition to raising entitlements and allowances.	The aim is to increase mobility within the education system as well as to improve opportunities for participation and personal development.
Reduce the number of long-term unemployed by 20% by 2020 compared with 2008 levels**	Strategy to reduce the number of long-term unemployed called “Opening Opportunities – Safeguarding Social Participation” The strategy includes a broad-based package of measures with different emphases, target groups and approaches. • Increasing the intensity of support for the long-term unemployed in job centres through networks for activating, advising and creating opportunities for clients • ESF/Federal Government programme to integrate long-term unemployment benefit claimants (as defined in Book II of the Social Code) into the general labour market. • Federal programme “Social Participation in the Labour Market” • Better connection with health promotion and rehabilitation measures	The overall strategy tackles the central challenges of integrating the long-term unemployed. Measures include: more intensive support in job centres, bundling of the necessary support payments, finding employers willing to employ the long-term unemployed, ensuring lasting stabilisation of these employment arrangements and creating opportunities to participate in the labour market for long-term unemployed individuals who lack marketable skills. The ESF programme is intended to reach a total of around 23,000 benefit claimants. The federal programme “Social Participation in the Labour Market” aims to provide around 15,000 places by the end of the programme period in 2018.

* The 2016 NRP, which was sent to the European Commission in April 2016, includes a comprehensive overview of the state of play regarding the implementation of the Europe 2020 strategy in Germany, including a detailed table of actions (including description, anticipated impact, status and schedule), p. 55 et seqq. The overview here is limited to new actions (planned, adopted, in force), and in particular actions that are relevant for fiscal policy, which will take effect in 2017 and the following years.
** Target already met.

Table 11: Methodological aspects

Estimation Technique	Step of the budgetary process for which it was used	Relevant features of the model/ technique used	Assumptions
Macroeconomic forecast	Before each tax estimation	Iterative-analytic approach: several partial models are used in the system of national accounts. Potential GDP estimation is done on the basis of the models developed and suggested by the Output Gap Working Group of the Economic Policy Committee (EPC) of the European Union.	Technical assumptions (for oil and commodity prices, foreign exchange rates and interest rates)
Tax estimation	Basis for drafting and finalising budgeting	Estimation on the basis of macroeconomic forecast and time series analysis.	Macroeconomic forecast, estimations on the fiscal impact of discretionary tax measures
Fiscal impact of discretionary tax measures	Basis for tax estimation and drafting and finalising budgeting	Microsimulation models on the basis of tax statistics and macroeconomic forecast	Macroeconomic forecast

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